



Explorer 2004 Series 1

Explanatory Note on the performance of the *Servicer* DGCI

20th April 2010

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1. Introduction

- The securitised claims are serviced by the Portuguese Republic through Direcção Geral de Impostos - DGCI and Instituto de Gestão Financeira da Segurança Social - IGFSS (the “*Servicers*”).
- The two entities disclose semi-annual information regarding the securitised receivables and the actual collection levels.
- DGCI prepared this 8th Explanatory Note to complement the information disclosed in the 9th semi-annual Servicer Report to:
 - Provide a comparative performance analysis between the actual collection levels and the collection levels projected in the base case;
 - Inform investors about the measures taken in order to improve the Servicer performance on the Explorer transaction.

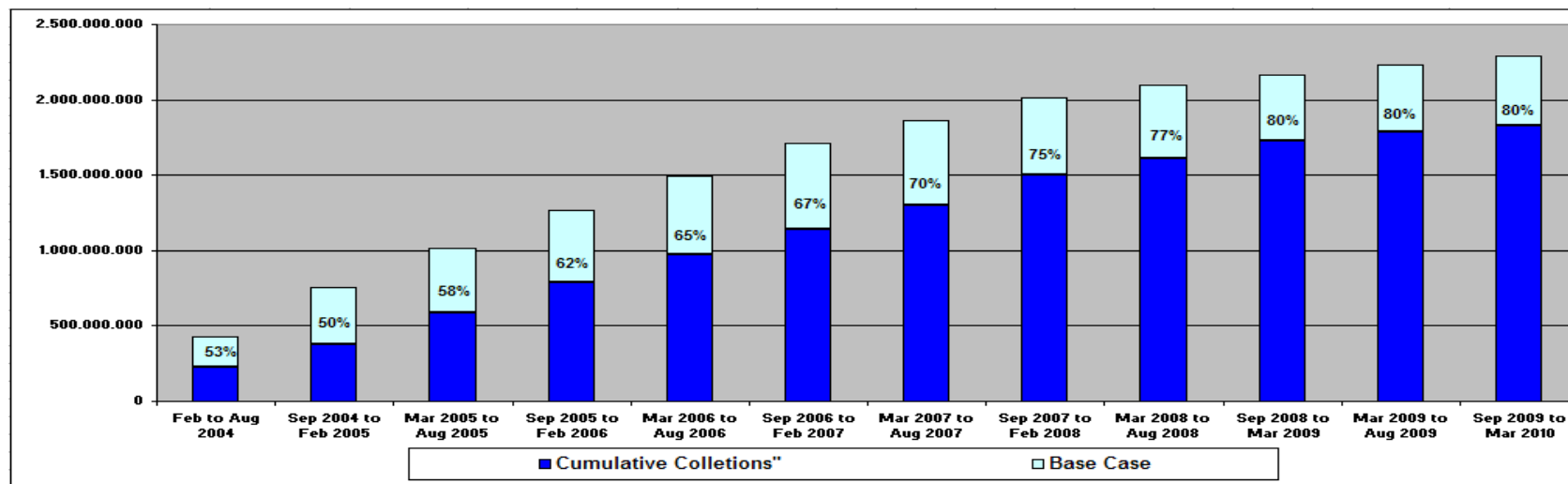
2. Brief Description of the Transaction

- In 2003 the Portuguese Republic through its government made the decision to securitise fiscal and social security claims.
 - (*) Around €9,44 billion of fiscal and €2 billion of social security claims have been securitised totalling €11,44 billion in claims.
 - (*) Fiscal claims breakdown by tax was: IRS (Revenue Tax) 12,45%, IRC (Corporate Tax) 27,23%, IVA (VAT) 55,64% and 4,68% in other taxes.
 - The “base case” was projected according to historical data retrieved in the collection period between 1993 and 2003 and according to the pool of securitised claims.
- (*) Explorer 2004 Series 1 securitised EUR 10.95 billion on April 2004. It included both tax debt (82,2% of the portfolio) and social security (17,8% of the portfolio). The tax debts portfolio breakdown corresponded to: IRS 10%, IRC 22,3%, IVA 46% and 3,9% in other taxes.

3. Performance Analysis

(until February 2010)

"Base Case" Collections				Period Collections									Collections vs "Base Case"	
Period	DGCI	IGFSS	Cumulative Collections	Period Collections	IVA	IRS	IRC	SS	Other s	DGCI Total	IGFSS	DGCI + IGFSS	DGCI + IGFSS Period collections	DGCI + IGFSS Cumulative collections
	(1)	(2)	(3) = (1)+(2)	(4)	(5)	(6)	(7)	(8)	(9)	(10)=(5)+...+(9)	(11)	(12)=(10)+(11)	(13) = (12)/(4) × 100	(14) = (12)/(3) × 100
FEV a AGO 2004	400	25	425	425	105	36	39	21	5	206	18	224	53%	53%
SET 2004 a FEV 2005	710	45	755	330	72	29	24	11	7	143	10	153	46%	50%
MAR 2005 a AGO 2005	955	60	1.015	260	89	48	47	15	2	201	9	211	81%	58%
SET 2005 a FEV 2006	1.195	70	1.265	250	84	36	45	16	5	187	13	200	80%	62%
MAR 2006 a AGO 2006	1.405	85	1.490	225	81	34	44	13	4	176	11	187	83%	65%
SET 2006 a FEV 2007	1.615	95	1.710	220	73	32	36	14	4	158	11	169	77%	67%
MAR 2007 a AGO 2007	1.760	105	1.865	155	63	31	35	13	3	145	9	153	99%	70%
SET 2007 a FEV 2008	1.900	115	2.015	150	70	34	62	11	17	194	11	205	137%	75%
MAR 2008 a AGO 2008	1.970	125	2.095	80	43	20	24	9	4	100	8	108	135%	77%
SET 2008 a FEV 2009	2.035	130	2.165	70	44	18	40	6	3	111	6	117	167%	80%
MAR 2009 a AGO 2009	2.090	140	2.230	65	24	11	13	3	2	52	4	56	86%	80%
SET 2009 a FEV 2010	2.145	145	2.290	60	21	8	12	2	4	46	3	49	82%	80%



3. Performance Analysis

(until February 2010)

- In the 1st (7-month) collection period between February and August 2004, the Servicers collected €224 million:
 - DGCI collected €206 million, of which €185 million was from tax claims and €21 million was from social security claims and IGFSS collected €18 million.
- In the 2nd (6-month) collection period between September 2004 and February 2005, the Servicers collected €153 million:
 - DGCI collected €143 million, of which €132 million was from tax claims and 11 million was from the social security claims and IGFSS collected €10 million.
- In the 3rd (6-month) collection period between March 2004 and August 2005, the Servicers collected €211 million:
 - DGCI collected €201 million, of which €186 million was from tax claims and €15 million was from the social security claims and IGFSS collected €9 million.
- In the 4th (6-month) collection period between September 2005 and February 2006, the Servicers collected €200 million:
 - DGCI collected €187 million, of which €171 million was from tax claims and €16 million was from the social security claims and IGFSS collected €13 million.
- In the 5th (6-month) collection period between March 2006 and August 2006, the Servicers collected €187 million:
 - DGCI collected €176 million, of which €163 million was from tax claims and €13 million was from the social security claims and IGFSS collected €11 million.
- In the 6th (6-month) collection period between September 2006 and February 2007, the Servicers collected €169 million:
 - DGCI collected €158 million, of which €144 million was from tax claims and €14 million was from the social security claims and IGFSS collected €11 million.
- In the 7th (6-month) collection period between March 2007 and August 2007, the Servicers collected €153 million:
 - DGCI collected €145 million, of which €132 million was from tax claims and €13 million was from the social security claims and IGFSS collected €9 million.
- In the 8th (6-month) collection period between August 2007 and February 2008, the Servicers collected €205 million:
 - DGCI collected €194 million, of which €183 million was from tax claims and €11 million was from the social security claims and IGFSS collected €11 million.
- In the 9th (6-month) collection period between February 2008 and August 2008, the Servicers collected €108 million:
 - DGCI collected €100 million, of which €91 million was from tax claims and €9 million was from the social security claims and IGFSS collected €8 million.
- In the 10th (6-month) collection period between August 2008 and February 2009, the Servicers collected €117 million:
 - DGCI collected €111 million, of which €99 million was from tax claims and €6 million was from the social security claims and IGFSS collected €6 million.
- In the 11th (6-month) collection period between February 2009 and August 2009, the Servicers collected €56 million:
 - DGCI collected €52 million, of which €50 million was from tax claims and €2 million was from the social security claims and IGFSS collected €4 million.
- In the 12th (6-month) collection period between September 2009 and February 2010, the Servicers collected €49 million:
 - DGCI collected €46 million, of which €44 million was from tax claims and €2 million was from the social security claims and IGFSS collected €3 million.

3. Performance Analysis (cont.)

(until August 2008)

- The collections performance improved in cumulative terms, reaching 77% of the cumulative base case vs. 75% in the previous period.
 - The DGCI Servicer level of accomplishment for each period's base case was 52% (1st period), 46% (2nd period), 82% (3rd period), 78% (4th period), 84% (5th period), 75% (6th period), 100% (7th period); 139% (8th period); 142% (9th period); 170% (10th period); and 94% in the last period (11th period);
 - For the cumulative collections, the level of accomplishment of each period's base case was 52%, 49%, 58%, 62%, 65%, 66%, 69%, 74%, 77%, 80% and 80% respectively (DGCI Servicer);
 - The gap between the cumulative collections and the cumulative base case is closing consistently in every period.
- The current portfolio is €6.0 billion in claims.
- In the following slides, we present measures taken in order to increase collections and the corresponding expected positive effects on collections.

4. Adopted Measures

■ Measures taken (detailed in previous explanatory notes):

- ⇒ IT systems upgrade;
- ⇒ Suspension of tax benefits to debtors;
- ⇒ Reduction of the time lag between the moment of receipt of certain cash flows and the moment when they are accounted for, as collected claims;
- ⇒ Automatic set-off between credits and debts;
- ⇒ Monthly collection target definition for each local service;
- ⇒ Performance of local and regional services collections is published internally, in order to create a competitive environment;
- ⇒ Reinforcement of the training program for local offices workforce;
- ⇒ Local offices staff increased (500 new officers in 2006 more 700 new officers in February 2007).
- ⇒ The first time ever public disclosure of a list of the major tax debtors in Portugal, may have had a significant positive effect on collections. This disclosure, via internet, was the first of three stages that were completed before the past year-end.

4. Adopted Measures (cont.)

■ Measures taken (detailed in previous explanatory notes):

- ⇒ The level of seized assets is also expected to increase as the different stages of the automatic seizure implementation process (securities, bank accounts, salaries and wages, vehicles and buildings) became completed.
- ⇒ All communications between both private and public entities related to seizures are now made by electronic means.
- ⇒ Enforcement procedures changes: all voluntary payments (when debtors come forward and pay their claims) will be totally processed electronically, thus releasing officers for other value added tasks.
- ⇒ The enforcement process is now fully automatic and the notices are also sent automatically to taxpayers. This improvement lead to an increase in productivity due to the reduction of certain non-value added tasks.
- ⇒ Creation of an automatic registry system for vehicles and real estate assets to allow for their pledge.
- ⇒ Development of a new IT system to tighten control on large debtors, particularly those with debts across several local services.
- ⇒ Development of a new IT system to provide for a better follow-up of disputes related to contingent claims.

4. Adopted Measures (cont.)

■ Measures taken (detailed in previous explanatory notes):

- ⇒ New financial management system more able to provide an easier account of the pledged amounts, in actual collections.
- ⇒ Obligation for Public Services to retain up to 25% of the payments due to goods and services suppliers, which are debtors of the State (Decree-Law of the 2007 Budget).
- ⇒ Pledges also of Savings Certificates.
- ⇒ Development of an electronic communications system between local offices and Real Estate Registry Offices for real estate pledges.
- ⇒ Distribution of electronic signature certificates to local offices' Heads aimed at carrying out electronic real estate pledges and further facilitate other kind of assets pledges.
- ⇒ Implementation of an Integrated Management System for Strategic Debtors to allow for a complete supervision of their tax situation.
- ⇒ The Fiscal Benefits Control Programme is now fully operational.
- ⇒ The sale of real estate is now available and can be fully performed by electronic means at

<http://www.e-financas.gov.pt/vendas/>

4. Adopted Measures (cont.)

■ Measures taken (detailed in previous explanatory notes):

⇒ Further stages of the public disclosure of the major tax debtors list in Portugal will also continue to have a positive effect on claims collection.

⇒ Higher pressure on taxpayers to repay their debts after their assets have been pledged or, alternatively, arrange for those assets' sale in favour of the State.

⇒ Implementation of electronic services, which serve the needs of taxpayers by simplifying processes and providing faster access to information and services through the Internet. Currently taxpayers can access and pay their debts online.

⇒ All these measures are expected to continue to generate a positive impact on collections

5. New Measures Update

- ⇒ The training program for local offices workforce will continue to be reinforced regularly.
- ⇒ Closing of judicial cases which were waiting for credits ranking assessment by the Court.
- ⇒ Development of an extensive partnership with the Inspection Department.
- ⇒ Creation of support teams (task forces) to reinforce the action of local services with more growth potential.
- ⇒ The automatic control of taxpayers that don't deliver the collected IVA source retention. This situation in some cases can lead to a tax felony accusation.
- ⇒ The massive contact with taxpayers informing them of their debts and the penalties they incur. The use of electronic message reveals to be an important tool of collection.
- ⇒ Increment of the actions leading to reversions against the managing director and other member the management team. A new IT system was developed to support these actions.
- ⇒ Implementation of automatic procedures for the control of instalment payments.
- ⇒ Increment of the actions leading to reversions against the managing director and other member the management team.
- ⇒ Implementation of automatic procedures for the control of tax return delivery that can lead to legal liability.
- ⇒ Simplification of the relationship between tax and judicial authorities.
- ⇒ Implementation of an integrated project to control the liability of directors and managers for the debts and the criminal liability.

6. Conclusion

- ❶ The Tax Authorities recognise that the current collection performance is still below the targeted levels. However, the cumulative base case accomplishment is increasing consistently on the way to higher levels of collections.
- ❷ The Tax Authority is committed to improve the performance of the securitised claims and a vast set of measures were taken to improve collections.
- ❸ Measures already taken and the ones that are being adopted will continue to produce a positive effect on collections.
- ❹ The recent tax administration changes, investment in technology, as well as investment in resources within the Tax Authority and the Tax Enforcement Department specifically, lead us to strongly believe that there will be an improvement in future cumulative collections performance. Therefore, we believe the increase in the cumulative base case accomplishment will continue.

6. Conclusion (cont.)

- ⑤ All initiatives mentioned herein are part of an ongoing strategy and are being implemented under the guidance and instructions of the Ministry of Finance and the Central Office of DGCI with an aim towards improving recoveries on securitised claims.
- ⑥ The Ministry of Finance and the central office of DGCI are committed to the good performance of the securitisation transaction and are actively promoting the adoption of new measures, which are expected to increase collection levels.

7. Final Remarks

- The Servicer Reports will continue to be released on our website at the end of each semi-annual collection period.
- This information can be accessed on DGCI website:

<http://www.portaldasfinancas.gov.pt/>

- Additional information regarding the collections performance may be disclosed in DGCI's website depending on its relevance.
- An email address was created in order to receive FAQ from investors regarding this transaction:

securitization@dgci.min-financas.pt

8. Important Notice

This document is meant only to provide additional information concerning the Explorer 2004 Series 1 Servicer collection level and does not provide any advice or additional information concerning the suitability or profitability of the Explorer 2004 Series 1 securities.