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# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

ABN 88 459 580 639

ANNUAL REPORT  
FOR THE YEAR ENDED  
30 JUNE 2009



MACQUARIE

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

## Annual Report

for the financial year ended 30 June 2009

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Trustee:  
Macquarie Fortress Investments Limited  
ABN 66 113 113 214  
C/- Company Secretarial  
Mezzanine Level  
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 (Cth) 1959, and Macquarie Fortress Investments Limited's obligations do not represent deposits or other liabilities of Macquarie Bank Limited ABN 46 008 583 542. Macquarie Bank Limited 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 year ended 30 June 2009.

### 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.

Changes in the nature of the Trust's activities during the period are disclosed below.

### Directors

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

Benjamin Barry (appointed 7 August 2009)  
Tan Kueh (resigned 1 August 2008)  
Peter Bruce Lucas  
Charles Warwick Stiles Wheeler (resigned 7 August 2009)  
Anthony Abraham (appointed 1 August 2008)  
Peter Holloway (resigned 1 August 2008)

### Review and results of operations

The investment policy of the Trust continues to be that detailed in the Trust's prospectus and is in accordance with the provisions of the governing documents of the Trust.

### Results

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

	30 June 2009 \$'000	30 June 2008 \$'000
Net operating loss before financing costs attributable to noteholders	(42,579)	(69,319)

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

## Directors' Report (continued)

### Distribution

	30 June 2009 \$'000	30 June 2008 \$'000
Distribution paid and payable to Trust beneficiaries	-	-
Interest paid to noteholders	-	8,026
	Cents per Unit or Note	Cents per Unit or Note
Distribution to Trust beneficiaries	-	-
Interest paid to noteholders	-	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 state of affairs

The deterioration in global financial markets has continued to affect the traded prices of US Senior Secured Loans ("Senior Loans") in the Fortress Portfolio ("Portfolio"). As announced on the Australian Securities Exchange ("ASX") on 21 October 2008 the net asset value ("NAV") fell to zero cents per note due to the cumulative market value of Senior Loans in the Fortress portfolio being below the total debt facility balance. Traded prices of Senior Loans have improved in recent months and on 1 July 2009, Macquarie Fortress Investments Limited announced on the ASX a positive NAV of 5.8 cents per note as at 29 May 2009. As announced on the ASX on 4 August 2009, the NAV as at 30 July 2009 was estimated to be approximately 20.5 cents per note.

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 Senior 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. As at 30 June 2009, the Portfolio includes defaulted Senior Loans totalling in aggregate 3.6% of the Portfolio's face value.

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

## Directors' Report (continued)

### Matters subsequent to the end of the financial year

Refer to matters in 'Significant changes in state of affairs'. No other matter or circumstance has arisen since 30 June 2009 that has significantly affected, or may significantly affect:

- (i) the operations of the Trust in future financial years, or
- (ii) the results of those operations in future financial years, or
- (iii) the state of affairs of the Trust in future financial years.

### Likely developments and expected results of operations

The Trust will continue to be managed in accordance with the investment objectives and guidelines, as set out in the governing documents of the Trust and in accordance with the Trust Constitution. 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.

The results of the Trust's operations will be affected by a number of factors, including the performance of investment markets in which the Trust invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Further information on likely developments in the operation of the Trust and the expected results of those operations have not been included in this report because the Trustee believes it would be likely to result in unreasonable prejudice to the Trust.

### Indemnification and insurance of officers and auditors

No insurance premiums are paid for out of the assets of the Trust in regards to insurance cover provided to either the officers of the Trustee or the auditors of the Trust. So long as the officers of the Trustee act in accordance with the Trust Constitution and the Corporations Act 2001 ("the Law"), the officers remain indemnified out of the assets of the Trust against losses incurred while acting on behalf of the Trust. The auditors of the Trust are in no way indemnified out of the assets of the Trust.

### Fees paid to and interests held in the Trust by the Trustee or its associates

Fees paid to the Trustee and its associates out of Trust property during the year are disclosed in Note 10 of the financial statements.

No fees were paid out of Trust property to the Directors of the Trustee during the year.

The number of interests in the Trust held by the Trustee or its associates as at the end of the financial year are disclosed in Note 10 of the financial statements.

### Interests in the Trust

The movement in units and notes on issue in the Trust during the year is disclosed in Note 6 of the financial statements.

The value of the Trust's assets and liabilities is disclosed on the balance sheet and derived using the basis set out in Note 2 of the financial statements.

### Environmental regulation

The operations of the Trust are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Directors' Report (continued)

## Rounding of amounts to the nearest thousand dollars

The Trust is an entity of a kind referred to in Class Order 98/0100 (as amended) issued by the Australian Securities and Investment Commission relating to the "rounding off" of amounts in the Directors' report and financial report. Amounts in the Directors' report and financial report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

## Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Law is set out on page 7.

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



Director  
Sydney  
31 August 2009

PricewaterhouseCoopers  
ABN 52 780 433 757

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201 Sussex Street  
GPO BOX 2650  
SYDNEY NSW 1171  
DX 77 Sydney  
Australia  
Telephone +61 2 8266 0000  
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## Auditor's Independence Declaration

As lead auditor for the audit of Macquarie Fortress Australia Notes Trust for the year ended 30 June 2009, 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 audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

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



SJ Smith  
Partner  
PricewaterhouseCoopers

Sydney  
31 August 2009

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# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

## Income Statement

for the year ended 30 June 2009

	Note	30 June 2009 \$'000	30 June 2008 \$'000
<b>Investment Income</b>			
Gains on notes buyback		-	575
Interest income from cash and cash equivalents		3	5
Net loss on financial instruments held at fair value through profit or loss	5	(42,238)	(69,638)
<b>Total investment expense</b>		<u>(42,235)</u>	<u>(69,058)</u>
<b>Expenses</b>			
Notes trustee fees		28	28
Trustee fees	10	175	143
Professional fee expenses		64	43
Registry fees		26	38
Other operating expenses		51	9
<b>Total operating expenses</b>		<u>344</u>	<u>261</u>
<b>Net operating loss</b>		<u>(42,579)</u>	<u>(69,319)</u>
<b>Financing costs attributable to noteholders</b>			
Interest payments to noteholders	7	-	(8,026)
<b>Decrease in net assets attributable to noteholders</b>		<u>42,579</u>	<u>77,345</u>
<b>Net profit for the year</b>		<u>-</u>	<u>-</u>

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

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

## Balance Sheet

as at 30 June 2009

	Note	30 June 2009 \$'000	30 June 2008 \$'000
<b>Assets</b>			
Cash and cash equivalents	8	70	78
Financial assets held at fair value through profit or loss	9	19,605	61,841
Receivables		1	-
<b>Total assets</b>		<b>19,676</b>	<b>61,919</b>
<b>Liabilities</b>			
Notes Trustee fees payable		14	28
Trustee fees payable		32	31
Establishment costs payable		70	40
Professional fees payable		79	55
Payable to related entity	10	488	191
Other liabilities		24	26
<b>Total Liabilities (excluding net assets attributable to noteholders)</b>		<b>707</b>	<b>371</b>
<b>Net assets attributable to noteholders</b>	6	<b>18,969</b>	<b>61,548</b>
<b>Net assets attributable to Trust beneficiaries</b>	6	<b>-</b>	<b>-</b>

*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 year ended 30 June 2009

	30 June 2009 \$'000	30 June 2008 \$'000
Total equity at the beginning of the financial year	-	-
Profit/(loss) for the year	-	-
Net income/(expense) recognised directly in equity	-	-
Total recognised income and expense for the year	-	-
Transactions with equity holders in their capacity as equity holders	-	-
Total equity at the end of the financial year	-	-

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

*The above statement of changes in equity should be read in conjunction with the note 6.*

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

## Cash Flow Statement

for the year ended 30 June 2009

	Note	30 June 2009 \$'000	30 June 2008 \$'000
<b>Cash flows from operating activities</b>			
Proceeds from sale of loan notes		-	6,057
Interest received		1	8,031
Professional, Trustee and other fees paid		(9)	(46)
Net cash (outflow)/inflow from operating activities	11(a)	(8)	14,042
<b>Cash flows from financing activities</b>			
Proceeds paid for redemption of notes		-	(6,057)
Interest payments to noteholders		-	(8,026)
Net cash flows from financing activities		-	(14,083)
Net decrease in cash and cash equivalents		(8)	(41)
Cash and cash equivalents at beginning of the period		78	119
Cash and cash equivalents at end of financial period	8	70	78
Non-cash financing activities	11(b)	-	-

*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 year ended 30 June 2009

### 1 General information

Macquarie Fortress Australia Notes Trust ("the Trust") was constituted in Australia on 4 March 2005 and commenced operations on 16 May 2005. The Trust holds investments in loan notes issued by Knight Portfolio Trust, a Cayman Islands entity ("the Portfolio Trust"). The Portfolio Trust, in turn, has acquired investments that provide direct or indirect exposures to a Portfolio that consists primarily of US senior secured loan assets. This financial report covers Macquarie Fortress Australia Notes Trust as an individual entity.

The Trustee of the Macquarie Fortress Australia Notes Trust is Macquarie Fortress Investments Limited (the "Trustee"). The Trustee's registered office is Mezzanine Level, No.1 Martin Place, Sydney, NSW 2000. The financial report is presented in the Australian currency.

The objective of the Trust has been to provide noteholders with a variable rate of interest based on the Australian Bank Bill Rate ("BBSW") whilst maintaining the ability to repay principal at maturity. The Trust sought to achieve this objective by investing in the Loan Notes issued by the Portfolio Trust, which carried a floating rate of interest.

As disclosed to the Australian Securities Exchange on 7 April 2008, the Portfolio was refinanced on 4 April 2008. As a result of the refinance, all cash flows from the Portfolio must be used to meet interest payments, expenses and reduce the principal outstanding and, therefore, the Trust will receive no interest from the Loan Notes until the refinancing has been fully repaid, which is not expected to be before April 2012. The objective of the Trust is now focused on protecting capital in order to maximise the principal amount that can be repaid to noteholders at maturity. Refer to Note 3 for discussions regarding the financial risks within the Portfolio and the policies adopted by the Portfolio Manager to manage these risks.

The financial statements were authorised for issue by the Directors on 31 August 2009. The directors of the Trustee have the power to amend and reissue the financial report.

### 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated in the following text.

#### (a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001 in Australia.

The financial report is prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The balance sheet is presented on a liquidity basis.

#### *Compliance with International Financial Reporting Standards (IFRS)*

The financial report of the Trust also complies with International Financial reporting standards as issued by the International Accounting Standards Board.

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Financial Statements  
for the year ended 30 June 2009 (continued)

## 2 Summary of significant accounting policies (continued)

### (b) Financial instruments

#### (i) Classification

The Trust's investments are classified as at fair value through profit or loss. They comprise:

- Financial instruments designated at fair value through profit or loss upon initial recognition.

These include financial assets that are not held for trading purposes and which may be sold, which include the Trust's investment in loan notes issued by Knight Portfolio Trust ("the Loan Notes"). Financial assets and financial liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Trust's documented investment strategy. The Trust's policy is for the Trustee to evaluate the information about these financial assets on a fair value basis together with other related financial information.

#### (ii) Recognition/derecognition

The Trust recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date. Investments are derecognised when the right to receive cashflows from the investments have expired or the Trust has transferred substantially all risks and rewards of ownership.

#### (iii) Measurement

##### (a) Financial assets and liabilities held at fair value through profit or loss

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the income statement.

The primary investment of the Trust is in the Loan Notes issued by the Portfolio Trust. These Loan Notes are valued based on the net asset backing per note of the Portfolio Trust which in turn is based on valuing a portfolio of US senior secured loan assets ("Senior Loans") and subtracting debt and other liabilities ("the Portfolio"). The underlying Senior Loans have 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 Senior Loans at balance date, however it may not represent the price obtained if Senior Loans are subsequently sold. Refer to Note 3(d) for a summary of the significant accounting policies applied to the Portfolio which impacts the valuation of the Loan Notes.

##### (b) Loans and receivables

Loans and receivables are measured initially at fair value plus transaction costs and subsequently amortised using the effective interest rate method, less impairment losses if any. Such assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment for example when there has been a significant or prolonged decline in the fair value below cost.

If any such indication of impairment exists, an impairment loss is recognised in the income statement as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the income statement.

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Financial Statements  
for the year ended 30 June 2009 (continued)

## 2 Summary of significant accounting policies (continued)

### (b) Financial instruments (continued)

#### (iv) *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

#### (c) **Net assets attributable to noteholders**

Net assets attributable to noteholders includes unrealised changes in the net market value of investments, accrued income not yet assessable, expenses provided or accrued for which are not yet deductible and net capital losses are attributable to noteholders. Non-distributable income is transferred directly to noteholders' funds.

#### (d) **Net assets attributable to Trust beneficiaries**

Trust beneficiaries have limited rights which are at the complete discretion of the Trustee. Noteholders have a priority interest in the net assets of the Trust.

#### (e) **Cash and cash equivalents**

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Trust's main income generating activity.

#### (f) **Interest payments**

In accordance with the prospectus, the Trust fully distributes income to noteholders in the form of interest payments. The interest payments are payable on a quarterly basis for quarters ended 31 August, 30 November, 28 February and 31 May and are recognised as a financing cost in the income statement. As announced on the Australian Securities Exchange (ASX) on 7 April 2008, there will be no interest payments until the new financing has been fully repaid.

#### (g) **Distributions**

In accordance with the Trust Deed, the Trust fully distributes its distributable (taxable) income to Trust beneficiaries.

#### (h) **Foreign currency translation**

##### *i) Functional and presentation currency*

Items included in the Trust's financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). This is the Australian dollar, which reflects the currency of the economy in which the Trust competes for funds and is regulated. The Australian dollar is also the Trust's presentation currency.

##### *ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year end exchange rates, of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Financial Statements  
for the year ended 30 June 2009 (continued)

## 2 Summary of significant accounting policies (continued)

### (i) Investment income and expenses

Investment income and expenses are brought to account on an accruals basis. Interest income and expenses are recognized in the income statement for all debt instruments using the effective interest method. Interest income on assets held at fair value through the profit and loss is included in the net gains/(losses) on financial instruments. Other changes in fair value for such instruments are recorded in accordance with the policies described in note 2(b).

### (j) Income tax

Under current income tax legislation, the Trust is not subject to income tax provided its taxable income is fully distributed to investors either by way of cash or reinvestment. Withholding tax may be deducted from interest payments to noteholders.

### (k) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Trust by third parties such as registry fees have been passed on to the Trust. The net amount of GST recoverable from the Australian Taxation Office ("ATO") is included in receivables in the balance sheet. Cash flows relating to GST are included in the cash flow statement on a gross basis.

### (l) Receivables

Receivables may include amounts for interest and trust distributions. Trust distributions are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of last payment. Amounts are generally received within 30 days of being recorded as receivables.

### (m) Payables

Payables include liabilities and accrued expenses owing by the Trust which are unpaid as at balance date. The distribution amount payable to noteholders and Trust beneficiaries as at the reporting date is recognised separately on the balance sheet when noteholders and Trust beneficiaries are presently entitled to the distributable income under the Trust's Constitution.

### (n) Use of estimates

The Trust makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### (o) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2009 reporting periods. The directors' assessment of the impact of these new standards (to the extent relevant to the Trust) and interpretations is set below:

(i) *AASB 8 Operating Segments* and *AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8*.

AASB 8 and AASB 2007-3 are effective for annual reporting periods beginning on or after 1 January 2009. The Trust has not adopted these standards early. Application of these standards will not affect any of the amounts recognised in the financial statements, but may affect the segment disclosures provided in Note 12.

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Financial Statements  
for the year ended 30 June 2009 (continued)

## 2 Summary of significant accounting policies (continued)

### (o) New accounting standards and interpretations (continued)

(ii) Revised AASB 101 *Presentation of Financial Statements* and AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101*.

AASB 101 (revised) is applicable to annual reporting period beginning on or after 1 January 2009. The Trust has not adopted this standard early. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity but will not affect any of the amounts recognised in the financial statements. If the Trust makes a prior period adjustment or re-classifies items in the financial statement, it will need to disclose a third balance sheet (statement of financial position), this one being at the beginning of the comparative period.

(iii) AASB 132 *Financial Instruments: Presentation* and AASB 2008-2 *Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations Arising on Liquidation* (Revised AASB 132).

Revised AASB 132 is applicable for reporting periods beginning on or after 1 January 2009. The Trust has not adopted this standard early. Application of this standard will not affect any of the amounts recognised in the financial statements as the Trust is obligated to distribute all of its taxable income in accordance with the Trust's Constitution. Accordingly, there will be no change to classification of Trust beneficiaries' funds as a liability and therefore no impact on profit or loss and equity.

### (p) Segment reporting

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

### (q) Rounding of amounts

The Trust is an entity of the kind referred to in Class Order 98/0100 (as amended), issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

### r) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Financial Statements  
for the year ended 30 June 2009 (continued)

## 3 Financial Risk Management

### Investment Policy

The Trust holds Loan Notes denominated in Australian dollars and issued by the Portfolio Trust. The Portfolio Trust, in turn, has acquired investments that provide direct or indirect exposures to a portfolio that consists primarily of Senior Loans ("the Portfolio").

The Trust is exposed to market risk (price risk, foreign exchange risk and interest rate risk) credit risk, and liquidity risk arising from the financial assets and liabilities that it holds. Financial risk management is carried out by Four Corners Capital Management ("the Portfolio Manager"). The Portfolio Manager has established a set of investment guidelines designed to manage risk which covers factors such as the number of issuers in the portfolio, the type of borrowers and industry concentrations and the level of leverage employed. As at 30 June 2009, all guidelines for the Portfolio were being satisfied. It is important to note that the Portfolio Manager expects that as Senior Loans in the portfolio are repaid and are not replaced, the percentage holdings in the portfolio will be distorted and will no longer satisfy the guidelines.

### (a) Market risk

#### (i) Price risk

Market price risk is the risk that the value of the Trust's investment portfolio will fluctuate as a result of changes in market prices. This risk arises directly from the Trust's investment in the Loan Notes whose price is impacted by the Portfolio Trust's exposure to Senior Loans for which prices in the future are uncertain. Consistent with prior year, this risk is managed by ensuring that all activities are transacted in accordance with mandates, overall investment strategy and within approved limits. Market price risk analysis is conducted regularly on a total portfolio basis.

The table below summarises the impact that an increase/decrease of the market prices of the Senior Loans would have on the Trust's net assets attributable to noteholders at 30 June 2009. The analysis is based on assumptions that the market prices for these Senior Loans increased / decreased by 10% (2008: 10%) with all other variables held constant and utilising the actual leverage ratios that applied at the relevant valuation date. The impact arises from reasonably possible changes in the market prices of the Senior Loans.

	30 June 2009		30 June 2008	
	Impact on operating profit/ Net assets attributable to noteholders		Impact on operating profit/ Net assets attributable to noteholders	
	+10%	-10%	+10%	-10%
	AU\$'000		AU\$'000	
<i>Investment in loan notes</i>	26,096	(26,096)	28,915	(28,915)

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Financial Statements  
for the year ended 30 June 2009 (continued)

## 3 Financial Risk Management (continued)

### (ii) Foreign exchange risk

The Trust is not directly exposed to foreign exchange risk as its investments are all denominated in Australian dollars, the functional currency of the Trust. However, the Trust is indirectly exposed to foreign exchange risk as a result of its exposure to the Senior Loans which are denominated in US dollars. This exposure is partially hedged by the financing of the Portfolio with US dollar borrowings. The Portfolio Manager enters into foreign currency forward contracts on behalf of the Trust designed to hedge either some or all of the remaining net exposure. These foreign currency forward contracts are held at fair value through profit or loss at the Portfolio level. The Trust does not itself directly enter into any foreign currency contracts.

The table below shows the Trust's indirect exposure to the United States dollar. The table has been prepared based on a look through basis to the underlying Portfolio. The Trust has an exposure to 61.1% (2008: 61.1%) of the Portfolio with 10.8% held by Macquarie New Zealand Fortress Notes Trust (2008: 10.8%) and the remaining 28.1% held by Macquarie Fortress Fund (2008: 28.1%).

As disclosed to the Australian Securities Exchange on 7 April 2008, the Portfolio includes USD:AUD foreign currency forward contracts entered into by the Portfolio Manager for the benefit of the Trust and Macquarie Fortress Fund as well USD:NZD foreign currency forward contracts for the benefit of the Macquarie New Zealand Fortress Notes Trust. The table excludes the market value of these foreign currency contracts as the USD:AUD foreign currency contracts are considered to represent an Australian dollar exposure, and the Trust has no direct entitlement to the USD:NZD foreign currency contracts (though any negative market value of the USD:NZD foreign currency contracts could impact the amount ultimately realised by the Trust on its investment in Loan Notes).

	30 June 2009 AU\$'000	30 June 2008 AU\$'000
Cash and cash equivalents	37,332	26,437
Senior Loan portfolio	427,354	478,268
Other assets	11,372	10,544
<b>Total financial assets – USD</b>	<b>476,058</b>	<b>515,249</b>
Accrued expenses	3,926	5,339
Borrowings	433,985	414,424
<b>Total financial liabilities – USD</b>	<b>437,911</b>	<b>419,763</b>
<b>Net assets attributed to subordinated notes</b>	<b>38,147</b>	<b>95,486</b>
Trust's exposure %	61.1%	61.1%
<b>Trust's exposure to USD in Portfolio</b>	<b>23,293</b>	<b>58,613</b>
Foreign currency forward contracts – notional amount (sell USD)	(83,219) <sup>1</sup>	(70,798)
<b>Net Foreign Currency Exposure – USD</b>	<b>(59,926)</b>	<b>(12,185)</b>

The net foreign currency exposure represents the future expected returns from the Portfolio that have been economically hedged by the Portfolio Manager.

<sup>1</sup> Excludes foreign currency forward contacts taken out by the Portfolio Manager for the benefit of the Macquarie Fortress Fund. The Trust does not have any entitlement to this foreign currency contract (though any negative market value on the contract could impact the amount ultimately realised by the Trust on its investment in Loan Notes).

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Financial Statements  
for the year ended 30 June 2009 (continued)

## 3 Financial Risk Management (continued)

### (ii) Foreign exchange risk (continued)

The table below indicates the impact that a +/- 5% change in foreign currency rates would have on the Trust's profit and loss and net assets attributable to noteholders when including the effect of foreign currency forward contracts included within the Portfolio.

	30 June 2009		30 June 2008	
	Impact on operating profit/ Net assets attributable to noteholders		Impact on operating profit/ Net assets attributable to noteholders	
	+5%	-5%	+5%	-5%
	AU\$'000		AU\$'000	
AUD-USD Exchange rate	2,834	(3,132)	557	(616)

### (iii) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument and/or the cash flows that it generates will fluctuate due to changes in market interest rates. The average interest rate applicable to the Loan Notes for the period was 0% (2008: 5.52%).

In the prior year, the objective of the Trust was to provide noteholders with a variable rate of interest based on the Australian Bank Bill Rate ("BBSW"). The Trust sought to achieve this objective by investing in the Loan Notes, which carried a floating rate of interest. The interest on the Loan Notes depended on the prevailing BBSW and the performance of the investments included in the Portfolio less the costs of the leveraging held within the Portfolio. The Senior Loans and the leveraging in the underlying Portfolio all have a variable rate of interest. This indirectly exposes the Trust to interest rate risk from fluctuations in cash flows due to changes in market interest rates.

As disclosed to the Australian Securities Exchange on 7 April 2008, the Portfolio was refinanced on 4 April 2008. As a result of this refinance, all cash flows from the Portfolio must be used to meet interest payments, expenses and reduce the principal on outstanding debt and, therefore, the Trust will receive no interest from the Loan Notes until the refinancing has been fully repaid, which is not expected to be before April 2012. The objective of the Trust is now focused on protecting capital in order to maximise the amount principal that can be repaid to noteholders at maturity. Refer to Note 3(b) for discussions regarding the credit risk within the Portfolio and the policies adopted by the Portfolio Manager to manage this risk.

The table below summarises the Trust's indirect exposure to interest rate risk arising from its indirect exposure to the Portfolio. The table has been prepared on a look through basis to the underlying Portfolio. It includes the Portfolio's assets and liabilities at fair values, categorised by the earlier of contractual repricing or maturity date. The Trust has an exposure to 61.1% (2008: 61.1% of the Portfolio with 10.8% held by Macquarie New Zealand Fortress Notes Trust (2008: 10.8%) and the remaining 28.1% held by Macquarie Fortress Fund (2008: 28.1%). Refer to note 3(d) for a summary of the significant accounting policies applied by the Portfolio Manager to the Portfolio in relation to fair value measurement of financial instruments.

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Financial Statements  
for the year ended 30 June 2009 (continued)

## 3 Financial Risk Management (continued)

(iii) Interest rate risk (continued)

At 30 June 2009

	Weighted average interest rate (% pa)	Floating interest rate AU\$'000	Fixed interest rate AU\$'000	Non- interest bearing AU\$'000	Total AU\$'000
Cash and cash equivalents	0.39	37,332	-	-	37,332
Senior Loan portfolio	3.06	427,354	-	-	427,354
Other assets		-	-	11,372	11,372
<b>Total financial assets</b>		<b>464,686</b>	<b>-</b>	<b>11,372</b>	<b>476,058</b>
Accrued expenses		-	-	3,926	3,926
Borrowings and interest payable	3.50	432,140	-	1,845	433,985
<b>Total financial liabilities</b>		<b>432,140</b>	<b>-</b>	<b>5,771</b>	<b>437,911</b>
<b>Net exposure</b>		<b>32,546</b>	<b>-</b>	<b>5,601</b>	<b>38,147</b>
Trust's exposure %					61.1%
Trust's exposure to USD in Portfolio					23,293
Mark to market of foreign currency forward contract					(4,591)
Other assets and liabilities at Knight Portfolio Trust level					903
<b>Financial assets at fair value through profit or loss</b>					<b>19,605</b>

At 30 June 2008

	Weighted average interest rate (% pa)	Floating interest rate AU\$'000	Fixed interest rate AU\$'000	Non- interest bearing AU\$'000	Total AU\$'000
Cash and cash equivalents	3.13	26,437	-	-	26,437
Senior Loan portfolio	4.89	478,268	-	-	478,268
Other assets	-	-	-	10,544	10,544
<b>Total financial assets</b>		<b>504,705</b>	<b>-</b>	<b>10,544</b>	<b>515,249</b>
Accrued expenses	-	-	-	5,339	5,339
Borrowings and interest payable	5.22	410,855	-	3,569	414,424
<b>Total financial liabilities</b>		<b>410,855</b>	<b>-</b>	<b>8,908</b>	<b>419,763</b>
<b>Net exposure</b>		<b>93,850</b>	<b>-</b>	<b>1,636</b>	<b>95,486</b>
Trust's exposure %					61.1%
Trust's exposure to USD in Portfolio					58,613
Mark to market of foreign currency forward contract					2,403
Other assets and liabilities at knights portfolio trust level					825
<b>Financial assets at fair value through profit or loss</b>					<b>61,841</b>

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Financial Statements  
for the year ended 30 June 2009 (continued)

## 3 Financial Risk Management (continued)

### (iii) Interest rate risk (continued)

The table below summarises the impact an increase/decrease in interest rates would have on the Trust's net assets attributable to noteholders at 30 June 2009. The analysis is based on the assumptions that interest rates in Australia and the United States increase/decrease by 75 basis points from the year-end rate (2008: 75 basis points) with all other variables held constant, that the change in cash flows on the Senior Loans and the leveraging in the Portfolio moved according to the historical correlation with these interest rates, and that any changes in cash flows within the Portfolio flowed directly to the interest received by the Trust on the Loan Notes<sup>2</sup>.

	30 June 2009		30 June 2008	
	Impact on operating profit/ Net assets attributable to noteholders		Impact on operating profit/ Net assets attributable to noteholders	
	+75bps	-75bps	+75bps	-75bps
	AU\$'000		AU\$'000	
Change in interest cash flows for the financial year	146	(146)	605	(605)

### (b) Credit risk

Credit risk is the risk that counterparty will fail to perform contractual obligations, either in whole or in part, under a contract. The Trust has the majority of its financial assets with one counterparty, being Knight Portfolio Trust. The Trust also has exposure to Macquarie Bank Limited with whom the Trust's cash balances are held. However, credit risk for the Trust primarily arises indirectly from the Senior Loans, to which the Trust has an indirect exposure through its holding of the Loan Notes.

The Trust's maximum exposure to credit risk at the reporting date is the carrying amount of its financial assets. An analysis of the credit rating of the Senior Loan portfolio based on ratings provided by Standard & Poors is presented below. The table has been prepared on a look through basis to the underlying Portfolio. The Trust has an exposure to 61.1% (2008: 61.1%) of the Portfolio with 10.8% held by Macquarie New Zealand Fortress Notes Trust (2008: 10.8%) and the remaining 28.1% held by Macquarie Fortress Fund (2008: 28.1%).

Credit quality	2009		2008	
	AU\$'000	%	AU\$'000	%
BBB+	3,580	0.8	-	-
BBB-	-	-	1,993	0.4
BB+	2,842	0.7	10,197	2.1
BB	21,532	5.0	25,357	5.3
BB-	43,552	10.2	80,261	16.8
B+	138,689	32.5	176,807	37.0
B	108,520	25.4	115,363	24.1
B-	67,420	15.8	51,381	10.7
CCC+	22,021	5.2	9,205	1.9
CCC	11,723	2.7	5,727	1.2
D	4,459	1.0	-	-
Not rated	3,016	0.7	1,977	0.5
<b>Total</b>	<b>427,354</b>	<b>100.0</b>	<b>478,268</b>	<b>100.0</b>

<sup>2</sup> As disclosed above, as a result of the refinance that occurred in April 2008, no further interest payments are expected on the Loan Notes before April 2012.

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Financial Statements  
for the year ended 30 June 2009 (continued)

## 3 Financial Risk Management (continued)

### (b) Credit risk (continued)

The credit risk within the Senior Loan portfolio is monitored by the Portfolio Manager on a regular basis. The Portfolio Manager performs a detailed credit analysis of all borrowers designed to ensure that borrowers have the capacity to repay their loans. The risk management guidelines adopted to manage credit risk include applying limits to ensure there is no concentration of risk to a particular counterparty or market. The investment mandate for the Portfolio includes the requirement that no more than 2% of the total Portfolio be invested with a particular individual counterparty and no more than 10% of the total Portfolio be invested in any single industry classification except that up to three industries represented in the Portfolio may each account for up to 15% of the Portfolio provided that the aggregate represented by the top three industries does not exceed 35% of the Portfolio. As at 30 June 2009, all guidelines for the Portfolio were being satisfied. However, the Portfolio Manager expects that as Senior Loans in the Portfolio repay and are not replaced the percentage holdings in the portfolio will be distorted and will no longer satisfy the guidelines.

Consistent with prior year, all of the Senior Loans represent credit exposures to borrowers in the United States and, therefore, the Trust has an indirect concentration of credit exposure to this geographical segment. There are no concentrations of credit exposure to any particular counterparty or industry segment. The split of the Portfolio by industry category at 30 June 2009 is presented below. The table has been prepared based on a look through basis to the underlying Portfolio. The Trust has an exposure to 61.1% (2008: 61.1%) of the Portfolio with 10.8% held by Macquarie New Zealand Fortress Notes Trust (2008: 10.8%) and the remaining 28.1% held by Macquarie Fortress Fund (2008: 28.1%).

#### Industry concentration

	2009		2008	
	AU\$'000	%	AU\$'000	%
Aerospace & defence	22,516	5.3	25,957	5.4
Business equipment & services	46,279	10.8	43,563	9.1
Chemical/plastics	29,890	7.0	27,536	5.8
Financial intermediaries	12,509	2.9	27,512	5.7
Healthcare	35,580	8.3	36,678	7.7
Lodging and casinos	26,168	6.1	33,516	7.0
Oil & gas	9,299	2.2	13,222	2.8
Publishing	22,237	5.2	34,755	7.3
Radio & Television	16,576	3.9	22,383	4.7
Utilities	26,281	6.1	25,381	5.3
Other	180,019	42.2	187,765	39.2
<b>Total</b>	<b>427,354</b>	<b>100.0</b>	<b>478,268</b>	<b>100.0</b>

At 30 June 2009, 3.6% of the face value of the Senior Loan Portfolio is considered to be in default. These Senior Loans have a combined face value of AU\$23,402,524. There were no other Senior Loans that were more than 90 days past due in principal or interest payments at 30 June 2009.

Because the Senior Loans in the portfolio are secured, they typically provide lenders with a high ranking right to any cash flows or proceeds from the sale of collateral if the borrowers become insolvent. The form of collateral varies depending on each individual borrower but can include cash, accounts receivable, inventory, property, plant and equipment, common and/or preferred stock of subsidiaries, and intangible assets including trademarks, patent rights, and franchise value. The Portfolio Trust's entitlement to any cash flows or proceeds from the sale of collateral is subordinate to that of the external financiers of the Portfolio. The Trust does not have any direct entitlement to this collateral but it does indirectly enhance the credit quality of the Loan Notes.

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Financial Statements  
for the year ended 30 June 2009 (continued)

## 3 Financial Risk Management (continued)

### (c) Liquidity risk

Liquidity risk is the risk that the Trust will experience difficulty in either realising assets or otherwise raising sufficient funds to satisfy commitments associated with financial instruments. The Trust generates cash from interest cash flows received on the Loan Notes and from redemption of Loan Notes, where required. The Knight Portfolio Trust would fund redemptions of Loan Notes from available cash and/or by selling its direct or indirect interest in the Senior Loans. The secondary market for the Senior Loans may be less liquid than some other secondary markets. Therefore, some Senior Loans may be relatively illiquid.

As disclosed to the Australian Securities Exchange on 7 April 2008, the Portfolio was refinanced on 4 April 2008. As a result of this refinancing, all cash flows generated by the Portfolio (including all interest and principal repayments from the underlying Senior Loans) will be used to meet interest and ongoing Portfolio expenses with any excess cash flow being applied to reduce the principal outstanding on the new financing. The Trustee has communicated to noteholders that there will be no payments on the Notes issued by the Trust until the new financing within the Portfolio has been fully repaid.

The date by which the new financing will be fully repaid, and hence when payments on the Notes issued by the Trust can recommence, depends on a range of factors affecting the Portfolio including default, recovery, and prepayment rates on the Senior Loans in the Portfolio, underlying interest rates as well as the AUD:USD foreign exchange rate. It is not expected that payments on the Notes will recommence before April 2012.

The table below analyses the Trust's financial liabilities into relevant maturity groupings based on the remaining period to the earliest possible contractual maturity date at the year end date. The amounts in the table are contractual undiscounted cash flows.

At 30 June 2009	< 6 months	6-12 months	1 year and above	Total
	AU\$'000	AU\$'000	AU\$'000	AU\$'000
Notes trustee fee payable	14	-	-	14
Trustee fees payable	32	-	-	32
Establishment costs payable	-	-	70	70
Professional fees payable	-	-	79	79
Payable to related party	-	-	488	488
Other liabilities	-	-	24	24
Net assets attributable to noteholders	-	-	18,969	18,969
<b>Total financial liabilities</b>	<b>46</b>	<b>-</b>	<b>19,630</b>	<b>19,676</b>
At 30 June 2008	< 6 months	6-12 months	1 year and above	Total
	AU\$'000	AU\$'000	AU\$'000	AU\$'000
Notes trustee fee payable	28	-	-	28
Trustee fees payable	31	-	-	31
Establishment costs payable	-	-	40	40
Professional fees payable	-	-	55	55
Payable to related party	-	-	191	191
Other liabilities	-	-	26	26
Net assets attributable to noteholders	-	-	61,548	61,548
<b>Total financial liabilities</b>	<b>59</b>	<b>-</b>	<b>61,860</b>	<b>61,919</b>

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Financial Statements  
for the year ended 30 June 2009 (continued)

## 3 Financial Risk Management (continued)

### (d) *Fair values of financial assets and financial liabilities*

The carrying amounts of all the Trust's financial assets and financial liabilities at the balance sheet date approximated their fair values as all financial assets and liabilities not fair valued are short-term in nature.

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the income statement.

#### *Fair value in an inactive or unquoted market*

The primary investment of the Trust is in the Loan Notes issued by the Knight Portfolio Trust. These Loan Notes are valued based on the net asset backing per note of the Knight Portfolio Trust which in turn is based on valuing a portfolio of US senior secured loan assets ("Senior Loans") and subtracting debt and other liabilities ("the Portfolio"). A summary of the significant accounting policies applied by the Portfolio Manager to the Portfolio, which impacts the valuation of the Loan Notes is provided below:

#### (i) Senior Loans

Senior Loans are classified as financial assets held at fair value through profit or loss. These Senior Loans are initially measured at fair value excluding any transaction costs that are directly attributable to the acquisition of a Senior Loan. Transaction costs on Senior Loans are expensed immediately. Subsequent to initial recognition, Senior Loans are measured at fair value with changes in fair value recognised in the income statement. The Senior Loans are valued based on prices provided by independent pricing services based on quotes from brokers and other market participants. This represents the best estimate of the carrying value of the Senior Loans at balance date, however it may not represent the prices obtained if Senior Loans are subsequently sold.

#### (ii) Foreign currency forward contracts

Foreign currency forward contracts are initially measured at fair value excluding any transaction costs which are expensed immediately. Subsequent to initial recognition, foreign currency forward contracts are measured at fair value with changes in fair value recognised in the income statement. The foreign currency forward contracts are valued based on a discounted cash flow model.

#### (iii) Borrowings

Borrowings are initially measured at fair value plus transaction costs that are directly attributable to the issue of the financial liability. Subsequent to initial recognition, these borrowings are measured at amortised cost which includes the amortisation of transaction costs and any discount on issue of the borrowings as part of the effective yield of the financial liability.

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Financial Statements  
for the year ended 30 June 2009 (continued)

## 4 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Trust.

	30 June 2009	30 June 2008
	\$	\$
(a) <b>Audit services</b>		
Audit services		
PricewaterhouseCoopers Australian firm		
Review of the half-year financial report (exclusive of GST)	13,000	13,000
Audit of the annual financial report (exclusive of GST)	14,190	14,000
Total remuneration for audit services	<u>27,190</u>	<u>27,000</u>
(b) <b>Non audit services</b>		
Taxation services		
PricewaterhouseCoopers Australian firm		
Tax compliance	22,730	15,626
Total remuneration for non audit services	<u>22,730</u>	<u>15,626</u>

## 5 Net loss on financial instruments held at fair value through profit or loss

Net loss recognised in relation to financial instruments held at fair value through profit or loss:

	30 June 2009	30 June 2008
	\$'000	\$'000
Net realised gain on financial instruments at fair value through profit or loss:		
Interest from loan notes	-	7,451
Net unrealised loss on financial instruments held at fair value through profit or loss	(42,238)	(77,089)
Net loss on financial instruments held at fair value through profit or loss	<u>(42,238)</u>	<u>(69,638)</u>

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Financial Statements  
for the year ended 30 June 2009 (continued)

## 6 Net assets attributable to Trust beneficiaries and noteholders

Movements in number of units and net assets attributable to Trust beneficiaries and noteholders during the year were as follows:

### Net assets attributable to Trust beneficiaries

	Units on issue 30 June 2009	Units on issue 30 June 2008	Net assets Attributed 30 June 2009 \$'000	Net assets attributed 30 June 2008 \$'000
Opening balance	10	10	-	-
Applications	-	-	-	-
Redemptions	-	-	-	-
Increase in net assets attributable to Trust beneficiaries	-	-	-	-
Closing balance	10	10	-	-

### Net assets attributable to noteholders

	Notes on issue 30 June 2009 No.	Net assets attributed 30 June 2009 \$'000	Notes on issue 30 June 2008 No.	Net assets attributed 30 June 2008 \$'000
Opening balance	141,476,899	61,548	149,019,513	146,435
Applications	-	-	-	-
Redemptions	-	-	(7,542,614)	(7,542)
Decrease in net assets attributable to noteholders	-	(42,579)	-	(77,345)
Closing balance	141,476,899	18,969	141,476,899	61,548

### Capital risk management

The Trust manages its net assets attributable to Trust beneficiaries and noteholders as capital, notwithstanding net assets attributable to Trust beneficiaries and noteholders are classified as liabilities.

The unaudited net asset valuation is published on a monthly basis. The Trust is a closed end Trust and therefore is not subject to capital fluctuations as a result of redemptions. However, the Trustee may elect to repurchase notes off the market and redeem them at any time if doing so is considered to be beneficial for Trust beneficiaries and noteholders as a whole.

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Financial Statements  
for the year ended 30 June 2009 (continued)

## 7 Interest payments to noteholders

	30 June 2009 Cents / note	30 June 2009 \$'000
Interest paid		
Class A notes		
31 August 2008	-	-
30 November 2008	-	-
28 February 2009	-	-
31 May 2009	-	-
Total interest paid and payable (including withholding taxes paid and payable)	-	-
	30 June 2008 Cents / note	30 June 2008 \$'000
Interest paid		
Class A notes		
31 August 2007	2.74	3,949
30 November 2007	2.84	4,077
28 February 2008	-	-
31 May 2008	-	-
Total interest paid and payable (including withholding taxes paid and payable)	5.58	8,026

The interest on the notes is calculated by reference to the bank bill swap rate adjusted for the performance of the underlying Senior Loan portfolio. Refer to Note 3 (a)(iii) for an overview of the Trust's exposures to interest rate risk.

## 8 Cash and cash equivalents

	30 June 2009 \$'000	30 June 2008 \$'000
Cash at bank	70	78

### (a) Cash at bank

The bank accounts have floating interest rates. The weighted average interest rate was 1.69% for 30 June 2009 (2008 3.92%)

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Financial Statements  
for the year ended 30 June 2009 (continued)

## 9 Financial assets held at fair value through profit or loss

	30 June 2009 \$'000	30 June 2008 \$'000
Investment in Loan Notes at cost	141,477	141,477
Unrealised loss on Loan Notes	(121,872)	(79,636)
Investment in Loan Notes	<u>19,605</u>	<u>61,841</u>

The current value and gearing of the underlying Senior Loan portfolio is provided in Note 3 along with an overview of the risk exposures relating to the Trust's financial assets. If the underlying Senior Loans had to be sold prior to maturity, there is a risk that the sales price obtained may be less than carrying value, which would impact on the value of the investment in the Loan Notes.

At 30 June 2009, the net asset value attributable to the Trust's noteholders was \$0.133 (30 June 2008: \$0.434). However, due to the reasons noted above, this net asset value may not be realised. At close of trading on 30 June 2009, the Notes were trading at \$0.120 on the Australian Securities Exchange (30 June 2008: \$0.155).

## 10 Related party transactions

### Trustee

The Trustee of the Macquarie Fortress Australia Notes Trust is Macquarie Fortress Investments Limited.

### Key management personnel

#### (a) Trustee

The only key management personnel for the period ended 30 June 2009 were the directors of Macquarie Fortress Investments Limited during the period from the end of the previous financial year until the date of this report were as follows:

Benjamin Barry (appointed 7 August 2009)  
Tan Kueh (resigned 1 August 2008)  
Peter Bruce Lucas  
Charles Warwick Stiles Wheeler (resigned 7 August 2009)  
Anthony Abraham (appointed 1 August 2008)  
Peter Holloway (resigned 1 August 2008)

#### (b) Other key management personnel

There were no other persons with responsibility for planning, directing and controlling the activities of the Trust, directly or indirectly during the financial year.

### Key management personnel unitholdings and noteholdings

The key management personnel of the Trustee and their related parties held units and notes in the Trust as follows:

30 June 2009 Noteholders	No. of notes held	Interest held	No. of notes acquired	No. of notes disposed	Interest paid / payable by the Trust (\$)
	(Notes)	(%)	(Notes)	(Notes)	
Trustee	-	-	-	-	-
Directors	-	-	-	-	-
P Lucas	645,025	0.43	229,153	-	-
B Barry	63,800	0.05	48,900	-	-
A Abraham	50,000	0.04	-	-	-

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Financial Statements  
for the year ended 30 June 2009 (continued)

## 10 Related party transactions (continued)

### Key management personnel unitholdings and noteholdings (continued)

30 June 2008 Noteholders	No. of notes held	Interest held	No. of units acquired	No. of units disposed	Distribution paid / payable by the Trust
	(Notes)	(%)	(Notes)	(Notes)	(\$)
Trustee	-	-	-	-	-
Directors	-	-	-	-	-
P Lucas	415,872	0.20	105,000	-	23,206
A Abraham	50,000	0.03	-	-	2,790

30 June 2009 Trust beneficiaries	No. of units held	Interest held	No. of units acquired	No. of units disposed	Distribution paid / payable by the Trust
	(Units)	(%)	(Units)	(Units)	(\$)
Trustee	-	-	-	-	-
Directors	-	-	-	-	-

30 June 2008 Trust beneficiaries	No. of units held	Interest held	No. of units acquired	No. of units disposed	Distribution paid / payable by the Trust
	(Units)	(%)	(Units)	(Units)	(\$)
Trustee	-	-	-	-	-
Directors	-	-	-	-	-

### Key management personnel compensation

Key management personnel are paid by Macquarie Group Limited, not Macquarie Fortress Investments Limited. Payments made from the Trust to Macquarie Fortress Investments Limited do not include any amounts attributable to the compensation of key management personnel.

### Key management personnel loan disclosures

The Trust has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel, Directors of the Trustee or their personally related entities at any time during the reporting period.

### Trustee's fees and other transactions

For the period ended 30 June 2009, in accordance with the Trust Constitution, the Trustee received a total fee of \$55,289 (exclusive of GST) (2008: \$53,168) and recovered establishment costs of \$119,755 (2008: \$90,329).

All expenses in connection with the preparation of accounting records and the maintenance of the register are indemnified by Knight Portfolio Trust.

As at 30 June 09, the Trust had a payable balance with Knight Portfolio Trust amounting to \$488,000 (2008: \$191,000).

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Financial Statements  
for the year ended 30 June 2009 (continued)

## 10 Related party transactions (continued)

### Trustee's fees and other transactions (continued)

All related party transactions are conducted on normal commercial terms and conditions. The transactions during the period and amounts payable at period end between the Trust and the Trustee were as follows:

	30 June 2009 \$'000	30 June 2008 \$'000
Trustee fees for the period paid or accrued by the Trust to the Trustee	55	53
Recovery of establishment costs per Prospectus	120	90
Aggregate amounts paid and payable to the Trustee at the reporting date	175	143

### Related party schemes' unitholdings and noteholdings

No parties related to the Trust (including Macquarie Fortress Investments Limited, its affiliates and other schemes managed by Macquarie Fortress Investments Limited), held units in the Trust, except as disclosed in the table below and in the table under Key Management Personnel unitholdings and noteholdings.

#### 30 June 2009

Noteholders	No. of notes held	Interest held	No. of notes acquired	No. of notes disposed	Interest paid / payable by the Trust (\$)
	(Notes)	(%)	(Notes)	(Notes)	
Macquarie Capital Group Pty Ltd	-	-	-	2,362,569	-
Macquarie Bank Limited	2,362,569	1.67	2,362,569	-	-

#### 30 June 2008

Noteholders	No. of notes held	Interest held	No. of notes acquired	No. of notes disposed	Interest paid / payable by the Trust (\$)
	(Notes)	(%)	(Notes)	(Notes)	
Macquarie Capital Group Pty Ltd	2,362,569	1.67	2,362,569	-	67,097
Macquarie Bank Limited	-	-	-	2,362,569	64,734

### Other transactions within the Trust

Apart from those details disclosed in this note, no key management personnel has entered into a material contract with the Trust during the financial year and there were no material contracts involving Director's interests existing at year end.

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Financial Statements  
for the year ended 30 June 2009 (continued)

## 11 Reconciliation of net profit to net cash inflow from operating activities

	30 June 2009 \$'000	30 June 2008 \$'000
(a) Reconciliation of net profit to net cash inflow from operating activities		
Net profit	-	-
Decrease in net assets attributable to noteholders	(42,579)	(77,345)
Net gains on financial instruments held at fair value through profit or loss	-	8,026
Increase in trustee fees payable	1	14
Decrease in receivables	(1)	50
Increase/(decrease) in Notes Trustee fees payable	10	5
(Decrease)/increase in other liabilities and withholding taxes payable	28	(46)
Increase in Payable to related entity	297	191
Proceeds from sale of loan notes	-	6,057
Movement in unrealised loss on loan notes held at fair value through profit and loss	42,236	77,090
<b>Net cash flows from operating activities</b>	<u>(8)</u>	<u>14,042</u>

### (b) Non-cash financing activities

The Trust did not engage in any non-cash financing and investment activities during the financial period.

## 12 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 (the geographical segment), the Trust has investment exposures in different countries as below:

### Geographical Exposure

	30 June 2009 % of Total assets	30 June 2009 Total assets \$'000	30 June 2008 % of Total assets	30 June 2008 Total assets \$'000
United States	99.64%	19,605	99.88%	61,841
Australia	0.36%	71	0.12%	78
<b>Total</b>	<u>100.00%</u>	<u>19,676</u>	<u>100.00%</u>	<u>61,919</u>

The above geographical exposure to the United States is represented by investments classified on the balance sheet as at fair value through profit or loss. The above disclosures have been prepared on a look through basis for investments in the Loan Notes.

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Financial Statements  
for the year ended 30 June 2009 (continued)

## 13 Events occurring after balance sheet date

No significant events have occurred since balance date which would impact on the financial position of the Trust disclosed in the balance sheet as at 30 June 2009 or on the results and cash flows of the Trust for the year ended on that date.

## 14 Contingent assets and liabilities and commitments

There are no outstanding contingent assets and liabilities or commitments as at 30 June 2009 and 30 June 2008.

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# 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 8 to 32 are in accordance with the Corporations Act 2001, including
  - (i) complying with Accounting Standards, 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 30 June 2009 and of its performance, as represented by the results of its operations, changes in equity and cash flows for the financial 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.



Director  
Sydney  
31 August 2009

## Independent auditor's report to the unitholders of Macquarie Fortress Australia Notes Trust

### Report on the financial report

We have audited the accompanying financial report of Macquarie Fortress Australia Notes Trust (the "Trust"), which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Trust.

#### *Directors' responsibility for the financial report*

The directors of Macquarie Fortress Investments Limited (the "Trustee") are responsible for the preparation and fair presentation of the 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 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. In Note 2(a) the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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**Independent auditor's report to the unitholders of  
Macquarie Fortress Australia Notes Trust (continued)**

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

*Independence*

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

*Auditor's opinion*

In our opinion:

- (a) the financial report of the Macquarie Fortress Australia Notes Trust is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Trust's financial position as at 30 June 2009 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a).

*PricewaterhouseCoopers*

PricewaterhouseCoopers



SJ Smith  
Partner

Sydney  
31 August 2009

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