



# Canadian Pacific Railway Limited Annual Report 2019

**Form 10-K (NYSE:CP)**

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
**FORM 10-K**

(Mark one)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**

For fiscal year ended December 31, 2018  
OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 001-01342

**Canadian Pacific Railway Limited**

(Exact name of registrant as specified in its charter)

**Canada**

(State or Other Jurisdiction  
of Incorporation or Organization)

**98-0355078**

(IRS Employer  
Identification No.)

**7550 Ogden Dale Road S.E.,  
Calgary, Alberta, Canada**

(Address of Principal Executive Offices)

**T2C 4X9**

(Zip Code)

**Registrant's Telephone Number, Including Area Code: (403) 319-7000**

**Securities registered pursuant to Section 12(b) of the Act:**

<u>Title of Each Class</u>	<u>Name of Each Exchange on which Registered</u>
<b>Common Shares, without par value</b>	<b>New York Stock Exchange</b>

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§232.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of June 30, 2018, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the voting stock held by non-affiliates of the registrant, in U.S. dollars, was \$26,091,991,353, based on the closing sales price per share as reported by the New York Stock Exchange on such date.

As of the close of business on February 13, 2019, there were 140,041,483 shares of the registrant's Common Stock outstanding.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Not applicable.

#### **EXPLANATORY NOTE**

Canadian Pacific Railway Limited ("CPRL"), a corporation incorporated under the *Canada Business Corporations Act*, qualifies as a foreign private issuer in the U.S. for purposes of *the Securities Exchange Act of 1934*, as amended (the "Exchange Act"). Although as a foreign private issuer the Company is no longer required to do so, the Company currently continues to file annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K with the Securities and Exchange Commission ("SEC") instead of filing the reporting forms available to foreign private issuers.

CPRL prepares and files a management information circular and related material under Canadian requirements. As the Company's management information circular is not filed pursuant to Regulation 14A, the Company may not incorporate by reference information required by Part III of this Form 10-K from its management information circular. Accordingly, in reliance upon and as permitted by Instruction G(3) to Form 10-K, the Company will be filing an amendment to this Form 10-K containing the Part III information no later than 120 days after the end of the fiscal year covered by this Form 10-K. All references to our websites contained herein do not constitute incorporation by reference of information contained on such websites and such information should not be considered part of this document.

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# CANADIAN PACIFIC RAILWAY LIMITED

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# PART I

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## ITEM 1. BUSINESS

### Company Overview

Canadian Pacific Railway Limited ("CPRL"), together with its subsidiaries ("CP" or the "Company"), owns and operates a transcontinental freight railway in Canada and the United States ("U.S."). CP provides rail and intermodal transportation services over a network of approximately 12,500 miles, serving the principal business centres of Canada from Montreal, Quebec, to Vancouver, British Columbia ("B.C."), and the U.S. Northeast and Midwest regions. CP's railway network feeds directly into the U.S. heartland from the East and West coasts. Agreements with other carriers extend the Company's market reach east of Montreal in Canada, through the U.S. and into Mexico. CP transports bulk commodities, merchandise freight and intermodal traffic. For additional information regarding CP's network and geographical locations, refer to Item 2. Properties.

CPRL was incorporated on June 22, 2001, under the *Canada Business Corporations Act* and controls and owns all of the Common Shares of Canadian Pacific Railway Company ("CPRC"), which was incorporated in 1881 by Letters Patent pursuant to an Act of the Parliament of Canada. CPRL's registered, executive and corporate head office is located at 7550 Ogden Dale Road S.E., Calgary, Alberta T2C 4X9. CPRL's Common Shares (the "Common Share") are listed on the Toronto Stock Exchange ("TSX") and the New York Stock Exchange ("NYSE") under the symbol "CP".

For purposes of this report, all references herein to "CP", "the Company", "we", "our" and "us" refer to CPRL, CPRL and its subsidiaries, CPRL and one or more of its subsidiaries, or one or more of CPRL's subsidiaries, as the context may require. All references to currency amounts included in this annual report, including the Consolidated Financial Statements, are in Canadian dollars unless specifically noted otherwise.

### Strategy

CP is continuing the journey to become the best railway in North America, with a culture of responsibility and accountability focused on five key foundations:

- **Provide Service:** Providing efficient and consistent transportation solutions for the Company's customers. "Doing what we say we are going to do" is what drives CP in providing a reliable product with a lower cost operating model. Centralized planning aligned with local execution is bringing the Company closer to the customer and accelerating decision-making.
- **Control Costs:** Controlling and removing unnecessary costs from the organization, eliminating bureaucracy and continuing to identify productivity enhancements are the keys to success.
- **Optimize Assets:** Through longer and heavier trains, and improved asset utilization, the Company is moving increased volumes with fewer locomotives and cars while unlocking capacity for future growth potential.
- **Operate Safely:** Each year, CP safely moves millions of carloads of freight across North America while ensuring the safety of our people and the communities through which we operate. Safety is never to be compromised. CP strives for continuous implementation of state-of-the-art safety technology, safety management systems, and safety culture with our employees to ensure safe, efficient operations across our network.
- **Develop People:** CP recognizes that none of the other foundations can be achieved without its people. Every CP employee is a railroader and the Company has established a culture focused on a passion for service with integrity, in everything we do. Coaching and mentoring all employees into becoming leaders will help drive CP forward.

During the turnaround, CP transformed its operations by investing in the network and executing a precision scheduled railroading model that lowers costs, optimizes assets, and provides better, more competitive service.

Today, we continue to apply our long-term strategy: leverage our lower cost base, network strengths and improved service to drive sustainable, profitable growth. While the accomplishments during the turnaround were tremendous, CP's journey to become North America's best-performing rail carrier is far from over. As a Company, we will remain focused on our next level of service, productivity, and innovation to continue to generate value for our customers and results for our shareholders.

### Business Developments

On October 19, 2018, CPRL announced a new normal course issuer bid ("NCIB"), commencing October 24, 2018, to purchase up to 5.68 million of Common Shares for cancellation before October 23, 2019.

Labour Disruptions - On April 18, 2018, CP received a 72-hour strike notice from the Teamsters Canada Rail Conference - Train & Engine ("TCRC"), representing approximately 3,000 conductors and locomotive engineers, and the International Brotherhood of Electrical Workers ("IBEW"), representing approximately 360 signal maintainers, of their respective plans to strike. At that time, CP commenced its work stoppage contingency plan to ensure a smooth, efficient and safe wind-down of operations.

On April 20, 2018, CP reached an agreement with TCRC and IBEW to have the Canadian Industrial Relations Board administer a ratification vote on each of CP's final offers, which averted a potential work stoppage. The ratification votes occurred from May 18 to May 25, 2018 and both offers were voted down.

On May 26, 2018, CP received another 72-hour strike notice from TCRC and IBEW, and again CP commenced its work stoppage contingency plans. On May 29, 2018, CP reached a tentative three-year agreement with IBEW and averted strike action by its members. This agreement was ratified by the IBEW membership on June 29, 2018, with 78% of members voting for ratification.

On May 30, 2018, CP reached a tentative four-year agreement with TCRC and ended strike action which began at 22:00 Eastern Standard Time on May 29, 2018. On July 20, 2018, this agreement was also ratified. The wind-down of operations and return to full service levels following the strike notices caused disruption to the network, losses in potential revenue and costs related to labour disruptions in the second quarter.

### **Change in Executive Officers**

On February 14, 2019, the Board of Directors appointed Mr. John Brooks to the position of Executive Vice-President and Chief Marketing Officer ("CMO") from the position of Vice-President and CMO, and Mr. Chad Rolstad to the position of Vice-President, Human Resources from the position of Assistant Vice-President, Human Resources.

On May 25, 2018, Mr. John Derry resigned from his position as Vice-President of Human Resources.

### **Change in Board of Directors**

On December 17, 2018, CP announced that CP Board Chair, Andrew F. Reardon, will retire from CP's Board of Directors as of CP's 2019 Annual General Meeting on May 7, 2019. Isabelle Courville, a current member of the Board, has been designated by the Board as its next chair.

On September 25, 2018, the Company announced the appointment of Edward L. Monser to CP's Board of Directors effective December 17, 2018.

## **Operations**

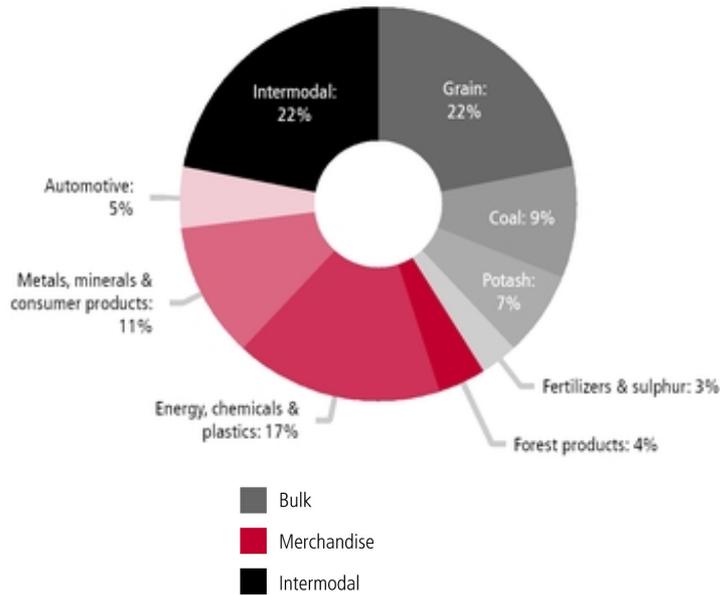
The Company operates in only one operating segment: rail transportation. Although the Company provides a breakdown of revenue by business line, the overall financial and operational performance of the Company is analyzed as one segment due to the integrated nature of the rail network. Additional information regarding the Company's business and operations, including revenue and financial information, and information by geographic location is presented in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, and Item 8. Financial Statements and Supplementary Data, Note 26 Segmented and geographic information.

### **Lines of Business**

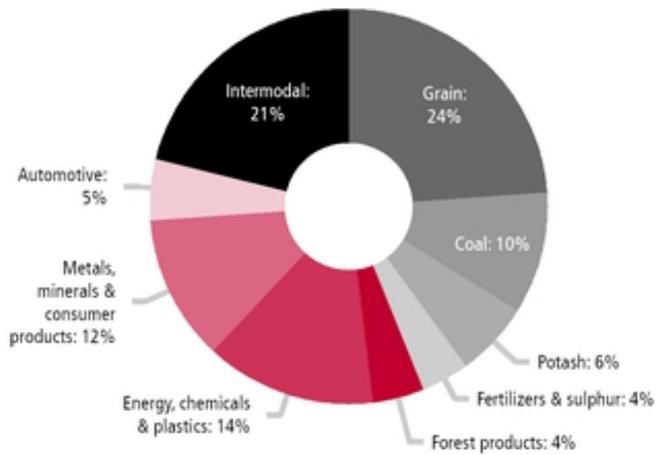
The Company transports bulk commodities, merchandise freight and intermodal traffic. Bulk commodities, which typically move in large volumes across long distances, include Grain, Coal, Potash, and Fertilizers and sulphur. Merchandise freight consists of industrial and consumer products, such as Energy, chemicals and plastics, Metals, minerals and consumer products, Automotive and Forest products. Intermodal traffic consists largely of retail goods in overseas containers that can be transported by train, ship and truck and in domestic containers and trailers that can be moved by train and truck.

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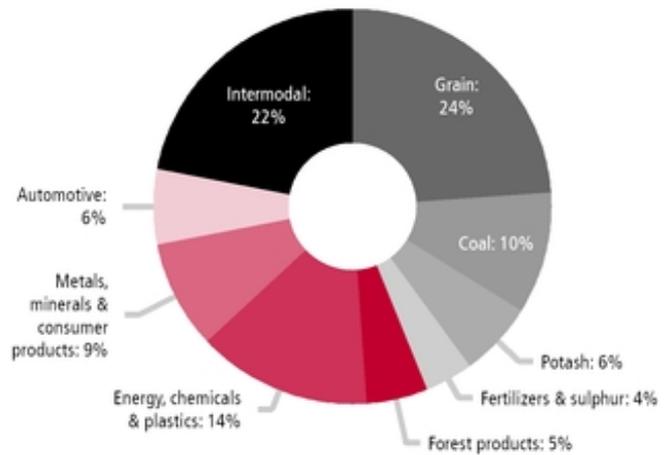
The Company's revenues are primarily derived from transporting freight. The following chart shows the Company's Freight revenue by each line of business in 2018, 2017 and 2016:



**2018 Freight Revenues**

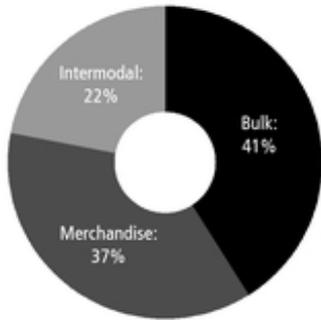


**2017 Freight Revenues**

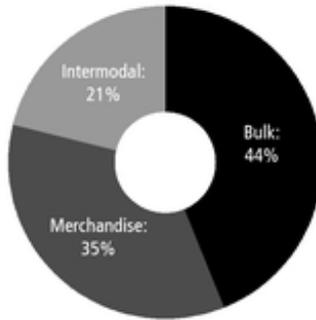


**2016 Freight Revenues**

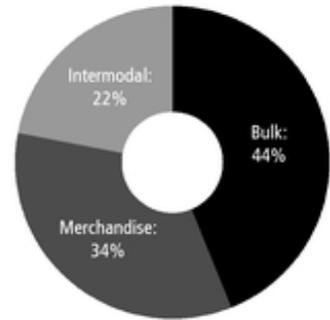
In 2018, the Company generated Freight revenues totalling \$7,152 million (\$6,375 million in 2017 and \$6,060 million in 2016). The following charts compare the percentage of the Company's total Freight revenues derived from each of the three major business lines in 2018, 2017 and 2016:



**2018 Freight Revenues**



**2017 Freight Revenues**

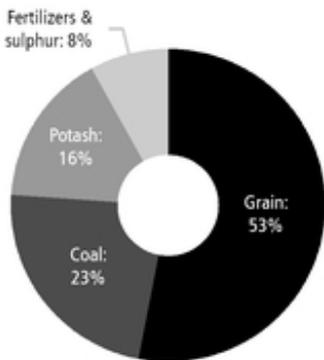


**2016 Freight Revenues**

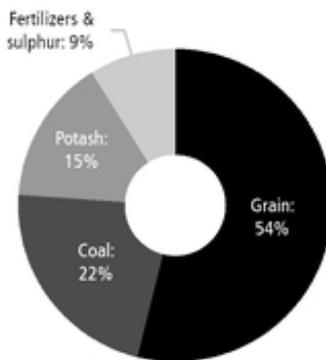
**BULK**

The Company's Bulk business represented approximately 41% of total Freight revenues in 2018.

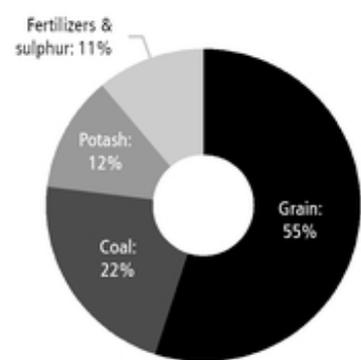
The following charts compare the percentage of the Company's Bulk freight revenues by commodity business in 2018, 2017 and 2016:



**2018 Bulk Revenues**  
(41% of Freight Revenues)



**2017 Bulk Revenues**  
(44% of Freight Revenues)



**2016 Bulk Revenues**  
(44% of Freight Revenues)

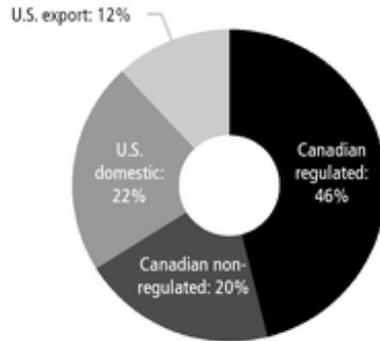
**Grain**

The Company's Grain business represented approximately 53% of Bulk revenues, which is 22% of total Freight revenues in 2018.

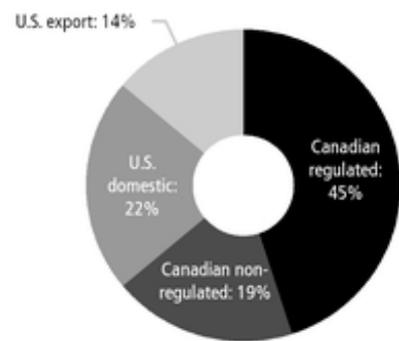
The following charts compare the percentage of the Company's Grain freight revenues generated from Canadian and U.S. shipments in 2018, 2017 and 2016:



**2018 Grain Revenues**  
(53% of Bulk Revenues; 22% of Freight Revenues)



**2017 Grain Revenues**  
(54% of Bulk Revenues; 24% of Freight Revenues)



**2016 Grain Revenues**  
(55% of Bulk Revenues; 24% of Freight Revenues)

CP's Grain network is unique among railways in North America as it is strategically positioned in the heart of grain-producing regions of Western Canada and the Northern Plains of the U.S. Canadian grain transported by CP consists of both whole grains, such as wheat, canola, durum, pulses and soybeans, and processed products such as oils, meals and malt. This business is centred in the Canadian Prairies (Alberta, Saskatchewan and Manitoba), with grain shipped primarily west to the Port of Vancouver, and east to the Port of Thunder Bay for export. Grain is also shipped to the U.S., to eastern Canada, and to Mexico for domestic consumption.

Canadian grain includes a division of business that is regulated by the Canadian government through the *Canada Transportation Act* ("CTA"). This regulated business is subject to a maximum revenue entitlement ("MRE"). Under this regulation, railways can set their own rates for individual movements. However, the MRE governs aggregate revenue earned by the railway based on a formula that factors in the total volumes, length of haul, average revenue per ton and inflationary adjustments. The regulation applies to western Canadian export grain shipments to the ports of Vancouver and Thunder Bay.

U.S. grain transported by CP consists of both whole grains, such as wheat, corn, soybeans and durum, and processed products such as meals, oils and flour. This business is centred in the states of Minnesota, North Dakota, South Dakota and Iowa. Grain destined for domestic consumption moves east via Chicago, to the U.S. Northeast or is interchanged with other carriers to the U.S. Pacific Northwest and U.S. Southeast. In partnership with other railways, CP also moves grain to export terminals in the U.S. Pacific Northwest and the Gulf of Mexico. Export grain traffic is also shipped to ports at Superior and Duluth.

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