PIONEER NATURAL RESOURCES CO
Form S-3ASR
May 30, 2014
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As filed with the Securities and Exchange Commission on May 30, 2014.

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-3

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

PIONEER NATURAL RESOURCES COMPANY

PIONEER NATURAL RESOURCES USA, INC.

(Exact name of registrants as specified in their charters)

Delaware	**75-2702753**
Delaware	**75-2516853**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. employer identification no.)*

5205 North O Connor Blvd., Suite 200

Irving, Texas 75039

(972) 444-9001

(Address, including zip code, and telephone number, including area code, of registrants principal executive offices)

Scott D. Sheffield

Chief Executive Officer

Pioneer Natural Resources Company

5205 North O Connor Blvd., Suite 200

Irving, Texas 75039

(972) 444-9001

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Mark H. Kleinman
Senior Vice President and General Counsel
Pioneer Natural Resources Company
5205 North O Connor Blvd., Suite 200
Irving, Texas 75039
(972) 444-9001

Robert L. Kimball
Vinson & Elkins L.L.P.
3700 Trammell Crow Center
2001 Ross Avenue
Dallas, Texas 75201
(214) 220-7700

Approximate date of commencement of proposed sale to the public: From time to time after this Registration Statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ¨

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. ¢

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act Registration Statement number of the earlier effective Registration Statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. ¢

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¢	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price per Unit(2)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee(3)
Debt securities(4)(5)				
Guarantees of debt securities(5)				
Common stock, par value $.01 per share(4)				
Preferred stock, par value $.01 per share(4)				
Depositary shares(4)(6)				
Warrants(4)				
Stock purchase contracts(4)				
Stock purchase units(4)				

(1) An indeterminate aggregate initial offering price or number of the securities of each identified class is being registered as may from time to time be offered hereunder at indeterminate prices. Separate consideration may or may not be received for securities that are issuable on exercise, conversion or exchange of other securities or that are issued in units or represented by depositary shares.

(2) Pursuant to General Instruction II.E. and Rule 457(r) under the Securities Act of 1933, this information is not required to be included. The proposed maximum offering price per security will be determined from time to time by the registrant(s) in connection with the issuance of the securities registered by this Registration Statement. If any debt securities or preferred stock are issued at an original issue discount, then the amount registered will include the principal or liquidation amount of such securities measured by the initial offering price thereof.

(3) In accordance with Rule 456(b) under the Securities Act of 1933, the registrants are deferring payment of all of the registration fee.

(4) This Registration Statement covers an indeterminate amount of securities as may be issued in exchange for, or upon conversion or exercise of, as the case may be, the debt securities, common stock, preferred stock, depositary shares or warrants registered under this Registration Statement and such indeterminate amount of securities as may be issued upon settlement of the stock purchase contracts or stock purchase units registered under this Registration Statement. The securities registered under this Registration Statement may be sold separately or as units with other securities registered under this Registration Statement. No separate consideration will be received for any securities registered under this Registration Statement that are issued in exchange for, or upon conversion of, as the case may be, the debt securities, common stock, preferred stock, depositary shares or warrants.

(5) The debt securities will be issued by Pioneer Natural Resources Company and may be accompanied by guarantees issued by Pioneer Natural Resources USA, Inc. Pursuant to Rule 457(n) under the Securities Act of 1933, no separate fee is payable with respect to the guarantees being registered hereby.

(6) The depositary shares registered hereunder will be evidenced by depositary receipts issued pursuant to a depositary agreement. If the registrants elect to offer to the public fractional interests in shares of preferred stock, then the registrants will distribute depositary receipts to those persons purchasing the fractional interests and will issue the shares of preferred stock to the depositary under the depositary agreement.

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PROSPECTUS

Pioneer Natural Resources Company

Pioneer Natural Resources USA, Inc., as Guarantor

Debt Securities

Guarantees of Debt Securities

Common Stock

Preferred Stock

Depositary Shares

Warrants

Stock Purchase Contracts

Stock Purchase Units

We may offer and sell the securities listed above from time to time in one or more classes or series and in amounts, at prices and on terms that we will determine at the time of the offering. Any debt securities we issue under this prospectus may be guaranteed by Pioneer Natural Resources USA, Inc., our wholly-owned subsidiary that we call Pioneer USA.

This prospectus describes some of the general terms that may apply to these securities and the general manner in which they may be offered. We will provide specific terms of the securities to be sold by us, including any guarantee by Pioneer USA, and the methods by which we will sell them in one or more supplements to this prospectus. The prospectus supplement may also add, update or change information contained in this prospectus. You should read this prospectus and any supplement carefully before you invest. This prospectus may not be used to offer or sell securities without a prospectus supplement describing the methods and terms of the offering. We may sell the securities directly or we may distribute them through underwriters or dealers. In addition, the underwriters may overallot a portion of the securities.

Our common stock is listed on the New York Stock Exchange under the symbol PXD.

Investing in these securities involves risks. We recommend that you read carefully the risks we describe in any accompanying prospectus supplement and the risks factors that are incorporated by reference into this prospectus from our filings made with the Securities and Exchange Commission. See Risk Factors on page 2 of this prospectus.

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

The date of this prospectus is May 30, 2014.

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ABOUT THIS PROSPECTUS

This prospectus is part of a Registration Statement on Form S-3 that Pioneer and Pioneer USA filed with the Securities and Exchange Commission, or the SEC, using a shelf registration process. Under this shelf process, Pioneer or Pioneer USA may sell any combination of the securities described in this prospectus in one or more offerings. This prospectus provides you with a general description of the securities Pioneer or Pioneer USA may offer. Each time Pioneer or Pioneer USA sells securities, Pioneer or Pioneer USA will provide a prospectus supplement that will contain specific information about the terms of that offering. This prospectus does not contain all of the information included in the Registration Statement. For a more complete understanding of the offering of the securities, you should refer to the Registration Statement, including its exhibits. The prospectus supplement may also add, update or change information contained in this prospectus. You should read both this prospectus and any prospectus supplement together with the documents incorporated by reference into this prospectus as described below under the heading Information that Pioneer and Pioneer USA Incorporate by Reference.

You should rely only on the information contained or incorporated by reference in this prospectus and any prospectus supplement. Pioneer and Pioneer USA have not authorized anyone to provide you with different information. Pioneer and Pioneer USA are not making offers to sell the securities in any jurisdiction in which an offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to anyone to whom it is unlawful to make an offer or solicitation.

The information in this prospectus is accurate as of the date on the front cover. You should not assume that the information contained in this prospectus is accurate as of any other date.

In this prospectus, references to the terms we, us or Pioneer or other similar terms refer to Pioneer Natural Resources Company, and not to Pioneer Natural Resources USA, Inc., unless we state otherwise or the context indicates otherwise. References to Pioneer USA refer to Pioneer Natural Resources USA, Inc.

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UNCERTAINTY OF FORWARD-LOOKING STATEMENTS

This prospectus and the documents Pioneer and Pioneer USA incorporate by reference contain statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. The forward-looking statements speak only as of the date made, and Pioneer and Pioneer USA undertake no obligation to update such forward-looking statements. These forward-looking statements may be identified by the use of the words believe, plan, expect, anticipate, forecast, intend, continue, may, will, could, should, contemp potential, estimate and similar expressions that contemplate future events. These statements appear in a number of places in this prospectus and in documents Pioneer and Pioneer USA incorporate by reference. All statements other than statements of historical fact included or incorporated in this prospectus, including statements regarding Pioneer s or Pioneer USA s financial position, business strategy, production and reserve growth and other plans and objectives for Pioneer s or Pioneer USA s future operations, are forward-looking statements.

Although Pioneer and Pioneer USA believe that such forward-looking statements are based on reasonable assumptions, Pioneer and Pioneer USA give no assurance that Pioneer s or Pioneer USA s expectations will in fact occur. Important factors could cause actual results to differ materially from those in the forward-looking statements, including factors identified in Pioneer s periodic and current reports incorporated in this prospectus by reference or as stated in a prospectus supplement to this prospectus under the caption Risk Factors. Forward-looking statements are subject to risks and uncertainties and include information concerning general economic conditions and possible or assumed future results of operations, estimates of oil and gas production and reserves, drilling plans, future cash flows, anticipated capital expenditures, Pioneer s realization of deferred tax assets, the level of future expenditures for environmental costs, government regulation or action and the strategies, plans and objectives of Pioneer s management.

This cautionary statement expressly qualifies in their entirety all forward-looking statements attributable to Pioneer or Pioneer USA.

RISK FACTORS

Investing in our securities involves risks. You should carefully consider the specific risks described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, which are incorporated herein by reference, and any other risk factors that may be described in any applicable prospectus supplement, together with all of the other information included in this prospectus, any prospectus supplement and the documents we incorporate by reference, before making an investment decision. See Information that Pioneer and Pioneer USA Incorporate by Reference.

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WHERE YOU CAN FIND MORE INFORMATION

Pioneer files annual, quarterly and other reports, proxy statements and other information with the SEC. You may read and copy any document Pioneer files at the SEC s public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room. The SEC also maintains an Internet site (*www.sec.gov*) that contains the reports, proxy statements and other information that Pioneer files electronically with the SEC. Pioneer s reports, proxy statements and other information are also available through its Internet site at *www.pxd.com*. The information contained in this website is not part of this prospectus.

Pioneer s common stock is listed on the New York Stock Exchange under the symbol PXD. Pioneer s reports and other information filed with the SEC can also be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

INFORMATION THAT PIONEER AND PIONEER USA INCORPORATE BY REFERENCE

The SEC allows Pioneer and Pioneer USA to incorporate by reference the information Pioneer files with the SEC, which means that Pioneer and Pioneer USA can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus, and information Pioneer files later with the SEC will automatically update and supersede this information. Except to the extent that information therein is deemed furnished and not filed pursuant to securities laws and regulations, Pioneer and Pioneer USA incorporate by reference the documents listed below, which Pioneer has filed with the SEC under the Securities Exchange Act of 1934:

- the description of Pioneer s common stock contained in its Registration Statement on Form 8-A filed with the SEC on August 5, 1997, as amended by Pioneer s Registration Statement on Form 8-A/A filed on August 8, 1997, Pioneer s Current Report on Form 8-K filed with the SEC on September 16, 2013, and any other amendments or reports filed with the SEC for the purpose of updating such description;

- Pioneer s Annual Report on Form 10-K for the year ended December 31, 2013;

- Pioneer s Quarterly Report on Form 10-Q for the three months ended March 31, 2014; and

- Pioneer s Current Reports on Form 8-K filed with the SEC on February 7, 2014, February 10, 2014 and February 25, 2014.

Pioneer and Pioneer USA also incorporate by reference each of the documents that Pioneer files with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 (excluding any information furnished under Items 2.02 or 7.01 in any Current Report on Form 8-K and any other information that is deemed furnished and not filed) after the date of this prospectus until the offering of the securities terminates or Pioneer or Pioneer USA has filed with the SEC an amendment to the Registration Statement relating to this offering that deregisters all securities then remaining unsold.

You may request a copy of any of these filings, other than an exhibit to those filings unless Pioneer or Pioneer USA has specifically incorporated that exhibit by reference into the filing, at no cost, by telephoning or writing Pioneer or Pioneer USA at the following address:

Pioneer Natural Resources Company

5205 North O Connor Blvd., Suite 200

Irving, Texas 75039

Attention: Investor Relations

Telephone: (972) 444-9001

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PIONEER AND PIONEER USA

Pioneer is a large independent oil and gas exploration and production company, operating in the United States, with field operations primarily in the Permian Basin in West Texas, the Eagle Ford Shale play in South Texas, the Raton field in southeastern Colorado, the Hugoton field in southwest Kansas and the West Panhandle field in the Texas Panhandle. Pioneer USA is a wholly-owned subsidiary of Pioneer and owns the majority of Pioneer s oil and gas properties.

The executive offices of Pioneer and Pioneer USA are located at 5205 North O Connor Blvd., Suite 200, Irving, Texas 75039, telephone number: (972) 444-9001. Pioneer maintains other offices in Denver, Colorado, and Midland, Texas.

USE OF PROCEEDS

Unless Pioneer or Pioneer USA informs you otherwise in the prospectus supplement, each of Pioneer and Pioneer USA expects to use the net proceeds from the sale of securities for general corporate purposes. These purposes may include, but are not limited to reduction or refinancing of debt or other corporate obligations, acquisitions, capital expenditures and working capital.

Pending any specific application, each of Pioneer and Pioneer USA may initially invest funds in short-term marketable securities or apply them to the reduction of short-term indebtedness.

RATIOS OF EARNINGS TO FIXED CHARGES AND EARNINGS TO FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

The following table sets forth Pioneer s ratios of consolidated earnings to fixed charges and earnings to fixed charges and preferred stock dividends for the periods presented:

	Three Months Ended March 31,	Year Ended December 31,				
	2014	2013	2012	2011	2010	2009
Ratio of earnings to fixed charges(a)	5.10	(b)	4.55	3.70	4.79	(c)
Ratio of earnings to fixed charges and preferred stock dividends(d)	5.10	(b)	4.55	3.70	4.79	(c)

(a) The ratio has been computed by dividing earnings by fixed charges. For purposes of computing the ratio: earnings consist of income from continuing operations before income taxes, cumulative effect of change in accounting principle, adjustments for net income or loss attributable to the noncontrolling interest and Pioneer s share of investee s income or loss accounted for under the equity method, and adjustment for capitalized interest, plus fixed charges and Pioneer s share of distributed income from investees accounted for under the equity method; and

fixed charges consist of interest expense, capitalized interest and the portion of rental expense deemed to be representative of the interest component of rental expense.

(b) The ratio indicates a less than one-to-one coverage because the earnings are inadequate to cover the fixed charges during the year ended December 31, 2013 by $593 million.

(c) The ratio indicates a less than one-to-one coverage because the earnings are inadequate to cover the fixed charges during the year ended December 31, 2009 by $298 million.

(d) The ratio has been computed by dividing earnings by fixed charges and preferred stock dividends. For purposes of computing the ratio:

earnings consist of income from continuing operations before income taxes, cumulative effect of change in accounting principle, adjustments for net income or loss attributable to the noncontrolling interest and Pioneer s share of investee s income or loss accounted for under the equity method, and adjustment for capitalized interest, plus fixed charges, Pioneer s share of distributed income from investees accounted for under the equity method and preferred stock dividends, net of preferred stock dividends of a consolidated subsidiary; and

fixed charges and preferred stock dividends consist of interest expense, capitalized interest and the portion of rental expense deemed to be representative of the interest component of rental expense, preferred stock dividends of a consolidated subsidiary and preferred stock dividends.

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DESCRIPTION OF DEBT SECURITIES

This section describes the general terms and provisions of the debt securities that Pioneer may issue separately, upon exercise of a debt warrant, in connection with a stock purchase contract, or as part of a stock purchase unit from time to time in the form of one or more series of debt securities. The applicable prospectus supplement will describe the specific terms of the debt securities offered through that prospectus supplement as well as any general terms described in this section that will not apply to those debt securities.

Pioneer s debt securities will be issued under the indenture, dated June 26, 2012, between Pioneer and Wells Fargo Bank, National Association, as trustee, as supplemented from time to time (the indenture). Under the indenture, Pioneer s debt securities may be subordinated to other indebtedness of Pioneer. See Description of Debt Securities Subordination of Subordinated Debt Securities below. We have filed the indenture as an exhibit to the Registration Statement of which this prospectus is a part. You can obtain a copy of the indenture and any indenture supplements by following the directions outlined in Where You Can Find More Information. We urge you to read the indenture and any supplement thereto because they, and not this description, control your rights as a debt securities holder.

The indenture does not limit the amount of debt securities that Pioneer may issue and permits Pioneer to issue securities from time to time in one or more series. The debt securities will be unsecured obligations of Pioneer, unless otherwise stated in the applicable prospectus supplement. Pioneer currently conducts substantially all of its operations through subsidiaries, and the holders of debt securities (whether senior or subordinated debt securities) will be effectively subordinated to the creditors of Pioneer s subsidiaries. This means that creditors of Pioneer s subsidiaries will have a claim to the assets of Pioneer s subsidiaries that is superior to the claim of Pioneer s creditors, including holders of Pioneer s debt securities.

The applicable prospectus supplement will describe the following terms of any series of debt securities that Pioneer may offer:

- the title of the debt securities;
- whether they are senior debt securities or subordinated debt securities;
- the total amount of the debt securities authorized and the amount outstanding, if any;
- any limit on the aggregate principal amount of the debt securities offered through that prospectus supplement;
- the identity of the person to whom Pioneer will pay interest if it is anybody other than the holder;
- when the principal of the debt securities will mature;

the interest rate or the method for determining it, including any procedures to vary or reset the interest rate;

when interest will be payable, as well as the record dates for determining to whom Pioneer will pay interest;

where the principal of, premium, if any, and interest on the debt securities will be paid;

whether Pioneer has any obligation to redeem, repurchase or repay the debt securities under any mandatory or optional sinking funds or similar arrangements and the terms of those arrangements;

when the debt securities may be redeemed if they are redeemable, as well as the redemption prices, and a description of the terms of redemption;

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whether Pioneer has any obligation to redeem or repurchase the debt securities at the holder s option;

the denominations of the debt securities, if other than $1,000 or an integral multiple of $1,000;

the amount that Pioneer will pay the holder if the maturity of the debt securities is accelerated, if other than their principal amount;

the currency in which Pioneer will make payments to the holder and, if a foreign currency, the manner of conversion from United States dollars;

any index Pioneer may use to determine the amount of payment of principal of, premium, if any, and interest on the debt securities;

whether the debt securities will be issued in electronic, global or certificated form;

if the debt securities will be issued only in the form of a global note, the name of the depositary or its nominee and the circumstances under which the global note may be exchanged in whole or in part for other individual debt securities in definitive registered form;

the applicability of the legal defeasance and covenant defeasance provisions in the applicable indenture;

any additions or changes to events of default and any additional events of default that would result in acceleration of their maturity;

whether the debt securities will be issued as registered securities or bearer securities and, if the debt securities are bearer securities, whether coupons will be attached, whether and to whom any additional interest payments shall be made, and the circumstances, if any, under which the bearer debt securities may be exchanged for registered debt securities;

the applicability or inapplicability of any covenants and any additions or changes to the covenants, including those relating to permitted consolidations, mergers or sales of assets or otherwise;

if any debt securities do not bear interest, the dates for any required reports to the trustee;

the amount that will be deemed to be the principal amount of the debt securities as of a particular date before maturity if the principal amount payable at the stated maturity date will not be able to be determined on that date;

whether the debt securities will be convertible into or exchangeable for any other securities and the terms and conditions upon which a conversion or exchange may occur, including the initial conversion or exchange price or rate, the conversion or exchange period and any additional provisions;

the terms of any repurchase or remarketing rights of third parties;

the terms of any guarantee of the debt securities; and

any other material terms of the debt securities.

Generally, Pioneer will pay the principal of, premium, if any, and interest on Pioneer s registered debt securities either at an office or agency that Pioneer maintains for that purpose or, if Pioneer elects, Pioneer may pay interest by mailing a check to the holder s address as it appears on Pioneer s register (or, at the election of the holder, by wire transfer to an account designated by the holder). Except as may be provided otherwise in the

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applicable prospectus supplement, no payment on a bearer security will be made by mail to an address in the United States or by wire transfer to an account in the United States. Except as may be provided otherwise in the applicable prospectus supplement, Pioneer will issue its debt securities only in fully registered form without coupons, generally in denominations of $1,000 or integral multiples of $1,000. Pioneer will not apply a service charge for a transfer or exchange of its debt securities, but Pioneer may require that the holder pay the amount of any applicable tax or other governmental charge.

Debt securities may bear interest at fixed or floating rates. Pioneer may issue its debt securities at an original issue discount, bearing no interest or bearing interest at a rate that, at the time of issuance, is below market rate, to be sold at a substantial discount below their stated principal amount. Generally speaking, if Pioneer s debt securities are issued at an original issue discount and there is an event of default or acceleration of their maturity, holders will receive an amount less than their principal amount. Tax and other special considerations applicable to any series of debt securities, including original issue discount debt, will be described in the prospectus supplement in which Pioneer offers those debt securities.

Pioneer will have the ability under the indenture to reopen a previously issued series of debt securities and issue additional debt securities of that series or establish additional terms of the series. Pioneer is also permitted to issue debt securities with the same terms as previously issued debt securities.

Pioneer will comply with Section 14(e) under the Securities Exchange Act of 1934 and any other tender offer rules under the Securities Exchange Act of 1934 that may then apply to any obligation Pioneer may have to purchase debt securities at the option of the holders. Any such obligation applicable to a series of debt securities will be described in the related prospectus supplement.

Subordination of Subordinated Debt Securities

Debt securities of a series may be subordinated to senior indebtedness to the extent set forth in the prospectus supplement relating to the subordinated debt securities. The definition of senior indebtedness (1) will include, among other things, Pioneer s indebtedness, whether outstanding on the original issue date of the debt securities or incurred after such date, unless the instrument that creates or evidences such indebtedness provides that such obligations are subordinate in right of payment to the debt securities, and (2) will be specifically set forth in the prospectus supplement relating to the subordinated debt securities.

Subordinated debt securities of a particular series and any coupons relating to those debt securities will be subordinate in right of payment, to the extent and in the manner set forth in the indenture and the prospectus supplement relating to those subordinated debt securities, to the prior payment of all of Pioneer s indebtedness that is designated as senior indebtedness with respect to that series.

Upon any payment or distribution of Pioneer s assets to creditors or upon a total or partial liquidation or dissolution of Pioneer or in a bankruptcy, receivership or similar proceeding relating to Pioneer or its property, holders of senior indebtedness will be entitled to receive payment in full in cash of the senior indebtedness before holders of subordinated debt securities will be entitled to receive any payment of principal, premium, if any, or interest with respect to the subordinated debt securities and, until the senior indebtedness is paid in full, any distribution to which holders of subordinated debt securities would otherwise be entitled will be made to the holders of senior indebtedness (except that holders of subordinated debt securities may receive shares of stock and any debt securities that are subordinated to senior indebtedness to at least the same extent as the subordinated debt securities), all as described in the applicable prospectus supplement.

Unless otherwise provided in an applicable prospectus supplement, Pioneer may not (1) make any payments of principal, premium, if any, or interest with respect to subordinated debt securities, (2) make any deposit for the purpose of defeasance of the subordinated debt securities, or (3) repurchase, redeem or otherwise retire (except, in the case of subordinated debt securities that provide for a mandatory sinking fund, by Pioneer s delivery of subordinated debt securities to the trustee in satisfaction of Pioneer s sinking fund obligation) any subordinated debt securities if:

- any principal, premium or interest with respect to senior indebtedness is not paid within any applicable grace period (including at maturity); or

- any other default on senior indebtedness occurs and the maturity of that senior indebtedness is accelerated in accordance with its terms,

unless, in either case, the default has been cured or waived and the acceleration has been rescinded, the senior indebtedness has been paid in full in cash, or Pioneer and the trustee receive written notice approving the payment from the representatives of each issue of specified senior indebtedness as described in the applicable prospectus supplement.

Unless otherwise provided in an applicable prospectus supplement, during the continuance of any default (other than a default described in the preceding paragraph) with respect to any senior indebtedness pursuant to which the maturity of that senior indebtedness may be accelerated immediately without further notice (except such notice as may be required to effect the acceleration) or the expiration of any applicable grace periods, Pioneer may not pay the subordinated debt securities for such periods after notice of the default from the representative of specified senior indebtedness as shall be specified in the applicable prospectus supplement.

By reason of this subordination, in the event of insolvency, Pioneer s creditors who are holders of senior indebtedness or holders of any indebtedness or preferred stock of Pioneer s subsidiaries, as well as certain of Pioneer s general creditors, may recover more, ratably, than the holders of the subordinated debt securities.

Events of Default

Except as may be provided otherwise in a prospectus supplement, any of the following events will constitute an event of default for a series of debt securities under the indenture:

- failure to pay interest on Pioneer s debt securities of that series, or any payment with respect to the related coupons, if any, for 30 days past the applicable due date;

- failure to pay principal of, or premium, if any, on Pioneer s debt securities of that series when due, whether at maturity, upon redemption, by declaration, upon required repurchase or otherwise;

- failure to make any sinking fund payment on debt securities of that series when due;

- failure to perform any covenant or agreement in the indenture, including failure to comply with the provisions of the indenture relating to consolidations, mergers and sales of assets, but other than a covenant included in the indenture solely for the benefit of a different series of Pioneer s debt securities, which failure to comply continues for 90 days after written notice from the trustee or holders of 25% of the outstanding principal amount of the debt securities of that series as provided in the applicable indenture;

acceleration of more than $50,000,000 of indebtedness of Pioneer under the terms of the applicable debt instrument if the acceleration is not rescinded or the indebtedness is not paid within ten days after written notice from the trustee or holders of 25% of the outstanding principal amount of the debt securities of that series as provided in the indenture;

specified events relating to the bankruptcy, insolvency or reorganization of Pioneer or any of its significant subsidiaries; and

any other event of default provided with respect to debt securities of that series.

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An event of default with respect to one series of debt securities is not necessarily an event of default for another series. The trustee may withhold notice to the holders of debt securities of any default (except in the payment of principal, premium, if any, or interest) if it considers such withholding of notice to be in the interests of the holders.

If an event of default described in the sixth bullet point above occurs, the entire principal of, premium, if any, and accrued interest on, all debt securities then outstanding will be due and payable immediately, without any declaration or other act on the part of the trustee or any holders. If any other event of default for any series of debt securities occurs and continues for the requisite amount of time, the trustee or the holders of at least 25% in aggregate principal amount of the debt securities of the series may declare the entire principal of, and accrued interest on, all the debt securities of that series to be due and payable immediately. If this happens, subject to certain conditions, the holders of a majority in aggregate principal amount of the debt securities of that series can rescind the declaration. Other than its duties in case of a default, a trustee is not obligated to exercise any of its rights or powers under the indenture at the request, order or direction of any holders, unless the holders offer the trustee reasonable security or indemnity. If they provide this reasonable security or indemnification, the holders of a majority in aggregate principal amount of any series of debt securities may direct the time, method and place of conducting any proceeding for any remedy available to the trustee, or exercising any power conferred upon the trustee, for that series of debt securities.

Before the acceleration of the maturity of the debt securities of any series, the holders of a majority in aggregate principal amount of the debt securities of that series may, on behalf of the holders of all debt securities and any related coupons of that series, waive any past default or event of default and its consequences for that series, except (1) a default in the payment of the principal, premium or interest with respect to those debt securities or (2) a default with respect to a provision of the indenture that cannot be amended without the consent of each holder affected by the amendment. In case of a waiver of a default, that default shall cease to exist, any event of default arising from that default shall be deemed to have been cured for all purposes, and Pioneer, the trustee and the holders of the senior debt securities of that series will be restored to their former positions and rights under the indenture.

A default in the payment of any of Pioneer s debt securities, or a default with respect to Pioneer s debt securities that causes them to be accelerated, may give rise to a cross-default under Pioneer s bank credit facility or other indebtedness.

Satisfaction and Discharge of the Indenture

The indenture will generally cease to be of any further effect with respect to a series of debt securities if:

- Pioneer has delivered to the trustee for cancellation all debt securities of that series (with certain limited exceptions); or

- all debt securities and coupons of that series not previously delivered to the trustee for cancellation have become due and payable, whether by redemption, at stated maturity or otherwise, and Pioneer has deposited with the trustee as trust funds the entire amount sufficient to pay at maturity or upon redemption all of those debt securities and coupons;

and if, in either case, Pioneer also pays or causes to be paid all other sums payable under the indenture by Pioneer.

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Legal Defeasance and Covenant Defeasance

Any series of Pioneer s debt securities may be subject to the defeasance and discharge provisions of the indenture if so specified in the applicable prospectus supplement. If those provisions are applicable, Pioneer may elect either:

- legal defeasance which will permit Pioneer to defease and be discharged from, subject to limitations, all of its obligations with respect to those debt securities; or
- covenant defeasance which will permit Pioneer to be released from its obligations to comply with covenants relating to those debt securities as described in the applicable prospectus supplement, which may include obligations concerning subordination of Pioneer s subordinated debt securities.

If Pioneer exercises its legal defeasance option with respect to a series of debt securities, payment of those debt securities may not be accelerated because of an event of default. If Pioneer exercises its covenant defeasance option with respect to a series of debt securities, payment of those debt securities may not be accelerated because of an event of default related to the specified covenants.

Unless otherwise provided in the applicable prospectus supplement, Pioneer may invoke legal defeasance or covenant defeasance with respect to any series of its debt securities only if:

- Pioneer irrevocably deposits with the trustee, in trust, an amount in funds or U.S. government obligations that, through the payment of principal and interest in accordance with their terms, will provide money in an amount sufficient to pay, when due upon maturity or redemption, as the case may be, the principal of, premium, if any, and interest on those debt securities;
- Pioneer delivers to the trustee a certificate from a nationally recognized firm of independent accountants expressing their opinion that the payments of principal and interest when due and without reinvestment on the deposited U.S. government obligations plus any deposited money without investment will provide cash at such times and in such amounts as will be sufficient to pay the principal, premium, if any, and interest when due with respect to all the debt securities of that series to maturity or redemption, as the case may be;
- 91 days pass after the deposit is made and, during the 91-day period, no default relating to Pioneer s bankruptcy, insolvency or reorganization occurs that is continuing at the end of that period;
- no event of default has occurred and is continuing on the date of the deposit and after giving effect to the deposit;
- the deposit is not a default under any other material agreement binding on Pioneer and, in the case of subordinated debt securities, is not prohibited by the subordination provisions of the indenture;

Pioneer delivers to the trustee an opinion of counsel to the effect that the trust resulting from the deposit is not, or is qualified as, a regulated investment company under the Investment Company Act of 1940;

Pioneer delivers to the trustee an opinion of counsel addressing certain U.S. federal income tax matters relating to the defeasance; and

Pioneer delivers to the trustee an officers certificate and an opinion of counsel, each stating that all conditions precedent to the defeasance of the debt securities of that series as contemplated by the applicable indenture have been complied with.

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Modification and Waiver

Pioneer may enter into supplemental indentures for the purpose of modifying or amending the indenture with the consent of holders of at least a majority in aggregate principal amount of each series of Pioneer s outstanding debt securities affected. However, unless otherwise provided in the applicable prospectus supplement, the consent of all of the holders of Pioneer s debt securities that are affected by any modification or amendment is required to do any of the following:

- for debt securities of any series, reduce the required percentage in principal amount of that series that must consent to an amendment or waiver;
- reduce the rate of, or extend the time for, payment of interest on any debt security or coupon or reduce the amount of any interest payment to be made with respect to any debt security or coupon;
- reduce the principal of, or extend the stated maturity of principal of, any debt security;
- reduce any premium payable upon the redemption of any debt security or change the time at which any debt security may or shall be redeemed;
- make any debt security payable in a currency other than that stated in that debt security;
- modify the subordination provisions of any subordinated debt security in a manner adverse to holders;
- release any security that may have been granted with respect to any debt security;
- impair the right of any holder to receive payment of principal of, premium, if any, or interest on any debt security on and after the due date therefor;
- make any change in the provisions of the indenture relating to waivers of defaults or amendments that require unanimous consent;
- change any obligations provided for in the indenture to pay any additional interest with respect to bearer securities; and
- limit Pioneer s obligations to maintain a paying agency outside the United States for payment on bearer securities or limit Pioneer s obligation to redeem certain bearer securities.

In addition, with respect to the indenture, Pioneer and the trustee may enter into supplemental indentures without the consent of the holders of debt securities for one or more of the following purposes (in addition to any other purposes specified in an applicable prospectus supplement):

- to evidence that another person has become Pioneer s successor under the provisions of the indenture relating to consolidations, mergers and sales of assets and that the successor assumes Pioneer s covenants, agreements and obligations in the indenture and in the debt securities;

- to surrender any of Pioneer s rights or powers under the indenture, to limit the applicability of, or consequences of breach of, any covenant under the indenture, to add to Pioneer s covenants further covenants, restrictions, conditions or provisions for the protection of the holders of all or any series of debt securities issued under the indenture, and to make a default in any of these additional covenants, restrictions, conditions or provisions a default or an event of default under the indenture;

- to cure any ambiguity or omission or to make corrections or supplements to the indenture, any supplemental indenture or any debt securities issued under the indenture, or to convey, transfer, assign, mortgage or pledge any property to or with the trustee;

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- to modify or amend the indenture to permit the qualification of the indenture or any supplemental indenture under the Trust Indenture Act of 1939 as then in effect;

- to add to or change any of the provisions of the indenture to provide that bearer securities may be registrable as to principal, to change or eliminate any restrictions on the payment of principal or premium with respect to registered securities or of principal, premium or interest with respect to bearer securities, or to permit registered securities to be exchanged for bearer securities, so long as none of these actions adversely affects the interests of the holders of debt securities or any coupons of any series in any material respect or permits the issuance of debt securities of any series in uncertificated form;

- to comply with the provisions of the indenture relating to consolidations, mergers and sales of assets;

- to modify the subordination provisions of any subordinated debt securities in a manner that would limit or terminate the benefits available to any holder of senior indebtedness (or its representative) under such subordination provisions;

- to add guarantees with respect to any or all of the debt securities or to secure any or all of the debt securities;

- to make any change that does not adversely affect the rights of any holder of a series of debt securities under the indenture;

- to add to, change or eliminate any of the provisions of the indenture with respect to one or more series of debt securities, so long as the addition, change or elimination not otherwise permitted under the indenture will (1) neither apply to any debt security of any series created before the execution of the supplemental indenture and entitled to the benefit of that provision nor modify the rights of the holders of that debt security with respect to that provision or (2) become effective only when there is none of that debt security outstanding;

- to evidence and provide for the acceptance of appointment by a successor or separate trustee with respect to the debt securities of one or more series and to add to or change any of the provisions of the indenture as necessary to provide for or facilitate the administration of the indenture by more than one trustee;

- to establish the form or terms of debt securities and coupons, if any, of any series; and

- to provide for uncertificated debt securities in addition to or in place of certificated debt securities, subject to certain limitations.

Consolidation, Merger and Sale of Assets

Unless otherwise provided in the applicable prospectus supplement, the indenture prohibits Pioneer from consolidating with or merging into another business entity, or transferring or leasing substantially all of Pioneer s assets, unless:

Pioneer is the continuing entity in the case of a merger; or the surviving or acquiring entity, if other than Pioneer, is organized and validly existing under the laws of the United States of America, any state thereof, or the District of Columbia and it expressly assumes Pioneer s obligations with respect to Pioneer s debt securities by executing a supplemental indenture;

immediately after giving effect to the transaction, no default or event of default would occur or be continuing;

- the successor company waives any right to redeem any bearer security under circumstances in which the successor company would be entitled to redeem the bearer security but Pioneer would have not been entitled to redeem that bearer security if the consolidation, merger or sale had not occurred; and

- Pioneer has delivered to the trustee an officers certificate and an opinion of counsel, each stating that the consolidation, merger or sale complies with the indenture.

The surviving or acquiring company will be substituted for Pioneer in the indenture with the same effect as if it had been an original party to the indenture, and Pioneer will be relieved from any further obligations under the indenture.

No Protection in the Event of a Change of Control

Unless otherwise set forth in the prospectus supplement, the debt securities will not contain any provisions that protect the holders of the debt securities in the event of a change of control of Pioneer or in the event of a highly leveraged transaction, whether or not such transaction results in a change of control of Pioneer.

Conversion or Exchange Rights

If debt securities of any series are convertible or exchangeable, the applicable prospectus supplement will specify:

- the type of securities into which they may be converted or exchanged;

- the conversion price or exchange ratio, or its method of calculation;

- whether conversion or exchange is mandatory or at the holder s election;

- how and when the conversion price or exchange ratio may be adjusted; and

- any other important terms concerning the conversion or exchange rights.

Global Securities

Pioneer s debt securities may be issued in the form of one or more global securities that will be deposited with a depositary or its nominee identified in the applicable prospectus supplement. If so, each global security will be issued in the denomination of the aggregate principal amount of securities that it represents. Unless and until it is exchanged in whole or in part for debt securities that are in definitive registered form, a global security may not be transferred or exchanged except as a whole to the depositary, another nominee of the depositary or a successor of the depositary or its nominee. The applicable prospectus supplement will describe this concept more fully.

The specific material terms of the depositary arrangement with respect to any portion of a series of Pioneer s debt securities that will be represented by a global security will be described in the applicable prospectus supplement. Pioneer anticipates that the following provisions will apply to Pioneer s depositary arrangements.

Upon the issuance of any global security, and its deposit with or on behalf of the depositary, the depositary will credit, on its book-entry registration and transfer system, the principal amounts of Pioneer s debt securities represented by the global security to the accounts of participating institutions that have accounts with the depositary or its nominee. The underwriters or agents engaging in the distribution of Pioneer s debt securities or Pioneer, if Pioneer is offering and selling its debt securities directly, will designate the accounts to be credited. Ownership of beneficial interests in a global security will be limited to participating institutions or their clients. The depositary or its nominee will keep records of the ownership and transfer of beneficial interests in a global

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security by participating institutions. Participating institutions will keep records of the ownership and transfer of beneficial interests by their clients. The laws of some jurisdictions may require that purchasers of Pioneer s securities receive physical certificates, which may impair a holder s ability to transfer its beneficial interests in global securities.

While the depositary or its nominee is the registered owner of a global security, the depositary or its nominee will be considered the sole owner of all of Pioneer s debt securities represented by the global security for all purposes under the indenture. Generally, if a holder owns beneficial interests in a global security, that holder will not be entitled to have Pioneer s debt securities registered in that holder s own name, and that holder will not be entitled to receive a certificate representing that holder s ownership. Accordingly, if a holder owns a beneficial interest in a global security, the holder must rely on the depositary and, if applicable, the participating institution of which that holder is a client to exercise the rights of that holder under the applicable indenture.

The depositary may grant proxies and otherwise authorize participating institutions to take any action that a holder is entitled to take under the indenture. Pioneer understands that, according to existing industry practices, if Pioneer requests any action of holders, or any owner of a beneficial interest in a global security wishes to give any notice or take any action, the depositary would authorize the participating institutions to give the notice or take the action, and the participating institutions would in turn authorize their clients to give the notice or take the action.

Generally, Pioneer will make payments on its debt securities represented by a global security directly to the depositary or its nominee. It is Pioneer s understanding that the depositary will then credit the accounts of participating institutions, which will then distribute funds to their clients. Pioneer also expects that payments by participating institutions to their clients will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of clients registered in street names, and will be the responsibility of the participating institutions. Neither Pioneer nor the trustee, nor their respective agents, will have any responsibility, or bear any liability, for any aspects of the records relating to or payments made on account of beneficial interests in a global security, or for maintaining, supervising or reviewing records relating to beneficial interests.

Generally, a global security may be exchanged for certificated debt securities only in the following instances:

- the depositary notifies Pioneer that it is unwilling or unable to continue as depositary, or it ceases to be a registered clearing agency, if required to be registered by law, and a successor is not appointed within 90 days; or

- Pioneer determines in its sole discretion that it will no longer have debt securities represented by global securities or that it will permit global securities to be exchanged for certificated debt securities.

Unless otherwise specified in the applicable prospectus supplement, The Depository Trust Company, which we refer to as DTC, will act as depositary for securities issued in the form of global securities. Except as set forth below, the global securities may be transferred, in whole and not in part, only to DTC or another nominee of DTC. Investors may hold their beneficial interests in the global securities directly through DTC if they have an account with DTC or indirectly through organizations that have accounts with DTC.

The descriptions of the operations and procedures of DTC set forth below are provided solely as a matter of convenience. These operations and procedures are solely within the control of DTC and are subject to change by it from time to time. Pioneer and Pioneer USA do not take any responsibility for these operations or procedures, and investors are urged to contact DTC or its participants directly to discuss these matters.

DTC has advised us that it is:

a limited purpose trust company organized under the laws of the State of New York;

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- a banking organization within the meaning of the New York Banking Law;

- a member of the Federal Reserve System;

- a clearing corporation within the meaning of the New York Uniform Commercial Code, as amended; and

- a clearing agency registered under Section 17A of the Securities Exchange Act of 1934.

DTC was created to hold securities for its participants and facilitates the clearance and settlement of securities transactions between its participants through electronic book-entry changes to the accounts of its participants, which eliminates the need for physical transfer and delivery of certificates. DTC s participants include securities brokers and dealers; banks and trust companies; clearing corporations and some other organizations. Indirect access to DTC s system is also available to other entities such as banks, brokers, dealers and trust companies; these indirect participants clear through or maintain a custodial relationship with a participant in DTC, either directly or indirectly. Investors who are not DTC participants may beneficially own securities held by or on behalf of DTC only through participants or indirect participants in DTC.

Pioneer expects that pursuant to procedures established by DTC:

- upon deposit of each global security, DTC will credit the accounts of participants in DTC designated by the underwriters with an interest in the global security; and

- ownership of the securities will be shown on, and the transfer of ownership of the securities will be effected only through, records maintained by DTC, with respect to the interests of participants in DTC, and the records of participants and indirect participants, with respect to the interests of persons other than participants in DTC.

The laws of some jurisdictions may require that some purchasers of securities take physical delivery of the securities in definitive form. Accordingly, the ability to transfer interests in the securities represented by a global security to these persons may be limited. In addition, because DTC can act only on behalf of its participants, who in turn act on behalf of persons who hold interests through participants, the ability of a person having an interest in securities represented by a global security to pledge or transfer that interest to persons or entities that do not participate in DTC s system, or to otherwise take actions in respect of that interest, may be affected by the lack of a physical definitive security in respect of the interest.

So long as DTC or its nominee is the registered owner of a global security, DTC or the nominee, as the case may be, will be considered the sole owner or holder of the securities represented by the global security for all purposes under the indenture. Except as provided below, owners of beneficial interests in a global security:

- will not be entitled to have securities represented by the global security registered in their names;

- will not receive or be entitled to receive physical delivery of certificated securities; and
- will not be considered the owners or holders of the securities under the indenture for any purpose, including with respect to the giving of any direction, instruction, or approval to the trustee under the indenture.

Accordingly, each holder owning a beneficial interest in a global security must rely on the procedures of DTC and, if the holder is not a participant or an indirect participant in DTC, on the procedures of the DTC participant through which the holder owns its interest, to exercise any rights of a holder of securities under the indenture or the global security. Pioneer understands that under existing industry practice, if Pioneer requests any action of holders of securities, or if a holder that is an owner of a beneficial interest in a global security desires to take any action that DTC, as the holder of the global security, is entitled to take, then DTC would authorize its participants to take the action and the participants would authorize holders owning through participants to take the action or would otherwise act upon the instruction of such holders. Neither the trustee nor Pioneer will have any responsibility or liability for any aspect of the records relating to or payments made on account of securities by DTC, or for maintaining, supervising, or reviewing any records of DTC relating to the securities.

Payments with respect to the principal of, and premium, if any, and interest on, any securities represented by a global security registered in the name of DTC or its nominee on the applicable record date will be payable by the trustee to or at the direction of DTC or its nominee in its capacity as the registered holder of the global security representing those securities under the indenture. Under the terms of the indenture, Pioneer and the trustee may treat the persons in whose names the securities, including the global securities, are registered as the owners of the securities for the purpose of receiving payment on the securities and for any and all other purposes whatsoever. Accordingly, neither Pioneer nor the trustee has or will have any responsibility or liability for the payment of amounts to owners of beneficial interests in a global security, including principal, premium, if any, and interest. Payments by the participants and the indirect participants in DTC to the owners of beneficial interests in a global security will be governed by standing instructions and customary industry practice and will be the responsibility of the participants or the indirect participants and DTC.

Transfers between participants in DTC will be effected in accordance with DTC s procedures and will be settled in same-day funds.

Although DTC has agreed to the above procedures to facilitate transfers of interests in the global securities among participants in DTC, DTC is under no obligation to perform or to continue to perform the procedures, and the procedures may be discontinued at any time.

The information in this section concerning DTC and DTC s book-entry system has been obtained from sources that Pioneer believes to be accurate, but Pioneer assumes no responsibility for its accuracy. Neither the trustee nor Pioneer will have any responsibility for the performance by DTC or its participants of their obligations as described in this prospectus or under the rules and procedures governing their operations.

Debt securities may be issued as registered securities (which will be registered as to principal and interest in the register maintained by the registrar for those senior debt securities) or bearer securities (which will be transferable only by delivery). If debt securities are issuable as bearer securities, certain special limitations and considerations will apply, as set forth in the applicable prospectus supplement.

Reports

Pioneer will deliver to the trustee (unless such reports have been made available on the SEC s Electronic Data Gathering, Analysis and Retrieval system), within 30 calendar days after Pioneer has filed with the SEC, copies of its annual reports and of the information, documents and other reports (or copies of such portions of any of the foregoing as the SEC may by rules and regulations prescribe) that Pioneer is required to file with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. Pioneer will also comply with the provisions of Section 314(a) of the Trust Indenture Act of 1939.

Pioneer s Trustee

Pioneer has designated Wells Fargo Bank, National Association, to serve as trustee under the indenture. Wells Fargo Bank, National Association, is also the trustee for Pioneer s 3.95% senior notes due 2022, 7.500% senior notes due 2020 and 6.65% senior notes due 2017. Pioneer may engage additional or substitute trustees with respect to any particular series of debt securities. Pioneer or Pioneer USA may maintain banking and other commercial relationships with any trustee, including Wells Fargo, National Association and its affiliates, in the ordinary course of business. A trustee may own Pioneer s debt securities.

Governing Law

The indenture and the debt securities are governed by the laws of the State of New York.

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DESCRIPTION OF GUARANTEES OF DEBT SECURITIES

Pioneer USA may issue guarantees of debt securities offered by Pioneer in any prospectus supplement. A copy of the guarantee will be filed with the SEC in connection with the offering of guarantees. Each guarantee will be issued under the indenture. The prospectus supplement relating to a particular issue of guarantees will describe the terms of those guarantees, including the following:

- the series of debt securities to which the guarantees apply;
- whether the guarantees are secured or unsecured;
- whether the guarantees are conditional or unconditional;
- whether the guarantees are senior or subordinate to other guarantees or debt;
- the terms under which the guarantees may be amended, modified, waived, released or otherwise terminated, if different from the provisions applicable to the guaranteed debt securities;
- any additional terms of the guarantees; and
- any other information Pioneer USA thinks is important about the guarantees.

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DESCRIPTION OF CAPITAL STOCK

General

Pioneer is incorporated in the State of Delaware. The rights of Pioneer s stockholders are generally covered by Delaware law and Pioneer s certificate of incorporation and bylaws (each as amended and restated and in effect on the date hereof). The terms of Pioneer s capital stock are therefore subject to Delaware law, including the Delaware General Corporation Law (the DGCL), and the common and constitutional law of Delaware.

Pioneer s authorized capital stock consists of 600,000,000 shares of stock, including:

- 500,000,000 shares of common stock, $.01 par value per share, of which 143,046,951 shares were issued and outstanding as of May 5, 2014; and

- 100,000,000 shares of preferred stock, $.01 par value per share, including 500,000 shares that have been designated as Series A Junior Participating Preferred Stock, of which no shares are currently issued or outstanding.

Common Stock

This section describes the general terms of Pioneer s common stock. For more detailed information, you should refer to Pioneer s amended and restated certificate of incorporation, as amended, and third amended and restated bylaws, copies of which have been filed with the SEC. For Pioneer s amended and restated certificate of incorporation, as amended, please refer to Exhibit 3.1 to Pioneer s Registration Statement on Form S-4 filed with the SEC on June 26, 1997, and Exhibit 3.1 to Pioneer s Current Report on Form 8-K filed with the SEC on May 18, 2012. For Pioneer s third amended and restated bylaws, please refer to Exhibit 3.2 to Pioneer s Current Report on Form 8-K filed with the SEC on May 18, 2012.

Holders of Pioneer s common stock are entitled to one vote per share with respect to each matter submitted to a vote of Pioneer s stockholders, subject to voting rights that may be established for shares of Pioneer s preferred stock, if any. Except as may be provided in connection with Pioneer s preferred stock or as otherwise may be required by law or Pioneer s amended and restated certificate of incorporation, as amended, Pioneer s common stock is the only capital stock entitled to vote in the election of directors. Pioneer s common stock does not have cumulative voting rights.

Subject to the rights of holders of Pioneer s preferred stock, if any, holders of Pioneer s common stock are entitled to receive dividends lawfully declared by Pioneer s board of directors. If Pioneer liquidates, dissolves or winds up its business, whether voluntarily or involuntarily, holders of Pioneer s common stock will be entitled to receive any assets available for distribution to Pioneer s stockholders after Pioneer has paid or set apart for payment the amounts necessary to satisfy any preferential or participating rights to which the holders of each outstanding series of preferred stock are entitled by the express terms of such series of preferred stock.

The outstanding shares of Pioneer s common stock are fully paid and nonassessable. Pioneer s common stock does not have any preemptive, subscription or conversion rights. Pioneer may issue additional shares of its authorized common stock as authorized by Pioneer s board of directors from time to time, without stockholder approval, except as may be required by applicable stock exchange requirements.

Preferred Stock

This section describes the general terms and provisions of Pioneer s preferred stock. The applicable prospectus supplement will describe the specific terms of the shares of preferred stock offered through that prospectus supplement, as well as any general terms described in this section that will not apply to those shares of preferred stock. If Pioneer issues a new series of preferred stock, it will file a copy of the certificate of designations that contains the terms of that series with the SEC. Each certificate of designations will establish the

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number of shares included in a designated series and fix the designation, powers, privileges, preferences and rights of the shares of each series as well as any applicable qualifications, limitations or restrictions. You should refer to the applicable certificate of designations as well as Pioneer s amended and restated certificate of incorporation, as amended, before deciding to buy shares of Pioneer s preferred stock as described in the applicable prospectus supplement.

Pioneer s board of directors has been authorized to provide for the issuance of shares of Pioneer s preferred stock in multiple series without the approval of stockholders. With respect to each series of Pioneer s preferred stock, Pioneer s board of directors has the authority to fix the terms of such series, including, without limitation, the following:

- the designation of the series;
- the number of shares within the series;
- whether dividends are cumulative and, if cumulative, the dates from which dividends are cumulative;
- the rate of any dividends, any conditions upon which dividends are payable, and the dates of payment of dividends;
- whether the shares are redeemable, the redemption price and the terms of redemption;
- the amount payable to a holder of such shares for each share owned if Pioneer dissolves or liquidates;
- whether the shares are convertible or exchangeable, the price or rate of conversion or exchange, and the applicable terms and conditions;
- any restrictions on issuance of shares in the same series or any other series;
- voting rights applicable to the series of preferred stock; and
- any other rights, preferences or limitations of such series.

A preferred stockholder s rights with respect to such holder s shares of preferred stock will be subordinate to the rights of Pioneer s general creditors. Shares of Pioneer s preferred stock that Pioneer issues will be fully paid and nonassessable and will not be entitled to preemptive rights unless specified in the applicable certificate of designations and prospectus supplement.

Pioneer s ability to issue preferred stock, or rights to purchase such shares, could discourage an unsolicited acquisition proposal. For example, Pioneer could impede a business combination by issuing a series of preferred stock containing class voting rights that would enable the holders of such preferred stock to block a business combination transaction. Alternatively, Pioneer could facilitate a business combination transaction by issuing a series of preferred stock having sufficient voting rights to provide a required percentage vote of the stockholders. Additionally, under certain circumstances, Pioneer s issuance of preferred stock could adversely affect the voting power of the holders of Pioneer s common stock. Although Pioneer s board of directors is required to make any determination to issue any preferred stock based on its judgment as to the best interests of Pioneer s stockholders, Pioneer s board of directors could act in a manner that would discourage an acquisition attempt or other transaction that some, or a majority, of Pioneer s stockholders might believe to be in their best interests or in which stockholders might receive a premium for their stock over prevailing market prices of such stock. Pioneer s board of directors does not at present intend to seek stockholder approval prior to any issuance of currently authorized stock, unless otherwise required by law or applicable stock exchange requirements.

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Limitation on Directors Liability

Pioneer s amended and restated certificate of incorporation, as amended, provides, as authorized by Section 102(b)(7) of the DGCL, that a director of Pioneer will not be personally liable to Pioneer or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability:

- for any breach of the director s duty of loyalty to Pioneer or its stockholders;
- for acts or omission not in good faith or that involve intentional misconduct or a knowing violation of law;
- for unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the DGCL; or
- for any transaction from which the director derived an improper personal benefit.

The inclusion of this provision in Pioneer s amended and restated certificate of incorporation, as amended, may have the effect of reducing the likelihood of derivative litigation against directors, and may discourage or deter stockholders or management from bringing a lawsuit against directors for breach of their duty of care, even though such an action, if successful, might otherwise have benefited Pioneer and its stockholders.

Section 203 of the Delaware General Corporation Law

Section 203 of the DGCL prohibits a defined set of transactions between a Delaware corporation, such as Pioneer, and an interested stockholder. An interested stockholder is defined as a person who, together with any affiliates or associates of such person, beneficially owns, directly or indirectly, 15% or more of the outstanding voting shares of a Delaware corporation. This provision may prohibit business combinations between an interested stockholder and a corporation for a period of three years after the date the interested stockholder becomes an interested stockholder. The term business combination is broadly defined to include a broad array of transactions, including mergers, consolidations, sales or other dispositions of assets having a total value in excess of 10% of the consolidated assets of the corporation or all of the outstanding stock of the corporation, and some other transactions that would increase the interested stockholder s proportionate share ownership in the corporation.

This prohibition is effective unless:

- the business combination or the transaction that resulted in the stockholder becoming an interested stockholder is approved by the corporation s board of directors prior to the time the interested stockholder becomes an interested stockholder;
- the interested stockholder acquired at least 85% of the voting stock of the corporation, other than stock held by directors who are also officers or by qualified employee stock plans, in the transaction in

which it becomes an interested stockholder; or

the business combination is approved by a majority of the corporation s board of directors and by the affirmative vote of at least 66 $^{2}/_{3}$% of the outstanding voting stock that is not owned by the interested stockholder.

Special Charter and Bylaw Provisions

Advance Notice

Pioneer s amended and restated certificate of incorporation, as amended, and its third amended and restated bylaws contain provisions requiring that advance notice be delivered to Pioneer of any business to be brought by a stockholder before an annual meeting of stockholders and providing for certain procedures to be

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followed by stockholders in nominating persons for election to Pioneer s board of directors. Generally, such advance notice provisions provide that the stockholder must give written notice to Pioneer s Secretary not less than 60 days before the scheduled date of the annual meeting of Pioneer s stockholders or, if later, ten days after the first public notice of the annual meeting is sent to Pioneer s stockholders. The notice must set forth specific information regarding such stockholder and such business or director nominee, as described in Pioneer s amended and restated certificate of incorporation, as amended, and its third amended and restated bylaws. Such requirement is in addition to those set forth in the regulations adopted by the SEC under the Securities Exchange Act of 1934.

Election of Directors

Pioneer s amended and restated certificate of incorporation, as amended, provides that, subject to any rights of holders of preferred stock to elect one or more directors, the number of directors shall not be fewer than three or more than 21. Pioneer s amended and restated certificate of incorporation, as amended, provides for a classified board of directors until the election of directors at the annual meeting of stockholders in 2015, consisting of three classes as nearly equal in size as practicable. As the classified board is phased out through 2015, (i) the class of directors that were elected at the annual meeting of stockholders in 2012 (Class III) will hold office for three years until 2015; (ii) the class of directors that were elected at the annual meeting of stockholders in 2013 (Class I) held office for one year until 2014; and (iii) at the annual meeting of stockholders in 2014, stockholders voted to elect directors from Class I and Class II, which directors will hold office for one year until 2015. From and after the election of directors at the annual meeting of stockholders in 2015, Pioneer s board of directors will no longer be classified and each director will be elected for a term of one year at each annual meeting of the Pioneer stockholders beginning with the election of directors at the annual meeting of stockholders in 2015. Pioneer s amended and restated certificate of incorporation, as amended, provides that, until the election of directors at the annual meeting of stockholders in 2015, Pioneer s directors may be removed only for cause.

No Action by Written Consent

Pioneer s amended and restated certificate of incorporation, as amended, provides that stockholders may not act by written consent in lieu of a meeting. Special meetings of the stockholders may be called by Pioneer s board of directors, but may not be called by Pioneer s stockholders.

Fair Price Provision

Pioneer s amended and restated certificate of incorporation, as amended, also contains a fair price provision that applies to certain business combination transactions involving any person or group that beneficially owns at least 10% of the aggregate voting power of Pioneer s outstanding capital stock, referred to as a related person. The fair price provision requires the affirmative vote of the holders of:

- at least 80% of the voting power of Pioneer s outstanding capital stock entitled to vote generally in the election of directors, and

- at least 66 $^{2}/_{3}$% of the voting power of Pioneer s outstanding capital stock entitled to vote generally in the election of directors that is not beneficially owned by the related person

to approve certain transactions between the related person and Pioneer or its subsidiaries, including any merger, consolidation or share exchange, any sale, lease, exchange, pledge or other disposition of Pioneer s assets or its subsidiaries having a fair market value of at least $10 million, any transfer or issuance of Pioneer s securities or its subsidiaries securities, any adoption of a plan or proposal by Pioneer of its voluntary liquidation or dissolution, certain reclassifications of Pioneer s securities or recapitalizations or certain other transactions, in each case involving the related person.

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This voting requirement will not apply to certain transactions, including:

any transaction in which the consideration to be received by the holders of each class or series of capital stock is:

- the same in form and amount as that paid in a tender offer in which the related person acquired at least 50% of the outstanding shares of such class or series and which was consummated not more than one year earlier; or
- not less in amount than the highest per share price paid by the related person for shares of such class or series; and

any transaction approved by Pioneer s continuing directors.

This provision could have the effect of delaying or preventing change in control in a transaction or series of transactions that do not satisfy the fair price criteria.

Amendments

In addition to any other vote required by law, the provisions of Pioneer s amended and restated certificate of incorporation, as amended, relating to the limitation of actions taken by written consent and the fair price provision may be amended only by the affirmative vote of the holders of at least 80% of the aggregate voting power of Pioneer s outstanding capital stock entitled to vote generally in the election of directors.

Pioneer s third amended and restated bylaws may be amended by Pioneer s board of directors or by the affirmative vote of the holders of at least 66 $^{2}/_{3}$% of the aggregate voting power of Pioneer s outstanding capital stock entitled to vote in the election of directors.

Potential Anti-Takeover Effect

The foregoing provisions of Pioneer s amended and restated certificate of incorporation, as amended, and Pioneer s third amended and restated bylaws, together with the provisions of Section 203 of the DGCL, could have the effect of delaying, deferring or preventing a change in control or the removal of existing management, of deterring potential acquirors from making an offer to Pioneer s stockholders and of limiting any opportunity to realize premiums over prevailing market prices for Pioneer s common stock in connection therewith. This could be the case notwithstanding that a majority of Pioneer s stockholders might benefit from such a change in control or offer.

Transfer Agent and Registrar

Continental Stock Transfer & Trust Company serves as the registrar and transfer agent for Pioneer s common stock.

Stock Exchange Listing

Pioneer s common stock is listed on the New York Stock Exchange. The trading symbol for Pioneer s common stock is PXD.

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DESCRIPTION OF DEPOSITARY SHARES

General

Pioneer may offer fractional shares of preferred stock, rather than full shares of preferred stock. If Pioneer does so, Pioneer may issue receipts for depositary shares that each represent a fraction of a share of a particular series of preferred stock. The prospectus supplement will indicate that fraction. The shares of preferred stock represented by depositary shares will be deposited under a depositary agreement between Pioneer and a bank depositary. The phrase bank depositary means a bank or trust company that meets certain requirements and is selected by Pioneer. Each owner of a depositary share will be entitled to all the rights and preferences of the preferred stock represented by the depositary share. The depositary shares will be evidenced by depositary receipts issued pursuant to the depositary agreement. Depositary receipts will be distributed to those persons purchasing the fractional shares of preferred stock in accordance with the terms of the offering.

Pioneer has summarized some common provisions of a depositary agreement and the related depositary receipts. The forms of the depositary agreement and the depositary receipts relating to any particular issue of depositary shares will be filed with the SEC each time Pioneer issues depositary shares, and you should read those documents for provisions that may be important to you.

Dividends and Other Distributions

If Pioneer pays a cash distribution or dividend on a series of preferred stock represented by depositary shares, the bank depositary will distribute such dividends to the record holders of such depositary shares. If the distributions are in property other than cash, the bank depositary will distribute the property to the record holders of the depositary shares. However, if the bank depositary determines that it is not feasible to make the distribution of property, the bank depositary may, with Pioneer s approval, sell such property and distribute the net proceeds from such sale to the record holders of the depositary shares.

Redemption of Depositary Shares

If Pioneer redeems a series of preferred stock represented by depositary shares, the bank depositary will redeem the depositary shares from the proceeds received by the bank depositary in connection with the redemption. The redemption price per depositary share will equal the applicable fraction of the redemption price per share of the preferred stock. If fewer than all the depositary shares are redeemed, the depositary shares to be redeemed will be selected by lot or pro rata as the bank depositary may determine.

Voting the Preferred Stock

Upon receipt of notice of any meeting at which the holders of the preferred stock represented by depositary shares are entitled to vote, the bank depositary will mail the notice to the record holders of the depositary shares relating to such preferred stock. Each record holder of these depositary shares on the record date (which will be the same date as the record date for the preferred stock) may instruct the bank depositary as to how to vote the preferred stock represented by such holder s depositary shares. The bank depositary will endeavor, insofar as practicable, to vote the amount of the preferred stock represented by such depositary shares in accordance with such instructions, and Pioneer will take all action that the bank depositary deems necessary in order to enable the bank depositary to do so. The bank depositary will abstain from voting shares of the preferred stock to the extent it does not receive specific instructions from the holders of depositary shares representing such preferred stock.

Amendment and Termination of the Depositary Agreement

The form of depositary receipt evidencing the depositary shares and any provision of the depositary agreement may be amended by agreement between the bank depositary and Pioneer. However, any amendment that materially and adversely alters the rights of the holders of depositary shares will not be effective unless such amendment has been approved by the holders of at least a majority of the depositary shares then outstanding. The depositary agreement may be terminated by the bank depositary or Pioneer only if (1) all outstanding depositary shares have been redeemed or (2) there has been a final distribution in respect of the preferred stock in connection with any liquidation, dissolution or winding up of Pioneer and such distribution has been distributed to the holders of depositary shares.

Charges of Bank Depositary

Pioneer will pay all transfer and other taxes and governmental charges arising solely from the existence of the depositary arrangements. Pioneer will pay charges of the bank depositary in connection with the initial deposit of the preferred stock and any redemption of the preferred stock. Holders of depositary shares will pay other transfer and other taxes and governmental charges and any other charges, including a fee for the withdrawal of shares of preferred stock upon surrender of depositary receipts, as are expressly provided in the depositary agreement to be payable by such holders.

Withdrawal of Preferred Stock

Except as may be provided otherwise in the applicable prospectus supplement, upon surrender of depositary receipts at the principal office of the bank depositary, subject to the terms of the depositary agreement, the owner of the depositary shares may demand delivery of the number of whole shares of preferred stock and all money and other property, if any, represented by those depositary shares. Partial shares of preferred stock will not be issued. If the depositary receipts delivered by the holder evidence a number of depositary shares in excess of the number of depositary shares representing the number of whole shares of preferred stock to be withdrawn, the bank depositary will deliver to such holder at the same time a new depositary receipt evidencing the excess number of depositary shares. Holders of preferred stock thus withdrawn may not thereafter deposit those shares under the depositary agreement or receive depositary receipts evidencing depositary shares therefor.

Miscellaneous

The bank depositary will forward to holders of depositary shares all reports and communications from Pioneer that are delivered to the bank depositary and that Pioneer is required to furnish to the holders of the preferred stock.

Neither the bank depositary nor Pioneer will be liable if Pioneer is prevented or delayed by law or any circumstance beyond its control in performing its obligations under the depositary agreement. The obligations of the bank depositary and Pioneer under the depositary agreement will be limited to performance in good faith of their respective duties under the depositary agreement, and Pioneer will not be obligated to prosecute or defend any legal proceeding in respect of any depositary shares or preferred stock unless satisfactory indemnity is furnished. Pioneer may rely upon written advice of counsel or accountants, or upon information provided by persons presenting preferred stock for deposit, holders of depositary shares or other persons believed to be competent and on documents believed to be genuine.

Resignation and Removal of Bank Depositary

The bank depositary may resign at any time by delivering to Pioneer notice of its election to do so, and Pioneer may at any time remove the bank depositary. Any such resignation or removal will take effect upon the appointment of a successor bank depositary and its acceptance of such appointment. The successor bank depositary must be appointed within 60 days after delivery of the notice of resignation or removal and must be a bank or trust company meeting the requirements of the depositary agreement.

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DESCRIPTION OF WARRANTS

General Description of Warrants

Pioneer may issue warrants for the purchase of debt securities, preferred stock or common stock. Warrants may be issued independently or together with other securities and may be attached to or separate from any offered securities. Each series of warrants will be issued under a separate warrant agreement to be entered into between Pioneer and a bank or trust company, as warrant agent. The warrant agent will act solely as Pioneer s agent in connection with the warrants and will not have any obligation or relationship of agency or trust for or with any holders or beneficial owners of warrants. A copy of the warrant agreement will be filed with the SEC in connection with the offering of warrants.

Debt Warrants

The prospectus supplement relating to a particular issue of warrants to purchase debt securities will describe the terms of those warrants, including the following:

- the title of the warrants;
- the offering price for the warrants, if any;
- the aggregate number of the warrants;
- the designation and terms of the debt securities that may be purchased upon exercise of the warrants;
- if applicable, the designation and terms of the debt securities that the warrants are issued with and the number of warrants issued with each debt security;
- if applicable, the date from and after which the warrants and any debt securities issued with them will be separately transferable;
- the principal amount of debt securities that may be purchased upon exercise of a warrant and the price at which the debt securities may be purchased upon exercise;
- the dates on which the right to exercise the warrants will commence and expire;
- if applicable, the minimum or maximum amount of the warrants that may be exercised at any one time;

whether the warrants represented by the warrant certificates or the debt securities that may be issued upon exercise of the warrants will be issued in registered or bearer form;

information relating to book-entry procedures, if any;

the currency or currency units in which the offering price, if any, and the exercise price are payable;

if applicable, a discussion of material U.S. federal income tax considerations;

anti-dilution provisions of the warrants, if any;

redemption or call provisions, if any, applicable to the warrants;

any additional terms of the warrants, including terms, procedures and limitations relating to the exchange and exercise of the warrants; and

any other information Pioneer thinks is important about the warrants.

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Stock Warrants

The prospectus supplement relating to a particular issue of warrants to purchase common stock or preferred stock will describe the terms of the common stock warrants and preferred stock warrants, including the following:

- the title of the warrants;
- the offering price for the warrants, if any;
- the aggregate number of the warrants;
- the designation and terms of the common stock or preferred stock that maybe purchased upon exercise of the warrants;
- if applicable, the designation and terms of the securities that the warrants are issued with and the number of warrants issued with each security;
- if applicable, the date from and after which the warrants and any securities issued with the warrants will be separately transferable;
- the number of shares of common stock or preferred stock that may be purchased upon exercise of a warrant and the price at which the shares may be purchased upon exercise;
- the dates on which the right to exercise the warrants commence and expire;
- if applicable, the minimum or maximum amount of the warrants that may be exercised at any one time;
- the currency or currency units in which the offering price, if any, and the exercise price are payable;
- if applicable, a discussion of material U.S. federal income tax considerations;
- anti-dilution provisions of the warrants, if any;
- redemption or call provisions, if any, applicable to the warrants;

- any additional terms of the warrants, including terms, procedures and limitations relating to the exchange and exercise of the warrants; and

- any other information Pioneer thinks is important about the warrants.

Exercise of Warrants

Each warrant will entitle the holder of the warrant to purchase at the exercise price set forth in the applicable prospectus supplement the principal amount of debt securities or shares of preferred stock or common stock being offered. Holders may exercise warrants at any time up to the close of business on the expiration date set forth in the applicable prospectus supplement. After the close of business on the expiration date, unexercised warrants are void. Holders may exercise warrants as set forth in the prospectus supplement relating to the warrants being offered.

Until a warrant holder exercises such holder s warrants to purchase Pioneer s debt securities, preferred stock or common stock, the holder will not have any rights as a holder of Pioneer s debt securities, preferred stock or common stock, as the case may be, by virtue of the holder s ownership of warrants.

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DESCRIPTION OF STOCK PURCHASE CONTRACTS AND STOCK PURCHASE UNITS

Pioneer may issue stock purchase contracts, including contracts obligating holders to purchase from Pioneer and contracts obligating Pioneer to sell to the holders, a specified number of shares of common stock or other securities at a future date or dates, which Pioneer refers to in this prospectus as stock purchase contracts. The price per share of the securities and the number of shares of the securities may be fixed at the time the stock purchase contracts are issued or may be determined by reference to a specific formula set forth in the stock purchase contracts. The stock purchase contracts may be issued separately or as part of units consisting of a stock purchase contract and debt securities, preferred securities, warrants or other securities or debt obligations of third parties, including U.S. treasury securities, securing the holders obligations to purchase the securities under the stock purchase contracts, which Pioneer refers to in this prospectus as stock purchase units. The stock purchase contracts may require holders to secure their obligations under the stock purchase contracts in a specified manner. The stock purchase contracts also may require Pioneer to make periodic payments to the holders of the stock purchase units or vice versa, and those payments may be unsecured or refunded on some basis.

The stock purchase contracts, and, if applicable, collateral or depositary arrangements, relating to the stock purchase contracts or stock purchase units, will be filed with the SEC in connection with the offering of stock purchase contracts or stock purchase units. The prospectus supplement relating to a particular issue of stock purchase contracts or stock purchase units will describe the terms of those stock purchase contracts or stock purchase units, including the following:

- if applicable, a discussion of material U.S. federal income tax considerations; and
- any other information Pioneer thinks is important about the stock purchase contracts or the stock purchase units.

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PLAN OF DISTRIBUTION

Pioneer or Pioneer USA may sell the offered securities in and outside the United States (1) through underwriters or dealers, (2) directly to purchasers, including Pioneer s affiliates and stockholders, in a rights offering or otherwise, (3) through agents or (4) through a combination of any of these methods. The prospectus supplement will include the following information:

- the terms of the offering;
- the names of any underwriters or agents;
- the name or names of any managing underwriter or underwriters;
- the purchase price or initial public offering price of the securities;
- the net proceeds to Pioneer or Pioneer USA from the sale of the securities;
- any delayed delivery arrangements;
- any underwriting discounts, commissions and other items constituting underwriters compensation;
- any discounts or concessions allowed or reallowed or paid to dealers; and
- any commissions paid to agents.

Sale through Underwriters or Dealers

If underwriters are used in the sale, the underwriters will acquire the securities for their own account for resale to the public, either on a firm commitment basis or a best efforts basis. The underwriters may resell the securities from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. Underwriters may offer securities to the public either through underwriting syndicates represented by one or more managing underwriters or directly by one or more firms acting as underwriters. Unless Pioneer or Pioneer USA informs you otherwise in the prospectus supplement, the obligations of the underwriters to purchase the securities will be subject to certain conditions. The underwriters may change from time to time any initial public offering price and any discounts or concessions allowed or reallowed or paid to dealers.

During and after an offering through underwriters, the underwriters may purchase and sell the securities in the open market. These transactions may include overallotment and stabilizing transactions and purchases to cover syndicate short positions created in connection with the offering. The underwriters may also impose a penalty bid, which means that selling concessions allowed to syndicate members or other broker-dealers for the offered securities sold for their account may be reclaimed by the syndicate if the offered securities are repurchased by the syndicate in stabilizing or covering transactions. These activities may stabilize, maintain or otherwise affect the market price of the offered securities, which may be higher than the price that might otherwise prevail in the open market. If commenced, the underwriters may discontinue these activities at any time.

Some or all of the securities that Pioneer or Pioneer USA offers though this prospectus may be new issues of securities with no established trading market. Any underwriters to whom Pioneer or Pioneer USA sells its securities for public offering and sale may make a market in those securities, but they will not be obligated to do so and they may discontinue any market making at any time without notice. Accordingly, each of Pioneer and Pioneer USA cannot assure you of the liquidity of, or continued trading markets for, any securities that it offers.

If dealers are used in the sale of securities, Pioneer or Pioneer USA will sell the securities to them as principals. The dealers may then resell those securities to the public at varying prices determined by the dealers at the time of resale. Pioneer or Pioneer USA will include in the prospectus supplement the names of the dealers and the terms of the transaction.

Direct Sales and Sales through Agents

Pioneer or Pioneer USA may sell the securities directly. In this case, no underwriters or agents would be involved. Pioneer or Pioneer USA may also sell the securities through agents designated from time to time. In the prospectus supplement, Pioneer or Pioneer USA will name any agent involved in the offer or sale of the offered securities, and Pioneer or Pioneer USA will describe any commissions payable to the agent. Unless Pioneer or Pioneer USA informs you otherwise in the prospectus supplement, any agent will agree to use its reasonable best efforts to solicit purchases for the period of its appointment.

Pioneer or Pioneer USA may sell the securities directly to institutional investors or others who may be deemed to be underwriters within the meaning of the Securities Act of 1933 with respect to any sale of those securities. Pioneer or Pioneer USA will describe the terms of any such sales in the prospectus supplement.

Pioneer may also make direct sales through subscription rights distributed to its existing stockholders on a pro rata basis, which may or may not be transferable. In any distribution of subscription rights to Pioneer s stockholders, if all of the underlying securities are not subscribed for, Pioneer may then sell the unsubscribed securities directly to third parties or may engage the services of one or more underwriters, dealers or agents, including standby underwriters, to sell the unsubscribed securities to third parties.

Remarketing Arrangements

Offered securities may also be offered and sold, if so indicated in the applicable prospectus supplement, in connection with a remarketing upon their purchase, in accordance with a redemption or repayment pursuant to their terms, or otherwise, by one or more remarketing firms, acting as principals for their own accounts or as agents for Pioneer or Pioneer USA. Any remarketing firm will be identified and the terms of its agreements, if any, with Pioneer or Pioneer USA and its compensation will be described in the applicable prospectus supplement. Remarketing firms may be deemed to be underwriters, as that term is defined in the Securities Act of 1933, in connection with the securities remarketed.

Delayed Delivery Contracts

If Pioneer or Pioneer USA so indicates in the prospectus supplement, Pioneer or Pioneer USA may authorize agents, underwriters or dealers to solicit offers from certain types of institutions to purchase securities from Pioneer or Pioneer USA at the public offering price under delayed delivery contracts. These contracts would provide for payment and delivery on a specified date in the future. The contracts would be subject only to those conditions described in the prospectus supplement. The prospectus supplement will describe the commission payable for solicitation of those contracts.

General Information

Pioneer or Pioneer USA may have agreements with the agents, dealers, underwriters and remarketing firms to indemnify them against certain civil liabilities, including liabilities under the Securities Act of 1933, or to contribute with respect to payments that the agents, dealers, underwriters or remarketing firms may be required to make. Agents, dealers, underwriters and remarketing firms may be customers of, engage in transactions with, or perform services for Pioneer or Pioneer USA in the ordinary course of their businesses.

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LEGAL MATTERS

Except as set forth in the applicable prospectus supplement, Vinson & Elkins L.L.P., Dallas, Texas, will pass upon the validity of Pioneer s debt securities, common stock, preferred stock, depositary shares, warrants, stock purchase contracts and stock purchase units and Pioneer USA s guarantees of debt securities.

EXPERTS

The consolidated financial statements of Pioneer appearing in Pioneer s Annual Report on Form 10-K for the year ended December 31, 2013, and the effectiveness of Pioneer s internal control over financial reporting as of December 31, 2013, 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 are incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

Estimated quantities of our oil and gas reserves and the net present value of such reserves as of December 31, 2013, set forth in or incorporated by reference in this prospectus are based upon reserve reports prepared by us and audited by Netherland, Sewell & Associates, Inc. for our major properties in the United States and reserve reports prepared by our engineers for all other properties. The reserve audit conducted by Netherland, Sewell & Associates, Inc. for our major properties in the United States in aggregate represented 94% of our estimated proved quantities of reserves as of December 31, 2013. We have incorporated these estimates in reliance on the authority of such firm as experts in such matters.

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 14. ***Other Expenses of Issuance and Distribution***

The following are the estimated expenses of the issuance and distribution of the securities being registered, other than selling or underwriting discounts and commissions, all of which are payable by Pioneer Natural Resources Company (Pioneer).

Registration fee	$	*
Accountant s fees and expenses		**
Printing expenses		**
Legal fees and expenses		**
Trustee fees and expenses		**
Miscellaneous		**
Total	$	**

* This registration statement relates to the registration of securities having an indeterminate maximum aggregate amount. Payment of the registration fee has been deferred and will be calculated and paid in accordance with Rules 456(b) and 457(r) under the Securities Act of 1933.

** These fees and expenses are based on the securities offered and the number of issuances and accordingly cannot be estimated at this time and will be reflected in the applicable prospectus supplement.

Item 15. ***Indemnification of Directors and Officers***

Delaware General Corporation Law

Section 145(a) of the Delaware General Corporation Law provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with the action, suit or proceeding if he acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the person s conduct was unlawful.

Section 145(b) of the Delaware General Corporation Law provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys fees) actually and reasonably incurred by the person in connection with the defense or settlement of the action or suit if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which the person shall have been adjudged to be liable to the corporation unless and only to the extent that the Delaware Court of Chancery or the court in which the action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, the person is fairly and reasonably entitled to indemnity for the expenses which the Delaware Court of Chancery or such other court shall deem proper.

Section 145(c) of the Delaware General Corporation Law provides that to the extent that a present or former director or officer of a corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Section 145(a) and (b), or in defense of any claim, issue or matter therein, the person shall be indemnified against expenses (including attorneys fees) actually and reasonably incurred by the person in connection therewith.

Section 145(d) of the Delaware General Corporation Law provides that any indemnification under Section 145(a) and (b) (unless ordered by a court) shall be made by the corporation only as authorized in the specific case upon a determination that indemnification of the present or former director, officer, employee or agent is proper in the circumstances because the person has met the applicable standard of conduct set forth in Section 145(a) and (b). The determinatioolspan="2" valign="bottom" style="padding:0pt .7pt 0pt 0pt;width:8.96%;">

(32.9

)

(32.9

)

Comprehensive loss

(263.6

)

Balances at June 30, 2006

$

$

0.1

$

3.8

$

8,068.8

$

2,504.8

$

218.5

$

(3,951.3

)

$

6,844.7

Balances at January 1, 2007

$

$

0.1

$

3.8

$

8,141.8

$

2,824.1

$

846.9

$

(3,955.9

)

$

7,860.8

Common stock issued

38.5

38.5

Capital transactions of equity method investee, net of related income taxes

0.2

0.2

Stock-based compensation and additional related tax benefits

43.2

43.2

Treasury stock acquired, common

(224.0

)

(224.0

)

Dividends to preferred stockholders

(16.5

)

(16.5

)

Comprehensive income:

Net income

577.4

577.4

Net unrealized losses, net

(328.5

)

(328.5

)

Foreign currency translation adjustment, net of related income taxes

36.5

36.5

Unrecognized post-retirement benefit obligation, net of related income taxes

(0.9

)

(0.9

)

Comprehensive income

284.5

Balances at June 30, 2007

$

$

0.1

$

3.8

$

8,223.7

$

3,385.0

$

554.0

$

(4,179.9

)

$

7,986.7

See accompanying notes.

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Principal Financial Group, Inc.

Consolidated Statements of Cash Flows

(Unaudited)

	For the six months ended June 30, 2007 (in millions)	2006
Operating activities		
Net income	**$ 577.4**	$ 512.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from discontinued operations, net of related income taxes		(0.1)
Amortization of deferred policy acquisition costs	**150.5**	136.6
Additions to deferred policy acquisition costs	**(252.8)**	(245.0)
Accrued investment income	**21.3**	16.8
Net cash flows from trading securities	**(157.8)**	(128.5)
Premiums due and other receivables	**186.6**	(22.8)
Contractholder and policyholder liabilities and dividends	**1,010.8**	784.3
Current and deferred income taxes	**26.7**	(34.9)
Net realized/unrealized capital gains	**(93.0)**	(29.8)
Depreciation and amortization expense	**66.9**	47.4
Mortgage loans held for sale, acquired or originated	**(52.5)**	(282.4)
Mortgage loans held for sale, sold or repaid, net of gain	**128.4**	564.6
Real estate acquired through operating activities	**(28.2)**	(14.7)
Real estate sold through operating activities	**46.8**	11.8
Stock-based compensation	**37.3**	28.9
Other	**253.5**	(105.8)
Net adjustments	**1,344.5**	726.4
Net cash provided by operating activities	**1,921.9**	1,239.1
Investing activities		
Available-for-sale securities:		
Purchases	**(5,067.2)**	(4,384.4)
Sales	**2,265.5**	745.3
Maturities	**2,356.7**	1,873.0
Mortgage loans acquired or originated	**(1,336.8)**	(1,542.5)
Mortgage loans sold or repaid	**862.4**	1,192.3
Real estate acquired	**(61.9)**	(18.1)
Real estate sold	**5.7**	11.4
Net purchases of property and equipment	**(46.1)**	(23.2)
Purchases of interest in subsidiaries, net of cash acquired		(5.5)
Net change in other investments	**(16.9)**	84.3
Net cash used in investing activities	**$ (1,038.6)**	$ (2,067.4)

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Principal Financial Group, Inc.
Consolidated Statements of Cash Flows (continued)
(Unaudited)

	For the six months ended, June 30, 2007 (in millions)	2006
Financing activities		
Issuance of common stock	**$ 38.5**	$ 38.3
Acquisition of treasury stock	**(224.0)**	(751.2)
Proceeds from financing element derivatives	**76.2**	81.3
Payments for financing element derivatives	**(69.1)**	(69.9)
Excess tax benefits from share-based payment arrangements	**6.1**	2.6
Dividends to preferred stockholders	**(16.5)**	(16.5)
Issuance of long-term debt	**8.3**	8.7
Principal repayments of long-term debt	**(22.6)**	(6.3)
Net repayments of short-term borrowings	**(26.1)**	(49.6)
Investment contract deposits	**4,015.3**	4,861.6
Investment contract withdrawals	**(4,510.4)**	(3,771.4)
Net increase in banking operation deposits	**108.2**	75.4
Net cash provided by (used in) financing activities	**(616.1)**	403.0
Discontinued operations		
Net cash provided by operating activities		1.5
Net cash used in investing activities		(0.6)
Net cash provided by discontinued operations		0.9
Net increase (decrease) in cash and cash equivalents	**267.2**	(424.4)
Cash and cash equivalents at beginning of period	**1,590.8**	1,641.3
Cash and cash equivalents at end of period	**$ 1,858.0**	$ 1,216.9
Cash and cash equivalents of discontinued operations included above		
At beginning of period	**$**	$ 2.0
At end of period	**$**	$ 2.9

See accompanying notes.

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Principal Financial Group, Inc.

Notes to Consolidated Financial Statements
June 30, 2007

(Unaudited)

1. Nature of Operations and Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements of Principal Financial Group, Inc. (PFG), its majority-owned subsidiaries and its consolidated variable interest entities (VIEs), have been prepared in conformity with accounting principles generally accepted in the U.S. (U.S. GAAP) for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2007, are not necessarily indicative of the results that may be expected for the year ended December 31, 2007. These interim unaudited consolidated financial statements should be read in conjunction with our annual audited financial statements as of December 31, 2006, included in our Form 10-K for the year ended December 31, 2006, filed with the United States Securities and Exchange Commission (SEC). The accompanying consolidated statement of financial position as of December 31, 2006, has been derived from the audited consolidated statement of financial position but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

Reclassifications have been made to the June 30, 2006, financial statements to conform to the June 30, 2007, presentation.

Recent Accounting Pronouncements

On June 11, 2007, the Accounting Standards Executive Committee (AcSEC) issued Statement of Position (SOP) 07-1, *Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies* (SOP 07-1). This SOP provides guidance for determining whether an entity is within the scope of the American Institute of Certified Public Accountants (AICPA) *Audit and Accounting Guide for Investment Companies* (the Guide). This SOP also addresses whether the specialized industry accounting principles of the Guide should be retained by a parent company in consolidation or by an investor that has the ability to exercise significant influence over the investment company and applies the equity method of accounting to its investment in the entity. In addition, this SOP includes certain disclosure requirements for parent companies and equity method investors in investment companies that retain investment company accounting in the parent company s consolidated financial statements or the financial statements of an equity method investor. The provisions of this SOP are effective for fiscal years beginning on or after December 15, 2007, with earlier application encouraged. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

On February 15, 2007, the Financial Accounting Standards Board (the FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159*, The Fair Value Option for Financial Assets and Financial Liabilities, Including an amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 permits entities to choose, at specified election dates, to measure eligible financial instruments and certain other items at fair value that are not currently required to be reported at fair value. Unrealized gains and losses on items for which the fair value option is elected shall be reported in net income. The decision about whether to elect the fair value option (1) is applied instrument by instrument, with certain exceptions; (2) is irrevocable; and (3) is applied to an entire instrument and not only to specified risks, specific cash flows, or portions of that instrument. SFAS 159 also requires additional disclosures that are intended to facilitate comparisons between entities that choose different measurement attributes for similar assets and liabilities and between assets and liabilities in the financial statements of an entity that selects different measurement attributes for similar assets and liabilities. SFAS 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. At the effective date, the fair value option may be elected for eligible items that exist at that date and the effect of the first remeasurement to fair value for those items should be reported as a cumulative effect adjustment to the opening balance of retained earnings. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2007
(Unaudited)

1. Nature of Operations and Significant Accounting Policies (continued)

On July 13, 2006, the FASB issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48, which is an interpretation of SFAS No. 109*, Accounting for Income Taxes*, prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. FIN 48 requires the affirmative evaluation that it is more likely than not, based on the technical merits of a tax position, that an enterprise is entitled to economic benefits resulting from positions taken in income tax returns. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements. FIN 48 also requires companies to disclose additional quantitative and qualitative information in their financial statements about uncertain tax positions. We adopted FIN 48 on January 1, 2007, which did not have a material impact on our consolidated financial statements. See Note 3, Federal Income Taxes, for further details.

On March 17, 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets* (SFAS 156), which amends SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS 140). This Statement (1) requires an entity to recognize a servicing asset or liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in specified situations, (2) requires all separately recognized servicing assets and liabilities to be initially measured at fair value, (3) for subsequent measurement of each class of separately recognized servicing assets and liabilities, an entity can elect either the amortization or fair value measurement method, (4) permits a one-time reclassification of available-for-sale (AFS) securities to trading securities by an entity with recognized servicing rights, without calling into question the treatment of other AFS securities, provided the AFS securities are identified in some manner as offsetting the entity s exposure to changes in fair value of servicing assets or liabilities that a servicer elects to subsequently measure at fair value, and (5) requires separate presentation of servicing assets and liabilities measured at fair value in the statement of financial position and also requires additional disclosures. The initial measurement requirements of this Statement should be applied prospectively to all transactions entered into after the fiscal year beginning after September 15, 2006. The election related to the subsequent measurement of servicing assets and liabilities is also effective the first fiscal year beginning after September 15, 2006. We adopted SFAS 156 on January 1, 2007, and have not elected to subsequently measure any of our servicing rights at fair value or reclassify any AFS securities to trading. The prospective aspects of SFAS 156 are not expected to have a material impact on our consolidated financial statements.

On February 16, 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140* (SFAS 155), which amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133) and SFAS 140. SFAS 155 (1) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, (2) clarifies which interest-only and principal-only strips are not subject to the requirements of SFAS 133, (3) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, (4) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and (5) amends SFAS 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This Statement is effective for all financial instruments acquired or issued after the beginning of an entity s fiscal year that begins after September 15, 2006. At adoption, the fair value election may also be applied to hybrid financial instruments that have been bifurcated under SFAS 133 prior to adoption of this Statement. Any changes resulting from the adoption of this Statement should be recognized as a cumulative effect adjustment to beginning retained earnings. We adopted SFAS 155 on January 1, 2007, and did not apply the fair value election to any existing hybrid financial instruments that had been bifurcated under SFAS 133 prior to adoption of SFAS 155. The prospective aspects of SFAS 155 are not expected to have a material impact on our consolidated financial statements.

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2007
(Unaudited)

1. Nature of Operations and Significant Accounting Policies (continued)

On September 19, 2005, the AcSEC issued SOP 05-1*, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of Insurance Contracts* (SOP 05-1). AcSEC defines an internal replacement as a modification in product benefits, features, rights, or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. An internal replacement that is determined to result in a replacement contract that is substantially unchanged from the replaced contract should be accounted for as a continuation of the replaced contract. Contract modifications resulting in a replacement contract that is substantially changed from the replaced contract should be accounted for as an extinguishment of the replaced contract and any unamortized deferred policy acquisition costs, unearned revenue liabilities, and deferred sales inducement costs from the replaced contract should be written off and acquisition costs on the new contract capitalized as appropriate. This SOP is effective for internal replacements occurring in fiscal years beginning after December 15, 2006. As of January 1, 2007, we adopted SOP 05-1, which did not have a material impact on our consolidated financial statements.

Separate Accounts

As of June 30, 2007, and December 31, 2006, the separate accounts include a separate account valued at $693.5 million and $768.4 million, respectively, which primarily includes shares of our stock that were allocated and issued to eligible participants of qualified employee benefit plans administered by us as part of the policy credits issued under our 2001 demutualization. These shares are included in both basic and diluted earnings per share calculations. The separate account shares are recorded at fair value and are reported as separate account assets and separate account liabilities in the consolidated statements of financial position. Changes in fair value of the separate account shares are reflected in both the separate account assets and separate account liabilities and do not impact our results of operations.

2. Significant Unconsolidated Variable Interest Entities

Synthetic Collateralized Debt Obligation**.** On June 14, 2007, we invested $100.0 million in a secured limited recourse note issued by a segregated portfolio company. The note represents Class B-1 notes. Class A notes are senior and Class C through Class E notes are subordinated to Class B notes. The entity entered into a credit default swap with a third party providing credit protection in exchange for a fee. Defaults in an underlying reference portfolio will only affect the note if cumulative losses of a synthetic reference portfolio exceed the loss attachment point on the portfolio. We have determined we are not the primary beneficiary, as we do not hold the majority of the risk of loss. Our maximum exposure to loss as a result of our involvement with this entity is our recorded investment of $100.0 million as of June 30, 2007.

3. Federal Income Taxes

The effective income tax rates for the three and six months ended June 30, 2007, were lower than the corporate income tax rate of 35% primarily due to income tax deductions allowed for corporate dividends received and interest exclusion from taxable income. The effective income tax rate for the six months ended June 30, 2007, is also lower than the prevailing corporate federal income tax rate due to tax credits received on our investment in a synthetic fuel production facility. The effective income tax rates for the three and six months ended June 30, 2006, were lower than the corporate income tax rate of 35% primarily due to income tax deductions allowed for corporate dividends received and interest exclusion from taxable income. The effective income tax rate for the six months ended June 30, 2006, is also lower than the prevailing corporate federal income tax rate due to a favorable court ruling on a contested Internal Revenue Service (the Service) issue for 1991 and later years.

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2007
(Unaudited)

3. Federal Income Taxes (continued)

We adopted the provisions of FIN 48 on January 1, 2007. The application of FIN 48 did not have a material impact on our consolidated financial statements. As of January 1, 2007, the total unrecognized benefits were $60.0 million. Of this amount, $20.3 million, if recognized, would reduce the 2007 effective tax rate. The remaining $39.7 million of unrecognized benefits relate to tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Recognition of these benefits will have no effect on the annual effective tax rate, but could accelerate the payment of cash to the taxing authority to an earlier period.

We recognize interest and penalties related to uncertain tax positions in operating expenses. As of January 1, 2007, we had recognized $15.7 million of accumulated pre-tax interest related to unrecognized tax benefits existing at the date of adoption.

The Service has completed examinations of the U.S. consolidated federal income tax returns for 2003 and prior years. The Service has recently commenced the audit of our federal income tax returns for the years 2004 and 2005. We do not expect the results of these audits to significantly increase or decrease the total amount of unrecognized tax benefits in the next twelve months, but the outcome of tax reviews is uncertain, and unforeseen results can occur.

4. Employee and Agent Benefits

Components of net periodic benefit cost (income):

	Pension benefits For the three months ended June 30, 2007 (in millions)	Pension benefits 2006	Other postretirement benefits For the three months ended June 30, 2007	Other postretirement benefits 2006
Service cost	**$ 11.8**	$ 11.7	**$ 2.0**	$ 2.4
Interest cost	**22.4**	20.4	**3.9**	4.0
Expected return on plan assets	**(28.6)**	(26.3)	**(8.4)**	(8.1)
Amortization of prior service benefit	**(2.1)**	(2.2)	**(0.7)**	(0.7)
Recognized net actuarial loss (gain)	**2.5**	5.1	**(0.5)**	0.1
Net periodic benefit cost (income)	**$ 6.0**	$ 8.7	**$ (3.7)**	$ (2.3)

	Pension benefits For the six months ended June 30, 2007 (in millions)	Pension benefits 2006	Other postretirement benefits For the six months ended June 30, 2007	Other postretirement benefits 2006
Service cost	**$ 23.5**	$ 23.5	**$ 4.0**	$ 4.7
Interest cost	**44.8**	40.8	**7.7**	8.1
Expected return on plan assets	**(57.1)**	(52.7)	**(16.8)**	(16.2)
Amortization of prior service benefit	**(4.2)**	(4.5)	**(1.3)**	(1.3)
Recognized net actuarial loss (gain)	**5.0**	10.2	**(0.9)**	0.1
Net periodic benefit cost (income)	**$ 12.0**	$ 17.3	**$ (7.3)**	$ (4.6)

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2007
(Unaudited)

4. Employee and Agent Benefits (continued)

Contributions

Our funding policy for our qualified pension plan is to fund the plan annually in an amount at least equal to the minimum annual contribution required under the Employee Retirement Income Security Act (ERISA) and, generally, not greater than the maximum amount that can be deducted for federal income tax purposes. The minimum annual contribution for 2007 will be zero so we will not be required to fund our qualified pension plan during 2007. However, it is possible that we may fund the qualified and nonqualified pension plans in 2007 in the range of $20.0 million to $50.0 million. During both the three and six months ended June 30, 2007, $6.4 million was contributed to the nonqualified pension plan.

We contributed $0.7 million for both the three and six months ended June 30, 2007, to our other postretirement benefit plans. We anticipate no additional contributions to other postretirement benefit plans in 2007.

5. Contingencies, Guarantees and Indemnifications

Litigation Contingencies

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. Some of the lawsuits are class actions, or purport to be, and some include claims for punitive damages. In addition, regulatory bodies, such as state insurance departments, the SEC, the National Association of Securities Dealers, Inc., the Department of Labor and other regulatory bodies regularly make inquiries and conduct examinations or investigations concerning our compliance with, among other things, insurance laws, securities laws, ERISA and laws governing the activities of broker-dealers.

Several lawsuits have been filed against other insurance companies and insurance brokers alleging improper conduct relating to the payment and non-disclosure of contingent compensation and bid-rigging activity. Several of these suits were filed as purported class actions. Several state attorneys general and insurance regulators have initiated industry-wide inquiries or other actions relating to compensation arrangements between insurance brokers and insurance companies and other industry issues. Beginning in March of 2005, we have received subpoenas and interrogatories from the offices of the Attorneys General of New York and Connecticut seeking information related to compensation agreements with brokers and agents and the sale of retirement products and services. We are cooperating with these inquiries. To date, none of these Attorneys General investigations has resulted in any action against us. We are, however, engaged in discussions with the Connecticut and New York Attorneys General Offices with respect to broker payments relating to sales of our single premium group annuity products, which primarily fund terminating defined benefit plans. At this point, we cannot predict the outcome of these discussions. We have received other requests from regulators and other governmental authorities relating to other industry issues and may receive additional such requests, including subpoenas and interrogatories, in the future.

On November 8, 2006, a trustee of Fairmount Park Inc. Retirement Savings Plan filed a putative class action lawsuit in the United States District Court for the Southern District of Illinois against Principal Life Insurance Company (Principal Life). The complaint alleges, among other things, that Principal Life breached its alleged fiduciary duties while performing services to 401(k) plans by failing to disclose, or adequately disclose, to employers or plan participants the fact that Principal Life receives revenue sharing fees from mutual funds that are included in its pre-packaged 401(k) plans and allegedly failed to use the revenue to defray the expenses of the services provided to the plans. Plaintiff further alleges that these acts constitute prohibited transactions under ERISA. Plaintiff seeks to certify a class of all retirement plans to which Principal Life was a service provider and for which Principal Life received and retained revenue sharing fees from mutual funds. Plaintiff seeks declaratory, injunctive and monetary relief. Principal Life s Motion to Transfer Venue to the Southern District of Iowa was granted and Principal Life is aggressively defending the lawsuit.

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2007
(Unaudited)

5. Contingencies, Guarantees and Indemnifications (continued)

While the outcome of any pending or future litigation cannot be predicted, management does not believe that any pending litigation will have a material adverse effect on our business or financial position. The outcome of litigation is always uncertain, and unforeseen results can occur. It is possible that such outcomes could materially affect net income in a particular quarter or annual period.

Guarantees and Indemnifications

In the normal course of business, we have provided guarantees to third parties primarily related to a former subsidiary, joint ventures and industrial revenue bonds. These agreements generally expire through 2019. The maximum exposure under these agreements as of June 30, 2007, was approximately $184.0 million; however, we believe the likelihood is remote that material payments will be required and therefore have not accrued for a liability on our consolidated statements of financial position. Should we be required to perform under these guarantees, we generally could recover a portion of the loss from third parties through recourse provisions included in agreements with such parties, the sale of assets held as collateral that can be liquidated in the event that performance is required under the guarantees or other recourse generally available to us; therefore, such guarantees would not result in a material adverse effect on our business or financial position. It is possible that such outcomes could materially affect net income in a particular quarter or annual period. The fair value of such guarantees is not material.

We are also subject to various other indemnification obligations issued in conjunction with certain transactions, primarily the sale of Principal Residential Mortgage, Inc. and other divestitures, acquisitions and financing transactions whose terms range in duration and often are not explicitly defined. Certain portions of these indemnifications may be capped, while other portions are not subject to such limitations; therefore, the overall maximum amount of the obligation under the indemnifications cannot be reasonably estimated. While we are unable to estimate with certainty the ultimate legal and financial liability with respect to these indemnifications, we believe the likelihood is remote that material payments would be required under such indemnifications and therefore such indemnifications would not result in a material adverse effect on our business or financial position. It is possible that such outcomes could materially affect net income in a particular quarter or annual period. The fair value of such indemnifications was determined to be insignificant.

Other Contingencies

On June 15, 2007, the President of Mexico signed into law changes for Mexico s pension fund companies, known as AFOREs, that offer a product similar to a deferred variable annuity contract in the United States. Included in the new law are changes in the structure of how participant fees will be charged and how the sales force will be compensated. The AFOREs must be operating under the new law, including the fee structure, by March 15, 2008. The new law, however, includes many unresolved items as to the details of application. It also states that the regulators will determine additional details at a later date. Until the final regulations are known, we are unable to estimate the impact these changes may have on our financial statements.

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2007
(Unaudited)

6. Stockholders Equity

Reconciliation of Outstanding Shares

	Series A preferred stock (in millions)	Series B preferred stock	Common stock
Outstanding shares at January 1, 2006	3.0	10.0	280.6
Shares issued			1.3
Treasury stock acquired			(12.8)
Outstanding shares at June 30, 2006	3.0	10.0	269.1
Outstanding shares at January 1, 2007	**3.0**	**10.0**	**268.4**
Shares issued			**1.3**
Treasury stock acquired			**(3.7)**
Outstanding shares at June 30, 2007	**3.0**	**10.0**	**266.0**

Comprehensive income (loss) is as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2007 (in millions)	2006	2007	2006
Net income	**$ 312.1**	$ 218.8	**$ 577.4**	$ 512.7
Net change in unrealized losses on fixed maturities, available-for-sale	**(756.8)**	(625.0)	**(713.6)**	(1,368.3)
Net change in unrealized losses on equity securities, available-for-sale	**(4.9)**	(10.9)	**(5.4)**	(9.6)
Net change in unrealized gains (losses) on equity method subsidiaries and minority interest adjustments	**83.5**	(51.2)	**96.6**	18.3
Adjustments for assumed changes in amortization patterns	**113.1**	92.8	**118.5**	181.2
Net change in unrealized gains on derivative instruments	**21.9**	15.2	**28.8**	31.7
Adjustments to unrealized gains for Closed Block policyholder dividend obligation				33.7
Change in net foreign currency translation adjustment	**38.8**	(31.6)	**38.3**	(30.2)
Change in unrecognized post-retirement benefit obligation	**(0.7)**		**(1.4)**	
Provision for deferred income tax benefits	**161.4**	189.9	**145.3**	366.9
Comprehensive income (loss)	**$ (31.6)**	$ (202.0)	**$ 284.5**	$ (263.6)

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2007
(Unaudited)

7. Segment Information

We provide financial products and services through the following segments: U.S. Asset Management and Accumulation, International Asset Management and Accumulation and Life and Health Insurance. In addition, there is a Corporate and Other segment. The segments are managed and reported separately because they provide different products and services, have different strategies or have different markets and distribution channels.

The U.S. Asset Management and Accumulation segment provides retirement and related financial products and services primarily to businesses, their employees and other individuals and provides asset management services to our asset accumulation business, the life and health insurance operations, the Corporate and Other segment and third-party clients.

The International Asset Management and Accumulation segment consists of Principal International operations in Chile, Mexico, Hong Kong, Brazil, India, China, and Malaysia. We focus on countries with favorable demographics and a trend toward private sector defined contribution pension systems. We entered these countries through acquisitions, start-up operations and joint ventures.

The Life and Health insurance segment provides individual life insurance, group health insurance and specialty benefits, which consists of group dental and vision insurance, individual and group disability insurance and group life insurance, throughout the United States.

The Corporate and Other segment manages the assets representing capital that has not been allocated to any other segment. Financial results of the Corporate and Other segment primarily reflect our financing activities (including interest expense), income on capital not allocated to other segments, inter-segment eliminations, income tax risks and certain income, expenses and other after-tax adjustments not allocated to the segments based on the nature of such items.

Management uses segment operating earnings for goal setting, determining employee compensation and evaluating performance on a basis comparable to that used by securities analysts. We determine segment operating earnings by adjusting U.S. GAAP net income available to common stockholders for net realized/unrealized capital gains and losses, as adjusted, and other after-tax adjustments which management believes are not indicative of overall operating trends. Net realized/unrealized capital gains and losses, as adjusted, are net of income taxes, related changes in the amortization pattern of deferred policy acquisition costs (DPAC) and sales inducements, recognition of front-end fee revenues for sales charges on retirement products and services, net realized capital gains and losses distributed, minority interest capital gains and losses and certain market value adjustments to fee revenues. Net realized/unrealized capital gains (losses), as adjusted, exclude periodic settlements and accruals on non-hedge derivative instruments. Segment operating revenues exclude net realized/unrealized capital gains (except periodic settlements and accruals on non-hedge derivatives) and their impact on recognition of front-end fee revenues and certain market value adjustments to fee revenues and include operating revenues from real estate properties that qualify for discontinued operations. While these items may be significant components in understanding and assessing the consolidated financial performance, management believes the presentation of segment operating earnings enhances the understanding of our results of operations by highlighting earnings attributable to the normal, ongoing operations of the business.

The accounting policies of the segments are consistent with the accounting policies for the consolidated financial statements, with the exception of income tax allocation. The Corporate and Other segment functions to absorb the risk inherent in interpreting and applying tax law. The segments are allocated tax adjustments consistent with the positions we took on tax returns. The Corporate and Other segment results reflect any differences between the tax returns and the estimated resolution of any disputes.

Principal Financial Group, Inc.

Notes to Consolidated Financial Statements (continued)
June 30, 2007
(Unaudited)

7. Segment Information (continued)

The following tables summarize selected financial information by segment and reconcile segment totals to those reported in the consolidated financial statements:

	June 30, 2007 (in millions)	December 31, 2006
Assets:		
U.S. Asset Management and Accumulation	**$ 124,651.5**	$ 117,950.0
International Asset Management and Accumulation	**8,691.4**	8,101.0
Life and Health Insurance	**14,708.0**	14,364.5
Corporate and Other	**2,707.4**	3,242.6
Total consolidated assets	**$ 150,758.3**	$ 143,658.1

	For the three months ended June 30,		For the six months ended June 30,	
	2007 (in millions)	2006	2007	2006
Operating revenues by segment:				
U.S. Asset Management and Accumulation	**$ 1,386.5**	$ 1,127.5	**$ 2,668.2**	$ 2,188.1
International Asset Management and Accumulation	**175.0**	164.2	**316.3**	307.6
Life and Health Insurance	**1,211.5**	1,183.1	**2,423.9**	2,342.7
Corporate and Other	**12.5**	3.8	**0.8**	(5.9)
Total segment operating revenues	**2,785.5**	2,478.6	**5,409.2**	4,832.5
Add:				
Net realized/unrealized capital gains (losses) (except periodic settlements and accruals on non-hedge derivatives), including recognition of front-end fee revenues and certain market value adjustments to fee revenues	**46.1**	(18.9)	**83.3**	29.7
Subtract:				
Operating revenues from a discontinued real estate investment		(0.1)		0.2
Total revenues per consolidated statements of operations	**$ 2,831.6**	$ 2,459.8	**$ 5,492.5**	$ 4,862.0
Operating earnings (loss) by segment, net of related income taxes:				
U.S. Asset Management and Accumulation	**$ 196.7**	$ 151.2	**$ 375.1**	$ 309.0
International Asset Management and Accumulation	**26.7**	16.1	**46.0**	33.7
Life and Health Insurance	**60.1**	65.2	**105.6**	135.6
Corporate and Other	**(0.6)**	(7.3)	**(7.0)**	(12.9)
Total segment operating earnings, net of related income taxes	**282.9**	225.2	**519.7**	465.4
Net realized/unrealized capital gains (losses), as adjusted	**20.9**	(12.9)	**41.2**	12.0
Other after-tax adjustments (1)		(1.8)		18.8
Net income available to common stockholders per consolidated statements of operations	**$ 303.8**	$ 210.5	**$ 560.9**	$ 496.2

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(1) For the three months ended June 30, 2006, other after-tax adjustments of $(1.8) million included the negative effect of a change in estimate associated with a favorable court ruling on a contested IRS issue for 1991 and later years.

For the six months ended June 30, 2006, other after-tax adjustments of $18.8 million included the positive effect of a favorable court ruling on a contested IRS issue for 1991 and later years.

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2007
(Unaudited)

8. Stock-Based Compensation Plans

As of June 30, 2007, we have the 2005 Stock Incentive Plan, the Employee Stock Purchase Plan, the 2005 Directors Stock Plan, the Stock Incentive Plan, the Directors Stock Plan and the Long-Term Performance Plan (Stock-Based Compensation Plans). As of May 17, 2005, no new grants will be made under the Stock Incentive Plan, the Directors Stock Plan or the Long-Term Performance Plan.

As of June 30, 2007, the maximum number of new shares of common stock that were available for grant under the 2005 Stock Incentive Plan and the 2005 Directors Stock Plan was 19.1 million.

The compensation cost that was charged against income for the Stock-Based Compensation Plans is as follows:

	For the six months ended June 30, 2007 (in millions)	2006
Compensation cost	**$ 34.0**	$ 27.5
Related income tax benefit	**11.0**	8.5
Capitalized as part of an asset	**2.1**	1.9

Nonqualified Stock Options

Nonqualified stock options were granted to certain employees under the 2005 Stock Incentive Plan. Total options granted were 1.8 million for the six months ended June 30, 2007. The fair value of these options was determined assuming a weighted average dividend yield of 1.3 percent, a weighted average expected volatility of 23.6 percent, a weighted average risk-free interest rate of 4.6 percent, and a weighted average expected life of 6 years. Using the Black-Scholes option valuation model, the weighted-average estimated fair value of stock options granted during the six months ended June 30, 2007, was $17.98 per share.

We previously determined expected volatility for stock options granted based on, among other factors, historical volatility using monthly price observations. Beginning with stock options granted in 2007, we determine expected volatility based on, among other factors, historical volatility using daily price observations. We believe that daily price observations provide a better estimate of expected fluctuations in our stock price over the expected term of stock options granted.

As of June 30, 2007, there were $25.8 million of total unrecognized compensation costs related to nonvested stock options. The costs are expected to be recognized over a weighted-average service period of approximately 2.3 years.

Performance Share Awards

Performance share awards were granted to certain employees under the 2005 Stock Incentive Plan. Total performance share awards granted were 0.3 million for the six months ended June 30, 2007. The performance share awards granted represent initial target awards and do not reflect potential increases or decreases resulting from the final performance objectives to be determined at the end of the respective performance period. The actual number of shares to be awarded at the end of each performance period will range between 0% and 200% of the initial target awards. The fair value of performance share awards is determined based on the closing stock price of our shares on the grant date. The weighted-average grant date fair value of these performance share awards granted was $62.62 per common share.

As of June 30, 2007, there were $24.6 million of total unrecognized compensation costs related to nonvested performance share awards granted. The costs are expected to be recognized over a weighted-average service period of approximately 1.7 years.

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2007
(Unaudited)

8. Stock-Based Compensation Plans (continued)

Restricted Stock Units

Restricted stock units were issued to certain employees and agents pursuant to the 2005 Stock Incentive Plan. Total restricted stock units granted were 0.3 million for the six months ended June 30, 2007. The fair value of restricted stock units is determined based on the closing stock price of our common shares on the grant date. The weighted-average grant date fair value of these restricted stock units granted was $61.48 per share.

As of June 30, 2007, there were $19.8 million of total unrecognized compensation costs related to nonvested restricted stock unit awards granted. The costs are expected to be recognized over a weighted-average period of approximately 2.2 years.

Employee Stock Purchase Plan

Under the Employee Stock Purchase Plan, employees purchased 0.4 million shares for the six months ended June 30, 2007. The weighted-average fair value of the discount on the stock purchased was $9.19 per share.

The maximum number of shares of common stock that we may issue under the Employee Stock Purchase Plan is 2% of the number of shares outstanding immediately following the completion of the Initial Public Offering. As of June 30, 2007, a total of 2.9 million of new shares are available to be made issuable by us for this plan.

9. Earnings Per Common Share

The computations of the basic and diluted per share amounts for our continuing operations were as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2007	2006	2007	2006
	(in millions, except per share data)			
Income from continuing operations, net of related income taxes	**$ 312.1**	$ 218.9	**$ 577.4**	$ 512.6
Subtract:				
Preferred stock dividends	**8.3**	8.3	**16.5**	16.5
Income from continuing operations available to common stockholders, net of related income taxes	**$ 303.8**	$ 210.6	**$ 560.9**	$ 496.1
Weighted-average shares outstanding				
Basic	**267.7**	273.5	**267.9**	276.5
Dilutive effects:				
Stock options	**2.3**	2.1	**2.3**	1.9
Restricted stock units	**0.3**	0.6	**0.4**	0.6
Diluted	**270.3**	276.2	**270.6**	279.0
Income from continuing operations per common share:				
Basic	**$ 1.14**	$ 0.77	**$ 2.09**	$ 1.79
Diluted	**$ 1.12**	$ 0.76	**$ 2.07**	$ 1.78

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2007
(Unaudited)

10. Condensed Consolidating Financial Information

Principal Life has established special purpose entities to issue secured medium-term notes. Under the program, the payment obligations of principal and interest on the notes are secured by funding agreements issued by Principal Life. Principal Life s payment obligations on the funding agreements are fully and unconditionally guaranteed by Principal Financial Group, Inc. All of the outstanding stock of Principal Life is indirectly owned by Principal Financial Group, Inc. and Principal Financial Group, Inc. is the only guarantor of the payment obligations of the funding agreements.

The following tables set forth condensed consolidating financial information of Principal Life and Principal Financial Group, Inc. as of June 30, 2007, and December 31, 2006, and for the six months ended June 30, 2007 and 2006.

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Principal Financial Group, Inc.

Notes to Consolidated Financial Statements (continued)
June 30, 2007
(Unaudited)

10. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Financial Position
June 30, 2007

	Principal Financial Group, Inc. Parent Only (in millions)	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
Assets					
Fixed maturities, available-for-sale	$	$ 40,126.3	$ 5,108.7	$ (832.6)	$ 44,402.4
Fixed maturities, trading		258.7	179.1	—	437.8
Equity securities, available-for-sale		344.6	18.9	—	363.5
Equity securities, trading		10.0	227.1	—	237.1
Mortgage loans		10,046.9	2,297.0	(257.7)	12,086.2
Real estate		325.8	556.7		882.5
Policy loans		850.6			850.6
Investment in unconsolidated entities	8,063.5	260.6	4,188.8	(12,059.2)	453.7
Other investments	19.8	3,519.1	284.4	(2,500.4)	1,322.9
Cash and cash equivalents	68.4	1,065.7	902.4	(178.5)	1,858.0
Accrued investment income		651.5	56.1	(5.4)	702.2
Premiums due and other receivables	—	685.2	237.8	13.1	936.1
Deferred policy acquisition costs		2,487.0	167.5		2,654.5
Property and equipment		403.6	39.8		443.4
Goodwill		77.2	283.2		360.4
Other intangibles		37.0	916.5		953.5
Separate account assets		75,558.1	4,589.0		80,147.1
Other assets	456.5	1,191.1	411.7	(392.9)	1,666.4
Total assets	$ 8,608.2	$ 137,899.0	$ 20,464.7	$ (16,213.6)	$ 150,758.3
Liabilities					
Contractholder funds	$	$ 37,683.7	$ 18.1	$ (225.0)	$ 37,476.8
Future policy benefits and claims		15,260.8	2,461.1	(2.7)	17,719.2
Other policyholder funds		632.4	11.9		644.3
Short-term debt			141.4	(83.2)	58.2
Long-term debt	601.8	158.2	1,407.4	(631.0)	1,536.4
Income taxes currently payable (receivable)	(5.0)	(233.1)	34.0	205.5	1.4
Deferred income taxes	6.6	451.2	306.4	(9.5)	754.7
Separate account liabilities		75,558.1	4,589.0	—	80,147.1
Other liabilities	18.1	1,832.2	3,431.9	(848.7)	4,433.5
Total liabilities	621.5	131,343.5	12,401.2	(1,594.6)	142,771.6
Stockholders equity					
Series A preferred stock					

Series B preferred stock	**0.1**				**0.1**
Common stock	**3.8**	**2.5**		**(2.5)**	**3.8**
Additional paid-in capital	**8,223.7**	**5,545.7**	**7,724.5**	**(13,270.2)**	**8,223.7**
Retained earnings (deficit)	**3,385.0**	**748.1**	**(199.9)**	**(548.2)**	**3,385.0**
Accumulated other comprehensive income	**554.0**	**259.2**	**538.9**	**(798.1)**	**554.0**
Treasury stock, at cost	**(4,179.9)**				**(4,179.9)**
Total stockholders equity	**7,986.7**	**6,555.5**	**8,063.5**	**(14,619.0)**	**7,986.7**
Total liabilities and stockholders equity	**$ 8,608.2**	**$ 137,899.0**	**$ 20,464.7**	**$ (16,213.6)**	**$ 150,758.3**

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Principal Financial Group, Inc.

Notes to Consolidated Financial Statements (continued)
June 30, 2007
(Unaudited)

10. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Financial Position
December 31, 2006

	Principal Financial Group, Inc. Parent Only (in millions)	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
Assets					
Fixed maturities, available-for-sale	$	$ 40,330.8	$ 4,858.5	$ (785.8)	$ 44,403.5
Fixed maturities, trading		90.4	233.0	—	323.4
Equity securities, available-for-sale		640.7	25.9	—	666.6
Equity securities, trading		10.2	170.8	—	181.0
Mortgage loans		9,661.6	2,237.7	(235.4)	11,663.9
Real estate		308.7	558.3		867.0
Policy loans		850.7			850.7
Investment in unconsolidated entities	8,191.4	235.0	4,480.5	(12,608.8)	298.1
Other investments	3.6	3,057.1	235.5	(2,183.6)	1,112.6
Cash and cash equivalents	30.9	1,399.8	261.1	(101.0)	1,590.8
Accrued investment income		677.0	51.6	(5.1)	723.5
Premiums due and other receivables		857.7	512.8	(118.2)	1,252.3
Deferred policy acquisition costs		2,265.9	153.0		2,418.9
Property and equipment		394.2	28.3		422.5
Goodwill		77.2	284.7		361.9
Other intangibles		38.4	942.6		981.0
Separate account assets		69,451.7	4,327.9		73,779.6
Other assets	256.1	1,327.0	382.9	(205.2)	1,760.8
Total assets	$ 8,482.0	$ 131,674.1	$ 19,745.1	$ (16,243.1)	$ 143,658.1
Liabilities					
Contractholder funds	$	$ 37,001.4	$ 16.3	$ (218.7)	$ 36,799.0
Future policy benefits and claims		15,005.3	2,328.4	(1.1)	17,332.6
Other policyholder funds		613.0	6.4		619.4
Short-term debt			199.1	(115.0)	84.1
Long-term debt	601.9	143.9	1,350.1	(542.1)	1,553.8
Income taxes currently payable (receivable)	(1.2)	(270.7)	23.3	252.8	4.2
Deferred income taxes	1.1	629.5	292.1	(5.5)	917.2
Separate account liabilities		69,451.7	4,327.9		73,779.6
Other liabilities	19.4	2,298.7	3,010.1	(620.8)	4,707.4
Total liabilities	621.2	124,872.8	11,553.7	(1,250.4)	135,797.3

Stockholders equity					
Series A preferred stock	—				—
Series B preferred stock	0.1				0.1
Common stock	3.8	2.5		(2.5)	3.8
Additional paid-in capital	8,141.8	5,515.3	7,688.1	(13,203.4)	8,141.8
Retained earnings (deficit)	2,824.1	670.9	(339.5)	(331.4)	2,824.1
Accumulated other comprehensive income	846.9	612.6	842.8	(1,455.4)	846.9
Treasury stock, at cost	(3,955.9)				(3,955.9)
Total stockholders equity	7,860.8	6,801.3	8,191.4	(14,992.7)	7,860.8
Total liabilities and stockholders equity	$ 8,482.0	$ 131,674.1	$ 19,745.1	$ (16,243.1)	$ 143,658.1

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2007
(Unaudited)

10. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Operations
For the six months ended June 30, 2007

	Principal Financial Group, Inc. Parent Only (in millions)	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
Revenues					
Premiums and other considerations	$	$ 2,168.4	$ 116.2	$	$ 2,284.6
Fees and other revenues		722.2	688.9	(195.7)	1,215.4
Net investment income	4.5	1,627.0	251.4	16.6	1,899.5
Net realized/unrealized capital gains		21.7	69.1	2.2	93.0
Total revenues	4.5	4,539.3	1,125.6	(176.9)	5,492.5
Expenses					
Benefits, claims, and settlement expenses		2,888.9	201.5	(7.7)	3,082.7
Dividends to policyholders		148.0			148.0
Operating expenses	24.9	1,014.9	647.7	(172.4)	1,515.1
Total expenses	24.9	4,051.8	849.2	(180.1)	4,745.8
Income (loss) from continuing operations before income taxes	(20.4)	487.5	276.4	3.2	746.7
Income taxes (benefits)	(8.2)	117.3	60.1	0.1	169.3
Equity in the net income of subsidiaries	589.6	157.0	373.3	(1,119.9)	
Net income	577.4	527.2	589.6	(1,116.8)	577.4
Preferred stock dividends	16.5				16.5
Net income available to common stockholders	$ 560.9	$ 527.2	$ 589.6	$ (1,116.8)	$ 560.9

Principal Financial Group, Inc.

Notes to Consolidated Financial Statements (continued)
June 30, 2007
(Unaudited)

10. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Operations
For the six months ended June 30, 2006

	Principal Financial Group, Inc. Parent Only (in millions)	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
Revenues					
Premiums and other considerations	$	$ 2,003.9	$ 142.5	$	$ 2,146.4
Fees and other revenues		649.8	448.4	(176.0)	922.2
Net investment income	1.8	1,558.6	213.0	(9.8)	1,763.6
Net realized/unrealized capital gains (losses)		(9.9)	42.5	(2.8)	29.8
Total revenues	1.8	4,202.4	846.4	(188.6)	4,862.0
Expenses					
Benefits, claims, and settlement expenses		2,596.9	211.2	(6.7)	2,801.4
Dividends to policyholders		144.4	—		144.4
Operating expenses	6.9	967.1	423.9	(151.6)	1,246.3
Total expenses	6.9	3,708.4	635.1	(158.3)	4,192.1
Income (loss) from continuing operations before income taxes	(5.1)	494.0	211.3	(30.3)	669.9
Income taxes (benefits)	(2.0)	104.8	54.4	0.1	157.3
Equity in the net income of subsidiaries, excluding discontinued operations	515.7	94.7	358.8	(969.2)	
Income from continuing operations, net of related income taxes	512.6	483.9	515.7	(999.6)	512.6
Income from discontinued operations, net of related income taxes	0.1	0.1	0.1	(0.2)	0.1
Net income	512.7	484.0	515.8	(999.8)	512.7
Preferred stock dividends	16.5				16.5
Net income available to common stockholders	$ 496.2	$ 484.0	$ 515.8	$ (999.8)	$ 496.2

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Principal Financial Group, Inc.

Notes to Consolidated Financial Statements (continued)
June 30, 2007
(Unaudited)

10. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Cash Flows
For the six months ended June 30, 2007

	Principal Financial Group, Inc. Parent Only (in millions)	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
Operating activities					
Net cash provided by (used in) operating activities	$ (16.8)	$ 1,479.9	$ 685.8	$ (227.0)	$ 1,921.9
Investing activities					
Available-for-sale securities:					
Purchases		(4,601.8)	(512.8)	47.4	(5,067.2)
Sales		2,144.7	120.8		2,265.5
Maturities		2,179.9	176.8		2,356.7
Mortgage loans acquired or originated		(1,167.0)	(214.5)	44.7	(1,336.8)
Mortgage loans sold or repaid		779.1	105.8	(22.5)	862.4
Real estate acquired		(48.6)	(13.3)		(61.9)
Real estate sold		4.5	1.2		5.7
Net purchases of property and equipment		(26.3)	(19.8)		(46.1)
Dividends received from (contributions to) unconsolidated entities	256.3	(70.9)	456.3	(641.7)	
Net change in other investments	—	(82.1)	(71.9)	137.1	(16.9)
Net cash provided by (used in) investing activities	256.3	(888.5)	28.6	(435.0)	(1,038.6)
Financing activities					
Issuance of common stock	38.5				38.5
Acquisition of treasury stock	(224.0)				(224.0)
Proceeds from financing element derivatives		76.2			76.2
Payments for financing element derivatives		(69.1)			(69.1)
Excess tax benefits from share-based payment arrangements		4.2	1.9		6.1
Dividends to preferred stockholders	(16.5)				(16.5)
Issuance of long-term debt		14.6	90.7	(97.0)	8.3
Principal repayments of long-term debt			(30.6)	8.0	(22.6)
			(57.9)	31.8	(26.1)

Net repayments of short-term borrowings					
Dividends paid to parent		**(456.3)**	**(185.4)**	**641.7**	
Investment contract deposits		**4,015.3**			**4,015.3**
Investment contract withdrawals		**(4,510.4)**			**(4,510.4)**
Net increase in banking operation deposits			**108.2**		**108.2**
Net cash used in financing activities	**(202.0)**	**(925.5)**	**(73.1)**	**584.5**	**(616.1)**
Net increase (decrease) in cash and cash equivalents	**37.5**	**(334.1)**	**641.3**	**(77.5)**	**267.2**
Cash and cash equivalents at beginning of period	**30.9**	**1,399.8**	**261.1**	**(101.0)**	**1,590.8**
Cash and cash equivalents at end of period	**$ 68.4**	**$ 1,065.7**	**$ 902.4**	**$ (178.5)**	**$ 1,858.0**

Principal Financial Group, Inc.

Notes to Consolidated Financial Statements (continued)
June 30, 2007
(Unaudited)

10. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Cash Flows
For the six months ended June 30, 2006

	Principal Financial Group, Inc. Parent Only (in millions)	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
Operating activities					
Net cash provided by (used in) operating activities	$ (1.8)	$ 962.6	$ 285.0	$ (6.7)	$ 1,239.1
Investing activities					
Available-for-sale securities:					
Purchases		(3,827.7)	(570.9)	14.2	(4,384.4)
Sales		490.7	254.6		745.3
Maturities		1,777.7	95.3		1,873.0
Mortgage loans acquired or originated		(1,352.5)	(235.1)	45.1	(1,542.5)
Mortgage loans sold or repaid		1,066.6	163.5	(37.8)	1,192.3
Real estate acquired		(10.6)	(7.5)		(18.1)
Real estate sold		0.1	11.3		11.4
Net purchases of property and equipment		(17.8)	(5.4)		(23.2)
Purchases of interest in subsidiaries, net of cash acquired			(5.5)		(5.5)
Dividends received from (contributions to) unconsolidated entities	876.3	(240.1)	975.0	(1,611.2)	
Net change in other investments		5.0	63.7	15.6	84.3
Net cash provided by (used in) investing activities	$ 876.3	$ (2,108.6)	$ 739.0	$ (1,574.1)	$ (2,067.4)

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Principal Financial Group, Inc.

Notes to Consolidated Financial Statements (continued)
June 30, 2007
(Unaudited)

10. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Cash Flows (continued)
For the six months ended June 30, 2006

	Principal Financial Group, Inc. Parent Only (in millions)	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
Financing activities					
Issuance of common stock	$ 38.3	$	$	$	$ 38.3
Acquisition of treasury stock	(751.2)				(751.2)
Proceeds from financing element derivatives		81.3			81.3
Payments for financing element derivatives		(69.9)			(69.9)
Excess tax benefits from share-based payment arrangements		1.9	0.7		2.6
Dividends to preferred stockholders	(16.5)				(16.5)
Issuance of long-term debt		6.9	92.7	(90.9)	8.7
Principal repayments of long-term debt			(6.3)		(6.3)
Net proceeds (repayments) of short-term borrowings		302.1	(353.5)	1.8	(49.6)
Dividends paid to parent		(975.0)	(636.2)	1,611.2	
Investment contract deposits		4,861.6			4,861.6
Investment contract withdrawals		(3,771.4)			(3,771.4)
Net increase in banking operation deposits			75.4		75.4
Net cash provided by (used in) financing activities	(729.4)	437.5	(827.2)	1,522.1	403.0
Discontinued operations					
Net cash provided by operating activities		1.5			1.5
Net cash used in investing activities	—	(0.6)			(0.6)
Net cash provided by discontinued operations		0.9			0.9
Net increase (decrease) in cash and cash equivalents	145.1	(707.6)	196.8	(58.7)	(424.4)
Cash and cash equivalents at beginning of period	21.6	1,261.9	542.3	(184.5)	1,641.3
Cash and cash equivalents at end of period	$ 166.7	$ 554.3	$ 739.1	$ (243.2)	$ 1,216.9
Cash and cash equivalents of discontinued operations included above					
At beginning of period	$	$ 2.0	$	$	$ 2.0
At end of period	$	$ 2.9	$	$	$ 2.9

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Principal Financial Group, Inc.

Notes to Consolidated Financial Statements (continued)
June 30, 2007
(Unaudited)

10. Condensed Consolidating Financial Information (continued)

On June 30, 2004, our shelf registration statement with the SEC was declared effective. Following our 2006 issuances of debt securities under the shelf registration, we now have the ability to issue up to $1.85 billion of debt securities, preferred stock, common stock, warrants, stock purchase contracts and stock purchase units of Principal Financial Group, Inc. and trust preferred securities of three subsidiary trusts. If we issue additional securities, we intend to use the proceeds from the sale of the securities for general corporate purposes, including working capital, capital expenditures, investments in subsidiaries, share repurchase, acquisitions and refinancing of debt, including commercial paper and other short-term indebtedness. Our wholly owned subsidiary, Principal Financial Services, Inc., unconditionally guarantees our obligations with respect to one or more series of debt securities described in the shelf registration statement.

The following tables set forth condensed consolidating financial information of Principal Financial Services, Inc. and Principal Financial Group, Inc. as of June 30, 2007, and December 31, 2006, and for the six months ended June 30, 2007, and 2006.

Condensed Consolidating Statements of Financial Position
June 30, 2007

	Principal Financial Group, Inc. Parent Only (in millions)	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
Assets					
Fixed maturities, available-for-sale	$	$	$ 44,402.4	$	$ 44,402.4
Fixed maturities, trading			437.8		437.8
Equity securities, available-for-sale			363.5		363.5
Equity securities, trading			237.1		237.1
Mortgage loans			12,086.2		12,086.2
Real estate			882.5		882.5
Policy loans			850.6		850.6
Investment in unconsolidated entities	8,063.5	8,628.6	453.7	(16,692.1)	453.7
Other investments	19.8	36.6	1,286.3	(19.8)	1,322.9
Cash and cash equivalents	68.4	835.7	1,793.6	(839.7)	1,858.0
Accrued investment income			702.2		702.2
Premiums due and other receivables	—	51.7	884.3	0.1	936.1
Deferred policy acquisition costs			2,654.5		2,654.5
Property and equipment			443.4		443.4
Goodwill			360.4		360.4
Other intangibles			953.5		953.5
Separate account assets			80,147.1		80,147.1
Other assets	456.5	8.9	1,663.2	(462.2)	1,666.4
Total assets	$ 8,608.2	$ 9,561.5	$ 150,602.3	$ (18,013.7)	$ 150,758.3

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Principal Financial Group, Inc.

Notes to Consolidated Financial Statements (continued)
June 30, 2007
(Unaudited)

10. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Financial Position (continued)
June 30, 2007

	Principal Financial Group, Inc. Parent Only (in millions)	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
Liabilities					
Contractholder funds	$	$	$ 37,476.8	$	$ 37,476.8
Future policy benefits and claims			17,719.2		17,719.2
Other policyholder funds			644.3		644.3
Short-term debt		—	417.1	(358.9)	58.2
Long-term debt	601.8	464.6	470.0		1,536.4
Income taxes currently payable (receivable)	(5.0)	(3.1)	8.6	0.9	1.4
Deferred income taxes	6.6	13.8	743.7	(9.4)	754.7
Separate account liabilities			80,147.1		80,147.1
Other liabilities	18.1	1,022.7	4,346.9	(954.2)	4,433.5
Total liabilities	621.5	1,498.0	141,973.7	(1,321.6)	142,771.6
Stockholders equity					
Series A preferred stock					
Series B preferred stock	0.1				0.1
Common stock	3.8		17.1	(17.1)	3.8
Additional paid-in capital	8,223.7	7,724.5	7,017.5	(14,742.0)	8,223.7
Retained earnings (deficit)	3,385.0	(199.9)	1,051.2	(851.3)	3,385.0
Accumulated other comprehensive income	554.0	538.9	544.8	(1,083.7)	554.0
Treasury stock, at cost	(4,179.9)		(2.0)	2.0	(4,179.9)
Total stockholders equity	7,986.7	8,063.5	8,628.6	(16,692.1)	7,986.7
Total liabilities and stockholders equity	$ 8,608.2	$ 9,561.5	$ 150,602.3	$ (18,013.7)	$ 150,758.3

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Principal Financial Group, Inc.

Notes to Consolidated Financial Statements (continued)
June 30, 2007
(Unaudited)

10. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Financial Position
December 31, 2006

	Principal Financial Group, Inc. Parent Only (in millions)	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
Assets					
Fixed maturities, available-for-sale	$	$ 14.1	$ 44,389.4	$	$ 44,403.5
Fixed maturities, trading		1.2	322.2		323.4
Equity securities, available-for-sale		0.9	665.7		666.6
Equity securities, trading		1.3	179.7		181.0
Mortgage loans			11,663.9		11,663.9
Real estate			867.0		867.0
Policy loans			850.7		850.7
Investment in unconsolidated entities	8,191.4	8,701.7	298.1	(16,893.1)	298.1
Other investments	3.6	4.4	1,109.0	(4.4)	1,112.6
Cash and cash equivalents	30.9	129.2	2,031.3	(600.6)	1,590.8
Accrued investment income		0.3	723.2		723.5
Premiums due and other receivables		353.5	898.8		1,252.3
Deferred policy acquisition costs			2,418.9		2,418.9
Property and equipment			422.5		422.5
Goodwill			361.9		361.9
Other intangibles			981.0		981.0
Separate account assets			73,779.6		73,779.6
Other assets	256.1	9.2	1,749.3	(253.8)	1,760.8
Total assets	$ 8,482.0	$ 9,215.8	$ 143,712.2	$ (17,751.9)	$ 143,658.1
Liabilities					
Contractholder funds	$	$	$ 36,799.0	$	$ 36,799.0
Future policy benefits and claims			17,332.6		17,332.6
Other policyholder funds			619.4		619.4
Short-term debt			435.3	(351.2)	84.1
Long-term debt	601.9	464.5	487.4		1,553.8
Income taxes currently payable (receivable)	(1.2)	(2.0)	2.4	5.0	4.2
Deferred income taxes	1.1	12.3	909.7	(5.9)	917.2
Separate account liabilities			73,779.6		73,779.6
Other liabilities	19.4	549.6	4,645.1	(506.7)	4,707.4
Total liabilities	621.2	1,024.4	135,010.5	(858.8)	135,797.3
Stockholders equity					
Series A preferred stock	—				
Series B preferred stock	0.1				0.1
Common stock	3.8		17.1	(17.1)	3.8
Additional paid-in capital	8,141.8	7,688.2	6,918.2	(14,606.4)	8,141.8
Retained earnings (deficit)	2,824.1	(339.5)	924.2	(584.7)	2,824.1
Accumulated other comprehensive income	846.9	842.7	844.2	(1,686.9)	846.9
Treasury stock, at cost	(3,955.9)		(2.0)	2.0	(3,955.9)
Total stockholders equity	7,860.8	8,191.4	8,701.7	(16,893.1)	7,860.8
Total liabilities and stockholders equity	$ 8,482.0	$ 9,215.8	$ 143,712.2	$ (17,751.9)	$ 143,658.1

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2007
(Unaudited)

10. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Operations
For the six months ended June 30, 2007

	Principal Financial Group, Inc. Parent Only (in millions)	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
Revenues					
Premiums and other considerations	$	$	$ 2,284.6	$	$ 2,284.6
Fees and other revenues			1,221.0	(5.6)	1,215.4
Net investment income (loss)	4.5	(0.4)	1,895.2	0.2	1,899.5
Net realized/unrealized capital gains		1.8	91.2		93.0
Total revenues	4.5	1.4	5,492.0	(5.4)	5,492.5
Expenses					
Benefits, claims, and settlement expenses			3,082.7		3,082.7
Dividends to policyholders			148.0		148.0
Operating expenses	24.9	19.9	1,475.7	(5.4)	1,515.1
Total expenses	24.9	19.9	4,706.4	(5.4)	4,745.8
Income (loss) from continuing operations before income taxes	(20.4)	(18.5)	785.6		746.7
Income taxes (benefits)	(8.2)	(5.7)	183.2		169.3
Equity in the net income of subsidiaries	589.6	602.4		(1,192.0)	
Net income	577.4	589.6	602.4	(1,192.0)	577.4
Preferred stock dividends	16.5				16.5
Net income available to common stockholders	$ 560.9	$ 589.6	$ 602.4	$ (1,192.0)	$ 560.9

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2007
(Unaudited)

10. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Operations
For the six months ended June 30, 2006

	Principal Financial Group, Inc. Parent Only (in millions)	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
Revenues					
Premiums and other considerations	$	$	$ 2,146.4	$	$ 2,146.4
Fees and other revenues			922.4	(0.2)	922.2
Net investment income	1.8	6.4	1,755.4		1,763.6
Net realized/unrealized capital gains (losses)		(0.5)	30.3		29.8
Total revenues	1.8	5.9	4,854.5	(0.2)	4,862.0
Expenses					
Benefits, claims, and settlement expenses			2,801.4		2,801.4
Dividends to policyholders			144.4		144.4
Operating expenses	6.9	22.8	1,216.8	(0.2)	1,246.3
Total expenses	6.9	22.8	4,162.6	(0.2)	4,192.1
Income (loss) from continuing operations before income taxes	(5.1)	(16.9)	691.9		669.9
Income taxes (benefits)	(2.0)	(5.5)	164.8		157.3
Equity in the net income of subsidiaries, excluding discontinued operations	515.7	527.1		(1,042.8)	
Income from continuing operations, net of related income taxes	512.6	515.7	527.1	(1,042.8)	512.6
Income from discontinued operations, net of related income taxes	0.1	0.1	0.1	(0.2)	0.1
Net income	512.7	515.8	527.2	(1,043.0)	512.7
Preferred stock dividends	16.5				16.5
Net income available to common stockholders	$ 496.2	$ 515.8	$ 527.2	$ (1,043.0)	$ 496.2

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2007
(Unaudited)

10. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Cash Flows
For the six months ended June 30, 2007

	Principal Financial Group, Inc. Parent Only (in millions)	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
Operating activities					
Net cash provided by (used in) operating activities	$ (16.8)	$ 544.4	$ 1,613.8	$ (219.5)	$ 1,921.9
Investing activities					
Available-for-sale securities:					
Purchases		(0.2)	(5,067.0)		(5,067.2)
Sales		13.4	2,252.1		2,265.5
Maturities			2,356.7		2,356.7
Mortgage loans acquired or originated			(1,336.8)		(1,336.8)
Mortgage loans sold or repaid			862.4		862.4
Real estate acquired			(61.9)		(61.9)
Real estate sold			5.7		5.7
Net purchases of property and equipment			(46.1)		(46.1)
Dividends received from unconsolidated entities	256.3	407.0		(663.3)	
Net change in other investments	—	(1.8)	(3.2)	(11.9)	(16.9)
Net cash provided by (used in) investing activities	256.3	418.4	(1,038.1)	(675.2)	(1,038.6)
Financing activities					
Issuance of common stock	38.5				38.5
Acquisition of treasury stock	(224.0)				(224.0)
Proceeds from financing element derivatives			76.2		76.2
Payments for financing element derivatives			(69.1)		(69.1)
Excess tax benefits from share-based payment arrangements			6.1		6.1
Dividends to preferred stockholders	(16.5)				(16.5)
Issuance of long-term debt			8.3		8.3
Principal repayments of long-term debt			(22.6)		(22.6)
Net repayments of short-term borrowings			(18.4)	(7.7)	(26.1)

Dividends paid to parent		**(256.3)**	**(407.0)**	**663.3**	
Investment contract deposits			**4,015.3**		**4,015.3**
Investment contract withdrawals			**(4,510.4)**		**(4,510.4)**
Net increase in banking operation deposits			**108.2**		**108.2**
Net cash used in financing activities	**(202.0)**	**(256.3)**	**(813.4)**	**655.6**	**(616.1)**
Net increase (decrease) in cash and cash equivalents	**37.5**	**706.5**	**(237.7)**	**(239.1)**	**267.2**
Cash and cash equivalents at beginning of period	**30.9**	**129.2**	**2,031.3**	**(600.6)**	**1,590.8**
Cash and cash equivalents at end of period	**$ 68.4**	**$ 835.7**	**$ 1,793.6**	**$ (839.7)**	**$ 1,858.0**

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2007
(Unaudited)

10. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Cash Flows
For the six months ended June 30, 2006

	Principal Financial Group, Inc. Parent Only (in millions)	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
Operating activities					
Net cash provided by (used in) operating activities	$ (1.8)	$ 220.6	$ 1,235.3	$ (215.0)	$ 1,239.1
Investing activities					
Available-for-sale securities:					
Purchases		68.9	(4,453.3)		(4,384.4)
Sales		2.0	743.3		745.3
Maturities			1,873.0		1,873.0
Mortgage loans acquired or originated			(1,542.5)		(1,542.5)
Mortgage loans sold or repaid			1,192.3		1,192.3
Real estate acquired			(18.1)		(18.1)
Real estate sold			11.4		11.4
Net purchases of property and equipment			(23.2)		(23.2)
Purchases of interest in subsidiaries, net of cash acquired			(5.5)		(5.5)
Dividends received from unconsolidated entities	876.3	984.7		(1,861.0)	
Net change in other investments		22.9	74.4	(13.0)	84.3
Net cash provided by (used in) investing activities	876.3	1,078.5	(2,148.2)	(1,874.0)	(2,067.4)
Financing activities					
Issuance of common stock	38.3				38.3
Acquisition of treasury stock	(751.2)				(751.2)
Proceeds from financing element derivatives			81.3		81.3
Payments for financing element derivatives			(69.9)		(69.9)
Excess tax benefits from share-based payment arrangements			2.6		2.6
Dividends to preferred stockholders	(16.5)				(16.5)
Issuance of long-term debt			8.7		8.7
Principal repayments of long-term debt			(6.3)		(6.3)
Net proceeds (repayments) of short-term borrowings		(350.0)	5.4	295.0	(49.6)
Dividends paid to parent		(876.3)	(984.7)	1,861.0	
Investment contract deposits			4,861.6		4,861.6
Investment contract withdrawals			(3,771.4)		(3,771.4)
Net increase in banking operation deposits			75.4		75.4
Net cash provided by (used in) financing activities	(729.4)	(1,226.3)	202.7	2,156.0	403.0
Discontinued operations					
Net cash provided by operating activities			1.5		1.5
Net cash used in investing activities			(0.6)		(0.6)
Net cash provided by discontinued operations			0.9		0.9
Net increase (decrease) in cash and cash equivalents	145.1	72.8	(709.3)	67.0	(424.4)
Cash and cash equivalents at beginning of period	21.6	701.3	1,822.4	(904.0)	1,641.3
Cash and cash equivalents at end of period	$ 166.7	$ 774.1	$ 1,113.1	$ (837.0)	$ 1,216.9
Cash and cash equivalents of discontinued operations included above					
At beginning of period	$	$	$ 2.0	$	$ 2.0
At end of period	$	$	$ 2.9	$	$ 2.9

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following analysis discusses our financial condition as of June 30, 2007, compared with December 31, 2006, and our consolidated results of operations for the three and six months ended June 30, 2007 and 2006, prepared in conformity with U.S. GAAP. The discussion and analysis includes, where appropriate, factors that may affect our future financial performance. The discussion should be read in conjunction with our Form 10-K, for the year ended December 31, 2006, filed with the SEC and the unaudited consolidated financial statements and the related notes to the financial statements and the other financial information included elsewhere in this Form 10-Q.

Forward-Looking Information

Our narrative analysis below contains forward-looking statements intended to enhance the reader s ability to assess our future financial performance. Forward-looking statements include, but are not limited to, statements that represent our beliefs concerning future operations, strategies, financial results or other developments, and contain words and phrases such as anticipate, believe, plan, estimate, expect, intend similar expressions. Forward-looking statements are made based upon management s current expectations and beliefs concerning future developments and their potential effects on us. Such forward-looking statements are not guarantees of future performance.

Actual results may differ materially from those included in the forward-looking statements as a result of risks and uncertainties including, but not limited to the following: (1) a decline or increased volatility in the securities markets could result in investors withdrawing from the markets or decreasing their rates of investment, either of which could reduce our net income, revenues and assets under management; (2) our investment portfolio is subject to several risks which may diminish the value of our invested assets and affect our sales, profitability and the investment returns credited to our customers; (3) 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; (4) a downgrade in any of our ratings may increase policy surrenders and withdrawals, reduce new sales and terminate relationships with distributors, and impact existing liabilities, any of which could adversely affect our profitability and financial condition; (5) our efforts to reduce the impact of interest rate changes on our profitability and surplus may not be effective; (6) if we are unable to attract and retain sales representatives and develop new distribution sources, sales of our products and services may be reduced; (7) our international businesses face political, legal, operational and other risks that could reduce our profitability in those businesses; (8) our reserves established for future policy benefits and claims may prove inadequate, requiring us to increase liabilities; (9) 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; (10) the pattern of amortizing our DPAC on our SFAS No. 97 *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments* products may change, impacting both the level of the asset and the timing of our operating earnings; (11) we may need to fund deficiencies in our Closed Block assets; (12) a pandemic, terrorist attack, or other catastrophic event could adversely affect our earnings; (13) our reinsurers could default on their obligations or increase their rates, which could adversely impact our earnings and profitability; (14) we may encounter difficulty integrating WM Advisors, Inc. and may incur substantial costs in connection with the integration; (15) changes in laws, regulations or accounting standards may reduce our profitability; (16) litigation and regulatory investigations may affect our financial strength or reduce our profitability; (17) fluctuations in foreign currency exchange rates could reduce our profitability; and (18) applicable laws and our stockholder rights plan, certificate of incorporation and by-laws may discourage takeovers and business combinations that our stockholders might consider in their best interests.

Overview

We provide financial products and services through the following segments:

• U.S. Asset Management and Accumulation, which consists of our asset accumulation operations that provide retirement savings and related investment products and services, and our asset management operations conducted through Principal Global Investors. We provide a comprehensive portfolio of asset accumulation products and services to businesses and individuals in the U.S., with a concentration on small and medium-sized businesses, which we define as businesses with fewer than 1,000 employees. We offer to businesses products and services for defined contribution pension plans, including 401(k) and 403(b) plans, defined benefit pension plans, non-qualified executive benefit plans, and employee stock ownership plan consulting services. We also offer annuities, mutual funds and bank products and services to the employees of our business customers and other individuals. Principal Global Investors offers an extensive range of equity, fixed income and real estate investments as well as specialized overlay and advisory services to institutional investors.

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- International Asset Management and Accumulation, which consists of Principal International, offers retirement products and services, annuities, mutual funds and life insurance through operations in Chile, Mexico, Hong Kong, Brazil, India, China, and Malaysia.

- Life and Health Insurance, which provides individual life insurance, group health insurance as well as specialty benefits in the U.S. Our individual life insurance products include universal and variable universal life insurance and traditional life insurance. Our health insurance products include group medical insurance and fee-for-service claims administration and wellness services. Our specialty benefits products include group dental and vision insurance, individual and group disability insurance, and group life insurance.

- Corporate and Other, which manages the assets representing capital that has not been allocated to any other segment. Financial results of the Corporate and Other segment primarily reflect our financing activities (including interest expense), income on capital not allocated to other segments, inter-segment eliminations, income tax risks and certain income, expenses and other after-tax adjustments not allocated to the segments based on the nature of such items.

Transactions Affecting Comparability of Results of Operations

Acquisitions

We acquired the following businesses, among others, during 2007 and 2006:

Morley Financial Services, Inc. On June 22, 2007, we announced a definitive agreement to acquire Morley Financial Services, Inc. (Morley Financial) from Nationwide Mutual Insurance Company, for approximately $75.0 million in cash, subject to closing adjustments. Morley Financial is a stable value asset manager with over $14.0 billion in institutional assets under management. We expect to close the transaction in the third quarter 2007. The operations of Morley Financial will be reported and consolidated in our U.S. Asset Management and Accumulation segment.

WM Advisors, Inc. On December 31, 2006, we acquired WM Advisors, Inc. and its subsidiaries from Washington Mutual, Inc. for a total cost of $741.1 million in cash, subject to closing adjustments. As of December 31, 2006, WM Advisors, Inc. had approximately $28.0 billion in assets under management and provided investment advisory services to mutual funds, variable trust funds and asset allocation portfolios to approximately 800,000 shareholder accounts nationwide. The operations of WM Advisors, Inc. are reported and consolidated in our U.S. Asset Management and Accumulation segment.

Principal Global Services Private Limited. In December 2005, we formed Principal Global Services Private Limited (PGS), which began operations in Pune, India, as of August 2006. PGS employees perform services for our U.S. operations including claims data entry, 401(k) processing, IT coding/application development, and IT quality assurance. PGS start up costs were reported in our Corporate and Other segment through 2006. Beginning in 2007, expenses are allocated to the segments for which services are performed.

Principal Commercial Funding II. On October 24, 2005, Principal Real Estate Investors and U.S. Bank National Association announced that they agreed to create Principal Commercial Funding II, a jointly-owned business that will compete in the commercial mortgage-backed securities (CMBS) market. Principal Real Estate Investors is the real estate investment arm of Principal Global Investors. U.S. Bank National Association is the principal banking subsidiary of U.S. Bancorp. The new company is the CMBS platform for both Principal Real Estate Investors and U.S. Bank National Association and focuses on securitizing commercial mortgages originated by both Principal Real Estate Investors and U.S. Bank National Association on its behalf. Principal Commercial Funding II began operations immediately, and began contributing collateral to securitizations during the first quarter of 2006. The operations of

Principal Commercial Funding II are reported in our U.S. Asset Management and Accumulation segment using the equity method of accounting.

Dispositions

We entered into disposition agreements or disposed of the following business, among others, during 2007 and 2006:

Principal Dental Services, Inc. Effective July 1, 2006, we sold five dental offices which were substantially all of the assets of Dental Net Group, one component of Principal Dental Services, Inc. The realized gain was reported in our Life and Health segment.

Real Estate Investments. In 2006, we sold a certain real estate property previously held for investment purposes. This property qualified for discontinued operations treatment. Therefore, the results of operations have been removed from our results of continuing operations for all periods presented. We have separately disclosed the operating, investing and financing portions of the cash flows attributable to our discontinued operations in our consolidated statements of cash flows.

Selected financial information for the discontinued operations is as follows:

	For the three months ended June 30, 2007 (in millions)	2006	For the six months ended June 30, 2007	2006
Total revenues	$	$ (0.1)	$	$ 0.2
Income from discontinued operations:				
Income (loss) before income taxes	$	$ (0.1)	$	$ 0.2
Income taxes				0.1
Net income (loss)	$	$ (0.1)	$	$ 0.1

Other

Principal Reinsurance Company of Vermont. In November 2006, Principal Life established a wholly owned reinsurance subsidiary, Principal Reinsurance Company of Vermont (PVT), which reinsures a portion of our universal life secondary or no-lapse guarantee provisions through an intercompany reinsurance agreement with Principal Life. Effective June 30, 2007, we amended our reinsurance agreement with PVT to include inforce and future policy issuances of a current term insurance product. The reinsurance agreement, which was accompanied by a third party letter of credit issued to PVT and guaranteed by PFG, reduced our statutory capital requirements and allowed us to redeploy capital for other general corporate purposes.

Senior Note Issuance. During the fourth quarter 2006, we issued $600.0 million of senior notes from our shelf registration, which was filed with the SEC in December 2003. The notes will bear interest at a rate of 6.05% per year. Interest on the notes is payable semi-annually on April 15 and October 15, and began on April 15, 2007. The notes will mature on October 15, 2036. A portion of the proceeds was used to fund the acquisition of WM Advisors, Inc., with the remaining proceeds being used for general corporate purposes.

SBB Mutual Berhad and SBB Asset Management Sdn Bhd. On February 5, 2007, we invested an additional RM$192.4 million Malaysian ringgits (RM$) (approximately U.S. $55.1 million) to retain our 40% ownership interest in CIMB-Principal, our joint venture company in Malaysia, as a result of its decision to purchase the mutual fund and asset management companies of the former Southern Bank Bhd (SBB) Mutual Berhad and SBB Asset Management Sdn Bhd.

Fluctuations in Foreign Currency to U.S. Dollar Exchange Rates

Fluctuations in foreign currency to U.S. dollar exchange rates for countries in which we have operations can affect reported financial results. In years when foreign currencies weaken against the U.S. dollar, translating foreign currencies into U.S. dollars results in fewer U.S. dollars to be reported. When foreign currencies strengthen, translating foreign currencies into U.S. dollars results in more U.S. dollars to be reported.

Foreign currency exchange rate fluctuations create variances in our financial statement line items but have not had a material impact on our consolidated income from continuing operations. Our consolidated income from continuing operations was positively impacted by $1.3 million and $1.0 million for the three months ended June 30, 2007 and 2006, respectively, and positively impacted $1.4 million and $3.4 million for the six months ended June 30, 2007 and 2006, respectively, as a result of fluctuations in foreign currency to U.S. dollar exchange rates. For a discussion of our approaches to managing foreign currency exchange rate risk, see Item 3. Quantitative and Qualitative Disclosures about Market Risk.

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Stock-Based Compensation Plans

Under the terms of our Stock-Based Compensation Plans, we currently grant nonqualified stock options, restricted stock units, and performance shares. Additionally, we have an employee stock purchase plan.

The compensation cost that was charged against income for the Stock-Based Compensation Plans was $11.7 million and $15.9 million, and the related income tax benefit recognized in the income statement was $3.9 million and $5.1 million for the three months ended June 30, 2007 and 2006, respectively. The compensation cost that was charged against income for the Stock-Based Compensation Plans was $34.0 million and $27.5 million, and the related income tax benefit recognized in the income statement was $11.0 million and $8.5 million for the six months ended June 30, 2007 and 2006, respectively. For awards with graded vesting, we use an accelerated expense attribution method. The total compensation cost capitalized as part of the cost of an asset was $0.9 million for both the three months ended June 30, 2007 and 2006. The total compensation cost capitalized as part of the cost of an asset was $2.1 million and $1.9 million for the six months ended June 30, 2007 and 2006, respectively.

The total compensation cost related to nonvested awards not yet recognized is $70.2 million. This compensation cost is expected to be recognized over a weighted average period of approximately 2.1 years.

Defined Benefit Pension Expense

The 2007 annual pension benefit expense for substantially all of our employees and certain agents is expected to be $24.0 million pre-tax, which is a $10.6 million decrease from the 2006 pre-tax pension expense of $34.6 million. This decrease is primarily due to the increase in discount rate. Approximately $6.0 million and $12.0 million of pre-tax pension expense were reflected in the determination of net income for the three and six months ended June 30, 2007, respectively. In addition, approximately $6.0 million of pre-tax pension expense will be reflected in each of the following two quarters for 2007. The discount rate used to develop the 2007 expense was raised to 6.15%, up from the 5.75% discount rate used to develop the 2006 expense. The expected long-term return on plan assets assumption remained at 8.25%.

Recent Accounting Pronouncements

For recent accounting changes, see Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 1, Nature of Operations and Significant Accounting Policies.

Results of Operations

The following table presents summary consolidated financial information for the periods indicated:

	For the three months ended June 30,		For the six months ended June 30,	
	2007	2006	2007	2006
	(in millions)			
Revenues:				
Premiums and other considerations	**$ 1,176.9**	$ 1,104.6	**$ 2,284.6**	$ 2,146.4
Fees and other revenues	**622.9**	462.6	**1,215.4**	922.2
Net investment income	**976.4**	911.7	**1,899.5**	1,763.6
Net realized/unrealized capital gains (losses)	**55.4**	(19.1)	**93.0**	29.8
Total revenues	**2,831.6**	2,459.8	**5,492.5**	4,862.0
Expenses:				
Benefits, claims and settlement expenses	**1,584.7**	1,459.6	**3,082.7**	2,801.4
Dividends to policyholders	**74.0**	72.5	**148.0**	144.4
Operating expenses	**760.4**	631.1	**1,515.1**	1,246.3
Total expenses	**2,419.1**	2,163.2	**4,745.8**	4,192.1
Income from continuing operations before income taxes	**412.5**	296.6	**746.7**	669.9
Income taxes	**100.4**	77.7	**169.3**	157.3
Income from continuing operations, net of related income taxes	**312.1**	218.9	**577.4**	512.6
Income (loss) from discontinued operations, net of related income taxes		(0.1)		0.1
Net income	**312.1**	218.8	**577.4**	512.7
Preferred stock dividends	**8.3**	8.3	**16.5**	16.5
Net income available to common stockholders	**$ 303.8**	$ 210.5	**$ 560.9**	$ 496.2

Three Months Ended June 30, 2007 Compared to Three Months Ended June 30, 2006

Premiums and other considerations increased $72.3 million, or 7%, to $1,176.9 million for the three months ended June 30, 2007, from $1,104.6 million for the three months ended June 30, 2006. The increase was primarily due to a $55.4 million increase from the U.S. Asset Management and Accumulation segment, primarily a result of an increase in individual payout annuity business due to higher sales from certain distribution channels and larger sized contract sales and an increase in sales of payout annuities with life contingencies from our full-service payout business. The increase also reflected a $24.4 million increase from the Life and Health Insurance segment, primarily related to sales and retention in our specialty benefits business.

Fees and other revenues increased $160.3 million, or 35%, to $622.9 million for the three months ended June 30, 2007, from $462.6 million for the three months ended June 30, 2006. The increase was primarily due to a $151.7 million increase from the U.S. Asset Management and Accumulation segment primarily related to higher management and distribution fees stemming from an increase in average assets under management resulting from our December 31, 2006, acquisition of WM Advisors, Inc.

Net investment income increased $64.7 million, or 7%, to $976.4 million for the three months ended June 30, 2007, from $911.7 million for the three months ended June 30, 2006. The increase was primarily related to a $3,464.4 million, or 6%, increase in average invested assets and cash and an increase in the average annualized yield on invested assets and cash. The average annualized yield on invested assets and cash was 6.2% for the three months ended June 30, 2007, and 6.1% for the three months ended June 30, 2006.

Net realized/unrealized capital gains increased $74.5 million to $55.4 million for the three months ended June 30, 2007, from $19.1 million of net realized/unrealized capital losses for the three months ended June 30, 2006. The increase was primarily due to higher mark to market gains on derivative activities and gains versus losses on the mark to market on trading equity securities.

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The following table highlights the contributors to net realized/unrealized capital gains and losses for the three months ended June 30, 2007.

	For the three months ended June 30, 2007			
	Impairments and credit losses	Other gains (losses)	Hedging adjustments	Net realized/ unrealized capital gains (losses)
	(in millions)			
Fixed maturity securities(1)	$ (23.5)	$ 10.0	$ (85.6)	$ (99.1)
Fixed maturity securities, trading		(7.5)		(7.5)
Equity securities		5.3		5.3
Equity securities, trading		13.1		13.1
Mortgage loans on real estate(2)	0.2			0.2
Derivatives			114.0	114.0
Other		14.0	15.4	29.4
Total	$ (23.3)	$ 34.9	$ 43.8	$ 55.4

(1) Impairments include $1.4 million of credit impairment write-downs and $7.8 million in realized credit recoveries on the sale of previously impaired assets. Certain fixed maturity securities moved into a loss position during the second quarter of 2007, and we determined that we did not have the ability and intent to hold these securities. As a result, we recognized impairment losses on these securities of $24.5 million, net of recoveries on the subsequent sale, primarily due to a change in interest rates. Credit losses include $6.4 million in realized losses and $1.0 million in realized gains related to credit triggered sales.

(2) Impairments include a $0.2 million decrease in the commercial mortgage valuation allowance.

Benefits, claims and settlement expenses increased $125.1 million, or 9%, to $1,584.7 million for the three months ended June 30, 2007, from $1,459.6 million for the three months ended June 30, 2006. The increase was due to an $86.2 million increase from the U.S. Asset Management and Accumulation segment, primarily reflecting an increase in reserves resulting from higher sales of payout annuities with life contingencies in our full-service payout business and an increase in cost of interest credited in our investment only and individual annuity businesses. The increase also reflected a $41.9 million increase from the Life and Health Insurance segment, primarily due to higher claim costs in our health insurance business and due to growth in our specialty benefits business.

Dividends to policyholders increased $1.5 million, or 2%, to $74.0 million for the three months ended June 30, 2007, from $72.5 million for the three months ended June 30, 2006. The increase was due to a $1.0 million increase from the U.S. Asset Management and Accumulation segment primarily due to an increase in dividends for our participating pension full-service accumulation products. The increase was also due to a $0.5 million increase in the Life and Health segment due to an increase in individual life insurance dividend crediting rates.

Operating expenses increased $129.3 million, or 20%, to $760.4 million for the three months ended June 30, 2007, from $631.1 million for the three months ended June 30, 2006. The increase reflected a $121.9 million increase from the U.S. Asset Management and Accumulation segment, primarily due to our December 31, 2006, acquisition of WM Advisors, Inc. and an increase in staff and infrastructure needed to support the growth within Principal Global Investors.

Income taxes increased $22.7 million, or 29%, to $100.4 million for the three months ended June 30, 2007, from $77.7 million for the three months ended June 30, 2006. The effective income tax rate was 24% for the three months ended June 30, 2007 and 26% for the three months ended June 30, 2006. The effective income tax rates for the three months ended June 30, 2007 and 2006, were lower than the corporate income tax rate of 35% primarily due to income tax deductions allowed for corporate dividends received and interest exclusion from taxable income.

As a result of the foregoing factors and the inclusion of the loss from discontinued operations for 2006, net of related income taxes, net income increased $93.3 million, or 43%, to $312.1 million for the three months ended June 30, 2007, from $218.8 million for the three months ended June 30, 2006.

Net income available to common stockholders increased $93.3 million, or 44%, to $303.8 million for the three months ended June 30, 2007, from $210.5 million for the three months ended June 30, 2006.

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Six Months Ended June 30, 2007 Compared to Six Months Ended June 30, 2006

Premiums and other considerations increased $138.2 million, or 6%, to $2,284.6 million for the six months ended June 30, 2007, from $2,146.4 million for the six months ended June 30, 2006. The increase was primarily due to a $91.8 million increase from the U.S. Asset Management and Accumulation segment, primarily a result of an increase in sales of payout annuities with life contingencies from our full-service payout business. The increase also reflected a $74.5 million increase from the Life and Health Insurance segment, primarily related to sales and retention in our specialty benefits business. Partially offsetting these increases was a $28.1 million decrease from the International Asset Management and Accumulation segment, primarily due to decreased sales of single premium annuities with life contingencies.

Fees and other revenues increased $293.2 million, or 32%, to $1,215.4 million for the six months ended June 30, 2007, from $922.2 million for the six months ended June 30, 2006. The increase was primarily due to a $279.3 million increase from the U.S. Asset Management and Accumulation segment primarily related to higher management and distribution fees stemming from an increase in average assets under management resulting from our December 31, 2006, acquisition of WM Advisors, Inc.

Net investment income increased $135.9 million, or 8%, to $1,899.5 million for the six months ended June 30, 2007, from $1,763.6 million for the six months ended June 30, 2006. The increase was primarily related to a $3,301.0 million, or 6%, increase in average invested assets and cash and an increase in the average annualized yield on invested assets and cash. The average annualized yield on invested assets and cash was 6.1% for the six months ended June 30, 2007, and 6.0% for the six months ended June 30, 2006.

Net realized/unrealized capital gains increased $63.2 million to $93.0 million for the six months ended June 30, 2007, from $29.8 million for the six months ended June 30, 2006. The increase was primarily due to mark to market gains versus losses on derivative activities and gains versus losses on the mark to market on trading equity securities. Partially offsetting these increases were lower gains in 2007 compared to 2006 on sales of an equity method investment.

The following table highlights the contributors to net realized/unrealized capital gains and losses for the six months ended June 30, 2007.

	For the six months ended June 30, 2007			
	Impairments and credit losses	**Other gains (losses)**	**Hedging adjustments**	**Net realized/ unrealized capital gains (losses)**
	(in millions)			
Fixed maturity securities(1)	**$ (28.5)**	**$ 13.9**	**$ (74.3)**	**$ (88.9)**
Fixed maturity securities, trading		**(6.3)**		**(6.3)**
Equity securities(2)	**1.0**	**5.3**		**6.3**
Equity securities, trading		**16.5**		**16.5**
Mortgage loans on real estate(3)	**(1.2)**			**(1.2)**
Derivatives			**96.1**	**96.1**
Other(4)		**42.9**	**27.6**	**70.5**
Total	**$ (28.7)**	**$ 72.3**	**$ 49.4**	**$ 93.0**

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(1) Impairments include $3.3 million of credit impairment write-downs and $7.8 million in realized credit recoveries on the sale of previously impaired assets. Certain fixed maturity securities moved into a loss position during the second quarter of 2007, and we determined that we did not have the ability and intent to hold these securities. As a result, we recognized impairment losses on these securities of $24.5 million, net of recoveries on the subsequent sale, primarily due to a change in interest rates. Credit losses include $10.0 million in realized losses and $1.4 million in realized gains related to credit triggered sales.

(2) Impairments include $1.0 million in realized recoveries on sale of previously impaired assets.

(3) Impairments include a $1.2 million increase in the commercial mortgage valuation allowance.

(4) Other gains (losses) include a $24.6 million realized gain on the sale of stock of an equity method investment.

Benefits, claims and settlement expenses increased $281.3 million, or 10%, to $3,082.7 million for the six months ended June 30, 2007, from $2,801.4 million for the six months ended June 30, 2006. The increase was due to a $165.4 million increase from the U.S. Asset Management and Accumulation segment, primarily reflecting an increase in reserves resulting from higher sales of payout annuities with life contingencies in our full-service payout business and an increase in cost of interest credited in our investment only and individual annuity businesses. The increase also reflected a $127.8 million increase from the Life and Health Insurance segment, primarily due to higher claim costs in our health business and growth in our specialty benefits business.

Dividends to policyholders increased $3.6 million, or 2%, to $148.0 million for the six months ended June 30, 2007, from $144.4 million for the six months ended June 30, 2006. The increase was due to a $1.9 million increase from the U.S. Asset Management and Accumulation segment primarily due to an increase in dividends for our participating pension full-service accumulation products. The increase was also due to a $1.7 million increase from the Life and Health segment due to an increase in individual life insurance dividend crediting rates in 2007 and a change in the estimated dividend liability which lowered dividends for the six months ended June 30, 2006.

Operating expenses increased $268.8 million, or 22%, to $1,515.1 million for the six months ended June 30, 2007, from $1,246.3 million for the six months ended June 30, 2006. The increase reflected a $233.0 million increase from the U.S. Asset Management and Accumulation segment, primarily due to our December 31, 2006, acquisition of WM Advisors, Inc. and an increase in staff and infrastructure needed to support the growth within Principal Global Investors.

Income taxes increased $12.0 million, or 8%, to $169.3 million for the six months ended June 30, 2007, from $157.3 million for the six months ended June 30, 2006. The effective income tax rate was 23% for both the six months ended June 30, 2007 and 2006. The effective income tax rate for the six months ended June 30, 2007, was lower than the corporate income tax rate of 35% primarily due to income tax deductions allowed for corporate dividends received, interest exclusion from taxable income, and tax credits received on our investment in a synthetic fuel production facility. The effective income tax rate for the six months ended June 30, 2006, was lower than the corporate income tax rate of 35% primarily due to income tax deductions allowed for corporate dividends received, a favorable court ruling on a contested IRS issue for 1991 and later years, and interest exclusion from taxable income.

As a result of the foregoing factors and the inclusion of income from discontinued operations for 2006, net of related income taxes, net income increased $64.7 million, or 13%, to $577.4 million for the six months ended June 30, 2007, from $512.7 million for the six months ended June 30, 2006.

Net income available to common stockholders increased $64.7 million, or 13%, to $560.9 million for the six months ended June 30, 2007, from $496.2 million for the six months ended June 30, 2006.

Results of Operations by Segment

We use segment operating earnings for goal setting, determining employee compensation, and evaluating performance on a basis comparable to that used by securities analysts. Segment operating earnings are determined by adjusting U.S. GAAP net income available to common stockholders for net realized/unrealized capital gains and losses, as adjusted, and other after-tax adjustments we believe are not indicative of overall operating trends. Note that other after-tax adjustments have occurred in the past and could recur in future reporting periods. While these items may be significant components in understanding and assessing our consolidated financial performance, we believe the presentation of segment operating earnings enhances the understanding of our results of operations by highlighting earnings attributable to the normal, ongoing operations of our businesses.

The following table presents segment information as of or for the periods indicated:

	For the three months ended June 30, 2007 (in millions)	2006	For the six months ended June 30, 2007	2006
Operating revenues by segment:				
U.S. Asset Management and Accumulation	**$ 1,386.5**	$ 1,127.5	**$ 2,668.2**	$ 2,188.1
International Asset Management and Accumulation	**175.0**	164.2	**316.3**	307.6
Life and Health Insurance	**1,211.5**	1,183.1	**2,423.9**	2,342.7
Corporate and Other(1)	**12.5**	3.8	**0.8**	(5.9)
Total segment operating revenues	**2,785.5**	2,478.6	**5,409.2**	4,832.5
Add:				
Net realized/unrealized capital gains (losses), net of related revenue adjustments(2)	**46.1**	(18.9)	**83.3**	29.7
Subtract:				
Operating revenues from a discontinued real estate investment		(0.1)		0.2
Total revenue per consolidated statements of operations	**$ 2,831.6**	$ 2,459.8	**$ 5,492.5**	$ 4,862.0
Operating earnings (loss) by segment, net of related income taxes:				
U.S. Asset Management and Accumulation	**$ 196.7**	$ 151.2	**$ 375.1**	$ 309.0
International Asset Management and Accumulation	**26.7**	16.1	**46.0**	33.7
Life and Health Insurance	**60.1**	65.2	**105.6**	135.6
Corporate and Other	**(0.6)**	(7.3)	**(7.0)**	(12.9)
Total segment operating earnings, net of related income taxes	**282.9**	225.2	**519.7**	465.4
Net realized/unrealized capital gains (losses), as adjusted(2)	**20.9**	(12.9)	**41.2**	12.0
Other after-tax adjustments(3)		(1.8)		18.8
Net income available to common stockholders per consolidated statements of operations	**$ 303.8**	$ 210.5	**$ 560.9**	$ 496.2

	June 30, 2007 (in millions)	December 31, 2006
Assets by segment:		
U.S. Asset Management and Accumulation(4)	**$ 124,651.5**	$ 117,950.0
International Asset Management and Accumulation	**8,691.4**	8,101.0
Life and Health Insurance	**14,708.0**	14,364.5
Corporate and Other(5)	**2,707.4**	3,242.6
Total consolidated assets	**$ 150,758.3**	$ 143,658.1

(1) Includes inter-segment eliminations primarily related to internal investment management fee revenues and commission fee revenues paid to U.S. Asset Management and Accumulation agents for selling Life and Health Insurance segment insurance products.

(2) Net realized/unrealized capital gains (losses), as adjusted, is derived as follows:

	For the three months ended June 30, 2007 (in millions)	2006	For the six months ended June 30, 2007	2006
Net realized/unrealized capital gains (losses)	**$ 55.4**	$ (19.1)	**$ 93.0**	$ 29.8
Periodic settlements and accruals on non-hedge derivatives(6)	**(9.5)**		**(9.5)**	
Certain market value adjustments to fee revenues	**(0.2)**	(0.3)	**(1.0)**	(1.2)
Recognition of front-end fee revenues	**0.4**	0.5	**0.8**	1.1
Net realized/unrealized capital gains (losses), net of related revenue adjustments	**46.1**	(18.9)	**83.3**	29.7
Amortization of deferred policy acquisition and sales inducement costs related to net realized capital gains (losses)	**1.8**	(0.6)	**1.1**	(1.2)
Capital gains distributed	**(8.6)**		**(10.6)**	(3.6)
Minority interest capital (gains) losses	**(5.6)**	1.8	**(6.9)**	(1.8)
Income tax effect	**(12.8)**	4.8	**(25.7)**	(11.1)
Net realized/unrealized capital gains (losses), as adjusted	**$ 20.9**	$ (12.9)	**$ 41.2**	$ 12.0

(3) For the three months ended June 30, 2006, other after-tax adjustments of $1.8 million included the negative effect of a change in estimate associated with a favorable court ruling on a contested IRS issue for 1991 and later years.

For the six months ended June 30, 2006, other after-tax adjustments of $18.8 million included the positive effect of a favorable court ruling on a contested IRS issue for 1991 and later years.

(4) U.S. Asset Management and Accumulation separate account assets include shares of our stock allocated to a separate account, a result of our demutualization. The value of the separate account was $693.5 million and $768.4 million as of June 30, 2007, and December 31, 2006, respectively. Changes in the fair value of the separate account are reflected in both separate account assets and separate account liabilities.

(5) Includes inter-segment elimination amounts related to an internal line of credit and internally generated mortgage loans. The Corporate and Other segment managed a revolving line of credit used by other segments. The U.S. Asset Management and Accumulation segment and Life and Health Insurance segment reported mortgage loan assets issued for real estate joint ventures. These mortgage loans were reported as liabilities in the Corporate and Other segment.

(6) The amounts in prior periods were not material.

U.S. Asset Management and Accumulation Segment

U.S. Asset Management and Accumulation Segment Summary Financial Data

The following table presents certain summary financial data relating to the U.S. Asset Management and Accumulation segment for the periods indicated:

	For the three months ended June 30, 2007 (in millions)	2006	For the six months ended June 30, 2007	2006
Operating Earnings Data:				
Operating revenues:				
Premiums and other considerations	**$ 196.1**	$ 140.7	**$ 331.3**	$ 239.5
Fees and other revenues	**491.1**	339.4	**952.5**	673.1
Net investment income	**699.3**	647.4	**1,384.4**	1,275.5
Total operating revenues	**1,386.5**	1,127.5	**2,668.2**	2,188.1
Expenses:				
Benefits, claims and settlement expenses, including dividends to policyholders	**702.9**	615.6	**1,334.5**	1,167.1
Operating expenses	**429.2**	315.1	**851.7**	624.4
Total expenses	**1,132.1**	930.7	**2,186.2**	1,791.5
Operating earnings before income taxes	**254.4**	196.8	**482.0**	396.6
Income taxes	**57.7**	45.6	**106.9**	87.6
Operating earnings	**196.7**	151.2	**375.1**	309.0
Net realized/unrealized capital gains (losses), as adjusted	**19.4**	(1.2)	**18.0**	(4.5)
U.S. GAAP Reported:				
Net income available to common stockholders	**$ 216.1**	$ 150.0	**$ 393.1**	$ 304.5

Three Months Ended June 30, 2007 Compared to Three Months Ended June 30, 2006

Premiums and other considerations increased $55.4 million, or 39%, to $196.1 million for the three months ended June 30, 2007, from $140.7 million for the three months ended June 30, 2006. The increase primarily resulted from a $31.6 million increase in our individual payout annuity business due to increased sales from certain distribution channels and larger sized contract sales. In addition, full-service payout premiums and other considerations increased $23.8 million due to increased sales of annuities with life contingencies.

Fees and other revenues increased $151.7 million, or 45%, to $491.1 million for the three months ended June 30, 2007, from $339.4 million for the three months ended June 30, 2006. The increase primarily resulted from a $91.4 million increase in Principal Funds, our mutual fund business, due to higher management and distribution fees stemming from an increase in average assets under management resulting from our December 31, 2006, acquisition of WM Advisors, Inc. In addition, Principal Global Investors fees and other revenues increased $38.9 million primarily due to an increase in management fees resulting from growth in assets under management across all asset classes including the impact from the WM Advisors, Inc. acquisition and to a lesser extent the recognition of performance fees on a real estate fund. Furthermore, full-service accumulation fees and other revenues increased $28.6 million primarily due to strong performance in the equity markets that increased account values.

Net investment income increased $51.9 million, or 8%, to $699.3 million for the three months ended June 30, 2007, from $647.4 million for the three months ended June 30, 2006. The increase reflects a $2,639.1 million, or 6%, increase in average invested assets and cash for the segment and an increase in the average annualized yield on invested assets and cash, which was 5.9% for the three months ended June 30, 2007, and 5.8% for the three months ended June 30, 2006.

Benefits, claims and settlement expenses, including dividends to policyholders, increased $87.3 million, or 14%, to $702.9 million for the three months ended June 30, 2007, from $615.6 million for the three months ended June 30, 2006. The increase primarily resulted from a $41.6 million increase in our individual payout annuity business due to an increase in reserves resulting from higher sales of our payout annuities with life contingencies and an increase in cost of interest credited. In

addition, investment only benefits, claims and settlement expenses increased $26.6 million due to an increase in cost of interest credited on this block of business resulting from an increase in account values as well as higher crediting rates. Furthermore, full-service payout benefits, claims and settlement expenses increased $19.5 million primarily due to an increase in reserves resulting from an increase in sales of payout annuities with life contingencies.

Operating expenses increased $114.1 million, or 36%, to $429.2 million for the three months ended June 30, 2007, from $315.1 million for the three months ended June 30, 2006. The increase primarily resulted from a $71.1 million increase in Principal Funds, our mutual fund business, due to our December 31, 2006, acquisition of WM Advisors, Inc. In addition, Principal Global Investors operating expenses increased $28.0 million primarily due to higher costs associated with an increase in staff and infrastructure needed to support the growth in the business and the impact from the WM Advisors, Inc. acquisition. Furthermore, full-service accumulation operating expenses increased $12.7 million primarily due to normal business growth.

Income taxes increased $12.1 million, or 27%, to $57.7 million for the three months ended June 30, 2007, from $45.6 million for the three months ended June 30, 2006. The effective income tax rate for this segment was 23% for both the three months ended June 30, 2007 and 2006. The effective income tax rates for the three months ended June 30, 2007 and 2006 were lower than the corporate income tax rate of 35%, as a result of income tax deductions allowed for corporate dividends received and interest exclusion from taxable income.

As a result of the foregoing factors, operating earnings increased $45.5 million, or 30%, to $196.7 million for the three months ended June 30, 2007, from $151.2 million for the three months ended June 30, 2006.

Net realized/unrealized capital gains, as adjusted, increased $20.6 million to $19.4 million for the three months ended June 30, 2007, from $1.2 million net realized/unrealized capital losses for the three months ended June 30, 2006. The increase is primarily due to mark to market gains versus losses on derivative activities, offset in part by more losses on certain fixed maturity securities which moved into a loss position during the second quarter of 2007 and we determined that we did not have the ability or intent to hold these securities.

As a result of the foregoing factors, net income available to common stockholders increased $66.1 million, or 44%, to $216.1 million for the three months ended June 30, 2007, from $150.0 million for the three months ended June 30, 2006.

Six Months Ended June 30, 2007 Compared to Six Months Ended June 30, 2006

Premiums and other considerations increased $91.8 million, or 38%, to $331.3 million for the six months ended June 30, 2007, from $239.5 million for the six months ended June 30, 2006. The increase primarily resulted from a $61.9 million increase in full-service payout sales of annuities with life contingencies. In addition, our individual payout annuity premiums and other consideration increased $29.9 million primarily due to increased sales from certain distribution channels and larger sized contract sales.

Fees and other revenues increased $279.4 million, or 42%, to $952.5 million for the six months ended June 30, 2007, from $673.1 million for the six months ended June 30, 2006. The increase primarily resulted from a $178.2 million increase in Principal Funds, our mutual fund business, due to higher management and distribution fees stemming from an increase in average assets under management resulting from our December 31, 2006, acquisition of WM Advisors, Inc. In addition, Principal Global Investors fees and other revenue increased $62.5 million primarily due to an increase in management fees resulting from growth in assets under management across all asset classes including the impact of the WM Advisors, Inc. acquisition. Furthermore, full-service accumulation fees and other revenues increased $54.8 million primarily due to strong performance in the equity markets that increased account values.

Net investment income increased $108.9 million, or 9%, to $1,384.4 million for the six months ended June 30, 2007, from $1,275.5 million for the six months ended June 30, 2006. The increase reflects a $2,601.9 million, or 6%, increase in average invested assets and cash for the segment and an increase in the average annualized yield on invested assets and cash, which was 5.9% for the six months ended June 30, 2007, and 5.8% for the six months ended June 30, 2006.

Benefits, claims and settlement expenses, including dividends to policyholders, increased $167.4 million, or 14%, to $1,334.5 million for the six months ended June 30, 2007, from $1,167.1 million for the six months ended June 30, 2006. The increase primarily resulted from a $57.7 million increase in our full-service payout benefits, claims and settlement expenses due to an increase in reserves resulting from an increase in sales of payout annuities with life contingencies. In addition, our individual payout annuity business benefits, claims and settlement expenses increased $56.9 million primarily due to an

increase in reserves resulting from higher sales related to our payout annuities with life contingencies and an increase in cost of interest credited. Furthermore, investment only benefits, claims and settlement expenses increased $47.1 million due to an increase in cost of interest credited on this block of business resulting from an increase in account values as well as higher crediting rates.

Operating expenses increased $227.3 million, or 36%, to $851.7 million for the six months ended June 30, 2007, from $624.4 million for the six months ended June 30, 2006. The increase primarily resulted from a $138.4 million increase in Principal Funds, our mutual fund business, due to our December 31, 2006, acquisition of WM Advisors, Inc. In addition, Principal Global Investors operating expenses increased $52.2 million primarily due to higher costs associated with an increase in staff and infrastructure needed to support the growth in the business and the impact from the WM Advisors, Inc. acquisition. Furthermore, full-service accumulation operating expenses increased $25.1 million primarily due to normal business growth.

Income taxes increased $19.3 million, or 22%, to $106.9 million for the six months ended June 30, 2007, from $87.6 million for the six months ended June 30, 2006. The effective income tax rate for this segment was 22% for both the six months ended June 30, 2007 and 2006. The effective income tax rates for the six months ended June 30, 2007 and 2006 were lower than the corporate income tax rate of 35%, as a result of income tax deductions allowed for corporate dividends received and interest exclusion from taxable income.

As a result of the foregoing factors, operating earnings increased $66.1 million, or 21%, to $375.1 million for the six months ended June 30, 2007, from $309.0 million for the six months ended June 30, 2006.

Net realized/unrealized capital gains, as adjusted, increased $22.5 million to $18.0 million for the six months ended June 30, 2007, from $4.5 million net realized/unrealized capital losses for the six months ended June 30, 2006. The increase is primarily due to mark to market gains versus losses on derivative activities offset in part by more losses on certain fixed maturity securities which moved into a loss position during the second quarter of 2007 and we determined that we did not have the ability or intent to hold these securities.

As a result of the foregoing factors, net income available to common stockholders increased $88.6 million, or 29%, to $393.1 million for the six months ended June 30, 2007, from $304.5 million for the six months ended June 30, 2006.

International Asset Management and Accumulation Segment

International Asset Management and Accumulation Segment Summary Financial Data

The following table presents certain summary financial data of the International Asset Management and Accumulation segment for the periods indicated:

	For the three months ended June 30,		For the six months ended June 30,	
	2007	2006	2007	2006
	(in millions)			
Operating Earnings Data:				
Operating revenues:				
Premiums and other considerations	**$ 55.0**	$ 62.3	**$ 103.2**	$ 131.3
Fees and other revenues	**31.8**	27.5	**62.8**	55.7
Net investment income	**88.2**	74.4	**150.3**	120.6
Total operating revenues	**175.0**	164.2	**316.3**	307.6
Expenses:				
Benefits, claims and settlement expenses	**109.6**	113.1	**195.2**	206.1
Operating expenses	**37.0**	32.0	**71.8**	62.5
Total expenses	**146.6**	145.1	**267.0**	268.6
Operating earnings before income taxes	**28.4**	19.1	**49.3**	39.0
Income taxes	**1.7**	3.0	**3.3**	5.3
Operating earnings	**26.7**	16.1	**46.0**	33.7
Net realized/unrealized capital gains (losses), as adjusted	**(0.8)**	(4.8)	**0.5**	(3.9)
U.S. GAAP Reported:				
Net income available to common stockholders	**$ 25.9**	$ 11.3	**$ 46.5**	$ 29.8

Three Months Ended June 30, 2007 Compared to Three Months Ended June 30, 2006

Premiums and other considerations decreased $7.3 million, or 12%, to $55.0 million for the three months ended June 30, 2007, from $62.3 million for the three months ended June 30, 2006. The decrease primarily resulted from a $6.9 million decrease in Mexico due to decreased sales of single premium annuities with life contingencies.

Fees and other revenues increased $4.3 million, or 16%, to $31.8 million for the three months ended June 30, 2007, from $27.5 million for the three months ended June 30, 2006. Fees and other revenues in Chile increased $2.0 million primarily due to higher investment management fees from growth in assets under management and higher unearned revenue (UREV) amortization due to a true-up that reduced amortization in 2006. Fees and other revenues in Hong Kong increased $1.5 million due to growth in assets under management.

Net investment income increased $13.8 million, or 19%, to $88.2 million for the three months ended June 30, 2007, from $74.4 million for the three months ended June 30, 2006. The increase was primarily due to a $381.5 million, or 13%, increase in average invested assets and cash excluding our equity method investments, and higher earnings from our equity method investments.

Benefits, claims and settlement expenses decreased $3.5 million, or 3%, to $109.6 million for the three months ended June 30, 2007, from $113.1 million for the three months ended June 30, 2006. A decrease of $8.8 million in Mexico was due to decreased sales of single premium annuities with life contingencies coupled with lower interest credited to customers. Partially offsetting this decrease was an increase of $5.1 million in Chile due to higher interest credited to customers.

Operating expenses increased $5.0 million, or 16%, to $37.0 million for the three months ended June 30, 2007, from $32.0 million for the three months ended June 30, 2006. Mexico operating expenses increased $3.0 million primarily due to net unlocking and true-up adjustments of DPAC and present value of future profits (PVFP) in 2006. Chile operating expenses increased $1.1 million primarily due to higher compensation costs and increased interest expense on short-term debt.

Income taxes decreased $1.3 million, or 43%, to $1.7 million for the three months ended June 30, 2007, from $3.0 million for the three months ended June 30, 2006. The effective tax rate for this segment was 6% and 16% for the three months ended June 30, 2007 and 2006, respectively. The effective income tax rates for the three months ended June 30, 2007 and 2006 were lower than the corporate income tax rate of 35%, as a result of taxes on our share of earnings generated from our equity method investments that are included in net investment income, and due to the lower tax rates of foreign jurisdictions.

As a result of the foregoing factors, operating earnings increased $10.6 million, or 66%, to $26.7 million for the three months ended June 30, 2007, from $16.1 million for the three months ended June 30, 2006.

Net realized/unrealized capital losses, as adjusted, decreased $4.0 million, or 83%, to $0.8 million for the three months ended June 30, 2007, from $4.8 million for the three months ended June 30, 2006. The net realized/unrealized capital losses decrease was related to a decrease in Chile due to higher mark-to-market gains on derivatives that are held to more effectively match the invested asset portfolio to our policyholder liability risks. In addition, the decrease was due to higher mark-to-market gains on trading securities in Chile.

As a result of the foregoing factors, net income available to common stockholders increased $14.6 million to $25.9 million for the three months ended June 30, 2007, from $11.3 million for the three months ended June 30, 2006.

Six Months Ended June 30, 2007 Compared to Six Months Ended June 30, 2006

Premiums and other considerations decreased $28.1 million, or 21%, to $103.2 million for the six months ended June 30, 2007, from $131.3 million for the six months ended June 30, 2006. The decrease primarily resulted from a $26.9 million decrease in Chile and Mexico due to decreased sales of single premium annuities with life contingencies.

Fees and other revenues increased $7.1 million, or 13%, to $62.8 million for the six months ended June 30, 2007, from $55.7 million for the six months ended June 30, 2006. Fees and other revenues in Chile increased $3.2 million due to higher investment management fees from growth in assets under management, a true-up that reduced UREV amortization in 2006, increased mortgage prepayment fees and higher mortality fees. Fees and other revenues in Hong Kong and India increased $3.9 million primarily due to growth in assets under management.

Net investment income increased $29.7 million, or 25%, to $150.3 million for the six months ended June 30, 2007, from $120.6 million for the six months ended June 30, 2006. The increase was primarily due to a $348.6 million, or 12%, increase in average invested assets and cash excluding our equity method investments, and higher earnings from our equity method investments. In addition, the increase was due to an increase in the annualized yield on average invested assets and cash excluding our equity method investments, which was 7.5% for the six months ended June 30, 2007, compared to 7.1% for the six months ended June 30, 2006.

Benefits, claims and settlement expenses decreased $10.9 million, or 5%, to $195.2 million for the six months ended June 30, 2007, from $206.1 million for the six months ended June 30, 2006. In Mexico and Chile, benefits, claims and settlement expenses decreased $8.7 million as a result of decreased sales of single premium annuities with life contingencies, which was partially offset by higher interest credited to customers. Also, contributing to the decline was a $2.2 million decrease resulting from the weakening of the Chilean and Mexican peso versus the U.S. dollar.

Operating expenses increased $9.3 million, or 15%, to $71.8 million for the six months ended June 30, 2007, from $62.5 million for the six months ended June 30, 2006. Mexico operating expenses increased $3.2 million primarily due to net unlocking and true-up adjustments of DPAC and PVPF and lower incentive compensation estimates in 2006, offset in part by lower staff related costs in 2007. Hong Kong operating expenses increased $1.8 million primarily due to increases in investment management fees paid, advertising expenses, and staff related costs. Chile operating expenses increased $1.7 million, primarily the result of higher interest expense due to increased inflation and higher short-term debt outstanding.

Income taxes decreased $2.0 million, or 38%, to $3.3 million for the six months ended June 30, 2007, from $5.3 million for the six months ended June 30, 2006. The effective tax rates for this segment were 7% and 14% for the six months ended June 30, 2007 and 2006, respectively. The effective income tax rates for the six months ended June 30, 2007 and 2006 were lower than the corporate income tax rate of 35%, as a result of taxes on our share of earnings generated from our equity method investments that are included in net investment income, and due to the lower tax rates of foreign jurisdictions.

As a result of the foregoing factors, operating earnings increased $12.3 million, or 36%, to $46.0 million for the six months ended June 30, 2007, from $33.7 million for the six months ended June 30, 2006.

Net realized/unrealized capital gains, as adjusted, increased $4.4 million to $0.5 million for the six months ended June 30, 2007, from $3.9 million net realized/unrealized capital losses for the six months ended June 30, 2006. The net realized/unrealized capital gains increase is primarily due to more losses in 2006 on certain fixed maturity securities sales and lower mark-to-market net losses on derivatives that are held to more effectively match the invested asset portfolio to our policyholder liability risks in Chile. In addition, net realized/unrealized capital gains increases were due to higher gains on equity securities in Chile and Mexico.

As a result of the foregoing factors, net income available to common stockholders increased $16.7 million, or 56%, to $46.5 million for the six months ended June 30, 2007, from $29.8 million for the six months ended June 30, 2006.

Life and Health Insurance Segment

Life and Health Insurance Segment Summary Financial Data

The following table presents certain summary financial data relating to the Life and Health Insurance segment for the periods indicated:

	For the three months ended June 30, 2007	2006	For the six months ended June 30, 2007	2006
	(in millions)			
Operating Earnings Data:				
Operating revenues:				
Premiums and other considerations	**$ 924.5**	$ 900.1	**$ 1,847.5**	$ 1,773.0
Fees and other revenues	**117.7**	111.5	**236.4**	224.8
Net investment income	**169.3**	171.5	**340.0**	344.9
Total operating revenues	**1,211.5**	1,183.1	**2,423.9**	2,342.7
Expenses:				
Benefits, claims and settlement expenses	**775.5**	733.6	**1,559.7**	1,431.9
Dividends to policyholders	**73.5**	73.0	**146.6**	144.9
Operating expenses	**273.6**	278.0	**561.1**	561.4
Total expenses	**1,122.6**	1,084.6	**2,267.4**	2,138.2
Operating earnings before income taxes	**88.9**	98.5	**156.5**	204.5
Income taxes	**28.8**	33.3	**50.9**	68.9
Operating earnings	**60.1**	65.2	**105.6**	135.6
Net realized/unrealized capital losses, as adjusted	**(4.6)**	(5.2)	**(3.9)**	(5.0)
U.S. GAAP Reported:				
Net income available to common stockholders	**$ 55.5**	$ 60.0	**$ 101.7**	$ 130.6

Three Months Ended June 30, 2007 Compared to Three Months Ended June 30, 2006

Premiums and other considerations increased $24.4 million, or 3%, to $924.5 million for the three months ended June 30, 2007, from $900.1 million for the three months ended June 30, 2006. Specialty benefits insurance premiums increased $36.5 million, primarily due to sales and retention. Partially offsetting this increase was a $6.4 million decrease in premiums from our individual life insurance business, primarily resulting from the continuation of a shift in marketing emphasis to universal and variable universal life insurance products from traditional life insurance products. Unlike traditional premium-based products, individual universal and variable universal life insurance premiums are not reported as U.S. GAAP revenue. In addition, health insurance premiums decreased $5.7 million due to a decrease in average covered medical members partially offset by higher premium per member.

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Fees and other revenues increased $6.2 million, or 6%, to $117.7 million for the three months ended June 30, 2007, from $111.5 million for the three months ended June 30, 2006. Fee revenues from our individual life insurance business increased $10.1 million primarily due to growth in our fee-based universal and variable universal life insurance business. Partially offsetting this increase was a $2.3 million decrease in fee revenues from our health insurance business, primarily due to a decrease in fee-for-service medical members offset in part by growth in fees from ancillary services. In addition, fee revenues from our specialty benefits business decreased $1.6 million primarily due to the sale of our dental offices in June 2006.

Net investment income decreased $2.2 million, or 1%, to $169.3 million for the three months ended June 30, 2007, from $171.5 million for the three months ended June 30, 2006. The decrease primarily relates to a decrease in the average annualized yield on invested assets and cash partially offset by a $217.5 million, or 2%, increase in average invested assets and cash for the segment. The average annualized yield on invested assets and cash was 6.2% for the three months ended June 30, 2007, compared to 6.4% for the three months ended June 30, 2006.

Benefits, claims and settlement expenses increased $41.9 million, or 6%, to $775.5 million for the three months ended June 30, 2007, from $733.6 million for the three months ended June 30, 2006. Specialty benefits insurance benefits, claims and settlement expenses increased $37.9 million due to a combination of growth in the business and increased, but more normal, loss ratios. Health insurance benefits, claims and settlement expenses increased $8.7 million, primarily due to higher claim costs per member partially offset by a decrease in average covered medical members.

Dividends to policyholders increased $0.5 million, or 1%, to $73.5 million for the three months ended June 30, 2007, from $73.0 million for the three months ended June 30, 2006. The increase is primarily related to an increase in individual life insurance dividend crediting rates.

Operating expenses decreased $4.4 million, or 2%, to $273.6 million for the three months ended June 30, 2007, from $278.0 million for the three months ended June 30, 2006. Health insurance operating expenses decreased $9.5 million, primarily due to managing expenses in both the fee-for-service and medical businesses. Partially offsetting the decrease was a $3.2 million increase in specialty benefits insurance operating expenses due to growth in the business. In addition, individual life insurance operating expenses increased $1.9 million, primarily related to non-deferred expenses on increased sales.

Income taxes decreased $4.5 million, or 14%, to $28.8 million for the three months ended June 30, 2007, from $33.3 million for the three months ended June 30, 2006. The effective income tax rate for the segment was 32% and 34% for the three months ended June 30, 2007 and 2006, respectively. The effective income tax rates for the three months ended June 30, 2007 and 2006 were lower than the corporate income tax rate of 35% primarily due to the interest exclusion from taxable income and income tax deductions allowed for corporate dividends received.

As a result of the foregoing factors, operating earnings decreased $5.1 million, or 8%, to $60.1 million for the three months ended June 30, 2007, from $65.2 million for the three months ended June 30, 2006.

Net realized/unrealized capital losses, as adjusted, decreased $0.6 million, or 12%, to $4.6 million for the three months ended June 30, 2007, from $5.2 million for the three months ended June 30, 2006. The decrease was primarily due to fewer losses on certain fixed maturity securities for which we determined that we did not have the ability or intent to hold. In addition, the decrease was due to lower DPAC amortization and higher gains on the sale and call activity of fixed maturity securities. Partially offsetting these decreases in losses were higher mark to market losses on derivative activities and losses versus gains on commercial mortgage loans.

As a result of the foregoing factors, net income available to common stockholders decreased $4.5 million, or 8%, to $55.5 million for the three months ended June 30, 2007, from $60.0 million for the three months ended June 30, 2006.

Six Months Ended June 30, 2007 Compared to Six Months Ended June 30, 2006

Premiums and other considerations increased $74.5 million, or 4%, to $1,847.5 million for the six months ended June 30, 2007, from $1,773.0 million for the six months ended June 30, 2006. Specialty benefits insurance premiums increased $77.8 million, primarily due to sales and retention.

Fees and other revenues increased $11.6 million, or 5%, to $236.4 million for the six months ended June 30, 2007, from $224.8 million for the six months ended June 30, 2006. Fee revenues from our individual life insurance business increased $21.2 million primarily due to growth in our fee-based universal and variable universal life insurance business. Partially offsetting this increase was a $6.5 million decrease in fee revenues from our health insurance business, primarily due to a decrease in fee-for-service medical members. In addition, fee revenues from our specialty benefits business decreased $3.1 million due to the sale of our dental offices in June 2006.

Net investment income decreased $4.9 million, or 1%, to $340.0 million for the six months ended June 30, 2007, from $344.9 million for the six months ended June 30, 2006. The decrease primarily relates to a decrease in the average annualized yield on invested assets and cash partially offset by a $94.9 million, or 1%, increase in average invested assets and cash for the segment. The average annualized yield on invested assets and cash was 6.2% for the six months ended June 30, 2007, compared to 6.4% for the six months ended June 30, 2006.

Benefits, claims and settlement expenses increased $127.8 million, or 9%, to $1,559.7 million for the six months ended June 30, 2007, from $1,431.9 million for the six months ended June 30, 2006. Specialty benefits insurance benefits, claims and settlement expenses increased $74.8 million, due to a combination of growth in the business and increased, but more normal, loss ratios. Health insurance benefits, claims and settlement expenses increased $44.5 million, primarily due to higher claims costs per member and unfavorable prior year claim development partially offset by a decrease in average covered medical members.

Dividends to policyholders increased $1.7 million, or 1%, to $146.6 million for the six months ended June 30, 2007, from $144.9 million for the six months ended June 30, 2006. The increase is primarily related to an increase in individual life insurance dividend crediting rates in 2007 and a change in the estimated dividend liability, which lowered dividends for the six months ended June 30, 2006.

Operating expenses decreased $0.3 million to $561.1 million for the six months ended June 30, 2007, from $561.4 million for the six months ended June 30, 2006. Health insurance operating expenses decreased $14.3 million, primarily due to managing expenses in both the fee-for-service and medical businesses, as well as lower premium taxes related to a lower effective premium tax rate. Partially offsetting the decrease was an $8.7 million increase in specialty benefits insurance operating expenses due to growth in the business. In addition, individual life insurance operating expenses increased $5.3 million, primarily related to non-deferred expenses on increased sales.

Income taxes decreased $18.0 million, or 26%, to $50.9 million for the six months ended June 30, 2007, from $68.9 million for the six months ended June 30, 2006. The effective income tax rate for the segment was 33% and 34% for the six months ended June 30, 2007 and 2006, respectively. The effective income tax rates for the six months ended June 30, 2007 and 2006 were lower than the corporate income tax rate of 35% primarily due to the interest exclusion from taxable income and income tax deductions allowed for corporate dividends received.

As a result of the foregoing factors, operating earnings decreased $30.0 million, or 22%, to $105.6 million for the six months ended June 30, 2007, from $135.6 million for the six months ended June 30, 2006.

Net realized/unrealized capital losses, as adjusted, decreased $1.1 million, or 22%, to $3.9 million for the six months ended June 30, 2007, from $5.0 million for the six months ended June 30, 2006. The decrease was primarily due to fewer losses on certain fixed maturity securities for which we determined that we did not have the ability or intent to hold. Partially offsetting this decrease were higher mark to market losses on derivative activities.

As a result of the foregoing factors, net income available to common stockholders decreased $28.9 million, or 22%, to $101.7 million for the six months ended June 30, 2007, from $130.6 million for the six months ended June 30, 2006.

Corporate and Other Segment

Corporate and Other Segment Summary Financial Data

The following table presents certain summary financial data relating to the Corporate and Other segment for the periods indicated:

	For the three months ended June 30, 2007 (in millions)	2006	For the six months ended June 30, 2007	2006
Operating Earnings Data:				
Operating revenues:				
Total operating revenues	**$ 12.5**	$ 3.8	**$ 0.8**	$ (5.9)
Expenses:				
Total expenses	**5.4**	1.3	**8.8**	(3.4)
Operating earnings (loss) before income taxes	**7.1**	2.5	**(8.0)**	(2.5)
Income taxes (benefits)	**(0.6)**	1.5	**(17.5)**	(6.1)
Preferred stock dividends	**8.3**	8.3	**16.5**	16.5
Operating loss	**(0.6)**	(7.3)	**(7.0)**	(12.9)
Net realized/unrealized capital gains (losses), as adjusted	**6.9**	(1.7)	**26.6**	25.4
Other after-tax adjustments		(1.8)		18.8
U.S. GAAP Reported:				
Net income (loss) available to common stockholders	**$ 6.3**	$ (10.8)	**$ 19.6**	$ 31.3

Three Months Ended June 30, 2007 Compared to Three Months Ended June 30, 2006

Total operating revenues increased $8.7 million to $12.5 million for the three months ended June 30, 2007, from $3.8 million for the three months ended June 30, 2006. Net investment income increased $11.4 million primarily due to an increase in average annualized investment yields driven by the joint venture real estate portfolio, as well as an increase in average invested assets for the segment. Partially offsetting the increase in total revenues was a $2.3 million increase in inter-segment eliminations included in this segment, which is offset by a corresponding change in total expenses.

Total expenses increased $4.1 million to $5.4 million for the three months ended June 30, 2007, from $1.3 million for the three months ended June 30, 2006. The increase in total expenses was primarily the result of a $6.1 million increase in interest expense largely related to the issuance of corporate debt in the fourth quarter of 2006. Partially offsetting the increase in total expenses was a $2.3 million increase in inter-segment eliminations included in this segment, which is offset by a corresponding change in total revenues.

Income tax benefits increased $2.1 million to $0.6 million for the three months ended June 30, 2007, from $1.5 million of income tax expense for the three months ended June 30, 2006. The increase was primarily due to an increase in estimated synthetic fuel tax credits.

As a result of the foregoing factors, operating loss decreased $6.7 million, or 92%, to $0.6 million for the three months ended June 30, 2007, from $7.3 million for the three months ended June 30, 2006.

Net realized/unrealized capital gains, as adjusted, increased $8.6 million to $6.9 million for the three months ended June 30, 2007, from $1.7 million net realized/unrealized capital losses for the three months ended June 30, 2006. The increase in net realized/unrealized capital gains was due to the recovery of a previously impaired fixed maturity security, increased sales of invested assets and fewer other than temporary declines in value of certain fixed maturity securities compared to the prior year.

As a result of the foregoing factors and the inclusion of other after-tax adjustments, net income available to common stockholders increased $17.1 million to $6.3 million for the three months ended June 30, 2007, from $10.8 million net loss available to common stockholders for the three months ended June 30, 2006. For the three months ended June 30, 2006, net loss included the negative effect of other after-tax adjustments totaling $1.8 million related to the change in estimate associated with a favorable court ruling on a contested IRS issue for 1991 and later years.

Six Months Ended June 30, 2007 Compared to Six Months Ended June 30, 2006

Total operating revenues increased $6.7 million to $0.8 million for the six months ended June 30, 2007, from a negative $5.9 million for the six months ended June 30, 2006. Net investment income increased $10.4 million primarily due to an increase in average annualized investment yields driven from the joint venture real estate portfolio. Partially offsetting the increase in total revenues was an increase in investment expenses related to a significant variable interest in a synthetic fuel production facility, which largely corresponds to a decrease in income taxes due to increased estimated synthetic fuel tax credits. In addition, total revenues decreased $3.5 million due to an increase in inter-segment eliminations included in this segment, which is offset by a corresponding change in total expenses.

Total expenses increased $12.2 million to $8.8 million for the six months ended June 30, 2007, from a negative $3.4 million for the six months ended June 30, 2006. The increase in total expenses was primarily the result of a $13.5 million increase in interest expense largely related to the issuance of corporate debt in the fourth quarter of 2006. Partially offsetting the increase in total expenses was a $3.5 million increase in inter-segment eliminations included in this segment, which is offset by a corresponding change in total revenues.

Income tax benefits increased $11.4 million to $17.5 million for the six months ended June 30, 2007, from $6.1 million for the six months ended June 30, 2006. The increase was due to an increase in estimated synthetic fuel tax credits as well as an increase in operating loss before income taxes and preferred stock dividends.

As a result of the foregoing factors, operating loss decreased $5.9 million, or 46%, to $7.0 million for the six months ended June 30, 2007, from $12.9 million for the six months ended June 30, 2006.

Net realized/unrealized capital gains, as adjusted, increased $1.2 million, or 5%, to $26.6 million for the six months ended June 30, 2007, from $25.4 million for the six months ended June 30, 2006. The increase in net realized/unrealized capital gains was primarily due to the recovery of a previously impaired fixed maturity security and fewer other than temporary declines in value of certain fixed maturity securities compared to the prior year. Partially offsetting this increase are lower gains on sales of invested assets largely due to lower gains on the sale of an equity method investment.

As a result of the foregoing factors and the inclusion of other after-tax adjustments, net income available to common stockholders decreased $11.7 million, or 37%, to $19.6 million for the six months ended June 30, 2007, from $31.3 million for the six months ended June 30, 2006. For the six months ended June 30, 2006, net income included the positive effect of other after-tax adjustments totaling $18.8 million related to a favorable court ruling on a contested IRS issue for 1991 and later years.

Liquidity and Capital Resources

Our legal entity organizational structure has an impact on our ability to meet cash flow needs as an organization. Following is a simplified organizational structure.

Dividends from Principal Life

The payment of stockholder dividends by Principal Life to its parent company is limited by Iowa laws. Under Iowa laws, Principal Life may pay dividends only from the earned surplus arising from its business and must receive the prior approval of the Insurance Commissioner of the State of Iowa (the Commissioner) to pay a stockholder dividend if such a stockholder dividend would exceed certain statutory limitations. The current statutory limitation is the greater of:

- 10% of Principal Life s statutory policyholder surplus as of the previous year-end; or
- the statutory net gain from operations from the previous calendar year.

Iowa law gives the Commissioner discretion to disapprove requests for dividends in excess of these limits. Based on this limitation and 2006 statutory results, Principal Life could pay approximately $660.4 million in stockholder dividends in 2007 without exceeding the statutory limitation.

On May 22, 2007, Principal Life declared a common stock dividend to its parent company of up to $450.0 million, the entire amount of which was paid as of June 30, 2007.

Shelf Registration

Registration Statement. Although we generate adequate cash flow to meet the needs of our normal operations, periodically the need may arise to issue debt to fund internal expansion, acquisitions, investment opportunities and retirement of existing debt and equity. In December 2003, we filed a shelf registration statement with the SEC, which became effective on June 30, 2004. The shelf registration provides us the ability to issue on a cumulative basis up to $3.0 billion worth of debt securities, preferred stock, common stock, warrants, stock purchase contracts and stock purchase units of PFG and trust preferred securities of three subsidiary trusts. If we issue additional securities, we intend to use the proceeds from the sale of the securities for general corporate purposes, including working capital, capital expenditures, investments in subsidiaries, share repurchase, acquisitions and refinancing of debt, including commercial paper and other short-term indebtedness. Principal Financial Services, Inc. unconditionally guarantees our obligations with respect to one or more series of debt securities described in the shelf registration statement. As of June 30, 2007, we have the ability to issue up to $1.85 billion of debt securities, preferred stock, common stock, warrants, stock purchase contracts and stock purchase units of PFG and trust preferred securities of three subsidiary trusts, under the shelf registration.

Senior Note Issuance. During the fourth quarter 2006, we issued $600.0 million of senior notes from our shelf registration, for net proceeds of $597.5 million. The notes will bear interest at a rate of 6.05% per year. Interest on the notes is payable semi-annually on April 15 and October 15, and began on April 15, 2007. The notes will mature on October 15, 2036. A portion of the proceeds was used to fund the acquisition of WM Advisors, Inc., with the remaining proceeds being used for general corporate purposes.

Preferred Stock Dividend Restrictions and Payments. The certificates of designations for the preferred stock restrict the declaration of preferred dividends if we fail to meet specified capital adequacy, net income or stockholders equity levels. As of June 30, 2007, we have no preferred dividend restrictions.

As of June 30, 2007, we paid dividends of $16.5 million related to dividends declared in fourth quarter 2006 and first quarter 2007 on our Series A and Series B non-cumulative perpetual preferred stock. On May 22, 2007, we declared an $8.2 million dividend which was paid on July 2, 2007.

Common Stock Issued and Treasury Stock Acquired

Our Board of Directors has authorized various repurchase programs under which we are allowed to purchase shares of our outstanding common stock. Shares repurchased under these programs are accounted for as treasury stock, carried at cost and reflected as a reduction to stockholders equity. The repurchases are made in the open market or through privately negotiated transactions, from time to time, depending on market conditions.

On May 22, 2007, our Board of Directors authorized a repurchase program of up to $250.0 million of our outstanding common stock. As of June 30, 2007, no purchases have been made under this program.

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In November 2006, our Board of Directors authorized a repurchase program of up to $250.0 million of our outstanding common stock. During the six months ended June 30, 2007, we acquired 3.6 million shares in the open market at an aggregate cost of $217.8 million under this program.

International Asset Management and Accumulation Operations

Our Brazilian, Chilean, and Hong Kong operations produced positive cash flow from operations for the six months ended June 30, 2007. For the six months ended June 30, 2006, our Brazilian, Chilean, Hong Kong, and Mexican operations produced positive cash flow from operations. These cash flows have been historically maintained at the local country level for strategic expansion purposes and local capital requirements. Our international operations may require infusions of capital primarily to fund acquisitions, and to a lesser extent, to meet the cash flow and capital requirements of certain operations. Our capital funding of these operations is consistent with our long-term strategy to establish viable companies that can sustain future growth from internally generated sources. Based on reviews of our current capital needs and strategic opportunities within our foreign operations, we are able to meet our capital needs.

Sources and Uses of Cash of Consolidated Operations

Activity, as reported in our consolidated statements of cash flows, provides relevant information regarding our sources and uses of cash. The following discussion of our operating, investing and financing portions of the cash flows excludes cash flows attributable to our discontinued operations, which were as follows:

	For the six months ended June 30, 2007 (in millions)	2006
Cash flows attributable to discontinued operations:		
Net cash provided by operating activities	**$**	$ 1.5
Net cash used in investing activities		(0.6)
Net cash provided by discontinued operations	**$**	$ 0.9

Net cash provided by operating activities was $1,921.9 million and $1,239.1 million for the six months ended June 30, 2007 and 2006, respectively. The increase in cash provided by operations was primarily related to fluctuations in total company receivables and payables.

Net cash used in investing activities was $1,038.6 million and $2,067.4 million for the six months ended June 30, 2007 and 2006, respectively. The decrease in cash used in investing activities between periods was primarily related to a reduction in net purchases of available for sale securities. This decrease was partially offset by a decrease in mortgage loans sold as well as an additional contribution in 2007 to an equity method investment with no corresponding activity in 2006.

Net cash used in financing activities was $616.1 million for the six months ended June 30, 2007 compared to net cash provided by financing activities of $403.0 million for the six months ended June 30, 2006. The increase in cash used in financing activities is primarily due to a decrease in deposits and an increase in withdrawals of investment contracts.

Given the historical cash flow of our subsidiaries and the financial results of these subsidiaries, we believe the cash flow from our consolidated operating activities over the next year will provide sufficient liquidity for our operations, as well as satisfy interest payments and any payments related to debt servicing.

Ratio of Earnings to Fixed Charges

The ratio of earnings to fixed charges is a measure of our ability to cover fixed costs with current period earnings. A high ratio indicates that earnings are sufficiently covering committed expenses. The following table sets forth, for the periods indicated, our ratios of:

- earnings to fixed charges before interest credited on investment products; and
- earnings to fixed charges.

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), preferred stock dividends by the registrant (PD) and dividends on majority-owned subsidiary redeemable preferred securities (non-intercompany) (D). The formula for this ratio is: (BT+I+IF-E)/(I+IF+PD+D).

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), dividends on majority-owned subsidiary redeemable preferred securities (non-intercompany) (D) and interest credited on investment products (IC). The formula for this calculation is: (BT+I+IF-E+IC)/(I+IF+PD+D+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.

	For the six months ended June 30,		**For the year ended December 31,**		
	2007	**2006**	**2006**	**2005**	**2004**
Ratio of earnings to fixed charges before interest credited on investment products	**9.4**	10.9	10.2	11.1	9.5
Ratio of earnings to fixed charges	**2.2**	2.3	2.2	2.1	2.0

Contractual Obligations and Commercial Commitments

As of June 30, 2007, there have been no significant changes to contractual obligations and commitments since December 31, 2006.

Short-Term Debt

As of June 30, 2007, we had credit facilities with various financial institutions in an aggregate amount of $820.8 million. As of June 30, 2007 we had $58.2 million of outstanding borrowings related to our credit facilities with $31.0 million of assets pledged as support, compared to $84.1 million of outstanding borrowings at December 31, 2006 with $74.5 million of assets pledged as support. Assets pledged consisted primarily of commercial mortgages and securities. Our credit facilities also include a $600.0 million back-stop facility to provide 100% support for our commercial paper program, of which there were no outstanding balances as of June 30, 2007.

Off-Balance Sheet Arrangements

Variable Interest Entities

For variable interest entity information, see Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 2, Significant Unconsolidated Variable Interest Entities.

Guarantees and Indemnifications

For guarantee and indemnification information, see Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 5, Contingencies, Guarantees and Indemnifications under the caption, Guarantees and Indemnifications.

Investments

We had total consolidated assets as of June 30, 2007, of $150.8 billion, of which $61.0 billion were invested assets. The rest of our total consolidated assets are comprised primarily of separate account assets for which we do not bear investment risk. Because we generally do not bear any investment risk on assets held in separate accounts, the discussion and financial information below does not include such assets. Of our invested assets, $57.4 billion were held by our U.S. operations and the remaining $3.6 billion were held by our International Asset Management and Accumulation segment.

U.S. Investment Operations

Our U.S. invested assets are managed by Principal Global Investors, a subsidiary of Principal Life. Our primary investment objective is to maximize after-tax returns consistent with acceptable risk parameters. We seek to protect policyholders benefits by optimizing the risk/return relationship on an ongoing basis, through asset/liability matching, reducing the credit risk, avoiding high levels of investments that may be redeemed by the issuer, maintaining sufficiently liquid investments and avoiding undue asset concentrations through diversification. We are exposed to three primary sources of investment risk:

- credit risk, relating to the uncertainty associated with the continued ability of a given obligor to make timely payments of principal and interest;
- interest rate risk, relating to the market price and/or cash flow variability associated with changes in market yield curves; and
- equity risk, relating to adverse fluctuations in a particular common stock.

Our ability to manage credit risk is essential to our business and our profitability. We devote considerable resources to the credit analysis of each new investment. We manage credit risk through industry, issuer and asset class diversification. Our Investment Committee, appointed by our Board of Directors, is responsible for establishing all investment policies and approving or authorizing all investments, except the Executive Committee of the Board must approve any investment transaction exceeding $500.0 million. As of June 30, 2007, there are ten members on the Investment Committee, two of whom are members of our Board of Directors. The remaining members are senior management members representing various areas of our company.

We also seek to reduce call or prepayment risk arising from changes in interest rates in individual investments. We limit our exposure to investments that are prepayable without penalty prior to maturity at the option of the issuer, and we require additional yield on these investments to compensate for the risk that the issuer will exercise such option. We assess option risk in all investments we make and, when we take that risk, we price for it accordingly.

Our Fixed Income Securities Committee, consisting of fixed income securities senior management members, approves the credit rating for the fixed maturity securities we purchase. Teams of security analysts, organized by industry, focus either on the public or private markets and analyze and monitor these investments. In addition, we have teams who specialize in residential mortgage-backed securities, commercial mortgage-backed securities, asset-backed securities, and public below investment grade securities. We establish a credit reviewed list of approved public issuers to provide an efficient way for our portfolio managers to purchase liquid bonds for which credit review has already been completed. Issuers remain on the list for one year unless removed by our analysts. Our analysts monitor issuers on the list on a continuous basis with a formal review documented annually or more frequently if material events affect the issuer. The analysis includes both fundamental and technical factors. The fundamental analysis encompasses both quantitative and qualitative analysis of the issuer.

The qualitative analysis includes an assessment of both accounting and management aggressiveness. In addition, technical indicators such as stock price volatility and credit default swap levels are monitored.

Our Fixed Income Securities Committee also reviews private transactions on a continuous basis to assess the quality ratings of our privately placed investments. We regularly review our investments to determine whether we should re-rate them, employing the following criteria:

- material declines in the issuer s revenues or margins;
- significant management or organizational changes;
- significant uncertainty regarding the issuer s industry;
- debt service coverage or cash flow ratios that fall below industry-specific thresholds;
- violation of financial covenants; and
- other business factors that relate to the issuer.

A dedicated risk management team is responsible for centralized monitoring of the commercial mortgage portfolio. We apply a variety of strategies to minimize credit risk in our commercial mortgage loan portfolio. When considering the origination of new commercial mortgage loans, we review the cash flow fundamentals of the property, make a physical assessment of the underlying security, conduct a comprehensive market analysis and compare against industry lending practices. We use a proprietary risk rating model to evaluate all new and a majority of existing loans within the portfolio. The proprietary risk model is designed to stress projected cash flows under simulated economic and market downturns. Our lending guidelines are designed to encourage 75% or less loan-to-value ratios and a debt service coverage ratio of at least 1.2 times. We analyze investments outside of these guidelines based on cash flow quality, tenancy and other factors. The weighted average loan-to-value ratio at origination for brick and mortar commercial mortgages in our portfolio was 67% and the debt service coverage ratio at loan inception was 1.7 times as of June 30, 2007.

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We have limited exposure to equity risk in our common stock portfolio. Equity securities accounted for only 1% of our U.S. invested assets as of June 30, 2007.

Our investment decisions and objectives are a function of the underlying risks and product profiles of each primary business operation. In addition, we diversify our product portfolio offerings to include products that contain features that will protect us against fluctuations in interest rates. Those features include adjustable crediting rates, policy surrender charges and market value adjustments on liquidations. For further information on our management of interest rate risk, see Item 3, Quantitative and Qualitative Disclosures about Market Risk.

Overall Composition of U.S. Invested Assets

U.S. invested assets as of June 30, 2007, were predominantly of high quality and broadly diversified across asset class, individual credit, industry and geographic location. Asset allocation is determined based on cash flow and the risk/return requirements of our products. As shown in the following table, the major categories of U.S. invested assets are fixed maturity securities and commercial mortgages. The remainder is invested in real estate, residential mortgage loans, equity securities and other assets. In addition, policy loans are included in our invested assets. The following discussion analyzes the composition of U.S. invested assets, but excludes invested assets of the participating separate accounts.

U.S. Invested Assets

	June 30, 2007 Carrying Amount ($ in millions)	% of Total	December 31, 2006 Carrying Amount	% of Total
Fixed maturity securities:				
Public	**$ 28,025.7**	**49 %**	$ 28,772.4	51 %
Private	**14,403.9**	**25**	13,651.4	24
Equity securities	**545.7**	**1**	795.7	1
Mortgage loans:				
Commercial	**10,542.1**	**18**	10,090.3	18
Residential	**1,026.4**	**2**	1,051.6	2
Real estate held for sale	**100.6**		118.2	
Real estate held for investment	**779.4**	**1**	736.6	1
Policy loans	**850.6**	**2**	850.7	1
Other investments	**1,150.0**	**2**	972.6	2
Total invested assets	**57,424.4**	**100 %**	57,039.5	100 %
Cash and cash equivalents	**1,788.3**		1,535.8	
Total invested assets and cash	**$ 59,212.7**		$ 58,575.3	

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U.S. Investment Results

The following tables present the yield and investment income, excluding net realized/unrealized gains and losses for our U.S. invested assets. The annualized yield on U.S. invested assets and on cash and cash equivalents was 6.0% for the three months ended June 30, 2007 and 2006. The annualized yield on U.S. invested assets and on cash and cash equivalents was 6.0% for the six months ended June 30, 2007, compared to 5.9% for the six months ended June 30, 2006. We calculate annualized yields using a simple average of asset classes at the beginning and end of the reporting period.

U.S. Invested Assets
Investment Income Yields by Asset Type

	For the three months ended June 30,			
	2007		2006	
	Yield	Amount	Yield	Amount
	($ in millions)			
Fixed maturity securities	**6.0 %**	**$ 641.3**	6.1 %	$ 613.9
Equity securities	**3.7**	**5.1**	6.3	12.2
Mortgage loans commercial	**6.8**	**176.8**	6.7	164.6
Mortgage loans residential	**5.4**	**14.0**	5.0	13.2
Real estate	**11.3**	**24.3**	9.0	20.2
Policy loans	**6.1**	**12.9**	5.9	12.5
Cash and cash equivalents	**5.9**	**23.7**	3.6	12.1
Other investments	**9.6**	**25.7**	8.8	20.0
Total before investment expenses	**6.2**	**923.8**	6.2	868.7
Investment expenses	**0.2**	**35.6**	0.2	31.4
Net investment income	**6.0 %**	**$ 888.2**	6.0 %	$ 837.3

U.S. Invested Assets
Investment Income Yields by Asset Type

	For the six months ended June 30,			
	2007		2006	
	Yield	Amount	Yield	Amount
	($ in millions)			
Fixed maturity securities	**6.0 %**	**$ 1,277.8**	6.0 %	$ 1,211.7
Equity securities	**3.2**	**10.7**	6.3	24.1
Mortgage loans commercial	**6.7**	**344.5**	6.6	326.5
Mortgage loans residential	**5.5**	**28.5**	4.9	26.5
Real estate	**10.5**	**45.5**	7.9	35.2
Policy loans	**6.1**	**25.9**	5.9	24.7
Cash and cash equivalents	**5.9**	**49.1**	3.3	22.4
Other investments	**7.1**	**37.8**	7.9	35.1
Total before investment expenses	**6.2**	**1,819.8**	6.1	1,706.2
Investment expenses	**0.2**	**70.6**	0.2	63.2
Net investment income	**6.0 %**	**$ 1,749.2**	5.9 %	$ 1,643.0

Fixed Maturity Securities

Fixed maturity securities consist of short-term investments, publicly traded debt securities, privately placed debt securities and redeemable preferred stock, and represented 74% and 75% of total U.S. invested assets as of June 30, 2007, and December 31, 2006, respectively. The fixed maturity securities portfolio was comprised, based on carrying amount, of 66% in publicly traded fixed maturity securities and 34% in privately placed fixed maturity securities as of June 30, 2007, and 68% in publicly traded fixed maturity securities and 32% in privately placed fixed maturity securities as of December 31, 2006. Included in the privately placed category as of June 30, 2007, and December 31, 2006, were $8.1 billion and $7.6 billion, respectively, of securities eligible for resale to qualified institutional buyers under Rule 144A under the Securities Act of 1933. Fixed maturity securities were diversified by category of issuer as of June 30, 2007, and December 31, 2006, as shown in the following table:

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U.S. Invested Assets
Fixed Maturity Securities by Type of Issuer

	June 30, 2007			December 31, 2006		
	Carrying Amount	% of Total		Carrying Amount	% of Total	
	($ in millions)					
U.S. Government and agencies	$ 703.3	2	%	$ 551.6	1	%
States and political subdivisions	2,007.1	5		1,663.5	4	
Non-U.S. governments	406.7	1		420.7	1	
Corporate public	18,790.8	44		19,791.1	47	
Corporate private	11,007.7	26		10,596.5	25	
Residential pass-through securities	1,317.2	3		1,557.6	4	
Commercial mortgage-backed securities	4,416.7	10		4,499.6	11	
Residential collateralized mortgage obligations	950.3	2		940.4	2	
Asset-backed securities	2,829.8	7		2,402.8	5	
Total fixed maturities	$ 42,429.6	100	%	$ 42,423.8	100	%

We held $9,514.0 million of mortgage-backed and asset-backed securities as of June 30, 2007, and $9,400.4 million as of December 31, 2006.

We believe that it is desirable to hold residential mortgage-backed pass-through securities due to their credit quality and liquidity as well as portfolio diversification characteristics. Our portfolio is comprised of GNMA, FNMA and FHLMC pass-through securities. In addition, our residential collateralized mortgage obligation portfolio offers structural features that allow cash flows to be matched to our liabilities.

Commercial mortgage-backed securities provide high levels of credit protection, diversification, reduced event risk and enhanced liquidity. Commercial mortgage-backed securities are predominantly comprised of rated large pool securitizations that are individually and collectively diverse by property type, borrower and geographic dispersion.

We purchase asset-backed securities (ABS) to diversify the overall credit risks of the fixed maturity securities portfolio and to provide attractive returns. The principal risks in holding asset-backed securities are structural and credit risks. Structural risks include the security s priority in the issuer s capital structure, the adequacy of and ability to realize proceeds from the collateral and the potential for prepayments. Credit risks involve issuer/servicer risk where collateral values can become impaired in the event of servicer credit deterioration.

Our ABS portfolio is diversified both by type of asset and by issuer. We actively monitor holdings of asset-backed securities to ensure that the risk profile of each security improves or remains consistent. Prepayments in the ABS portfolio are, in general, insensitive to changes in interest rates or are insulated to such changes by call protection features. In the event that we are subject to prepayment risk, we monitor the factors that impact the level of prepayment and prepayment speed for those asset-backed securities. In addition, we diversify the risks of asset-backed securities by holding a diverse class of securities, which limits our exposure to any one security.

The international exposure in our U.S. fixed maturity securities totaled $9,501.6 million, or 22% of total fixed maturity securities, as of June 30, 2007, comprised of corporate and foreign government fixed maturity securities. Of the $9,501.6 million as of June 30, 2007, investments totaled $2,567.0 million in the continental European Union, $2,543.8 million in the United Kingdom, $986.2 million in Asia, $886.4 million in Australia, $614.6 million in South America, $355.0 million in Mexico and $58.5 million in Japan. The remaining $1,490.1 million is invested in 21 other countries. All international fixed maturity securities held by our U.S. operations are either denominated in U.S. dollars or have been swapped into U.S. dollar equivalents. Our international investments are analyzed internally by country and industry credit investment professionals. We control concentrations using issuer and country level exposure benchmarks, which are based on the credit quality of the issuer and the country. Our investment policy limits total international fixed maturity securities investments to 18% of total statutory general account assets with a 4% limit in emerging markets. Exposure to Canada is not included in our international exposure. As of June 30, 2007, our investments in Canada totaled $1,451.4 million.

The following tables present the amortized cost of our top ten exposures including approved counterparty exposure limits as of June 30, 2007, and December 31, 2006.

	June 30, 2007 Amortized Cost (in millions)
Bank of America Corp.(1)	**$ 318.0**
American International Group Inc.(1)	**297.5**
MBIA Inc.(2)	**296.8**
Deutsche Bank AG(1)	**264.7**
Royal Bank of Scotland Group PLC(1)	**251.2**
AT&T Inc.	**250.5**
JP Morgan Chase & Co.(1)	**242.9**
Citigroup Inc.(1)	**214.1**
General Electric Co	**210.9**
ABN AMRO Holding NV(1)	**206.1**
Total top ten exposures	**$ 2,552.7**

(1) Includes approved counterparty limit. The actual and the stressed potential exposures are less than the approved limit.

(2) MBIA Inc. exposure is predominately comprised of the guarantee of underlying securities that are rated A- equivalent or better by the rating agencies on a stand alone basis. The MBIA wrap guarantees performance in the event of default of the underlying securities bringing the combined rating to AAA.

	December 31, 2006 Amortized Cost (in millions)
HSBC Holdings PLC(1)	$ 387.1
American International Group Inc.(2)	329.5
Bank of America Corp.(2)	328.3
MBIA Inc.(3)	311.5
AT&T Inc.	272.9
JP Morgan Chase & Co.(2)	271.7
Royal Bank of Scotland Group PLC(2)	255.6
Deutsche Bank AG(2)	255.0
General Electric Co	239.2
ABN AMRO Holding NV(2)	229.6
Total top ten exposures	$ 2,880.4

(1) Includes a $238.0 million investment classified as an equity security for U.S. GAAP. The investment issuer engages in managing investment grade third party bond investments and HSBC paper. All non-HSBC paper has the ultimate benefit of price support protection provided by HSBC Bank, PLC. Since Principal Life Insurance Company has senior priority in the issuer, we believe many third party bonds could be liquidated to satisfy our claim. While we calculate our exposure on a gross basis, the value we attribute to the underlying collateral is $125.0 million.

(2) Includes approved counterparty limit. The actual and the stressed potential exposures are less than the approved limit.

(3) MBIA Inc. exposure is predominately comprised of the guarantee of underlying securities which are rated A- equivalent or better by the rating agencies on a stand alone basis. The MBIA wrap guarantees performance in the event of a default of the underlying securities bringing the combined rating to AAA.

Our top ten exposures were rated an A equivalent or better by the rating agencies as of June 30, 2007, and December 31, 2006. As of June 30, 2007, and December 31, 2006, no individual non-government issuer represented more than 1% of U.S. invested assets. HSBC Holdings PLC is no longer included in our top ten exposures due to the redemption of a $238.0 million investment in January 2007.

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Valuation techniques for the fixed maturity securities portfolio vary by security type and the availability of market data. Pricing models and their underlying assumptions impact the amount and timing of unrealized gains and losses recognized, and the use of different pricing models or assumptions could produce different financial results. Interactive Data Corporation (IDC) or direct broker quotes are our sources for external prices for our public bonds and those private placement securities that are actively traded in the secondary market. In cases where quoted market prices are not available, a matrix pricing valuation approach is used. Securities are grouped into pricing categories that vary by asset class, sector, rating, and average life. Each pricing category is assigned a risk spread based on studies of observable public market data or market clearing data from the investment professionals assigned to specific security classes. The expected cash flows of the security are then discounted back at the current Treasury curve plus the appropriate risk spread. Although the matrix valuation approach provides a fair valuation of each pricing category, the valuation of an individual security within each pricing category may actually be impacted by company specific factors. Certain market events that could impact the valuation of securities include issuer credit ratings, business climate, management changes, litigation, and government actions among others. The resulting prices are then reviewed by pricing analysts. All loans placed on the watch list are valued individually by the investment analysts or the analysts that focus on troubled securities (Workout Group). Although we believe our estimates reasonably reflect the fair value of those securities, the key assumptions about risk premiums, performance of underlying collateral (if any) and other factors involve significant assumptions and may not reflect those of an active market. To the extent that bonds have longer maturity dates, management s estimate of fair value may involve greater subjectivity since they involve judgment about events well into the future. Every month, there is a comprehensive review of all impaired securities and problem loans by a group consisting of the Chief Investment Officer, the Portfolio Managers, and the Workout Group. The valuation of impaired bonds for which there is no quoted price is typically based on the present value of the future cash flows expected to be received. If the company is likely to continue operations, the estimate of future cash flows is typically based on the expected operating cash flows of the company that are available to make payments on the bonds. If the company is likely to liquidate, the estimate of future cash flows is based on an estimate of the liquidation value of its net assets.

The Securities Valuation Office (SVO) of the National Association of Insurance Commissioners (NAIC) evaluates most of the fixed maturity securities that we and other U.S. insurance companies hold. The SVO evaluates the bond investments of insurers for regulatory reporting purposes and assigns securities to one of six investment categories. The NAIC designations closely mirror the nationally recognized securities rating organizations credit ratings for marketable bonds. NAIC designations 1 and 2 include bonds considered investment grade by such rating organizations. Bonds are considered investment grade when rated Baa3 or higher by Moody s, or BBB- or higher by Standard & Poor s. NAIC designations 3 through 6 are referred to as below investment grade. Bonds are considered below investment grade when rated Ba1 or lower by Moody s, or BB+ or lower by Standard & Poor s. As of June 30, 2007, the percentage, based on estimated fair value, of total publicly traded and privately placed fixed maturity securities that were investment grade with an NAIC designation 1 or 2 was 96%.

We also monitor the credit drift of our corporate fixed maturity securities portfolio. Credit drift is defined as the ratio of the percentage of rating downgrades, including defaults, divided by the percentage of rating upgrades. We measure credit drift once each fiscal year, assessing the changes in our internally developed credit ratings that have occurred during the year. Standard & Poor s annual credit ratings drift ratio measures the credit rating change, within a specific year, of companies that have been assigned ratings by Standard & Poor s. The annual internal credit drift ratio on corporate fixed maturity securities we held in our general account was a more favorable ratio at 0.55 times compared to the Standard & Poor s drift ratio of 0.74 times, as of December 31, 2006.

The following table presents our total fixed maturity securities by NAIC designation and the equivalent ratings of the nationally recognized securities rating organizations as of June 30, 2007, and December 31, 2006, as well as the percentage, based on estimated fair value, that each designation comprises:

U.S. Invested Assets
Fixed Maturity Securities by Credit Quality(1)

		June 30, 2007			December 31, 2006		
NAIC Rating	**Rating Agency Equivalent**	**Amortized Cost**	**Carrying Amount**	**% of Total Carrying Amount**	**Amortized Cost**	**Carrying Amount**	**% of Total Carrying Amount**
		($ in millions)					
1	Aaa/Aa/A	**$ 24,315.1**	**$ 24,421.2**	**58 %**	$ 23,716.0	$ 24,231.9	57 %
2	Baa	**15,958.9**	**16,154.6**	**38**	15,769.9	16,205.5	38
3	Ba	**1,548.9**	**1,597.2**	**4**	1,586.8	1,657.1	4
4	B	**207.9**	**215.5**		290.5	302.6	1
5	Caa and lower	**32.6**	**34.9**		19.1	19.5	
6	In or near default	**6.3**	**6.2**		5.5	7.2	
	Total fixed maturities	**$ 42,069.7**	**$ 42,429.6**	**100 %**	$ 41,387.8	$ 42,423.8	100 %

(1) Includes 59 securities with an amortized cost of $851.8 million, gross gains of $6.3 million, gross losses of $11.4 million and a carrying amount of $846.7 million as of June 30, 2007, that are still pending a review and assignment of a rating by the SVO. Due to the timing of when fixed maturity securities are purchased, legal documents are filed, and the review by the SVO, there will always be securities in our portfolio that are unrated over a reporting period. In these instances, an equivalent rating is assigned based on our fixed income analyst s assessment.

We believe that our long-term fixed maturity securities portfolio is well diversified among industry types and between publicly traded and privately placed securities. Each year, we direct the majority of our net cash inflows into investment grade fixed maturity securities. Our current policy is to limit the percentage of cash flow invested in below investment grade assets to 7% of cash flow. As of June 30, 2007, we had invested 1.1% of new cash flow for the year in below investment grade assets. While the general account investment returns have improved due to the below investment grade asset class, we manage its growth strategically by limiting it to 10% of the total fixed maturity securities portfolios.

We invest in privately placed fixed maturity securities to enhance the overall value of the portfolio, increase diversification and obtain higher yields than are possible with comparable quality public market securities. Generally, private placements provide broader access to management information, strengthened negotiated protective covenants, call protection features and, where applicable, a higher level of collateral. They are, however, generally not freely tradable because of restrictions imposed by federal and state securities laws and illiquid trading markets.

The following table shows the carrying amount of our corporate fixed maturity securities by Salomon industry category, as well as the percentage of the total corporate portfolio that each Salomon industry category comprises as of June 30, 2007, and December 31, 2006.

U.S. Invested Assets
Corporate Fixed Maturity Securities by Salomon Industry

	June 30, 2007			December 31, 2006		
	Carrying Amount	% of Total		Carrying Amount	% of Total	
	($ in millions)					
Industry Class						
Finance Bank	**$ 3,874.4**	**13**	%	$ 3,659.2	12	%
Finance Insurance	**2,952.6**	**10**		3,119.1	10	
Finance Other	**4,845.0**	**16**		4,792.2	16	
Industrial Consumer	**1,116.4**	**4**		1,100.0	4	
Industrial Energy	**2,912.4**	**10**		2,683.2	9	
Industrial Manufacturing	**5,222.9**	**18**		5,518.4	18	
Industrial Other	**134.7**			105.3		
Industrial Service	**4,050.6**	**14**		4,462.3	15	
Industrial Transport	**882.6**	**3**		836.9	3	
Utility Electric	**2,184.2**	**7**		2,417.9	8	
Utility Other	**45.8**			47.6		
Utility Telecom	**1,576.9**	**5**		1,645.5	5	
Total	**$ 29,798.5**	**100**	%	$ 30,387.6	100	%

We monitor any decline in the credit quality of fixed maturity securities through the designation of problem securities , potential problem securities and restructured securities . We define problem securities in our fixed maturity portfolio as securities: (i) as to which principal and/or interest payments are in default or where default is perceived to be imminent in the near term, or (ii) issued by a company that went into bankruptcy subsequent to the acquisition of such securities. We define potential problem securities in our fixed maturity portfolio as securities included on an internal watch list for which management has concerns as to the ability of the issuer to comply with the present debt payment terms and which may result in the security becoming a problem or being restructured. The decision whether to classify a performing fixed maturity security as a potential problem involves significant subjective judgments by our management as to the likely future industry conditions and developments with respect to the issuer. We define restructured securities in our fixed maturity portfolio as securities where a concession has been granted to the borrower related to the borrower s financial difficulties that would not have otherwise been considered. We determine that restructures should occur in those instances where greater economic value will be realized under the new terms than through liquidation or other disposition and may involve a change in contractual cash flows. If at the time of restructure, the present value of the new future cash flows is less than the current cost of the asset being restructured, a realized capital loss is recorded in net income and a new cost basis is established.

We have a process in place to identify securities that could potentially have a credit impairment that is other than temporary. This process involves monitoring market events that could impact issuers credit ratings, business climate, management changes, litigation and government actions, and other similar factors. This process also involves monitoring late payments, pricing levels, downgrades by rating agencies, key financial ratios, financial statements, revenue forecasts and cash flow projections as indicators of credit issues.

Every month, a group of individuals including the Chief Investment Officer, our Portfolio Managers, members of our Workout Group, and representatives from Investment Accounting review all securities to determine whether an other than temporary decline in value exists and whether losses should be recognized. The analysis focuses on each issuer s ability to service its debts in a timely fashion and the length of time the security has been trading below cost. Formal documentation of the analysis and the Company s decision is prepared and approved by management.

We consider relevant facts and circumstances in evaluating whether the credit impairment of a security is other than temporary. Relevant facts and circumstances considered include: (1) the length of time the fair value has been below cost; (2) the financial position and access to capital of the issuer, including the current and future impact of any specific events; and (3) our ability and intent to hold the security to maturity or until it recovers in value. To the extent we determine that a security is deemed to be other than temporarily impaired, the difference between amortized cost and fair value would be charged to earnings.

There are a number of significant risks and uncertainties inherent in the process of monitoring credit impairments and determining if an impairment is other than temporary. These risks and uncertainties include: (1) the risk that our assessment of an issuer s ability to meet all of its contractual obligations will change based on changes in the credit characteristics of that issuer, (2) the risk that the economic outlook will be worse than expected or have more of an impact on the issuer than anticipated, (3) the risk that our investment professionals are making decisions based on fraudulent or misstated information in the financial statements provided by issuers and (4) the risk that new information obtained by us or changes in other facts and circumstances lead us to change our intent to hold the security to maturity or until it recovers in value. Any of these situations could result in a charge to earnings in a future period.

The net realized gain relating to other than temporary credit impairments of fixed maturity securities was $4.5 million for the six months ended June 30, 2007. The single largest other than temporary credit impairment represented less than 0.1% of U.S. fixed maturity securities as of June 30, 2007. Certain fixed maturity securities moved into a loss position during the second quarter of 2007, and we determined that we did not have the ability and intent to hold these securities. As a result, we recognized impairment losses on these securities of $24.5 million, net of recoveries on the subsequent sale, primarily due to a change in interest rates.

For the six months ended June 30, 2007, we realized $10.9 million of gross losses upon disposal of bonds excluding hedging adjustments. Included in this $10.9 million is $10.0 million related to sales of twenty-three credit impaired and credit related names. We generally intend to hold securities in unrealized loss positions until they mature or recover. However, we do sell bonds under certain circumstances such as when we have evidence of a significant deterioration in the issuer s creditworthiness, when a change in regulatory requirements modifies what constitutes a permissible investment or the maximum level of investments held or when there is an increase in capital requirements or a change in risk weights of debt securities. Sales generate both gains and losses.

The following tables present our fixed maturity securities available-for-sale by industry category and the associated gross unrealized gains and losses as of June 30, 2007, and December 31, 2006.

U.S. Invested Assets
Fixed Maturity Securities Available-for-Sale by Industry Category

	June 30, 2007			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Carrying Amount**
	(in millions)			
Finance Bank	**$ 3,815.7**	**$ 58.8**	**$ 53.3**	**$ 3,821.2**
Finance Insurance	**2,949.5**	**47.3**	**44.4**	**2,952.4**
Finance Other	**4,770.3**	**130.7**	**81.9**	**4,819.1**
Industrial Consumer	**1,115.6**	**21.8**	**21.0**	**1,116.4**
Industrial Energy	**2,826.1**	**113.7**	**27.7**	**2,912.1**
Industrial Manufacturing	**5,183.2**	**112.9**	**73.7**	**5,222.4**
Industrial Other	**135.6**	**0.6**	**1.5**	**134.7**
Industrial Service	**3,989.1**	**107.9**	**46.6**	**4,050.4**
Industrial Transport	**861.9**	**33.2**	**12.5**	**882.6**
Utility Electric	**2,143.4**	**66.7**	**26.1**	**2,184.0**
Utility Other	**41.0**	**4.8**		**45.8**
Utility Telecom	**1,531.8**	**63.6**	**18.7**	**1,576.7**
Total corporate securities	**29,363.2**	**762.0**	**407.4**	**29,717.8**
U.S. Government and agencies	**682.7**	**2.2**	**4.3**	**680.6**
States and political subdivisions	**1,826.8**	**30.3**	**15.9**	**1,841.2**
Non-U.S. governments	**378.7**	**29.1**	**1.1**	**406.7**
Mortgage-backed and other asset-backed securities	**9,512.1**	**147.0**	**182.0**	**9,477.1**
Total fixed maturity securities, available-for-sale	**$ 41,763.5**	**$ 970.6**	**$ 610.7**	**$ 42,123.4**

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U.S. Invested Assets
Fixed Maturity Securities Available-for-Sale by Industry Category

	December 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Amount
	(in millions)			
Finance Bank	$ 3,592.1	$ 78.3	$ 21.9	$ 3,648.5
Finance Insurance	3,057.4	83.0	21.8	3,118.6
Finance Other	4,661.3	166.9	36.5	4,791.7
Industrial Consumer	1,082.1	29.1	11.3	1,099.9
Industrial Energy	2,552.2	145.5	15.7	2,682.0
Industrial Manufacturing	5,406.1	155.8	44.0	5,517.9
Industrial Other	104.7	1.3	0.7	105.3
Industrial Service	4,344.3	143.9	26.9	4,461.3
Industrial Transport	796.0	46.2	5.3	836.9
Utility Electric	2,343.5	91.9	17.7	2,417.7
Utility Other	41.0	6.6		47.6
Utility Telecom	1,569.0	87.6	11.3	1,645.3
Total corporate securities	29,549.7	1,036.1	213.1	30,372.7
U.S. Government and agencies	530.8	0.8	3.8	527.8
States and political subdivisions	1,557.7	45.4	4.9	1,598.2
Non-U.S. governments	384.9	36.1	0.3	420.7
Mortgage-backed and other asset-backed securities	9,165.6	217.4	77.8	9,305.2
Total fixed maturity securities, available-for-sale	$ 41,188.7	$ 1,335.8	$ 299.9	$ 42,224.6

The total unrealized losses on our fixed maturity securities available-for-sale were $610.7 million and $299.9 million as of June 30, 2007, and December 31, 2006, respectively. Of the $610.7 million in gross unrealized losses as of June 30, 2007, there were $4.4 million in losses attributed to securities scheduled to mature in one year or less, $84.1 million attributed to securities scheduled to mature between one to five years, $172.8 million attributed to securities scheduled to mature between five to ten years, $167.4 million attributed to securities scheduled to mature after ten years, and $182.0 million related to mortgage-backed and other asset-backed securities. The gross unrealized losses as of June 30, 2007 were concentrated primarily in the Mortgage-backed and other asset-backed securities, Financial Other, Industrial Manufacturing, and Financial Bank sectors. The gross unrealized losses as of December 31, 2006 were concentrated primarily in the Mortgage-backed and other asset-backed securities, Industrial Manufacturing, Financial Other, and Industrial Services sectors.

The following tables present our fixed maturity securities available-for-sale by investment grade and below investment grade and the associated gross unrealized gains and losses as of June 30, 2007, and December 31, 2006.

U.S. Invested Assets
Fixed Maturity Securities Available-for-Sale by Quality

	June 30, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Amount
	(in millions)			
Investment Grade:				
Public	**$ 26,603.5**	**$ 549.8**	**$ 385.2**	**$ 26,768.1**
Private	**13,364.7**	**343.4**	**206.2**	**13,501.9**
Below Investment Grade:				
Public	**990.6**	**37.3**	**13.1**	**1,014.8**
Private	**804.7**	**40.1**	**6.2**	**838.6**
Total fixed maturity securities, available-for-sale	**$ 41,763.5**	**$ 970.6**	**$ 610.7**	**$ 42,123.4**

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U.S. Invested Assets
Fixed Maturity Securities Available-for-Sale by Quality

	December 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Amount
	(in millions)			
Investment Grade:				
Public	$ 26,995.7	$ 770.7	$ 201.5	$ 27,564.9
Private	12,292.4	469.5	87.3	12,674.6
Below Investment Grade:				
Public	1,070.5	44.2	6.0	1,108.7
Private	830.1	51.4	5.1	876.4
Total fixed maturity securities, available-for-sale	$ 41,188.7	$ 1,335.8	$ 299.9	$ 42,224.6

U.S. Invested Assets
Unrealized Losses on Investment Grade Fixed Maturity Securities
Available-for-Sale by Aging Category

	June 30, 2007					
	Public		Private		Total	
	Carrying Amount	Gross Unrealized Losses	Carrying Amount	Gross Unrealized Losses	Carrying Amount	Gross Unrealized Losses
	(in millions)					
Three months or less	**$ 4,779.0**	**$ 64.4**	**$ 2,984.3**	**$ 58.0**	**$ 7,763.3**	**$ 122.4**
Greater than three to six months	**1,351.1**	**49.4**	**977.3**	**37.9**	**2,328.4**	**87.3**
Greater than six to nine months	**923.8**	**36.5**	**445.2**	**13.0**	**1,369.0**	**49.5**
Greater than nine to twelve months	**17.6**	**0.3**	**5.1**	**0.3**	**22.7**	**0.6**
Greater than twelve to twenty-four months	**5,089.9**	**183.1**	**2,019.7**	**75.5**	**7,109.6**	**258.6**
Greater than twenty-four to thirty-six months	**1,400.8**	**37.1**	**371.2**	**8.7**	**1,772.0**	**45.8**
Greater than thirty-six months	**373.2**	**14.4**	**280.3**	**12.8**	**653.5**	**27.2**
Total fixed maturities, available-for-sale	**$ 13,935.4**	**$ 385.2**	**$ 7,083.1**	**$ 206.2**	**$ 21,018.5**	**$ 591.4**

U.S. Invested Assets
Unrealized Losses on Investment Grade Fixed Maturity Securities
Available-for-Sale by Aging Category

	December 31, 2006					
	Public		Private		Total	
	Carrying Amount	Gross Unrealized Losses	Carrying Amount	Gross Unrealized Losses	Carrying Amount	Gross Unrealized Losses
	(in millions)					
Three months or less	$ 2,730.4	$ 17.6	$ 1,471.2	$ 9.1	$ 4,201.6	$ 26.7
Greater than three to six months	30.3	0.4	22.7	0.3	53.0	0.7
Greater than six to nine months	224.8	1.6	107.1	1.3	331.9	2.9
Greater than nine to twelve months	1,502.6	28.2	549.9	8.2	2,052.5	36.4
Greater than twelve to twenty-four months	5,688.9	126.0	1,938.1	52.2	7,627.0	178.2

Greater than twenty-four to thirty-six months	843.4	22.9	365.5	10.2	1,208.9	33.1
Greater than thirty-six months	101.5	4.8	113.9	6.0	215.4	10.8
Total fixed maturities, available-for-sale	$ 11,121.9	$ 201.5	$ 4,568.4	$ 87.3	$ 15,690.3	$ 288.8

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U.S. Invested Assets
Unrealized Losses on Below Investment Grade Fixed Maturity Securities
Available-for-Sale by Aging Category

	June 30, 2007					
	Public		Private		Total	
	Carrying Amount	Gross Unrealized Losses	Carrying Amount	Gross Unrealized Losses	Carrying Amount	Gross Unrealized Losses
	(in millions)					
Three months or less	**$ 90.0**	**$ 2.2**	**$ 174.6**	**$ 1.6**	**$ 264.6**	**$ 3.8**
Greater than three to six months	**74.9**	**2.7**			**74.9**	**2.7**
Greater than six to nine months			**21.3**	**0.5**	**21.3**	**0.5**
Greater than nine to twelve months						
Greater than twelve to twenty-four months	**156.0**	**5.6**	**65.2**	**2.5**	**221.2**	**8.1**
Greater than twenty-four to thirty-six months	**71.1**	**2.6**	**13.6**	**0.4**	**84.7**	**3.0**
Greater than thirty-six months			**19.5**	**1.2**	**19.5**	**1.2**
Total fixed maturities, available-for-sale	**$ 392.0**	**$ 13.1**	**$ 294.2**	**$ 6.2**	**$ 686.2**	**$ 19.3**

U.S. Invested Assets
Unrealized Losses on Below Investment Grade Fixed Maturity Securities
Available-for-Sale by Aging Category

	December 31, 2006					
	Public		Private		Total	
	Carrying Amount	Gross Unrealized Losses	Carrying Amount	Gross Unrealized Losses	Carrying Amount	Gross Unrealized Losses
	(in millions)					
Three months or less	$ 64.0	$ 0.2	$ 83.5	$ 0.5	$ 147.5	$ 0.7
Greater than three to six months						
Greater than six to nine months	38.7	1.0			38.7	1.0
Greater than nine to twelve months	56.6	1.3			56.6	1.3
Greater than twelve to twenty-four months	152.8	3.5	117.8	3.0	270.6	6.5
Greater than twenty-four to thirty-six months			27.3	1.5	27.3	1.5
Greater than thirty-six months			0.6	0.1	0.6	0.1
Total fixed maturities, available-for-sale	$ 312.1	$ 6.0	$ 229.2	$ 5.1	$ 541.3	$ 11.1

Of total gross unrealized losses as of June 30, 2007, and December 31, 2006, $591.4 million and $288.8 million were related to investment grade securities, respectively. Gross unrealized losses related to below investment grade securities were $19.3 million and $11.1 million as of June 30, 2007, and December 31, 2006, respectively.

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The following tables present the carrying amount and gross unrealized losses on fixed maturity securities available-for-sale, where the estimated fair value has declined and remained below amortized cost by 20% or more as of June 30, 2007, and December 31, 2006.

U.S. Invested Assets
Unrealized Losses on Fixed Maturity Securities
Available-for-Sale by Aging Category

	June 30, 2007					
	Problem, Potential Problem, and Restructured		**All Other Fixed Maturity Securities**		**Total**	
	Carrying Amount	**Gross Unrealized Losses**	**Carrying Amount**	**Gross Unrealized Losses**	**Carrying Amount**	**Gross Unrealized Losses**
	(in millions)					
Three months or less	**$**	**$**	**$ 4.4**	**$ 1.3**	**$ 4.4**	**$ 1.3**
Greater than three to six months						
Greater than six to nine months						
Greater than nine to twelve months			**0.1**	**0.1**	**0.1**	**0.1**
Greater than twelve months						
Total fixed maturity securities, available-for-sale	**$**	**$**	**$ 4.5**	**$ 1.4**	**$ 4.5**	**$ 1.4**

U.S. Invested Assets
Unrealized Losses on Fixed Maturity Securities Available-for-Sale by Aging Category

	December 31, 2006					
	Problem, Potential Problem, and Restructured		**All Other Fixed Maturity Securities**		**Total**	
	Carrying Amount	**Gross Unrealized Losses**	**Carrying Amount**	**Gross Unrealized Losses**	**Carrying Amount**	**Gross Unrealized Losses**
	(in millions)					
Three months or less	$	$	$ 0.7	$ 0.2	$ 0.7	$ 0.2
Greater than three to six months			0.3	0.2	0.3	0.2
Greater than six to nine months						
Greater than nine to twelve months						
Greater than twelve months						
Total fixed maturity securities, available-for-sale	$	$	$ 1.0	$ 0.4	$ 1.0	$ 0.4

Gross unrealized losses on fixed maturity securities where the estimated fair value has been 20% or more below amortized cost were $1.4 million as of June 30, 2007, and $0.4 million as of December 31, 2006. There were no gross unrealized losses attributed to those securities considered to be problem , potential problem or restructured as of June 30, 2007, and December 31, 2006.

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The following table presents the total carrying amount of our fixed maturity portfolio, as well as its problem, potential problem and restructured fixed maturities for the periods indicated:

U.S. Invested Assets
Problem, Potential Problem and Restructured Fixed Maturities at Carrying Amount

	June 30, 2007	December 31, 2006
	($ in millions)	
Total fixed maturity securities (public and private)	**$ 42,429.6**	$ 42,423.8
Problem fixed maturity securities	**$ 3.5**	$ 3.5
Potential problem fixed maturity securities		2.2
Restructured fixed maturity securities	**9.7**	11.2
Total problem, potential problem and restructured fixed maturity securities	**$ 13.2**	$ 16.9
Total problem, potential problem and restructured fixed maturity securities as a percent of total fixed maturity securities	**.03 %**	.04 %

Mortgage Loans

Mortgage loans consist primarily of commercial mortgage loans on real estate. At June 30, 2007, commercial mortgage loans aggregated to $10,542.1 million. Commercial mortgage loans on real estate are generally reported at cost adjusted for amortization of premiums and accrual of discounts, computed using the interest method, and net of valuation allowances. Commercial mortgage loans held for sale are carried at the lower of cost or fair value, less cost to sell, and reported as mortgage loans in the statements of financial position.

Commercial mortgages play an important role in our investment strategy by:

- providing strong risk-adjusted relative value in comparison to other investment alternatives;
- enhancing total returns; and
- providing strategic portfolio diversification.

As a result, we have focused on constructing a solid, high quality portfolio of mortgages. Our portfolio is generally comprised of mortgages with conservative loan-to-value ratios, high debt service coverages and general purpose property types with a strong credit tenancy.

Our commercial loan portfolio consists of primarily non-recourse, fixed rate mortgages on fully or near fully leased properties. The mortgage portfolio is comprised of general-purpose industrial properties, manufacturing office properties and credit oriented retail properties.

Credit extensions in the state of California accounted for 20% of our commercial mortgage loan portfolio as of June 30, 2007. We are, therefore, exposed to potential losses resulting from the risk of catastrophes, such as earthquakes, that may affect the region. Like other lenders, we generally do not require earthquake insurance for properties on which we make commercial mortgage loans. With respect to California properties, however, we obtain an engineering report specific to each property. The report assesses the building s design specifications, whether it has been upgraded to meet seismic building codes and the maximum loss that is likely to result from a variety of different seismic events. We also obtain a report that assesses, by building and geographic fault lines, the amount of loss our commercial mortgage loan portfolio might suffer under a variety of seismic events.

Our commercial loan portfolio is highly diversified by borrower. As of June 30, 2007, 35% of the U.S. commercial mortgage loan portfolio was comprised of mortgage loans with principal balances of less than $10.0 million. The total number of commercial mortgage loans outstanding as of June 30, 2007, and December 31, 2006 was 1,274 and 1,262, respectively. The average loan size of our commercial mortgage portfolio was $8.3 million as of June 30, 2007.

We actively monitor and manage our commercial mortgage loan portfolio. Substantially all loans within the portfolio are analyzed regularly and are internally rated, based on a proprietary risk rating cash flow model, in order to monitor the financial quality of these assets. Based on ongoing monitoring, mortgage loans with a likelihood of becoming delinquent are identified and placed on an internal watch list . Among criteria which would indicate a potential problem are: imbalances in ratios of loan to value or contract rents to debt service, major tenant vacancies or bankruptcies, borrower sponsorship problems, late payments, delinquent taxes and loan relief/restructuring requests.

We review our mortgage loan portfolio and analyze the need for a valuation allowance for any loan which is delinquent for 60 days or more, in process of foreclosure, restructured, on the watch list , or which currently has a valuation allowance. We categorize loans, which are delinquent, loans in process of foreclosure, and loans to borrowers in bankruptcy as problem loans. Potential problem loans are loans placed on an internal watch list for which management has concerns as to the ability

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of the borrower to comply with the present loan payment terms and which may result in the loan becoming a problem or being restructured. The decision whether to classify a performing loan as a potential problem involves significant subjective judgments by management as to the likely future economic conditions and developments with respect to the borrower. We categorize loans for which the original terms of the mortgages have been modified or for which interest or principal payments have been deferred as restructured loans. We also consider matured loans that are refinanced at below market rates as restructured.

The valuation allowance for commercial mortgage loans includes a loan specific allowance for impaired loans and a provision for losses based on past loss experience believed to be adequate to absorb estimated probable credit losses. The changes in this valuation allowance are reported as a net realized/unrealized capital loss on our consolidated statements of operations.

Commercial mortgage loans on real estate are considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to contractual terms of the loan agreement. When we determine that a loan is impaired, a valuation allowance is established or a direct write-down of the loan is recorded for the difference between the carrying amount of the mortgage loan and the estimated value. Estimated value is based on either the present value of the expected future cash flows discounted at the loan s effective interest rate, the loan s observable market price or fair value of the collateral. When a valuation allowance is established, subsequent recoveries are charged to the valuation allowance and subsequent losses may be charged to the valuation allowance or as a direct write-down of the loan.

The determination of the calculation and the adequacy of the mortgage loan loss provision based on past experience and mortgage impairments is subjective. Our periodic evaluation and assessment of the adequacy of the provision for losses and the need for mortgage impairments is based on known and inherent risks in the portfolio, adverse situations that may affect the borrower s ability to repay, the estimated value of the underlying collateral, composition of the loan portfolio, current economic conditions, loss experience and other relevant factors. The current portfolio statistics and past loss experience produced a provision for the Principal Life general account totaling $31.9 million. The evaluation of our impaired loan component of the allowance is subjective, as it requires estimating the amounts and timing of future cash flows expected to be received on impaired loans. Our financial position is sensitive to changes in estimated cash flows from mortgages, the value of the collateral, and changes in the economic environment in general. The valuation allowance increased by $1.6 million for the six months ended June 30, 2007, and decreased by $1.0 million for the year ended December 31, 2006.

The following table represents our commercial mortgage valuation allowance for the periods indicated:

U.S. Invested Assets
Commercial Mortgage Valuation Allowance

	June 30, 2007	**December 31, 2006**
	($ in millions)	
Beginning balance	**$ 32.2**	$ 33.2
Provision	**1.6**	1.3
Release		(2.3)
Ending balance	**$ 33.8**	$ 32.2
Valuation allowance as % of carrying value before reserves	**.32 %**	.32 %

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The following table presents the carrying amounts of problem, potential problem and restructured commercial mortgages relative to the carrying amount of all commercial mortgages for the periods indicated:

U.S. Invested Assets

Problem, Potential Problem and Restructured Commercial Mortgages at Carrying Amount

	June 30, 2007 ($ in millions)			December 31, 2006		
Total commercial mortgages	**$**	**10,542.1**		$	10,090.3	
Problem commercial mortgages(1)	**$**			$	10.7	
Potential problem commercial mortgages	**9.1**			9.1		
Restructured commercial mortgages	**6.8**			6.8		
Total problem, potential problem and restructured commercial mortgages	**$**	**15.9**		$	26.6	
Total problem, potential problem and restructured commercial mortgages as a percent of total commercial mortgages	**.15**		%	.26		%

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(1) There are no loans in foreclosure as of June 30, 2007. Problem commercial mortgages includes one mortgage loan in foreclosure of $10.6 million as of December 31, 2006.

Equity Real Estate

We hold commercial equity real estate as part of our investment portfolio. As of June 30, 2007, and December 31, 2006, the carrying amount of equity real estate investment was $880.0 million and $854.8 million, or 1% of U.S. invested assets. Our commercial equity real estate is held in the form of wholly owned real estate, real estate acquired upon foreclosure of commercial mortgage loans, and majority owned interests in real estate joint ventures.

Equity real estate is categorized as either real estate held for investment or real estate held for sale. Real estate held for investment totaled $779.4 million as of June 30, 2007, and $736.6 million as of December 31, 2006. The carrying value of real estate held for investment is generally adjusted for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Such impairment adjustments are recorded as realized investment losses and accordingly, are reflected in our consolidated results of operations. For the six months ended June 30, 2007 and for the year ended December 31, 2006, there were no such impairment adjustments.

The carrying amount of real estate held for sale as of June 30, 2007, and December 31, 2006, was $100.6 million and $118.2 million, net of valuation allowances of $4.7 million. Once we identify a real estate property to be sold and commence a plan for marketing the property, we classify the property as held for sale. We establish a valuation allowance subject to periodic revisions, if necessary, to adjust the carrying value of the property to reflect the lower of its current carrying value or the fair value, less associated selling costs.

We use research, both internal and external, to recommend appropriate product and geographic allocations and changes to the equity real estate portfolio. We monitor product, geographic and industry diversification separately and together to determine the most appropriate mix.

Equity real estate is distributed across geographic regions of the country with larger concentrations in the South Atlantic, West South Central, and Pacific regions of the United States as of June 30, 2007. By property type, there is a concentration in industrial sites and office buildings that represented approximately 58% of the equity real estate portfolio as of June 30, 2007.

Other Investments

Our other investments totaled $1,150.0 million as of June 30, 2007, compared to $972.6 million as of December 31, 2006. Derivatives accounted for $884.3 million in other investments as of June 30, 2007. The remaining invested assets include equity method investments, which include properties owned jointly with venture partners and operated by the partners.

International Investment Operations

As of June 30, 2007, our international investment operations consist of the investments of Principal International comprised of $3.6 billion in invested assets. Principal Global Investors advises each Principal International affiliate on investment policies and strategies that are consistent with the products they offer. Due to the regulatory constraints in each country, each company maintains its own investment policies.

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Overall Composition of International Invested Assets

As shown in the following table, the major categories of international invested assets as of June 30, 2007, and December 31, 2006, were fixed maturity securities, other investments, and residential mortgage loans:

International Invested Assets

	June 30, 2007 Carrying Amount ($ in millions)	**% of Total**	**December 31, 2006 Carrying Amount**	**% of Total**
Fixed maturity securities:				
Public	**$ 2,410.6**	**67 %**	$ 2,303.1	69 %
Equity securities	**54.9**	**2**	51.9	2
Mortgage loans:				
Residential	**517.7**	**14**	522.0	16
Real estate held for investment	**2.5**		12.2	
Other investments	**626.6**	**17**	438.1	13
Total invested assets	**3,612.3**	**100 %**	3,327.3	100 %
Cash and cash equivalents	**69.7**		55.0	
Total invested assets and cash	**$ 3,682.0**		$ 3,382.3	

Our other investments totaled $626.6 million as of June 30, 2007, compared to $438.1 million as of December 31, 2006. Investment in equity method subsidiaries and direct financing leases accounted for $422.0 million and $175.0 million, respectively, of other investments as of June 30, 2007. Investment in equity method subsidiaries and direct financing leases accounted for $262.7 million and $150.0 million, respectively, of other investments as of December 31, 2006. The remaining invested assets as of June 30, 2007 and December 31, 2006 are primarily related to seed money.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk Exposures and Risk Management

Market risk is the risk that we will incur losses due to adverse fluctuations in market rates and prices. Our primary market risk exposure is to changes in interest rates, although we also have exposures to changes in equity prices and foreign currency exchange rates.

The active management of market risk is an integral part of our operations. We manage our overall market risk exposure within established risk tolerance ranges by using the following approaches:

- rebalance our existing asset or liability portfolios;
- control the risk structure of newly acquired assets and liabilities; or
- use derivative instruments to modify the market risk characteristics of existing assets or liabilities or assets expected to be purchased.

Interest Rate Risk

Interest rate risk is the risk that we will incur economic losses due to adverse changes in interest rates. One source of interest rate risk is the inherent difficulty in obtaining assets that mature or have their rate reset at the exact same time as the liabilities they support. Assets may have to be reinvested or sold in the future to meet the liability cash flows in unknown interest rate environments. Also, there may be timing differences between when new liabilities are priced and when assets are purchased or procured that can cause fluctuations in profitability if interest rates move materially in the interim. A third source of interest rate risk is the prepayment options embedded within asset and liability contracts that can alter the cash flow profiles from what was originally expected.

One of the measures we use to quantify our exposure to interest rate risk is duration. To calculate duration, we project asset and liability cash flows. These cash flows are discounted to a net present value basis using a spot yield curve, which is a blend of the spot yield curves for each of the asset types in the portfolio. Duration is calculated by re-calculating these cash flows, re-determining the net present value based upon an alternative level of interest rates, and determining the percentage change in fair value.

We manage interest rate risks in a number of ways. Differences in durations between assets and liabilities are measured and kept within acceptable tolerances. Derivatives are also commonly used to mitigate interest rate risk due to cash flow mismatches and timing differences. Prepayment risk is controlled by limiting our exposure to investments that are prepayable without penalty prior to maturity at the option of the issuer. We also require additional yield on these investments to compensate for the risk the issuer will exercise such option. Prepayment risk is also controlled by limiting the sales of liabilities with features such as puts or other options that can be exercised against the company at inopportune times.

Duration-Managed. Our exposure to interest rate risk stems largely from our substantial holdings of guaranteed fixed rate liabilities in our U.S. Asset Management and Accumulation segment. We actively manage the duration of assets and liabilities in these products by minimizing the difference between the two. We have established a maximum tolerance for this difference and seek to stay within this tolerance.

As of June 30, 2007, the difference between the asset and liability durations on our primary duration managed portfolio was +0.05. This duration gap indicates that, as of this date, the sensitivity of the fair value of our assets to interest rate movements is greater than that of the fair value of our liabilities. Our goal is to minimize the duration gap. Currently, our guidelines indicate that total duration gaps between the asset and liability portfolios should be within +/-0.25. The value of the assets in this portfolio was $32,864.9 million as of June 30, 2007.

Duration-Monitored. For products such as whole life insurance and term life insurance that are less sensitive to interest rate risk, and for other products such as individual fixed deferred annuities, we manage interest rate risk based on a modeling process that considers the target average life, maturities, crediting rates and assumptions of policyholder behavior. As of June 30, 2007, the difference between the asset and liability durations on these portfolios was negligible. This duration gap indicates that, as of this date, the sensitivity of the fair value of our assets to interest rate movements is similar to that of the fair value of our liabilities. We attempt to monitor this duration gap consistent with our overall risk/reward tolerances. The value of the assets in these portfolios was $16,504.1 million as of June 30, 2007.

Non Duration-Managed. We also have a block of participating general account pension business that passes most of the actual investment performance of the assets to the customer. The investment strategy of this block is to maximize investment return to the customer on a best efforts basis, and there is little or no attempt to manage the duration of this portfolio since there is little or no interest rate risk. The value of the assets in these portfolios was $4,736.9 million as of June 30, 2007.

Using the assumptions and data in effect as of June 30, 2007, we estimate that a 100 basis point immediate, parallel increase in interest rates decreases the net fair value of our portfolio by approximately $15.8 million. The following table details the estimated changes by risk management strategy. The table also gives the weighted-average duration of the asset portfolio for each category, and the net duration gap (i.e. the weighted-average difference between the asset and liability durations).

	June 30, 2007				
Risk Management Strategy	**Value of Total Assets (in millions)**	**Duration of Assets**	**Net Duration Gap**		**Net Fair Value Change (in millions)**
Primary duration-managed	**$ 32,864.9**	**3.63**	**0.05**		**$ (16.4)**
Duration-monitored	**16,504.1**	**4.81**	**0.00**	**(1)**	**0.6**
Non duration-managed	**4,736.9**	**4.37**	**N/A**		**N/A**
Total	**$ 54,105.9**				**$ (15.8)**

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(1) The net duration gap for our duration-monitored portfolio rounded to 0.00 due to our convention of displaying the net duration gap to two decimal places.

Our selection of a 100 basis point immediate, parallel increase or decrease in interest rates is a hypothetical rate scenario we use to demonstrate potential risk. While a 100 basis point immediate, parallel increase does not represent our view of future market changes, it is a near term reasonably possible hypothetical change that illustrates the potential impact of such events. While these fair value measurements provide a representation of interest rate sensitivity, they are based on our portfolio exposures at a point in time and may not be representative of future market results. These exposures will change as a result of ongoing portfolio transactions in response to new business, management s assessment of changing market conditions and available investment opportunities.

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Debt Issued and Outstanding. As of June 30, 2007, the aggregate fair value of long-term debt was $1,552.6 million. A 100 basis point immediate, parallel decrease in interest rates would increase the fair value of debt by approximately $110.7 million. Debt is not recorded at fair value on the statement of financial position.

	June 30, 2007 Fair Value (no accrued interest) -100 Basis Point Change (in millions)	**No Change**	**+100 Basis Point Change**
8.2% notes payable, due 2009	**$ 499.9**	**$ 490.3**	**$ 480.9**
3.31% notes payable, due 2011	**55.1**	**52.9**	**50.8**
3.63% notes payable, due 2011	**45.5**	**43.7**	**42.0**
6.05% notes payable, due 2036	**668.7**	**581.5**	**510.8**
8% surplus notes payable, due 2044	**112.3**	**104.1**	**95.5**
Non-recourse mortgages and notes payable	**247.9**	**246.4**	**242.8**
Other mortgages and notes payable	**33.9**	**33.7**	**33.2**
Total long-term debt	**$ 1,663.3**	**$ 1,552.6**	**$ 1,456.0**

Use of Derivatives to Manage Interest Rate Risk. We use various derivative financial instruments to manage our exposure to fluctuations in interest rates, including interest rate swaps, swaptions, futures, and options. We use interest rate swaps and futures contracts to hedge changes in interest rates subsequent to the issuance of an insurance liability, such as a guaranteed investment contract, but prior to the purchase of a supporting asset, or during periods of holding assets in anticipation of near term liability sales. We use interest rate swaps primarily to more closely match the interest rate characteristics of assets and liabilities. They can be used to change the sensitivity to the interest rate of specific assets and liabilities as well as an entire portfolio. We also use these instruments to hedge the interest rate exposure in our commercial mortgage-backed securitization operations. Occasionally, we will sell a callable investment-type agreement and will use written interest rate swaptions to transform the callable liability into a fixed term liability.

Foreign Currency Risk

Foreign currency risk is the risk that we will incur economic losses due to adverse fluctuations in foreign currency exchange rates. This risk arises from foreign currency-denominated funding agreements issued to non-qualified institutional investors in the international market, foreign currency-denominated fixed maturity securities and demand deposits purchased, and our international operations.

We estimate that as of June 30, 2007, a 10% immediate unfavorable change in each of the foreign currency exchange rates to which we are exposed would result in no material change to the net fair value of our foreign currency denominated instruments identified above, including the currency swap agreements, because we effectively hedge foreign currency denominated instruments to minimize exchange rate impacts. The selection of a 10% immediate unfavorable change in all currency exchange rates should not be construed as a prediction by us of future market events, but rather as an illustration of the potential impact of such an event.

Use of Derivatives to Manage Foreign Currency Risk. The foreign currency risk on funding agreements and fixed maturity securities is mitigated by using currency swaps that swap the foreign currency interest and principal payments to our functional currency. The notional amount of our currency swap agreements associated with foreign-denominated liabilities as of June 30, 2007, was $4,149.6 million. The notional amount of our currency swap agreements associated with foreign-denominated fixed maturity securities as of June 30, 2007, was $2,098.6 million.

With regard to our international operations, we attempt to do as much of our business as possible in the functional currency of the country of operation. At times, however, we are unable to do so, and in these cases, we use foreign exchange derivatives to economically hedge the resulting risks. As of June 30, 2007, our operations in Chile had currency swaps with a notional amount of $24.1 million that are used to swap cash flows on U.S. dollar-denominated bonds to a local currency. Chile also utilized currency forwards with a notional amount of $110.4 million in order to mitigate currency exposure related to bonds denominated in currencies other than Chilean pesos.

Additionally, we may take measures to hedge our net equity investments in our foreign subsidiaries from currency risks. Currently, there are no outstanding net equity investment hedges.

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Equity Risk

Equity risk is the risk that we will incur economic losses due to adverse fluctuations in a particular common stock. As of June 30, 2007, the fair value of our equity securities was $600.6 million. A 10% decline in the value of the equity securities would result in an unrealized loss of $60.1 million. The selection of a 10% unfavorable change in the equity markets should not be construed as a prediction by us of future market events, but rather as an illustration of the potential impact of such an event.

We also have equity risk associated with (1) fixed deferred annuity products that credit interest to customers based on changes in an external equity index; (2) variable annuity contracts that have a guaranteed minimum withdrawal benefit (GMWB) rider that allows the customer to receive at least the principal deposit back through withdrawals of a specified annual amount, even if the account value is reduced to zero; (3) variable annuity contacts that have a guaranteed minimum death benefit (GMDB) that allows the death benefit to be paid, even if the account value has fallen below the GMDB amount; (4) investment-type contracts in which the return is tied to an external equity index; and (5) investment-type contracts in which the return is subject to minimum contractual guarantees.

Use of Derivatives to Manage Equity Risk. We economically hedge the fixed deferred annuity product by purchasing options that match the product s profile. We economically hedge the GMWB exposure using futures, options and interest rate swaps. We economically hedge the investment contract exposure to an external equity index using equity call options.

Credit Risk

Credit risk relates to the uncertainty associated with the continued ability of a given obligor to make timely payments of principal and interest. Our ability to manage credit risk is essential to our business and our profitability. See Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations, Investments for additional information about credit risk.

Use of Derivatives to Diversify or Hedge Credit Risk. We sometimes purchase credit default swaps to hedge credit exposures in our investment portfolio. We sell credit default swaps to offer credit protection to investors. If there is an event of default by the referenced name, we are obligated to pay the counterparty the referenced amount of the contract and receive in return the referenced security.

We have credit exposure through credit default swaps by investing in $147.5 million of various tranches of synthetic collateralized debt obligations. The outstanding notional amount as of June 30, 2007 was $585.0 million. We also invested in credit default swaps creating replicated assets with a notional amount of $854.8 million as of June 30, 2007.

In addition, on May 26, 2005, we invested $130.0 million in a secured limited recourse credit linked note issued by a grantor trust. The trust entered into a credit default swap providing credit protection on the first 45% of loss of seven mezzanine tranches totaling $288.9 million of seven synthetic reference portfolios. The risk of loss for the seven referenced mezzanine tranches begins at 4.85% and ends at 10.85% of loss on each of the seven synthetic reference portfolios. Therefore, defaults in an underlying reference portfolio will only affect the credit-linked note if cumulative losses exceed 4.85% of a synthetic reference portfolio. As of June 30, 2007, the credit default swap entered into by the trust had an outstanding notional amount of $130.0 million. The creditors of the grantor trusts have no recourse to the assets of our company.

Derivative Summary

Notional amounts are used to express the extent of our involvement in derivative transactions and represent a standard measurement of the volume of our derivative activity. Notional amount is not a quantification of market risk or credit risk and it may not necessarily be recorded on the statement of financial position. Notional amounts represent those amounts used to calculate contractual flows to be exchanged and are not paid or received, except for contracts such as currency swaps. Actual credit exposure represents the amount owed to us under derivative contracts as of the valuation date. The following tables present our position in, and credit exposure to, derivative financial instruments as of June 30, 2007, and December 31, 2006.

Derivative Financial Instruments Notional Amounts

	June 30, 2007		December 31, 2006	
	Notional Amount	% of Total	Notional Amount	% of Total
	($ in millions)			
Interest rate swaps	**$ 14,771.3**	**57 %**	$ 12,365.5	55 %
Foreign currency swaps	**6,272.3**	**24**	5,331.1	24
Embedded derivative financial instruments	**1,869.4**	**7**	1,679.4	8
Credit default swaps	**1,569.8**	**6**	1,550.9	7
Swaptions	**597.4**	**2**	643.4	3
Options	**542.1**	**2**	335.0	1
Currency forwards	**428.2**	**2**	342.7	2
Commodity swaps	**40.0**		20.0	
Futures	**27.6**		55.0	
Interest rate lock commitments			8.8	
Total	**$ 26,118.1**	**100 %**	$ 22,331.8	100 %

Derivative Financial Instruments Credit Exposures

	June 30, 2007 Credit Exposure ($ in millions)	% of Total	December 31, 2006 Credit Exposure	% of Total
Foreign currency swaps	**$ 596.2**	**67 %**	$ 564.6	75 %
Interest rate swaps	**241.3**	**27**	132.8	18
Options	**38.4**	**4**	31.0	4
Credit default swaps	**11.0**	**1**	15.7	2
Currency forwards	**8.6**	**1**	7.6	1
Commodity swaps	**0.7**		0.7	
Total credit exposure	**896.2**	**100 %**	752.4	100 %
Less: Collateral received	**(326.7)**		(197.5)	
Total	**$ 569.5**		$ 554.9	

The following table shows the interest rate sensitivity of our derivatives measured in terms of fair value. These exposures will change as a result of ongoing portfolio and risk management activities.

	June 30, 2007				
			Fair Value (no accrued interest)		
	Notional Amount	Weighted Average Term (Years)	-100 Basis Point Change	No Change	+100 Basis Point Change
	($ in millions)				
Interest rate swaps	**$ 14,771.3**	**5.85** (1)	**$ (29.8)**	**$ 193.3**	**$ 389.2**
Swaptions	**597.4**	**6.38** (2)	**(26.0)**	**(10.2)**	**(3.6)**
Futures	**7.4**	**.23** (3)	**(0.5)**		**0.4**
Options	**21.0**	**.99** (4)		**0.2**	**0.6**
Total	**$ 15,397.1**		**$ (56.3)**	**$ 183.3**	**$ 386.6**

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(1) Based on maturity date of swap.

(2) Based on option date of swaption.

(3) Based on maturity date.

(4) Based on settlement date.

We use U.S. Treasury futures to manage our over/under commitment position, and our position in these contracts changes daily.

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Counterparty Risk

In conjunction with our use of derivatives, we are exposed to counterparty risk, or the risk that the counterparty fails to perform the terms of the derivative contract. We actively manage this risk by:

- establishing exposure limits which take into account non-derivative exposure we have with the counterparty as well as derivative exposure;
- performing similar credit analysis prior to approval on each derivatives counterparty that we do when lending money on a long-term basis;
- diversifying our risk across numerous approved counterparties;
- limiting exposure to A+ credit or better;
- conducting stress-test analysis to determine the maximum exposure created during the life of a prospective transaction;
- implementing credit support annex (collateral) agreements with selected counterparties to further limit counterparty exposures; and
- daily monitoring of counterparty credit ratings.

All new derivative counterparties are approved by the Investment Committee. We believe the risk of incurring losses due to nonperformance by our counterparties is manageable.

Effects of Inflation

We do not believe that inflation, in the United States or in the other countries in which we operate, has had a material effect on our consolidated operations over the past five years. In the future, however, we may be affected by inflation to the extent it causes interest rates to rise.

Item 4. Controls and Procedures

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Disclosure Controls and Procedures

In order to ensure that the information that we must disclose in our filings with the SEC is recorded, processed, summarized and reported on a timely basis, we have adopted disclosure controls and procedures. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file with or submit to the SEC is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Our Chief Executive Officer, J. Barry Griswell, and our Chief Financial Officer, Michael H. Gersie, have reviewed and evaluated our disclosure controls and procedures as of June 30, 2007, and have concluded that our disclosure controls and procedures are effective.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Disclosure concerning material legal proceedings can be found in Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 4, Contingencies, Guarantees and Indemnifications under the caption, Litigation, which is incorporated here by this reference.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table presents the amount of our common share purchase activity for the periods indicated:

Issuer Purchases of Equity Securities

Period	Total Number of Shares (or Units) Purchased(1)	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (in millions) (2)(3)
January 1, 2007 January 31, 2007	**530,243**	**$ 59.80**	**530,243**	**$ 218.3**
February 1, 2007 February 28, 2007	**523,900**	**$ 62.86**	**523,900**	**$ 185.4**
March 1, 2007 March 31, 2007	**687,786**	**$ 60.40**	**588,131**	**$ 150.0**
April 1, 2007 April 30, 2007	**588**	**$ 60.23**		**$ 150.0**
May 1, 2007 May 31, 2007	**152,398**	**$ 61.10**	**152,000**	**$ 390.7**
June 1, 2007 June 30, 2007	**1,823,253**	**$ 59.55**	**1,822,600**	**$ 282.2**
Total	**3,718,168**		**3,616,874**	

(1) The number of shares includes shares of common stock utilized to execute certain stock incentive awards in 2007: 99,655 shares in March, 588 shares in April, 398 shares in May, and 653 shares in June.

(2) On November 28, 2006, our Board of Directors authorized a repurchase program of up to $250.0 million of our outstanding common stock. During the six months ended June 30, 2007, we acquired 3.6 million of our common shares in the open market at an aggregate cost of $217.8 million under this program.

(3) On May 22, 2007, our Board of Directors authorized a repurchase program of up to $250.0 million of our outstanding common stock. As of June 30, 2007, no purchases have been made under this program.

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Item 4. Submission of Matters to a Vote of Security Holders

At the Company s annual meeting of stockholders on May 22, 2007, the stockholders elected four Class III directors, each for a term expiring at the Company s 2010 annual meeting. The voting results are as follows:

	VOTES FOR	VOTES WITHHELD
Michael T. Dan	153,416,360	4,171,378
C. Daniel Gelatt	153,395,451	4,192,287
Sandra L. Helton	153,447,604	4,140,134
Larry D. Zimpleman	154,529,232	3,058,506

The directors whose terms of office continued and the years their terms expire are as follows:

CLASS I DIRECTORS TERM EXPIRES IN 2008

Betsy J. Bernard

Jocelyn Carter-Miller

Gary E. Costley

William T. Kerr

CLASS II DIRECTORS TERM EXPIRES IN 2009

J. Barry Griswell

Richard L. Keyser

Arjun K. Mathrani

Elizabeth E. Tallett

Therese M. Vaughan

In addition, the stockholders ratified the appointment of Ernst & Young LLP as the Company s independent auditors for 2007. The voting results are as follows:

FOR	AGAINST	ABSTAIN
153,913,187	1,668,500	2,006,051

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Item 6. Exhibits

Exhibit Number	Description	
12	Statement Regarding Computation of Ratio of Earnings to Fixed Charges	
31.1	Certification of J. Barry Griswell	
31.2	Certification of Michael H. Gersie	
32.1	Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code	J. Barry Griswell
32.2	Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code	Michael H. Gersie

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	PRINCIPAL FINANCIAL GROUP, INC.	
Dated: August 1, 2007	By	/s/ Michael H. Gersie Michael H. Gersie Executive Vice President and Chief Financial Officer Duly Authorized Officer, Principal Financial Officer, and Chief Accounting Officer

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Exhibit Index

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12	Statement Regarding Computation of Ratio of Earnings to Fixed Charges
31.1	Certification of J. Barry Griswell
31.2	Certification of Michael H. Gersie
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32.2	Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code Michael H. Gersie