

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 [^] | Crisil Composite Bond Fund Index | Institutional Plan | |
| | | | | NAV [^] | 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% [§] | 3.39% [§] |

Note: The past performance may or may not be sustained in the future.
[^]Growth Option [§] Inception Date - May 9, 2003

Performance – Principal Income Fund - Short Term Plan

| Period | Date | Appreciation | | | |
|-----------------|----------|------------------|-----------------------------------|--------------------|-----------------------------------|
| | | NAV [^] | Crisil Short Term Bond Fund Index | Institutional Plan | |
| | | | | NAV [^] | 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% [§] | 4.03% [§] |

Note: The past performance may or may not be sustained in the future.
[^]Growth Option [§] 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 [^] | 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.
[^]Growth Option [§] Inception Date - May 9, 2003

Performance – Principal Monthly Income Plan - MIP Plus

| Period | Date | Appreciation | |
|-----------------|----------|------------------|--------------------------|
| | | NAV [^] | 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.
[^]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 [^] | | Flexible Maturity Plan [^] | | |
| | | 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.
[^]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% [§] | 4.39% [§] | 5.54% [®] | 4.67% [®] |

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 - 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 - 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 - 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 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 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.

AUDITORS' REPORT

TOTHE BOARD OF DIRECTORS OF PRINCIPAL TRUSTEE COMPANY PRIVATE LIMITED

We have audited the attached Balance Sheet of the Scheme '**Principal Index Fund**' 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 : 9th June, 2006

BALANCE SHEET

As at March 31, 2006 (Audited - Abridged)

(Rupees in Lacs)

| | As on 31/03/06 | As on 31/03/05 |
|---|-------------------|-------------------|
| Assets | | |
| Investments | | |
| Equity Shares | 511.05 | 545.90 |
| Deposits | | |
| Call Deposits with Others | – | 18.00 |
| Current Assets | | |
| Balances with Banks and RBI in Current Account | 0.57 | 3.79 |
| Other Current Assets | 29.39 | 226.58 |
| Total | 541.01 | 794.27 |
| Liabilities | | |
| Unit Capital | 219.04 | 408.65 |
| Growth Plan (Initial Capital Rs.336.72) | | |
| Annual Dividend Plan (Initial Capital Rs.339.09) | | |
| Reserves and Surplus | | |
| Unit Premium Reserves | (614.06) | (586.96) |
| Appropriation Account | 919.49 | 769.06 |
| Current Liabilities and Provisions | | |
| Current Liabilities and Provisions | 16.55 | 203.52 |
| Total | 541.01 | 794.27 |

REVENUE ACCOUNT

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

(Rupees in Lacs)

| | Year ended 31/03/06 | Year ended 31/03/05 |
|---|------------------------|------------------------|
| Income and Gains | | |
| Interest and Discount Income (Net) | 0.79 | 7.81 |
| Dividend | 10.96 | 140.27 |
| Profit on Sale/Redemption of Investments (Net) (Other than Inter-Scheme Transfer) | 90.25 | – |
| Total | 102.00 | 148.08 |
| Expenses and Losses | | |
| Loss on Sale / Redemption of Investments (Net) (Other than Inter-Scheme Transfer / Sale) | – | 1,207.98 |
| Investment Management Fees | 2.47 | 48.63 |
| Trusteeship Fees and Expenses | 0.05 | 0.49 |
| Commission to Agents | – | 8.36 |
| Publicity Expenses | 0.59 | 2.94 |
| Audit Fees | 0.06 | 0.29 |
| Custodian Fees and Expenses | 0.36 | 2.89 |
| Registrar/Transfer Agent Fees | 0.62 | 4.86 |
| Other Operating Expenses & Taxes | 1.86 | 9.25 |
| Less: Excess of Expenditure Over Permissible Limit to be Recovered from AMC | (1.24) | – |
| Total | 4.77 | 1,285.69 |
| Surplus/(Deficit) for the Year | 97.23 | (1,137.61) |
| Net change in Unrealised Appreciation / (Depreciation) in Value of Investments (Refer Note VI (2) of Significant Accounting Policies & Notes to Accounts) | 169.84 | 271.11 |
| Net transferred to Appropriation | 267.06 | (866.50) |
| Appropriation | | |
| Opening Balance | 769.07 | 1,023.74 |
| Add : Surplus for the period including Net change in Unrealised Appreciation / (Depreciation) in Value of Investments | 267.06 | (866.50) |
| Add/(Less) : Income Equalisation - Credit / (Debit) | (116.64) | 611.82 |
| Net Surplus /(Deficit) Transferred to Revenue Reserve | 919.49 | 769.06 |

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 Index Fund is an open-ended scheme of Principal Mutual Fund and was launched on June 16, 1999. The duration of the scheme is perpetual.

The investment objective of the Scheme is to invest principally in securities of companies that are included in the Nifty and, subject to tracking errors, endeavor to attain results commensurate with the Nifty

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. NOTES TO ACCOUNTS

1 The scheme has dividend and growth plans. A combined Balance sheet and Revenue Account is prepared for the scheme.

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:

| (In Rs. Lacs) | | | |
|---------------|----------------------------------|----------------------------------|---|
| Investments | Cost | Market Value / Fair Value | Net Appreciation (+) / Depreciation (-) in value of investments |
| Equity Shares | 330.98 (535.66) | 511.05 (545.90) | +180.07 (+10.24) |
| TOTAL | 330.98 (535.66) | 511.05 (545.90) | +180.07 (+10.24) |

Net change in unrealised appreciation in the value of investment for the year ended March 31, 2006 : **Rs. 169.83 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 period of the delay on the basis of the prevailing CBLO rates. It also includes interest paid on amounts temporarily borrowed to meet the redemption requirements of the scheme.

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.

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 |
|---------------|----------------|----------------|
| Dividend Plan | 19.1782 | 11.5733 |
| Growth Plan | 25.0045 | 15.0944 |

7 Details of movements in Unit Capital during the year:

Principal Index Fund - Growth Plan

| Particulars | Units | Amount (Rs) |
|---|----------------------|----------------------|
| Opening Balance as on April 01, 2005 | 3,345,972.607 | 33,459,726.07 |
| Add : Units sold during the year | 1,846,408.381 | 18,464,083.81 |
| Less: Units redeemed during the year | 3,399,935.853 | 33,999,358.53 |
| Closing Balance as on March 31, 2006 | 1,792,445.135 | 17,924,451.35 |

Principal Index Fund - Dividend Plan

| Particulars | Units | Amount (Rs) |
|---|--------------------|---------------------|
| Opening Balance as on April 01, 2005 | 740,491.823 | 7,404,918.23 |
| Add : Units sold during the year | 386,960.958 | 3,869,609.58 |
| Less: Units redeemed during the year | 729,547.578 | 7,295,475.78 |
| Closing Balance as on March 31, 2006 | 397,905.203 | 3,979,052.03 |

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

| Purchases | | Sales* | |
|-----------------------|----------------------|-----------------------|----------------------|
| Amount (Rs. in lacs) | % of Avg. Net Assets | Amount (Rs. in lacs) | % of Avg. Net Assets |
| 508.06 (13,426.37) | 95.62 (276.42) | 802.30 (24,627.24) | 150.99 (421.71) |

* Sales includes redemptions.

9 With respect to Principal Index Fund contracts for sale pending deliveries as on March 31, 2006 amounting to Rs. Nil lacs (Rs.199.02 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.Nil lacs (Rs.Nil lacs). The contract of purchase outstanding do not include an amount of Rs. 0.56 Lacs payable towards partly paid up equity shares.

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

| (In Rs. Lacs) | |
|-------------------------------|-----------------|
| Average Daily Net Asset Value | Management Fees |
| 531.35 (4,857.20) | 2.47 (48.63) |

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

| (As a % of Net Asset Value) | |
|-----------------------------|-----------------------|
| Total Income | Recurring Expenditure |
| 2.21 (3.05) | 0.90 (1.60) |

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:

| Unclaimed Dividends | | Unclaimed Redemptions | |
|---------------------|----------------------|-----------------------|----------------------|
| No. of Investors | Amount (Rs. in Lacs) | No. of Investors | Amount (Rs. in Lacs) |
| - | - | 3 | 0.28 |
| (-) | (-) | (5) | (0.93) |

- 13 As per SEBI disclosure requirement vide circular MFD/CIR No. 3/211/2001 dated April 30, 2001; scheme does not have a single unitholder holding more than 25% of the NAV as on March 31, 2006.

- 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:

| (In Rs. Lacs) | | |
|--|-----------------|--|
| Name of the Associate | Amount paid | Nature of payment |
| Principal Consulting (India) Private Limited | 0.74 (3.40) | Investor Communication Service Fees |
| Punjab National Bank | 0.00 (0.06) | Brokerage on Mobilisation of Units |
| PNB-Gilt Ltd. | 0.77 (0.02) | Brokerage on Mobilisation of Units |
| IDBI Capital Market Services Ltd. | 2.01 (23.79) | Brokerage on Secondary Market Transactions |
| IDBI Capital Market Services Ltd. | - (0.85) | Brokerage on Mobilisation of Units |
| Quantum Information Services | 0.00 (-) | 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.

| Name of the Associate Company | Investment (In Rs. Lacs) |
|---|--------------------------|
| Gas Authority of India Limited | - (10.60) |
| Housing Development Finance Corporation | 10.63 (10.84) |
| Punjab National Bank | 4.74 (6.47) |
| Steel Authority of India Limited | - (15.38) |

- 16 Figures in bracket indicate previous year figures.

- 17 Previous year's figures have been regrouped, wherever necessary, to make them comparable.

- 18 Historical per unit statistics as on March 31, 2006 are enclosed as per Annexure II

- 19 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.

- 20 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. Chartered Accountants | 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 Partner | Sd/- Arpan Thanawala Chairman | Sd/- B. G. Deshmukh Chairman |
|---------------------------------|-------------------------------------|------------------------------------|

| | |
|---------------------------------|-----------------------------------|
| Sd/- J C Tupling Director | Sd/- Dr. S.A. Dave Director |
|---------------------------------|-----------------------------------|

Place: Mumbai
Date: 9th June 2006

Annexure I

Industrywise Statement of Portfolio as on March 31, 2006

| Industry | Market Value (Rs. in Lacs) | % of NAV |
|---|----------------------------|---------------|
| Equity & Equity Related Instruments (Listed / Awaiting listing on the stock exchanges) | | |
| Software | 96.00 | 18.32 |
| Oil | 63.39 | 12.10 |
| Consumer Non Durables | 47.17 | 9.00 |
| Banks | 46.47 | 8.87 |
| Petroleum Products | 44.98 | 8.58 |
| Auto | 38.60 | 7.37 |
| Telecom - Services | 32.80 | 6.26 |
| Industrial Capital Goods | 31.71 | 6.05 |
| Pharmaceuticals | 24.02 | 4.58 |
| Ferrous Metals | 20.50 | 3.91 |
| Cement | 15.09 | 2.88 |
| Non Ferrous Metals | 12.19 | 2.33 |
| Finance | 10.63 | 2.03 |
| Gas | 8.62 | 1.64 |
| Power | 7.56 | 1.44 |
| Transportation | 4.26 | 0.81 |
| Media & Entertainment | 3.15 | 0.60 |
| Chemicals | 2.08 | 0.40 |
| Fertilisers | 1.84 | 0.35 |
| (Cost Rs. 330.98 Lacs) | 511.05 | 97.52 |
| Cash & Cash Equivalents | 3.64 | 0.70 |
| Other Receivables / (Payables) | 9.39 | 1.78 |
| Net Assets | 524.09 | 100.00 |

Annexure II

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

| Particulars | Principal Index Fund | | | | | |
|--|----------------------|------------------|------------------|------------------|------------------|------------------|
| | Dividend | | | Growth | | |
| | Ason 31/03/06 | Ason 31/03/05 | Ason 31/03/04 | Ason 31/03/06 | Ason 31/03/05 | Ason 31/03/04 |
| a. Net Asset Value per unit | 19.1800 | 11.5700 | 10.2100 | 25.0000 | 15.0900 | 13.4400 |
| | | 31/03/06 | 31/03/05 | 31/03/04 | | |
| b. i. Income other than profit on sale of Investments | 0.54 | | 3.62 | | 0.32 | |
| ii. Income from profit on inter-scheme sale/transfer of investments | 0.00 | | 0.00 | | 0.05 | |
| iii. Income from profit on sale of investments to third party | 4.12 | | -29.56 | | 2.67 | |
| Gross Income b (i to iii) | 4.66 | | -25.94 | | 3.04 | |
| c. i. Aggregate of expenses, write off, amortisation and charges | 0.22 | | 1.90 | | 0.15 | |
| d. Net Income (b-c) | 4.44 | | -27.84 | | 2.89 | |
| e. Change in unrealised appreciation/ (depreciation) in value of investments | 7.76 | | 6.63 | | 3.08 | |
| | | 31/03/06 | 31/03/05 | 31/03/04 | 31/03/06 | 31/03/05 |
| f. i. Repurchase Price | | | | | | |
| 1. Highest during the year | 19.2694 | 12.3700 | 14.1978 | 25.0045 | 16.1178 | 15.2890 |
| 2. Lowest during the year | 10.9949 | 8.0164 | 9.7100 | 14.1923 | 10.5345 | 7.1689 |
| ii. Reissue Price | | | | | | |
| 1. Highest during the year | 19.2694 | 12.4900 | 14.3398 | 25.0045 | 16.2790 | 15.4419 |
| 2. Lowest during the year | 10.9949 | 8.0966 | 9.8115 | 14.1614 | 10.6398 | 7.2406 |

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 31/03/2006.

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 [^] | | 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 ^{^^} | | GROWTH, INCOME, LIQUID, MIP, CALL | Debt | 11,000.00 | Debt | - |
| IDBI HOUSING FINANCE ^{^^^} | | LIQUID, FR-SMP | Debt | 5,357.27 | Debt | - |

| 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) |
| 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 |
| MARUTIUDYOG | 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 | - |
| 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, | RIF, JUNIOR, GROWTH | Equity Shares | 1,969.51 | Equity Shares | 396.12 |
| | FMP-19, FMP-21, FMP-11 | 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 | - |

| 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) |
| 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 |

^Ultratech Cement is a subsidiary of Grasim Industries Limited

^^IDBI Capital Market Services is a subsidiary of IDBI Limited

^^^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 91 DAYS FIXED MATURITY PLAN JAN 2005 |
| FMP-17 | PRINCIPAL DEPOSIT FUND 371 DAYS FIXED MATURITY PLAN FEB 2005 |
| FMP-18 | PRINCIPAL DEPOSIT FUND 91 DAYS FIXED MATURITY PLAN - MAR 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 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:

- a. 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
- b. 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

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



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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 Investment Fund (Investment Objective: The Investment Objective of the scheme would be 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.) 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.**