FIRST FINANCIAL CORP /IN/
Form DEF 14A
March 16, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the registrant [X]

Filed by a party other than the registrant [ ]

Check the appropriate box:

[ ] Preliminary proxy statement.

[ ] CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY RULE 14a-6(e)(2)).

[X] Definitive proxy statement.

[ ] Definitive additional materials.

[ ] Soliciting material pursuant to Section 240.14a-12

FIRST FINANCIAL CORPORATION

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)

Payment of filing fee (check the appropriate box):

[X] No fee required.

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(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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FIRST FINANCIAL CORPORATION
ONE FIRST FINANCIAL PLAZA
P.O. BOX 540
TERRE HAUTE, INDIANA 47808

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD APRIL 19, 2006

Notice is hereby given that, pursuant to the call of its Directors, an Annual Meeting of Shareholders of First Financial Corporation ("Corporation") will be held on April 19, 2006 at 11:00 o'clock a.m., local time, at One First Financial Plaza, Terre Haute, Indiana.

The purposes of the meeting are:

(1) To elect Thomas T. Dinkel, Norman L. Lowery and Patrick O'Leary to the Board of Directors of the Corporation for a three (3) year term to expire in 2009;

(2) To elect Ronald K. Rich to the Board of Directors of the Corporation for a one (1) year term to expire in 2007;

(3) To transact such other business as may properly be presented at the meeting.

Only shareholders of record at the close of business on March 15, 2006 will be entitled to notice of and to vote at the meeting.

By Order of the Board of Directors

/S/ Donald E. Smith
DONALD E. SMITH
Chairman of the Board and President

March 21, 2006

IMPORTANT - PLEASE MAIL YOUR PROXY PROMPTLY

IN ORDER THAT THERE MAY BE PROPER REPRESENTATION AT THE MEETING, YOU ARE URGED TO COMPLETE, SIGN, DATE AND RETURN THE ENCLOSED PROXY IN THE ENVELOPE PROVIDED. NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES.

PROXY STATEMENT OF
FIRST FINANCIAL CORPORATION
ONE FIRST FINANCIAL PLAZA
P.O. BOX 540 o TERRE HAUTE, INDIANA 47808
(812) 238-6000

ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD APRIL 19, 2006
GENERAL INFORMATION

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of First Financial Corporation (the "Corporation") of Proxies for use at the Annual Meeting of Shareholders of the Corporation to be held on April 19, 2006, at 11:00 a.m. local time at One First Financial Plaza, Terre Haute, Indiana, and at any and all adjournments of such meeting. This Proxy Statement and accompanying form of proxy were first mailed to the shareholders on or about March 30, 2006.

The Corporation is a financial services holding company which owns First Financial Bank N.A. ("FFB"), The Morris Plan Company of Terre Haute, Inc., Forrest Sherer, Inc. and First Financial Reinsurance Company, Ltd.

Only shareholders of record as of March 15, 2006, will be entitled to notice of, and to vote at, the Annual Meeting. As of March 10, 2006 the Corporation had issued and outstanding 13,323,785 shares of common stock, which were held by approximately 885 shareholders of record. There are no other outstanding securities of the Corporation entitled to vote. On the matters to be voted on at this Annual Meeting, each share is entitled to one vote, exercisable in person or by proxy.

The presence, in person or by proxy, of a majority of the outstanding shares of

Common Stock is necessary to constitute a quorum. Shares voting, abstaining or withholding authority to vote on any issue will be counted as present for purposes of determining a quorum. Approval by a plurality of the votes cast at the meeting, assuming a quorum is present, is required for election of each nominated director. Action on any other matters to come before the meeting must be approved by an affirmative vote of a majority of the shares present, in person, or by proxy. Abstentions, broker non-votes, and instructions on the accompanying proxy card to withhold authority to vote for one or more of the named nominees will result in the respective nominee receiving fewer votes.

The cost of soliciting proxies will be borne by the Corporation. In addition to use of the mails, proxies may be solicited personally, electronically or by telephone by officers, directors and certain employees who will not be specially compensated for such soliciting.

Any shareholder giving a proxy has the right to revoke it at any time before it is exercised. Therefore, execution of the proxy will not affect the shareholder's right to vote in person if he or she attends the meeting. Revocation may be made prior to the meeting (i) by written notice sent to Michael A. Carty, Secretary, First Financial Corporation, One First Financial Plaza, P.O. Box 540, Terre Haute, Indiana 47808, (ii) personally upon oral or written request at the Annual Meeting, or (iii) by duly executing a proxy bearing a later date.

The shares represented by proxies will be voted as instructed by the shareholders giving the proxies. In the absence of specific instructions to the contrary, proxies will be voted in favor of the election as directors of the four (4) persons named as nominees in this Proxy Statement. If for any reason any of the director/nominees becomes unable or is unwilling to serve at the time of the meeting (an event which the Board of Directors does not anticipate), the persons named as proxies in the accompanying form of proxy will have discretionary authority to vote for a substitute nominee or nominees named by the Governance/Nominating Committee if the Board of Directors elects to fill such nominees' position. If any shareholder proposal intended to be presented at the 2006 Annual Meeting was not received by the Corporation on or before February 6, 2006, the proxies will have discretionary authority to vote on the matter. Any other matters that may properly come before the meeting will be acted upon by the persons named as proxies in the accompanying form of proxy in accordance with his or her discretion.

ELECTION OF DIRECTORS

The Board of Directors is currently composed of ten (10) members. The Corporation's Articles of Incorporation divide the Board of Directors into three classes, as nearly equal in size as possible, with one class of directors elected each year for a term extending to the third succeeding Annual Meeting after such election. The nominees for election as director are nominated to serve for terms to expire as of the 2009 Annual Meeting with the exception of director Ronald Rich, who has been nominated to complete a term to expire as of the 2007 Annual Meeting. Each nominee is a current director of the Corporation. The following information is provided concerning each nominee and each incumbent director continuing in office.

CERTAIN INFORMATION REGARDING DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth certain information regarding directors, nominees and the executive officers named in the Summary Compensation Table of the Corporation, including beneficial ownership of the Corporation's common stock as of March 10, 2006, by each of the Corporation's directors, nominees and the Named Executive Officers; and all current directors and executive officers as a group.

1

NAME, AGE AND PRINCIPAL OCCUPATION DURING THE PAST FIVE YEARS	DIRECTOR SINCE	SHARES OF COMPANY BENEFICIALLY OWNED O NUMBER	PE
NOMINEES FOR TERMS TO EXPIRE IN 2009			
Thomas T. Dinkel, 55 President of Sycamore Engineering, Inc.	1989	11,870	
Norman L. Lowery, 59, Vice Chairman of the Board and CEO; Vice President of the Corporation; President of First Financial Bank N.A.	1989	20,536	
Patrick O'Leary, 69 President of Contract Services, LLC	1983*	52,575	
NOMINEE FOR TERM TO EXPIRE IN 2007			
Ronald K. Rich, 68 Financial Representative Northwest Mutual Financial Network	2005	2,050	
INCUMBENT MEMBERS OF THE BOARD OF DIRECTORS WHOSE TERMS EXPIRE IN 2007			
W. Curtis Brighton, 52 Executive Vice President and General Counsel Hulman and Company	2004	11,000	
Donald E. Smith, 79 Chairman of the Board and President	1983*	153,728	
INCUMBENT MEMBERS OF THE BOARD OF DIRECTORS WHOSE TERMS EXPIRE IN 2008			
B. Guille Cox, Jr., 60 Attorney-at-Law with Cox Zwerner Gambill & Sullivan	1983*	84,569	
Anton H. George, 46 President of Indianapolis Motor Speedway Corp., Director of Vectren Corporation	1989	618	
Gregory L. Gibson, 43 President of ReTec, Inc.	1994	66,962	
Virginia L. Smith, 57 President of R.J. Oil, Inc.	1987	10,952	

* First Financial Corporation was formed in 1983.

OTHER EXECUTIVE OFFICERS			
Thomas S. Clary, 54 Senior Vice President & CCO of First Financial Bank N.A.		268	
Michael A. Carty, 55, Secretary/Treasurer		14,345	

Senior Vice President & CFO of First Financial Bank N.A.	
Richard O. White, 58 Senior Vice President of First Financial Bank N.A.	19,770

All Directors and Executive Officers as a group beneficially own 449,377 shares, which is 3.37% of the shares outstanding. This includes shares held for the accounts of Donald E. Smith, Norman L. Lowery, Thomas S. Clary, Michael A. Carty and Richard O. White in the First Financial Corporation Employee Stock Ownership Plan.

(1) The information contained in this column is based upon stockholder records of the Corporation and information furnished to the Corporation by the individuals identified above. Unless otherwise indicated, each individual has sole voting and investment power of the shares indicated.

(2) Mr. Cox, under certain circumstances, has the power, with the consent of others, to vote an additional 339,906 shares (2.52%). These shares are not reflected in the number of shares or percent of class attributed to him in the above table.

(3) Mr. Lowery has the power to vote an additional 66,666 (.50%) shares as co-trustee of the Root Children's Business Trust. These shares are not reflected in the number of shares or percent of class attributed to him in the above table.

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The Corporation's executive officers served as executive officers of the Corporation or FFB for the following periods:

NAME AND EXECUTIVE OFFICER POSITION	EXECUTIVE OF
Donald E. Smith, Chairman and President	1983
Norman L. Lowery, Vice Chairman and CEO	1996
Michael A. Carty, Secretary, Treasurer, Senior Vice President and CFO	1983
Richard O. White, Senior Vice President of First Financial Bank N.A.	1983
Thomas S. Clary, CCO and Senior Vice President of First Financial Bank N.A.	2002

ADDITIONAL INFORMATION CONCERNING THE BOARD OF DIRECTORS

DIRECTOR INDEPENDENCE. The Board of Directors has determined that under the rules of the NASDAQ Stock Market, a majority of the Board of Directors is comprised of independent directors, and that the following directors are independent: Messrs. Brighton, Rich, George, Gibson, Dinkel and O'Leary.

ATTENDANCE AT MEETINGS. During 2005 the Board of Directors of the Corporation held 12 regular meetings and a total of 17 meetings. No incumbent director attended fewer than 75% of the aggregate number of Board meetings and meetings of committees on which he or she served. Although the Corporation has no formal policy on director attendance at annual meetings of shareholders, they are encouraged to attend such meetings. Eight directors attended the 2005 Annual Meeting of Shareholders.

CERTAIN RELATIONSHIPS. Certain family relationships exist among the directors of the Corporation. Donald E. Smith is the father of Virginia L. Smith and father-in-law of Norman L. Lowery. There are no arrangements or understandings between any of the directors pursuant to which any of them have been selected for their respective positions.

CODE OF BUSINESS CONDUCT AND ETHICS. The Corporation has adopted a Code of Business Conduct and Ethics (the "Code") that applies to all of the Corporation's directors, officers and employees, including its principal executive officer, principal financial officer, principal accounting officer and controller. The Code is posted on the Corporation's website at www.first-online.com. The Corporation intends to disclose any amendments to the Code by posting such amendments on its website. In addition, any waivers of the Code for directors or executive officers of the Corporation will be disclosed in a report on Form 8-K.

COMMITTEES:

GOVERNANCE/NOMINATING COMMITTEE. Members consist of Messrs. O'Leary, Gibson and Rich. The Board of Directors has determined that Messrs. O'Leary, Gibson and Rich are independent under Rule 10A-3 of the SEC and the rules of the NASDAQ Stock Market. The Governance/Nominating Committee identifies director nominees through a combination of referrals, including management, existing board members and shareholders. This Committee met four times during 2005. A copy of the charter of this Committee is available on the Corporation's web site at www.first-online.com. There are four director nominees for the 2006 Annual Meeting, all of whom are incumbent directors.

AUDIT COMMITTEE. Members consist of Anton H. George, Thomas T. Dinkel and Patrick O'Leary. The Board of Directors has determined that Messrs. George, Dinkel and O'Leary are independent under Rule 10A-3 of the SEC and the rules of the NASDAQ Stock Market. The Audit Committee reviews the Corporation's operations and management, accounting functions, and the adequacy and effectiveness of the internal controls and internal auditing methods and procedures and is responsible for the appointment, compensation, retention and oversight of the independent registered public accounting firm for the Corporation. The Audit Committee had five meetings during 2005. A copy of the charter of this Committee is posted on the Corporation's website at www.first-online.com.

The Board of Directors has determined that a current member of the Audit Committee is financially sophisticated under applicable NASDAQ rules. The Board of Directors selected the members of the Audit Committee based on the Board's determination that they are fully qualified to monitor the performance of management, the public disclosures by the Corporation of its financial condition and performance, our internal accounting operations and our independent auditors. In addition, the Audit Committee has the ability on its own to retain independent accountants or other consultants whenever it deems appropriate.

The Board of Directors has determined that the Corporation currently does not have a director who qualifies as a "financial expert" under federal securities laws. To be considered a "financial expert," an individual's past experience generally must include experience in the preparation or audit of comparable public company financial statements, or the supervision of someone in the preparation or audit of comparable public company financial statements. The Corporation is actively engaged in recruiting a "financial expert" to serve as a member of the Board of Directors and as a member of the Audit Committee. While it might be possible to recruit a person who meets these qualifications of a "financial expert," the Board has determined that in order to fulfill all the functions of our Board and our Audit Committee, each member of our Board and our Audit Committee, including any "financial expert," should ideally understand community banking and understand the markets in which the Corporation operates, and that it is not in the best interests of our Corporation to nominate as a director someone who does not have all the experience, attributes and qualifications we seek.

COMPENSATION COMMITTEE. Members consist of Messrs. George, O'Leary and Rich. The Board of Directors has determined that Messrs. George, O'Leary and Rich are independent under Rule 10A-3 of the SEC and the rules of the NASDAQ Stock Market. The Compensation Committee approves the compensation of the officers of the Corporation and its subsidiaries. Such Committee met three times in 2005.

COMPENSATION OF DIRECTORS. Each director of the Corporation is also a director of FFB, the lead subsidiary bank of the Corporation, and receives directors' fees from each of the Corporation and FFB. During 2005 each director of the Corporation and FFB received a fee of $750 for each board meeting attended.

Non-employee directors also receive a fee for each meeting attended of the Audit Committee of $1,000, the Compensation Committee of $1,000, the Governance/Nominating Committee of $500 and the Loan Discount Committee of $300. Each director also received from FFB a semi-annual director's fee of $2,500 on July 15th and December 16th. No non-employee director served as a director of any other subsidiary of the Corporation.

Directors of the Corporation and FFB who are not yet 70 years of age may participate in a deferred director's fee program at each institution. Under this program, a director may defer $6,000 of his or her director's fees each year over a five-year period. Payment will be made in 120 monthly installments. If the director is still a director at the end of the five-year period, then he or she will be entitled to enter into a new compensation agreement. The amount of deferred fees is used to purchase an insurance product which funds these payments. Each year from the initial date of deferral until payments begin, the Corporation accrues a non-cash expense which will equal in the aggregate the amount of the payments to be made to the director over the ten-year period. The Corporation expects that the cash surrender value of the insurance policy will offset the amount of expenses accrued. If a director fails for any reason other than death to serve as a director during the entire five-year period, or the director fails to attend at least 60 regular or special meetings over the five-year period, the amount of payment will be prorated appropriately. For 2005, the allocated cost of the deferred directors' fees was $164,376.

Directors also may be compensated under the Corporation's 2001 and 2005 Long-Term Incentive Plans, discussed under "Report of the Compensation Committee on Executive Compensation." Under the plans, directors may receive 90%, 100% or 110% of the director's "award amount" if the Corporation and FFB attain certain goals established by the Compensation Committee. For 2005, each director received pursuant to the 2005 Long-Term Incentive Plan an award of $37,300 from the Corporation, which represented 100% of the director's "award amount" under that plan for 2005.

COMPENSATION OF OFFICERS

REPORT OF THE COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION

Decisions on compensation of the Corporation's executives are made by the Compensation Committee of the Board, which also serves as the Compensation Committee of FFB. The Board of Directors has determined that each member of the

Compensation Committee is "independent" under Rule 10A-3 of the SEC and the rules of the NASDAQ Stock Market. All decisions of the Compensation Committee relating to the compensation of the Corporation's executive officers are reviewed and ratified by the full Board.

COMPENSATION POLICIES TOWARD EXECUTIVE OFFICERS. The Compensation Committee's executive compensation policies are designed to provide competitive levels of compensation to the executive officers and to reward officers for satisfactory individual performance and for satisfactory performance of the Corporation as a whole. The individual goals established in the strategic plan and budget for the Corporation and FFB, and the goals relating to performance of the Corporation, established under the 2005 Long-Term Incentive Plan discussed below, are also utilized in setting compensation levels of executive officers.

BASE SALARY. Base salary for an executive officer is determined after the executive officer is reviewed by the Compensation Committee. This review includes an analysis of the performance of the Corporation and FFB and an analysis of the individual's performance during the past fiscal year, with a focus on the executive officer's quality and quantity of work; supervisory skills; dependability; initiative; attendance; overall skill level; and overall value to the Corporation. This analysis also includes a comparison of actual individual performance versus established strategic planning and budgetary goals.

ANNUAL BONUS AMOUNTS. The Compensation Committee determines whether a bonus should be paid based primarily upon the overall performance of the Corporation. For 2005, Messrs. Smith, Lowery, Carty, Clary and White each received a bonus of $150,000, $150,000, $19,500, $15,000 and $14,000, respectively.

LONG-TERM INCENTIVE PLAN. Beginning in 1999 the Board began discussions with several consultants regarding compensation programs. These discussions focused on an analysis of compensation programs of other financial institutions and what actions were needed to provide comparable compensation packages to directors, officers and key employees of the Corporation and its subsidiaries. These discussions and the analysis of the information received culminated with the adoption by the Board in November 2000 of the 2001 Long-Term Incentive Plan (the "2001 Plan"), effective January 1, 2001.

The 2001 Plan was adopted after lengthy Board discussions with and consultation from an independent consultant. The 2001 Plan is designed to enhance stockholder value of the Corporation by attracting and retaining directors, officers and other key employees and provide further incentive for directors, officers and other key employees to give their maximum effort to the continued growth and success of the Corporation. This is an unfunded, nonqualified plan of deferred compensation which is administered by the Compensation Committee. The 2001 Plan was frozen effective December 31, 2004 to exempt all amounts under the 2001 Plan from the application of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"). The Board adopted the 2005 Long-Term Incentive Plan (the "2005 Plan") as a replacement plan effective January 1, 2005. The terms of the 2005 Plan comply with Code Section 409A. Collectively the 2001 Plan and 2005 Plan are referred to as the "Plans."

Directors and executive officers who are "highly compensated employees" within the meaning of Section 201(2) of the Employee Retirement Income Security Act of 1974, as amended, and who are age 65 or under are eligible to participate in the 2005 Plan. The Compensation Committee has designated as participants in the 2005 Plan all directors of the Corporation, the executive officers listed in the summary compensation table on the following page, the presidents of its subsidiary banks and certain other officers. Individuals are not eligible to receive rewards of compensation under the Plans after age 65; however, the Compensation Committee exempted Messrs. Smith and O'Leary from the age limitations at each Plan's inception.

Awards under the 2005 Plan are based upon the specific "award amount" for each individual specified. There are four tiers of participants, with a different award amount specified for each tier. The award amounts were established after discussions with, and receipt of, advice from the Corporation's consultant, who had performed an analysis of a peer group of companies for the Corporation and the financial institutions industry generally.

Payments generally do not begin until the earlier of January 1, 2015, or the January 1 immediately following the year in which the participant reaches age 65. If a Participant is a "key employee," as defined by Code Section 416(i), then payments will be suspended for the six-month period following the date payments were scheduled to begin. Payments are in cash only and are generally made in 180 equal consecutive monthly installments.

Goals for the Terre Haute region were attained for 2005, resulting in awards equal to 100% for directors, executive officers and managers in that region. Four region and four product managers attained the first target level resulting in a 90% individual award amount.

The following table indicates awards for the 2005 plan year:

LONG-TERM INCENTIVE PLAN AWARDS IN THE LAST FISCAL YEAR

NAME	NUMBER OF SHARES, UNITS OR OTHER RIGHTS	PERFORMANCE OR OTHER PERIOD UNTIL MATURATION OF PAYOUT(1)	ESTIMATED FUTURE PAYO NON-STOCK PRICED-BASE THRESHOLD ($)	TARGET ($)
Donald E. Smith	N/A	1-1-2010	$356,400	$396,000
Norman L. Lowery	N/A	1-1-2012	$296,820	$329,800
Michael A. Carty	N/A	1-1-2015	$ 70,290	$ 78,100
Richard O. White	N/A	1-1-2013	$ 62,856	$ 69,840
Thomas S. Clary	N/A	1-1-2015	$ 57,672	$ 64,080

(1) Awards under the 2005 Plan are based on performance over one calendar year. Payments generally do not begin until the earlier of January 1, 2015, or the January 1 immediately following the year in which the participant reaches age 65. Directors and executives become 100% vested in their awards if or when they have provided five years of service to the Corporation or the respective subsidiary by which they are employed.

(2) Awards of compensation equal 90%, 100% or 110% of the individual's award amount. The percentage of the award made is dependent upon whether the Corporation and the subsidiary banks attain either the first, second or third target level of performance goals established by the Compensation Committee for the Corporation and each subsidiary bank. If the first target level is not attained, no award is made. If the first, second or third levels of the performance goals are attained, the award will equal 90%, 100% or 110% of the award amount, respectively. Awards for 2005 were based on a weighted point total of the following target goals for the Corporation: (i) product, and (ii)

regional contribution to income before tax.

OTHER COMPENSATION PLANS. At various times in the past the Corporation has adopted certain broad-based employee benefit plans in which the executive officers are permitted to participate on the same terms as other Corporation employees who meet applicable eligibility criteria, subject to any legal limitations on the amount that may be contributed or the benefits that may be payable under the plans.

BENEFITS. The Corporation provides certain other benefits to the executive officers which did not exceed 10% of salary and bonus for fiscal 2005.

CHIEF EXECUTIVE OFFICER'S 2005 COMPENSATION. The Compensation Committee recommends Mr. Lowery's salary and bonus in the same manner as discussed above for other executives. In establishing the elements of Mr. Lowery's compensation for 2005, the Compensation Committee made an overall assessment of Mr. Lowery's leadership in establishing the Corporation's long-term and short-term strategic goals. Mr. Lowery's total compensation reflects these competitive issues and the Corporation's and FFB's performance for 2005 and the past five years. In making its recommendation, the Compensation Committee analyzed: (i) comparable compensation levels of comparable peers in the same geographical location, (ii) five independent sources regarding appropriate salary increases, (iii) inflation adjustments, and (iv) job performance.

MEMBERS OF THE 2005 COMPENSATION COMMITTEE

Patrick O'Leary, Compensation Committee Chairman o
Anton H. George o Ronald K. Rich

SUMMARY COMPENSATION TABLE

The following table sets forth for each of the last three fiscal years the cash compensation paid by the Corporation, as well as certain other compensation paid or awarded during those years, to the Chief Executive Officer and each of the next four most highly compensated executive officers of the Corporation or FFB in all capacities in which they served.

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NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION(1) SALARY(2)	BONUS(3)	ALL OTHER COMPENSATION(
DONALD E. SMITH	2005	$553,457	$150,000	$396,000
President & Chairman	2004	$535,230	$150,000	$375,600
of the Corporation;	2003	$519,630	$150,000	$402,225
Chairman of FFB				
NORMAN L. LOWERY	2005	$457,434	$150,000	$334,695
Vice Chairman, CEO	2004	$446,700	$150,000	$317,695
& Vice President of the	2003	$429,944	$150,000	$300,395
Corporation; President				
& CEO of FFB				
MICHAEL A. CARTY	2005	$173,590	$ 19,500	$ 79,300
CFO, Secretary &	2004	$163,326	$ 19,000	$ 75,200
Treasurer of the	2003	$144,935	$ 16,000	$ 71,100

Corporation; Sr. Vice President of FFB				
RICHARD O. WHITE	2005	$143,593	$ 14,000	$ 71,040
Sr. Vice President	2004	$139,638	$ 16,000	$ 74,700
of FFB	2003	$134,280	$ 16,000	$ 70,600
THOMAS S. CLARY	2005	$153,622	$ 15,000	$ 66,424
Sr. Vice President	2004	$150,151	$ 16,000	$ 70,244
of FFB & COO	2003	$141,215	$ 16,000	$ 66,844

(1) While officers enjoy certain perquisites, such perquisites do not exceed the lesser of $50,000 or 10% of such officer's salary and bonus and are not required to be disclosed by applicable rules of the Securities and Exchange Commission.

(2) Salary reflects base compensation and income earned in the form of director's fees from the Corporation or its affiliate banks during the indicated calendar years.

(3) The bonus amounts are payable pursuant to determinations made by the Compensation Committee of the Corporation, as described in the Compensation Committee Report and as approved by the Board of Directors.

(4) These amounts represent the amount awarded under the 2005 Plan. Payment of these amounts will not begin until the earlier of January 1, 2015, or the January 1 immediately following the year in which the participant reaches age 65. These payments generally will be annuitized over a 180-month period. Interest accrues on these amounts at 3.50% from January 1, 2010, until payment begins. When payment begins, interest will accrue on the unpaid portion at a 7.00% annual rate compounded monthly. The 2005 Plan requires vesting over a five-year period. As such Mr. Clary, with three full years of vesting, is entitled to receive only 60% of his awarded amount at December 31, 2005. See the discussion under "Employment Agreements" concerning payments resulting from a "change in control," as defined in the 2005 Plan.

These amounts also include Corporation payments for the years noted on behalf of the above-named individuals (except Mr. Smith) pursuant to a life insurance program (the "Life Insurance Program") for the executive officers of FFB. Under the Life Insurance Program, FFB purchased a life insurance policy on behalf of each executive officer of FFB. The policy is owned by the individual and will be paid at age 65 for those who were 55 or older, and at age 60 for those who are less than 55 years of age at the time the program was started. The annual cost of this insurance for those reported (except for Mr. Smith) was as follows: $4,895 for Mr. Lowery; $2,344 for Mr. Clary; $1,200 for Mr. Carty; and $1,200 for Mr. White.

Allocations to the named individual's respective account in the Corporation's Employee Stock Ownership Plan for 2005, which are properly included in this column, were not calculable as of the date of this Proxy Statement. Such amounts for 2004 were as follows: $11,565 for Mr. Smith; $11,565 for Mr. Lowery; $9,908 for Mr. Carty; $8,798 for Mr. Clary; and $8,780 for Mr. White.

EMPLOYEE BENEFIT PLANS

SAVINGS PLAN. The First Financial Corporation Employees' 401(k) Savings Plan (the "Savings Plan") is a qualified salary reduction plan within the meaning of Code Section 401(k). Under the Savings Plan all eligible employees may make before-tax contributions from their compensation to the Savings Plan Trust for their accounts. Subject to limits established under the Internal Revenue Code, contributions may be directed in any whole percentage between 1% and 15% of the employee's base compensation and certain variable pay including overtime pay, bonuses, commissions, but excluding welfare benefits, deferred compensation, reimbursements and expense allowances. Amounts contributed to the Savings Plan may be invested in certain investment choices.

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN. The First Financial Corporation Supplemental Executive Retirement Plan (the "SERP") provides supplemental retirement benefits for a select group of management or highly compensated employees to help recompense the employees for benefits lost due to the imposition of Code limitations on benefits under the First Financial Corporation Employees'

Pension Plan. Amounts payable under the SERP are offset by amounts payable under the First Financial Executives' Deferred Compensation Plan. The SERP was frozen effective December 31, 2004 to exempt all amounts under the SERP from Code Section 409A. The Board adopted The First Financial Corporation 2005 Supplemental Executive Retirement Plan (the "2005 SERP") as a replacement plan effective January 1, 2005. The 2005 SERP complies with Code Section 409A. Amounts payable under the 2005 SERP will be offset by amounts payable under The First Financial Corporation 2005 Executives' Deferred Compensation Plan.

EXECUTIVES' DEFERRED COMPENSATION PLAN. The First Financial Executives' Deferred Compensation Plan (the "EDC Plan") permits a select group of management or highly compensated employees to elect to defer compensation from the employers without regard to the limitations imposed by the Internal Revenue Code on the benefits which may accrue to those employees under the First Financial Corporation Employee Stock Ownership Plan and to provide supplemental retirement benefits to help recompense the employees for benefits lost due to the imposition of Code limitations on the First Financial Corporation Employee Stock Ownership Plan. Amounts payable under the EDC Plan will offset amounts payable under the SERP. The EDC Plan was drafted to comply with Code Section 409A. The EDC Plan was frozen effective December 31, 2004 to exempt all amount under the SERP from Code Section 409A. The Board adopted The First Financial Corporation 2005 Executives' Deferred Compensation Plan (the "2005 EDC Plan") as a replacement plan effective January 1, 2005. The 2005 EDC Plan complies with Code Section 409A. Amounts payable under the 2005 EDC Plan will offset amounts payable under the 2005 SERP.

EMPLOYEE STOCK OWNERSHIP PLAN. The Corporation sponsors the First Financial Corporation Employee Stock Ownership Plan (the "ESOP") and the First Financial Corporation Employees' Pension Plan (the "Pension Plan") for the benefit of substantially all of the employees of the Corporation and its subsidiaries. These plans constitute a "floor offset" retirement program, so that the Pension Plan provides each participant with a minimum benefit which is offset by the benefit provided by the ESOP.

Under the terms of the ESOP, the Corporation or its subsidiaries, as participating employers, may contribute Corporation common stock to the ESOP or contribute cash to the ESOP, which will be primarily invested in the Corporation's common stock. The amount of contributions, when they are made, is determined by the Board of Directors of the Corporation. No participant contributions are required or allowed under the ESOP. Participants have the right to direct the voting of the shares of the Corporation's stock allocated to their accounts under the ESOP on all corporate matters.

For the year ended December 31, 2005, the Corporation contributed 41,500 shares of the Corporation's stock valued at $1,143,740 to the ESOP. The stock will be allocated to the individual ESOP accounts of the participants effective as of December 31, 2005, although no allocation to the individual accounts had been made or calculated as of the date of mailing of this Proxy Statement.

DEFINED BENEFIT PLAN. The Pension Plan was adopted in conjunction with, but is separate from, the ESOP. The monthly guaranteed minimum benefit under the Pension Plan is reduced by the monthly benefit derived from the participant's vested portion of his ESOP account balance, calculated by the actuary for the Pension Plan as a single life annuity. The normal retirement benefit will begin at age 65 and be paid monthly for as long as the participant lives.

The following table shows the estimated annual benefits payable under the Pension Plan upon retirement at age 65 in 2005 for various periods of Benefit Service at specified levels of remuneration. A participant's Final Average Annual Compensation shown under the Pension Plan is generally based on the salary and bonus set forth in the Summary Compensation Table.

	ESTIMATED MINIMUM ANNUAL RETIREMENT BENEFIT FINAL AVERAGE ANNUAL COMPENSATION(1)						
YEARS OF BENEFIT SERVICE	70K	100K	130K	160K	190K	220K	2
10	$15,235	$23,185	$31,135	$ 39,085	$ 47,035	$ 54,985	$ 6
20	30,470	46,370	62,270	78,170	94,070	109,970	12
30	38,705	59,555	80,405	101,255	122,105	142,955	16
40	39,323	61,148	82,973	104,798	126,623	148,448	17

(1) The amounts indicated in the chart will be offset by any ESOP benefit the participant has. If the ESOP benefit is greater than the Pension Plan benefit, then no benefit will be paid by the Pension Plan. To the extent the Pension Plan benefit exceeds the ESOP benefit, such excess will be paid by the Pension Plan.

The estimated total annual benefits, as determined under the Pension Plan's formula, payable upon retirement at age 65 for the named executive officers in the Summary Compensation Table are as follows: Donald E. Smith, $0.00, Norman L. Lowery, $4,882.14, Michael A. Carty, $0.00, Richard O. White, $0.00, and Thomas S. Clary, $3,228.74. Because ESOP data for 2005 was not available at the time of this filing, 2004 ESOP and Pension Plan data was used to calculate these amounts.

The estimated credited years of service for Donald E. Smith is 36 years, Norman L. Lowery, 9 years, Michael A. Carty, 28 years, Richard O. White, 35 years, and Thomas S. Clary, 3 years. The benefit amounts presented in the totals are annual straight life annuity amounts without deduction for Social Security or other offset amounts and without regard for the benefit limitations of the Internal Revenue Code.

EMPLOYMENT CONTRACTS

EMPLOYMENT AGREEMENT. FFB entered into an Employment Agreement with Norman L. Lowery, its President and Chief Executive Officer, effective January 1, 2006. The Employment Agreement is a five-year agreement which may be extended each year by the board of directors of FFB for an additional one-year term. Under the Employment Agreement, Mr. Lowery receives an annual salary equal to his current salary, which is $433,908 for 2006, subject to increases approved by the Board of Directors, and is entitled to participate in other bonus and fringe benefit plans available to the Corporation's and FFB's employees.

If Mr. Lowery is terminated "without cause" or if he terminated for "good reason," and such termination does not occur within 12 months after a "change in control" (as such terms are defined in the Employment Agreement), he would receive an amount equal to the sum of his base salary and bonuses through the end of the then-current term of the Employment Agreement. He is entitled to receive cash reimbursements in an amount equal to his cost of obtaining all benefits which he would have been eligible to participate in or receive though the term of the Employment Agreement.

If Mr. Lowery is terminated for other than "just cause" or is constructively discharged and this occurs within 12 months following a change in control, he would be entitled to an amount equal to the greater of the compensation and benefits described above if the termination did not occur within 12 months following a change in control; or, the product of 2.99 times the sum of (i) his base salary in effect as of the date of the change in control; (ii) an amount equal to the bonuses received by or payable to him in or for the calendar year prior to the year in which the change in control occurs; and (iii) cash reimbursements in an amount equal to his cost of obtaining for a period of three years, beginning on the date of termination, all benefits which he was eligible to participate in or receive. Mr. Lowery is also entitled to the payment provided for in the paragraph if a change in control occurs that was not approved by a majority of the Board of Directors.

If Mr. Lowery qualifies as a "key employee" at the time of his separation from service, the Corporation may not make certain payments earlier than six months following the date of the his Separation from Service (or, if earlier, the date of his death). Payments to which Mr. Lowery would otherwise be entitled during the first six months following the date of his separation from service will be accumulated and paid to Mr. Lowery on the first day of the seventh month following his separation from service.

If as a result of a change in control Mr. Lowery becomes entitled to any payments from FFB which are determined to be payments subject to the Code Section 280G, the amount due will be increased to include payment equal to the amount of excise tax imposed under Sections 280G and 4999 of the Code (the "Excise Tax Payment") and the amount necessary to provide the Excise Tax Payment net of all income, payroll and excise taxes.

LONG-TERM INCENTIVE PLANS. For purposes of the Plans, if Mr. Smith is terminated within 12 months following a change in control, for reasons other than for "cause," "disability" or death, he will be paid the vested account balance under the 2001 and 2005 Long-Term Incentive Plans as of December 31, 2004 plus the "projected amount" under both Plans. The applicable amount shall be paid in one single sum, for each of the Plans, within 180 days following termination.

For purposes of the Plans, if Mr. Lowery is terminated within 12 months following a change in control, for reasons other than for "cause," "disability" or death, he will be paid the vested account balance under both Plans as of December 31, 2004 plus the "projected amount" under both Plans. The applicable amount shall be paid in a single lump sum, for each of the Plans, within 180 days following termination.

If as a result of a change in control Messrs. Smith or Lowery become entitled to any payments from the Corporation or FFB which are determined to be payments subject to the "golden parachute" rules of the Code, the amount due will be increased to include payment equal to the amount of excise tax imposed under Sections 280G and 4999 of the Code (the "Excise Tax Payment") and the amount necessary to provide the Excise Tax Payment net of all income, payroll and excise taxes.

TRANSACTIONS WITH MANAGEMENT

Directors and principal officers of the Corporation and their associates were customers of, and have had transactions with, the Corporation and its subsidiary banks in the ordinary course of business during 2005. Comparable transactions may be expected to take place in the future.

During 2005 various directors and officers of the Corporation and their respective associates were indebted to the subsidiary banks from time to time. These loans were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for similar transactions with other persons and did not involve more than the normal risk of collectability or present other unfavorable features. Loans made to directors and executive officers are in compliance with federal banking regulations and thereby are exempt from the insider loan prohibitions included in the Sarbanes-Oxley Act of 2002.

The law offices of B. Guille Cox, Jr., in which Mr. Cox is a partner, were paid legal fees of approximately $73,000 by the Corporation and its subsidiaries for the fiscal year ending December 31, 2005. In addition, during 2005, Hendrich Abstract Co., Inc. received fees in connection with mortgage loans made by First Financial Bank N.A., in the amount of approximately $200,000. Mr. Cox owns one-third of Hendrich Abstract Co., Inc., and his spouse is the Vice President of Hendrich Abstract Co., Inc.

COMPARATIVE PERFORMANCE GRAPH

The following graph compares cumulative total shareholder return on the Corporation's common stock over the last five fiscal years with the returns of (i) the Russell 2000 Index, comprised of the smallest 2000 companies of the Russell 3000 Index which includes the 3000 largest market capitalization corporations, and (ii) the SNL $1B--$5B Bank Index developed by SNL Securities LC which includes all bank stocks with total assets in this size range. The graph assumes $100.00 was invested on January 1, 2000 in the Corporation's common stock and in each of the indices shown, and the reinvestment of all dividends.

FIRST FINANCIAL CORPORATION
TOTAL RETURN PERFORMANCE

			PERIOD ENDING	
INDEX	12/31/00	12/31/01	12/31/02	12/31/03
First Financial Corporation	$100.00	$141.16	$160.73	$203.22
Russell 2000	100.00	102.49	81.49	120.00
SNL $1B-$5B Bank Index	100.00	121.50	140.26	190.73

REPORT OF THE AUDIT COMMITTEE

In accordance with its written charter adopted by the Board of Directors, the Audit Committee of the Board ("Committee") assisted the Board in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing and financial reporting practices of the Corporation. All of the members of the Committee are independent, as defined in the Corporation's listing requirements, from management and the Corporation. During the current year, the Committee met five times, and the Committee chair, as representative of the Committee, discussed the interim financial information contained in each quarterly earnings announcement with the CFO, controller and independent auditors prior to public release.

In discharging its oversight responsibility as to the audit process, the Committee obtained from the independent auditors a formal written statement describing all relationships between the auditors and the Corporation that might bear on the auditors' independence consistent with Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committees," discussed with the auditors any relationships that may impact their objectivity and independence and satisfied itself as to the auditors' independence. The Committee also discussed with management, the internal auditors and the independent auditors the quality and adequacy of the Corporation's internal controls and the internal audit functions organization, responsibilities, budget and staffing. The Committee reviewed both with the independent and internal auditors their audit plans, audit scope and identification of audit risks.

The Committee discussed and reviewed with the independent auditors all communications required by generally accepted auditing standards, including those described in Statement on Auditing Standards No. 61, as amended, "Communication with Audit Committees," and, with and without management present, discussed and reviewed the results of the independent auditors' examination of the financial statements. The Committee also discussed the results of the internal audit examinations.

The Committee reviewed and discussed the audited financial statements of the Corporation as of and for the year ended December 31, 2005, with management and the independent auditors. Management has the responsibility for the preparation of the Corporation's financial statements and the independent auditors have the responsibility for the examination of those statements.

Based on the above-mentioned review and discussions with management and the independent auditors, the Committee recommended to the Board that the Corporation's audited financial statements be included in its Annual Report on Form 10-K for the year ended December 31, 2005, for filing with the Securities and Exchange Commission.

Anton H. George, Audit Committee Chairman Patrick O'Leary Thomas T. Dinkel

PRINCIPAL ACCOUNTANT FEES

FEES PAID TO CROWE CHIZEK AND COMPANY LLC

The following table sets forth the aggregate fees billed by Crowe Chizek and Company LLC ("Crowe Chizek") for audit services rendered in connection with the consolidated financial statements and reports for fiscal year 2005 and fiscal year 2004 and for other services rendered during fiscal year 2005 and fiscal year 2004 on behalf of the Corporation and its subsidiaries, as well as all out-of-pocket costs incurred in connection with these services, which have been billed to the Corporation:

	FISCAL 2005	FISCAL 2004
Audit Fees	$280,000	$312,000
Audit Related Fees	4,150	3,950

Tax Fees	47,590	60,075
All Other Fees	3,250	202,820
Total	$334,990	$578,845

AUDIT FEES: Consists of fees billed for professional services rendered for (i) the audit of the Corporation's consolidated financial statements, (ii) the integrated audit over internal controls as required under Section 404 of the Sarbanes-Oxley Act applicable in 2004, (iii) the review of the interim condensed consolidated financial statements included in quarterly reports, (iv) the services that are normally provided by Crowe Chizek in connection with statutory and regulatory filings or engagements, and (v) the attest services, except those not required by statute or regulation.

AUDIT-RELATED FEES: Consists of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Corporation's consolidated financial statements and are not reported under "Audit Fees." These services include the review of management's attestation and performance of agreed upon procedures for student loan servicing for both 2005 and 2004.

TAX FEES: Consists of tax compliance/preparation and other tax services. Tax compliance/preparation consists of fees billed for professional services related to federal and state tax compliance, assistance with tax audits and appeals and assistance related to the impact of mergers, acquisitions and divestitures on tax return preparation. Other tax services consist of fees billed for other miscellaneous tax consulting and planning.

ALL OTHER FEES: All other fees include consultation regarding implementation of a real estate investment trust (REIT) and consultation and assistance with the compliance with Sarbanes-Oxley Section 404 (SOX 404) in 2004, and SOX 404 software licensing fee in 2005.

AUDIT COMMITTEE PRE-APPROVAL OF AUDIT AND PERMISSIBLE NON-AUDIT SERVICES OF INDEPENDENT AUDITORS

All of the fees and services described above under "audit fees," "audit-related fees," "tax fees" and "all other fees" were pre-approved by the Audit Committee. The Audit Committee pre-approves all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services. The Audit Committee has adopted a policy for the pre-approval of services provided by the independent auditors. Under the policy, pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is subject to a specific budget. In addition, the Audit Committee may also pre-approve particular services on a case-by-case basis. For each proposed service, the independent auditor is required to provide detailed back-up documentation at the time of approval. The Audit Committee may delegate pre-approval authority to one or more of its members. Such a member must report any decisions to the Audit Committee at the next scheduled meeting.

SECURITY OWNERSHIP OF PRINCIPAL SHAREHOLDERS

The following table contains information concerning individuals or entities who, to the knowledge of the Corporation, beneficially owned on March 15, 2006, more than 5% of the common stock of the Corporation:

NAME AND ADDRESS OF BENEFICIAL OWNER	SHARES BENEFICIALLY OWNED	P
First Financial Corporation Employee Stock Ownership Plan ("ESOP") One First Financial Plaza Terre Haute, Indiana 47807	819,088(1)	
T. Rigasco Trust Co-Trustees: National City Bank of Indiana One National City Center Indianapolis, Indiana 46255 Jack R. Snyder One American Square Indianapolis, Indiana 46282	960,458	
Princeton Mining Company State Road 46 South Terre Haute, Indiana 47803	1,314,714	

(1) Represents shares held in Trust by the Corporation's subsidiary, First Financial Bank N.A.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities and Exchange Act of 1934 requires the Corporation's directors and executive officers, and persons who own more than ten percent of a registered class of the Corporation's equity securities, to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of Corporation common stock and other equity securities of the Corporation. Officers, directors and greater than ten percent shareholders are required by SEC regulations to furnish the Corporation with copies of all Section 16(a) forms they file. To the best knowledge of the Corporation, during the most recent fiscal year all officers, directors and greater than ten percent beneficial owners of the Corporation timely filed all statements of beneficial ownership required to be filed with the SEC.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee appointed Crowe Chizek and Company LLC, as independent accountants to audit the books, records and accounts of the Corporation for 2005 and 2004. The Audit Committee anticipates that it will appoint an independent public accountant to audit the books, records, and accounts of the Corporation for 2006 in April, 2006. Representatives of Crowe Chizek are expected to be in attendance at the annual meeting and will be provided an opportunity to make a statement should they desire to do so and to respond to appropriate inquiries from the shareholders.

SHAREHOLDER COMMUNICATION WITH THE BOARD OF DIRECTORS

Any shareholder who desires to contact the Chairman of the Board of Directors or the other members of the Board of Directors, or who desires to make a recommendation of a director candidate for consideration by the

Governance/Nominating Committee, may do so electronically by sending an email to the following address: directors@ffc-in.com. Alternatively, a shareholder can contact the Chairman of the Board or the other members of the Board by writing to: Chairman, First Financial Corporation, P.O. Box 540, Terre Haute, IN 47808. The Governance/Nominating Committee will consider any candidate submitted by a shareholder in the manner described above. Communications received electronically or in writing are distributed to the Chairman of the Board or the other members of the Board as appropriate depending on the facts and circumstances outlined in the communication received. For example, if any complaints regarding accounting, internal accounting controls and auditing matters are received, then they will be forwarded by the Secretary to the Chairman of the Audit Committee for review.

SHAREHOLDERS PROPOSALS

Any proposals which shareholders desire to present at the 2007 Annual Meeting must be received by the Corporation at its principal executive offices on or before November 15, 2006 to be considered for inclusion in the Corporation's proxy material for that meeting. The proxy rules of the Securities and Exchange Commission govern the content and form of stockholder proposals and the minimum stock holding requirement. All proposals must be a proper subject for action at the 2007 Annual Meeting. In addition, any proposal submitted for consideration at the 2007 Annual Meeting but not for inclusion in the Corporation's proxy material for that meeting must be received no later than January 29, 2007 or such proposal will be considered untimely.

If notice of any other shareholder proposal intended to be presented at the 2007 Annual Meeting is not received by the Corporation on or before February 6, 2007, the proxies will have discretionary authority to vote on the matter. All proposals and notifications should be addressed to the Secretary of the Corporation.

ANNUAL REPORT TO SHAREHOLDERS

The 2005 Annual Report to Shareholders, containing financial statements for the year ended December 31, 2005, and other information concerning the operations of the Corporation is enclosed herewith, but is not to be regarded as proxy soliciting material.

UPON WRITTEN REQUEST, THE CORPORATION WILL PROVIDE WITHOUT CHARGE TO EACH REQUESTING SHAREHOLDER, A COPY OF THE CORPORATION'S ANNUAL REPORT ON FORM 10-K, WHICH IS REQUIRED TO BE FILED WITH THE SECURITIES AND EXCHANGE COMMISSION FOR THE YEAR ENDED DECEMBER 31, 2005. ADDRESS ALL REQUESTS TO:

MICHAEL A. CARTY, SECRETARY & TREASURER
FIRST FINANCIAL CORPORATION
ONE FIRST FINANCIAL PLAZA o P.O. BOX 540 o TERRE HAUTE, INDIANA 47808

OTHER MATTERS

The Annual Meeting is called for the purposes set forth in the Notice. The Board of Directors of the Corporation does not know of any matters for action by shareholders at such Annual Meeting other than the matters described in the notice. However, the enclosed Proxy will confer discretionary authority with respect to matters which were not known to the Board of Directors at the time of the printing hereof and which may properly come before the Annual Meeting. It is the intention of the persons named in the Proxy to vote pursuant to the Proxy with respect to such matters in accordance with their best judgment.

By Order of the Board of Directors

/S/ Donald E. Smith

DONALD E. SMITH
Chairman of the Board and President

FIRST FINANCIAL CORPORATION
ONE FIRST FINANCIAL PLAZA
P.O. BOX 540
TERRE HAUTE, INDIANA 47808

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby appoints James E. Brown and Richard J. Shagley, or either of them as Proxies, each with the power to appoint his substitute, and hereby authorizes them to represent and to vote, as designated below, all shares of common stock of First Financial Corporation which the undersigned is entitled to vote at the Annual Meeting of Shareholders to be held at One First Financial Plaza, Terre Haute, Indiana on Wednesday, April 19, 2006, at 11:00 a.m. (local time), or any adjournment thereof, on the following matters:

1. ELECTION OF DIRECTORS

A. [ ] For all nominees listed below for a three-year term to expire in 2009 (except as marked to the contrary below):

THOMAS T. DINKEL, NORMAN L. LOWERY, PATRICK O'LEARY

[ ] WITHHOLD AUTHORITY to vote for all nominees listed above.

B. [ ] For the nominee listed below for a one-year term to expire in 2007 (except as marked to the contrary below):

RONALD K. RICH

[ ] WITHHOLD AUTHORITY to vote for the nominee listed above:

(INSTRUCTIONS: To withhold authority to vote for any individual, strike a line through the nominees' name in the list above.)

2. In their discretion, on such matters as may properly come before the meeting.

THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED AS DIRECTED OR IF NO DIRECTION IS INDICATED, WILL BE VOTED FOR ALL THE NOMINEES LISTED ABOVE.

Please sign exactly as name appears below. If there are two or more owners, both must sign. When signing as attorney, executor, administrator, trustee, or guardian, please give full title as such. If a corporation, please sign in full corporate name by President or other authorized officer. If a partnership, please sign in partnership name by authorized person.

Dated: ------------------, 2006

(Signature)

(Signature, if held jointly)

Your vote is important. Please mark, sign, and date and return this Proxy promptly, using the enclosed envelope.

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201,581,340

NET INCOME

358,793,306

310,251,991

363,933,404

270,518,020

Attributable to non-controlling interests

13,554,384

26,250,446

3,971,765

13,263,127

Attributable to equity holders of the parent

13

345,238,922

284,001,545

359,961,639

257,254,893

Earnings per share from continuing operations

Basic	13	(0.16)
		0.03
		(0.13)
		0.07
Diluted	13	(0.16

)

0.03

(0.13

)

0.07

Earnings per share

Basic

13

0.40

0.33

0.42

0.30

Diluted

13

0.39

0.32

0.40

0.29

The accompanying notes form an integral part of these financial statements.

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PORTUGAL TELECOM, SGPS, S.A.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX AND THREE MONTH PERIODS ENDED 30 JUNE 2014 AND 2013

Euro

				Unaudited	
	Notes	**1H14**	**1H13 Restated**	**2Q14**	**2Q13 Restated**
Net income recognised in the income statement		**358,793,306**	**310,251,991**	**363,933,404**	**270,518,020**
Income (expenses) recognised directly in shareholders equity					
Items that may be reclassified subsequently to the income statement					
Foreign currency translation adjustments					
Translation of foreign investments (i)		212,989,979	(217,034,724)	106,166,676	(379,323,918)
Transfers to income statement		(3,784,493)	(3,129,234)	(3,784,493)	(3,129,234)
Hedge accounting of financial instruments					
Change in fair value			978,003		469,203
Tax effect			(244,501)		(117,301)
Share in other comprehensive income (loss) of joint ventures		7,183,894	(4,311,256)	(2,282,339)	(2,109,741)
Items that will not be reclassified to the income statement					
Post retirement benefits					
Net actuarial gains (losses)	19	28,349,892	(24,859,327)	19,135	(20,602,303)
Tax effect		(6,520,475)	6,203,517	(4,401)	5,139,261
Other gains (expenses) recognised directly in shareholders equity, net		(8,740,272)	(14,465,228)	(15,346,755)	(1,875,519)
Total earnings and reserves recognised directly in shareholders equity		**229,478,525**	**(256,862,750)**	**84,767,823**	**(401,549,552)**
Total comprehensive income		**588,271,831**	**53,389,241**	**448,701,227**	**(131,031,532)**
Attributable to non-controlling interests		12,336,053	14,239,775	2,626,925	4,530,647
Attributable to equity holders of the parent		**575,935,778**	**39,149,466**	**446,074,302**	**(135,562,179)**

(i) Gains recorded in 2014 and losses recorded in 2013 relate mainly to the impact of, respectively, the appreciation and depreciation of the Brazilian Real against the Euro on the investments in Brazil.

The accompanying notes form an integral part of these financial statements.

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PORTUGAL TELECOM, SGPS, S.A.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 JUNE 2014 AND 31 DECEMBER 2013

	Notes	30 Jun 2014	31 Dec 2013
ASSETS			
Current Assets			
Cash and cash equivalents	22.e	109,694,867	1,658,950,514
Short-term investments	15		914,128,757
Accounts receivable - trade			762,936,473
Accounts receivable - other		4,908	406,451,496
Inventories			85,872,948
Taxes receivable		6,389,925	70,932,459
Prepaid expenses		162,899	65,244,104
Other current assets			3,985,415
Non-current assets held for sale			4,653,741
Non-current assets held for distribution to owners	16	2,231,489,204	
Total current assets		**2,347,741,803**	**3,973,155,907**
Non-Current Assets			
Accounts receivable - trade			204,316
Accounts receivable - other			1,080,306
Taxes receivable		729	24,739
Investments in joint ventures	17		2,408,246,860
Investments in associated companies			511,316,161
Other investments		6,235	22,243,652
Goodwill	18		380,616,265
Intangible assets	18		717,703,676
Tangible assets	18	190,404	3,438,479,384
Post retirement benefits	19		1,834,000
Deferred taxes	11	1,429,622	564,894,918
Other non-current assets			594,998
Total non-current assets		**1,626,990**	**8,047,239,275**
Total assets		**2,349,368,793**	**12,020,395,182**
LIABILITIES			
Current Liabilities			
Short-term debt	20	75,836	1,491,976,460
Accounts payable		2,086,654	568,270,540
Accrued expenses		19,787,756	534,656,119
Deferred income			246,784,244
Taxes payable		6,599,538	80,107,942
Provisions	21	26,913,008	88,789,844
Other current liabilities		856,548	13,980,981
Total current liabilities		**56,319,340**	**3,024,566,130**
Non-Current Liabilities			
Medium and long-term debt	20	70,382	5,879,161,433
Accounts payable			19,470,144
Taxes payable		44,325	
Provisions	21		2,271,075
Post retirement benefits	19		960,880,069
Deferred taxes	11	1,740,804	243,824,693
Other non-current liabilities			23,406,523

Total non-current liabilities	**1,855,511**	**7,129,013,937**
Total liabilities	**58,174,851**	**10,153,580,067**
SHAREHOLDERS EQUITY		
Share capital	26,895,375	26,895,375
Treasury shares	(178,071,827)	(337,520,916)
Legal reserve	6,773,139	6,773,139
Reserve for treasury shares	185,042,147	6,970,320
Other reserves and accumulated earnings	2,250,555,108	1,938,201,459
Equity excluding non-controlling interests	**2,291,193,942**	**1,641,319,377**
Non-controlling interests		225,495,738
Total equity	**2,291,193,942**	**1,866,815,115**
Total liabilities and shareholders equity	**2,349,368,793**	**12,020,395,182**

The accompanying notes form an integral part of these financial statements.

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PORTUGAL TELECOM, SGPS, S.A.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTH PERIODS ENDED 30 JUNE 2013 AND 2014

Euro

	Share capital	Treasury shares	Legal reserve	Reserve for treasury shares	Other reserves and accumulated earnings	Equity excluding non-controlling interests	Non-controlling interests	Total equity
Balance as at 31 December 2012	**26,895,375**	**(337,520,916)**	**6,773,139**	**6,970,320**	**2,601,464,678**	**2,304,582,596**	**232,674,346**	**2,537,256,942**
Dividends (Note 14)					(277,884,293)	(277,884,293)	(18,539,676)	(296,423,969)
Acquisitions, disposals and share capital increases/decreases							(792,784)	(792,784)
Corporate reestructuring at Contax					13,260,000	13,260,000		13,260,000
Income (expenses) recognized directly in equity					(244,852,079)	(244,852,079)	(12,010,671)	(256,862,750)
Income recognized in the income statement (restated)					284,001,545	284,001,545	26,250,446	310,251,991
Balance as at 30 June 2013	**26,895,375**	**(337,520,916)**	**6,773,139**	**6,970,320**	**2,375,989,851**	**2,079,107,769**	**227,581,661**	**2,306,689,430**

Euro

	Share capital	Treasury shares	Legal reserve	Reserve for treasury shares	Other reserves and accumulated earnings	Equity excluding non-controlling interests	Non-controlling interests	Total equity
Balance as at 31 December 2013	**26,895,375**	**(337,520,916)**	**6,773,139**	**6,970,320**	**1,938,201,459**	**1,641,319,377**	**225,495,738**	**1,866,815,115**
Dividends (Note 14)					(85,510,302)	(85,510,302)	(101,991)	(85,612,293)
Acquisitions, disposals and share capital increases/decreases (Note 1)							(237,729,800)	(237,729,800)
Treasury shares relating to the Company s share in Oi s 10% interest in Portugal Telecom		159,449,089				159,449,089		159,449,089

(Note 1)								
Physical exercise of equity swaps over own shares (Note 20)				178,071,827	(178,071,827)			
Income (expenses) recognized directly in equity					230,696,856	230,696,856	(1,218,331)	229,478,525
Income recognized in the income statement					345,238,922	345,238,922	13,554,384	358,793,306
Balance as at 30 June 2014	**26,895,375**	**(178,071,827)**	**6,773,139**	**185,042,147**	**2,250,555,108**	**2,291,193,942**		**2,291,193,942**

The accompanying notes form an integral part of these financial statements.

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PORTUGAL TELECOM SGPS, S.A.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTH PERIODS ENDED 30 JUNE 2014 AND 2013

Euro

	Notes	1H14	1H13 Restated
OPERATING ACTIVITIES			
Payments to suppliers		(9,652,508)	(2,014,652)
Payments to employees		(14,036,917)	(6,489,462)
Receipts (payments) relating to income taxes		(13,093,678)	1,109,781
Other cash receips, net		2,245,949	1,496,422
Cash flows from operating activities from continuing operations (1)		**(34,537,154)**	**(5,897,911)**
INVESTING ACTIVITIES			
Cash receipts resulting from:			
Short-term financial applications	22.a	215,030,606	985,876
Financial investments			62,520
Tangible and intangible assets		967,959	13,681
Interest and related income		13,973,309	8,178,964
Dividends	22.b		58,279,488
		229,971,874	**67,520,529**
Payments resulting from:			
Short-term financial applications	22.a	(27,036,351)	(46,899,032)
Financial investments	22.c	(1,554,545,455)	
Tangible and intangible assets		(53,884)	
		(1,581,635,690)	**(46,899,032)**
Cash flows from investing activities related to continuing operations (2)		**(1,351,663,816)**	**20,621,497**
FINANCING ACTIVITIES			
Payments resulting from:			
Loans repaid	20	(73,210,079)	
Interest and related expenses		(525,466)	
Dividends	14	(87,587,250)	(284,658,563)
Cash flows from financing activities related to continuing operations (3)		**(161,322,795)**	**(284,658,563)**
Cash and cash equivalents at the beginning of the period		1,658,950,514	1,988,797,138
Change in cash and cash equivalents from continuing operations (4)=(1)+(2)+(3)		(1,547,523,765)	(269,934,977)
Change in cash and cash equivalents from discontinued operations	22.d	371,576,861	25,185,924
Effect of exchange differences		7,688,940	(12,615,958)
Cash and cash equivalents of discontinued operations as of 5 May 2014	1	(380,997,683)	
Cash and cash equivalents at the end of the period	22.e	**109,694,867**	**1,731,432,127**

The accompanying notes form an integral part of these financial statements.

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Portugal Telecom, SGPS, S.A.

Notes to the Consolidated Financial Statements

As at 30 June 2014

(Amounts expressed in Euros, except where otherwise stated)

1. Introduction

On 5 May 2014, Portugal Telecom, SGPS, S.A. (Portugal Telecom or Company) subscribed for 1,045,803,934 common shares and 1,720,252,731 preferred shares issued by Oi, S.A. (Oi) through the contribution of the PT Assets defined as its 100% interest in PT Portugal, SGPS, S.A., which as of that date included all operational businesses of Portugal Telecom Group except for the subsidiaries Bratel BV, Bratel Brasil, S.A., PTB2, S.A. and Marnaz, S.A. and the investments in Oi, Contax and its controlling shareholders. As a result of the contribution to the Oi share capital increase:

- Portugal Telecom increased its effective interest in Oi from 23.2%, previously held through Bratel Brasil, to an economic interest of 39.7%, held through a total direct interest of 35.8% (32.8% in Portugal Telecom and 3.0% in Bratel Brasil) and an indirect interest of 3.9% held through the controlling shareholders of Oi;

- Portugal Telecom currently holds only the above mentioned investment in Oi, interests in controlling shareholders of Oi (which primarily hold only shares of Oi) and 100% of the holding companies Bratel BV, Bratel Brasil, PTB2 and Marnaz.

Up to 5 May 2014, Portugal Telecom and its subsidiaries and joint ventures were engaged in rendering a comprehensive range of telecommunications and multimedia services in Portugal, Brazil and other countries in Africa and Asia.

Oi Share Capital Increase

On 1 October 2013, Portugal Telecom, Oi S.A., AG Telecom Participações S.A. (AG), LF Tel S.A. (LF), Bratel Brasil S.A. (Bratel), Pasa Participações S.A. (Pasa), EDSP 75 Participações S.A. (EDSP75) (which together with Telemar Participações S.A. (Tpart) are defined as Oi Holding Companies), Banco Espírito Santo (BES) and Nivalis Holding B.V. (Ongoing) signed a memorandum of understanding setting out the basis for a proposed merger of Portugal Telecom, Oi and the Oi Holding Companies (the Business Combination) into a single Brazilian incorporated listed entity (CorpCo or Telemar Participações). The merger is a natural fulfillment of the industrial alliance established in 2010 creating a leading telecoms operator.

On 19 February 2014, Portugal Telecom and Oi signed the definitive agreements relating to the combination of their businesses. These agreements govern the steps necessary to implement the Business Combination, which include the following primary transactions, some of which were already completed and others are expected to be completed during the second half of 2014:

- On 5 May 2014, Oi realised a share capital increase under which it issued a total of 2,142,279,524 ordinary shares at the price of R$2.17 per share and of 4,284,559,049 preferred shares at the price of R$2.00 per share and, on the same date, pursuant to article 24 of CVM Instruction No. 400, Banco BTG Pactual S.A. (Banco Pactual), in its role as Stabilizing Agent for the Public Offering, partially exercised its option to place an additional 120,265,046 common shares and 240,530,092 preferred shares issued by Oi; the total proceeds from this share capital increase, including the option exercised by Banco Pactual, amounted to R$13,960 million, composed of (1) R$5,710 million (Euro 1,750 million based on the exchange rate as of 21 February 2014) in assets contributed by Portugal Telecom, corresponding to the valuation of PT Assets (as defined below) carried out by Banco Santander (Brasil), S.A., as a result of which Portugal Telecom subscribed for 1,045,803,934 common shares and 1,720,252,731 preferred shares issued by Oi, and (2) R$8,250 million in cash proceeds obtained from other investors, which subscribed for the remainder 1,216,740,636 ordinary shares and 2,804,836,410 preferred shares

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issued by Oi; the participation of Portugal Telecom in the Oi capital increase, through the contribution of assets representing all of the operating assets held directly or indirectly by the Portugal Telecom Group and the related liabilities with the exception of the shares of Oi, the shares of Contax Participações S.A. and the shares of Bratel B.V. (PT Assets), for the amount of Brazilian R$5,710 million (Euro 1,750 million), was approved by a majority of 99.87% of the votes present at a General Meeting of Portugal Telecom s shareholders held on 27 March 2014.

• On 5 May 2014, Portugal Telecom, through its wholly-owned subsidiaries Bratel Brasil and PTB2, subscribed R$4,788 million (Euro 1,555 million based on the exchange rate of 5 May 2014) of debentures convertible into shares of certain holding companies that directly or indirectly control AG and LF, the proceeds of which were ultimately used by AG and LF to repay its indebtness and to subscribe convertible debentures to be issued by Telemar Participações, which in turn also used those proceeds to repay its own indebtness; also on 5 May 2014, Portugal Telecom exchanged its interests in CTX Participações and Contax for additional interests in the holding entities that directly or indirectly controlled AG and LF, which at that time held only shares of Oi and Telemar Participações; as a result of these transactions, Portugal Telecom increased its economic interests in AG and LF from 35% to 85.1% and in Telemar Participações from 25.6% to 68.4%, and obtained an additional 2.4% interest in Oi.

• Subject to the approvals of the holders of voting shares of Oi and Telemar Participações, Oi shares not owned by Telemar Participações will be exchanged for Telemar Participações common shares and Oi will become a wholly-owned subsidiary of Telemar Participações.

Portugal Telecom Group, in connection with the Oi share capital increase referred to above, has undertaken an internal restruturing with the purpose of concentrating all operating assets and related liabilities except for the investments in Oi and Contax (PT Assets) under PT Portugal, a wholly-owned subsidiary of Portugal Telecom. This was an internal reorganization of entities under common control and, as such, no gains or losses were recorded in the consolidated financial statements of Portugal Telecom. The following main corporate transactions prior to the Oi share capital increase were realized under this internal restruturing:

• On 31 March 2014, Portugal Telecom disposed to PT Portugal, for total amounts of Euro 1.5 million and Euro 4.7 million, the 100% interests in PT Centro Corporativo and Portugal Telecom Investimentos, respectively.

• On 30 April 2014, PT Móveis, SGPS, S.A. (PT Móveis) subscribed a share capital increase of Bratel BV in an amount of approximately Euro 1,303 million, the proceeds of which, together with cash on hand of Bratel Brasil, were used, after the acquisition of Bratel BV, to subscribe R$4,788 million (Euro 1,555 million) of convertible debentures into shares of certain controlling entities of AG and LF, as referred to above.

• On 2 May 2014, PT Móveis, an indirect wholly-owned subsidiary of PT Portugal, disposed to Portugal Telecom, for a total amount of Euro 4,195 million, its 100% interest in Bratel BV, the company that holds indirectly through Bratel Brasil the investment in Oi, as this investment is not included in the net assets to be transferred to Oi in the share capital increase.

• On 2 May 2014, Portugal Telecom disposed to PT Móveis, for a total amount of Euro 1,590 million, the 100% interest in PT Participações, SGPS, S.A., the controlling shareholder of the Company s 75% investment in Africatel Holdings BV.

• On 5 May 2014, Portugal Telecom disposed to PT Portugal, for a total amount of Euro 255 million, the 100% interest in PT Finance. On 5 May 2014, Portugal Telecom transferred to PT Portugal the majority of its outstanding financings for their respective nominal amounts, since those financings were included in the valuation of PT Portugal for purposes of the Oi share capital increase.

On 5 May 2014, following the completion of the above mentioned internal restruturing, Portugal Telecom subscribed the Oi share capital increase through the contribution in kind of its 100% interest in PT Portugal, which as of that date included only the PT Assets, since the investments in joint ventures (Oi, Telemar Participações, AG and LF) were held directly by Bratel Brasil and PTB2, both of which were wholly-owned by Bratel BV which in turn was wholly-owned by Portugal Telecom. Besides the investments in

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joint ventures, certain assets and liabilities of Portugal Telecom were not transferred to PT Portugal as part of PT Assets and therefore continued to be fully consolidated in Portugal Telecom s financial statements, including mainly dividends payable to its shareholders, the financing associated with the equity swap contract over treasury shares, certain tax liabilities and certain accrued expenses as well as the necessary cash balances to settle these liabilities and other expenses expected to be incurred. In addition, as Portugal Telecom no longer controls PT Assets as from 5 May 2014, the related earnings and losses prior to that date are presented as results from discontinued operations and therefore the consolidated income and cash flow statements for the six months period ended 30 June 2013 were restated accordingly (Note 3).

Following the share capital increase mentioned above and also the option exercised by Banco Pactual, Portugal Telecom held a 39.7% effective interest of Oi s issued and outstanding share capital, including (1) a 35.8% interest held directly in Oi, S.A. through Portugal Telecom (32.8%) and Bratel Brasil (3.0%) and (2) a 3.9% interest held indirectly through the shares of Oi owned by Telemar Participações, AG and LF. In addition, PT Portugal became a wholly-owned subsidiary of Oi, S.A. also as a result of the Oi share capital increase.

Portugal Telecom recorded a gain of approximately Euro 701 million (Note 12) in connection with Oi s share capital increase, which reflects mainly (1) the difference between the fair value of the shares obtained in the Oi share capital increase and the carrying value of PT Assets (negative Euro 2,676 million), partially offset by (2) the dilution effect on Portugal Telecom s previous investment in Oi held through Bratel Brasil and the effect of the remeasurement of the previous investment in Oi to fair value, since as from 5 May 2014 this investment is classified in accordance with the provisions of IFRS 5 (Note 3). The detail of the total gain recorded in connection with Oi share capital increase is as follows:

	Euro million
Fair value of shares obtained in the Oi share capital increase (i)	1,854
Minus: Carrying value of the net assets contributed to Oi share capital increase (ii)	(2,676)
Plus: Remeasurement of the previous investment in Oi to fair value and other effects (iii)	(3,829)
Total gain (Note 12) (iv)	**701**

(i) This caption corresponds to the fair value of the shares obtained by Portugal Telecom in the Oi share capital increase of 5 May 2014, which, based on the price of Oi s shares (R$2.17 per ordinary share and R$2.00 per preferred share), amounted to R$5,710 million, equivalent to Euro 1,854 million at the exchange rate of that date.

(ii) As of 5 May 2014, the carrying value of the net assets contributed to the Oi share capital increase was negative Euro 2,676 million, the detail of which is presented below. It should be mentioned that this amount is equivalent to approximately the Company s total shareholders equity before non-controlling interests prior to this transaction, reduced mainly by the carrying value of the investments in Oi, Contax and its controlling shareholders, and the cash proceeds of Euro 1,555 million that were used by Bratel Brasil and PTB2 to subscribe the convertible debentures mentioned above, in order to obtain additional shares of the controlling entities of AG and LF and indirecly of OI, and deferred tax assets related to tax losses.

(iii) As referred to above, this caption reflects the dilution effect over the previous investment in Oi held through Bratel Brasil and the impact of the remeasurement of the previous investment in Oi from the equity method of accounting to the fair value based on the stock price of Oi s shares in the capital increase (R$2.17 per ordinary share and R$2.00 per preferred share), adjusted for an amount of Euro 159 million relating to the Company s share in the 10% interest that Oi held in Portugal Telecom that was classified in the Statement of Financial Position as treasury shares. Following the share capital increase, the fair value of the total investment in Oi, including the interests held directly and indirectly, amounted to Euro 2,244 million (R$ 6,914 million) as at 5 May 2014.

(iv) This caption represents (1) the gain attributable to the difference between the fair value of the shares obtained in the Oi share capital increase (positive Euro 1,854 million, as referred to above) and the carrying value of the net assets contributted to the Oi share capital increase (negative Euro 2,676 million, as detailed below), (2) less the negative effects regarding the remeasuring of the previous investment to fair value, which is lower than the carrying amount, the dilution effect over that same previous investment. In addition, as a result of the share capital increase, Portugal Telecom wrote-off deferred tax assets relating to tax losses amounting to Euro 208 million (Note 11) following the discontinuing of the Portuguese businesses that supported those tax losses, resulting in a total net gain of Euro 493 million on 5 May 2014 directly related to the Oi share capital increase.

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The table below presents the detail of the carrying value of PT Assets as of 5 May 2014, after which those assets were no longer fully consolidated in Portugal Telecom s consolidated financial statements:

Euro million

ASSETS	
Cash and cash equivalents	381
Short-term investments	904
Accounts receivable	1,375
Inventories	93
Prepaid expenses	69
Investments in associated and other companies	438
Intangible assets	1,088
Tangible assets	3,345
Post retirement benefits	2
Deferred taxes	341
Other assets	95
Total assets	**8,130**
LIABILITIES	
Gross debt	8,051
Post retirement benefits	873
Deferred taxes	229
Accounts payable	549
Accrued expenses	484
Deferred income	207
Taxes payable	95
Provisions	54
Other liabilities	26
Total liabilities	**10,569**
Non-controlling interests	238
PT (Net) Assets	**(2,676)**

Short-term investments as at 5 May 2014 in the table above included a total amount of Euro 897 million outstanding in commercial paper issued by Rio Forte Investments, S.A. (Rioforte , an holding company located in Luxemburg, mainly for the non-financial investments of the Espírito Santo Group), which was contributed to the Oi share capital increase as part of PT Assets. The composition of the outstanding amount is as follows:

- Euro 200 million subscribed by Portugal Telecom on 15 April 2014 and transferred to PT Portugal on 5 May 2014, the maturity of which was on 15 July 2014;

- Euro 647 million subscribed by PT Finance on 15 April 2014, the maturity of which was on 15 July 2014;

- Euro 50 million subscribed by PT Finance on 17 April 2014, the maturity of which was on 17 July 2014.

The above mentioned commercial paper was not repaid by Rioforte on the respective maturity dates and RioForte has recently requested access to the controlled management regime under Luxemburg legislation, as it believes that it does not have the financial ability to comply with its financial commitments. As a result, Portugal Telecom and Oi reached an agreement to exchange the Euro 897 million treasury applications in Rioforte for 16.9% of Oi share capital, represented by 474,348,720 Oi ON shares plus 948,697,440 Oi PN shares, the execution of which is subject to approval by the General Shareholders Meeting of Portugal Telecom, the Board of Directors of Oi and Comissão de Valores Mobiliários in Brazil, as explained in more detail in Note 24.

In addition to the assets and liabilities included in the table above that were contributed to the Oi share capital increase, and since the merger between Portugal Telecom and CorpCo is no longer foreseeable in the short-term as before, Portugal Telecom and Oi are finalizing an agreement for the transfer to Oi of certain liabilities recorded at Portugal Telecom s Statement of Financial Position

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together with the related cash equivalents to settle those liabilities, which include accrued management costs and responsibilities and provisions for tax contingencies relating to former subsidiaries of Portugal Telecom, totaling approximately Euro 28 million.

The accompanying interim consolidated financial statements were approved by the Board of Directors and authorized for issue on 28 August 2014.

2. Basis of presentation

These interim consolidated financial statements have been presented in accordance with IAS 34 *Interim Financial Reporting* (IAS 34). These financial statements do not include all the information required by the International Financial Reporting Standards (IFRS) as adopted by the European Union and accordingly should be read in conjunction with the consolidated financial statements for the year ended 31 December 2013. In addition, further explanations for the main changes of revenues and costs are disclosed in our interim management report, which should be read in conjunction with these interim consolidated financial statements.

As mentioned in Note 1, subsequent to 5 May 2014, Portugal Telecom no longer fully consolidates the majority of the businesses held prior to that date, which were contributed to the Oi share capital increase. The revenues, costs and cash flows of these businesses prior to that date are presented under captions of discontinued operations and as a result the Consolidated Statements of Income and Cash Flows for the six months period ended 30 June 2013 were restated accordingly (Note 3).

3. Changes in accounting policies

As referred to in the 2013 annual report, in the fourth quarter of 2013, Portugal Telecom chose to early adopt the package of five standards issued by the IASB in May 2011 (IFRS 10, IFRS 11, IFRS 12 and revised versions of IAS 27 and IAS 28), although its application in the European Union was only mandatory as from 1 January 2014. The impacts of the adoption of IFRS 11 consisted of recognizing the investments in joint ventures by the equity method of accounting, including primarily Oi, Contax and its controlling shareholders, which prior to the adoption of this standard were proportionally consolidated as allowed by IAS 31, standard that has been replaced by IFRS 11.

As a result of the adoption of IFRS 11 for the first time in the fourth quarter of 2013, the Consolidated Statement of Financial Position as of 31 December 2013 presented in the Company s last annual report already reflected the impacts of the adoption of this standard, but the Consolidated Income and Cash Flow Statements for the six months period ended 30 June 2013 presented in last year s interim report did not reflect the impacts of the adoption of IFRS 11 and therefore were restated accordingly.

In addition to the adoption of IFRS 11, the Company also restated the Consolidated Income and Cash Flow Statements for the six and three-month periods ended 30 June 2013 by presenting the revenues, costs and cash flows from the businesses contributed to the Oi share capital increase under the captions of discontinued operations.

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The impacts of the restatement (due to the adoption of IFRS 11 and the discontinued operations of PT Assets) of the Consolidated Income and Cash Flow Statements for the six and three-month periods ended 30 June 2013 are as follows:

Consolidated Income Statement for the six months period ended 30 June 2013 **Euro**

	Prior to restatement	Adjustments IFRS 11	Discontinued operations	Restated statement
Total revenues	**3,092,412,397**	**(1,639,989,841)**	**(1,452,422,556)**	
Costs, losses and (income)				
Wages and salaries	516,652,228	(309,371,100)	(201,285,703)	5,995,425
Direct costs	534,695,186	(306,225,500)	(228,469,686)	
Commercial costs	266,874,420	(124,906,449)	(141,949,511)	18,460
Supplies, external services and other expenses	584,557,493	(330,289,396)	(252,458,567)	1,809,530
Indirect taxes	113,826,049	(91,443,443)	(21,561,113)	821,493
Provisions and adjustments	59,000,482	(46,857,408)	(12,941,666)	(798,592)
Depreciation and amortisation	685,447,829	(319,254,146)	(366,067,457)	126,226
Post retirement benefits costs	24,834,703	(3,634,572)	(21,200,131)	
Curtailment costs	128,216,954		(128,216,954)	
Losses (gains) on disposal of fixed assets, net	(1,110,090)	(519,073)	1,610,882	(18,281)
Other operating expenses, net	(80,596,223)	(5,235,729)	(40,167,069)	(125,999,021)
Income before financial results and taxes	**260,013,366**	**(102,253,025)**	**(39,715,581)**	**118,044,760**
Net interest expenses	292,641,115	(164,355,836)	(136,393,061)	(8,107,782)
Equity in losses of joint ventures		58,429,563	1,070,940	59,500,503
Equity in earnings of associated companies, net	(375,919,695)	(73,002)	375,992,697	
Net other financial losses	41,574,243	(17,045,672)	(13,035,279)	11,493,292
Income taxes	(4,638,314)	16,895,948	(7,922,839)	4,334,795
Net income from continuing operations	**306,356,017**	**3,895,974**	**(259,428,039)**	**50,823,952**
Net income from discontinued operations			259,428,039	259,428,039
Net income	**306,356,017**	**3,895,974**		**310,251,991**
Attributable to non-controlling interests	22,354,472	3,895,974		26,250,446
Attributable to equity holders of the parent	**284,001,545**			**284,001,545**
Earnings per share attributable to the equity holders of the parent				
Basic	0.33			0.33
Diluted	0.32			0.32

Consolidated Income Statement for the three months period ended 30 June 2013 **Euro**

	Prior to restatement	Adjustments IFRS 11	Discontinued operations	Restated statement
Total revenues	**1,539,820,813**	**(805,033,658)**	**(734,787,155)**	
Costs, losses and (income)				
Wages and salaries	268,410,310	(169,952,896)	(95,709,580)	2,747,834
Direct costs	268,512,918	(154,477,077)	(114,035,841)	
Commercial costs	144,649,473	(66,568,929)	(78,069,584)	10,960
Supplies, external services and other expenses	284,985,837	(154,644,946)	(129,478,848)	862,043
Indirect taxes	55,258,775	(44,423,992)	(10,327,273)	507,510
Provisions and adjustments	27,448,739	(20,389,692)	(7,057,997)	1,050
Depreciation and amortisation	345,091,016	(160,815,624)	(184,212,196)	63,196
Post retirement benefits costs	12,311,775	(1,796,635)	(10,515,140)	
Curtailment costs	127,573,061		(127,573,061)	

Losses (gains) on disposal of fixed assets, net	(745,033)	34,474	697,001	(13,558)
Other operating expenses, net	(59,451,658)	(2,126,900)	(64,450,716)	(126,029,274)
Income before financial results and taxes	**65,775,600**	**(29,871,441)**	**85,946,080**	**121,850,239**
Net interest expenses	146,966,867	(83,023,332)	(68,605,889)	(4,662,354)
Equity in earnings of joint ventures		42,093,374	424,361	42,517,735
Equity in earnings of associated companies, net	(335,857,358)	317,514	335,539,844	
Net other financial losses	24,013,122	(7,135,874)	89,100	16,966,348
Income taxes	(36,930,625)	14,942,451	20,080,004	(1,908,170)
Net income from continuing operations	**267,583,594**	**2,934,426**	**(201,581,340)**	**68,936,680**
Net income from discontinued operations			201,581,340	201,581,340
Net income	**267,583,594**	**2,934,426**		**270,518,020**
Attributable to non-controlling interests	10,328,701	2,934,426		13,263,127
Attributable to equity holders of the parent	**257,254,893**			**257,254,893**
Earnings per share attributable to the equity holders of the parent				
Basic	0.30			0.30
Diluted	0.29			0.29

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Consolidated Statement of Cash Flows for the six months period ended 30 June 2013 **Euro**

	Prior to restatement	Adjustments IFRS 11	Discontinued operations	Restated statement
OPERATING ACTIVITIES				
Collections from clients	3,740,625,945	(2,069,364,748)	(1,671,261,197)	
Payments to suppliers	(1,609,201,289)	817,866,170	789,320,467	(2,014,652)
Payments to employees	(553,816,162)	329,414,232	217,912,468	(6,489,462)
Payments relating to income taxes	(59,184,795)	35,638,602	24,655,974	1,109,781
Payments relating to post retirement benefits, net	(90,050,855)	10,532,475	79,518,380	
Payments relating to indirect taxes and other	(748,619,505)	634,666,625	115,449,302	1,496,422
Cash flows from operating activities from continuing operations (1)	**679,753,339**	**(241,246,644)**	**(444,404,606)**	**(5,897,911)**
INVESTING ACTIVITIES				
Short-term financial applications	(87,294,929)	(199,000,138)	240,381,911	(45,913,156)
Interest and related income	64,120,695	(13,880,047)	(42,061,684)	8,178,964
Dividends	25,803,057	59,488,683	(27,012,252)	58,279,488
Financial investments	326,474,618	3,741,648	(330,153,746)	62,520
Tangible and intangible assets	(739,056,147)	389,075,262	349,994,566	13,681
Other investing activities	1,037,765	(1,506,304)	468,539	
Cash flows from investing activities related to continuing operations (2)	**(408,914,941)**	**237,919,104**	**191,617,334**	**20,621,497**
FINANCING ACTIVITIES				
Loans obtained	1,554,191,930	7,887,134,334	(9,441,326,264)	
Loans repaid	(1,544,170,635)	(7,864,556,572)	9,408,727,207	
Interest and related expenses	(366,590,514)	123,823,261	242,767,253	
Dividends	(311,454,823)	8,852,426	17,943,834	(284,658,563)
Other financing activities	(27,744,892)	28,255,574	(510,682)	
Cash flows from financing activities related to continuing operations (3)	**(695,768,934)**	**183,509,023**	**227,601,348**	**(284,658,563)**
Cash and cash equivalents at the beginning of the period	2,507,099,156	(518,302,018)		1,988,797,138
Change in cash and cash equivalents from continuing operations (4)=(1)+(2)+(3)	(424,930,536)	180,181,483	(25,185,924)	(269,934,977)
Change in cash and cash equivalents from discontinued operations			25,185,924	25,185,924
Effect of exchange differences	(30,604,738)	17,988,781		(12,615,957)
Cash and cash equivalents of non-current assets held for sale	(27,302,435)	27,302,435		
Cash and cash equivalents at the end of the period	**2,024,261,447**	**(292,829,319)**		**1,731,432,127**

In addition to the changes in accounting policies referred to above, following Oi s share capital increase on 5 May 2014, Portugal Telecom changed the recognition criteria of the investment in Oi from the equity method of accounting to held for distribution to owners in accordance with the provisions of IFRS 5 (Note 16), and accordingly measured this investment at fair value based on the price of Oi shares, since that fair value is lower than the previous carrying amount. Any future distribution would be subject to formal approval by the Board of Directors of Portugal Telecom, the shareholders of Portugal Telecom at a meeting convened for that purpose, and other conditions. Regarding the recognition of changes in fair value of this investment, as mentioned below, changes attributable to the appreciation or depreciation of the Brazilian Real against the Euro are recorded directly under the Statement of Comprehensive Income as foreign currency translation adjustments and the remaining changes are recorded in the Income Statement.

4. Exchange rates used to translate foreign currency financial statements

As at 30 June 2014 and 31 December 2013, assets and liabilities denominated in foreign currencies were translated to Euros using the following exchange rates to the Euro:

Currency	**30 June 2014**	**31 Dec 2013**
Brazilian real	3.0002	3.2576
US dollar	1.3658	1.3791

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During the six-month periods ended 30 June 2014 and 2013, income statements of subsidiaries, associated companies and joint ventures expressed in foreign currencies were translated to Euros using the following average exchange rates to the Euro:

Currency	**1H14**	**1H13**
Brazilian real	3.1499	2.6683
US dollar	1.3703	1.3134

5. Wages and salaries

The composition of this caption during the six and three-month periods ended 30 June 2014 and 2013 is as follows:

Euro

	1H14	**1H13**	**2Q14**	**2Q13**
Fixed and variable remuneration	5,001,400	5,622,477	2,227,862	2,581,608
Social security	1,443,253	296,537	1,092,029	119,099
Health care benefits related to active employees	24,172	24,538	3,194	5,626
Training	15,759	1,447	3,394	1,422
Other	38,672	50,426	13,866	40,079
	6,523,256	**5,995,425**	**3,340,345**	**2,747,834**

6. Supplies, external services and other expenses

The composition of this caption during the six and three-month periods ended 30 June 2014 and 2013 is as follows:

Euro

	1H14	**1H13**	**2Q14**	**2Q13**
Specialized work	3,566,051	1,207,990	2,975,968	533,215
Support services	11,031	14,581	4,316	9,533
Insurance	231,169	257,058	115,627	127,638
Operating leases	176,506	9,825	176,506	4,491
Other	417,680	320,076	153,743	187,166
	4,402,437	**1,809,530**	**3,426,160**	**862,043**

Higher costs in the three months period ended 30 June 2014 reflect certain consultancy and legal fees incurred in connection with the ongoing business combination between Portugal Telecom and Oi.

7. Indirect taxes

The composition of this caption during the six and three-month periods ended 30 June 2014 and 2013 is as follows:

				Euro
	1H14	**1H13**	**2Q14**	**2Q13**
Value added tax	1,703,534	727,918	1,122,285	450,217
Other	58,912	93,575	170	57,293
	1,762,446	**821,493**	**1,122,455**	**507,510**

8. Net other gains

In the six-month periods ended 30 June 2014 and 2013, net other gains amounted to Euro 922.237 and Euro 125,999,021, respectively. In the six months period ended 30 June 2013, this caption includes mainly a gain resulting from the settlement of

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contractual obligations related to the acquisition of the investment in Oi in 2011, by a lower amount than the liability initially recognized.

9. Net interest income

In the six and three-month periods ended 30 June 2014 and 2013, the composition of this caption is as follows:

Euro

	1H14	1H13	2Q14	2Q13
Interest expense				
Related to loans obtained and financial instruments	525,466	1,155,415	150,445	580,899
Interest income				
Related to cash and cash equivalents	(10,614,745)	(8,611,662)	(3,819,137)	(4,833,369)
Other	(368,682)	(651,535)		(409,884)
	(10,457,961)	**(8,107,782)**	**(3,668,692)**	**(4,662,354)**

10. Net other financial expenses

In the six and three-month periods ended 30 June 2014 and 2013, the composition of this caption is as follows:

Euro

	1H14	1H13	2Q14	2Q13
Bank commissions and expenses	9,913,891	12,682,394	3,395,917	6,577,493
Other (i)	8,636,866	2,812,849	9,365,943	2,490,035
	18,550,757	**15,495,243**	**12,761,860**	**9,067,528**

(i) In the three months period ended 30 June 2014, this caption includes financial expenses incurred in connection with the business combination with Oi, namely financial taxes (IOF) paid in Brazil due to the transfer of funds from Portugal.

11. Income taxes

In the six and three-month periods ended 30 June 2014 and 2013, the composition of this caption is as follows:

Euro

	1H14	1H13	2Q14	2Q13
Income tax-current	(6,390,526)	2,918,508	(4,312,240)	(2,487,492)
Deferred taxes	1,918,252	1,416,287	1,148,653	579,322
	(4,472,274)	**4,334,795**	**(3,163,587)**	**(1,908,170)**

The composition of deferred tax assets and liabilities as at 30 June 2014 and 31 December 2013 is as follows:

Euro

	30 Jun 2014	31 Dec 2013
Deferred tax assets		
Post-retirement benefits		288,222,361
Tax losses carryforward		208,913,360
Provisions and adjustments		56,620,020
Other	1,429,622	11,139,177
	1,429,622	**564,894,918**
Deferred tax liabilities		
Revaluation of fixed assets		148,113,148
Financial instruments		13,143,452
Other	1,740,804	82,568,093
	1,740,804	**243,824,693**

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The reduction in total deferred tax assets reflects mainly the deferred tax assets from discontinued operations as at 5 May 2014 (Euro 341 million), which were no longer consolidated as from that date, and the write-off of deferred tax assets relating to tax losses (Euro 208 million). These deferred tax assets relating to tax losses were recorded at Portugal Telecom holding company in connection with the special regime for the taxation of groups of companies. This write-off was included under the results of discontinued operations as those tax losses became non-recoverable following the discontinuing of the businesses that supported the tax consolidation group.

The reduction in total deferred tax liabilities reflects mainly the deferred tax liabilities from discontinued operations as at 5 May 2014 (Euro 229 million), which were no longer consolidated as from that date, and the reversal of a deferred tax liability of Euro 13 million recorded at Portugal Telecom corresponding to the tax effect on the convertible option included in the exchangeable bond that was also contributed to the Oi share capital increase.

12. Discontinued operations

As mentioned in Note 1, Portugal Telecom contributed the majority of its businesses to the Oi share capital increase on 5 May 2014. As a result, revenues and costs of these businesses in the period between 1 January and 5 May 2014 and in the six and three-month periods ended 30 June 2013 were presented under the caption Net income from discontinued operations . In addition, this caption also includes the gain recorded in connection with the contribution of these businesses to the Oi share capital increase, as explained in Note 1. The detail of this caption is as follows:

Euro

	1H14	1H13	2Q14	2Q13
Net gain recorded in connection with the contribution of PT Assets to Oi s share capital increase in exchange for an additional interest in Oi (Note 1)	701,378,600		701,378,600	
Net income before non-controlling interests of businesses contributed to Oi share capital increase (i)	(217,307,370)	259,428,039	(231,996,385)	201,581,340
Net income from discontinued operations	**484,071,230**	**259,428,039**	**469,382,215**	**201,581,340**

(i) This caption corresponds to the net income before non-controlling interests of businesses contributed to Oi share capital increase in the period between 1 January and 5 May 2014 and in the six months period ended 30 June 2013. The detail of this caption is presented in the table below.

The composition of the net income before non-controlling interests of businesses contributed to Oi share capital increase in the periods between 1 January and 5 May 2014 and 1 April and 5 May 2014 and in the six and three-month periods ended 30 June 2013 is as follows:

Euro

	1H14	1H13	2Q14	2Q13
Operating revenues	945,500,482	1,452,422,556	255,523,736	734,787,156
Operating costs	834,880,672	1,412,706,975	237,938,405	820,733,235
Income (loss) before financial results and taxes	**110,619,810**	**39,715,581**	**17,585,331**	**(85,946,079)**
Financial gains (losses) (i)	(73,051,332)	227,635,297	(12,018,418)	267,447,415
Income before income taxes	**37,568,478**	**267,350,878**	**5,566,913**	**181,501,336**
Provision for income taxes (ii)	(254,875,848)	(7,922,839)	(237,563,298)	20,080,004
Net income (loss) before non-controlling interests of businesses contributed to Oi share capital increase	**(217,307,370)**	**259,428,039**	**(231,996,385)**	**201,581,340**

(i) In the three months period ended 30 June 2013, this caption includes a gain of Euro 310 million related to the disposal of the equity investment in CTM.

(ii) In the three months period ended 30 June 2014, as mentioned in Note 11, this caption includes the write-off of deferred tax assets relating to tax losses, amounting to Euro 208 million.

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13. Earnings per share

Earnings per share for the six and three-month periods ended 30 June 2014 and 2013 were computed as follows:

Euro

		1H14	1H13	2Q14	2Q13
Income (loss) from continuing operations	(1)	(138,832,308)	24,573,506	(109,420,576)	55,673,553
Income from discontinued operations, net of non-controlling interests	(2)	484,071,230	259,428,039	469,382,215	201,581,340
Net income attributable to equity holders of the parent	**(3)**	**345,238,922**	**284,001,545**	**359,961,639**	**257,254,893**
Financial costs related to exchangeable bonds (net of tax)	(4)	10,866,947	15,356,814	2,960,255	7,749,799
Net income considered in the computation of the diluted earnings per share	(5)	**356,105,869**	**299,358,359**	**362,921,894**	**265,004,692**
Weighted average common shares outstanding in the period (i)	(6)	**861,528,926**	**855,028,595**	**867,884,233**	**855,028,595**
Effect of the exchangeable bonds (ii)		58,131,964	84,175,084	32,375,032	84,175,084
	(7)	**919,660,891**	**939,203,679**	**900,259,265**	**939,203,679**
Earnings per share from continuing operations					
Basic	(1)/(6)	(0.16)	0.03	(0.13)	0.07
Diluted	[(1)+(4)]/(7)	(0.16)	0.03	(0.13)	0.07
Earnings per share from discontinued operations, net of non-controlling interests					
Basic	(2)/(6)	0.56	0.30	0.54	0.24
Diluted	(2)/(7)	0.53	0.28	0.52	0.21
Earnings per share attributable to equity holders of the parent					
Basic	(3)/(6)	0.40	0.33	0.41	0.30
Diluted	(5)/(7)	0.39	0.32	0.40	0.28

(i) Weighted average shares outstanding were computed considering the 896,512,500 issued shares adjusted for (1) 20,640,000 treasury shares, applicable for all periods presented, and (2) Portugal Telecom s stake in its own shares that were acquired by Telemar Norte Leste in 2011 and 2012, under the strategic partnership between Portugal Telecom and Oi, which is applicable only up to 5 May 2014, since as from that date the investment in Oi is classified in accordance with the provisions of IFRS 5 and, accordingly, measured at fair value, as a result of which the Company derecognized the related treasury shares held indirectly through the investment in Oi.

(ii) Dilutive effects correspond to the impact of the exchangeable bonds issued on August 2007, applicable up to 5 May 2014 when this financing was transferred to PT Portugal under the Oi share capital increase.

14. Dividends

On 19 April 2013, the Annual Shareholders Meeting of Portugal Telecom approved the proposal of the Board of Directors to distribute a dividend of 32.5 cents per share, which was paid on 17 May 2013, amounting to Euro 284,658,563, in relation to 875,872,500 shares, which includes an amount of Euro 6,774,270 paid to Telemar Norte Leste in relation to a portion of the Portugal Telecom s 89,651,205 shares held by this entity corresponding to the Company s effective interest in Oi, resulting in a net impact on shareholders equity amounting to Euro 277,884,293.

On 30 April 2014, the Annual Shareholders Meeting of Portugal Telecom approved the proposal of the Board of Directors to distribute a dividend of 10.0 cents per share, which was paid on 30 May 2014, amounting Euro 87,587,250, in relation to 875,872,500 shares, which includes an amount of Euro 2,076,949 paid to Telemar Norte Leste in relation to a portion of the Portugal Telecom s 89,651,205 shares held by this entity corresponding to the Company s effective interest in Oi, resulting in a net impact on shareholders equity amounting to Euro 85,510,302.

Cash amounts mentioned above correspond to the unitary dividend paid to the 896,512,500 Portugal Telecom s shares adjusted by 20,640,000 shares.

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15. Short-term investments

As at 31 December 2013, the composition of this caption is as follows:

	Euro
	31 Dec 2013
Debt securities (Note 23) (i)	750,000,000
Debentures (ii)	161,820,445
Other short-term investments	2,308,312
	914,128,757

(i) As at 31 December 2013, this caption includes commercial paper issued by Espírito Santo International in the following amounts: (a) Euro 500 million subscribed by PT Finance on 8 November 2013 that were repaid at maturity, on 10 February 2014, by the corresponding notional amount plus accrued interest; (b) Euro 200 million subscribed by PT Portugal on 29 October 2013 that were repaid at maturity, on 29 January 2014, by the corresponding notional amount plus accrued interest, and (c) Euro 50 million subscribed by PT Finance on 20 November 2013 that were repaid at maturity, on 20 February 2014, by the corresponding notional amount plus accrued interest. These repayments were classified as cash receipts from investing activities of discontinued operations.

(ii) The debentures as at 31 December 2013, amounting to approximately Euro 162 million, were issued by Banco Santander Brasil, S.A. and Dibens Leasing, S.A. and were subscribed by Brazilian subsidiaries of Portugal Telecom Group. Up to 5 May 2014, debentures included under this caption were repaid and the related proceeds plus the proceeds from the cash capital increases realized by Bratel BV in Bratel Brasil and PTB2 were used to subscribe debentures issued by the controlling shareholders of Oi, as explained in Note 1.

16. Non-current assets held for distribution to owners

On 28 March 2011, as referred to in Note 1, Portugal Telecom concluded the acquisition process of its investments in Oi and the agreements with the controlling shareholders of these companies. This investment was realized through the acquisition of a direct stake in this company and indirectly through the acquisition of stakes in the share capital of its controlling shareholders. Oi Group is the leading provider of telecommunication services in the Brazilian market, providing these services through Oi, S.A. and its subsidiaries.

As mentioned in Note 3, as from 5 May 2014, Portugal Telecom recognizes the investment in Oi in accordance with the provisions of IFRS 5. This investment is therefore measured at fair value based on the quote price of Oi shares as at 30 June 2014, which is the best reference of fair value and is lower than the previous carrying amount.

Based on Oi s stock price for purposes of the share capital increase as at 5 May 2014 (R$ 2.17 per ordinary share and R$ 2.00 per preferred share) and Oi s stock price as at 30 June 2014 (R$ 2,08 per ordinary share and R$ 1,95 per preferred share), the investment in Oi was valued at

Euro 2,244 million (R$ 6,914 million) as at 5 May 2014 and Euro 2,231 million (R$ 6,695 million) as at 30 June 2014.

The reduction in the investment in Oi between 5 May and 30 June 2014, amounting to Euro 13 million, reflects:

- A loss of Euro 71 million recorded in the Consolidated Income Statement under the caption Net losses on financial assets and other investments , corresponding to the change in the fair value of the investment in Oi due to the reduction in the price of Oi s shares, totalling R$219 million;

- A gain of Euro 58 million recorded directly in other comprehensive income, reflecting the impact of the appreciation of the Brazilian Real against the Euro between 5 May and 30 June 2014.

17. Investments in joint ventures

As at 31 December 2013, this caption corresponds to the investments in Oi, Contax and its controlling shareholders that prior to 5 May 2014, as mentioned previously, were accounted for by the equity method of accounting, based on Portugal Telecom s 23.2% economic interest in Oi held prior to the Oi share capital increase.

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As at 31 December 2013, the detail of Portugal Telecom s total investments in joint ventures was as follows:

	Euro
	2013
Oi	**2,013,310,333**
Financial Investment (i)	1,254,256,430
Goodwill	759,053,903
Contax	**54,251,514**
Financial investment	18,246,588
Goodwill	36,004,926
Telemar Participações (ii)	77,907,584
LF (iii)	120,551,271
AG (iii)	124,513,850
CTX	16,181,157
Other	1,531,151
	2,408,246,860

(i) As at 31 December 2013, this financial investment reflects the Company s 15.4% direct interest in Oi s net assets amounting to Euro 8,162 million, the detail of which is presented below.

(ii) As at 31 December 2013, Portugal Telecom held a 12.1% direct interest in Telemar Participações. The investment in Telemar Participações reflected the 12.1% held its net assets composed by (1) this company s investment in Oi through a 18.8% direct interest, and (2) its outstanding gross debt totalling Euro 942 million.

(iii) As at 31 December 2013, Portugal Telecom held a 35% direct interest in both AG and LF. The investments in these companies reflected the 35% share in its net assets composed by (1) their investments in Telemar Participações through a 19.4% direct interest each and in Oi through a 4.25% direct interest each, and (2) their outstanding gross debt, amounting to Euro 196 million for AG and Euro 199 million for LF.

Oi s net assets presented below are adjusted to reflect the effects of the purchase price allocation performed by Portugal Telecom in connection with the acquisition of this investment as well as other adjustments to conform with the Group accounting policies. The detail of Oi s net assets as at 31 December 2013 is as follows:

	Euro
	2013
Cash and cash equivalents	762,768,814
Short-term investments	163,210,160
Current accounts receivable	3,050,513,483
Current taxes receivable	713,511,917
Current judicial deposits	404,055,634

Goodwill	22,692,638
Tangible assets	8,011,567,784
Intangible assets	8,284,614,390
Post retirement benefits	18,479,119
Deferred taxes	1,867,025,458
Non-current judicial deposits	3,392,355,244
Other	755,899,047
Total assets	**27,446,693,688**
Short-term debt	1,075,578,550
Current accounts payable	847,752,589
Current accrued expenses	1,014,419,828
Current taxes payable	841,981,404
Current provisions	375,591,309
Medium and long-term debt	9,062,011,675
Non-current taxes payable	849,402,537
Non-current provisions	1,348,916,630
Post retirement benefits	197,557,853
Deferred taxes	1,984,575,960
Other	1,687,211,722
Total liabilities	**19,285,000,057**
Total net assets	**8,161,693,631**

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Equity in losses of joint ventures, recognized in accordance with the equity method of accounting, amounted to Euro 38 million in the four months period ended 30 April 2014 and Euro 60 million in the six months period ended 30 June 2013. The reduction in these losses reflects mainly (1) a capital gain recorded by Oi in the first quarter of 2014 relating to the disposal of mobile telecommunication towers, amounting to R$ 1,247 million (equivalent to approximately Euro 60 million corresponding to Portugal Telecom s share, net of taxes), and (2) lower interest expenses from Oi s controlling shareholders, which in 2014 relate to only four months as compared to six months in 2013. These effects were partially offset by higher interest costs, higher net other financial expenses and lower revenues at Oi.

18. Tangible and Intangible Assets, including Goodwill

Euro

	30 June 2014	**31 Dec 2013**
Tangible assets	190,404	3,438,479,384
Intangible assets		717,703,676
Goodwill		380,616,265
	190,404	**4,536,799,325**

The decrease of Euro 4,537 million in total tangible and intangible assets, including goodwill, reflects primarily:

- Capital expenditures of discontinued operations between 1 January and 5 May 2014, amounting to Euro 130 million;
- Depreciation and amortization costs of discontinued operations between 1 January and 5 May 2014, amounting to Euro 231 million;
- The carrying value of total tangible and intangible assets (including goodwill) of discontinued operations as at 5 May 2014, amounting to Euro 4,433 million, which were transferred to Oi under its share capital increase (Note 1).

19. Post retirement benefits

As at 31 December 2013, the projected post retirement benefits obligations, which relate to pension complements and healthcare benefits, totaled Euro 494 million and the fair value of plan assets amounted to Euro 386 million. In addition, Portugal Telecom had liabilities with salaries payable to suspended and pre-retired employees amounting to Euro 852 million, resulting in net benefits obligations of Euro 959 million as at 31 December 2013.

These obligations were transferred to Oi in connection with its share capital increase and amounted to Euro 871 million as at 5 May 2014, a reduction of Euro 88 million compared to the balance as at 31 December 2013, reflecting payments of salaries to suspended and pre-retired employees (Euro 50 million), payments of healthcare expenses (Euro 7 million) and net actuarial gains recorded in the period (Euro 28 million), partially offset by post retirement benefits costs amounting to Euro 7 million. Net actuarial gains reflected the difference between the actual and estimated return on plan assets.

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20. Debt

As at 30 June 2014 and 31 December 2013, this caption consists of:

Euro

	30 June 2014		31 Dec 2013	
	Short-term	**Long-term**	**Short-term**	**Long-term**
Exchangeable bonds			743,011,847	
Bonds				4,731,260,092
Bank loans				
External loans			103,868,391	949,281,957
Domestic loans			5,111,006	175,039,738
Liability related to equity swaps on treasury shares			73,210,079	
Commercial paper			542,000,000	
Leasings	75,836	70,382	24,729,526	23,579,646
Other financings			45,611	
	75,836	**70,382**	**1,491,976,460**	**5,879,161,433**

The reduction in this caption reflects:

- An increase in the outstanding amount due under commercial paper programmes during the period between 1 January and 5 May 2014;
- The total gross debt amounting to Euro 8,051 million that was contributed to Oi on 5 May 2014 as part of PT Assets in connection with Oi s share capital increase subscribed by Portugal Telecom;
- The repayment of the liability related to equity swaps on treasury shares following the physical exercise of these contracts on 7 May 2014, through cash that remained at Portugal Telecom after the Oi share capital increased for that purpose. Following this repayment, Portugal Telecom holds directly 20,640,000 of its own shares and as a result recorded a non-distributable reserve for the acquisition cost of those shares, amounting to Euro 178,071,827.

21. Provisions

As at 30 June 2014, this caption corresponds mainly to provisions for income tax contingencies. The reduction compared to 31 December 2013 reflects the provisions from discontinued operations as at 5 May 2014 (Euro 54 million) that were transferred to Oi in connection with its share capital increase.

22. Consolidated Statement of Cash Flows

(a) Short-term financial applications

These captions include basically cash payments related to new short-term financial applications entered into and cash receipts from the short-term applications matured. Net cash receipts amounted to Euro 187,994,255 in the six months period ended 30 June 2014, compared to net cash payments of Euro 45,913,156 in the same period of last year. In the first half of 2014, net cash receipts relate mainly to the settlement of outstanding applications by Bratel Brasil up to 5 May 2014, when it used the proceeds from these applications together with the proceeds from a share capital increase realised by Bratel BV to subscribe a portion of the convertible debentures issued by certain entities that directly or indirectly control AG and LF, as mentioned in Note 1.

(b) Cash receipts resulting from dividends received

This caption corresponds to dividends received from Oi in the six months period ended 30 June 2013.

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(c) Payments resulting from financial investments

This caption corresponds to the total amount of R$ 4,788 million (Euro 1,555 million) paid by Bratel Brasil and PTB2 to subscribe debentures convertible into shares of certain companies that directly or indirectly control AG and LF, the proceeds of which were ultimately used by AG and LF to repay its indebtness and to subscribe convertible debentures to be issued by Telemar Participações, that also used the related proceeds to repay its own indebtness, as explained in more detail in Note 1.

(d) Change in cash and cash equivalents from discontinued operations

In the six-month periods ended 30 June 2014 and 2013, the composition of this caption is as follows:

Euro

	1H14	**1H13**
Operating activities	145,752,202	444,404,606
Investing activities	(241,193,564)	(191,617,334)
Financing activities	467,018,223	(227,601,348)
	371,576,861	**25,185,924**

Cash flows from discontinuing operations in the six-month period ended 30 June 2014 correspond mainly to the cash flows up to 5 May 2014 from the businesses discontinued and contributed to the Oi share capital increase on that date, as compared to cash flows for a six months period in 2013, which explains the lower cash flows from operating activities.

The increase in cash flows from investing activities reflect the proceeds received in June 2013 in connection with the sale of the equity investment in CTM (Euro 336 million), as referred to in Note 12, partially offset by lower payments resulting from capital expenditures reflecting the decreased investments as a result of strong investments in past years, both on FTTH and 4G-LTE networks.

The change in cash flows from financing activities reflects mainly the cash proceeds resulting from the increase in outstanding commercial paper due, as mentioned in Note 20, while in the same period of last year total gross debt remained broadly stable.

(e) Cash and cash equivalents at the end of the period

As at 30 June 2014 and 31 December 2013, the composition of this caption is as follows:

Euro

	30 Jun 2014	31 Dec 2013
Cash	2,000	10,526,405
Demand deposits	353,452	94,713,210
Time deposits (i)	106,055,000	1,455,485,775
Other bank deposits	3,284,415	98,225,124
	109,694,867	**1,658,950,514**

(i) As at 30 June 2014, time deposits were recorded at Portugal Telecom and deposited in Banco Espírito Santo. In July 2014, Portugal Telecom used the proceeds from these time deposits to constitute new ones in different financial institutions (Note 23.b).

23. Related parties and Shareholders

a) Associated companies and joint ventures

Portugal Telecom maintained influence over the companies identified below until Oi s share capital increase on 5 May 2014, when it contributed to Oi its 100% interest in PT Portugal, including the indirect investments in these associated companies. Therefore, since as at 30 June 2014 Portugal Telecom no longer has a direct interest in those associated companies, the tables below present the balances as at 31 December 2013 between Portugal Telecom Group and its associated companies and joint ventures, and the

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transactions between Portugal Telecom Group and those same entities occurred during the four months period ended 30 April 2014, prior to Oi s share capital increase, and the six months period ended 30 June 2013:

Euro

	Accounts receivable		Accounts payable		Loans granted	
Company	**30 Jun 2014**	**31 Dec 2013**	**30 Jun 2014**	**31 Dec 2013**	**30 Jun 2014**	**31 Dec 2013**
Joint ventures		4,685,059		24,796		
International companies:						
Unitel		238,241,859		2,638,599		
Multitel		6,265,431		229,884		915,058
Other		646,420				
Domestic companies:						
Páginas Amarelas (ii)		173,050		1,325,856		
PT-ACS		3,372,065		3,103,827		
Fundação PT		341,983				
Sportinveste Multimédia		56,864		226,993		32,282,861
Siresp		28,024		5,860		1,260,909
Other		410,491		1,129,313		2,392,443
		254,221,246		**8,685,128**		**36,851,271**

Euro

	Costs		Revenues		Interest charged	
Company	**4M14**	**1H13**	**4M14**	**1H13**	**4M14**	**1H13**
Joint ventures	1,035,361	158,729	4,178,146	5,444,912		
International companies:						
Unitel	2,579,292	2,602,248	4,542,112	6,389,728		
Multitel	62,348	153,575	476,471	888,360		
CTM (i)		75,185		52,251		
Other		13,892		18		
Domestic companies:						
Páginas Amarelas (i)		11,235,012		1,664,209		
PT-ACS	3,910,991	3,907,113		1,418,521		
Sportinveste Multimédia	143,441	496,060	58,727	94,730	10,798	16,584
Siresp			6,490,862	7,502,331	16,738	30,126
Other	229,762	370,864	1,297,778	2,069,560	40,058	64,155
	7,961,195	**19,012,678**	**17,044,096**	**25,524,620**	**67,594**	**110,865**

(i) The investments in Páginas Amarelas and CTM were disposed of in January 2014 and June 2013, respectively.

b) Shareholders

As at 30 June 2014 and 31 December 2013, the Company has not identified entities that in accordance with the provisions of IAS 24 would be classified as related parties, except for those already mentioned in Note 23.a). Nevertheless, the Company believes that is relevant to disclose the balances outstanding and transactions occurred with its main shareholders, namely those that have a qualified interest above 2% in Portugal Telecom s share capital, and all entities reported by those shareholders as their related parties. The tables below present the balances as at 30 June 2014 and 31 December 2013 and the transactions occurred during the six-month periods ended 30 June 2014 and 2013 between Portugal Telecom Group and those entities identified as related parties:

Euro

Shareholder	30 Jun 2014 Cash equivalents (i)	Accounts receivable	Accounts payable	31 Dec 2013 Cash equivalents (i)	Short-term investments (ii)	Loans and financings (iii)
GES	106,180,068	1,428,622		1,402,888,437	750,000,000	14,517,265
Visabeira		34,768,339	20,322,411			
Controlinveste		463,937	8,545,056			
Ongoing		268,962	389,724			
	106,180,068	**36,929,860**	**29,257,191**	**1,402,888,437**	**750,000,000**	**14,517,265**

(i) Cash equivalents as at 30 June 2014 and 31 December 2013 include mainly term deposits in Banco Espírito Santo and Banco Espírito Santo Investimento (Note 22.e).

(ii) Short-term investments as at 31 December 2013 correspond to debt securities issued by Espírito Santo International (Note 15).

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(iii) In addition, Portugal Telecom issued commercial paper amounting to Euro 200 million as of 31 December 2013 that BES commercialized to other investors. Portugal Telecom is not informed about who those investors are.

Euro

	1H14 (i)			1H13		
Shareholder	**Revenues and gains**	**Costs and losses**	**Net interest income**	**Revenues and gains**	**Costs and losses**	**Net interest income**
GES	4,667,477	4,658,740	13,772,609	7,797,087	7,494,074	23,211,769
Caixa Geral de Depósitos (ii)				9,686,252	1,990,537	(1,271,778)
Visabeira	2,245,730	22,608,561		4,653,735	35,910,553	
Controlinveste	712,744	19,898,270		1,273,940	25,192,553	
Ongoing	143,861	1,228,160		255,897	1,714,692	
UBS			(15,000)	20		(22,500)
	7,769,812	**48,393,731**	**13,757,609**	**23,666,931**	**72,302,409**	**21,917,491**

(i) As referred to above, this caption reflects mainly the transactions occurred up to 5 May 2014, since as from that date Portugal Telecom no longer controls the entities that were contributed to the Oi share capital increase and that were responsible for the majority of the transactions with shareholders.

(ii) Caixa Geral de Depósitos does not have a qualified interest above 2% in Portugal Telecom since 25 October 2013.

c) Other

The following amounts were paid to board members and key employees:

- In the six months period ended 30 June 2014, fixed remunerations of board members, which were established by the Remunerations Committee, amounted to Euro 2.56 million.

- In the six months period ended 30 June 2014, variable remunerations relating to the year 2013 and other compensation paid to executive board members totalled Euro 4.69 million.

- After the Remunerations Committee assessed that the criteria established in the remunerations policy had been fully complied with, a total amount of Euro 4.89 million was paid to executive board members in the three months period ended 30 June 2014 regarding the 50% portion of the 2010 variable remunerations that had been deferred for a three year period.

- During the six months period ended 30 June 2014, key members of Portugal Telecom s management received fixed and variable remunerations amounting to Euro 1.0 million and Euro 0.3 million, respectively.

24. Subsequent events

On 16 July 2014, following the non-repayment by Rioforte of the Euro 847 million treasury applications (the remaining Euro 50 million were also not repaid on 17 July 2014) subscribed by the PT Portugal and its subsidiaries on the respective maturity dates, Portugal Telecom and Oi announced that they remained committed to the full completion of their business combination and have signed a new Memorandum of Understanding (MoU). On 28 July 2014, Portugal Telecom and Oi reached an agreement on the final terms of the key contracts following the MoU. The execution of the definitive documentation is subject to approval by the General Shareholders Meeting of Portugal Telecom (scheduled for 8 September 2014), the Board of Directors of Oi and Comissão de Valores Mobiliários in Brazil. The documentation establishes that:

- Portugal Telecom will exchange (Exchange) with Oi the Euro 897 million treasury applications in Rio Forte Investments for 16.9% of Oi share capital, represented by 474,348,720 Oi ON shares plus 948,697,440 Oi PN shares (the Oi Call Shares);
- Portugal Telecom will be granted a non-transferrable American-type call (Call) to repurchase the Oi Call Shares (strike prices of R$2.0104 ON and R$1.8529 PN), which will be adjusted by the Brazilian CDI rate plus 1.5% per year;
- The Call on the Oi Call Shares will become effective on the date of the Exchange, will have a 6-year maturity, and the Oi Call Shares that Portugal Telecom has the right to call will be reduced by 10% at the end of the 1st year and by 18% per year thereafter;

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- Any proceeds received as a result of a monetization of the Call through the issuance of derivatives or back to back instruments must be used to exercise the Call;
- Portugal Telecom can only acquire Oi or CorpCo shares through the exercise of the Call;
- The Call would be cancelled should (i) Portugal Telecom s bylaws be voluntarily amended to remove the 10% voting limitation, (ii) Portugal Telecom act as a competitor to Oi, or (iii) Portugal Telecom breach certain obligations under the definitive documentation; and
- The contracts will be executed as soon as all corporate approvals have been obtained and the Exchange is subject to the approval of Comissão de Valores Mobiliários in Brazil and should be executed on or before March 2015.

The terms of the agreements to be submitted by the Board to the General Shareholders Meeting will also include an agreed alternative structure to the incorporation of Portugal Telecom into CorpCo, as previously announced, aimed at achieving the following objectives:

- Allow for the merger of Oi and CorpCo and migration to the Novo Mercado to be implemented as soon as possible, with the listing of CorpCo on BM&F Bovespa, Euronext Lisboa and NYSE;
- Subject to shareholder approval at a General Shareholders Meeting to be specifically convened for such purpose, Portugal Telecom shareholders will receive all shares of CorpCo held by Portugal Telecom, corresponding to the ownership interest in CorpCo of 25.6%, adjusted for the treasury shares resulting from the execution of the Exchange, and prior to any exercise of the Call; and
- Portugal Telecom to remain listed with the interest in the Rioforte debt and the Call as its only material asset.

Since 30 June 2014, the price of Oi s shares experienced a significant reduction. As of 27 August 2014, the price of Oi s ordinary and preferred shares was R$1.49 and R$1.43, respectively, and as a result the Company s investment as of that date amounted to Euro 1,637 million.

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Independent auditors report

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Deloitte & Associados, SROC S.A.
lnscrição na OROC n° 43
Registo na CMVM n° 231

Edifício Atrium Saldanha
Praça Duque de Saldanha, 1 - 6°
1050-094 Lisboa
Portugal

Tel: +(351) 210 427 500
Fax: +(351) 210 427 950
www.deloitte.pt

LIMITED REVIEW REPORT ON THE HALF YEAR CONSOLIDATED FINANCIAL INFORMATION PREPARED BY AN AUDITOR REGISTERED IN THE SECURITIES MARKET COMMISSION (COMISSÃO DO MERCADO DE VALORES MOBILIÁRIOS)

(Translation of a report originally issued in Portuguese)

Introduction

1. For the purposes of the Securities Market Code (Código dos Valores Mobiliários) we hereby present our limited review report on the consolidated financial information of Portugal Telecom, SGPS, S.A. (the Company), for the six month period ended 30 June 2014 included in the Board of Directors Report, in the consolidated statement of financial position (that presents a total of 2,349,368,793 Euros and shareholders equity of 2,291,193,942 Euros, including a consolidated net profit attributable to shareholders of the Company of 345,238,922 Euros), in the consolidated statements of income, of comprehensive income, of changes in shareholders equity and of cash flows for the six month period then ended and in the corresponding notes.

2. The amounts in the financial statements, as well as the additional financial information, were extracted from the accounting records of the companies included in the consolidation, subsequently adjusted in the consolidation process to be in accordance with the International Financial Reporting Standards as endorsed by the European Union.

Responsibilities

3. The Company s Board of Directors is responsible for: (i) the preparation of consolidated financial information that presents a true and fair view of the financial position of the companies included in the consolidation, the consolidated results and comprehensive income of their operations, the changes in consolidated shareholders equity and their consolidated cash flows; (ii) the preparation of historical financial information in accordance with the International Financial Reporting Standards as endorsed by the European Union for Interim Financial Reporting (IAS 34), and that is complete, true, actual, clear, objective and licit, as required by the Securities Market Code; (iii) the adoption of adequate accounting policies and criteria; (iv) the maintenance of appropriate systems of internal control; and (v) informing of any significant facts that have influenced their operations, financial position, results or comprehensive income.

4. Our responsibility is to verify the consolidated financial information contained in the documents referred to above, namely if, in all material respects, it is complete, true, actual, clear, objective and licit, as required by the Securities Market Code, and issue a professional and independent report which provides moderate assurance on that consolidated financial information, based on our work.

Scope

5. Our work had the objective of obtaining moderate assurance about whether the financial information referred to above is exempt from material misstatements. Except for the scope limitation referred to in paragraph 8 below, our work was performed in accordance with the Technical Review/Audit Standards (Normas Técnicas e as Directrizes de Revisão/Auditoria) issued by the Portuguese Institute of Statutory Auditors (Ordem dos Revisores Oficiais de Contas), was planned in accordance with that objective and consisted principally of (a) enquiries and analytical procedures to review: (i) the reliability of the assertions included in the consolidated financial information; (ii) the adequacy of the accounting policies adopted, taking into consideration the circumstances and their consistent application; (iii) the applicability, or not, of the going concern concept; (iv) the presentation of the consolidated financial information; and (v) if, in all material respects, the consolidated financial information is complete, true, actual, clear, objective and licit , as required by the Securities Market Code; and (b) substantive tests to the significant and unusual transactions.

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6. Our work also included verifying the consistency of the consolidated financial information included in the Board of Directors Report with the remaining documents referred to above.

7. We believe that our work provides a reasonable basis for issuing this Limited Review Report on this half year consolidated information.

Qualification

8. As explained in Note 1 to the consolidated financial statements, on 5 May 2014 the Company participated in the capital increase of Oi, S.A. (Oi a Brazilian company), through the contribution in kind of the net assets of PT Portugal, SGPS, S.A. (PT Portugal), valued for this purpose by an independent entity in 1,854 million Euros, the Company having recognized a net gain of 493 million Euros and becoming a 39.7% shareholder of Oi, the fair value of which at that date was 2,244 million Euros. On 30 June 2014, this investment was recorded in the accompanying consolidated statement of financial position at its market value as of that date in the amount of 2,231 million Euros which, as explained in Note 24, devaluated by 594 million Euros up to 27 August 2014. After 30 June 2014, became publicly known the financial difficulties of Banco Espírito Santo (BES), a shareholder that has a 10.06% interest in the Company s capital and which by decision of the Bank of Portugal, entered into a restructuring and recapitalization process, and some of the companies of the Espírito Santo Group (GES), including Rio Forte Investments, S.A. (Rio Forte), with headquarters in Luxembourg, which on 29 July 2014 had its request for the controlled management regime, due to its inability to comply with its financial commitments, approved by the courts of that country. The net assets contributed in the above mentioned capital increase included shares representing 2.1% of the share capital of BES valued at that date at 112 million Euros and debt securities of Rio Forte acquired in April 2014 by PT Portugal and its subsidiaries of 897 million Euros, that were not repaid on their maturity dates of 15 and 17 July 2014. Following the default of Rio Forte, the Boards of Directors of the Company and Oi on 28 July 2014 announced an agreement that establishes the return of these debt securities by Oi to the Company and the transfer by the Company to Oi of shares representing 16.9% of Oi share capital, and was granted to the Company an option to repurchase those shares under pre-defined conditions (Note 24). However, as disclosed to the markets, this agreement is subject to the approval by the Company s shareholders, the capital market regulators and the specific corporate bodies of the companies involved. The above mentioned shows evidence of uncertainties which we consider to be significant regarding facts existing at 30 June 2014, the outcome and impact of which on the accompanying consolidated financial statements as of 30 June 2014 we are unable to predict at the present date.

Qualified negative assurance

9. Based on our work, which was performed with the objective of obtaining moderate assurance, except for the effect of the adjustments that might have been necessary in the absence of the scope limitation referred to in paragraph 8 above, nothing came to our attention that leads us to believe that the consolidated financial information for the six month period ended 30 June 2014, referred to in paragraph 1 above, of Portugal Telecom, SGPS, S.A., is not exempt from material misstatements that affect its conformity with the International Financial Reporting Standards as endorsed by the European Union for Interim Financial Reporting (IAS 34), and that, in accordance with the definitions included in the standards referred to in paragraph 5 above, is not complete, true, actual, clear, objective and licit.

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Emphasis of a matter

10. As referred to in Note 3, the Company restated its financial statements for the six month period ended 30 June 2013 presented for comparative purposes by: (i) the early adoption of IFRS 11 - Joint arrangements and (ii) presenting the revenues, costs and cash flows of the businesses contributed in kind in the Oi´ share capital increase under the caption of discontinued operations, according with the provisions of IFRS 5 Non-Current assets held for sale and discontinued operations.

Lisbon, 29 August 2014

/s/ João Luís Falua Costa da Silva
Deloitte & Associados, SROC S.A.
Represented by João Luís Falua Costa da Silva

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Additional information to shareholders

Listing

PT shares are listed in the Euronext Stock Exchange (symbol: PTC.LS) and the New York Stock Exchange, as ADRs-American Depository Receipts (symbol: PT). One ADR represents one ordinary share. The company s share capital, as at 30 June 2014, comprised 896,512,500 shares with a par value of 3 cents each, with 896,512,000 shares listed on the Euronext and the New York Stock Exchange. There were 36,030,002 ADRs registered on the same date, representing 4.0% of PT s total share capital.

As at 30 June 2014, PT s statement of financial position reflected 20,640,000 own shares and thus PT s total number of shares outstanding was 875,872,500.

Stock market data

	1H14	1H13
As at 30 June		
Share capital (Euro)	26,895,375	26,895,375
Number of shares issued	896,512,500	896,512,500
Number of shares outstanding	875,872,500	855,028,595
Price (Euro)	2.676	2.990
Market capitalisation (Euro million)	2,399	2,681
Price / transactions		
High (Euro)	3.600	4.430
Low (Euro)	2.636	2.820
Volume (million of shares)	832	624
Traded Value (Euro million)	2,535	2,347
Performance		
Portugal Telecom	(15.3)%	(20.2)%
PSI-20	3.7%	(1.7)%
DJ Stoxx Telecom Europe	0.8%	4.7%

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Contacts

Investor relations

Nuno Vieira

Investor Relations Director

Portugal Telecom

Avenida Fontes Pereira de Melo, 40

1069 - 300 Lisboa, Portugal

Tel: +351 21 500 1701

Fax: +351 21 500 0800

E-mail: nuno.t.vieira@telecom.pt

Shareholders, investors, analysts and other interested parties should send their requests for information and clarifications (annual and half year reports, Form 20-F, press releases, etc).

Depositary bank

Deutsche Bank Trust Company Americas

ADR Division

Floor 27

60 Wall Street

New York 10005-2836

Fax: +1(732)544-6346

Holders of ADRs may also request additional information directly from PT s depositary bank for ADRs in New York.

Website

All publications and communications, in addition to information on the company s products, services and business are also available at **www.telecom.pt**

Registered office

Portugal Telecom, SGPS, SA

Avenida Fontes Pereira de Melo, 40

1069-300 Lisboa, Portugal

Tel: +351 21 500 2000

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 29, 2014

PORTUGAL TELECOM, SGPS, S.A.

By: /s/ Nuno Vieira
Nuno Vieira
Investor Relations Director

FORWARD-LOOKING STATEMENTS

This document may contain forward-looking statements. These statements are statements that are not historical facts, and are based on management s current view and estimates of future economic circumstances, industry conditions, company performance and financial results. The words anticipates , believes , estimates , expects , plans and similar expressions, as they relate to the company, are intended to identify forward-looking statements. Statements regarding the declaration or payment of dividends, the implementation of principal operating and financing strategies and capital expenditure plans, the direction of future operations and the factors or trends affecting financial condition, liquidity or results of operations are examples of forward-looking statements. Such statements reflect the current views of management and are subject to a number of risks and uncertainties. There is no guarantee that the expected events, trends or results will actually occur. The statements are based on many assumptions and factors, including general economic and market conditions, industry conditions, and operating factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations.