



# Canadian Pacific Railway Annual Report 2020

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

Published: February 20th, 2020

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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, 2019  
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 AB**  
(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>Trading Symbol(s)</u>	<u>Name of Each Exchange on which Registered</u>
Common Shares, without par value, of Canadian Pacific Railway Limited	CP	New York Stock Exchange Toronto Stock Exchange
Perpetual 4% Consolidated Debenture Stock of Canadian Pacific Railway Company	CP/40 BC87	New York Stock Exchange London Stock Exchange

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

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:  
Debt securities of Canadian Pacific Railway Company**

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 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, 2019, 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 \$32,712,064,612, 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 18, 2020, there were 136,748,767 shares of the registrant's common shares outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

Not applicable.

#### EXPLANATORY NOTE

Canadian Pacific Railway Limited ("CPRL" or the "Company"), 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 reports on 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

## FORM 10-K TABLE OF CONTENTS

		Page
<b>PART I</b>		
Item 1.	Business	3
Item 1A.	Risk Factors	18
Item 1B.	Unresolved Staff Comments	20
Item 2.	Properties	21
Item 3.	Legal Proceedings	25
Item 4.	Mine Safety Disclosures	25
	Information about our Executive Officers	26
<b>PART II</b>		
Item 5.	Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities	29
Item 6.	Selected Financial Data	31
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	32
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	69
Item 8.	Financial Statements and Supplementary Data	70
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	124
Item 9A.	Controls and Procedures	124
Item 9B.	Other Information	126
<b>PART III</b>		
Item 10.	Directors, Executive Officers and Corporate Governance	128
Item 11.	Executive Compensation	128
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	128
Item 13.	Certain Relationships and Related Transactions, and Director Independence	128
Item 14.	Principal Accounting Fees and Services	128
<b>PART IV</b>		
Item 15.	Exhibits, Financial Statement Schedule	130
Item 16.	Form 10-K Summary	136
	Signatures	137

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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 12,700 miles, serving the principal business centres of Canada from Montréal, Québec, 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 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 Shares") are listed on the Toronto Stock Exchange ("TSX") and the New York Stock Exchange ("NYSE") under the symbol "CP".

For purposes of this annual 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 our values of accountability, diversity and pride, in everything we do. Coaching and mentoring all employees into becoming leaders will continue to drive CP forward.

Starting in 2012, 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 December 30, 2019, CP acquired Central Maine & Québec Railway ("CMQ") for approximately \$174 million (U.S. \$133 million). CMQ owns rail lines primarily in Québec and Maine, stretching approximately 481 miles, and primarily moving forest products, refined petroleum products, chemicals and plastics. This acquisition provides CP with strategic access into the U.S. Northeast and Atlantic Canada. The transaction provides CP customers with seamless, safe and efficient access to ports at Searsport, Maine, and to Saint John, New Brunswick, via Eastern Maine Railway Company and New Brunswick Southern Railway. Of the total consideration paid, approximately 70% represents the issued and outstanding shares of Central Maine & Québec Railway U.S. Inc. ("CMQ U.S."), while the remaining approximately 30% represents the issued and outstanding shares of Central Maine & Québec Railway Canada Inc. ("CMQ Canada") (together CMQ). The acquisition of the shares of CMQ U.S. is subject to review and approval by the U.S. Surface Transportation Board

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("STB") and as such, the shares of CMQ U.S. have been placed in an independent voting trust. For additional information regarding this acquisition, refer to Item 8. Financial Statements and Supplementary Data, Note 11 Business combination.

On December 17, 2019, the Company announced a new normal course issuer bid ("NCIB"), commencing December 20, 2019, to purchase up to 4.80 million Common Shares for cancellation before December 19, 2020.

During the first quarter of 2019, the Company experienced severe winter operating conditions and an increase in the frequency and severity of casualty incidents and derailments. As a result, the Company incurred significant costs to manage severe weather conditions, as well as direct casualty costs, and higher operating costs. During this period and the subsequent network recovery the Company also experienced losses and deferrals of potential revenues.

#### **Change in Executive Officers**

At the end of September 2019, Mr. Robert Johnson retired from his position as Executive Vice-President, Operations. Effective September 1, 2019, CP's new Executive Vice-President, Operations, is Mr. Mark Redd.

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

On July 15, 2019, the Company announced the appointment of Ms. Andrea Robertson and Mr. Edward R. Hamberger to CP's Board of Directors, effective July 15, 2019.

On May 7, 2019, CP announced the election of all nine director nominees and, upon her re-election as a director, Ms. Isabelle Courville was confirmed as Chair of CP's Board of Directors. Ms. Courville replaced Mr. Andrew F. Reardon, the prior Chair of CP's Board of Directors, who did not stand for re-election at the May 7, 2019 shareholder meeting.

#### **Prior Developments**

During the second quarter of 2018, the Company received multiple strike notices 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. CP reached a three-year agreement with IBEW, ratified by IBEW membership on June 29, 2018, and a four-year agreement with TCRC, ratified by TCRC membership on July 20, 2018. 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.

#### **Operations**

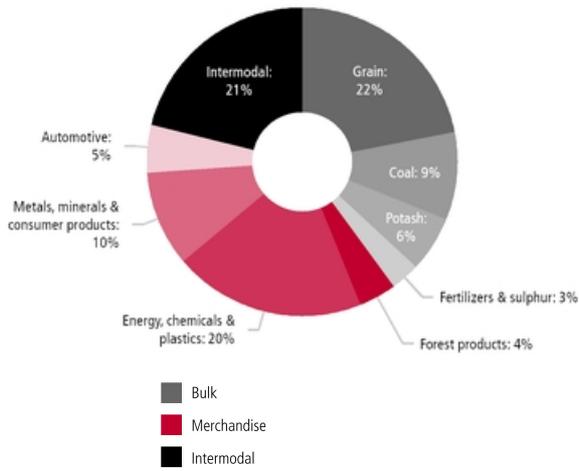
The Company operates in only one operating segment: rail transportation. Although the Company provides a breakdown of revenue by business line, the overall financial and operational performance of the Company is analyzed as one segment due to the integrated nature of the rail network. Additional information 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 28 Segmented and geographic information.

#### **Lines of Business**

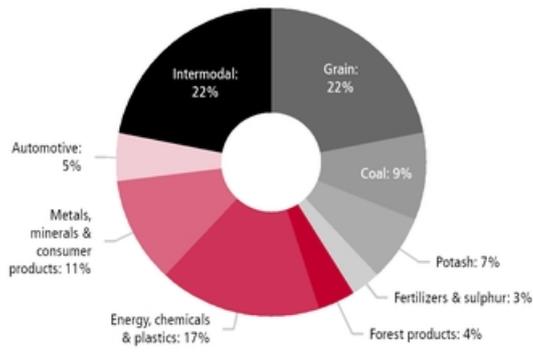
The Company transports bulk commodities, merchandise freight and intermodal traffic. Bulk commodities, which typically move in large volumes across long distances, include Grain, Coal, Potash, and Fertilizers and sulphur. Merchandise freight consists of industrial and consumer products, such as Energy, 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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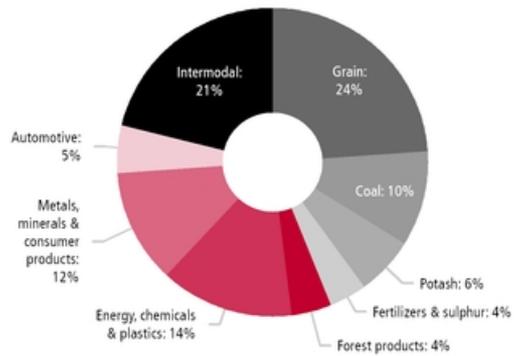
The Company's revenues are primarily derived from transporting freight. The following chart shows the Company's Freight revenue by each line of business in 2019, 2018 and 2017:



2019 Freight Revenues



2018 Freight Revenues

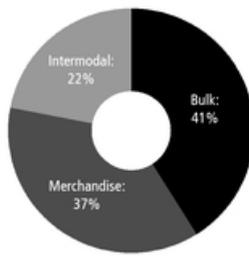


2017 Freight Revenues

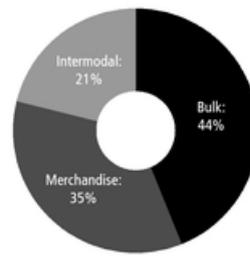
In 2019, the Company generated Freight revenues totalling \$7.613 million (\$7,152 million in 2018 and \$6,375 million in 2017). The following charts compare the percentage of the Company's total Freight revenues derived from each of the three major business lines in 2019, 2018 and 2017:



2019 Freight Revenues



2018 Freight Revenues

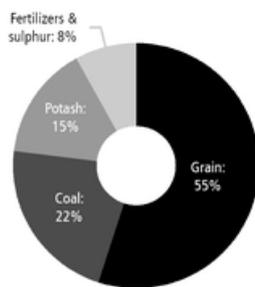


2017 Freight Revenues

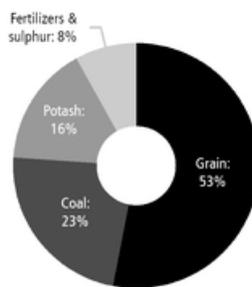
**BULK**

The Company's Bulk business represented approximately 40% of total Freight revenues in 2019.

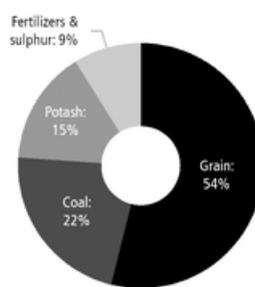
The following charts compare the percentage of the Company's Bulk freight revenues by commodity business in 2019, 2018 and 2017:



2019 Bulk Revenues  
(40% of Freight Revenues)



2018 Bulk Revenues  
(41% of Freight Revenues)

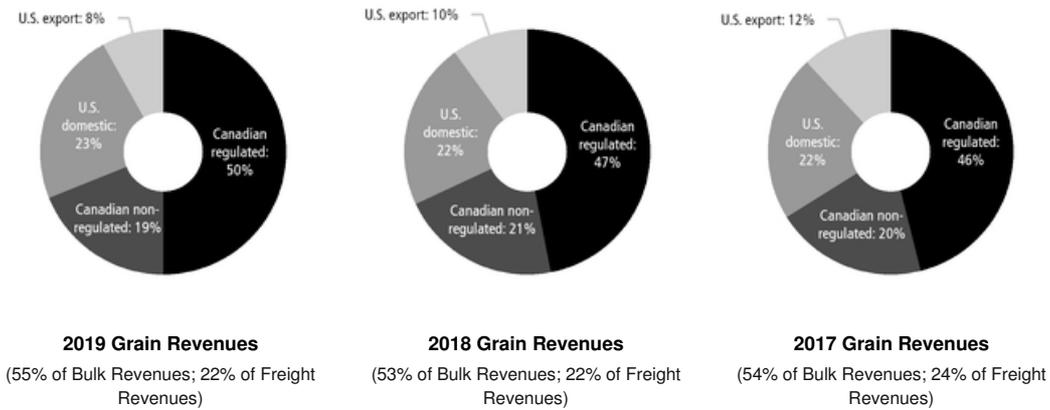


2017 Bulk Revenues  
(44% of Freight Revenues)

## Grain

The Company's Grain business represented approximately 55% of Bulk revenues, which was 22% of total Freight revenues in 2019.

The following charts compare the percentage of the Company's Grain freight revenues generated from Canadian and U.S. shipments in 2019, 2018 and 2017:



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, durum, canola, pulses and soybeans, and processed products such as oils, meals and malt. This business is centred in the Canadian Prairies (Saskatchewan, Manitoba, and Alberta), 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 the CTA, 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, soybeans, corn 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.

**THIS DOCUMENT HAS BEEN TRUNCATED HERE AS IT'S SIZE EXCEEDS THE SYSTEM LIMIT**

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