Principal U.S. Property Account
2006 Annual Report

Equities
Fixed Income
Real Estate

Principal®
Global Investors

Table of Contents

Cover photographs (from left to right): Seaview Corporate Center – San Diego, CA; Fife Commerce Center – Tacoma, WA; Bell Tower Shops – Fort Myers, FL; Ravello Apartments – Dallas, TX

Background – Philosophy – Objectives

The Principal U.S. Property Account Background

Since 1982, The Principal Financial Group® (The Principal®)[1] U.S. Property Account (the Account) has been offered to clients as an open-end, commingled real estate fund sponsored by Principal Life Insurance Company and managed by Principal Real Estate Investors. The Account is a diversified real estate equity fund consisting primarily of high quality, well-leased real estate properties in the multi-family, industrial, office and retail sectors. The Principal U.S. Property Account is available to qualified retirement plans and is open to contributions and withdrawals daily.

Philosophy

The Principal U.S. Property Account is a core real estate fund designed to have a low to moderate risk profile compared to other open-end real estate funds. This risk profile has two components: 1) a low to moderate real estate property risk profile; and 2) a low to moderate risk fund-level operating profile. Low to moderate real estate property risk is accomplished by investing primarily in well-leased properties on an unleveraged or low leverage basis. Low to moderate fund-level risk is accomplished by operating with a strong liquidity focus, client diversification, and limited fund-level obligations, such as forward commitments and fund level debt.

Objectives

The Principal U.S. Property Account has three primary objectives: 1) to invest in a well-diversified real estate portfolio that reflects the overall performance of the U.S. commercial real estate market; 2) to maintain appropriate liquidity so that clients can make daily contributions or withdrawals subject to certain limits; and 3) to provide clients with private real estate returns that meet or exceed the open-end fund component of the National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index.

NORTH AVENUE COLLECTION
CHICAGO, IL

PREMIER LOFTS
DENVER, CO

[1] "The Principal Financial Group" and "The Principal" are registered trademarks referring to Principal Financial Group, Inc. The Principal U.S. Property Account is a commingled separate account managed by Principal Real Estate Investors, LLC, and maintained by Principal Life Insurance Company as the Principal U.S. Property Separate Account. It is available through group annuity contracts of Principal Life Insurance Company.

Portfolio Highlights

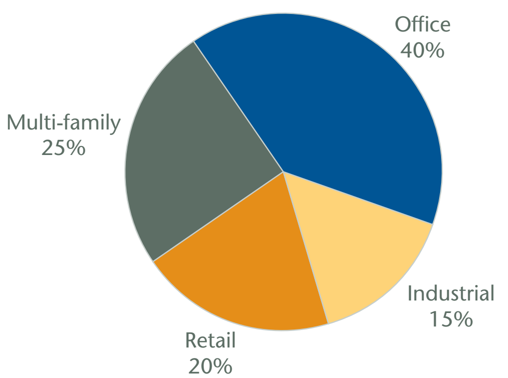
KEY STATISTICS		DECEMBER 31, 2006	
Inception Date	January, 1982	Number of Investors	over 14,300
Gross Asset Value	$6.5 billion	Institutional Investors > $5M	63
Net Asset Value	$5.4 billion	Cash to Gross Assets	2.5%
Number of Investments	143	Leverage Ratio[1]	13.8%
Number of Markets	43	Portfolio Occupancy	88.3%
Size	35.2 million sf	Occupancy excluding Value-added Properties	93.1%

SECTOR	CURRENT ALLOCATION	NCREIF[2]	TARGET ALLOCATION
Office	40%	38%	30% – 40%
Multi-family	25%	21%	15% – 25%
Retail	20%	23%	15% – 25%
Industrial	15%	18%	15% – 25%

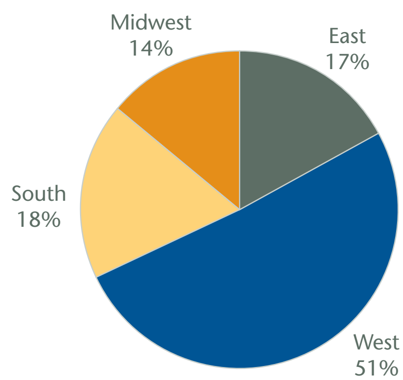
PERFORMANCE	GROSS FUND[3]	NET FUND[4]	PROPERTY[5]	BENCHMARK[6]
1 year	16.5%	15.1%	16.1%	15.3%
3 year	16.7%	15.4%	16.5%	15.8%
5 year	12.8%	11.5%	13.0%	12.5%
10 year	12.0%	10.8%	12.6%	12.4%
Since Inception	8.8%	7.7%	9.2%	8.0%

[1]Total debt (both property and portfolio) divided by total assets
[2]NCREIF Property Index weighting, excluding hotel allocation
[3]Gross fund returns are levered and pre-fee
[4]Net fund returns include an investment management fee assuming the highest fee schedule of 1.15%
[5]Property returns are unlevered, before fees and calculated in accordance with NCREIF property return methodology
[6]Property level performance is benchmarked against the open-end fund component of the NCREIF Property Index

SECTOR WEIGHTINGS



GEOGRAPHIC WEIGHTINGS



Portfolio Manager Commentary

The Principal U.S. Property Account produced strong results on many initiatives in 2006. The Account generated solid nominal and relative investment performance with a **total gross return of 16.5%** for the year, outperforming benchmark returns over the one, three, five and 10-year time periods.[1] The portfolio's quality was upgraded with the acquisition of primarily high quality properties in major markets and the disposition of generally lower quality properties in secondary markets. The Account also continued its 24-year history of honoring all redemption requests on a daily basis.

Two macro-level forces continued to work to the benefit of real estate in 2006. First, real estate space market fundamentals improved during the year. Domestic (and global) economic expansion resulted in increased tenant demand for space and the combination of investor discipline and rising construction costs constrained new supply to reasonable levels. Second, the investor view of real estate as a required asset class in a diversified portfolio, versus an optional asset class, persisted. These intersecting forces resulted in rising rents and robust real estate asset appreciation.

Strong performance in the **office sector led the Account's investment returns in 2006.** Over the past three years, the Account has strategically increased its weighting to the office property type from 20% to 40%. This occurred at a time when the office sector shifted from underperforming to outperforming the overall index. The industrial sector remained a positive contributor to total returns for the year, while the retail and multi-family sectors underperformed office and industrial.

Three interrelated themes continue to govern the Account's investment strategy, with the ongoing objective of delivering solid risk-adjusted returns to our investors. First, we seek to own properties with sustainable **landlord pricing power**. With the era of yield compression likely over for the asset class, future appreciation will be gained via rising property level net operating incomes. Second, we will maintain momentum in upgrading the **quality** of the portfolio by acquiring higher quality properties and selling lower quality properties. Third, we will continue to focus our investment activities primarily in **urban, infill locations** with supply constraints. In addition to these strategic

333 MARKET STREET
SAN FRANCISCO, CA

[1] Property level performance outperformed the Account's property level benchmark, the open-end fund component of the NCREIF Property Index.

initiatives, tactical business plan execution at the property level is a primary focus for 2007. Investment performance will be increasingly driven by effective asset management (i.e., raising rents and occupancies and managing expenses) in coming years.

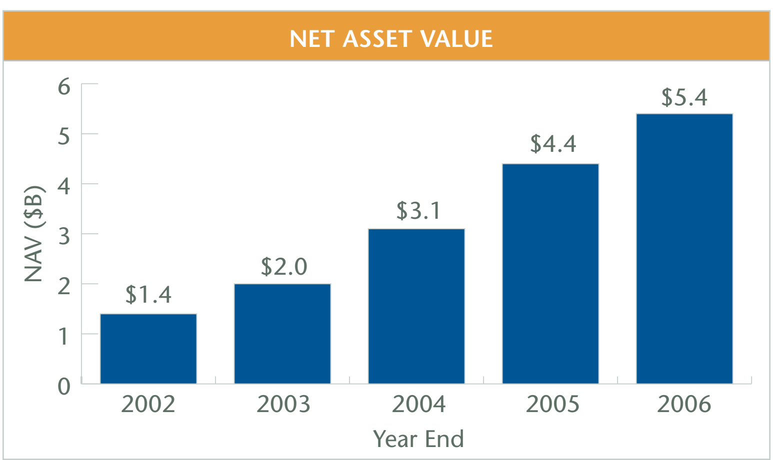
The Account's **net asset value grew by approximately $1.0 billion in 2006**, to $5.4 billion. This growth was a combination of continued investor interest in the Account and strong asset appreciation. The gross asset value of the Account grew from $5.1 billion to $6.5 billion in 2006. With 143 properties in 43 markets across the country, the Account continues to offer excellent diversification to investors. The Account's overall debt obligations equaled approximately 14% of gross assets at year-end.

We effectively balanced investment discipline and Account growth during the year through a combination of factors. The Account executed **over $850 million of sales transactions** in 2006, exhibiting active management and a strong hold-sell discipline. Healthy acquisition activity and the use of a client entry queue allowed for orderly Account growth. The Account's reputation, longstanding relationships and flexibility, as well as the experience and resources of Principal Real Estate Investors, allowed the Account to **acquire over $1.2 billion of high quality investments** in 2006. Moreover, the entry queue enabled us to remain disciplined in our investment activities.

We anticipate investor interest in the real estate asset class will remain healthy throughout 2007. While more investors are shifting up the risk spectrum with their real estate allocations toward value-added and opportunistic strategies, **we expect pricing for core real estate to remain firm in 2007**. Through a combination of owning high quality properties in infill locations with landlord pricing power and comprehensive business plan execution at the property level, we anticipate continued Account income growth. While the total returns of the past few years are unsustainable, this income growth should result in modest appreciation and competitive total returns for the Account in 2007.

Thank you for your support and consideration of the Principal U.S. Property Account. We look forward to working with you in the future.

John T. Berg
Portfolio Manager



U.S. Economic Outlook[1]

Global economic growth is near a 30-year high, and has been accompanied by such a significant increase in housing and commodity prices that central banks are now acting in a relatively synchronized manner by raising interest rates to reduce inflationary pressures.

Because the U.S. Federal Reserve has been a front-runner in removing accommodative monetary policy, relative to most other central banks, its rate hikes are likely complete as inflationary pressures begin to ease. Higher interest rates have dramatically slowed the housing market, but the U.S. economy appears to be resilient enough to continue to expand, albeit at a more moderate pace. Our forecast is for the 10-year Treasury to trade in a range of 4.50% to 5.25% during 2007, ending the year near 4.75%.

The outlook for a slowing, but still growing, U.S. economy is based upon several factors. While inflation is still a risk, offsetting global and domestic disinflationary forces exist that should help mitigate inflationary pressures. Despite low savings rates, U.S. household financial health is strong. **Reduced energy prices and low unemployment rates**, which support continued growth in household wages and income, will likely provide a relatively soft landing for the housing market and consumer spending. Further, overall corporate financial health is excellent, buoyed by record earnings and strong balance sheets. The outlook for continued growth in labor productivity remains reasonably strong, supporting both additional growth in corporate earnings and wages in a non-inflationary manner.

Global gross domestic product (GDP) growth, while expected to slow in 2007, is anticipated to remain strong in an absolute sense, and when combined with a weak U.S. dollar, supports continued momentum in U.S. exports. In addition, real long-term Treasury rates remain below historical averages, and are still relatively stimulative. The U.S. economy remains a formidable and resilient force that likely will continue to grow, albeit at a slower pace than in recent years. **Our forecast is for 2007 U.S. GDP growth of approximately 2.50%**. This more measured pace of economic growth should help unwind imbalances built up during previous periods of highly accommodative monetary policy and allow for more balanced economic growth going forward.

GDP, EMPLOYMENT AND PRODUCTIVITY GROWTH

[1] *Expectations & Market Realities in Real Estate: 2007* published by Principal Real Estate Investors, Torto Wheaton Research and Real Estate Research Corporation. The full report is available upon request.

Property Sector Highlights[1]

Office Sector

Office space market fundamentals continue to improve, driven by strong net absorption and only moderate levels of new construction. And while there is a significant amount of new office supply in the planning stages, construction costs that have risen faster than rents in most markets should help keep new supply reasonably well-controlled over the near-to-intermediate term.

Industrial Sector

Space market fundamentals in the industrial sector continue their steady improvement, driven by the combined forces of consumer spending and the expansion of global trade flows. However, near-term concerns include increased pockets of protectionist sentiment, slowing consumer spending (especially for durable goods as the housing market decelerates) and cyclical reductions in global economic growth. The long-term outlook for the U.S. industrial sector remains very favorable, driven by strong population growth and the likelihood of continued growth in global trade activity.

Retail Sector

As a result of higher interest rates and a slowing housing market, consumer spending tailwinds have begun to moderate. Rental growth in the retail sector is expected to decline in 2007 amidst increasing supply and vacancy rates, and retail's recent strong investment outperformance relative to other sectors has begun to reverse. However, given low unemployment levels and continued growth in household income, as well as a recent moderation in energy prices, consumer spending will likely continue to grow. The growth may be at a more moderate pace, but should still provide some support for retail space market fundamentals.

Multi-family Sector

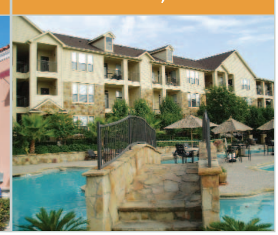
Multi-family fundamentals are quite strong, with effective rent growth in 2006 exceeding inflation for the first time since 2001. Increasing apartment construction going forward and shadow competition from condominiums available for lease present challenges for further improvement in apartment vacancy and rental rates. Nevertheless, strong demographic forces make apartments well-positioned to continue to generate strong risk-adjusted returns over the long term.

CHARLES PARK
CAMBRIDGE, MA

WOODRIDGE CENTRE
CHICAGO, IL

PLAZA PASEO
SAN DIEGO, CA

VERANDAH AT
GRANDVIEW HILLS
AUSTIN, TX



[1] *Expectations & Market Realities in Real Estate: 2007* published by Principal Real Estate Investors, Torto Wheaton Research and Real Estate Research Corporation. The full report is available upon request.

Principal U.S. Property Account Performance

The Account generated **solid performance in 2006**, producing a total gross return of 16.5%, with the appreciation component contributing more than originally anticipated at 11.1%. Both investor and tenant demand have continued to drive value for Account properties, which remains a theme for most high-quality assets in major market locations.

This **2006 performance put the Account ahead of its benchmark**, the open-end fund component of the NCREIF property index, for the one, three, five and 10-year time periods. Market selection (over and underweighting the right property type and market combinations) was the largest contributor to Account outperformance. The active management of the Account also translated into selling $854 million of assets and redeploying capital into higher quality properties in major markets to upgrade the overall quality of the portfolio. Also, due to strong real estate property-level performance, leverage continued to positively impact returns. Cash balances, which averaged approximately 2% over the year, and joint venture partner promotes accruals were negative contributors to total return.

Sector Performance

The **office** sector led Account performance for 2006, producing a 20.7% total return. Over the past three years, the Account has strategically increased its weighting to the office sector from 20% to 40% of real estate assets at a time when the performance of the office sector has shifted from underperforming to outperforming the overall index. The Account anticipates a slight overweighting to the office sector over the near term with a long-term underweighting, as office is the most volatile of the four sectors. High quality properties in urban locations were the best performing assets within the office sector.

Industrial performance was also strong for 2006, generating a sector return of 17.3%. Well-positioned assets in Los Angeles as well as southern California's Inland Empire had the greatest positive impact on industrial returns. These markets service both the Port of Long Beach and the Port of Los Angeles. When combined, this port complex ranks as the fifth busiest in the world and number one in the United States.[1] The Account is currently underweighted to the industrial sector and desires to increase its weighting slightly to an overweighted position over the mid-term.

112TH AT 12TH
SEATTLE, WA

ROCKY MOUNTAIN BUSINESS CENTER
DENVER, CO

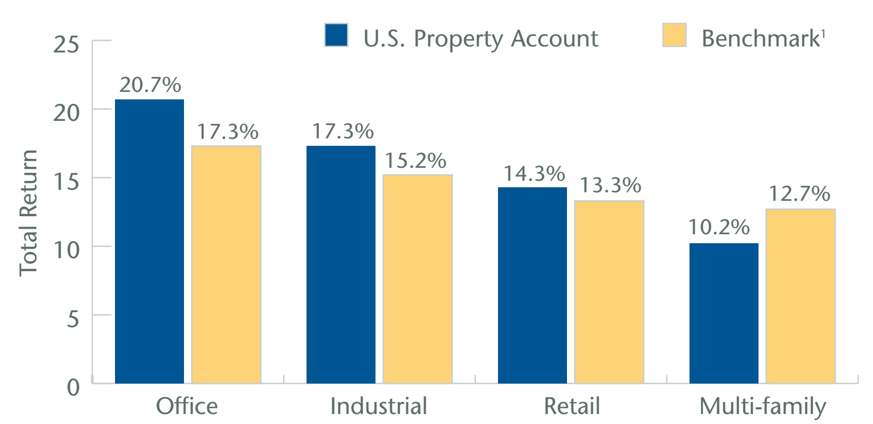
[1] Port Import Export Reporting Service

Principal U.S. Property Account Performance

Retail performance was a solid 14.3% for the year; however, investor demand and the velocity of increasing rental rates for retail assets have slowed. Properties in locations with continued high amounts of discretionary income from permanent and seasonal residents led the Account's retail returns. Assets in Florida as well as centers in in-fill locations within San Diego and Chicago were top performers for the Account. Assets with large anchor tenants with flat, long-term leases were increasingly out of favor with investors during 2006. Instead of wanting safe, bond-like assets, investors were looking for assets with increasing revenue streams that will generate higher total returns. The Account is currently equal to slightly underweighted to the retail sector and anticipates a similar weighting relative to the benchmark in the short term.

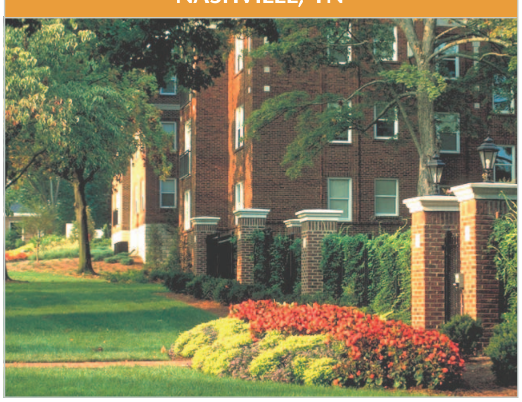
Multi-family performance lagged its benchmark with a total return of 10.2%. The Account has several projects that are in a capital intensive development or redevelopment phase. Upon completion of these activities, the properties are expected to achieve both income levels and appreciation commensurate with the completed or improved asset. Investment themes for the multi-family sector include owning high quality, non-commodity projects that compete for renters on location and amenities; properties in markets in which the cost to rent an apartment is materially less than the cost to own a home; and assets with supply constraints and a strong demand anchor (e.g., a university). The Account is slightly overweighted to the multi-family sector and anticipates roughly an equal weighting over the short term.

1-year Sector Returns



PENINSULA CENTER
LOS ANGELES, CA

HILLSBORO VILLAGE
NASHVILLE, TN



[1] Property level performance is benchmarked against the open-end fund component of the NCREIF Property Index.

Value-Added Properties

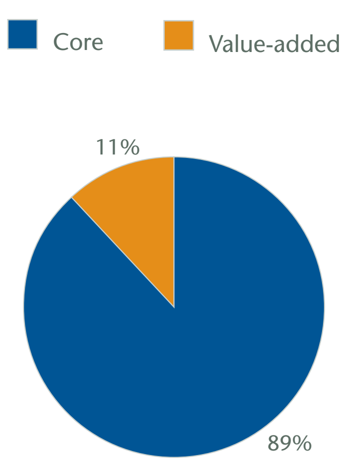
The Principal U.S. Property Account has the ability to acquire a limited amount (a maximum of 15% of real estate assets) of higher risk, higher return properties with the goal of enhancing investor returns. During 2006, the Account purchased approximately $133.6 million of this type of investment, ending the year with value-added exposure of 11%.

Properties in **the value-added portfolio produced a 12.1% property level return** in 2006, which is slightly lower than anticipated. However, most assets within this category are currently executing their asset-level business plans. Once the value-added strategies on these projects are completed, their impact on comparative performance is expected to be positive.

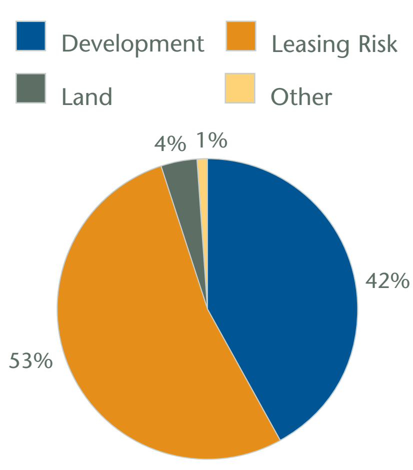
Primary value-added strategies include:

- Developing office and industrial properties in markets where tenant demand exceeds new supply and risk-adjusted return expectations are greater for the development of new product versus the acquisition of existing assets.
- Taking calculated leasing risk by acquiring under-leased properties (primarily office and warehouse) in markets with fast growing demand fundamentals where high asset quality, strong location and attractive price compensate for leasing risk.
- Building apartments in vibrant urban locations with healthy renter demand and barriers to development.
- Developing or redeveloping retail centers in markets experiencing a high level of population growth and discretionary income levels.

STRATEGY MIX



TACTICAL MIX OF VALUE-ADDED PROPERTIES[1]



[1] Shown as a percent of the Account's value-added properties

2006 Transaction Activity

Capital Market Overview

Investor interest remains high and became increasingly diverse throughout 2006. As cap rates for high quality, well-leased assets in major markets appear to be stabilizing, distinctions between major and secondary market locations as well as asset quality levels are beginning to return to the market with cap rates rising slightly for lower quality assets in secondary locations. However, as interest rates eased slightly during the fourth quarter, investors maintained comfort in their ability to achieve a desirable risk premium for real estate investments at current pricing levels. As more investor capital has turned its attention to value-added assets in search of additional return, **further cap rate compression is unlikely to continue for core assets**. Further value growth is anticipated to stem from a well-run business plan at the asset level, with a focus on containing expenses and increasing rents and occupancy levels as the micro-market warrants.

2006 Transactions

The Account had a dynamic year of transaction activity, **investing $1.21 billion** in 17 acquisitions and **selling $854 million** in 14 transactions and 5 partial sales. Two transactions marked notable events for the Account. The single largest acquisition in its operating history occurred in the fourth quarter (333 Market Street in San Francisco), directly on the heels of closing the single largest disposition (1540 Broadway in New York) in the third quarter. A high quality office asset in San Francisco's financial district, 333 Market Street was acquired for $370M during the fourth quarter. The asset is 100% leased to an investment credit tenant for 20 years, aligning all characteristics of a high quality, core office acquisition.

Transaction Strategy

Specific property type strategies that led transaction activity in 2006 and will continue in 2007 include:

- **Office:** Acquire primarily in major markets and urban locations. Selectively invest in suburban assets if a discount to reproduction cost exists.
- **Industrial:** Remain primarily invested in the warehouse sub-type, identifying specific transactions in the flex or service center sub-type where additional yield exists. Accumulate in major transportation hubs. Build versus buy in markets where material differences exist between construction costs and stabilized asset pricing.
- **Retail:** Hold a diversified portfolio of retail formats. Enter joint venture partnerships with local experts to re-develop existing assets through re-tenanting space and/or adding square footage to increase property level income stream.
- **Multi-family:** Select non-commodity properties in urban locations in markets experiencing strong population growth. Develop apartment communities where existing product is difficult to access and the added return supports taking development risk. Enter joint venture partnerships with local experts to employ asset-level redevelopment strategies.

2006 Transaction Activity

2006 Acquisitions

The Account purchased **four office assets** in 2006, as well as a parcel of land for office development. These totaled $814.2 million and represented the sector of greatest activity for the year.

- **333 Market Street** in San Francisco's financial district was purchased 100% leased by a credit tenant for the next 20 years, aligning all characteristics of a high quality, core office acquisition.
- **1370 Avenue of the Americas** and **1412 Broadway**, both located in Midtown Manhattan, were purchased at discounts to replacement cost in a highly desired market with low vacancy, rising rents, limited additional supply and rising construction and land costs.
- **90 Mountain View** is located in North Scottsdale, an area experiencing tremendous employment and population growth. The property was acquired 43% leased in June and was 90% leased at year-end.
- A land parcel in northwest Austin was purchased in a joint venture partnership for the 251,000 sf development of **Research Park Place.**

Multi-family investments included four acquisitions totaling $248.0 million.

- **Creekside Meadows Apartments** in Orange County, within close proximity to the two largest employment centers in the area, was purchased in a joint venture partnership and targeted for redevelopment.
- **The Ravello Apartments** are located in an in-fill location within the Uptown area of Dallas.
- **Camden Court Apartments** in Baltimore were purchased in a forward commitment with the developer. The apartments are just blocks from the Inner Harbor (the city's entertainment and restaurant hub) and Camden Yards baseball stadium.
- **Block Lofts** offer urban, loft style units in the heart of midtown Atlanta.

1370 AVENUE OF THE AMERICAS
NEW YORK, NY

BLOCK LOFTS
ATLANTA, GA

LANTANA VILLAGE SQUARE
WEST PALM BEACH, FL

2006 Transaction Activity

The Account added **five retail properties** to the portfolio in 2006, totaling $114.1 million. These properties were all purchased in joint-venture partnerships with local experts as redevelopment opportunities and/or opportunities to add additional square footage to increase the property level income stream.

- **Meadows Marketplace**, a grocery-anchored center in Houston, was purchased off-market with a Houston based joint venture partner, with adjacent land parcels for additional retail development.
- **Lantana Square Village**, **Oak Grove Shoppes**, **Springs Plaza** and **Murdock Carrousel**, all Florida retail centers, were purchased with a prominent Florida retail owner with the intent to re-develop the well-established centers and achieve enhanced returns.

Core **industrial assets** proved difficult to purchase in 2006 at pricing levels displaying good relationship to reproduction cost. Many investor portfolios continue to be underweighted to this sector and properties are highly desired. Instead of participating in the high prices for stabilized core industrial properties, two acquisitions with "leasing risk" were made totaling $33.0 million. The Account purchased the assets vacant and directly from the developer with the goal of producing higher total returns to compensate for taking this calculated risk. These assets include:

- **Enterprise Distribution Center** in southern California's Inland Empire (Riverside).
- **Rocky Mountain Business Center** in Denver.

2006 Dispositions

Account dispositions included **14 transactions and 5 partial sales, totaling $854 million**. As the Account continues to improve the quality of assets in the portfolio and identify strategic and tactical disposition opportunities, sales rationale employed in 2006 and anticipated to continue in 2007 includes:

- Capitalize on market pricing imbalances to sell properties when premium pricing is available.
- Enhance portfolio quality by selling properties of lower quality or in declining locations and re-investing the proceeds in higher quality properties.
- Strategic sale after a property's business plan has been executed and value maximized.
- Use sales process to strategically reduce exposure to selected sectors or markets.

**ENTERPRISE DISTRIBUTION CENTER
RIVERSIDE, CA**

**90 MOUNTAIN VIEW
PHOENIX, AZ**

2006 Transaction Activity

ACQUISITIONS

PROPERTY	SECTOR	MSA	PRICE ($MILLION)	STRUCTURE
333 Market Street	Office	San Francisco	$ 370.1	Wholly Owned
1370 Avenue of the Americas	Office	New York	$ 221.0	Joint Venture
1412 Broadway	Office	New York	$ 178.4	Joint Venture
90 Mountain View	Office	Phoenix	$ 38.2	Wholly Owned
Research Park Place	Office (Land)	Austin	$ 6.5	Joint Venture
Total Office			**$ 814.2**	
Creekside Meadows Apartments	Multi-family	Orange County	$ 123.8	Joint Venture
Ravello Apartments	Multi-family	Dallas	$ 55.3	Wholly Owned
Camden Court Apartments	Multi-family	Baltimore	$ 34.9	Joint Venture
Block Lofts	Multi-family	Atlanta	$ 34.0	Wholly Owned
Total Multi-family			**$ 248.0**	
Meadows Marketplace	Retail & Land	Houston	$ 37.7	Joint Venture
Oak Grove Shoppes	Retail	Orlando	$ 22.3	Joint Venture
Lantana Square Village	Retail	West Palm Beach	$ 22.2	Joint Venture
Murdock Carrousel	Retail	Port Charlotte	$ 19.9	Joint Venture
Springs Plaza	Retail	Orlando	$ 12.0	Joint Venture
Total Retail			**$ 114.1**	
Enterprise Distribution Center	Industrial	Riverside	$ 26.5	Wholly Owned
Rocky Mountain Business Center	Industrial	Denver	$ 6.5	Wholly Owned
Total Industrial			**$ 33.0**	
Fountainhead Corporate Park	Land	Phoenix	$ 1.0	Wholly Owned
Total Land			**$ 1.0**	
2006 Acquisitions			**$ 1,210.3**	

DISPOSITIONS

PROPERTY	SECTOR	MSA	PRICE ($MILLION)	STRUCTURE
1540 Broadway*	Office	New York	$ 354.6	Capitalize on market pricing
8401 Datapoint Drive	Office	San Antonio	$ 11.2	Enhance portfolio quality
Denver Club	Office	Denver	$ 10.5	Enhance portfolio quality
Scottsdale Place**	Office	Phoenix	$ 7.7	Execution of business plan
Total Office			**$ 384.0**	
Parkwood Place**	Multi-family	Atlanta	$ 9.5	Execution of business plan
Buckhead Place**	Multi-family	Nashville	$ 8.5	Execution of business plan
Total Multi-family			**$ 18.0**	
Marketplace at Dr. Phillips	Retail	Orlando	$ 108.8	Execution of business plan
Market Fair	Retail	Trenton	$ 89.5	Capitalize on market pricing
Essex Green Shopping Center	Retail	Newark	$ 86.4	Capitalize on market pricing
Alafaya Square	Retail	Orlando	$ 38.9	Execution of business plan
Springs Plaza	Retail	Orlando	$ 21.0	Execution of business plan
Total Retail			**$ 344.6**	
AmberGlen Business Center**	Industrial Flex	Portland	$ 27.9	Strategically reduce exposure
Northmont Business Center	Industrial	Atlanta	$ 24.8	Enhance portfolio quality
Airport International Center II	Industrial	Miami	$ 13.8	Capitalize on market pricing
1025 Airport 100 Way	Industrial	Baltimore	$ 12.8	Enhance portfolio quality
Westpark Center	Industrial	Miami	$ 10.1	Capitalize on market pricing
California Business Center	Industrial	Salt Lake City	$ 8.1	Strategically reduce exposure
Freeport Southwest – Building 1**	Industrial	Houston	$ 5.5	Capitalize on market pricing
Total Industrial			**$ 103.0**	
Fountainhead Corporate Park**	Land	Phoenix	$ 4.5	Strategically reduce exposure
Total Land			**$ 4.5**	
2006 Dispositions			**$ 854.1**	

* Reflects pro-rata share of gross sale price in joint venture investment
** Partial sale

Independent Auditors' Report

To the Account Management and Contractholders
Principal Life Insurance Company U.S. Property Separate Account
Des Moines, Iowa

We have audited the accompanying consolidated statements of assets and liabilities of Principal Life Insurance Company U.S. Property Separate Account ("USPSA"), including the schedules of investments, as of December 31, 2006 and 2005, and the related consolidated statements of operations, changes in net assets, cash flows, and the financial highlights for the years then ended. These consolidated financial statements and financial highlights are the responsibility of USPSA's management. Our responsibility is to express an opinion on these consolidated financial statements and financial highlights based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of USPSA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements and financial highlights referred to above present fairly, in all material respects, the consolidated financial position of USPSA as of December 31, 2006 and 2005, the consolidated results of its operations, changes in its net assets, its cash flows, and financial highlights for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Des Moines, Iowa
January 26, 2007

PRINCIPAL LIFE INSURANCE COMPANY
U.S. PROPERTY SEPARATE ACCOUNT
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
DECEMBER 31, 2006 AND 2005

	2006	2005
ASSETS		
Investments at estimated fair value:		
Real estate investments		
(cost: 2006 – $5,198,305,474;		
2005 – $4,223,803,464)	$ 6,268,756,000	$ 4,921,293,000
Investment in real estate joint venture		
(cost: 2006 – $437,453;		
2005 – $85,047,000)	437,453	111,198,397
Short-term investments		
(cost: 2006 – $143,210,618;		
2005 – $65,630,098)	143,210,618	65,630,098
Total investments at estimated fair value		
(cost: 2006 – $5,341,953,545;		
2005 – $4,374,480,562)	6,412,404,071	5,098,121,495
Cash	18,815,359	2,418,780
Accrued investment income and other assets	75,515,170	41,027,569
Total assets	6,506,734,600	5,141,567,844
LIABILITIES		
Line of credit	–	45,000,000
Debt	897,313,983	576,405,200
Accounts payable and accrued expenses	62,653,887	44,206,858
Accrued property taxes	26,264,288	23,696,182
Security deposits	13,536,154	11,123,555
	999,768,312	700,431,795
Minority interest	138,499,915	78,959,702
Total liabilities	1,138,268,227	779,391,497
NET ASSETS	$ 5,368,466,373	$ 4,362,176,347

See notes to consolidated financial statements.

PRINCIPAL LIFE INSURANCE COMPANY
U.S. PROPERTY SEPARATE ACCOUNT
CONSOLIDATED SCHEDULE OF INVESTMENTS
DECEMBER 31, 2006

	FAIR VALUE
REAL ESTATE – 97.8%	
United States:	
Total office – 39.3% (cost $2,231,371,979)	
333 Market, San Francisco, CA	$ 370,150,000
Other office	2,151,421,375
	2,521,571,375
Total land – 0.4% (cost $16,098,824)	27,185,500
Total retail – 19.7% (cost $1,012,542,550)	1,262,326,125
Total industrial – 14.2% (cost $649,662,674)	906,660,000
Total multi-family – 24.2% (cost $1,288,629,447)	1,551,013,000
Total investments in real estate (cost $5,198,305,474)	6,268,756,000
INVESTMENTS IN REAL ESTATE JOINT VENTURE – 0.0%	
United States:	
Total office – 0.0% (cost $437,453)	437,453
SHORT-TERM INVESTMENTS – 2.2%	
United States:	
Commercial paper – 0.4% (cost $28,285,000)	28,285,000
Money market institutional fund – 1.8% (cost $114,925,618)	114,925,618
Total short-term investments (cost $143,210,618)	143,210,618
Total investments at estimated fair value (cost $5,341,953,545)	$ 6,412,404,071

See notes to consolidated financial statements.

PRINCIPAL LIFE INSURANCE COMPANY
U.S. PROPERTY SEPARATE ACCOUNT
CONSOLIDATED SCHEDULE OF INVESTMENTS
DECEMBER 31, 2005

	FAIR VALUE
REAL ESTATE – 96.5%	
United States:	
Total office – 29.5% (cost $1,393,969,763)	$ 1,504,728,587
Total land – 0.4% (cost $18,629,558)	21,142,788
Total retail – 26.9% (cost $1,142,896,236)	1,373,638,625
Total industrial – 16.9% (cost $679,547,583)	858,965,000
Total multi-family – 22.8% (cost $988,760,324)	1,162,818,000
Total investments in real estate (cost $4,223,803,464)	4,921,293,000
INVESTMENTS IN REAL ESTATE JOINT VENTURE – 2.2%	
United States:	
Total office – 2.2% (cost $85,047,000)	111,198,397
SHORT-TERM INVESTMENTS – 1.3%	
United States:	
Commercial paper – 0.6% (cost $32,050,000)	32,050,000
Money market institutional fund – 0.7% (cost $33,580,098)	33,580,098
Total short-term investments (cost $65,630,098)	65,630,098
Total investments at estimated fair value (cost $4,374,480,562)	$ 5,098,121,495

See notes to consolidated financial statements.

PRINCIPAL LIFE INSURANCE COMPANY
U.S. PROPERTY SEPARATE ACCOUNT
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
INVESTMENT INCOME:		
Rental and other income	$ 487,982,973	$ 381,649,943
Real estate taxes	(66,017,939)	(55,057,984)
Other operating expenses	(141,023,867)	(105,142,843)
Net operating income from real estate	280,941,167	221,449,116
Net operating income from investment in real estate joint venture	1,360,610	4,594,166
Interest income on short-term investments	10,061,963	767,932
Total investment income	292,363,740	226,811,214
EXPENSES:		
Interest expense	51,459,340	27,375,072
Investment management fees	53,526,632	41,201,380
Professional and other fees	5,802,800	4,172,316
Total expenses	110,788,772	72,748,768
MINORITY INTEREST IN NET INVESTMENT INCOME	1,101,588	940,593
NET INVESTMENT INCOME	180,473,380	153,121,853
REALIZED AND UNREALIZED GAIN:		
Proceeds from real estate investment sales	498,792,935	307,498,870
Cost of real estate investments sold	(400,756,483)	(225,669,770)
Realization of prior period unrealized gain on real estate investments sold	(39,571,321)	(6,888,145)
Net gain recognized from real estate investment sales	58,465,131	74,940,955
Net gain recognized from investment in real estate joint venture	93,312,800	–
Unrealized gain on investments and debt	403,569,042	444,538,617
NET REALIZED AND UNREALIZED GAIN	555,346,973	519,479,572
MINORITY INTEREST IN NET REALIZED AND UNREALIZED GAIN	48,320,861	28,470,402
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$ 687,499,492	$ 644,131,023

See notes to consolidated financial statements.

PRINCIPAL LIFE INSURANCE COMPANY
U.S. PROPERTY SEPARATE ACCOUNT
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS:		
Net investment income	$ 180,473,380	$ 153,121,853
Net gain recognized from real estate investment sales	58,465,131	74,940,955
Net gain recognized from investment in real estate joint venture	93,312,800	–
Unrealized gain on investments and debt	403,569,042	444,538,617
Minority interest in net realized and unrealized gain	(48,320,861)	(28,470,402)
Net increase in net assets resulting from operations	687,499,492	644,131,023
NET INCREASE IN NET ASSETS RESULTING FROM NET CONTRACTHOLDER CONTRIBUTIONS	318,790,534	611,917,408
INCREASE IN NET ASSETS	1,006,290,026	1,256,048,431
NET ASSETS AT BEGINNING OF YEAR	4,362,176,347	3,106,127,916
NET ASSETS AT END OF YEAR	$ 5,368,466,373	$ 4,362,176,347

See notes to consolidated financial statements.

PRINCIPAL LIFE INSURANCE COMPANY
U.S. PROPERTY SEPARATE ACCOUNT
CONSOLIDATED STATEMENTS OF CASHFLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net increase in net assets resulting from operations	$ 687,499,492	$ 644,131,023
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:		
Net realized and unrealized gain	(555,346,973)	(519,479,572)
Minority interest	49,422,449	29,410,995
Net operating income from investment in real estate joint venture	(1,360,610)	(4,594,166)
Changes in:		
Accrued investment income and other assets	3,127,086	(13,322,086)
Accounts payable and accrued expenses	4,866,268	3,625,706
Accrued property taxes	2,568,106	5,788,964
Security deposits	2,412,599	1,363,814
Total adjustments	(494,311,075)	(497,206,345)
Net cash provided by operating activities	193,188,417	146,924,678
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from real estate investment sales	498,792,935	307,498,870
Purchases of real estate investments and improvements	(1,163,107,964)	(1,275,876,473)
Distributions from investment in real estate joint venture	205,434,353	10,574,716
Net change in short-term investments	(77,580,521)	81,430,397
Net change in escrows and other restricted assets	(37,614,687)	(273,343)
Net cash used in investing activities	(574,075,884)	(876,645,833)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowing (repayments) on line of credit	(45,000,000)	45,000,000
Repayments of debt	(142,172,112)	(107,321,644)
Issuance of debt	255,547,860	157,572,829
Net contractholder contributions	318,790,534	611,917,408
Contributions from minority interest partners	39,944,535	17,157,264
Distributions to minority interest partners	(29,826,771)	(2,144,249)
Net cash provided by financing activities	397,284,046	722,181,608
NET CHANGE IN CASH	16,396,579	(7,539,547)
CASH, BEGINNING OF YEAR	2,418,780	9,958,327
CASH, END OF YEAR	$ 18,815,359	$ 2,418,780
SUPPLEMENTAL DISCLOSURE OF CASH PAID FOR INTEREST	$ 50,308,153	$ 27,240,484

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

USPSA had noncash purchases of real estate investments and improvements of $39,978,879 and $26,398,118 in 2006 and 2005, respectively. USPSA assumed mortgages payable of $208,696,303 and $97,799,680 in 2006 and 2005, respectively, in connection with the purchase of real estate investments.

See notes to consolidated financial statements.

PRINCIPAL LIFE INSURANCE COMPANY
U.S. PROPERTY SEPARATE ACCOUNT
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Principal Life Insurance Company U.S. Property Separate Account ("USPSA") is an open-end, commingled real estate account and a separate account of Principal Life Insurance Company ("Principal Life") established in 1982 in accordance with the provisions of the State of Iowa insurance laws. Pursuant to such laws, the net assets of USPSA are not chargeable with liabilities arising out of any business of Principal Life. Participation in USPSA is available through the purchase of certain group contracts and policies issued by Principal Life. The investment advisor is Principal Real Estate Investors, LLC ("Principal Real Estate"), a wholly owned subsidiary of Principal Life.

Basis of Presentation – USPSA follows the provisions contained in the American Institute of Certified Public Accountants ("AICPA") Audit and Accounting Guide "Investment Companies" ("Investment Company Guide"). Under the Investment Company Guide, assets and property-level debt are presented at fair value. Debt which is not collateralized by a specific real estate investment is presented at amounts payable, net of any unamortized premium or discount.

Real Estate Investments – An independent consultant (the "Valuation Consultant") selected by Principal Real Estate Investors, LLC oversees and administers the appraisal process for USPSA. Real estate investments are stated at estimated fair value as determined by the Valuation Consultant and approved by USPSA management. Appraisals are performed for each investment annually by independent third party MAI certified appraisers with all appraisals being performed in accordance with the Uniform Standard of Professional Appraisal Practice. The appraised values are updated on at least a monthly basis by the Valuation Consultant based on changes in factors such as occupancy levels, lease rates, overall market conditions and capital improvements. Determination of estimated fair value involves subjective judgment because the actual fair value of real estate can be determined only by negotiation between the parties in a sales transaction. Sale transactions are accounted for using the full accrual method in accordance with Statement of Financial Accounting Standards No. 66, "Accounting for Sales of Real Estate." All costs incurred to complete the sales of the properties are included in the computations of the gain or loss on sale. USPSA does not record depreciation.

PRINCIPAL LIFE INSURANCE COMPANY
U.S. PROPERTY SEPARATE ACCOUNT
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Included in real estate investments are real estate investments under development or redevelopment which are stated at estimated fair value as determined by management. Upon completion and stabilization of occupancy, the property is appraised externally.

Real Estate Improvements – Amounts expended in connection with acquisitions, physical improvements and other capital expenditures, are capitalized as part of the cost of real estate investments. Maintenance and repair expenses are charged to operations as incurred.

Investment in Real Estate Joint Venture – Investment in real estate joint venture is comprised of a joint venture which USPSA does not control, but over which it has significant influence. The investment is included in the consolidated statements of assets and liabilities at USPSA's 49% ratable share of the estimated fair value of the underlying net assets of the joint venture, adjusted for the terms of the joint venture agreement. Net operating income from investment in real estate joint venture represents USPSA's share of the current year's joint venture income as provided for under the terms of the joint venture agreement. Joint venture income is not reduced by depreciation or amortization expense.

In July 2006, the underlying real estate asset of the joint venture was sold. USPSA's share of the realized gain on sale and change in the fair value of the joint venture is reported in net realized and unrealized gain in the accompanying consolidated statements of operations. Distributions from the joint venture are recorded on the ex-dividend date.

Deferred Costs – Leasing costs paid to third parties to obtain tenants are capitalized as a component of the cost of real estate investments. The cost of real estate investments presented in the accompanying consolidated statements of assets and liabilities includes approximately $59,000,000 and $50,000,000 of such deferred costs as of December 31, 2006 and 2005, respectively. USPSA does not record amortization.

Cash – Cash includes cash on hand and demand deposit accounts.

Short-Term Investments – Short-term investments are comprised of money market accounts and commercial paper and are carried at estimated fair value as determined by Principal Life.

Fair Value of Debt – The fair value of debt is based on the present value of estimated cash flows and prevailing interest rates for borrowings with similar risk and terms. The debt fair

PRINCIPAL LIFE INSURANCE COMPANY
U.S. PROPERTY SEPARATE ACCOUNT
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

value adjustment was $1,542,811 and $2,706,078 as of December 31, 2006 and 2005, respectively. The carrying value of the line of credit approximates its fair value as the interest rate is adjusted with changes in market interest rates.

Minority Interest – USPSA has entered into joint development relationships with other investors to acquire and develop real estate properties. USPSA is the majority owner in such projects and has control over decision making. Accordingly, the underlying assets and liabilities of the projects are consolidated into USPSA's financial statements, with the external investors' net share reflected as minority interest. Certain external investors earn additional equity if the estimated rate of return of the real estate property that they are invested in exceeds a contractually determined rate. This additional equity contribution is accrued at the same time that the underlying real estate property appreciates and is recorded in minority interest in net realized and unrealized gain in the accompanying consolidated statements of operations. The additional equity accrual included in minority interest in the consolidated statements of assets and liabilities was approximately $48,970,000 and $27,470,000 as of December 31, 2006 and 2005, respectively.

Revenue Recognition – Rental income is recognized as income when earned in accordance with the terms of the respective leases. Reimbursements from tenants for common area costs are recognized monthly based on an estimate of annual costs, subject to periodic adjustments to reflect actual costs.

Income Taxes – According to current provisions of the Internal Revenue Code pertaining to tax qualified separate accounts, no income taxes are attributable to the activities of USPSA. As a result, income taxes are not reflected in the accompanying consolidated financial statements.

Use of Estimates – The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

PRINCIPAL LIFE INSURANCE COMPANY
U.S. PROPERTY SEPARATE ACCOUNT
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

2. INVESTMENT MANAGEMENT FEES

Principal Life charges USPSA annual management fees based upon its net assets, with such fees deducted daily. These fees totaled $53,526,632 and $41,201,380 in 2006 and 2005, respectively.

3. INVESTMENT COMMITMENTS

As of December 31, 2006, USPSA had outstanding commitments to purchase nine properties for approximately $379,025,000. Certain properties will be under construction with USPSA agreeing to purchase the completed development subject to attaining certain development and leasing thresholds. It is anticipated that USPSA will acquire these properties between 2007 and 2009.

As of December 31, 2006, USPSA had outstanding commitments to sell four properties for approximately $52,552,000. It is anticipated that USPSA will sell these properties in 2007.

4. DEBT

Mortgage Notes Payable – Mortgage notes payable totaled $714,312,687 and $378,620,591 as of December 31, 2006 and 2005, respectively. These notes mature between 2007 and 2033 with fixed and variable interest rates ranging from 3.75% to 7.97% at December 31, 2006 and from 1.00% to 8.30 % at December 31, 2005. The notes are collateralized by mortgages on real property and all rents and profits of the underlying properties.

Construction Notes Payable – Construction notes payable totaled $42,487,877 and $10,961,418 as of December 31, 2006 and 2005, respectively. These notes mature between 2007 and 2008. Variable interest payments are due monthly ranging from 6.75% to 7.08% at December 31, 2006 and 6.09% at December 31, 2005. The notes are collateralized by the underlying properties.

Notes Payable – Notes payable totaled $65,000,000 and $110,000,000 as of December 31, 2006 and 2005, respectively. The note matures in 2011. Interest accrues at a fixed interest rate of 6.60%. The note agreement contains financial and non-financial covenants, including requirements regarding net assets, leverage ratio, debt service coverage ratio and unencumbered assets. USPSA was in compliance with all covenants as of December 31, 2006.

PRINCIPAL LIFE INSURANCE COMPANY
U.S. PROPERTY SEPARATE ACCOUNT
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

4. DEBT (CONTINUED)

Assessments – Assessments consist of amounts owed to the City of Pleasanton, California, City of Tempe, Arizona, and to the City of New York, New York. The assessments totaled $73,970,608 and $74,117,113 as of December 31, 2006 and 2005, respectively. These assessments mature between 2007 and 2032 with fixed and variable interest rates ranging from 3.9% to 5.1% as of December 31, 2006 and 4.69% to 7.59% as of December 31, 2005. The assessments are recorded as liens on real property.

As of December 31, 2006, aggregate contractual maturities of debt were as follows:

YEAR ENDING DECEMBER 31,	
2007	$ 39,559,208
2008	132,519,732
2009	49,851,328
2010	2,474,875
2011	284,221,495
Thereafter	387,144,534
	895,771,172
Debt fair value adjustment	1,542,811
	$ 897,313,983

5. LINE OF CREDIT AND LETTERS OF CREDIT

USPSA maintains an unsecured line of credit. Maximum availability under this line of credit was $300,000,000 and $200,000,000 as of December 31, 2006 and 2005, respectively (reduced to $284,455,000 and $192,500,000, respectively, by the letters of credit described below). At December 31, 2006 and 2005, $0 and $45,000,000, respectively, was outstanding on this line. Interest on outstanding borrowings accrues at LIBOR plus .65% (5.97% and 5.04% at December 31, 2006 and 2005, respectively). Additionally, USPSA pays a quarterly commitment fee of .15% per year, based on the total amount of the line of credit.

The line of credit includes a $100,000,000 letter of credit sub facility at December 31, 2006 and 2005, respectively. At December 31, 2006 and 2005, there were letters of credit issued with a maximum availability of $15,545,000 and $7,500,000, respectively, of which $0 was outstanding. Interest on outstanding borrowings accrues interest at LIBOR plus .65% (5.97% and 5.04% at December 31, 2006 and 2005, respectively). Additionally, USPSA

PRINCIPAL LIFE INSURANCE COMPANY
U.S. PROPERTY SEPARATE ACCOUNT
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

5. LINE OF CREDIT AND LETTERS OF CREDIT (CONTINUED)

pays an unused commitment fee of .65% per year, based on the unused amount of the letter of credit. The letters of credit expire between April 2007 and March 2011.

The line of credit agreement contains financial and non-financial covenants, including requirements regarding net assets, leverage ratio, debt service coverage ratio and unencumbered assets. USPSA was in compliance with all covenants as of December 31, 2006.

6. TENANT LEASES

USPSA leases space to tenants under operating lease agreements. These agreements include renewal options and expire at various dates. At December 31, 2006, future minimum base rentals on non-cancelable leases related to USPSA's properties were as follows:

YEAR ENDING DECEMBER 31,	
2007	$ 306,480,996
2008	287,314,972
2009	251,263,045
2010	219,588,226
2011	171,899,150
Thereafter	764,867,271
	$ 2,001,413,660

The above future minimum base rental payments exclude residential lease agreements that accounted for approximately 20.3% of USPSA's annual rental income for the year ended December 31, 2006. Rental income for the year ended December 31, 2006 and 2005, included approximately $84,418,000 and $64,302,000, respectively, recovered from tenants for common area and other reimbursable costs.

PRINCIPAL LIFE INSURANCE COMPANY
U.S. PROPERTY SEPARATE ACCOUNT
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

7. REAL ESTATE JOINT VENTURE

A summary of the financial information for the joint venture is as follows:

	2006	2005
ASSETS:		
Investment in real estate at estimated fair value	$ –	$ 550,000,000
Other assets	1,188,652	51,786,306
Total assets	$ 1,188,652	$ 601,786,306
LIABILITIES AND EQUITY:		
LIABILITIES:		
Debt	$ –	$ 304,658,000
Other liabilities	72,701	37,964,350
Total liabilities	72,701	342,622,350
EQUITY	1,115,951	259,163,956
Total liabilities and equity	$ 1,188,652	$ 601,786,306
Revenue	$ 23,723,993	$ 46,387,844
Expenses	(20,947,238)	(37,011,995)
Net gain recognized from real estate investment sale	225,840,989	–
Unrealized gain	–	97,679,168
Net income	$ 228,617,744	$ 107,055,017

PRINCIPAL LIFE INSURANCE COMPANY
U.S. PROPERTY SEPARATE ACCOUNT
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

8. FINANCIAL HIGHLIGHTS

	NONPROVIDER		PGI>$25 MILLION		PROVIDER		SIP < $25 MIL, NO COMM	
	2006	2005	2006	2005	2006	2005	2006	2005
Per Share Operating Performance								
Net asset value, beginning of year	$ 553.22	$ 466.41	$ 25.29	$ 21.28	$ 292.33	$ 249.81	$ 24.99	$ 21.10
Income from investment operations:								
Net investment income	21.66	20.44	1.04	0.97	7.10	7.15	0.93	0.89
Net realized and unrealized gain	62.11	66.37	2.84	3.04	32.65	35.37	2.81	3.00
Total from investment operations	83.77	86.81	3.88	4.01	39.75	42.52	3.74	3.89
Net asset value, end of year	$ 636.99	$ 553.22	$ 29.17	$ 25.29	$ 332.08	$ 292.33	$ 28.73	$ 24.99
Total Return	15.14 %	18.61 %	15.37 %	18.85 %	13.60 %	17.02 %	14.97 %	18.43 %

	CLIENT A		FIA ADVISORS SELECT		RETIREMENT ACCUM. CONTRACT		FIA SIGNATURE	
	2006	2005	2006	2005	2006	2005	2006	2005
Per Share Operating Performance								
Net asset value, beginning of year	$ 562.80	$ 473.07	$ 483.80	$ 410.30	$ 24.92	$ 21.04	$ 515.02	$ 435.51
Income from investment operations:								
Net investment income	23.91	22.31	15.77	15.23	0.92	0.89	18.46	17.62
Net realized and unrealized gain	63.26	67.42	54.22	58.27	2.81	2.99	57.75	61.89
Total from investment operations	87.17	89.73	69.99	73.50	3.73	3.88	76.21	79.51
Net asset value, end of year	$ 649.97	$ 562.80	$ 553.79	$ 483.80	$ 28.65	$ 24.92	$ 591.23	$ 515.02
Total Return	15.49 %	18.97 %	14.47 %	17.91 %	14.97 %	18.43 %	14.80 %	18.26 %

PRINCIPAL LIFE INSURANCE COMPANY
U.S. PROPERTY SEPARATE ACCOUNT
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

8. FINANCIAL HIGHLIGHTS (CONTINUED)

	FIA SELECT		FIA PREFERRED		FIA ADVISORS SIGNATURE		FIA ADVISORS PREFERRED	
	2006	2005	2006	2005	2006	2005	2006	2005
Per Share Operating Performance								
Net asset value, beginning of year	$ 533.12	$ 450.45	$ 540.18	$ 455.87	$ 466.05	$ 395.76	$ 497.57	$ 421.21
Income from investment operations:								
Net investment income	19.57	18.62	20.54	19.45	14.56	14.15	17.22	16.52
Net realized and unrealized gain	59.81	64.05	60.64	64.86	52.17	56.14	55.78	59.84
Total from investment operations	79.38	82.67	81.18	84.31	66.73	70.29	73.00	76.36
Net asset value, end of year	$ 612.50	$ 533.12	$ 621.36	$ 540.18	$ 532.78	$ 466.05	$ 570.57	$ 497.57
Total Return	14.89 %	18.35 %	15.03 %	18.49 %	14.32 %	17.76 %	14.67 %	18.13 %

	PGI>$10 ≤ $25 MILLION		PGI ≤ $10 MILLION		PRE 2002 NONPRO		CLIENT B	
	2006	2005	2006	2005	2006	2005	2006	2005
Per Share Operating Performance								
Net asset value, beginning of year	$ 25.24	$ 21.25	$ 25.15	$ 21.20	$ 554.95	$ 467.40	$ 25.21	$ 21.23
Income from investment operations:								
Net investment income	1.03	0.95	1.00	0.94	22.34	20.99	1.04	0.96
Net realized and unrealized gain	2.84	3.04	2.83	3.01	62.34	66.56	2.83	3.02
Total from investment operations	3.87	3.99	3.83	3.95	84.68	87.55	3.87	3.98
Net asset value, end of year	$ 29.11	$ 25.24	$ 28.98	$ 25.15	$ 639.63	$ 554.95	$ 29.08	$ 25.21
Total Return	15.32 %	18.79 %	15.20 %	18.67 %	15.26 %	18.73 %	15.32 %	18.79 %

FUND LEVEL SUPPLEMENTAL DATA	2006	2005
Net assets, end of year	$ 5,368,466,373	$ 4,362,176,347
Ratio to average net assets:		
Fund level expenses	1.19%	1.12%
Net investment income	3.78%	4.19%

* * * * * *

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FF 5807-8 | 03/2007