To Our Shareholders,

Fairfax India turned three years old on January 30, 2018! While that doesn't qualify as the long term, it is certainly a start to what we hope will be the base for true long term performance. Our results over the last three years are as follows*:

	2017	2016	2015	CAGR(1)
Income	609,670	128,604	65,251	
Net earnings	452,509	107,825	40,939	
Return on equity	28.2%	10.3%	4.0%	14.2%(2)
Total assets	2,672,221	1,303,497	1,025,451	38.9%
Investments	2,635,726	1,095,569	978,569	40.5%
Common shareholders' equity	2,132,464	1,075,446	1,013,329	29.1%
Book value per share – before performance fee	$ 15.24	$ 10.25	$ 9.50	17.1%
Book value per share – net of performance fee	$ 14.46	$ 10.25	$ 9.50	15.0%

(1) *Compound annual growth rates are since Fairfax India's inception on January 30, 2015, when it raised net proceeds of $1.03 billion at $10 per share representing an initial book value of $9.62 per share after expenses.*

(2) *Simple average of the return on equity for each of the three years.*

Fairfax India's common shareholders' equity increased $1.1 billion or 98% from the previous year to $2.1 billion in 2017. Book value per share, our key performance measure, increased by 41.1% in 2017, from $10.25 at the end of 2016 to $14.46. During the same period the USD S&P BSE Sensex 30 (Sensex) appreciated by 37.9%. You can see that it was a very successful year for the markets in India!

Looking over three years, however, Fairfax India greatly outperformed the market index, as demonstrated in the following table showing percentage increases:

At December 31, 2017	1-year	3-year Annualized(1)
Fairfax India book value per share:		
– before performance fee	48.7%	15.5%
– after performance fee	41.1%	13.5%
USD S&P BSE Sensex 30	37.9%	5.9%

(1) *Fairfax India's 3-year annualized growth in book value per share is calculated based on its IPO price of $10 per share on January 30, 2015.*

Using its issue price of $10.00 per share as the starting point, over three years, Fairfax India's annual increase outperformed the Sensex by 760 basis points.

Please note that Fairfax India's book value is based on publicly traded market value only for the three of its eight investments which are publicly traded (the rest are based on appraised values not too different from their cost), whereas the Sensex is obviously based entirely on publicly traded market value.

Fairfax India's net earnings had excellent growth in 2017, up 320% from $108 million in 2016 to $453 million in 2017, largely the result of net unrealized gains on investments of $592 million compared to $105 million in 2016. Earnings also reflect interest income of $22 million, a performance fee payable of $114 million and net foreign exchange losses of $14 million. Fully diluted earnings per share grew 191% to $2.94 in 2017 from $1.01 in 2016.

On the investment front, during 2017 we acquired (in two stages), for an aggregate investment of $586 million, 48% of Bangalore International Airport Limited, which included the acquisition from the GVK Group of its entire 43% promoter stake in the airport. We will discuss this exciting investment in more detail later in this letter.

* *All dollar amounts in this letter are in U.S. dollars unless specified otherwise. Numbers in the tables in this letter are in U.S. dollars and $ thousands except as otherwise indicated. Except where specified otherwise, all figures in this letter are, where applicable, after provision for the performance fee payable.*

Also in 2017, we made an additional investment in IIFL Holdings (IIFL) and an investment in Saurashtra Freight, and the merger of Fairchem Speciality and Privi Organics (Fairfax India had invested separately in each of them) was completed under the Fairchem name, resulting in Fairfax India owning 48.8% of Fairchem.

Since we began, Fairfax India has completed investments in eight companies, all located and reviewed by Fairbridge, Fairfax Financial Holdings' (Fairfax Financial) wholly-owned sub-advisor in India. Fairbridge does outstanding work under its CEO Harsha Raghavan and its Vice Presidents Sumit Maheshwari, Sarvjit Bedi and Amruta Adukia. Fairfax India's Mauritius subsidiary, FIH Mauritius Investments, ably led by its CEO Amy Tan, and its independent Board of Directors are an integral part of the investment process.

All of Fairfax India's investments are in outstanding companies with a history of strong financial performance, led by founders and management who are not only excellent but also adhere to the highest ethical standards. The details of these investments in chronological order of the initial investment are as follows:

	Date of Investment	**Ownership**	**Amount Invested**	**Fair Value at December 31, 2017**	**Return[(1)]**
National Collateral Management Services	Aug. 2015 and Aug. 2017	89.5%	174,318	179,054	1.3%
IIFL Holdings (including 5paisa Capital)	Dec. 2015, Feb. 2017 and Oct. 2017	26.6%	276,734	908,443	93.3%
Fairchem Speciality (formerly Adi Finechem and Privi Organics)	Feb. and Aug. 2016	48.8%	74,384	149,200	59.3%
Sanmar Chemicals Group	Apr. and Sep. 2016	Debentures and 30.0%	300,000	333,728	6.9%
National Stock Exchange of India	Jul. 2016	1.0%	26,783	40,452	39.3%
Saurashtra Freight	Feb. 2017	51.0%	30,018	28,000	(7.6)%
Bangalore International Airport	Mar. and Jul. 2017	48.0%	585,591	608,288	6.4%
Total			1,467,828	2,247,165	

(1) Return calculated using the internal rate of return.

While the valuations of the private companies that Fairfax India has invested in remained relatively close to the prices it paid for them, two of the three publicly traded companies in its portfolio (IIFL and Fairchem Speciality) have posted strong mark to market gains. IIFL's share price has appreciated 207% to 670 rupees from our blended cost base of 218 rupees, and Fairchem's share price has appreciated 90% to 500 rupees from our adjusted cost base of 263 rupees, resulting in mark to market gains, since inception, including foreign currency translation gains, of $632 million and $75 million respectively.

While the book value per share of Fairfax India is $14.46, we believe that the underlying intrinsic value is much higher. IIFL, for example, in spite of an average 14% return on equity (ROE) and a 30% annual growth in book value per share over the past ten years, even at its current price of around 700 rupees per share is selling at a price earnings ratio of only 18 times expected earnings and the founder, Nirmal Jain, is an outstanding entrepreneur. All the companies listed above have similar characteristics. The potential for all of them is very significant.

Performance Fee

You will recall that under the investment advisory agreement with Fairfax Financial, Fairfax India's sponsor and controlling shareholder, and Fairfax Financial's investment counsel subsidiary Hamblin Watsa, Fairfax India will, at the end of 2017 and every three years thereafter, pay a performance fee (if earned) of 20% of the increase in book value per share (on a rolling basis) in excess of the higher of a hurdle rate of 5% per annum and a high water mark.

As a result of the excellent performance of Fairfax India during the period from the completion of its IPO on January 30, 2015 to December 31, 2017, the performance fee earned for this period was $114.4 million. This performance fee was settled on March 9, 2018 by the issuance of 7.7 million subordinate voting shares valued at

$14.93 per share (the weighted average share trading price over the last ten trading days in 2017). This increased Fairfax Financial's ownership in Fairfax India from 30.2% at the end of 2017 to 33.6%.

Indian Investments[(1)]

IIFL Holdings (IIFL)

2017 was an outstanding year for IIFL and it is now ranked #241 (by revenue) in the Fortune 500-India List, up 42 places from a year ago!

IIFL shares closed 2017 at a price of 670 rupees, a 207% increase in rupee terms from our blended cost base. In spite of a 14% average ROE and 30% annual growth in book value per share over the past ten years, IIFL is selling at a price earnings ratio of only 18 times expected earnings.

For the year ended December 31, 2017, IIFL's revenue grew 33% to $933 million; profit after tax, after minority interest, grew 46% to $166 million; and shareholders' equity grew 17% to $1 billion, generating an ROE of 17%.

IIFL is a leading, well-established national financial services company serving over 4 million customers from 1,300 branches in India. It also has an international presence with offices in New York, Singapore, Dubai, Geneva, Hong Kong, London, Mauritius and Toronto. Through its subsidiaries, it offers a wide array of services including loans and mortgages, asset and wealth management, and capital market related activities such as financial products distribution, investment banking, institutional equities and realty services. In addition to the founding team, IIFL now has a highly qualified, experienced and motivated management team. Again in 2017 under the exceptional leadership of Nirmal Jain and R. Venkataraman, IIFL achieved outstanding results in each of its three following major business divisions:

Loans and Mortgages: This division has made further progress in diversifying its lending to a more retail-focused loan portfolio. Loan assets under management (AUM), predominantly retail, grew 29% to $4.3 billion, driven by small home loans and loans to small and medium enterprises (SMEs). Retail home loan assets grew 61% to $1.2 billion. Apart from mortgages, IIFL also offers its customers loans for commercial vehicles, gold loans, business loans and loans against shares. Asset quality remained stable with gross non-performing assets (NPAs) of 2.1% and net NPAs of 1.2%. On December 31, 2017 the total capital adequacy ratio (CAR) was 18.2% while the statutory requirement is 15%.

During the year, the housing finance arm assisted 6,600 households to acquire homes with the benefit of a government subsidy provided under a government initiative to promote affordable housing.

IIFL's wholly-owned microfinance subsidiary, Samasta Microfinance, through its expansion in the eastern and southern parts of the country, grew its assets over the past nine months by 140% to $90 million and now serves over 300,000 customers.

IIFL has made significant progress in its technology platform, having implemented the usage of automatic scorecards for instant credit assessment and enhanced its digitization processes. About 97% of loans were digitally on-boarded and more than 90% of the loans were booked using an Aadhaar-based electronic Know Your Client (eKYC) system. Aadhaar is India's recently implemented biometric identification system, with over 1.2 billion registrants.

Wealth and Asset Management: In less than a decade since its inception, IIFL Wealth Management has catapulted itself to the position of the largest private wealth management firm in India. Its 300+ bankers help manage the assets of more than 10,000 high and ultra high net worth individuals and families in India and abroad. Headquartered in Mumbai, it has more than 800 employees and a presence in nine major global financial hubs with 23 locations in India and around the world.

Its total AUM grew 58% over the previous year to $20.1 billion. Profit after tax for the year ended December 31, 2017 grew 62% over the previous year to $54 million.

IIFL Wealth Management is also the largest manager of Alternative Investment Funds in India, with AUM of $1.8 billion. The funds launched during the year included the Special Opportunities Fund and the India Housing Fund.

(1) All of the Indian Investments' figures are based on Indian Accounting Standards (Ind AS) unless otherwise stated. Effective April 1, 2017 all of the company's Indian Investments have adopted Ind AS. Ind AS are based on and substantially correlated with IFRS.

IIFL Wealth Finance, its wholly-owned subsidiary that commenced operations in February 2016 to provide loans against securities to its clients, increased its loan book in 2017 by 100% to $916 million.

Capital Markets: This is a collection of several businesses, including retail and institutional stock broking, financial products distribution, mutual fund management and investment banking. The broking business is a leader in its field and provides broking and advisory services to retail and institutional clients. It is well known for its high quality and innovative research which covers over 500 Indian stocks.

IIFL's investment banking franchise has a pre-eminent position in India with a track record of strong execution and a robust pipeline of advisory and capital markets assignments. During the nine months ended December 31, 2017, it completed 21 transactions, including ten initial public offerings. It has been ranked #3 in equity issuances for 2016 and 2017, covering IPOs, follow-on public offerings, qualified institutional placements and institutional placement programs.

The IIFL Markets app is highly rated and the most downloaded app in India with over 1,300,000 downloads on Google Play Store. The app can also be accessed by retail investors at 1,200 locations in India. With the growth of mobile networks in remote locations, do it yourself (DIY) mobile trading constitutes over 40% of clients and has reduced the information asymmetry of financial markets in Tier 2 locations in India.

During the year, IIFL's capital markets business introduced many new features on its 'Markets', 'Mutual Funds' and 'Loans' applications. IIFL Markets was the first in the industry to implement a mobile personal identification number-based login and the Mutual Funds app was the first in the industry to enable instant systematic investment plans through a linkage to Aadhaar.

Proposed Reorganization of IIFL Group Companies: IIFL recently announced its intention to divide its three business groups described above into three separate companies, with each to be listed on the Indian stock exchanges. IIFL believes that this is the best structure for its business because:

1) Each business now has the critical mass to operate independently.
2) It allows each business to create its own business, platform and identity and focus on its own business, thereby achieving even higher growth in a rapidly changing, technology and innovation-driven environment.
3) Each business needs to continue to attract and keep high quality talent to sustain its high growth rate. Each company, listed separately, can attract and motivate its key people with stock options such that their rewards are strongly correlated with their performance. Currently, stock options granted are on shares of the parent company.
4) It allows greater flexibility for each of the businesses to raise capital according to its needs.
5) It provides investors greater flexibility to invest in the businesses that best suit their strategies and risk appetite.

The reorganization is subject to shareholder and regulatory approvals and is expected to be completed later in 2018.

The key challenges faced by IIFL in 2017 and going forward are:

- The Goods and Services Tax (GST), implemented in July 2017, changed the taxation structure of the country, resulting in some amount of disruption in the economy. SMEs were especially impacted due to needed technology investments and increased reporting and regulatory compliance requirements which hampered their growth. However, IIFL is optimistic about the long term benefits of this change in taxation structure.
- IIFL believes that in 2018, interest rates will rise gradually, not only in India but also globally. This will result in some amount of yield compression in high value home loans, loans against property and financing of new commercial vehicles. Also, due to intense competition from new players (many of whom are backed by private equity) who are keen to grow their book size, product yields will remain low. Given its distribution reach and superior CAR, IIFL believes that it can withstand such short term pricing pressures. In any case, IIFL will not take undue risks to increase short term market share.
- Retention of managerial talent will become a challenge, especially for the loans and mortgages business. IIFL is seeing a number of players entering the market and offering very high compensation to lure talent away. This will also result in wage increases.

In summary, IIFL had an outstanding year in 2017!

5paisa Capital (5paisa)

On October 20, 2017, IIFL spun off, and subsequently separately listed on the Indian stock exchanges, 5paisa, a company it had incubated to take advantage of business opportunities in digital trading and distribution services, an emerging new segment with the potential for exponential growth. Its services are targeted at retail investors and high volume traders who actively invest and trade in securities markets and DIY services at a low cost.

5paisa provides financial services through its online technology platform and mobile applications for trading of securities on the Indian stock exchanges. Also, since it is a participant in India's depositories for securities and mutual funds, it is able to hold customers' securities in their accounts.

Bangalore International Airport (BIAL)

In March 2017, Fairfax India acquired 38% of BIAL for $385 million (including 33% from GVK Group, BIAL's promoter), implying an equity value of approximately $1 billion for the whole company. Based on BIAL's March 2017 financial statements, the purchase price valued BIAL at a price earnings ratio of 14.5 times, price to book value of 4.7 times and price to free cash flow of 8.7 times. The value of the extensive real estate that can be monetized was not included in this valuation. In July 2017 Fairfax India acquired the final 10% of BIAL owned by GVK for $200 million, the higher price being justified by this purchase enabling Fairfax India and the other remaining shareholders to reconstitute BIAL's Board, to appoint the best qualified person as BIAL's CEO, and generally to allow it to be managed according to Fairfax India's standards of corporate governance and guiding principles.

Subsequently, three new directors with expertise in airport and airline management and finance were appointed to the Board of BIAL, and Hari Marar, the former COO of BIAL, was appointed as its new Managing Director and CEO. We would like to thank G.V.K. Reddy (Chairman) and Sanjay Reddy (Vice Chairman) of GVK for their leadership in developing BIAL into one of the best airports in India and for seamlessly transferring their ownership interest in it to Fairfax India.

BIAL has three potential sources of revenue:

- **Aero Revenue:** Aero revenue, which has grown at a CAGR of 22% from 2009 to 2017, is the revenue earned for providing services such as landing, take-off, parking, ground handling, ground safety, facilities, amenities and services to airlines and passengers. The tariffs for these services are set for five-year periods and are fixed so as to yield a regulated 16% ROE. The regulatory authority treats 30% of non-aero revenue as aero revenue.

  BIAL is currently operating under tariffs set for the first five-year period. When set for the next five-year period, tariffs will be adjusted for any returns achieved above or below the regulated return in the first period, such that the regulated ROE is maintained over the term of the concession.

- **Non-aero Revenue:** All revenue other than aero revenue, such as revenue from cargo handling, fuel sales, food and beverage sales and duty free shops, constitutes non-aero revenue. Non-aero revenue has grown at a CAGR of 19% from 2009 to 2017 and is expected to grow substantially due to an increase in passenger growth rates, the availability of additional space and the increasing propensity of passengers at the airport to make purchases.

- **Real Estate Monetization:** BIAL also has approximately 460 acres of land adjoining the airport that can be developed. All of this land is undeveloped except for a small piece on which BIAL has built a hotel, currently operated by the Taj hotel brand under a management contract. Bangalore's historical population areas are getting congested, so the city is expanding in the airport's direction. BIAL anticipates significant upside, over time, from monetization of this real estate.

BIAL had an outstanding year in 2017 with passenger traffic growing by 12.9% over the previous year to 25 million passengers and cargo handled growing 8.1%. BIAL's revenue for 2017 grew 16% to $231 million and profit after tax grew 25% to $105 million. Free cash flow after maintenance capex grew 15% to $151 million, implying a free cash flow yield of 12.3% if 100% of BIAL were valued on the basis of the aggregate purchase price of Fairfax India's 48% interest.

BIAL is entering a phase of significant investment to expand its currently designed capacity of 20 million passengers to 65 million in 2028. The land preparation for a second runway has been completed and the contract to construct the second runway, scheduled to be completed in 2019, has been awarded. For the second terminal, scheduled to be completed in 2021, the phase 1 schematic design has been completed and detailed planning has commenced. The investment required to complete the expansion projects is approximately $2 billion and will be funded through internally generated funds and debt. The financing plan, based on a debt to equity ratio of 80:20, and negotiations with banks are well underway.

This is indeed a very exciting investment for Fairfax India.

Sanmar Chemicals Group (Sanmar)

In 2016, Fairfax India lent Sanmar the rupee equivalent of $300 million by way of non-convertible debentures (NCDs) for a period of seven years. The NCDs pay 3% payment-in-kind interest and pay a redemption premium such that the yield of the NCDs is 13%. In addition, for $1 million Fairfax India received a 30% equity interest in Sanmar's entire chemicals business. Fairfax India provided the initial tranche of $250 million in April 2016 and the second tranche of $50 million in September 2016.

Based on discounted cash flows, we believe that the value of our loan to Sanmar is now $333 million and the value of our 30% equity in Sanmar's chemical business is $0.6 million. For the year ended December 31, 2017 Sanmar's revenue grew by 14% to $652 million. Until Sanmar completes its capital projects in Egypt and sales ramp up to full capacity, it will lose money. Net loss in 2017 was reduced to $85 million from a loss of $113 million in 2016. However, earnings before income tax, depreciation and amortization (EBITDA) for 2017 increased 51% to $95 million. We expect over time to make a very rewarding compound annual return on this investment.

N. Sankar, the chairman of the Sanmar group, and his son Vijay, the deputy chairman, have grown it into a large private conglomerate with sales of around $1 billion and an asset base of around $1.5 billion. Founded in the early sixties, its business interests spanned chemicals, engineering technology and shipping, with operations in India, the Middle East and the Americas. Fairfax India's investment is in the chemicals business, which constitutes more than 80% of the group's operations and is housed within three operating companies, two in India, Chemplast Sanmar (Chemplast) and Sanmar Speciality Chemicals, and one in Egypt, TCI Sanmar (TCI). The group is renowned for its high integrity and the highest levels of corporate governance and environmental and social responsibility.

Chemplast is Sanmar's flagship Indian company and has been in the chemicals business for 50 years, celebrating its golden anniversary in 2017. N. Sankar is considered a pioneer in the polyvinyl chloride (PVC) industry in India. With his visionary leadership, in 2009 Chemplast commissioned one of the largest greenfield PVC projects in India with an annual capacity of 200,000 tons per annum (ktpa) which has been enhanced to 300 ktpa, mainly through process improvements and minor debottlenecking, with an additional investment of only around $1 million. The aggregate PVC capacity of Chemplast is 366 ktpa, making it the second largest PVC player in India.

Sanmar acquired TCI in 2007, with the intention of setting up a large greenfield PVC plant in Egypt to cater to the high growth markets of North Africa, the Middle East and parts of Europe. TCI currently has a 200 ktpa capacity PVC plant but until recently produced only at the rate of about 130 ktpa per annum. TCI has undertaken a major expansion as follows:

- Phase 1, already completed, made several improvements to the existing PVC plant, including the replacement of a dryer, which will enable it to eventually increase its production to its full capacity. It is already producing at a rate of about 150 kpta.
- Phase 2, with an investment of $185 million, is the addition of a new 200 ktpa PVC plant, a 130 ktpa calcium chloride plant and a 75 ktpa caustic soda by-product line. This phase is expected to be completed in 2018 and the ramp-up to full production is expected to take two more years, with full capacity expected to be attained by 2020. This will take advantage of Sanmar's significant investment and infrastructure in Egypt.

Our analysis of the PVC industry going back about 25 years indicates that:

1. PVC sales are highly correlated with GDP growth. The auto, housing and construction sectors (key products: pipes and windows) are key drivers of this demand. TCI's key market areas of India, Egypt and Turkey are expected to see strong GDP growth and Sanmar has significant cost advantages supplying these countries.
2. PVC margins are not correlated to the price of crude oil or most other commodities.

There have been some significant developments for Sanmar since our investment. Optimism which returned to the global PVC industry for the first time in a decade in 2016 continued through 2017. This was due to reduced levels of production in China and Europe necessitated by the closure of sub-optimally sized and environmentally unfriendly PVC plants. Limited capacity addition and growing demand led by markets like India and Egypt resulted in very good prospects for the global PVC industry.

Chemplast again had very good financial performance in 2017. Margins were very strong, resulting in high cash generation. Its joint venture to manufacture chlorinated PVC (CPVC) received environmental clearance and project planning has commenced. CPVC is a fast growing commodity and the joint venture will be only the second domestic producer addressing a big opportunity in India.

The previously announced acquisition by Chemplast of a hydrogen peroxide plant has been completed. Plans to move the plant to Sanmar's facilities are under way and the move is expected to be completed in 2018. When completed, this plant will manufacture a value added product that utilizes hydrogen produced by Chemplast, and will provide entry into the market for a new valuable and allied product.

TCI has successfully restructured its balance sheet with a capital injection of $285 million from the parent. Further, it has obtained a $280 million project financing loan from a consortium of Indian banks for its expansion. The key activity for TCI over the last two years was the implementation of the important Phase 2 project described above, and TCI is expecting to complete the project on time and on budget in June 2018.

National Collateral Management Services (NCML)

NCML was Fairfax India's very first investment, completed in August 2015. NCML has operated for over 13 years and is now well positioned to further expand and take advantage of the significant market potential in India's under-developed agricultural storage industry. NCML operates in the agriculture value chain by offering end-to-end solutions in grain procurement, testing, storage and collateral management.

NCML has more than 1.6 million metric tons (MT) of storage capacity across 785 warehouses in 18 states in India. It has a network of 40 regional offices, more than 500 touch points at agricultural produce markets and thousands of farmers and traders to facilitate procurement of commodities. With AUM of $1.7 billion, NCML commands a 36% share of the agricultural commodities collateral management business in India, offering custodial services to about 75 banks and financial institutions for the management of collateralized agricultural commodities, based on which those institutions advance post-harvest loans to farmers or dealers owning commodities.

In 2015 Fairfax India invested a total of $149 million to acquire an 88% interest in NCML: $31 million was a capital infusion into NCML to fund growth plans, while the remaining $118 million was used to buy out existing shareholders. In August 2017, Fairfax India acquired an additional 1.4% stake through a rights issue for $25 million. Based on discounted cash flows, NCML is now valued at $179 million compared to our investment cost of $174 million.

For the year ended December 31, 2017 NCML's revenue grew by 36% to $167 million, shareholders' equity grew by 20% to $97 million and net earnings grew by 67% to $6 million. The increase in revenue was driven by robust percentage growth across all business segments, but in absolute numbers was driven disproportionately by the supply chain business which accounted for over 70% of the increase. Based on 2017 results, Fairfax India's investment cost of $174 million represents a price to book ratio of 1.8 times and a price earnings ratio of 25 times, multiples we believe are justified by the strong growth rate of NCML.

Under the continued able leadership of its CEO Sanjay Kaul, assisted by executive director Unupom Kausik, NCML has made significant progress in 2017, achieving growth momentum across each of its business segments, with a focus on expanding and diversifying its client base.

We summarize below the performance of NCML's four major business groupings:

Supply Chain Management: This division provides end-to-end services to both government and private clients in the procurement, storage, financing and logistics of agricultural commodities. In 2017, it added several new clients, grew revenue by 32% to $131 million and grew profit before tax by 75% to $2.1 million. It had developed an innovative program for port-based services for handling and financing the import of pulses through a credit line from the Export Development Corporation of Canada. Unfortunately this could not become operational in 2017 because increased import duties caused the import of pulses to be unviable. This division is well positioned for further high growth in the future.

Storage and Preservation: This division provides warehousing and preservation services for agricultural commodities. With the waning impact of demonetization, capacity utilization of warehouse space increased to over 80%, returning this division to profitability in 2017. Revenue grew 23% over the previous year to $15.1 million and profit before tax grew to $0.6 million from a loss of $0.4 million in 2016. Several initiatives have been implemented to further drive capacity utilization and improve storage yields. This division will also benefit from the recent addition of 100,000 MT of owned storage capacity.

As you may recall, this division launched a modern warehousing silo vertical by successfully bidding for 13 large concession contracts from the Food Corporation of India. This represents an aggregate capacity increase of 650,000 MT at an estimated total project cost of about $122 million. The project is progressing well and land acquisition for the project has been completed.

Collateral Management: This division offers custodial services to about 75 banks and financial institutions for the management of collateralized agricultural commodities, based on which those institutions advance post-harvest loans to farmers or traders owning these commodities. While this division remained focused on strengthening protocols in 2017, revenue grew 19% to $12.2 million and profit before tax grew 15% to $3.2 million.

NCML Finance (Nfin): Nfin, established in 2016, is a Reserve Bank of India (RBI)-registered NBFC that focuses on rural and agri-business lending. In 2017 it grew revenue by 482% to $3.5 million and achieved profit before tax of $1.1 million. While continuing to pursue increased market share in the warehouse receipt finance market, Nfin plans to diversify its service offerings to several other product categories.

Beyond the four above major business groupings, in 2017 NCML's testing and certification service, commodity and weather intelligence service and newly launched online commerce portal NCML MktYard all continued to make excellent progress.

Fairchem Speciality (Fairchem)

In March 2017, the previously announced merger of Fairchem Speciality and Privi Organics (Privi) was completed, resulting in Fairfax India owning 48.8% of Fairchem. Fairfax India had earlier separately owned controlling interests in both these companies.

Based on IFRS, for the year ended December 31, 2017 the consolidated Fairchem entity grew revenue by 25% to $149 million and net income by 16% to $6 million. Shareholders' equity grew 8% to $72 million, generating an ROE of 8.5%.

While the two businesses have been merged into one corporate entity, they will each continue to be managed independently by their founders and existing management teams. We describe below the performance of the two businesses:

Fairchem (formerly Adi Finechem): Fairchem, led by Nahoosh Jariwala, is an oleochemicals company. Oleochemicals are, broadly, chemicals that are derived from plant or animal fat, which can be used for making both edible and non-edible products. In recent years the production of oleochemicals has been moving from the U.S. and Europe to Asian countries because of the local availability of key raw materials.

Fairchem occupies a unique niche in this large global playing field. It has developed an in-house technology that uses machinery manufactured by leading European companies to convert waste generated during the production of soy, sunflower, corn and cotton oils into valuable chemicals. These chemicals include acids that go into non-edible products like soaps, detergents, personal care products and paints, and other products that are used in the manufacture of health foods and vitamin E. The company's customers include major multinational companies including BASF, Archer Daniels Midland, Cargill, Advanced Organic Materials, IFFCO Chemicals and Asian Paints. Fairchem operates out of a single plant in Ahmedabad, the largest city in Gujarat, the home state of Prime Minister Modi: the plant has one of the largest processing capacities for natural soft oil-based fatty acids in India. Over the last ten years, Fairchem's sales have grown on average at 22% per year, net earnings have grown on average at 23% per year, and the average annual ROE was over 17%.

Based on IFRS, for the year ended December 31, 2017 Fairchem revenue grew by 28% to $38 million, net earnings grew by 12% to $2 million, and shareholders' equity grew 15% to $13 million, generating an ROE of 17.5%. The capacity increase implemented in 2016 paid dividends in 2017 as the volume of raw material processed grew 31% to 38,906 tons.

Privi: Founded in 1992, Privi, led by Mahesh Babani and D. B. Rao, is one of India's leading manufacturers of aroma chemicals. Privi started manufacturing aroma chemicals with only two products, which it gradually expanded to a range of over 50 products today, with a capacity of over 24,500 tonnes per annum. Its products are used as fragrance additives in perfumes, soaps, shampoos and packaged food. Privi enjoys a dominant position and economies of scale in its product categories. Privi also develops and produces custom-made aroma chemicals to specific requirements of its customers. Privi sources most of its raw materials from pulp and paper companies globally and competes primarily with pure play and niche suppliers such as IFF, DRT and Renessenz.

One of Privi's significant strengths is its established research and development capabilities in aroma chemicals, with a staff of 81 people comprised of PhDs in chemistry, chemical engineers and instrumentation engineers. The research specialists continuously strive to develop new products and processes. Importantly, one of the R&D labs is completely focused on developing, through biotechnology, green products and green technologies in technical collaboration with the University Institute of Chemical Technology, Mumbai.

Based on IFRS, for the year ended December 31, 2017 Privi revenue grew 24% to $111 million, net earnings grew 30% to $4 million, and shareholders' equity grew 7% to $59 million, generating an ROE of 7%.

Pinene-based products constitute about 60% of Privi's revenue and net earnings. Prices for Pinene-based products, which were depressed for the last three years, started to turn around toward the end of 2017. About 75% of Privi's Pinene-based products business is based on annual contracts, and contracts for 2018 are being set at prices about 20% higher than the prior year's price.

Privi has made significant investments in manufacturing facilities that convert a waste product in pulp and paper manufacturing, crude sulphated turpentine (CST), into aroma chemicals. CST, a more cost effective raw material than the more traditional plant based gum turpentine oil (GTO), is procured through annual contracts while GTO has to be purchased on volatile spot markets. This positions Privi for more profitable operations in the future.

Saurashtra Freight (Saurashtra)

In February 2017 Fairfax India invested $30 million to acquire a 51% interest in Saurashtra. $18 million of the $30 million was used to purchase the founder's stake: $10 million of this was infused back into Saurashtra by the founders and used to unwind all previous transactions with Saurashtra group companies. The remaining $12 million was invested directly into Saurashtra. Based on Saurashtra's March 31, 2017 annual financial statements, this implies a price earnings ratio of 17.7 times and price to book value of 1.0 times for a business that has over the past five years grown revenue and EBITDA at 18% and 15% per annum respectively and generated a 25% average ROE. After the completion of the transaction, Saurashtra was left with about $22 million of cash, which it intended to use to pursue its acquisition plans.

Saurashtra's principal business is owning and operating container freight stations (CFSs), which are an important link between transport operators and shipping lines and effectively work as an extension of a port. It is in the port's best interest to focus on maximizing container traffic and not get bogged down handling containers that are waiting to be dispatched. Also, ports lack adequate storage facilities to hold containers for extended periods of time. CFSs provide a facility outside of congested ports for temporary storage of goods pending customs clearance and further distribution. Activities like stuffing and destuffing of containers, which might otherwise have to be done in the port, are done at the CFS.

Launched in 2005, Saurashtra is located five kilometers from Mundra port. With 24/7 operations, Saurashtra has the capacity to handle 180,000 TEUs (twenty foot equivalent unit cargo containers) per annum and handled about 90,000 TEUs in 2017, implying capacity utilization of about 50%. Under the dynamic leadership of Raghav Agarwalla, it has achieved a market share of about 14% at Mundra port, the highest among all CFSs there. Saurashtra derives volume and revenue from both the import and export of containers.

For the year ended December 31, 2017 Saurashtra's revenue grew 15% to $18 million. Due to investments in new businesses described below and the losses incurred in one of them, Sauashtra did not have any net earnings in this period whereas it had net earnings of $2.0 million in the previous year.

In 2017 Saurashtra embarked on an aggressive cost optimization program. The entire purchasing process and team was revamped, and Saurashtra introduced online auctioning for all high value and bulk purchases. It believes that these efforts will bear fruit in 2018.

In order to stay ahead of its competition, Saurashtra implemented several major technology initiatives in 2017. It also more than doubled its fleet size from 51 to 111 trucks to cater to the growing transportation needs of its customers, and achieved average capacity utilization of 85% of its fleet.

Saurashtra also launched two small ancillary businesses in 2017. In August, it launched Fairfreight Lines (Fairfreight), a non-vessel operating common carrier (NVOCC). Fairfreight has a container fleet of over 1,000 TEUs with its own branding. Many existing customers of Saurashtra have started using Fairfreight as their preferred carrier for the Gulf region. This initiative has had a good beginning and is expected to be profitable from the first quarter of 2018.

The second business, Fairwind Shipping, a feeder shipping service to several Gulf ports, was not as successful and was shut down after it sustained losses. Increased competition rendered this business unviable.

Saurashtra continues to pursue other growth opportunities. In order to take advantage of the robust growth in its export business, it is evaluating a proposal to increase its capacity. This would allow it to handle incremental cargo of existing customers who are currently using other CFSs. Saurashtra also continues to seek and evaluate opportunities to acquire CFSs at other major container ports.

National Stock Exchange of India (NSE)

In July 2016, Fairfax India acquired a 1% stake in NSE, the largest stock exchange in India with a market share of over 88% in cash equity trading and 100% in equity derivatives trading. With over 200,000 terminals in over 2,000 centres, NSE provides trading facilities with national reach. The exchange uses the latest communications technology for automated screen-based trading. For the year ended March 31, 2017, NSE's revenue grew 14% to $413 million and profit after tax grew 93% to $188 million. The planned initial public offering of NSE has been delayed and is now expected sometime in 2018 or 2019.

Catholic Syrian Bank (CSB)

On February 20, 2018 Fairfax India agreed, subject to various conditions precedent including regulatory approval, to buy a 51% stake in CSB for consideration of 12.1 billion rupees (approximately $186 million). This was the culmination of an effort that began in December 2016, when the RBI gave Fairfax India permission to acquire a 51% stake in CSB. This was the first time in the history of the RBI that anyone was given approval to acquire a majority stake in a bank in India.

However, after several months of negotiations, in May 2017 we discontinued our efforts because we could not agree with the Board of CSB on the price and valuation at which we would invest in the bank. Since that time CSB has pursued, unsuccessfully, several avenues to attract capital at a valuation acceptable to it.

Meanwhile, in anticipation of investing in CSB, we had identified Mr. C.V.R. Rajendran as the individual who would have been our choice for CEO of the bank. He in fact was appointed as CEO about 14 months ago and is now well in control: he understands the bank and its loan book very well.

In late January 2018, Mr. Rajendran reopened the conversation with us on the premise that based on improvements he had made at the bank, including loan recoveries and successful enhancements to its organizational structure, there might have emerged a new price and valuation that may be acceptable to us. This was indeed the case, and we have now agreed to invest at 140 rupees per share, implying a multiple of 1.1 times the September 30, 2017 book value per share. While Mr. Rajendran has already implemented several positive changes, much more still needs to be done to improve and modernize CSB and bring it to its full potential. The capital that we are infusing will be used to improve its CAR and drive the necessary changes.

Christianity in India dates back to 52 A.D. when, according to legend, Saint Thomas, one of the disciples of Jesus, arrived in what is present day Kodungallur, Kerala, barely a few miles from Thrissur where CSB is headquartered. The Christians of the area were called Syrian, which comes from 'Syrio' which is the language of one of the forms of Catholic liturgy called Syrio-Catholic. Today Syrian Catholics are a large Christian sect from Kerala with a world-wide membership of over 5 million.

On the initiative of influential members of the local Christian community, CSB was founded in 1920 in Thrissur in what is now the Indian state of Kerala. During that time, Thrissur was the centre of vast agricultural production in the surrounding areas and was thriving as a centre for trade and banking, and many other banks were founded there during that time.

Today CSB is one of the oldest private sector banks in India and has a strong base in Kerala along with a significant presence in the states of Tamil Nadu, Karnataka and Maharashtra. The bank currently operates 421 branches and 251 ATMs across India. With its branches primarily in south India, it focuses on retail, gold and SME loans. Together, these comprise over 80% of total advances. Over the last few years, CSB had deviated from its core expertise and built a meaningful corporate lending book, mainly through consortium lending. In the last two years, it has had to take significant write-offs on this portfolio. CSB also owns 38 residential and commercial properties and land banks, some purchased several years ago and others acquired by enforcement of security.

Financial Position

Fairfax India came into being about three years ago on January 30, 2015, when it issued 106.7 million shares, raising gross proceeds of $1.1 billion by completing a public offering, a placement to cornerstone investors and an issue to Fairfax Financial. In September 2016, the company completed a $225 million two-year secured term loan with a syndicate of Canadian banks. In January 2017 Fairfax India issued 42.6 million shares at $11.75 per share in a public offering and a concurrent private placement to OMERS and Fairfax Financial, raising gross proceeds of $500 million. In March 2017, the company repaid its term loan of $225 million to the syndicate of Canadian banks, and then in July 2017 it completed a $400 million one-year secured loan from a Canadian bank. Fairfax India currently has about $412 million for new investments and ongoing expenses.

At December 31, 2017, the financial position of Fairfax India was as follows:

	($ millions)
Undeployed cash and investments	412.4
Secured term loan (from a Canadian bank, maturing in July 2018)	400.0
Common shareholders' equity	2,132.5
Total debt to equity	18.8%

Developments in India

One of the signals that the unrelenting economic reforms that Prime Minister Modi has been implementing, since he took office almost four years ago, are working, is that India has moved up by 30 places, and broken into the top 100 for the first time, in the 2018 World Bank Business Report's 'Ease of doing business' measure. While there is still a long way to go, this indicates that India is moving in the right direction.

We summarize below some of the significant developments in India in 2017:

Recovery in economic growth: Economic growth decelerated sharply after demonetization (the withdrawal from circulation of all the high denomination currency that represented 80% of the currency in circulation, described in last year's letter) and during the transition to the new GST that replaced an archaic tax regime that had a myriad of multilevel taxes and domestic excise duties for the movement of goods from one state to another. GDP growth in the second quarter of 2017 dropped to just 5.7%, the lowest in more than three years. However, recent data releases suggest that growth is finally recovering. Manufacturing PMI in December 2017 was the highest in more than five years, while industrial production growth in November was the highest in two years. GDP growth recovered to the 7% level in the fourth quarter of 2017.

Demonetization: Last year we discussed at length the economic and political impact of India's 2016 demonetization – the immediate withdrawal from circulation of all the high denomination currency in circulation (the 500 and 1,000 rupee notes, worth about $7.50 and $15.00) and their replacement with new 500 and 2,000 rupee notes. One year on, India has recovered fully from any negative economic impact of demonetization and there is general consensus that the level of tax avoidance has declined, as evidenced by the 1.8 million increase in individuals filing income tax returns. Personal income tax collection has increased by approximately 20% over the previous year in each of the years ending March 2017 (actual) and 2018 (estimate), resulting in additional tax revenues of approximately $18 billion in the two years. The increase in each of the two years before demonetization was only approximately 9%. While currency in circulation has continued to increase and as a percent of GDP is only 10%

below the levels prior to demonetization, digital transactions have increased substantially and non-cash retail payments in 2017 increased over the previous year by 65% in volume terms and 34% in value terms.

Aadhaar: India's recently implemented biometric-based identity program, generally referred to as the Aadhaar program, now covers 1.2 billion people, 90% of India's population. Growth in Aadhaar coverage creates a credible base for future direct benefit transfers of government subsidies. Last year the government passed the Aadhaar Act to enable targeted delivery of government subsidies and services using the Aadhaar identity. Aadhaar has now been used to authenticate a staggering 17 billion transactions and is currently being used to authenticate almost 30 million transactions a day. Since the April 1, 2017 start of India's current fiscal year, almost $15 billion of benefits have been transferred directly into the bank accounts of about 320 million individual intended recipients.

Recapitalization of banks: Resolving Indian banks' twin balance sheet problems of high NPAs and high corporate leverage has been one of the key challenges faced by the government. In its efforts to resolve this issue and kick-start the capex cycle, the government announced a bank recapitalization program of $32 billion (1.3% of GDP). Under this program the government would sell, for payment in kind by way of equity shares, 'recapitalization bonds' to the banks worth $21 billion, and the remaining $11 billion would be raised through a combination of direct cash infusion by the government and capital raised from the market. The first tranche of $12.5 billion of recapitalization bonds will be issued before the end of March 2018. This should provide banks enough capital to fully recognize and provide for the bad loans on their balance sheets. This, coupled with the new bankruptcy code, is expected to help resolve bank NPAs and support capex recovery in the medium term.

Decisive steps to resolve bank NPAs: RBI has directed banks to file insolvency proceedings against the 12 largest NPA accounts and to either resolve a further 28 NPA accounts or file insolvency proceedings against them. Thus, bankruptcy proceedings under the new bankruptcy code will be initiated against up to 40 accounts that represent almost a third of total NPAs. Since the new code requires that the proceedings must be completed in 270 days, these accounts either would be subject to a credible resolution plan or would be liquidated in less than a year. Thus, the end game in the battle against NPAs has begun and 2018 should result in the banks crystallizing (not just setting up provisions for) their actual losses on the major NPAs. They can then start lending again, as the recapitalization program for banks described above will allow them to take the write-offs needed under this process.

Implementation of Goods and Services Tax (GST): In July 2017, India's complex multi-tiered indirect tax code was replaced by a single GST, culminating a reform process that started over a decade ago. GST intends to eliminate the cascading of taxes, simplify compliance procedures and unify India into a single market for the sale of goods and services. While there have been teething problems in the transition, the system is likely to settle over the next couple of quarters. Medium-term benefits of GST include increased productivity, especially in logistics, the elimination of cascading taxes, easier inter-state trade and higher tax revenues for the government due to improved compliance.

Moderate inflation: Due to low commodity prices and modest Minimum Support Price increases for agricultural products, inflation continued to be benign for most of the year. Although inflation has edged up to an annualized 5.2% over the last couple of months, driven by a rise in house rents and vegetable prices, it remains within the target range of the Monetary Policy Committee. Inflation in 2018 is expected to be around 3.5%, significantly lower than the double-digit inflation of the past.

Political stability: The ruling BJP party continued to consolidate its hold over Indian politics. The BJP won a landslide majority in the largest Indian state of Uttar Pradesh and retained its bastion of Gujarat. It also wrested power from the opposition Congress party in the small northern Indian state of Himachal Pradesh. The BJP is now in power in 19 of the 29 lndian states and this could help it gain control of the upper house (Rajya Sabha). If, as widely expected, it comes back to power in 2019, the BJP would thus not face any significant legislative headwinds in implementing reforms.

Continued macro stability and consequent sovereign rating upgrade: India has achieved remarkable macro stability over the last few years. The current account deficit has declined to less than 1% of GDP in the fiscal year ended March 31, 2017 and is likely to remain below 2% in the 2018 fiscal year (FY). As noted above, inflation has moderated to less than 4%, the lowest in more than a decade. The government has continued to reduce its fiscal deficit, achieving a level of 3.5% of GDP in FY17, and is budgeting for a further reduction to around 3.2% in FY18. As a result of this, in the past few years the rupee has remained one of the most stable emerging market currencies, outperforming a basket of 12 emerging market currencies for four consecutive years from 2014 to 2017. In 2017, Moody's upgraded India's sovereign credit rating by a notch to Baa2 from Baa3.

As we end our first three years of operation, we would like to acknowledge the strong support and leadership provided by John Varnell, Vice President of Corporate Affairs, Jennifer Allen, Chief Financial Officer, and Keir Hunt, General Counsel and Corporate Secretary. We would also like to thank our independent directors, Deepak Parekh, Tony Griffiths, Chris Hodgson and Alan Horn, for their wise advice, support and encouragement.

We are looking forward to seeing you at our annual meeting at 2:00 p.m. (Eastern time) on April 26, 2018 at Roy Thomson Hall, 60 Simcoe Street, Toronto, Canada. Once again you will have the opportunity to meet the excellent leaders of many of our companies: Raghav Agarwalla (Saurashtra), Mahesh Babani (Privi), Nirmal Jain (IIFL), Nahoosh Jariwala (Fairchem), Sanjay Kaul (NCML), Hari Marar (BIAL), C.V.R. Rajendran (CSB) and Vijay Sankar (Sanmar).

March 9, 2018

Chandran Ratnaswami
Chief Executive Officer

V. Prem Watsa
Chairman