

**MACQUARIE FORTRESS
AUSTRALIA NOTES TRUST**

ABN 88 459 580 639

**INTERIM REPORT
FOR THE HALF-YEAR ENDED
31 DECEMBER 2008**

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MACQUARIE

MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Interim Report

for the half-year ended 31 December 2008

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual financial report for the year ended 30 June 2008 and any public announcements made in respect of the Macquarie Fortress Australia Notes Trust during the interim report period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

This report covers Macquarie Fortress Australia Notes Trust as an individual entity.

Trustee:

Macquarie Fortress Investments Limited
ABN 66 113 113 214
Level 7, No. 1 Martin Place
SYDNEY NSW 2000

Neither the Trustee, nor any member of the Macquarie Group, guarantees the performance of Macquarie Fortress Australia Notes Trust, the repayments of capital or the payment of a particular rate of return on the notes issued.

Macquarie Fortress Investments Limited is not an authorised deposit-taking institution for the purposes of the Banking Act (Commonwealth of Australia) 1959, and Macquarie Fortress Investments Limited's obligations do not represent deposits or other liabilities of Macquarie Bank Limited ABN 46 008 583 542 (MBL). MBL does not guarantee or otherwise provide assurance in respect of the obligations of Macquarie Fortress Investments Limited.

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MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Directors' Report

The Directors of Macquarie Fortress Investments Limited (a wholly owned subsidiary of Macquarie Group Limited), the Trustee of the Macquarie Fortress Australia Notes Trust, present their report together with the financial report of the Macquarie Fortress Australia Notes Trust (the "Trust") for the half-year ended 31 December 2008.

Principal activities

The principal activity of the Trust is to invest in unlisted notes issued by a Cayman Islands entity, the return on which is linked to a leveraged portfolio of US dollar denominated senior secured loans.

The Trust did not have any employees during the period.

Directors

The following persons have held office as Directors of Macquarie Fortress Investments Limited during the period up to the date of this report:

Peter Bruce Lucas
Charles Warwick Wheeler
Anthony Abraham

Review of operations

The investment policy of the Trust continues to be that detailed in the Trust's product disclosure statement and is in accordance with the provisions of the governing documents of the Trust. As a result of the refinance that occurred in April 2008, the investment objectives of the Trust are now focused on protecting capital in order to maximise the amount of principal that can be repaid to noteholders at maturity.

Results

The performance of the Trust, as represented by the results of its operations, was as follows:

	Half-year ended	
	31 December 2008	31 December 2007
	\$	\$
Operating loss before financing costs attributable to noteholders	(61,074,519)	(35,023,573)

MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Directors' Report (continued)

Distribution

	Half-year ended	
	31 December 2008	31 December 2007
	\$	\$
Distribution paid to unitholders	-	-
Interest paid to noteholders	-	8,026,374
	Cents per Unit or Note	Cents per Unit or Note
Distribution paid to unitholders (cents per unit)	-	-
Interest paid to Class A noteholders (cents per note)	-	5.58

The interest on the notes is calculated by reference to the bank bill swap rate adjusted for the performance of the underlying loan portfolio.

Significant changes in the state of affairs

As announced on the Australian Securities Exchange (ASX) on the 21 October 2008 the net asset value (NAV) was zero cents per note. The deterioration in global financial markets has continued to affect the traded prices of US Senior Secured Loans (Senior Loans) in the Fortress portfolio. Presently, the cumulative market value of Senior Loans in the Fortress portfolio is below the total debt facility balance which has resulted in a NAV of zero.

As previously announced to the market, the refinancing arrangement concluded in April 2008 is committed for 8 years until 2016 and does not incorporate any market value based repayment triggers. Under this arrangement, the finance provider has no rights to require an accelerated repayment of the debt facility. In the event that there is ultimately a shortfall between the total debt facility balance and the cumulative realised value of Senior Loans in the Fortress portfolio, holders of Macquarie Fortress Notes will not be required to fund this shortfall.

Notwithstanding the fall in the market price of the Senior Loans in the Fortress portfolio, there is still an obligation for the loans in the portfolio to be repaid at par. The key factors that will affect the final return to investors are loan default and recovery rates. Presently, the portfolio includes defaulted loans aggregating less than the 2.00% of the portfolio.

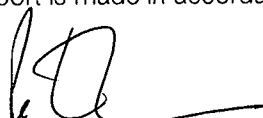
In the opinion of the Directors, there were no other significant changes in the state of affairs of the Trust that occurred during the period under review.

MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Auditor's independence declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 6.

This report is made in accordance with a resolution of the Directors:



Director
Sydney
27 February 2009

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Auditor's Independence Declaration

As lead auditor for the review of Macquarie Fortress Australia Notes Trust for the half year ended 31 December 2008, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Macquarie Fortress Australia Notes Trust during the period.



SJ Smith
Partner
PricewaterhouseCoopers

Sydney
27 February 2009

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MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Income Statement

for the half-year ended 31 December 2008

	Note	Half-year ended	
		31 December 2008	31 December 2007
		\$	\$
Investment Income			
Net loss on financial instruments held at fair value through profit or loss	2	(61,183,180)	(35,351,337)
Interest income		1,336	2,825
Gain on notes buy back		-	378,942
Other investment income		288,578	94,071
Total investment loss		(60,893,266)	(34,875,499)
Expenses			
Trustee fees		87,626	86,072
Notes Trustee fees		14,110	14,343
Professional fees		15,123	15,123
Registry fees		12,542	9,180
Distribution costs		3,471	16,501
Other operating expenses		48,381	6,855
Total operating expenses		181,253	148,074
Operating loss		(61,074,519)	(35,023,573)
Financing costs attributable to noteholders:			
Interest on listed loan notes issued to noteholders	4	-	(8,026,374)
Decrease in net assets attributable to noteholders		61,074,519	43,049,947
Net profit/(loss) for the year		-	-
Earnings per unit for profit attributable to the unit holders of the trust		Cents	Cents
Basic earnings per unit		-	-
Diluted earnings per unit		-	-
Earnings per unit for profit attributable to the note holders of the trust		Cents	Cents
Basic earnings per note		-	-
Diluted earnings per note		-	-

The above income statement should be read in conjunction with the accompanying notes.

MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Balance Sheet

as at 31 December 2008

	Note	As at 31 December 2008 \$	30 June 2008 \$
Assets			
Cash and cash equivalents		62,937	77,899
Receivables		8,840	-
Financial assets held at fair value through profit or loss	5	466,509	61,649,689
Total assets		<u>538,286</u>	<u>61,727,588</u>
Liabilities			
Trustee fees payable		4,696	28,487
Notes Trustee fees payable		7,017	30,967
Other payables		53,973	121,015
Total liabilities (excluding net assets attributable to noteholders)		<u>65,686</u>	<u>180,469</u>
Net assets attributable to noteholders - liability	3	<u>472,600</u>	<u>61,547,119</u>
Net assets attributable to unitholders - liability	3	<u>-</u>	<u>-</u>

The above balance sheet should be read in conjunction with the accompanying notes.

MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Statement of Changes in Equity

for the half-year ended 31 December 2008

	Half-year ended	
	31 December 2008	31 December 2007
	\$	\$
Total equity at the beginning of the financial half-year	-	-
Net income/(expense) recognised directly in equity	-	-
Profit/(loss) for the half-year	-	-
Total recognised income and expense for the half-year	-	-
Transactions with equity holders (applications and redemptions)	-	-
Total equity at the end of the financial half-year	-	-

Under AIFRS, net assets attributable to noteholders and unitholders are classified as a liability rather than equity. As a result there was no equity at the start or end of the half-year.

The above statement of changes in equity should be read in conjunction with the accompanying notes.

MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Cash Flow Statement

for the half-year ended 31 December 2008

Note	Half-year ended	
	31 December 2008	31 December 2007
	\$	\$
Cash flows from operating activities		
Interest received	1,336	7,649,825
Notes Trustee fees paid	(41,867)	(15,219)
Other income received	288,578	157,868
Other expenses paid	(263,009)	(197,547)
Proceeds from sale of financial assets held at fair value through profit or loss	-	5,402,300
Net cash (outflow)/inflow from operating activities	(14,962)	12,997,227
Cash flows from financing activities		
Interest payments to noteholders	-	(8,026,374)
Proceeds paid for redemption of notes	-	(5,023,358)
Net cash outflow from financing activities	-	(13,049,732)
Net decrease in cash and cash equivalents	(14,962)	(52,505)
Cash and cash equivalents at the beginning of the period	77,899	118,867
Cash and cash equivalents at the end of the half-year	62,937	66,362
Non-cash financing activities	-	-

The above cash flow statement should be read in conjunction with the accompanying notes.

MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Financial Statements

for the half-year ended 31 December 2008

1. Basis of preparation of interim report

This general purpose financial report for the interim half-year ended 31 December 2008 has been prepared in accordance with accounting standard AASB 134 *Interim Financial Reporting*, the *Corporations Act 2001* and the Trust Constitution. This financial report covers the Trust as an individual entity.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual financial report for the year ended 30 June 2008 and any public announcements made in respect of the Macquarie Fortress Australia Notes Trust during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

All amounts presented in this financial report are in Australian dollars unless otherwise stated.

The directors continue to view the Trust as a going concern and the financial report has been prepared on that basis.

Critical accounting estimates and judgements

The financial statements have been prepared using estimates and judgements regarding the value of certain assets and liabilities. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Valuation of loan notes

The primary investment of the Trust is in loan notes issued by Knight Portfolio Trust (KPT). These loan notes are valued based on the net asset backing per note of KPT which in turn is based on valuing a portfolio of US senior secured loan assets and subtracting debt and other liabilities. There has been significant price volatility and reduced liquidity in the US credit markets in recent times, which makes it difficult to accurately value loan assets. The underlying loan portfolio has been valued based on prices provided by an independent pricing service based on quotes from brokers and other market participants. This represents the best estimate of the carrying value of the loans at balance date, however it may not represent the price obtained if loans are subsequently sold.

MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Financial Statements

for the half-year ended 31 December 2008 (continued).

2. Net (loss)/gain on financial assets held at fair value through profit or loss

Net (loss)/gain recognised in relation to financial instruments held at fair value through profit or loss

	Half-year ended 31 December 2008 \$	31 December 2007 \$
Net realised gain/(losses) on financial instruments held at fair value through profit or loss		
Interest from loan notes	-	7,647,433
Net movement in unrealised (loss) on financial instruments held at fair value through profit or loss	(61,183,180)	(42,998,770)
Net (loss) on financial instruments held at fair value through profit or loss	(61,183,180)	(35,351,337)

3. Net assets attributable to unitholders and noteholders

Each note represents a right to an individual share in the Trust and does not extend to a right to the underlying assets of the Trust. Each unit has no right over the Trust or its underlying assets.

Net assets attributable to unitholders	As at			
	31 Dec 2008 Units on issue No.	30 June 2008 Units on issue No.	31 Dec 2008 Net assets attributed \$	30 June 2008 Net assets attributed \$
Opening balance	10	10	-	-
Applications	-	-	-	-
Redemptions	-	-	-	-
Increase/(decrease) in net assets attributable to unitholders	-	-	-	-
Closing balance	10	10	-	-

MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Financial Statements

for the half-year ended 31 December 2008 (continued).

3. Net assets attributable to unit holders and note holders (continued)

Net assets attributable to noteholders	31 Dec 2008	30 June 2008	As at	
	Notes on issue No.	Notes on issue No.	31 Dec 2008 Net assets attributed \$	30 June 2008 Net assets attributed \$
Opening balance	141,476,899	149,019,513	61,547,119	146,435,024
Notes issued	-	-	-	-
Notes redeemed	-	(7,542,614)	-	(7,542,614)
Decrease in net assets attributable to noteholders	-	-	(61,074,519)	(77,345,291)
Closing balance	141,476,899	141,476,899	472,600	61,547,119

4. Interest payments to noteholders

Interest paid Class A notes	31 Dec 2008	Half-year ended		31 Dec 2007
	cents / note	31 Dec 2007	31 Dec 2008	31 Dec 2007
		cents / note	\$	\$
31 August	-	2.74	-	3,949,100
30 November	-	2.84	-	4,077,274
Total interest paid and payable (including withholding taxes paid and payable)	-	5.58	-	8,026,374

MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Financial Statements

for the half-year ended 31 December 2008 (continued).

5. Financial assets held at fair value through profit or loss

	As at 31 December 2008 \$	30 June 2008 \$
Designated at fair value through profit or loss		
Investment in loan notes at cost	141,476,899	141,476,899
Unrealised loss on loan notes	(141,010,390)	(79,827,210)
Total financial assets held at fair value through profit or loss	<u>466,509</u>	<u>61,649,689</u>

The deterioration in global financial markets has continued to affect the traded prices of Senior Loans in the Fortress Portfolio. Presently, the cumulative market value of Senior Loans in the Fortress portfolio is below the total debt facility balance. In the event that there is ultimately a shortfall between the total debt facility balance and the cumulative realised value of Senior Loans in the Fortress portfolio, holders of Macquarie Fortress Notes will not be required to fund this shortfall. The current value and gearing of the underlying loan portfolio on a look through basis is presented below (stated in US\$). The Trust, through loan notes issued by Knight Portfolio Trust, holds 61.06% of the outstanding subordinated notes in the underlying portfolio, with the balance of 10.86% and 28.08% held by the Macquarie New Zealand Fortress Notes Trust and the Macquarie Fortress Fund respectively.

	As at 31 December 2008 US\$'000	30 June 2008 US\$'000
Assets		
Cash	14,116	25,071
Interest receivable	2,032	2,498
Loans – fair value	286,328	453,553
Other assets	5,231	7,500
Total Assets	<u>307,707</u>	<u>488,622</u>
Liabilities		
Payables – pending trades	3,090	3,385
Interest payable	3,201	3,832
Notes payable	364,940	397,500
Notes discount	(5,624)	(7,878)
Other liabilities	183	920
Total Liabilities	<u>365,790</u>	<u>397,759</u>
Net (liabilities)/assets of underlying portfolio	<u>(58,083)</u>	<u>90,863</u>

At 31 December 2008 the net asset value attributable to the Trust's noteholders was \$nil (30 June 2008: \$0.434)

MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Financial Statements

for the half-year ended 31 December 2008 (continued).

6. Segment information

The Trust is organised into one main segment which operates solely in the business of investment management within Australia. Consequently, no business segment reporting is provided in the Trust's financial statements.

While the Trust operates in Australia only (the geographical segment), the Trust has investment exposures in different countries as below:

	% of Total assets		As at	
	31 Dec 2008	30 June 2008	Total assets \$ 31 Dec 2008	30 June 2008
United States	86.67%	99.87%	466,509	61,649,689
Australia	13.33%	0.13%	71,777	77,899
Total	100.00%	100.00%	538,286	61,727,588

The above disclosures have been prepared on a look through basis for investments held directly through unit trusts.

7. Events occurring after balance sheet date

No significant events have occurred since the balance date which would impact on the financial position of the Trust disclosed in the balance sheet as at 31 December 2008 or on the results and cash flows of the Trust for the half-year ended on that date.

8. Contingent assets and liabilities and commitments

There are no outstanding contingent assets and liabilities or commitments as at 31 December 2008 and 30 June 2008.

MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Directors' Declaration

In the opinion of the Directors of the Trustee:

- (a) the financial statements and notes set out on pages 7 to 15 are in accordance with the Corporations Act 2001, including
 - (i) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Trust's financial position as at 31 December 2008 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the financial half-year ended on that date.
- (b) there are reasonable grounds to believe that Macquarie Fortress Australia Notes Trust will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.



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Director
Sydney
27 February 2009

**Independent auditor's review report to the interest holders
of Macquarie Fortress Australia Notes Trust.**

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Macquarie Fortress Australia Notes Trust ("the Trust"), which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration for the Macquarie Fortress Australia Notes Trust.

Directors' responsibility for the half-year financial report

The directors of Macquarie Fortress Investments Limited ("the Trustee") are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Trust's financial position as at 31 December 2008 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Macquarie Fortress Australia Notes Trust, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

For further explanation of a review, visit our website <http://www.pwc.com/au/financialstatementaudit>.

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**Independent auditor's review report to the interest holders of Macquarie
Fortress Australia Notes Trust. (continued)**

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Our review did not involve an analysis of the prudence of business decisions made by directors or management.

Matters relating to the electronic presentation of the reviewed financial report

This review report relates to the financial report of the Macquarie Fortress Australia Notes Trust ("the Trust") for the half-year ended 31 December 2008 included on Macquarie Group Limited ("the Company") web site. The company's directors are responsible for the integrity of the Macquarie Group Limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Macquarie Fortress Australia Notes Trust is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the Trust's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers



SJ Smith
Partner

Sydney
27 February 2009

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