

PRINCIPAL FINANCIAL SERVICES INC  
Form 424B5  
September 05, 2012

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Registration Nos. 333-174438  
333-174438-04

**This preliminary prospectus supplement and the information contained herein are subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. This preliminary prospectus supplement and the accompanying prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.**

**Subject to Completion  
Preliminary Prospectus Supplement Dated September 5, 2012**

**PROSPECTUS SUPPLEMENT  
(To Prospectus Dated May 24, 2011)**

\$

**PRINCIPAL FINANCIAL GROUP, INC.**

\$ % Senior Notes due 2022

\$ % Senior Notes due 2042

**Fully and Unconditionally Guaranteed by  
PRINCIPAL FINANCIAL SERVICES, INC.**

We are offering \$ of our % Senior Notes due 2022 (the "2022 Notes") and \$ of our % Senior Notes due 2042 (the "2042 Notes" and, together with the 2022 Notes, the "Notes"). The 2022 Notes will bear interest at a rate of % per year. The 2042 Notes will bear interest at a rate of % per year. Interest on the Notes is payable on March and September of each year, beginning on March , 2013. The 2022 Notes will mature on September , 2022. The 2042 Notes will mature on September , 2042. We may redeem the Notes of each series at any time at a make-whole redemption price described in the section entitled "Description of the Notes - Optional Redemption" in this prospectus supplement.

The Notes of each series will be fully and unconditionally guaranteed (each, a "Subsidiary Guarantee") by our subsidiary, Principal Financial Services, Inc., which is an intermediary holding company whose assets include all of the outstanding shares of our principal operating companies, including Principal Life Insurance Company.

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The Notes of each series will be our senior unsecured and unsubordinated obligations and will rank equally in right of payment with all of our existing and future senior indebtedness and senior to all of our existing and future subordinated indebtedness. Each Subsidiary Guarantee will be a senior unsecured and unsubordinated obligation of Principal Financial Services, Inc. and will rank equally in right of payment with all of its existing and future senior indebtedness and senior to all of its existing and future subordinated indebtedness.

The Notes of each series are a new issue of securities with no established trading market. The Notes will not be listed on any national securities exchange or included in any automated quotation system. Currently, there is no public market of the Notes of either series.

***Investing in the Notes involves risks. See "Risk Factors" beginning on page S-4 of this prospectus supplement.***

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

	Per 2022	Total	Per 2042	Total
	Note		Note	
Public Offering Price(1)	%	\$	%	\$
Underwriting Discounts	%	\$	%	\$
Proceeds to Principal Financial Group, Inc. (before expenses)	%	\$	%	\$

(1)

Plus accrued interest, if any, from September , 2012 if settlement occurs after that date.

The underwriters expect to deliver the Notes only in book-entry form through the facilities of The Depository Trust Company for the accounts of its direct participants, including Euroclear and Clearstream, against payment therefor, in New York, New York on or about September , 2012.

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*Joint Book-Running Managers*

**Citigroup**

**Barclays**

**Wells Fargo Securities**

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September , 2012

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You should rely only on the information contained in this prospectus supplement, any related free writing prospectus issued by us (which we refer to as a "company free writing prospectus"), the accompanying prospectus and the documents incorporated by reference in this prospectus supplement and the accompanying prospectus or to which we have referred you. We have not, and the underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus supplement, any related company free writing prospectus and the accompanying prospectus do not constitute an offer to sell, or a solicitation of an offer to purchase, the securities offered by this prospectus supplement, any related company free writing prospectus and the accompanying prospectus in any jurisdiction to or from any person to whom or from whom it is unlawful to make such offer or solicitation of an offer in such jurisdiction. You should not assume that the information contained in this prospectus supplement, any related company free writing prospectus and the accompanying prospectus or any document incorporated by reference is accurate as of any date other than the date of the applicable document. Neither the delivery of this prospectus supplement, any related company free writing prospectus and the accompanying prospectus nor any distribution of securities pursuant to this prospectus supplement and the accompanying prospectus shall, under any circumstances, create any implication that there has been no change in the information set forth or incorporated by reference into this prospectus supplement, any related company free writing prospectus and the accompanying prospectus or in our affairs since the date of this prospectus supplement. Our business, financial condition, results of operations and prospects may have changed since that date.

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This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering of Notes and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. The second part, the accompanying prospectus, gives more general information, some of which may not apply to this offering.

Unless otherwise indicated, or the context otherwise requires, references in this prospectus supplement and the accompanying prospectus to "Principal," the "Company," "we," "us" and "our" or similar terms are to Principal Financial Group, Inc. and its subsidiaries, references to the "Subsidiary Guarantor" are to Principal Financial Services, Inc., and references to "Principal Life" are to Principal Life Insurance Company.

We are offering to sell the Notes only in those jurisdictions in the United States, and may offer the Notes in those jurisdictions in Europe, Asia and elsewhere, where it is lawful to make such offers. The distribution of this prospectus supplement and the accompanying prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. Persons who receive this prospectus supplement and the accompanying prospectus should inform themselves about and observe any such restrictions. This prospectus supplement and the accompanying prospectus do not constitute, and may not be used in connection with, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to

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do so or to any person to whom it is unlawful to make such offer or solicitation. See "Underwriting" in this prospectus supplement.

You should read this entire prospectus supplement carefully, including the section entitled "Risk Factors," our consolidated financial statements and the related notes thereto incorporated by reference into this prospectus supplement and the accompanying prospectus and any related company free writing prospectus, before making an investment decision.

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**FORWARD-LOOKING STATEMENTS**

Some of the statements contained in this prospectus supplement and the accompanying prospectus may be forward-looking statements, including any statements about our projected financial condition and results of operations, future business operations or strategies, financing plans, competitive position, potential growth opportunities or the effects of competition and of future legislation or regulations. These statements can be identified by the use of forward-looking language such as "will likely result," "may," "should," "expects," "plans," "anticipates," "estimates," "projects," "intends," or the negative of these terms or other similar words or expressions. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and include estimates and assumptions related to economic, competitive and legislative developments. These forward-looking statements are subject to change and uncertainty which are, in many instances, beyond our control and have been made based upon management's expectations and beliefs concerning future developments and their potential effect upon us. There can be no assurance that future developments will be in accordance with management's expectations or that the effect of future developments on us will be those anticipated by management. Actual results could differ materially from those expected by us, depending on the outcome of various factors. These factors include:

adverse capital and credit market conditions may significantly affect our ability to meet liquidity needs as well as our access to capital and cost of capital;

continued difficult conditions in the global capital markets and the economy generally may materially and adversely affect our business and results of operations;

continued volatility or further declines in the equity markets could reduce our assets under management and may result in investors withdrawing from the markets or decreasing their rates of investment, all of which could reduce our revenues and net income;

changes in interest rates or credit spreads may adversely affect our results of operations, financial condition and liquidity, and our net income can vary from period-to-period;

our investment portfolio is subject to several risks that may diminish the value of our invested assets and the investment returns credited to customers, which could reduce our sales, revenues, assets under management and net income;

our valuation of fixed maturities and equity securities may include methodologies, estimations and assumptions which are subject to differing interpretations and could result in changes to investment valuations that may materially adversely affect our results of operations or financial condition;

the determination of the amount of allowances and impairments taken on our investments requires estimations and assumptions which are subject to differing interpretations and could materially impact our results of operations or financial position;

gross unrealized losses may be realized or result in future impairments, resulting in a reduction in our net income;

competition from companies that may have greater financial resources, broader arrays of products, higher ratings and stronger financial performance may impair our ability to retain existing customers, attract new customers and maintain our profitability;

a downgrade in our financial strength or credit ratings may increase policy surrenders and withdrawals, reduce new sales and terminate relationships with distributors, impact existing liabilities and increase our cost of capital, any of which could

adversely affect our profitability and financial condition;

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our efforts to reduce the impact of interest rate changes on our profitability and retained earnings may not be effective;

if we are unable to attract and retain sales representatives and develop new distribution sources, sales of our products and services may be reduced;

our international businesses face political, legal, operational and other risks that could reduce our profitability in those businesses;

we may face losses if our actual experience differs significantly from our pricing and reserving assumptions;

our ability to pay stockholder dividends and meet our obligations may be constrained by the limitations on dividends Iowa insurance laws impose on Principal Life;

the pattern of amortizing our deferred policy acquisition costs ("DPAC") and other actuarial balances on our universal life-type insurance contracts, participating life insurance policies and certain investment contracts may change, impacting both the level of the asset and the timing of our net income;

we may need to fund deficiencies in our closed block assets;

a pandemic, terrorist attack, or other catastrophic event could adversely affect our net income;

our reinsurers could default on their obligations or increase their rates, which could adversely impact our net income and profitability;

we face risks arising from acquisitions of businesses;

changes in laws, regulations or accounting standards may reduce our profitability;

we may be unable to mitigate the impact of Regulation XXX and Actuarial Guideline 38, potentially resulting in a negative impact to our capital position and a reduction in sales of term and universal life insurance products;

a computer system failure or security breach could disrupt our business, damage our reputation and adversely impact our profitability;

results of litigation and regulatory investigations may affect our financial strength or reduce our profitability;

from time to time we may become subject to tax audits, tax litigation or similar proceedings, and as a result we may owe additional taxes, interest, and penalties in amounts that may be material;



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fluctuations in foreign currency exchange rates could reduce our profitability;

applicable laws and our certificate of incorporation and by-laws may discourage takeovers and business combinations that some stockholders might consider in their best interests; and

our financial results may be adversely impacted by global climate changes.

Additional information concerning these and other factors is contained in our filings with the Securities and Exchange Commission (the "SEC"), including but not limited to our Annual Report on Form 10-K for the year ended December 31, 2011 and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, each incorporated by reference in this prospectus supplement and the accompanying prospectus, and the risk factors or uncertainties listed in the section entitled "Risk Factors" in this prospectus supplement.

We undertake no obligation to update publicly these forward-looking statements to reflect new information, future events or otherwise.

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**PROSPECTUS SUPPLEMENT SUMMARY**

*This summary highlights information contained elsewhere in this prospectus supplement and the accompanying prospectus or incorporated by reference in this prospectus supplement and the accompanying prospectus. This summary does not contain all of the information that you should consider before deciding to invest in the Notes. You should read this entire prospectus supplement and the accompanying prospectus carefully, including the section entitled "Risk Factors" in this prospectus supplement and the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, which contain our consolidated financial statements and the related notes.*

**Principal Financial Group**

The Principal Financial Group is a leading provider of retirement savings, investment and insurance products and services with \$367.1 billion in assets under management and approximately 18.2 million customers worldwide as of June 30, 2012.

Our U.S. and international operations concentrate primarily on asset accumulation and management. In addition, we offer a broad range of individual and group life insurance, individual and group disability insurance and group dental and vision insurance.

We primarily focus on small and medium-sized businesses, which we define as companies with less than 1,000 employees, providing a broad array of retirement and employee benefit solutions to meet the needs of the business, the business owner and their employees. With over 29,000 plans as of June 30, 2012, we are a leading provider of corporate defined contribution plans in the U.S. We are also the leading employee stock ownership plan consultant. In addition, we are a leading provider of nonqualified plans and defined benefit plans, and are one of the top providers of plan termination annuities. We are also one of the largest providers of specialty benefits insurance product solutions.

We believe small and medium-sized businesses are an underserved market, offering attractive growth opportunities in the U.S. in retirement services and other employee benefits. We also believe there is a significant opportunity to leverage our U.S. retirement expertise into select international markets that have adopted or are moving toward private sector defined contribution pension systems. This opportunity is particularly compelling as aging populations around the world are driving increased demand for retirement accumulation, retirement asset management and retirement income management solutions.

We organize our business into the following operating segments: (1) Retirement and Investor Services, which provides a comprehensive portfolio of asset accumulation products and services for retirement savings and related investment products and services to businesses and individuals in the U.S., with a concentration on small and medium-sized businesses; (2) Principal Global Investors, which provides a diverse range of asset management services using a multi-boutique strategy that covers an expanded range of asset classes, investment styles and portfolio structures to our other segments and third-party institutional clients; (3) Principal International, which provides retirement products and services, annuities, mutual funds, institutional asset management and life insurance accumulation products through subsidiaries and joint ventures in various countries; and (4) U.S. Insurance Solutions, which provides individual life insurance and specialty benefits, which includes group dental, group vision, individual and group disability and group life insurance, as well as wellness services and non-medical fee-for-service claims administration, throughout the U.S. We also have a Corporate segment, which consists of the assets and activities that have not been allocated to any other segment.

We were organized as an individual life insurer in 1879, formed a mutual insurance holding company in 1998, and Principal Financial Group, Inc. was organized on April 18, 2001 as a Delaware business corporation. Under the terms of Principal Mutual Holding Company's Plan of Conversion, Principal Mutual Holding Company converted from a mutual insurance holding company to a stock company subsidiary of Principal Financial Group, Inc., effective October 26, 2001, when we completed our initial public offering.

The principal executive office for Principal Financial Group, Inc. is located at 711 High Street, Des Moines, Iowa 50392, and the telephone number is (515) 247-5111.

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**The Offering**

*The terms of the Notes are summarized below solely for your convenience. This summary is not a complete description of the Notes. You should read the full text and more specific details contained elsewhere in this prospectus supplement, any company free writing prospectus and the accompanying prospectus. For a more detailed description of the Notes, see the discussion in the section entitled "Description of the Notes" in this prospectus supplement and "Description of the Debt Securities" in the accompanying prospectus.*

<b>Issuer</b>	Principal Financial Group, Inc.
<b>Subsidiary Guarantor</b>	Principal Financial Services, Inc.
<b>Notes Offered</b>	\$ _____ aggregate principal amount of _____ % Senior Notes due 2022. \$ _____ aggregate principal amount of _____ % Senior Notes due 2042. We refer to the 2022 Notes and the 2042 Notes together as the "Notes."
<b>Maturity</b>	The 2022 Notes will mature on September _____, 2022. The 2042 Notes will mature on September _____, 2042.
<b>Interest Payment Dates</b>	March _____ and September _____ of each year, beginning on March _____, 2013.
<b>Subsidiary Guarantee</b>	The Notes of each series will be fully and unconditionally guaranteed by our subsidiary, Principal Financial Services, Inc. See "Description of the Notes Subsidiary Guarantee" in this prospectus supplement.
<b>Record Dates</b>	The _____ or _____ of each year immediately preceding the related interest payment date.
<b>Optional Redemption: No Sinking Fund</b>	The Notes of each series may be redeemed at any time and from time to time, at our option, in whole or in part, as described in the section entitled "Description of the Notes Optional Redemption" in this prospectus supplement. The Notes will not have the benefit of any sinking fund.
<b>No Listing</b>	The Notes will not be listed on any national securities exchange or included in any automated quotation system.
<b>Ranking</b>	The Notes of each series will be our senior unsecured and unsubordinated obligations and will rank equally in right of payment with all of our existing and future senior indebtedness and senior to all of our existing and future subordinated indebtedness. Each Subsidiary Guarantee will be a senior unsecured and unsubordinated obligation of Principal Financial Services, Inc. and will rank equally in right of payment with all of its existing and future senior indebtedness and senior to all of its existing and future subordinated indebtedness.

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**Use of Proceeds**

We estimate that our net proceeds from the offering will be approximately \$        million after deducting the underwriting discounts and estimated offering expenses payable by us. We intend to use the estimated net proceeds from this offering for general corporate purposes, which may include the repayment of debt (including \$400 million aggregate principal amount of our outstanding 7.875% Senior Notes due May 15, 2014 (the "2014 Notes")), potential acquisitions and organic growth. This prospectus supplement does not constitute a notice of redemption under the indenture governing the 2014 Notes nor an offer to tender for, or purchase, any 2014 Notes or any other security. The ultimate use of the net proceeds from this offering is subject to the discretion of our Board of Directors in light of market conditions and other relevant factors. Wells Fargo Securities, LLC, one of the joint book-running managers, owns a portion of the 2014 Notes that may be repaid with the net proceeds from this offering and, therefore, may receive more than 5% of the net proceeds from this offering. See "Use of Proceeds" and "Conflicts of Interest" in this prospectus supplement.

**Denominations**

The Notes are to be issued in denominations of \$2,000 or any multiple of \$1,000 in excess thereof.

**Covenants**

The Senior Indenture (as defined in the section entitled "Description of the Notes" in this prospectus supplement) contains negative covenants that apply to us; however, the limitation on liens and the limitation on consolidation, merger and sale of assets contain important exceptions. See "Description of the Debt Securities Limitations upon Liens" and " Consolidation, Merger and Sale of Assets" in the accompanying prospectus.

**Risk Factors**

See "Risk Factors" in this prospectus supplement and the other information included in or incorporated by reference in this prospectus supplement and the accompanying prospectus for a discussion of factors you should carefully consider before deciding to invest in the Notes.

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**RISK FACTORS**

*An investment in the Notes involves certain risks. In considering whether to purchase the Notes, you should carefully consider the risks described below and all of the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus, including but not limited to, our Annual Report on Form 10-K for the year ended December 31, 2011 and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 and other information that may be incorporated by reference in this prospectus supplement and the accompanying prospectus after the date hereof. Our business, financial condition, results of operations and prospects could be materially adversely affected by any of these risks.*

**Risks Related to Our Business**

***Adverse capital and credit market conditions may significantly affect our ability to meet liquidity needs, as well as our access to capital and cost of capital.***

Since mid-2007, the capital and credit markets have been experiencing extreme volatility, uncertainty and disruption. Our results of operations, financial condition, cash flows and statutory capital position could be materially adversely affected by continued volatility, uncertainty and disruption in the capital and credit markets.

We maintain a level of cash and securities which, combined with expected cash inflows from investments and operations, is believed adequate to meet anticipated short-term and long-term benefit and expense payment obligations. However, withdrawal and surrender levels may differ from anticipated levels for a variety of reasons, such as changes in economic conditions or changes in our claims paying ability and financial strength ratings. For additional information regarding our exposure to interest rate risk and the impact of a downgrade in our financial strength ratings, see "Changes in interest rates or credit spreads may adversely affect our results of operations, financial condition and liquidity, and our net income can vary from period-to-period" and "A downgrade in our financial strength or credit ratings may increase policy surrenders and withdrawals, reduce new sales and terminate relationships with distributors, impact existing liabilities and increase our cost of capital, any of which could adversely affect our profitability and financial condition" under this "Risk Factors" section. In the event our current internal sources of liquidity do not satisfy our needs, we may have to seek additional financing and, in such case, we may not be able to successfully obtain additional financing on favorable terms, or at all. The availability of additional financing will depend on a variety of factors such as market conditions, the general availability of credit, the volume of trading activities, the overall availability of credit to the financial services industry, our credit ratings and credit capacity, as well as customers' or lenders' perception of our long- or short-term financial prospects. Similarly, our access to funds may be impaired if regulatory authorities or rating agencies take negative actions against us.

Disruptions, uncertainty or volatility in the capital and credit markets may limit our access to capital required to operate our business, most significantly our insurance operations. Such market conditions may limit our ability to replace, in a timely manner, maturing liabilities; satisfy statutory capital requirements; fund redemption requests on insurance or other financial products; generate fee income and market-related revenue to meet liquidity needs and access the capital necessary to grow our business. As such, we may be forced to delay raising capital, issue shorter tenor securities than we prefer, utilize available internal resources or bear an unattractive cost of capital, which could decrease our profitability and significantly reduce our financial flexibility and liquidity.

For further discussion on liquidity risk management, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 incorporated by reference herein.

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***Continued difficult conditions in the global capital markets and the economy generally may materially and adversely affect our business and results of operations.***

Our results of operations are materially affected by conditions in the global capital markets and the economy generally, both in the U.S. and elsewhere around the world. Recently, concerns over the slow economic recovery, the level of U.S. national debt and structural deficits, the European sovereign debt crisis, the U.S. mortgage market, inflation levels, energy costs and geopolitical issues have contributed to increased volatility and diminished expectations for the economy and the markets going forward. These factors, combined with volatile oil prices, reduced business and consumer confidence and continued high unemployment, have negatively impacted the U.S. economy. Initially, the concerns on the part of market participants were focused on the subprime segment of the mortgage-backed securities market. However, these concerns expanded to include a broad range of mortgage- and asset-backed and other fixed income securities, including those rated investment grade, the U.S. and international credit and interbank money markets, generally, and a wide range of financial institutions and markets, asset classes and sectors. Although liquidity has improved, the market for fixed income instruments has continued to experience some price volatility, credit downgrade events and elevated probabilities of default. Our assets under management and revenues may decline in such circumstances and our profit margins could erode. In addition, in the event of extreme prolonged market events, such as the global credit crisis, we could incur significant losses. Even in the absence of a market downturn, we are exposed to substantial risk of loss due to market volatility.

Factors such as consumer spending, business investment, government spending, the volatility and strength of the capital markets, investor and consumer confidence and inflation levels all affect the business and economic environment and, ultimately, the amount and profitability of our business. In an economic downturn characterized by higher unemployment, lower family income, lower corporate earnings, lower business investment, negative investor sentiment and lower consumer spending, the demand for our financial and insurance products could be adversely affected. In addition, we may experience an elevated incidence of claims and lapses or surrenders of policies. Our policyholders may choose to defer paying insurance premiums or stop paying insurance premiums altogether. In addition, reductions in employment levels of our existing employer customers may result in a reduction in membership levels and premium income for our specialty benefits products. Participants within the retirement plans for which we provide administrative services may elect to reduce or stop their payroll deferrals to these plans, which would reduce assets under management and revenues. In addition, reductions in employment levels may result in a decline in employee deposits into retirement plans. Adverse changes in the economy could affect net income negatively and could have a material adverse effect on our business, results of operations and financial condition.

***Continued volatility or further declines in the equity markets could reduce our assets under management and may result in investors withdrawing from the markets or decreasing their rates of investment, all of which could reduce our revenues and net income.***

Domestic and international equity markets experienced severe declines and heightened volatility in 2008 and early 2009. Although equity markets have been recovering, equity values still remain below the values achieved in 2007. Because the revenues of our asset management and accumulation businesses are, to a large extent, based on the value of assets under management, a decline in domestic and global equity markets will decrease our revenues. Turmoil in these markets could lead investors to withdraw from these markets, decrease their rates of investment or refrain from making new investments, which may reduce our net income, revenues and assets under management.

For further discussion on equity risk management, see "Quantitative and Qualitative Disclosures About Market Risk - Equity Risk" in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 incorporated by reference herein.

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***Changes in interest rates or credit spreads may adversely affect our results of operations, financial condition and liquidity, and our net income can vary from period-to-period.***

We are exposed to significant financial and capital markets risk, including changes in interest rates, credit spreads, equity prices, real estate values, foreign currency exchange rates, market volatility, the performance of the economy in general, the performance of the specific obligors included in our portfolio and other factors outside our control. Our exposure to interest rate risk relates primarily to the market price and cash flow variability associated with changes in interest rates. A rise in interest rates would increase unrealized losses in our investment portfolio and, if long-term interest rates rise dramatically within a six to twelve month time period, certain segments of our life insurance and annuities businesses may be exposed to disintermediation risk. Disintermediation risk refers to the risk that our policyholders may surrender their contracts in a rising interest rate environment, requiring us to liquidate assets in an unrealized loss position. Due to the long-term nature of the liabilities associated with certain segments of our life insurance businesses, sustained declines in long-term interest rates may subject us to reinvestment risks and increased hedging costs. In other situations, declines in interest rates may result in increasing the duration of certain life insurance liabilities, creating asset and liability duration mismatches.

Our investment portfolio also contains interest rate sensitive instruments, such as fixed income securities, which may be adversely affected by changes in interest rates from governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. A rise in interest rates would increase unrealized losses in our investment portfolio, offset by our ability to earn higher rates of return on funds reinvested. Conversely, a decline in interest rates would decrease the net unrealized loss position of our investment portfolio, offset by lower rates of return on funds reinvested. Although we take measures to manage the economic risks of investing in a changing interest rate environment, we may not be able to mitigate the interest rate risk of our assets relative to our liabilities.

Our exposure to credit spreads primarily relates to market price variability and reinvestment risk associated with changes in credit spreads. A widening of credit spreads would increase unrealized losses in our investment portfolio, would increase losses associated with credit-based derivatives we have sold that do not qualify or have not been designated for hedge accounting where we assume credit exposure and, if issuer credit spreads increase as a result of fundamental credit deterioration, would likely result in higher other-than-temporary impairments. Credit spread tightening will reduce net investment income associated with new purchases of fixed maturities. Credit spread tightening may also cause an increase in the reported value of certain liabilities that are valued using a discount rate that reflects our own credit spread. In addition, market volatility may make it difficult to value certain of our securities if trading becomes less frequent. As such, valuations may include assumptions or estimates that may have significant period-to-period changes from market volatility, which could have a material adverse effect on our results of operations or financial condition. Continuing challenges include continued weakness in the U.S. residential and commercial real estate market and increased mortgage delinquencies, investor anxiety over the U.S. economy, rating agency downgrades of various structured products and financial issuers, unresolved issues with structured investment vehicles and monolines, deleveraging of financial institutions and hedge funds and a serious dislocation in the inter-bank market. If significant, continued volatility, changes in interest rates, changes in credit spreads and defaults, a lack of pricing transparency, market liquidity, declines in equity prices, declines in inflation-adjusted investments and the strengthening or weakening of foreign currencies against the U.S. dollar, individually or in tandem, could continue to have a material adverse effect on our results of operations, financial condition or cash flows through realized losses, impairments and changes in unrealized positions.

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***Our investment portfolio is subject to several risks that may diminish the value of our invested assets and the investment returns credited to customers, which could reduce our sales, revenues, assets under management and net income.***

***An increase in defaults or write-downs on our fixed maturities portfolio may reduce our profitability.***

We are subject to the risk that the issuers of the fixed maturities we own will default on principal and interest payments, particularly if a major downturn in economic activity occurs. As of June 30, 2012, our U.S. investment operations held \$47.1 billion of fixed maturities, or 76% of total U.S. invested assets, of which approximately 7.1% were below investment grade, including \$534.8 million, or 1.1% of our total fixed maturities which we classified as either "problem," "potential problem" or "restructured."

Our U.S. fixed maturities portfolio includes securities collateralized by residential and commercial mortgage loans. As of June 30, 2012, our U.S. investment operations held \$4.6 billion of residential mortgage-backed securities, of which \$3.4 billion are Government National Mortgage Association, Federal National Mortgage Association or Federal Home Loan Mortgage Corporation pass-through securities, and \$3.7 billion of commercial mortgage-backed securities, which represent in combination 18% of our total fixed maturities portfolio. For residential mortgage-backed securities, prepayment speeds, changes in mortgage delinquency or recovery rates, credit rating changes by rating agencies, changes in property values underlying the loans and the quality of service provided by service providers on securities in our portfolios could lead to write-downs on these securities. For commercial mortgage-backed securities, changes in mortgage delinquency or default rates, interest rate movements, credit quality and vintage of the underlying loans, changes in property values underlying the loans and credit rating changes by rating agencies could result in write-downs of those securities. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Investments U.S. Investment Operations Fixed Maturities" in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 incorporated by reference herein.

As of June 30, 2012, the international investment operations of our fully consolidated subsidiaries held \$3.5 billion of fixed maturities, or 63%, of total international invested assets, of which 16% are government bonds. Some non-government bonds have been rated on the basis of the issuer's country credit rating. However, the ratings relationship between national ratings and global ratings is not linear with the U.S. The starting point for national ratings differs by country, which makes the assessment of credit quality more difficult. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Investments International Investment Operations" in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 incorporated by reference herein. An increase in defaults on our fixed maturities portfolio could harm our financial strength and reduce our profitability.

***An increased rate of delinquency and defaults on our commercial mortgage loans, especially those with amortizing balloon payments, may adversely affect our profitability.***

Our commercial mortgage loan portfolio faces both delinquency and default risk. Commercial mortgage loans of \$9.8 billion represented 14% of our total invested assets as of June 30, 2012. As of June 30, 2012, there were no loans that were in the process of foreclosure. The performance of our commercial mortgage loan investments, however, may fluctuate in the future. An increase in the delinquency rate of, and defaults under, our commercial mortgage loan portfolio could harm our financial strength and decrease our profitability.

As of June 30, 2012, approximately \$8.2 billion, or 84%, of our commercial mortgage loans before valuation allowance had amortizing balloon payment maturities. A balloon maturity is a loan with larger dollar amounts of payments becoming due in the later years of the loan. The default rate on commercial mortgage loans with balloon payment maturities has historically been higher than for commercial mortgage loans with standard repayment schedules. Since most of the principal is repaid at



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maturity, the amount of loss on a default is generally greater than on other commercial mortgage loans. An increase in defaults on such loans as a result of the foregoing factors could harm our financial strength and decrease our profitability.

***We may have difficulty selling our privately placed fixed maturities, commercial mortgage loans and real estate investments because they are less liquid than our publicly traded fixed maturities.***

We hold certain investments that may lack liquidity, such as privately placed fixed maturities, commercial mortgage loans and real estate investments. These asset classes represented approximately 38% of the value of our invested assets as of June 30, 2012.

If we require significant amounts of cash on short notice, we may have difficulty selling these investments in a timely manner, be forced to sell them for less than we otherwise would have been able to realize or both. The reported value of our relatively illiquid types of investments, our investments in the asset classes described above and, at times, our high quality, generally liquid asset classes, do not necessarily reflect the lowest possible price for the asset. If we were forced to sell certain of our assets in the current market, there can be no assurance that we will be able to sell them for the prices at which we have recorded them and we may be forced to sell them at significantly lower prices.

***The impairment of other financial institutions could adversely affect us.***

We use derivative instruments to hedge various risks we face in our businesses. See "Quantitative and Qualitative Disclosures About Market Risk" in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 incorporated by reference herein. We enter into a variety of derivative instruments, including interest rate swaps, interest rate collars, swaptions, futures, currency swaps, currency forwards, credit default swaps, options and total return swaps, with a number of counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks and other investment funds and other institutions. For transactions where we are in-the-money, we are exposed to credit risk in the event of default of our counterparty. We establish collateral agreements with nominal thresholds for a large majority of our counterparties to limit our exposure. However, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure. With regard to our derivative exposure, we have over-collateralization requirements on the portion of collateral we hold, based on the risk profile of the assets posted as collateral. We also have exposure to these financial institutions in the form of unsecured debt instruments and equity investments. Such losses or impairments to the carrying value of these assets may materially and adversely affect our business and results of operations.

***Our requirements to post collateral or make payments related to declines in market value of specified assets may adversely affect our liquidity and expose us to counterparty credit risk.***

Many of our derivative transactions with financial and other institutions specify the circumstances under which the parties are required to post collateral. The amount of collateral we may be required to post under these agreements may increase under certain circumstances, which could adversely affect our liquidity. In addition, under the terms of some of our transactions we may be required to make payment to our counterparties related to any decline in the market value of the specified assets. Such payments could have an adverse effect on our liquidity. Furthermore, with respect to any such payments, we will have unsecured risk to the counterparty as these amounts are not required to be segregated from the counterparty's other funds, are not held in a third-party custodial account, and are not required to be paid to us by the counterparty until the termination of the transaction.

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***Environmental liability exposure may result from our commercial mortgage loan portfolio and real estate investments.***

Liability under environmental protection laws resulting from our commercial mortgage loan portfolio and real estate investments may harm our financial strength and reduce our profitability. Under the laws of several states, contamination of a property may give rise to a lien on the property to secure recovery of the costs of cleanup. In some states, this kind of lien has priority over the lien of an existing mortgage against the property, which would impair our ability to foreclose on that property should the related loan be in default. In addition, under the laws of some states and under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, we may be liable for costs of addressing releases or threatened releases of hazardous substances that require remedy at a property securing a mortgage loan held by us, if our agents or employees have become sufficiently involved in the hazardous waste aspects of the operations of the related obligor on that loan, regardless of whether or not the environmental damage or threat was caused by the obligor. We also may face this liability after foreclosing on a property securing a mortgage loan held by us. This may harm our financial strength and decrease our profitability.

***Regional concentration of our commercial mortgage loan portfolio in California may subject us to economic downturns or losses attributable to earthquakes in that state.***

Commercial mortgage lending in the state of California accounted for 19%, or \$1.9 billion, of our commercial mortgage loan portfolio as of June 30, 2012. Due to this concentration of commercial mortgage loans in California, we are exposed to potential losses resulting from the risk of an economic downturn in California as well as to catastrophes, such as earthquakes, that may affect the region. While we generally do not require earthquake insurance for properties on which we make commercial mortgage loans, we do take into account property specific engineering reports, construction type and geographical concentration by fault lines in our investment underwriting guidelines. If economic conditions in California do not improve or continue to deteriorate or catastrophes occur, we may in the future experience delinquencies or defaults on the portion of our commercial mortgage loan portfolio located in California, which may harm our financial strength and reduce our profitability.

***Our valuation of fixed maturities and equity securities may include methodologies, estimations and assumptions which are subject to differing interpretations and could result in changes to investment valuations that may materially adversely affect our results of operations or financial condition.***

Fixed maturities and equity securities reported at fair value on our consolidated statements of financial position represented the majority of our total cash and invested assets. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels. The level in the fair value hierarchy is based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation.

Level 1: Fair values are based on unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Fair values are based on inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Fair values are based on at least one significant unobservable input for the asset or liability.

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Excluding separate account assets, as of June 30, 2012, 1%, 98% and 1% of our net assets and liabilities reported at fair value represented Level 1, Level 2 and Level 3, respectively. Our Level 1 assets and liabilities primarily include exchange traded equity securities, mutual funds and U.S. Treasury bonds. Our Level 2 assets and liabilities primarily include fixed maturities (including public and private bonds), equity securities, over-the-counter derivatives and other investments for which public quotations are not available but that are priced by third-party pricing services or internal models using substantially all observable inputs. Our Level 3 assets and liabilities include certain fixed maturities, private equity securities, commercial mortgage loan investments and obligations of consolidated variable interest entities for which the fair value option was elected, complex derivatives and embedded derivatives. Level 3 securities contain at least one significant unobservable market input and as a result considerable judgment may be used in determining the fair values. These fair values are generally obtained through the use of valuation models or methodologies using at least one significant unobservable input or broker quotes. Prices provided by independent pricing services or independent broker quotes that are used in the determination of fair value can vary for a particular security.

For additional information on our valuation methodology, see "Financial Statements, Notes to Consolidated Financial Statements, Note 9, Fair Value Measurements" in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 incorporated by reference herein.

During periods of market disruption including periods of significantly rising or high interest rates, rapidly widening credit spreads or illiquidity, it may be difficult to value certain of our securities, for example collateralized mortgage obligations and collateralized debt obligations, if trading becomes less frequent and/or market data becomes less observable. There may be certain asset classes that were in active markets with significant observable data that become illiquid due to the current financial environment. In such cases, more securities may fall to Level 3 and thus require more subjectivity and management judgment. As such, valuations may include inputs and assumptions that are less observable or require greater estimation as well as valuation methods that require greater estimation, which could result in values that are different from the value at which the investments may be ultimately sold. Further, rapidly changing credit and equity market conditions could materially impact the valuation of securities as reported within our consolidated financial statements and the period-to-period changes in value could vary significantly. Decreases in value may have a material adverse effect on our results of operations or financial condition.

***The determination of the amount of allowances and impairments taken on our investments requires estimations and assumptions which are subject to differing interpretations and could materially impact our results of operations or financial position.***

The determination of the amount of allowances and impairments vary by investment type and is based upon our periodic evaluation and assessment of known and inherent risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available. There can be no assurance that our management has accurately assessed the level of impairments taken and allowances reflected in our financial statements. Furthermore, additional impairments may need to be taken or allowances provided for in the future. Historical trends may not be indicative of future impairments or allowances.

Additionally, our management considers a wide range of factors about the instrument issuer and uses their best judgment in evaluating the cause of the decline in the estimated fair value of the instrument and in assessing the prospects for recovery. Inherent in management's evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential. For further information regarding our impairment methodology, see "Management's Discussion and Analysis of Financial Condition and Results of Operations Investments U.S. Investment Operations Fixed Maturities." in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 incorporated by reference herein.

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***Gross unrealized losses may be realized or result in future impairments, resulting in a reduction in our net income.***

Fixed maturities that are classified as available-for-sale ("AFS") are reported on the consolidated statements of financial position at fair value. Unrealized gains or losses on AFS securities are recognized as a component of equity and are, therefore, excluded from net income. Our U.S. investment operations held gross unrealized losses on fixed maturities of \$1.2 billion pre-tax as of June 30, 2012, and the component of gross unrealized losses for securities trading down 20% or more for over six months was approximately \$0.9 billion pre-tax. The accumulated change in fair value of the AFS securities is recognized in net income when the gain or loss is realized upon the sale of the asset or in the event that the decline in fair value is determined to be other than temporary (referred to as an other-than-temporary impairment). Realized losses or impairments may have a material adverse impact on our net income in a particular quarterly or annual period.

***Competition from companies that may have greater financial resources, broader arrays of products, higher ratings and stronger financial performance may impair our ability to retain existing customers, attract new customers and maintain our profitability.***

We believe that our ability to compete is based on a number of factors including scale, service, product features, price, investment performance, commission structure, distribution capacity, financial strength ratings and name recognition. We compete with a large number of financial services companies such as banks, mutual funds, broker-dealers, insurers and asset managers, many of which have advantages over us in one or more of the above competitive factors.

Each of our segments faces strong competition. The primary competitors for our Retirement and Investor Services and Principal Global Investors segments are asset managers, banks, broker-dealers and insurers. Our ability to increase and retain assets under management is directly related to the performance of our investments as measured against market averages and the performance of our competitors. Even when securities prices are generally rising, performance can be affected by investment styles. Also, there is a risk that we may not be able to attract and retain the top talent needed to compete in our industry.

Competition for our Principal International segment comes primarily from local financial services firms and other international companies operating on a stand-alone basis or in partnership with local firms.

Our U.S. Insurance Solutions segment competes with insurers.

National banks, with their large existing customer bases, may increasingly compete with insurers as a result of court rulings allowing national banks to sell annuity products in some circumstances, and as a result of legislation removing restrictions on bank affiliations with insurers. Specifically, the Gramm-Leach-Bliley Act of 1999 permits mergers that combine commercial banks, insurers and securities firms under one holding company. These developments may increase competition, in particular for our asset management and accumulation businesses, by substantially increasing the number, size and financial strength of potential competitors who may be able to offer, due to economies of scale, more competitive pricing than we can.

In response to current market conditions, the U.S. and foreign governments in the markets we serve have taken actions, including but not limited to, direct government control or investment in certain entities. We may find that these actions create, among other things, unforeseen competitive advantages for our competitors due to explicit or implied support from the government.

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***A downgrade in our financial strength or credit ratings may increase policy surrenders and withdrawals, reduce new sales and terminate relationships with distributors, impact existing liabilities and increase our cost of capital, any of which could adversely affect our profitability and financial condition.***

A.M. Best, Fitch, Moody's Investors Services and Standard & Poor's publish financial strength ratings on U.S. life insurance companies that are indicators of an insurance company's ability to meet contractholder and policyholder obligations. These rating agencies also assign credit ratings on non-life insurance entities, such as Principal and Principal Financial Services, Inc. Credit ratings are indicators of a debt issuer's ability to meet the terms of debt obligations in a timely manner, and are important factors in overall funding profile and ability to access external capital.

Ratings are important factors in establishing the competitive position of insurance companies and maintaining public confidence in products being offered. A ratings downgrade, or the potential for such a downgrade, could, among other things:

materially increase the number of surrenders for all or a portion of the net cash values by the owners of policies, contracts and general account guaranteed investment contracts ("GICs") we have issued, and materially increase the number of withdrawals by policyholders of cash values from their policies;

result in the termination of our relationships with broker-dealers, banks, agents, wholesalers and other distributors of our products and services;

reduce new sales, particularly with respect to general account GICs and funding agreements purchased by pension plans and other institutions;

cause some of our existing liabilities to be subject to acceleration, additional collateral support, changes in terms, or creation of additional financial obligations and

increase our cost of capital and limit our access to the capital markets.

Any of these consequences could adversely affect our profitability and financial condition.

***Our efforts to reduce the impact of interest rate changes on our profitability and retained earnings may not be effective.***

We attempt to significantly reduce the impact of changes in interest rates on the profitability and retained earnings of our asset accumulation and insurance operations. We accomplish this reduction primarily by managing the duration of our assets relative to the duration of our liabilities. During a period of rising interest rates, policy surrenders, withdrawals and requests for policy loans may increase as customers seek to achieve higher returns. Despite our efforts to reduce the impact of rising interest rates, we may be required to sell assets to raise the cash necessary to respond to such surrenders, withdrawals and loans, thereby realizing capital losses on the assets sold. Because volatile interest rates and credit spreads often make it more difficult to sell certain fixed income securities, there is also a risk that we will find it difficult to raise the cash necessary to fund a very large amount of withdrawal activity. An increase in policy surrenders and withdrawals may also require us to accelerate amortization of DPAC relating to these contracts, which would further reduce our profitability.

During periods of declining interest rates, borrowers may prepay or redeem mortgages and bonds that we own, which would force us to reinvest the proceeds at lower interest rates. For some of our products, such as GICs and funding agreements, we are unable to lower the rate we credit to customers in response to the lower return we will earn on our investments. In addition, it may be more difficult for us to maintain our desired spread between the investment income we earn and the interest we credit to our customers during periods of declining interest rates, thereby reducing our profitability. Interest rates are currently at historically low levels. If interest rates were to remain low over a sustained period of time, this would put additional pressure on our spreads, potentially resulting in

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unlocking of our DPAC asset and increases in reserves to a greater extent than we have historically experienced.

For further discussion on interest rate risk management, see "Quantitative and Qualitative Disclosures About Market Risk Interest Rate Risk" in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 incorporated by reference herein.

***If we are unable to attract and retain sales representatives and develop new distribution sources, sales of our products and services may be reduced.***

We distribute our asset accumulation, asset management and life and specialty benefit insurance products and services through a variety of distribution channels, including our own internal sales representatives, independent brokers, banks, broker-dealers and other third-party marketing organizations. We must attract and retain sales representatives to sell our products. Strong competition exists among financial services companies for efficient sales representatives. We compete with other financial services companies for sales representatives primarily on the basis of our financial position, support services and compensation and product features. If we are unable to attract and retain sufficient sales representatives to sell our products, our ability to compete and revenues from new sales would suffer.

***Our international businesses face political, legal, operational and other risks that could reduce our profitability in those businesses.***

Our international businesses are subject to comprehensive regulation and supervision from central and/or local governmental authorities in each country in which we operate. New interpretations of existing laws and regulations or the adoption of new laws and regulations may harm our international businesses and reduce our profitability in those businesses. For example, Mexican legislation requires that all employees contribute to a mandatory pension fund. When employees do not select a pension provider ("AFORE"), they are assigned to an AFORE by the Mexican regulator. Numerous AFORES, including Principal AFORE, have been assigned such customers. The Mexican regulator re-assigns these customers based on various investment criteria. If, and to the extent, existing customers are reassigned, it would have a negative impact on our revenues and earnings.

Our international businesses face political, legal, operational and other risks that we do not face in our operations in the U.S. We face the risk of discriminatory regulation, nationalization or expropriation of assets, price controls and exchange controls or other restrictions that prevent us from transferring funds from these operations out of the countries in which they operate or converting local currencies we hold into U.S. dollars or other currencies. Some of our international businesses are, and are likely to continue to be, in emerging or potentially volatile markets. In addition, we rely on local staff, including local sales forces, in these countries where there is a risk that we may encounter labor problems with local staff, especially in countries where workers' associations and trade unions are strong. If our business model, including in some cases a joint venture model, is not successful in a particular country, we may lose all or most of our investment in that country.

***We may face losses if our actual experience differs significantly from our pricing and reserving assumptions.***

Our profitability depends significantly upon the extent to which our actual experience is consistent with the assumptions used in setting prices for our products and establishing liabilities for future insurance and annuity policy benefits and claims. The premiums that we charge and the liabilities that we hold for future policy benefits are based on assumptions reflecting a number of factors, including the amount of premiums that we will receive in the future, rate of return on assets we purchase with premiums received, expected claims, mortality, morbidity, expenses and persistency, which is the measurement of the percentage of insurance policies remaining in force from year to year. However,

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due to the nature of the underlying risks and the high degree of uncertainty associated with the determination of the liabilities for unpaid policy benefits and claims, we cannot determine precisely the amounts we will ultimately pay to settle these liabilities. As a result, we may experience volatility in the level of our profitability and our reserves from period-to-period, particularly for our health and disability insurance products. To the extent that actual experience is less favorable than our underlying assumptions, we could be required to increase our liabilities, which may harm our financial strength and reduce our profitability.

For example, if mortality rates are higher than our pricing assumptions, we will be required to make greater claims payments on our life insurance policies than we had projected. However, this risk may be partially offset by our payout annuity business, where an increase in mortality rates will result in a decrease in benefit payments, and our use of third party reinsurance. Our results of operations may also be adversely impacted by an increase in morbidity rates.

Our results of operations may also be adversely impacted if our actual investment earnings differ from our pricing and reserve assumptions. Changes in economic conditions may lead to changes in market interest rates or changes in our investment strategies, either of which could cause our actual investment earnings to differ from our pricing and reserve assumptions.

For additional information on our insurance reserves, see "Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Insurance Reserves" in our Annual Report on Form 10-K for the year ended December 31, 2011 incorporated by reference herein.

***Our ability to pay stockholder dividends and meet our obligations may be constrained by the limitations on dividends Iowa insurance laws impose on Principal Life.***

We are an insurance holding company whose assets include all of the outstanding shares of the common stock of Principal Life and other subsidiaries. Our ability to pay dividends to our stockholders and meet our obligations, including paying operating expenses and any debt service, depends upon the receipt of dividends from Principal Life. Iowa insurance laws impose limitations on the ability of Principal Life to pay dividends to us. Any inability of Principal Life to pay dividends to us in the future may cause us to be unable to pay dividends to our stockholders and meet our other obligations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources" in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 incorporated by reference herein for a discussion of regulatory restrictions on Principal Life's ability to pay us dividends.

***The pattern of amortizing our DPAC and other actuarial balances on our universal life-type insurance contracts, participating life insurance policies and certain investment contracts may change, impacting both the level of the asset and the timing of our net income.***

Amortization of the DPAC asset depends on the actual and expected profits generated by the lines of business that incurred the expenses. Expected profits are dependent on assumptions regarding a number of factors including investment returns, benefit payments, expenses, mortality and policy lapse. Due to the uncertainty associated with establishing these assumptions, we cannot, with precision, determine the exact pattern of profit emergence. As a result, amortization of DPAC will vary from period-to-period. To the extent that actual experience emerges less favorably than expected, or our expectation for future profits decreases, the DPAC asset may be reduced, reducing our profitability in the current period.

For additional information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Deferred Policy Acquisition

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Costs and Other Actuarial Balances" in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 incorporated by reference herein.

***We may need to fund deficiencies in our Closed Block assets.***

In connection with its conversion in 1998 into a stock life insurance company, Principal Life established an accounting mechanism, known as a "Closed Block" for the benefit of participating ordinary life insurance policies that had a dividend scale in force on July 1, 1998. Dividend scales are the actuarial formulas used by life insurance companies to determine amounts payable as dividends on participating policies based on experience factors relating to, among other things, investment results, mortality, lapse rates, expenses, premium taxes and policy loan interest and utilization rates. The Closed Block was designed to provide reasonable assurance to policyholders included in the Closed Block that, after the conversion, assets would be available to maintain the aggregate dividend scales in effect for 1997 if the experience underlying such scales were to continue.

We allocated assets to the Closed Block as of July 1, 1998, in an amount such that we expected their cash flows, together with anticipated revenues from the policies in the Closed Block, to be sufficient to support the Closed Block business, including payment of claims, certain direct expenses, charges and taxes and to provide for the continuation of aggregate dividend scales in accordance with the 1997 policy dividend scales if the experience underlying such scales continued, and to allow for appropriate adjustments in such scales if the experience changed. We bear the costs of administrative expenses associated with Closed Block policies and, accordingly, these costs were not funded as part of the assets allocated to the Closed Block. Any increase in such costs in the future will be borne by us. As of June 30, 2012, Closed Block assets and liabilities were \$4,460.0 million and \$5,149.7 million, respectively.

We will continue to pay guaranteed benefits under the policies included in the Closed Block, in accordance with their terms. The Closed Block assets, cash flows generated by the Closed Block assets and anticipated revenues from policies included in the Closed Block may not be sufficient to provide for the benefits guaranteed under these policies. If they are not sufficient, we must fund the shortfall. Even if they are sufficient, we may choose for business reasons to support dividend payments on policies in the Closed Block with our general account funds.

The Closed Block assets, cash flows generated by the Closed Block assets and anticipated revenues from policies in the Closed Block will benefit only the holders of those policies. In addition, to the extent that these amounts are greater than the amounts estimated at the time we funded the Closed Block, dividends payable in respect of the policies included in the Closed Block may be greater than they would have been in the absence of a Closed Block. Any excess net income will be available for distribution over time to Closed Block policyholders but will not be available to our stockholders or holders of the Notes.

***A pandemic, terrorist attack or other catastrophic event could adversely affect our net income.***

Our mortality and morbidity experience could be adversely impacted by a catastrophic event. In addition, a severe catastrophic event may cause significant volatility in global financial markets, disruptions to commerce and reduced economic activity. The resulting macroeconomic conditions could adversely affect our cash flows, as well as the value and liquidity of our invested assets. We may also experience operational disruptions if our employees are unable or unwilling to come to work due to a pandemic or other catastrophe. We have developed extensive contingency plans to minimize the risk of operational disruptions. In addition, our use of reinsurance reduces our exposure to adverse mortality experience. Despite these measures, we may still be exposed to losses in the event of a pandemic, terrorist attack or other catastrophe.



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***Our reinsurers could default on their obligations or increase their rates, which could adversely impact our net income and profitability.***

We cede life and health insurance to other insurance companies through reinsurance. See "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 1, Nature of Operations and Significant Accounting Policies" in our Annual Report on Form 10-K for the year ended December 31, 2011 incorporated by reference herein. However, we remain liable to the policyholder, even if the reinsurer defaults on its obligations with respect to the ceded business. If a reinsurer fails to meet its obligations, we will be forced to cover the claims on the reinsured policies. In addition, a reinsurer insolvency may cause us to lose our reserve credits on the ceded business, in which case we would be required to establish additional reserves.

The premium rates that we charge are based, in part, on the assumption that reinsurance will be available at a certain cost. Some of our reinsurance contracts contain provisions which limit the reinsurer's ability to increase rates on in-force business; however, some do not. If a reinsurer raises the rates that it charges on a block of in-force business, our profitability may be negatively impacted if we are not able to pass the increased costs on to the customer. If reinsurers raise the rates that they charge on new business, we may be forced to raise the premiums that we charge, which could have a negative impact on our competitive position.

To mitigate the risks associated with the use of reinsurance, we carefully select our reinsurers, and we monitor their ratings and financial condition on a regular basis. We also spread our business among several reinsurers, in order to diversify our risk exposure.

***We face risks arising from acquisitions of businesses.***

We have engaged in acquisitions of businesses in the past, and expect to continue to do so in the future. We face a number of risks arising from acquisition transactions, including difficulties in integrating the acquired business into our operations, difficulties in assimilating and retaining employees and intermediaries, difficulties in retaining the existing customers of the acquired entity, unforeseen liabilities that arise in connection with the acquired business and unfavorable market conditions that could negatively impact our growth expectations for the acquired business. These risks may prevent us from realizing the expected benefits from acquisitions and could result in the impairment of goodwill and/or intangible assets recognized at the time of acquisition.

For additional information on our goodwill and other intangible assets, see "Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Goodwill and Other Intangible Assets" in our Annual Report on Form 10-K for the year ended December 31, 2011 incorporated by reference herein.

***Changes in laws, regulations or accounting standards may reduce our profitability.***

***Changes in regulations may reduce our profitability.***

Our insurance business is subject to comprehensive state regulation and supervision throughout the U.S. and in the international markets in which we operate. We are also impacted by federal legislation and administrative policies in areas such as employee benefit plan regulation, financial services regulations and federal taxation. The primary purpose of state regulation of the insurance business is to protect policyholders, not stockholders or holders of the Notes. The laws of the various states establish insurance departments with broad powers to regulate such matters as:

licensing companies to transact business,

licensing agents,

admitting statutory assets,

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mandating a number of insurance benefits,

regulating premium rates,

approving policy forms,

regulating unfair trade and claims practices,

establishing statutory reserve requirements and solvency standards,

fixing maximum interest rates on life insurance policy loans and minimum rates for accumulation of surrender values,

restricting various transactions between affiliates and

regulating the types, amounts and valuation of investments.

State insurance regulators, federal regulators and the National Association of Insurance Commissioners ("NAIC") continually reexamine existing laws and regulations, and may impose changes in the future.

State insurance guaranty associations have the right to assess insurance companies doing business in their state for funds to help pay the obligations of insolvent insurance companies to policyholders and claimants. Because the amount and timing of an assessment is beyond our control, the liabilities we have established for these potential assessments may not be adequate.

Federal legislation and administrative policies in areas such as employee benefit plan regulation, financial services regulation and federal taxation can reduce our profitability. For example, the U.S. Congress has, from time to time, considered legislation relating to changes in the Employee Retirement Income Security Act of 1974 to permit application of state law remedies, such as consequential and punitive damages, in lawsuits for wrongful denial of benefits, which, if adopted, could increase our liability for damages in future litigation. Additionally, new interpretations of existing laws and the passage of new legislation may harm our ability to sell new policies and increase our claims exposure on policies we issued previously. In addition, reductions in contribution levels to defined contribution plans may decrease our profitability.

***Changes in tax laws could increase our tax costs and reduce sales of our insurance, annuity and investment products.***

Current federal income tax laws generally permit the tax-deferred accumulation of earnings on the premiums paid by the holders of annuities and life insurance products. Taxes, if any, are payable on income attributable to a distribution under the contract for the year in which the distribution is made. The U.S. Congress has, from time to time, considered legislation that would reduce or eliminate the benefit of such deferral of taxation on the accretion of value within life insurance and nonqualified annuity contracts. Enactment of this legislation, including a simplified "flat tax" income structure with an exemption from taxation for investment income, could result in fewer sales of our insurance, annuity and investment products.

In addition, we benefit from certain tax items, including but not limited to, tax-exempt bond interest, dividends-received deductions, tax credits (such as foreign tax credits) and insurance reserve deductions. From time to time, the U.S. Congress, as well as foreign, state and local governments, considers legislation that could reduce or eliminate the benefits associated with these tax items. If such legislation is adopted, our profitability could be negatively impacted. We continue to evaluate the impact that potential tax reform, which lacks sufficient detail and is relatively uncertain, may have on our future results of operations and financial condition.

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***Repeal or modification of the federal estate tax could reduce our revenues.***

The U.S. Congress has, from time to time, considered legislation modifying the federal estate tax regime, including the Tax Reform Act of 2010, which became law on December 17, 2010. Among its many provisions were modifications to the estate tax for 2010, 2011 and 2012. These changes, while generally beneficial to taxpayers, are temporary in nature.

If these favorable estate tax modifications continue beyond 2012, or if the federal estate tax is repealed, there could be some level of contraction in the estate planning market. It is possible that some segment of this existing business would be terminated or sold to investor groups. On the other hand, a portion of this coverage would likely be retained to pay other expenses associated with death such as state estate/inheritance taxes, capital gains taxes, or income taxes. We currently have approximately \$36.4 billion of estate tax-related life insurance from nearly 21,700 policies in force as of June 30, 2012. This block of policies accounts for approximately \$303.4 million of annual recurring life insurance premium and also represents just over \$2.0 billion of policy cash value.

Based on an average of the last three years of estimated new sales of estate-tax related products, we have issued approximately 1,700 policies annually, representing \$34.5 million of annual premium and nearly \$4.9 billion of life insurance coverage.

***Changes in federal, state and foreign securities laws may reduce our profitability.***

Our asset management and accumulation and life insurance businesses are subject to various levels of regulation under federal, state and foreign securities laws. These laws and regulations are primarily intended to protect investors in the securities markets or investment advisory or brokerage clients and generally grant supervisory agencies broad administrative powers, including the power to limit or restrict the conduct of business for failure to comply with such laws and regulations. The downturn in the financial markets and resulting market-wide losses have caused legislative and regulatory bodies to consider various changes to existing securities laws and the legal framework governing the financial industry. Changes to these laws or regulations that restrict the conduct of our business could significantly increase our compliance costs and reduce our profitability.

***Financial services regulatory reform may reduce our profitability, impact how we do business or limit our ability to engage in certain capital expenditures.***

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was enacted and signed into law. The Dodd-Frank Act makes extensive changes to the laws regulating financial services firms and requires various federal agencies to adopt a broad range of new implementation rules and regulations. The federal agencies were given significant discretion in drafting the implementation rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act will not be known for many months or years. In addition, the legislation mandates multiple studies and reports for Congress, which could result in additional legislative or regulatory action.

In July 2011, we became subject to oversight from the Federal Reserve including various capital and liquidity requirements due to our wholly-owned savings & loan subsidiary. It is possible that we could be labeled as "Systemically Important" by the Financial Stability Oversight Council which brings with it even more oversight and prudential standards from the Federal Reserve. While the initial regulations indicate that we will not fall within the definition of a "Major Swap Participant" ("MSP"), it is possible that change in the final rules could alter this interpretation. Designation as an MSP will result in more oversight of derivative transactions under the separate jurisdictions of the SEC and the Commodities Futures Trading Commission. This includes swaps traded through either regulated exchanges or approved clearinghouses, and require additional collateral to support derivatives transactions.

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In addition, we are subject to minimum capital requirements as a result of this regulatory oversight and those requirements may change based on future legislation and the adoption of Basel III capital requirements by the U.S. These minimum capital requirements and the qualitative oversight of the Federal Reserve may limit our ability to pay stockholder dividends, conduct a merger or acquisition, or engage in other activities, including share repurchases.

The changes resulting from the Dodd-Frank Act and the yet to be finalized implementation rules and regulations may lower the profitability of our business activities, require changes to certain of our business practices or otherwise adversely affect our business.

***Changes in accounting standards may negatively impact our reported profitability and financial ratios.***

Accounting standards are subject to change and can negatively impact our reported profitability. See "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 1, Nature of Operations and Significant Accounting Policies" in our Annual Report on Form 10-K for the year ended December 31, 2011 incorporated by reference herein and in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 incorporated by reference herein. In addition to recently issued accounting guidance, the U.S. and international standard setters have a full agenda of topics they plan to review, any of which have the potential to negatively impact our reported profitability and financial ratios. The results for past accounting periods are not necessarily indicative of the results to be expected for any future accounting period.

***We may be unable to mitigate the impact of Regulation XXX and Actuarial Guideline 38, potentially resulting in a negative impact to our capital position and/or a reduction in sales of term and universal life insurance products.***

The NAIC Model Regulation entitled "Valuation of Life Insurance Policies," commonly known as "Regulation XXX", establishes statutory reserve requirements for term life insurance policies and universal life insurance policies with secondary guarantees. Actuarial Guideline 38 ("AG38") clarifies the application of Regulation XXX with respect to certain universal life insurance products with secondary guarantees.

The NAIC has established a working group to recommend revisions to AG38 in an effort to create more clarity around reserving practices for certain policies that fall under the purview of AG38. It is possible that the NAIC will vote to revise AG38 sometime in 2012, which may have implications for policies that have already been sold as well as for policies we may sell in the future. As a result, it is possible that we will be required to increase our statutory reserves for certain products.

In addition, we have implemented reinsurance and capital management actions to mitigate the capital impact of Regulation XXX and AG38 on our term and universal life insurance business. We cannot provide assurance that we will be able to continue to implement these actions for any additional statutory reserves that may result from the possible revisions to AG38 or from future sales of term and universal life insurance business. If we are unable to mitigate the impact of Regulation XXX and AG38 on these products, additional capital will be required to support those products, and we may be required to increase prices and/or reduce sales of our term and universal life insurance products. In addition, our inability to mitigate increases of reserves resulting from revisions to AG38 could reduce our statutory surplus and affect our ability to retain our financial strength ratings at the current levels. Even if we are able to continue utilizing these mitigating actions of reinsurance and related activity, our results could be negatively impacted due to costs related to additional amounts of reinsurance needed.

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***A computer system failure or security breach could disrupt our business, damage our reputation and adversely impact our profitability.***

We rely on computer systems to conduct business, including customer service, marketing and sales activities, customer relationship management and producing financial statements. While we have policies, procedures, automation and backup plans designed to prevent or limit the effect of failure, our computer systems may be vulnerable to disruptions or breaches as the result of natural disasters, man-made disasters, criminal activity, pandemics, or other events beyond our control. The failure of our computer systems for any reason could disrupt our operations, result in the loss of customer business and adversely impact our profitability.

We retain confidential information on our computer systems, including customer information and proprietary business information. Any compromise of the security of our computer systems that results in the disclosure of personally identifiable customer information could damage our reputation, expose us to litigation, increase regulatory scrutiny and require us to incur significant technical, legal and other expenses.

***Results of litigation and regulatory investigations may affect our financial strength or reduce our profitability.***

We are regularly involved in litigation, both as a defendant and as a plaintiff, but primarily as a defendant. Litigation naming us as a defendant ordinarily arises out of our business operations as a provider of asset management and accumulation products and services, life, health and disability insurance, and our investment activities.

For example, as a result of derivative transactions entered into with affiliates of Lehman Brothers Holdings Inc. ("Lehman"), we are among the counterparties to various derivative transactions that have been named parties to litigation in the Lehman bankruptcy proceedings. Approximately \$440 million was paid to us as the counterparty in six derivative transactions with Lehman. The Lehman bankruptcy estate is attempting to recover an unspecified amount, but possibly up to the amount paid to us, plus interest. While we believe the risk of loss in this matter is remote, the outcome of any pending or future litigation (or appeal thereof) cannot be predicted. Management does not believe that this matter will have a material adverse effect on our business or financial position.

We are, from time to time, also involved in various governmental, regulatory and administrative proceedings and inquiries. We have received regulatory inquiries from certain state insurance regulators and other officials relating to compliance with unclaimed property laws and the use of data available on the U.S. Social Security Administration's Death Master File (or a similar database) to identify instances where benefits under life insurance policies, annuities and retained asset accounts are payable. It is possible that other jurisdictions may pursue similar inquiries and that such inquiries may result in payments to beneficiaries, escheatment of funds deemed abandoned under state laws and changes to procedures for the identification and escheatment of abandoned property.

These factors may affect our financial strength or reduce our profitability. For further discussion on litigation and regulatory investigation risk, see "Legal Proceedings" and "Financial Statements, Notes to Consolidated Financial Statements, Note 7, Contingencies, Guarantees and Indemnifications" under the section, "Litigation and Regulatory Contingencies," and "Financial Statements, Notes to Consolidated Financial Statements, Note 5, Income Taxes," in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 incorporated by reference herein.

***From time to time we may become subject to tax audits, tax litigation or similar proceedings, and as a result we may owe additional taxes, interest and penalties in amounts that may be material.***

We are subject to income taxes in the United States as well as many other jurisdictions. In determining our provisions for income taxes and our accounting for tax-related matters in general, we

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are required to exercise judgment. We regularly make estimates where the ultimate tax determination is uncertain. The final determination of any tax audit, appeal of the decision of a taxing authority, tax litigation or similar proceedings may be materially different from that reflected in our historical financial statements. The assessment of additional taxes, interest and penalties could be materially adverse to our current and future results of operations and financial condition.

***Fluctuations in foreign currency exchange rates could reduce our profitability.***

Principal International generally writes policies denominated in various local currencies and invests the premiums and deposits in local currencies. Although investing in local currencies limits the effect of currency exchange rate fluctuation on local operating results, fluctuations in such rates affect the translation of these results into our consolidated financial statements. For further discussion on foreign currency exchange risk, see "Quantitative and Qualitative Disclosures About Market Risk Foreign Currency Risk" in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 incorporated by reference herein.

***Our financial results may be adversely impacted by global climate changes.***

Atmospheric concentrations of carbon dioxide and other greenhouse gases have increased dramatically since the industrial revolution, resulting in a gradual increase in global average temperatures and an increase in the frequency and severity of natural disasters. These trends are expected to continue in the future and have the potential to impact nearly all sectors of the economy to varying degrees. Our initial research indicates that climate change does not pose an imminent or significant threat to our operations or business, but we will continue to monitor new developments in the future.

Potential impacts may include the following:

Changes in temperatures and air quality may adversely impact our mortality and morbidity rates. For example, increases in the level of pollution and airborne allergens may cause an increase in upper respiratory and cardiovascular diseases, leading to increased claims in our insurance businesses. However, the risk of increased mortality on our life insurance business may be partly offset by our payout annuity business, where an increase in mortality results in a decrease in benefit payments.

Climate change may impact asset prices, as well as general economic conditions. For example, rising sea levels may lead to decreases in real estate values in coastal areas. Additionally, government policies to slow climate change (e.g., setting limits on carbon emissions) may have an adverse impact on sectors such as utilities, transportation and manufacturing. Changes in asset prices may impact the value of our fixed income, real estate and commercial mortgage investments. We manage our investment risks by maintaining a well-diversified portfolio, both geographically and by sector. We also monitor our investments on an ongoing basis, allowing us to adjust our exposure to sectors and/or geographical areas that face severe risks due to climate change.

A natural disaster that affects one of our office locations could disrupt our operations and pose a threat to the safety of our employees. However, we have extensive Business Continuity and Disaster Recovery planning programs in place to help mitigate this risk.

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**Risks Related to the Notes**

***The Senior Indenture does not limit the amount of indebtedness that we or our subsidiaries can issue.***

The Senior Indenture does not limit the amount of unsecured indebtedness (including under the Senior Indenture) or secured indebtedness that we or our subsidiaries can issue, except, with respect to secured indebtedness, to the extent set forth in the section entitled "Description of the Debt Securities Limitations upon Liens" in the accompanying prospectus. The Notes of each series will be our senior unsecured and unsubordinated obligations and will rank equally in right of payment with all of our existing and future senior indebtedness and senior to all of our existing and future subordinated indebtedness. As of June 30, 2012, Principal Financial Group, Inc. had \$1,351.7 million of senior indebtedness that would have ranked equally in right of payment with the Notes. In addition, the Notes of each series will be effectively subordinated to any future secured indebtedness of ours, to the extent of the assets securing such indebtedness. As of June 30, 2012, Principal Financial Group, Inc. had no secured indebtedness outstanding.

Each Subsidiary Guarantee will be a senior unsecured and unsubordinated obligation of Principal Financial Services, Inc. and will rank equally in right of payment with all of its existing and future senior indebtedness and senior to all of its future subordinated indebtedness. As of June 30, 2012, Principal Financial Services, Inc. had no senior indebtedness that would have ranked equally in right of payment with the Subsidiary Guarantees. In addition, each Subsidiary Guarantee will be effectively subordinated to any existing and future secured indebtedness of Principal Financial Services, Inc. to the extent of the assets securing such indebtedness. As of June 30, 2012, Principal Financial Services, Inc. had no secured indebtedness outstanding.

Any additional senior or secured indebtedness incurred could reduce the amount of cash we or the Subsidiary Guarantor would have available to satisfy our respective obligations under the Notes and the applicable Subsidiary Guarantee. We and the Subsidiary Guarantor expect from time to time to incur additional senior indebtedness and secured indebtedness.

The terms of the Notes will not necessarily afford you protection in the event of a highly leveraged transaction that may adversely affect you, including a reorganization, recapitalization, restructuring, merger or other similar transaction involving us. We could enter into any such transaction even though the transaction could increase the total amount of our outstanding debt, adversely affect our capital structure or credit rating or otherwise adversely affect the holders of the Notes. These transactions may not involve a change in voting power or beneficial ownership or result in a downgrade in the ratings of the Notes. The Senior Indenture does not contain provisions that permit the holders of the Notes to require us to repurchase the Notes in the event of a takeover, recapitalization or similar transaction.

***We are a holding company with no direct operations and the Subsidiary Guarantor is an intermediary holding company with no direct operations; as a consequence, our ability to satisfy our obligations under the Notes and the Subsidiary Guarantor's ability to satisfy its obligations under the applicable Subsidiary Guarantee will depend in large part on the ability of our and the Subsidiary Guarantor's subsidiaries to pay dividends, and the dividend paying ability of our insurance company subsidiaries is restricted by law.***

We are an insurance holding company whose assets include all of the outstanding shares of common stock of the Subsidiary Guarantor. The Subsidiary Guarantor is an intermediary holding company whose assets include all of the outstanding shares of Principal Life and other subsidiaries. Our and the Subsidiary Guarantor's ability to meet our respective obligations depends upon the ability of Principal Life and other subsidiaries to declare and distribute dividends or to advance money in the form of intercompany loans. Our insurance company subsidiaries are subject to various statutory and regulatory restrictions, applicable to insurance companies generally, that limit the amount of cash dividends, loans and advances that those subsidiaries may pay. Regulations relating to capital requirements affecting some of our other subsidiaries also restrict their ability to pay dividends and

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other distributions and make loans to us. The payment of dividends from Principal Life to the Subsidiary Guarantor is subject to restrictions set forth in the insurance laws of the State of Iowa. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources The Holding Companies: Principal Financial Group, Inc. and Principal Financial Services, Inc." in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, incorporated by reference herein. As a result, our cash flows and ability to service our obligations, including the Notes, are dependent upon the earnings of our subsidiaries, distributions of those earnings to us and other payments or distributions of funds by our subsidiaries to us. It is possible that in the future, Principal Life may be unable to pay dividends in an amount sufficient to permit us or the Subsidiary Guarantor to meet our respective obligations due to a lack of statutory net gain from operations, a diminishing statutory policyholders surplus, changes to the Iowa insurance laws or regulations or for some other reason. If the Subsidiary Guarantor cannot pay sufficient dividends to us in the future, we would be unable to meet our obligation to make scheduled payments under the Notes. This would negatively affect our business and financial condition as well as the trading price of the Notes.

***The Notes of each series will be effectively subordinated to the indebtedness and other obligations of our subsidiaries, which could impair our ability to make payments on the Notes, and each Subsidiary Guarantee will be effectively subordinated to the indebtedness and other obligations of the Subsidiary Guarantor's subsidiaries, which could impair the Subsidiary Guarantor's ability to make payments on the Subsidiary Guarantees.***

Except to the extent we have a prior or equal claim against our subsidiaries as a creditor or in connection with the Subsidiary Guarantor's obligations under the applicable Subsidiary Guarantee, the Notes will be effectively subordinated to all of our subsidiaries' existing and future indebtedness and other liabilities because, as the common stockholder of our subsidiaries, we will be subject to the prior claims of our subsidiaries' creditors, including trade accounts payable and other liabilities arising in the ordinary course of business, the claims of policyholders with respect to our insurance subsidiaries, and the claims of our subsidiaries' preferred stockholders. Consequently, the Notes of each series are effectively subordinated to all liabilities (excluding the applicable Subsidiary Guarantee) of any of our subsidiaries and the claims of their preferred stockholders, policyholders and other creditors.

Moreover, a default by one or more of our subsidiaries could have a material adverse effect on our ability to meet our obligations under the Notes. In particular, in the event of a default by a subsidiary under any of its indebtedness, the subsidiary's creditors could elect to declare such indebtedness, together with any accrued and unpaid interest and other amounts, to be due and payable prior to any distributions by the subsidiary to pay interest or principal due on the Notes. In addition, if we caused a subsidiary to pay a dividend to enable us to make payments in respect of the Notes of any series, and the dividend were deemed a fraudulent transfer or in breach of relevant corporate or insurance laws, the holders of the Notes of such series could be required to return the payment to (or for the benefit of) the creditors of that subsidiary. In addition, our subsidiaries have no obligation to pay any amounts due on the Notes of either series, other than the Subsidiary Guarantor's obligations under the applicable Subsidiary Guarantee. Substantially all of our business is currently conducted through our subsidiaries, and we expect this to continue.

Because the Subsidiary Guarantor is an intermediary holding company, the rights of the Subsidiary Guarantor and the rights of its creditors, including the holders of the Notes as beneficiaries of the applicable Subsidiary Guarantee, to a share of the assets of any subsidiary upon the liquidation or recapitalization of such subsidiary will be subject to the prior claims of such subsidiary's creditors, except to the extent the Subsidiary Guarantor may be a creditor with recognized claims against such subsidiary. Accordingly, each Subsidiary Guarantee will be effectively subordinated to all existing and future indebtedness and other liabilities of the Subsidiary Guarantor's subsidiaries, including their trade



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accounts payable and other liabilities arising in the ordinary course of business (including obligations to policyholders and preferred stockholders). As of June 30, 2012, in addition to the liabilities arising from obligations to our policyholders, the subsidiaries of the Subsidiary Guarantor had approximately \$488.1 million of indebtedness that would have been effectively senior to the Subsidiary Guarantees.

***An active after-market for the Notes may not develop.***

The Notes of each series constitute a new issue of securities with no established trading market. We do not intend to have the Notes of either series listed on any national securities exchange or included in any automated dealer quotation system. We cannot assure you that an active after-market for the Notes will develop or be sustained, that holders of the Notes will be able to sell their Notes or that holders of the Notes will be able to sell their Notes at favorable prices.

If a trading market does develop, general market conditions and unpredictable factors could adversely affect market prices for the Notes, and there can be no assurance about the market prices for the Notes. Several factors, many of which are beyond our control, will influence the market value of the Notes. Factors that might influence the market value of the Notes include, but are not limited to:

our creditworthiness, financial condition, performance and prospects;

whether the ratings on the Notes provided by any ratings agency have changed;

the market for similar securities; and

economic, financial, geopolitical, regulatory or judicial events that affect us or the financial markets generally.

If you purchase Notes, whether in this offering or in the secondary market, the Notes may subsequently trade at a discount to the price that you paid for them.

***Each Subsidiary Guarantee may be subject to challenge under fraudulent transfer laws.***

Under U.S. bankruptcy law and comparable provisions of state fraudulent transfer laws, a court could subordinate or void any guarantee if it found that the guarantee was incurred with actual intent to hinder, delay or defraud creditors or the guarantor did not receive fair consideration or reasonably equivalent value for the guarantee and the guarantor was any of the following: (i) insolvent or was rendered insolvent because of the guarantee; (ii) engaged in a business or transaction for which its remaining assets constituted unreasonably small capital; or (iii) intended to incur, or believed that it would incur, debts beyond its ability to pay at maturity. To the extent the Subsidiary Guarantee with respect to the Notes of any series were to be voided as a fraudulent conveyance or held unenforceable for any other reason, holders of the Notes of such series would cease to have any claim in respect of the Subsidiary Guarantor and would be solely our creditors. In that event, the claims of the holders of the Notes of such series against the Subsidiary Guarantor would be subject to the prior payment of all liabilities of the Subsidiary Guarantor. There can be no assurance that, after providing for all prior claims, there would be sufficient assets to satisfy the claims of the holders of the Notes of each series relating to the voided Subsidiary Guarantee.

Table of Contents**RATIO OF EARNINGS TO FIXED CHARGES**

The following table shows our ratio of earnings to fixed charges for each of the periods indicated.

	For the Six Months Ended June 30,		For the Year Ended December 31,				
	2012	2011	2011	2010	2009	2008	2007(1)
Ratio of earnings to fixed charges before interest credited on investment products	6.4	7.1	5.1	5.1	4.4	3.4	7.0
Ratio of earnings to fixed charges	2.6	2.6	2.2	1.9	1.6	1.3	1.8

(1)

2007 data was not retroactively recasted to reflect DPAC guidance and a reinsurance accounting change.

We calculate the ratio of "earnings to fixed charges before interest credited on investment products" by dividing the sum of income from continuing operations before income taxes (BT), interest expense, which includes interest expense incurred on uncertain tax positions (I), interest factor of rental expense (IF) less undistributed income from equity investees (E) by the sum of interest expense, which includes interest expense incurred on uncertain tax positions (I), interest factor of rental expense (IF), and preferred stock dividends by the registrant (PD). The formula for this ratio is:

We calculate the ratio of "earnings to fixed charges" by dividing the sum of income from continuing operations before income taxes (BT), interest expense, which includes interest expense incurred on uncertain tax positions (I), interest factor of rental expense (IF) less undistributed income from equity investees (E) and the addition of interest credited on investment products (IC) by interest expense, which includes interest expense incurred on uncertain tax positions (I), interest factor of rental expense (IF), preferred stock dividends by the registrant (PD) and interest credited on investment products (IC). The formula for this calculation is:  $(BT+I+IF-E+IC) / (I+IF+PD+IC)$ . "Interest credited on investment products" includes interest paid on guaranteed investment contracts, funding agreements and other investment-only pension products. Similar to debt, these products have a total fixed return and a fixed maturity date.

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**USE OF PROCEEDS**

We estimate that our net proceeds from this offering will be approximately \$ \_\_\_\_\_ million, after deducting the underwriting discounts and estimated offering expenses payable by us.

We intend to use the estimated net proceeds from this offering for general corporate purposes, which may include the repayment of debt (including \$400 million aggregate principal amount of the 2014 Notes), possible acquisitions and organic growth. We currently have no definitive agreement or commitment with respect to an acquisition. This prospectus supplement does not constitute a notice of redemption under the indenture governing the 2014 Notes nor an offer to tender for, or purchase, any 2014 Notes or any other security. The ultimate use of the net proceeds from this offering is subject to the discretion of our Board of Directors in light of market conditions and other relevant factors. Wells Fargo Securities, LLC, one of the joint book-running managers, owns a portion of the 2014 Notes that may be repaid with the net proceeds from this offering and, therefore, may receive more than 5% of the net proceeds from this offering. See "Conflicts of Interest" in this prospectus supplement.

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The following table shows our cash and cash equivalents and our consolidated capitalization as of June 30, 2012 (i) on an actual basis and (ii) on an as adjusted basis giving effect to the sale of the Notes offered hereby. This information should be read in conjunction with our unaudited consolidated financial statements and the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 incorporated by reference herein.

	As of June 30, 2012	
	Actual	As Adjusted
	(dollars in millions)	
Cash and cash equivalents	\$ 1,646.6	\$
Long-term debt(1)	1,576.9	
2022 Notes offered hereby		
2042 Notes offered hereby		
Total stockholders' equity	9,434.9	
Total capitalization	\$ 11,011.8	\$

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- (1) Includes current maturities (due within the next twelve months) of \$1.3 million as of June 30, 2012, and \$400 million aggregate principal amount outstanding of the 2014 Notes, all or a portion of which may be repaid with the net proceeds of this offering.

In addition to long-term debt outstanding, as of June 30, 2012, we had short-term debt outstanding of \$262.9 million.

Table of Contents**SELECTED FINANCIAL INFORMATION**

The following table sets forth certain selected historical consolidated financial information of Principal Financial Group, Inc. We derived the consolidated financial information (except for amounts referred to as "Other Supplemental Data") for each of the years ended December 31, 2011, 2010 and 2009 and as of December 31, 2011 and 2010 from our audited consolidated financial statements and notes to the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2011 incorporated by reference herein. This selected consolidated financial information should be read in conjunction with and is qualified by reference to these financial statements and the related notes. We derived the consolidated financial information (except for amounts referred to as "Other Supplemental Data") for the years ended December 31, 2008 and 2007 and as of December 31, 2009, 2008 and 2007 from our audited consolidated financial statements not included or incorporated by reference in this prospectus supplement or the accompanying prospectus. The selected consolidated financial information as of and for the six months ended June 30, 2012 and 2011 has been derived from the unaudited interim consolidated financial statements included in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 incorporated by reference herein. The following consolidated statements of operations and consolidated statements of position data have been prepared in conformity with accounting principles generally accepted in the United States of America.

The selected financial information as of and for the six months ended June 30, 2011 and the years ended December 31, 2011, 2010, 2009 and 2008 were retrospectively recasted to reflect DPAC guidance and a reinsurance accounting change. See "Financial Statements, Notes to Consolidated Financial Statements, Note 1, Nature of Operations and Significant Accounting Policies" in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 incorporated by reference herein for an explanation of the accounting changes.

	As of or for the Six Months Ended		As of or for the Year Ended December 31,				
	June 30, 2012(1)	June 30, 2011(1)(2)	2011(1)(2)	2010(1)(2)	2009(1)(2)	2008(2)	2007(3)
<b>(Dollars in millions, except as otherwise indicated)</b>							
<b>Statement of Operations Data:</b>							
Revenues:							
Premiums and other considerations	\$ 1,361.1	\$ 1,549.0	\$ 2,891.0	\$ 3,555.5	\$ 3,750.6	\$ 4,209.2	\$ 4,634.1
Fees and other revenues	1,234.1	1,256.2	2,526.7	2,337.1	2,103.7	2,427.5	2,634.7
Net investment income	1,625.8	1,733.4	3,375.3	3,495.8	3,400.1	3,992.7	3,966.5
Net realized capital losses	(6.5)	(20.3)	(122.3)	(190.2)	(398.3)	(694.1)	(328.8)
<b>Total revenues</b>	<b>\$ 4,214.5</b>	<b>\$ 4,518.3</b>	<b>\$ 8,670.7</b>	<b>\$ 9,198.2</b>	<b>\$ 8,856.1</b>	<b>\$ 9,935.3</b>	<b>\$ 10,906.5</b>
Income before income taxes	\$ 512.1	\$ 571.1	\$ 893.1	\$ 785.7	\$ 645.1	\$ 418.1	\$ 1,072.4
Net income(4)	\$ 403.0	\$ 458.0	\$ 688.9	\$ 680.8	\$ 579.5	\$ 436.6	\$ 884.5
Net income attributable to noncontrolling interest	11.9	42.2	36.2	17.9	23.0	7.7	24.2
Net income attributable to Principal Financial Group, Inc.	391.1	415.8	652.7	662.9	556.5	428.9	860.3
Preferred stock dividends(5)	16.5	16.5	33.0	33.0	33.0	33.0	33.0
Net income available to common stockholders	\$ 374.6	\$ 399.3	\$ 619.7	\$ 629.9	\$ 523.5	\$ 395.9	\$ 827.3
<b>Statement of Financial Position Data:</b>							
Total assets	\$ 152,050.7	\$ 148,335.3	\$ 147,361.7	\$ 144,673.0	\$ 137,129.7	\$ 127,565.2	\$ 154,520.2
Long-term debt	\$ 1,576.9	\$ 1,582.1	\$ 1,564.8	\$ 1,583.7	\$ 1,584.6	\$ 1,290.5	\$ 1,398.8
Series A preferred stock	\$	\$	\$	\$	\$	\$	\$
Series B preferred stock	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Common stock	4.5	4.5	4.5	4.5	4.5	3.9	3.9
Additional paid-in capital	9,685.4	9,593.7	9,634.7	9,563.8	9,492.9	8,376.6	8,295.4
Retained earnings	4,667.1	4,398.7	4,402.3	3,999.4	3,584.1	3,212.1	3,414.3
Accumulated other comprehensive loss	550.5	741.3	258.0	306.7	(1,061.8)	(5,008.0)	420.2
Treasury stock, at cost	(5,484.9)	(4,961.5)	(5,281.7)	(4,725.3)	(4,722.7)	(4,718.6)	(4,712.2)
	9,422.7	9,776.8	9,017.9	9,149.2	7,297.1	1,866.1	7,421.7

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Total stockholders' equity attributable to  
Principal Financial Group, Inc.

Noncontrolling interest	12.2	265.4	353.8	157.2	122.9	96.5	97.6
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Total stockholders' equity	\$ 9,434.9	\$ 10,042.2	\$ 9,371.7	\$ 9,306.4	\$ 7,420.0	\$ 1,962.6	\$ 7,519.3
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**Other Supplemental Data:**

Assets Under Management (\$ in billions)	\$ 367.1	\$ 335.8	\$ 335.0	\$ 318.8	\$ 284.7	\$ 247.0	\$ 311.1
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- (1) For a discussion of items materially affecting the comparability of the six months ended June 30, 2012 with the six months ended June 30, 2011, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations Transactions Affecting Comparability of Results of Operations" in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 incorporated by reference herein. For a discussion of items materially affecting the comparability of 2011, 2010 and 2009, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations Transactions Affecting Comparability of Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2011 incorporated by reference herein.
- (2) Selected financial information as of and for the six months ended June 30, 2011 and the years ended December 31, 2011, 2010, 2009 and 2008 were retrospectively recasted to reflect DPAC guidance and a reinsurance accounting change. See "Financial Statements, Notes to Consolidated Financial Statements, Note 1, Nature of Operations and Significant Accounting Policies" in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 incorporated by reference herein for an explanation of the accounting changes.
- (3) Selected financial information as of and for the year ended December 31, 2007 was not retroactively recasted to reflect DPAC guidance and a reinsurance accounting change.
- (4) Net income for December 31, 2007 includes \$20.2 million of income from discontinued operations, net of related income taxes.
- (5) We declared preferred stock dividends of \$33.0 million in each of 2011, 2010, 2009, 2008 and 2007.

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**DESCRIPTION OF THE NOTES**

Each series of Notes offered by this prospectus supplement is a series of "senior debt securities" as described in the accompanying prospectus. This description supplements the description of the general terms and provisions of the debt securities found in the accompanying prospectus in the section entitled "Description of the Debt Securities."

Capitalized terms used and not otherwise defined below or elsewhere in this prospectus supplement or the accompanying prospectus are used with the respective meanings given thereto in the Senior Indenture among Principal Financial Group, Inc., Principal Financial Services, Inc., as the subsidiary guarantor, and The Bank of New York Mellon Trust Company, N.A., as trustee, dated as of May 21, 2009, as will be supplemented by a supplemental indenture with respect to the Notes of each series (as supplemented, the "Senior Indenture"). References to the "Notes" contained in this prospectus supplement refer to both the % Senior Notes due 2022 and the % Senior Notes due 2042 offered by this prospectus supplement, unless the context indicates otherwise. In this "Description of the Notes," references to "Principal," "we," "us" and "our" or similar terms are only to Principal Financial Group, Inc. and not its subsidiaries.

The Senior Indenture contains negative covenants that apply to us; however, the limitation on liens and the limitation on consolidation, merger and sale of assets contain important exceptions. See "Description of the Debt Securities Limitations upon Liens" and "Consolidation, Merger and Sale of Assets" in the accompanying prospectus.

**General**

The 2022 Notes initially will be limited to \$ aggregate principal amount. The 2042 Notes initially will be limited to \$ aggregate principal amount. We may, without the consent of the holders of the Notes, increase the principal amount of the 2022 Notes or the 2042 Notes in the future, on the same terms and conditions (except that the issue price, the first interest payment date and the issue date may vary) and with the same CUSIP number as the applicable series of Notes being offered by this prospectus supplement. The Notes of each series will be our senior unsecured and unsubordinated obligations and will rank equally in right of payment with all of our existing and future senior indebtedness and senior to all of our existing and future subordinated indebtedness. In addition, the Notes of each series will be effectively subordinated to future secured indebtedness of ours to the extent of the assets securing such indebtedness.

Principal of, and premium, if any, and interest on the Notes will be payable, and transfers of the Notes will be registrable, at our office or agency in the Borough of Manhattan, The City of New York. Transfers of the Notes will also be registrable at any of our other offices or agencies that we may maintain for that purpose. The Notes are to be issued in denominations of \$2,000 or any multiple of \$1,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of Notes, except for any tax or other governmental charge that may be imposed in connection therewith.

**Subsidiary Guarantee**

**General**

Our obligations under the Senior Indenture and the Notes of each series, including payment of principal of, and premium, if any, and interest on the Notes of each series, will be fully and unconditionally guaranteed by our subsidiary, Principal Financial Services, Inc. (the "Subsidiary Guarantor"), which is an intermediary holding company whose assets include all of the outstanding shares of our principal operating companies.



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***Ranking***

Each Subsidiary Guarantee will be a senior unsecured and unsubordinated obligation of the Subsidiary Guarantor and will rank equally in right of payment with all of its existing and future senior indebtedness and senior to all of its existing and future subordinated indebtedness. In addition, each Subsidiary Guarantee will be effectively subordinated to future secured indebtedness of the Subsidiary Guarantor to the extent of the assets securing such indebtedness.

***Modification of each Subsidiary Guarantee***

Each Subsidiary Guarantee may be modified or amended on the same terms as the Senior Indenture may be modified or amended as described under "Description of the Debt Securities Modification and Waiver" in the accompanying prospectus.

***Merger or Consolidation of the Subsidiary Guarantor***

Each Subsidiary Guarantee will provide that the Subsidiary Guarantor will not consolidate with or merge with or into any other person or convey, transfer or lease its assets substantially as an entirety to any person, and no person may consolidate with or merge with or into the Subsidiary Guarantor, unless:

the Subsidiary Guarantor or Principal Financial Group, Inc. will be the surviving company in any merger or consolidation, or

if the Subsidiary Guarantor consolidates with or merges into another person or conveys, transfers or leases its assets substantially as an entirety to any person, the successor person is an entity organized and validly existing under the laws of the United States of America or any state thereof or the District of Columbia, and the successor entity expressly assumes all of the obligations of the Subsidiary Guarantor under the Senior Indenture and such Subsidiary Guarantee, and

immediately after giving effect to the consolidation, merger, conveyance, transfer or lease there exists no event of default, and no event which, after notice or lapse of time or both, would become an event of default, and

other conditions described in such Subsidiary Guarantee are met.

Each Subsidiary Guarantee will further provide that upon any consolidation of the Subsidiary Guarantor with, or merger of the Subsidiary Guarantor into, another person or any conveyance, transfer or lease of the assets of the Subsidiary Guarantor substantially as an entirety to any person, the successor person formed by such consolidation or into which the Subsidiary Guarantor is merged or to which such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Subsidiary Guarantor under such Subsidiary Guarantee with the same effect as if such successor person had been named as the Subsidiary Guarantor, and thereafter, except in the case of any lease, the Subsidiary Guarantor shall be relieved of all obligations and covenants under such Subsidiary Guarantee.

This covenant would not apply to the direct or indirect conveyance, transfer or lease of all or any portion of the stock, assets or liabilities of any of the Subsidiary Guarantor's wholly owned subsidiaries to the Subsidiary Guarantor, Principal Financial Group, Inc. or to other wholly owned subsidiaries of the Subsidiary Guarantor. In addition, this covenant would not apply to any recapitalization transaction, a change of control of the Subsidiary Guarantor or a highly leveraged transaction unless such transaction or change of control were structured to include a merger or consolidation by the Subsidiary Guarantor or the conveyance, transfer or lease of the Subsidiary Guarantor's assets substantially as an entirety.

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**Interest; Maturity; No Sinking Fund**

Each Note will bear interest from September , 2012 payable semiannually on March and September of each year, beginning March , 2013 to the person in whose name the Note is registered, subject to certain exceptions as provided in the Senior Indenture, at the close of business on or , as the case may be, immediately preceding such March and September . The 2022 Notes will bear interest at a rate of % per year. The 2022 Notes will mature on September , 2022. The 2042 Notes will bear interest at a rate of % per year. The 2042 Notes will mature on September , 2042. Interest on the Notes will be computed on the basis of a 360-day year comprised of twelve 30-day months. The Notes are not subject to any sinking fund provision.

If any interest payment date or maturity date falls on a day that is not a business day, the required payment shall be made on the next business day as if it were made on the date such payment was due and no interest shall accrue on the amount so payable for the period from and after such interest payment date or maturity date, as the case may be.

**Optional Redemption**

We may redeem the Notes of each series, at our option, at any time (the "Redemption Date") in whole or from time to time in part at a redemption price equal to the greater of:

- (a) 100% of the principal amount of the Notes being redeemed, or
- (b) an amount equal to the sum of the present values of the remaining scheduled payments of principal and interest on the Notes to be redeemed (not including any portion of the payments of interest accrued as of such Redemption Date) discounted to such Redemption Date on a semiannual basis (assuming a 360 day year consisting of twelve 30-day months) at the Treasury Rate, plus basis points, as calculated by an Independent Investment Banker;

plus, in either of the above cases, accrued and unpaid interest on the Notes to be redeemed to, but excluding, such Redemption Date.

If we have given notice as provided in the Senior Indenture and made funds available for the redemption of any Notes called for redemption on the Redemption Date referred to in that notice, those Notes will cease to bear interest on that Redemption Date. Any interest accrued to the date fixed for redemption will be paid as specified in such notice. We will give written notice of any redemption of any Notes to holders of the Notes to be redeemed at their addresses, as shown in the security register for the Notes, at least 30 days and not more than 60 days prior to the date fixed for redemption. The notice of redemption will specify, among other items, the date fixed for redemption, the redemption price and the aggregate principal amount of the Notes to be redeemed.

If we choose to redeem less than all of the Notes of a series, the particular Notes to be redeemed shall be selected by the trustee not more than 45 days prior to the Redemption Date. The trustee will select the method in its sole discretion, in such manner as it shall deem appropriate and fair, for the Notes to be redeemed in part.

As used in this prospectus supplement:

"Comparable Treasury Issue" means the United States Treasury security selected by the Independent Investment Banker as having a maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Notes.

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"Comparable Treasury Price" means, with respect to any Redemption Date for the Notes, the average of the Reference Treasury Dealer Quotations for such Redemption Date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or if we obtain fewer than five such Reference Treasury Dealer Quotations, the average of all such quotations.

"Independent Investment Banker" means an independent investment banking institution of national standing appointed by us.

"Reference Treasury Dealer" means each of Citigroup Global Markets Inc., Barclays Capital Inc., Wells Fargo Securities, LLC and two other primary U.S. government securities dealers (each, a "Primary Treasury Dealer"), as specified by us; provided that if any of Citigroup Global Markets Inc., Barclays Capital Inc., Wells Fargo Securities, LLC or any Primary Treasury Dealer as specified by us shall cease to be a Primary Treasury Dealer, we will substitute therefor another Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" means, with respect to the Reference Treasury Dealer and any Redemption Date, the average, as determined by us, of the bid and asked prices for the Comparable Treasury Issue (expressed, in each case, as a percentage of its principal amount) quoted in writing to us by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third business day preceding such Redemption Date.

"Treasury Rate" means the rate per year equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such Redemption Date. The Treasury Rate shall be calculated on the third business day preceding the Redemption Date.

**Events of Default**

In addition to the events of default set forth under "Description of the Debt Securities Events of Default" in the accompanying prospectus, each of the following will also constitute an event of default for the Notes of each series:

default for 30 days in the payment of any interest on the Notes of such series under the applicable Subsidiary Guarantee by the Subsidiary Guarantor;

default in the payment of principal of the Notes of such series, or premium, if any, when due under the applicable Subsidiary Guarantee by the Subsidiary Guarantor;

default (other than those relating to payment) in the performance, or breach, of any covenant or warranty in the Senior Indenture or the applicable Subsidiary Guarantee for 90 days after written notice;

certain events of bankruptcy, insolvency or reorganization with respect to the Subsidiary Guarantor; or

the applicable Subsidiary Guarantee ceases to be in full force and effect (other than in accordance with its terms) or the Subsidiary Guarantor denies or disaffirms its obligations under the applicable Subsidiary Guarantee.

**Global Securities**

The Notes of each series will be issued in the form of one or more global securities that will be deposited with, or on behalf of, the depository, The Depository Trust Company ("DTC" or the "depository"). Interests in the global securities will be issued only in denominations of \$2,000 or any multiple of \$1,000 in excess thereof. Unless and until it is exchanged in whole or in part for Notes in definitive form, a global security may not be transferred except as a whole to a nominee of the

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depository for the global security, or by a nominee of the depository to the depository or another nominee of the depository, or by the depository or any nominee to a successor depository or a nominee of the successor depository.

**Same-Day Settlement and Payment**

Settlement for the Notes will be made by the underwriters in immediately available funds. So long as the depository continues to make same-day settlement available to us, all payments of principal and interest on the Notes will be made by us in immediately available funds.

The depository will facilitate same-day settlement for trading in the Notes until maturity, and secondary market trading activity in the Notes will therefore be required by the depository to settle in immediately available funds.

**Book-Entry System**

*DTC*

Initially, the Notes will be registered in the name of Cede & Co., the nominee of the depository. Accordingly, beneficial interests in the Notes will be shown on, and transfers thereof will be effected only through, records maintained by the depository and its participants.

The depository has advised us and the underwriters as follows: the depository is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the United States Securities Exchange Act of 1934, as amended. The depository holds securities that its participants ("Direct Participants") deposit with the depository. The depository also eliminates the need for physical movement of securities certificates by facilitating the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in the Direct Participants' accounts. Direct Participants include securities brokers and dealers, including the underwriters, banks, trust companies, clearing corporations, and certain other organizations. The depository is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the Financial Industry Regulatory Authority, Inc. Access to the depository's book-entry system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to the depository and its Direct and Indirect Participants are on file with the SEC.

The depository advises that its established procedures provide that:

upon our issuance of the Notes, the depository will credit the accounts of Direct Participants designated by the underwriters with the principal amounts of the Notes purchased by the underwriters; and

ownership of interests in the global securities will be shown on, and the transfer of the ownership will be effected only through, records maintained by the depository, the Direct Participants and the Indirect Participants.

The laws of some states require that certain persons take physical delivery in definitive form of securities which they own. Persons required to take physical delivery of securities they own may not be able to purchase beneficial interests in the global securities.

So long as a nominee of the depository is the registered owner of the global securities, the nominee for all purposes will be considered the sole owner or holder of the global securities under the

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Senior Indenture. Except as provided below, owners of beneficial interests in the global securities will not be entitled to have Notes registered in their names, will not receive or be entitled to receive physical delivery of Notes in definitive form and will not be considered the owners or holders thereof under the Senior Indenture.

Neither we, the trustee, any paying agent nor the registrar will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the global securities, or for maintaining, supervising or reviewing any records relating to those beneficial ownership interests.

Principal, premium and interest payments on the Notes registered in the name of the depository's nominee will be made in immediately available funds to the depository's nominee as the registered owner of the global securities. Under the terms of the Notes, we and the trustee will treat the persons in whose names the Notes are registered as the owners of those Notes for the purpose of receiving payment of principal and interest on those Notes and for all other purposes whatsoever. Therefore, neither we, the trustee nor any paying agent has any direct responsibility or liability for the payment of principal or interest on the Notes to owners of beneficial interests in the global securities. The depository has advised us and the trustee that its current practice is, upon receipt of any payment of principal or interest, to credit Direct Participants' accounts on the payment date in accordance with their respective holdings of beneficial interests in the global securities as shown on the depository's records, unless the depository has reason to believe that it will not receive payment on the payment date. Payments by Direct and Indirect Participants to owners of beneficial interests in the global securities will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of the Direct and Indirect Participants and not of the depository, the trustee or us, subject to any statutory requirements that may be in effect from time to time. Payment of principal and interest to the depository is our responsibility or the responsibility of the trustee; disbursement of those payments to the owners of beneficial interests in the global securities shall be the responsibility of the depository and Direct and Indirect Participants.

Notes represented by a global security will be exchangeable for Notes in definitive form of like tenor as the global security in denominations of \$2,000 or any multiple of \$1,000 in excess thereof if the depository notifies us that it is unwilling or unable to continue as depository for the global security or if at any time the depository ceases to be a clearing agency registered under applicable law and a successor depository is not appointed by us within 90 days or we in our discretion at any time determine not to require all of the Notes to be represented by a global security and notify the trustee thereof. Any Notes that are exchangeable pursuant to the preceding sentence are exchangeable for Notes issuable in authorized denominations and registered in such names as the depository shall direct. Subject to the foregoing, a global security is not exchangeable, except for a global security or global securities of the same aggregate denominations to be registered in the name of the depository or its nominee.

Clearstream Banking, société anonyme ("Clearstream") and Euroclear Bank S.A./N.V. ("Euroclear") have provided us with the following information and neither we nor the underwriters take any responsibility for its accuracy:

*Clearstream*

Clearstream is incorporated under the laws of Luxembourg as a professional depository. Clearstream holds securities for its participating organizations and facilitates the clearance and settlement of securities transactions between Clearstream participants through electronic book-entry changes in accounts of Clearstream participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to Clearstream participants, among other things, services for

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safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic securities markets in several countries. As a professional depositary, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector (*Commission de Surveillance du Secteur Financier*). Clearstream participants include underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations and may include the underwriters. Clearstream's U.S. participants are limited to securities brokers and dealers and banks. Indirect access to Clearstream is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream participant either directly or indirectly.

Distributions with respect to Notes held beneficially through Clearstream will be credited to cash accounts of Clearstream participants in accordance with its rules and procedures, to the extent received by the U.S. depositary for Clearstream.

***Euroclear***

Euroclear was created in 1968 to hold securities for participants of Euroclear and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear performs various other services, including securities lending and borrowing and interacts with domestic markets in several countries. Euroclear is operated by Euroclear Bank S.A./N.V. under contract with Euroclear plc, a U.K. corporation. All operations are conducted by the Euroclear operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear operator, not Euroclear plc. Euroclear plc establishes policy for Euroclear on behalf of Euroclear participants. Euroclear participants include banks, including central banks, securities brokers and dealers and other professional financial intermediaries and may include the underwriters. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

The Euroclear operator is a Belgian bank. As such it is regulated by the Belgian Banking and Finance Commission.

Securities clearance accounts and cash accounts with the Euroclear operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the "Terms and Conditions"). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific clearance accounts. The Euroclear operator acts under the Terms and Conditions only on behalf of Euroclear participants and has no record of or relationship with persons holding through Euroclear participants.

Distributions with respect to Notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the Terms and Conditions, to the extent received by the U.S. depositary for Euroclear.

Euroclear has further advised us that investors who acquire, hold and transfer interests in the Notes by book-entry through accounts with the Euroclear operator or any other securities intermediary are subject to the laws and contractual provisions governing their relationship with their intermediary, as well as the laws and contractual provisions governing the relationship between such an intermediary and each other intermediary, if any, standing between themselves and the global securities certificates.

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***Global Clearance and Settlement Procedures***

Secondary market trading between Clearstream participants and/or Euroclear participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream and Euroclear and will be settled using the procedures applicable to conventional eurobonds in immediately available funds.

Cross market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream participants or Euroclear participants, on the other, will be effected through DTC in accordance with DTC rules on behalf of the relevant European international clearing system by its U.S. depository; however, such cross market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its U.S. depository to take action to effect final settlement on its behalf by delivering or receiving Notes through DTC, and making or receiving payment in accordance with normal procedures for same day funds settlement applicable to DTC. Clearstream participants and Euroclear participants may not deliver instructions directly to their respective U.S. depositories.

Because of time zone differences, credits of Notes received through Clearstream or Euroclear as a result of a transaction with a DTC participant will be made during subsequent securities settlement processing and dated the business day following the DTC settlement date. Such credits or any transactions in such Notes settled during such processing will be reported to the relevant Euroclear participants or Clearstream participants on such business day. Cash received in Clearstream or Euroclear as a result of sales of Notes by or through a Clearstream participant or a Euroclear participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in DTC.

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of Notes among participants of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform such procedures and such procedures may be modified or discontinued at any time. Neither we nor the trustee will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective direct or indirect participants of their obligations under the rules and procedures governing their operations.

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**U.S. FEDERAL INCOME TAX CONSIDERATIONS**

The following is a discussion of certain U.S. federal income tax considerations relating to the purchase, ownership and disposition of the Notes by U.S. and Non-U.S. Holders (each as defined below) that purchase the Notes at their issue price (generally the first price at which a substantial amount of the Notes of the applicable series is sold, excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) pursuant to this offering and hold such Notes as capital assets. This discussion is based on the U.S. Internal Revenue Code of 1986, as amended (the "Code"), U.S. Treasury regulations promulgated or proposed thereunder and administrative and judicial interpretations thereof, all as in effect on the date hereof, and all of which are subject to change, possibly with retroactive effect, or to different interpretation. This discussion does not address all of the U.S. federal income tax considerations that may be relevant to specific Holders (as defined below) in light of their particular circumstances or to Holders subject to special treatment under U.S. federal income tax law (such as banks, insurance companies, dealers in securities or other Holders that generally mark their securities to market for U.S. federal income tax purposes, tax-exempt entities, retirement plans, regulated investment companies, real estate investment trusts, certain former citizens or residents of the United States, Holders that hold a Note as part of a straddle, hedge, conversion or other integrated transaction or U.S. Holders that have a "functional currency" other than the U.S. dollar). This discussion does not address any U.S. state or local or non-U.S. tax considerations or any U.S. federal estate, gift or alternative minimum tax considerations.

As used in this discussion, the term "U.S. Holder" means a beneficial owner of a Note that, for U.S. federal income tax purposes, is (i) an individual who is a citizen or resident of the United States, (ii) a corporation created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax regardless of its source or (iv) a trust (x) with respect to which a court within the United States is able to exercise primary supervision over its administration and one or more United States persons have the authority to control all of its substantial decisions or (y) that has in effect a valid election under applicable U.S. Treasury regulations to be treated as a United States person.

The term "Non-U.S. Holder" means a beneficial owner of a Note that is neither a U.S. Holder nor a partnership for U.S. federal income tax purposes. The term "Holder" means a U.S. Holder or a Non-U.S. Holder.

If an entity treated as a partnership for U.S. federal income tax purposes invests in a Note, the U.S. federal income tax considerations relating to such investment will depend in part upon the status and activities of such entity and the particular partner. Any such entity should consult its own tax advisor regarding the U.S. federal income tax considerations applicable to it and its partners relating to the purchase, ownership and disposition of a Note.

**PERSONS CONSIDERING AN INVESTMENT IN THE NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE U.S. FEDERAL, STATE AND LOCAL AND NON-U.S. INCOME, ESTATE AND OTHER TAX CONSIDERATIONS RELATING TO THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES IN LIGHT OF THEIR PARTICULAR CIRCUMSTANCES.**

**U.S. Holders**

*Interest*

In general, interest payable on a Note will be taxable to a U.S. Holder as ordinary interest income when it is received or accrued, in accordance with such U.S. Holder's regular method of accounting for U.S. federal income tax purposes. The Notes are not expected to be issued with an amount of original



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issue discount ("OID") that is equal to or greater than a statutorily defined *de minimis* amount. However, if a Note is issued with an amount of OID that is equal to or greater than the statutorily defined *de minimis* amount, each U.S. Holder of such Note generally will be required to include OID in its income as it accrues, regardless of its regular method of accounting for U.S. federal income tax purposes, using a constant yield method, possibly before such U.S. Holder receives any payment attributable to such income. The remainder of this discussion assumes that the Notes are not issued with an amount of OID that is equal to or greater than the statutorily defined *de minimis* amount.

***Sale, Exchange, Retirement or Other Disposition of the Notes***

Upon the sale, exchange, retirement or other disposition of a Note, a U.S. Holder generally will recognize gain or loss in an amount equal to the difference between the amount realized on such sale, exchange, retirement or other disposition (other than any amount attributable to accrued interest, which, if not previously included in such U.S. Holder's income, will be taxable as interest income to such U.S. Holder) and such U.S. Holder's adjusted tax basis in such Note. Any gain or loss so recognized generally will be capital gain or loss and will be long-term capital gain or loss if such U.S. Holder has held such Note for more than one year at the time of such sale, exchange, retirement or other disposition. Net long-term capital gain of certain non-corporate U.S. Holders is generally subject to preferential rates of tax. The deductibility of capital losses is subject to limitations.

***Information Reporting and Backup Withholding***

Information reporting generally will apply to a U.S. Holder with respect to payments of interest on, or proceeds from the sale, exchange, retirement or other disposition of, a Note, unless such U.S. Holder is an entity that is exempt from information reporting and, when required, demonstrates this fact. Any such payments or proceeds to a U.S. Holder that are subject to information reporting generally will also be subject to backup withholding, unless such U.S. Holder provides the appropriate documentation (generally, IRS Form W-9) to the applicable withholding agent certifying that, among other things, its taxpayer identification number (which for an individual would be such individual's Social Security number) is correct, or otherwise establishes an exemption.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules generally will be allowed as a refund or a credit against a U.S. Holder's U.S. federal income tax liability if the required information is furnished by the U.S. Holder on a timely basis to the U.S. Internal Revenue Service (the "IRS").

***Medicare Tax***

Beginning in 2013, certain U.S. Holders that are individuals, estates or trusts will be subject to a 3.8% tax on all or a portion of their "net investment income," which may include all or a portion of their interest income and net gains from a disposition of the Notes. Each U.S. Holder that is an individual, estate or trust should consult its tax advisors in this regard.

**Non-U.S. Holders**

***General***

Subject to the discussion below concerning backup withholding and FATCA:

(a) payments of principal, interest and premium with respect to a Note owned by a Non-U.S. Holder generally will not be subject to U.S. federal withholding tax; *provided* that, in the case of amounts treated as payments of interest, (i) such amounts are not effectively connected with the conduct of a trade or business in the United States by such Non-U.S. Holder; (ii) such Non-U.S. Holder does not own, actually or constructively, 10% or more of the total combined voting power

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of all classes of our stock entitled to vote; (iii) such Non-U.S. Holder is not a controlled foreign corporation described in section 957(a) of the Code that is related to us through stock ownership; (iv) such Non-U.S. Holder is not a bank whose receipt of such amounts is described in section 881(c)(3)(A) of the Code; and (v) the certification requirements described below are satisfied; and

(b) a Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on any gain recognized on the sale, exchange, retirement or other disposition of a Note, unless (i) such gain is effectively connected with the conduct of a trade or business in the United States by such Non-U.S. Holder or (ii) such Non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year of such sale, exchange, retirement or other disposition and certain other conditions are met (in each case, subject to the provisions of an applicable tax treaty).

The certification requirements referred to in clause (a)(v) above generally will be satisfied if the Non-U.S. Holder provides the applicable withholding agent with a statement, generally on IRS Form W-8BEN, signed under penalties of perjury, stating, among other things, that such Non-U.S. Holder is not a United States person. U.S. Treasury regulations provide additional rules for a Note held through one or more intermediaries or pass-through entities.

If the requirements set forth in clause (a) above are not satisfied with respect to a Non-U.S. Holder, amounts treated as payments of interest generally will be subject to U.S. federal withholding tax at a rate of 30%, unless another exemption is applicable. For example, an applicable tax treaty may reduce or eliminate this withholding tax if such Non-U.S. Holder provides the appropriate documentation (generally, IRS Form W-8BEN) to the applicable withholding agent.

If a Non-U.S. Holder is engaged in the conduct of a trade or business in the United States, and if amounts treated as interest on a Note or as gain recognized on the sale, exchange, retirement or other disposition of a Note are effectively connected with such trade or business, such Non-U.S. Holder generally will not be subject to U.S. federal withholding tax on such amounts; *provided* that, in the case of amounts treated as interest, such Non-U.S. Holder provides the appropriate documentation (generally, IRS Form W-8ECI) to the applicable withholding agent. Instead, such Non-U.S. Holder generally will be subject to U.S. federal income tax on such interest or gain in substantially the same manner as a U.S. Holder (except as provided by an applicable tax treaty). In addition, a Non-U.S. Holder that is a corporation may be subject to a branch profits tax at the rate of 30% (or a lower rate if provided by an applicable tax treaty) on its effectively connected income for the taxable year, subject to certain adjustments.

***FATCA Legislation***

Legislation enacted on March 18, 2010, commonly referred to as the Foreign Account Tax Compliance Act provisions, or "FATCA," generally imposes a withholding tax of 30% on payments of (i) interest on a debt obligation of a U.S. issuer on or after January 1, 2014, and (ii) gross proceeds from the sale or other disposition of such a debt obligation on or after January 1, 2015, in each case made to (a) a foreign financial institution (as a beneficial owner or as an intermediary), unless such institution enters into an agreement with the U.S. government (or is required by applicable local law) to collect and provide to the U.S. or other relevant tax authorities certain information regarding U.S. account holders of such institution; or (b) a foreign entity that is not a financial institution (as a beneficial owner or as an intermediary), unless such entity provides the withholding agent with a certification that it does not have any substantial U.S. owners or identifying its substantial U.S. owners, which generally includes any specified U.S. person that directly or indirectly owns more than a specified percentage of such entity.

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Pursuant to proposed U.S. Treasury regulations, FATCA generally does not apply to a debt obligation outstanding on January 1, 2013, unless such debt obligation undergoes a "significant modification" (within the meaning of Treasury Regulation section 1.1001-3) after such date. However, these regulations are currently only in proposed form and have yet to be finalized. Non-U.S. Holders should consult their own tax advisers regarding the application of FATCA to the Notes.

***Information Reporting and Backup Withholding***

Amounts treated as payments of interest on a Note to a Non-U.S. Holder and the amount of any tax withheld from such payments generally must be reported annually to the IRS and to such Non-U.S. Holder.

The information reporting and backup withholding rules that apply to payments of interest to a U.S. Holder generally will not apply to amounts treated as payments of interest to a Non-U.S. Holder if such Non-U.S. Holder certifies under penalties of perjury that it is not a United States person (generally by providing an IRS Form W-8BEN) or otherwise establishes an exemption.

Proceeds from the sale, exchange, retirement or other disposition of a Note by a Non-U.S. Holder effected through a non-U.S. office of a U.S. broker or of a non-U.S. broker with certain specified U.S. connections generally will be subject to information reporting, but not backup withholding, unless such Non-U.S. Holder certifies under penalties of perjury that it is not a United States person (generally by providing an IRS Form W-8BEN) or otherwise establishes an exemption. Proceeds from the sale, exchange, retirement or other disposition of a Note by a Non-U.S. Holder effected through a U.S. office of a broker generally will be subject to information reporting and backup withholding, unless such Non-U.S. Holder certifies under penalties of perjury that it is not a United States person (generally by providing an IRS Form W-8BEN) or otherwise establishes an exemption.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules generally will be allowed as a refund or a credit against a Non-U.S. Holder's U.S. federal income tax liability if the required information is furnished by such Non-U.S. Holder on a timely basis to the IRS.

Table of Contents**UNDERWRITING****General**

The Company, the Subsidiary Guarantor and the underwriters for the offering named below, for whom Citigroup Global Markets Inc., Barclays Capital Inc. and Wells Fargo Securities, LLC are acting as representatives, have entered into an underwriting agreement with respect to the Notes dated the date of this prospectus supplement. Subject to certain conditions in the underwriting agreement, we have agreed to sell to each of the underwriters named below and each underwriter has severally, and not jointly, agreed to purchase the principal amount of Notes indicated in the following table.

<b>Underwriter</b>	<b>Principal Amount of 2022 Notes</b>	<b>Principal Amount of 2042 Notes</b>
Citigroup Global Markets Inc.	\$	\$
Barclays Capital Inc.		
Wells Fargo Securities, LLC		
<b>Total</b>	\$	\$

The underwriting agreement provides that the obligations of the underwriters to purchase the Notes in connection with this offering are subject to the approval of legal matters by counsel and other conditions. The underwriters are committed to take and pay for all of the Notes being offered, if any are taken.

Notes sold by the underwriters to the public will initially be offered at the applicable public offering price set forth on the cover of this prospectus supplement. Any Notes sold by the underwriters to securities dealers may be sold at a discount from the applicable public offering price of up to % of the principal amount of the 2022 Notes and % of the principal amount of the 2042 Notes, as applicable. Any such securities dealers may resell any Notes purchased from the underwriters to certain other brokers or dealers at a discount from the applicable public offering price of up to % of the principal amount of the 2022 Notes and % of the principal amount of the 2042 Notes, as applicable. If all the Notes of a series are not sold at the applicable public offering price, the underwriters may change the offering price and the other selling terms.

**New Issue**

The Notes of each series are a new issue of securities with no established trading market. We have been advised by the underwriters that the underwriters intend to make a market in the Notes of each series but are not obligated to do so and may discontinue market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the Notes of either series.

**Underwriting Discounts**

The following table shows the underwriting discounts that we are to pay to the underwriters in connection with this offering (expressed as a percentage of principal amount):

	<b>Paid by the Company</b>
Per 2022 Note	%
Per 2042 Note	%

**Price Stabilization and Short Positions**

In connection with the offering, the underwriters may purchase and sell Notes in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions

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created by short sales. Short sales involve the sale by the underwriters of a greater number of Notes than they are required to purchase in the offering. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Notes while the offering is in progress.

The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discounts received by it because the representatives have repurchased Notes sold by or for the account of such underwriter in stabilizing or short covering transactions.

These activities by the underwriters, as well as other purchases by the underwriters for their own accounts, may stabilize, maintain or otherwise affect the market price of the Notes of each series. As a result, the price of the Notes of each series may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriters at any time. These transactions may be effected in the over-the-counter market or otherwise.

**Expenses and Indemnification**

We estimate that our share of the total expenses of the offering, excluding the underwriting discounts, will be approximately \$750,000.

We and the Subsidiary Guarantor have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended.

**Relationships**

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Certain of the underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for us and our affiliates, for which they received or will receive customary fees and expenses.

In addition, in the ordinary course of their business activities, the underwriters and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. Certain of the underwriters or their affiliates that have a lending relationship with us routinely hedge their credit exposure to us consistent with their customary risk management policies. Typically, such underwriters and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the Notes offered hereby. Any such short positions could adversely affect future trading prices of the Notes offered hereby. The underwriters and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

**European Economic Area**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each underwriter has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State it has not made and will not make an offer of the notes which are the subject

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of the offering contemplated by this prospectus supplement and the accompanying prospectus to the public in that Relevant Member State other than:

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) to fewer than 100 or, if the Relevant Member State has implemented the relevant Provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Representatives for any such offer; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of notes shall require the Company or any underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Directive. For the purposes of this provision, the expression an "offer of notes to the public" in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe the notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State.

This prospectus supplement and accompanying prospectus have been prepared on the basis that any offer of notes in a Relevant Member State will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of notes. Accordingly any person making or intending to make an offer in that Relevant Member State of the notes which are the subject of the placement contemplated by this prospectus supplement and the accompanying prospectus may only do so in circumstances in which no obligation arises for the Company or any of the underwriters to publish a prospectus pursuant to Article 3 of the Prospectus Directive, in each case, in relation to such offer. Neither the Company nor the underwriters have authorized nor do they authorize, the making of any offer of the notes in circumstances in which an obligation arises for the Company or the underwriters to publish a prospectus for such offer.

The expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

**United Kingdom**

This prospectus supplement and the accompanying prospectus are only being distributed to, and are only directed at, (1) persons who are outside the United Kingdom, (2) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order"), (3) high net worth entities falling within Article 49(2)(a) to (d) of the Order, or (4) other persons to whom it may lawfully be communicated (each such person in (1) to (4) being referred to as a "relevant person"). The notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire the notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this prospectus supplement or the accompanying prospectus or any of their contents.

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**CONFLICTS OF INTEREST**

Wells Fargo Securities, LLC, one of the joint book-running managers, also owns a portion of the 2014 Notes. Because more than 5% of the net proceeds from this offering may be used to repay amounts owed to Wells Fargo Securities, LLC in respect of the 2014 Notes it owns, this offering will be conducted in compliance with the requirements of FINRA Rule 5121. In accordance with the requirements of FINRA Rule 5121, no "qualified independent underwriter" is required to be appointed in connection with this offering. However, no sale of the Notes will be made by Wells Fargo Securities, LLC to an account over which it exercises discretion without the prior specific written consent of the account holder.

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**VALIDITY OF THE NOTES**

The validity of the Notes and the Subsidiary Guarantees will be passed upon for us by Debevoise & Plimpton LLP, 919 Third Avenue, New York, New York 10022, and for the underwriters by Pillsbury Winthrop Shaw Pittman LLP, 1540 Broadway, New York, New York 10036. Certain legal matters relating to the issuance of the Subsidiary Guarantees will be passed upon for us by Karen E. Shaff, Executive Vice President and General Counsel of the Company.

**EXPERTS**

The consolidated financial statements of Principal Financial Group, Inc. appearing in Principal Financial Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2011 (including schedules appearing therein), and the effectiveness of Principal Financial Group, Inc.'s internal control over financial reporting as of December 31, 2011 have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon, included therein, and incorporated herein by reference. Such consolidated financial statements and Principal Financial Group, Inc. management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2011 are incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.



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**WHERE YOU CAN FIND MORE INFORMATION**

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document that we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site at <http://www.sec.gov>, from which interested persons can electronically access our filings with the SEC, including the registration statement to which this prospectus supplement relates (including the exhibits and schedules thereto).

The SEC allows us to "incorporate by reference" the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus supplement, and information that we file later with the SEC prior to the termination of the offering under this prospectus supplement will automatically update and supersede this information. We incorporate by reference the documents listed below and all documents we file with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, other than reports or portions thereof furnished under Item 2.02 or 7.01 on Form 8-K and not specifically incorporated by reference, prior to the termination or completion of the offering under this prospectus supplement:

- (a) Our Annual Report on Form 10-K for the fiscal year ended December 31, 2011;
- (b) Our Quarterly Reports on Form 10-Q for the quarter ended June 30, 2012 and for the quarter ended March 31, 2012;
- (c) Our Current Reports on Form 8-K filed on September 5, 2012, May 25, 2012, February 2, 2012 and January 20, 2012; and
- (d) Our Proxy Statement filed on April 11, 2012 for