

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 1-866-781-1368 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

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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 section entitled “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. Eligible Policyholders who receive this Guide will receive Principal Financial Group, Inc. common stock, cash or Policy Credits.

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.

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

POLICYHOLDER

QUESTIONS AND ANSWERS

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 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. For estimated allocated shares eligible for a cash election, please refer to the instruction guide for Ballot and other Cards. There may be a limit on the amount of funds available to distribute as cash (please see the Policyholder Information Booklet Part One, “Compensation - Limit on Amounts Available for Cash and Policy Credit Compensation”). However, Eligible Policyholders who are allocated 100 or fewer shares of Principal Financial Group, Inc. common stock are guaranteed to receive cash, if they so elect.

If your Policyholder Record Card (Card 2) indicates that your policy or contract is eligible for cash only, you do not have the option to receive stock. If your Policyholder Record Card (Card 2) indicates that your policy or contract is eligible for Policy Credits only, you do not have the option to receive stock or cash with respect to that policy.

16. | 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.

17. | 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.

18. | 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).
- Determine if this compensation should be considered part of your retirement plan funds, if you have an ongoing plan.
- Determine if the compensation should be used to provide benefits for plan participants, if the plan has terminated. See Section III, Guidelines For Plan Sponsors.

19. | 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.

20. | What compensation options will be available to my group insurance policy?

Review your Form of Compensation Card (Card 4) for the options specific to your policy. Generally two options will be available:

- (1) Cash
- (2) Common Stock

POLICYHOLDER

QUESTIONS AND ANSWERS

21. | What is the difference between the Cash Option and the Common Stock Option?

The cash option involves a direct cash payment to you, which would be made by check. The common stock option provides you with shares of common stock of Principal Financial Group, Inc. There may be a limit on the amount of funds available to distribute as cash. Therefore, some policyholders who are allocated more than 100 shares may receive Principal Financial Group, Inc. common stock even though they elected cash.

22. | What factors should I consider in deciding between these options?

The choice of cash or stock is largely an investment decision. Cash provides flexibility because it can be applied to other investments or to any appropriate plan purposes. Stock represents an investment in Principal Financial Group, Inc. 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.

23. | 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 required 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 on behalf of the plan without the use of a trust. Further, the DOL has indicated that under certain conditions, (a) demutualization cash compensation can be placed in an interest-bearing account and promptly applied for plan purposes and (b) demutualization stock compensation can be placed in a custodial account and promptly applied for plan purposes. Please see Questions 24 and 25 below for more information.

You should also be aware that if the compensation belongs to the plan, receipt of cash or common stock by plan sponsors of a plan that has no trustee creates issues and uncertainties as to tax treatment of the compensation. You may wish to seek legal and other professional advice regarding these matters.

24. | 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.

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 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.

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. 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. If your plan has terminated, see Section III, Guidelines For Plan Sponsors. You may wish to seek legal and other professional advice regarding these matters.

For those group annuity contracts not subject to ERISA, other state statutes or other regulatory laws may apply. You may wish to seek professional advice to determine if any of the rules or regulations that apply affect you.

25. | 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 can be considered investment earnings for the plan in the year of receipt. Generally, defined benefit plans do not allow individual participant accounts, so the compensation will normally not be allocated among participants.

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 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.

26. | 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-trusted plan sponsors, any receipt of cash or common stock creates issues and uncertainties as to the tax treatment of that compensation.

Regardless of the form of compensation you receive, you must sign and return Taxpayer Identification Card (Card 3). Without the certification that is 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.

27. | 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 the stock based compensation (and limitations on that compensation) to officers, directors and employees.

28. | 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 1-866-781-1368. 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.
- 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 1-866-781-1368.
- 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.
- 7 Some allocated shares are eligible for cash election. Card 2 indicates how many of the estimated shares are eligible for a cash election. Use Card 4 to elect cash if you are eligible. If Card 2 indicates that you are eligible only for Policy Credits, you will automatically receive Policy Credits and you do not need to complete Card 4.

BALLOT CARD (Card 1)

Policyholder ID **4**

Yes, I vote FOR

No, I vote AGAINST

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.

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 **3** 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 1-866-781-1368 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.

POLICYHOLDER RECORD CARD (Card 2)

Policyholder ID **5**

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.

TOTAL ESTIMATED ALLOCATED SHARES:	6
ESTIMATED ALLOCATED SHARES ELIGIBLE FOR CASH ELECTION ON CARD 4:	7

Questions? Call our Demutualization Information Center toll free at 1-866-781-1368 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.

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.

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.

8 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 Card 3. In either case, please read the Certification information (on the front of this Card 3) before signing and return Card 3 in the 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.**

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

10 The form of compensation you are eligible to receive is shown on Card 2. If you are eligible to receive cash for some or all of your estimated allocated shares and prefer cash, you must elect cash by marking an “X” in the box on Card 4 and return Card 4 in the enclosed envelope. If Card 2 indicates that you are eligible only for Policy Credits, you will automatically receive Policy Credits and do not need to complete Card 4.

PLEASE NOTE:

There may be a limit on the amount available to distribute as cash. Policyholders who are allocated 100 or fewer shares and who elect cash will receive cash. Since it is possible there will not be enough cash to distribute to all policyholders who prefer cash, some policyholders who are allocated more than 100 shares may receive stock even though they elected to receive cash on Card 4. Please refer to “Limit on Amounts Available for Cash and Policy Credit Compensation” in the Policyholder Information Booklet Part One.

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.

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

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

TABLE OF CONTENTS

I. EXECUTIVE OVERVIEW	10
II. COMPENSATION	11
III. GUIDELINES FOR PLAN SPONSORS	11
IV. TAX AND OTHER ISSUES	12
V. FIDUCIARY INFORMATION	14

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 the Plan 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 you want your compensation to be in the form of stock or cash. This is addressed in more detail in Section II, Compensation.

You may need to take certain actions with respect to compensation you receive, such as setting up a trust or allocating compensation among the participants in the plan. This is addressed in more detail in Section III, Guidelines for Plan Sponsors.

You should 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. For issues specific to terminated plans, see Section III, Guidelines For Plan Sponsors.

Forms of compensation available. Under our Plan, Eligible Policyholders will generally be entitled to receive compensation in the form of common stock or cash. **If you do not make an election, you will be deemed to have elected common stock because that is your “default” form of compensation unless you are required to receive Policy Credits.**

Limitations on funds available. You should be aware that there may be a limit on the funds available to distribute as cash to Eligible Policyholders allocated more than 100 shares. Some policyholders who are allocated more than 100 shares may receive stock even though they elected to receive cash. If you are allocated 100 or fewer shares, and you elect cash, you will receive cash.

Options available to you. The Form of Compensation Card (Card 4) included in your package indicates the options available to you. Policyholders receiving cash will receive an amount of cash equal to the final number of shares that 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 in mind that you may need to establish a trust to hold the common stock or cash that you receive for the benefit of the plan. See Section 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 specifically to 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.

Allocation of Compensation

Generally, **defined benefit plans** do not allow individual participant accounts. The compensation (whether it be stock or cash) received in connection with a defined benefit plan can typically 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 to those participant accounts that hold an interest in that particular investment or fund.

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.

IMPORTANT – if the compensation is in the form of common stock of Principal Financial Group, Inc., 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 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 59 ½ 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.

POLICYHOLDER

DEMUTUALIZATION GUIDE

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-trusted Pension Plans. For non-trusted 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.

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. The 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 who are 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 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, or cash. This is essentially an investment decision, one that will largely turn on the type of plan concerned and how it is funded. This investment decision should be made in conformity with the 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.).

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	Complete, sign and mail only if: <ul style="list-style-type: none">• You are eligible to elect cash and• You prefer to receive cash rather than stock

- 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

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:

1-866-781-1368
(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