

**FEDERAL INCOME TAX INFORMATION**  
**PRINCIPAL VARIABLE CONTRACTS FUNDS, INC.**  
**December 31, 2017**

**Long-Term Capital Gain Distribution.** Certain accounts distributed long-term capital gain dividends during the fiscal year ended December 31, 2017. 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 2017. 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 ("DRD").** For corporate shareholders, the percentage of ordinary income distributions (dividend income and short-term gains, if any) for the year ended December 31, 2017, that qualifies for the DRD are as follows:

| <u>Account</u>                                    | <u>DRD</u> | <u>DRD</u>                                  | <u>DRD</u> |
|---|------------|---|------------|
| Core Plus Bond Account                            | 3.25%      | Principal Capital Appreciation Account      | 100.00%    |
| Diversified Balanced Account                      | 40.86%     | Principal LifeTime 2010 Account             | 15.23%     |
| Diversified Balanced Managed Volatility Account   | 36.44%     | Principal LifeTime 2020 Account             | 22.96%     |
| Diversified Growth Account                        | 55.69%     | Principal LifeTime 2030 Account             | 31.85%     |
| Diversified Growth Managed Volatility Account     | 46.45%     | Principal LifeTime 2040 Account             | 36.82%     |
| Diversified Income Account                        | 32.09%     | Principal LifeTime 2050 Account             | 41.58%     |
| Equity Income Account                             | 71.35%     | Principal LifeTime 2060 Account             | 45.14%     |
| Income Account                                    | 5.61%      | Principal LifeTime Strategic Income Account | 10.11%     |
| LargeCap Growth Account                           | 100.00%    | SAM Balanced Portfolio                      | 31.36%     |
| LargeCap Growth Account I                         | 100.00%    | SAM Conservative Balanced Portfolio         | 18.37%     |
| LargeCap S&P 500 Index Account                    | 100.00%    | SAM Conservative Growth Portfolio           | 50.82%     |
| LargeCap S&P 500 Managed Volatility Index Account | 41.43%     | SAM Flexible Income Portfolio               | 12.14%     |
| LargeCap Value Account                            | 100.00%    | SAM Strategic Growth Portfolio              | 60.05%     |
| MidCap Account                                    | 100.00%    | SmallCap Account                            | 100.00%    |
| Multi-Asset Income Account                        | 10.32%     |   |            |

**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 total amounts of foreign taxes passed through to shareholders on a per share basis for the year ended December 31, 2017, are as follows:

| <u>Account</u>                                  | <u>Foreign Taxes</u> | <u>Foreign</u>       | <u>Foreign Taxes</u>                        | <u>Foreign</u>       |
|---|----------------------|----------------------|---|----------------------|
|   | <u>Per Share</u>     | <u>Source Income</u> | <u>Per Share</u>                            | <u>Source Income</u> |
| Diversified Balanced Account                    | \$ 0.0028            | 11.32%               | Principal LifeTime 2030 Account             | \$ 0.0049 16.69%     |
| Diversified Balanced Managed Volatility Account | \$ 0.0021            | 12.41%               | Principal LifeTime 2040 Account             | \$ 0.0073 23.69%     |
| Diversified Growth Account                      | \$ 0.0043            | 16.77%               | Principal LifeTime 2050 Account             | \$ 0.0078 26.70%     |
| Diversified Growth Managed Volatility Account   | \$ 0.0030            | 17.98%               | Principal LifeTime 2060 Account             | \$ 0.0055 29.96%     |
| Diversified Income Account                      | \$ 0.0014            | 6.97%                | Principal LifeTime Strategic Income Account | \$ 0.0019 4.97%      |
| Diversified International Account               | \$ 0.0493            | 99.98%               | SAM Balanced Portfolio                      | \$ 0.0054 10.25%     |
| International Emerging Markets Account          | \$ 0.0471            | 99.92%               | SAM Conservative Balanced Portfolio         | \$ 0.0030 5.84%      |
| Multi-Asset Income Account                      | \$ 0.0015            | 3.67%                | SAM Conservative Growth Portfolio           | \$ 0.0089 16.53%     |
| Principal LifeTime 2010 Account                 | \$ 0.0036            | 8.86%                | SAM Flexible Income Portfolio               | \$ 0.0013 2.00%      |
| Principal LifeTime 2020 Account                 | \$ 0.0047            | 11.95%               | SAM Strategic Growth Portfolio              | \$ 0.0135 22.97%     |

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, 2017**

The following information is being provided to you, prompted by the acquisition of the following account effective May 26, 2017:

| <u>Acquired Fund</u> | <u>Acquiring Fund</u>        |
|----------------------|------------------------------|
| Balanced Account     | Diversified Balanced Account |

**Long-Term Capital Gain Distribution.** Principal Variable Contracts Funds, Inc. - Balanced Account distributed long-term capital gain dividends during the tax year ended May 26, 2017. The account designates the distribution 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<br/>Capital Gain</u> |
|-----------------------------------|
| Balanced Account                  |
| \$ 3,990,037                      |

**Dividends Received Deduction ("DRD").** For corporate shareholders, the percentage of ordinary income distributions (dividend income and short-term gains, if any) for the tax year ended May 26, 2017, that qualify for the DRD are as follows:

| <u>DRD</u>       |
|------------------|
| Balanced Account |
| 28.84%           |

**Reallocation of Distributions: Return of Capital ("ROC").** A portion of the ordinary income and/or long-term capital gains dividends paid by Principal Variable Contracts Funds, Inc. - Balanced Account has been redesignated as non-taxable ROC. The non-taxable return of capital 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.

| <u>Class of Common Shares</u> | <u>CUSIP</u> | <u>Ordinary Income<br/>Per Share ROC<br/>Basis Adjustments</u> |
|-------------------------------|--------------|--|
| Balanced Account, Class 1     | 742969306    | \$ 0.0089  |

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.



**Principal Variable Contracts Funds, Inc.  
2017 Year End Tax Reporting Information**

**FOREIGN SOURCE INCOME**

| Fund  | Foreign Source |                    |
|---|----------------|--------------------|
|   | Income         | Foreign Tax Paid * |
| Diversified Balanced Account                    | 11.32%         | 0.0028             |
| Diversified Balanced Managed Volatility Account | 12.41%         | 0.0021             |
| Diversified Growth Account                      | 16.77%         | 0.0043             |
| Diversified Growth Managed Volatility Account   | 17.98%         | 0.0030             |
| Diversified Income Account                      | 6.97%          | 0.0014             |
| Diversified International Account               | 99.98%         | 0.0493             |
| International Emerging Markets Account          | 99.92%         | 0.0471             |
| Multi-Asset Income Account                      | 3.67%          | 0.0015             |
| Principal LifeTime 2010 Account                 | 8.86%          | 0.0036             |
| Principal LifeTime 2020 Account                 | 11.95%         | 0.0047             |
| Principal LifeTime 2030 Account                 | 16.69%         | 0.0049             |
| Principal LifeTime 2040 Account                 | 23.69%         | 0.0073             |
| Principal LifeTime 2050 Account                 | 26.70%         | 0.0078             |
| Principal LifeTime 2060 Account                 | 29.96%         | 0.0055             |
| Principal LifeTime Strategic Income Account     | 4.97%          | 0.0019             |
| SAM Balanced Portfolio                          | 10.25%         | 0.0054             |
| SAM Conservative Balanced Portfolio             | 5.84%          | 0.0030             |
| SAM Conservative Growth Portfolio               | 16.53%         | 0.0089             |
| SAM Flexible Income Portfolio                   | 2.00%          | 0.0013             |
| SAM Strategic Growth Portfolio                  | 22.97%         | 0.0135             |

**PERCENTAGE OF GOVT INCOME BY SECURITY**

| Fund  | UST    | Fed Farm | FHLB  | SLMA  | TVA   | Other Dir | GNMA  | FNMA   | FHLMC  | Other Ind |
|---|--------|----------|-------|-------|-------|-----------|-------|--------|--------|-----------|
| Balanced Account                                  | 6.89%  | 0.00%    | 0.00% | 0.00% | 0.00% | 0.00%     | 0.00% | 7.46%  | 2.72%  | 0.00%     |
| Bond Market Index Account                         | 25.95% | 0.00%    | 0.00% | 0.00% | 0.00% | 0.00%     | 0.00% | 12.41% | 8.13%  | 0.00%     |
| Core Plus Bond Account                            | 7.41%  | 0.00%    | 0.00% | 0.00% | 0.00% | 0.00%     | 2.14% | 9.81%  | 4.26%  | 0.00%     |
| Diversified Balanced Account                      | 8.67%  | 0.00%    | 0.00% | 0.00% | 0.00% | 0.00%     | 2.54% | 4.15%  | 2.72%  | 0.00%     |
| Diversified Balanced Managed Volatility Account   | 5.96%  | 0.00%    | 0.00% | 0.00% | 0.00% | 0.00%     | 1.74% | 2.85%  | 1.87%  | 0.00%     |
| Diversified Balanced Volatility Control Account   | 9.49%  | 0.00%    | 0.00% | 0.00% | 0.00% | 0.00%     | 2.78% | 4.54%  | 2.97%  | 0.00%     |
| Diversified Growth Account                        | 5.82%  | 0.00%    | 0.00% | 0.00% | 0.00% | 0.00%     | 1.70% | 2.78%  | 1.82%  | 0.00%     |
| Diversified Growth Managed Volatility Account     | 3.61%  | 0.00%    | 0.00% | 0.00% | 0.00% | 0.00%     | 1.06% | 1.73%  | 1.13%  | 0.00%     |
| Diversified Growth Volatility Control Account     | 5.74%  | 0.00%    | 0.00% | 0.00% | 0.00% | 0.00%     | 1.68% | 2.74%  | 1.80%  | 0.00%     |
| Diversified Income Account                        | 12.92% | 0.00%    | 0.00% | 0.00% | 0.00% | 0.00%     | 3.78% | 6.18%  | 4.05%  | 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            | 5.33%  | 0.00%    | 0.00% | 0.00% | 0.00% | 0.00%     | 6.72% | 31.38% | 11.06% | 0.00%     |
| Income Account                                    | 8.99%  | 0.00%    | 0.00% | 0.00% | 0.00% | 0.00%     | 0.01% | 12.51% | 3.84%  | 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 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%     |
| Multi-Asset Income Account                        | 0.01%  | 0.00%    | 0.00% | 0.00% | 0.00% | 0.00%     | 0.04% | 0.33%  | 0.07%  | 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%     |
| Principal LifeTime 2010 Account                   | 7.00%  | 0.00%    | 0.00% | 0.00% | 0.00% | 0.00%     | 1.03% | 2.91%  | 1.42%  | 0.00%     |
| Principal LifeTime 2020 Account                   | 5.35%  | 0.00%    | 0.00% | 0.00% | 0.00% | 0.00%     | 0.86% | 2.58%  | 1.24%  | 0.00%     |
| Principal LifeTime 2030 Account                   | 3.73%  | 0.00%    | 0.00% | 0.00% | 0.00% | 0.00%     | 0.65% | 1.85%  | 0.91%  | 0.00%     |
| Principal LifeTime 2040 Account                   | 1.85%  | 0.00%    | 0.00% | 0.00% | 0.00% | 0.00%     | 0.57% | 1.54%  | 0.78%  | 0.00%     |
| Principal LifeTime 2050 Account                   | 1.04%  | 0.00%    | 0.00% | 0.00% | 0.00% | 0.00%     | 0.32% | 0.86%  | 0.44%  | 0.00%     |
| Principal LifeTime 2060 Account                   | 0.58%  | 0.00%    | 0.00% | 0.00% | 0.00% | 0.00%     | 0.18% | 0.46%  | 0.23%  | 0.00%     |
| Principal LifeTime Strategic Income Account       | 7.85%  | 0.00%    | 0.00% | 0.00% | 0.00% | 0.00%     | 1.35% | 3.85%  | 1.88%  | 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%     |
| SAM Balanced Portfolio                            | 2.96%  | 0.00%    | 0.00% | 0.00% | 0.00% | 0.00%     | 0.45% | 4.14%  | 1.36%  | 0.00%     |
| SAM Conservative Balanced Portfolio               | 4.27%  | 0.00%    | 0.00% | 0.00% | 0.00% | 0.00%     | 0.78% | 6.61%  | 2.18%  | 0.00%     |
| SAM Conservative Growth Portfolio                 | 1.15%  | 0.00%    | 0.00% | 0.00% | 0.00% | 0.00%     | 0.25% | 2.09%  | 0.69%  | 0.00%     |
| SAM Flexible Income Portfolio                     | 6.30%  | 0.00%    | 0.00% | 0.00% | 0.00% | 0.00%     | 0.80% | 7.39%  | 2.42%  | 0.00%     |
| SAM Strategic Growth Portfolio                    | 0.03%  | 0.00%    | 0.00% | 0.00% | 0.00% | 0.00%     | 0.04% | 0.21%  | 0.04%  | 0.00%     |
| Short-Term Income Account                         | 0.22%  | 0.00%    | 0.00% | 0.00% | 0.00% | 0.00%     | 0.02% | 0.16%  | 0.01%  | 0.00%     |
| SmallCap Account                                  | 0.00%  | 0.00%    | 0.00% | 0.00% | 0.00% | 0.00%     | 0.00% | 0.00%  | 0.00%  | 0.00%     |

\* The accounts may receive a refund of taxes that can result in a redetermination of historical foreign taxes paid in accordance with Internal Revenue Code 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.