CANADIAN PACIFIC RAILWAY LTD/CN
Form 6-K
January 27, 2004

Table of Contents

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 January, 2004

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 registrants file or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F ______ Form 40-F __X__

Indicate by check mark whether the registrants 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 __X__

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), Form S-8 No. 333-13846 (Canadian Pacific Railway Limited), Form S-3 No. 2-98605 (Canadian Pacific Railway Company) and Form F-9 No. 333-14014 (Canadian Pacific Railway Company).

TABLE OF CONTENTS

Table of Contents

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: January 27, 2004

By: Signed: Robert V. Horte

Name: Robert V. Horte
Title: Senior Assistant Corporate Secretary

Table of Contents

Release: Immediate, January 27, 2004

Fourth-quarter 2003
REBOUND OF GRAIN AND COAL DRIVES STRONG
OPERATING RESULTS FOR CANADIAN PACIFIC RAILWAY

- Ø Freight volumes hit record
- Ø Revenues increase 10%, excluding foreign exchange
- Ø Canadian dollar s strength takes $24 million out of operating income

CALGARY Canadian Pacific Railway (TSX/NYSE: CP) reported net income of $175 million in the fourth quarter of 2003, an increase of 39 per cent over net income of $126 million in the same period of 2002. Diluted earnings per share were $1.10 in the three-month period ending Dec. 31, 2003, compared with $0.79 in the fourth quarter of 2002.

On a non-GAAP basis reflecting ongoing operations, income excluding foreign exchange gains on long-term debt and other specified items was $115 million in the last quarter of 2003, compared with $120 million in the same period a year earlier. Other specified items included a loss of $18 million ($29 million before tax) on assets transferred to IBM Canada Ltd. under an outsourcing agreement, as well as net favourable tax adjustments of $6 million. Diluted earnings per share on this basis were $0.72, compared with $0.75.

Excluding the loss on assets transferred to IBM, CPR s operating income in the fourth quarter of 2003 was $226 million, compared with $238 million in the same period of 2002, and its operating ratio was 76.6 per cent, compared with 75 per cent. CPR s operating income in fourth-quarter 2003 would have increased $12 million over the same period of 2002 had the value of the Canadian dollar remain unchanged. The transfer of assets to IBM was part of a seven-year, $200-million agreement reached with IBM to operate and enhance the railway 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.

CPR presents non-GAAP operating earnings to provide a basis for evaluating underlying earnings trends that can be compared with the prior period s results. 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, which are not among CPR s normal ongoing revenues and operating expenses. The impact of volatile, short-term rate fluctuations is only realized when long-term debt matures or is settled. A reconciliation of income, excluding foreign exchange gains and losses on long-term debt and other specified items, to net income as presented in the financial statements is detailed in the attached Summary of Rail Data.

Table of Contents

Rob Ritchie, President and Chief Executive Officer, said: We prepared for a very strong fourth quarter by increasing capacity. Track maintenance work was accelerated, new locomotives and freight cars were acquired and more train crews were hired. Across the CPR network, freight volumes hit a record high and our bulk commodity exports off the West Coast reached unprecedented growth rates. CPR set a record for train lengths and moved significantly more tonnage per train, generating higher productivity. While we grew our business by $94 million, or 10 per cent, in the fourth quarter, most of this growth was reduced by the significant year-over-year appreciation in the Canadian dollar.

Fluctuations in the value of the Canadian dollar affect CPR s results because U.S. dollar-denominated revenues and expenses are translated into Canadian dollars. A stronger Canadian dollar reduces U.S. dollar-denominated revenues and expenses. Operating income is also reduced, as a higher percentage of revenues than expenses is generated in U.S. dollars. However, this negative impact is largely offset by a reduction in the cost of long-term debt denominated in U.S. dollars. CPR has arranged more than three-quarters of its long-term debt in U.S. dollars as a natural currency hedge.

The Canadian dollar appreciated 19 per cent year over year in the fourth quarter of 2003, reducing revenues by approximately $80 million and operating expenses by approximately $56 million. Operating income was reduced by $24 million and after-tax income excluding foreign exchange on long-term debt and other specified items was reduced by $10 million (or $0.06 per diluted share) as a result of the Canadian dollar s gain.

Total revenues in the fourth quarter of 2003 were $964 million, compared with $950 million in the same period a year earlier. A recovery in the bulk commodity sector that began late in third-quarter 2003 continued through the fourth quarter. An improved Canadian grain crop, strong demand for coal and sulphur, and robust potash markets saw revenue in CPR s bulk sector increase by $40 million, or 11 per cent. In the non-bulk sector, volumes were up by 4 per cent, however, revenues declined by 4 per cent mainly due to the stronger Canadian dollar.

Excluding the loss on assets transferred to IBM, operating expenses were $738 million in the fourth quarter of 2003, compared with $712 million in fourth-quarter 2002. Compensation and benefits expense was up 8 per cent. The increase was driven by inflation, selective hiring to handle business growth, pension costs and incentive compensation expense reflecting the railway s improved performance in the fourth quarter. These higher costs were partially offset by the beneficial impact of foreign exchange and job reductions as CPR met targets related to productivity measures announced in June 2003. Depreciation and amortization expense increased 13 per cent, reflecting CPR s investments in new assets. CPR s fuel expense was impacted by an 8-per-cent increase in freight volumes and a 6-per-cent rise in the price of crude, offset by improved fuel efficiency and foreign exchange.

Table of Contents

12-MONTH RESULTS

For full-year 2003, net income was $399 million, compared with $496 million in 2002. Diluted earnings per share were $2.51, compared with $3.11.

On a non-GAAP basis, income for 2003 excluding foreign exchange gains on long-term debt and other specified items was $336 million, compared with $407 million in 2002. On the same basis, diluted earnings per share were $2.11, compared with $2.56. Other specified items in 2003 included a special charge of $150 million ($228 million before tax) related to productivity measures and a writedown of assets, a loss of $18 million after tax for assets transferred to IBM, and $6 million of net favourable tax adjustments. In 2002, CPR recorded a $72-million benefit from an income tax settlement.

CPR s business fundamentals were solid in 2003, Mr. Ritchie said. We moved record volumes, exceeded targets on price and yield and added close to $200 million worth of business at a constant exchange rate. We also exited the year on a sharp upturn in virtually all of our productivity indicators. However, high fuel prices and foreign exchange were a drain on earnings.

An 11-per-cent year-over-year appreciation in the Canadian dollar against the U.S. dollar in 2003 reduced revenue by approximately $192 million and operating expenses by approximately $136 million. Operating income was reduced by $56 million and after-tax income excluding foreign exchange on long-term debt and other specified items was reduced by $22 million (or $0.14 per diluted share) as a result of the Canadian dollar s gain.

Operating income, excluding other specified items, was $741 million in 2003, compared with $857 million in 2002. On the same basis, CPR s operating ratio was 79.8 per cent, compared with 76.6 per cent.

Total revenues were $3,661 million in 2003, compared with $3,666 million in 2002. CPR s intermodal business posted its eighth consecutive 12-month period of year-over-year growth. Grain revenue returned to a growth position after a drought-induced decline. Sulphur, fertilizers and coal revenues remained strong. Declines in other commodities were due largely to the impact of foreign exchange.

Operating expenses, excluding other specified items, were $2,920 million in 2003, compared with $2,809 million in 2002. Fuel expense increased significantly reflecting a 22-per-cent rise in the price of crude and a 5-per-cent increase in freight volumes, partly offset by hedging and foreign exchange. Higher depreciation and amortization expense reflected CPR s investments in new assets. Materials expense and purchased services and other expense were up due to sharply higher insurance premiums, costs for derailments early in 2003, volume-related expenses and the benefit of a $15-million insurance settlement in the first quarter of 2002, partly offset by foreign exchange.

Table of Contents

Increased compensation and benefits expense reflected selective hiring to handle business growth, inflation and higher pension costs, partly offset by job reductions related to productivity measures, lower incentive compensation expense and foreign exchange. The impact of higher freight volumes on equipment rents was more than offset by foreign exchange.

An increase in other charges was due largely to interest received in 2002 related to an income tax settlement.

The positive impact of foreign exchange and a program to replace existing debt with lower-cost financing reduced CPR s interest expense despite increased borrowing.

For the sixth consecutive year, CPR led the major railways in North America with the safest train operations. It was a record year for on-the-job safety.

FOREIGN EXCHANGE GAINS ON LONG-TERM DEBT AND OTHER SPECIFIED ITEMS

In the fourth quarter of 2003, CPR had a foreign exchange gain on long-term debt of $44 million ($72 million including tax effects), compared with a gain of $6 million ($6 million including tax effects) in the same period of 2002.

Other specified items in fourth-quarter 2003 include a $29-million loss ($18 million after tax) related to assets transferred to IBM Canada Ltd. under an outsourcing agreement, an unfavourable impact of $53 million from an increase in future income taxes resulting from the repeal of previously legislated income tax reductions in Ontario, and a $59-million favourable adjustment related to the revaluation of future income taxes.

For the year, CPR had a foreign exchange gain on long-term debt of $210 million ($224 million including tax effects), compared with a gain of $13 million ($17 million including tax effects) in 2002. Other specified items include a special charge of $228 million ($150 million after tax) comprised of: a $105-million accrual ($69 million after tax) to eliminate 370 job positions in 2003, 330 in 2004, and 120 in 2005; a $116-million writedown ($75 million after tax) of CPR s investment in its Northeastern U.S. operations to more accurately reflect the current fair value of the operations and the impact of restructuring; and a $7-million write-off ($6 million after tax) of non-beneficial assets as CPR absorbs its supply chain management subsidiary into the railway and ends its participation in an industry-wide procurement entity. In addition, CPR had a $29-million loss ($18 million after tax) related to assets transferred to IBM Canada Ltd. under an outsourcing agreement, an unfavourable impact of $53 million from an increase in future income taxes resulting from the repeal of previously legislated income tax reductions in Ontario, and a $59-million favourable adjustment related to the revaluation of future income taxes. In 2002, CPR had a $72-million income tax benefit stemming from a favourable tax court ruling related to prior years.

Table of Contents

Note on Non-GAAP Earnings Measures

It should be noted that CPR s operating results, excluding foreign exchange gains and losses on long-term debt and other specified items, as described in this news release, have no standardized meanings and are not defined by Canadian generally accepted accounting principles and, therefore, are unlikely to be comparable to similar measures presented by other companies. In recent disclosure documents, CPR has referred to certain items excluded from non-GAAP earnings measures as non-recurring items . In this news release and accompanying documents, however, items (other than foreign exchange gains and losses on long-term debt) excluded from non-GAAP earnings measures have been identified as other specified items in compliance with Revised CSA Staff Notice 52-306, as it is not possible to conclude that an item or items similar to one or more of those so designated will not occur within the next two years.

Note on Forward-Looking Statements

This news release contains forward-looking information. Actual future results may differ materially. The risks, uncertainties and other factors that could influence actual results are described in CPR s annual report and annual information form, and may be updated in CPR s consolidated interim financial statements and interim Management s Discussion and Analysis, which are filed with securities regulators from time to time. However, CPR undertakes no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events, or otherwise. Financial results in this news release are reported in Canadian dollars.

Canadian Pacific Railway, recognized internationally for its scheduled railway operations, is a transcontinental carrier operating in Canada and the U.S. Its 14,000-mile rail network serves the principal centers of Canada, from Montreal to Vancouver, and the U.S. Northeast and Midwest regions. CPR feeds directly into America s heartland from the East and West coasts. Alliances with other carriers extend its market reach throughout the U.S. and into Mexico. For more information, visit CPR s website at www.cpr.ca.

Contacts:

Media	Investment Community
Len Cocolicchio	Paul Bell
Tel.: (403) 319-7591	Vice-President, Investor Relations
Cell: (403) 650-2748	Tel.: (403) 319-3591
len_cocolicchio@cpr.ca	investor@cpr.ca

Table of Contents

STATEMENT OF CONSOLIDATED INCOME
(in millions, except per share data)

	For the three months ended December 31	
	2003 (unaudited)	**2002** (unaudited)
Revenues		
Freight	$903.6	$887.2
Other	59.9	63.2
	963.5	950.4
Operating expenses		
Compensation and benefits	302.8	280.2
Fuel	98.0	98.2
Materials	40.6	36.0
Equipment rents	54.6	62.4
Depreciation and amortization	99.0	87.5
Purchased services and other	142.8	148.1
	737.8	712.4
Operating income before the following:	225.7	238.0
Loss on transfer of assets to outsourcing firm *(Note 8)*	28.9	-
Operating income	**196.8**	**238.0**
Other charges *(Note 5)*	13.4	7.6
Foreign exchange (gains) losses on long-term debt	(44.3)	(6.1)
Interest expense *(Note 6)*	50.3	57.5
Income tax expense *(Note 9)*	2.2	53.4
Net income	**$175.2**	**$125.6**
Basic earnings per share *(Note 12)*	**$ 1.11**	**$ 0.79**
Diluted earnings per share *(Note 12)*	**$ 1.10**	**$ 0.79**

See notes to interim consolidated financial statements.

Table of Contents

STATEMENT OF CONSOLIDATED INCOME
(in millions, except per share data)

	For the year ended December 31 2003 (unaudited)	2002 (audited)
Revenues		
Freight	$3,479.3	$3,471.9
Other	181.4	193.7
	3,660.7	3,665.6
Operating expenses		
Compensation and benefits	1,152.6	1,131.1
Fuel	393.3	357.5
Materials	176.8	165.7
Equipment rents	238.2	255.0
Depreciation and amortization	381.5	348.4
Purchased services and other	577.7	551.4
	2,920.1	2,809.1
Operating income before the following:	740.6	856.5
Special charge for labour restructuring and asset impairment *(Note 7)*	228.5	-
Loss on transfer of assets to outsourcing firm *(Note 8)*	28.9	-
Operating income	**483.2**	**856.5**
Other charges *(Note 5)*	33.5	21.8
Foreign exchange (gains) losses on long-term debt *(Note 4)*	(209.5)	(13.4)
Interest expense *(Note 6)*	218.7	242.2
Income tax expense *(Note 9)*	41.8	109.9
Net income	**$ 398.7**	**$ 496.0**
Basic earnings per share *(Note 12)*	**$ 2.51**	**$ 3.13**
Diluted earnings per share *(Note 12)*	**$ 2.51**	**$ 3.11**

See notes to interim consolidated financial statements.

Table of Contents

CONSOLIDATED BALANCE SHEET
(in millions)

	December 31 2003 (unaudited)	December 31 2002 (audited)
Assets		
Current assets		
Cash and short-term investments	$ 134.7	$ 284.9
Accounts receivable	395.7	443.0
Materials and supplies	106.4	108.9
Future income taxes	87.4	72.5
	724.2	909.3
Investments	105.6	92.2
Net properties	8,220.0	8,149.3
Other assets and deferred charges *(Note 10)*	907.3	510.0
Total assets	$9,957.1	$9,660.8
Liabilities and shareholders equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 907.0	$ 984.2
Income and other taxes payable	13.5	92.6
Dividends payable on Common Shares	20.2	20.2
Long-term debt maturing within one year	13.9	400.8
	954.6	1,497.8
Deferred liabilities	671.2	654.4
Long-term debt	3,348.9	2,922.1
Future income taxes	1,307.2	1,200.1
Shareholders equity		
Share capital	1,118.1	1,116.1
Contributed surplus	294.6	291.1
Foreign currency translation adjustments	87.7	122.3
Retained income	2,174.8	1,856.9
	3,675.2	3,386.4
Total liabilities and shareholders equity	$9,957.1	$9,660.8

Commitments and contingencies (Note 14).
See notes to interim consolidated financial statements.

Table of Contents

STATEMENT OF CONSOLIDATED CASH FLOWS
(in millions)

	For the three months ended December 31 2003 (unaudited)	2002 (unaudited)
Operating activities		
Net income	$ 175.2	$ 125.6
Add (deduct) items not affecting cash:		
Depreciation and amortization	99.0	87.5
Future income taxes	(0.9)	49.7
Foreign exchange (gains) losses on long-term debt	(44.3)	(6.1)
Amortization of deferred charges	4.6	5.4
Other	-	6.4
	233.6	268.5
Restructuring payments	(35.8)	(39.6)
Other operating activities, net *(Note 10)*	(318.1)	16.2
Change in non-cash working capital balances related to operations	72.6	126.7
Cash (used in) provided by operating activities	**(47.7)**	**371.8**
Investing activities		
Additions to properties	(151.4)	(170.9)
Other investments	(8.3)	3.0
Net costs from disposal of transportation properties	(1.4)	(6.5)
Cash used in investing activities	**(161.1)**	**(174.4)**
Financing activities		
Dividends on Common Shares	(20.2)	(20.2)
Issuance of Common Shares	1.3	0.1
Net increase (decrease) in short-term borrowing	-	(20.0)
Issuance of long term debt	4.0	-
Repayment of long-term debt	(1.6)	(0.3)
Cash used in financing activities	**(16.5)**	**(40.4)**
Cash position		
Increase (decrease) in net cash	(225.3)	157.0
Net cash at beginning of period	360.0	127.9
Net cash at end of period	$ 134.7	$ 284.9

Net cash is defined as:		
Cash and short-term investments	$ 134.7	$ 284.9

See notes to interim consolidated financial statements.

Table of Contents

STATEMENT OF CONSOLIDATED CASH FLOWS
(in millions)

	For the year ended December 31	
	2003 (unaudited)	**2002** (audited)
Operating activities		
Net income	$ 398.7	$ 496.0
Add (deduct) items not affecting cash:		
Depreciation and amortization	381.5	348.4
Future income taxes	32.0	99.0
Restructuring and impairment charge *(Note 7)*	228.5	-
Foreign exchange (gains) losses on long-term debt *(Note 4)*	(209.5)	