

THE PRINCIPAL FINANCIAL
GROUP IS ASKING YOU
TO MAKE AN IMPORTANT
DECISION ABOUT OUR
ORGANIZATION'S FUTURE

THIS SPECIAL GUIDE ADDRESSES THE ISSUES OF PARTICULAR INTEREST TO EMPLOYEE BENEFIT PLAN CUSTOMERS AND PROVIDES AN OVERVIEW OF OUR PLAN TO CONVERT TO A STOCK COMPANY.

- A message from the Chairman and the President and Chief Executive Officer
- Frequently asked questions...and answers... about the demutualization and how it affects you as a policyholder
- Information on the cards in your package, and instructions on what to do with each of them

A MESSAGE FROM THE CHAIRMAN AND THE PRESIDENT AND CHIEF EXECUTIVE OFFICER A FUTURE OF STRENGTH AND STABILITY

Dear Policyholder:

We are sending you this letter because as a Principal Life Insurance Company (Principal Life) policyholder, you are also a member of Principal Mutual Holding Company, the parent company of Principal Life. As a member, you have certain membership interests in Principal Mutual Holding Company, including the right to vote on our proposed Plan of Conversion, which was adopted by our Board of Directors on March 31, 2001.

For more than 120 years, our customers have counted on us to deliver innovative solutions that help them meet their financial goals. Through our uncompromising focus on quality and customer service, the Principal Financial Group® (all the companies affiliated with Principal Mutual Holding Company) has become an industry leader, with some 13 million customers and \$113.0 billion in assets under management as of March 31, 2001. And Principal Life, our flagship company, continues to receive consistently high financial strength ratings.

From this position of strength, the Principal Mutual Holding Company Board of Directors has unanimously voted to adopt a plan for converting the company into a publicly held stock company, through a process called demutualization. This demutualization builds on a reorganization that began in 1998. At that time we adopted a mutual insurance holding company structure, with Principal Mutual Holding Company as the parent company, and Principal Life converted to a stock life insurance company.

We believe this demutualization will provide the Principal Financial Group with the capital structure needed to pursue growth through strategic acquisitions, to develop new products and services and to invest in technology. We further believe that pursuing these strategic opportunities will strengthen our leadership position, provide additional security for customers and truly be in the best interests of our policyholders.

If the Plan of Conversion is approved, all membership interests in Principal Mutual Holding Company will be extinguished and Eligible Policyholders will receive compensation in the form of stock, cash or policy credits. **The demutualization will not diminish your Principal Life policy or contract benefits, values, guarantees or dividend eligibility, nor will the demutualization increase your Principal Life policy or contract premiums or contributions. Owners of dividend paying policies will continue to be eligible for dividends as declared by the Board of Directors of Principal Life.** As always, dividends are not guaranteed and may vary from year to year.

The Board of Directors has determined that the Plan of Conversion is fair and equitable to policyholders and the demutualization is in the best interests of both our policyholders and the company. On behalf of the Board, we strongly urge you to vote in favor of the Plan of Conversion.

If you have any questions, or need help with any of the materials contained in this package, please call us toll free at 1-866-781-1369 between the hours of 7 a.m. and 7 p.m., Central Daylight Time or visit our website at www.principal.com. We look forward to your continued support.

Sincerely,



David J. Drury
Chairman



J. Barry Griswell
President and Chief Executive Officer

POLICYHOLDER

QUESTIONS AND ANSWERS

Here are answers to the most frequently asked questions about our proposed demutualization. **Additional information can be found in the Policyholder Information Booklet Parts One and Two, included in this mailing and on our website at www.principal.com.**

1. | What is demutualization?

Demutualization is the process of converting from a mutual insurance company (or in our case, a mutual insurance holding company) into a stock company pursuant to a detailed, written Plan of Conversion (the "Plan"). As a member of Principal Mutual Holding Company, you have certain membership interests, including the right to vote on certain matters and the right to participate in the distribution of any residual value in the unlikely event of a liquidation of Principal Mutual Holding Company. As part of the demutualization, Eligible Policyholders exchange their membership interests for compensation, and all membership interests are terminated. The compensation will be in the form of stock, cash or policy/contract enhancements ("Policy Credits"). As part of the demutualization process, Principal Financial Group, Inc., the new parent company of Principal Life Insurance Company ("Principal Life"), will sell stock to the public in an initial public offering ("IPO").

2. | Why is Principal Mutual Holding Company planning to convert into a stock company?

Demutualization will help us leverage our strength and leadership in a rapidly changing financial services industry. Demutualization provides us with the capital structure needed to pursue growth through strategic acquisitions, to develop new products and services and to invest in technology. We believe that pursuing these strategic opportunities will strengthen our leadership position, provide additional security for customers and be in the best interests of our policyholders. Please see "The Demutualization – Reasons for Demutualization" in the Policyholder Information Booklet Part One for a more detailed discussion of why Principal Mutual Holding Company is planning to convert into a stock company.

3. | How will the demutualization affect my insurance policy or annuity contract?

Your policy or contract will not be adversely affected by the demutualization and will remain in force according to its terms. The demutualization will not diminish the benefits, values, or guarantees under your Principal Life policy or contract. The demutualization will not increase premiums or contributions. Principal Life will continue to honor all contracts and guarantees made to policyholders. Owners of dividend paying policies will continue to be eligible for dividends as declared by the Board of Directors of Principal Life. As always, dividends are not guaranteed and will vary due to factors like investment and mortality experience.

4. | What will I receive if the Plan is approved?

If you are an Eligible Policyholder, you will receive compensation in the form of stock, cash or Policy Credits in exchange for your membership interests in our mutual insurance holding company. Eligible Policyholders are policyholders with eligible Principal Life policies or contracts in force on March 31, 2000, one year prior to the adoption of the Plan by the Board of Directors of Principal Mutual Holding Company (the "Board"), AND who own an eligible policy or contract continuously from that date until the effective date of the demutualization. Principal Mutual Holding Company has designed its Plan to provide certain group annuity contract holders two Policy Credit options that enable those plans to hold the compensation within the group annuity contract, allowing compliance with tax and ERISA requirements. This enhanced value can take the form of an interest in a new separate account that Principal Life is establishing ("Separate Account Policy Credits") or the form of a general increase in the value of the contract ("Account Value Policy Credits"). If you are a Qualified Plan Customer (a "QPC"), other than a QPC whose annuity contract was issued in California (a "California QPC"), you will have four compensation options: Separate Account Policy Credits, Account Value Policy Credits, Common Stock and Cash. If you are a Non-Rule 180 Qualified Plan Customer (a "Non-Rule 180 QPC") or a California QPC, you will have three compensation options: Account Value Policy Credits, Common Stock and Cash. If you are a California QPC, please refer to Question #32 for more information about your options. You may review your options on Form of Compensation Card (Card 4), which is enclosed.

At this time, we do not know the exact amount of your compensation. Demutualization compensation will be based on an allocation of shares to each Eligible Policyholder. At a minimum, all Eligible Policyholders will receive 100 shares of Principal Financial Group, Inc. common stock (or the equivalent in cash or Policy Credits), subject to adjustment as provided in the Plan. We have estimated the number of shares to be allocated to you on your Policyholder Record Card (Card 2). This is a preliminary estimate only and is subject to change. We will determine your actual number of allocated shares after the effective date of the demutualization, which will be the date the IPO closes. Please see "Compensation – Allocation of Shares" in the Policyholder Information Booklet Part One for a more detailed discussion of how compensation is allocated to Eligible Policyholders.

POLICYHOLDER

QUESTIONS AND ANSWERS

5. | What membership interests will I be giving up?

The membership interests that will be given up upon demutualization consist primarily of the right to elect the Board and the right to participate in any distribution of surplus in the unlikely event of a liquidation of Principal Mutual Holding Company. In addition, under Iowa law, in the unlikely event of a Principal Life insolvency proceeding, the assets of the new stock holding company would not be available to pay policy claims, whereas, prior to demutualization, the assets of the mutual holding company are available for such purpose.

6. | Is there an approval process for demutualization?

The Plan must be approved by two-thirds of the policyholders who vote on adoption of the Plan. The Iowa Insurance Commissioner must also approve the Plan, which addresses the purpose of demutualization, eligibility rules, allocation of policyholder compensation, voting, required approvals and other matters. A copy of the Plan, along with a summary of its exhibits, is included in the Policyholder Information Booklet Part One.

7. | Why should I vote?

Your vote is important because the demutualization is one of the most important events in our history. For the demutualization to become effective, approval by two-thirds of the policyholders who vote is needed. Policyholders eligible to vote are policyholders who owned an insurance policy or annuity contract that was issued by Principal Life and was in force on March 31, 2001, the date the Board adopted the Plan.

8. | Why should I vote "Yes"?

A "Yes" vote is important for two primary reasons. First, the demutualization will allow us to operate and compete more effectively and continue to meet the needs of our customers. Second, a "Yes" vote will help approve a Plan under which Eligible Policyholders will receive compensation in exchange for their membership interests in Principal Mutual Holding Company.

9. | How do I vote?

To vote, mark either the "Yes" or "No" box on your Ballot Card (Card 1), then sign, date and return it in the enclosed, postage-paid envelope by Tuesday, July 17, 2001. Please be sure that all policyholders sign and date the card. If you prefer, you may vote in person at the special meeting of members (the "Special Members' Meeting") at 9:00 a.m., Central Daylight Time, on Tuesday, July 24, 2001, at 711 High Street, Des Moines, Iowa. Please do not send your Ballot Card (or other Cards) to your Principal Life agent or representative.

10. | What are the risks of demutualization?

There are risks associated with ownership of common stock. Also, a public company incurs additional costs related to being a public company in order to operate its business. Please see "Summary – How will our demutualization benefit Principal Life and its policyholders?" and "The Demutualization – Differences between Mutual Insurance Holding Companies and Stock Companies" in the Policyholder Information Booklet Part One.

11. | What happens if the Plan is approved?

If the Plan is approved by at least two-thirds of the policyholders who vote and by the Iowa Insurance Commissioner, Principal Financial Group, Inc. would then need to close the IPO for the demutualization to become effective. All membership interests in Principal Mutual Holding Company would then be extinguished, and Eligible Policyholders would subsequently receive compensation in exchange for their membership interests. Principal Financial Group, Inc. would be a publicly traded stock company and the new parent company of Principal Life.

12. | What happens if the Plan is not approved?

Should the Plan not become effective for any reason (including, for example, if at least two-thirds of the voting policyholders or the Iowa Insurance Commissioner do not approve the Plan), Principal Mutual Holding Company will remain a mutual insurance holding company, policyholders will retain their membership interests and no compensation will be paid to Eligible Policyholders.

13. | When will the Initial Public Offering (IPO) take place?

We currently expect the IPO will take place in the latter part of 2001 or first part of 2002. Actual timing could be delayed based on prevailing market conditions, but the Plan permits the IPO to occur within 12 months of approval of the Plan by the Iowa Insurance Commissioner, unless this period is extended by us with approval of the Commissioner. The demutualization will become effective upon the closing of the IPO.

14. | How soon after the IPO will I receive my compensation?

We will send you confirmation of your compensation as soon as reasonably practicable after closing of the IPO. If your compensation is in the form of Principal Financial Group, Inc. common stock or Policy Credits, you will receive written confirmation, and if your compensation is in the form of cash, you will receive a check. In any event, we will distribute compensation and send confirmation no later than 75 days after the effective date of the demutualization, unless the Iowa Insurance Commissioner approves a later date.

15. | Can I choose the type of compensation I want to receive?

Generally, yes. Your Policyholder Record Card (Card 2) shows the type of compensation you are eligible to receive. Please refer to Questions 21-27 for information on each of the compensation options.

- If you are a QPC and you prefer Account Value Policy Credits, cash or common stock, mark the appropriate box on Form of Compensation Card (Card 4), and sign, date and return the card before Tuesday, July 17, 2001.
- If you are a QPC and you prefer Separate Account Policy Credits, do not complete or return Form of Compensation Card (Card 4). If you do not return Card 4, you will automatically receive Separate Account Policy Credits, because this is your default form of compensation, unless you are a California QPC, in which case your default form of compensation will be common stock. Please see Question #32 below for more information on California QPCs.
- If you are a Non-Rule 180 QPC and you prefer cash or common stock, mark the appropriate box on Form of Compensation Card (Card 4), and sign, date and return the card before Tuesday, July 17, 2001.
- If you are a Non-Rule 180 QPC and you prefer Account Value Policy Credits, do not complete or return Form of Compensation Card (Card 4). If you do not return Card 4, you will automatically receive Account Value Policy Credits (subject to the limitations described below), because this is your default form of compensation.

There may be a limit on the amount of funds available to pay cash and fund Account Value Policy Credits to Eligible Policyholders who are allocated more than 100 shares. (Eligible Policyholders who are allocated 100 or fewer shares and who elect or are deemed to elect cash or Account Value

Policy Credits are guaranteed to receive their chosen form of compensation.) QPCs (other than California QPCs) whose cash or Account Value Policy Credit elections cannot be satisfied will instead receive Separate Account Policy Credits. Non-Rule 180 QPCs and California QPCs whose cash or Account Value Policy Credit elections or allocations cannot be satisfied will instead receive shares of Common Stock.

16. | How do I determine if I am a Qualified Plan Customer (QPC) or a Non-Rule 180 Qualified Plan Customer?

Form of Compensation Card (Card 4), which is enclosed, will indicate whether you are a QPC or a Non-Rule 180 QPC. Generally, if you are the owner of a group annuity contract that funds benefits under a qualified retirement plan, you are a QPC. There are some retirement plan customers who, for federal regulatory reasons, will not be offered the Separate Account Policy Credit option. These policyholders are referred to as Non-Rule 180 QPCs. Additionally, California QPCs will not be offered the Separate Account Policy Credit option. If you are a California QPC, please refer to Question #32 below.

17. | What is my Default Compensation?

Default Compensation is the form of compensation you will receive if you are an Eligible Policyholder and you do not elect to receive a different form of compensation. Your Default Compensation depends on the type of policy or contract that you own. Please see the "Compensation Table" in the Policyholder Information Booklet Part One, to determine your Default Compensation. If you are a California QPC, please refer to Question #32 below.

18. | If I receive stock, will I receive a stock certificate?

No, your shares will be held for your benefit by Mellon Investor Services, the transfer agent. This saves you the trouble of safekeeping original stock certificates. You will receive a notice confirming the number of shares issued to you as a result of the demutualization. At any time after you receive this notice, you may request a stock certificate. You may sell your shares at any time after you receive the notice, even if you do not request a stock certificate. If you are an employee benefit plan subject to ERISA, special rules, including rules relating to the holding of plan assets in trust, may apply to you. See the Policyholder Information Booklet Part One.

19. | What do I need to do as a qualified plan sponsor?

As a qualified plan sponsor, you should:

- Determine if the Plan is in the best interest of participants and beneficiaries in your retirement plan.
- Review the demutualization compensation options as provided on your Form of Compensation Card (Card 4).

If you have a defined contribution plan, please review the allocation method outlined in Question #29 below and in the Policyholder Information Booklet Part One relating to the Separate Account Policy Credit and Account Value Policy Credit compensation options. **If you receive Separate Account Policy Credits or Account Value Policy Credits, we will allocate demutualization compensation among plan participants as outlined in the Policyholder Information Booklet Part One, and below in Question #29, unless you instruct us otherwise via facsimile at 515-362-1383, attention RIS Demutualization Team, by August 1, 2001.**

If you have a defined benefit plan and elect Account Value Policy Credits, we will allocate your demutualization compensation among your investments under your group annuity contract as outlined in Question #29 below unless you instruct us otherwise via facsimile at 515-362-1383, attention RIS Demutualization Team, by August 1, 2001.

20. | How do I determine if the Plan is in the best interest of my plan's participants and beneficiaries?

You should carefully review all the enclosed information. We cannot advise you on these issues. However, Iowa law contains substantial safeguards designed to protect policyholders' interests. The Iowa Insurance Commissioner has hired investment banking, legal and actuarial experts to evaluate the Plan. Before the Plan can become effective, the Commissioner must find that the Plan is fair and equitable to Principal Mutual Holding Company and policyholders of Principal Life. You may also wish to seek legal and other professional advice.

21. | What compensation options will be available to my group annuity contract?

Review Form of Compensation Card (Card 4) for the options specific to your contract. Generally, four options will be available if you are a QPC whose group annuity contract was issued outside of California:

- (1) Separate Account Policy Credits
- (2) Account Value Policy Credits
- (3) Cash
- (4) Common Stock

If you are a Non-Rule 180 QPC as indicated on Card 4, or you are a California QPC, you will have three options available to you: Account Value Policy Credits; cash; or Common Stock. If you are a California QPC, please refer to Question #32 below.

22. | What is a Separate Account Policy Credit?

A policy credit is an increase in the value of your group annuity contract. A Separate Account Policy Credit provides this increased value in the form of an interest in a separate account that is primarily invested in Principal Financial Group, Inc. common stock ("Stock Separate Account"). This new separate account will operate similarly to other separate accounts available to you within your retirement contract. We will provide record-keeping services for this option. The tax treatment of compensation in the form of a Separate Account Policy Credit is favorable, as it is not considered taxable income to the policyholder, and it does not adversely affect the tax-qualified status of the plan. Although an interest in the Separate Account Policy Credit is not identical to holding Principal Financial Group, Inc. common stock directly, the Stock Separate Account investment returns would be primarily influenced by Principal Financial Group, Inc. common stock values. The common stock would be issued to Principal Life and held in the Stock Separate Account for your benefit. You, your benefit plan, or your plan participants would hold units in this separate account. In all votes of Principal Financial Group, Inc. stockholders, we will seek instruction from you, as a QPC, as to how you wish to vote the shares in which you hold an interest. For more details about voting the Common Stock in the Stock Separate Account, please see the Policyholder Information Booklet Part One.

Because of favorable tax treatment and the ease of plan administration associated with this option, **the Separate Account Policy Credit is the form of compensation you would receive if you are a QPC (other than a California QPC), unless you elect otherwise.** In other words, if you are a QPC (other than a California QPC) and we do not hear from you,

you will be deemed to have elected to receive demutualization compensation in the form of Separate Account Policy Credits. This option is subject to the limitations described in "Limit on Amounts Available for Cash and Policy Credit Compensation" in the Policyholder Information Booklet Part One. You should know that the availability of Separate Account Policy Credits may be limited because 50% of the total compensation to be paid to Eligible Policyholders must be paid in the form of common stock. If you are a California QPC, please refer to Question #32 below.

23. | What is an Account Value Policy Credit?

An Account Value Policy Credit increases the value of your group annuity contract. We will provide record-keeping services for this option. The tax treatment of compensation in the form of an Account Value Policy Credit is favorable, as it is not considered taxable income to the policyholder and does not adversely affect the tax-qualified status of the plan. **If you are a Non-Rule 180 QPC, this is the compensation option you will receive, unless you elect otherwise.** In other words, if you are a Non-Rule 180 QPC and we do not hear from you, you will be deemed to have elected to receive the compensation in the form of Account Value Policy Credits.

However, there may be a limit on the amount of funds available to fund Account Value Policy Credits. If you are a QPC who is ultimately allocated more than 100 shares and who has elected Account Value Policy Credits, you will receive Separate Account Policy Credits if sufficient funds are not available to fund your Account Value Policy Credits. **If you are a Non-Rule 180 QPC who is deemed to have elected Account Value Policy Credits, and if you are ultimately allocated more than 100 shares, you will receive Principal Financial Group, Inc. common stock if sufficient funds are not available to fund your Account Value Policy Credits.**

24. | What is the Cash Option?

The cash option involves a direct cash payment to you, which would be made by check. However, there may be a limit on the amount of funds available to distribute as cash. If you elect the Cash Option but sufficient cash is not available, and you are ultimately allocated more than 100 shares, then you would receive (a) Separate Account Policy Credits if you are a QPC other than a California QPC or (b) Principal Financial Group, Inc. common stock if you are a California QPC or if you are a Non-Rule 180 QPC. If you are a California QPC, please refer to Question #32 below.

25. | What is the Common Stock Option?

The common stock option provides you with shares of common stock of Principal Financial Group, Inc.

26. | Whether I elect the Cash Option or the Common Stock Option, is there anything special I need to do?

If you choose either of these options, you need to be aware that a trust may be necessary in light of federal employee benefits rules that may prohibit a reversion of assets to the plan sponsor. Alternatively, based on guidance provided by the Department of Labor ("DOL"), demutualization compensation (including stock compensation) may be immediately applied to enhance plan benefits under existing, supplemental or new insurance policies or contracts; applied toward future participant premium payments; or otherwise held by an insurance company without the use of a trust. Please see Question #28 below for more information.

You should also be aware that direct receipt of cash or common stock by non-trusted plan sponsors creates issues and uncertainties as to tax treatment of the compensation. If you elect to receive cash, you will need to retain another provider to provide record-keeping for these funds if they are held outside your group annuity contract. Additionally, because common stock is not a part of your group annuity contract, if you receive common stock, you will need to retain another provider to provide record-keeping for this portion of your retirement plan assets. You may also need to amend your plan to allow for this type of investment. You may wish to seek legal and other professional advice regarding these matters.

27. | Is there a way to compare all four options?

The choice of cash, stock or Policy Credits (either Account Value Policy Credits or Separate Account Policy Credits) is largely an investment decision. Cash provides flexibility, as it can be applied to other investments or to any appropriate plan purposes. Account Value Policy Credits will mirror the investment decisions already in place for the plan, unless you direct otherwise. Stock or Separate Account Policy credits represent an investment in the Holding Company. Plan fiduciaries will need to consider the plan's need for liquidity as well as the prudence and diversification requirements of ERISA in choosing among these options. Also, there are administrative, compliance, tax and ERISA considerations which must be weighed. We have summarized these in the following chart:

Form of Compensation	Need for Trust	Tax Treatment
<p>Cash</p>	<p>You will be responsible for:</p> <ul style="list-style-type: none"> • Establishing a trust if you don't already have one OR • Establishing an interest bearing account in the name of the plan to temporarily hold the compensation 	<ul style="list-style-type: none"> • Tax treatment uncertain for non-trusted plans • You may wish to seek professional advice
<p>Stock</p>	<p>You will be responsible for:</p> <ul style="list-style-type: none"> • Establishing a trust if you don't already have one OR • Establishing a custodial account in the name of the plan to temporarily hold the compensation 	<ul style="list-style-type: none"> • Tax treatment uncertain for non-trusted plans • You may wish to seek professional advice
<p>Account Value Policy Credit</p>	<ul style="list-style-type: none"> • No additional trust, account or contract is needed 	<ul style="list-style-type: none"> • No taxable income to policyholder • No adverse affect on plan
<p>Separate Account Policy Credit</p> <p>NOTE: If your group annuity contract was issued in California, the Separate Account Value Policy Credit is not available.</p>	<ul style="list-style-type: none"> • No additional trust, account or contract is needed 	<ul style="list-style-type: none"> • No taxable income to policyholder • No adverse affect on plan

Administrative Issues

Reporting/Compliance

Arrangements will have to be made for:

- Record keeping services for this compensation including allocation
- Plan/Plan participant reporting and payouts
- Tax reporting
- Providing us with annual values of this compensation for defined benefit plans
- Allocation of this compensation as appropriate
- Retaining another provider for these services as appropriate

Arrangements will have to be made for:

- Testing and reporting assets held outside of your defined contribution annuity contract
- All compliance issues resulting from holding an asset outside of your group annuity contract
- Providing information to your plan auditor about this compensation

Arrangements will have to be made for:

- Record keeping services for this compensation including allocation
- Plan/Plan participant reporting and payouts
- Tax reporting
- Providing us with annual values of this compensation for defined benefit plans
- Allocation of this compensation as appropriate
- Retaining another provider for these services as appropriate

Arrangements will have to be made for:

- Testing and reporting assets held outside of your defined contribution annuity contract
- All compliance issues resulting from holding an asset outside of your group annuity contract
- Providing information to your plan auditor about this compensation

Under your existing arrangements with us, we will:

- Continue any record keeping services we are currently providing including reporting and the allocation of this compensation
- Provide Plan/Plan participant payouts that include this compensation (if we currently provide this service)
- Provide tax reporting relating to this compensation

You must determine:

- If and how the compensation should be allocated among the participants

Under your existing arrangements with us, we will:

- Provide required testing and reporting for this compensation if we currently provide record keeping services

Under your existing arrangements with us, we will:

- Continue any record keeping services we are currently providing including reporting and the allocation of this compensation
- Provide Plan/Plan participant payouts that include this compensation (if we currently provide this service)
- Provide tax reporting relating to this compensation

You must determine:

- If and how the compensation should be allocated among the participants

Under your existing arrangements with us, we will:

- Provide required testing and reporting for this compensation if we currently provide record keeping services

28. | If the Plan is approved, what should I do with the demutualization compensation?

Most qualified retirement plans are subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). (Plans maintained by governments and churches are exceptions.) ERISA generally requires that all assets of such plans be held in a separate trust or by an insurance company for the benefit of plan participants. The Separate Account Policy Credit and Account Value Policy Credit meet these requirements. In addition, these options do not adversely affect the tax-qualified status of such plans.

Generally, cash or stock received in a demutualization is a plan asset that must be held in trust. However, based on guidance recently provided by the DOL, you will not need to establish a trust just for the demutualization compensation if your plan is not otherwise required to have a trust and you take certain steps outlined by the DOL. Specifically, you must place the compensation you receive in the demutualization in an interest-bearing account, in the case of cash, or in a custodial account, in the case of stock, in the name of the plan. The assets placed in this account must (a) consist solely of proceeds received on behalf of the plan in connection with the demutualization, (b) be placed in the applicable account as soon as reasonably possible following receipt and (c) within twelve (12) months following receipt, be used for the payment of participants' premiums, used for plan benefit enhancements or distributed to plan participants. The recently provided DOL guidance indicates that, if you follow these requirements, you will not be deemed to be in violation of the general trust requirement of Section 403 of ERISA. There are, however, issues and uncertainties as to the tax treatment of the compensation in this circumstance. In addition, you will need to retain another provider to handle and keep records for those funds, as they would be held outside your group annuity contract. You may want to talk with your tax or ERISA advisor for help in making your decision.

Although there are no specific rules regarding allocation of the compensation among plan participants, allocation should be made in a manner determined to be fair and equitable under the circumstances. Again, you may want to talk with your tax or ERISA advisor for help in making your decision.

The employer who retains the compensation for its own account (rather than for plan purposes) runs substantial risks. The retention of the compensation could be viewed as a reversion of plan assets to the plan sponsor, which could result in plan disqualification and severe tax consequences and penalties. Retention of the compensation could also constitute a "prohibited transaction" under ERISA, resulting in additional excise taxes. You may wish to seek legal and other professional advice regarding these matters.

29. | How will this compensation be used within the benefit plan?

If you have a defined benefit plan funded by a group annuity contract, the compensation, regardless of the form you receive, can be considered investment earnings for the plan in the year of receipt. Because defined benefit plans generally do not have individual participant accounts, the compensation will not be allocated among participants. If you have a defined benefit plan and elect or are allocated the Account Value Policy Credit, we will allocate this demutualization compensation pro-rata across your investments under your group annuity contract based on account balances as of the effective date of the demutualization unless you instruct us otherwise via facsimile at 515-362-1383, attention RIS Demutualization Team, by August 1, 2001.

If you have a defined contribution plan (i.e., a 401(k), money purchase, profit sharing or stock bonus plan) funded by a group annuity contract, the compensation, regardless of the form you receive, can be considered investment earnings, not a contribution. For defined contribution plans, there are no specific rules on how to use or allocate demutualization compensation among participant accounts. Most plans allocate investment earnings from a particular investment fund or option among those participant accounts that are invested in that fund or option. If your demutualization compensation is in the form of a Separate Account Policy Credit or an Account Value Policy Credit, we would allocate the compensation among participant accounts based on the following method unless we are instructed otherwise by you –

- Each defined contribution plan participant with an account balance under the group annuity contract on the effective date of the demutualization will be allocated a share of the compensation based on the participant's account balance as a percent of the value of all plan participant account balances as of the effective date of the demutualization under the group annuity contract. Account balances will include any values for which we keep records. If your demutualization compensation is a Separate Account Policy Credit, then each plan participant would receive his/her relative share in the form of an interest in the Stock Separate Account. If your demutualization compensation is an Account Value Policy Credit, then each plan participant would receive his/her relative share in the form of additional earnings allocated pro-rata across his/her investments under the group annuity contract.

- Those defined contribution plan participants who are insured by a life insurance policy issued by Principal Life will be allocated any demutualization compensation related to that policy.

The plan sponsor will have the final authority to determine if and how the compensation will be allocated to plan participants' accounts, but to use a different allocation method than described above, you must instruct us via facsimile at 515-362-1383, attention RIS Demutualization Team, by August 1, 2001.

30. | When will the allocation to defined contribution plan participants take place?

The allocation to plan participants' accounts will take place on the earliest, reasonably practicable date after the effective date of the demutualization, but not later than 75 days from the effective date of the demutualization, unless the Commissioner approves a later date, or unless a plan sponsor requests a later date.

31. | What are the tax consequences of receiving demutualization compensation?

If the policyholder of a pension or profit sharing plan is a qualified trust, the trust will be tax-exempt under Section 401(a) and Section 501(a) of the Internal Revenue Code and the receipt of compensation in any form will not result in tax liability for the trust. For non-trusteed plan sponsors, any receipt of cash or common stock creates issues and uncertainties as to the tax treatment of that compensation. In general, tax treatment of compensation in the form of a Separate Account Policy Credit or Account Value Policy Credit is favorable, as these options are not taxable income to the policyholder nor do they adversely affect the tax-qualified status of the plan.

Regardless of the form of compensation you receive, you must sign and return Taxpayer Identification Card (Card 3). Without the certification required on Card 3, we may be required by law to withhold 31% of any cash payment and any future stock dividends, and you may be subject to a \$50 IRS penalty.

We urge you to consult your tax advisor for definitive answers on your personal situation.

32. | What if I am a California QPC?

Separate Account Policy Credits are not available to a QPC whose group annuity contract was issued in California. If you are a QPC whose group annuity contract was issued in California, you are eligible to receive Account Value Policy Credits, cash or common stock. If you do not make an election on your Form of Compensation Card (Card 4), or if you elect Account Value Policy Credits or cash and there are insufficient funds to satisfy your election, you will receive common stock. Please refer to the section entitled "Limit on Amounts Available for Cash and Policy Credit Compensation" in the Policyholder Information Booklet Part One.

33. | Will management become entitled to compensation as a result of the demutualization?

Our officers, directors and employees will not receive stock or cash compensation at the time of the demutualization other than what they may receive as Eligible Policyholders or as participants in an employee benefit plan that is an Eligible Policyholder. However, our officers, directors and employees may receive stock or options to purchase stock pursuant to benefit plans established or amended in connection with the demutualization. Please see "Acquisition of Common Stock by Officers, Directors and Employees" in the Policyholder Information Booklet Part One, for a more detailed discussion of stock-based compensation (and the limitations on that compensation) for officers, directors and employees.

34. | Can I call my agent with questions?

Because of regulatory restrictions, your agent or other company representative is not allowed to give you advice about the demutualization. However, our trained representatives (at the toll-free number below) can help answer questions on the Plan or on completing the enclosed Cards.

NEED MORE INFORMATION?

We have established a Demutualization Information Center where trained representatives can help you complete the enclosed Cards or answer questions you have about the Plan. The Demutualization Information Center will be open between the hours of 7:00 a.m. and 7:00 p.m., Central Daylight Time. The toll-free number is 1-866-781-1369. You may also write us at: Demutualization Information Center, P. O. Box 4425, South Hackensack, New Jersey 07606-2025.

INSTRUCTION GUIDE FOR BALLOT AND OTHER CARDS

This guide provides instructions for completing the enclosed ballot and other cards. Please read both sides of each card and complete as indicated.

- 1 Mark an "X" in one of the boxes to vote Yes (for the Plan) or No (against the Plan). A ballot with both boxes marked or neither box marked will not be counted.
- 2 Indicate a name or address change (for the demutualization only) by writing changes on the reverse side of this card.
- 3 Sign and date where indicated, complete and return the Card(s) in the enclosed envelope. If the policy(s) or contract(s) has more than one owner, all owners must sign the ballot and Form of Compensation Card. A ballot that is not signed will not be counted.
- 4 This represents your policyholder identification number. It appears on the front of every card.

BALLOT CARD (Card 1) Principal
Financial Group

Policyholder ID **4**

1 Yes, I vote FOR Please vote by placing an "X" in one of the boxes to the left, signing and dating below. You must place an "X" in one and only one box, and you must sign below for your vote to be counted. All ballots must be received by the close of the Special Members Meeting on July 24, 2001.

No, I vote AGAINST **2** **Proposal: To approve the Plan of Conversion of Principal Mutual Holding Company, for conversion to a stock company, including the Mergers whereby the converted Principal Mutual Holding Company will merge with and into Principal Iowa Newco, Inc., and the other transactions set forth in the Plan of Conversion.**

The Board of Directors unanimously approved the Plan of Conversion and the Mergers and recommends that you vote **FOR** the proposal.

ALL POLICYHOLDERS MUST SIGN

SIGNATURE _____ **3** DATE _____

SIGNATURE _____ DATE _____

Sign exactly as your name appears to the left. When signing as attorney, executor, administrator, trustee or guardian, give full title as such.
Questions? Call our Demutualization Information Center toll free at 1-866-781-1369 weekdays, 7 a.m. to 7 p.m. Central Daylight Time or visit www.principal.com.

PLEASE MARK YOUR VOTE, SIGN, DATE AND MAIL THIS CARD PROMPTLY, USING THE ENCLOSED ENVELOPE.

- 5 Card 2 shows your eligible, in force policy(s) and contract(s) as of March 31, 2001, the date the Plan was adopted by the Board, and the corresponding possible form(s) of compensation for each policy and contract, if applicable. If you believe this information is inaccurate or incomplete, please call 1-866-781-1369.
- 6 Card 2 indicates the total number of estimated allocated shares of stock on which your compensation will be based. This number is preliminary and subject to change.

POLICYHOLDER RECORD CARD (Card 2) Principal
Financial Group

Policyholder ID _____

If the Plan of Conversion becomes effective, Eligible Policyholders will receive compensation based on an allocation of shares. Your total estimated allocated shares, shown below, is only a preliminary calculation and is subject to change. **WARNING:** To be an Eligible Policyholder, you must own an eligible Principal Life policy or contract continuously from March 31, 2000 until the Effective Date of the Plan of Conversion, which is expected to be in the latter part of 2001 or the first part of 2002.

Your default form of compensation is Separate Account Policy Credits. You may select Account Value Policy Credits, cash or stock instead on Card 4.

TOTAL ESTIMATED ALLOCATED SHARES: **6**

Questions? Call our Demutualization Information Center toll free at 1-866-781-1369 weekdays, 7 a.m. to 7 p.m. Central Daylight Time or visit www.principal.com.

RETAIN THIS CARD – DO NOT RETURN
READ IMPORTANT INFORMATION ON REVERSE SIDE.

For California Qualified Plan Customers (QPCs) Only: Separate Account Policy Credits are not available to California QPCs. You may elect Account Value Policy Credits, cash or stock instead. You will receive stock if no election is made on Card 4 or if you elect Account Value Policy Credits or cash and there are insufficient funds to satisfy your election.

Please read the Policyholder Information Booklet Part One for important information about Principal Mutual Holding Company's proposed plan to convert into a stock company.

Our demutualization will in no way diminish your policy or contract benefits, values or guarantees, or obligations of Principal Life to you as a policyholder. Policy dividends will continue to be paid, as declared, on policies eligible to receive dividends. As always, dividends are not guaranteed and may vary from year to year.

If you are eligible to vote only and not eligible for compensation, you will have Cards 1 and 2 only. Policyholders eligible for compensation will have Cards 3 and 4.

7 Taxpayer Identification Number ("TIN") is your Social Security Number (or Employer Identification Number if the policyholder is a trust, corporation or other entity). If your TIN is missing or incorrect, write the correct number here and fill in the boxes, corresponding to the numbers you have indicated in each box, in blue or black ink. If the number is correct, you must still sign and return the Card 3. In either case, please read the Certification information (located on the front of Card 3) before signing and return Card 3 in the enclosed envelope. **Without certification, we may be required by law to withhold 31% of any cash payment and any future stock dividends, and you may be subject to a \$50 IRS penalty.**

8 Card 4 shows your estimated number of allocated shares that are eligible for election.

9 The form of compensation you are eligible to receive is shown on Card 2. If you are a QPC, other than a QPC whose annuity contract was issued in California (a "California QPC"), and you prefer an option other than your default (Separate Account Policy Credits), then you must elect your preference by marking an "X" in the appropriate box on Card 4 and return Card 4 in the enclosed envelope. If you are a California QPC and you prefer an option other than your default (common stock), then you must elect your preference by marking an "X" in the appropriate box on Card 4 and return Card 4 in the enclosed envelope. If you are a Non-Rule 180 QPC and you prefer an option other than your default (Account Value Policy Credits), then you must elect your preference by marking an "X" in the appropriate box on Card 4 and return Card 4 in the enclosed envelope.

QUALIFIED PLAN CUSTOMER INSTRUCTIONS:

There may be a limit on the amount available to distribute as cash and to fund Account Value Policy Credits. Since it is possible that there will not be enough funds to distribute to all policyholders who prefer these options, if you are allocated more than 100 shares you may receive Separate Account Policy Credits or, if you are a QPC whose annuity contract was issued in California (a "California QPC"), you may receive common stock.

DO NOT RETURN CARD 4 IF YOU ARE A QPC AND PREFER SEPARATE ACCOUNT POLICY CREDITS OR IF YOU ARE A CALIFORNIA QPC AND PREFER COMMON STOCK.

Non-Rule 180 Qualified Plan Customer Instructions:
There may be a limit on the amount available to distribute as cash and to fund Account Value Policy Credits. Since it is possible that there will not be enough to distribute to all policyholders who prefer these options, you may receive common stock of Principal Financial Group, Inc. if you are allocated more than 100 shares.

DO NOT RETURN CARD 4 IF YOU ARE A NON-RULE 180 QPC AND YOU PREFER THE ACCOUNT VALUE POLICY CREDIT.

**PRINCIPAL MUTUAL HOLDING COMPANY'S
DEMUTUALIZATION GUIDE:**

**ISSUES FOR EMPLOYERS AND PLAN
FIDUCIARIES TO CONSIDER**

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I. EXECUTIVE OVERVIEW

This Guide is for owners of Principal Life Insurance Company (“Principal Life”) group annuity contracts, which provide benefits under a retirement plan for employees. We recognize that our proposed demutualization, and the resulting payment of compensation to eligible policy and contract holders, raise issues for employers beyond the normal course of administering their retirement plans. This guide is intended to help employers understand and address these issues. It is not intended as legal advice, and in certain cases, employers may need to consult their own tax, legal or benefits advisors in analyzing their own situation.

Background

The Board of Directors of Principal Mutual Holding Company (the “Board”) unanimously approved and adopted our Plan of Conversion (“the Plan”) on March 31, 2001. The principal feature of the Plan is the conversion of Principal Mutual Holding Company from a mutual insurance holding company (“MIHC”) into a stock holding company, a form of conversion known as “demutualization”. Until the effective date of the demutualization, Principal Mutual Holding Company is an MIHC governed by its members, who are policyholders of Principal Life.

The purpose of the demutualization is to maximize flexibility to raise additional capital, allowing us to operate and compete more effectively and continue to meet the needs of our customers. **Please remember, the demutualization will not diminish benefits, values or guarantees under Principal Life policies or contracts, nor will the demutualization increase premiums or contributions.**

Because Principal Mutual Holding Company is a mutual insurance holding company organized under the laws of Iowa, our demutualization is governed by Iowa law. Iowa law requires that the Plan be approved by two-thirds of the policyholders who cast votes. The Plan will not become effective unless, after conducting a public hearing, the Iowa Insurance Commissioner approves the Plan based on a finding, among other things, that the Plan is fair and equitable to policyholders.

In connection with the demutualization, the membership interests of Principal Life’s policyholders in Principal Mutual Holding Company will be extinguished and Eligible Policyholders will receive compensation in exchange for their membership interests. Under Iowa law, to be eligible for demutualization compensation, a policyholder must have an eligible Principal Life insurance policy or annuity contract in force on March 31, 2000 (the date one year prior to the Board’s adoption of the Plan) and own an eligible Principal Life policy or contract continuously from March 31, 2000, through the effective date of the demutualization. Policyholders who are not “Eligible Policyholders” will not receive any compensation in the demutualization.

Key Issues

As a group annuity contract holder, you will face a number of key issues:

You must decide whether to vote in favor of or against the Plan. We urge you to review the information included in this package. We cannot advise policyholders on this issue, but you should be aware that Iowa law contains substantial procedural safeguards designed to protect policyholders’ interests. The Iowa Insurance Commissioner has hired investment banking, legal and actuarial experts to evaluate the Plan. To approve the Plan, the Commissioner must find that the Plan is fair and equitable to policyholders. The Commissioner must also approve the allocation of compensation among policyholders. The allocation has been reviewed by independent actuarial experts hired by Principal Mutual Holding Company, and those experts have given an opinion that the allocation is fair and equitable to Eligible Policyholders.

You will need to decide whether your compensation should be in the form of stock, cash or policy credits. This is addressed in more detail in Section II, Compensation.

You may need to make certain accommodations, based on the form of compensation you receive, such as setting up a trust or allocating compensation. This is addressed in more detail in Section III, Guidelines for Plan Sponsors.

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You should also understand the tax consequences associated with different forms of compensation, which is addressed in Section IV, Tax and Other Issues.

As a group annuity contract holder, you will face a number of decisions relating to Principal Mutual Holding Company's Plan of Conversion. Plan sponsors and plan fiduciaries will need to analyze which of these decisions are governed by the fiduciary duty standards imposed by ERISA and which may be considered non-fiduciary because they are decided as a business matter strictly as an employer, such as plan design issues. See Section V, Fiduciary Information.

II. COMPENSATION

Risks to Employer of Retaining Compensation. An employer who simply retains the demutualization compensation for its own account (rather than using it for plan purposes) runs substantial risks. First, the retention of the compensation could be viewed as a reversion of plan assets to the employer in violation of Section 401(a)(2) of the Internal Revenue Code, which could result in disqualification of the plan and severe adverse income and excise tax consequences and penalties. Second, the retention could constitute a "prohibited transaction" under ERISA, resulting in additional excise taxes and penalties. The retention could also render the employer vulnerable to lawsuits instituted either by participants or the Department of Labor for breach of ERISA fiduciary duties.

Options facilitating compliance. Under our Plan, Eligible Policyholders will be entitled to receive compensation in the form of common stock, cash, or an enhancement to their Policy values, known as "Policy Credits". Principal Mutual Holding Company has designed its Plan to provide certain group annuity contract holders two policy credit options that enable those plans to hold the compensation within the group annuity contract, facilitating compliance with tax and ERISA requirements. This enhanced value can take the form of an interest in a new separate account that Principal Life is establishing ("Separate Account Policy Credits") or the form of a general increase in the value of the contract ("Account Value Policy Credits").

Forms of compensation available depend on your customer type. Generally, if you are the owner of a group annuity contract that funds benefits under a qualified retirement plan, our Plan refers to you as a Qualified Plan Customer ("QPC"). As a QPC, prior to close of the members' meeting you may elect to receive cash, common stock or Account Value Policy Credits as your form of compensation instead of your default compensation, which is Separate Account Policy Credits. However, if you are a QPC whose group annuity contract was issued in California ("California QPC"), the Separate Account Policy Credit option will not be available to you. **If you are a QPC and you do not make an election, you will be deemed to have elected Separate Account Policy Credits, and your compensation will be paid in that form, unless you are a California QPC, in which case you will be deemed to have elected common stock and your compensation will be paid in that form.**

There are some retirement plan customers who, for federal regulatory reasons, cannot be offered the Separate Account Policy Credit option. The Plan refers to these customers as Non-Rule 180 Qualified Plan Customers. (Please see your Policyholder Record Card to determine whether you are a Non-Rule 180 Qualified Plan Customer.) These customers are certain partnerships and sole proprietorships where one or more plan participants have self-employment income. Under SEC regulations, these plans cannot have access to unregistered separate accounts. If you are this type of customer, you may choose among common stock, Account Value Policy Credits and cash. **If you are a Non-Rule 180 QPC and you do not make an election, you will be deemed to have elected Account Value Policy Credits and, subject to the limitation described below, your compensation will be paid in that form.**

Limitations on funds available. You should be aware that there may be a limit on the funds available to distribute as cash or to fund crediting of Account Value Policy Credits to Eligible Policyholders allocated more than 100 shares. If sufficient funds are not available to pay cash and Account Value Policy Credits to all policyholders who elect or are deemed to elect them, then you might not receive the form of compensation that you elected or were deemed to elect. Specifically, if you elect or are deemed to elect cash or Account Value Policy Credits and sufficient funds are not available, then (i) if you are a QPC (other than a California

QPC), you will receive Separate Account Policy Credits, (ii) if you are a California QPC, you will receive Principal Financial Group, Inc. common stock and (iii) if you are a Non-Rule 180 Qualified Plan Customer, you will receive Principal Financial Group, Inc. common stock.

Options available to you. The Form of Compensation Card (Card 4) included in your package indicates the options available to your plan. Policyholders receiving cash or Account Value Policy Credits will receive an amount of cash or Policy Credits equal to the final number of shares they are allocated in the demutualization multiplied by the price at which the common stock is sold in the initial public offering (the “IPO Price”).

Electing compensation. As you review the materials enclosed with this Guide explaining how to elect the form of compensation you prefer, please keep the following in mind:

- Policy credits increase the value of your contract. Separate Account Policy Credits provide this increase in the form of an interest in a separate account that holds shares of common stock of our new stock holding company, Principal Financial Group, Inc. You must decide whether such an investment is appropriate for your plan.
- If you choose common stock or cash, you may have to establish a trust to hold the common stock or cash for the benefit of the plan. See “III. Guidelines For Plan Sponsors” for more details.

For your convenience as you work through these issues, we have included the definition of “fiduciary” under Section 3(21) of ERISA, as well as “fiduciary duties” under Department of Labor regulations, in Section V of this guide.

III. GUIDELINES FOR PLAN SPONSORS

Having provided an overview, we now want to specifically address two practical issues you will face:

- Does your plan need a trust to hold the compensation that you will receive?
- How will you allocate that compensation?

Does your plan need a trust?

ERISA generally requires all retirement plan assets to be held in a separate trust. There are exceptions to the trust requirement, however, for plan assets consisting of insurance policies or annuity contracts or assets held by an insurance company, for example, in separate accounts. As a result, employers who fund their plans solely through Principal Life group annuity contracts might not have trusts. In those cases, the plan sponsors will usually be the record owners of those policies. If the pension or profit sharing plan already has a trust, the policy may have been issued to the trustee, in which case the compensation will be payable to the trustee, as owner. But in the many cases where there is no trust, the compensation will be distributed to the employer, as record owner of the policy.

The U.S. Department of Labor (“DOL”) has expressed the view that compensation paid under such circumstances belongs to the plan and is a plan asset. However, in a recent letter issued by the DOL in connection with another demutualization, the DOL indicated that if a plan sponsor is not otherwise required to maintain a trust for its ERISA plan, the plan sponsor does not have to establish a trust solely to hold demutualization compensation if all of the following requirements are satisfied:

- The employer is not otherwise required to maintain a trust for its pension plan under Section 403 of ERISA (for example, because the plan is funded solely by insurance contracts and, therefore, is exempt from the trust requirement);
- The assets not held in trust consist solely of compensation received by the employer as a policyholder in connection with a demutualization;

- The demutualization compensation is placed in the name of the plan in an interest-bearing account (in the case of cash) or a custodial account (in the case of stock), as soon as reasonably possible following receipt, and the compensation is applied to plan benefit enhancements as soon as reasonably possible but no later than 12 months following receipt;
- The assets are subject to the control of a designated plan fiduciary; and
- The designated fiduciary maintains all documents and records required by ERISA in connection with the receipt, holding, and application of the demutualization compensation.

You may want to consult with your own legal counsel to determine whether and how the DOL's recent guidance may help you.

In light of the DOL's recent guidance, an employer who owns a group annuity contract to fund its retirement plan, and who expects to receive compensation with respect to that contract, will have the following options, in addition to establishing a trust to receive the compensation:

- Choose a Policy Credit option (Separate Account Policy Credit or Account Value Policy Credit), so that the compensation simply enhances the value of the group annuity contract without being paid directly to the employer.
- Apply the compensation to enhance plan benefits under existing, supplemental or new insurance policies or contracts or toward future participant premium payments.
- Follow all of the requirements outlined in the DOL's recent guidance summarized above.

Allocation of Compensation

Generally, **defined benefit plans** do not allow individual participant accounts. Unless we receive other direction from you, any policy credits received in connection with a defined benefit plan will be held unallocated in the plan, and it can be considered investment income of the plan in the year of receipt.

For **defined contribution plans**, the compensation can also be treated as earnings of the plan and it may be allocated among plan participant accounts. There are no specific rules governing how this allocation should be done. Most plans allocate investment earnings from an investment or fund among those participant accounts that hold an interest in that particular investment or fund. **If Principal Life is your recordkeeper, we will allocate the compensation for your plan among the accounts of all plan participants who have account balances on the effective date of the demutualization unless we receive written instructions from you as to another allocation method.** Each defined contribution plan participant, with an account balance under the contract on the effective date of the demutualization, will be allocated his or her proportionate share of the compensation – as a percent of the value of all plan participant account balances under the group annuity contract as of the effective date of the demutualization.

Other acceptable allocation methods. In general, employers have a good deal of flexibility in formulating a method for allocating the compensation. For example, the employer may wish to allocate the compensation equally among all participants or exclude former employees who still maintain plan account balances. Most plans would, however, require an amendment to do this. The principal concerns are that the allocation be fair and equitable and not cause the plan to discriminate in favor of highly compensated employees in violation of section 401(a)(4) of the Internal Revenue Code (the “Code”) and the related IRS regulations. In most cases, an employer can make the allocation on its own. Where a plan fiduciary may be involved in an allocation that could benefit himself or herself (for example, when the allocation decision would otherwise fall to a plan fiduciary who also has a plan account), it may be advisable to retain an independent party to approve the allocation, to avoid any appearance of self-dealing.

When compensation is investment income. Section 415 of the Code limits the amount that can be allocated to a participant in any plan year to the lesser of \$35,000 or 25% of compensation for that year. In our view, demutualization compensation a plan receives should be treated as plan earnings for the year and, therefore, should not count as an “annual addition” or be subject to the \$35,000 or 25% limit.

ERISA 404(c) plans. Section 404(c) of ERISA allows participants to direct the investment of assets allocated to their accounts. If you receive a Separate Account Policy Credit, the compensation will be invested wholly in this separate account for each plan participant who shares in the allocation of the demutualization compensation. The participants will then be able to decide for themselves whether to keep their interest in that fund or transfer to another fund available under your plan. If you receive an Account Value Policy Credit, your plan participants will receive their relative share in the form of additional earnings allocated pro-rata across their own investments under the group annuity contract.

IMPORTANT – if the compensation is in the form of common stock of Principal Financial Group, Inc. (outside the separate account), your plan may need to be amended to authorize continued investment in the common stock. Most 404(c) plans contain a predetermined menu of investment options and may not be designed to hold individual securities. If you do not wish to amend your plan, you may want to choose to receive Policy Credits or cash, which could be redirected to other available investment options. It is not advisable to distribute the compensation directly to participants (rather than to their plan accounts) or otherwise to remove it from the plan. The distribution could cause the plan to lose its tax-qualified status, trigger the 10% excise tax on distributions to participants under age 59½ under Section 72(t) of the Code and cause other significant adverse results.

Terminated plans. Some contract holders maintain group contracts in connection with plans that have terminated. In such cases, it will be necessary to consult the plan document and group contract to determine how to deal with the demutualization compensation. Some plans provide that once all plan benefits have been provided to participants (either in cash or through the distribution of annuity certificates), any surplus assets in the plan may revert to the employer. Other plans, particularly those where employees have contributed to the cost of their pensions, require surplus assets to be used to increase benefits. This is a technical area, and we urge you to seek the help of a tax or benefits consultant if you are holding a contract for a

terminated plan. The reversion of surplus assets to an employer can trigger substantial excise taxes. These taxes can be reduced, however, if the employer applies the surplus for the benefit of employees as described in the Code.

IV. TAX AND OTHER ISSUES

The compensation received by a policyholder under our Plan should be treated as having been received in exchange for the policyholder's membership interest in Principal Mutual Holding Company. The IRS has ruled that compensation received for a membership interest has a "zero basis" for tax purposes, so the entire value of the compensation would be considered gain to the policyholder in the year the demutualization becomes effective. The gain from the disposition of an asset (the membership interest) would be reported and accounted for similar to the gain from the sale of any other asset, such as gain from the sale of stock. The information provided below describes if and when this gain is taxable.

Pension & Profit-Sharing plans with a trust. If the policyholder is a pension or profit-sharing plan with a qualified trust, the trust is tax-exempt under Section 401(a) and Section 501(a) of the Code, and the receipt of compensation will not result in tax liability for the trust.

Non-trusteed Pension plans. For non-trusteed pension plans, the policyholder is most likely to be the plan sponsor. When the plan sponsor receives either cash or common stock compensation, the tax treatment of that compensation is uncertain. The tax treatment of compensation in the form of Policy Credits (either Separate Account Policy Credits or Account Value Policy Credits) is certain because the compensation remains in the plan. Policy Credits will not be taxable income to the policyholder or adversely affect the qualified status of the plan. This is one of the reasons we have designed the Plan so that Policy Credits are the "default" form of compensation for Qualified Plan Customers. (In other words, it is the form of compensation that you will be deemed to have elected to receive if you do not return your election form).

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A plan sponsor who elects common stock or cash compensation for the plan could immediately establish a Section 401(a) qualified trust and deposit the compensation into the trust. In that case, the plan sponsor could take the position that the compensation never belonged to the sponsor, but belonged to the plan and was received by the sponsor as agent for the plan, and immediately placed in trust in compliance with the ERISA Section 403(a) trust requirement. The sponsor would not reflect the receipt of the compensation on its own books or tax reports. That compensation would be reflected instead on the Form 5500 filed for the plan. There is, however, no published authority, ruling, regulation or case law confirming this treatment. **This is why Policyholder Information Booklet Part One recommends that sponsors of non-trusted plans who elect cash or common stock establish a trust and transfer the contract to it prior to the conversion.** This procedure avoids the uncertainty that arises when the compensation passes through the hands of the employer.

When compensation is used to pay expenses.

Similarly, issues arise when an employer elects to apply the compensation to pay benefits or plan expenses. For example, suppose an employer receiving compensation in the form of cash decides to use the cash to pay the plan's consultants for their work in preparing a summary plan description or the plan's Form 5500. These are normally considered administrative expenses properly chargeable against plan assets. However, it is not clear in this case whether the employer should reflect the cash as income and then deduct the administrative expense or, more consistently with the "plan asset" theory, record nothing on its books or tax returns and reflect the income and expense items on the plan's Form 5500. Again, establishing a trust in advance of the effective date of the demutualization resolves the uncertainty, but it may involve more expense than is warranted by the amount of compensation.

When compensation belongs to the employer. In some cases, an employer may determine that the compensation is not a plan asset, but belongs to the employer. For example, some employers own contracts providing benefits under unfunded arrangements that provide deferred compensation, on a non-qualified basis, for a select group of management or highly compensated employees. A contract or policy issued in connection with such a plan would ordinarily be an asset of the employer. In that case, the employer would be entitled to retain the demutualization compensation. The receipt of common stock would be tax free, and taxable income, in the form of capital gain, would be recognized when the shares are sold. The receipt of cash would be taxable as capital gain, long- or short-term, depending upon whether the policyholder has owned its policy for more than one year prior to the receipt of the cash.

DOL & IRS Reporting. We are not required to file any reports or information returns with the DOL regarding the payment of demutualization consideration to a contract holder. In a number of cases involving prior demutualizations, the DOL has conducted compliance audits to determine whether employers have properly dealt with the compensation they received. In the event of such an audit or investigation, the DOL would be entitled to obtain information as to the identity of the payee and the amount paid.

As to the IRS, generally, payments in the form of cash of \$10 or more to individuals, not corporations, will be reported on Form 1099.

Section 406(a) of ERISA and Section 4975 of the Code generally prohibit transactions between employee benefit plans and parties related to those plans (so-called "parties in interest" or "disqualified persons"). Principal Life may be a party in interest or disqualified person with respect to many employee benefit plans holding Principal Life group annuity contracts. If so, the exchange that occurs in a demutualization, where a plan policyholder receives compensation in exchange for its membership interest, could be viewed as prohibited under ERISA and the Code.

We have applied to the DOL for an exemption from the prohibited transaction rules to permit plan policyholders to receive compensation in the demutualization. The DOL has issued similar exemptions in other demutualizations and we expect them to issue an exemption for our conversion. Policyholders that are plans subject to ERISA will receive a special notice when the DOL publishes the exemption in proposed form in the Federal Register.

V. FIDUCIARY INFORMATION

As an owner of a group annuity contract for a retirement plan, you will face a number of decisions relating to Principal Mutual Holding Company's Plan of Conversion. Plan sponsors and plan fiduciaries will need to analyze which of these decisions are governed by the fiduciary duty standards imposed by ERISA and which may be considered non-fiduciary because they are decided as a business matter strictly as an employer, such as plan design issues.

"Fiduciary" defined. Section 3(21) of ERISA provides that a "fiduciary" is a person who exercises any discretionary authority or discretionary control respecting management of a plan or exercises any authority or control respecting management or disposition of its assets. A person will also be a fiduciary of a plan to the extent he or she has any discretionary authority or discretionary responsibility in the administration of the plan. Fiduciaries are held to the highest standards of care known to the law, including the requirement to act "solely in the interest of the participants and beneficiaries" of the plan. See Section 404(a)(1) of ERISA.

You should remember that if the policy is an asset of the plan, which means that the plan is entitled to the compensation, those parties with discretion over the disposition of the compensation will be fiduciaries under ERISA. They must exercise their discretion solely in the interests of the participants and beneficiaries. The fact that an employer is listed as the record owner of a group annuity policy, and is the party to whom the compensation is distributed, is not determinative of whether the employer

will be subject to ERISA's fiduciary standards in dealing with the compensation. These issues, including whether a particular policy is an asset of a plan, should be addressed by policyholders with their counsel.

Fiduciary duties. Section 404(a)(1)(B) of ERISA requires that a fiduciary discharge his duties with respect to a plan "... with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims."

This duty of prudence requires a fiduciary to give appropriate consideration to those facts and circumstances that the fiduciary knows or should know are relevant to the particular investment or investment course of action involved. For example, an employer sponsoring a group life insurance program might conclude that shares of stock are not an investment that is appropriate for a welfare benefit plan like his, which is not funded by any investments other than the insurance policy. Another employer may sponsor a defined benefit plan and may determine that the shares of stock are a potentially favorable investment for the plan and choose to retain them for the plan. The decision whether to continue to retain the shares, or withdraw them for sale, is also an investment decision to be made in conformity with ERISA and DOL regulations.

If your plan is subject to ERISA and your group annuity contract is entitled to compensation that will belong to that plan, what do these fiduciary rules require you to do?

The plan fiduciary must first decide whether the implementation of the Plan will be in the best interest of the plan's participants and beneficiaries. This will determine how the fiduciary will vote on the Plan of Conversion. The fiduciary should undertake a careful review of the Policyholder Information Booklet Parts One and Two, and this guide.

Once the fiduciary has decided how to vote, the fiduciary must then decide whether to receive compensation in the form of stock, cash or Policy Credits.

This is essentially an investment decision, one that will relate to the type of plan concerned and how it is funded. This investment decision should be made in conformity with DOL regulations, particularly DOL Reg. § 2550.404a-1, 29 C.F.R. § 2550.404a-1, dealing with investment duties, and with consideration of the type of plan involved.

Non-Fiduciary decisions. There are other decisions to be made that might fall into the same category as “plan design” and be considered non-fiduciary decisions that need not comply with the ERISA fiduciary rules. For example, a profit sharing or Section 401(k) plan ordinarily has a formula for allocating employer contributions and fund

earnings among participants. If a plan sponsor wished to change this formula to provide for a different allocation for the compensation received from us in the demutualization, the plan could be amended to do so (taking into account the applicable nondiscrimination rules). Arguably, in deciding to adopt such an amendment, the plan sponsor would not be acting as a fiduciary, but it would be exercising business judgment as to appropriate plan design. Plan sponsors should consult with their own benefit counsel and other advisors on this issue. Of course, the amendment would still have to comply with the technical rules of ERISA and the Code (e.g., no prohibited discrimination, no reduction of accrued benefits, etc.).

Please read the Policyholder Information Booklet Part One for important information about Principal Mutual Holding Company’s proposed plan to convert into a stock company.

DEMUTUALIZATION INFORMATION CENTER

We have established a Demutualization Information Center to assist you. Because of regulatory restrictions, your agent or other company representative is not allowed to give you advice about the demutualization. However, our trained representatives can help answer your questions on the Plan or on completing the enclosed Cards.

THE TOLL-FREE NUMBER IS:

1-866-781-1369
(7 a.m. – 7 p.m., Central Daylight Time, weekdays)

OR WRITE US AT:

Demutualization Information Center
P. O. Box 4425
South Hackensack, New Jersey 07606-2025

POLICYHOLDERS' PACKAGE, SPECIAL MEMBERS' MEETING & PUBLIC HEARING

YOUR PACKAGE INCLUDES:

- Policyholder Guide – Please read the instructions in this guide, and promptly complete, sign and return Cards 1 and 3, and, if applicable, Card 4. This Guide includes issues for employers and plan fiduciaries to consider.
- Ballot and Other Cards (Policyholders eligible to vote will receive Cards 1 and 2. Policyholders eligible for demutualization compensation will also receive Cards 3 and 4).

CARD NUMBER	CARD NAME	WHAT YOU NEED TO DO
1	Ballot Card	Complete, sign and mail
2	Policyholder Record Card	Retain this card for your records
3	Taxpayer Identification Card	Complete, sign and mail
4	Form of Compensation Card	DO NOT RETURN THIS CARD UNLESS: <ul style="list-style-type: none">• You are a Qualified Plan Customer ("QPC") as indicated on Card 4, and you prefer compensation in a form other than a Separate Account Policy Credit;• You are a QPC whose group annuity contract was issued in California and you prefer compensation in a form other than common stock; OR <ul style="list-style-type: none">• You are a Non-Rule 180 Qualified Plan Customer as indicated on Card 4, and you prefer compensation in a form other than an Account Value Policy Credit. If you have a defined contribution plan and your compensation is in the form of a Separate Account Policy Credit or an Account Value Policy Credit, we will allocate compensation among plan participants as outlined in Question #29 of this guide unless you instruct us otherwise via facsimile at 515-362-1383, attention RIS Demutualization Team, by August 1, 2001.

- Policyholder Information Booklet (Parts One and Two).
- A postage-paid Business Reply return envelope. If you have misplaced the envelope, you may send the Cards to Demutualization Information Center, Church Street Station, P.O. Box 1481, New York, New York 10277-1481. **Mailed Cards must be received prior to the close of the Special Members' Meeting on July 24, 2001.**

ALL POLICYHOLDERS ARE INVITED TO THE FOLLOWING:

SPECIAL MEMBERS' MEETING*

Principal Mutual Holding Company
July 24, 2001, 9:00 a.m., Central Daylight Time
Corporate One Auditorium
711 High Street
Des Moines, Iowa 50392

PUBLIC HEARING BEFORE THE INSURANCE COMMISSIONER OF THE STATE OF IOWA*

July 25, 2001, 9:30 a.m., Central Daylight Time
Wallace Building Auditorium
State Capitol Complex
East 9th and Grand Avenue
Des Moines, Iowa 50319

*You are not required to attend the Special Members' Meeting or the Public Hearing in order to continue your policy or receive compensation under the Plan. For more details on the Special Members' Meeting or the Public Hearing, please refer to the Policyholder Information Booklet Part One. You may vote on the Plan by (1) mailing in the ballot or (2) appearing in person at the Special Members' Meeting.



Demutualization Information Center
P.O. Box 4425
South Hackensack, New Jersey 07606-2025