

**FEDERAL INCOME TAX INFORMATION**  
**PRINCIPAL VARIABLE CONTRACTS FUNDS, INC.**  
**December 31, 2015**

**Long-Term Capital Gain Dividends.** Certain Accounts distributed long-term capital gain dividends during the fiscal year ended December 31, 2015. Unless otherwise designated, long-term capital gain dividends are subject to a maximum tax rate of 20-percent, 15-percent, or 0-percent, depending on the shareholder's taxable income. To the extent necessary to distribute such capital gains, certain accounts may also utilize, and hereby designate, earnings and profits distributed to shareholders on redemptions of shares as part of the dividends paid deduction.

**Unrecaptured Section 1250 Gain Distribution.** Principal Variable Contracts Funds, Inc. – Real Estate Securities Account distributed Unrecaptured Section 1250 gains, in addition to long-term capital gains, in 2015. Unrecaptured Section 1250 gains are gains from the sale of depreciable property that are subject to a maximum tax rate of 25%.

**Dividends Received Deduction.** For corporate shareholders, the percentages of ordinary income distributions (dividend income and short-term gains, if any) for the year ended December 31, 2015, that qualify for the Dividends Received Deduction are as follows:

	<u>Deductible Percentage</u>		<u>Deductible Percentage</u>
Balanced Account	43.12%	Principal LifeTime 2010 Account	20.42%
Diversified Balanced Account	48.65%	Principal LifeTime 2020 Account	20.47%
Diversified Balanced Managed Volatility Account	30.01%	Principal LifeTime 2030 Account	23.33%
Diversified Growth Account	58.74%	Principal LifeTime 2040 Account	26.89%
Diversified Growth Managed Volatility Account	31.60%	Principal LifeTime 2050 Account	22.12%
Diversified Income Account	39.76%	Principal LifeTime 2060 Account	28.26%
Equity Income Account	76.17%	Principal LifeTime Strategic Income Account	13.69%
International Emerging Markets Account	0.14%	SAM Balanced Portfolio	24.37%
LargeCap Growth Account	100.00%	SAM Conservative Balanced Portfolio	15.32%
LargeCap Growth Account I	61.74%	SAM Conservative Growth Portfolio	36.95%
LargeCap S&P 500 Index Account	98.02%	SAM Flexible Income Portfolio	11.09%
LargeCap S&P 500 Managed Volatility Index Account	36.60%	SAM Strategic Growth Portfolio	46.37%
LargeCap Value Account	38.96%	SmallCap Blend Account	98.07%
MidCap Account	100.00%		
Principal Capital Appreciation Account	100.00%		

**Foreign Taxes Paid.** The following Accounts elect under the Internal Revenue Code Section ("IRC") 853 to pass through foreign taxes paid to their shareholders. The information below summarizes the portion of ordinary income dividends that was derived from foreign sources and the total amount of foreign taxes passed through to shareholders on a per share basis for the year ended December 31, 2015, are as follows:

	<u>Foreign Taxes Per Share</u>	<u>Foreign Source Income</u>
Diversified Balanced Account	\$ 0.0022	10.82%
Diversified Balanced Managed Volatility Account	\$ 0.0018	17.29%
Diversified Growth Account	\$ 0.0035	15.75%
Diversified Growth Managed Volatility Account	\$ 0.0027	27.04%
Diversified Income Account	\$ 0.0011	7.02%
Diversified International Account	\$ 0.0643	100.00%
International Emerging Markets Account	\$ 0.0696	99.89%
Principal LifeTime 2010 Account	\$ 0.0035	9.27%
Principal LifeTime 2020 Account	\$ 0.0050	10.00%
Principal LifeTime 2030 Account	\$ 0.0060	16.16%
Principal LifeTime 2040 Account	\$ 0.0080	21.26%
Principal LifeTime 2050 Account	\$ 0.0087	16.77%
Principal LifeTime 2060 Account	\$ 0.0091	27.06%
Principal LifeTime Strategic Income Account	\$ 0.0016	4.30%
SAM Balanced Portfolio	\$ 0.0049	8.70%
SAM Conservative Balanced Portfolio	\$ 0.0026	5.15%
SAM Conservative Growth Portfolio	\$ 0.0063	14.88%
SAM Flexible Income Portfolio	\$ 0.0015	1.62%
SAM Strategic Growth Portfolio	\$ 0.0122	22.45%

The accounts may receive a refund of taxes that can result in a redetermination of historical foreign taxes paid in accordance with IRC Section 905(c). The accounts will provide by February 28th annually, when applicable, any foreign tax redetermination on Principal's Tax Center website under the Principal Variable Contracts Funds, Inc.'s Foreign Tax Redetermination Notices.

**FEDERAL INCOME TAX INFORMATION (continued)**  
**PRINCIPAL VARIABLE CONTRACTS FUNDS, INC.**  
**December 31, 2015**

The following information is being provided to you, prompted by the acquisitions of the following Accounts effective April 17, 2015:

<u>Acquired Fund</u>	<u>Acquiring Fund</u>
LargeCap Blend Account II	Principal Capital Appreciation Account
SmallCap Growth Account II	SmallCap Blend Account
SmallCap Value Account I	SmallCap Blend Account

**Long-Term Capital Gain Dividends.** Certain Accounts distributed long-term capital gain dividends during the tax year ended April 17, 2015. The Accounts designate these distributions as long-term capital gain dividends per IRC Sec. 852(b)(3)(C) in the 20-percent group (which may be taxed at a 20-percent rate, a 15-percent rate or a 0-percent rate, depending on the shareholder's taxable income).

	<u>Long-Term Capital Gain</u>
LargeCap Blend Account II	\$ 32,069,632
SmallCap Growth Account II	\$ 13,693,744
SmallCap Value Account I	\$ 29,141,380

**Dividends Received Deduction.** For corporate shareholders, the percentages of ordinary income distributions (dividend income and short-term gains, if any) for the tax year ended April 17, 2015, that qualify for the Dividends Received Deduction are as follows:

	<u>Deductible Percentage</u>
LargeCap Blend Account II	58.30%
SmallCap Growth Account II	13.77%
SmallCap Value Account I	39.33%

**Reallocation of Capital Redesignation.** A portion of the ordinary income and/or long-term capital gains dividends paid by certain Accounts have been redesignated as non-taxable return of capital (ROC). The non-taxable return of capital for each class listed in the table below reduces your cost basis. The adjustment to your cost basis will impact your gain or loss calculation when you sell your shares of the Accounts below.

<u>Class of Common Shares</u>	<u>CUSIP</u>	<u>Ordinary Income Per Share ROC Basis Adjustments</u>	<u>Long-Term Capital Gain Per Share ROC Basis Adjustments</u>
LargeCap Blend Account II, Class 1	742969686	\$ 0.0035	\$ 0.0258
LargeCap Blend Account II, Class 2	742969546	\$ 0.0031	\$ 0.0258
SmallCap Value Account I, Class 1	742969785	\$ 0.0106	\$ 0.0538
SmallCap Value Account I, Class 2	742969488	\$ 0.0105	\$ 0.0538

All latest Federal Income Tax Information is available on Principal's Tax Center website.  
 Website: <https://www.principalfunds.com/individual-investor/customer-support/tax-center>

Please consult your tax advisor if you have any questions.



**FOREIGN SOURCE INCOME**

	Foreign Source Income	Foreign Tax Paid*
Diversified Intl Account	100.00%	0.06430
Intl Emerging Mkts Account	99.89%	0.06960
Diversified Balanced Account	10.82%	0.00220
Diversified Balanced Managed Volatility Account	17.29%	0.00180
Diversified Growth Account	15.75%	0.00350
Diversified Growth Managed Volatility Account	27.04%	0.00270
Diversified Income Account	7.02%	0.00110
Principal LifeTime 2010 Account	9.27%	0.00350
Principal LifeTime 2020 Account	10.00%	0.00500
Principal LifeTime 2030 Account	16.16%	0.00600
Principal LifeTime 2040 Account	21.26%	0.00800
Principal LifeTime 2050 Account	16.77%	0.00870
Principal LifeTime 2060 Account	27.06%	0.00910
Principal LifeTime Strategic Income Account	4.30%	0.00160
SAM Balanced Portfolio	8.70%	0.00490
SAM Conservative Balanced Portfolio	5.15%	0.00260
SAM Conservative Growth Portfolio	14.88%	0.00630
SAM Flexible Income Portfolio	1.62%	0.00150
SAM Strategic Growth Portfolio	22.45%	0.01220

**PERCENTAGE OF GOVT INCOME BY SECURITY**

Fund	UST	Fed Farm	FHLB	SLMA	TVA	Other Dir	GNMA	FNMA	FHLMC	Other Ind
Balanced Account	4.13%	0.00%	0.00%	0.00%	0.00%	0.00%	1.29%	3.11%	1.97%	0.00%
Bond & Mortgage Securities Account	5.33%	0.00%	0.00%	0.00%	0.00%	0.00%	3.02%	9.06%	2.52%	0.00%
Bond Market Index Account	23.21%	0.00%	0.00%	0.00%	0.00%	0.00%	8.59%	12.59%	8.19%	0.00%
Diversified International Account	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Equity Income Account	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Government & High Quality Bond Account	6.20%	0.00%	0.00%	0.00%	0.00%	0.00%	8.95%	33.76%	13.78%	0.00%
Income Account	6.11%	0.00%	0.00%	0.00%	0.00%	0.00%	0.06%	13.49%	4.64%	0.00%
International Emerging Markets Account	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
LargeCap Blend Account II	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
LargeCap Growth Account	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
LargeCap Growth Account I	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
LargeCap S&P 500 Index Account	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
LargeCap S&P 500 Managed Volatility Index Account	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
LargeCap Value Account	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
MidCap Account	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Money Market Account	0.05%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Principal Capital Appreciation Account	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Real Estate Securities Account	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Short-Term Income Account	0.06%	0.00%	0.00%	0.00%	0.00%	0.00%	0.07%	0.22%	0.03%	0.00%
SmallCap Blend Account	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
SmallCap Growth Account II	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
SmallCap Value Account I	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Diversified Balanced Account	10.29%	0.00%	0.00%	0.00%	0.00%	0.00%	3.81%	5.58%	3.63%	0.00%
Diversified Balanced Managed Volatility Account	15.11%	0.00%	0.00%	0.00%	0.00%	0.00%	5.59%	8.20%	5.33%	0.00%
Diversified Growth Account	7.17%	0.00%	0.00%	0.00%	0.00%	0.00%	2.65%	3.89%	2.53%	0.00%
Diversified Growth Managed Volatility Account	11.29%	0.00%	0.00%	0.00%	0.00%	0.00%	4.18%	6.12%	3.98%	0.00%
Diversified Income Account	13.97%	0.00%	0.00%	0.00%	0.00%	0.00%	5.17%	7.58%	4.93%	0.00%
Multi-Asset Income Account	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Principal LifeTime 2010 Account	5.81%	0.00%	0.00%	0.00%	0.00%	0.00%	1.44%	3.60%	1.32%	0.00%
Principal LifeTime 2020 Account	3.47%	0.00%	0.00%	0.00%	0.00%	0.00%	1.01%	2.52%	0.93%	0.00%
Principal LifeTime 2030 Account	2.91%	0.00%	0.00%	0.00%	0.00%	0.00%	0.88%	2.20%	0.81%	0.00%
Principal LifeTime 2040 Account	1.75%	0.00%	0.00%	0.00%	0.00%	0.00%	0.57%	1.44%	0.52%	0.00%
Principal LifeTime 2050 Account	0.46%	0.00%	0.00%	0.00%	0.00%	0.00%	0.19%	0.49%	0.17%	0.00%
Principal LifeTime 2060 Account	0.41%	0.00%	0.00%	0.00%	0.00%	0.00%	0.15%	0.38%	0.14%	0.00%
Principal LifeTime Strategic Income Account	6.79%	0.00%	0.00%	0.00%	0.00%	0.00%	1.59%	4.01%	1.45%	0.00%
SAM Balanced Portfolio	2.87%	0.00%	0.00%	0.00%	0.00%	0.00%	0.96%	7.19%	2.71%	0.00%
SAM Conservative Balanced Portfolio	3.79%	0.00%	0.00%	0.00%	0.00%	0.00%	1.44%	9.87%	3.71%	0.00%
SAM Conservative Growth Portfolio	1.20%	0.00%	0.00%	0.00%	0.00%	0.00%	0.42%	3.33%	1.25%	0.00%
SAM Flexible Income Portfolio	4.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.99%	8.87%	3.26%	0.00%
SAM Strategic Growth Portfolio	0.04%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

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All latest Federal Income Tax Information is available on Principal's Tax Center website.  
 Website: <https://www.principal.com/individual-investor/customer-support/tax-center>