

### REPORT OF THE TRUSTEES TO THE UNITHOLDERS OF PRINCIPAL MUTUAL FUND

The Directors of the Trustee Company have pleasure in presenting before you the Annual Report of the schemes of Principal Mutual Fund for the year ended March 31, 2006.

#### OVERVIEW – EQUITY MARKETS

The following table gives the performance details of the key equity indices during the last financial year:

Indices	Performance
NSE Nifty Index	64.6%
NSE Midcap Index	63.6%
BSE 500 index	65.2%

The performance of the large capitalization indices (NSE Nifty) and the midcap indices was similar during the year. This was in contrast to the previous financial year when the midcap stocks as a group had outperformed the large cap stocks by a sufficient margin.

The movement in stock indices was upward and pretty uniform during the year, except in the month of October, when the broad markets fell about 9% during the month. Since that correction, however, while the markets rallied, the large cap stocks outperformed the mid cap stocks for the remainder of the year.

During the year, the sectors which showed a strong performance were cement, telecommunications, automobiles & auto parts, engineering and consumer goods. The sectors which under performed the broad indices during the year were software, banks and pharmaceuticals. Metal stocks were very volatile during the year, their prices moving based on global news flows. The BSE PSU index was another weak performer in the market.

During the financial year, there were continuous strong inflows for the FII's. The flows into domestic mutual funds were also much stronger during the year compared to last year.

#### Equity Schemes – Investment Objectives & Performance during Financial Year 2005-06

##### PRINCIPAL GROWTH FUND

**Investment Objective:** To achieve long-term capital appreciation.

#### Performance:

Period	Date	Appreciation	
		NAV^	S&P Nifty
As On	31-03-06		
Last 1 Year	31-03-05	74.70%	67.15%
Last 3 Years	31-03-03	69.57%	51.46%
Last 5 Years	31-03-01	39.49%	24.24%
Since Inception	25-10-00	33.14%	21.45%

*Note: The past performance may or may not be sustained in the future.*  
^Growth Option

##### PRINCIPAL LARGE CAP FUND

**Investment Objective:** The Investment Objective of the scheme would be to provide capital appreciation and/or dividend distribution by predominantly investing in Companies having a large market capitalization.

#### Performance:

Period	Date	Appreciation	
		NAV^	S&P Nifty
As On	31-03-06		
Since Inception	11-11-05	45.20%	33.50%

*Note: The past performance may or may not be sustained in the future.*  
^Growth Option

##### PRINCIPAL INFRASTRUCTURE & SERVICES INDUSTRIES FUND

**Investment Objective:** To provide capital appreciation and

income distribution to the unit holders by investing predominantly in Equity/equity related securities of the companies belonging to the infrastructure and service industries and the balance in debt securities and money market instruments including call money.

#### Performance:

Period	Date	Appreciation	
		NAV^	S&P Nifty
As On	31-03-06		
Since Inception	6-03-06	7.00%	6.65%

*Note: The past performance may or may not be sustained in the future.*  
^Growth Option

##### PRINCIPAL DIVIDENDYIELD FUND

**Investment Objective:** The scheme would be to provide capital appreciation and/or dividend distribution by investing predominantly in a well-diversified portfolio of companies that have a relatively high dividend yield.

#### Performance:

Period	Date	Appreciation	
		NAV^	S&P CNX 500 Nifty
As On	31-03-06		
Last 1 Year	31-03-05	49.82%	64.16%
Since Inception	15-10-04	44.38%	56.96%

*Note: The past performance may or may not be sustained in the future.*  
^Growth Option

##### PRINCIPAL JUNIOR CAP FUND

**Investment Objective:** The investment objective of the scheme is to provide capital appreciation and/or income in the form of dividend by investing predominantly (at least 65% of net assets) in the equity and equity related instruments of the companies within the market capitalization range of the companies comprising CNX Nifty Junior Index. Of this, at least 51% will be invested in the equity and equity related instruments of the companies that comprise the CNX Nifty Junior Index. Upto 35% of net assets will be invested in the stocks of companies with the market capitalization below Rs. 2000 crore as on the date of investment.

#### Performance:

Period	Date	Appreciation	
		NAV^	CNX Nifty Junior
As On	31-03-06		
Since Inception	30-06-05	36.50%	45.95%

*Note: The past performance may or may not be sustained in the future.*  
^Growth Option

##### PRINCIPAL FOCUSED ADVANTAGE FUND

**Investment Objective:** The Investment Objective of the scheme would be to provide capital appreciation and/or dividend distribution by investing in companies from a maximum of six sectors, depending upon their growth prospects and valuation at any given point in time.

#### Performance:

Period	Date	Appreciation	
		NAV^	S&P Nifty
As On	31-03-06		
Last 1 Year	31-03-05	59.18%	67.15%
Since Inception	15-03-05	51.61%	56.71%

*Note: The past performance may or may not be sustained in the future.*  
^Growth Option

**PRINCIPAL RESURGENT INDIA EQUITY FUND**

**Investment Objective:** To generate long term capital appreciation by investing in equity and equity related securities of Indian Companies that are perceived to be potential growth stories.

**Performance:**

Period	Date	Appreciation	
		NAV^	S&P Nifty
As On	31-03-06		
Last 1 Year	31-03-05	62.90%	67.15%
Last 3 Years	31-03-03	72.44%	51.46%
Last 5 Years	30-03-01	45.53%	24.24%
Since Inception	30-06-00	37.82%	15.69%

**Note:** The past performance may or may not be sustained in the future.  
^Growth Option

**PRINCIPAL EQUITY FUND**

**Investment Objective:** To provide investors long-term capital appreciation.

**Performance:**

Period	Date	Appreciation	
		NAV^	S&P Nifty
As On	31-03-06		
Last 1 Year	31-03-05	67.46%	67.15%
Last 3 Years	31-03-03	54.51%	51.46%
Last 5 Years	31-03-01	30.98%	24.24%
Since Inception	14-06-95	11.88%	12.09%

**Note:** The past performance may or may not be sustained in the future.  
^Growth Option

**PRINCIPAL TAX SAVINGS FUND**

**Investment Objective:** To build a high quality growth-oriented portfolio to provide long-term capital gains to the investors. The scheme aims at providing returns through capital appreciation.

**Performance:**

Period	Date	Appreciation	
		NAV	S&P Nifty
As On	31-03-06		
Last 1 Year	31-03-05	85.43%	67.15%
Last 3 Years	31-03-03	73.60%	51.46%
Last 5 Years	28-03-01	41.56%	22.99%
Since Inception	31-03-96	25.02%	13.18%

**Note:** The past performance may or may not be sustained in the future.

**PRINCIPAL PERSONAL TAX SAVER FUND**

**Investment Objective:** The investment objective of the scheme is to provide long term growth of capital. The Investment Manager will aim to achieve a return on assets in excess of the performance of BSE 100 Index.

**Performance:**

Period	Date	Appreciation	
		NAV	BSE 100
As On	31-03-06		
Last 1 Year	31-03-05	63.76%	69.57%
Last 3 Years	31-03-03	64.74%	57.80%
Last 5 Years	30-03-01	35.31%	28.37%
Since Inception	12-04-96	34.59%	14.00%

**Note:** The past performance may or may not be sustained in the future

**PRINCIPAL BALANCED FUND**

**Investment Objective:** To provide long-term appreciation and current income by investing in a portfolio of equity, equity related securities and fixed income securities.

**Performance:**

Period	Date	Appreciation	
		NAV^	Crisil Balanced Fund
As On	31-03-06		
Last 1 Year	31-03-05	50.18%	38.34%
Last 3 Years	31-03-03	48.07%	31.57%
Last 5 Years	30-03-01	26.59%	-
Since Inception	14-01-00	12.87%	-

**Note:** The past performance may or may not be sustained in the future  
^Growth Option

**PRINCIPAL CHILD BENEFIT FUND**

**Investment Objective:** To generate regular returns and / or capital appreciation / accretion with the aim of giving lumpsum capital growth at the end of the chosen target period or otherwise to the beneficiary.

**Performance:**

Period	Date	Career Builder Plan		Future Guard Plan	
		Appreciation		Appreciation	
		NAV^	Crisil Balanced Fund Index	NAV^	Crisil Balanced Fund Index
As On	31-03-06				
Last 1 Year	31-03-05	53.36%	38.34%	53.28%	38.34%
Last 3 Years	31-03-03	41.90%	31.57%	41.94%	31.57%
Last 5 Years	31-03-01	27.77%	N.A.	27.69%	N.A.
Since Inception	7-01-98	20.61%	N.A.	20.43%	N.A.

**Note:** The past performance may or may not be sustained in the future.  
^Growth Option

**PRINCIPAL INDEX FUND**

**Investment Objective:** To invest principally in securities that comprise S&P CNX Nifty (NSE) and subject to tracking errors endeavour to attain results commensurate with the Nifty.

**Performance:**

Period	Date	Appreciation	
		NAV^	S&P Nifty
As On	31-03-06		
Last 1 Year	31-03-05	65.65%	67.15%
Last 3 Years	31-03-03	48.87%	51.46%
Last 5 Years	31-03-01	23.49%	24.24%
Since Inception	27-07-99	14.70%	15.36%

**Note:** The past performance may or may not be sustained in the future  
^Growth Option

**PRINCIPAL GLOBAL OPPORTUNITIES FUND**

**Investment Objective:** To build a high quality International Equity portfolio out of the permissible Investments as defined and permitted under the regulations from time to time, and provide returns and/or capital appreciation along with regular liquidity to the investors.

**Performance:**

Period	Date	Appreciation		
		NAV^	MSCI World Index	S&P Nifty
As On	31-03-06			
Last 1 Year	31-03-05	19.82%	16.27%	67.15%
Since Inception	29-03-04	13.73%	12.58%	38.84%

**Note:** The past performance may or may not be sustained in the future  
^Growth Option

**Notes :**

- 1) AMFI prescribed indices have been used for comparison
- 2) The tracking deviation for the year ended March 31, 2006 for Index Fund stood at 1.46%
- 3) Returns are calculated on **compounded annualized basis** for a period of **more** than 365 days and **absolute basis** for a period **less** than (or **equal** to) 365 days, with reinvestment of dividends (if any).

**Outlook for Financial Year 2006-2007**

The equity markets have undergone a substantial period of correction since the peak in the second week of May and in mid-June are down nearly 30% from their highs. While other emerging markets have corrected too, the fall has been much sharper in India, as the valuations were higher in Indian markets.

Post this correction, markets currently trade at about 13 times forward earnings, which is below the average historical multiple the markets have traded at. The economy continues to show strong growth, though there are concerns emerging on inflation and higher interest rates. However, the long-term bottom up story for Indian equities; that of a domestic consumption theme, an efficient and competitive corporate sector, the outsourcing story and infrastructure spending remains in place. We expect that equity will remain the best performing asset class for investors over the next 3 years.

## DEBT MARKETS DURING FINANCIAL YEAR 2005-06

2005-06 was a continuation of a trend of the previous year. Equity remained strong and debt remained weak. Equity markets performed well due to global liquidity finding its way in emerging market equities, and debt markets suffered from tightening in domestic liquidity due to IMD repayments to the tune of USD 7.1 bn and lack of Government spending, especially during the second half of the year. Central bankers across the globe increased rates in order to reduce surplus liquidity and remove the accommodative stance of the monetary policy. Yields inched up during the year on a net basis, moving higher by 75-100bps across the sovereign curve. Corporate spreads too widened thereby increasing the cost of funds for domestic borrowers. Investors remained in the relative safety of cash funds largely and the issuance of fixed maturity plans increased during the year.

### Key Indicators

Benchmarks	Current Month 31/03/06	Previous Year 31/03/05	Change (Year)
364Day Tbill (primary)	6.42%	5.66%	0.76%
5-year benchmark	7.33%	6.38%	0.95%
10-year benchmark	7.55%	6.67%	0.88%
15-year benchmark	7.70%	7.01%	0.69%
30-year benchmark	7.83%	7.15%	0.68%
91 Day Manufacturing CP(P1+)	8.25%	5.70%	2.55%
Annualised 1-yr AAA spreads	2.00%	0.50%	1.50%
Annualised 5-yr AAA spreads	0.80%	0.60%	0.20%
5-yr OIS	7.00%	6.51%	0.49%
Bank Rate	6.00%	6.00%	0.00%
RBI LAF- Reverse Repo Rate*	5.50%	4.75%	0.75%
Foreign Exchange Reserve (\$ bn)	148.66	142.13	6.53
Nymex Crude	66.73	55.4	11.33
US Fed Funds rate**	4.75%	2.75%	2.00%
US 10-yr gilt	4.85%	4.49%	0.36%
INR/USD (inverted scale)	44.62	43.74	-2.01%
INR/Euro (inverted scale)	54	56.68	4.72%
USD/Euro	1.2103	1.3039	7.18%
USD/Yen	117.68	107.17	9.81%

\*RBI Repo rate at 6.50%      \*\* Increased on March 29, 2006  
Source - Internal

## Debt Funds Investment Objectives & Performance during Financial Year 2005-06

### PRINCIPAL INCOME FUND

**Investment Objective:** To generate regular income and capital appreciation/accretion through investment in debt instruments and related securities besides preservation of capital. The investment objective of the Short Term Plan (STP) under Income Fund is the same as that of the Principal Income Fund. However, the STP has been designed to achieve stable returns over shorter-term investment horizons.

#### Performance:

Period	Date	Appreciation			
		NAV <sup>^</sup>	Crisil Composite Bond Fund Index	Institutional Plan	
				NAV <sup>^</sup>	Crisil Composite Bond Fund Index
As On	31-03-06				
Last 1 Year	31-03-05	4.55%	3.30%	5.21%	3.30%
Last 3 Years	31-03-03	5.00%	4.04%	N.A.	N.A.
Last 5 Years	31-03-01	8.85%	N.A.	N.A.	N.A.
Since Inception	25-10-00	9.55%	N.A.	5.09% <sup>§</sup>	3.39% <sup>§</sup>

**Note:** The past performance may or may not be sustained in the future.  
<sup>^</sup>Growth Option      <sup>§</sup> Inception Date - May 9, 2003

## Performance – Principal Income Fund - Short Term Plan

Period	Date	Appreciation			
		NAV <sup>^</sup>	Crisil Short Term Bond Fund Index	Institutional Plan	
				NAV <sup>^</sup>	Crisil Short Term Bond Fund Index
As On	31-03-06				
Last 1 Year	31-03-05	5.30%	3.84%	5.47%	3.84%
Last 3 Years	31-03-03	5.47%	4.21%	N.A.	N.A.
Since Inception	24-04-02	6.03%	5.02%	5.53% <sup>§</sup>	4.03% <sup>§</sup>

**Note:** The past performance may or may not be sustained in the future.  
<sup>^</sup>Growth Option      <sup>§</sup> Inception Date - May 9, 2003

### PRINCIPAL MONTHLY INCOME PLAN

**Investment Objective:** To generate regular income through investments in fixed income securities so as to make periodical income distribution to the Unitholders and also to generate long-term capital appreciation by investing a portion of the Scheme's assets in equity and equity related instruments. The investment objective of MIP Plus is the same as that of the Principal Monthly Income Plan. However, MIP Plus has been designed to cater to investors seeking a slightly more aggressive exposure to equity markets.

#### Performance:

Period	Date	Appreciation	
		NAV <sup>^</sup>	Crisil MIP Blended Index
As On	31-03-06		
Last 1 Year	31-03-05	8.58%	11.23%
Last 3 Years	31-03-03	9.37%	10.51%
Since Inception	23-05-02	10.13%	10.25%

**Note:** The past performance may or may not be sustained in the future.  
<sup>^</sup>Growth Option      <sup>§</sup> Inception Date - May 9, 2003

### Performance – Principal Monthly Income Plan - MIP Plus

Period	Date	Appreciation	
		NAV <sup>^</sup>	Crisil MIP Blended Index
As On	31-03-06		
Last 1 Year	31-03-05	12.62%	11.23%
Since Inception	30-12-03	8.95%	6.21%

**Note:** The past performance may or may not be sustained in the future.  
<sup>^</sup>Growth Option

### PRINCIPAL FLOATING RATE FUND

**Investment Objective:** The primary investment objective of the floating rate fund will be to generate income consistent with the prudent risk from a portfolio comprising substantially of floating rate debt instruments, fixed rate debt instruments swapped for floating rate return, and also fixed rate instruments and money market instruments.

#### Performance:

Period	Date	Appreciation				Crisil Liquid Fund Index
		Short Maturity Plan <sup>^</sup>		Flexible Maturity Plan <sup>^</sup>		
		Regular Option	Institutional Option	Regular Option	Institutional Option	
As On	31-03-06					
Last 1 Year	31-03-05	5.48%	5.70%	5.58%	5.78%	4.86%
Since Inception	14-03-04	5.37%	5.57%	5.53%	5.73%	4.69%

**Note:** The past performance may or may not be sustained in the future.  
<sup>^</sup>Growth Option

### PRINCIPAL CASH MANAGEMENT FUND

**Investment Objective:** To provide investors with as high a level of income available from short-term investments as is considered consistent with preservation of capital and maintenance of liquidity, by investing in a portfolio of money market and investment grade debt instruments.

**Performance:**

Period	Date	Appreciation					
		NAV^	Crisil Liquid Fund Index	Institutional Plan		Institutional Premium Plan	
				NAV^	Crisil Liquid Fund Index	NAV^	Crisil Liquid Fund Index
As On	31-03-06						
Last 1 Month	28-02-06	0.49%	0.49%	0.51%	0.49%	0.54%	0.49%
Last 3 Months	31-12-05	1.40%	1.35%	1.45%	1.35%	1.53%	1.35%
Last 6 Months	30-09-05	2.70%	2.45%	2.79%	2.45%	2.94%	2.45%
Last 1 Year	31-03-05	5.31%	4.86%	5.50%	4.86%	5.75%	4.86%
Since Inception	25-10-00	6.08%	–	5.12% <sup>§</sup>	4.39% <sup>§</sup>	5.54% <sup>®</sup>	4.67% <sup>®</sup>

**Note:** The past performance may or may not be sustained in the future  
 ^Growth Option      § Inception Date - May 9, 2003      ® Inception date - August 30, 2004.

**PRINCIPAL GOVERNMENT SECURITIES FUND**

**Investment Objective:** To generate risk-free return through investment in sovereign securities and thus provide medium to long term capital gains and income distribution to its Unitholders, while at all times emphasizing the importance of capital preservation.

**Performance:**

Period	Date	Appreciation					
		Investment Plan		Provident Fund Plan		Savings Plan	
		NAV^	I-Sec Li-Bex	NAV^	I-Sec Li-Bex	NAV^	I-Sec Si-Bex
As On	31-03-06						
Last 1 Year	31-03-05	5.53%	4.49%	4.43%	4.49%	3.58%	5.12%
Last 3 Years	31-03-03	5.53%	5.51%	N.A.	N.A.	3.80%	5.43%
Since Inception	23-08-01	9.86%	N.A.	2.08%	1.95%	6.26%	N.A.

**Note:** The past performance may or may not be sustained in the future.      ^Growth Option

**PRINCIPAL PNB FIXED MATURITY PLAN - 91 DAYS - SERIES I**

**Investment Objective:** To build a high quality income oriented portfolio and provide returns along with regular liquidity to investors.

**Performance:**

Period	Date	Appreciation	
		NAV^	Crisil Liquid Fund Index
As On	31-03-06		
Since Inception	19-01-06	1.30%	1.05%

**Note:** The past performance may or may not be sustained in the future  
^Growth Option

**PRINCIPAL PNB FIXED MATURITY PLAN - 91 DAYS - SERIES II**

**Investment Objective:** To build a high quality income oriented portfolio and provide returns along with regular liquidity to investors.

**Performance:**

Period	Date	Appreciation	
		NAV^	Crisil Liquid Fund Index
As On	31-03-06		
Since Inception	23-02-06	0.73%	0.56%

**Note:** The past performance may or may not be sustained in the future.  
^Growth Option.

**PRINCIPAL PNB FIXED MATURITY PLAN - 91 DAYS - SERIES III**

**Investment Objective:** To build a high quality income oriented portfolio and provide returns along with regular liquidity to investors.

**Performance:**

Period	Date	Appreciation	
		NAV^	Crisil Liquid Fund Index
As On	31-03-06		
Since Inception	23-03-06	0.18%	0.15%

**Note:** The past performance may or may not be sustained in the future.  
^Growth Option.

**PRINCIPAL PNB FIXED MATURITY PLAN - 460 DAYS - SERIES I**

**Investment Objective:** To build a high quality income oriented portfolio and provide returns along with regular liquidity to investors.

**Performance:**

Period	Date	Appreciation	
		NAV^	Crisil Liquid Fund Index
As On	31-03-06		
Since Inception	14-02-06	0.55%	0.60%

**Note:** The past performance may or may not be sustained in the future  
^Growth Option

**PRINCIPAL PNB FIXED MATURITY PLAN - 385 DAYS - SERIES I**

**Investment Objective:** To build a high quality income oriented portfolio and provide returns along with regular liquidity to investors.

**Performance:**

Period	Date	Institutional Plan			
		Appreciation		Appreciation	
		NAV^	Crisil Short-Term Bond Fund Index	NAV^	Crisil Short-Term Bond Fund Index
As On	31-03-06				
Since Inception	13-03-06	0.41%	0.36%	0.41%	0.36%

**Note:** The past performance may or may not be sustained in the future  
^Growth Option

**PRINCIPAL DEPOSIT FUND**

**Investment Objective:** The investment objective of the scheme is to build a high quality income oriented portfolio and provide returns along with regular liquidity to investors.

**Performance – Principal Deposit Fund - 91 Days Fixed Maturity Plan**

Period	Date	Appreciation
		NAV^
As On	31-03-06	
Since Inception	14-11-05	2.37%

**Note:** The past performance may or may not be sustained in the future  
^Growth Option

### Performance – Principal Deposit Fund - 371 Days Fixed Maturity Plan

Period	Date	Appreciation	
		NAV^	
As On	31-03-06		
Last 1 Year	31-03-05	5.99%	
Since Inception	28-03-05	6.08%	

*Note: The past performance may or may not be sustained in the future*  
^Growth Option

### Performance – Principal Deposit Fund - 371 Days Fixed Maturity Plan

Period	Date	Appreciation	
		NAV^	
As On	31-03-06		
Since Inception	24-10-05	2.06%	

*Note: The past performance may or may not be sustained in the future*  
^Growth Option

### Performance – Principal Deposit Fund - Plan 54EA/EB

Period	Date	Appreciation	
		NAV^	
As On	31-03-06		
Last 1 Year	31-03-05	4.14%	
Last 3 Years	31-03-03	4.27%	
Last 5 Years	30-03-01	6.22%	
Since Inception	16-09-97	6.45%	

*Note: The past performance may or may not be sustained in the future*  
^Growth Option

### PRINCIPAL TRUST BENEFIT FUND

**Investment Objective:** The investment objective of the Scheme is to build a high quality income-oriented portfolio and provide returns and/or capital appreciation along with regular liquidity to a distinct class of investors who have special needs.

#### Performance:

Period	Date	Appreciation	
		NAV^	Crisil Composite Bond Fund Index
As On	31-03-06		
Last 1 Year	31-03-05	4.26%	3.30%
Last 3 Years	31-03-03	4.87%	4.04%
Since Inception	30-09-02	6.08%	4.96%

*Note: The past performance may or may not be sustained in the future.*  
^Growth Option

### PRINCIPAL MONEY VALUE BOND FUND

**Investment Objective:** To generate an attractive return for its investors consistent with capital preservation and liquidity by investing in a portfolio of high quality, income providing debt securities and money market instruments.

#### Performance:

Period	Date	Appreciation	
		NAV^	Crisil Composite Bond Fund Index
As On	31-03-06		
Last 1 Year	31-03-05	4.15%	2.73%
Last 3 Years	31-03-03	N.A.	N.A.
Last 5 Years	31-03-03	N.A.	N.A.
Since Inception	23-11-98	N.A.	N.A.

*Note: The past performance may or may not be sustained in the future*  
^Growth Option

### PRINCIPAL PNB DEBT FUND

**Investment Objective:** To generate steady stream of income over a long term period consistent with prudent risk, through investment in Debt and Money Market securities and such other instruments categorised as Debt / Money Market Investment Opportunity by RBI/ SEBI from time to time

#### Performance:

Period	Date	Appreciation	
		NAV^	Crisil Composite Bond Fund Index
As On	31-03-06		
Last 1 Year	31-03-05	4.34%	2.73%
Last 3 Years	31-03-03	N.A.	N.A.
Last 5 Years	31-03-03	N.A.	N.A.
Since Inception	28-05-99	N.A.	N.A.

*Note: The past performance may or may not be sustained in the future*  
^Growth Option

On March 17, 2006 Principal Pnb Debt Fund, Principal Trust Benefit Fund and Principal Money Value Bond Fund have been merged into Principal Income Fund. SEBI has vide its letter no. IMD/PSP/56935/06 dated January 3, 2006 had given its no objection for the aforesaid merger.

#### Notes :

- 1) AMFI prescribed indices have been used for comparison
- 2) The tracking deviation for the year ended March 31, 2006 for Index Fund stood at 1.46%
- 3) Returns are calculated on **compounded annualized basis** for a period of **more** than 365 days and **absolute basis** for a period **less** than (or **equal** to) 365 days, with reinvestment of dividends (if any).

### Performance of Fixed Income Funds during 2005-06

FY2005-06 was another challenging year for fixed income fund managers. Yields kept rising, impacting adversely the debt fund performance. Hybrid funds with equity exposure registered strong performance on back of buoyant stock markets. Investors continued to switch from long duration funds to cash funds and floating rate funds. The Short Term Fund gained in corpus during the first half of the year but saw large redemptions in the second half as liquidity dried up pushing short term yields higher.

Monthly income plans emerged best performing category of funds during the year, with Principal MIP and MIP Plus returning 8.58% and 12.62% returns. Among our institutional plans, **Principal STP** generated 1-yr returns of 5.3%, as the portfolio was invested in assets with an accrual focus and minimal duration risk. **Principal Income Fund** generated 1-yr returns of 4.55% against benchmark returns of 3.30%. **Principal Cash Management Fund - Liquid Option - Institutional Premium Plan** generated 5.75% for the year while floating rate funds like **Principal FR-SMP** and **FR-FMP** generated 5.48% and 5.58% respectively. The **Gilt Funds** generated positive 4.43%-5.53% returns, in spite of an adverse interest rate environment.

Our funds had another year of good performance; maintaining top quartile performance across most fund categories. The year also saw our performance being recognized by mutual fund evaluating agencies for consistent and superior fund performance-

- **CNBC TV18 -CRISIL** ranked **PRINCIPAL INCOME FUND** among the two best performing Income Funds based on its CRISIL CPR methodology for 2005. The Fund received the award for the second year in a row.
- **ICRA-ONLINE** ranked **PRINCIPAL GOVERNMENT SECURITIES FUND-INVESTMENT PLAN** as the best performing Government Securities fund.

### Outlook for Financial Year 2006-07

We expect Central bankers across the globe to increase rates in order to remove accommodation and reach neutral rates during the year. Higher commodity prices and sustained economic recovery are likely to lead to build-up in inflationary pressures across

economies. We expect Central bankers to take a pause and stop raising rates sometime during the year in order to assess the macroeconomic conditions and evaluate the need for higher real rates in order to prevent overheating.

Nominal interest rates are likely to rise during the initial part of the year and then peak out during latter part as the incessant rate hikes come to temporary halt. Domestic inflation is likely to inch up as the impact of high crude prices is passed on to the domestic markets.

#### Statutory Details:

The Mutual Fund is sponsored by Principal Financial Services Inc. USA through its wholly owned subsidiary, Principal Financial Group (Mauritius) Limited with Punjab National Bank (PNB) and Vijaya Bank (VB) as its co-settlers.

Principal Financial Services Inc. is a member of the Principal Financial Group – a leading provider of financial products and services globally to businesses and individuals including retirement and investment services, Mutual Funds, life and health insurance, annuities and mortgage banking. Established in 1879, the Principal Financial Group has more than \$152.10 billion in assets under management and serves over 15 million customers worldwide through operations in the United States, Asia, Australia, Europe and Latin America.

The Sponsor is not responsible or liable for any loss resulting from the operations of the Principal Mutual Fund beyond the initial contribution of an amount of Rs.25 lakhs towards setting up Principal Mutual Fund.

The Trustee ensures that all the activities Principal Mutual Fund are managed by Principal Pnb Asset Management Company Pvt. Ltd. in compliance with the SEBI (Mutual Funds) Regulations, 1996 as amended from time to time read with the Investment Management Agreement and Trust Deed.

#### Investor Servicing

At Principal Mutual Fund, our constant endeavor is to enhance your investment experience by providing you with differentiated solutions and value added services.

In order to provide better customer service & improve accessibility, we have opened up more branches/Investor Service Centres in the country, we are today present in 42 locations all over the country. This year we have also witnessed an impressive rise in our customer base from about 3,40,000 investor accounts in March 2005 to about 5,25,000 investor accounts in March 2006.

We have introduced value added services like;

- Systematic Investment Plan (SIP)
  - o SIP in NFO, For the first time, we introduced SIP in NFO, allowing investors to invest in NFO with minimum of Rs. 1000. The same was well appreciated by the investors
  - o SIP through ECS - this means that you do not have to provide Post Dated Cheques, but just one time Auto Debit instruction and the rest is taken care by us.
- Corporate Desk - Dedicated Customer Service personnel for the Corporate's to meet their varied requirements. The effort is focused on offering outstanding value to customers by providing knowledgeable, efficient and reliable service in a personal, helpful and responsive manner.
- Toll Free Number - We have expanded the services of the Toll Free number. Earlier it was restricted to only calls from our branch locations, now its opened up to all the locations.

#### New Products Launched in the year 2005-2006

With renewed investor interest in equities due to buoyant equity markets, 3 new equity products were launched during the year. June 2005 saw the launch of Principal Junior Cap Fund, which was well received with around 68,554 investors and Rs 437.54 Crs collected during the NFO period. Also Principal Large Cap Fund was launched during November 2005 in line with market scenario, as Large Caps were the flavor of the season. It attracted 48,253 investors and Rs 360.21 Crs during the NFO period. The year ended with the launch of Principal Infrastructure and Services Industries Fund, which was well accepted by the investors. It

attracted around 1,08,605 investors and Rs 562.35 Crs were collected during the NFO period. The launch of these new funds increased the product choice to the consumer. The mutual fund will continue with the constant endeavor to be on the lookout for new products or features aimed at adding value to the investors.

#### Acknowledgement

The Trustees wish to place on record their grateful thanks to the Unitholders for their continued support and to the Securities and Exchange Board of India, Reserve Bank of India, the Registrars, Bankers and the Custodian of Principal Mutual Fund.

For Principal Trustee Company Private Limited  
Trustee of Principal Mutual Fund

Sd/-

Place: Mumbai  
Date : June 9, 2006

B.G. Deshmukh  
Chairman

#### Notes:

- The price and redemption value of the units, and income from them, can go up as well as down with the fluctuations in the market value of its underlying investments.
- On written request, present and prospective unitholders/investors can obtain a copy of the trust deed, supplemental trust deed, the annual report at a price and the text of the relevant scheme.
- On written request, present and prospective unitholders/investors can obtain a copy of the Annual Report of Principal Pnb Asset Management Company Private Limited.
- Full Annual Report shall be available for inspection at the Head Office of the mutual fund and a copy thereof shall be made available to the unit holder on payment of such nominal fees as may be specified by the mutual fund.
- Returns are calculated on compounded annualised basis for a period of more than a year and absolute basis for a period less than a year. All dividends declared are assumed to be reinvested within the plan/scheme at ex-dividend NAV.

#### Awards Methodology

##### ICRA MFR 1

“Principal Government Securities Fund Investment Plan” has been ranked **ICRA-MFR 1** and awarded the **ICRA Mutual Fund Gold Award** in the category ‘Open Ended Gilt Scheme Long Term’ for its one year performance till December 31, 2005. The Award indicates ‘Best performance’ within the stated category, which had a total of 16 similar schemes, including this scheme. The rank is an outcome of an objective and comparative analysis against various performance parameters, including: risk adjusted return; fund size, Sector Concentration, Portfolio turnover, liquidity, company concentration and average maturity. The ranking methodology did not take into account the entry and exit loads imposed by the Fund. ICRA Mutual Fund Award(s)/Rank(s) are not a comment on the prospective returns, appreciation potential or future net asset value of the Mutual Fund Scheme rated. ICRA Mutual Fund Awards are not recommendations to invest or not to invest in the Mutual Fund Schemes awarded.

##### CRISIL

A total of 16 schemes were eligible for the award in the Income Funds category. Schemes present in all four quarter CRISIL CPRs (Composite Performance Ranking) were considered for the award. The award is based on the consistency of schemes performance in the four quarterly CRISIL CPR rankings released during the calendar year 2005. The individual CRISIL CPR parameter scores averaged for the four quarters and further multiplied by the parameter weight as per the CRISIL CPR methodology to arrive at the final scores. A detailed methodology of the CRISIL CPR is available at [www.crisil.com](http://www.crisil.com).

# AUDITORS' REPORT

'Principal Income Fund  
(Income Fund, Income Fund - Short Term Plan)'

TOTHE BOARD OF DIRECTORS OF PRINCIPAL TRUSTEE COMPANY PRIVATE LIMITED

We have audited the attached Balance Sheet of the Scheme '**Principal Income Fund (Income Fund & Income Fund - Short Term Plan)**' of **Principal Mutual Fund** as at 31st March, 2006 and the Revenue Account of the Scheme for the year ended 31st March, 2006 and report thereon as follows:

- a) The Balance Sheet and the Revenue Account dealt with by this report have been prepared in accordance with the accounting policies and standards specified in the Ninth Schedule of the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996. These financial statements are the responsibility of the Managements of the Trustee and the Asset Management Companies.
- b) Our audit was conducted in accordance with the generally accepted auditing standards in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Financial Statements. We believe that our audit provides a reasonable basis for our opinion.
- c) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.
- d) The Balance Sheet and the Revenue Account dealt with by this report are in agreement with the books of account of the Scheme.
- e) Non-traded securities have been valued in accordance with the guidelines notified by the Securities and Exchange Board of India. In our opinion, these valuations are fair and reasonable.
- f) In our opinion and to the best of our information and according to the explanations given to us, the said accounts, read with Notes to the Accounts, give the information required by the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, give a true and fair view in conformity with the accounting principles generally accepted in India:
  - (i) in the case of the Balance Sheet, of the state of affairs of the Scheme as at 31st March, 2006 and
  - (ii) in the case of the Revenue Account, of the Surplus of the Scheme for the year ended 31st March, 2006.

For **HARIBHAKTI & CO.**  
Chartered Accountants

Sd/-  
**CHETAN DESAI**  
Partner

Membership No.17000

Place : Mumbai,  
Date : 9<sup>th</sup> June, 2006

# PRINCIPAL INCOME FUND

## BALANCE SHEET

As at March 31, 2006 (Audited - Abridged)

(Rupees in Lacs)

	As on 31/03/06	As on 31/03/05
<b>Assets</b>		
<b>Investments</b>		
Privately placed Debentures/Bonds	–	511.78
Debentures and Bonds listed/ awaiting listing on the recognized stock exchanges	1,086.35	3,840.05
Government Dated Securities/ Treasury Bills	1,934.69	3,826.41
Securitised Debt	711.33	333.54
Commercial Paper/Certificate of Deposits	864.55	471.98
<b>Deposits</b>		
Call Deposits	–	83.00
<b>Current Assets</b>		
Balances with Banks and RBI in Current Account	10.40	20.80
Other Current Assets	246.27	1,265.03
<b>Total</b>	<b>4,853.59</b>	<b>10,352.59</b>
<b>Liabilities</b>		
<b>Unit Capital</b>	3,388.74	8,281.62
Quarterly Plan (Initial Capital Rs.2,676.08)		
Half Yearly Plan (Initial Capital Rs.4,160.43)		
Annual Dividend Plan (Initial Capital Rs.325.16)		
Growth Plan (Initial Capital Rs.4,127.78)		
Institutional Quarterly Plan (Initial Capital Rs.100.00)		
Institutional Growth Plan (Initial Capital Rs.1,308.36)		
<b>Reserves and Surplus</b>		
Unit Premium Reserves	29,547.56	(14.53)
Appropriation Account	(28,307.53)	1,943.99
<b>Current Liabilities and Provisions</b>		
Dividend and Dividend Tax Payable	2.49	6.51
Other Current Liabilities and Provisions	222.33	135.00
<b>Total</b>	<b>4,853.59</b>	<b>10,352.59</b>

## REVENUE ACCOUNT

For the year ended March 31, 2006 (Audited - Abridged)

(Rupees in Lacs)

	Year ended 31/03/06	Year ended 31/03/05
<b>Income and Gains</b>		
Interest and Discount Income (Net)	472.46	1,562.66
Profit on Sale/Redemption of Investments (Net) (Other than Inter-Scheme Transfer)	34.54	–
<b>Total</b>	<b>507.00</b>	<b>1,562.66</b>
<b>Expenses and Losses</b>		
Loss on Sale / Redemption of Investments (Net) (Other than Inter- Scheme Transfer / Sale)	–	871.78
Loss on Inter-Scheme Transfer of investments (Net)	69.66	59.85
Investment Management Fees	52.69	194.01
Trusteeship Fees and Expenses	0.78	2.70
Commission to Agents	20.68	82.94
Publicity Expenses	8.15	23.26
Audit Fees	0.46	1.37
Custodian Fees and Expenses	0.92	5.02
Registrar/Transfer Agent Fees	4.04	12.92
Other Operating Expenses & Taxes	13.39	44.22
<b>Total</b>	<b>170.77</b>	<b>1,298.07</b>
Surplus/(Deficit) for the Year	336.23	264.59
Net change in Unrealised Appreciation / (Depreciation) in Value of Investments (Refer Note VI (2) of Significant Accounting Policies & Notes to Accounts)	48.08	(360.85)
Net transferred to Appropriation	384.31	(96.26)
<b>Appropriation</b>		
Opening Balance	1,943.99	9,094.05
Add : Surplus for the period including Net change in Unrealised Appreciation / (Depreciation) in Value of Investments	384.31	(96.26)
Add/(Less) : Income Equalisation - Credit / (Debit)	(30,584.42)	(6,838.43)
Less: Dividend paid to unitholders	(43.96)	(183.49)
Less: Distribution Tax	(7.45)	(31.88)
<b>Net Surplus /(Deficit) Transferred to Revenue Reserve</b>	<b>(28,307.53)</b>	<b>1,943.99</b>



# PRINCIPAL INCOME FUND - SHORT TERM PLAN

## BALANCE SHEET

As at March 31, 2006 (Audited - Abridged)

(Rupees in Lacs)

	As on 31/03/06	As on 31/03/05
<b>Assets</b>		
<b>Investments</b>		
Privately placed Debentures/Bonds	–	400.00
Debentures and Bonds listed/ awaiting listing on the recognized stock exchanges	3,588.41	3,532.43
Securitised Debt	5,496.53	2,855.23
Commercial Paper/Certificate of Deposits	3,811.50	471.35
<b>Deposits</b>		
Deposits with Scheduled Banks	1,000.00	800.00
Call Deposits with Others	–	378.00
<b>Current Assets</b>		
Balances with Banks and RBI in Current Account	3.92	7.95
Other Current Assets	3,268.64	155.34
<b>Total</b>	<b>17,169.00</b>	<b>8,600.30</b>
<b>Liabilities</b>		
<b>Unit Capital</b>	14,421.38	7,973.25
Dividend Plan (Initial Capital Rs.5.45)		
Growth Plan (Initial Capital Rs.6,996.27)		
Institutional Dividend Plan (Initial Capital Rs.1,000.00)		
Institutional Weekly Plan (Initial Capital Rs.2,865.02)		
Institutional Growth Plan (Initial Capital Rs.8,120.32)		
<b>Reserves and Surplus</b>		
Unit Premium Reserves	(1,510.95)	(15.26)
Appropriation Account	3,018.89	619.49
<b>Current Liabilities and Provisions</b>		
Dividend and Dividend Tax Payable	3.90	5.07
Other Current Liabilities and Provisions	1,235.78	17.75
<b>Total</b>	<b>17,169.00</b>	<b>8,600.30</b>

## REVENUE ACCOUNT

For the year ended March 31, 2006 (Audited - Abridged)

(Rupees in Lacs)

	Year ended 31/03/06	Year ended 31/03/05
<b>Income and Gains</b>		
Interest and Discount Income (Net)	2,093.91	1,008.25
Profit on Sale/Redemption of Investments (Net) (Other than Inter-Scheme Transfer)	501.53	–
<b>Total</b>	<b>2,595.44</b>	<b>1,008.25</b>
<b>Expenses and Losses</b>		
Loss on Sale / Redemption of Investments (Net) (Other than Inter-Scheme Transfer / Sale)	–	73.64
Loss on Inter-Scheme Transfer of investments (Net)	183.57	12.19
Investment Management Fees	142.13	59.28
Trusteeship Fees and Expenses	3.97	1.76
Commission to Agents	102.60	30.49
Publicity Expenses	2.35	10.89
Audit Fees	0.26	0.95
Custodian Fees and Expenses	4.90	4.54
Registrar/Transfer Agent Fees	14.51	6.57
Other Operating Expenses & Taxes	51.31	19.86
Less: Excess of Expenditure Over Permissible Limit to be Recovered from AMC	–	(0.50)
<b>Total</b>	<b>505.60</b>	<b>219.67</b>
Surplus/(Deficit) for the Year	2,089.84	788.58
Net change in Unrealised Appreciation / (Depreciation) in Value of Investments (Refer Note VI (2) of Significant Accounting Policies & Notes to Accounts)	(19.24)	(28.41)
Net transferred to Appropriation	2,070.60	760.17
<b>Appropriation</b>		
Opening Balance	619.49	753.18
Add : Surplus for the period including Net change in Unrealised Appreciation / (Depreciation) in Value of Investments	2,070.60	760.17
Add/(Less) : Income Equalisation - Credit / (Debit)	1,423.83	(448.18)
Less: Dividend paid to unitholders	(899.34)	(377.77)
Less: Distribution Tax	(195.69)	(67.91)
<b>Net Surplus /(Deficit) Transferred to Revenue Reserve</b>	<b>3,018.89</b>	<b>619.49</b>

# PRINCIPAL INCOME FUND & PRINCIPAL INCOME FUND - SHORT TERM PLAN

## SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

### I. ORGANISATION

Principal Mutual Fund (formerly known as IDBI-PRINCIPAL Mutual Fund) has been constituted as a Trust in accordance with the provisions of the Indian Trusts Act, 1882 (2 of 1882). The Mutual Fund is registered with SEBI under registration no. MF/019/94/0 dated December 13, 1994.

The Fund was initially set up by Industrial Development Bank of India (IDBI) in 1994 by execution of a Trust Deed dated November 25, 1994, under which IDBI was the sole Settlor, Sponsor and Principal Trustee. Subsequently, on March 31, 2000, Principal Financial Services Inc., USA became the deemed sponsor along with IDBI by acquiring 50% stake in IDBI-PRINCIPAL Asset Management Company Limited. Effective October 18, 2002, the IDBI-PRINCIPAL Trustee Company Limited has taken over the trusteeship and the associated responsibilities and obligations of the IDBI-PRINCIPAL Mutual Fund. The Name of the Trustee Company had changed to Principal Trustee Company Limited w.e.f. June 27, 2003. The Name of the Trustee Company changed to Principal Trustee Company Private Limited w.e.f. October 20, 2003.

On June 23, 2003, Principal Financial Services Inc. USA acquired 100% stake in IDBI-PRINCIPAL Asset Management Company Limited, through its wholly owned subsidiary Principal Financial Group (Mauritius) Limited. Accordingly, Principal Financial Services Inc., USA became the Sole Sponsor of the Fund and Principal Financial Group (Mauritius) Limited has become the Sole Settlor of the Fund. Name of the Asset Management Company had changed to Principal Asset Management Company Limited w.e.f. June 27, 2003.

The name of the Asset Management Company changed to Principal Asset Management Company Private Limited w.e.f. October 20, 2003.

On May 5, 2004, Punjab National Bank and Vijaya Bank acquired 30% stake and 5% stake respectively in Principal Asset Management Company Private Limited as well as Principal Trustee Company Private Limited and became the co-settlers to the Fund. The name of the Asset Management Company changed to Principal Pnb Asset Management Company Private Limited w.e.f. January 24, 2005.

Principal Income Fund is an open-ended scheme of Principal Mutual Fund and was launched on October 3, 2000. The duration of the scheme is perpetual. The scheme closed for initial subscription on October 21, 2000 and re-opened for issues and redemption of units on November 30, 2003.

On March 17, 2006 Principal Pnb Debt Fund, Principal Trust Benefit Fund and Principal Money Value Bond Fund have been merged into Principal Income Fund. SEBI has vide its letter no. IMD/PSP/56935/06 dated January 3, 2006 had given its no objection for the aforesaid merger.

Short Term Plan (STP) was launched under the Income Scheme on April 24, 2002. STP has a separate portfolio from that of Income Fund.

The investment objective of the scheme is to generate regular income and capital appreciation / accretion through investment in debt instruments and related securities besides preservation of capital. STP has been designed to achieve stable returns over short-term investment horizons.

### II. SIGNIFICANT ACCOUNTING POLICIES

#### 1. Basis of Accounting

The scheme maintains books of account on an accrual basis.

#### 2. Investments

- 2.1 Investment transactions are accounted on trade dates.
- 2.2 The cost of investment includes brokerage, premium paid on acquisition, transaction charges and other costs associated with purchase of investments.
- 2.3 Bonus entitlements are recognized on ex-bonus dates.

#### 3. Portfolio Valuation

- 3.1 Investments are valued on the Balance Sheet date as per the

recommendations of the Securities and Exchange Board of India (SEBI).

- 3.2 Traded securities (excluding government securities and Treasury bills) are valued at the last quoted closing price on the principal stock exchange on which the security is traded.
- 3.3 A security (other than debt securities), which is not traded on any stock exchange on a particular valuation day, is valued at the price at which it was traded on the selected stock exchange, as the case may be, on the earliest previous day, such day not being more than thirty days prior to the valuation date.
- 3.4 A debt security (other than government securities), which is not traded on any stock exchange on any particular valuation day, is valued by using the CRISIL Bond Valuer.
- 3.5 A debt security (other than government securities) is valued at cost on the date of first purchase and thereafter valued on the CRISIL Bond Valuer.
- 3.6 Investments in traded/non-traded/thinly traded government securities are valued at the prices released by an approved agency.
- 3.7 Treasury bills are valued at cost plus the difference between the redemption value and the cost spread uniformly over the remaining maturity period of the instrument. Treasury Bills listed on a recognised stock exchange are valued at the last quoted weighted average yield on the principal exchange on which the security is traded. If no sale is reported at that date Treasury Bills are valued at fair value as determined in good faith by Principal Pnb Asset Management Company Private Limited under procedures approved by the Trustees of Principal Mutual Fund in accordance with the guidelines for valuation of securities for mutual funds issued by the Securities and Exchange Board of India (SEBI).
- 3.8 Money Market securities and non-traded debt securities with residual maturity of upto 182 days are valued at cost (including accrued interest) plus the difference between the redemption value (inclusive of interest) and the cost spread uniformly over the remaining maturity period of the instrument.
- 3.9 Thinly traded Equity shares /Equity related securities/non-traded securities (other than Government Securities) are valued in good faith by the investment manager on the basis of valuation principles laid down by SEBI.
- 3.10 Investment in non-traded debt securities including securitised debt (other than government securities) with a residual maturity greater than 182 days are valued using CRISIL Bond Valuer, which is based on the concept of using spread to maturity to arrive at the yields for pricing.
- 3.11 Securities in the nature of Floating Rate Notes (FRN) are valued at cost plus the difference between the redemption value and the cost spread uniformly over the remaining maturity period of the instrument. FRN's listed on a recognised stock exchange are valued at the last quoted closing price on the principal exchange on which the security is traded. If no sale is reported at that date FRN's are valued at fair value as determined in good faith by Principal Pnb Asset Management Company Private Limited under procedures approved by the Trustees of Principal Mutual Fund in accordance with the guidelines for valuation of securities for mutual funds issued by the Securities and Exchange Board of India (SEBI).
- 3.12 Securitised Debt are valued at fair value as determined in good faith Principal Pnb Asset Management Company Private Limited under procedures approved by the Trustees of Principal Mutual Fund in accordance with the guidelines for valuation of securities for mutual funds issued by the Securities and Exchange Board of India (SEBI).
- 3.13 Investments in Call money, bills purchased under re-discounting scheme and term deposits with banks are valued at cost plus accruals.
- 3.14 An investment is regarded as non-performing if the interest and / or principal amount has not been received or remains outstanding for one quarter from the day such income or installment has fallen due.

3.15 Appreciation/Depreciation, as the case may be, in the value of the securities at the year-end has been computed for the scheme, whereby the aggregate market value taken together is compared with the aggregate cost of acquisition. Such net balance is charged to Revenue Account.

3.16 The above policies are followed as and when applicable.

#### 4. Income Recognition

4.1 Dividend income is accrued on ex-dividend date.

4.2 Profit or loss on sale of investments is arrived at by applying weighted average cost on trade date.

4.3 Interest on debentures and other fixed income investments is recognized on accrual basis.

4.4 Income on non-performing assets (NPA) is recognized on cash basis.

#### 5. Management Fees

Investment Management fees payable to Principal Pnb Asset Management Co. Pvt. Ltd. have been computed on the basis of average daily Net Assets Value.

#### 6. Unit Premium Reserve

Upon the issue and redemption of units, that part of the NAV representing net unrealised appreciation, which is taken away or brought in, as the case maybe, is debited and credited respectively to the UPR. On the other hand, debit balance in the UPR is deducted from the Appropriation Account for determining the distributable profit.

#### 7. Distributable Income

For the purpose of arriving at distributable income, the unrealized gain, arising out of appreciation of investments (net), has been excluded.

#### 8. Income Equalization

Income Equalization is determined at the point of subscription or redemption and is that part of the NAV, which represents distributable profits, or the revenue losses, as the case may be. The amount so determined is duly adjusted in the Appropriation Account at the end of the accounting period.

#### 9. Provisions

Provision is made against interest accrued on investments, which has not been received for a period of 3 months beyond the due date; no further accrual of income is made in respect of such investments.

Provision against the principal amount of such securities is made in accordance with valuation principles laid down by SEBI. Provision is made against accrued dividend, which has not been received for a period of twelve months beyond the due date.

#### 10. Load Charges

Load amount collected on sale/redemption of units is utilized for meeting the selling and distribution expenses.

#### III. PRINCIPAL TRUSTEE FEES:

Principal trustee fees have been accrued in the books @0.01% p.a. of average daily net assets in accordance with the Trustee Board Approval dated December 12, 2001. The name of the Trustee Company had changed from Principal Trustee Company Limited to Principal Trustee Company Private Limited w.e.f. October 20, 2003.

#### IV. CUSTODIAN FEES:

Citibank N.A. has provided custodial services to the schemes during the financial year 2005-06 for which they have been paid custodian fees.

#### V. REGISTRAR AND TRANSFER AGENT FEES:

Karvy Computershare Private Limited provides registration and transfer services to the fund, for which it receives fees based on the average net assets under management of the individual schemes and is also reimbursed for the out of pocket expenses incurred by them.

#### VI. MERGER OF THE SCHEMES (Refer to Note I above)

Principal Money Value Bond Fund, Principal Trust Benefit Fund and Principal Pnb Debt Fund have been merged with Principal Income Fund, with effect from March 17, 2006. The audited

balances as on March 17, 2006 and for the period April 01, 2005 to March 17, 2006 are mentioned below.

#### Balance Sheet as at March 17, 2006

(In Rupees)			
	Principal Money Value Bond Fund	Principal PNB Debt Fund	Principal Trust Benefit Fund
<b>LIABILITIES</b>			
Unit Capital	72,680,291	7,072,362	41,036,233
Reserves and Surplus	46,257,512	6,930,300	6,413,060
Current Liabilities and Provisions	392,215	452,330	973,572
Deferred Revenue	–	–	–
Expenditure	–	–	–
<b>TOTAL</b>	<b>119,330,018</b>	<b>14,454,992</b>	<b>48,422,865</b>
<b>ASSETS</b>			
Investments	–	13,943,317	–
Deposits	–	–	–
Other Current Assets	119,330,018	511,675	48,422,865
<b>TOTAL</b>	<b>119,330,018</b>	<b>14,454,992</b>	<b>48,422,865</b>

#### Revenue Account for the period April 1, 2005 to March 17, 2006

(In Rupees)			
	Principal Money Value Bond Fund	Principal PNB Debt Fund	Principal Trust Benefit Fund
<b>INCOME AND GAINS</b>			
Interest and Discount Income	159,587	128,973	1,136,127
Profit on Sale/ Redemption of Investments (Net) (Other than Inter-Scheme Transfer)	9,640,155	2,154,867	1,384,230
<b>TOTAL</b>	<b>9,799,742</b>	<b>2,283,840</b>	<b>2,520,357</b>
<b>EXPENSES AND LOSSES</b>			
Loss on Inter-Scheme Transfer of investments (Net)	–	59	637,484
Investment Management Fees	207,826	87,531	205,062
Trusteeship Fees and Expenses	12,847	2,584	6,381
Commission to Agents	382,692	102,978	–
Publicity Expenses	222,471	89,876	12,562
Audit Fees	7,219	5,971	6,446
Other Operating Expenses & Taxes	144,716	39,375	63,082
Custodian Fees and Expenses	200	20	3,764
Registrar/Transfer Agent fees	86,963	17,467	43,108
Deferred Revenue Expenses Amortised	–	–	–
	1,064,934	345,861	977,889
Less: Excess of Expenditure Over Permissible Limit to be Recovered from AMC	(128,395)	(71,992)	(61,978)
	936,539	273,869	915,911

(In Rupees)			
	Principal Money Value Bond Fund	Principal PNB Debt Fund	Principal Trust Benefit Fund
Surplus/(Deficit) for the Period	8,863,203	2,009,971	1,604,446
Net change in Unrealised Appreciation / (Depreciation) in Value of Investments	(3,318,881)	(774,406)	1,254,891
<b>Net Transferred to Appropriation</b>	<b>5,544,322</b>	<b>1,235,565</b>	<b>2,859,337</b>

## VI. NOTES TO ACCOUNTS

1 Income Plan has six options viz.: Institutional Quarterly Dividend, Institutional Growth, Dividend Quarterly, Dividend Half yearly, Annual Dividend and Growth. A combined Balance Sheet and Revenue Account is prepared for the plan.

Short Term Plan has five options viz.; Institutional Weekly Dividend, Institutional Monthly Dividend, Institutional Growth, Dividend Monthly and Growth. A combined Balance Sheet and Revenue Account is prepared for the plan.

2 The Cost, Market Value/Fair Value and net change in unrealised Appreciation/(Depreciation) in value of investments as on March 31, 2006 is given below:

### Principal Income Fund

(In Rs. Lacs)			
Investments	Cost	Market Value / Fair Value	Net Appreciation (+)/ Depreciation (-) in value of investments
Government dated Securities/ Treasury bills	1,940.82 (3,823.61)	1,934.70 (3,826.41)	-6.12 (+2.8)
Commercial Paper/ Certificate of Deposit	864.55 (471.98)	864.55 (471.98)	- (-)
Securitized Debt	714.16 (329.63)	711.34 (333.54)	-2.83 (+3.91)
Privately Placed Debentures/ Bonds	- (513.29)	- (511.78)	- (-1.51)
Debentures / Bonds Listed / Awaiting listing on recognized stock exchanges	1,092.97 (3,908.90)	1,086.35 (3,840.05)	-6.62 (-68.85)
<b>TOTAL</b>	<b>4,612.50 (9,047.41)</b>	<b>4,596.93 (8,983.76)</b>	<b>-15.57 (-63.65)</b>

Net change in unrealised appreciation in the value of investment for the year ended March 31, 2006 : **Rs. 48.08 lacs**

### Principal Income Fund-Short Term Plan

(In Rs. Lacs)			
Investments	Cost	Market Value / Fair Value	Net Appreciation (+)/ Depreciation (-) in value of investments
Commercial Paper/ Certificate of Deposit	3,811.50 (471.35)	3,811.50 (471.35)	- (-)
Securitized Debt	5,497.70 (2,847.37)	5,496.53 (2,855.23)	-1.17 (+7.86)
Privately Placed Debentures/ Bonds	- (1,188.28)	- (1,387.08)	- (+198.8)
Debentures / Bonds Listed / Awaiting listing on recognized stock exchanges	3,597.10 (2,742.63)	3,588.41 (2,539.36)	-8.69 (-203.27)
<b>TOTAL</b>	<b>12,906.30 (7,249.63)</b>	<b>12,896.45 (7,259.02)</b>	<b>-9.86 (+9.39)</b>

Net change in unrealised depreciation in the value of investment for the year ended March 31, 2006 : **Rs. 19.25 lacs**

3 The industrywise 'Statement of Portfolio Holding' as on March 31, 2006 is as per Annexure I.

4 Interest and Discount Income (Net) includes amounts received from and paid to other schemes of the Fund on account of delay in movement of unit subscription application money of one scheme wrongly received in the other scheme, calculated for the year of the delay on the basis of the prevailing CBLO rates.

5 The aggregate book value and fair value of non traded / thinly traded investments, which have been valued in good faith in accordance with the guidelines for valuation of securities for Mutual Fund issued by SEBI is nil.

### Principal Income Fund

(In Rs. Lacs)	
Particulars	Amount
Book Value	2,760.91 (6,923.44)
Market / Fair Value	2,751.74 (6,859.81)

### Principal Income Fund-Short Term Plan

(In Rs. Lacs)	
Particulars	Amount
Book Value	9,094.80 (5,583.76)
Market / Fair Value	9,084.95 (5,593.14)

6 Net Asset Value per unit as on March 31, 2006 for various plans are as under:

Scheme / Plan	March 31, 2006	March 31, 2005
Principal Income Fund - Growth Plan	16.4134	15.6988
Principal Income Fund - Annual Dividend Plan	10.5095	10.5343
Principal Income Fund - Half Yearly Dividend Plan	10.3278	10.4561
Principal Income Fund - Quarterly Dividend Plan	10.3296	10.4127
Principal Income Fund - Institutional Quarterly Dividend Plan	10.4282	10.1771
Principal Income Fund - Institutional Growth Plan	11.5465	10.9743
Principal Income Fund - STP- Dividend Plan	10.0426	10.0988
Principal Income Fund - STP- Growth Plan	12.5948	11.9608
Principal Income Fund - STP- Institutional Dividend Plan	10.0570	10.0555
Principal Income Fund - STP- Growth Plan	11.6861	11.0803
Principal Income Fund - STP - Institutional Weekly Dividend Plan	10.9340	10.9281

7 Details of movements in Unit Capital during the year:

### Principal Income Fund - Growth Plan

Particulars	Units	Amount (Rs)
Opening Balance as on April 01, 2005	9,355,587.947	93,555,879.47
Add : Units sold during the year	28,106,073.845	281,060,738.45
Less: Units redeemed during the year	20,359,048.826	203,590,488.26
<b>Closing Balance as on March 31, 2006</b>	<b>17,102,612.966</b>	<b>171,026,129.66</b>

### Principal Income Fund - Annual Dividend Plan

Particulars	Units	Amount (Rs)
Opening Balance as on April 01, 2005	68,991.392	689,913.92
Add : Units sold during the year	707,557.688	7,075,576.88
Less: Units redeemed during the year	152,360.170	1,523,601.70
<b>Closing Balance as on March 31, 2006</b>	<b>624,188.910</b>	<b>6,241,889.10</b>

### Principal Income Fund - Half Yearly Plan

Particulars	Units	Amount (Rs)
Opening Balance as on April 01, 2005	2,271,894.352	22,718,943.52
Add : Units sold during the year	991,991.956	9,919,919.56
Less: Units redeemed during the year	1,344,536.902	13,445,369.02
<b>Closing Balance as on March 31, 2006</b>	<b>1,919,349.406</b>	<b>19,193,494.06</b>

### Principal Income Fund - Quarterly Plan

Particulars	Units	Amount (Rs)
Opening Balance as on April 01, 2005	4,282,327.016	42,823,270.16
Add : Units sold during the year	7,654,503.100	76,545,031.00
Less: Units redeemed during the year	4,826,569.606	48,265,696.06
<b>Closing Balance as on March 31, 2006</b>	<b>7,110,260.510</b>	<b>71,102,605.10</b>

### Principal Income Fund - Institutional Quarterly Plan

Particulars	Units	Amount (Rs)
Opening Balance as on April 01, 2005	52,515.000	525,150.00
Add : Units sold during the year	57,078,568.679	570,785,686.79
Less: Units redeemed during the year	57,128,563.549	571,285,635.49
<b>Closing Balance as on March 31, 2006</b>	<b>2,520.130</b>	<b>25,201.30</b>

### Principal Income Fund - Institutional Growth Plan

Particulars	Units	Amount (Rs)
Opening Balance as on April 01, 2005	24,906,538.445	249,065,384.45
Add : Units sold during the year	88,336,423.016	883,364,230.16
Less: Units redeemed during the year	106,114,536.166	1,061,145,361.66
<b>Closing Balance as on March 31, 2006</b>	<b>7,128,425.295</b>	<b>71,284,252.95</b>

### Principal Income Fund - Short Term Plan - Dividend Plan

Particulars	Units	Amount (Rs)
Opening Balance as on April 01, 2005	3,488,062.004	34,880,620.04
Add : Units sold during the year	28,229,649.844	282,296,498.44
Less: Units redeemed during the year	27,597,706.473	275,977,064.73
<b>Closing Balance as on March 31, 2006</b>	<b>4,120,005.375</b>	<b>41,200,053.75</b>

### Principal Income Fund - Short Term Plan - Growth Plan

Particulars	Units	Amount (Rs)
Opening Balance as on April 01, 2005	7,645,888.182	76,458,881.82
Add : Units sold during the year	22,933,046.239	229,330,462.39
Less: Units redeemed during the year	24,216,008.067	242,160,080.67
<b>Closing Balance as on March 31, 2006</b>	<b>6,362,926.354</b>	<b>63,629,263.54</b>

### Principal Income Fund - Short Term Plan - Institutional Dividend Plan

Particulars	Units	Amount (Rs)
Opening Balance as on April 01, 2005	28,314,149.935	283,141,499.35
Add : Units sold during the year	205,646,740.232	2,056,467,402.32
Less: Units redeemed during the year	208,300,241.316	2,083,002,413.16
<b>Closing Balance as on March 31, 2006</b>	<b>25,660,648.851</b>	<b>256,606,488.51</b>

### Principal Income Fund - Short Term Plan - Institutional Growth Plan

Particulars	Units	Amount (Rs)
Opening Balance as on April 01, 2005	40,259,731.119	402,597,311.19
Add : Units sold during the year	690,976,020.884	6,909,760,208.84
Less: Units redeemed during the year	689,079,832.738	6,890,798,327.38
<b>Closing Balance as on March 31, 2006</b>	<b>42,155,919.265</b>	<b>421,559,192.65</b>

### Principal Income Fund - Short Term Plan - Institutional Weekly Plan

Particulars	Units	Amount (Rs)
Opening Balance as on April 01, 2005	24,672.974	246,729.74
Add : Units sold during the year	564,634,654.448	5,646,346,544.48
Less: Units redeemed during the year	498,745,064.007	4,987,450,640.07
<b>Closing Balance as on March 31, 2006</b>	<b>65,914,263.415</b>	<b>659,142,634.15</b>

8 Aggregate value of Purchases and Sales made during the year, expressed as a percentage of Average Daily Net Asset Value :

Scheme	Purchases		Sales*	
	Amount (Rs. in lacs)	% of Avg. Net Assets	Amount (Rs. in lacs)	% of Avg. Net Assets
Principal Income Fund	100,720.92 (197,163.25)	1,295.33 (859.51)	106,815.21 (230,945.07)	1,373.71 (1,006.78)
Principal Income Fund - Short Term Plan	221,758.82 (60,835.97)	556.58 (382.84)	218,225.24 (68,402.15)	547.71 (430.46)

\* Sales includes redemptions.

9 With respect to Principal Income Fund there are no contracts for pending sale or purchase of securities as of March 31, 2006 With respect to Principal Income Fund -Short Term Plan contracts for sale pending deliveries as on March 31, 2006 amounting to Rs. 0.01 lacs (Rs.0.01 lacs) have been excluded from the Investments where as there were purchases of securities by the Scheme, the deliveries of which were pending as on March 31, 2006 amounting to Rs.978.89 lacs (Rs.Nil lacs)

10 Details of Management Fee paid to Principal Pnb Asset Management Co. Pvt. Ltd. and its computation thereof:

Scheme	(In Rs. Lacs)	
	Average Daily Net Asset Value	Management Fees
Principal Income Fund - Regular Plan	3,401.98 (16,302.17)	35.47 (164.08)
Principal Income Fund - Institutional Plan	4,373.70 (6,636.78)	17.21 (29.77)
Principal Income Fund - STP - Regular Plan	2,887.87 (3,358.08)	14.55 (17.89)
Principal Income Fund - STP - Institutional Plan	36,955.35 (12,532.52)	127.59 (41.38)

- 11 Total Income and Recurring Expenditure for the year expressed as a percentage of Average Daily Net Assets:

**Principal Income Fund**

Scheme/Plan	(As a % of Net Asset Value)	
	Total Income	Recurring Expenditure
Total Income	6.08 (6.82)	
Recurring Expenditure	1.66 (1.80)	1.02 (1.10)

**Principal Income Fund - Short Term Plan**

Scheme/Plan	(As a % of Net Asset Value)	
	Total Income	Recurring Expenditure
Total Income	5.26 (5.57)	
Recurring Expenditure	0.96 (1.00)	0.80 (0.80)

*Income/Expenditure is exclusive of appreciation/depreciation on investments and Profit / loss on realisation of investments*

- 12 Particulars of Unclaimed Redemptions / Dividend as on March 31, 2006 is as under:

Scheme/Plan	Unclaimed Dividends		Unclaimed Redemptions	
	No. of Investors	Amount (Rs. in Lacs)	No. of Investors	Amount (Rs. in Lacs)
Principal Income Fund	526 (1,930)	8.73 (24.24)	72 (97)	5.99 (23.53)
Principal Income Fund - Short Term Plan	21 (52)	0.17 (1.21)	4 (3)	0.25 (0.17)

- 13 As per the SEBI disclosure vide circular No. MFD/CIR No.3/211/2001 dated April 30, 2001; the details of investors as on March 31, 2006, whose holding is above 25 % of the NAV are as follows.

Scheme	No. of Investor	Percentage
Principal Income Fund STP - Institutional Weekly Plan	1	26.86

- 14 As per the requirements of Regulation 25(8) of SEBI Regulation, 1996, the details of Payments made to Associates during the year are as under:

**Principal Income Fund**

(In Rs. Lacs)		
Name of the Associate	Amount paid	Nature of payment
Principal Consulting (India) Private Limited	3.89 (16.06)	Investor Communication Service Fees
Punjab National Bank	0.01 (0.11)	Brokerage on Mobilisation of Units
PNB-Gilt Ltd.	0.54 (-)	Brokerage on Mobilisation of Units
IDBI Capital Market Services Ltd	0.03 (6.84)	Brokerage on Mobilisation of Units
Quantum Information Services	0.00 (-)	Brokerage on Mobilisation of Units

**Principal Income Fund - Short Term Plan**

(In Rs. Lacs)		
Name of the Associate	Amount paid	Nature of payment
Principal Consulting (India) Private Limited	19.86 (11.12)	Investor Communication Service Fees

(In Rs. Lacs)		
Name of the Associate	Amount paid	Nature of payment
Punjab National Bank	0.07 (0.47)	Brokerage on Mobilisation of Units
PNB-Gilt Ltd.	- (1.50)	Brokerage on Mobilisation of Units
IDBI Capital Market Services Ltd.	5.08 (0.68)	Brokerage on Mobilisation of Units
PNB Principal Financial Planners Pvt Ltd.	0.23 (-)	Brokerage on Mobilisation of Units

- 15 During the year ended March 31, 2006 no investments were made in-group companies of Sponsor. However, investment in associate companies as on 31st March 2006 is as follows

**Principal Income Fund**

Name of the Associate Company	Investment in Rs. Lacs
Housing Development Finance Corporation	301.28 (519.78)

**Principal Income Fund - Short Term Plan**

Name of the Associate Company	Investment in Rs. Lacs
Housing Development Finance Corporation	1,004.25 (503.55)
Punjab National Bank	1,000.00 (300.00)

- 16 Outstanding and accrued income is net of provision for doubtful income amounting to Rs.Nil lacs (Rs.Nil lacs) and Investment is net of provision of Rs.1.05 Lacs (Rs.1.05 lacs).
- 17 Figures in bracket indicate previous year figures.
- 18 Previous year's figures have been regrouped, wherever necessary, to make them comparable.
- 19 Historical per unit statistics as on March 31, 2006 are enclosed as per Annexure II
- 20 As per the requirement of Regulation 25(11) of SEBI (Mutual Fund) Regulations, 1996, the details of investments made by the Fund in companies, where the company's investment in any of Principal Mutual Fund schemes exceeds 5% of scheme's Net Asset Value is as per Annexure III.
- 21 A copy of the full Annual Report is available for inspection at the Head Office of the Mutual Fund and the same shall be made available to the unitholder on payment of a nominal fee of Re. 1/-.

As per our attached report of even date

For Haribhakti & Co. <i>Chartered Accountants</i>	For and on behalf of Principal Pnb Asset Management Company Pvt. Ltd.	For and on behalf of Principal Trustee Company Pvt. Ltd.
Sd/- Chetan Desai <i>Partner</i>	Sd/- Arpan Thanawala <i>Chairman</i>	Sd/- B. G. Deshmukh <i>Chairman</i>
	Sd/- J C Tupling <i>Director</i>	Sd/- Dr. S.A. Dave <i>Director</i>

Place: Mumbai  
Date: 9<sup>th</sup> June 2006

## Annexure I

### PRINCIPAL INCOME FUND

### PRINCIPAL INCOME FUND - SHORTTERM PLAN

#### Industrywise Statement of Portfolio as on March 31, 2006

Industry	Market Value (Rs. in Lacs)	% of NAV
<b>Debt Instruments (Listed / Awaiting listing on the stock exchanges)</b>		
Government of India Bonds (Cost Rs. 987.03 Lacs)	980.64 <b>980.64</b>	21.19 <b>21.19</b>
<b>Non-convertible Debentures, Bonds, Floating Rate Bonds **</b>		
Finance	496.54	10.73
Institutional Finance	300.29	6.49
Non Ferrous Metals (Cost Rs. 1,092.97 Lacs)	289.51 <b>1,086.35</b>	6.25 <b>23.47</b>
<b>Debt Instruments (Privately Placed / Unlisted)</b>		
<b>Securatised Debt **</b>		
Banks	349.67	7.55
Finance	216.03	4.67
Diversified Financial Services (Cost Rs. 714.16 Lacs)	145.64 <b>711.34</b>	3.15 <b>15.37</b>
<b>Money Market Instruments</b>		
<b>Treasury Bills</b>		
Government of India (Cost Rs. 953.78 Lacs)	954.06 <b>954.06</b>	20.61 <b>20.61</b>
<b>Certificate of Deposit</b>		
Banks (Cost Rs. 864.55 Lacs)	864.55 <b>864.55</b>	18.68 <b>18.68</b>
<b>Cash &amp; Cash Equivalents</b>	<b>164.35</b>	<b>3.55</b>
<b>Other Receivables / (Payables)</b>	<b>(132.51)</b>	<b>(2.86)</b>
<b>Net Assets</b>	<b>4,628.77</b>	<b>100.00</b>

\*\* Thinly traded / non - traded debt securities.

#### Industrywise Statement of Portfolio as on March 31, 2006

Industry	Market Value (Rs. in Lacs)	% of NAV
<b>Debt Instruments (Listed / Awaiting listing on the stock exchanges)</b>		
<b>Non-convertible Debentures, Bonds, Floating Rate Bonds **</b>		
Finance	2,490.97	15.64
Diversified Financial Services	1,000.94	6.28
Non Ferrous Metals (Cost Rs. 3,597.10 Lacs)	96.50 <b>3,588.41</b>	0.61 <b>22.53</b>
<b>Debt Instruments (Privately Placed / Unlisted)</b>		
<b>Securatised Debt **</b>		
Banks	3,344.72	21.00
Finance	2,006.18	12.59
Diversified Financial Services (Cost Rs. 5,497.70 Lacs)	145.64 <b>5,496.53</b>	0.91 <b>34.51</b>
<b>Money Market Instruments</b>		
<b>Certificate of Deposit</b>		
Banks (Cost Rs. 3,321.17 Lacs)	3,321.17 <b>3,321.17</b>	20.85 <b>20.85</b>
<b>Commercial Paper</b>		
Finance (Cost Rs. 490.33 Lacs)	490.33 <b>490.33</b>	3.08 <b>3.08</b>
<b>Term Deposits</b>		
Banks (Cost Rs. 1,000.00 Lacs)	1,000.00 <b>1,000.00</b>	6.28 <b>6.28</b>
<b>Cash &amp; Cash Equivalents</b>	<b>140.03</b>	<b>0.88</b>
<b>Other Receivables / (Payables)</b>	<b>1,892.84</b>	<b>11.88</b>
<b>Net Assets</b>	<b>15,929.32</b>	<b>100.00</b>

\*\* Thinly traded / non - traded debt securities.

## Annexure II

### HISTORICAL PER UNIT STATISTICS AS AT MARCH 31, 2006 (Rs. per unit of Face Value Rs. 10/-)

Particulars	Principal Income Fund																	
	Regular Plan												Institutional Plan					
	Quarterly Dividend			Half-Yearly Dividend			Annual Dividend			Growth			Quarterly Dividend			Growth		
	As on 31/03/06	As on 31/03/05	As on 31/03/04	As on 31/03/06	As on 31/03/05	As on 31/03/04	As on 31/03/06	As on 31/03/05	As on 31/03/04	As on 31/03/06	As on 31/03/05	As on 31/03/04	As on 31/03/06	As on 31/03/05	As on 31/03/04	As on 31/03/06	As on 31/03/05	As on 31/03/04
a. Net Asset Value per unit	10.3296	10.4127	10.7356	10.3278	10.4561	10.7774	10.5095	10.5343	10.8832	16.4134	15.6988	15.5451	10.4282	10.1771	10.1995	11.5465	10.9743	10.7910
	31/03/06						31/03/05						31/03/04					
b. i. Income other than profit on sale of Investments	1.39						1.92						1.33					
ii. Income from profit on inter-scheme sale/transfer of investments	(0.21)						(0.07)						0.03					
iii. Income from profit on sale of investments to third party	0.10						(1.08)						0.89					
<b>Gross Income b (i to iii)</b>	<b>1.28</b>						<b>0.77</b>						<b>2.25</b>					
c. i. Aggregate of expenses, write off, amortisation and charges	0.62 <sup>^</sup> 0.24 <sup>^^</sup>						0.77 <sup>^</sup> 0.18 <sup>^^</sup>						0.43 <sup>^</sup> 0.12 <sup>^^</sup>					
<b>d. Net Income (b-c)</b>	<b>0.98</b>						<b>0.33</b>						<b>1.70</b>					
e. Change in unrealised appreciation/ (depreciation) in value of investments	0.14						(0.44)						(0.14)					
	31/03/06	31/03/05	31/03/04	31/03/06	31/03/05	31/03/04	31/03/06	31/03/05	31/03/04	31/03/06	31/03/05	31/03/04	31/03/06	31/03/05	31/03/04	31/03/06	31/03/05	31/03/04
f. i. Repurchase Price																		
1. Highest during the year	10.6019	10.7728	10.9940	10.7734	10.8147	11.2788	10.8570	10.9211	14.9893	16.4260	15.6203	15.4674	10.4634	10.2913	10.4330	11.5547	10.9743	10.7910
2. Lowest during the year	10.2780	10.2792	10.6365	10.3278	10.3200	10.6779	10.3153	10.1768	10.4814	15.6165	15.1333	14.2210	10.1760	9.9365	10.0204	10.9731	10.5859	10.0204
ii. Reissue Price																		
1. Highest during the year	10.6019	10.8269	11.0492	10.7736	10.8690	11.3355	10.8570	10.9760	15.0646	16.4260	15.6988	15.5451	10.4634	10.2913	10.4330	11.5547	10.9743	10.7910
2. Lowest during the year	10.2780	10.3309	10.6899	10.3278	10.3719	10.7316	10.3153	10.2279	10.5341	15.6165	15.2093	14.2925	10.1760	9.9365	10.0204	10.9731	10.5859	10.0204

<sup>^</sup>Institutional <sup>^^</sup>Regular

Notes:

- Income and Expenditure per unit have been worked out based on balance in Unit Capital Account as on 31/03/06.
- As none of the schemes are traded on Stock Exchange Trading Price and Price Earning Ratio is not applicable.
- Transfer to Revenue Account from Past Years Reserve is NIL.
- Information is given for the Schemes/Plans outstanding as on 31/03/06.

Particulars	Principal Income Fund - Short Term Plan														
	Regular Plan							Institutional Plan							
	Monthly Dividend				Growth			Weekly Dividend			Monthly Dividend			Growth	
	As on 31/03/06	As on 31/03/05	As on 31/03/04	As on 31/03/06	As on 31/03/05	As on 31/03/04	As on 31/03/06	As on 31/03/05	As on 31/03/04	As on 31/03/06	As on 31/03/05	As on 31/03/04	As on 31/03/06	As on 31/03/05	As on 31/03/04
a. Net Asset Value per unit	10.0426	10.0988	10.1457	12.5948	11.9608	11.4024	10.9340	10.9281	10.9393	10.0570	10.0555	10.0553	11.6861	11.0803	10.5424
	31/03/06					31/03/05					31/03/04				
b. i. Income other than profit on sale of Investments	1.45					1.29					1.09				
ii. Income from profit on inter-scheme sale/transfer of investments	(0.13)					(0.02)					(0.02)				
iii. Income from profit on sale of investments to third party	0.35					(0.12)					0.06				
<b>Gross Income b (i to iii)</b>	<b>1.67</b>					<b>1.15</b>					<b>1.13</b>				
c. i. Aggregate of expenses, write off, amortisation and charges	0.22 <sup>^</sup> 0.26 <sup>^^</sup>					0.90 <sup>^</sup> 0.05 <sup>^^</sup>					0.25 <sup>^</sup> 0.11 <sup>^^</sup>				
<b>d. Net Income (b-c)</b>	<b>1.45</b>					<b>0.98</b>					<b>0.77</b>				
e. Change in unrealised appreciation/ (depreciation) in value of investments	(0.01)					(0.04)					0.02				
	31/03/06	31/03/05	31/03/04	31/03/06	31/03/05	31/03/04	31/03/06	31/03/05	31/03/04	31/03/06	31/03/05	31/03/04	31/03/06	31/03/05	31/03/04
f. i. Repurchase Price															
1. Highest during the year	10.1553	10.1641	10.1852	12.5948	11.9309	11.3739	10.9468	10.9476	10.9586	10.1206	10.1000	10.1019	11.6758	11.0803	10.5424
2. Lowest during the year	10.0384	10.0402	10.0742	11.9696	11.3791	10.7091	10.9146	10.9197	10.0000	10.0386	10.0161	9.9902	11.0938	10.5473	9.9902
ii. Reissue Price															
1. Highest during the year	10.1595	10.1896	10.2107	12.5948	11.9608	11.4024	10.9468	10.9476	10.9586	10.1206	10.1000	10.1019	11.6758	11.0803	10.5424
2. Lowest during the year	10.0364	10.0654	10.0994	11.9696	11.4076	10.7359	10.9146	10.9197	10.0000	10.0188	10.0161	10.0000	11.0938	10.5473	10.0000

<sup>^</sup>Institutional <sup>^^</sup>Regular

Notes:

- Income and Expenditure per unit have been worked out based on balance in Unit Capital Account as on 31/03/06.
- As none of the schemes are traded on Stock Exchange Trading Price and Price Earning Ratio is not applicable.
- Transfer to Revenue Account from Past Years Reserve is NIL.
- Information is given for the Schemes/Plans outstanding as on 31/03/06.



## Annexure III

Details of investment made by any scheme in company which has invested in any scheme of Principal Mutual Fund in excess of 5% of net assets of that scheme in terms of Regulation 25(11)

Name Company (Investor)	Scheme in which investment is made by Company	Schemes by which investment is made in securities of the company	Aggregate investment by schemes in securities of the company during 01.04.2004 to 31.03.2006		Aggregate Investment outstanding as on March 31st, 2006 (At Market Value)	
			Nature of Investment	(Rupees in Lacs)	Nature of Investment	(Rupees in Lacs)
ALLAHABAD BANK	RIF, LCAP, EQUITY	PDYF, RIF, TAX96, GROWTH	Equity Shares	2,830.58	Equity Shares	652.95
		FR-FMP, FR-SMP, LIQUID, STP, FMP-19, FMP-12	Term Deposit	33,400.00	Term Deposit	2,500.00
		FR-SMP, INCOME, LIQUID, MIP, STP, JUNIOR, FMP-21, FMP-23, FMP-24, FMP-26, FR-FMP	Certificate of Deposit	87,984.80	Certificate of Deposit	16,101.59
BAJAJ AUTO	FMP-25, FMP-21	EQUITY, FOCUS, GROWTH, INDEX, MIP, MIP-PLUS, PTSF, RIF, TAX96, CHILD	Equity Shares	4,756.38	Equity Shares	431.82
BHARTI TELEVENTURES	STP, INCOME	GROWTH, INDEX, MIP, MIP-PLUS, PTSF, RIF, TAX96, LCAP, INFRA, CHILD	Equity Shares	9,274.90	Equity Shares	3,516.58
FINOLEX INDUSTRIES	GILT-I, MIP, MIP-PLUS, FMP-21, FMP-15, FMP-18	GROWTH, MIP, MIP-PLUS, PBF, PDYF, PTSF, RIF, TAX96, EQUITY	Equity Shares	1,783.05	Equity Shares	170.11
GRASIM INDUSTRIES	FMP-15, FMP-17, FMP-18, FR-FMP, FR-SMP, FMP-20, FMP-21, FMP-22, FMP-13	EQUITY, GROWTH, INDEX, PBF, PTSF, RIF, TAX96, LCAP, INFRA, CHILD	Equity Shares	3,666.77	Equity Shares	2,551.58
		MIP, MIP-PLUS, MVBF, STP, INCOME	Debt	1,576.20	Debt	-
ULTRATECH CEMENT <sup>^</sup>		GROWTH, PBF, RIF, EQUITY	Equity Shares	222.28	Equity Shares	-
HCL TECHNOLOGIES	FR-FMP, FR-SMP, STP, FMP-20, FMP-19	GROWTH, INDEX, MIP, MIP-PLUS, PDYF, RIF, TAX96, LCAP, INFRA, FOCUS	Equity Shares	8,854.76	Equity Shares	3,577.94
HOUSING DEVELOPMENT FINANCE CORPORATION	EQUITY	GROWTH, INDEX, MIP, MIP-PLUS, PDYF, RIF, TAX96, FOCUS	Equity Shares	4,929.80	Equity Shares	213.82
		FMP-12, FR-FMP, FR-SMP, INCOME, LIQUID, MIP, MIP-PLUS, MVBF, PBF, STP, CHILD	Debt	77,932.35	Debt	20,991.27
HDFC BANK	LIQUID	GROWTH, INDEX, MIP, MIP-PLUS, RIF, TAX96, LCAP, INFRA, FOCUS	Equity Shares	7,405.56	Equity Shares	4,259.73
		FR-SMP, INCOME, LIQUID, STP, FR-FMP	Debt	36,378.21	Debt	6,596.87
		LIQUID, FR-SMP	Certificate of Deposit	6,192.17	Certificate of Deposit	-
HINDALCO INDUSTRIES	FMP-17, FMP-18, FR-FMP, FR-SMP, LIQUID, STP, FMP-21, FMP-26, FMP-15	EQUITY, GROWTH, INDEX, MIP, MIP-PLUS, PTSF, RIF, TAX96, LCAP, INFRA, CHILD	Equity Shares	7,293.00	Equity Shares	3,246.13
		FR-FMP, INCOME, LIQUID, MIP-PLUS, MVBF, STP, BOND	Debt	8,961.64	Debt	482.52
HINDUSTAN LEVER	FR-SMP, LIQUID, STP, FMP-21, FMP-22, FMP-24, FMP-25, FMP-26, FMP-19	GROWTH, INDEX, MIP, MIP-PLUS, PBF, PDYF, PTSF, RIF, TAX96, LCAP, FOCUS	Equity Shares	8,139.97	Equity Shares	2,416.79
		LIQUID, PBF, GROWTH	Debt	564.90	Debt	-
HINDUSTAN ZINC	INCOME, FMP-11, FMP-20, FMP-21, FMP-23, FMP-25, FMP-17	EQUITY, FOCUS, GROWTH, MIP, MIP-PLUS, PTSF, RIF, TAX96, LCAP, CHILD	Equity Shares	2,822.82	Equity Shares	-
ICICI BANK	GOF, LIQUID, JUNIOR, FR-SMP	CHILD, FOCUS, GROWTH, INDEX, MIP, MIP-PLUS, PTSF, RIF, TAX96, INFRA, BALANC	Equity Shares	5,185.47	Equity Shares	1,128.40
		FR-SMP, INCOME, LIQUID, MIP, MIP-PLUS, PBF, STP, FR-FMP	Debt	52,209.85	Debt	17,534.48
		LIQUID, STP, FMP-14, FR-SMP	Term Deposit	12,300.00	Term Deposit	-
		FR-FMP, FR-SMP, LIQUID, MIP, PDYF, STP, JUNIOR, FMP-15, FMP-21, FMP-24, FMP-25, FMP-12	Certificate of Deposit	63,346.26	Certificate of Deposit	12,231.43
INDUSTRIAL DEVELOPMENT BANK OF INDIA	STP, DEP-EA, LIQUID	GROWTH, MIP, MIP-PLUS, PBF, RIF, TAX96, JUNIOR, FOCUS	Equity Shares	3,275.57	Equity Shares	-
		FMP-13, FR-FMP, FR-SMP, INCOME, LIQUID, MIP, MIP-PLUS, MVBF, STP, TBF-D, FMP-19, BOND	Debt	53,961.99	Debt	6,555.42
		LIQUID	Term Deposit	5,000.00	Term Deposit	-
		FR-SMP, LIQUID, STP, FR-FMP	Certificate of Deposit	14,684.21	Certificate of Deposit	-
IDBI CAPITAL MARKET SERVICES <sup>^^</sup>		GROWTH, INCOME, LIQUID, MIP, CALL	Debt	11,000.00	Debt	-
IDBI HOUSING FINANCE <sup>^^^</sup>		LIQUID, FR-SMP	Debt	5,357.27	Debt	-
IL & FS INVESTMART	PBF	EQUITY, FOCUS, MIP, MIP-PLUS, PBF, PTSF, RIF, CHILD	Equity Shares	125.00	Equity Shares	-
INFOSYS TECHNOLOGIES	LIQUID	EQUITY, FOCUS, GROWTH, INDEX, MIP, MIP-PLUS, PBF, PTSF, RIF, TAX96, LCAP, INFRA, CHILD	Equity Shares	16,105.71	Equity Shares	6,158.41
INFRASTRUCTURE DEVELOPMENT FINANCE COMPANY	STP, FR-SMP	EQUITY, FOCUS, GROWTH, MIP, MIP-PLUS, PBF, PDYF, PTSF, RIF, TAX96, JUNIOR, CHILD	Equity Shares	3,115.94	Equity Shares	-
		FR-FMP, FR-SMP, LIQUID, MIP, MIP-PLUS, FMP-13, STP, INCOME	Debt	7,644.13	Debt	-
ITC	FR-SMP, LIQUID, STP, FR-FMP	EQUITY, FOCUS, GROWTH, INDEX, MIP, MIP-PLUS, PBF, PTSF, RIF, TAX96, LCAP, CHILD	Equity Shares	10,621.62	Equity Shares	4,416.97
JET AIRWAYS	FR-SMP, STP, FR-FMP	EQUITY, GROWTH, INDEX, MIP, MIP-PLUS, PBF, PTSF, TAX96, LCAP, INFRA, CHILD	Equity Shares	4,100.31	Equity Shares	1,181.91
L & T FINANCE	FR-SMP	FR-FMP, FR-SMP, LIQUID, STP, FMP-19, FMP-17, FMP-25, FMP-12	Debt	36,447.27	Debt	2,499.35
MAHINDRA & MAHINDRA	FMP-21	EQUITY, FOCUS, GROWTH, INDEX, MIP, MIP-PLUS, PBF, PTSF, RIF, TAX96, JUNIOR, LCAP, CHILD	Equity Shares	9,647.95	Equity Shares	2,858.39
MARUTI UDYOG	FMP-13, FMP-19, FR-SMP, LIQUID, FMP-23, FMP-25, FMP-11	EQUITY, FOCUS, GROWTH, INDEX, MIP, MIP-PLUS, PBF, PTSF, RIF, TAX96, CHILD	Equity Shares	8,912.34	Equity Shares	8.11
MAX INDIA	FMP-22	TAX96, JUNIOR, PTSF	Equity Shares	522.15	Equity Shares	-
PATNI COMPUTERS SYSTEMS	STP, FMP-23, FMP-25, FMP-13	GROWTH, MIP, MIP-PLUS, PBF, RIF, TAX96, JUNIOR, BALANC	Equity Shares	2,437.10	Equity Shares	-
PTC INDIA	FMP-11	MIP, MIP-PLUS, RIF, GROWTH	Equity Shares	424.72	Equity Shares	-

Name Company (Investor)	Scheme in which investment is made by Company	Schemes by which investment is made in securities of the company	Aggregate investment by schemes in securities of the company during 01.04.2004 to 31.03.2006		Aggregate Investment outstanding as on March 31st, 2006 (At Market Value)	
			Nature of Investment	(Rupees in Lacs)	Nature of Investment	(Rupees in Lacs)
PUNJAB NATIONAL BANK	STP, INCOME	EQUITY, FOCUS, GROWTH, INDEX, MIP, MIP-PLUS, PBF, PDYF, PTSF, RIF, TAX96, CHILD	Equity Shares	4,034.97	Equity Shares	1,487.39
		BOND, CALL, DEP-EA, FMP-12, FOCUS, FR-FMP, FR-SMP, GROWTH,	Term Deposit	216,932.30	Term Deposit	12,500.00
		INCOME, LIQUID, MIP, MIP-PLUS, MVBF, PBF, PDYF, STP, BALANC FR-SMP, LIQUID, FR-FMP	Certificate of Deposit	6,132.80	Certificate of Deposit	-
RAYMOND	FMP-13, FMP-18, FMP-19, FMP-21, FMP-11	RIF, JUNIOR, GROWTH	Equity Shares	1,969.51	Equity Shares	396.12
		LIQUID, INCOME, STP	Debt	9,513.36	Debt	-
RELIANCE ENERGY	FMP-20, LIQUID	GROWTH, INDEX, MIP-PLUS, LCAP, INFRA, FOCUS	Equity Shares	2,856.90	Equity Shares	2,610.95
		INCOME, LIQUID, MIP, MIP-PLUS, FR-SMP	Debt	6,736.77	Debt	-
RELIANCE INDUSTRIES	FR-SMP, LIQUID, FR-FMP	CHILD, EQUITY, FOCUS, GROWTH, INDEX, MIP, MIP-PLUS, PBF, PTSF, RIF, TAX96, LCAP, BALANC	Equity Shares	20,414.21	Equity Shares	4,817.49
		FR-FMP, FR-SMP, INCOME, MIP, MIP-PLUS, STP, FMP-19, FMP-11, LIQUID	Debt	14,000.65	Debt	-
SASKEN COMMUNICATION TECHNOLOGIES	FR-SMP, STP, FR-FMP	EQUITY, FOCUS, MIP, MIP-PLUS, PBF, PTSF, RIF, TAX96, CHILD	Equity Shares	91.00	Equity Shares	-
STERLITE INDUSTRIES	FR-SMP, INCOME, STP, FR-FMP	JUNIOR, RIF	Equity Shares	2,002.35	Equity Shares	822.97
		LIQUID, STP, JUNIOR, FR-SMP	Debt	10,200.00	Debt	-
SUN PHARMACEUTICAL INDUSTRIES	FMP-15, FMP-18, FMP-23, FMP-13	GROWTH, INDEX, PBF, PTSF, RIF, TAX96, CHILD	Equity Shares	1,192.71	Equity Shares	5.09
		LIQUID	Debt	7,000.00	Debt	-
TATA CHEMICALS	FR-SMP, FR-FMP	GROWTH, INDEX, MIP, MIP-PLUS, PDYF, PTSF, RIF, TAX96, LCAP, CHILD	Equity Shares	5,915.44	Equity Shares	1,876.88
TATA CONSULTANCY SERVICES	FMP-25, FMP-19	EQUITY, FOCUS, GROWTH, INDEX, MIP, MIP-PLUS, PBF, PTSF, RIF, TAX96, LCAP, CHILD	Equity Shares	8,617.06	Equity Shares	2,215.03
TATA IRON & STEEL COMPANY	FMP-22, FMP-24, FMP-26, LIQUID	CHILD, EQUITY, FOCUS, GROWTH, INDEX, MIP, MIP-PLUS, PBF, PDYF, PTSF, RIF, TAX96, LCAP, BALANC	Equity Shares	10,421.74	Equity Shares	857.18
TATA MOTORS	FMP-17, FR-FMP, FR-SMP, STP, FMP-11	CHILD, EQUITY, FOCUS, GROWTH, INDEX, MIP, MIP-PLUS, PBF, PTSF, RIF, TAX96, LCAP, BALANC	Equity Shares	8,936.88	Equity Shares	1,082.87
		LIQUID	Debt	3,965.14	Debt	-
TATA TEA	FMP-21, STP	INDEX, GROWTH	Equity Shares	41.82	Equity Shares	1.57
		MIP-PLUS, MIP	Debt	1,181.53	Debt	-
THE BOMBAY DYEING & MANUFACTURING COMPANY	MIP	LIQUID, JUNIOR, FR-SMP	Debt	2,500.00	Debt	-
THERMAX	FMP-21	MIP-PLUS, MIP	Equity Shares	68.32	Equity Shares	62.27
VIDESH SANCHAR NIGAM	LIQUID, STP, FMP-21, FMP-24, FMP-17	INDEX	Equity Shares	77.91	Equity Shares	4.30
VIJAYA BANK	LCAP	JUNIOR, RIF	Equity Shares	1,051.80	Equity Shares	36.12
		LIQUID, FR-SMP	Term Deposit	15,500.00	Term Deposit	-
UCO BANK	STP, FR-FMP	FMP-13	Term Deposit	900.00	Term Deposit	-
		LIQUID, STP, FMP-19, FMP-21, FMP-20, FR-SMP	Certificate of Deposit	31,808.98	Certificate of Deposit	7,767.32
UTI BANK	LIQUID	EQUITY, FOCUS, GROWTH, MIP, MIP-PLUS, PBF, RIF, TAX96, JUNIOR, INFRA, CHILD	Equity Shares	5,791.61	Equity Shares	2,537.92
		FR-SMP, LIQUID, STP, FR-FMP	Debt	17,309.40	Debt	717.69
		FR-SMP, LIQUID, STP, FMP-14, FMP-15, , FR-FMP	Term Deposit	27,040.00	Term Deposit	-
		FR-FMP, FR-SMP, LIQUID, STP, JUNIOR, FMP-19, FMP-20, FMP-18, FOCUS	Certificate of Deposit	44,129.39	Certificate of Deposit	5,197.60
WIPRO	FMP-26, LIQUID	GROWTH, INDEX, PBF, RIF, INFRA, FOCUS	Equity Shares	4,006.27	Equity Shares	2,633.48

<sup>A</sup>Ulrattech Cement is a subsidiary of Grasim Industries Limited

<sup>^</sup>IDBI Capital Market Services is a subsidiary of IDBI Limited

<sup>^^</sup>IDBI Housing Finance is a subsidiary of IDBI Limited

Scheme Codes	Scheme
CALL	PRINCIPAL CASH MANAGEMENT FUND - MONEY AT CALL OPTION
CHILD	PRINCIPAL CHILD BENEFIT FUND
DEP-EA	PRINCIPAL DEPOSIT FUND - PLAN 54EA / EB
EQUITY	PRINCIPAL EQUITY FUND
FMP-11	PRINCIPAL DEPOSIT FUND 371 DAYS FIXED MATURITY PLAN MAR 2004
FMP-12	PRINCIPAL DEPOSIT FUND 91 DAYS FIXED MATURITY PLAN JUN 2004
FMP-13	PRINCIPAL DEPOSIT FUND 371 DAYS FIXED MATURITY PLAN - JUN 2004
FMP-14	PRINCIPAL DEPOSIT FUND 91 DAYS FIXED MATURITY PLAN AUG 2004
FMP-15	PRINCIPAL DEPOSIT FUND 371 DAYS FIXED MATURITY PLAN NOV 2004
FMP-16	PRINCIPAL DEPOSIT FUND 371 DAYS FIXED MATURITY PLAN MAR 2003
FMP-17	PRINCIPAL DEPOSIT FUND 91 DAYS FIXED MATURITY PLAN JAN 2005
FMP-18	PRINCIPAL DEPOSIT FUND 91 DAYS FIXED MATURITY PLAN FEB 2005
FMP-19	PRINCIPAL DEPOSIT FUND - 371 DAYS FIXED MATURITY PLAN - MAR 2005
FMP-20	PRINCIPAL DEPOSIT FUND - 371 DAYS FIXED MATURITY PLAN - OCT 2005
FMP-21	PRINCIPAL DEPOSIT FUND - 91 DAYS FIXED MATURITY PLAN - NOVEMBER 2005
FMP-22	PRINCIPAL PNB FIXED MATURITY PLAN - 91 DAYS - SERIES I
FMP-23	PRINCIPAL PNB FIXED MATURITY PLAN -460 DAYS - SERIES I
FMP-24	PRINCIPAL PNB FIXED MATURITY PLAN - 91 DAYS - SERIES II
FMP-25	PRINCIPAL PNB FIXED MATURITY PLAN - 385 DAYS - SERIES I
FMP-26	PRINCIPAL PNB FIXED MATURITY PLAN - 91 DAYS - SERIES III
FOCUS	PRINCIPAL FOCUSED ADVANTAGE FUND
FR-FMP	PRINCIPAL FLOATING RATE FUND - FLEXIBLE MATURITY PLAN

Scheme Codes	Scheme
FR-SMP	PRINCIPAL FLOATING RATE FUND - SHORT MATURITY PLAN
GILT-I	PRINCIPAL GOVERNMENT SECURITIES FUND-INVESTMENT PLAN
GILT-P	PRINCIPAL GOVERNMENT SECURITIES FUND-PROVIDENT FUND PLAN
GILT-S	PRINCIPAL GOVERNMENT SECURITIES FUND-SAVINGS PLAN
GOF	PRINCIPAL GLOBAL OPPORTUNITIES FUND
GROWTH	PRINCIPAL GROWTH FUND
INCOME	PRINCIPAL INCOME FUND
INDEX	PRINCIPAL INDEX FUND
INFRA	PRINCIPAL INFRASTRUCTURE & SERVICES INDUSTRIES FUND
JUNIOR	PRINCIPAL JUNIOR CAP FUND
LCAP	PRINCIPAL LARGE CAP FUND
LIQUID	PRINCIPAL CASH MANAGEMENT FUND -LIQUID OPTION
MIP	PRINCIPAL MONTHLY INCOME PLAN
MIP-PLUS	PRINCIPAL MONTHLY INCOME PLAN-MIP PLUS
MVBF	PRINCIPAL MONEY VALUE BOND FUND
PBF	PRINCIPAL BALANCED FUND
PDYF	PRINCIPAL DIVIDEND YIELD FUND
PTSF	PRINCIPAL PERSONAL TAX SAVER FUND
RIF	PRINCIPAL RESURGENT INDIA EQUITY FUND
STP	PRINCIPAL INCOME FUND -SHORT TERM PLAN
TAX96	PRINCIPAL TAX SAVING FUND
TBF-D	PRINCIPAL TRUST BENEFIT FUND

Most of the above securities were purchased from the open secondary/primary market at relevant market/offer prices over a period of time based on the approved investment strategy. All the securities pertain to highly rated blue-chip companies.

The AMC is of the view that the above investments are considered sound and in line with the investment objective of the relevant schemes.

#### **ADDENDUM DATED JUNE 18, 2005 TO THE OFFER DOCUMENT OF PRINCIPAL INCOME FUND**

Investors are hereby informed that with effect from June 20, 2005 the following changes will be applicable :

##### **Principal Income Fund - Short Term Plan - Institutional Plan:**

	<b>Existing Feature</b>	<b>Revised Feature</b>
Purchase	Rs. 10 lakhs and any amount thereafter under each option.	Rs. 10 lakhs and any amount thereafter under the plan, with a minimum of Rs.1 lakh in each option.
Additional Purchase	Subsequent investment of Rs 1 lakh and any amount thereafter under each option	Subsequent investment of Rs 1 lakh and any amount thereafter under each plan

##### **Principal Income Fund - Short Term Plan:**

	<b>Existing Feature</b>	<b>Revised Feature</b>
Exit Load	For investments above Rs.15 crore - Nil. For investments of Rs.15 crore or less - 0.25% if redeemed on or before 7 days. Nil if redeemed after 7 days.	For investments above Rs.10 lakhs- Nil. For investments of Rs.10 lakhs or less - 0.25% if redeemed on or before 7 days. Nil if redeemed after 7 days.

*Date: June 18, 2005*

#### **ADDENDUM DATED FEBRUARY 6, 2006 TO THE OFFER DOCUMENT OF PRINCIPAL INCOME FUND**

**NOTICE IS HEREBY GIVEN** to the unitholders of Principal Trust Benefit Fund ("PTBF"), Principal Money Value Bond Fund ("PMVBF"), Principal PNB Debt Fund ("PPDF") and Principal Income Fund ("PIF"), open-ended debt schemes of Principal Mutual Fund that the Board of Directors of Principal Pnb Asset Management Company Private Limited, ("PMF-AMC"), Investment Managers to Principal Mutual Fund, and Principal Trustee Company Private Limited, ("PMF-Trustee"), Trustees to Principal Mutual Fund have decided to merge PTBF, PMVBF and PPDF into PIF in the interest of all the unitholders in the respective schemes and in order to benefit from better economies of scale that will allow for more efficient management of these funds.

The Securities and Exchange Board of India vide its letter no. IMD/PSP/56935/06 dated January 3, 2006 has taken note of the aforesaid proposal. This notice therefore is to inform you of the aforesaid proposed merger in terms of the prevailing regulatory requirements. If you have no objection to the above-proposed merger, no action needs to be taken by you. However, in case you do not agree to the same, you have the option to redeem your units at the applicable NAV (as on the date of receipt of your application for redemption), without payment of any exit load, if applicable. This option to exit without payment of exit load can be exercised from Thursday, February 9, 2006 to Friday, March 10, 2006 (both days inclusive). The redemption requests may be submitted at any of the Investor Service Centres/official points of acceptance designated by Principal Mutual Fund. The merger will be effected on Friday, March 17, 2006.

Unitholders of PIF may please note that the Scheme's Investment objectives, asset allocation pattern, annual scheme recurring expenses and other features of the scheme will remain unchanged after the merger of the aforesaid schemes, and there will not be any tax impact on the unitholders of PIF should they choose to continue to hold the units. The unitholders of PTBF, PMVBF and PPDF may please note that on March 17, 2006, as there will be a fresh issue of units in lieu of units held in these schemes, the transaction may be treated as redemption of units in PTBF, PMVBF and PPDF, and may entail capital gain or loss in the hands of the investor. The units allotted in PIF may be treated as a fresh subscription in the PIF. We would also strongly advise you to consult your Tax Advisor.

Unitholders of the above schemes as of February 6, 2006 have been informed by individual communication of the details of the merger along with other required disclosures. Such of those unitholders who do not receive the communication can contact the Registrar – M/s. Karvy Computershare Private Limited, 21, Avenue 4, Street No. 1, Banjara Hills, Hyderabad-500 034.

For further information/assistance in this regard call our Client Relations team at Mumbai: 91-22-5659 0333 / 91-22- 2202 1111, or Visit us at [www.principalindia.com](http://www.principalindia.com) or e-mail us at [customer@principalindia.com](mailto:customer@principalindia.com), or please call on our Toll free no. 1 800 22 5600.

*Date: February 6, 2006*

#### **ADDENDUM DATED APRIL 5, 2005 TO THE COMBINED OFFER DOCUMENT**

**Notice** is hereby given that no load (entry or exit) shall be chargeable on any transaction/s made by any "Fund of Funds Scheme/s" managed by Principal Pnb Asset Management Company Pvt. Ltd. or managed by any other Asset Management Company, in any of the existing schemes (or any scheme/s launched from time to time unless specified otherwise) of Principal Mutual Fund.

The above will be effective from the transaction date April 7, 2005.

*Date: April 5, 2005*

#### **ADDENDUM DATED OCTOBER 28, 2005 TO THE COMBINED OFFER DOCUMENT**

**Notice** is hereby given that no load, entry/exit, will be charged to any investment made by any of the following category of investors, in any of the schemes, existing as well as schemes to be launched in future, by Principal Mutual Fund, except Principal Deposit Fund and Principal Child Benefit Fund:

- The employees and directors of Principal Pnb Asset Management Company Pvt. Ltd. ("the AMC") (including those of the member companies of Principal Financial Group, USA, in India), and
- The employees and directors of the shareholders of the AMC.

Provided that, these investors subscribe directly with Principal Mutual Fund without applying through any agent/distributor.

The above will be effective from October 31, 2005 till further notice. All other features and terms/conditions as mentioned in the respective offer documents remain unchanged.

*Date: October 28, 2005*

For details, please contact your financial advisor or call the Principal Customer Relations Team.

### Principal Pnb Asset Management Company Private Limited

<b>Mumbai:</b>	Apeejay House, 5th Floor, 3 Dinshaw Vachha Road, Churchgate, Mumbai-400 020. Tel.: (022) 6659 0333 / 2202 1111.
<b>Agra:</b>	C/o. PNB - Integrated Zonal Off., 2/3, Raghunath Nagar, M.G. Road, Agra-282 002. Tel.: (0562) 2525895 / 9897313781.
<b>Ahmedabad:</b>	401, Broadway Business Centre, Opp. Samarheshwar Mahadev Temple, Law Garden Cross Road, Ellisbridge, Ahmedabad-380 006. Tel.: (079) 2640 7933-36.
<b>Ajmer:</b>	C/o. Punjab National Bank, Kuchehry Road, Ajmer-305001. Tel.: (0145) 5120970 / 9828199713.
<b>Amritsar:</b>	C/o. Punjab National Bank, Mcleod Road, Amritsar-143 001. Tel.: (0183) 5070373 / 9872819098.
<b>Bangalore:</b>	Prestige Meridien 1, Unit No 102, 1st Floor, No. 29, M.G. Road, Bangalore-560 001. Tel: (080) 2509 5567 / 5569.
<b>Bhubaneshwar:</b>	C/o. PNB Regional Office, Plot No. 116, Station Square, Bhubaneshwar-751 001. Tel.: 9437063766.
<b>Chandigarh:</b>	SCO 455-56, 1st Floor, Sector-35 C, Chandigarh-160 022. Tel: (0172) 508 9514 / 507 5068 / 661 2456.
<b>Chennai:</b>	Challamal, No. 401, 11, Thiyagaraya Road, Chennai-600 017. Tel: (044) 2431 4678-79 / 2435 3887.
<b>Coimbatore:</b>	No. 9, Gowtham Center Annexe, 1054, Avinashi Road, Coimbatore-641018. Tel.: (0422) 4393561. Tele/Fax: (0422) 4393562.
<b>Dehradun:</b>	C/o. Punjab National Bank, Below Digvijay Cinema, Clock Tower, Dehradun-248 001. Tel.: (0135) 5543886 / 9897423996
<b>Guwahati:</b>	C/o. PNB Regional Office, Nilgiri Mansion, Bhangagarh, G.S. Road, Guwahati-781 005. Tel.: (0361) 2463563 / 9864117432.
<b>Hyderabad:</b>	White House, 503, 5th Floor, Block No. 1, Begumpet, Hyderabad-500 016. Tel: (040) 6666 9548 / 6675 0380 / 6662 0812.
<b>Indore:</b>	406, City Center, 570, M.G. Road, Indore-452 001. Tel: (0731) 406 7345 / 406 7596 / 9826045003 .
<b>Jaipur:</b>	105-B, 1st Floor, Shyam Anukampa Complex, Ashok Marg, C-Scheme, Jaipur-302 001. Tel.: (0141) 511 8240/60/61.
<b>Jalandhar:</b>	C/o. Punjab National Bank, Nakodar Road, Near Jyoti Chowk, Jalandhar-144 001. Tel.: (0181) 5061251 / 9876421144.
<b>Jodhpur:</b>	802, PNB Building, Chopasni Road, Jodhpur-342 003. Rajasthan Tel.: (0291) 5537371 / 9829437371 / 9314223007.
<b>Kanpur:</b>	118-119, Kan Chambers, Near Stock Exchange Building, 13/114 Civil Lines, Kanpur-208 001. Tel: (0512) 233 2005 / 233 2004.
<b>Kochi:</b>	2nd Flr., Mayur Business Center, Pullepady Junction, Chittor Road, Kochi-682 035. Tel.: (0484) 5533164-65 / 98468 68888
<b>Kolkata:</b>	Block No. 503, SHUBHAM, 5th Floor, 1, Sarojini Naidu Sarani, Kolkata-700 017. Tel: (033) 2281 7268 / 2281 7247.
<b>Lucknow:</b>	210-B, 2nd Floor, Saran Chambers-2, 5, Park Road, Lucknow-226 001. Tel: (0522) 223 9770 / 223 8816.
<b>Ludhiana:</b>	302, SCO-18, Opp. Ludhiana Stock Exchange, Feroze Gandhi Market, Ludhiana-141001. Tel.: (0161) 277 4209/508 6682.
<b>Nagpur:</b>	Block No.105, 1st Floor, Bhagwagar Complex, Dharampeth, Nagpur 440 010. Tel.: (0712) 2541563 / 9850316126.
<b>Nasik:</b>	Dhanlakhmi Business Point, Cabin No. -14/15, 7 Sathye Baug, M.G. Road, Nasik-422 001. Tel.: (0253) 2312971-74 ext 215 / 98227 47902.
<b>New Delhi:</b>	310, Ansal Bhawan, 16, K.G. Marg, New Delhi-110 001. Tel: (011) 5511 5111.
<b>Patiala:</b>	F-11, 1st Floor, SCO-131, Chotti Baradari, Patiala-147 001. Tel.: (0175) 5000601 / 9815688222.
<b>Pune:</b>	1st Floor, Shreenath Plaza, Dnyaneshwar Paduka Chowk, F. C. Road, Pune-411 005. Tel.: (020) 2553 8737/38, 5601 5055.
<b>Raipur:</b>	Shop No. 248-249, Lalganga Shopping Mall, G.E. Road, Raipur-492001 (Chattisgarh). Tel.: (0771) 4042115 / 4042116.
<b>Rajkot:</b>	C/o Punjab National Bank, Jubilee Chowk, Jawahar Road, Rajkot-360 001. Tel.: (0281) 5594383.
<b>Ranchi:</b>	Room No.12, A.C.Market, G.E.L Chruh Complex, Main Road, Ranchi - 834 001. Tel.: (0651) 2330539 / 9431102883.
<b>Siliguri:</b>	Nanak Complex, 3rd Floor, Sevoke Road, Siliguri-734 401. Tel.: (0353) 2526377 / 9832018828.
<b>Surat:</b>	206 Jolly Plaza, Athwagate, Surat-395001. Tel: (0261) 246 0123 / 557 7964. Telefax: (0261) 246 3256.
<b>Udaipur:</b>	C/o. Punjab National Bank, Chetak Circle, Udaipur-313 001. Tel.: (0294) 5120699 / 2529175 / 9828215143.
<b>Vadodara:</b>	103, Paradise Complex, Sayajigunj, Vadodara-390 005. Tel.: (0265) 658 6212.



1800 22 5600



[www.principalindia.com](http://www.principalindia.com)



SMS 'INFO'  
98205 08020



[customer@principalindia.com](mailto:customer@principalindia.com)

**Statutory Details:** Principal Mutual Fund has been constituted as a trust with Principal Financial Group (Mauritius) Limited, Punjab National Bank and Vijaya Bank as co-settlers. The Sponsor is not responsible or liable for any loss resulting from the operations of the Principal Mutual Fund beyond the initial contribution of an amount of Rs. 25 Lakhs towards setting up of Principal Mutual Fund. **Sponsor:** Principal Financial Services Inc., USA. **Trustee:** Principal Trustee Company Private Limited. **Investment Manager:** Principal Pnb Asset Management Company Private Limited. **Risk Factors:** Mutual Funds and Securities investments are subject to market risks and there can be no assurance and no guarantee that the objectives of the Principal Mutual Fund can be achieved. All investments in mutual funds and securities are subject to market risks and the NAV of the schemes may go up or down depending upon the factors and forces affecting the securities market. Past performance of the Sponsor/AMC/ Principal Mutual Fund/Punjab National Bank/Vijaya Bank does not indicate or guarantee the future performance of the scheme(s) of the Principal Mutual Fund. Principal Income Fund (Investment Objective: The investment objective of the scheme is to generate regular income and capital appreciation/accretion through investment in debt instruments and related securities besides preservation of capital. The investment objective of the Short Term Plan (STP) under Income Fund is the same as that of the Principal Income Fund. However, the STP has been designed to achieve stable returns over shorter-term investment horizons.) is only the name of the scheme and do not in any manner indicate either the quality of the scheme or its future prospects or return. The Sponsor is not responsible or liable for any loss resulting from the operations of the Principal Mutual Fund beyond the initial contribution of an amount of Rs. 25 lakhs towards setting up Principal Mutual Fund. Scheme specific risk factors are mentioned in the offer document of the respective schemes. **Please read the offer document carefully before investing.**