

total return for the five-year period ended December 31, 2002, was -0.12% and for the ten-year period ended December 31, 2002 was 6.51%.

7. The Bond Account is managed by PMC. The Bond Account's investment objective is to seek as high a level of income as is consistent with the preservation of capital and prudent investment risk by investing primarily in intermediate maturity fixed-income or debt securities rated BBB or higher by Standard & Poor's Rating Service or Baa or higher by Moody's Investor's Service, Inc. The expense ratio of the Bond Account for 2002 was 0.49%. The Bond Account has no 12b-1 plan. The total return of the Bond Account for the year ended December 31, 2002, was 9.26%. The average annual total return for the five-year period ended December 31, 2002, was 6.04%, and for the ten-year period ended December 31, 2002 was 7.23%. There are no fee waiver or expense reimbursement provisions with respect to either Fund.

8. Applicants believe that the substitution will better serve the interests of contractowners because it will eliminate an investment option under the Contract that has never been able to attract significant contractowner interest, will provide contractowners with an investment in an account that has similar, although not identical, investment objectives and policies, a lower expense ratio and superior historical performance, and should benefit contractowners by providing economies of scale that result from investing in a much larger account. Applicants represent that the substitution will take place at the relative net asset values determined on the date of the substitution in accordance with Section 22 of the Act and Rule 22c-1 thereunder. Applicants represent that there will be no financial impact to any contractowner.

9. Applicants agree that, to the extent that the annualized expenses of the Bond Account exceed, for each fiscal quarter during the two-year period following the Substitution, the 2002 net expense level of the High Yield Account, Principal Life will, for each Contract outstanding on the date of the Substitution, make a reduction in (or reimbursement of) the Bond Division expenses on the last day of each such fiscal period, such that the sum of the net expenses of the Bond Account and the net expenses of the Bond Division will, on an annualized basis, be no greater than the sum of the net expenses of the High Yield Account and the net expenses of the High Yield Division for the 2002 fiscal year. In addition, for the two-year period following the

Substitution, Principal Life will not increase asset-based fees or charges under the Contract.

10. The substitution will be effected by having the High Yield Division redeem its shares of the High Yield Account for cash at the net asset value calculated on the date of the substitution and purchase shares of the Bond Account for cash at net asset value on the same date. In the alternative, the substitution may be effected by having a partial "in-kind" redemption with the High Yield Division receiving from the High Yield Account securities that are eligible investments for the Bond Account and that have a value equal to the net asset value of the shares of the High Yield Account being redeemed and then contributing these securities to the Bond Account in exchange for shares of the Bond Account having a net asset value equal to the value of the securities contributed (the "In-Kind Transaction"). In connection with the completion of the substitution, Principal Life will withdraw its seed money from the High Yield Account and terminate the High Yield Account. In addition, Principal Life will combine the High Yield Division with the Bond Division.

11. Applicants represent that the proposed substitution was described in a supplement to the prospectus for the Contract ("Sticker") filed with the Commission on August 16, 2002, and mailed to contractowners. The Sticker gave contractowners notice of the substitution, described the reasons for engaging in the substitution and informed the contractowners that no amounts may be transferred to the High Yield Division on or after May 31, 2003. In addition, the Sticker informed affected contractowners that they will have an opportunity to reallocate accumulation value, prior to the substitution, from the High Yield Division, or for 60 days after the substitution, from the Bond Division to another Division available under the Contract, without the imposition of any transfer-charge or limitation and without counting the transfer as one of the four annual free transfers (the "Free Transfer Right"). Contractowners may elect to reallocate accumulation value to the Fidelity VIP High Yield Division ("Fidelity High Income Division") that invests solely in an Underlying Fund that, like the High Yield Account, emphasizes investment in lower-quality debt securities.

12. Each contractowner has been provided a prospectus for the Bond Account. Within five days after the substitution, Principal Life will send to contractowners written confirmation that the substitution has occurred.

13. Applicants represent that Principal Life will pay all expenses and transaction costs of the substitution. Affected contractowners will not incur any fees or charges as a result of the substitution, nor will their rights or the obligations of Principal Life under the Contract be altered in any way. The proposed substitution will not cause the fees and charges under the Contract currently being paid by contractowners to be greater after the substitution than before the substitution. The proposed substitution will not have a tax impact on contractowners.

Applicants' Legal Analysis

1. Applicants request an order pursuant to section 26(c) of the Act approving the substitution. Section 26(c) of the Act makes it unlawful for any depositor or trustee of a registered unit investment trust holding the security of a single issuer to substitute another security for such security unless the Commission approves the substitution. The Commission will approve such a substitution if the evidence establishes that it is consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the Act.

2. Applicants assert that the purposes, terms and conditions of the substitution are consistent with the principles and purposes of section 26(c) and do not entail any of the abuses that section 26(c) is designed to prevent. Substitution is an appropriate solution to the small size and higher relative expense of the High Yield Account. Applicants believe that the Bond Account will better serve contractowner interests because of its larger size, lower expenses and better historical performance. Moreover, Principal Life has reserved the right to effect substitutions in the Contract and disclosed this reserved right in the prospectus for the Contract.

3. Applicants represent that the substitution will not result in the type of costly, forced redemption that section 26(c) was intended to guard against and, for the following reasons, is consistent with the protection of investors and the purposes fairly intended by the Act:

(a) The proposed substitution permits contractowners continuity of investment objectives and expectations. Both the Bond Account and the High Yield Account seek a high level of income through investing in fixed-income securities. Although the Bond Account and the High Yield Account differ significantly in the credit quality of the securities in which each principally invests, there is substantial overlap in the range of the credit qualities of the