

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

THIS GUIDE PROVIDES YOU WITH AN OVERVIEW OF OUR PLAN TO CONVERT TO A STOCK COMPANY.

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

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

Dear Policyholder:

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

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

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

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

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

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

If you have any questions, or need help with any of the materials contained in this package, please call us toll free at 1-866-781-1368 between the hours of 7 a.m. and 7 p.m., Central Daylight Time or visit our website at www.principal.com. We look forward to your continued support.

Sincerely,



David J. Drury
Chairman



J. Barry Griswell
President and Chief Executive Officer

POLICYHOLDER

QUESTIONS AND ANSWERS

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

1. | What is demutualization?

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

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

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

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

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

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

If you are an Eligible Policyholder, you will receive compensation in the form of stock, cash or Policy Credits in exchange for your membership interest in our mutual insurance holding company. Eligible Policyholders are policyholders with eligible Principal Life policies or contracts in force on March 31, 2000, one year prior to the adoption of the Plan by the Board of Directors of Principal Mutual Holding Company (the “Board”), AND who own an eligible policy or contract continuously from that date until the effective date of the demutualization. Most Eligible Policyholders will receive Principal Financial Group, Inc. common stock or cash. To preserve their policies’ tax-qualified status, Eligible Policyholders with tax-qualified policies or contracts (such as IRAs or tax deferred annuities) will receive Policy Credits, which will enhance the values of their policies or contracts. Under Iowa law, some policyholders will have the right to vote but not the right to receive compensation.

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

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

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

POLICYHOLDER

QUESTIONS AND ANSWERS

6. | Is there an approval process for demutualization?

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

7. | Why should I vote?

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

8. | Why should I vote “Yes”?

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

9. | How do I vote?

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

10. | What are the risks of demutualization?

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

11. | What happens if the Plan is approved?

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

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

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

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

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

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

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

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

Generally, yes. Your Policyholder Record Card (Card 2) shows the type of compensation you are eligible to receive. For estimated allocated shares eligible for a cash election, please refer to the instruction guide for Ballot and other Cards. There may be a limit on the amount of funds available to distribute as cash (please see the Policyholder Information Booklet Part One, “Compensation - Limit on Amounts Available for Cash and Policy Credit Compensation”). However, Eligible Policyholders who are allocated 100 or fewer shares of Principal Financial Group, Inc. common stock are guaranteed to receive cash, if they so elect.

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

Default Compensation is the form of compensation you will receive if you are an Eligible Policyholder and you do not elect to receive a different form of compensation. Your Default Compensation depends on the type of policy or contract that you own. Please see the “Compensation Table” in the Policyholder Information Booklet Part One to determine your Default Compensation.

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

No, your shares will be held for your benefit by Mellon Investor Services, the transfer agent. This saves you the trouble of safekeeping original stock certificates. You will receive a notice confirming the number of shares issued to you as a result of the demutualization. At any time after you receive this notice, you may request a stock certificate. You may sell your shares at any time after you receive the notice, even if you do not request a stock certificate.

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

Generally, the full amount of any cash you receive will be taxed as a long-term capital gain in the year it is received. **Regardless of the form of compensation you receive, you must sign and return Card 3, the Taxpayer Identification Card, in the enclosed envelope, or we may be required to withhold federal income tax at the rate of 31 percent on any cash payment and any future stock dividends payable to you, and you may be subject to a \$50 IRS penalty.** If you receive stock of Principal Financial Group, Inc., you will not be taxed immediately. However, if you later sell your stock, you will, generally, be

taxed on the full amount of the proceeds. Policy Credits are not immediately subject to federal income taxes, and they will not affect the tax-qualified status of the contract. However, when policy benefits are paid, Policy Credits become taxable to the same extent benefits are subject to taxation. For more information, please see “U.S. Federal Income Tax Considerations” in the Policyholder Information Booklet Part One. We also urge you to consult your tax advisor for definitive answers on your personal situation.

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

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

19. | Can I call my agent with questions?

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

NEED MORE INFORMATION?

We have established a Demutualization Information Center where trained representatives can help you complete the enclosed Cards or answer questions you have about the Plan. The Demutualization Information Center will be open between the hours of 7:00 a.m. and 7:00 p.m., Central Daylight Time. The toll-free number is 1-866-781-1368. You may also write us at: Demutualization Information Center, P. O. Box 4425, South Hackensack, New Jersey 07606-2025.

INSTRUCTION GUIDE FOR BALLOT AND OTHER CARDS

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

- 1 Mark an "X" in one of the boxes to vote Yes (for the Plan) or No (against the Plan). A ballot with both boxes marked or neither box marked will not be counted.
- 2 Indicate a name or address change (for the demutualization only) by writing changes on the reverse side of this card.
- 3 Sign and date where indicated, complete and return the Card(s) in the enclosed envelope. If the policy(s) or contract(s) has more than one owner, all owners must sign the ballot and Form of Compensation Card. A ballot that is not signed will not be counted.
- 4 This represents your policyholder identification number. It appears on the front of every card.
- 5 Card 2 shows your eligible, in force policy(s) and contract(s) as of March 31, 2001, the date the Plan was adopted by the Board, and the corresponding possible form(s) of compensation for each policy and contract, if applicable. If you believe this information is inaccurate or incomplete, please call 1-866-781-1368.
- 6 Card 2 indicates the total number of estimated allocated shares of stock on which your compensation will be based. This number is preliminary and subject to change.
- 7 Some allocated shares are eligible for cash election. Card 2 indicates how many of the estimated shares are eligible for a cash election. Use Card 4 to elect cash if you are eligible. If Card 2 indicates that you are eligible only for cash or only for Policy Credits, you will automatically receive cash or Policy Credits (as applicable) and you do not need to complete Card 4.

BALLOT CARD (Card 1) Policyholder ID **4**

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

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

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

ALL POLICYHOLDERS MUST SIGN

SIGNATURE **3** DATE

SIGNATURE **3** DATE

Sign exactly as your name appears to the left. When signing as attorney, executor, administrator, trustee or guardian, give full title as such.
Questions? Call our Demutualization Information Center toll free at 1-866-781-1368 weekdays, 7 a.m. to 7 p.m., Central Daylight Time or visit www.principal.com.

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

POLICYHOLDER RECORD CARD (Card 2) Policyholder ID

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

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

Questions? Call our Demutualization Information Center toll free at 1-866-781-1368 weekdays, 7 a.m. to 7 p.m., Central Daylight Time or visit www.principal.com.

RETAIN THIS CARD - DO NOT RETURN

READ IMPORTANT INFORMATION ON REVERSE SIDE.

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

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

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

TAXPAYER IDENTIFICATION CARD (Card 3)

IS THIS YOUR CORRECT TAXPAYER IDENTIFICATION NUMBER? **8** IF NOT, PLEASE CORRECT IN THE SPACE PROVIDED

8 You must complete and return this card to confirm and certify your taxpayer identification number. Without certification, we may be required by law to withhold 31% of any cash payment and any future stock dividends payable to you, and you may be subject to a \$50 IRS penalty.

8 Certification: Under penalties of perjury, I declare that I have examined the information on this form and to the best of my knowledge and belief it is true, correct, and complete. I further certify under penalties of perjury that:

(1) The number shown on this form is my correct taxpayer identification number (or I am waiting for a number to be issued to me); (2) I am not subject to backup withholding because (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as a result of failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding; and (3) I am a U.S. person (including a U.S. resident alien).

SIGNATURE _____ DATE _____

READ IMPORTANT INFORMATION ON REVERSE SIDE.

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

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

FORM OF COMPENSATION CARD (Card 4)

DO NOT return this card if you prefer stock.

9 Estimate of the total number of allocated shares eligible for cash election:

Mark this box ("X") to elect cash for all allocated shares eligible for cash election. **10**

ALL POLICYHOLDERS MUST SIGN

SIGNATURE _____ DATE _____

SIGNATURE _____ DATE _____

Sign exactly as your name appears to the left. When signing as attorney, executor, administrator, trustee or guardian, give full title as such. Mark, sign, date and mail this card promptly, using the enclosed envelope.

Questions? Call our Demutualization Information Center toll free at 1-866-781-1368 weekdays, 7 a.m. to 7 p.m., Central Daylight Time or visit www.principal.com.

READ IMPORTANT INFORMATION ON THE REVERSE SIDE.

PLEASE NOTE:

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

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

POLICYHOLDERS' PACKAGE, SPECIAL MEMBERS' MEETING & PUBLIC HEARING

YOUR PACKAGE INCLUDES:

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

CARD NUMBER	CARD NAME	WHAT YOU NEED TO DO
1	Ballot Card	Complete, sign and mail
2	Policyholder Record Card	Retain this card for your records
3	Taxpayer Identification Card	Complete, sign and mail
4	Form of Compensation Card	Complete, sign and return only if: <ul style="list-style-type: none">• You are eligible to elect cash and• You prefer to receive cash rather than stock

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

ALL POLICYHOLDERS ARE INVITED TO THE FOLLOWING:

SPECIAL MEMBERS' MEETING*

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

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

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

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

DEMUTUALIZATION INFORMATION CENTER

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

THE TOLL-FREE NUMBER IS:

1-866-781-1368
(7 a.m. – 7 p.m., Central Daylight Time, weekdays)

OR WRITE US AT:

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