

CANADIAN PACIFIC RAILWAY CO/NEW

Form 6-K

October 28, 2008

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, 2008

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 ☐

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 ☐

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. 333-140955 (Canadian Pacific Railway Limited), Form S-8 No. 333-127943 (Canadian Pacific Railway Limited), and Form S-8 No. 333-13962 (Canadian Pacific Railway Limited).

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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 28, 2008

By: Signed: Karen L. Fleming  
Name: Karen L. Fleming  
Title: Corporate Secretary

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**Release: Immediate, October 28, 2008**

**CANADIAN PACIFIC ANNOUNCES THIRD-QUARTER RESULTS**

CALGARY Canadian Pacific Railway Limited (TSX/NYSE: CP) announced its third-quarter results today. Net income was \$173 million down from \$219 million in third-quarter 2007 and diluted earnings per share was \$1.11 down from \$1.41 in third-quarter 2007. This decrease is primarily due to foreign exchange impacts on long-term debt in 2007 and charges associated with the revaluation of an investment in asset backed commercial paper (ABCP). Excluding these two items, diluted earnings per share was down two per cent.

**SUMMARY OF THIRD-QUARTER 2008 COMPARED WITH THIRD-QUARTER 2007 EXCLUDING FOREIGN EXCHANGE GAINS AND LOSSES ON LONG-TERM DEBT AND OTHER SPECIFIED ITEMS:**

Diluted earnings per share decreased to \$1.20 from \$1.23.

Income was \$186 million down from \$190 million.

Total revenues rose seven per cent to \$1.26 billion from \$1.19 billion.

Operating expenses were \$962 million an increase from \$866 million with the price of fuel the single largest driver contributing to the increase in expenses.

Our pricing gains and focused cost containment helped offset declines in bulk volumes, said Fred Green, President and CEO. Fuel expenses were a serious headwind, but we saw strong recovery in our operations with progressive improvement as we moved through the quarter. In a declining market, our operating ratio for the third quarter improved 340 basis points to 76.0 per cent from second quarter 2008 of 79.4 per cent.

Freight revenues rose eight per cent in the third quarter on continued pricing strength, inclusive of fuel recoveries. Industrial and consumer products revenues were up 24 per cent, with automotive and intermodal revenues increasing 16 and 11 per cent respectively. Sulphur and fertilizer revenue improved eight per cent with coal improving five per cent over 2007. These gains were offset by a decrease in grain revenue of four percent due mainly to a late harvest. Operating expenses increased 11 per cent in the third quarter driven mainly by a 49 per cent (\$90 million) increase in fuel expense over the same quarter in 2007.

**SUMMARY OF FIRST NINE-MONTHS 2008 COMPARED WITH FIRST NINE-MONTHS 2007**

Net income for the first nine months of 2008 was \$418 million compared with \$604 million in 2007. Diluted earnings per share was \$2.70 down from \$3.87. This decrease was mostly the result of a large foreign exchange gain on long-term debt in the first nine months of 2007 and lower operating income in 2008.

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

Diluted earnings per share was \$2.92 down seven per cent from \$3.13.

Income decreased seven per cent to \$453 million from \$488 million.

Total revenues increased three per cent to \$3.6 billion.

Operating expenses were up eight per cent to \$2.9 billion.

## 2008 OUTLOOK

The uncertainty associated with the global economy offsets the positive impact on our financial results of the decrease in the price of crude oil and the weakening of the Canadian dollar against the US dollar, said Kathryn McQuade, Chief Financial Officer. We are confirming our outlook for adjusted diluted earnings per share in the range of \$4.00 \$4.20. This outlook assumes an average currency exchange rate of \$1.04 per U.S. dollar (US\$0.96) for the full year, a change from the previous assumption of the Canadian dollar at par with the U.S. dollar. Crude oil prices (WTI) are estimated to average US \$105 per barrel for the year (versus the previous assumption of US \$121 per barrel). Crack spreads are estimated to average US \$20 per barrel for the year (versus the previous assumption of US \$23 per barrel). The estimated average all-in fuel price is expected to be between US \$3.35 and \$3.45 per U.S. gallon for the year. The full year averages reflect assumptions for the fourth-quarter of an exchange rate of \$1.14 per U.S. dollar (US\$0.88) and a crude oil price of \$85 per barrel.

The decrease in the price of fuel had an impact on the outlook for both revenue and expenses. CP expects to grow total revenue by four to six per cent in 2008, compared with the previous outlook of six to eight per cent. Total operating expenses are expected to increase by eight to 10 per cent, down from the previous outlook of 11 to 13 per cent. CP expects its normalized tax rate to be between 26 per cent and 27 per cent, excluding the impact of the Dakota Minnesota & Eastern Railroad (DM&E) equity pick-up. Free cash is expected to be approximately \$150 million. The 2008 outlook excludes the projected revenues and expenses of the Dakota Minnesota & Eastern Railroad (DM&E) which will be fully consolidated with CP for November and December 2008.

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

CP had a foreign exchange loss on long-term debt of \$3 million (a gain of \$6 million after tax) in the third quarter of 2008, compared with a foreign exchange gain on long-term debt of \$64 million (\$43 million after tax) in the third quarter of 2007.

For the first nine months of 2008, CP had a foreign exchange loss on long-term debt of \$12 million (no gain or loss after tax) compared with a foreign exchange gain of \$162 million (\$114 million after tax) in the first nine months of 2007.

At September 30, 2008 CP held investments in Canadian Non-Bank Asset Backed Commercial Paper (ABCP) with an original cost of approximately \$144 million. In the third-quarter of 2007, CP adjusted the estimated fair value of the investment and took a charge of \$22 million (\$15 million after tax) and classified the investments as long-term investments. In the first quarter 2008 in recognition of changing market conditions impacting these investments, CP further adjusted the estimated fair value of the investments and took an additional charge of \$21 million (\$15 million after tax). In the third-quarter, again, in response to changes in market conditions, CP adjusted the estimated fair value of the investments and took a charge of \$28 million (\$20 million after tax), respectively.

Continuing uncertainties regarding the value of the assets which underlie the ABCP, the amount and timing of cash flows and the outcome of the restructuring process could give rise to a material change in the value of the Company's investments in ABCP which would impact the Company's near-term earnings.

In the second quarter of 2007 the Company recorded a future income tax benefit of \$17 million as an other specified item.

**Presentation of non-GAAP earnings**

CP presents non-GAAP earnings in this news release to provide a basis for evaluating underlying earnings and liquidity trends in its 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. In addition these non-GAAP measures exclude other specified items that are not among CP'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 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. Diluted EPS, excluding foreign exchange gains and losses on long-term debt and other specified items, is also referred to in this news release as adjusted diluted EPS.

Free cash is calculated as cash provided by operating activities, less cash used in investing activities and dividends paid, adjusted for the acquisition of the DM&E, and now excluding changes in the accounts receivable securitization program, which was terminated in the second quarter of 2008. Free cash is adjusted for the DM&E acquisition, as it is not indicative of normal day-to-day investments in the Company's asset base. The securitization of accounts receivable is a financing-type transaction, which is excluded to clarify the nature of the use of free cash.

Earnings that exclude the foreign exchange currency translation impact on long-term debt and other specified items, and free cash after dividends, 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.

Other specified items are material transactions that 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.

**Note on forward-looking information**

This news release contains certain forward-looking statements relating but not limited to our operations, anticipated financial performance and business prospects. Undue reliance should not be placed on forward-looking information as actual results may differ materially.

By its nature, CP's forward-looking information involves numerous assumptions, inherent risks and uncertainties, including but not limited to the following factors: changes in business strategies; general North American and global economic and business conditions; risks in agricultural production such as weather conditions and insect populations; the availability and price of energy commodities; the effects of competition and pricing pressures; industry capacity; shifts in market demand; changes in laws and regulations, including regulation of rates; changes in taxes and tax rates; potential increases in maintenance and operating costs; uncertainties of litigation; labour disputes; risks and liabilities arising from derailments; timing of completion of capital and maintenance projects; currency and interest rate fluctuations; effects of changes in market conditions on the financial position of pension plans and investments; and various events that could disrupt operations, including severe weather conditions, security threats and governmental response to them, and technological changes.

There are factors that could cause actual results to differ from those described in the forward-looking statements contained in this news release. These more specific factors are identified and discussed in the Outlook section and elsewhere in this news release with the particular forward-looking statement in question.

Except as required by law, CP undertakes no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise.

Canadian Pacific, through the ingenuity of its employees located across Canada and in the United States, remains committed to being the safest, most fluid railway in North America. Our people are the key to delivering innovative transportation solutions to our customers and to ensuring the safe operation of our trains through the more than 900 communities where we operate. Our combined ingenuity makes CP a better place to work, rail a better way to ship, and North America a better place to live. Come and visit us at [www.cpr.ca](http://www.cpr.ca) to see how we can put our ingenuity to work for you. Canadian Pacific is proud to be the official rail freight services provider for the Vancouver 2010 Olympic and Paralympic Winter Games.

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**STATEMENT OF CONSOLIDATED INCOME**

(in millions of Canadian dollars, except per share data)

	<b>For the three months ended September 30</b>	
	<b>2008</b>	<b>2007</b>
	(unaudited)	
<b>Revenues</b>		
Freight	\$ 1,239.5	\$ 1,147.6
Other	25.2	40.3
	1,264.7	1,187.9
<b>Operating expenses</b>		
Compensation and benefits	312.3	313.5
Fuel	275.8	185.6
Materials	49.3	49.6
Equipment rents	44.4	49.6
Depreciation and amortization	120.8	118.0
Purchased services and other	158.9	149.9
	961.5	866.2
<b>Revenues less operating expenses</b>	<b>303.2</b>	<b>321.7</b>
Other charges (Note 4)	2.8	8.1
Equity income in Dakota, Minnesota & Eastern Railroad Corporation (Note 10)	(16.5)	
Change in estimated fair value of Canadian third party asset-backed commercial paper (Note 10)	28.1	21.5
Foreign exchange losses (gains) on long-term debt	2.9	(64.3)
Interest expense (Note 5)	64.5	44.9
Income tax expense (Note 6)	48.7	92.9
<b>Net income</b>	<b>\$ 172.7</b>	<b>\$ 218.6</b>
<b>Basic earnings per share (Note 7)</b>	<b>\$ 1.12</b>	<b>\$ 1.43</b>
<b>Diluted earnings per share (Note 7)</b>	<b>\$ 1.11</b>	<b>\$ 1.41</b>

See notes to interim consolidated financial statements.

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**STATEMENT OF CONSOLIDATED INCOME**

(in millions of Canadian dollars, except per share data)

	<b>For the nine months ended September 30</b>	
	<b>2008</b>	<b>2007</b>
	(unaudited)	
<b>Revenues</b>		
Freight	\$ 3,557.0	\$ 3,412.6
Other	74.9	106.7
	3,631.9	3,519.3
<b>Operating expenses</b>		
Compensation and benefits	956.1	975.8
Fuel	766.3	550.5
Materials	171.3	167.6
Equipment rents	136.4	162.4
Depreciation and amortization	365.4	355.7
Purchased services and other	483.9	448.6
	2,879.4	2,660.6
<b>Revenues less operating expenses</b>	<b>752.5</b>	<b>858.7</b>
Other charges (Note 4)	14.4	21.1
Equity income in Dakota, Minnesota & Eastern Railroad Corporation (Note 10)	(40.9)	
Change in estimated fair value of Canadian third party asset-backed commercial paper (Note 10)	49.4	21.5
Foreign exchange losses (gains) on long-term debt	12.4	(161.5)
Interest expense (Note 5)	187.3	140.9
Income tax expense (Note 6)	111.5	232.8
<b>Net income</b>	<b>\$ 418.4</b>	<b>\$ 603.9</b>
<b>Basic earnings per share (Note 7)</b>	<b>\$ 2.72</b>	<b>\$ 3.91</b>
<b>Diluted earnings per share (Note 7)</b>	<b>\$ 2.70</b>	<b>\$ 3.87</b>

See notes to interim consolidated financial statements.

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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**(in millions of Canadian dollars)**

	<b>For the three months ended September 30</b>	
	<b>2008</b>	<b>2007</b>
	<b>(unaudited)</b>	
<b>Comprehensive income</b>		
Net income	\$ 172.7	\$ 218.6
Other comprehensive income		
Net change in foreign currency translation adjustments, net of hedging activities	2.2	(0.7)
Net change in losses on derivatives designated as cash flow hedges	(11.3)	(5.9)
Other comprehensive loss before income taxes	(9.1)	(6.6)
Income tax recovery (expense)	10.2	(2.5)
Other comprehensive income (loss) ( <i>Note 13</i> )	1.1	(9.1)
Comprehensive income	\$ 173.8	\$ 209.5

	<b>For the nine months ended September 30</b>	
	<b>2008</b>	<b>2007</b>
	<b>(unaudited)</b>	
<b>Comprehensive income</b>		
Net income	\$ 418.4	\$ 603.9
Other comprehensive income		
Net change in foreign currency translation adjustments, net of hedging activities	4.4	(3.9)
Net change in losses on derivatives designated as cash flow hedges	(3.4)	(18.9)
Other comprehensive income (loss) before income taxes	1.0	(22.8)
Income tax recovery (expense)	12.9	(3.8)

Other comprehensive income (loss) ( <i>Note 13</i> )	13.9	(26.6)
Comprehensive income	\$ 432.3	\$ 577.3

See notes to interim consolidated financial statements.

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**CONSOLIDATED BALANCE SHEET**  
**(in millions of Canadian dollars)**

	<b>September 30 2008</b>	<b>December 31 2007</b>
	(unaudited)	
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 97.9	\$ 378.1
Accounts receivable and other current assets (Note 9)	747.0	542.8
Materials and supplies	231.8	179.5
Future income taxes	59.1	67.3
	1,135.8	1,167.7
Investments (Note 10)	1,774.5	1,668.6
Net properties	9,628.9	9,293.1
Other assets and deferred charges (Note 15)	1,510.5	1,235.6
<b>Total assets</b>	<b>\$ 14,049.7</b>	<b>\$ 13,365.0</b>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities</b>		
Short-term borrowing	\$ 280.0	\$ 229.7
Accounts payable and accrued liabilities	1,005.9	980.8
Income and other taxes payable	65.2	68.8
Dividends payable	38.1	34.5
Long-term debt maturing within one year	248.4	31.0
	1,637.6	1,344.8
Deferred liabilities	696.1	714.6
Long-term debt (Note 11)	4,140.4	4,146.2
Future income taxes	1,770.3	1,701.5
<b>Shareholders' equity</b>		
Share capital (Note 12)	1,218.9	1,188.6
Contributed surplus	41.3	42.4
Accumulated other comprehensive income (Note 13)	53.5	39.6
Retained income	4,491.6	4,187.3

	5,805.3	5,457.9
<b><i>Total liabilities and shareholders' equity</i></b>	<b>\$ 14,049.7</b>	<b>\$ 13,365.0</b>

Commitments and contingencies (Note 19).  
See notes to interim consolidated financial statements.

**STATEMENT OF CONSOLIDATED CASH FLOWS**  
**(in millions of Canadian dollars)**

	<b>For the three months ended September 30</b>	
	<b>2008</b>	<b>2007</b>
	<b>(unaudited)</b>	
<b>Operating activities</b>		
Net income	\$ 172.7	\$ 218.6
Add (deduct) items not affecting cash:		
Depreciation and amortization	120.8	118.0
Future income taxes	29.9	72.1
Change in estimated fair value of Canadian third party asset-backed commercial paper (Note 10)	28.1	21.5
Foreign exchange losses (gains) on long-term debt	2.9	(64.3)
Amortization of deferred charges	2.3	3.0
Equity income, net of cash received	(14.2)	
Restructuring and environmental remediation payments (Note 8)	(11.9)	(13.8)
Other operating activities, net	(47.6)	(14.2)
Change in non-cash working capital balances related to operations	(0.2)	0.5
<b>Cash provided by operating activities</b>	<b>282.8</b>	<b>341.4</b>
<b>Investing activities</b>		
Additions to properties	(242.1)	(206.0)
Additions to investments and other assets (Note 15)	(20.5)	(4.9)
Additions to investment in Dakota, Minnesota & Eastern Railroad Corporation (Note 10)	(0.8)	
Net proceeds from disposal of transportation properties	17.0	0.8
Investment in Canadian third party asset-backed commercial paper (Note 10)		(143.6)
<b>Cash used in investing activities</b>	<b>(246.4)</b>	<b>(353.7)</b>
<b>Financing activities</b>		
Dividends paid	(38.1)	(34.8)
Issuance of CP Common Shares	1.3	4.1
Purchase of CP Common Shares		(3.0)
Net increase in short-term borrowing	25.0	
Repayment of long-term debt	(7.6)	(6.9)
<b>Cash used in financing activities</b>	<b>(19.4)</b>	<b>(40.6)</b>

**Cash position**

Increase (decrease) in cash and cash equivalents	17.0	(52.9)
Cash and cash equivalents at beginning of period	80.9	392.1

Cash and cash equivalents at end of period	\$ 97.9	\$ 339.2
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See notes to interim consolidated financial statements.



**STATEMENT OF CONSOLIDATED CASH FLOWS**  
**(in millions of Canadian dollars)**

	<b>For the nine months ended September 30</b>	
	<b>2008</b>	<b>2007</b>
	<b>(unaudited)</b>	
<b>Operating activities</b>		
Net income	\$ 418.4	\$ 603.9
Add (deduct) items not affecting cash:		
Depreciation and amortization	365.4	355.7
Future income taxes	57.8	168.3
Change in estimated fair value of Canadian third party asset-backed commercial paper (Note 10)	49.4	21.5
Foreign exchange losses (gains) on long-term debt	12.4	(161.5)
Amortization of deferred charges	7.4	9.2
Equity income, net of cash received	(35.0)	
Restructuring and environmental remediation payments (Note 8)	(36.4)	(39.0)
Other operating activities, net	(43.2)	(16.0)
Change in non-cash working capital balances related to operations (Note 9)	(170.4)	(8.5)
<b>Cash provided by operating activities</b>	<b>625.8</b>	<b>933.6</b>
<b>Investing activities</b>		
Additions to properties	(606.8)	(568.6)
Additions to investments and other assets (Note 15)	(213.0)	(16.6)
Additions to investment in Dakota, Minnesota & Eastern Railroad Corporation (Note 10)	(8.3)	
Net proceeds from disposal of transportation properties	14.4	9.3
Investment in Canadian third party asset-backed commercial paper (Note 10)		(143.6)
<b>Cash used in investing activities</b>	<b>(813.7)</b>	<b>(719.5)</b>
<b>Financing activities</b>		
Dividends paid	(110.6)	(98.6)
Issuance of CP Common Shares	18.3	29.2
Purchase of CP Common Shares		(231.1)
Net increase in short-term borrowing	50.3	
Issuance of long-term debt (Note 11)	1,068.7	485.1
Repayment of long-term debt	(1,088.1)	(183.8)
Settlement of treasury rate lock (Note 14)	(30.9)	

<b>Cash (used in) provided by financing activities</b>	<b>(92.3)</b>	<b>0.8</b>
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**Cash position**

(Decrease) increase in cash and cash equivalents	(280.2)	214.9
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Cash and cash equivalents at beginning of period	378.1	124.3
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Cash and cash equivalents at end of period	\$ 97.9	\$ 339.2
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See notes to interim consolidated financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
(in millions of Canadian dollars)

	For the three months ended September 30	
	2008	2007
	(unaudited)	
<b>Share capital</b>		
Balance, beginning of period	\$ 1,216.9	\$ 1,182.0
Shares issued under stock option plans	2.0	5.2
Balance, end of period	1,218.9	1,187.2
<b>Contributed surplus</b>		
Balance, beginning of period	39.8	38.7
Stock compensation expense	1.5	1.9
Balance, end of period	41.3	40.6
<b>Accumulated other comprehensive income</b>		
Balance, beginning of period	52.4	62.9
		&nbs