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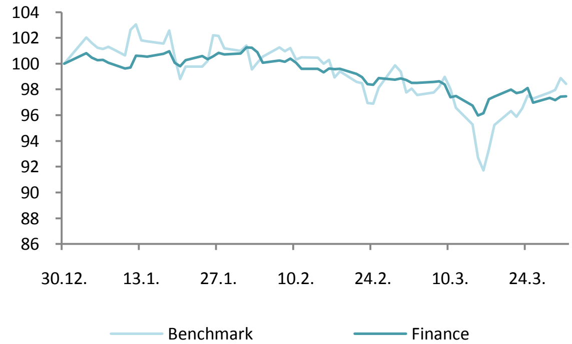
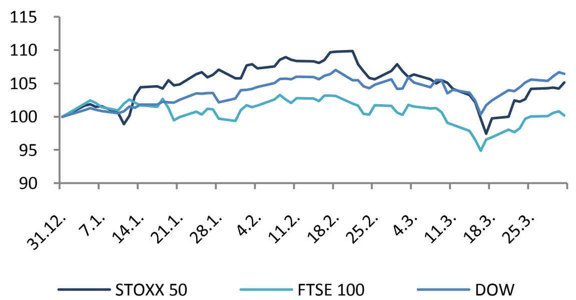
KY Finance – Portfolio Report – Q1 2011

The first quarter began with big expectations on the economic reflation and especially equities markets were set to big gains. Dow Jones ”January First Five Days” -indicator showed increasing odds for positive year and ended 6.4% up after Q1. However, the upswing did not come for free and the VIX-index had its biggest two-day increase in nine months as equities fell in February on surging oil prices after increasing political tension in Africa. The unrest was mainly caused by increasing commodity and food prices after long period of generous monetary policy and growing aggregate demand. In Europe, the rising Greek and Irish government bond yields and Portugal’s need for external financial aid disclosed increasing risk levels. Finally, the Japan’s earthquake devastation shocked markets in anticipation of the nuclear and supply related exposure for global companies.

- ❖ FED and ECB continued with light monetary policy - economic growth continued
- ❖ Volatile and strong 1st quarter for stocks, Dow increased 6.4 % and Stoxx 50 5.1 %
- ❖ Stronger economy and expectations on increasing demand accelerated commodity prices
- ❖ Political unrest and violence in Africa and Middle-East - decreasing oil reserves and supply
- ❖Asymmetries between Euro economies (Germany and Spain) increase uncertainty in Europe
- ❖ Energy and commodities the best gainers during the first quarter





KY-Finance portfolio

The first quarter of 2011 was fairly passive and exceptional in terms of trading and no changes to the position were made. This was due to administrative and other structural changes. Only 30 % of the capital was held in stocks and the rest was allocated in cash. Despite the strong advancement in most of the major U.S. and Euro indices KY Finance stock holdings performed poorly along with the Nordic 40 benchmark index. Reasons for poor performance include continuing foreign investment outflows to larger exchanges due to increasing credit risks on goverments and Nokia Corp’s over 20% slip in Q1 as the company revealed its major strategic problems by announcing on co-operation with Microsoft in early February.

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Norse energy continued its poor performance declining over 40 % during the review period. The increasing oil prices did not help as the company reported substantially íncreased costs of production and cash flow problems. The cash flows generated from the production wells of major exploration and drilling formation in Herkimer will not be sufficient to meet debt obligations in 2012 and 2013.

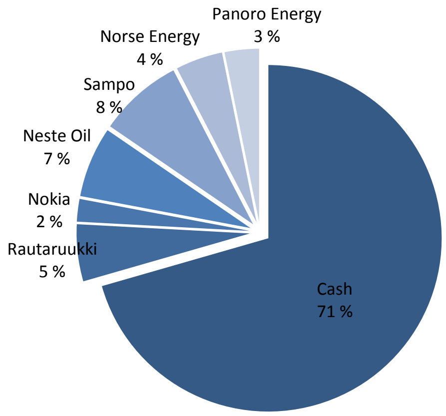
Panoro Energy, a spin-off from Norse Energy, performed relatively better than than its peer. It has been able to concentrate its strategic focus on the exploration and development in West Africa and Brazil and refinance its balance sheet to meet the long term financing needs.

Positive performers were Sampo that reported strong results for 2010, EBT above consensus for Q4 and sees stable outlook for the 2011 in all its business segments as well as Neste Oil that increased its EBIT twofold though fell short on analyst expectations on the Q4. Stronger refining margins, cost savings and ongoing strategic expansion to renewable energy indicate durable fundamentals. Rautaruuki missed Q4 consensus reporting operating losses of 27 m Euros. However, the oulook for the 2011 is positive and investments in Russia are expected to drive growth.

Investment policy

Portfolio is managed on a monthly basis using FIM Direct services and is composed of stock component (50-70 %) invested in mid to large cap companies with strong fundamentals listed in Nordic stock exchanges and derivatives component to increase the risk exposure. Essentially, there are no restrictions to particular investment products, leverage or shortselling and the objective is to achieve superior return over short to mid term horizon. The gains may be realized as needed and used to enhance KY Finance activities.

HOLDINGS Q1 CLOSE



Outlook for the second quarter

We expect the oil price to drop towards the end of the year. However, we expect it to settle above long term average and thus continue to support recovery in oil economies. Especially Finnish companies that have strong position in Russia are expected to benefit from the situation. For instance, Nokian Renkaat, Tikkurila and Rautaruukki have strong position in Russian market.

ECB has already begin raising interest rates in fear of rising inflation and is likely to continue towards the end of year. ECB rate was increased by 25 basis points in early April and Fed is expected to follow in last half of the year. As rates rise and growth expectations are already on high levels the increase in borrowing required return may decrease stock prices.