To Our Shareholders,

After a stellar three-year run from inception when Fairfax India's book value per share (BVPS), our key performance measure, grew at a compound annual rate of 15.0%, Fairfax India's BVPS declined by 4.1% in 2018, from $14.46* at the end of 2017 to $13.86, a performance generally in line with, and in many cases significantly superior to, the performance of Indian equity indices, and reflecting a 9.4% decline in the Indian rupee during 2018. Common shareholders' equity declined by 0.7% after increasing by 98.3% the previous year.

Here is a snapshot of Fairfax India's performance since it began:

	2018	2017	2016	2015	CAGR(1)
Income	166,518	609,670	128,604	65,251	
Net earnings	96,432	452,509	107,825	40,939	
Return on equity	4.5%	28.2%	10.3%	4.0%	11.8%(2)
Total assets	2,705,550	2,672,221	1,303,497	1,025,451	28.1%
Investments	2,661,347	2,635,726	1,095,569	978,569	29.1%
Common shareholders' equity	2,117,945	2,132,464	1,075,446	1,013,329	20.7%
Book value per share	$ 13.86	$ 14.46	$ 10.25	$ 9.50	9.8%

(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 four years.*

2018 was a very difficult year throughout Asian emerging markets. You will see from the table below (based on the leading US$ equity index in each country named) that India was the shining star among the ruins:

China	(29.3)%
Sri Lanka	(20.3)%
Hong Kong	(13.8)%
Singapore	(12.3)%
Vietnam	(11.2)%
Thailand	(10.8)%
Indonesia	(8.8)%
Malaysia	(7.6)%
India	(3.0)%

And here is a comparison of Fairfax India's change in BVPS in 2018 with the change in major Indian US$ equity indices (unfortunately, India's fiscal 2018 GDP growth of 7.2% did not get reflected in its stock markets):

Fairfax India BVPS	(4.1)%
S&P BSE Sensex 30	(3.0)%
S&P BSE 500	(11.2)%
BSE midcap	(20.5)%
Nifty50	(5.5)%

* *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.*

The change in Fairfax India's BVPS in 2018 resulted primarily from a drop in the value of its holdings in IIFL Holdings ($1.33/share) and a drop in the value of the Indian rupee ($1.47/share), substantially offset by an increase in the value of Sanmar Chemicals ($2.04/share) and an increase in the value of Bangalore International Airport ($0.55/share). However, over the four years since Fairfax India's inception, Fairfax India has significantly outperformed the markets, as demonstrated in the following table showing the annual percentage change over four years:

Fairfax India BVPS	+8.7%(1)
US$ S&P BSE Sensex 30	+2.5%

(1) Fairfax India's 4-year annualized growth in book value per share is calculated based on its January 2015 IPO price of $10 per share.

Please note that Fairfax India's book value is based on publicly traded market values only for the three of its nine investments which are publicly traded (the rest are based on internal valuations), whereas the Sensex is of course based entirely on publicly traded market values.

Fairfax India's net earnings in 2018 were down 79% to $96 million from $453 million in 2017, largely as the result of net unrealized gains on investments being $179 million compared to $592 million in 2017. Earnings also reflect interest income of $22 million and net foreign exchange losses of $35 million. Fully diluted earnings per share declined 79% to $0.63 in 2018 from $2.94 in 2017.

On the investment front during 2018, we acquired an additional 6% of Bangalore International Airport Limited (BIAL) from Siemens Project Ventures GmbH (Siemens) for $67 million. This increases our ownership of BIAL to 54%, with Siemens retaining a 20% ownership.

In addition, we agreed to invest approximately $168 million for a 51% equity ownership in the Catholic Syrian Bank (CSB). We completed an initial closing of the transaction, investing $60 million in equity shares and warrants, resulting in an equity interest of 19.7%. The remaining consideration is payable within 18 months, upon which our ownership will go to 51% on a fully diluted basis.

Also in 2018, we agreed with Sanmar Chemicals Group (Sanmar) to settle our $300 million of 13% bonds for approximately $404 million, of which we would invest approximately half in additional common shares of Sanmar based on an effective equity valuation of approximately $1.0 billion for the whole company, thereby increasing our equity ownership interest from 30% to 43%. This transaction will return 67% of the capital Fairfax India originally invested while increasing our ownership of Sanmar.

Since we began, Fairfax India has completed investments in nine companies (eight currently, as two of them have combined), all sourced and reviewed by Fairbridge, Fairfax Financial Holdings' (Fairfax Financial) wholly-owned sub-advisor in India. During 2018, Harsha Raghavan, who ably led Fairbridge since its inception, decided to start his own company, and we wish him well in his new endeavours. Sumit Maheshwari, who was Harsha's second-in-command, has seamlessly assumed the leadership of Fairbridge as CEO. Under Sumit's leadership Fairbridge does outstanding work, through its senior associate Rajat Mudgal and analysts Jinesh Rambhia and Ramin Irani. 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. Also, since we began, Deepak Parekh has provided us with invaluable advice on almost all of our transactions both as a trusted advisor and a member of the Board of Directors.

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 ($ millions)	Fair Value at December 31, 2018 ($ millions)	Return[(1)]
National Collateral Management Services	Aug. 2015 and Aug. 2017	89.5%	174.3	165.4	(1.7)%
IIFL Holdings (including 5paisa Capital)	Dec. 2015, Feb. and Oct. 2017	26.5%	276.7	625.4	35.8%
Fairchem Speciality (formerly Adi Finechem and Privi Organics)	Feb. and Aug. 2016	48.8%	74.4	96.6	11.5%
Sanmar Chemicals Group	Apr. and Sep. 2016	Debentures and 30.0%[(2)]	300.0	609.9	31.2%
National Stock Exchange of India	Jul. 2016	1.0%	26.8	60.3	44.4%
Saurashtra Freight	Feb. 2017	51.0%	30.0	24.8	(9.6)%
Bangalore International Airport	Mar. and Jul. 2017 and May 2018	54.0%	653.0	704.1	5.2%
Catholic Syrian Bank	Oct. 2018	19.7%	60.2	63.3	27.3%
Total			1,595.4	2,349.8	

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

(2) Upon completion of the Sanmar transaction described above, the company will have an approximately 43% interest in Sanmar.

At this time last year, the valuations of the private companies that Fairfax India invested in remained relatively close to the prices it paid for them, while two of the three publicly traded companies in its portfolio, IIFL and Fairchem Speciality, had posted strong mark to market gains since inception (including foreign currency translation changes) of $632 million and $75 million respectively.

The situation changed significantly in 2018, so that at the end of 2018, IIFL and Fairchem Speciality had posted mark to market gains since inception (including foreign currency translation changes) of only $356 million and $22 million respectively. In total, this was a decrease of $329 million in 2018 in the value of these two investments. However, at the end of 2018 the valuation of two of Fairfax India's private companies, Sanmar and Bangalore International Airport, had increased during the year (including foreign currency translation changes) by $276 million and $28 million respectively. In total, this was an increase of $304 million in 2018 in the value of these two investments.

While the BVPS of Fairfax India is $13.86, we believe that the underlying intrinsic value is much higher, since all of the companies listed above have characteristics giving them the potential for a significant increase in their value. As an example, look at IIFL:

	Unit	
Total market capitalisation[(1)]	$ bn	1.7
Total loan book	$ bn	4.7
5 years to December 2018 average annual:		
Return on equity		15.6%
Book value per share growth		19.7%
Diluted earnings per share growth		25.4%
Closing share price on December 1, 2015 (when Fairfax India first acquired an interest in IIFL)	Rs.	212
Closing share price on February 15, 2019	Rs.	380
Increase in share price from December 1, 2015 to February 15, 2019		79.4%
Estimated March 2020:		
Earning per share for the year	Rs.	34.0
Price[(1)] / Earnings		11.2x
Price[(1)] / Book value		1.7x

(1) Closing share price on February 15, 2019.

With the price correction of approximately 55% from its 2018 high of Rs. 854, IIFL was recently selling at a price to estimated March 2020 earnings ratio of only 11 times and a price to estimated March 2020 BVPS of only 1.7 times. With IIFL's strong growth and return on equity metrics, it is possible that IIFL's stock price will go up, particularly given the demerger later this year of its three business groups into three separate companies, with each to be listed on all the major Indian stock exchanges.

Indian Investments[(1)]

IIFL Holdings (IIFL)

2018 was a year of significant changes for IIFL and 2019 will be a year of transition into three separately listed entities.

IIFL shares closed 2018 at a price of 506 rupees, a 132% increase in rupee terms from our blended cost base. In spite of a 16% average annual return on equity, a 20% annual growth in book value per share and an annual 25% earnings per share growth over the past five years, IIFL is currently selling at a price earnings ratio of only 11 times expected earnings.

During 2018, IIFL's share price decreased from 670 rupees to 506 rupees, a decline of 24.5% in rupee terms. This decline was caused by a liquidity scare in the Indian financial markets. Early in September 2018, the market learned that a large heavily indebted quasi-government infrastructure and lending institution had defaulted on some short-term debts. A few days later another non-bank financial company (NBFC) came under distress when a major mutual fund sold some of its debt at a big discount, causing a panic sell-off of shares in all NBFC's, banks and other financial institutions. IIFL did not escape this sell-off.

For the year ended December 31, 2018, IIFL's revenue grew 16% to $1,034 million; profit after tax, after minority interest, grew 22% to $134 million; and shareholders' equity grew 21% to $1.1 billion, generating an ROE of 16%.

IIFL is a leading, well-established national financial services company serving over 4 million customers from 1,900 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

(1) All of the Indian Investments' figures are based on Indian Accounting Standards (Ind AS) unless otherwise stated.

now has a highly qualified, experienced and motivated management team. Again in 2018, 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, which is an NBFC, has made further progress in diversifying its lending to a more retail-focused loan portfolio. Loan assets under management (AUM), predominantly retail, grew 33% to $5.2 billion, driven by small home loans and loans to small and medium enterprises (SMEs). Retail home loan assets grew 49% to $1.6 billion. Apart from mortgages, IIFL also offers its customers loans for commercial vehicles, gold loans, business loans and loans against shares. Asset quality deteriorated slightly with gross non-performing assets (NPAs) of 3.7% and net NPAs of 1.5%. On December 31, 2018 the total capital adequacy ratio (CAR) was 20.7% while the statutory requirement is 15%.

IIFL's 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 205% to $251 million and now serves over 800,000 customers with a network of 492 branches. 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.

In response to the liquidity scare described above which resulted in the extreme tightening of the short-term commercial paper market, IIFL took several measures:

1) it reduced dependence on short-term financing by reducing commercial paper borrowings from 24% to 12% of liabilities;

2) it increased longer term debenture funding and increased bank borrowings;

3) sold some loan assets to banks;

4) it divested its entire commercial vehicle loan business; and

5) it slowed down loan disbursements.

These steps have resulted in further strengthening IIFL NBFC's financial position, ensuring that it has no liquidity issues.

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 396 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 900 employees and a presence in nine major global financial hubs with 26 locations in India and around the world.

Its total AUM grew 25% over the previous year to $23.0 billion. Profit after tax for the year ended December 31, 2018 grew 6% over the previous year to $58 million.

IIFL Wealth Management is also the largest manager of Alternative Investment Funds in India, with AUM of $2.0 billion. The funds launched during the year included the IIFL Income Opportunities Fund – Series 2, IIFL High Growth Companies Fund and the IIFL Multi-Strategy Fund.

IIFL Wealth Finance, its wholly-owned subsidiary that commenced operations in February 2016 to provide loans against securities to its clients, decreased its loan book in 2018 by 19% to $680 million. They did this in response to the market liquidity situation described above, by cutting back on some low margin lending. In 2018, IIFL Wealth acquired two other smaller wealth management firms, Wealth Advisors India and Altiore Advisors.

Over the next several quarters IIFL Wealth's income and profit after tax may reduce from a year ago because it is transitioning its business from transaction-oriented upfront income recognition to annuity-based fees and trailing commission income. However, from a long-term perspective, this is a very positive development for this business.

IIFL Securities: This is a collection of several businesses, including retail and institutional stock broking, financial products distribution 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 200 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 year ended December 31, 2018, it completed 12 transactions, including four initial public offerings. It was ranked #3 and #1 in equity issuances for 2017 and 2018 respectively, covering IPOs, follow-on public offerings, qualified institutional placements and institutional placement programs.

The IIFL Markets app is highly rated and the most downloaded stock trading app in India with over 2,376,000 downloads. With the growth of mobile networks in remote locations, do it yourself (DIY) mobile trading is conducted by over 48% of clients and has reduced the information asymmetry of financial markets in Tier 2 locations in India.

Proposed Reorganization of IIFL Group Companies: In 2018, IIFL announced its intention to divide its three business groups described above into three separate companies, with each to be listed on all the major 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, will be able to attract and motivate its key people with stock options such that their rewards will be 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 regulatory approvals and is expected to be completed in 2019.

Bangalore International Airport (BIAL)

Under the strong leadership of Managing Director and CEO Hari Marar and his executive team, BIAL has had an outstanding year. It is the third largest airport in India, but it is the second fastest growing airport in the world and recently was the first airport ever to win best customer service for both arrivals and departures awarded by the Airports Council International.

In May 2018 Fairfax India acquired an incremental 6% of BIAL from Siemens for $67 million, bringing its ownership to 54%. In 2017, Fairfax India had acquired a total of 48% of BIAL for $586 million. In total, Fairfax India has invested $653 million to acquire 54% of BIAL, implying an equity value of approximately $1.2 billion for the whole company. Based on BIAL's March 2018 IFRS financial statements, the blended purchase price valued BIAL at a price earnings ratio of 9.7 times, a price to BVPS ratio of 3.2 times and a price to free cash flow ratio of 8.4 times.

BIAL has three potential sources of revenue:

- **Aero Revenue:** Aero revenue, which has grown at a CAGR of 21% from 2009 to 2018, is the revenue earned for providing services such as landing, parking and other services charged as user development fees (UDF) to airlines and passengers. The aero tariffs for these services are set for five-year periods (called "control periods") and are fixed by the Airport Economic Regulatory Authority (AERA) so as to provide a 16% return on equity deployed in the Regulatory Asset Base. AERA treats 30% of non-aero revenue as aero revenue as a subsidy for the purpose of tariff calculations.

  The tariff order for the second control period (from April 2016 to March 2021) was finalized by AERA in August 2018, well after the control period had begun. Any under or over recovery of tariffs in any control period will be adjusted in the subsequent control period. This is achieved primarily by adjusting downwards or upwards the fee that the airport is allowed to charge for its aero services to passengers and airlines. The tariffs that the airport can charge have a very significant impact on the cash flow generated which, in turn, has a major impact on the financing for the planned expansion of the airport. Additionally, in the tariff order, AERA also approves the projected capital expenditure for the planned expansion of the airport. Given the planned expansions of BIAL, with capital expenditures of almost $2 billion, this tariff order was very critical. Since there are many variables that go in to the determination of the tariff, the process involves consultations between BIAL and AERA. During the process BIAL had made several requests, and while AERA did not decide in its favour in all the matters, BIAL feels that the tariff order was decided favourably on many issues, resulting in:

- increased revenue by about $100 million in the second control period from what was originally proposed by AERA. This was important because it helped secure sufficient cash flow to complete capital projects;
- agreement to subsidize aero revenue by 30% of non-aero revenue for both control periods, whereas the subsidy was originally 40% in the first control period; and
- approval of capital budgets for the planned expansion projects including terminal 2 and related infrastructure.

- **Non-aero Revenue:** All revenue other than aero revenue, such as revenue from cargo handling, ground handling, fuel sales, food and beverage sales and duty-free shops, constitutes non-aero revenue. Non-aero revenue has grown at a CAGR of 17% from 2009 to 2018 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. BIAL has undertaken many innovative projects that engage passengers and enhance their experience at the airport.
- **Real Estate Monetization:** BIAL 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.

  After an extensive search that took longer than expected, BIAL has appointed a chief real estate officer who is mandated to complete a real estate master plan and development strategy in the first half of 2019. The aim is to complete at least one real estate project in 2019.

In 2018 passenger traffic grew 29.1% over the previous year to 32 million passengers and cargo handled grew 12.9%. Based on IFRS, BIAL's revenue for 2018 grew 6% to $234 million although, for the reasons described below, profit after tax declined 1% to $99 million and free cash flow after maintenance capex declined 50% to $73 million.

For the remaining period of the second control period, BIAL's aero revenue and total profits will be significantly lower because tariffs have been reduced to compensate for the higher tariff achieved in the first control period and part of the second control period. This situation, which was anticipated in BIAL's financial plans, will persist until the end of the second control period in March 2021. This is the reason for the depressed financial performance described above. Nevertheless, we estimate that BIAL will generate a total ROE of 17.8% for the second control period and an ROE of 17% for the combined control periods 1 and 2.

BIAL has entered a phase of significant investment to expand its currently designed capacity of 20 million passengers to 65 million. The second runway is expected to be completed in 2019, and the contract to construct the second terminal has been awarded, with construction expected to be completed in 2021.

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, has been approved by a syndicate of Indian banks at attractive interest rates.

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 provided for 3% payment-in-kind interest and a redemption premium such that the yield of the NCDs would be 13%. In addition, for $1 million Fairfax India received a 30% equity interest in Sanmar's entire chemicals business.

N. Sankar, the chairman of the Sanmar group, and his son Vijay, the deputy chairman, have grown the group 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 70% 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: it has been in the chemicals business for over 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 increased 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 until recently had a 200 ktpa capacity PVC plant but was producing only at the rate of about 130 ktpa per annum. TCI has completed a major expansion as follows:

- **Phase 1**, To increase production levels of the existing PVC plant to 200 ktpa.
- **Phase 2**, To add a new 200 ktpa PVC plant, a 130 ktpa calcium chloride plant and a 75 ktpa caustic soda by-product line. These are ramping up to full production, with full capacity expected to be attained by 2020, and will take advantage of Sanmar's significant investment and infrastructure in Egypt.

In September 2018 Fairfax India entered an agreement with Sanmar pursuant to which Sanmar will settle the $300 million of bonds plus the 13% combined interest and redemption premium payable for approximately $404 million in total. Fairfax India will invest approximately half the consideration into common shares of Sanmar, increasing its equity ownership interest in Sanmar from 30% to approximately 43%. With this transaction, Sanmar will return 67% of the capital Fairfax India originally invested and we will increase our ownership of Sanmar at an effective equity valuation of approximately $1.0 billion for the whole company.

Sanmar was able to refinance and accelerate the repayment of its debt to Fairfax India because its major capital expenditure project – increasing PVC capacity to 400 ktpa in TCI Egypt – was completed on time and on budget in 2018, thereby removing the major perceived risk to Sanmar's growth plans. As a result of this Sanmar was able to:

- refinance $510 million of old loans of TCI Egypt that were repaid and replaced with longer tenor loans with fewer banks;
- refinance working capital limits of $231 million for Chemplast with only five banks instead of the original 11 banks; and
- feel confident about arranging financing for several other efficient, cost effective and accretive capital expenditure projects with a one to two year EBITDA pay back.

The planned capital expenditure projects are all at Chemplast:

- in Cuddalore, an increase of suspension PVC capacity from 300 to 600 ktpa – investment of $86 million; estimated incremental annual EBITDA of $82 million; timing 2022 – 2023
- in Cuddalore, an increase of suspension PVC capacity from 600 to 900 ktpa – investment of $100 million; estimated incremental annual EBITDA of $80 million; timing 2024 – 2025
- in Karaikal, building a second Chloromethane plant of 45 ktpa capacity – investment of $34 million; estimated incremental EBITDA $33 million; timing 2024 – 2025

In addition to the above, Sanmar also plans to set up, in two phases, a 70 ktpa Paste PVC plant in Cuddalore.

Chemplast again had excellent financial results but TCI, due to an unexpected spike in its key raw material (EDC) price and energy costs, did not deliver their expected financial results. As a result, Sanmar's consolidated financial results in 2018 were below expectations. The spike in the raw material price was caused indirectly by an alumina refinery plant shut down in Brazil. It is not clear how long this situation will last and keep EDC prices elevated.

Based on IFRS, for the year ended December 31, 2018 Sanmar's revenue grew by 10% to $682 million. Net loss in 2018 increased to $91 million from a loss of $85 million in 2017. However, earnings before interest, income tax, depreciation and amortization (EBITDA) for 2018 increased 10% to $100 million.

National Collateral Management Services (NCML)

NCML was Fairfax India's very first investment, completed in August 2015. NCML has operated for over 14 years and is now well positioned to further expand and take advantage of the significant market potential in India's underdeveloped 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 1.9 million metric tons (MT) of storage capacity across 717 warehouses in 16 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 $0.9 billion, NCML has a 33% share of the agricultural commodities' collateral management business in India, offering custodial services to about 76 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 $165 million compared to our investment cost of $174 million.

For the year ended December 31, 2018, NCML had mixed results. While revenue grew 34% to $214.1 million, net earnings declined by 39% to $3.6 million. The increase in revenue was driven by growth in the supply chain business (+45%), the testing and certification division (+46%) and the NBFC business (+41%), partially offset by declines in the collateral management business (−17%), and the commodity and weather intelligence group (−31%). The disappointing net earnings performance was largely as a result of the collateral management business realizing a loss of $0.5 million versus a profit of $3.0 million in 2017, and the higher tax credits in 2017.

Under the leadership of its CEO Sanjay Kaul, assisted by executive director Unupom Kausik, NCML has made significant progress in achieving growth in several of its business verticals while at the same time taking the difficult step of curtailing businesses that exposed NCML to undue risk. NCML continues to focus on expanding and diversifying its client base.

We summarize below the performance of NCML's five 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 2018, it added several new clients, grew revenue by 45% to $177 million and grew profit before tax by 19% to $2.4 million despite being constrained in the second half of 2018 by a general tightening of credit by banks. The innovative program it had developed for port-based services for handling and financing the import of pulses through a credit line from the Export Development Corporation of Canada has still unfortunately not become operational 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. Capacity utilization of warehouse space remained high at around 80% and revenue grew 2% over the previous year to $16.0 million, but profit before tax declined to $0.1 million from a profit of $0.6 million in 2017. Several initiatives have been implemented to further drive capacity utilization and improve storage yields. This division continues to provide a secure platform for supply chain trade finance as well as the NCML finance businesses, despite its low profitability levels.

As you may recall, this division launched a modern warehousing silo vertical by successfully bidding for 16 large concession contracts from the Food Corporation of India. This represents an aggregate capacity increase of 800,000 MT at an estimated total project cost of about $151 million. The project is progressing well, land acquisition for the project is nearing completion and construction has commenced for several of the projects.

Collateral Management: It was a year of transition for this division which offers custodial services to about 76 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. This division remained focused on enhancing risk management and strengthening protocols in 2018, resulting in its exit from some high-risk locations; as a result, revenue declined 17% to $9.6 million, resulting in a loss before tax of $0.5 million.

Testing and certification: This division, which provides food and agri-products testing and certification, successfully completed its expansion plan and secured all planned accreditations. With 15 accredited laboratories, it has now emerged as the country's largest network and has signed on reputed clients like IRCTC, Flipkart, Compass, Yum Foods and Café Coffee Day. In 2018 revenue grew by 46% over the previous year to $4.2 million and profit before tax grew by 443% to $0.6 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 2018 it grew revenue by 41% to $4.7 million and achieved profit before tax of $1.4 million. While continuing to pursue increased market share in the warehouse receipt finance market, Nfin diversified its service offerings to several other product categories. During the year Nfin opened five new branches.

Beyond the five above major business groupings, in 2018 NCML's commodity and weather intelligence service and newly launched online commerce portal NCML MktYard all continued to make 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, 2018 the consolidated Fairchem entity grew revenue by 37% to $194 million and net income by 71% to $10 million. Shareholders' equity grew 13% to $74 million, generating an ROE of 13%.

While the two businesses have been merged into one corporate entity, they 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 soya, 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, Arkema 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 24% per year, net earnings have grown on average 33% per year, and the average annual ROE was around 19%.

Based on IFRS, for the year ended December 31, 2018 Fairchem revenue grew by 4% to $37 million, net earnings grew by 65% to $3 million, and shareholders' equity grew 22% to $14 million, generating an ROE of 24%.

In 2018, Fairchem implemented changes in its plant that further debottlenecked its operation and optimized the production process. These changes have resulted in increasing installed capacity from 45,000 to 72,000 metric tons per annum (MTPA) of raw material that can be processed. In 2018 Fairchem processed 39,000 MTPA implying a capacity utilization to year end capacity of 54%. This provides considerable room to grow since the plant can operate at up to 90% of installed capacity. Fairchem has also initiated two capital expenditure projects: both will be financed by a mix of term borrowings and internal accruals and are expected to enter production in 2020:

- a plant to manufacture sterols and higher concentration tochopherols; and
- a plant to manufacture bio-diesel using three by-products of its manufacturing process: palmitic acid, monomer acid and residue.

It has been a year of significant achievement for Fairchem.

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 27,500 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.

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.

Based on IFRS, for the year ended December 31, 2018 Privi revenue grew 48% to $157 million, net earnings grew 59% to $6 million, and shareholders' equity grew 11% to $60 million, generating an ROE of 10%.

This is quite a remarkable result when you consider that on April 26, 2018 there was a major fire at Privi's main production facility. While it is fortunate that there were no injuries as a result of the fire, the fire completely gutted critical production units that impacted all production, all of the raw material and finished goods warehouses and the administrative offices. The entire plant including the production units that were not affected by the fire had to be temporarily shut down. However, Privi was able to open the facility and start operating the plants not affected by the fire in a record time of 29 days. Using third party production facilities in combination with its own production units unaffected by the fire, Privi was able to start supplying all of its products by June 2018.

Around the same time there were fires in two other plants that produce products similar to Privi's, resulting in an acute shortage of certain aroma chemicals and consequently in much higher prices and margins.

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 part of 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. Over the previous five years Saurashtra had 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 kilometres 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 101,000 TEUs in 2018, implying capacity utilization of about 56%. 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 import and export containers. While the ideal mix between the two for maximum efficiency is 50:50; the mix is adjusted each year in order to maximize profitability.

India, in its zeal to improve its "ease-of-doing-business" scores, has implemented changes in its customs clearance processes that simplify the steps and improve the speed at which goods clear customs both for exporters and importers. This reduces the "dwell" time of goods in CFSs, reducing their revenues. Also, some exporters have adopted the "self-sealing exports" methodology which enables them to send their goods directly from their factory to the port, completely bypassing CFSs.

In this changing environment, Saurashtra has managed its export:import mix to a 37:63 mix and maximized its revenue and margin potential.

For the year ended December 31, 2017, due to investments in two new ancillary businesses and the losses incurred in one of them, Saurashtra did not have any net earnings, whereas it had net earnings of $2.0 million in the previous year. For the year ended December 31, 2018, Saurashtra was able to turn this situation around, growing revenue by 20% to $21 million and achieving net earnings of $1.1 million.

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 87% 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, 2018, NSE's revenue grew 13% to $470 million and profit after tax grew 20% to $227 million. The planned initial public offering of NSE has been delayed and is now expected sometime in 2020 or 2021.

Catholic Syrian Bank (CSB)

In February 2018, after a protracted process described below in more detail, we entered an agreement to invest approximately $168 million for a 51% equity ownership in CSB. Subsequently we completed an initial closing of the transaction and invested approximately $60 million in equity shares and warrants (exercisable for equity shares) of CSB resulting in an equity interest of 19.7%. The remaining consideration is payable within 18 months, upon which our ownership will go to 51% on a fully diluted basis.

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.

In May 2017, after several months of negotiations, 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. CSB 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 26 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 revised price and valuation that may be acceptable to us. This was indeed the case, and we 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.

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 418 branches and

270 ATMs across India. With its branches primarily in south India, it focuses on retail, gold and SME loans. Together, these comprise over 75% 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 few years, it has had to take significant write-offs on this portfolio. CSB also owns 37 residential and commercial properties and land banks, some purchased several years ago, and others acquired by enforcement of security.

After Fairfax India's investment in CSB, Mr. Rajendran has put together a strategic direction for CSB focussing on profitability, productivity, efficiency and asset quality. He has set the following goals that CSB will strive to achieve over the next five years: return on assets of 1.5%, return on equity of 18%, net interest margin of 3.9%, revenue per employee of 4 million rupees, cost to income ratio of 46% and net NPAs of 1.1%.

To assist in CSB achieving these objective, Fairfax India was extremely fortunate to have been able to retain the services of Mr. Paresh Sukthankar as a senior advisor. Mr. Sukthankar recently retired from his position as deputy managing director and a member of the Board of Directors of India's leading private sector bank, HDFC Bank.

Financial Position

Fairfax India came into being about four 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 arranged a $225 million two-year secured term loan from 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 arranged a $400 million one-year secured loan from a Canadian bank. In June 2018 Fairfax India arranged a $550 million, one-year secured term loan, with an option to extend for an additional year, with a syndicate of Canadian banks: that loan replaced the above-mentioned $400 million secured term loan. Including the approximately $202 million of the proceeds of the Sanmar loan repayment less current investment commitments, Fairfax India currently has about $372 million for new investments and ongoing expenses.

At December 31, 2018, the financial position of Fairfax India was as follows:

	($ millions)
Undeployed cash and investments[(1)]	303
Secured term loan (from a Canadian bank, maturing in July 2019)	550
Common shareholders' equity	2,117.9
Total debt to equity	26.0%

(1) Includes passive investments in publicly traded Indian companies

Developments in India

In the two years since the end of 2016, India has moved up by 53 places to number 77 in the World Bank Business Report's "ease-of-doing-business" measure. This is a testament to the unrelenting economic reforms that Prime Minister Modi has been implementing since he took office almost five years ago.

We summarize below some of the significant developments in India in 2018:

Economic growth: The economy finally recovered from the twin shocks of demonetization (the withdrawal from circulation of 80% of the currency in circulation) and the implementation of a goods and services tax (the GST replaced a myriad of archaic multilevel taxes and domestic excise duties). GDP growth accelerated to 8.0% in the April – June quarter of 2018, led by consumption and investment spending. In the July – September quarter of 2018, while consumption growth decelerated, investment growth continued to be strong, resulting in an overall GDP growth of 7.0%. In the October – December quarter of 2018, while investment growth remained robust, consumption growth decelerated further (with the slowdown being more pronounced in government's share of consumption expenditure), resulting in an overall GDP growth of 6.6%. Due to the slight moderation expected during the six months beginning October 2018, GDP growth for the fiscal year ending March 2019 is projected to be 7.0%, slightly lower than the previous year's growth rate of 7.2%.

Demonetization: We have previously 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. Two years 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 9.3 million increase in individuals filing income tax returns. Personal income tax collection increased by approximately 20% in 2018 after a robust 20% growth in the previous two years, resulting in additional tax revenues of approximately $18 billion in the last two years.

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. The digital payment platform UPI, which handled 145 million transactions with a value of $2 billion in December 2017, handled 620 million transactions with a value of $15 billion in December 2018.

Aadhaar: India's 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. In 2017 the government passed the Aadhaar Act to enable targeted delivery of government subsidies and services using the Aadhaar identity. The Supreme Court of India, during hearings on privacy concerns pertaining to Aadhaar, approved its use for payment of subsidies and government benefits to individuals. However, private companies would not be able to use the Aadhaar database for complying with know your customer (KYC) purposes. The government is increasingly relying on Aadhaar-based transfers and has so far used Aadhaar to transfer $85 billion under various programs into the accounts of beneficiaries.

Recapitalization of public sector banks: Resolving Indian public sector 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. This should provide banks enough capital to 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. The government spent $12.9 billion in bank recapitalization in the year ending March 2018 and budgeted $9.3 billion for the 2019 fiscal year, of which, through November 2018, $3.3 billion had been spent.

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 have been initiated against 40 accounts that represent almost a third of total NPAs. The proceedings under the new insolvency and bankruptcy codes have produced mixed results. While through December 2018, 1,484 cases have been admitted for resolution, 898 cases remain unresolved, including 275 cases that have exceeded the stipulated time limit of 270 days. Of the 12 largest NPA accounts against which insolvency proceedings had been initiated, only four have been successfully resolved, even after 18 months. In total, though, the National Company Law Tribunal has helped recover approximately $11 billion due from NPA accounts in 2018.

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 was intended 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 now operating well. 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. The number of taxpayers registered on the GST network and required to file tax returns increased from 6.7 million earlier to 9.8 million in November 2018.

However, GST collections have been below expectation, with a collection run rate of $13.6 billion per month versus a plan of $15.3 billion.

Moderate inflation: Due to unusually low food price inflation, consumer price inflation (CPI) remained benign at 3.7% from April to December 2018. However, despite the recent fall in crude oil prices, core inflation has edged up, reaching 5.7% in December 2018. It is expected that over the next year, inflation will remain in the target range of the Monetary Policy Committee.

Political stability: With victories in state elections in Gujarat and India's largest state of Uttar Pradesh (population of over 200 million) in 2017, Prime Minister Modi's BJP party had appeared to have consolidated its hold over power. However, this position was diluted when the BJP lost elections in three states – Chhattisgarh, Madhya Pradesh and Rajasthan – in 2018. The rise of the opposition parties and a move by them to form coalitions to oppose the BJP in national elections scheduled for April/May 2019 might make for a much closer contest this time.

Mr. Modi is already campaigning hard and in February 2019 he proposed a very stimulative interim budget that is expected to support his party. The budget proposed the following measures:

- income support of 6,000 rupees per year to marginal farmers with fewer than two hectares of land (approximately 120 million farmers would qualify);
- an interest subsidy of 2% for loans to farmers;
- a pension scheme for workers over 60 years old in the unorganized sector with a monthly income below 15,000 rupees (approximately 100 million people would qualify); and
- an interest subsidy of 2% for loans to small and micro enterprises.

The government has also put in place a large-scale national health insurance program that is currently in the early stages of implementation (approximately 500 million of the poorest people would benefit from this program).

As we end our first four years of operation, we would like to acknowledge the strong support and leadership provided by Jennifer Allen, Chief Financial Officer, Keir Hunt, General Counsel and Corporate Secretary, and John Varnell, Vice President of Corporate Affairs. We would like to welcome S. Gopalakrishnan (Gopal), formerly the Head of Investments at ICICI Lombard, to the Hamblin Watsa Toronto team as a Managing Director. Gopal will be a member of the team working on Indian Investments. We would also like to thank our independent directors, Deepak Parekh, Tony Griffiths, Chris Hodgson, Alan Horn and Lauren Templeton, 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 11, 2019 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 8, 2019

Chandran Ratnaswami
Chief Executive Officer

V. Prem Watsa
Chairman