

THIS PART ONE CONTAINS
THE FOLLOWING MATERIAL ABOUT
PRINCIPAL MUTUAL HOLDING COMPANY'S
PLAN TO CONVERT TO A STOCK COMPANY:

**Notice of Special Meeting of Members to consider
the Plan of Conversion**

**Notice from the Iowa Division of Insurance providing
information on the public hearing**

Summary of Certain
Key Features of the
demutualization, for
basic information about
the demutualization and
how you can participate

More detailed
information about
the demutualization

Plan of Conversion,
the legal document
describing the
demutualization

PRINCIPAL MUTUAL HOLDING COMPANY
711 High Street
Des Moines, Iowa 50392

Notice of Special Meeting of Members
To be Held July 24, 2001

To the Members of Principal Mutual Holding Company:

You are a Member of Principal Mutual Holding Company because you are a policyholder of Principal Life Insurance Company (“Principal Life”). You are also a Member if you were issued a Policy on or before April 8, 1980 and you transferred ownership rights of the Policy on or before April 8, 1980, so long as the Policy remains In Force.

You are hereby notified that a special meeting of Members of Principal Mutual Holding Company, a mutual insurance holding company organized pursuant to Section 521A.14(1) of Title XIII and Chapter 491 of Title XII of the Code of Iowa (the “MIHC”), will be held at the MIHC’s offices in the Auditorium of the Corporate One building, 711 High Street, Des Moines, Iowa 50392, on July 24, 2001, at 9:00 a.m., Central Daylight Time, and any adjournment thereof. The special meeting of Members will be held for the purpose of considering and voting upon the following proposal:

To approve the Plan of Conversion of the MIHC and the transactions contemplated in the Demutualization, including:

1. the conversion of the MIHC from a mutual insurance holding company into a stock company; and
2. the Agreement and Plan of Merger in which the converted MIHC and two of its present Iowa subsidiaries, Principal Financial Group, Inc. and Principal Financial Services, Inc., will merge with and into Principal Iowa Newco, Inc., an Iowa business corporation and wholly-owned subsidiary of Principal Financial Group, Inc., a Delaware corporation, and in which Principal Iowa Newco, Inc. will change its name to “Principal Financial Services, Inc.”

These transactions will be voted upon as a single proposal.

The Plan of Conversion will not go into effect unless approved by the Members eligible to vote at the special meeting. Approval of the Plan of Conversion requires the affirmative vote of two-thirds of all votes validly cast by the Members eligible to vote at the special meeting. **Approval or disapproval of the Plan of Conversion will not increase premiums or contributions, or diminish the benefits, values, guarantees or dividend eligibility of your policy or contract with Principal Life. Policy dividends will continue to be paid on dividend-paying policies as declared by the Board of Directors of Principal Life (although, as always, dividends are not guaranteed and may vary from year to year).**

You are a Member eligible to vote on the proposal to approve the Plan of Conversion and the transactions contemplated in the Demutualization if you (i) owned a Policy that was In Force on March 31, 2001 (the date the Plan of Conversion was adopted by the MIHC’s Board of Directors, the “Adoption Date”) or if you (ii) were issued a Policy on or before April 8, 1980 and transferred ownership rights of that Policy on or before April 8, 1980, so long as that Policy remained In Force on March 31, 2001.

If the Demutualization becomes effective, compensation will be paid to Members who are Eligible Policyholders. You are an Eligible Policyholder if you (i) owned a Principal Life Policy on March 31, 2000 (one year prior to the Adoption Date) and you had a continuous Membership Interest in the MIHC through ownership of one or more Principal Life Policies from March 31, 2000 until and on the Effective Date or if you (ii) were issued a Principal Life Policy on or before April 8, 1980 and you transferred ownership rights of that Policy on or before April 8, 1980 so long as that Policy remains In Force on the Effective Date.

Your vote on the proposal is important! Please complete, date and sign the enclosed ballot (Card 1) and return it in the enclosed postage-paid envelope as soon as possible, but in any event no later than July 17, 2001, so that the MIHC receives your vote prior to the close of the special meeting of Members on July 24, 2001. If you have misplaced the envelope, you may send the ballot (Card 1) to the Demutualization Information Center, Church Street Station, P.O. Box 1481, New York, New York 10277-1481. Mailed ballots must be received prior to the close of the special meeting to be counted. You should mark the ballot (Card 1) to vote either:

- Yes, for approval of the proposal to adopt the Plan of Conversion and the transactions contemplated in the Demutualization, or
- No, to oppose the proposal to adopt the Plan of Conversion and the transactions contemplated in the Demutualization.

In order to be counted as a vote, the ballot must be properly marked either Yes or No and must be signed by every policyholder listed on the ballot. A ballot will not be counted as a vote if it is signed but not marked Yes or No, if it is signed and marked both Yes and No, or if it is not signed by every policyholder listed on the ballot. A mailed ballot may be revoked by voting in person at the special meeting of Members.

After receiving the opinions of its outside advisors with respect to the Plan of Conversion, the Board of Directors of the MIHC has unanimously approved and adopted the Plan of Conversion and the transactions contemplated by the Plan of Conversion and believes that the Plan of Conversion is fair and equitable to the Members of the MIHC. The Board of Directors of the MIHC unanimously recommends that you vote Yes for the approval of the proposal to be considered at the special meeting.


A copy of the Plan of Conversion and a summary of each exhibit to the Plan of Conversion are included in this Policyholder Information Booklet Part One. Also included in this mailing are instructions for completing the ballot (Card 1), the Taxpayer Identification Card (Card 3) and the Form of Compensation Card (Card 4). This information, and additional information about the Plan of Conversion, are also available on the MIHC's website at www.principal.com.

A copy of the Plan of Conversion, with all of its exhibits, and additional information about the Plan of Conversion, may also be examined at the MIHC's offices, 711 High Street, Des Moines, Iowa 50392. These documents will be available between 8:00 a.m. and 4:30 p.m., Central Daylight Time, Monday through Friday, except days on which the MIHC is closed for business.

Please call our Demutualization Information Center toll-free at 1-866-781-1368 between the hours of 7:00 a.m. and 7:00 p.m., Central Daylight Time, if you have any questions, or if you need assistance with any of the accompanying materials. Qualified Plan Customers and Non-Rule 180 Qualified Plan Customers should call our Demutualization Information Center toll free at 1-866-781-1369 between the hours of 7:00 a.m. and 7:00 p.m. Central Daylight Time. You may also visit our website at www.principal.com for Demutualization information.

Capitalized terms in this Notice are defined in the Glossary of the Policyholder Information Booklet Part One.

BY ORDER OF THE BOARD OF DIRECTORS

A handwritten signature in black ink that reads "Joyce N. Hoffman". The signature is written in a cursive style with a long horizontal flourish at the end.

Joyce N. Hoffman
*Senior Vice President and
Corporate Secretary*

This Policyholder Information Booklet Part One is dated May 24, 2001, and is first being mailed to the Members eligible to vote at the special meeting on or about that date.



STATE OF IOWA

THOMAS J. VILSACK
GOVERNOR

THERESE M. VAUGHAN
COMMISSIONER OF INSURANCE

SALLY J. PEDERSON
LT. GOVERNOR

BEFORE THE INSURANCE COMMISSIONER OF THE STATE OF IOWA

In the matter of the application of)
PRINCIPAL MUTUAL HOLDING)
COMPANY for approval of a plan of conversion)
from a mutual insurance)
holding company into a stock company)

NOTICE OF PUBLIC HEARING

Please take notice: Pursuant to the provisions of Iowa Code §§ 521A.14(5)(b) and 508B.7, the Insurance Commissioner of the State of Iowa will hold a public hearing regarding the application of Principal Mutual Holding Company (the “applicant”) for approval of a Plan of Conversion. The Plan of Conversion provides for the applicant to convert from a mutual insurance holding company into a stock company and to merge with and into Principal Iowa Newco, Inc., an Iowa business corporation and wholly-owned subsidiary of Principal Financial Group, Inc., a Delaware corporation. The Plan of Conversion also provides for the merger with and into Principal Iowa Newco, Inc. of two of the applicant’s present subsidiaries: Principal Financial Group, Inc., an Iowa business corporation, and Principal Financial Services, Inc., an Iowa business corporation. Following the merger of Principal Financial Services, Inc. with and into Principal Iowa Newco, Inc., the Plan of Conversion provides that Principal Iowa Newco, Inc. will change its name to “Principal Financial Services, Inc.” All policyholders of Principal Life Insurance Company (“Principal Life”) and interested persons are invited to attend and participate in the public hearing.

1. **Date and time:** Wednesday, July 25, 2001, at 9:30 a.m., Central Daylight Time.
2. **Location:** Wallace Building Auditorium, State Capitol Complex, East 9th and Grand Avenue, Des Moines, Iowa 50319.
3. **Nature of hearing:** The hearing will be a public opportunity for the applicant and any interested person to present evidence and argument relevant to the fairness and equity of the applicant’s proposed Plan of Conversion. All proceedings will be recorded or reported. Applicable rules of evidence are found at Iowa Code § 17A.14 (2001).
4. **Legal authority:** The hearing will be held pursuant to the provisions of Iowa Code § 508B.7 and 521A.14.
5. **Issue presented:** The hearing will be held for the purpose of determining whether the applicant’s Plan of Conversion is fair and equitable to the applicant and the policyholders of Principal Life. Participants in the hearing may present evidence and argument regarding whether the Plan of Conversion (a) complies with Iowa law, (b) is fair and equitable to the applicant and the policyholders of Principal Life and (c) establishes a reorganized company with the capital and surplus reasonably necessary for future solvency. See Iowa Code § 508B.7.

6. **Statutes and rules involved:** Iowa Code chapters 17A, 508B and 521A; 191 Iowa Administrative Code (chapters) 3 and 46.
7. **ADA Notice:** If, due to a disability, you require the assistance of auxiliary aids or services to participate in or attend this hearing, please call your district ADA coordinator immediately at (515) 286-3394. If you are hearing impaired, please call Relay Iowa TTY at (800) 735-2942. For additional assistance, you may also contact Jeanie Vaudt at the Iowa Insurance Division; (515) 281-7367.
8. **Comment:** Any interested person wishing to submit written comment concerning the applicant's proposed Plan of Conversion may do so by mailing or delivering a copy of the comment to Jeanie Vaudt at the Iowa Insurance Division, 330 Maple Street, Des Moines, Iowa 50319. Written comments must be received before the end of the public hearing. Any interested person wishing to make an oral statement at the public hearing is requested to register with Jeanie Vaudt at the Iowa Insurance Division by calling (515) 281-7367 on or before July 24, 2001.
9. **Additional Information:** The Plan of Conversion, with all of its exhibits, and additional information about the Plan of Conversion, may also be examined at the Iowa Insurance Division, 330 Maple Street, Des Moines, Iowa 50319. Please call (515) 281-7367 to set up an appointment for viewing the documents from 8:00 a.m. to 4:30 p.m., Central Daylight Time, Monday through Friday, except days on which the Iowa Insurance Division is closed. A copy of the Plan of Conversion, each exhibit to the Plan of Conversion and additional information are also available on the Iowa Insurance Division's website at www.iid.state.ia.us.

TABLE OF CONTENTS

Summary	1
The Demutualization	12
Background	12
Reasons for Demutualization	13
Alternative Options	13
Differences between Mutual Insurance Holding Companies and Stock Companies	13
Conversion and Mergers	14
Corporate Form after the Demutualization	15
Advisors' Opinions	17
Opinion of Debevoise & Plimpton	17
Opinion of Daniel J. McCarthy	17
Opinion of Goldman, Sachs & Co.	17
Eligibility to Vote and Receive Compensation	18
General	18
Determination of Ownership	19
In Force	20
Voting	20
How to Vote	20
Compensation	21
Eligibility for Compensation	21
Allocation of Shares	21
Adjustment of Aggregate Number of Shares	22
Form of Compensation	23
Compensation Table	27
When Compensation will be Distributed	29
Distribution of Compensation	29
Limit on Amounts Available for Cash and Policy Credit Compensation	30
Factors to consider when making an election between cash and Common Stock	32
Amount of Compensation	34
Capital Raising	35
Initial Public Offering	35
Other Capital Raising Transactions	35
Use of Proceeds	35
Pricing	36
Limitations on Capital Raising	36
Special Considerations Regarding Any Other Capital Raising Transaction	37
Termination of Membership Interests	38
Changes in Right to Vote	39
Changes in Rights in Liquidation	39
Comparison of your Rights before and after our Demutualization	41
The Closed Block	41
Additional Elements of our Plan of Conversion and of the Demutualization	42
Creation of a Public Market for Common Stock	42
Potential Takeovers of the Holding Company	42
Amendments to our Plan of Conversion	42
Conditions to Effectiveness of our Demutualization	42
Effectiveness of our Plan of Conversion	43
U.S. Federal Income Tax Considerations	43
General	43
Eligible Policyholders Receiving Common Stock	44
Eligible Policyholders Receiving Cash	44

Eligible Policyholders Receiving Policy Credits	44
Taxpayer Identification Number	45
Other Tax Concerns	45
Foreign Taxpayers	45
Special Rules	46
Tax Rulings and Opinion	47
Certain ERISA Considerations	49
Required Regulatory Approvals	49
Commission-Free Sales Program	50
Acquisition of Common Stock by Officers, Directors and Employees	51
Stock Incentive Plan	51
Directors Stock Plan	51
Long-Term Performance Plan	52
Employee Stock Purchase Plan	52
Savings and Retirement Plans	53
Glossary	54

APPENDICES

- Appendix A — Plan of Conversion of Principal Mutual Holding Company
- Appendix B — Summary of Agreement and Plan of Merger
- Appendix C — Summary of Certificate of Incorporation of Principal Financial Group, Inc.
- Appendix D — Summary of By-Laws of Principal Financial Group, Inc.
- Appendix E — Summary of Articles of Incorporation of Principal Iowa Newco, Inc.
- Appendix F — Summary of By-Laws of Principal Iowa Newco, Inc.
- Appendix G — Summary of Actuarial Contribution Memorandum
- Appendix H — Summary of Private Letter Rulings Obtained from the Internal Revenue Service

**GUIDELINES FOR CARD 3 — CERTIFICATION OF TAXPAYER IDENTIFICATION NUMBER
ON SUBSTITUTE FORM W-9**

SUMMARY

This summary provides an overview of our conversion and related transactions and highlights selected information contained in the rest of this document. Although we have highlighted what we believe is the most important information about our conversion and related transactions in this summary, we urge you to read the entire document and the documents incorporated by reference carefully to understand the material aspects of our conversion and related transactions.

Throughout this booklet, we use certain defined words and phrases from time to time. These words and phrases, which will always be capitalized, have precise meanings. We have listed defined terms and their meanings in the Glossary at the end of this booklet. When you see a capitalized word or phrase, you should turn to the Glossary to find out its special meaning.

Overview of the Demutualization

What is the purpose of this Policyholder Information Booklet Part One?

This Booklet contains important information and explains your rights.

Part One:

- Reviews the highlights of our Plan of Conversion, the legal document that governs the Demutualization.
- Describes the form of compensation Eligible Policyholders will receive. (See page 4 for a description of who are Eligible Policyholders.)
- Tells you about the special vote of our Voting Policyholders on the proposal to approve our Plan of Conversion and the transactions contemplated in the Demutualization. (See page 2 for a description of who are Voting Policyholders.)
- Gives you information to help you decide how to vote, including certain special considerations which may affect your rights and compensation.
- Gives you information about the public hearing on our Plan of Conversion to be held by the Iowa Insurance Commissioner at which you have a right to attend, submit comments or speak.
- **Assures you that our Demutualization will not diminish your Principal Life Insurance Company (“Principal Life”) Policy benefits, values, guarantees or dividend eligibility or increase your Policy premiums or contributions.**

Policyholders will not have to give up their policies or lose any benefits under those policies as a result of the proposed Demutualization.

What is the purpose of the Policyholder Information Booklet Part Two?

Part Two:

- Describes risk factors that apply to ownership of our Common Stock.
- Describes our business and our financial condition and results of operations.
- Gives you information on the Demutualization, including information on the potential public offering of Common Stock.

Why has this Policyholder Information Booklet been sent to you?

This Booklet has been sent to you because you are a Member of the MIHC. You are a Member, in most cases, because you are a policyholder of Principal Life, which is a subsidiary of the MIHC.

As a Member:

- You are entitled to vote on the proposal to approve the Plan of Conversion and the transactions contemplated in the Demutualization. Members of the MIHC as of March 31, 2001 are Voting Policyholders.
- If you qualify as an Eligible Policyholder, you will receive compensation if we demutualize.

This Booklet contains important information and explains your rights. Please read it carefully.

Please refer to the Policyholder Guide for an explanation of the various cards included in your package and discussed in this Policyholder Information Booklet.

In a demutualization, a mutual company, which has no stockholders, changes its corporate form to become a stock company owned by stockholders.

We are a mutual insurance holding company. As we explain more fully in “The Demutualization — Background” on page 12, our Board of Directors has approved and adopted a plan to convert the mutual company into a stock company through a Demutualization. Mutual companies have no stockholders. Instead, mutual companies are governed by their members. When a company demutualizes, it converts its organizational form from a mutual company into a company with stockholders. If our Demutualization becomes effective, we will become a stock company. In other words, Principal Life will shift from being a wholly-owned subsidiary of the MIHC to being a wholly-owned subsidiary of a new stock company referred to as the Holding Company. To complete the Demutualization, the Holding Company will become a publicly traded stock company.

Immediately after our Demutualization, the holders of Common Stock will consist of (1) Eligible Policyholders who receive Common Stock as compensation in the Demutualization process and (2) the investors who purchase publicly traded shares of Common Stock in an initial public offering (“IPO”). Following the IPO, others may purchase shares of Common Stock. We expect that the shares of Common Stock will be traded on the New York Stock Exchange under the symbol “PFG”. We and our underwriters will set the price of the Common Stock sold in the IPO, and the market will set the price for the Common Stock after the IPO. The Holding Company may issue other securities (such as debt, Preferred Stock or certain securities that are convertible into Common Stock) in one or more Other Capital Raising Transactions on or prior to the Effective Date.

For a discussion of these transactions, please see “Capital Raising — Initial Public Offering” on page 35, and “Capital Raising — Other Capital Raising Transactions” on page 35.

Do Members have to give up anything to receive compensation in the Demutualization?

Members give up their Membership Interests as a result of the Demutualization. Eligible Policyholders receive compensation.

Members of a mutual insurance holding company have certain Membership Interests (such as the right to vote). On the Effective Date, we will no longer have Members. If our Demutualization becomes effective, your Membership Interests will be extinguished and, if you are an Eligible Policyholder, you will receive compensation in the form of Common Stock, cash or Policy Credits in exchange for your Membership Interests. (Policy Credits are enhancements to your policy or contract.) ***Your Policy benefits, values, guarantees and dividend eligibility will not be diminished, and your Policy premiums or contributions will not be increased, in any way, due to our Demutualization.***

Currently, the assets of the MIHC are available to pay policyholder claims in the unlikely event of Principal Life’s insolvency. If our Plan of Conversion becomes effective, however, the assets of the MIHC will no longer be available to pay policyholder claims in the unlikely event of Principal Life’s insolvency. *For more information, please see “Termination of Membership Interests” on page 38.*

Why are we converting from a mutual insurance holding company into a stock company?

Our Board believes that converting into a stock company will allow more flexibility in capital raising and help us pursue our strategies and operating principles.

Our Board believes that a Demutualization would enhance our financial flexibility to raise additional capital and pursue our strategies and operating principles. In addition, our Board believes that our Demutualization will help us adapt to changing business conditions and position us to take advantage of changes in laws permitting affiliations between insurers and other types of companies, such as banks, if in the future the Board decides to do so, with approval of our stockholders, if necessary.

How will our Demutualization benefit Principal Life and its policyholders?

Our Board believes that Principal Life will be able to invest in new technology and products and improve service for policyholders.

Our Board believes that the Demutualization will yield benefits to present and future policyholders of Principal Life by increasing Principal Life’s financial resources and its ability to invest in new technology, products and markets and improved customer service. The Demutualization will allow Eligible Policyholders to receive shares of Common Stock, cash or Policy Credits in exchange for the extinguishment of their otherwise illiquid Membership Interests in the MIHC.

There are, however, certain risks and issues involved in our Demutualization. These are of two kinds. One kind of risk, for those Eligible Policyholders receiving Common Stock, relates to owning Common Stock. For more information about this type of risk please see “Risk Factors” in the Policyholder Information

Booklet Part Two. In addition, there are important differences between a mutual insurance holding company structure and a stock company structure. For an analysis of the differences between these two types of structures, please see “The Demutualization — Differences between Mutual Insurance Holding Companies and Stock Companies” on page 13.

What will Eligible Policyholders receive in connection with the Demutualization?

As part of the Demutualization, you may receive compensation.

Some policyholders will have the right to vote but not to receive compensation in our Demutualization. In order to be an Eligible Policyholder and receive compensation in the Demutualization you must either: (i) have been the Owner of a Policy on March 31, 2000 and have a continuous Membership Interest in the MIHC through ownership of one or more Policies from March 31, 2000 until and on the Effective Date; or (ii) have been issued a Policy on or before April 8, 1980 and transferred ownership rights of that Policy on or before April 8, 1980, so long as that Policy remains In Force on the Effective Date.

If you qualify as an Eligible Policyholder, you will receive compensation if the Demutualization takes effect. Compensation will be paid in the form of Common Stock, cash or enhancements to policy values called Policy Credits. The amount of compensation will depend on a number of factors. For further details on these factors, please see “Compensation — Allocation of Shares” on page 21.

How much compensation will Eligible Policyholders receive?

Your Policyholder Record Card (Card 2) provides an estimate of the number of shares of Common Stock on which your compensation will be based.

If you qualify as an Eligible Policyholder, regardless of the form of compensation you receive, the amount of compensation will be based on the number of shares of Common Stock allocated to you under the terms of the Plan of Conversion. **Printed on your Policyholder Record Card (Card 2) is an estimate of the number of shares of Common Stock on which your compensation will be based if you are an Eligible Policyholder on the Effective Date. However, the number of shares ultimately allocated to you may differ, perhaps significantly, from the number listed on your Policyholder Record Card (Card 2). At a minimum, we anticipate that Eligible Policyholders will receive 100 shares of Common Stock (or the equivalent in cash or Policy Credits).** However, this minimum allocation, as well as all share allocations, may also change as a result of adjustment of the total number of allocable shares. The Plan of Conversion provides that the total number of shares allocated to Eligible Policyholders is 350 million. For further information, see “Compensation — Adjustment of Aggregate Number of Shares” on page 22.

In what form will Eligible Policyholders receive compensation?

If you are an Eligible Policyholder, please refer to the section entitled “Compensation — Form of Compensation” on page 23 and to the Compensation Table on page 27 in order to

determine the form of compensation you are eligible to receive. Possible forms of compensation include Common Stock, cash or Policy Credits. Policy Credits, in turn, may be provided in any of the following forms: in the case of certain policies (such as certain individual retirement annuity and tax-sheltered annuity contracts) required to receive Policy Credits, Policy Credits will take the form of an increase in cash value, account value, dividend accumulations, face amount, extended term period or benefit payment, as appropriate, depending on the Policy. In the case of certain group annuity contracts, Policy Credits will take the form of either Separate Account Policy Credits or Account Value Policy Credits. A Separate Account Policy Credit is a Policy Credit in the form of an interest in a separate account maintained by Principal Life holding shares of Common Stock. An Account Value Policy Credit is a Policy Credit in the form of an increase in value to an applicable group annuity contract. An Account Value Policy Credit is issued to Owners of certain group annuity contracts issued by Principal Life that are designed to fund benefits under a retirement plan that is qualified under Section 401(a) or Section 403(a) of the Code. Please see “Compensation — Form of Compensation” on page 23 for more details.

The form of compensation you will receive depends on the type of Policy you own, as well as other factors. If you are an Eligible Policyholder, the Policyholder Record Card (Card 2) shows you the different forms of compensation you are eligible to receive. **Subject to the limits discussed below, you will receive your Default Compensation unless you elect to receive an alternate form of compensation by properly filling out and returning to us the Form of Compensation Card (Card 4). Please see the “Compensation Table” on page 27 to find your Default Compensation.**

Under certain circumstances, you may be unable to receive certain forms of compensation for which you are eligible. It is possible, for instance, that there will not be enough funds to distribute cash or fund the crediting of certain Policy Credits (described as Account Value Policy Credits) to all Eligible Policyholders who elect to receive cash or Account Value Policy Credits or for whom Account Value Policy Credits are the Default Compensation. Under the Plan of Conversion, we are required to first distribute funds to (i) Eligible Policyholders who are required to receive cash or Policy Credits and (ii) Eligible Policyholders electing to receive cash or Account Value Policy Credits (or for whom Account Value Policy Credits are the Default Compensation) who are allocated 100 shares of Common Stock or fewer. Other Eligible Policyholders may receive cash or Account Value Policy Credits only if there are sufficient funds available. (For more information, see “Compensation — Limit on Amounts Available for Cash and Policy Credit Compensation” on page 30.) Otherwise, they will receive Common Stock or, in the case of Qualified Plan Customers, Separate Account Policy Credits.

Another limitation is that the overall allocation of Separate Account Policy Credits will be limited so that no less than 50% of the total compensation distributed to Eligible Policyholders as a whole will be in the form of Common Stock. This is done so that Eligible Policyholders are not forced to recognize income solely because of the Demutualization. If Separate Account Policy Credits cannot be provided in this case, Common Stock will be provided instead. Please see “Compensation — Limit on Amounts Available for Cash and Policy Credit Compensation” on page 30.

In addition, Qualified Plan Customers whose group annuity contracts were issued in California will be eligible to receive only Account Value Policy Credits, cash or Common Stock. In the absence of an election, or in the event there are insufficient funds to satisfy an Account Value Policy Credit or cash election, these California Qualified Plan Customers will receive Common Stock.

In order for you to avoid withholding of federal income taxes on the compensation you receive in the Demutualization (or on future dividends paid on Common Stock you may receive), as well as possible IRS penalties, it is very important that you promptly complete, sign and return the Taxpayer Identification Card (Card 3) in the enclosed postage-paid envelope. You should return the Taxpayer Identification Card even if your Taxpayer Identification Number is correct.

Why is there a special vote of Members?

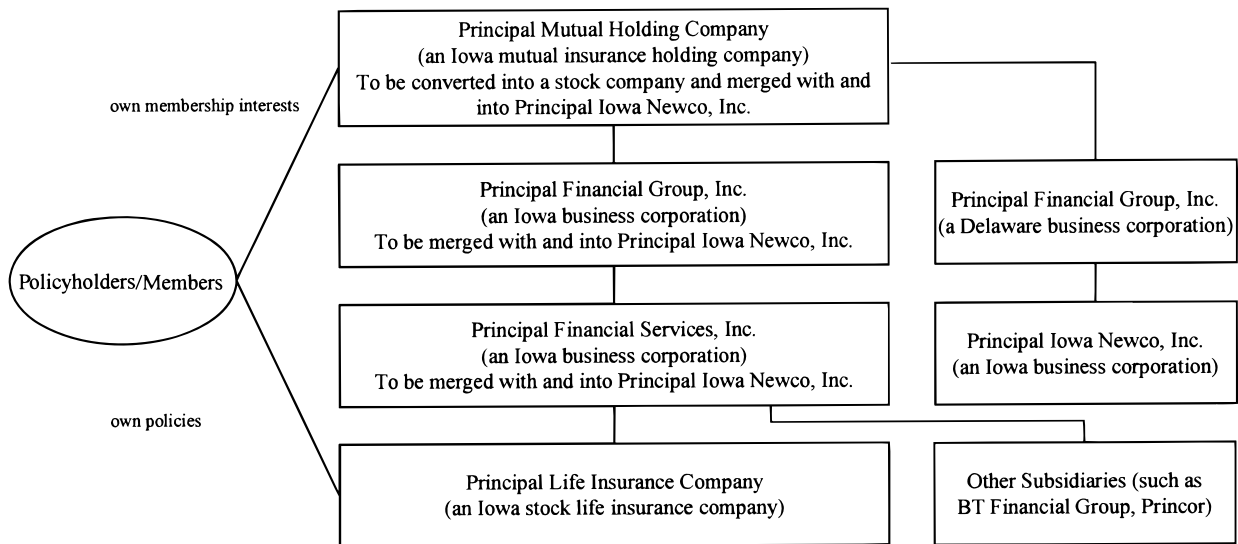
A vote of our Members is required by the MIHC's By-Laws and Iowa demutualization law.

In order for our Plan of Conversion to become effective, our By-Laws and Iowa insurance law require our Plan of Conversion to be submitted to a vote of Members. Only Members who are Voting Policyholders are eligible to vote. The Plan of Conversion must be approved by two-thirds of the votes cast by Voting Policyholders. If you are a Voting Policyholder, you are entitled to one vote regardless of the number or size of the Policies you own, unless those Policies are held in different capacities (such as an individual who holds one Policy in his or her own name and another as a trustee for his or her child).

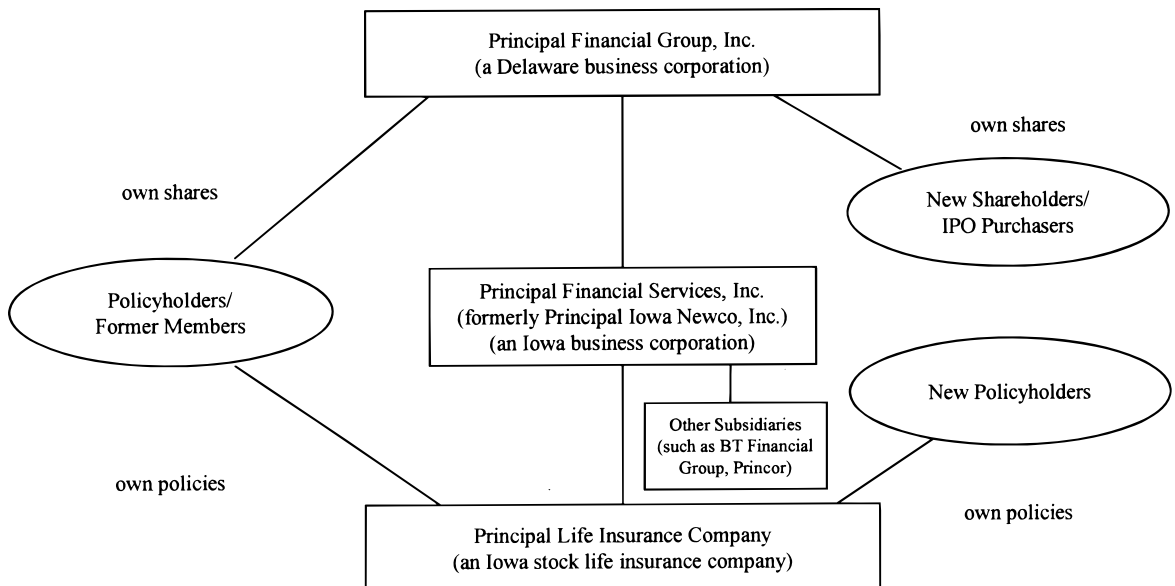
Structure before and after our Demutualization

The following charts display our corporate structure before and after the Demutualization. Prior to the Demutualization, the MIHC (an Iowa corporation) will indirectly own all of the stock of Principal Life. Following the Demutualization, the Holding Company will be a stock holding company, organized under the laws of Delaware, and will indirectly own all of the stock of Principal Life.

STRUCTURE BEFORE DEMUTUALIZATION



STRUCTURE AFTER DEMUTUALIZATION



Key features of the Plan of Conversion

Policy provisions, including those regarding dividends, will not change.

- ***Policy provisions will not change*** — Your Policy benefits, values, guarantees and dividend eligibility will not be diminished, and your Policy premiums or contributions will not be increased, in any way, due to the Demutualization.
- ***Policy dividends will continue to be paid***— Policy dividends will continue to be paid as declared by the Board of Directors of Principal Life. As always, Policy dividends are not guaranteed and will vary based on experience.
- ***We will become a stock company*** — If our Plan of Conversion is approved, we will convert from a mutual insurance holding company into a stock company.
- ***We will merge into Principal Iowa Newco, Inc.*** — After we convert into a stock company, we and two of our Iowa subsidiaries will be merged into Principal Iowa Newco, Inc. Principal Iowa Newco, Inc. is a direct subsidiary of the Holding Company. As a result of these mergers, Principal Iowa Newco, Inc. will become the direct parent company of Principal Life and the Holding Company will become the indirect parent company of Principal Life.
- ***Principal Iowa Newco, Inc. will change its name***— After the mergers, Principal Iowa Newco, Inc. will change its name to Principal Financial Services, Inc.
- ***The Closed Block will be unaffected*** — As part of the reorganization in 1998 into a mutual insurance holding company structure, Principal Life established the Closed Block for the benefit of individual policies paying experienced-based policy dividends. The Closed Block was designed to provide reasonable assurance to the policyholders with policies included in the Closed Block that, after the reorganization, assets would be available to maintain the aggregate policy dividend scales in effect for 1997 if the experience underlying those scales were to continue or to allow for appropriate adjustments in those scales if necessary. The Closed Block will continue to operate as established and will not be affected by the Demutualization. Please see “The Closed Block” on page 41 to learn more about the Closed Block.
- ***Membership Interests will be extinguished*** — As an Owner of a Policy, you have certain rights as a Member because we are a mutual insurance holding company. These rights include the right to vote on certain matters (including the election of directors) and the right to participate in the distribution of any residual value in the unlikely event of a liquidation of the MIHC. These rights will no longer exist if our Demutualization becomes effective. However, if you are an Eligible Policyholder, you will receive compensation in exchange for surrendering these rights.

Eligible Policyholders will receive compensation in the form of shares of Common Stock, cash or Policy Credits in exchange for their Membership Interests.

- ***Eligible Policyholders will receive compensation*** — If the Demutualization takes effect, compensation will be paid to Eligible Policyholders in the form of Common Stock, cash or Policy Credits. Policy Credits, in turn, may be provided in any of the following forms: in the case of certain policies (such as certain individual retirement annuity and tax-sheltered annuity contracts) required to receive Policy Credits, Policy Credits will take the form of an increase in cash value, account value, dividend accumulations, face amount, extended term period or benefit payment, as appropriate, depending on the Policy. In the case of certain group annuity contracts, Policy Credits will take the form of either Separate Account Policy Credits or Account Value Policy Credits.
- ***The amount of compensation will be determined*** — If you receive Common Stock, you will receive the number of shares allocated to you. If you receive cash or Policy Credits (other than Separate Account Policy Credits), the amount of compensation you receive will be equal to the number of shares of Common Stock allocated to you multiplied by the price of the Common Stock in the IPO. If you receive Separate Account Policy Credits, the amount you receive will be equal to your share of the assets in the Stock Separate Account. Common Stock will initially be the only asset in the Stock Separate Account. At that point in time, your share of the assets will be equal to the number of shares of Common Stock allocated to you multiplied by the public trading price of the Common Stock. Please see “Compensation — Amount of Compensation” on page 34 to learn more about Separate Account Policy Credits.
- ***Initial Public Offering*** — The Holding Company will sell shares of Common Stock through an IPO. The IPO will be completed on the Effective Date.

In addition to the IPO, the Holding Company may also conduct Other Capital Raising Transactions (such as issuing debt or Preferred Stock) in accordance with the Plan of Conversion. The primary purpose of any Other Capital Raising Transaction would be to fund cash and Policy Credits. For a more detailed description of Other Capital Raising Transactions, please see “Capital Raising — Other Capital Raising Transactions” on page 35.

- ***Use of Proceeds*** — The proceeds of the IPO and any Other Capital Raising Transactions will be used to fund compensation for Eligible Policyholders. The Holding Company may then retain up to \$250 million of any excess proceeds with the remainder being provided to Principal Life.

For more information about the use of IPO proceeds, proceeds from Other Capital Raising Transactions, if any, and proceeds from Underwriters’ Over-Allotment Options, if any, please see

“Summary — The Initial Public Offering” in the Policyholder Information Booklet Part Two.

Compensation to officers, directors and employees in connection with our Demutualization

Officers, directors and employees of the MIHC, the Holding Company and their affiliates will not receive stock or cash compensation at the time of the Demutualization (other than as policyholders or as a plan participant of an Eligible Policyholder), but they will be eligible to acquire or receive stock in the future.

Officers, directors and employees of the MIHC, the Holding Company and their affiliates will not receive stock or cash compensation at the time of the Demutualization other than what they may receive as Eligible Policyholders or as a plan participant of an Eligible Policyholder.

After the Effective Date, however, officers, directors and employees will have the opportunity to acquire (and in some cases receive) Common Stock by virtue of participation in our stock-based compensation plans (including the Stock Incentive Plan, the Excess Plan, the Directors Stock Plan, the Long-Term Performance Plan and the Employee Stock Purchase Plan) and our savings and retirement plans subject to certain limitations. For a detailed description of these limitations please see “Acquisition of Common Stock by Officers, Directors and Employees” on page 51.

All of our employees, including our officers and directors, will be able to become stockholders of the Holding Company in the future. This will create the potential for competing interests between management (as well as other stockholders of the Holding Company) and policyholders of Principal Life. However, we believe that being a public company will result in greater incentive for management to run the Holding Company successfully for the benefit of both policyholders of Principal Life and stockholders of the Holding Company. After Demutualization, the Holding Company will be operated for the benefit of its stockholders as well as Principal Life policyholders. This will create the potential for competing interests between Principal Life policyholders and Holding Company stockholders. We believe that we can address these competing interests effectively.

Conditions to effectiveness

The Demutualization can occur only if a number of conditions are satisfied.

The Demutualization cannot be completed unless a number of conditions are satisfied, including:

- Our Plan of Conversion must be submitted to a vote of Voting Policyholders. Two-thirds of the Voting Policyholders that cast a vote must indicate YES for the proposal to approve our Plan of Conversion and the transactions contemplated in the Demutualization;
- The Commissioner must approve our Plan of Conversion, but only after conducting a public hearing on our Plan of Conversion. Details about when the public hearing will be held are described in the “Notice of Public Hearing” (at the front of this Policyholder Information Booklet Part One);

- We must receive confirmation, as of the Effective Date, of an opinion we have received from our independent legal counsel regarding certain federal income tax consequences of our Plan of Conversion. The opinion reflects private letter rulings we have obtained from the IRS regarding certain federal income tax consequences of the Demutualization to Eligible Policyholders. The IRS rulings are summarized in Appendix H. The opinion we have received is included as an exhibit to the Policyholder Information Booklet Part Two;
- We must receive an opinion from our financial advisors regarding the fairness from a financial point of view to the Eligible Policyholders, taken as a group, of the exchange of the aggregate Membership Interests for Common Stock, cash or Policy Credits in accordance with our Plan of Conversion. We must also receive an opinion from our actuarial advisor regarding certain actuarial matters relating to the allocation of compensation among Eligible Policyholders under our Plan of Conversion. We have received these opinions, which are included as exhibits to the Policyholder Information Booklet Part Two; and
- The IPO must be completed. The Holding Company may also conduct on or prior to the Effective Date a public offering or private placement of securities in connection with one or more Other Capital Raising Transactions (such as issuing debt or Preferred Stock). The Holding Company cannot proceed with any offering relating to any Other Capital Raising Transactions without the approval of the Commissioner. In addition, the final terms of the IPO and any Other Capital Raising Transactions must be approved by the Commissioner.

When will our Demutualization occur?

Our Demutualization will occur when the conditions listed under “Conditions to Effectiveness of our Demutualization” on page 42 are satisfied and the Holding Company completes the IPO and one or more Other Capital Raising Transactions, if any. The Holding Company must complete the IPO within one year after the Commissioner approves the Plan unless the Commissioner agrees to extend the time period. Currently, we expect our Demutualization to occur in the latter part of 2001 or first part of 2002.

THE DEMUTUALIZATION

The following is a summary of our Plan of Conversion, a copy of which is attached to this document as Appendix A, and the Agreement and Plan of Merger, a summary of which is attached to this document as Appendix B, and each of which is incorporated by reference into this document. Please see each of these documents for further information. If there are differences between this summary (or any other explanatory information in your package of materials) and our Plan of Conversion or its exhibits, the provisions of our Plan of Conversion and its exhibits will govern.

Throughout this booklet, we use certain defined words and phrases from time to time. These words and phrases, which will always be capitalized, have precise meanings. We have listed defined terms and their meanings in the Glossary at the end of this booklet. When you see a capitalized word or phrase, you should turn to the Glossary to find out its special meaning.

Background

The Demutualization builds on a reorganization that began in 1998, when Principal Life became a stock life insurance company operating within a mutual insurance holding company structure, under the indirect control of the MIHC. While the mutual insurance holding company structure has served us well and helped us accomplish many things in a short period of time, changes in the financial services industry since 1998 have created competitive pressures that argue for further restructuring of our organization. In August 1999, our Board began considering alternatives to enhance our flexibility to raise additional capital and pursue our strategies and operating principles. Among the possible alternatives reviewed were retaining our current structure or converting from a mutual insurance holding company into a stock company. In February 2000, our Board authorized a study to determine whether we should demutualize. In August 2000, our Board approved management's recommendation to develop a Plan of Conversion. Finally, on March 31, 2001, after receiving the opinions of our advisors with respect to our Plan of Conversion, our Board unanimously approved and adopted our Plan of Conversion and the transactions contemplated by our Plan of Conversion. Our Board believes that our Plan of Conversion is fair and equitable to the Members of the MIHC and now submits our Plan of Conversion and the transactions contemplated in the Demutualization to the Voting Policyholders of the MIHC for approval.

Policyholders will not have to give up their Policies or lose any benefits under those Policies as a result of the proposed Demutualization.

Our Plan of Conversion involves our conversion into a stock company in a process called Demutualization. Under our Demutualization, Eligible Policyholders will be compensated for giving up their Membership Interests in the MIHC. Membership Interests include the right to vote on the election of directors as well as the right to share in the distribution of our residual value in the unlikely event of a liquidation. The compensation distributed to Eligible Policyholders may take the form of Common Stock, cash or Policy Credits. **Policyholders will not have to give up their Policies or lose any benefits under those Policies as a result of the proposed Demutualization.**

Reasons for Demutualization

An important purpose for the Demutualization is to enhance our ability to achieve our strategic objectives by improving our financial flexibility. We believe that the Demutualization will also yield benefits to present and future policyholders of Principal Life by increasing Principal Life's financial resources and its ability to invest in new technology, products and markets and improved customer service.

Our Policyholder Information Booklet Part Two provides a detailed description of our business and financial condition.

We believe that the increased financial flexibility provided by the Demutualization will allow us to:

- Accelerate the growth of our U.S. asset accumulation business;
- Grow our third-party institutional assets under management; and
- Increase the growth and profitability of our international operations.

Our Demutualization will provide Eligible Policyholders with an opportunity to receive shares of Common Stock, cash or Policy Credits in exchange for their otherwise illiquid Membership Interests in the MIHC.

Alternative Options

Our Board evaluated other options before voting unanimously to approve and adopt our Plan of Conversion. One of the alternatives our Board considered was to retain our current structure. Our Board determined that the mutual insurance holding company structure does not provide the most flexibility for raising capital. Because of its uniqueness, the mutual insurance holding company structure may lead to uncertainty about the receptivity and valuation of any stock offered to the public by a stock subsidiary of the mutual insurance holding company. Our Board believes that the Demutualization will provide us with the financial flexibility to support future growth and financial strength. Our Board, therefore, has unanimously determined that the Demutualization is advisable and in the best interests of the MIHC and that our Plan of Conversion is fair and equitable to our Members, both as to their Membership Interests and as to their contractual interests as policyholders of Principal Life.

Differences between Mutual Insurance Holding Companies and Stock Companies

A mutual insurance holding company is structured and operated differently from a stock company. The chart that follows compares and contrasts the general characteristics of mutual insurance holding companies and stock companies.

	Mutual Insurance Holding Company	Stock Companies
Who Controls the Company	Members of the mutual insurance holding company, who are generally policyholders of the insurance company, control the company. There are no stockholders.	Stockholders control the company. Stockholders and policyholders need not be the same.
Transferability of Membership/Ownership — Voting	Membership interests are not transferable apart from the underlying policy. Membership interests end when the policy ends.	Stockholders own shares of stock. Common stock received as demutualization compensation may be sold or transferred even though the policy is retained. Also, the common stock may be retained even if the policy is terminated or transferred.
Ability to Conduct Capital Transactions	Can raise capital only through its stock subsidiaries under certain conditions, as well as through borrowing or through sale of subsidiary stock or assets.	Increased ability to raise capital — by selling stock and other securities of the company — and can use stock and other securities to pay for acquisitions.
Policy Benefits	As provided in policy.	Remain as provided in policy (except that some policies receive policy credits as demutualization compensation).
Possible Hostile Acquisition by Another Company	Difficult to be acquired in a hostile takeover because a mutual insurance holding company must demutualize before merging with a stock company.	Less difficult for shares to be acquired in a hostile takeover, although the law and takeover protection measures implemented by the company provide some protections against an uninvited acquisition.
Costs of Doing Business	Incur none of the costs related to being a public company.	Additional ongoing costs of being a public company.

Conversion and Mergers

All the events of the Demutualization will occur at the same time.

Although the Demutualization is described as a series of separate events, effectively all the events will occur at the same time and none of the elements of the Demutualization will go forward without the others. The first step of the Demutualization will be our conversion. All Membership Interests in the MIHC will be extinguished. In exchange for the loss of their Membership Interests, Eligible Policyholders will receive Common Stock, cash or Policy Credits. Following our conversion, we and certain of our subsidiaries will merge into an Iowa subsidiary of the Holding Company. The name of the Holding Company's subsidiary is currently Principal Iowa

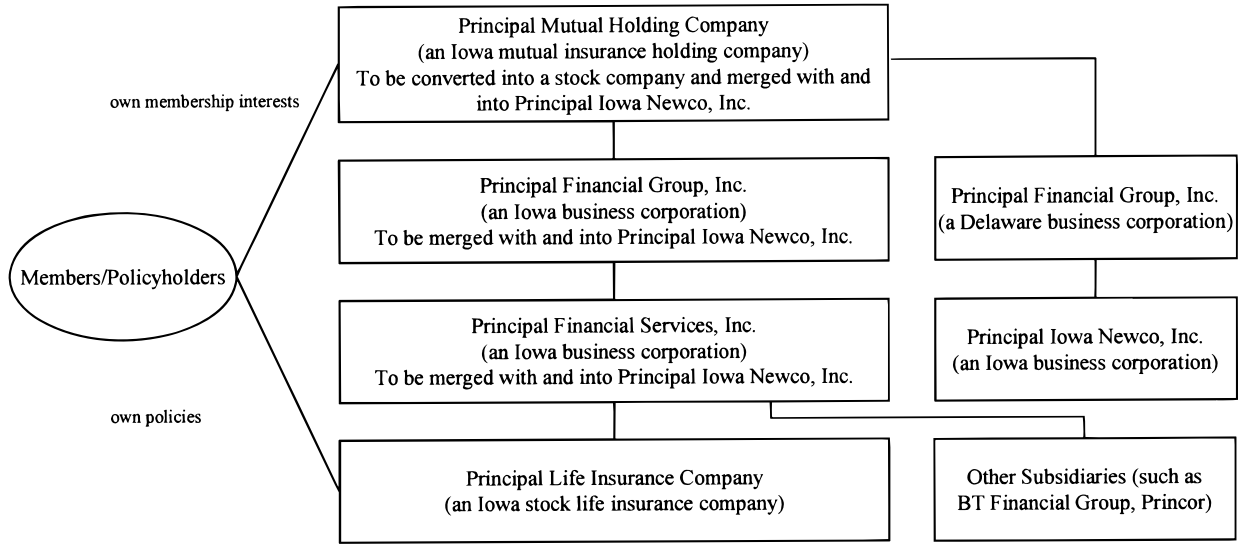
Newco, Inc. It will change to Principal Financial Services, Inc. when the Demutualization takes effect.

Corporate Form after the Demutualization

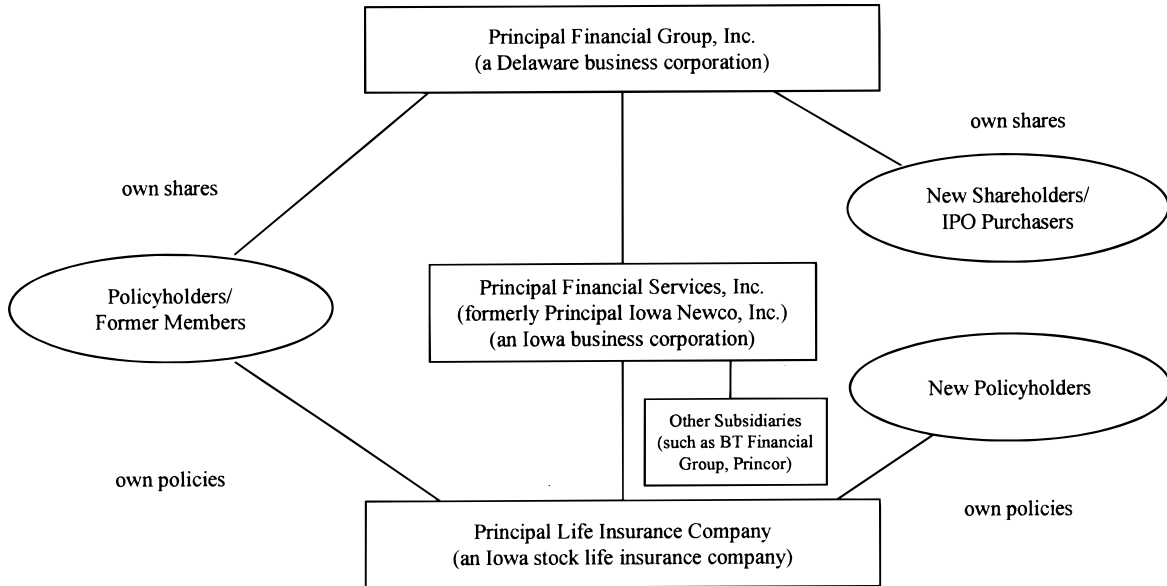
Principal Financial Services, Inc., as the surviving company in the mergers, will succeed to all of the assets, liabilities, rights, title and interests of the MIHC and the other entities in the mergers that are not the surviving company. Among the assets Principal Financial Services, Inc. will own is all of the stock of Principal Life. Please see “The Demutualization — Steps to Demutualization” in the Policyholder Information Booklet Part Two for a more detailed description of the mergers.

Following our conversion and the mergers, the Holding Company will be a stock holding company, organized under the laws of Delaware, and will indirectly own all of the stock of Principal Life. The Holding Company will own 100% of the stock of Principal Financial Services, Inc., formerly Principal Iowa Newco, Inc., and Principal Financial Services, Inc. will own 100% of the stock of Principal Life. The Holding Company will sell shares of Common Stock in an initial public offering. See “Capital Raising” on page 35.

STRUCTURE BEFORE DEMUTUALIZATION



STRUCTURE AFTER DEMUTUALIZATION



ADVISORS' OPINIONS

Opinion of Debevoise & Plimpton

Debevoise & Plimpton has acted as our legal advisor and special tax counsel.

The law firm of Debevoise & Plimpton has acted as our legal advisor and special tax counsel. Debevoise & Plimpton has delivered to us an opinion, dated May 24, 2001, regarding certain federal income tax consequences of the Demutualization to Eligible Policyholders. This includes its opinion that the summary of the principal income tax consequences to Eligible Policyholders of their receipt of compensation set forth in the "Tax Rulings and Opinion" section on page 47, to the extent it describes matters of law or legal conclusions, is, subject to the limitations and assumptions set forth in that section, an accurate summary of the material federal income tax consequences to Eligible Policyholders of the consummation of our Plan of Conversion under the facts and Federal Income Tax Law as they exist on the date of the opinion. In order for the Demutualization to be completed, Debevoise & Plimpton must confirm that this opinion continues to be correct under the facts and Federal Income Tax Law as they exist on the Effective Date.

A copy of the opinion delivered to us by Debevoise & Plimpton appears in the Policyholder Information Booklet Part Two. We urge you to read the opinion carefully in its entirety.

Opinion of Daniel J. McCarthy

Milliman & Robertson, Inc. has acted as our actuarial advisor.

Milliman & Robertson, Inc. has acted as our actuarial advisor. We retained Milliman & Robertson, Inc. to advise us in connection with actuarial matters related to the allocation of compensation to Eligible Policyholders of Principal Life, as set forth in Article VII of our Plan of Conversion. At the March 31, 2001 meeting of our Board, Daniel J. McCarthy, F.S.A., a consulting actuary associated with Milliman & Robertson, Inc., delivered an actuarial opinion that the principles, assumptions and methodologies used to allocate compensation among Eligible Policyholders, as set forth in Article VII of our Plan of Conversion, are reasonable and appropriate and result in an allocation of compensation that is fair and equitable to Eligible Policyholders.

A copy of the opinion delivered to us by Daniel J. McCarthy, F.S.A., appears in the Policyholder Information Booklet Part Two. We urge you to read the opinion carefully in its entirety.

Opinion of Goldman, Sachs & Co.

Goldman, Sachs & Co. has acted as our financial advisor.

Goldman, Sachs & Co. has acted as our financial advisor. At the March 31, 2001 meeting of our Board, Goldman, Sachs & Co. delivered an opinion letter to the Board of Directors of the MIHC stating that the exchange of the aggregate Membership Interests for Common Stock, cash or Policy Credits in accordance with our Plan of Conversion is, subject to the limitations and assumptions set forth in such opinion letter, fair

from a financial point of view to Eligible Policyholders, taken as a group.

A copy of the opinion letter delivered to us by Goldman, Sachs & Co. appears in the Policyholder Information Booklet Part Two. We urge you to read the opinion carefully in its entirety.

ELIGIBILITY TO VOTE AND RECEIVE COMPENSATION

General

In general, policyholders of a mutual company have membership interests that give rise to the right to vote and the right to receive compensation in the event of a demutualization or to share in the distribution of any residual value after satisfaction of all liabilities and debts in the unlikely event of its liquidation. The rules described below explain the reasons why you are or are not eligible to vote on our Plan of Conversion or receive compensation in our Demutualization.

A recent amendment to our By-Laws allows our Plan of Conversion to include definitions for certain terms that are broader than the definitions we use for those terms generally. The terms included in this amendment were “member”, “policy”, “owner” and “in force”. These more inclusive definitions have the effect of increasing the number of Persons who are Eligible Policyholders by approximately 150,000 and are intended to ensure that the Demutualization is fair and equitable to the policyholders of Principal Life.

Your Membership Interest is derived from your ownership of a Policy. In order for you to be eligible to vote on our Plan of Conversion and/or to receive compensation in our Demutualization, you must be the Owner of a Policy at or during certain periods of time. Under Iowa law some policyholders of Principal Life are eligible to vote on the proposal to approve the Plan of Conversion, but are not eligible to receive compensation in our Demutualization.

To be eligible to vote on our Plan of Conversion you must own a Policy that was In Force on March 31, 2001.

- You are eligible to vote on the proposal to approve our Plan of Conversion and the transactions contemplated in the Demutualization if you (i) owned a Policy that was In Force on March 31, 2001 (the date our Plan of Conversion was adopted) or if you (ii) were issued a Policy on or before April 8, 1980 and transferred ownership rights of that Policy on or before April 8, 1980, so long as that Policy remained In Force on March 31, 2001. **If you are named on Card 1, you are eligible to vote on our Plan of Conversion and the transactions contemplated in the Demutualization.**

Generally, to be eligible to receive compensation in connection with the Demutualization, you must own a Policy that was In Force on March 31, 2000 and you must maintain a continuous Membership Interest until the Effective Date.

- You are eligible to receive compensation if you (i) owned a Policy on March 31, 2000 (one year prior to the date our Plan of Conversion was adopted) and you had a continuous Membership Interest through ownership of one or more Policies from March 31, 2000 until and on the Effective Date or if you (ii) were issued a Policy on or before April 8, 1980 and transferred ownership rights of that Policy on or before April 8, 1980 so long as that Policy remains In Force on the Effective Date.

Determination of Ownership

For purposes of voting and receiving compensation, your ownership of a Policy is determined based on the records of the MIHC or Principal Life, as applicable. The Policyholder Record Card (Card 2) lists your eligible Policies as of March 31, 2001. The following rules apply in determining whether you are the Owner of a Policy:

- **In general, you are the Owner of an individual insurance policy or individual annuity contract if you are the Person specified in the policy or contract as the policyholder.**
- If more than one Person owns a Policy, they will all collectively be considered as one Owner. This means that they will all be entitled to jointly vote on the Plan of Conversion and to jointly receive any compensation in connection with our Demutualization.
- If you own Policies in more than one capacity (for example one Policy is held by you personally and a second Policy is held by you as a trustee), you are treated as a separate Owner for each Policy.
- If the Policy is a group insurance policy or group annuity contract, generally you are the Owner of that Policy if you are the Person or Persons specified as the policyholder or contractholder in the master policy or contract. If the master policy or contract does not specify a policyholder or contractholder, you are the Owner of that Policy if the master policy or contract was issued to you or in your name.
- However, if the group insurance policy or group annuity contract has been issued to a Company Trust, then you are the Owner of a Policy if you are the holder of Evidence of Insurance Coverage. Thus, for group insurance policies or group annuity contracts issued to Company Trusts, the holders of Evidence of Insurance Coverage, rather than the trustee of the Company Trust or any other Person with an interest in the policy or contract, will be considered as the Owners of Policies. We recently amended our By-Laws, in part, to achieve this result. The By-Laws amendment allows our Plan of Conversion to include definitions of terms that are broader than the definitions we use for these terms generally and was intended to ensure that the Demutualization is fair and equitable to the policyholders of

Principal Life. These more inclusive definitions have the effect of increasing the number of Persons who are Eligible Policyholders by approximately 150,000.

In Force

Whether your Policy is In Force is determined based on the records of the MIHC or Principal Life, as applicable. **In general, your Policy is In Force on a given day if it has been issued and is in effect.** A Policy that is In Force will remain In Force as long as it has not matured, by death or otherwise, or been surrendered or otherwise terminated. A Policy is not considered to have matured by death until notice of the insured's death has been received in Principal Life's administrative office in either verbal or written form. If your Policy has lapsed for nonpayment of premiums, it will generally remain In Force during any applicable grace period.

For more information on determining whether your Policy is In Force, see Section 6.3 of our Plan of Conversion.

VOTING

To become effective, our Plan of Conversion must be approved by two-thirds of the votes cast by Voting Policyholders. Voting Policyholders may vote by mail or in person at the Members' Meeting. If you are a Voting Policyholder, you are entitled to one vote on the proposal set forth on the ballot (Card 1), regardless of the number or size of the Policies you own, unless those Policies are held in different capacities (such as an individual who holds one Policy in his or her own name and another as a trustee).

How to Vote

You should **complete, sign and return the ballot (Card 1)** to us.

The ballot (Card 1) must be marked with a YES vote, to approve our Plan of Conversion and the transactions contemplated in the Demutualization, or a NO vote, to vote against approval of our Plan of Conversion and the transactions contemplated in the Demutualization. It must be signed to be counted. If more than one policyholder is designated on the ballot (Card 1), it must be signed by each of them. The ballot (Card 1) will not count, and it will not be treated as a vote cast, if it is signed but not marked YES or NO, if it is signed and marked both YES and NO, or if it is not signed by every policyholder listed on the ballot (Card 1).

Ballots must be mailed by July 17, 2001, so that they are received by the close of the Members' Meeting.

By Mail. If you would like to vote by mail, you should use the postage pre-paid envelope which has been included. If you have misplaced the envelope, you may send the ballot (Card 1) to the Demutualization Information Center, Church Street Station, P.O. Box 1481, New York, New York 10277-1481. Please mail the ballot (Card 1) no later than July 17, 2001, so that the ballot is received by the close of the Members' Meeting to be held in the Auditorium of our Corporate One building,

711 High Street, Des Moines, Iowa 50392, at 9:00 a.m., Central Daylight Time, on July 24, 2001.

In Person. If you would like to cast your vote in person you may do so at the Members' Meeting to be held at the MIHC in the Auditorium of the Corporate One building, 711 High Street, Des Moines, Iowa 50392, at 9:00 a.m., Central Daylight Time, on July 24, 2001. Votes cast by mail may be revoked by voting in person.

COMPENSATION

If our Plan of Conversion becomes effective and you are an Eligible Policyholder, you will receive compensation in the form of Common Stock, cash or Policy Credits. See "Form of Compensation" on page 23 for more information. This compensation will be provided to you in exchange for the extinguishment of your Membership Interests in the MIHC. See "Termination of Membership Interests" on page 38.

Eligibility for Compensation

You are an Eligible Policyholder if you: (i) owned a Policy on March 31, 2000 (one year before our Plan of Conversion was adopted) and had a continuous Membership Interest in the MIHC through ownership of one or more Policies from March 31, 2000 until and on the Effective Date of our Plan of Conversion; or (ii) were issued a Policy on or before April 8, 1980 and transferred ownership rights of that Policy on or before April 8, 1980 so long as the Policy remains In Force on the Effective Date. If you are a Member described in clause (ii) of the preceding sentence, you will receive only the Fixed Component of compensation. Please see "Allocation of Shares" below which explains the Fixed Component.

We currently expect the Effective Date to be in the latter part of 2001 or first part of 2002.

Allocation of Shares

It is currently anticipated that all Eligible Policyholders will receive a minimum allocation of 100 shares, which is the Fixed Component.

If our Plan of Conversion becomes effective and you are an Eligible Policyholder, you will receive compensation. The amount of the compensation you receive will be based on the number of shares of Common Stock allocated to you. It is currently anticipated that every Eligible Policyholder will be allocated at least 100 shares. This minimum number of shares is referred to as the Fixed Component. The Fixed Component will be the same regardless of the number or size of Policies that you own.

Some Eligible Policyholders will receive an additional variable allocation of shares. If (i) you were issued a Policy on or before April 8, 1980, (ii) you transferred ownership rights of that Policy on or before April 8, 1980, and (iii) that Policy remains In Force on the Effective Date, you will only receive the Fixed Component.

Additional shares may be allocated to Eligible Policyholders. This additional allocation is referred to as the Variable Component. The allocation of additional shares to Policies has been determined based on actuarial formulas described in our Plan of Conversion and the Actuarial Contribution Memorandum. The actuarial formulas take into account a Policy's past and estimated future contributions to the surplus and asset valuation reserve of Principal Life. In general, these formulas utilize Principal Life's historical and expected future experience (for example, mortality, morbidity, taxes and other expenses, persistency and investment results) to develop the estimated contributions.

If (i) you were issued a Policy on or before April 8, 1980, (ii) you transferred ownership rights of that Policy on or before April 8, 1980, and (iii) that Policy remains In Force on the Effective Date, you will only receive the Fixed Component.

For more information about the allocation of shares among eligible Policies, see Sections 7.1 and 7.2 of our Plan of Conversion. If your Policy's Actuarial Contribution is zero and you are an Eligible Policyholder, you will be allocated only the Fixed Component and you will not be allocated a Variable Component of compensation with respect to that Policy. If your Policy's Actuarial Contribution is positive and you are an Eligible Policyholder, you will be allocated more than the Fixed Component of compensation.

If you are an Eligible Policyholder, your Policyholder Record Card (Card 2) shows the estimated number of shares on which your compensation will be based.

Adjustment of Aggregate Number of Shares

Please keep in mind that the number of shares shown on your Policyholder Record Card (Card 2) is only an estimate. If our Plan of Conversion becomes effective, the actual number of shares of Common Stock on which your compensation will be based may vary, perhaps significantly, from the estimated number of shares shown on your Policyholder Record Card (Card 2). This estimate assumes, for instance, that the total number of shares allocated to all Eligible Policyholders will be 350 million shares. We may adjust this total number of shares if we and the managing underwriters of the IPO believe an adjustment is appropriate. Such an adjustment is most likely to occur in order to enhance the marketing of Common Stock as part of the IPO. An adjustment of the total number of allocated shares will not itself have any effect on the total value of your compensation but will affect the number of shares distributed to you, including the number of shares constituting the Fixed Component.

Form of Compensation

The form of compensation depends on your type of Policy, whether you have a foreign address and other factors.

Compensation will be in the form of shares of Common Stock, cash or Policy Credits. Policy Credits, in turn, may be provided in any of the following forms: in the case of certain policies (such as certain individual retirement annuity and tax-sheltered annuity contracts) required to receive Policy Credits, Policy Credits may take the form of an increase in cash value, account value, dividend accumulations, face amount, extended term period or benefit payment, as appropriate, depending on the Policy. In the case of certain group annuity contracts, Policy Credits may take the form of either Separate Account Policy Credits or Account Value Policy Credits.

You will generally receive your Default Compensation if you do not elect to receive a different form of compensation for which you are eligible.

The Plan of Conversion dictates the form of compensation that you will receive automatically if you do not make an election. This form of compensation is called your Default Compensation. You can determine your Default Compensation from the “Compensation Table” on page 27 and from the more detailed explanation below. You will generally receive your Default Compensation if you are an Eligible Policyholder and you do not elect to receive a different form of compensation for which you are eligible. Your Default Compensation depends on the type of Policy you own.

The form of compensation distributed to you if you are an Eligible Policyholder will be determined as follows:

- **Common Stock**

In general, your Default Compensation will be shares of Common Stock unless you are (i) a Qualified Plan Customer, (ii) a Non-Rule 180 Qualified Plan Customer, or (iii) you are receiving compensation with respect to a Policy for which compensation may be paid only in the form of cash or in the form of Policy Credits. If your Default Compensation is Common Stock, you may elect to receive cash. If you elect to receive cash, that election is subject to the limitations described in “Limit on Amounts Available for Cash and Policy Credit Compensation” on page 30.

- **Policy Credits**

If you hold any of the following types of Policies, you will be eligible for, or required to receive, Policy Credits as your form of compensation.

Policyholders with certain types of Policies must receive Policy Credits with respect to those Policies for tax reasons.

- You are required to receive Policy Credits for certain policies (in which case you are referred to as a Mandatory Policy Credits Policyholder). The types of Policies that require Policy Credits as compensation are:
 - Individual retirement annuity contracts under Section 408(b) or Section 408A of the Code.
 - Tax-sheltered annuity contracts under Section 403(b) of the Code.

- Individual annuity contracts and individual life insurance policies issued directly to a plan participant pursuant to a plan qualified under Section 401(a) or Section 403(a) of the Code.

Policy Credits for these Policies may take the form of an increase in cash value, account value, dividend accumulations, face amount, extended term period or benefit payment. Generally, individual annuity contracts in the deferral period will receive an increase in account value, individual annuity contracts in the payout period will receive an increase in benefit payment, and individual life insurance policies will receive an increase in cash value (and, in many cases, face amount). However, term insurance policies will generally receive an increase in dividend accumulations, and extended term insurance policies will generally receive an extended period of coverage.

Qualified Plan Customers have the option of Separate Account Policy Credits, Account Value Policy Credits, Common Stock or cash. Qualified Plan Customers whose group annuity contracts were issued in California have the option of Account Value Policy Credits, Common Stock or cash.

- If you are a Qualified Plan Customer, your Default Compensation will be a Policy Credit that will take the form of a Separate Account Policy Credit. A Qualified Plan Customer may elect to receive Common Stock, Account Value Policy Credits or cash as compensation rather than Separate Account Policy Credits. **If you are a Qualified Plan Customer and you do not make any election, you will receive Separate Account Policy Credits unless the amount of Separate Account Policy Credits is limited as described below in “Limit on Amounts Available for Cash and Policy Credit Compensation” on page 30 or your group annuity contract was issued in California.** Separate Account Policy Credits will be allocated to plan participants’ accounts, where appropriate, based on account balances for which records are kept by Principal Life unless the Qualified Plan Customer directs otherwise.

Separate Account Policy Credits are available in all states except California.

The availability of Separate Account Policy Credits for a particular Qualified Plan Customer is subject to the terms of the Qualified Plan Customer’s Policy and subject also to any applicable insurance regulatory approvals. Principal Life has received the insurance regulatory approvals it believes are necessary to make Separate Account Policy Credits available in all states except California. If Principal Life does not receive applicable approvals in a state, a Qualified Plan Customer in that state will have Common Stock as the Default Compensation. The Qualified Plan Customer may elect to receive Account Value Policy Credits or cash as compensation rather than Common Stock, subject to the limits set out in “Limit on Amounts Available for Cash and Policy Credit Compensation,” on page 30. If no election is made, the Qualified Plan Customer in that state will receive Common Stock. In such a case, ERISA may obligate the Qualified Plan Customer to establish a trust to hold the Common Stock. The California Insurance Department has informed Principal Life that Separate Account Policy Credits are not approved for use in California. Therefore, Qualified Plan Customers whose group

annuity contracts were issued in California should consult their own advisors on the question of whether they should establish a trust to hold any Common Stock or cash that they may receive in the Demutualization.

Establishment of a trust may be necessary to hold Common Stock or cash distributed in the Demutualization.

Common Stock, cash or Policy Credits received by or on account of employee benefit plans in the Demutualization will generally be considered to be plan assets. Fiduciaries of those plans will have to apply those assets in a manner consistent with the terms of the employee benefit plan and in compliance with their fiduciary duties under ERISA. In the case of non-trusteed pension and welfare plans (for instance, where the employer owns the policy or contract), the plan sponsor may have to establish a trust to hold Common Stock or cash distributed in the Demutualization. In the case of Policy Credits, a trust would not be necessary. In addition, if employees have paid some or all of the premiums for welfare plan benefits (such as health or life coverage) under a contract, the employer may be required to allocate some or all of Common Stock or cash received in the Demutualization to, or for the benefit of, those employees. See “U.S. Federal Income Tax Considerations — Special Rules” on page 46 for a discussion of certain issues relating to employee benefit plans. Fiduciaries of those plans should consult their tax or benefit advisors regarding the application of ERISA fiduciary rules to the receipt of compensation upon conversion.

Principal Life will seek a Qualified Plan Customer’s instructions before voting shares of Common Stock held in the Stock Separate Account.

Principal Life will be a fiduciary for the shares of Common Stock to be held in the Stock Separate Account and is considered an investment manager for ERISA purposes. As a result, Principal Life will be required to vote any shares of Common Stock held in the Stock Separate Account. Principal Life will vote shares of Common Stock held in the Stock Separate Account in accordance with the terms of Principal Life’s agreement with an independent fiduciary charged with overseeing the Stock Separate Account and in accordance with the terms of the plan of operation for the Stock Separate Account. Each of these documents may be amended from time to time subject to any required regulatory approvals. These documents require Principal Life or its agent to vote shares of Common Stock held in the Stock Separate Account in accordance with the instructions provided by the Qualified Plan Customers in whose interest the Common Stock is held. Where Qualified Plan Customers have not provided instructions for the voting of shares representing their interest in the Stock Separate Account, these documents currently provide that, so long as the matters brought to a vote of stockholders are Routine Matters (such as annual elections of directors), Principal Life will vote these shares in the same ratio as those shares of Common Stock held in the Stock Separate Account for which instructions were given to Principal Life or its agent by other Qualified Plan Customers. Where Nonroutine Matters (such as a major corporate transaction like a takeover) are brought to a vote of stockholders, the independent fiduciary will instruct Principal Life how to vote the shares of Common Stock held in the Stock

Separate Account representing the interest of Qualified Plan Customers who have not provided voting instructions. Regarding Nonroutine Matters, the independent fiduciary will instruct Principal Life or its agent to vote the shares for which no instructions have been received by Qualified Plan Customers in a way that, in the independent fiduciary's judgment, would be in the best interest of the participants and beneficiaries of the benefits plans of the Qualified Plan Customers in whose interest these shares are held.

Non-Rule 180 Qualified Plan Customers have the option of Account Value Policy Credits, Common Stock or cash.

- A Non-Rule 180 Qualified Plan Customer may elect to receive Common Stock or cash as compensation rather than Account Value Policy Credits. If you are a Non-Rule 180 Qualified Plan Customer, your Default Compensation will be a Policy Credit that will take the form of an Account Value Policy Credit. **If you are a Non-Rule 180 Qualified Plan Customer and you do not make an election, you will receive Account Value Policy Credits unless the amount of Account Value Policy Credits is limited as described in “Limit on Amounts Available for Cash and Policy Credit Compensation” on page 30.**

Eligible Policyholders with foreign or undeliverable addresses generally will receive compensation in the form of cash.

- **Cash**

If you hold one of the following types of Policies, you will be eligible solely for cash for these Policies unless you are a Mandatory Policy Credits Policyholder:

- Policies for which the mailing address of the Eligible Policyholder on Principal Life's or the MIHC's records is one at which mail is undeliverable.
- Policies for which the mailing address of the Eligible Policyholder on Principal Life's or the MIHC's records is located outside the United States (including the fifty states, the District of Columbia and U.S. territories and insular possessions).
- Policies for which we determine in good faith to the satisfaction of the Commissioner that it is not reasonably feasible or appropriate to provide Common Stock to the Eligible Policyholder, which is the form of compensation that the Eligible Policyholder would otherwise receive.

In addition, all Eligible Policyholders who are eligible to receive shares of Common Stock may elect to receive cash as compensation rather than Common Stock, although there may be a limit to the amount of cash that will be available to Eligible Policyholders. Eligible Policyholders who are allocated 100 or fewer shares of Common Stock will receive cash, if they so elect. Cash will be distributed to other Eligible Policyholders who elect cash to the extent available. See “Limit on Amounts Available for Cash and Policy Credit Compensation” on page 30 for further clarification of these limitations.

Compensation Table

The following table presents the forms of compensation Eligible Policyholders may elect to receive, as well as the form of compensation that will be provided to Eligible Policyholders in the absence of an election or in the event of a limitation on the amount available for cash or Policy Credit compensation. The type of compensation for which an Eligible Policyholder is eligible depends on the type of Policy or annuity contract the Eligible Policyholder has, as well as other factors.

Type of Eligible Policyholders	Forms of Compensation Available	Default Compensation (You fail to make an election on Card 4)	Compensation in the Event Limitations Apply ¹
Eligible Policyholders (except as noted below)	<ul style="list-style-type: none"> • Common Stock • Cash 	<ul style="list-style-type: none"> • Common Stock 	<ul style="list-style-type: none"> • If your election for cash cannot be satisfied, compensation will be provided in the form of Common Stock. If you are ultimately allocated 100 or fewer shares of Common Stock and you elect cash, you will receive cash without regard for any limits.
Mandatory Policy Credits Policyholders (if shown on your Card 2)	<ul style="list-style-type: none"> • Policy Credits 	<ul style="list-style-type: none"> • Policy Credits 	<ul style="list-style-type: none"> • You will receive Policy Credits without regard for any limits.
Policyholders required to receive cash (if shown on your Card 2)	<ul style="list-style-type: none"> • Cash 	<ul style="list-style-type: none"> • Cash 	<ul style="list-style-type: none"> • You will receive cash without regard for any limits.
Qualified Plan Customers (if shown on your Card 4) ²	<ul style="list-style-type: none"> • Separate Account Policy Credits • Account Value Policy Credits • Common Stock • Cash 	<ul style="list-style-type: none"> • Separate Account Policy Credits 	<ul style="list-style-type: none"> • If your election for cash or Account Value Policy Credits cannot be satisfied, compensation will be provided in the form of Separate Account Policy Credits. • If Separate Account Policy Credits cannot be provided due to the requirement for 50% Common Stock compensation, Common Stock will be provided.
Non-Rule 180 Qualified Plan Customers (if shown on your Card 4)	<ul style="list-style-type: none"> • Account Value Policy Credits • Common Stock • Cash 	<ul style="list-style-type: none"> • Account Value Policy Credits 	<ul style="list-style-type: none"> • Common Stock

1. See “Limit on Amounts Available for Cash and Policy Credit Compensation” on page 30 for a description of the circumstances under which limitations will apply.
2. Qualified Plan Customers whose group annuity contracts were issued in California will be eligible to receive Account Value Policy Credits, cash or Common Stock. Their Default Compensation and compensation in the event limitations apply will be Common Stock. Please see “Form of Compensation” on page 23.

If your Default Compensation is Common Stock and you wish to receive cash, you must properly elect cash on your Form of Compensation Card (Card 4). If you fail to elect cash and return Card 4, you will receive Common Stock. If your Default Compensation is Common Stock and you wish to receive Common Stock, you do not have to complete Card 4.

If you are a Qualified Plan Customer whose group annuity contract was issued in California, your Default Compensation is Common Stock. If you wish to receive Account Value Policy Credits or cash, you must properly elect Account Value Policy Credits or cash on your Form of Compensation Card (Card 4). If you fail to elect Account Value Policy Credits or cash and return Card 4, you will receive Common Stock. If you are a Qualified Plan Customer whose group annuity contract was issued in California and you wish to receive Common Stock, you do not have to complete Card 4.

If your Default Compensation is Separate Account Policy Credits and you wish to receive Common Stock, Account Value Policy Credits or cash, you must properly elect Common Stock, Account Value Policy Credits or cash on your Form of Compensation Card (Card 4). If you fail to elect Common Stock, Account Value Policy Credits or cash and return Card 4, you will receive Separate Account Policy Credits, unless the amount of Separate Account Policy Credits is limited, as described below. If your Default Compensation is Separate Account Policy Credits and you wish to receive Separate Account Policy Credits, you do not have to complete Card 4.

If your Default Compensation is Account Value Policy Credits and you wish to receive Common Stock or cash, you must properly elect Common Stock or cash on your Form of Compensation Card (Card 4). If you fail to elect Common Stock or cash and return Card 4, you will receive Account Value Policy Credits, unless the amount of Account Value Policy Credits is limited, as described below. If your Default Compensation is Account Value Policy Credits and you wish to receive Account Value Policy Credits, you do not have to complete Card 4.

The Form of Compensation Card (Card 4) must be received by the MIHC no later than the close of the Members' Meeting to be held at the Auditorium of our Corporate One building, 711 High Street, Des Moines, Iowa 50392, at 9:00 a.m., Central Daylight Time, on July 24, 2001.

In order to determine your Default Compensation, please see the "Compensation Table" on page 27. **Your Form of Compensation Card (Card 4) indicates your Default Compensation and indicates the other forms of compensation for which you are eligible.**

When Compensation will be Distributed

For Common Stock or Separate Account Policy Credits, we will send you a written confirmation of your share ownership or Separate Account Policy Credits within 75 days from the Effective Date.

If your compensation is in the form of Common Stock or Separate Account Policy Credits, the Holding Company will send you a written confirmation of your share ownership or Separate Account Policy Credits. This written confirmation will be sent within 75 days from the Effective Date. If the Holding Company requires more time to send you a confirmation of share ownership or Separate Account Policy Credits, it must first obtain approval from the Commissioner for the additional time. Unless you specifically request otherwise, your shares will be issued to you in direct registration form (i.e., without a stock certificate) and your ownership of Common Stock will be entered on the records of the Holding Company. Until you receive the written confirmation, you will effectively be precluded from selling shares or the shares underlying your Separate Account Policy Credits because you will not know how many shares or Separate Account Policy Credits you will receive.

For cash or Policy Credits, Principal Life will send you a check or confirmation of Policy Credits within 75 days from the Effective Date.

Likewise, if your compensation is in the form of cash or Policy Credits (other than Separate Account Policy Credits), Principal Life will send you a check or a confirmation of Policy Credits within 75 days from the Effective Date. If Principal Life requires more time to send you a check or a confirmation of Policy Credits, it must first obtain approval from the Commissioner for the additional time.

The amount of cash or Policy Credits you receive (other than Separate Account Policy Credits), will be equal to the final number of shares allocated to you multiplied by the price per share at which the Common Stock is sold in the IPO.

Distribution of Compensation

Cash. If you receive cash, Principal Life will send you a check. The amount of the check will be equal to the number of shares of Common Stock that have been allocated to you, multiplied by the price per share at which the Common Stock is sold in the IPO (net of income tax withholding if we are required to withhold because you did not properly complete and return Card 3).

You must return to us a completed and signed Taxpayer Identification Card (Card 3). If you do not do so, you may be subject to IRS penalties or federal tax withholding.

Policy Credits. If you receive Policy Credits, including Separate Account Policy Credits or Account Value Policy Credits, Principal Life will credit your policy after the Effective Date and will send you a statement showing the amount of the Policy Credits. The amount of the Policy Credits (other than Separate Account Policy Credits) will be based upon the number of shares of Common Stock that have been allocated to you, multiplied by the price per share at which the Common Stock is sold in the IPO. The amount of the Separate Account Policy

Credits will initially be equal to the number of shares of Common Stock allocated to you multiplied by the public trading price of the Common Stock at that time. The full amount of the Policy Credits, when applied, will immediately increase your Policy's value.

The Policy Credits will be applied as follows: in the case of certain policies compensated only through Policy Credits, either an increase in cash value, account value, dividend accumulations, face amount, extended term period or benefit payment; and, in the case of certain group annuity contracts, either Separate Account Policy Credits or Account Value Policy Credits.

Common Stock. If your compensation is Common Stock, your shares will be issued to you in direct registration form (without a stock certificate) and your ownership of Common Stock will be entered on the records of the Holding Company. Direct registration is the standard method for share ownership because it is convenient for stockholders and companies alike.

After you receive your confirmation notice, you will be able to request a stock certificate representing your shares by contacting the Holding Company's stock transfer agent. Your confirmation notice will tell you how to contact the transfer agent for this purpose. You should keep in mind that you do not need a stock certificate to trade the stock if your shares have been recorded in direct registration.

Limit on Amounts Available for Cash and Policy Credit Compensation

If you are allocated 100 or fewer shares of Common Stock, you will receive the form of compensation you elect.

Under the Plan of Conversion, we are required to pay cash or fund Policy Credits in connection with Policies that require compensation in the form of cash or Policy Credits and to pay cash to or fund Account Value Policy Credits for Eligible Policyholders who have been allocated 100 or fewer shares of Common Stock under our Plan of Conversion.

The amount of cash available for those Eligible Policyholders electing to receive cash may be limited.

However, there may be a limit to the amount of funds available to pay cash and provide Account Value Policy Credits to Eligible Policyholders allocated more than 100 shares of Common Stock under our Plan of Conversion. It is possible that the total funds raised in the IPO and the Other Capital Raising Transactions, if applicable, will not be sufficient to fund the distribution to all of the Eligible Policyholders who have been allocated more than 100 shares of Common Stock and who have elected cash or Account Value Policy Credits or for whom Account Value Policy Credits are the Default Compensation.

If there are not enough funds available, priority will be given to Eligible Policyholders with smaller allocations. Specifically, cash will be paid and Account Value Policy Credits will be funded beginning with such Eligible Policyholders allocated more than 100 shares and continuing to the highest level of share allocation possible at which cash and Account Value

Policy Credits preferences can be completely satisfied using the amount of available funds.

If you are a Qualified Plan Customer and your cash or Account Value Policy Credit election cannot be satisfied, you will receive Separate Account Policy Credits. If you are a Qualified Plan Customer whose group annuity contract was issued in California and your cash or Account Value Policy Credit election cannot be satisfied, you will receive Common Stock. If you are a Non-Rule 180 Qualified Plan Customer and your cash election or your Default Compensation of Account Value Policy Credits cannot be satisfied, you will receive Common Stock.

The maximum number of allocated shares for which cash or Account Value Policy Credits will be available will depend on a number of factors. These factors include the number of policyholders eligible for Common Stock, Policy Credits or cash, the size of the IPO and any Other Capital Raising Transaction, the IPO stock price and the percentage of Eligible Policyholders who have elected to receive cash or Account Value Policy Credits.

In addition, the amount of Separate Account Policy Credits will be limited so that no less than 50% of the total compensation distributed to Eligible Policyholders will be in the form of Common Stock. This limitation is intended to allow the Demutualization to qualify as a reorganization under specific provisions of the Federal Income Tax Law that enable Eligible Policyholders receiving Common Stock, as well as the MIHC and its affiliates, to avoid recognizing gain or loss for federal income tax purposes as a result of our Demutualization. In order to satisfy this limitation, we will give priority in the distribution of Separate Account Policy Credits first to those with smaller allocations of shares and then continue through to the highest level of share allocation possible at which deemed elections for Separate Account Policy Credits can be satisfied consistent with this limitation. Eligible Policyholders whose deemed elections for Separate Account Policy Credits cannot be satisfied will instead receive Common Stock.

You should refer to your Policyholder Record Card (Card 2) for an estimate of the total number of shares of Common Stock to be allocated to you. You should refer to your Form of Compensation Card (Card 4) and the "Compensation Table" on page 27 for your Default Compensation. We cannot guarantee our ability to honor all cash or Account Value Policy Credit elections or deemed elections up to this allocation level because of these changeable factors. The higher the number of shares allocated to you, the less likely it is that cash or Account Value Policy Credits will be available for you. In deciding how to vote on our Plan of Conversion, Eligible Policyholders with a cash or Account Value Policy Credit preference should be mindful that, despite their elections or deemed elections, some Eligible Policyholders may receive Common Stock instead of cash or Account Value Policy Credits, and some Eligible

Policyholders may receive Separate Account Policy Credits instead of Account Value Policy Credits or cash.

Factors to consider when making an election between cash and Common Stock

In deciding whether to elect cash, you should consider the relative benefits of receiving cash or Common Stock. Common Stock will be issued by the Holding Company. The benefits of stock ownership generally include the right to receive stockholder dividends as declared by the Holding Company (which are separate from and in addition to insurance policy dividends), the right to vote at stockholder meetings and the possibility of an increase in the market value of the Common Stock. However, stock ownership also involves the risks that the value of the stock or the amount of the stockholder dividends paid on the stock may decline and that additional stock issuances may reduce a stockholder's percentage ownership interest.

Although 100% of the equity ownership in the Holding Company will be allocated to Eligible Policyholders at the time of the Demutualization, shares of Common Stock issued to the public in the IPO will decrease the percentage ownership (although not necessarily the value) of the shares of Common Stock issued to Eligible Policyholders. In addition, there is no assurance that the IPO stock price multiplied by the number of shares of Common Stock allocated to Eligible Policyholders (the aggregate compensation) will be equal to or greater than the MIHC's surplus, net asset value or book value immediately prior to the IPO. You should also be aware that among the opinions the Board of Directors of the MIHC relied on in adopting the Plan of Conversion is a fairness opinion from its financial advisor, Goldman, Sachs & Co. It is expected that Goldman, Sachs & Co. will be the lead underwriter in the IPO.

Please note that the risks and benefits associated with Common Stock also apply to Separate Account Policy Credits because the Stock Separate Account assets will consist primarily of Common Stock. Another factor to consider is the tax consequences of receiving cash or Common Stock. See "U.S. Federal Income Tax Considerations" on page 43. We recommend that you consult your personal tax advisor before deciding whether to make any election available to you.

The chart below identifies some factors to consider if you are deciding whether to elect to receive cash instead of Common Stock.

	If You Receive Common Stock	If You Receive Cash
Increases and decreases in the price of the Common Stock	The price of a share of Common Stock may rise or fall from the IPO price. You may hold your shares of stock as an investment or sell them for cash in the future at the then market price.	The amount of cash you will receive will be based on the price per share at which the Common Stock is sold in the IPO. This amount will not change if the price of a share of Common Stock rises or falls from the IPO price.
Ability to sell stock	Because you may not receive your notice of direct registration of shares for up to 75 days, you will not be able, for that period, to sell your shares of Common Stock.	Not applicable.
Commissions or fees	You will not pay any commission or fee upon receipt of your Common Stock. However, you will likely pay a commission or fee on any future sale of your Common Stock.	You will not pay any commission or fee on the cash you receive in lieu of Common Stock.
Policyholder dividends	Policyholder dividends will not be affected by your decision to receive Common Stock.	Policyholder dividends will not be affected by your decision to elect cash instead of Common Stock.
Stockholder dividends	You will be entitled to any stockholder dividends declared on your shares by the Holding Company's board of directors.	You will not receive any stockholder dividends paid by the Holding Company.
Ownership	Through your Common Stock, you will have an ownership interest in the Holding Company and an indirect ownership interest in Principal Life.	You will not have any ownership interest in the Holding Company or Principal Life.
Voting at stockholder meetings	As a stockholder of the Holding Company, you will have one vote per share on matters submitted to stockholders at meetings of the Holding Company's stockholders.	You will not have a vote at meetings of the Holding Company's stockholders.
U.S. federal tax considerations	<p>You will not be taxed when you receive your shares of Common Stock. However, if you sell them in the future, you will generally be required to treat all of the proceeds as long-term capital gain.</p> <p>Any cash dividends you receive in the future on your Common Stock as a stockholder will be taxed as ordinary income.</p>	<p>You must include the full amount of the cash in your taxable income as a long-term capital gain in the year you receive it.</p> <p>Special rules may apply to certain types of policyholders. Please refer to "U.S. Federal Income Tax Considerations — Special Rules" on page 46 to determine if these special rules apply to you.</p>

The Policyholder Information Booklet Part Two provides additional information about the Common Stock from an investor's perspective. It tells you, among other things, about the risks of investing in the Holding Company. These include risks of events that could have a negative impact on our business and cause the value of the Common Stock to decline.

Amount of Compensation

Common Stock. If you receive Common Stock as compensation, you will receive the number of shares of Common Stock ultimately allocated to you. The value of each share of Common Stock will be equal to its public trading price on any particular day.

Cash and Policy Credits (other than Separate Account Policy Credits). If you receive cash or Policy Credits (other than Separate Account Policy Credits) the amount you receive will be equal to the number of shares of Common Stock that are allocated to you multiplied by the price per share at which the Common Stock is sold in the IPO.

Separate Account Policy Credits. If you receive Separate Account Policy Credits, the amount you receive will be equal to your share of the assets in the Stock Separate Account. The Stock Separate Account will initially consist entirely of Common Stock allocated to the Stock Separate Account on behalf of Eligible Policyholders. At that point in time, because Common Stock would be the only asset then in the Stock Separate Account, your share of the assets would be equal to the number of shares of Common Stock allocated to you multiplied by the public trading price of the Common Stock. Before Separate Account Policy Credits are allocated, however, a small percentage of the Common Stock in the Stock Separate Account will be converted into cash. From that point forward, cash or cash equivalents will always be a small percentage of the assets maintained in the Stock Separate Account. This is done to provide liquidity for Eligible Policyholders and pension plan participants who would like to convert their Stock Separate Account interests into cash or another investment option at any given time. Because this small portion of cash or cash equivalents in the Stock Separate Account will not fluctuate with the trading price of the Common Stock and because of ongoing Stock Separate Account operating expenses and fees, your share of the assets in the Stock Separate Account will deviate slightly from the amount you would arrive at if you multiplied the number of shares of Common Stock allocated to you by the public trading price of the Common Stock.

CAPITAL RAISING

On the Effective Date, the Holding Company will sell shares of Common Stock in an initial public offering and, if applicable, will engage or will have engaged in one or more Other Capital Raising Transactions.

Initial Public Offering

Shares of the Holding Company will be sold to the public in an IPO.

The Effective Date will be the date on which the Holding Company closes the initial public offering of its Common Stock. The IPO must be completed within one year after the Commissioner approves or conditionally approves our Plan of Conversion, unless the Commissioner approves a later date. We currently expect the Holding Company to complete its IPO in the latter part of 2001 or first part of 2002.

The form, structure and terms of the IPO are subject to prior review and approval by the Commissioner.

Other Capital Raising Transactions

We may also raise capital through one or more Other Capital Raising Transactions. We do not currently expect to engage in any Other Capital Raising Transaction. In the event any Other Capital Raising Transaction was engaged in, it would be primarily for the purpose of funding additional cash and Policy Credit elections.

The form, structure and terms of any Other Capital Raising Transaction are subject to prior review by the Commissioner. Please refer to Section 5.2(g) of the Plan of Conversion for a more detailed description of the required notice and review process.

The Other Capital Raising Transactions may include private or public offerings of debt, additional Common Stock, Preferred Stock, Options, Warrants, purchase rights, subscription rights or other securities or contracts exchangeable or convertible into any of these securities, as well as secured or unsecured bank borrowings or Commercial Paper issuance.

Use of Proceeds

Net Cash Proceeds will be applied first to Mandatory Cash Requirements and then to Elective Cash Requirements. Mandatory Cash Requirements include the amount needed by Principal Life to fund (1) Policy Credits and cash payments for all Eligible Policyholders that are required to receive these forms of compensation, (2) Account Value Policy Credits and cash payments for all Eligible Policyholders allocated 100 or fewer shares of Common Stock who elect or are deemed to elect cash or Account Value Policy Credits, and (3) the fees and expenses of the Demutualization paid by Principal Life. Elective Cash Requirements include the amount needed by Principal Life to fund the elections and deemed elections for cash and Account Value Policy Credits that are made by Eligible Policyholders allocated more than 100 shares of Common Stock.

The Net Cash Proceeds received by the Holding Company must be sufficient to fund the Mandatory Cash Requirements of Principal Life. Any additional Net Cash Proceeds will be contributed to Principal Life in an amount up to the Elective Cash Requirements of Principal Life. Proceeds from the exercise of any Underwriters' Over-Allotment Option will also be contributed to the extent necessary for Principal Life to complete the funding of the Elective Cash Requirements if the Net Cash Proceeds are not sufficient to fund both the Mandatory Cash Requirements and the Elective Cash Requirements.

If the Net Cash Proceeds exceed the amount necessary to fund both the Mandatory Cash Requirements and the Elective Cash Requirements, the Holding Company may retain up to \$250 million of the excess. Net Cash Proceeds in excess of this \$250 million limit must be contributed to Principal Life. In addition, if all Mandatory Cash Requirements and Elective Cash Requirements are met, subject to limitations described in Section 5.2(b)(v) of the Plan of Conversion, the Holding Company would then be allowed to retain any additional amounts received from the exercise of any Underwriters' Over-Allotment Option.

Pricing

The final decision on pricing the IPO and any Other Capital Raising Transaction will be made by a joint pricing committee of the Board of Directors of the MIHC and the Holding Company. None of the members of the pricing committee will be an officer or employee of the MIHC, the Holding Company, or any affiliate of the MIHC or the Holding Company, nor will any member of the pricing committee be an employee, officer or director of, or legal counsel to, any of the underwriters for the IPO or any Other Capital Raising Transaction. Please see the Policyholder Information Booklet Part Two and Section 5.2 of the Plan of Conversion for more information on the pricing of Common Stock in the IPO and the pricing of securities in any Other Capital Raising Transaction.

The MIHC and the Holding Company will give reasonable access to the Commissioner and the Commissioner's financial advisors in order to allow them to observe the offering process. In addition, the final terms of the IPO and any Other Capital Raising Transaction are subject to the approval of the Commissioner.

Limitations on Capital Raising

The Board of Directors of the Holding Company will determine the amount of capital to be raised through the IPO and any Other Capital Raising Transaction. Generally speaking, however, the combined proceeds raised through all Other Capital Raising Transactions will not be more than one-third (1/3) of the total proceeds raised in any such Other Capital Raising Transactions and the IPO. Additionally, the total amount of any debt issued

through Other Capital Raising Transactions must not cause the Holding Company's ratio of debt to total capital outstanding to exceed 25% on the date the debt is issued, as set out more fully in the Plan of Conversion. For more details, see Section 5.2 of the Plan of Conversion.

Special Considerations Regarding Any Other Capital Raising Transaction

Any Other Capital Raising Transaction raises special considerations for policyholders. These include, among others:

- The combination of an initial public offering of Common Stock along with Other Capital Raising Transactions may yield a greater total amount of funds than an initial public offering alone. The additional funds may be used to satisfy elections or deemed elections for cash or Policy Credits in the Demutualization.
- Unlike an offering of Common Stock, an issuance of a form of debt or Preferred Stock may increase the Holding Company's financial leverage, or relative amount of debt to total capitalization. Rating agencies may recognize a percentage of Preferred Stock or certain forms of convertible debt as equity capital for the issuer of the securities. Debt levels and financial leverage are important factors in determining a company's ratings. Accordingly, there is a limit on the amount of debt or Preferred Stock that can be issued by the Holding Company without jeopardizing its ratings or the ratings of its insurance subsidiaries.
- The issuance of a form of debt or Preferred Stock could also increase the fixed obligations of the Holding Company to varying degrees, depending on the type and amount of Preferred Stock or debt issued. This could lessen the Holding Company's financial flexibility by reducing its capacity to issue additional debt or Preferred Stock.
- An offering of securities through Other Capital Raising Transactions may negatively affect the Holding Company's earnings per share. We believe that an offering of securities through any Other Capital Raising Transaction described in subsections (2) or (3) of the Other Capital Raising Transactions definition in Article I of our Plan of Conversion could likely lead to an increase in the Holding Company's earnings per share when compared to a comparably sized offering of Common Stock. However, it is also possible that the market terms of the Other Capital Raising Transactions could, under certain circumstances, lead to a reduction in earnings per share of Common Stock, a form of dilution.
- Holders of securities or other debt comprising Other Capital Raising Transactions may have rights not granted to holders of Common Stock, which could adversely impact the holders of Common Stock in certain circumstances. For instance, holders of Convertible Preferred Stock may have the right to

designate a specified number of Board members in case of a default in the payment of dividends, or there may be covenants included in the securities or other debt that restrict the Holding Company, such as those limiting additional indebtedness of the Holding Company. If the Holding Company breaches those covenants, the holders of these securities or other creditors of the Holding Company may be able to accelerate the payment of the securities or other debt or take other actions. Upon any such breach, the holders of these securities or other creditors of the Holding Company may also force the Holding Company into bankruptcy.

- The use of Other Capital Raising Transactions in conjunction with an initial public offering of Common Stock may result in a higher price for the Common Stock compared to a situation where the same total amount of proceeds are raised exclusively through the initial public offering of Common Stock.
- Other Capital Raising Transactions, instead of an offering of additional Common Stock in the IPO, would reduce the total number of shares of Common Stock offered to the public and outstanding after the Effective Date — known as the “public float” — subsequent sales of a substantial amount of Common Stock could have a relatively greater negative impact on the prevailing market price for the Common Stock than if the public float were larger.

TERMINATION OF MEMBERSHIP INTERESTS

Your Membership Interests are your rights as a Member of a mutual company.

As an Owner of a Policy issued by Principal Life, you currently have certain interests as a Member of the MIHC. These Membership Interests consist principally of the right to vote on certain matters (including the election of directors) and the right to participate in the distribution of any residual value in the unlikely event of a liquidation of the MIHC. In addition, Persons who were issued Policies on or before April 8, 1980 and transferred ownership rights of such Policies on or before April 8, 1980 are Members so long as the Policies remain In Force. If our Plan of Conversion becomes effective, all Membership Interests will be extinguished. In exchange for Membership Interests, Eligible Policyholders will be entitled to receive shares of Common Stock, cash or Policy Credits as described in the “Compensation” section on page 21.

The termination of Membership Interests will not increase premiums or contributions, or diminish benefits, values, guarantees or dividend eligibility of your policy or contract with Principal Life. Policy dividends will continue to be paid on dividend-paying policies as declared by the Board of Directors of Principal Life (although, as always, dividends are not guaranteed and may vary from year to year). Currently, the assets of the MIHC are available to pay policyholder claims in the unlikely event of Principal Life’s insolvency. If our Plan of

Conversion becomes effective, however, the assets of the MIHC will no longer be available to pay policyholder claims in the unlikely event of Principal Life's insolvency.

Changes in Right to Vote

Currently, Members of the MIHC have the right to vote on matters submitted to a vote of Members, including the election of directors. After our Demutualization, Membership Interests will be extinguished and Policies will no longer confer any voting rights. Accordingly, Owners of Policies will not be able to vote as Members in the election of directors or on any other matters. Instead, such matters will be voted on by the stockholders of the Holding Company.

After the Effective Date, the Holding Company's stockholders will consist of Eligible Policyholders who received Common Stock under our Plan of Conversion and public stockholders, including those who acquired Common Stock in the IPO or any Other Capital Raising Transaction. Many of Principal Life's policyholders will become stockholders of the Holding Company. Each stockholder of the Holding Company will be entitled to one vote for each share of Common Stock held by the stockholder.

Changes in Rights in Liquidation

If the MIHC were liquidated today (i.e., before the Demutualization), its Members would be entitled to share in the distribution of any residual value after satisfaction of all liabilities and debts. After the Demutualization, if the Holding Company were liquidated, any residual value would be distributed to stockholders of the Holding Company.

Liquidation is a legal concept that refers to the distribution of any residual value of a company after the termination of its corporate existence.

- In the unlikely event that the MIHC, as a mutual company, was liquidated, its Members would be entitled to share in the distribution of any residual value after satisfaction of all liabilities and debts as required by Iowa law. After the Demutualization is completed, the MIHC will have been merged into Principal Iowa Newco, Inc. The sole shareholder of Principal Iowa Newco, Inc. (renamed Principal Financial Services, Inc. after the Demutualization) will be the Holding Company. As a result, after the Demutualization, any residual value of Principal Iowa Newco, Inc., as successor by merger to the MIHC, would be distributed to its sole shareholder, the Holding Company, in the event of a liquidation. To the extent Eligible Policyholders receive Common Stock as compensation in the Demutualization, they will have an indirect interest in Principal Iowa Newco, Inc., as successor by merger to the MIHC, through their ownership of the Common Stock of the Holding Company.
- Prior to our Demutualization, if Principal Life were liquidated, any residual value would likely be distributed among Members of the MIHC. The policyholders of Principal Life are Members of the MIHC, which is indirectly the sole shareholder and parent company of Principal Life. After our Demutualization, if Principal Life

were liquidated, any residual value (except for assets of Principal Life remaining in the Closed Block, which cannot revert to the benefit of shareholders) would be distributed to Principal Financial Services, Inc. (Principal Iowa Newco, Inc., before the Demutualization), an Iowa business corporation and wholly owned subsidiary of the Holding Company, as the sole shareholder of Principal Life. To the extent Eligible Policyholders receive Common Stock as compensation in our Demutualization, they will have an indirect interest in Principal Life through their ownership of the Common Stock of the Holding Company, Principal Life's indirect parent holding company.

In addition, should Principal Life be liquidated under our current structure, assets of the MIHC would be available to pay Principal Life policy claims. After our Demutualization, assets of the Holding Company, Principal Life's new indirect parent company, would not likely be available to pay Principal Life policy claims.

- Prior to our Demutualization, if the Holding Company were liquidated, its residual value would be distributed to its sole stockholder, the MIHC. Policyholders would share indirectly in any residual value of the Holding Company through their Membership Interests in its parent company, the MIHC. After our Demutualization, if the Holding Company were liquidated, any residual value would be distributed to the stockholders of the Holding Company. Policyholders would be entitled to the residual value of the Holding Company only in their capacity as stockholders. However, many policyholders will likely become stockholders of the Holding Company.

Comparison of your Rights before and after our Demutualization

Below is a comparison of your rights before and after our Demutualization as proposed in our Plan of Conversion:

Rights	Before Demutualization	After Demutualization
Policy Provisions	<ul style="list-style-type: none"> • In effect. 	<ul style="list-style-type: none"> • In effect.
Policy Dividends (for dividend-paying policies)	<ul style="list-style-type: none"> • Payable as declared by the Board of Principal Life. Additional protection is provided for policies that are part of the Closed Block. 	<ul style="list-style-type: none"> • Payable as declared by the Board of Principal Life. Additional protection is provided for policies that are part of the Closed Block.
Financial Rights (Other than Policy)	<ul style="list-style-type: none"> • As Members, policyholders have the right to participate in the distribution of any residual value in the unlikely event that the MIHC is liquidated. • In addition, assets of the MIHC are available to pay policy claims in the unlikely event of a Principal Life insolvency proceeding. 	<ul style="list-style-type: none"> • Policyholders do not have any right of participation in any distribution of residual value if the Holding Company is liquidated. Any residual value will be distributed to the stockholders of the Holding Company. However, many policyholders will become stockholders of the Holding Company. • Assets of the Holding Company would not be available to pay policy claims in the unlikely event of a Principal Life insolvency proceeding.
Right to Vote	<ul style="list-style-type: none"> • As Members, policyholders of Principal Life may vote on director elections, Demutualization and certain mergers. 	<ul style="list-style-type: none"> • Policyholders do not have the right to vote on director elections, mergers or other matters unless they become stockholders of the Holding Company.

THE CLOSED BLOCK

No new policies will be added to the Closed Block.

Principal Life established the Closed Block on July 1, 1998 as part of our reorganization into a mutual insurance holding company structure. The Closed Block was designed to provide reasonable assurance to owners of policies included in the Closed Block that, after the reorganization of Principal Life, assets would be available to maintain the aggregate policy dividend scales in effect for 1997, if the experience underlying such scales continued, and to allow for appropriate adjustments in such scales if necessary. The Closed Block will continue to operate as established and will not be affected by the Demutualization. **Principal Life will continue to pay guaranteed benefits under all policies, including those in the Closed Block, in accordance with the terms of the policies. No additional policies will be added to the Closed Block as a result of the Demutualization.**

ADDITIONAL ELEMENTS OF OUR PLAN OF CONVERSION AND OF THE DEMUTUALIZATION

Creation of a Public Market for Common Stock

The Holding Company intends to be listed on the New York Stock Exchange under the symbol “PFG”.

Following the IPO, there will be a public market for the Common Stock. The Holding Company plans to list its Common Stock on the New York Stock Exchange and expects to maintain this listing for as long as the Common Stock is publicly traded. You should be able to find the listing under the symbol “PFG”.

For additional information about the IPO, please see the Policyholder Information Booklet Part Two.

Potential Takeovers of the Holding Company

Delaware state law and the Holding Company’s certificate of incorporation and by-laws may discourage takeovers and business combinations that holders of Common Stock might consider to be in their best interests. Please see the Appendix C — Summary of Certificate of Incorporation of Principal Financial Group, Inc. and the Appendix D — Summary of By-Laws of Principal Financial Group, Inc. on page C-1 and page D-1, respectively, and “Risk Factors” in the Policyholder Information Booklet Part Two.

In addition, the insurance laws of the State of Iowa may delay or impede a takeover or business combination involving the Holding Company. Under the Iowa law, for a period of five years following the Effective Date, no person may directly or indirectly acquire or offer to acquire the beneficial ownership of 5% or more of the reorganized company without the prior approval of both the Board of Directors of the Holding Company and the Commissioner.

Amendments to our Plan of Conversion

Our Board may amend or withdraw our Plan of Conversion at any time.

Our Board may withdraw our Plan of Conversion at any time before the Effective Date of our Plan of Conversion. Our Board may also amend our Plan of Conversion, subject to the approval of the Commissioner, at any time. After the Effective Date, the Certificate of Incorporation and By-Laws of the Holding Company and the Articles of Incorporation and By-Laws of Principal Financial Services, Inc. and Principal Life may be amended in accordance with their terms and with applicable law.

Conditions to Effectiveness of our Demutualization

The Demutualization can occur only if a number of conditions are satisfied.

The completion of our conversion and related transactions is subject to the satisfaction of a number of conditions, including the following:

- approval of our Plan of Conversion by a two-thirds vote of those Voting Policyholders who vote on our Plan of Conversion. Votes may be cast either by mailing Card 1 or

by attending in person and voting at the Members' Meeting on July 24, 2001;

- approval of our Plan of Conversion by the Commissioner after a public hearing;
- confirmation, as of the Effective Date, of an opinion we have received from our special tax counsel regarding certain federal income tax consequences of our Demutualization, as described in the "Tax Rulings and Opinion" section on page 47; and
- completion of the IPO.

EFFECTIVENESS OF OUR PLAN OF CONVERSION

If the conditions described above are met, our Plan of Conversion will go into effect. The Effective Date will be the date on which the closing of the IPO occurs. We currently expect the Effective Date to occur in the latter part of 2001 or first part of 2002.

If our Plan of Conversion does not become effective for any reason, we will remain a mutual insurance holding company and no compensation will be provided to Eligible Policyholders.

U.S. FEDERAL INCOME TAX CONSIDERATIONS

General

Consult your tax advisor about the tax consequences to you.

This section discusses generally the principal United States federal income tax consequences of the receipt of compensation in the Demutualization by Eligible Policyholders under Federal Income Tax Law.

You should read carefully the section entitled "Special Rules" on page 46 to determine whether you may be subject to taxation under one of the special rules applicable to certain categories of Members. **You should consult your tax advisor to determine any applicable federal, state, local and foreign tax consequences of our Plan of Conversion in your particular circumstances.**

We have received an opinion of our special tax counsel, Debevoise & Plimpton, that the following summary accurately describes in all material respects the federal income tax consequences to Eligible Policyholders who receive compensation in the Demutualization under the Federal Income Tax Law in effect on the date of this Policyholder Information Booklet Part One. The opinion is limited to matters of law or legal conclusions and is subject to the limitations and assumptions described below. As discussed in the section entitled "Tax Rulings and Opinion" on page 47, in order for our Plan of Conversion to become effective, we must obtain an opinion of tax counsel that the summary of federal income tax consequences provided to Voting Policyholders remains accurate in all material respects under the Federal Income Tax Law in effect as of the Effective Date of our Plan of Conversion.

You should read carefully the section entitled “Special Rules” on page 46 to determine whether you may be subject to one or more special federal income tax rules that are applicable to some categories of Members. We have not addressed how the tax rules affect all possible types of Members. As a result, you may be subject to special rules that are not discussed here.

You should consult a qualified tax advisor to determine the federal, state, local and foreign tax consequences of the Demutualization in your particular situation. In addition, your advisor should advise you of any changes in tax laws or regulations that might take effect after the date of this Policyholder Information Booklet Part One.

For more information on the tax consequences of the Demutualization to us and our subsidiaries, please see “The Demutualization — U.S. Federal Income Tax Consequences of the Demutualization to Us” in the Policyholder Information Booklet Part Two.

Eligible Policyholders Receiving Common Stock

You will not be taxed on the receipt of Common Stock in our Demutualization. Your tax cost or “basis” for any shares you receive will be zero. As a result, if you later sell or otherwise dispose of your Common Stock, you will generally be taxed on the full amount of the proceeds of that sale or other disposition. The proceeds will generally be taxed as a long-term capital gain.

Eligible Policyholders Receiving Cash

If you receive cash in our Demutualization, the full amount of the cash will generally be taxed as long-term capital gain in the year it is received. Individuals who are United States citizens or residents should generally report the amount of the cash received as gain from “Principal Mutual Holding Company membership/conversion” on Schedule D of IRS Form 1040. We will report the cash payment to the IRS in a manner consistent with the above treatment. We may also be required to withhold for federal income taxes, and pay to the IRS, 31% of the cash payment if you do not complete, sign and return the Taxpayer Identification Card (Card 3). See “Taxpayer Identification Number” on page 45.

Eligible Policyholders Receiving Policy Credits

If you are eligible to receive only Policy Credits based on your Policy, then you will not receive cash or Common Stock, but your policy will be credited with a Policy Credit. If you are a Qualified Plan Customer or a Non-Rule 180 Qualified Plan Customer, your compensation will be in the form of Policy Credits (either Separate Account Policy Credits or Account Value Policy Credits) unless you elect otherwise or unless these Policy Credits are limited. See “Compensation — Distribution of Compensation — Policy Credits” on page 29. These Policy Credits will not be immediately taxable to you. The benefits ultimately paid under your policy will be taxed at the time of

The proceeds of sales or other disposition of Common Stock are usually taxable in the year the stock is sold or otherwise disposed of.

Cash is usually taxable in the year it is received.

Policy Credits will not adversely affect tax favored products.

payment in accordance with the rules governing the distribution of benefits under your policy. The payment of compensation in the form of Policy Credits will not adversely affect the tax-favored status of your policies or contracts, or subject you to current income or excise taxes or penalties. See “Tax Rulings and Opinion” on page 47.

Return your taxpayer identification information so that we do not have to withhold taxes.

Taxpayer Identification Number

It is important that you complete, sign and return the Taxpayer Identification Card (Card 3). For most individuals, your taxpayer identification number is your Social Security number. **If you fail to complete, sign and return this Card, you may be subject to a \$50 IRS penalty and we may be required to withhold for federal income taxes 31% of any cash payment, including both cash received as compensation under our Plan of Conversion and future stockholder dividends on Common Stock.** This 31% withholding is not an additional tax and any amount withheld may be claimed on your federal income tax return as a credit against your federal income tax liability for the year. Detailed instructions for completing the Taxpayer Identification Card are included in the Policyholder Guide.

Other Tax Concerns

Our Demutualization will not cause your Principal Life policy to be considered a newly-issued policy for tax purposes. As a result, the tax rules that currently determine whether your policy is treated as life insurance, an annuity, or a modified endowment contract, or whether policy loan interest is deductible, will continue to apply after our Demutualization. Thus, if your policy was issued before changes in the tax treatment of newly-issued policies of the same type as your policy, treatment of your policy under prior law will not be adversely affected by our Demutualization.

Foreign Taxpayers

If you are a nonresident alien or other foreign taxpayer, any cash you receive in our Demutualization will generally be free from United States federal income taxes as tax-exempt capital gains unless, in the case of a nonresident individual, you are physically present in the United States for at least 183 days during the taxable year in which the cash is received and certain other conditions apply, or you hold your policy in connection with the conduct of a U.S. trade or business. We will not withhold any U.S. tax from the payment to you if you provide satisfactory evidence of your foreign status by completing and returning an exemption certificate in the form required by the IRS (which may be obtained from the IRS or our Demutualization Information Center); however, we may be required to withhold 31% of any cash distributed to you if you do not supply this evidence. You should consult your tax advisor for special rules that may apply, including the possibility of a refund or credit from the IRS of any amounts withheld.

Special Rules

For further information, please refer to the ERISA guides provided in your policyholder mailing package (if your Policy is governed by ERISA).

If you are in one of the categories described below, special rules may apply to you (including, but not limited to, the rules described below). You should consult your tax or benefits advisor about how our Demutualization may affect you.

Qualified Pension and Profit-Sharing Trusts (plans covered by Section 401(a) of the Code). An Eligible Policyholder that is a qualified pension or profit-sharing trust will not be taxed on its receipt of compensation (assuming that the trust is not otherwise subject to tax). Common Stock or cash received in our Demutualization, like any other asset of the plan, must be held by the trustee for the exclusive benefit of the plan participants and beneficiaries.

Non-Trusteed Qualified Pension and Profit-Sharing Plans. If you are an employer owning a policy or group annuity contract that funds a qualified pension or profit-sharing plan and you do not hold the policy through a trust, your direct receipt of Common Stock or cash with respect to that policy could result in disqualification of the plan and other adverse tax consequences (including imposition of excise taxes). These consequences would not be applicable if your compensation takes the form of Separate Account Policy Credits or Account Value Policy Credits. **If you are such an employer, you should consult your tax or benefits advisor.**

If the qualified pension or profit-sharing plan is funded solely through life insurance or annuity contracts, it is possible a trust may not have been established. However, you may wish to set up a trust, or make provisions for the benefit of plan participants before the Effective Date so that you can avoid the risks associated with receiving compensation. You should consult with your tax or benefits advisor for details on options available to your plan for holding and accounting for your compensation.

Other Tax-Exempt Entities. An Eligible Policyholder that is one of the following entities generally will not be taxed on its receipt of compensation under our Plan of Conversion (assuming it is not otherwise subject to tax):

- Charitable or other tax-exempt organizations described in Section 501(c)(3) of the Code,
- Voluntary employees' beneficiary associations (VEBAs) described in Section 501(c)(9) of the Code,
- Governmental bodies or political subdivisions, and
- Sponsors of eligible deferred compensation plans under Section 457(b) of the Code.

Special rules may apply to certain types of tax-exempt entities, to tax-exempt entities owning debt-financed property and in other circumstances. If you are a tax-exempt entity, you should consult with your tax or benefits advisor regarding the

consequences of your receipt of compensation under our Plan of Conversion.

Welfare Benefit Funds (plans covered by Section 419(e) of the Code) and Welfare Benefit Plans. If you are an employer owning a policy on behalf of a welfare benefit fund and you do not hold the policy through a trust, your receipt of Common Stock or cash with respect to that policy may subject you to the 100% excise tax on employer reversions and there may be other tax liabilities. The excise tax should not apply if you use an existing trust or establish a new one before the Effective Date that qualifies under Section 501(c)(9) of the Internal Revenue Code to hold both the policy and the compensation. **If you are such an employer, you should consult your tax or benefits advisor.**

In addition, if you are an employer and your employees have paid some or all of the premiums under a policy used to provide welfare benefits (for example, group life insurance or group long term care insurance benefits), you may be required to allocate some or all of the Common Stock or cash you receive to, or for the benefit of, your employees, or otherwise deal with the stock or cash as a plan asset. **If you are such an employer, you should consult your tax or benefits advisor.**

TAX RULINGS AND OPINION

We have obtained private letter rulings from the Internal Revenue Service regarding certain U.S. federal income tax consequences of the Plan of Conversion to Eligible Policyholders. The IRS rulings are based on the accuracy of certain representations made by us. Those rulings are summarized in Appendix H.

We have received opinions of our special tax counsel on the matters described below. These opinions are based on the IRS private letter rulings, the accuracy of certain representations and undertakings by us and the facts and Federal Income Tax Law as they exist on the date of the opinions. The opinions are reprinted in the Policyholder Information Booklet Part Two.

In order for us to complete our Demutualization, our special tax counsel must confirm that each of these opinions continues to be true under the facts and Federal Income Tax Law as they exist on the Effective Date.

The opinions of special tax counsel are generally to the effect that:

- Policies issued by Principal Life prior to the Effective Date of our Plan of Conversion will not be deemed newly-issued policies for any material federal income tax purpose as a result of our conversion from a mutual insurance holding company into a stock company pursuant to our Plan of Conversion;

- Eligible Policyholders receiving solely Common Stock and Qualified Plan Customers whose Policies are credited with Separate Account Policy Credits in accordance with our Plan of Conversion should not recognize income, gain or loss for federal income tax purposes as a result of the consummation of our Plan of Conversion;
- For policies that are (i) tax-sheltered annuities, (ii) individual retirement annuities, (iii) Roth IRAs or (iv) individual life insurance policies or individual annuity contracts issued to participants in qualified retirement plans, the consummation of our Plan of Conversion, including the crediting of compensation in the form of Policy Credits, will not result in any transaction that will (1) be treated as a contribution to or distribution from such policies that will result in penalties to the holder or that will be subject to withholding, (2) disqualify an individual retirement annuity policy or give rise to a prohibited transaction between the individual retirement annuity and the individual for whose benefit it is established, or his or her beneficiary, or (3) adversely affect the tax-favored status of these policies under the Code or result in penalties or any other material adverse federal income tax consequences to the holders of these policies under the Code;
- For policies that are part of a tax-qualified pension or profit-sharing plan described in Section 401 (a) or Section 403(a) of the Code and that will be credited with compensation in the form of Policy Credits, the consummation of our Plan of Conversion, including the crediting of compensation in the form of Policy Credits, will not result in any transaction that will disqualify the plan, give rise to a prohibited transaction between the plan and the individual for whose benefit it is established, or his or her beneficiary, or otherwise adversely affect the tax-favored status of the policies under the Code or result in penalties or any other material adverse federal income tax consequences to the holders of these policies under the Code; and
- The summary of the principal federal income tax consequences to Eligible Policyholders of their receipt of compensation under our Plan of Conversion, that is contained under the heading “U.S. Federal Income Tax Considerations” on page 43 of this booklet, is, to the extent it describes matters of law or legal conclusion and subject to the limitations and assumptions described in that section, an accurate summary of the material federal income tax consequences to Eligible Policyholders of the consummation of our Plan of Conversion.

CERTAIN ERISA CONSIDERATIONS

If your policy is governed by ERISA, please refer to the accompanying ERISA guides for a more detailed summary of ERISA considerations.

Common Stock, cash or Policy Credits received by employee benefit plans that are governed by ERISA will generally be considered to be plan assets. Fiduciaries of those plans will have to apply those assets in a manner consistent with the terms of the employee benefit plan and in compliance with their duties under ERISA.

In the case of non-trusteed pension and welfare plans (for instance, where the employer owns the policy or contract), the plan sponsor may need to establish a trust or special account to hold Common Stock or cash distributed upon our Demutualization. In the case of Policy Credits, a trust or special account would not be necessary. In addition, in the case of a pension plan, or if employees have paid some or all of the premiums under a contract for a welfare plan, the employer may be required to allocate some or all of the Common Stock or cash received as compensation to, or for the benefit of, plan participants. See “U.S. Federal Income Tax Considerations — Special Rules” on page 46 for a discussion of certain issues relating to employee benefit plans. **Fiduciaries of those plans should consult their tax or benefits advisor regarding the application of ERISA fiduciary rules to the receipt of compensation upon our Demutualization.**

Principal Life has applied to the Department of Labor for an ERISA prohibited transaction exemption.

The receipt of Common Stock, cash, or Policy Credits by policyholders that are employee benefit plans or individual retirement annuities or accounts with respect to which Principal Life is a “party in interest” under ERISA or a “disqualified person” under the Code could be viewed as prohibited by, respectively, Section 406 of ERISA and Section 4975 of the Code. Accordingly, Principal Life has applied for an administrative exemption from the Department of Labor to cover these transactions. In the event that a final exemption has not been granted prior to the Effective Date of our Plan of Conversion, Principal Life, with the approval of the Commissioner, may delay distribution of compensation to policyholders that are subject to these provisions and may place this delayed compensation in an escrow or similar arrangement until the Department of Labor issues the exemption. Any additional costs and expenses incurred in implementing the escrow or other arrangement will be borne by the Holding Company.

REQUIRED REGULATORY APPROVALS

Our Plan of Conversion is subject to the approval of the Insurance Commissioner of the State of Iowa and to review by the New York Superintendent of Insurance.

Our Plan of Conversion is subject to the approval of the Commissioner. As required by Sections 521A.14(5)(b) and 508B.7 of the Code of Iowa (2001), our Plan of Conversion has been submitted to the Commissioner for approval. Section 508B.7 permits the Commissioner to hold a public hearing “on the fairness and equity of the terms of the plan” after giving written notice of the hearing to policyholders and other interested persons, all of whom have the right to appear at

the hearing. The Commissioner has informed us that she will hold a hearing.

The hearing by the Commissioner, which will be held at the Wallace Building Auditorium, State Capitol Complex, East 9th and Grand Avenue, Des Moines, IA 50319, beginning at 9:30 a.m. Central Daylight Time on July 25, 2001, will be open to the public. Policyholders as well as the MIHC and its directors, officers, employees and other interested persons have the right to appear and be heard at the public hearing. For more information about the public hearing, see the Notice of Public Hearing enclosed at the front of this Policyholder Information Booklet Part One.

Our Plan of Conversion is also subject to review by the New York Superintendent of Insurance, who may raise objections if he determines that its provisions are unfair or inequitable to New York policyholders.

COMMISSION-FREE SALES PROGRAM

If some Eligible Policyholders receive 99 shares or less, we must establish a program enabling them to sell or purchase shares without paying brokerage commissions.

In the unlikely event there are Eligible Policyholders who receive under our Plan of Conversion a number of shares of Common Stock equal to or less than 99 shares, the Holding Company will establish a commission-free sales program which would begin between 6 and 12 months after the Effective Date of our Plan of Conversion. This circumstance would occur only if our Board, or a duly authorized committee of our Board, adjusts the number of shares in the Fixed Component received by each Eligible Policyholder below 100 shares of Common Stock. This adjustment would only take place with the prior approval of the Commissioner and would most likely occur if necessary to enhance the marketing of Common Stock as part of the IPO.

If the Holding Company establishes a commission-free sales program, it would continue for 3 months or for any longer period of time as the Board of Directors of the Holding Company determines to be appropriate and in the best interest of the Holding Company and the Eligible Policyholders.

Pursuant to this program, each Eligible Policyholder who received under our Plan of Conversion 99 or fewer shares of Common Stock would be entitled to sell at prevailing market prices all, but not less than all, the shares of Common Stock received under our Plan of Conversion by that Eligible Policyholder, without paying brokerage commissions, mailing charges, registration fees or other administrative or similar expenses. Eligible Policyholders entitled to participate in this commission-free sales program would also be entitled to purchase at prevailing market prices additional shares of Common Stock to round-up their holdings to 100 shares, without paying brokerage commissions, mailing charges, registration fees or other administrative or similar expenses. If the Holding Company establishes a commission-free program, it would establish administrative procedures for the delivery of

requests to sell or purchase shares of Common Stock through the program.

Aside from this program, the Holding Company may, in its discretion, institute one or more commission-free sales programs in the future, but is not required to do so. If such commission-free program is established, the commission-free arrangements relating to such a program would be subject to any limitations agreed upon between the MIHC, the Holding Company and the Securities and Exchange Commission.

ACQUISITION OF COMMON STOCK BY OFFICERS, DIRECTORS AND EMPLOYEES

Senior officers and directors may not purchase shares of Common Stock until six months after the IPO. However, officers, directors and employees may acquire Common Stock pursuant to employee benefit plans (including our directors stock plan).

Senior officers and directors (and their family members) may not purchase shares of Common Stock until six months after the Effective Date. However, officers, directors and employees may acquire Common Stock under one or more of the plans described below, subject to the terms and conditions of the plans. The maximum number of shares of Common Stock that may be issued under the stock incentive plan, the directors stock plan, the long-term performance plan, and the Excess Plan (our nonqualified retirement savings plans), and any new plan awarding our Common Stock, in the five years following the Effective Date, is 6% of the number of shares outstanding immediately following the Effective Date, unless the stockholders vote to increase this number. No more than 40% of this 6% may be awarded in the 18 months following the Effective Date. Generally, no awards to any person under the stock incentive plan or the directors stock plan may be exercisable or distributable before 18 months following the Effective Date.

Stock Incentive Plan

Under the stock incentive plan, a committee of the Board of Directors of the Holding Company may grant Options, stock appreciation rights, restricted stock and/or restricted stock units to senior officers (at the level of second vice president and above) beginning six months after the Effective Date and to other employees and agents beginning 30 days after the Effective Date. The committee is expected to make a one-time, nonrecurring grant of Options to most of our employees (including, at the committee's discretion, those agents who are considered "statutory employees") 30 days following the Effective Date. Those one-time grants will vest in their entirety on the third anniversary of the date of grant, and the exercise price will not be less than the fair market value of the shares on the date of grant. Directors and senior officers (at the level of second vice president and above) will not participate in that grant.

Directors Stock Plan

Under the directors stock plan, a committee of the Board of Directors may, from time to time, grant Options, restricted stock

or restricted stock units to non-employee directors. No committee member may participate in any decisions with respect to his or her own benefits under the directors stock plan unless the decision applies generally to all non-employee directors. Beginning six months after the IPO, all directors then in office will each receive Options to purchase 2,000 shares of Common Stock. Directors first elected to the Board after the six month anniversary of the IPO will receive an amount of Options prorated for the amount of time remaining until the next annual meeting of stockholders. At each annual meeting thereafter, directors then in office will receive Options to purchase an additional 2,000 shares. The exercise price of these Options will not be less than the fair market value of the shares on the date the Option is granted. Six months after the IPO, all directors then in office and any subsequently elected directors will also receive a grant of restricted stock units. The number received by each director will be prorated for the amount of time remaining in that director's term, so that directors with the longest initial term will each receive 1,500 restricted stock units. Upon re-election, each director will receive an additional 1,500 restricted stock units. Subject to the terms and conditions of the directors stock plan, the committee may also grant Options, restricted stock or restricted stock units to any director at any time, except that (i) no grant may be made before the six month anniversary of the IPO; and (ii) during the 18 month period after the IPO, the aggregate number of shares granted pursuant to such discretionary Option awards shall not exceed 20,000 shares, and the aggregate number of shares granted pursuant to discretionary restricted stock or restricted stock unit awards shall not exceed 15,000 shares. Also, no more than 500,000 shares may be awarded under the directors stock plan.

Long-Term Performance Plan

Under the long-term performance plan, eligible executives are able to share in the success of the Holding Company, if specified minimum corporate performance objectives are achieved over a three-year cycle. Payments at the end of the cycle in respect of awards are made in cash, stock or a combination of cash and stock.

Employee Stock Purchase Plan

Under the employee stock purchase plan, virtually all employees (including, at the committee's discretion, those agents who are considered "statutory employees") may purchase shares of Common Stock at a discount from the prevailing fair market value. Participation under the plan may not begin until 30 days after the IPO; provided that senior officers may not commence participation for six months following the IPO. The number of shares of Common Stock issuable as a result of the employee stock purchase plan may not exceed 2% of the total number of shares outstanding immediately following the IPO. Under the employee stock purchase plan, participating employees are granted Options to purchase shares of Common Stock at a price

no less than 85% of the share's fair market value on the date of grant. A committee of the Board of Directors may also allow the exercise price to be as low as 85% of the share's fair market value as of the "exercise date," provided that the exercise date price is less than the grant date price. An employee may join the purchase plan by authorizing after-tax "payroll contributions" to be deducted from the employee's gross wages. Additionally, if an employee is making payroll contributions, the administrator of the plan may permit him or her to also make "cash" contributions. During any plan year, an employee may contribute no more than \$10,000 (or such greater or lesser amounts as determined by the committee of the Board of Directors) or 10% of the employee's salary, whichever is less.

Savings and Retirement Plans

We also maintain tax qualified and non-qualified defined contribution plans, as well as defined benefit plans, excess benefit plans and supplemental retirement plans for the benefit of certain participating officers and employees. Subject to the terms and conditions of these plans, participants may acquire interests relating to or shares of Common Stock by directing new contributions or allocating all or any portion of their account balances to a Common Stock fund.

GLOSSARY

The following are brief explanations of certain terms used in this Policyholder Information Booklet Part One. For a complete definition of these terms, please see Article I of our Plan of Conversion.

Account Value Policy Credits	An increase in the value of an applicable group annuity contract. This type of compensation is issued to owners of certain group annuity contracts issued by Principal Life that are designed to fund benefits under a retirement plan that is qualified under Section 401(a) or Section 403(a) of the Internal Revenue Code of 1986, as amended (i.e., to Qualified Plan Customers and Non-Rule 180 Qualified Plan Customers).
Actuarial Contribution	The contribution that a Policy has made to Principal Life Insurance Company's statutory surplus and asset valuation reserve, plus the contribution that that Policy is expected to make in the future. A Policy's Actuarial Contribution is calculated according to the principles, assumptions and methodologies set forth in our Plan of Conversion and the Actuarial Contribution Memorandum.
Adoption Date	March 31, 2001, the date that the Board of Directors of Principal Mutual Holding Company adopted our Plan of Conversion.
Closed Block	A closed block formed upon Principal Life Insurance Company's reorganization to the mutual insurance holding company structure in 1998. This Closed Block is operated by Principal Life Insurance Company for the benefit of individual policies issued and outstanding at the time the Closed Block was established paying experience-based policy dividends.
Commercial Paper	Unsecured debt that is usually issued by companies in the form of notes maturing within nine months.
Commissioner	Insurance Commissioner of the State of Iowa.
Common Stock	Shares of common stock of Principal Financial Group, Inc., a Delaware corporation. Principal Financial Group, Inc. (the "Holding Company") will become the indirect parent company of Principal Life Insurance Company when our Plan of Conversion becomes effective.
Company Trust	Any trust established by Principal Life Insurance Company for its own administrative convenience in its capacity as an insurer.
Convertible Preferred Stock	Preferred Stock that may be converted into another security (e.g., common stock) at the holder's option.
Default Compensation	The form of compensation an Eligible Policyholder is deemed to elect if that policyholder does not affirmatively elect a different form of compensation. Eligible Policyholders can in certain instances elect different forms of compensation by properly filling out and returning the Form of Compensation Card (Card 4).
Demutualization	The conversion of Principal Mutual Holding Company into a stock company, the mergers of the demutualized Principal Mutual Holding Company and two of its Iowa subsidiaries with

and into Principal Iowa Newco, Inc. and the change of name of Principal Iowa Newco, Inc.

Effective Date	The date on which our Plan of Conversion becomes effective. This is the date on which, among other things, Principal Mutual Holding Company will convert into a stock company, Principal Life Insurance Company will become a wholly-owned subsidiary of the Holding Company, and the IPO and one or more Other Capital Raising Transactions, if any, will be completed. The Effective Date is currently expected to occur during the latter part of 2001 or first part of 2002. Our Plan of Conversion provides that the Effective Date must occur within one year after the Insurance Commissioner of the State of Iowa approves our Plan of Conversion unless the Commissioner agrees to extend the period.
Elective Cash Requirements	The amount needed by Principal Life Insurance Company to fund all elections and deemed elections for cash and Account Value Policy Credits that are made by Eligible Policyholders allocated more than 100 shares of Common Stock.
Eligible Policyholders	A policyholder entitled to receive compensation in the Demutualization. Generally, this is any policyholder who was the owner of a Policy that was In Force on March 31, 2000 and who had a continuous Membership Interest in the MIHC through ownership of one or more Policies from March 31, 2000 until and on the Effective Date. Members of Principal Mutual Holding Company who were issued Policies on or before April 8, 1980 and transferred their ownership rights for those Policies on or before April 8, 1980 are also Eligible Policyholders as long as those Policies remain In Force through the Effective Date.
ERISA	The Employee Retirement Income Security Act of 1974, as amended.
Evidence of Insurance Coverage	Subscription agreements (other than a Subscription to Trust and Enrollment Form for Accident and Sickness Insurance under the Principal Retiree Group Medical Trust), except in the case of Group Universal Life-1 and Long Term Care-1 Policies issued to a Company Trust, in which cases "Evidence of Insurance Coverage" means certificates of insurance.
Excess Plan	Principal Select Savings Excess Plan and the Non-Qualified Defined Contribution Plan for Designated Participants.
Federal Income Tax Law	Currently applicable federal income tax law, regulations and Internal Revenue Service rulings.
Fixed Component	The minimum number of shares of Common Stock allocated to each Eligible Policyholder. The Fixed Component is 100 shares of Common Stock subject to any modifications made in accordance with Section 8.3 of our Plan of Conversion.
Holding Company	Principal Financial Group, Inc. The Holding Company is a Delaware corporation organized by Principal Mutual Holding Company to become the publicly-traded indirect parent

company of Principal Life Insurance Company on the Effective Date. The Holding Company will be the indirect parent company of Principal Life Insurance Company through the Holding Company's intermediate holding company, Principal Iowa Newco, Inc. The Holding Company is an entity distinct from the Iowa business corporation named Principal Financial Group, Inc.

In Force	An "In Force" Policy is a Policy that is in effect on a given date. This determination is made in accordance with our Plan of Conversion and is based on the records of Principal Mutual Holding Company or Principal Life Insurance Company. Generally, a Policy is In Force if it has been issued and the required premium has been received. Our Plan of Conversion also recognizes special circumstances where a Policy will be considered to be In Force.
IPO.....	The initial public offering of the Holding Company. In the IPO, Principal will sell Common Stock to new public shareholders. The IPO must occur within one year from the date our Plan of Conversion becomes effective, unless the Insurance Commissioner of the State of Iowa approves a later date. We currently expect the IPO to occur in the latter part of 2001 or first part of 2002.
IRS.....	Internal Revenue Service.
Mandatory Cash Requirements.....	The amount needed by Principal Life Insurance Company to fund all of the following: (1) Policy Credits and cash payments for all policyholders that are required to receive these forms of compensation; (2) Account Value Policy Credits and cash payments for all policyholders allocated 100 or fewer shares of Common Stock who elect or are deemed to elect cash or Account Value Policy Credits; and (3) the fees and expenses of the Demutualization paid by Principal Life Insurance Company.
Mandatory Policy Credits	
Policyholder	A policyholder who owns a Policy for which Policy Credits are the only form of compensation provided.
Member	A Person who is (or, collectively, the Persons who are) on a specified date, the owner of one or more Policies which is (are) then In Force. A person who was issued a Policy on or before April 8, 1980 and transferred ownership rights of that Policy on or before April 8, 1980 is also a Member as long as that Policy remains In Force.
Members' Meeting	Special meeting of Members of Principal Mutual Holding Company. This meeting will be held at the headquarters of Principal Mutual Holding Company at 9:00 a.m., Central Daylight Time, on July 24, 2001. The location of this meeting is the Auditorium of the Corporate One building, 711 High Street, Des Moines, Iowa 50392.
Membership Interests.....	A Person's rights as a Member of Principal Mutual Holding Company. These include all rights arising prior to our Demutualization under the Articles of Incorporation or By-Laws

of Principal Mutual Holding Company or otherwise by law. Included in these rights are the right to vote and the right to participate in any distribution of surplus if Principal Mutual Holding Company is liquidated. The term “Membership Interest” does not include rights expressly conferred on policyholders by their Principal Life Insurance Company Policies or contracts (other than any right to vote in matters of Principal Mutual Holding Company), such as the right to receive declared policy dividends. All Membership Interests will be extinguished on the Effective Date.

MIHC	Principal Mutual Holding Company. The MIHC is a mutual insurance holding company engaged through its subsidiaries in the business of providing retirement savings, investment and insurance products and services. It is the indirect parent company of Principal Life Insurance Company through two Iowa intermediate holding companies, Principal Financial Group, Inc., and Principal Financial Services, Inc.
	The MIHC is also the indirect parent of Principal Iowa Newco, Inc., through the Holding Company.
Net Cash Proceeds	Proceeds of the initial public offering of Common Stock received by the Holding Company, plus proceeds of any Other Capital Raising Transaction, if any, received by the Holding Company, net of all underwriting commissions, offering expenses and other transaction expenses of the Holding Company, without taking into account any proceeds received as a result of any Underwriters’ Over-Allotment Option.
Nonroutine Matter	Generally, Nonroutine Matters are extraordinary or unusual issues or transactions that do not typically arise in the ordinary course of business, such as contested director elections and other proxy contests and mergers, takeovers and other major transactions. Please refer to Article I of our Plan of Conversion for a more complete definition of this term.
Non-Rule 180 Qualified Plan Customer	An owner of a group annuity contract issued by Principal Life Insurance Company that is designed to fund benefits under a retirement plan that is qualified under Section 401(a) or Section 403(a) of the Internal Revenue Code and that covers employees described in Section 401(c) of the Internal Revenue Code but that does not meet the requirements of Rule 180 promulgated under the Securities Act of 1933, as amended.
Options	The right to buy or sell property or securities at a set price for a defined period of time. In the Plan of Conversion, options may be granted to the Holding Company’s management and directors, which would give them the right to purchase shares of the Common Stock.
Other Capital Raising Transactions ...	One or more of the following: (1) a private placement of Common Stock; (2) a private placement or public offering of convertible preferred stock; (3) a private placement or public offering of debt; or (4) other sources of capital.

Owner	The Person or Persons specified or determined in accordance with Section 6.2 of our Plan of Conversion.
Person	An individual, corporation, limited liability company, joint venture, partnership, association, trust, trustee, unincorporated entity or any other form of entity, organization, or government or any department or agency of any government. A Person who is the Owner of Policies in more than one legal capacity (for example, trustee under separate trusts) will be considered to be a separate Person in each capacity.
Plan of Conversion	The plan of conversion of Principal Mutual Holding Company (including all of its exhibits), as it may be amended from time to time.
Policy	(i) each original life, health or accident insurance policy or annuity contract (including each annuity contract issued to an employer funding the termination of a pension plan) that has been issued or assumed by Principal Life Insurance Company, provided that any supplementary contract issued to effect the annuitization of an individual deferred annuity shall be treated with such annuity as one Policy; (ii) each Evidence of Insurance Coverage issued by Principal Life Insurance Company under a group insurance policy or group annuity contract issued to a Company Trust; and (iii) each certificate of insurance issued by Principal Life Insurance Company to Persons who have exercised a portability or continuation option under any of Principal Life Insurance Company's group universal life insurance Policies or group long term care insurance Policies. Please refer to Section 6.1 of the Plan of Conversion for more details.
Policy Credit	Compensation to be paid in the form of an increase in cash value, account value, dividend accumulations, face amount, extended term period or benefit payment, as appropriate, depending on the Policy. If the Policy is owned by a Qualified Plan Customer, the Policy Credit will take the form of a Separate Account Policy Credit or an Account Value Policy Credit. If the Policy is owned by a Non-Rule 180 Qualified Plan Customer, the Policy Credit will take the form of an Account Value Policy Credit.
Preferred Stock	A class of capital stock having a preference over common stock in the payment of dividends and liquidation of assets. Preferred Stock may or may not have a feature making it convertible into common stock, either mandatorily on the occurrence of certain events or at the option of the holder.
Principal Life	Principal Life Insurance Company. Principal Life is the life insurance company indirectly owned by Principal Mutual Holding Company.
Qualified Plan Customer	An owner of a group annuity contract issued by Principal Life Insurance Company that is designed to fund benefits under a retirement plan that is qualified under Section 401(a) or Section 403(a) of the Internal Revenue Code (including a plan covering employees described in Section 401(c) of the Internal

Revenue Code, provided the plan meets the requirements of Rule 180 promulgated under the Securities Act of 1933, as amended) or that is a governmental plan described in Section 414(d) of the Internal Revenue Code, excluding (i) group annuity contracts that fund only guaranteed deferred annuities or annuities in the course of payments and (ii) group annuity contracts for which Principal Life Insurance Company does not perform retirement plan record keeping services and whose group annuity contracts do not provide for investments in Principal Life Insurance Company's pooled unregistered separate accounts.

Routine Matter	Any matter up for stockholder vote that does not fall within the definition of a Nonroutine Matter. Generally, these are issues that arise within the ordinary course of business. Please refer to Article I of our Plan of Conversion for a more complete definition of this term.
Separate Account Policy Credits	A Policy Credit in the form of an interest in the Stock Separate Account. Separate Account Policy Credits are issued only to Qualified Plan Customers.
Stock Separate Account.....	A separate account maintained by Principal Life Insurance Company holding shares of Common Stock.
Underwriters' Over-Allotment Option	The option granted by the Holding Company to underwriters to purchase additional shares of Common Stock under certain conditions or any over-allotment option granted by the Holding Company to underwriters in any Other Capital Raising Transaction to purchase additional securities in those offerings under applicable conditions.
Voting Policyholder	Any Person who was (or, collectively, Persons who were) a Member of Principal Mutual Holding Company on March 31, 2001. Voting Policyholders are entitled to vote on our Plan of Conversion and the transactions contemplated in the Demutualization.
Warrant	Type of security, sometimes issued together with a bond or Preferred Stock, that entitles the holder to buy a proportionate amount of common shares at a specified price, usually higher than the market price at the time of issuance, for a period of years or to perpetuity.

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**PLAN OF CONVERSION
OF
PRINCIPAL MUTUAL HOLDING COMPANY**

**Under Sections 521A.14(5) (b) and 508B.2 of
Title XIII of the Code of Iowa (2001)**

As adopted on March 31, 2001

TABLE OF CONTENTS

Preamble	A-3
Article I Definitions	A-4
Article II The Conversion	A-8
Article III Approval by the Commissioner	A-9
3.1 Application	A-9
3.2 Commissioner’s Public Hearing; Commissioner’s Order	A-9
3.3 Notice of Public Hearing	A-9
Article IV Approval by Policyholders	A-9
4.1 Policyholder Vote	A-9
4.2 Notice of Members’ Meeting	A-10
Article V The Restructuring	A-10
5.1 Effect of Restructuring on the MIHC	A-10
5.2 Effectiveness of Plan	A-10
5.3 Tax Considerations	A-13
5.4 Other Opinions	A-14
Article VI Policies	A-14
6.1 Policies	A-14
6.2 Determination of Ownership	A-15
6.3 In Force	A-16
Article VII Allocation of Policyholder Consideration	A-17
7.1 Allocation of Allocable Shares	A-17
7.2 Allocation of Aggregate Variable Component	A-17
7.3 Distribution of Consideration	A-18
7.4 ERISA Plans	A-20
Article VIII Additional Provisions	A-20
8.1 Restriction on Acquisition of Securities by Officers and Directors	A-20
8.2 Compensation of Directors, Officers, Agents and Employees	A-21
8.3 Adjustment of Share Numbers	A-22
8.4 No Preemptive Rights	A-22
8.5 Notices	A-22
8.6 Amendment or Withdrawal of Plan	A-22
8.7 Corrections	A-22
8.8 Costs and Expenses	A-22
8.9 Separate Account Voting Procedures	A-22
8.10 Governing Law	A-23

EXHIBITS TO THE PLAN:

- Exhibit A — Form of Agreement and Plan of Merger
- Exhibit B — Form of Amended and Restated Certificate of Incorporation of the Holding Company
- Exhibit C — Form of By-Laws of the Holding Company
- Exhibit D — Form of Articles of Incorporation of the Intermediate Holding Company
- Exhibit E — Form of By-Laws of the Intermediate Holding Company
- Exhibit F — Actuarial Contribution Memorandum

**PLAN OF CONVERSION
OF
PRINCIPAL MUTUAL HOLDING COMPANY**

**Under Sections 521A.14(5) (b) and 508B.2 of
Title XIII of the Code of Iowa (2001)**

PREAMBLE

This Plan has been adopted by the Board of Directors (the “Board”) of Principal Mutual Holding Company, a mutual insurance holding company organized pursuant to Section 521A.14(1) of Title XIII and Chapter 491 of Title XII of the Code of Iowa (the “MIHC”), at a meeting duly called and held on March 31, 2001 (the “Adoption Date”). The Plan provides for the conversion of the MIHC from a mutual insurance holding company into a stock company in accordance with the requirements of Section 521A.14(5)(b) and Chapter 508B of Title XIII of the Code of Iowa (2001) (the “Conversion”). It also provides for the merger of the converted MIHC with and into a newly-formed Iowa corporation (the “Intermediate Holding Company”), which is a wholly-owned subsidiary of a newly-formed Delaware corporation (the “Holding Company”), the merger of Principal Financial Group, Inc. with and into the Intermediate Holding Company, and the merger of Principal Financial Services, Inc. with and into the Intermediate Holding Company, (the “Mergers”). The Conversion and the Mergers are hereafter collectively referred to as the “Restructuring.”

The MIHC structure, adopted in 1998, has served the organization well and helped it accomplish many things in a short period of time. The environment in which the organization operates, however, has changed in a number of important ways since then. The passage of the Gramm-Leach-Bliley Act in 1999 which permits mergers that combine commercial banks, insurers and securities firms under one holding company may increase competition by substantially increasing the number, size and financial strength of the organization’s competitors. Further, for a variety of reasons, other life insurance companies of the size of Principal Life Insurance Company (“Principal Life”) have not adopted the mutual insurance holding company structure which leads to uncertainty about the receptivity and valuation of stock offered to the public by a company with this structure. While the organization is financially strong, these changes since the creation of the MIHC have led the Board and management to conclude that achievement of the organization’s strategy will be enhanced through demutualization. The flexibility to raise additional capital and diversify into global financial services is enhanced in a demutualization. A demutualization will yield benefits to the policyholders of Principal Life by increasing the organization’s financial resources and its ability to invest in new technology, products and markets and improved customer service.

The Conversion will provide Eligible Policyholders with an opportunity to receive shares of Common Stock, cash or Policy Credits in exchange for their otherwise illiquid Membership Interests, which will be extinguished in the Conversion. Thus, Eligible Policyholders will realize economic value from their Membership Interests that is not currently available to them so long as the MIHC remains a mutual company.

The Conversion will not, in any way, change premiums or reduce policy benefits, values, guarantees or other policy obligations of Principal Life to its policyholders. Also, Principal Life will continue to pay policy dividends as declared (although, as always, policy dividends are not guaranteed and may vary from year to year due to experience).

The Board has received opinions from its financial, actuarial and legal advisors and has relied on those opinions in adopting the Plan.

The Board has unanimously determined that the Plan is fair and equitable to the Members, both as to their Membership Interests and as to their contractual interests as policyholders of Principal Life.

ARTICLE I

DEFINITIONS

As used in the Plan the following terms have the following meanings:

“Account Value Policy Credit” means a Policy Credit, in the form of an increase in the value of the applicable group annuity contract, issued to a Qualified Plan Customer or a Non-Rule 180 Qualified Plan Customer. Such increase in value shall be allocated to participants’ accounts, where appropriate, based on account balances for which records are kept by Principal Life unless the Qualified Plan Customer or Non-Rule 180 Qualified Plan Customer directs otherwise.

“Actuarial Calculation Date” means the date as of which the Actuarial Contribution for the Policies will be calculated and is the same date as the Record Date.

“Actuarial Contribution” means, with respect to a particular Policy, the contribution that such Policy has made to Principal Life’s statutory surplus and asset valuation reserve, plus the contribution that such Policy is expected to make in the future, as calculated according to the principles, assumptions and methodologies set forth in this Plan and the Actuarial Contribution Memorandum.

“Actuarial Contribution Memorandum” has the meaning specified in Section 7.1(b).

“Adoption Date” has the meaning specified in the first paragraph of the preamble hereto.

“Agents Savings Plan” means The Principal Select Savings Plan for Individual Field.

“Aggregate Fixed Component” has the meaning specified in Section 7.1(b).

“Aggregate Variable Component” has the meaning specified in Section 7.1(b).

“Agreement and Plan of Merger” has the meaning specified in Section 5.1.

“Allocable Shares” means, subject to Section 8.3, 350 million shares of Common Stock, to be allocated as described in Article VII.

“Application” has the meaning specified in Section 3.1.

“Board” has the meaning specified in the first paragraph of the preamble hereto.

“Chapter 508B” means Chapter 508B of Title XIII of the Code of Iowa (2001).

“Closed Block” has the meaning specified in Article II.

“Code” means the Internal Revenue Code of 1986, as amended.

“Commissioner” means the Commissioner of Insurance of the State of Iowa, or such other governmental officer, body or authority as becomes the primary regulator of the MIHC under applicable Iowa law.

“Common Stock” means the shares of common stock of the Holding Company.

“Company Records” means the records of the MIHC or Principal Life, as applicable.

“Company Trust” means any trust established by Principal Life for its own administrative convenience in its capacity as an insurer.

“Conversion” has the meaning specified in the first paragraph of the preamble hereto.

“Director” means a member of the Board of Directors of the MIHC, Principal Financial Group, Inc., Principal Financial Services, Inc., the Holding Company, the Intermediate Holding Company or Principal Life.

“Directors Stock Plan” means the Principal Financial Group, Inc. Directors Stock Plan.

“Dividend Capacity” means the full extent of Principal Life’s statutory capacity to pay a non-extraordinary dividend in 2001.

“Dividend Shortfall” means the amount, if any, of Principal Life’s Dividend Capacity that Principal Life has been prohibited by the Commissioner from paying to Principal Financial Services, Inc. in 2001 prior to the Effective Date.

“Effective Date” has the meaning specified in Section 5.2(a).

“Elective Cash Requirements” means the amount needed by Principal Life to fund the aggregate amount of all elections and deemed elections for cash and Account Value Policy Credits (pursuant to paragraphs (a), (d) and (e) of Section 7.3) that are attributable to Eligible Policyholders who are allocated more than 100 shares of Common Stock.

“Eligible Policyholder” means a Person (or, collectively, the Persons) who, on the Record Date, is the Owner of one or more Policies and who, as reflected in the Company Records, has a continuous membership interest in the MIHC through ownership of one or more Policies from the Record Date until and on the Effective Date. Members of the MIHC who were issued Policies on or before April 8, 1980 and transferred ownership rights of such Policies on or before April 8, 1980 are Eligible Policyholders so long as such Policies remain In Force until and on the Effective Date. The MIHC may deem a Person to be an Eligible Policyholder in order to correct any immaterial administrative errors or oversights.

“Employees Savings Plan” means the Principal Select Savings Plan for Employees.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended.

“Evidence of Insurance Coverage” means subscription agreements (other than a Subscription to Trust and Enrollment Form for Accident and Sickness Insurance under the Principal Retiree Group Medical Trust) except in the case of Group Universal Life-1 and Long Term Care-1 Policies issued to a Company Trust, in which cases “Evidence of Insurance Coverage” means certificates of insurance.

“Excess Plan” means the Principal Select Savings Excess Plan and the Non-Qualified Defined Contribution Plan for Designated Participants.

“Executive Officer” means any “executive officer” (within the meaning of Rule 3b-7 under the Securities Exchange Act of 1934, as amended) of the Holding Company, from time to time, whether such person is an officer of the Holding Company or one of its subsidiaries, and any officer of the MIHC or Principal Life with the title of Second Vice President or a more senior title, or any officer of a subsidiary or affiliate of Principal Life with a title equivalent to a Second Vice President or more senior title with Principal Life. For a period of six months after the Effective Date, the individuals identified as executive officers in the Holding Company’s registration statement under the Securities Act of 1933, as amended, relating to the IPO shall be considered Executive Officers regardless of any change in title or duties, provided that such individuals are in the employ of the Holding Company or any of its subsidiaries.

“Federal Income Tax Law” means the Code, Treasury Regulations issued thereunder, administrative interpretations thereof and judicial interpretations with respect thereto.

“Funding Agreement” means an agreement which authorizes Principal Life to accept and accumulate funds for the purpose of making one or more payments at future dates and which does not contain or provide for any mortality or morbidity contingencies.

“Holding Company” has the meaning specified in the first paragraph of the preamble hereto.

“Holding Stock Plan” has the meaning specified in Section 8.1(a).

“In Force” has the meaning specified in Section 6.3.

“Intermediate Holding Company” has the meaning specified in the first paragraph of the preamble hereto.

“IPO” means the initial public offering by the Holding Company of shares of Common Stock.

“IPO Stock Price” means the price per share to the public at which Common Stock is sold in the IPO.

“LTI Plan” means the Principal Financial Group Long-Term Performance Plan.

“Mandatory Cash Requirements” means the amount needed by Principal Life to fund (1) the mandatory Policy Credits and cash payments for Eligible Policyholders described in paragraphs (b) and (c) of Section 7.3; (2) the elections and deemed elections for cash and Account Value Policy Credits (pursuant to paragraphs (a), (d) and (e) of Section 7.3) that are attributable to Eligible Policyholders who are allocated 100 or fewer shares of Common Stock; and (3) an amount equal to the fees and expenses of the Restructuring paid by Principal Life.

“Member” means a Person who is (or, collectively, the Persons who are) on a specified date, the Owner of one or more Policies which is (are) then In Force. A Person who was issued a Policy on or before April 8, 1980 and transferred ownership rights of that Policy on or before April 8, 1980 is also a Member so long as such Policy remains In Force.

“Members’ Meeting” has the meaning specified in Section 4.1.

“Membership Interest” means all the rights and interests arising under the Articles of Incorporation or By-Laws of the MIHC or otherwise by law arising through ownership or issuance of a Policy or Policies of Principal Life including, but not limited to, any right to vote and any rights which may exist with regard to the net worth of the MIHC, including any such rights in liquidation or reorganization of the MIHC, but shall not include any other right or interest expressly conferred by a Policy.

“Mergers” has the meaning specified in the first paragraph of the preamble hereto.

“MIHC” has the meaning specified in the first paragraph of the preamble hereto.

“Net Cash Proceeds” means proceeds of the IPO received by the Holding Company plus proceeds of any Other Capital Raising Transaction received by the Holding Company, net of all underwriting commissions, offering expenses and other transaction expenses of the Holding Company, without taking into account any proceeds received pursuant to any Underwriters’ Over-Allotment Option.

“Nonroutine Matter” means a matter up for shareholder vote if:

(i) the matter concerns the election or removal of Directors of the Holding Company and a proxy contest is appropriately initiated by a contesting shareholder whereby the contesting shareholder seeks to (1) nominate one or more candidates or a slate of candidates for election as Directors of the Holding Company in opposition to a nominee of the Holding Company’s Board of Directors, (2) oppose one or more nominees of the Holding Company’s Board of Directors for election of Directors, (3) remove one or more Directors of the Holding Company for cause, or (4) nominate one or more candidates for election as Directors of the Holding Company to fill the vacancy or vacancies resulting from the removal of one or more Directors by the Holding Company’s shareholders;

(ii) the matter concerns (1) the merger or consolidation of the Holding Company into or with any other person, the sale, lease or exchange of all or substantially all of the property or assets of the Holding Company, or the recapitalization or dissolution of the Holding Company, in each case which requires a vote of the Holding Company’s shareholders under applicable Delaware law, or (2) any other corporate transaction that would result in an exchange or conversion of the shares of Common Stock in the separate account formed pursuant to Section 7.3(d) for cash, securities or other property;

(iii) the matter concerns any proposal requiring the Board of Directors of the Holding Company to amend or redeem the rights under the Holding Company’s shareholder rights plan, other than a proposal with respect to which the Holding Company has received the advice of nationally-recognized legal counsel to the effect that the proposal is not a proper subject for shareholder action under Delaware law; or

(iv) the matter concerns any of the following subjects, if such matter is brought to a vote of shareholders prior to the first anniversary of the Effective Date: (1) (a) the issuance of Common Stock after the Effective Date at a price materially less than the then prevailing market price of the Common Stock, other than through an underwritten offering or to officers, employees, Directors or insurance agents of the Holding Company or any subsidiary of the Holding Company pursuant to an employee benefit plan, and (b) a vote of the Holding Company's shareholders with respect to the issuance is conducted or is required to be conducted under applicable Delaware law; (2) any matter that requires approval by a vote of more than a majority of the outstanding stock of the Holding Company entitled to vote thereon under Delaware law or the Certificate of Incorporation or the By-Laws of the Holding Company; or (3) an amendment of the Certificate of Incorporation or By-Laws of the Holding Company submitted for approval to the Holding Company's shareholders.

"Non-Rule 180 Qualified Plan Customer" means an Owner of a group annuity contract issued by Principal Life, which contract is designed to fund benefits under a retirement plan which is qualified under Section 401(a) or Section 403(a) of the Code and which covers employees described in Section 401(c) of the Code but which does not meet the requirements of Rule 180 promulgated under the Securities Act of 1933, as amended.

"Other Capital Raising Transactions" means one or more of the following: (1) a private placement of Common Stock, (2) a private placement or public offering of convertible preferred stock, (3) a private placement or public offering of debt or (4) other sources of capital, or a combination thereof, on or prior to the Effective Date.

"Owner" means with respect to any Policy, the Person or Persons specified or determined pursuant to Section 6.2.

"Person" means an individual, corporation, limited liability company, joint venture, partnership, association, trust, trustee, unincorporated entity or any other form of entity, organization, or government or any department or agency thereof. A Person who is the Owner of Policies in more than one legal capacity (e.g., trustee under separate trusts) shall be deemed to be a separate Person in each capacity.

"Plan" means this Plan of Conversion (including all Exhibits hereto) as it may be amended or modified from time to time in accordance with Section 8.6 or Section 8.7.

"Policy" has the meaning specified in Section 6.1.

"Policy Credit" means consideration to be paid in the form of an increase in cash value, account value, dividend accumulations, face amount, extended term period or benefit payment, as appropriate, depending on the Policy. If the Policy is owned by a Qualified Plan Customer, the Policy Credit will take the form of a Separate Account Policy Credit or an Account Value Policy Credit. If the Policy is owned by a Non-Rule 180 Qualified Plan Customer, the Policy Credit will take the form of an Account Value Policy Credit.

"Principal Life" has the meaning specified in the second paragraph of the preamble hereto.

"Public Hearing" has the meaning specified in Section 3.2.

"Qualified Plan Customer" means an Owner of a group annuity contract issued by Principal Life, which contract is designed to fund benefits under a retirement plan which is qualified under Section 401(a) or Section 403(a) of the Code (including a plan covering employees described in Section 401(c) of the Code, provided such plan meets the requirements of Rule 180 promulgated under the Securities Act of 1933, as amended) or which is a governmental plan described in Section 414(d) of the Code, excluding (i) group annuity contracts that fund only guaranteed deferred annuities or annuities in the course of payments and (ii) group annuity contracts for which Principal Life does not perform retirement plan record keeping services and whose group annuity contracts do not provide for investments in Principal Life's pooled unregistered separate accounts.

"Record Date" means the date that is one year prior to the Adoption Date.

“Restructuring” has the meaning specified in the first paragraph of the preamble hereto.

“Routine Matter” means any matter up for shareholder vote that does not fall within the definition of a Nonroutine Matter.

“Savings Plans” means the Employees Savings Plan, the Agents Savings Plan and the Excess Plan.

“Separate Account Policy Credit” means a Policy Credit issued to a Qualified Plan Customer in the form of an addition to such Qualified Plan Customer’s group annuity contract of an interest in a separate account maintained by Principal Life. This separate account will receive, for the benefit of such Qualified Plan Customer’s qualified plan, a number of shares of Common Stock equal to the number of shares allocable to such contract pursuant to Section 7.1. The separate account interests issued as Separate Account Policy Credits to a Qualified Plan Customer shall be allocated to plan participants’ accounts, where appropriate, based on account balances for which records are kept by Principal Life unless the Qualified Plan Customer directs otherwise.

“State” means any state, territory or insular possession of the United States of America and the District of Columbia.

“Stock Incentive Plan” means the Principal Financial Group, Inc. Stock Incentive Plan.

“Stock Purchase Plan” means the Principal Financial Group, Inc. Employee Stock Purchase Plan.

“Total Debt/Capitalization Ratio” means (1) long-term debt plus current maturities, commercial paper and other short-term borrowings divided by (2) long-term debt plus current maturities, commercial paper, and other short term borrowings plus shareholders’ equity (including preferred stock) plus minority interest.

“Underwriters’ Over-Allotment Option” means, as applicable, the option granted by the Holding Company to the underwriters to purchase additional shares of Common Stock under certain conditions or any over-allotment option granted by the Holding Company to the underwriters in any Other Capital Raising Transactions to purchase additional securities in those offerings under any applicable conditions.

“Voting Policyholder” has the meaning specified in Section 4.1.

ARTICLE II

THE CONVERSION

Under the Plan, the MIHC converts to a stock company and all Membership Interests are extinguished. Eligible Policyholders will receive as consideration under the Plan shares of Common Stock, cash or Policy Credits.

While the Membership Interests are extinguished in the Conversion, the Conversion will not, in any way, change premiums or reduce policy benefits, values, guarantees or other policy obligations of Principal Life to its policyholders.

Upon Principal Life’s reorganization to the mutual insurance holding company structure effective July 1, 1998, for policyholder dividend purposes only, Principal Life formed and began operating a closed block of participating policies for the benefit of the participating policies and contracts included therein (the “Closed Block”). The Closed Block is described in Article V of the Plan of Reorganization of Principal Mutual Life Insurance Company, dated as of September 15, 1997, as amended. Assets of Principal Life were allocated to the Closed Block in an amount that produces cash flows which, together with anticipated revenue from the Closed Block policies and contracts, are expected to be sufficient to support the Closed Block policies and contracts including, but not limited to, provisions for payment of claims and certain expenses and taxes, and to provide for continuation of policy and contract dividends in aggregate in accordance with the 1997 dividend scales if the experience underlying such scales continues, and to allow for appropriate adjustments in such scales if such experience changes. After the Effective Date, Principal Life will continue to operate the Closed Block in accordance with its terms.

ARTICLE III

APPROVAL BY THE COMMISSIONER

3.1 *Application.* The MIHC shall file with the Commissioner an application (the “Application”) to convert pursuant to Chapter 508B to a stock company in a transaction whereby Membership Interests in the MIHC will be extinguished and Eligible Policyholders will receive the consideration provided in the Plan as a result of its effectiveness. The Application shall include the following:

- (a) the Plan;
- (b) the form of notice of the Public Hearing;
- (c) the form of notice of the Members’ Meeting;
- (d) the form of ballot to be solicited from Voting Policyholders;
- (e) the information required by Section 508B.6 of the Code of Iowa (2001); and
- (f) any other information or documentation required by the Commissioner.

3.2 *Commissioner’s Public Hearing; Commissioner’s Order.* The Plan is subject to the approval of the Commissioner. The Commissioner will hold a hearing on the compliance of the Plan with all provisions of law, the fairness and equity of the terms of the Plan and on whether the Intermediate Holding Company and Principal Life will have the amount of capital and surplus necessary for their future solvency (the “Public Hearing”). The MIHC, its Members and other interested persons shall have the right to appear at the Public Hearing. The Public Hearing will occur after the Members’ Meeting.

3.3 *Notice of Public Hearing.*

(a) Written notice by the MIHC of such Public Hearing, in a form satisfactory to the Commissioner, shall be mailed by priority mail or delivered by the MIHC at the MIHC’s expense at least 30 days prior to the Public Hearing to each Voting Policyholder, and other interested persons as determined by the Commissioner. Such notice of Public Hearing shall be accompanied or preceded by information relevant to the Public Hearing, including the time, date, place and purpose of the Public Hearing, all of which shall be in a form satisfactory to the Commissioner.

(b) The MIHC shall give notice of such Public Hearing by publication once in each of The Des Moines Register, USA Today (National Edition) and The New York Times (National Edition) and by posting on the MIHC’s website. Such newspaper publications and the MIHC website posting shall be made at least 30 days prior to the Public Hearing and shall be in a form satisfactory to the Commissioner.

ARTICLE IV

APPROVAL BY POLICYHOLDERS

4.1 *Policyholder Vote.*

(a) The MIHC shall hold a special meeting of Members (the “Members’ Meeting”). At the Members’ Meeting, any Person who is (or, collectively, Persons who are) a Member on the Adoption Date (the “Voting Policyholders”) shall be entitled to vote on the proposal to approve the Restructuring by ballot or in person at the Members’ Meeting.

(b) The Restructuring is subject to the approval of not less than two-thirds of the votes of the Voting Policyholders cast thereon by ballot or in person at the Members’ Meeting.

(c) Based on Company Records, each Voting Policyholder shall be entitled to one vote pursuant to Chapter 508B and the Articles of Incorporation of the MIHC, regardless of the number of Policies or amount of insurance and benefits held by or issued to such Voting Policyholder. Two or more persons who

are the Owners of a single Policy and who are one Member shall be deemed one Voting Policyholder for purposes of voting and collectively shall be entitled to one vote.

4.2 Notice of Members' Meeting.

(a) The MIHC shall mail notice by priority mail of the Members' Meeting to all Voting Policyholders as provided herein. Such notice of Members' Meeting may be mailed together with the notice of Public Hearing pursuant to Section 3.3. The notice shall set forth the reasons for the ballot vote and the time, date and place of the Members' Meeting, and shall enclose a ballot for each Voting Policyholder. Such notice and ballot shall be mailed to the address of each Voting Policyholder as it appears on Company Records, except in instances where mailing of notice is not feasible as determined by the Commissioner. Such mailing shall be made at least 30 days prior to the Members' Meeting and shall be in a form satisfactory to the Commissioner. Such notice period for the Members' Meeting may run concurrently with the notice period for the Public Hearing provided for in Section 3.3.

(b) Such notice of the Members' Meeting shall be accompanied or preceded by information relevant to the Members' Meeting, including a copy or summary of the Plan and other explanatory information, all of which shall be in a form satisfactory to the Commissioner.

(c) The MIHC shall give notice of such Members' Meeting by publication once in each of *The Des Moines Register*, *USA Today* (National Edition) and *The New York Times* (National Edition) and by posting on the MIHC's website. Such newspaper publications and the MIHC website posting shall be made at least 30 days prior to the Members' Meeting and shall be in a form satisfactory to the Commissioner.

ARTICLE V

THE RESTRUCTURING

5.1 *Effect of Restructuring on the MIHC.* On the Effective Date, the MIHC shall be converted from a mutual insurance holding company into a stock company in accordance with Section 521A.14(5)(b) of the Code of Iowa (2001) and Chapter 508B and the Mergers shall occur in accordance with the agreement and plan of merger (the "Agreement and Plan of Merger"), the form of which is attached hereto as Exhibit A. As a result of the Conversion and the Mergers, Principal Life will become a wholly-owned subsidiary of the Intermediate Holding Company, and the Intermediate Holding Company will continue as a wholly-owned subsidiary of the Holding Company on the Effective Date. The Intermediate Holding Company, as the surviving company in the Mergers, will succeed to all of the assets, liabilities, rights, title and interests of the MIHC and the other entities in the Mergers that are not the surviving company. The forms of the Amended and Restated Certificate of Incorporation and By-Laws of the Holding Company and the forms of the Articles of Incorporation and By-Laws of the Intermediate Holding Company as shall be in effect on the Effective Date are set forth as Exhibits B, C, D and E, respectively.

5.2 Effectiveness of Plan.

(a) The effective date of the Plan (the "Effective Date") shall be the date on which the closing of the IPO occurs, which shall be a date occurring after the approval of the Plan by the Voting Policyholders and the Commissioner, *provided* that in no event shall the Effective Date be more than 12 months after the date on which the Commissioner approved or conditionally approved the Plan, unless such period is extended by the Commissioner. The Plan shall be deemed to have become effective at 12:01 a.m., Central Time, on the Effective Date.

(b) Upon the effectiveness of the Plan:

(i) The MIHC shall become a stock company by operation of Section 521A.14(5)(b) of the Code of Iowa (2001) and Chapter 508B.

(ii) All Membership Interests shall be extinguished and Eligible Policyholders shall be entitled to receive in exchange therefor shares of Common Stock, cash or Policy Credits in accordance with Article VII and subject to Section 8.3.

(iii) The Mergers shall be effective.

(iv) The Holding Company shall sell shares of Common Stock in the IPO for cash and, if applicable, shall engage or shall have engaged in one or more Other Capital Raising Transactions.

(v) The Net Cash Proceeds must, at a minimum, be sufficient to fund the Mandatory Cash Requirements in full, and the Net Cash Proceeds shall be used first for that purpose. Provided that Principal Life has not been prohibited by the Commissioner, prior to the Effective Date, from paying dividends to Principal Financial Services, Inc. in 2001 equal to its Dividend Capacity, any Net Cash Proceeds that remain after the Mandatory Cash Requirements have been funded in full shall be used next to fund the Elective Cash Requirements in accordance with Section 7.3(k). If the Net Cash Proceeds are sufficient to fund both the Mandatory Cash Requirements and the Elective Cash Requirements in full, the Holding Company may retain up to \$250 million of any Net Cash Proceeds that remain. Any remaining Net Cash Proceeds in excess of this \$250 million limit must be contributed to Principal Life. Notwithstanding the foregoing, if, prior to the Effective Date, Principal Life has been prohibited by the Commissioner from paying dividends to Principal Financial Services, Inc. in 2001 equal to its Dividend Capacity, then the amount the Holding Company is required to contribute to fund the Elective Cash Requirements shall be reduced by the lesser of: (A) the Dividend Shortfall; or (B) the extent, if any, that the aggregate of cash and cash equivalents held by the MIHC, the Holding Company, Principal Financial Services, Inc. and Principal Financial Group, Inc. on the business day immediately preceding the Effective Date is less than \$250 million.

The proceeds of any Underwriters' Over-Allotment Option shall be used first to fund (in accordance with Section 7.3(k)) that portion, if any, of the Elective Cash Requirements that is not funded in full by the Net Cash Proceeds to the extent required by the immediately preceding paragraph. The Holding Company may retain any amounts received from any Underwriters' Over-Allotment Option proceeds that are not needed to fund the Elective Cash Requirements.

The Holding Company shall contribute to the Intermediate Holding Company, and the Intermediate Holding Company shall in turn contribute to Principal Life, any Net Cash Proceeds and proceeds of any Underwriters' Over-Allotment Option that are needed to fund the Mandatory Cash Requirements or the Elective Cash Requirements. All proceeds ultimately to be contributed to Principal Life pursuant to this Section 5.2(b)(v) must be contributed not later than one business day after such proceeds are received by the Holding Company.

(vi) Principal Life shall receive from the Holding Company, solely for allocation to the separate account described in the definition of "Separate Account Policy Credit," and for no other purposes, a number of shares of Common Stock that is adequate to provide the Separate Account Policy Credits.

(c) As soon as reasonably practicable following the Effective Date, but in any event no more than 60 days (or 75 days if the Net Cash Proceeds are not sufficient to fund the Elective Cash Requirements in full) following the Effective Date, unless the Commissioner approves a later date, (i) the Holding Company shall issue to the Eligible Policyholders entitled to receive Common Stock pursuant to Section 7.3 a number of shares of Common Stock determined in accordance with Article VII registered in the respective names of such Eligible Policyholders, and (ii) Principal Life shall pay cash or credit Policy Credits to Eligible Policyholders pursuant to Section 7.3, subject in each case to Section 8.3.

(d) The Holding Company shall arrange for the listing of the Common Stock on a national securities exchange and shall use its reasonable efforts to maintain such listing for so long as the Holding Company is a publicly-traded company. Except as provided in Section 7.3(j), neither the MIHC nor the Holding Company shall have any obligation to provide a procedure for the sale of shares of Common Stock.

(e) In addition to the IPO, the Holding Company may also raise capital through one or more Other Capital Raising Transactions, as determined by the Board of Directors of the Holding Company.

The capital to be raised by the IPO or any Other Capital Raising Transaction shall be in such amounts as the Board of Directors of the Holding Company shall determine, provided that the proceeds raised in all such Other Capital Raising Transactions, together with any amounts received from any Underwriters' Over-Allotment Option with respect to any such Other Capital Raising Transactions, shall not in the aggregate exceed one-third of the total proceeds raised in any such Other Capital Raising Transactions, including any amounts received from any Underwriters' Over-Allotment Option with respect to any such Other Capital Raising Transactions, and the IPO.

The aggregate amount of any debt issued in such Other Capital Raising Transactions, together with any amounts received from any Underwriters' Over-Allotment Option with respect to any such Other Capital Raising Transactions, if applicable, shall not cause the Holding Company's Total Debt/Capitalization Ratio to exceed 25% on the date any such debt is issued.

The form, structure and terms of the IPO are subject to prior review and approval by the Commissioner.

The form, structure and terms of any Other Capital Raising Transaction are subject to prior review and approval by the Commissioner, as set forth in Section 5.2(g).

(f) The MIHC and the Holding Company shall use their best efforts to ensure that the managing underwriters for the IPO and any Other Capital Raising Transaction conduct the offering process in a manner that is generally consistent with customary practices for similar offerings. The MIHC and the Holding Company shall allow the Commissioner and the Commissioner's financial advisors reasonable access to permit them to observe the offering process. Special pricing committees of the boards of directors of the MIHC and the Holding Company shall determine the price of Common Stock offered in the IPO and any securities offered in any Other Capital Raising Transaction. These board committees shall consist entirely of Directors who are not officers or employees of the MIHC, the Holding Company, or any affiliate and no employees, officers or directors of or legal counsel to any of the underwriters for the IPO or any Other Capital Raising Transaction shall serve on such committees. Neither the MIHC nor the Holding Company will enter into an underwriting agreement for the IPO or any Other Capital Raising Transaction if it is notified that the Commissioner has not received confirmation from its financial advisors to the effect that the MIHC, the Holding Company and the underwriters for the offerings have complied in all material respects with the requirements of this Section 5.2(f). The underwriting agreements and any amendments thereto shall contain terms and provisions that are acceptable to the Commissioner. The MIHC shall provide the Commissioner with a letter, dated the date of the signing of the underwriting agreements, representing that as of that date it has complied with the foregoing requirements in this Section 5.2(f) and that it will continue to do so. On the Effective Date, the MIHC will provide the Commissioner with a letter confirming these representations as of that date.

(g) Written notice of the type and approximate amount of Other Capital Raising Transactions, if any, in which the Holding Company proposes to engage will be provided to the Commissioner.

If the Holding Company proposes to engage in an Other Capital Raising Transaction that is classified under subsections (1), (2) or (3) of the Other Capital Raising Transactions definition in Article I, the Holding Company will make reasonable efforts to provide such notice 25 days prior (but in no event shall notice be given less than 15 days prior) to the earlier of the distribution of any preliminary prospectus or preliminary offering memorandum, or commencement of the roadshow, relating to any such Other Capital Raising Transaction.

If the Holding Company proposes to engage in an Other Capital Raising Transaction that is classified under subsection (4) of the Other Capital Raising Transactions definition in Article I, the Holding Company will provide such notice no fewer than 25 days prior to the earlier of the distribution of any

preliminary prospectus or preliminary offering memorandum, or commencement of the roadshow, relating to any such Other Capital Raising Transaction.

The Holding Company will provide written notice to the Commissioner at least 10 business days prior to the earlier of the distribution of any preliminary prospectus or preliminary offering memorandum, or commencement of the roadshow, relating to any Other Capital Raising Transaction, of the approximate amount and the expected range of the offering price, interest or dividend rate, conversion or redemption price and other relevant terms of such Other Capital Raising Transaction.

During any notice period provided for in this Section 5.2(g), the Holding Company will promptly provide to the Commissioner any additional information required by the Commissioner regarding any proposed Other Capital Raising Transaction. The Commissioner may, in her sole discretion, toll the running of the applicable notice period until such time as all such information is received.

The Holding Company shall not proceed with the distribution of any preliminary prospectus or preliminary offering memorandum, or commencement of the roadshow, relating to any Other Capital Raising Transaction without the express written approval of the Commissioner.

5.3 Tax Considerations. The Plan shall not become effective and the Restructuring shall not occur, unless, on or prior to the Effective Date:

(a) The MIHC shall have obtained rulings from the Internal Revenue Service or, at the option of the MIHC, received the opinion of Debevoise & Plimpton or other nationally recognized independent tax counsel, addressed to the Board and in form and substance satisfactory to the Board, substantially to the effect that:

(i) Policies issued by Principal Life prior to the Effective Date will not be deemed newly issued, issued in exchange for existing Policies or newly purchased for any material federal income tax purpose as a result of the reorganization of the MIHC pursuant to the Plan;

(ii) With respect to any Policy issued by Principal Life prior to the Effective Date that is part of a tax-qualified retirement funding arrangement described in Section 403(b) or Section 408 or Section 408A of the Code, the consummation of the Plan, including the crediting of consideration in the form of Policy Credits to such Policy pursuant to Section 7.3, will not result in any transaction that:

(A) constitutes a distribution to the employee or beneficiary of the arrangement under Section 72 or Section 403(b)(11) of the Code, or a designated distribution, defined in Section 3405(e)(1) of the Code, that is subject to withholding under Section 3405(b) of the Code,

(B) disqualifies an individual retirement annuity policy under Section 408(e) of the Code or gives rise to a prohibited transaction under Section 4975 of the Code between the individual retirement annuity and the individual for whose benefit it is established, or his or her beneficiary,

(C) requires the imposition of a penalty for a premature distribution under Section 72(t) of the Code or a penalty for excess contributions to certain qualified retirement plans under Section 4973 or Section 4979 of the Code, or

(D) otherwise adversely affects the tax-favored status accorded such Policies under the Code or results in penalties or any other material adverse federal income tax consequences to the holders of such Policies under the Code;

(iii) With respect to any Policy issued by Principal Life prior to the Effective Date that is part of a tax-qualified pension or profit-sharing plan described in Section 401(a) or Section 403(a) of the Code and that will be credited with consideration in the form of Policy Credits pursuant to Section 7.3, the consummation of the Plan, including the crediting of such

Policy Credits, will not result in any transaction that disqualifies such plan under Section 401(a) or Section 403(a) of the Code, whichever is applicable, gives rise to a prohibited transaction under Section 4975 of the Code, or otherwise adversely affects the tax-favored status accorded such Policies under the Code or results in penalties or any other material adverse federal income tax consequences to the holders of such Policies under the Code.

(iv) Eligible Policyholders receiving solely Common Stock pursuant to Section 7.3 and Qualified Plan Customers whose Policies are credited with Separate Account Policy Credits should not recognize gain or loss for federal income tax purposes as a result of the consummation of the Plan.

(b) The MIHC shall have received an opinion of nationally recognized independent tax counsel, addressed to the Board and in form and substance satisfactory to the Board, substantially to the effect that the summary of the principal income tax consequences to Eligible Policyholders of their receipt of consideration pursuant to Section 7.3 set forth in the information provided to Voting Policyholders pursuant to Section 4.2(b), to the extent it describes matters of law or legal conclusions, is, subject to the limitations and assumptions set forth therein, an accurate summary of the material federal income tax consequences to Eligible Policyholders of the consummation of the Plan under the Federal Income Tax Law in effect on the date of the commencement of the mailing of such information to Voting Policyholders and remains accurate under the Federal Income Tax Law in effect as of the Effective Date, except for any developments between the date of the commencement of mailing and the Effective Date (i) the principal federal income tax consequences of which to Eligible Policyholders are, under the ruling or in the opinion of such counsel, accurately described in all material respects in the information provided to Voting Policyholders or (ii) that the MIHC has determined are not materially adverse to the interests of Eligible Policyholders.

5.4 *Other Opinions.* The Plan shall not become effective and the Restructuring shall not occur, unless, on or prior to the Effective Date:

(a) The MIHC shall have received an opinion of Goldman, Sachs & Co., or another nationally-recognized financial advisor, as to the fairness from a financial point of view to Eligible Policyholders, taken as a group, of the exchange of the aggregate Membership Interests for Common Stock, cash or Policy Credits in accordance with this Plan.

(b) The MIHC shall have received an opinion of Daniel J. McCarthy, F.S.A., a consulting actuary associated with Milliman & Robertson, Inc., that the principles, assumptions, and methodologies used to allocate consideration among the Eligible Policyholders are reasonable and appropriate and result in an allocation of consideration that is fair and equitable to the Eligible Policyholders.

ARTICLE VI

POLICIES

6.1 *Policies.*

(a) For the purposes of this Plan, the term “Policy” means:

(i) each original life, health or accident insurance policy or annuity contract (including each annuity contract issued to an employer funding the termination of a pension plan) that has been issued or assumed by Principal Life, *provided* that any supplementary contract issued to effect the annuitization of an individual deferred annuity shall be treated with such annuity as one Policy;

(ii) each Evidence of Insurance Coverage issued by Principal Life under a group insurance policy or group annuity contract issued to a Company Trust; and

(iii) each certificate of insurance issued by Principal Life to Persons who have exercised a portability or continuation option under any of Principal Life's group universal life insurance Policies or group long term care insurance Policies.

(b) The following policies and contracts shall be deemed not to be Policies for purposes of this Plan:

(i) except as provided in Section 6.1(a)(i), any supplementary contract or settlement option contract;

(ii) except as provided in Section 6.1(a)(ii) and (iii), any certificate or other evidence of insurance or coverage issued to an insured or an annuitant, as applicable, under a group insurance policy or group annuity contract;

(iii) any reinsurance assumed by Principal Life as a reinsurer on an indemnity basis (but assumption certificates may constitute Policies if they otherwise fall within the definition of Policies as provided in Section 6.1(a)(i));

(iv) all administrative services agreements, Funding Agreements and synthetic guaranteed investment contracts; and

(v) any policy issued by Principal Life and ceded to another insurance company via assumption reinsurance.

6.2 Determination of Ownership. The Owner of any Policy as of any date specified in the Plan shall be determined by the MIHC on the basis of Company Records as of such date in accordance with the following provisions:

(a) The Owner of a Policy shall be the holder of the Policy as shown on Company Records, as described with greater specificity in Sections 6.2(b), (c), (d) and (i).

(b) If an individual Policy contains ownership provisions and the Owner is named therein, then the Owner is the Person named as such in the Policy, as shown on Company Records.

(c) If an individual Policy does not contain ownership provisions, or contains such provisions but an Owner is not named therein, the principal Person upon whose life or health the Policy is issued, as shown on Company Records, shall be the Owner.

(d) The Owner of a Policy that is a group insurance policy or a group annuity contract shall be the Person or Persons specified in the master policy or contract as the policyholder or contractholder, unless no policyholder or contractholder is so specified, in which case the Owner shall be the Person or Persons to whom or in whose name the master policy or contract shall have been issued, as shown on Company Records, *provided* that each holder, as shown on Company Records, of Evidence of Insurance Coverage issued by Principal Life under a group insurance policy or group annuity contract issued to a Company Trust shall be deemed to be an Owner of a Policy, and such holder, and not the trustee of any such Company Trust, nor any other Person with an interest in such policy or contract, shall be deemed a Voting Policyholder, an Eligible Policyholder or an Owner, as applicable.

(e) Notwithstanding Sections 6.2(a), (b), (c) and (d), the Owner of a Policy that has been assigned to another Person by an assignment of ownership thereof absolute on its face and filed with Principal Life, in accordance with the provisions of such Policy and Principal Life's rules with respect to the absolute assignment of such Policy in effect at the time of such assignment (which rules, for purposes of this Plan, shall be approved by the Commissioner), shall be the Owner of such Policy as shown on Company Records. Unless an assignment satisfies the requirements specified for such an assignment in this Section 6.2(e), the determination of the Owner of a Policy shall be made without giving effect to such assignment.

(f) Notwithstanding Sections 6.2(a), (b), (c) and (d), with respect to a Policy that funds an employee benefit plan and that has been assigned by an assignment absolute on its face, subsequent to

the Record Date and before the Effective Date as provided above, to a trust for such plan that is qualified under Section 401(a), Section 403(a) or Section 501(c)(9) of the Code, such trust shall be deemed, for purposes of this Plan, to have been the Owner on the Record Date and as of the Effective Date for purposes of the definition of Eligible Policyholder set forth in Article I hereof.

(g) Except as otherwise set forth in this Article VI, the identity of the Owner of a Policy shall be determined without giving effect to any interest of any other Person in such Policy.

(h) In no event may there be more than one Owner of a Policy, although more than one Person may constitute a single Owner. If a Person owns a Policy with one or more other Persons, they will constitute a single Owner with respect to the Policy.

(i) In any situation not expressly covered by the foregoing provisions of this Section 6.2, the policyholder or contractholder, as reflected on Company Records, and as determined in good faith by the MIHC, shall, subject to a contrary decision by the Commissioner pursuant to Section 6.2(k), conclusively be presumed to be the Owner of such Policy for purposes of this Section 6.2 and, except for administrative errors, the MIHC shall not be required to examine or consider any other facts or circumstances.

(j) The mailing address of an Owner as of any date for purposes of the Plan shall be the Owner's last known address as shown on Company Records as of such date.

(k) Any dispute as to the identity of the Owner of a Policy or the right to vote or receive consideration shall be resolved in accordance with the provisions of this Section 6.2 and such other procedures as may be acceptable to the Commissioner.

6.3 *In Force.*

(a) A Policy shall be deemed to be in force ("In Force") as of any date if, as shown on Company Records (A) (i) such Policy has been issued and is in effect or (ii) such Policy has not been issued but (x) has an effective date on or before such date and (y) Principal Life's administrative office has received with respect to such Policy on or before such date either (xx) an application complete on its face or (yy) payment of full initial premium (or such lesser amount required by Principal Life's normal administrative procedures) and sufficient information to effect a contract of insurance according to Principal Life's normal administrative procedures for coverage to be effective, *provided* that any Policy referred to in this clause (ii) is issued as applied for, and (B) such Policy has not matured by death or otherwise or been surrendered or otherwise terminated; *provided* that a Policy shall be deemed to be In Force after lapse for nonpayment of premiums until expiration of any applicable grace period (or other similar period however designated in such Policy) or any extension of such grace period in accordance with Principal Life's normal administrative procedures, during which time the Policy is in full force for its basic benefits.

(b) In the case of any reinstated Policy, the determination of such Policy's variable component, if any, pursuant to Article VII shall be made based on the original issue date of such Policy and without regard to any lapse and reinstatement.

(c) A Policy shall not be deemed to have matured by reason of death as of any date unless verbal or written notice of such death has been received in Principal Life's administrative office on or prior to such date, as shown on Company Records. The date of the surrender or termination of a Policy shall be as shown on Company Records.

ARTICLE VII

ALLOCATION OF POLICYHOLDER CONSIDERATION

7.1 *Allocation of Allocable Shares.*

(a) The consideration to be given to Eligible Policyholders in exchange for their Membership Interests shall be shares of Common Stock, cash or Policy Credits, as provided in this Article VII. Solely for purposes of calculating the amount of such consideration, each Eligible Policyholder will be allocated (but not necessarily issued) shares of Common Stock in accordance with this Article VII.

(b) Each Eligible Policyholder shall be allocated out of the Allocable Shares a number of shares of Common Stock equal to the sum of:

(i) a fixed component of consideration equal to 100 shares of Common Stock (subject to proportional adjustment as provided in Section 8.3) regardless of how many Policies, if any, such Eligible Policyholder owns or was issued, and

(ii) a variable component of consideration consisting of a number of shares of Common Stock reflecting the portion, if any, of the Aggregate Variable Component allocated with respect to each Policy of which such Eligible Policyholder was the Owner on the Record Date, so long as such Eligible Policyholder remained a Member continuously until and on the Effective Date as reflected in Company Records. A Person who is an Eligible Policyholder by virtue of being a Member of the MIHC who was issued a Policy on or before April 8, 1980 and transferred ownership rights of such Policy on or before April 8, 1980 will not receive a variable component of consideration with respect to such Policy.

The Allocable Shares shall be allocated first to provide for the number of shares required for the aggregate fixed component of consideration allocable in respect of all Eligible Policyholders (the "Aggregate Fixed Component"), and the remainder of the Allocable Shares shall constitute the aggregate variable component of consideration (the "Aggregate Variable Component"). The Aggregate Variable Component shall be allocated in accordance with the principles set forth in Section 7.2 and the calculation of actuarial contribution described in the Actuarial Contribution Memorandum (the "Actuarial Contribution Memorandum") attached as Exhibit F.

7.2 *Allocation of Aggregate Variable Component.* The Aggregate Variable Component shall be allocated to Eligible Policyholders with respect to Policies of which they are Owners on the Actuarial Calculation Date as follows:

(a) Such allocation shall be made by multiplying each Eligible Policyholder's Actuarial Contribution by the ratio of the Aggregate Variable Component to the sum of all the Actuarial Contributions of all Policies. Each Eligible Policyholder's variable component shall be computed by summing the aforementioned calculation of said policyholder's Policies and rounding such result to the nearest integral number of shares (with one-half shares being rounded upward). Because of such rounding, the aggregate of Eligible Policyholders' variable components will not necessarily be equal to the Aggregate Variable Component. In the event the aggregate of Eligible Policyholders' variable components is different from the Aggregate Variable Component, the rounding of the Eligible Policyholders' variable components will be redone using a different criterion as to the point at or above which partial shares are rounded upward. This point will be chosen such that the aggregate of Eligible Policyholders' variable components is as large as possible while remaining not greater than the Aggregate Variable Component.

(b) The MIHC shall make reasonable determinations of the dollar amount of Actuarial Contribution, which shall be zero or a positive number according to the principles and methodologies set forth in the Actuarial Contribution Memorandum.

(c) Each such Actuarial Contribution shall be determined on the basis of Company Records as of the Actuarial Calculation Date without regard to any changes in the status of, or premiums in excess of those required on such Policies that occur subsequent to the Actuarial Calculation Date.

7.3 Distribution of Consideration.

(a) Any Eligible Policyholder other than one of those described in paragraphs (b)-(e) of this Section 7.3 shall be issued a number of shares of Common Stock equal to the number of shares allocated to such Eligible Policyholder, unless, subject to the limitations set forth in Section 7.3(k), such Eligible Policyholder has affirmatively elected, on a form provided to such Eligible Policyholder that has been properly completed and received by the MIHC on or prior to the date of the Members' Meeting referred to in Section 4.1, to receive cash.

(b) To the extent shares of Common Stock are allocable with respect to a Policy of a type described below, the Eligible Policyholder who is the Owner of such Policy shall not be issued shares of Common Stock and shall instead be credited Policy Credits (in an amount determined pursuant to Section 7.3(h)) based on the number of shares of Common Stock allocated to such Eligible Policyholder as provided in this Article VII:

(i) a Policy that is an individual retirement annuity contract within the meaning of Section 408(b) or 408A of the Code or an annuity contract under Section 403(b) of the Code;

(ii) a Policy that is an individual annuity contract that has been issued pursuant to a plan qualified under Section 401(a) or Section 403(a) of the Code directly to the plan participant;

(iii) a Policy that is an individual life insurance policy that has been issued pursuant to a plan qualified under Section 401(a) or Section 403(a) of the Code directly to the plan participant.

(c) To the extent shares of Common Stock are allocable with respect to a Policy owned by an Eligible Policyholder of a type described below, such Eligible Policyholder shall not be issued shares of Common Stock and shall instead be paid cash (in an amount determined pursuant to Section 7.3(h)) based on the number of shares of Common Stock allocated to such Eligible Policyholder as provided in this Article VII:

(i) an Eligible Policyholder whose address for mailing purposes as shown on Company Records is an address at which mail is undeliverable or deemed to be undeliverable in accordance with guidelines approved by the Commissioner, unless the Policy is one of the types described in clauses (i) through (iii) of Section 7.3(b);

(ii) an Eligible Policyholder with respect to whom the MIHC determines in good faith to the satisfaction of the Commissioner that it is not reasonably feasible or appropriate to provide consideration in the form that such Eligible Policyholder would otherwise receive, unless the Policy is one of the types described in clauses (i) through (iii) of Section 7.3(b);

(iii) an Eligible Policyholder whose address for mailing purposes as shown on Company Records is located outside the States of the United States of America, unless the Policy is one of the types described in clauses (i) through (iii) of Section 7.3(b).

(d) To the extent shares of Common Stock are allocable with respect to a Policy owned by a Qualified Plan Customer, subject to the limitations set forth in Sections 7.3(k), (l) and (m), such Qualified Plan Customer shall not be issued shares of Common Stock and shall instead be issued Separate Account Policy Credits unless such Qualified Plan Customer has affirmatively elected, on a form provided to such Qualified Plan Customer that has been properly completed and received by the MIHC on or prior to the date of the Members' Meeting, to receive Common Stock, cash or Account Value Policy Credits.

(e) To the extent shares of Common Stock are allocable with respect to a Policy owned by a Non-Rule 180 Qualified Plan Customer, subject to the limitations set forth in Section 7.3(k), such Non-

Rule 180 Qualified Plan Customer shall not be issued shares of Common Stock and shall instead be issued Account Value Policy Credits unless such Non-Rule 180 Qualified Plan Customer has affirmatively elected, on a form that has been properly completed and received by the MIHC on or prior to the date of the Members' Meeting, to receive Common Stock or cash.

(f) In the event that an Eligible Policyholder who is the Owner of more than one Policy is entitled to receive consideration under this Article VII both in the form of Policy Credits and in the form of cash or shares of Common Stock, the fixed component of consideration payable to such Eligible Policyholder shall be payable only with respect to those Policies for which cash or shares of Common Stock are paid. In the event that an Eligible Policyholder has been allocated consideration with respect to two or more Policies, all of which would be credited Policy Credits pursuant to this Section 7.3, then the fixed component of consideration shall be credited to the Policy with the earliest Policy effective date.

(g) In the event that more than one Person constitutes a single Owner of a Policy, consideration allocated pursuant to this Article VII shall be distributed jointly to such Persons.

(h) If consideration is to be paid or credited to an Eligible Policyholder in cash or Policy Credits (other than Separate Account Policy Credits), as the case may be, pursuant to the Plan, the amount of such consideration shall be equal to the number of shares of Common Stock allocable to such Eligible Policyholder as provided in this Article VII multiplied by the IPO Stock Price. If consideration is to be credited to an Eligible Policyholder in Separate Account Policy Credits, such consideration shall initially consist of an interest in the number of shares of Common Stock allocable to such Eligible Policyholder as provided in this Article VII. Principal Life shall use reasonable efforts to make payment of such consideration as soon as reasonably practicable after the Effective Date, but in any event no more than 60 days (or 75 days if the Net Cash Proceeds are not sufficient to fund the Elective Cash Requirements in full) following the Effective Date, unless the Commissioner approves a later date, net of any applicable withholding tax, by check, or by the crediting of a Policy Credit, as the case may be.

(i) As soon as reasonably practicable following the Effective Date, but in any event no more than 60 days (or 75 days if the Net Cash Proceeds are not sufficient to fund the Elective Cash Requirements in full) following the Effective Date, unless the Commissioner approves a later date, the Holding Company shall issue to each Eligible Policyholder, in book-entry form as uncertificated shares, the shares of Common Stock allocated to such Eligible Policyholder for which such Eligible Policyholder will not receive consideration from Principal Life in the form of cash or Policy Credits, and mail to each such Eligible Policyholder an appropriate notice that a designated number of shares of Common Stock have been registered in the name of such Eligible Policyholder. Upon request of the registered holder of such shares issued in book-entry form as uncertificated shares, the Holding Company shall promptly mail a stock certificate representing such shares to the registered holder.

(j) Subject to any applicable requirements of federal or state securities law, the Holding Company shall, in the unlikely event there are Eligible Policyholders who receive under the Plan 99 or fewer shares of Common Stock, establish a commission-free sales program which shall begin no sooner than the first business day after the six-month anniversary of the Effective Date and no later than the first business day after the twelve-month anniversary of the Effective Date and shall continue in either case for three months or for such longer period of time as the Board of Directors of the Holding Company may determine to be appropriate and in the best interest of the Holding Company and Eligible Policyholders. Pursuant to such program, each Eligible Policyholder who receives under the Plan 99 or fewer shares of Common Stock shall be entitled to sell at prevailing market prices all, but not less than all, the shares of Common Stock received hereunder by such Eligible Policyholder, without paying brokerage commissions, mailing charges, registration fees or other administrative or similar expenses. Each Eligible Policyholder entitled to participate in the commission-free sales program shall be entitled to purchase that number of shares of Common Stock that is equal to the number necessary in order to round up such Eligible Policyholder's holdings to 100 shares, without paying brokerage commissions, mailing charges, registration fees or other administrative or similar expenses. The Holding Company shall establish administrative procedures for the delivery of requests to sell or purchase shares of Common Stock through such program. The Holding

Company may, in its discretion, institute one or more commission-free sales programs in the future, but is not required to do so. The commission-free sale and purchase arrangements described herein shall be subject to such limitations as are agreed upon between the MIHC, the Holding Company and the Securities and Exchange Commission.

(k) If the Net Cash Proceeds and the proceeds of any Underwriters' Over-Allotment Option are not sufficient, after the Mandatory Cash Requirements are satisfied, to fund the Elective Cash Requirements in full, such amount as is available shall be distributed by Principal Life to Eligible Policyholders, in accordance with the number of shares of Common Stock allocated, beginning with the Eligible Policyholders allocated 101 shares of Common Stock and continuing to the highest level of share allocation possible at which cash or Account Value Policy Credit elections and deemed elections can be satisfied using such amount of available funds. Eligible Policyholders described in Section 7.3(a) whose cash elections cannot be satisfied shall instead receive Common Stock. Qualified Plan Customers whose cash or Account Value Policy Credit elections cannot be satisfied shall instead receive Separate Account Policy Credits. Non-Rule 180 Qualified Plan Customers whose cash elections or Account Value Policy Credit deemed elections cannot be satisfied shall instead receive Common Stock.

(l) Notwithstanding any other provisions, the amount of Separate Account Policy Credits shall be limited so that no less than 50% of the total consideration distributed pursuant to this Section 7.3 shall be in the form of Common Stock to ensure that the Restructuring qualifies as a tax-free reorganization under the Code. Such limitation shall be accomplished by calculating the total amount of Separate Account Policy Credits that may, consistent with such 50% requirement, be credited after all other payments of consideration other than in the form of Common Stock (giving effect to Section 7.3(k)) and crediting the amount available in accordance with the number of shares of Common Stock allocated, beginning with such Qualified Plan Customers allocated no more than the fixed component of consideration and continuing to the highest level of share allocation possible at which all deemed elections for Separate Account Policy Credits can be satisfied using the available amount. Eligible Policyholders whose deemed elections for Separate Account Policy Credits cannot be satisfied shall instead receive Common Stock.

(m) The availability of Separate Account Policy Credits to any particular Qualified Plan Customer shall be subject to the terms of the applicable Policy and any applicable state insurance regulatory approvals. If any particular Qualified Plan Customer is deemed to elect Separate Account Policy Credits and such Separate Account Policy Credits are not available for any of the reasons specified in the preceding sentence, such Qualified Plan Customer shall instead receive Common Stock.

7.4 ERISA Plans. The MIHC and Principal Life have applied to the Department of Labor for an exemption from Section 406(a) of ERISA and Section 4975 of the Code with respect to the receipt of consideration pursuant to the Plan by employee benefit plans subject to the provisions of such sections. Notwithstanding any other provision of the Plan, if such exemption is not received prior to the Effective Date, the MIHC shall, subject to the Commissioner's approval, either pay such consideration to such Eligible Policyholders or delay payment of such consideration to such Eligible Policyholders and may place such consideration in an escrow or similar arrangement subject to terms and conditions approved by the Commissioner. Any such escrow or arrangement shall provide for payment to Eligible Policyholders of such consideration plus interest earned thereon not later than the third anniversary of the Effective Date and all costs and expenses of such escrow or arrangement shall be borne by the MIHC or its subsidiaries.

ARTICLE VIII

ADDITIONAL PROVISIONS

8.1 Restriction on Acquisition of Securities by Officers and Directors.

(a) Subject to the limitations set forth in this Section 8.1, nothing in this Plan shall be deemed to prohibit the officers, Directors, employees, agents and employee benefit plans of the Holding Company or its subsidiaries from purchasing for cash, at the same price as offered to the public in any public offering,

Common Stock or from acquiring Common Stock as consideration pursuant to Article VII or pursuant to a transaction otherwise permitted by this Plan. Subject to the limitations set forth in this Section 8.1, nothing shall be deemed to prohibit the Holding Company, Principal Life or any direct or indirect subsidiary of the Holding Company from establishing stock option plans, stock incentive plans, stock purchase plans and share ownership plans related to the Common Stock (each, a “Holding Stock Plan”) that are customary for publicly traded companies.

(b) During the eighteen-month period immediately following the Effective Date, without the prior approval of the Commissioner, neither the Holding Company, Principal Life nor any of their affiliates shall (i) adopt any Holding Stock Plan other than the Stock Incentive Plan, the LTI Plan, the Stock Purchase Plan, the Directors Stock Plan, the Agents Savings Plan, the Employees Savings Plan, and the Excess Plan, (ii) amend any Holding Stock Plan (or, in the case of the LTI Plan and the Savings Plans, the portions thereof that relate to Common Stock), or (iii) amend any guideline related to the operation of any such Holding Stock Plan attached to the Holding Stock Plan. The immediately preceding sentence shall not preclude any amendment to each or any of the Savings Plans to make Common Stock an investment option or a deemed investment option thereunder. During the five year period immediately following the Effective Date, unless the shareholders of the Holding Company approve an increase in such number by a shareholder vote, the maximum number of shares of Common Stock that may be made issuable under all Holding Stock Plans other than the Employees Savings Plan, the Agents Savings Plan and the Stock Purchase Plan is 6% of the number of shares outstanding immediately following the Effective Date.

(c) Until six months after the Effective Date, the Holding Company shall not make any awards under the Stock Incentive Plan, the Stock Purchase Plan or the Directors Stock Plan, or distribute any Common Stock under the LTI Plan, to any Executive Officer or Director, and no Executive Officer or Director (or any parent, spouse of a parent, child, spouse of a child, spouse, brother or sister, including any step and adoptive relationships, of such Executive Officer or Director) shall purchase any Common Stock. The Holding Company shall not make any awards under the Stock Incentive Plan or the Stock Purchase Plan, or distribute any Common Stock under the LTI Plan, to any person who is not an Executive Officer or Director until at least 30 days following the Effective Date.

(d) Without limiting the generality of the foregoing, except to the extent exercisability or distribution is accelerated (i) due to the approved retirement of any person other than an Executive Officer or Director, (ii) due to the death or disability of any person (including an Executive Officer or Director) or (iii) with the approval of the Commissioner, no awards to any person under the Stock Incentive Plan or the Directors Stock Plan shall become exercisable or distributable earlier than the eighteen month anniversary of the Effective Date. For purposes of the preceding sentence, any determination regarding a recipient’s disability or approved retirement shall be made in accordance with the applicable Holding Stock Plan. No Common Stock shall be issuable to any participant under the Excess Plan earlier than the eighteen month anniversary of the Effective Date.

(e) Nothing in this Section 8.1 shall prevent the Holding Company from (i) issuing Common Stock in connection with the Employees Savings Plan or the Agents Savings Plan, (ii) matching contributions by participants to either such plan or (iii) crediting the account of any participant (including any Executive Officer) under any of the Savings Plans by reference to the value of the Common Stock. Further, except as provided in Section 8.1(b), 8.1(c) or 8.1(d), nothing in this Section 8.1 shall prevent the Holding Company from issuing Common Stock pursuant to any Holding Stock Plan.

8.2 Compensation of Directors, Officers, Agents and Employees. No Director, officer, insurance agent or employee of the MIHC or its subsidiaries shall receive any fee, commission or other valuable consideration whatsoever, other than their usual salary and compensation, for in any manner aiding, promoting or assisting in connection with the transactions contemplated by the Plan or the Mergers, except as provided for herein or as approved by the Commissioner.

8.3 *Adjustment of Share Numbers.* In order to effect a filing range (in the registration statement under the Securities Act of 1933, as amended, relating to the IPO) for the IPO Stock Price which the MIHC and the managing underwriters of the IPO deem appropriate, the MIHC may adjust, by vote of the Board or a duly authorized committee thereof at any time before the Effective Date and with the prior approval of the Commissioner, the number of shares of Common Stock set forth in the definition of Allocable Shares. Upon such an adjustment, the number of shares set forth in Section 7.1(b)(i) as the fixed component of consideration shall be adjusted proportionately. The number of shares resulting from any such adjustment shall be rounded up to the next higher integral number; *provided*, that no such adjustment will be made unless it would result, without any such rounding, in the number of Allocable Shares to be allocated in respect of each Policy as the fixed component of consideration pursuant to Section 7.1(b)(i) being an integral number.

8.4 *No Preemptive Rights.* No member of the MIHC or other Person shall have any preemptive right to acquire shares of Common Stock in connection with this Plan.

8.5 *Notices.* If the MIHC complies substantially and in good faith with the requirements of Section 521A.14(5)(b) of the Code of Iowa (2001) and Chapter 508B or the terms of the Plan with respect to the giving of any required notice to Voting Policyholders, its failure in any case to give such notice to any Person or Persons entitled thereto shall not impair the validity of the actions and proceedings taken under Section 521A.14(5)(b) of the Code of Iowa (2001) and Chapter 508B or the Plan or entitle such Person to any injunctive or other equitable relief with respect thereto.

8.6 *Amendment or Withdrawal of Plan.* At any time prior to the Effective Date, the Board may withdraw or, with the Commissioner's approval, amend, the Plan. The Plan may be amended by the Board of Directors of the Holding Company after the Effective Date with the approval of the Commissioner. However, nothing herein shall be construed to prevent the amendment of the Articles of Incorporation or By-Laws of the MIHC or the Certificate of Incorporation or By-Laws of the Holding Company at any time in accordance with their terms and with applicable law.

8.7 *Corrections.* The MIHC may, until the Effective Date, by an instrument executed by its Chairman, Chief Executive Officer or any Executive Vice President, attested by its Secretary under the MIHC's corporate seal and submitted to the Commissioner, make such modifications as are appropriate to correct errors, clarify existing items or make additions to correct manifest omissions in the Plan (including the Exhibits). The MIHC may in the same manner also make such modifications as may be required by the Commissioner after the Public Hearing as a condition of approval of the Plan. Subject to the terms of the Plan, the Holding Company may issue additional shares of Common Stock and take any other action it deems appropriate to remedy errors or miscalculations made in connection with the Plan.

8.8 *Costs and Expenses.* All reasonable costs related to the Plan and the Mergers, including without limitation, (1) those costs attributable to the use of outside advisors by the MIHC, Principal Life, the Iowa Division of Insurance or the New York Department of Insurance and (2) any costs related to any deferral of the Effective Date pursuant to Section 5.2, shall be borne by the MIHC, the Holding Company or Principal Life.

8.9 *Separate Account Voting Procedures.*

(a) Shares of Common Stock held in the separate account formed pursuant to Section 7.3(d) shall be voted in accordance with the terms of Principal Life's agreement with the independent fiduciary for such separate account, as amended from time to time, and in accordance with the terms of the plan of operation for such separate account, as amended from time to time with the prior approval of the Commissioner. These agreements shall initially provide as follows:

(i) Principal Life or its agent shall seek specific instruction from Qualified Plan Customers as to how each Qualified Plan Customer wishes to vote shares of Common Stock representing such Qualified Plan Customer's interest in the separate account formed pursuant to Section 7.3(d). Principal Life or its agent will vote shares of Common Stock in such separate account in accordance with the instructions provided by each Qualified Plan Customer.

(ii) In all shareholder votes on Routine Matters, shares of Common Stock held in the separate account formed pursuant to Section 7.3(d) representing the interest of Qualified Plan Customers who have not provided voting instructions to Principal Life or its agent, shall be voted in the same ratio as those shares of Common Stock held in such separate account for which instructions were given to Principal Life or its agent by Qualified Plan Customers as described in Section 8.9(a) (i).

(iii) In the unlikely event of a shareholder vote on a Nonroutine Matter, shares of Common Stock held in the separate account formed pursuant to Section 7.3(d) representing interests of Qualified Plan Customers who have not provided voting instructions to Principal Life or its agent, shall be voted in accordance with the instructions of an independent fiduciary for such separate account. The independent fiduciary shall instruct that such shares be voted in a way that, in the independent fiduciary's judgment, would be in the best interest of the participants and beneficiaries of the benefits plans of Qualified Plan Customers in whose interest such shares are held. The independent fiduciary shall carry out its fiduciary duties solely in the interest of the participants and beneficiaries of the plans that have invested (directly or indirectly) in the separate account formed pursuant to Section 7.3(d), in accordance with Section 404 and other provisions of Part 4 of Title I of ERISA, and pursuant to an investment policy that seeks to maximize the long-term investment returns of the separate account formed pursuant to Section 7.3(d).

8.10 *Governing Law.* The terms of the Plan shall be governed by and construed in accordance with the laws of the State of Iowa.

IN WITNESS WHEREOF, Principal Mutual Holding Company, by authority of its Board of Directors, has caused this Plan to be duly executed this 31st day of March, 2001.

PRINCIPAL MUTUAL HOLDING
COMPANY

By: /s/ J. BARRY GRISWELL
 J. Barry Griswell
 President and Chief Executive Officer

Attest:

By: /s/ JOYCE N. HOFFMAN
 Joyce N. Hoffman
 Senior Vice President and Corporate Secretary

Exhibits to the Plan

The Exhibits to the Plan are briefly summarized on the following pages and are qualified in their entirety by reference to the complete text of such Exhibits.

SUMMARY OF AGREEMENT AND PLAN OF MERGER

Article I of the Agreement and Plan of Merger provides that Principal Mutual Holding Company (the “MIHC”) will, in accordance with Section 521A.14(5)(b) and Chapter 508B of Title XIII of the Code of Iowa (2001), convert into a stock company and will be merged with and into Principal Iowa Newco, Inc. (the “Intermediate Holding Company”), with the Intermediate Holding Company as the surviving corporation. Following the merger of the MIHC with and into the Intermediate Holding Company, two current Iowa subsidiaries of the MIHC, Principal Financial Group, Inc. and Principal Financial Services, Inc., will, in accordance with Section 490.1104 of the Iowa Business Corporation Act, be merged with and into the Intermediate Holding Company, with the Intermediate Holding Company as the surviving corporation. Following the merger of Principal Financial Services, Inc. with and into the Intermediate Holding Company, the Intermediate Holding Company will change its name to Principal Financial Services, Inc. and will succeed to all of the assets, liabilities, rights title and interests of the MIHC, Principal Financial Group, Inc., and Principal Financial Services, Inc.

Article II provides that the forms of the Articles of Incorporation and By-Laws of the surviving corporation will initially be as set forth in Exhibits D and E, respectively to the Plan of Conversion of the MIHC (the “Plan of Conversion”). The directors and officers of the Intermediate Holding Company immediately prior to the mergers will be the directors and officers of the surviving corporation after the mergers until their successors are elected or appointed.

Article III provides that when the mergers become effective, the issued and outstanding shares of common stock of Principal Financial Group, Inc., an Iowa business corporation, and Principal Financial Services, Inc., an Iowa business corporation, will be cancelled and retired.

Article IV provides that the mergers will not take place unless and until certain conditions are met. These conditions include (i) the approval of the Plan of Conversion by Voting Policyholders of the MIHC, (ii) satisfaction of all conditions precedent to the Plan of Conversion, including approval of the Plan of Conversion by the Iowa Insurance Commissioner, (iii) the filing of all governmental filings necessary for the consummation of the Plan of Conversion and (iv) that there be no bona fide order, decree or injunction of any federal or state court of the United States, and there be no action taken or law enacted, promulgated or deemed applicable to the mergers by any governmental entity that would make consummation of the mergers illegal.

Article V provides that the Agreement and Plan of Merger will be governed by the laws of the State of Iowa and may be amended by an instrument in writing signed by all parties to the Agreement and Plan of Merger. All costs related to the mergers will be paid by the MIHC or Principal Financial Group, Inc., a Delaware corporation and the parent company of the Intermediate Holding Company.

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**SUMMARY OF CERTIFICATE OF INCORPORATION OF
PRINCIPAL FINANCIAL GROUP, INC.**

Principal Financial Group, Inc. (the “Holding Company”) is a corporation organized under the Delaware General Corporation Law to engage in any lawful act that a corporation may engage in under Delaware Law. The aggregate authorized shares consist of 2.5 billion shares of Common Stock, par value \$.01 per share (the “Common Stock”) and 500 million shares of Preferred Stock, par value \$.01 per share (the “Preferred Stock”). The number of authorized shares of the Common Stock and the Preferred Stock may be changed by the affirmative vote of holders of shares representing a majority of the combined voting power of the then outstanding shares entitled to vote thereon (“a majority vote of the voting stockholders”) and, irrespective of the Delaware General Corporation Law, no vote of the holders of any class of stock, voting separately as a class, will be required. The Board of Directors of the Holding Company (the “Holding Company Board”) is authorized to issue the Preferred Stock at any time in one or more series by filing a certificate of designation to establish the number of shares to be included in each of the series, and to fix the designation, powers, preferences and rights of shares of each such series and the qualifications, limitations and restrictions thereof. The Common Stock is subject to the express terms of the Preferred Stock. Holders of Common Stock cannot vote on any amendment to the Certificate of Incorporation or to a Preferred Stock Certificate of Designation that alters the rights or terms of any outstanding series of Preferred Stock if the holders of such affected series are entitled to vote thereon as a separate class. Except as may be required by law or as provided in the Certificate of Incorporation or in a Preferred Stock Certificate of Designation, Common Stock holders have the exclusive right to vote for the election of directors and for all other purposes. In addition, the Holding Company Board is authorized to create stockholder rights plans, as it may deem appropriate, and to issue and determine the terms of the rights entitling the stockholders to purchase shares or other securities from the Holding Company.

The Holding Company Board will be classified into three classes, with different expiration dates of their respective terms and with the members of each class to hold office until their successors are elected and qualified. At each annual stockholders’ meeting and subject to the rights of holders of Preferred Stock, the successors of the class of directors whose term expires at that meeting will be elected to hold office for a term of three years. Any director may be removed, but only for cause, by a majority vote of the voting stockholders. Vacancies in the Holding Company Board resulting from death, resignation, retirement, disqualification, removal from office or increases in the number of directors will be filled in the manner provided in the By-Laws of the Holding Company. The Holding Company Board will have the power without the assent of the stockholders to adopt, amend or repeal the By-Laws of the Holding Company. The stockholders may adopt, amend or repeal any provision of the By-Laws upon the affirmative vote of three-fourths ($\frac{3}{4}$) or more of the combined voting power of the then outstanding shares entitled to vote generally in the election of Directors.

To the fullest extent permitted under the Delaware General Corporation Law, no director of the Holding Company will be personally liable to the Holding Company or its stockholders for monetary damages for any breach of fiduciary duties as a director. No repeal or modification of this exemption from liability will adversely affect any right or protection of the directors and officers existing at the time of such repeal or modification.

Pursuant to Section 13 of Chapter 508B of Title XIII of the Code of Iowa (2001), no person may, without the prior approval of the Insurance Commissioner of the State of Iowa and the Holding Company Board, directly or indirectly acquire or offer to acquire five percent or more of any class of voting security of the Holding Company until the fifth anniversary of the Effective Date of the conversion of Principal Mutual Holding Company from a mutual insurance holding company into a stock company pursuant to the Plan of Conversion adopted March 31, 2001.

Any action required to be taken by the stockholders must be taken at a duly called stockholders' meeting and no stockholder action can be taken by means of written consent. The Holding Company Board may amend or repeal the Certificate of Incorporation in the manner prescribed by Delaware law. The provisions of the Certificate of Incorporation that set forth the duties, election and exculpation from liability of directors, that prohibit stockholders from acting by written consent and that refer to the prohibition on the acquisition of securities may only be amended or repealed by the affirmative vote of the holders of at least three-fourths of the then outstanding shares entitled to vote in the election of directors.

SUMMARY OF BY-LAWS OF PRINCIPAL FINANCIAL GROUP, INC.

The annual stockholders' meeting of Principal Financial Group, Inc. (the "Holding Company") for the election of directors and for the transaction of other business will be held at such place, or by remote electronic communication technologies, and at such date and time as may be fixed by the Board of Directors of the Holding Company (the "Holding Company Board"). A special meeting of stockholders may be called at any time by the Chairman of the Board, the Chief Executive Officer (or, in the event of his or her absence or disability, by the President or any Executive Vice President) or by the Holding Company Board. No stockholder may call a special stockholders' meeting. Except as otherwise required by law or the Holding Company's Certificate of Incorporation, the presence in person or by proxy of one-third of the shares entitled to vote at a stockholders' meeting constitutes a quorum for the transaction of business of the Holding Company. Except as otherwise required by law, the Holding Company's Certificate of Incorporation or the By-Laws, a vote of a majority of the shares represented at any meeting where a quorum is present will be sufficient for the transaction of business at any meeting. No stockholder action can be taken by a written consent of the stockholders without a meeting. Every share entitles its holder to one vote and any stockholder entitled to vote may vote by proxy.

For nominations of director candidates or other business to be brought before an annual meeting by a stockholder, a notice in writing or by electronic transmission must be delivered to the Secretary of the Corporation at the Holding Company's principal executive office not fewer than 90 days nor more than 120 days before the first anniversary of the date of the previous year's annual meeting. If no annual meeting was held in the previous year or the date of the annual meeting was advanced by more than 30 days or delayed by more than 70 days from the anniversary date of the previous meeting, the notice must be received on or before the later of 120 days before the annual meeting or the tenth day following the date on which the meeting was publicly announced. The notice must set forth, among other matters, specific information regarding a candidate nominated by the stockholders for election to the Holding Company Board and a brief description of any other business and the reasons for proposing to bring such business before the meeting. Nominations of persons for election to the Holding Company Board and proposals of business to be considered by the stockholders at any annual meeting of stockholders may only be made by or at the direction of the Holding Company Board or the Chairman of the Board, or by any Holding Company stockholder who is entitled to vote at such annual meeting and who complies with the applicable requirements of the Securities Exchange Act of 1934, as amended, and the notice procedures mentioned in the By-Laws. If directors are to be elected at a special meeting of stockholders pursuant to the notice of meeting, nominations for election as directors may be made by the Holding Company Board or any Holding Company stockholder who is entitled to vote at such special meeting and who complies with the notice procedures mentioned in the By-Laws.

Subject to the rights of holders of any class or series of Preferred Stock, the Holding Company Board will fix the number of directors by resolution adopted by a majority of the Holding Company Board. There must be at least three directors. The directors of the Holding Company Board will be classified into three classes, with different expiration dates of their respective terms. Special meetings of the Holding Company Board will be held whenever called by the Chairman of the Board, the Chief Executive Officer (or, in the event of his or her absence or disability, by the President or any Executive Vice President) or the Holding Company Board. Special meetings of the Holding Company Board also may be held whenever called pursuant to a resolution approved by a majority of the entire Holding Company Board. A majority of the total authorized number of the directors will constitute a quorum for the transaction of business. Except as otherwise required by law, a vote of at least a majority of the directors present at any meeting at which a quorum is present will be the act of the Holding Company Board. Any action required or permitted to be taken at any Holding Company Board meeting may be taken without a meeting if all directors consent to the action in writing or by electronic transmission and the consent is filed with the minutes of proceedings of the Holding Company Board. Subject to the rights of the holders of Preferred Stock, if any, to elect additional directors under special circumstances, any director may be removed, but only for cause at any

time by a vote of holders of a majority of the outstanding shares of Common Stock. Subject to the rights of the holders of Preferred Stock, any vacancy on the Holding Company Board occurring by reason of death, resignation, or removal of any director or an increase in the number of directors may be filled by a majority of the directors then in office, although less than a quorum. Any director filling a vacancy shall be of the same class as that of his or her predecessor, and any director filling a newly created directorship shall be of the class as specified for the newly created directorship. Any such newly elected director will hold office until his or her successor has been elected and qualified. The compensation of directors will be determined by resolution of the Holding Company Board.

The Holding Company Board will have an Executive Committee consisting of five directors. To the extent permitted by law and except when the Holding Company Board is in session, the Executive Committee shall have all the powers of the Holding Company Board. Other committees may be established by resolution adopted by the affirmative vote of a majority of the directors then in office. Any other committee will serve at the pleasure of the Holding Company Board and will consist of such number of directors as may be fixed by the Holding Company Board. Except as may be otherwise provided in the resolution creating such committee, the presence of a majority of the members (or alternate members) of any committee will constitute a quorum for the transaction of business.

The Holding Company Board will elect a Chairman of the Board, a Chief Executive Officer and a Secretary of the Corporation. The Holding Company Board may elect or appoint other officers as may be deemed necessary and may also authorize the Holding Company to elect or appoint other officers. Any officer may be removed for or without cause at any time by the Holding Company Board and officers elected or appointed by the Holding Company pursuant to authorization of the Holding Company Board may also be removed for or without cause at any time by the Holding Company. The salaries of all principal officers will be fixed by or pursuant to authorization of the Holding Company Board.

The shares of the Holding Company will be represented by certificates, provided that the Holding Company Board may provide by resolution that some or all of any classes or series of the Holding Company's stock will be uncertificated shares.

The Holding Company will indemnify directors and officers of the Holding Company and of certain other entities, against suits or proceedings, whether civil, criminal, administrative or investigative, provided that, among other things, such directors and officers acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the Holding Company; except that in the case of an action or suit by the Holding Company, this indemnification shall be limited to expenses actually and reasonably incurred by such person in defense or settlement of such action or suit and shall be subject to the condition that such person has not been adjudged to be liable to the Holding Company (unless the court in which such action or suit is brought determines that such person is entitled to indemnification). The Holding Company may purchase and maintain insurance on behalf of the directors, officers, employees and agents of the Holding Company or of certain other entities against any liability arising out of their status as director, officer, employee or agent.

Subject to any applicable law and the Certificate of Incorporation, dividends may be declared by the Holding Company Board and may be paid in cash, property or shares of the Holding Company's capital stock.

The By-Laws may be amended or repealed by a majority of the Holding Company Board or by an affirmative vote of the holders of at least three-fourths of the combined voting power of the outstanding shares of the Holding Company.

The Certificate of Incorporation will control over the By-Laws in the event of any conflict.

**SUMMARY OF ARTICLES OF INCORPORATION OF PRINCIPAL IOWA
NEWCO, INC.**

Principal Iowa Newco, Inc. (the “Intermediate Holding Company”) is a corporation organized pursuant to section 202 of Chapter 490 of Title XII of the Code of Iowa (2001) for the transaction of any and all lawful business for which corporations may be organized under Chapter 490 of Title XII of the Code of Iowa (2001). The aggregate authorized shares consist of 25,000 shares of Common Stock, par value \$.01 per share (the “Common Stock”) and 25,000 shares of Preferred Stock, par value \$.01 per share (the “Preferred Stock”). The Board of Directors of the Intermediate Holding Company (the “Intermediate Holding Company Board”) is authorized to issue the Preferred Stock at any time in one or more series and, to the fullest extent permitted by law, to fix the voting powers, if any, and such designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof that may be desired. The Common Stock is subject to the express terms of the Preferred Stock. Except as may be required by law or by resolutions of the Intermediate Holding Company Board, holders of Common Stock have the exclusive right to vote for the election of directors and for all other purposes. No shareholder is entitled to exercise any right of cumulative voting. No shareholder will have any preemptive or preferential right, or be entitled as a matter of right, to subscribe for or purchase any part of any additional issue of stock of the Intermediate Holding Company or any issue of securities convertible into stock of the Intermediate Holding Company. The Intermediate Holding Company will be entitled to treat the person in whose name any share of the Intermediate Holding Company’s stock is registered as the owner of such stock.

The Intermediate Holding Company Board will be elected in the manner described in the Articles of Incorporation and the By-Laws of the Intermediate Holding Company. Subject to the rights of the holders of any class or series of Preferred Stock, if any, the number of directors shall be fixed exclusively pursuant to a resolution adopted by a majority of the entire Intermediate Holding Company Board, though at no time shall such number be less than three. Further subject to the rights of the holders of any class or series of Preferred Stock, if any, the Intermediate Holding Company Board will be classified into three classes, with different expiration dates of their respective terms and with the members of each class to hold office until their successors are elected and qualified. At each succeeding annual meeting of shareholders following the initial classification and election, the successors of the class of directors whose term expires at that meeting will be elected to hold office for a term of three years. Any director may be removed, but only for cause and subject to the rights of any holders of shares of any class or series of Preferred Stock to elect additional directors under specified circumstances, by a majority vote of the combined voting power of the then outstanding stock of the corporation entitled to vote generally in the election of directors. Except for certain members of the Intermediate Holding Company Board who were directors of Principal Mutual Life Insurance Company, no director’s term of office shall extend beyond the next annual meeting following the date such director attains the age of 70 or any younger age as established for all directors by the Intermediate Holding Company Board. Vacancies in the Intermediate Holding Company Board resulting from death, resignation, retirement, disqualification, removal from office or increases in the number of directors will be filled in the manner provided in the By-Laws of the Intermediate Holding Company.

The corporate powers of the Intermediate Holding Company will be exercised by the Board of Directors and such officers and agents as the Intermediate Holding Company Board may authorize, elect or appoint, except as provided by law, the Articles of Incorporation or the By-Laws of the Intermediate Holding Company. The Intermediate Holding Company Board will have the power, without the assent of the shareholders, to adopt, amend, alter or repeal the By-Laws, rules and regulations of the Intermediate Holding Company. When determining the best interest of the Intermediate Holding Company with respect to any proposal of acquisition, merger or consolidation, a director may consider a series of community interest factors in addition to consideration of the effects of any action on shareholders. These factors include: the interests of the policyholders of the Intermediate Holding Company’s subsidiary; the effects of

the action on the Intermediate Holding Company's employees, suppliers, creditors and customers; the effects of the action on the communities in which the Intermediate Holding Company or its subsidiaries operate; and the long-term as well as short-term interest of the Intermediate Holding Company and its shareholders.

The Intermediate Holding Company shall indemnify directors, officers, employees and agents of the Intermediate Holding Company as provided by Iowa law, subject to such limitations as may be established by the Board of Directors. No repeal or modification of this indemnity will adversely affect any right of indemnification of a director, officer, employee or agent of the Intermediate Holding Company existing at or prior to the time of such repeal or modification.

To the maximum extent permitted under Iowa law, no director of the Intermediate Holding Company will be personally liable to the Intermediate Holding Company or its shareholders for monetary damages for any breach of fiduciary duty as a director except for (i) breaches of the director's duty of loyalty to the corporation or its shareholders, (ii) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law or (iii) transactions from which the director derives an improper personal benefit. No repeal or modification of this exemption from liability will adversely affect any right or protection of the directors existing at or prior to the time of such repeal or modification.

The Intermediate Holding Company may amend, alter, change or repeal any provision contained in the Articles of Incorporation in conformity with Iowa law, and all rights conferred by the Articles of Incorporation upon shareholders or directors are subject to this reservation.

SUMMARY OF BY-LAWS OF PRINCIPAL IOWA NEWCO, INC.

The annual meeting of shareholders of Principal Iowa Newco, Inc. (the “Intermediate Holding Company”) for the election of directors and for the transaction of other business will be held at such place and at such date and time as may be fixed by the Board of Directors of the Intermediate Holding Company (the “Intermediate Holding Company Board”). A special meeting of shareholders may be called for any purpose by the Chairman of the Board, the Chief Executive Officer (or in the event of his or her absence or disability, by the President or any Executive Vice President), by the Intermediate Holding Company Board or by a signed written demand of at least 10% of the holders of all votes entitled to be cast at the meeting. A majority of the votes entitled to be cast on a matter by a voting group constitutes a quorum of that voting group for action on the matter unless otherwise required by law. If a quorum exists, action by a voting group on a matter, other than the election of directors, is approved if the votes cast within the voting group favoring the action exceed the votes cast opposing the action, unless a greater number is required by law. Unless otherwise provided by law, directors in each class shall be elected by a plurality of the votes cast at a meeting where a quorum is present. Every shareholder entitled to vote may vote by proxy. Shareholders will not have the right to cumulate their votes for directors unless the Articles of Incorporation provide such right.

The time, date and place of any special meeting will be determined by the Intermediate Holding Company Board or, at its direction, by the Chief Executive Officer. Notice of the place, date and time of all shareholder meetings, and the purpose of any special meeting, must be communicated to shareholders entitled to vote at such a meeting not less than 10 nor more than 60 days before the date of the shareholder meeting. If notice of a proposed corporate action is required by law to be given to shareholders not entitled to vote, the Intermediate Holding Company will give all shareholders the required statutory notice of the proposed action at least 10 days before the action is taken.

Nominations of persons for election for the Intermediate Holding Company Board and proposals of business to be considered by shareholders at any annual meeting of shareholders may only be made by, or at the direction of, the Board of Directors or the Chairman of the Board, or by any Intermediate Holding Company shareholder who is entitled to vote at such annual meeting and who complies with the notice procedures mentioned in the By-Laws. For nominations of candidates for director or other business to be brought before an annual meeting by a shareholder, notice in writing must be delivered to the Secretary of the Corporation at the Intermediate Holding Company’s principal executive offices not fewer than 90 nor more than 120 days prior to the first anniversary of the preceding year’s annual meeting. If the date of the annual meeting was advanced by more than 20 days or delayed by more than 70 days from the anniversary date of the previous meeting, the notice must be received no earlier than 120 days before such annual meeting and no later than the close of business on the later of the 90th day before such annual meeting or the 10th day following the day on which the public announcement of such annual meeting is first made. If the number of directors to be elected to the Board of Directors is increased and there is no public announcement made by the Intermediate Holding Company at least 100 days before the first anniversary of the preceding year’s annual meeting in which the Intermediate Holding Company names all of the nominees for director or specifies the size of the increased Board of Directors, a shareholder may provide notice with respect to nominees for the new positions created by the increase in the size of the Board of Directors no later than the close of business on the 10th day following the day on which a public announcement is first made by the Intermediate Holding Company. The notice must set forth, among other matters, specific information regarding a candidate nominated by the shareholder for election to the Intermediate Holding Company Board and a brief description of the business and the reasons for proposing to bring such business before the annual meeting. The shareholder providing notice must be a shareholder of record at the time notice was delivered to the Secretary of the Corporation. If directors are to be elected at a special meeting of shareholders pursuant to the notice of meeting, nominations for election as directors may be made by the Intermediate Holding Company Board or by any Intermediate Holding

Company shareholder who is entitled to vote at such special meeting and who complies with the notice procedures mentioned in the By-Laws.

Except otherwise provided by law, the Articles of Incorporation or the By-Laws, the chairman of the annual or special meeting will have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with all procedures listed in the By-Laws.

Any action required or permitted to be taken at a meeting of shareholders of the Intermediate Holding Company may also be taken without a meeting, and without notice, if the holders of at least 90% of the outstanding shares entitled to vote on the action consent in writing to the action, and deliver such signed and dated consent to the Intermediate Holding Company for inclusion in the minutes or filing with the corporate records of the Intermediate Holding Company. However, a director may not be removed by written consent unless written consents are obtained from the holders of all of the outstanding shares of the Intermediate Holding Company entitled to vote on the removal of the director. All required written consents must be obtained within 60 days from the date of the earliest dated consent for the consents to be effective to take corporate action.

The Intermediate Holding Company Board will fix the number of directors by resolution adopted by a majority of the Intermediate Holding Company Board. There must be at least three directors. The directors of the Intermediate Holding Company Board will be classified into three classes, with different expiration dates of their respective terms. Regular meetings of the Board of Directors will be held in each calendar quarter at such place and time as the Board of Directors may fix, though the meeting of the Board of Directors in the second quarter will be held on the date and at the place of the annual meeting of shareholders of the Intermediate Holding Company. Special Meetings of the Intermediate Holding Company Board will be held whenever called by the Chairman of the Board, the Chief Executive Officer (or, in the event of his or her absence or disability, by the President or any Executive Vice President) or pursuant to resolution approved by a majority of the Board of Directors. A majority of the total authorized number of the directors will constitute a quorum for the transaction of business. Any action required or permitted to be taken at any Intermediate Holding Company Board meeting may be taken without a meeting if all directors consent to the action in writing and the consent is included in the minutes or filed with the corporate records reflecting the action taken.

The Intermediate Holding Company Board will elect a Chairman of the Board from among the directors to act as an officer of the Board of Directors. The Chairman of the Board will have the powers and will perform the duties assigned to him or her by the By-Laws or by the Board of Directors.

Subject to any applicable law and the Articles of Incorporation, dividends may be declared by the Intermediate Holding Company Board and may be paid in cash or property.

The Intermediate Holding Company Board will have an Executive Committee consisting of five directors. Other committees may be established by resolution adopted by the affirmative vote of a majority of the directors then in office. To the extent permitted by law, the Executive Committee may exercise all of the power of the Intermediate Holding Company Board, except when the Intermediate Holding Company's Board is in session. Any other committee will serve at the pleasure of the Intermediate Holding Company Board and will consist of such number of directors as may be fixed by the Intermediate Holding Company Board.

The Intermediate Holding Company Board will elect a Chief Executive Officer and a Secretary of the Corporation. The Intermediate Holding Company Board may elect or appoint other officers as may be deemed necessary and may authorize the Intermediate Holding Company to elect or appoint other officers. Officers elected by the Board of Directors will serve at the pleasure of the Board of Directors and any officers elected or appointed by the Intermediate Holding Company pursuant to authorization of the Intermediate Holding Company Board will serve at the pleasure of the Intermediate Holding Company. The salaries of all officers will be fixed by or pursuant to authorization of the Intermediate Holding Company Board.

The Intermediate Holding Company Board may authorize the issuance of shares after making a determination that the consideration received or to be received for the shares to be issued is adequate. Every shareholder will be entitled to a certificate certifying the number and class of shares of the Intermediate Holding Company owned by the shareholder. The Secretary of the Corporation, or other officer, employee or agent designated by the Board of Directors, will keep a record of the name and address of each shareholder of the Intermediate Holding Company and information concerning the share ownership of each shareholder. The Board of Directors may make other rules and regulations concerning the issue, transfer and registration of certificates for shares of the capital stock of the Intermediate Holding Company as it deems expedient and not inconsistent with law.

The Chief Executive Officer and the President are authorized and empowered on behalf of the Intermediate Holding Company to attend and vote, or to grant discretionary proxies to be used, at any meeting of shareholders of any corporation in which the Intermediate Holding Company owns shares of stock. The Chief Executive Officer and the President are also authorized to execute a waiver of notice of any such meeting or a written consent to action without a meeting. The Board of Directors may modify, alter or repeal such authority by resolution. The Board of Directors will have authority to designate any officer or person as a proxy or attorney-in-fact to vote shares of stock in any other corporation in which the Intermediate Holding Company owns or holds shares of stock.

The Intermediate Holding Company will indemnify, or authorize the officers of the Intermediate Holding Company to indemnify, directly or through insurance coverage, all directors, officers, employees or other representatives of the Intermediate Holding Company, and that person's heirs and legal representatives, against all damages, awards, costs and expenses reasonably incurred or imposed in connection with or resulting from any action, suit or proceeding, or the settlement of such action, suit or proceeding, to which such person is or may be made a party by reason of being or having been a director, officer, employee or other representative of the Intermediate Holding Company or by reason of service at the request of the Intermediate Holding Company in any capacity with another entity or organization. These rights or indemnifications are subject to any limitations established by the Board of Directors, as permitted by law.

The By-Laws may be amended, altered or repealed by the Board of Directors at any meeting of the Board of Directors if written notice expressing the substance of the proposed changes has been given to each director at least two days prior to the date of the meeting of the Board of Directors. A director may waive the preceding notice requirement. The By-Laws may also be amended, altered or repealed by the shareholders of the Intermediate Holding Company as provided in the Articles of Incorporation of the Intermediate Holding Company.

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SUMMARY OF ACTUARIAL CONTRIBUTION MEMORANDUM

The Actuarial Contribution (“AC”) of each Policy is used in the calculation of its Variable Component of consideration as described in Section 7.2 of Article VII of the Plan of Conversion (“Plan”). The Actuarial Contribution Memorandum (Exhibit F of the Plan) describes the methodology for calculating the AC of each Policy owned by an Eligible Policyholder pursuant to Article VII of the Plan.

The AC of a Policy is the accumulated contribution that Policy is estimated to have made in the past (“historical AC”) to the surplus of Principal Life (“the Company”) plus the present value of the contribution that the same policy is expected to make in the future (“prospective AC”), with such values determined as of March 31, 2000, which is the Actuarial Calculation Date, or “AC Date.” The historical AC period was assumed to end at the AC Date, and the prospective AC period was assumed to begin at the AC Date, except that for Policies in the Closed Block, the historical period ended on June 30, 1998, and the prospective period began on July 1, 1998, the date that the Closed Block was established.

Conceptually, each Policy’s contribution to surplus in each year equals the excess of premiums, investment income, and capital gains less capital losses over benefits, policy dividends, commissions, expenses, and taxes.

The Company used either a modeling approach or a case-by-case approach, as appropriate, for purposes of determining the ACs for Policies. For some Policies, a case-by-case approach was used to develop all or a portion of the historical AC and a modeling approach was used to develop the prospective AC.

Under the modeling approach, a model of representative plans, issue years, and, in some situations, issue ages, gender, risk classes and other factors was created to develop historical and/or prospective contributions to surplus. Each of the plan/issue year/issue age/etc. combinations is called a model “cell.” For each model cell, year-by-year historical contributions to surplus were determined and accumulated with interest to the AC Date to arrive at the historical AC. Similarly, future expected annual contributions to surplus were determined and discounted to that same date to arrive at the prospective AC. The sum of the historical and prospective ACs equals the AC for that model cell. The ACs for the model cells were then used to determine the ACs for the Policies.

Under the case-by-case approach, the year-by-year history of each Policy in a line of business was taken into account, so that specific contribution-to-surplus calculations were made for each Policy. As under the modeling approach, year-by-year historical contributions to surplus were determined and accumulated with interest to the AC Date to arrive at the historical AC, and prospective annual contributions to surplus were determined and discounted to the AC Date to arrive at the prospective AC. The sum of a Policy’s historical and prospective ACs at the AC Date equals the AC for the Policy.

For purposes of the AC calculations, lines of business were established by first following the lines of business in the statutory Annual Statements filed with insurance regulators (“Annual Statements”), and then creating subdivisions as needed to deal with product groupings that differ from each other significantly in terms of product characteristics. In defining product groupings for purposes of AC calculations, the Company’s past practices in managing the business were followed to the greatest extent practicable.

The information required for these calculations came from a variety of proprietary files and reports, including policy records maintained in electronic media, internal analyses and memoranda, and also from public documents such as Annual Statements. Information obtained from these sources, either at the policy level or in the aggregate, was used where credible. To the extent that data were not available or were not credible in certain instances, reasonable approximations were made to estimate missing data.

The Company’s past financial results were analyzed to develop assumptions for use under both the modeling approach and the case-by-case approach. In general, the historical experience factors for taxes,

expenses and investment returns (investment income and capital gains less capital losses) were developed based on the results contained in the Company's Annual Statements, and were consistent across lines of business. The prospective assumptions for taxes, expenses and investment returns reflected recent experience. These historical and prospective assumptions were developed to be consistent with the Company's financial management practices.

In calculating ACs, contribution to surplus was determined only for Policies that were In Force as of the AC Date. However, in some cases, such Policies were considered to be continuations of policies that they replaced. In such cases, the contribution to surplus of the prior policy was considered to be part of the experience of the current Policy in determining the current Policy's AC. Consistent with the actuarial standards of practice, the financial management of each line of business was examined to determine when a current Policy should be deemed to be a continuation of a prior policy for purposes of determining ACs. This approach for determining contributions to surplus is consistent with the approach taken in the Demutualizations of other large U.S. life insurers.

There is a separate section of the Actuarial Contribution Memorandum which describes the methodology and assumptions for each of the following lines of business:

- (1) Individual Life Insurance — Policies in the Closed Block
- (2) Individual Life Insurance — Policies Not in the Closed Block
- (3) Individual Annuities
- (4) Individual Health Insurance
- (5) Group Annuities
- (6) Group Life and Health Insurance

For the individual life, individual annuity and individual health product lines, the methodology began with the development of actuarial models of the business, used in all cases for prospective ACs and in some cases for historical ACs as well. For certain individual life product lines and the individual annuity line, a case-by-case approach was used for the all or part of the calculation of historical ACs. For individual health, a modeling approach was used for both the prospective and historical ACs.

Where models were used, they were based on policy characteristics (e.g., issue year, issue age, cash value, benefit, premium-paying status, dividends, benefits, etc.) and experience factors or assumptions were developed for the various items affecting contributions to surplus, such as mortality, morbidity, investment income, expenses and taxes. The ACs for the model cells (either historical, prospective, or both) were expressed as functions of policy values (e.g., premiums or face amount) to develop factors for the model cells. These factors were used to develop corresponding AC factors for Policies in the class represented by each model, generally by interpolation among factors for the model cells. ACs for a Policy were developed by multiplying the Policy's AC factor by the appropriate policy value.

A case-by-case approach was used to determine the ACs for each group annuity contract and for each group life and group health policy. Under this approach, historical financial management practices used in managing the different group lines were reflected through a set of factors, which expressed various sources of contribution to surplus (such as margins from interest, mortality, morbidity and expense) or the total net profit (from all sources) as a function of contract values. These factors were multiplied by the appropriate contract values, and then accumulated or discounted to the AC Date to determine the AC for each Policy.

Under both the case-by-case method and the modeling method, the rates used to accumulate the historical contributions to surplus to the AC Date were set equal to the after-tax historical investment income rates for each product grouping, adjusted to remove the effect of policy loans, and excluding separate account performance.

Prospective contributions to surplus were discounted to the AC Date at risk-adjusted rates of return appropriate for the lines of business involved. In general, two rates were used — one for Policies in the Closed Block and another for all other Policies. The two risk-adjusted rates of return were selected so as to be generally proportionate to the rates of return on equity (ROE) that the Company has established as targets for its lines of business, as validated in comparison to actual ROE rates that have been achieved in the recent past.

The AC for a Policy was the sum of its historical and prospective ACs. In all cases, if the AC of a Policy was negative, it was set to zero.

The Actuarial Contribution Memorandum was completed in accordance with the principles set forth in Article VII of the Plan and was approved by the MIHC's Board of Directors as part of the Plan.

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**SUMMARY OF PRIVATE LETTER RULINGS OBTAINED
FROM THE INTERNAL REVENUE SERVICE**

Principal Mutual Holding Company (the “MIHC”) has obtained private letter rulings from the Internal Revenue Service regarding certain federal income tax consequences of the Plan of Conversion. Among other matters, those rulings provide that:

1. The conversion of the MIHC from a mutual to a stock company will not have any effect on the date that any annuity contract, accident or health insurance policy or life insurance policy (each a “Policy”) issued by Principal Life Insurance Company (“Principal Life”) prior to the Effective Date of the Plan of Conversion is, or is deemed to have been, issued, purchased or entered into for purposes of sections 72(e)(4)-(5), 72(e)(10)-(11), 72(q), 72(s), 72(u), 72(v), 101(f), 264(a)(1), 264(a)(3)-(4), 264(f), 7702, 7702A or 7702B of the Internal Revenue Code (the “Code”) and will not require retesting or the start of a new test period under section 264(d)(1), 7702(f)(7)(B)-(E) or 7702A of the Code.
2. For Policies that are tax-sheltered annuities, individual retirement annuities or individual life insurance policies or annuity contracts issued to participants in qualified retirement plans, or group annuity contracts that are part of a tax-qualified pension or profit-sharing plan described in Section 401(a) or Section 403(a) of the Code, the crediting of compensation in the form of Policy Credits (as defined in the Plan of Conversion) will not:
 - be treated as a distribution in violation of Section 403(b)(11) that would cause a tax-sheltered annuity to fail to qualify as a “tax-sheltered annuity” described in Section 403(b) of the Code;
 - be treated as a distribution from or contribution to such retirement arrangements and therefore will not result in the imposition of (i) income taxes under Section 72(e) of the Code, (ii) the 10 percent penalty tax under Section 72(t) of the Code or (iii) taxes on excess contributions under Section 4973 or Section 4979 of the Code;
 - result in current taxable income to contractholders but will be includible in the taxable income of the distributees in the actual year of distribution; or
 - constitute designated distributions within the meaning of section 3405(d)(1)(A) of the Code or be subject to any withholding requirement pursuant to section 3405(b) of the Code.
3. Policy Credits will be treated as investment earnings under the Policies.
4. The conversion of the MIHC from a mutual insurance holding company to a stock company will be treated as a “recapitalization” within the meaning of section 368(a)(1)(E) of the Code.
5. The merger of the MIHC into Principal Iowa Newco, Inc. will not be prevented from qualifying as a “reorganization” within the meaning of section 368(a)(1)(A) or section 368(a)(2)(D) of the Code by reason of the MIHC’s status as a “mutual insurance holding company” until immediately prior to such merger.

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**GUIDELINES FOR CARD 3 — CERTIFICATION OF TAXPAYER
IDENTIFICATION NUMBER ON SUBSTITUTE FORM W-9**

GUIDELINES FOR DETERMINING THE PROPER IDENTIFICATION NUMBER TO GIVE THE PAYER — Social Security numbers have nine digits separated by two hyphens: e.g., 000-00-0000. Employer identification numbers have nine digits separated by only one hyphen: e.g., 00-0000000. The table below will help determine the number to give the payer.

For this type of account:	Give the TAXPAYER IDENTIFICATION number of —	For this type of account:	Give the TAXPAYER IDENTIFICATION number of —
1. An individual's account	The individual	6. A valid trust, estate, or pension trust	The legal entity (Do not furnish the identifying number of the personal representative or trustee unless the legal entity itself is not designated in the account title) (4)
2. Two or more individuals (joint account)	The actual owner of the account or, if combined funds, the first individual on the account(1)	7. Corporate account	The corporation
3. Custodian account of a minor (Uniform Gift to Minors Act)	The minor(2)	8. Religious, charitable, or educational organization account	The organization
4. a. The usual revocable trust (grantor is also trustee)	The grantor-trustee(1)	9. Partnership account	The partnership
b. So-called trust account that is not a legal or valid trust under state law	The actual owner(1)	10. Association, club, or other tax-exempt organization	The organization
5. Sole proprietorship	The owner(3)	11. A broker or registered nominee	The broker or nominee
		12. Account with the Department of Agriculture in the name of a public entity (such as a state or local government, school district, or prison) that receives agricultural program payments	The public entity

- (1) List first and circle the name of the person whose number you furnish. If only one person on a joint account has an SSN, that person's number must be furnished.
- (2) Circle the minor's name and furnish the minor's social security number.
- (3) Show your individual name. Below your individual name, enter your business or "doing business as" name if you have one. You may use either your social security number or your business's employer identification number.
- (4) List first and circle the name of the legal trust, estate, or pension trust.

NOTE: If no name is circled when there is more than one name listed, the number will be considered to be that of the first name listed.

**GUIDELINES FOR CARD 3 — CERTIFICATION OF TAXPAYER IDENTIFICATION
NUMBER ON SUBSTITUTE FORM W-9
PAGE 2**

Note: Section references are to the Internal Revenue Code unless otherwise noted.

Obtaining a Number

If you do not have a taxpayer identification number or you don't know your number, obtain Form SS-5, Application for a Social Security Number Card (for individuals), or Form SS-4, Application for Employer Identification Number (for businesses and all other entities), at the local office of the Social Security Administration or the Internal Revenue Service (the "IRS") and apply for a number.

Payees and Payments Exempt from Backup Withholding

The following is a list of payees exempt from backup withholding and for which no information reporting is required. For interest and dividends, all listed payees are exempt except item (9). For broker transactions, payees listed in items (1) through (13) and persons registered under the Investment Advisers Act of 1940 who regularly act as brokers are exempt. Payments subject to reporting under sections 6041 and 6041A are generally exempt from backup withholding only if made to payees described in items (1) through (7), except a corporation (other than certain hospitals described in Regulations section 1.6041-3(c)) that provides medical and health care services or bills and collects payments for such services is not exempt from backup withholding or information reporting. Only payees described in items (1) through (5) are exempt from backup withholding for barter exchange transactions and patronage dividends.

- (1) An organization exempt from tax under section 501(a), or an IRA, or a custodial account under section 403(b)(7), if the account satisfies the requirements of section 401(f)(2).
- (2) The United States or any of its agencies or instrumentalities.
- (3) A state, the District of Columbia, a possession of the United States, or any of their political subdivisions or instrumentalities.
- (4) A foreign government or any of its political subdivisions, agencies or instrumentalities.
- (5) An international organization or any of its agencies or instrumentalities.
- (6) A corporation.
- (7) A foreign central bank of issue.
- (8) A dealer in securities or commodities required to register in the United States, the District of Columbia or a possession of the United States.
- (9) A futures commission merchant registered with the Commodity Futures Trading Commission.
- (10) A real estate investment trust.
- (11) An entity registered at all times during the tax year under the Investment Company Act of 1940.
- (12) A common trust fund operated by a bank under section 584(a).
- (13) A financial institution.
- (14) A middleman known in the investment community as a nominee or custodian, or listed in the most recent publication of the American Society of Corporate Secretaries, Inc., Nominee List.
- (15) A trust exempt from tax under section 664 or described in section 4947.

Payments of dividends and patronage dividends that generally are exempt from backup withholding include the following:

Payments to nonresident aliens subject to withholding under section 1441.

Payments to partnerships not engaged in a trade or business in the U.S. and which have at least one nonresident alien partner.

Payments of patronage dividends not paid in money.

Payments made by certain foreign organizations.

Payments of interest that generally are exempt from backup withholding include the following:

Payments of interest on obligations issued by individuals. Note: You may be subject to backup withholding if this interest is \$600 or more and is paid in the course of the payer's trade or business and you have not provided your correct taxpayer identification number to the payer.

Payments of tax-exempt interest (including exempt-interest dividends under section 852).

Payments described in section 6049(b)(5) to nonresident aliens.

Payments on tax-free covenant bonds under section 1451.

Payments made by certain foreign organizations.

Payments of mortgage interest to you.

Exempt payees described above should file substitute Form W-9 to avoid possible erroneous backup withholding. **FILE THIS FORM WITH THE PAYER, FURNISH YOUR TAXPAYER IDENTIFICATION NUMBER, WRITE "EXEMPT" ON THE FACE OF THE FORM, SIGN AND DATE THE FORM AND RETURN IT TO THE PAYOR. IF YOU ARE A NON-RESIDENT ALIEN OR A FOREIGN ENTITY NOT SUBJECT TO BACKUP WITHHOLDING, FILE WITH PAYER A COMPLETED INTERNAL REVENUE FORM W-8BEN (CERTIFICATE OF FOREIGN STATUS).**

Payments that are not subject to information reporting are also not subject to backup withholding. For details, see sections 6041, 6041A, 6042, 6044, 6045, 6049, 6050A and 6050N and the regulations promulgated thereunder.

Privacy Act Notice. Section 6109 requires most recipients of dividend, interest, or other payments to give taxpayer identification numbers to payers who must report the payments to the IRS. The IRS uses the numbers for identification purposes. Payers must generally withhold 31% of taxable interest, dividend, and certain other payments to a payee who does not furnish a taxpayer identification number to a payer. Certain penalties may also apply.

Penalties

(1) Penalty for Failure to Furnish Taxpayer Identification Number. If you fail to furnish your correct taxpayer identification number to a requester, you are subject to a penalty of \$50 for each such failure unless your failure is due to reasonable cause and not to willful neglect.

(2) Civil Penalty for False Information With Respect to Withholding. If you make a false statement with no reasonable basis which results in no imposition of backup withholding, you are subject to a penalty of \$500.

(3) Criminal Penalty for Falsifying Information. Willfully falsifying certifications or affirmations may subject you to criminal penalties including fines and/or imprisonment.

FOR ADDITIONAL INFORMATION CONTACT YOUR TAX CONSULTANT OR THE INTERNAL REVENUE SERVICE



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