

CANADIAN PACIFIC RAILWAY CO/NEW

Form 6-K

March 07, 2005

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 6-K

Report of Foreign Issuer

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

For the month of March 2005

CANADIAN PACIFIC RAILWAY LIMITED
(Commission File No. 1-01342)
CANADIAN PACIFIC RAILWAY COMPANY
(Commission File No. 1-15272)
(translation of each Registrant's name into English)

Suite 500, Gulf Canada Square, 401 9th Avenue, S.W., Calgary, Alberta, Canada, T2P 4Z4
(address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F ☐ Form 40-F ☒

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ☐ No ☒

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):
82-_____

This Report furnished on Form 6-K shall be incorporated by reference into each of the following Registration Statements under the Securities Act of 1933 of the registrant: Form S-8 No. 333-13962 (Canadian Pacific Railway Limited), and Form S-8 No. 333-13846 (Canadian Pacific Railway Limited).

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DOCUMENTS FILED AS PART OF THIS REPORT ON FORM 6-K
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DOCUMENTS FILED AS PART OF THIS REPORT ON FORM 6-K

1. Annual Report for the year ended December 31, 2004.¹
2. Letter of Canadian Pacific Railway dated March 7, 2005 addressed to the Alberta Securities Commission attaching earnings coverage ratios for the twelve-month period ended December 31, 2004.²
3. Letter of PricewaterhouseCoopers LLP dated March 7, 2005 consenting to the incorporation by reference of its audit report dated February 11, 2005 in the short form prospectus of Canadian Pacific Railway Company dated May 6, 2004.
4. Shareholder Rights Plan Agreement dated as of July 30, 2001 and Amended and Restated as of February 19, 2002 between Canadian Pacific Railway Limited and Computershare Trust Company of Canada as Rights Agent.

¹ For the purposes of this Report on Form 6-K, all pages except pages 4 through 88 of the Registrants' 2004 Annual Report referred to above shall be deemed furnished to the Securities and Exchange Commission as part of this Report on Form 6-K. Pages 4 through 88 of the Registrants' 2004 Annual Report are being filed currently with the Securities and Exchange Commission as part of the Registrants' Annual Report on Form 40-F.

² The updated earnings coverage calculations included in this Report furnished on Form 6-K shall be incorporated by reference into, or as an exhibit to, as applicable, each of the following Registration Statements under the Securities Act of 1933 of the registrant: Form S-8 No. 333-13962 (Canadian Pacific Railway Limited), Form S-8 No. 333-13846 (Canadian Pacific Railway Limited), and Form F-9 No. 333-114696 (Canadian Pacific Railway Company).

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SIGNATURES

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

CANADIAN PACIFIC RAILWAY LIMITED
CANADIAN PACIFIC RAILWAY COMPANY
(Registrants)

Date: March 7, 2005

By:

Signed: Robert V. Horte

Name: Robert V. Horte

Title: Corporate Secretary

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our company

Canadian Pacific Railway's 14,000-mile track network, ocean and Great Lakes port service, cross-border gateways and extensive connections with other railways provide shippers with access to fast-growing world markets and efficient reach into markets across North America, including major business centres in Mexico.

CPR aspires to be the most fluid railway in North America and intends to translate gains in fluidity into operating leverage that will generate value for shareholders.

Canadian Pacific Railway quickly expanded its inventory of co-operative arrangements with other railways in 2004 to generate greater fluidity and more capacity in key areas of its network and to increase traffic density and operating efficiencies on its track network in the northeastern United States.

The new arrangements include directional running, which turns the parallel tracks of two railways into dedicated eastbound and westbound lanes, trackage rights, which give one railway authority to operate its own trains over another railway's track, haulage services, under which one railway moves another's trains, and enhanced freight interchange and improved access to terminals and service areas.

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A CPR locomotive pulls a Norfolk Southern Railway locomotive and freight over the Nicholson Viaduct near Scranton, Pa. CPR entered into a series of co-operative arrangements with Norfolk Southern in 2004. The new arrangements have increased traffic density and revenue and reduced costs on CPR's network in the northeastern U.S.

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CPR's five key business thrusts:

Safety CPR continued to be an industry leader in safe train operations in 2004.

Freight Revenue grew by 11 % in 2004, excluding the impact of translating U.S. dollar-denominated revenues into the stronger Canadian dollar.

Yield the minimum growth target was 1.5 %, with a stretch goal of 2 % in 2004. We surpassed our stretch goal.

Productivity revenue-producing freight tonnage compared with train-miles accumulated in moving the tonnage provides a strong indicator of productivity, asset utilization and fluidity. In 2004, CPR grew revenue tonnage by 8 % while train miles increased by just one-quarter of that rate.

Capacity Management co-production, alliances and interline service agreements, right-sizing train crews and locomotive power, and disciplined execution of our Integrated Operating Plan, CPR's scheduled railway model, had a positive impact on fluidity in 2004. Improved fluidity is creating more revenue-generating capacity on CPR's existing track network and enhancing service quality – a benefit for shareholders and shippers.

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chairman's 2004 letter to shareholders

J.E. NEWALL

Chairman of the Board

This is an exciting time for Canadian Pacific Railway. The company and, indeed, the railway industry are reclaiming their position as an engine of economic expansion.

In a year of strong demand for rail freight services, CPR was demonstrating how to:

utilize every available ton of capacity in the existing rail infrastructure;

plan for potential expansion to deliver value to shareholders; and

take the lead in convincing disparate and sometimes dissenting parties to coalesce around the old-fashioned notion of working together for the greater good.

To these ends, the focus of the 16,000 employees of CPR in both Canada and the United States shifted squarely in 2004 on increasing fluidity over the network, using asset velocity to create more capacity in tight areas as demand escalated. The results in terms of freight volumes certainly surpassed expectations.

Looking ahead, management has developed an infrastructure expansion plan that would potentially see capital invested incrementally, matched to areas of high-value growth. Most importantly, management set conditions for investing capital that will ensure there is a compelling value proposition for shareholders associated with any future expansion.

CPR also facilitated the bringing together of governments, shippers, ports, railways, truckers and ocean shipping lines for frank discussions about economic expansion and its dependence on transportation infrastructure. The result is an emerging common recognition that the most effective infrastructure planning needs to involve all the players in the supply chain, supported by public policy that creates the right climate for investment.

These achievements in 2004 will serve shareholders well. Ultimately, they will result in CPR being able to grow its business while minimizing the capital required to accommodate the growth.

The Board's performance and that of its Committees was also satisfying in 2004. Our achievements included:

further strengthening financial controls and governance procedures;

advancing the company's strategic business plan; and

ensuring meaningful succession planning is in place across senior executive ranks.

I am pleased that CPR was among the top three in *The Globe and Mail* newspaper's 2004 rankings of best corporate governance practices by Canadian industrial companies.

CPR's balance sheet continued to strengthen and the company's net-debt to net-debt-plus-equity ratio improved to 43 % in 2004, from 52 % when CPR was spun off from Canadian Pacific Limited in 2001.

My message to shareholders this year would not be complete without recognizing the important contribution of Jacques Lamarre, President and Chief Executive Officer of SNC-Lavalin Group Inc., who left the CPR Board in 2004. Jacques' service, which began with CPR's spin-off, provided valuable experience and insight at a critical time in the company's evolution.

In serving shareholders, the Board is conscious of CPR's long and colourful history—one with a footprint in three centuries. Our focus is clearly on the future, and it should surprise no one that today, as world trade expands to unprecedented levels and as new economic giants emerge, CPR is more relevant than ever and stands ready to capitalize on the opportunities that lie ahead.

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president's 2004 letter to shareholders

ROBERT J. RITCHIE

President and Chief Executive Officer

Canadian Pacific Railway demonstrated the power and value of its business model and franchise in 2004, moving decisively to make the most of a robust transportation market. Across our railway, employees everywhere were engaged in exploiting growing world trade, including an explosion in trade with China, and putting railway muscle behind economic expansion in North America.

Our people showed what they can achieve when opportunity and challenge surface together. The result was a CPR that was firing on all cylinders – moving more freight than ever before and moving it increasingly faster – as demand for freight service escalated steadily. Pricing reflected the growing value that shippers are placing on CPR's transportation service in a market made tight by rising demand in almost every area.

Growth in intermodal, which consists mainly of containerized consumer goods, outstripped every other line of business and this highly service-sensitive area surpassed \$1 billion in revenue for the first time. The entire bulk sector was strong, led by revenue

growth in coal, sulphur and fertilizers. Industrial products revenue increased, reversing a three-year decline.

We earned these results by advancing our leading position as a low-cost bulk carrier, becoming an increasingly efficient and reliable intermodal service provider and offering an increasingly attractive alternative to trucks for merchandise freight. At the root of these improvements are investments CPR has made to build one of the most modern, reliable locomotive fleets in North America, provide customers higher capacity freight cars, increase track capacity and rebuild our IT foundation, together with innovation, ingenuity and discipline in train design and operations.

Greater fluidity emerged as the most compelling component of our business model and we generated strong results. During a year in which the North American rail industry had to cope with capacity strains, CPR was an industry leader in fluidity, as measured by train speed. Productivity also rose dramatically, with revenue tonnage growing 8 % while train-miles accumulated in moving the tonnage increased by just one-quarter of that rate.

The year's headwinds came in the form of extremely high world oil prices and continued strength in the Canadian dollar against the U.S. dollar. CPR countered with an improved fuel surcharge mechanism in 2004 that adjusts rates

more quickly as world

prices fluctuate, and continued to use long-term debt denominated in U.S. dollars as a natural hedge against the Canadian dollar's rise.

CPR exceeded its freight revenue growth target for 2004, generating a 7 % increase. Freight revenue would have grown 11 % had it not been for the substantial appreciation in the Canadian dollar.

All told, the combination of high fuel prices and the stronger Canadian dollar took approximately \$55 million out of operating income. Despite this impact, operating income, excluding other specified items ⁽¹⁾, rose 8 % to \$789 million in 2004, compared with \$730 million in 2003. CPR's operating ratio, excluding other specified items⁽¹⁾, improved to 79.8 % in 2004, compared with 80.1 % in 2003.

Income and earnings per share grew 10 % to \$361 million or \$2.27 per diluted share, excluding foreign exchange gains on long-term debt and other specified items ⁽¹⁾.

Across CPR, we are concentrating on execution, ensuring that all assets are being utilized to their fullest extent. This means maximizing train throughput in every track corridor, maximizing capacity on every train, keeping assets flowing with greater velocity and giving our people the tools and training to maximize their productivity.

Co-operative arrangements with other railways and disciplined execution of our Integrated Operating Plan are key

⁽¹⁾ Further information, including foreign exchange gains and losses on long-term debt and other specified items, is available on page 8.

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strategies behind our fluidity drive. CPR entered into a series of co-operative arrangements in 2004, including track-sharing and access to terminals. These arrangements in western Canada, central Canada and the northeastern U.S. will reduce costs, improve service for shippers, increase capacity in areas where traffic density is high and increase traffic density in areas where capacity is underutilized. They have helped address the high demand on our western corridor, particularly in the Greater Vancouver area, and have dramatically improved the financial performance of our northeastern U.S. franchise.

CPR is also ready to lay down track to expand our network in high-growth corridors if conditions are right. We have designed a phased, multi-year expansion program at a cost of approximately \$500 million, focused mainly on corridors between Moose Jaw, Saskatchewan, and Vancouver. Our program, with four discrete phases, would increase train capacity by one third. Importantly, the phased approach would enable CPR to meter the rate of expansion in lockstep with the rate of traffic growth to ensure the quickest possible payback on each incremental investment.

Currently, we are considering only the first phase, which would cost approximately \$160 million. It would be completed in a single construction season and increase train capacity west of Moose Jaw by more than 10%. However, this cannot happen before the Canadian government provides a clear signal of regulatory stability a position supported by the majority of our customers.

Should expansion go ahead, it will be a compelling value proposition for our shareholders. Meanwhile, we are committed to getting the most out of our current network. As fluidity improves, subsequent expansion phases could be deferred, conserving capital for shareholders while still growing our business.

CPR entered 2005 on a very solid footing, with commodity and transportation markets strong and 600 new train crew personnel trained and ready to handle the growing demand. Our focus on fluidity will be relentless. We expect

revenue growth of 6 % to 8 % in 2005 and we intend to drive more of this growth to the bottom line as productivity and efficiency continue to improve. We will grow strategically, targeting high-yield traffic against CPR's capacity. CPR will continue building on the innovative service design and operational improvements created in our bulk commodity and intermodal sectors. The best elements will be applied to the merchandise sector, where we will create a more efficient collection and delivery system to improve service and leverage more value in the marketplace.

Safety is and always will be our Number One priority. In 2004, CPR continued to be an industry leader in safe train operations and our employees achieved an all-time low in personal injuries. Sadly, these accomplishments were overshadowed by the loss in work-related incidents of three of our fellow employees, David Rutherford, Christopher Lewis and Gary Kinakin. These tragic events reinforce the importance of safety for our employees and their families.

In closing, I wish to recognize the support and guidance of our Chairman and Board of Directors and the accomplishments of our 16,000 talented employees. All of us share the excitement about CPR's prospects for the future. The Pacific in our company's name has never been more meaningful, nor more promising, as the world witnesses China's emergence as a trade powerhouse and India's economy is experiencing strong growth. Our railway serves some of the world's best farmland for growing grain. We serve the world's main source of potash for fertilizer. We link major ports with the consuming public. We have been doing this for 120 years and we are poised to do it better than ever before.

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management's discussion and analysis

February 21, 2005

This Management's Discussion and Analysis (MD&A) supplements the Consolidated Financial Statements and related notes for the year ended December 31, 2004. Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars. All information has been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

business profile and strategy

BUSINESS PROFILE

Canadian Pacific Railway Limited and its subsidiaries (collectively CPR or the Company) operate a transcontinental railway in Canada and the United States and provide logistics and supply chain expertise. The Company provides rail and intermodal transportation services over a network of approximately 13,800 miles, serving the principal business centres of Canada, from Montreal, Quebec, to Vancouver, British Columbia, and the U.S. Northeast and Midwest regions. CPR feeds directly into the U.S. heartland from the East and West coasts. Agreements and commercial arrangements with other carriers extend CPR's market reach east of Montreal in Canada, throughout the U.S. and into Mexico. CPR transports bulk commodities, merchandise freight and intermodal traffic. Bulk commodities include grain, coal, sulphur and fertilizers. Merchandise freight consists of finished vehicles and automotive parts, and forest and industrial products. Intermodal traffic consists largely of high-value, time-sensitive consumer products transported in overseas containers that can be handled by train, ship and truck, and in domestic containers and trailers that can be moved by train and truck.

STRATEGY

CPR's goals are to become the preferred business partner for rail-based transportation services in North America and to be at the forefront of the railway industry in operating profitability and return on capital employed. Its principal strategies to accomplish these goals include maximizing the strengths of its North American railway franchise by operating a low-cost scheduled railway, developing new products and services in co-operation with customers and partners, and extending the reach of the franchise through marketing and operating partnerships, as well as agreements and commercial arrangements with other railways and transport companies in North America. CPR's overall marketing and sales activities within each of its lines of business are focused on targeted growth, product efficiency and maximizing value from existing assets.

ADDITIONAL INFORMATION

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Additional information about CPR, including Consolidated Financial Statements, MD&A, Annual Information Form, press releases and other required filing documents, is available on SEDAR at www.sedar.com in Canada, on EDGAR at www.sec.gov in the U.S. and on the Company's Website at www.cpr.ca.

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highlights summary

For the year ended December 31 (in millions, except per-share data)

	2004	2003 ⁽¹⁾	2002 ⁽¹⁾
Revenues	\$ 3,902.9	\$ 3,660.7	\$ 3,665.6
Operating expenses	3,114.4	2,931.1	2,821.6
Operating income, before the following:	788.5	729.6	844.0
Special (recovery) charge for labour restructuring and asset impairment	(19.0)	215.1	
Loss on transfer of assets to outsourcing firm		28.9	
Special charge for environmental remediation	90.9		
Operating income	716.6	485.6	844.0
Other charges	36.1	33.5	21.8
Foreign exchange gains on long-term debt (FX on LTD)	(94.4)	(209.5)	(13.4)
Interest expense	218.6	218.7	242.2
Income tax expense	143.3	41.6	105.9
Net income	\$ 413.0	\$ 401.3	\$ 487.5
Basic earnings per share	\$ 2.60	\$ 2.53	\$ 3.08
Diluted earnings per share	\$ 2.60	\$ 2.52	\$ 3.06

Total assets	\$ 10,499.8	\$ 9,956.7	\$ 9,664.3
Total long-term financial liabilities	\$ 5,229.2	\$ 5,347.5	\$ 4,798.2
Dividends paid (per share)	\$ 0.515	\$ 0.510	\$ 0.510

⁽¹⁾ Certain prior period figures have been restated to conform with presentation adopted in 2004.

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operating results

CPR's net income for the year ended December 31, 2004, was \$413.0 million, up \$11.7 million from \$401.3 million in 2003 and down \$74.5 million from \$487.5 million in 2002. The increase in net income in 2004 from that in 2003 was due to higher revenues (discussed further in this MD&A under the heading "Revenues"), partially offset by:

- increased costs for compensation and benefits, fuel, depreciation and amortization, and purchased services and other expenses (discussed further in this MD&A under the heading "Operating Expenses, Before Other Specified Items"); and

- a decrease of \$115.1 million in before-tax (\$130 million after tax) foreign exchange gains on long-term debt ("FX on LTD") in 2004, compared with FX on LTD in 2003.

The increase in net income in 2004 was also due to:

- a special charge of \$215.1 million before tax (\$141.4 million after tax) for a restructuring initiative and an asset impairment charge taken in the second quarter of 2003;

- a loss on the transfer of assets to an outsourcing firm of \$28.9 million before tax (\$18.4 million after tax) taken in the fourth quarter of 2003; and

- a positive adjustment of \$19.0 million before tax (\$12.4 million after tax) taken in 2004 for the reversal of a portion of the special charge for restructuring taken in 2003.

These charges were partially offset by adjustments to 2004 earnings for a special charge for environmental clean-up costs of \$90.9 million before tax (\$55.2 million after tax).

The above-mentioned items are discussed further under the subheading "Other Specified Items" in this MD&A.

Net income in 2003 decreased from that in 2002 mainly due to the special charge and the loss on transfer of assets taken in 2003, partially offset by an after-tax FX gain on LTD of \$224.4 million in 2003, compared with an after-tax FX gain on LTD of \$16.7 million in 2002. FX on LTD is discussed further under the subheading "Foreign Exchange Gains (Losses) on Long-Term Debt".

The Company had operating income in 2004 of \$716.6 million, an increase of \$231.0 million from \$485.6 million in 2003 and a decrease of \$127.4 million from \$844.0 million in 2002. The increase in 2004, compared with 2003, was mainly due to:

- higher revenues resulting from increased freight volumes and rates in 2004;

- the special charge and the loss on transfer of assets taken in 2003; and

- the reversal in 2004 of a portion of the 2003 restructuring special charge.

These increases were partially offset by:

- the special charge for environmental costs taken in 2004;

- increased costs in 2004 for compensation and benefits, fuel, depreciation and amortization, and purchased services and other expenses; and

- the net effect of Foreign Exchange on U.S. dollar-denominated revenues and expenses.

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The decline in 2003, compared with 2002, was mainly due to the net effect of Foreign Exchange on U.S. dollar-denominated revenues and expenses, the restructuring special charge and the loss on transfer of assets, lower grain volumes in the first half of 2003 due to drought on the Canadian prairies, higher fuel prices and increased costs as a result of service disruptions in the first quarter of 2003 caused by severe winter weather conditions and derailments.

Diluted earnings per share (EPS) in 2004 was \$2.60, an increase of \$0.08 from \$2.52 in 2003 and a decrease of \$0.46 from \$3.06 in 2002. Diluted EPS is calculated by dividing net income by the weighted average number of shares outstanding, adjusted for the dilutive effect of outstanding stock options, as calculated using the Treasury Stock Method. This method assumes options that have an exercise price below their market price are exercised and the proceeds are used to purchase common shares at the average market price during the period.

The Company's operating ratio was 79.8 % in 2004, compared with 80.1 % in 2003 and 77.0 % in 2002. The operating ratio, which excludes other specified items, provides the percentage of revenues used to operate the railway.

EFFECT OF FOREIGN EXCHANGE ON CPR'S EARNINGS

Fluctuations in Foreign Exchange affect CPR's results because U.S. dollar-denominated revenues and expenses are translated into Canadian dollars. U.S. dollar-denominated revenues and expenses are reduced when the Canadian dollar strengthens in relation to the U.S. dollar. Operating income is also reduced, because more revenues than expenses are generated in U.S. dollars. Fluctuations were significant in 2004 and 2003, as the average foreign exchange rate for converting U.S. dollars to Canadian dollars decreased to \$1.30 in 2004 from \$1.41 in 2003 and \$1.57 in 2002. The table on page 8 shows the approximate effect of Foreign Exchange on CPR's revenues and expenses in 2004 and 2003. The effect of Foreign Exchange on 2002 revenues and expenses was not significant.

On average, a \$0.01 increase in the Canadian dollar reduces annual operating income by approximately \$3 million. As a result, Foreign Exchange fluctuations had a substantial impact on CPR's operating income in 2004 and 2003. From time to time, the Company uses foreign exchange forward contracts in respect of hedging the effects of Foreign Exchange transaction gains and losses and other economic effects on the Company's business. In addition, a portion of the U.S. dollar-denominated long-term debt has been designated as a hedge of the Company's net investment in self-sustaining foreign subsidiaries. CPR's hedging instruments are discussed further under the heading Financial Instruments in this MD&A. The effect of Foreign Exchange on CPR's results is further discussed under the heading Foreign Exchange in this MD&A.

The Company has assumed that the average foreign exchange rate for converting U.S. dollars to Canadian dollars will be \$1.25 in 2005. This assumption has been built into all forecasts discussed in this MD&A.

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For the year ended December 31 (in millions, except foreign exchange rate)	2004	2003
Average annual foreign exchange rate	\$ 1.30	\$ 1.41
Freight revenues		
Grain	\$ 25	\$ 38
Coal	8	12
Sulphur and fertilizers	14	17
Forest products	17	25
Industrial products	21	32
Automotive	16	25
Intermodal	26	37
Other revenues	3	6
Total revenues	130	192
Operating expenses		
Compensation and benefits	28	36
Fuel	24	29
Materials	3	5
Equipment rents	16	23
Depreciation and amortization	5	8
Purchased services and other	23	36
Total operating expenses	99	137
Operating income	31	55
Other expenses		
Other charges	3	1
Interest expense	13	22
Income tax expense, before FX on LTD and other specified items	3	10
Income, before FX on LTD and other specified items	\$ 12	\$ 22

⁽¹⁾ These measures have no standardized meanings prescribed by Canadian GAAP and, therefore, are unlikely to be comparable to similar measures of other companies.

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non-gaap earnings

CPR presents non-GAAP earnings to provide a basis for evaluating underlying earnings trends that can be compared with results in the prior periods. Non-GAAP earnings exclude foreign currency translation effects on long-term debt, which can be volatile and

short term, as well as other specified items that are not among CPR's normal ongoing revenues and operating expenses. A reconciliation of income, before FX on LTD and other specified items, to net income, as presented in the financial statements, is detailed in the table below.

It should be noted that CPR's earnings, before FX on LTD and other specified items, as described in this MD&A, have no standardized meanings and are not defined by Canadian GAAP and, therefore, are unlikely to be comparable to similar measures presented by other companies.

summarized statement of consolidated income

(reconciliation of non-GAAP earnings to GAAP earnings)

For the year ended December 31 (in millions) (unaudited)	2004	2003 ⁽¹⁾	2002 ⁽¹⁾
Revenues	\$ 3,902.9	\$ 3,660.7	\$ 3,665.6
Operating expenses, before other specified items ⁽²⁾	3,114.4	2,931.1	2,821.6
Operating income, before other specified items ⁽²⁾	788.5	729.6	844.0
Other charges	36.1	33.5	21.8
Interest expense	218.6	218.7	242.2
Income tax expense, before income tax on FX on LTD and other specified items ⁽²⁾	172.4	147.3	181.2
Income, before FX on LTD and other specified items ⁽²⁾	361.4	330.1	398.8
Foreign exchange gains on long-term debt			
FX on LTD gain	94.4	209.5	13.4
Income tax on FX on LTD		14.9	3.3
FX on LTD (net of tax)	94.4	224.4	16.7
Other specified items			
Special recovery (charge) for labour restructuring and asset impairment	19.0	(215.1)	
Loss on transfer of assets to outsourcing firm		(28.9)	
Special charge for environmental remediation	(90.9)		
Income tax on special charges	29.1	84.2	
Special charges and loss on transfer of assets (net of tax)	(42.8)	(159.8)	
Revaluation of future income taxes		59.3	

Effect of increase in tax rates		(52.7)	
Income tax recovery			72.0
Net income	\$ 413.0	\$ 401.3	\$ 487.5

(1) Certain prior period figures have been restated to conform with presentation adopted in 2004.

(2) These earnings measures have no standardized meanings prescribed by Canadian GAAP and, therefore, are unlikely to be comparable to similar measures of other companies. Other specified items are described under the sub-heading Other Specified Items .

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Income, before FX on LTD and other specified items, was \$361.4 million in 2004, an increase of \$31.3 million from \$330.1 million in 2003 and a decrease of \$37.4 million from \$398.8 million in 2002. Freight volumes increased in 2004, compared with 2003. Additional income generated by this growth was

partially offset by the negative effect of Foreign Exchange on U.S. dollar-denominated revenues and expenses, an increase in volume-related expenses and in labour costs due to inflation, incentive compensation, training and benefits, and costs and lost revenues associated with an avalanche in the first quarter of 2004. The Company

transported higher freight volumes in 2003, compared with 2002. However, additional income generated by this growth was more than offset by the negative effect of Foreign Exchange on U.S. dollar-denominated revenues and expenses, severe winter weather conditions, derailments and persistently high fuel prices.

non-gaap performance indicators

(reconciliation of non-GAAP EPS to GAAP EPS)

For the year ended December 31 (unaudited)	2004	2003 ⁽¹⁾	2002 ⁽¹⁾
Diluted EPS, as determined by GAAP	\$ 2.60	\$ 2.52	\$ 3.06
Diluted EPS, related to FX on LTD net of tax	(0.59)	(1.41)	(0.11)
Diluted EPS, related to other specified items net of tax	0.26	0.96	(0.45)
Diluted EPS, before FX on LTD and other specified items ⁽²⁾	\$ 2.27	\$ 2.07	\$ 2.50

⁽¹⁾ Certain prior period figures have been restated to conform with presentation adopted in 2004.

⁽²⁾ These earnings measures have no standardized meanings prescribed by Canadian GAAP and, therefore, are unlikely to be comparable to similar measures of other companies. Other specified items are described under the sub-heading Other Specified Items .

Diluted EPS, before FX on LTD and other specified items, was \$2.27 in 2004, an increase of \$0.20 from \$2.07 in 2003 and a decrease of \$0.23 from \$2.50 in 2002. Diluted EPS, before FX on LTD and other specified items, is calculated by dividing income, before FX on LTD and other specified items, by the weighted average number of shares outstanding, adjusted for outstanding stock options using the Treasury Stock Method, as described on page 7.

FOREIGN EXCHANGE GAINS (LOSSES) ON LONG-TERM DEBT

Foreign exchange gains and losses on long-term debt arise mainly as a result of translating U.S. dollar-denominated debt into Canadian dollars. These gains and losses, which are calculated as the Canadian dollar strengthens or weakens relative to the U.S. dollar, are mainly unrealized and

can only be realized when net U.S. dollar-denominated long-term debt matures or is settled. Income, before FX on LTD and other specified items, as calculated on page 9, excludes FX on LTD from CPR's earnings in order to eliminate the impact of volatile short-term exchange rate fluctuations.

Foreign exchange gains on long-term debt were \$94.4 million before tax in 2004, \$209.5 million before tax in 2003 and \$13.4 million before tax in 2002. The changes were due to the effect of Foreign Exchange, net of hedging, on U.S. dollar-denominated long-term debt. For every \$0.01 the Canadian dollar strengthens relative to the U.S. dollar, the conversion of U.S. dollar-denominated long-term debt to Canadian dollars creates a pre-tax foreign exchange gain of approximately \$9 million to \$10 million.

OTHER SPECIFIED ITEMS

Other specified items may include, but are not limited to, restructuring and asset impairment charges, gains and losses on non-routine sales of assets, unusual income tax adjustments, and other items that do not typify normal business activities.

Other specified items included a special charge of \$55.2 million after tax (\$90.9 million before tax) taken in the fourth quarter of 2004 to reflect the estimated costs required to clean up environmental contamination at a property in Minnesota. This charge is discussed further in this MD&A in the section Future Trends, Commitments and Risks , under the sub-heading Environmental .

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In the fourth quarter of 2004, net income included a positive adjustment of \$12.4 million after tax (\$19.0 million before tax) to reflect a reversal of a portion of the labour liability included in the special charge taken in the second quarter of 2003. The labour liability included in the special charge was for original estimates of labour liabilities to be incurred to restructure CPR's northeastern U.S. operations. In 2004, CPR achieved a successful new arrangement with Norfolk Southern Railway for operations in the region. The arrangement, which received the first stage of regulatory approval in the fourth quarter of 2004, is delivering efficiency improvements. As a result, the Company did not incur the expected labour restructuring costs and the liability associated with restructuring CPR's northeastern U.S. operations was reversed.

In the second quarter of 2003, a special charge of \$141.4 million after tax (\$215.1 million before tax) was taken to reflect the costs associated with a restructuring initiative that is expected to eliminate 820 jobs by the end of 2005 and to adjust the value of certain under-performing assets to fair value.

In the fourth quarter of 2003, CPR transferred assets to IBM Canada Ltd. (IBM) as part of a seven-year, \$200-million agreement reached with IBM to operate and enhance CPR's computing infrastructure. The arrangement will reduce CPR's costs over time and allow remaining information technology staff to focus on applications that improve efficiency and service. The Company recognized a loss of \$18.4 million after tax (\$28.9 million before tax) on the transfer of these assets. This loss is included in other specified items in 2003.

In December 2003, the Government of Ontario repealed previously announced future income tax rate reductions. The Company's future income taxes, which were previously based on these reduced rates, have been adjusted upwards by \$52.7 million to reflect the change.

Following a revaluation in 2003 of various other components that determine its future income tax liability, the Company reduced the estimate of its future income tax liability by \$59.3 million.

In 2002, there was one other specified item of \$72 million resulting from a favourable income tax ruling relating to prior years.

lines of business

VOLUMES

Higher freight volumes result in increases in revenues and certain variable expenses such as fuel, equipment rents and crew costs. In 2004, total carloads were 2,699 thousand, an increase of 160 thousand, or 6 %, from 2,539 thousand in 2003, and an increase of 252 thousand, or 10 %, from 2,447 thousand in 2002. In 2004, total revenue ton-miles (RTM) were 123,627 million, an increase of 9,028 million, or 8 %, from 114,599 million in 2003, and 15,938 million, or 15 %, from 107,689 million in 2002. These increases in volumes were largely responsible for an increase in freight revenues of 7 % in 2004, compared with the same period in 2003, and a 7 % increase in 2004, compared with 2002. There was also an increase in related variable expenses in 2004, compared with the prior years.

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VOLUMES

For the year ended December 31	2004	2003	2002
Carloads (in thousands)			
Grain	321.2	308.7	291.1
Coal	395.2	359.6	351.8
Sulphur and fertilizers	211.8	189.0	174.4
Forest products	160.3	164.2	174.2
Industrial products	286.3	263.4	271.9
Automotive	171.7	177.2	178.1
Intermodal			