

CANADIAN PACIFIC RAILWAY LTD/CN

Form 6-K

October 25, 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 October, 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 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-_____

The interim financial statements, Management's Discussion & Analysis, and 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. 333-127943 (Canadian Pacific Railway Limited), 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: October 25, 2005

Signed: Donald F. Barnhardt

By: Name: Donald F. Barnhardt
Title: Corporate Secretary

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Release: Immediate, October 25, 2005

**CPR PRODUCES SOLID EARNINGS RESULTS IN THIRD-QUARTER 2005
AS WESTERN CAPACITY EXPANSION NEARS COMPLETION**

CALGARY Canadian Pacific Railway (TSX/NYSE: CP) reported net income increased 15 per cent to \$204 million, or \$1.27 per diluted share in the third quarter of 2005, compared with \$177 million, or \$1.11 per diluted share in the same period of 2004.

SUMMARY OF 3RD QUARTER 2005 COMPARED WITH 3RD QUARTER 2004

Excluding foreign exchange gains on long-term debt and other specified items:

Diluted earnings per share grew 29 per cent to \$0.84 from \$0.65, driven largely by improved yield

Operating income grew 14 per cent to \$249 million

Operating ratio improved 50 basis points to 77.4 per cent

Rob Ritchie, President and Chief Executive Officer of CPR, said: CPR's ability to execute our integrated operating plan was tested under conditions of high demand for service and limitations caused by track work to expand capacity in the west during the quarter. We met service commitments to customers and handled a third-quarter record workload while keeping the expansion on schedule and on budget.

The combination of good service and tight capacity in a high-demand marketplace continued to generate a positive yield environment. We capitalized on this through CPR's quality revenue growth strategy, producing a 12 per cent increase in revenue per carload.

CPR is confident in our full-year projections going into the home stretch of 2005. Market conditions are solid and demand remains strong, Mr. Ritchie said. We also expect to see improved operating efficiency when our western expansion work is complete in the fourth quarter and CPR can take advantage of the new double track, longer sidings and better signal systems.

Revenue increased to \$1,105 million, a third-quarter record, from \$990 million in third-quarter 2004. There were double-digit growth rates in four of CPR's business lines, led by coal at 35 per cent and intermodal at 13 per cent.

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Operating expenses before other specified items were \$855 million in third-quarter 2005, compared with \$771 million in the same period of 2004. The increase was mainly due to higher fuel and compensation and benefits costs. Fuel prices reached record highs, however, CPR recovered almost all of the increase through revenue from its surcharge mechanism, as well as hedging and fuel efficiency measures. A rapid appreciation in CPR's share price drove up stock-based incentive compensation, a large portion of which is marked to market and accounts for almost half of the increase in compensation and benefits costs.

SUMMARY OF 1ST 9 MONTHS 2005 COMPARED WITH 1ST 9 MONTHS 2004

Net income up 44 per cent to \$408 million, or \$2.54 per diluted share, compared with \$284 million, or \$1.79 per diluted share

Excluding foreign exchange gains on long-term debt and other specified items, income grew 47 per cent to \$360 million, or \$2.24 per diluted share from \$245 million, or \$1.54 per diluted share

Excluding other specified items, operating income increased 26 per cent to \$699 million

Revenue was \$3,225 million, compared with \$2,881 million, with growth in five of seven business lines

Operating expenses excluding other specified items were \$2,526 million, compared with \$2,326 million, with more than half the increase due to higher fuel prices

Operating ratio improved by 240 basis points to 78.3 per cent

OUTLOOK FOR FULL-YEAR 2005

CPR expects to increase revenue in the range of 12 per cent to 14 per cent in 2005. Diluted earnings per share, excluding foreign exchange gains and losses on long-term debt and other specified items, are expected to be in the range of \$3.15 to \$3.25, assuming oil prices averaging US\$55 per barrel and an average exchange rate of \$1.23 per U.S. dollar (US\$0.81) for the full year.

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

In the third quarter of 2005, CPR had a foreign exchange gain on long-term debt of \$65 million (\$48 million after tax), compared with a gain of \$71 million (\$73 million after tax) in the same period of 2004. There was one other specified item in third-quarter 2005, as CPR booked a reduction of \$34 million (\$21 million after tax) to an accrual taken in fourth-quarter 2004 for environmental remediation of a property in the United States. The reduction reflected a settlement of litigation related to remediation of environmental contamination. There were no other specified items in the third quarter of 2004.

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In the first nine months of 2005, CPR had a foreign exchange gain on long-term debt of \$45 million (\$27 million after tax), compared with a gain of \$37 million (\$39 million after tax) in the same period of 2004. Other specified items consisted of the \$34-million (\$21 million after tax) reduction to the accrual for environmental remediation of the property in the U.S. There were no other specified items in the first nine months of 2004.

Presentation of non-GAAP earnings

CPR presents non-GAAP earnings in this news release to provide a basis for evaluating underlying earnings trends in our business that can be compared with prior periods' results of operations. These non-GAAP earnings exclude foreign currency translation effects on long-term debt, which can be volatile and short term, and other specified items, which are not among CPR's normal ongoing revenues and operating expenses. The impact of volatile short-term rate fluctuations on foreign-denominated debt is only realized when long-term debt matures or is settled. A reconciliation of income, excluding foreign exchange gains 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.

Earnings that exclude foreign exchange currency translation effects 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.

Note on forward-looking information

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 is a transcontinental carrier operating in Canada and the U.S. Its 14,000-mile rail network serves the principal centres 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. Canadian Pacific Logistics Solutions provides logistics and supply chain expertise worldwide. For more information, visit CPR's website at www.cpr.ca.

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Table of Contents**STATEMENT OF CONSOLIDATED INCOME**

(in millions, except per share data)

	For the three months ended September 30	
	2005	2004
	(unaudited)	(unaudited)
Revenues		
Freight	\$ 1,060.8	\$ 949.0
Other	43.9	40.7
	1,104.7	989.7
Operating expenses		
Compensation and benefits	344.9	305.7
Fuel	141.9	109.0
Materials	45.4	41.1
Equipment rents	53.8	52.4
Depreciation and amortization	111.3	102.7
Purchased services and other	158.0	159.9
	855.3	770.8
Operating income before the following:	249.4	218.9
Special charge (reduction) for environmental remediation (<i>Note 3</i>)	(33.9)	
Operating income	283.3	218.9
Other charges (<i>Note 4</i>)	6.6	8.5
Foreign exchange gains on long-term debt	(65.4)	(70.5)
Interest expense (<i>Note 5</i>)	50.3	54.9
Income tax expense	88.2	49.5
Net income	\$ 203.6	\$ 176.5
Basic earnings per share (<i>Note 6</i>)	\$ 1.29	\$ 1.11
Diluted earnings per share (<i>Note 6</i>)	\$ 1.27	\$ 1.11

See notes to interim consolidated financial statements.

Table of Contents**STATEMENT OF CONSOLIDATED INCOME**

(in millions, except per share data)

	For the nine months ended September 30	
	2005	2004
	(unaudited)	(unaudited)
Revenues		
Freight (<i>Note 2</i>)	\$ 3,097.2	\$ 2,761.7
Other	127.5	119.3
	3,224.7	2,881.0
Operating expenses		
Compensation and benefits	998.2	932.8
Fuel	421.6	316.6
Materials	150.2	140.4
Equipment rents	157.0	171.9
Depreciation and amortization	331.5	305.0
Purchased services and other	467.0	458.8
	2,525.5	2,325.5
Operating income before the following:	699.2	555.5
Special charge (reduction) for environmental remediation (<i>Note 3</i>)	(33.9)	
Operating income	733.1	555.5
Other charges (<i>Note 4</i>)	11.3	23.2
Foreign exchange gains on long-term debt	(45.3)	(37.2)
Interest expense (<i>Note 5</i>)	155.1	166.0
Income tax expense	204.5	119.8
Net income	\$ 407.5	\$ 283.7
Basic earnings per share (<i>Note 6</i>)	\$ 2.57	\$ 1.79
Diluted earnings per share (<i>Note 6</i>)	\$ 2.54	\$ 1.79

See notes to interim consolidated financial statements.

Table of Contents**CONSOLIDATED BALANCE SHEET**

(in millions)

	September 30 2005 (unaudited)	December 31 2004 (audited)
Assets		
Current assets		
Cash and short-term investments	\$ 86.6	\$ 353.0
Accounts receivable and other current assets	543.0	434.7
Materials and supplies	162.0	134.1
Future income taxes	69.0	70.2
	860.6	992.0
Investments	57.3	96.0
Net properties	8,683.7	8,393.5
Other assets and deferred charges	1,033.1	1,018.3
Total assets	\$ 10,634.7	\$ 10,499.8
Liabilities and shareholders equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,045.3	\$ 975.3
Income and other taxes payable	28.6	16.2
Dividends payable	23.8	21.0
Long-term debt maturing within one year	30.2	275.7
	1,127.9	1,288.2
Deferred liabilities	711.9	767.8
Long-term debt	2,974.2	3,075.3
Future income taxes	1,574.7	1,386.1
Shareholders equity		
Share capital (Note 8)	1,116.3	1,120.6
Contributed surplus (Note 8)	238.8	300.4
Foreign currency translation adjustments	67.6	77.0
Retained income	2,823.3	2,484.4
	4,246.0	3,982.4
Total liabilities and shareholders equity	\$ 10,634.7	\$ 10,499.8

Commitments and contingencies (Note 12).
See notes to interim consolidated financial statements.

Table of Contents**STATEMENT OF CONSOLIDATED CASH FLOWS****(in millions)**

	For the three months ended September 30	
	2005	2004
	(unaudited)	(unaudited)
Operating activities		
Net income	\$ 203.6	\$ 176.5
Add (deduct) items not affecting cash:		
Depreciation and amortization	111.3	102.7
Future income taxes	86.7	42.6
Special charge (reduction) for environmental remediation	(30.9)	
Foreign exchange gains on long-term debt	(65.4)	(70.5)
Amortization of deferred charges	5.2	5.7
Restructuring payments	(16.3)	(20.2)
Other operating activities, net	(19.6)	(27.0)
Change in non-cash working capital balances related to operations	(0.7)	26.2
Cash provided by operating activities	273.9	236.0
Investing activities		
Additions to properties	(232.1)	(187.6)
Other investments	0.5	(0.6)
Net proceeds from disposal of transportation properties	4.3	(7.4)
Cash used in investing activities	(227.3)	(195.6)
Financing activities		
Dividends paid	(23.8)	(20.2)
Issuance of shares (Note 8)	2.0	0.1
Purchase of shares (Note 8)	(65.7)	
Repayment of long-term debt	(4.2)	(2.5)
Cash used in financing activities	(91.7)	(22.6)
Cash position		
(Decrease) increase in net cash	(45.1)	17.8
Net cash at beginning of period	131.7	305.4
Net cash at end of period	\$ 86.6	\$ 323.2
Net cash is defined as:		
Cash and short-term investments	\$ 86.6	\$ 323.2

See notes to interim consolidated financial statements.

Table of Contents**STATEMENT OF CONSOLIDATED CASH FLOWS****(in millions)**

	For the nine months ended September 30	
	2005	2004
	(unaudited)	(unaudited)
Operating activities		
Net income	\$ 407.5	\$ 283.7
Add (deduct) items not affecting cash:		
Depreciation and amortization	331.5	305.0
Future income taxes	195.6	108.2
Special charge (reduction) for environmental remediation	(30.9)	
Foreign exchange gains on long-term debt	(45.3)	(37.2)
Amortization of deferred charges	15.2	18.6
Restructuring payments	(42.6)	(58.2)
Other operating activities, net	(40.7)	(50.2)
Change in non-cash working capital balances related to operations	(78.9)	18.1
Cash provided by operating activities	711.4	588.0
Investing activities		
Additions to properties	(584.8)	(516.6)
Other investments	1.9	(3.0)
Net proceeds from disposal of transportation properties	9.8	1.2
Cash used in investing activities	(573.1)	(518.4)
Financing activities		
Dividends paid	(65.8)	(60.7)
Issuance of shares (Note 8)	7.7	0.8
Purchase of shares (Note 8)	(78.3)	
Issuance of long-term debt		193.7
Repayment of long-term debt	(268.3)	(14.9)
Cash (used in) provided by financing activities	(404.7)	118.9
Cash position		
(Decrease) increase in net cash	(266.4)	188.5
Net cash at beginning of period	353.0	134.7
Net cash at end of period	\$ 86.6	\$ 323.2
Net cash is defined as:		
Cash and short-term investments	\$ 86.6	\$ 323.2

See notes to interim consolidated financial statements.

Table of Contents***STATEMENT OF CONSOLIDATED RETAINED INCOME*****(in millions)**

	For the nine months ended September 30	
	2005	2004
	(unaudited)	(unaudited)
Balance, January 1	\$ 2,484.4	\$ 2,153.9
Net income for the period	407.5	283.7
Dividends	(68.6)	(61.5)
Balance, September 30	\$ 2,823.3	\$ 2,376.1

See notes to interim consolidated financial statements.

Table of Contents**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS****SEPTEMBER 30, 2005***(unaudited)***1 Basis of presentation**

These unaudited interim consolidated financial statements and notes have been prepared using accounting policies that are consistent with the policies used in preparing Canadian Pacific Railway Limited's (CPR, the Company or Canadian Pacific Railway) 2004 annual consolidated financial statements. They do not include all disclosures required under Generally Accepted Accounting Principles for annual financial statements and should be read in conjunction with the annual consolidated financial statements.

2 Change in accounting estimate

During the first half of the year, the Company recorded a \$23.4-million adjustment to increase revenues related to the April 1-to-December 31 period of 2004. This adjustment reflects a change in estimate as a result of a contract settlement with a customer.

3 Special charge (reduction) for environmental remediation

In the third quarter, a settlement agreement was reached with a responsible party in relation to portions of past environmental contamination at a CPR-owned property in the U.S. As a result, CPR was able to reduce accrued liabilities related to the property, and recognized a total reduction of \$33.9 million to a special charge for environmental remediation recorded in 2004.

4 Other charges

(in millions)	For the three months ended September 30		For the nine months ended September 30	
	2005	2004	2005	2004
	Amortization of discount on accruals recorded at present value	\$ 4.0	\$ 4.5	\$ 12.4
Other exchange losses (gains)		5.9	(3.3)	5.5
Loss on sale of accounts receivable	0.8	0.6	2.6	2.2
Losses (gains) on non-hedging derivative instruments	0.1	(1.8)	(6.5)	(1.0)
Other	1.7	(0.7)	6.1	2.3
Total other charges	\$ 6.6	\$ 8.5	\$ 11.3	\$ 23.2

5 Interest expense

(in millions)	For the three months ended September 30		For the nine months ended September 30	
	2005	2004	2005	2004
	Interest expense	\$ 51.2	\$ 56.3	\$ 161.6
Interest income	(0.9)	(1.4)	(6.5)	(4.0)

Total interest expense	\$ 50.3	\$ 54.9	\$ 155.1	\$ 166.0
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Table of Contents**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS****SEPTEMBER 30, 2005***(unaudited)***6 Earnings per share**

At September 30, 2005, the number of shares outstanding was 157.3 million (September 30, 2004 158.7 million).

Basic earnings per share have been calculated using net income for the period divided by the weighted average number of CPR shares outstanding during the period.

Diluted earnings per share have been calculated using the treasury stock method, which gives effect to the dilutive value of outstanding options.

The number of shares used in earnings per share calculations is reconciled as follows:

(in millions)	For the three months ended September 30		For the nine months ended September 30	
	2005	2004	2005	2004
Weighted average shares outstanding	158.1	158.7	158.6	158.7
Dilutive effect of stock options	1.9	0.3	1.7	0.3
Weighted average diluted shares outstanding	160.0	159.0	160.3	159.0
(in dollars)				
Basic earnings per share	\$ 1.29	\$ 1.11	\$ 2.57	\$ 1.79
Diluted earnings per share	\$ 1.27	\$ 1.11	\$ 2.54	\$ 1.79

For the quarter ended September 30, 2005, no options (quarter ended September 30, 2004 102,217 options) were excluded from the computation of diluted earnings per share because their effects were not dilutive. For the nine months ended September 30, 2005, no options (nine months ended September 30, 2004 843,907 options) were excluded from the computation of diluted earnings per share because their effects were not dilutive.

Table of Contents**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS****SEPTEMBER 30, 2005***(unaudited)***7 Restructuring and environmental remediation**

At September 30, 2005, the provision for restructuring and environmental remediation was \$379.4 million (December 31, 2004 \$448.7 million). The restructuring provision primarily includes labour liabilities for restructuring plans. Payments are expected to continue in diminishing amounts until 2025. The environmental remediation liability includes the cost of a multi-year soil remediation program for various sites.

Set out below is a reconciliation of CPR's liabilities associated with restructuring and environmental remediation programs:

Three months ended September 30, 2005

(in millions)	Opening Balance		Amortization of Discount	Foreign Exchange Impact	Closing Balance Sept. 30 2005	
	July 1 2005	Accrued ⁽¹⁾				
Labour liability for termination plans	\$ 252.0	0.2	(11.6)	3.3	(2.4)	\$ 241.5
Other non-labour liabilities for exit plans	6.1				(0.3)	5.8
Total restructuring liability	258.1	0.2	(11.6)	3.3	(2.7)	247.3
Environmental remediation program	171.8					