CANADIAN PACIFIC RAILWAY LTD/CN
Form 40-F
March 17, 2004

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U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 40-F

o REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

OR

x ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2003

CANADIAN PACIFIC RAILWAY LIMITED

(Commission File No. 1-01342)

CANADIAN PACIFIC RAILWAY COMPANY

(Commission File No. 1-15272)
(Exact name of Registrant as specified in its charter)

CANADA	**4011**	**98-0355078**

Suite 500, Gulf Canada Square, 401-9th Avenue S.W., Calgary, Alberta, Canada T2P 4Z4

(403) 319-7000
(Address and telephone number of Registrant s principal executive offices)

CT Corporation System, 111-8th Avenue, New York, New York 10011, (212) 894-8940
(Name, address (including zip code) and telephone number (including area code) of Agent for Service of Canadian Pacific Railway Limited in the United States)

The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street Wilmington, Delaware 19801, (302) 658-7581
(Name, address (including zip code) and telephone number (including area code) of Agent for Service of Canadian Pacific Railway Company in the United States)

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

Title of Each Class	Name of Each Exchange on Which Registered

Common Shares of Canadian Pacific Railway Limited	**New York Stock Exchange**
Perpetual 4% Consolidated Debenture Stock of Canadian Pacific Railway Company	**New York Stock Exchange**

Securities registered or to be 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: **None**

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For annual reports, indicate by check mark the information filed with this form:

x	Annual information form	x	Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

At December 31, 2003, 158,656,763 Common Shares of Canadian Pacific Railway Limited were issued and outstanding. At December 31, 2003, 347,170,009 Ordinary Shares of Canadian Pacific Railway Company were issued and outstanding.

Indicate by check mark whether the Registrant by filing 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 (the Exchange Act). If Yes is marked, indicate the file number assigned to the Registrant in connection with such Rule.

YES ______ NO x

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 x NO ______

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PRIOR FILINGS MODIFIED AND SUPERSEDED

The Registrants Annual Report on Form 40-F for the year ended December 31, 2003, at the time of filing with the Securities and Exchange Commission, modifies and supersedes all prior documents filed pursuant to Sections 13, 14 and 15(d) of the Exchange Act for purposes of any offers or sales of any securities after the date of such filing pursuant to any Registration Statement under the Securities Act of 1933 of either Registrant which incorporates by reference such Annual Report, including without limitation the following: Form S-8 No. 333-13846 (Canadian Pacific Railway Limited); and Form S-8 No. 333-13962 (Canadian Pacific Railway Limited). The documents (or portions thereof) identified under the heading Documents Filed as Part of This Report below as forming part of this Form 40-F are incorporated by reference into the Registration Statement on Form F-9 No. 333-14014 (Canadian Pacific Railway Company) as exhibits thereto.

CONSOLIDATED AUDITED ANNUAL FINANCIAL STATEMENTS AND MANAGEMENT S DISCUSSION AND ANALYSIS

A. Audited Annual Financial Statements

For consolidated audited financial statements, including the report of the auditors with respect thereto, see pages 31 through 74 of the Registrants 2003 Annual Report incorporated by reference and included herein. For a reconciliation of important differences between Canadian and United States generally accepted accounting principles, see Note 25 Supplementary Data of the Notes to Consolidated Financial Statements on pages 66 through 74 of such 2003 Annual Report.

B. Management s Discussion and Analysis

For management s discussion and analysis, see pages 1 through 30 of the Registrants 2003 Annual Report incorporated by reference and included herein.

For the purposes of this Annual Report on Form 40-F, only pages 1 through 74 of the Registrants 2003 Annual Report referred to above shall be deemed filed, and the balance of such 2003 Annual Report, except as it may be otherwise specifically incorporated by reference in the Registrants Annual Information Form, shall be deemed not filed with the Securities and Exchange Commission as part of this Annual Report on Form 40-F under the Exchange Act.

DISCLOSURE CONTROLS AND PROCEDURES

As of December 31, 2003, an evaluation was carried out under the supervision of and with the participation of the Registrants management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Registrants disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as of December 31, 2003.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the period covered by this Annual Report on Form 40-F no changes occurred in the Registrants internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Registrants internal control over financial reporting.

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CODE OF BUSINESS ETHICS

The Registrants revised their general Code of Business Ethics in 2003, in part to update and clarify certain provisions and also to ensure that it was in compliance with the new corporate governance standards of the New York Stock Exchange (NYSE Standards). The revised Code, approved by the board of Canadian Pacific Railway Limited (CPRL) in December 2003, applies to all directors, officers and employees, both unionized and non-unionized, of the Registrants and their subsidiaries in Canada, the U.S. and elsewhere, and forms part of the terms and conditions of employment of all such individuals. Contractors engaged on behalf of the Registrants or their subsidiaries must undertake, as a condition of their engagement, to adhere to principles and standards of business conduct consistent with those set forth in the revised Code. The revised Code is available on the Registrants web site at *www.cpr.ca* and in print to any shareholder who requests it. All amendments to the revised Code, and all waivers of the revised Code with respect to any director or executive officer of the Registrants, will be posted on the Registrants web site and provided in print to any shareholder who requests them.

CODE OF ETHICS FOR CHIEF EXECUTIVE OFFICER AND SENIOR FINANCIAL OFFICERS

The Registrants have adopted a Code of Ethics for Chief Executive Officer and Senior Financial Officers. This code applies to the Registrants President and Chief Executive Officer, the Executive Vice-President and Chief Financial Officer and the Vice-President and Comptroller. It is available on the Registrants web site at *www.cpr.ca* and in print to any shareholder who requests it. All amendments to the code, and all waivers of the code with respect to any of the officers covered by it, will be posted on the Registrants web site and provided in print to any shareholder who requests them.

CORPORATE GOVERNANCE GUIDELINES

The Registrants have adopted corporate governance guidelines regarding such matters as, but not limited to: director qualification standards and responsibilities; access by directors to management and independent advisors; director compensation; director orientation and continuing education; management succession; and annual performance evaluations of the board. The guidelines are available on the Registrants web site at *www.cpr.ca* and in print to any shareholder who requests them.

COMMITTEE TERMS OF REFERENCE

The terms of reference of each of the following committees of the Registrants are available on the Registrants web site at *www.cpr.ca* and in print to any shareholder who requests them: the Audit, Finance and Risk Management Committee; the Corporate Governance and Nominating Committee; and the Management Resources and Compensation Committee.

DIRECTOR INDEPENDENCE

The boards of the Registrants have adopted the criteria for director independence and unrelatedness: (a) prescribed by the Sarbanes-Oxley Act of 2002, Section 10A(m)(3) of the Exchange Act and Rule 10A-3(b)(1) promulgated thereunder, for members of public company audit committees; and (b) set forth in the NYSE Standards and the Corporate Governance Guidelines of the Toronto Stock Exchange, as proposed to be amended in April and November 2002 (TSX Guidelines), in respect of public company directors. The boards also conducted a comprehensive assessment of each of their members as against these criteria and determined that all current directors, except R.J. Ritchie, have no material relationship with the Registrants and are independent and unrelated. Mr. Ritchie is not independent or unrelated by virtue of the fact that he is the President and Chief Executive Officer of the Registrants.

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EXECUTIVE SESSIONS OF NON-MANAGEMENT DIRECTORS

The Corporate Governance and Nominating Committees of the boards of the Registrants are comprised of the same directors, being all the non-management directors on the boards. The Corporate Governance and Nominating Committees of the Registrant meet prior to every meeting of the Registrants boards. They are chaired by Mr. J.E. Newall, who is also Chairman of the boards of the Registrants. Interested parties may communicate directly with Mr. Newall by writing to him at the following address, and all communications received at this address will be forwarded to him:

Office of the Corporate Secretary
Canadian Pacific Railway
Suite 2000, 401 - 9th Avenue, S.W.
Calgary, Alberta
Canada
T2P 4Z4

AUDIT COMMITTEE FINANCIAL EXPERTS

The following individuals comprise the entire membership of the Registrants Audit, Finance and Risk Management Committees (Audit Committees), which have been established in accordance with Section 3(a)(58)(A) of the Exchange Act:

Stephen E. Bachand
John E. Cleghorn
Roger Phillips
Michael W. Wright

Each of the aforementioned directors has been determined by the boards of the Registrants to meet the audit committee financial expert criteria prescribed by the Securities and Exchange Commission and has been designated as an audit committee financial expert for the Audit Committees of the boards of both Registrants. Each of the aforementioned directors has also been determined by the boards of the Registrants to be independent within the criteria referred to above under the subheading Director Independence .

FINANCIAL LITERACY OF AUDIT COMMITTEE MEMBERS

The boards of the Registrants have determined that all members of the Audit Committees have accounting or related financial management expertise within the meaning of the NYSE Standards and accounting or related financial expertise within the meaning of the TSX Guidelines. The boards have also adopted the definition of financial literacy contained in the practice notes of the TSX Guidelines and has determined that all members of the Audit Committees are financially literate within that definition.

SERVICE ON OTHER PUBLIC COMPANY AUDIT COMMITTEES

Two members of the Registrants Audit Committees, J.E. Cleghorn and R. Phillips, each serve on a total of four public company audit committees. The boards of the Registrants do not limit the number of public company audit committees on which the members of the Audit Committees serve.

The boards of the Registrants have determined that the service of Messrs. Cleghorn and Phillips on more than three public company audit committees does not impair their ability to effectively serve on the Audit Committees of the Registrants, for the following reasons:

Two of the public company audit committees on which they serve are the Audit Committees of the Registrants. As Canadian Pacific Railway Company is a wholly-owned subsidiary of Canadian Pacific Railway Limited, and the latter company carries on no business operations and has no assets or liabilities of more than nominal value beyond its 100% shareholding in Canadian Pacific Railway Company, the workload of the Audit Committees is essentially equivalent to the workload of one public company audit committee;

Two of the public companies on whose audit committees Mr. Cleghorn serves have a holding company/operating company relationship similar to that between the Registrants. Consequently, the workload involved in such audit committees is essentially equivalent to the workload of one public company audit committee; and

Messrs. Cleghorn and Phillips are both retired chief executive officers of large public companies and qualify, and have been designated as, audit committee financial experts for the Registrants. As a result, they no longer have any day-to-day executive or managerial responsibilities and, in addition, bring to their roles on the Audit Committees of the Registrants considerable business experience and a highly-focused and effective approach to audit-related matters.

PRINCIPAL ACCOUNTING FEES AND SERVICES INDEPENDENT AUDITORS

Fees payable to the Registrants independent auditor, PricewaterhouseCoopers, LLP for the years ended December 31, 2003, and December 31, 2002, totaled $1,501,000 and $2,447,000, respectively, as detailed in the following table:

	Year ended December 31, 2003	Year ended December 31, 2002
Audit Fees	$ 855,000	$ 885,000
Audit Related Fees	$ 329,000	$ 245,000
Tax Fees	$ 310,000	$ 589,000
All Other Fees	$ 7,000	$ 728,000
TOTAL	$ 1,501,000	$ 2,447,000

The nature of the services provided by PricewaterhouseCoopers LLP under each of the categories indicated in the table is described below.

Audit Fees

Audit fees were for professional services rendered by PricewaterhouseCoopers LLP for the audit of the Registrants annual financial statements and services provided in connection with statutory and regulatory filings or engagements.

Audit-Related Fees

Audit-related fees were for assurance and related services reasonably related to the performance of the audit or review of the annual statements and are not reported under Audit Fees above. These services consisted of: special attest services as required by various government entities; accounting consultations and special audits in connection with acquisitions; the audit of financial statements of certain subsidiaries and of various pension and benefits plans of the Registrants; the audit of fuel indices; assistance with prospectus filings; and assistance with preparations for compliance with section 404 of the *Sarbanes-Oxley Act of 2002*.

Tax Fees

Tax fees were for tax compliance, tax advice and tax planning professional services. These services consisted of: tax compliance including the review of tax returns; assistance with questions regarding tax audits, the preparation of

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employee tax returns under the Registrants expatriate tax services program and assistance in completing routine tax schedules and calculations; tax planning and advisory services relating to common forms of domestic and international taxation (i.e. income tax, capital tax, goods and services tax, and valued added tax); and, in 2002, assistance with tax filings in connection with the reorganization of the Registrants former parent company, Canadian Pacific Limited.

All Other Fees

Fees disclosed under this category were for products and services other than those described under Audit Fees , Audit-Related Fees and Tax Fees above. In 2003, these services consisted of assistance in reviewing an agreement and proposed transaction, and in 2002 of: assistance with insurance claims; consultation on computer systems for human resources, freight handling, management reporting and budgeting; financial information systems design and implementation services, which services were completed before July 30, 2002, and assistance with financial forecasting for a proposed joint venture.

PRE-APPROVAL OF AUDIT AND NON-AUDIT SERVICES PROVIDED BY INDEPENDENT AUDITORS

The Audit Committees pre-approve all audit services to be provided to the Registrants by their independent auditors. The Audit Committees policy regarding the pre-approval of non-audit services to be provided to the Registrants by their independent auditors is that all such services shall be pre-approved by the Audit Committees or by the Chairman of the Audit Committees, who must report all such pre-approvals to the Audit Committees at their next meeting following the granting thereof. Non-audit services that are prohibited to be provided to the Registrants by their independent auditors may not be pre-approved. In addition, prior to the granting of any pre-approval, the Audit Committees or their Chairman, as the case may be, must be satisfied that the performance of the services in question will not compromise the independence of the independent auditors.

OFF-BALANCE SHEET ARRANGEMENTS

A description of the Registrants off-balance sheet arrangements is set forth on page 19 of the Registrants 2003 Annual Report incorporated by reference and included herein.

TABLE OF CONTRACTUAL COMMITMENTS

The table setting forth the Registrants contractual commitments is set forth on page 20 of the Registrants 2003 Annual Report incorporated by reference and included herein.

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UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

A. Undertaking

Each Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

B. Consent to Service of Process

A Form F-X signed by Canadian Pacific Railway Limited and its agent for service of process was filed with the Commission together with Canadian Pacific Railway Limited s Annual Report on Form 40-F for the fiscal year ended December 31, 2000. A Form F-X signed by Canadian Pacific Railway Company and its agent for service of process was filed with the Commission together with Canadian Pacific Railway Company s Annual Report on Form 40-F for the fiscal year ended December 31, 1992.

SIGNATURES

Pursuant to the requirements of the Exchange Act, each Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this Annual Report on Form 40-F to be signed on its behalf by the undersigned, thereto duly authorized, in the City of Calgary, Province of Alberta, Canada.

CANADIAN PACIFIC RAILWAY LIMITED
CANADIAN PACIFIC RAILWAY COMPANY
(Registrants)

Signed: Robert V. Horte

Name: Robert V. Horte
Title: Corporate Secretary

Date: March 16, 2004

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DOCUMENTS FILED AS PART OF THIS REPORT

1. Annual Information Form of the Registrants for the year ended December 31, 2003.

2. Annual Report of the Registrants for the year ended December 31, 2003, including Management s Discussion and Analysis and Audited Consolidated Financial Statements of the Registrants as of December 31, 2003 and for each of the three years then ended[1].

EXHIBITS

A. Consent of PricewaterhouseCoopers, Independent Accountants.

B. Certifications by the Chief Executive Officer and Chief Financial Officer of the Registrants pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

C. Certifications by the Chief Executive Officer and Chief Financial Officer of the Registrants pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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[1] For the purposes of this Annual Report on Form 40-F, only pages 1 through 74 of the Registrants 2003 Annual Report referred to above shall be deemed filed, and the balance of such 2003 Annual Report, except as it may be otherwise specifically incorporated by reference in the Registrants Annual Information Form, shall be deemed not filed with the Securities and Exchange Commission as part of this Annual Report on Form 40-F under the Exchange Act.

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Notes:

In this Annual Information Form (AIF), all dollar amounts are in Canadian dollars unless otherwise noted.

Portions of the AIF are disclosed in the Annual Report to Shareholders for the year ended December 31, 2003 and are incorporated by reference into the AIF.

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ITEM 2   CORPORATE STRUCTURE

Canadian Pacific Railway Limited

Canadian Pacific Railway Limited (the Company   or   CPR) was incorporated on June 22, 2001, as   3913732 Canada Inc.   pursuant to the Canada Business Corporations Act (the CBCA). On July 20, 2001, CPR amended its Articles of Incorporation to change its name to   Canadian Pacific Railway Limited . On October 1, 2001, Canadian Pacific Limited (CPL) completed an arrangement (the Arrangement) whereby it distributed to its common shareholders all of the shares of newly-formed corporations holding the assets of four of CPL s five primary operating divisions. The Arrangement was effected as an arrangement pursuant to section 192 of the CBCA. On September 26, 2001, the Arrangement was approved by the shareholders of CPL and Canadian Pacific Railway Company (CPRC), previously a wholly-owned subsidiary of CPL, was transferred to CPR effective October 1, 2001. ***In this Annual Information Form, unless the context requires otherwise,   CPR   and   the Company   refers to Canadian Pacific Railway Limited and, where applicable, its subsidiaries, including CPRC.***

CPR s registered office, executive offices and principal place of business are located at Suite 500, 401   9th Avenue S.W., Calgary, Alberta T2P 4Z4.

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ITEM 2 CORPORATE STRUCTURE

Principal Subsidiaries

The table below sets out the Company s principal subsidiaries, including the jurisdiction of incorporation and the percentage of voting and non-voting securities currently owned directly or indirectly by the Company:

Principal Subsidiary	Incorporated under the laws of	Percentage of voting securities held directly or indirectly	Percentage of non-voting securities beneficially owned, or over which control or direction is exercised
Canadian Pacific Railway Company	Canada	100%	Not applicable.
Soo Line Corporation	Minnesota	100%	Not applicable.
Soo Line Railroad Company[(1)]	Minnesota	100%	Not applicable.
Delaware and Hudson Railway Company, Inc.[(1)]	Delaware	100%	Not applicable.

Notes:

(1) Soo Line Railroad Company and Delaware and Hudson Railway Company, Inc. are wholly-owned subsidiaries of Soo Line Corporation.

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ITEM 3 GENERAL DEVELOPMENT OF THE BUSINESS

Significant Acquisition

Pursuant to the Arrangement, CPRC became a wholly-owned subsidiary of CPR effective October 1, 2001.

Development of CPR

CPRC was incorporated by Letters Patent in 1881 pursuant to an Act of the Parliament of Canada. CPRC is one of Canada s oldest corporations and was North America s first transcontinental railway. From its inception over 120 years ago, CPRC has developed into a fully-integrated and technologically-advanced Class 1 railway (a railroad earning revenues of US$258.5 million annually) providing rail and intermodal freight transportation services over a 13,850-mile network serving the principal business centres of Canada, the U.S. Midwest and the U.S. Northeast.

Of the total mileage operated by CPR, approximately 6,900 miles are located in western Canada, 2,200 miles in eastern Canada, 3,250 miles in the U.S. Midwest and 1,500 miles in the U.S. Northeast. CPR owns 9,550 miles of track and an additional 4,300 miles of track are jointly owned, leased or operated under trackage rights.

CPR s business is based on funnelling traffic from network feeders and connectors, carrying railway traffic to and from the main rail lines, onto a 4,700-mile high-density, high-quality railway network. CPR has extended its network reach by establishing alliances and connections with other major Class 1 railways in North America, which allows CPR to provide competitive product offerings and access to markets across North America and, via the Port of Montreal, Québec, and the Port of Vancouver, British Columbia, to markets in Europe and the Pacific Rim, respectively.

CPR s network accesses the U.S. market directly through two wholly-owned subsidiaries: Soo Line Railroad Company (Soo Line), a Class 1 railway operating in the U.S. Midwest; and Delaware and Hudson Railway Company, Inc. (D&H), which operates between eastern Canada and major U.S. Northeast markets including New York City, New York; Philadelphia, Pennsylvania; and Washington, D.C.

Strategy

CPR s goals are to become the preferred business partner for rail-based transportation services in North America and to be at the forefront of the industry in operating profitability and return on capital employed. Its principal strategies to accomplish these goals include maximizing the strengths of its North American railway franchise by operating a low-cost scheduled railway, developing new products and services in cooperation with customers and partners, and extending the reach of the franchise through marketing and operating partnerships and alliances with other railroads and transport companies in North America. CPR s overall marketing and sales activities within each business group are focused on targeted growth, product efficiency and maximizing value from existing assets.

Recent History

Since 1997, CPR has focused on franchise renewal, increasing network efficiency, asset maintenance efficiency and asset utilization, train operations productivity and labour productivity. The following table summarizes the impact of these strategies on a number of industry recognized performance indicators:

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ITEM 3 GENERAL DEVELOPMENT OF THE BUSINESS

	Year ended December 31				
Performance Indicators	**2003**	**2002**	**2001**	**2000**	**1999**
Traffic density					
(GTMs[1] per mile of road operated, before track on which CPR has haulage rights (thousands))	15,884	15,107	15,326	15,183	13,453
Employee productivity					
(GTMs per average active employee (thousands))	13,640	13,005	12,535	11,798	10,080
Fuel efficiency					
(U.S. gallons of fuel per 1,000 GTMs)	1.25	1.24	1.25	1.29	1.37
Locomotive utilization					
(GTMs per active locomotive per day (thousands))	659	673	681	652	578
Total operating expenses per GTM (cents)*	1.33	1.34	1.34	1.33	1.42
Average train weights (tons)	5,492	5,473	5,580	5,418	5,127
Annual return on capital employed (after taxes)(%)[3]	7.3	9.1	8.7	9.5	9.1
Operating income ($ millions)*[2]	740.6	856.5	841.0	845.2	762.3
Operating ratio (%)*	79.8	76.6	77.3	76.9	78.2
*Excludes other specified items.					

Notes:

(1) Gross Ton-Miles (GTM) of freight measure the movement of total train weight over one mile in a year. The total train weight is comprised of the weight of the freight cars, their contents and locomotives being returned to terminals.

(2) For reconciliation to GAAP operating income see Income Statement Data table in Item 5.

(3) Return on capital employed (after taxes) is calculated as income, before other specified items and FX on LTD, less interest expense, divided by average net-debt-plus-equity, and multiplied by one minus CPRC s normalized tax rate for each respective period.

Network Efficiency

CPR continues to increase the capacity of its core franchise through infrastructure-sharing and joint-service programs with other railways, strategic capital investment programs, and operating plan strategies. Combined with the continued improvement of CPR s locomotive fleet, these strategies enable CPR to achieve more predictable and fluid train operations between major terminals.

CPR has expanded its physical network with the following infrastructure-sharing and joint-service programs:

CPR-CSX Transportation, Inc. (CSX) track connection at Detroit, Michigan reduces transit times and improves consistency of service between eastern Canada and the U.S. Midwest;

CPR-Union Pacific Corporation (Union Pacific) provides joint service from western Canada to the U.S. Pacific-Northwest, California and Arizona and to Texas/Mexico and Kansas/Missouri; and

CPR-Norfolk Southern Corporation joint intermodal service between the Port of New York/New Jersey and eastern Canada reduces transit times for import-export shippers. CPR constructed a new passing siding at Clarks Summit, Pennsylvania and granted Norfolk Southern Railway Company (NS) trackage rights between Sunbury, Pennsylvania and Mechanicville, New York in order to increase traffic and improve freight service to upstate New York, northern Pennsylvania and New England.

ITEM 3 GENERAL DEVELOPMENT OF THE BUSINESS

In 2002 and 2003, CPR spent approximately $25 million to extend the length of 16 rail sidings throughout northern and eastern Ontario in order to increase operating efficiency and reduce costs. A siding is a limited length of track parallel to the main line and linked to it at both ends by switches, enabling trains running in either direction to pass each other. Longer sidings permit the use of longer and fewer trains. It also permits fewer locomotives to be used to move the same amount of freight in a given rail corridor. CPR has identified other corridor bottlenecks on its network and a plan is in place to provide appropriate capacity in order to increase train density and fluidity on all its major routes.

In 2003, CPR sold a lower-density 12.6-km (7.8-mile) rail line in northern New Brunswick known as the Edmunston Spur to Canadian National Railway (CN). This line runs between Grand Falls and Cyr Junction, near St. Leonard, New Brunswick. CPR also sold a 32.5-mile rail line that runs from Madison to Watertown, Wisconsin to the Wisconsin & Southern Railroad.

Franchise Renewal

Franchise renewal is an integral part of CPR s multi-year capital program. From 2001 to 2003 the Company has invested approximately $1.9 billion in its core assets. CPR continually refines its investment program in order to generally keep annual average capital spending at approximately 18% of revenues while also increasing funding of network maintenance programs to ensure its plant, property, and equipment assets are well maintained. Through its franchise renewal program, CPR continues to focus its capital spending on those assets that improve its capacity and productivity and the reliability of its services.

CPR s annual program to modernize and upgrade its core strategic assets typically includes track and facilities (including rail yards and intermodal terminals); locomotives; information technology; and freight cars and other equipment investments. Over the three-year period from 2001 to 2003, CPR invested approximately $1.2 billion in track and facilities, about $250 million in locomotives, and approximately $446 million in information technology, growth initiatives, freight cars and other equipment.

Locomotive Fleet Modernization

CPR has upgraded its locomotive fleet with the acquisition of high-adhesion alternating current (AC) locomotives, which are more fuel efficient and reliable and have superior haulage capacity relative to standard direct current (DC) locomotives. CPR s locomotive fleet now includes 507 AC locomotives, representing approximately 47% of CPR s road-freight locomotive fleet, and handling about 65% of CPR s workload. This investment has improved CPR s service reliability and has produced cost savings in fuel, equipment rents and maintenance. It has also allowed CPR to remove from service 147 older DC locomotives in the last three years and enabled CPR to more efficiently utilize its repair and maintenance facilities.

Railcar Fleet Modernization

Starting in 1998, and continuing through 2003, CPR undertook a freight-car modernization program to fully leverage its rail network and locomotive fleet. The program s general aim included the following objectives:

1. increase the productivity and standardization of each car fleet;

2. secure lower lease costs by reducing CPR s reliance on short-term leasing; and

3. improve customer satisfaction through the introduction of higher-capacity cars.

ITEM 3 GENERAL DEVELOPMENT OF THE BUSINESS

In 2003, CPR introduced its Intermodal Fleet Renewal (IFR) initiative in order to increase the density of its intermodal trains and allow CPR to move more containers with fewer trains. The plan of the IFR is to bring on 5,500 new double-stack cars in 2003 and 2004 that will be a mix of both 53- and 40-foot equipment.

Freight cars owned and long-term leased

	2003	2002	2001
Covered Hoppers[(1)]	25,100	23,200	23,800
Open Tops	4,600	5,500	4,000
Box Cars	7,000	7,800	7,900
Gondolas	2,500	2,500	2,500
Flats	2,700	2,000	1,400
Intermodal	2,600	3,100	3,500
Automotive	3,100	3,500	3,300
Total	47,600	47,600	46,400

(1) includes 9,000 government cars.

Strengthening Business Fundamentals

Yield Management

CPR believes that its customers, many of whom compete in global markets, demand competitively priced transportation service. In order to offer competitive prices to its customers, CPR has redesigned its train operations and terminal processes and is continually working at increasing productivity through cost-reduction programs and improving asset utilization through initiatives aimed at targeted growth, product efficiency and maximizing value from existing resources. CPR has a Price and Yield management team to standardize price- and yield- business processes across the Company.

Train Operations Productivity

In 1999, CPR introduced a new operating plan to increase productivity, improve asset utilization and enhance service quality for customers. This means CPR is running longer, heavier trains more consistently to make connections and meet delivery commitments for less cost.

In December of 2003, CPR became the first railway in North America to operate intermodal freight trains with mid-train remote-control (Locotrol) locomotives. These remote-control units enable CPR to run intermodal trains approaching three kilometres in length through the winter. CPR extended the area of its Locotrol operation to encompass Moose Jaw, Saskatchewan to Toronto, Ontario and extended the use of Locotrol from exclusively bulk train operation to intermodal and mixed-manifest trains.

Asset Maintenance Efficiency

CPR has improved the efficiency of its repair facilities primarily through outsourcing arrangements and by reducing the costs of maintenance. CPR has improved the reliability of its locomotive fleet by entering into warranty service agreements with suppliers pursuant to which suppliers have made strict performance commitments.

In the second quarter of 2001, CPR entered into an agreement with Alstom Canada Inc. for the lease and operation of CPR s Ogden maintenance and repair shop in Calgary, CPR s primary rebuilding and heavy-repair facility.

In May 2002, CPR closed its Frog Shop in Lethbridge, Alberta. The shop produced second-hand frogs (a track component that allows trains to cross from one adjacent track to another) for use on CPR s network.

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In January 2003, coinciding with the purchase of 46 new AC locomotives, CPR announced an expansion of its warranty service agreements in eastern Canada, pursuant to which diesel locomotive manufacturers manage the ongoing servicing of CPR locomotives using CPR employees. As a result, approximately 70% of CPR s locomotive fleet is covered by service agreements containing strict performance commitments.

Information Technology

As a 24-hour-a-day, 7-day-a-week business, CPR relies heavily on its computer systems to schedule all components of its operations. Computer applications map out complex interconnections of freight cars, locomotives, facilities, track and train crews to meet more than 10,000 individual customer service commitments every day. CPR uses intricate automated traffic-forecasting systems, determines car routings and yard workloads using bypass and circuitry analysis software, and generates time-distance diagrams to examine track capacity.

CPR has substantially completed the implementation of a suite of new operating systems, collectively referred to as Service Excellence . This investment in information technology has assisted CPR in becoming a scheduled railway operation, by helping increase the productivity of CPR s asset base and improving customer service. The final step in the Service Excellence program is the implementation of the TYES software program in 2004. The TYES application is a rail-yard management system that manages shipment connections from train-to-train.

CPR is currently investing in a new application called TRIEX that will improve the efficiency and customer-service capabilities in its intermodal business. CPR is developing TRIEX in co-operation with a U.S.-based software firm. The Company expects TRIEX will be installed in early 2005. CPR is also updating its train-control system by moving it to a more current technological platform, thereby extending the life of this critical system by many years in line with the overall strategy of optimizing assets.

In late 2003, a transfer of assets to IBM Canada Ltd. was part of a seven-year, $200-million agreement reached with IBM to operate and enhance CPR s computer infrastructure. CPR expects that this arrangement will reduce its costs over time and allow remaining information technology staff to focus on applications that improve efficiency and service.

Low-Cost Scheduled Railway Simplification of Processes

CPR invested $3.3 billion in track infrastructure, terminals, rolling stock and information technology from 1997 through 2000 and a further $1.9 billion between 2001 and 2003 to support the implementation of its scheduled railway operating philosophy. CPR believes improving its scheduled railway operations will further increase productivity, improve asset utilization and enhance service quality. This will be accomplished by continuing to refine the operating plan, making strategic capital investments aimed at reducing or eliminating existing train length and weight limitations while increasing traffic density and asset velocity, and entering into additional co-production initiatives with other Class 1 railway companies to more effectively utilize available networks.

Integrated Operating Plan

In May 1999, CPR launched its scheduled railway Integrated Operating Plan (IOP). Under the IOP, trains are scheduled to run consistently and at times agreed upon by CPR and the customer, thereby ensuring connections at intermediate terminals are made and delivery commitments are met. A plan is established for each rail car covering its entire trip from point of origin to final destination. Cars with similar destinations are consolidated into blocks, thus reducing delays at intermediate locations by simplifying processes for employees, eliminating the duplication of work and helping to ensure fluid rail yards and terminals. These efficiencies help reduce transit times for shipments throughout CPR s network and increase car availability for customers. Since the implementation of the IOP, CPR has improved on-time performance of its premium intermodal train services and has increased terminal performance for its customers while delivering a significant reduction in the cost base of its operations.

CPR now operates a scheduled railway and strives to deliver high service quality to its customers and achieve a high level of efficiency through improved asset utilization. CPR is committed to further pursuing methods to improve the scheduling of trains with other railways and to develop systems designed to share advanced information, thereby improving service. In 2003, CPR s approach to scheduled-railway operations won the Franz Edelman Award for Achievement in Operations Research and the Management Sciences.

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Labour Productivity and Efficiency

CPR continually takes steps to increase the effectiveness of its organizational structure in order to increase its productivity and efficiency. Since 1996, the Company has centralized its management team to improve communication and decision-making, simplified the organization s management structure, and increased the responsibility given to management personnel. CPR regularly reviews its organizational processes, workforce needs and related organizational costs, thereby improving the productivity and efficiency of its workforce while reducing expenses. For example, CPR eliminated approximately 1,900 permanent positions in 2000 (representing approximately 10% of its workforce), including positions in management, administration, maintenance shops, train operations and track maintenance.

In 2001, CPR launched further cost-reduction initiatives, including the integration of the St. Lawrence & Hudson Railway Company Limited (previously a CPR subsidiary operating in eastern Canada), which have resulted in the elimination of approximately 800 positions. In addition, approximately 600 positions were transferred to service suppliers, who were able to improve utilization of CPR facilities through access to a larger customer base.

During 2002, CPR began new restructuring initiatives to reduce costs by eliminating an additional 85 positions. In the second quarter of 2003, CPR began a productivity program that will eliminate 820 positions by the end of 2005 through consolidation of administrative functions, applications of new information technology to improve the productivity of administrative functions and yard operations, and improvements in car and locomotive maintenance efficiency. The Company eliminated 360 positions under this new program by the end of 2003. Since January 1, 1996, CPR has reduced its total workforce by 30%.

In order to stimulate and reward employee participation in CPR s efficiency initiatives, CPR has implemented a number of incentive-based compensation programs designed to allow eligible employees, both unionized and non-unionized, to share in the savings they help generate for CPR.

North American Railway Franchise

CPR believes it is well positioned to achieve its goals because of its network and assets, its emphasis on customer service and its team of dedicated employees.

Network and Assets The competitive strengths of CPR s network and assets include the following:

CPR offers access to U.S. markets through 11 major interchanges and strong alliances with other Class 1 railways;

CPR handles the largest volume of intermodal containers through the Port of Montreal, a major North American gateway for European trade;

CPR has competitive access to new, state-of-the-art facilities at the Port of Vancouver, a major shipping gateway to and from Pacific Rim markets;

CPR offers the shortest rail route from the Port of Vancouver to the Chicago, Illinois rail hub;

CPR has made significant investments in efficient AC locomotives; and

CPR has invested strategically in new computer operating systems, enabling CPR to operate more effectively and efficiently for the benefit of its customers while further enhancing its scheduled-railway operations.

Customer-Oriented Initiatives CPR believes that its emphasis on customer service has differentiated CPR from its competitors and has allowed its customers to compete effectively in their respective markets, while permitting CPR to retain and enhance its customer base. Some of CPR s customer-oriented initiatives are as follows:

CPR has extended its rail lines directly to the new facilities of some of its key customers;

CPR has introduced services and acquired assets that are custom-designed for certain of its key customers;

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CPR s service quality has helped to motivate several of its significant intermodal customers to locate large distribution centres adjacent to CPR s intermodal terminals (for example, Sears, Canadian Tire and Consolidated Fastfrate); and

CPR has achieved a strong market position across a diversified base of customers and products through its cross-functional approach.

Dedicated Employees CPR considers its team of employees to be its most valued asset. Through results-sharing programs, CPR s employees have financial incentives to help CPR attain its goals.

Extending Franchise Reach

CPR aims to continue to increase revenue through initiatives designed to extend its business beyond the physical railway network, thereby providing the flexibility needed to capture market share from its competitors. CPR plans to extend its franchise reach by creating new markets and by concentrating on providing new products, expanded truck-rail transfer facilities and improved, value-added service through customer-relationship management.

New Product Offerings

CPR works with its customers to develop and introduce new products into the marketplace. For example, CPR introduced its Trans-Pacific initiative, a highly-efficient, freight-transportation service between the Port of Vancouver and Chicago for import-export intermodal containers. By working with the Port of Vancouver and the shipping lines to establish Vancouver, British Columbia as the preferred port for North America-bound deliveries from the Pacific Rim, CPR has created a competitive route for the movement of containers into the Chicago market. CPR continues to secure long-term agreements with customers in this corridor and has signed agreements with OOCL, Cosco, China Shipping, NYK, Columbus Lines and Lykes Lines Limited LLC, which are among, or are affiliated with, the world s largest container shipping companies.

Expanded Truck-Rail Transfer Facilities

CPR has also extended its franchise reach through the use of truck-rail transfer facilities, which it uses to gain competitive access to key resource production areas not directly served by the CPR network. This service will be provided through its logistics and supply chain division called Canadian Pacific Logistics Solutions (CPLS), which is further described below in the business categories.

Customer Relationship Management

The customer service team, located in Winnipeg, Manitoba; Calgary, Alberta; and Minneapolis, Minnesota, aims to provide value to customers through the use of technology, a formalized cross-functional approach to problem solving and the development of new opportunities for customers. CPR s customer service group also includes a damage-prevention team, which works with customers to ensure proper loading techniques are employed, enabling shipments to arrive in good condition.

CPR has put in place a customer relationship management (CRM) program directed at understanding and anticipating the needs of its current and potential customers. This program has better positioned CPR to:

understand customer needs and expectations;

- deliver the expected product quality;
- work with customers to generate new product ideas;
- manage and improve the overall customer experience with CPR; and
- continuously improve CPR s performance.

CPR will continue to build on this success through strengthened customer relationships and an increased focus on sustainable growth opportunities.

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Railway Partnerships and Alliances

In order for certain customers to transport their goods from their desired points of origin to their desired final destination points, goods may have to travel on more than one railway. Transfers of goods from railway to railway can cause delays and service interruptions. CPR s rail network connects to other North American rail carriers and in partnership continues to co-develop processes and products designed to provide seamless and efficient scheduled train service to these customers.

Recent Class 1 railway initiatives include:

- a joint CPR-Union Pacific service from western Canada to the U.S. Pacific-Northwest, California and Arizona via Kingsgate, British Columbia;
- a joint CPR-Union Pacific service from western Canada to the Texas/Mexico and Kansas/Missouri markets via Minneapolis;
- a joint CPR-NS intermodal service between the Port of New York/New Jersey and eastern Canada;
- CPR-NS trackage-rights agreement to handle NS traffic over CPR s D&H lines in the U.S. Northeast; and
- a joint CPR-Union Pacific service from eastern Canada to the U.S. Gulf Coast and Mexico.

In addition, CPR also works with smaller (short-line or non-Class 1) railways to develop partnerships that benefit both parties.

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Network and Right of Way

CPR s network, shown in the map below, extends from the Port of Vancouver in Canada s west to the Port of Montreal in Canada s east and to the industrial centres of Chicago; New York City, New York; Newark, New Jersey; Buffalo, New York; Philadelphia and Washington, D.C. in the U.S.

The CPR network consists of four primary corridors: the Western Corridor, the Southern Corridor, the Central Corridor and the Eastern Corridor. Each of these corridors is complemented by a number of collector and feeder lines.

The Western Corridor: Vancouver-Moose Jaw

Overview The Western Corridor links Vancouver with Moose Jaw, which is the western-Canadian terminus of CPR s Southern and Central corridors. This corridor provides the shortest rail route for most bulk products transported from western Canada to the Port of Vancouver. It is also an important part of CPR s highly competitive service routes between Vancouver and the U.S. Midwest and between Vancouver and the major population centres in central and eastern Canada.

Products The Western Corridor is CPR s primary route for bulk and resource-products traffic from western Canada destined to the Port of Vancouver for export. Significant volumes of import-export intermodal containers and domestic general merchandise traffic are also handled over the Western Corridor. At its busiest location, the Western Corridor handles an average of approximately 33 trains per day.

Feeder Lines The Western Corridor is supported by two significant feeder lines, being the Coal Route , which connects the Western Corridor to coal producing centres in southeastern British Columbia and the Calgary-Edmonton Corridor which provides rail access to central Alberta s petrochemical industries, natural resources markets and Edmonton, Alberta.

Connections CPR s Western Corridor connects with Union Pacific at Kingsgate. This route forms part of the Pacific Can-Am Corridor , which provides direct rail service to locations in California. The Western Corridor also connects with the Burlington Northern Santa Fe Railway (BNSF) at Coutts, Alberta and New Westminster, British Columbia, and with BC Rail at North Vancouver, British Columbia.

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Yards and Repair Facilities Rail operations on the Western Corridor are supported by major rail yards at Vancouver, Calgary, Edmonton and Moose Jaw. In addition, CPR has significant intermodal terminals at Vancouver, Calgary and Edmonton, as well as locomotive and rail car repair facilities at Vancouver, Calgary and Moose Jaw.

The Southern Corridor: Moose Jaw-Chicago

Overview CPR s Southern Corridor connects with the Western Corridor at Moose Jaw and runs directly through Milwaukee, Wisconsin and the twin cities of Minneapolis and St. Paul, Minnesota, and south to Chicago providing a direct, single carrier route between western Canada and major population centres in the U.S. Midwest.

Products Predominant markets served on the Southern Corridor include import-export intermodal containers handled at the Port of Vancouver and Canadian fertilizers, chemicals, grain, automobiles and U.S. agricultural products. At its busiest location, the Southern Corridor handles an average of approximately 19 trains per day, excluding passenger and commuter trains.

Feeder Lines A significant feeder line connecting Glenwood, Minnesota and Winnipeg supports the Southern Corridor. This line is both a gathering network for U.S. grain as well as a route for Canadian fertilizers destined to the U.S.

CPR has operating rights over the BNSF line between Minneapolis and the twin ports of Duluth, Minnesota and Superior, Wisconsin. This line provides an outlet for grain from U.S. Midwest origins to the grain terminals located at Duluth and Superior.

Through a combination of operating rights and owned lines, CPR provides service from Chicago to Louisville, Kentucky. In addition to general merchandise traffic, a significant amount of coal traffic from southern Indiana coalmines is handled on this line.

Connections The Southern Corridor connects with all major railways at Chicago. Outside of Chicago, there are major connections with BNSF at Minneapolis and at Minot, North Dakota; with Union Pacific at St. Paul; and with CSX and NS at Louisville. The Southern Corridor is also linked to several short-line railways primarily serving grain-producing areas in the U.S.

Yards and Repair Facilities Rail operations on the Southern Corridor are supported by major rail yards located at Chicago, St. Paul and Glenwood. At Chicago, CPR has a 49% ownership interest in the Indiana Harbor Belt Railway Company, a switching railway serving the Greater Chicago and northwest Indiana areas. CPR has two significant intermodal terminals at Chicago and one at Minneapolis. In addition, CPR has a major locomotive repair facility at St. Paul and car repair facilities at St. Paul and Chicago.

The Central Corridor: Moose Jaw-Toronto

Overview The Central Corridor extends from Moose Jaw, through Winnipeg, and then to its eastern terminus at Toronto. The Central Corridor is complemented by a secondary route, leased and operated by Ottawa Valley Railway, which connects Sudbury, Ontario and Smiths Falls, Ontario and expedites the movement of CPR traffic between Montreal and western Canada. This corridor offers shippers direct rail service from Toronto and Montreal to Calgary and Vancouver via the Western Corridor a key element of CPR s transcontinental intermodal and other competitive services.

Products Major traffic categories on the Central Corridor include Canadian grain, industrial products, intermodal containers, automobiles and general merchandise. The Central Corridor is critical to CPR s fast-growing intermodal business and it also provides access to the Port of Thunder Bay, Ontario, Canada s primary Great Lakes bulk terminal. At its busiest location, the Central Corridor handles an average of approximately 20 trains per day.

Feeder Lines The Central Corridor is supported by a significant feeder line connecting Edmonton with Winnipeg through Saskatoon, Saskatchewan. This is an important Canadian grain and fertilizer collector. As noted above, the line connecting Winnipeg with the Southern Corridor at Glenwood is both a gathering network for U.S. grain as well as a route for Canadian fertilizers destined to the U.S.

Connections The Central Corridor connects with BNSF at Emerson, Manitoba, as well as a number of short-line railways.

ITEM 4 NARRATIVE DESCRIPTION OF THE BUSINESS

Yards and Repair Facilities CPR s rail operations on the Central Corridor are supported by major rail yards at Thunder Bay, Ontario; Winnipeg; and Toronto. The intermodal facility in the northern Toronto suburb of Vaughan is the largest intermodal facility in the Canada. CPR also operates intermodal terminals at Saskatoon and Regina, Saskatchewan; Thunder Bay; and Winnipeg.

CPR has significant locomotive repair facilities in Winnipeg and Toronto, and has car-repair facilities at Winnipeg, Thunder Bay and Toronto.

The Eastern Corridor

Overview The Eastern Corridor provides CPR with an important link between the major population centres of eastern Canada, the U.S. Midwest and the U.S. Northeast. The Montreal-Chicago Corridor supports CPR s leading market position at the Port of Montreal by providing one of the shortest rail routes for European cargo destined to the U.S. Midwest. The Montreal-Chicago Corridor consists of a CPR-owned and maintained route between Montreal, Quebec and Detroit coupled with a long-term rail car haulage contract with CSX that links Detroit with the CPR-owned infrastructure at Chicago.

Products The predominant products handled by CPR over the Eastern Corridor are import-export intermodal containers, automobiles, industrial products and motor carrier trailers on CPR s roll-on/roll-off Expressway service. At its busiest location, the Eastern Corridor handles an average of approximately 20 trains per day, excluding passenger and commuter trains.

Feeder Lines The Eastern Corridor connects with a number of important feeder lines. The route between Sunbury, Pennsylvania and Montreal, in combination with trackage rights over other railways, provides CPR with direct access to New York City; Albany, New York; Philadelphia; Newark; and Washington, D.C. The line between Guelph Junction, Ontario and Binghamton, New York, including trackage rights over NS lines, links the southern Ontario industrial region with key U.S. connecting rail carriers at Buffalo, and with the Montreal to Sunbury line at Binghamton.

Connections The Eastern Corridor connects with all major railways at Chicago. Major connections with NS are also located at Detroit, Buffalo; Allentown, Pennsylvania and Harrisburg, Pennsylvania. Major connections with CSX are also located at Detroit, Buffalo, Albany and Philadelphia.

Yards and Repair Facilities In addition to yards and terminals already mentioned above at Toronto and Chicago, CPR s rail operations on the Eastern Corridor are supported by major rail yards at Montreal and Binghamton. Intermodal facilities are located at Montreal, Detroit, and Windsor, Ontario. There is also a second intermodal facility in Toronto dedicated to serving the Eastern Corridor. Expressway terminals are located at Montreal, Toronto, Windsor and Detroit.

In addition to repair facilities mentioned above at Toronto and Chicago, CPR has a locomotive-repair facility and a car-repair facility located at Montreal.

Other On June 18, 2003 CPR announced the restructuring of the D&H. CPR will restructure its northeastern U.S. operations to create a more cost-effective and flexible railway network and has begun discussions with a number of interested parties about ways to generate higher traffic volumes and greater earnings.

Right of Way

CPR s rail network is standard gauge, which is used by all of the major railways in Canada, the U.S. and Mexico. Continuous welded rail is used on over 96% of CPR s mainline. Virtually all of the network and primary feeder trackage is 100-pound rail or heavier, suitable for movements of 286,000-pound cars, the North American rail industry s preferred car size.

CPR uses different train control systems on different portions of its owned track, depending on the volume of rail traffic. Centralized traffic control (CTC) signals are used to authorize the movement of trains where traffic is heaviest. Approximately 3,450 miles of the network are controlled with CTC signals.

Where rail traffic is lightest, train movements are directed by written instructions transmitted electronically and by radio from rail traffic controllers to train crews. In areas of intermediate traffic density, CPR uses an automatic block signalling system (ABS) in conjunction with the written instructions from rail traffic controllers. Approximately 700 miles of the network have ABS in place.

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Rolling Stock

The following table summarizes the locomotive fleet owned or leased by CPR, including the age distribution of the locomotive fleet:

Number of Locomotives
(owned and leased)

Age in Years	Road Freight AC	Road Freight DC	Road Switcher	Yard Switcher	Total
0-5	323				323
6-10	184				184
11-15		67			67
16-20		55	94	8	157
Over 20		464	170	257	891
Totals	507	586	264	265	1,622

In addition to its locomotive fleet, CPR owns or leases approximately 47,600 freight cars, of which approximately 20,700 cars are owned. Long-term leases on approximately 2,900 cars are scheduled to expire during 2004, and the leases on approximately 6,900 additional cars are scheduled to expire before the end of 2007. The above freight car count also includes 9,000 hopper cars owned by federal or provincial government agencies.

Business Categories

CPR provides the shortest rail route for most bulk products transported from western Canada to the Port of Vancouver. CPR also provides highly competitive service routes between Vancouver and the U.S. Midwest and between Vancouver and the major population centres in central and eastern Canada. The CPR network provides a strategic link between the Port of Montreal and the U.S. Midwest. CPR also serves the major eastern population centres of Montreal, Toronto, Newark, New York City, Buffalo, Philadelphia and Washington, D.C. CPR serves a wide range of customers, with no single customer accounting for more than 10% of total freight revenue.

The mix of products CPR transports has changed significantly over the past six years. The following table shows the comparison of the percentage of CPR s total freight revenue that it has derived from each of its major lines of business in 2003 versus 1998. CPR s business balance has changed as the needs of its customers have changed and the intermodal market has grown:

Business Category	2003	1998

Bulk	43%	50%
Merchandise	30%	30%
Intermodal	27%	20%

ITEM 4 NARRATIVE DESCRIPTION OF THE BUSINESS

Freight Revenues

The following table summarizes CPR s freight revenues since 2001.

Business Category	Fiscal 2003	Fiscal 2003 Growth Rate as Compared to Fiscal 2002	Fiscal 2002	Fiscal 2002 Growth Rate as Compared to Fiscal 2001	Fiscal 2001	Fiscal 2001 Growth Rate as Compared to Fiscal 2000
			(in $ millions, except percentages)			
Bulk						
Grain	644	2.1%	631	(15.8)%	749	(0.8)%
Coal, sulphur and fertilizer	862	2.1%	844	(1.3)%	855	5.0%
Total bulk	**1,506**	**2.1%**	**1,475**	**(8.0)%**	**1,604**	**2.2%**
Merchandise						
Automotive	304	(8.7)%	333	9.5%	304	(0.3)%
Forest products	329	(8.6)%	360	1.7%	354	(3.3)%
Industrial products	400	(5.2)%	422	(2.0)%	431	(1.6)%
Total merchandise	**1,033**	**(7.4)%**	**1,115**	**2.4%**	**1,089**	**(1.8)%**
Intermodal	940	6.6%	882	9.7%	804	2.8%
Total freight revenues	**3,479**	**0.2%**	**3,472**	**(0.7)%**	**3,497**	**1.1%**

Bulk

CPR s bulk business, comprised of grain, coal, sulphur and fertilizers, represented approximately 43% of total freight revenues in 2003. CPR provides bulk transportation services along the shortest routes from major production areas in British Columbia, Alberta and Saskatchewan to the Port of Vancouver.

Grain

CPR s grain business comprised approximately 18% of total freight revenues in 2003. Canadian grain traffic consists of both grain (primarily wheat, barley and canola) and grain products grown or processed largely in western Canada and moved by rail to both domestic markets within North America and various export markets. Canadian grain intended for export is shipped primarily via the ports of Vancouver; Thunder Bay, and Prince Rupert, British Columbia.

Continued use of MaxTrax, CPR s order-fulfillment system for Canadian grain, allows CPR s grain shippers to pre-order the railcars they need, and has improved the planning and efficiency of grain movement, resulting in improved asset utilization and a reduced fleet size.

CPR s total revenues on Canadian grain shipments to Vancouver (for export) and to Thunder Bay (for export or domestic consumption) are subject to a revenue formula by virtue of amendments to the Canada Transportation Act (the CTA), which came into effect on August 1, 2000. The revenue formula for CPR, specified in the legislation, is adjusted in each crop year to take into account changes in the volume of grain shipped, the average length of haul and the prices of railway input factors.

CPR ships grain from North Dakota, South Dakota and Minnesota primarily to mills located near populated U.S. centres and destined for various export ports including the U.S. Pacific Northwest, the twin ports of Duluth/Superior and the Gulf of Mexico.

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Coal

CPR s coal businesses represented approximately 13% of total freight revenues in 2003. In Canada, CPR transports metallurgical coal from mines in southeastern British Columbia to port terminals for export to world markets, particularly the Pacific Rim. The mines located on CPR s lines, some of the most efficient in North America, produce high-quality coal and have long-life reserves. The U.S. coal business handled by CPR consists mainly of thermal coal and petroleum coke, transported mainly within the Midwest U.S.

Sulphur and Fertilizers

Sulphur and fertilizers business represented approximately 12% of total freight revenues in 2003.

Sulphur

Sulphur is a by-product of the oil and gas industry that is used in the production of sulphuric acid, which is used in the production of phosphate fertilizers. CPR provides rail transportation services from the key production facilities in Canada to the U.S. and offshore markets mainly China, Brazil, Australia, Mexico and South Africa via the Port of Vancouver.

Fertilizers

The two main segments of the fertilizer business are potash and chemical fertilizers. CPR s potash business moves primarily from Saskatchewan to markets in the U.S. and offshore countries through the ports of Vancouver and Portland, Oregon. Chemical fertilizers are transported to Canadian and northern U.S. markets from key production areas in the Canadian Prairie provinces. Traffic is also received from U.S. railroads serving the southeastern U.S. phosphate fertilizer producers. CPR has long-term, inflation-protected contracts with most of its major fertilizer customers.

Merchandise

CPR s merchandise business represented approximately 30% of total freight revenues in 2003. Merchandise freight consists of finished vehicles and automotive parts, and forest and industrial products.

Automotive

CPR s automotive business represented approximately 9% of total freight revenues in 2003. CPR transports vehicles to and from several automotive plants in Ontario. Automotive business consists of the transportation of domestic and import vehicles, automotive parts and agricultural equipment from North American assembly plants and the Port of Vancouver to destinations in the Canadian and U.S. marketplace.

Forest Products

CPR s forest products business represented approximately 9% of total freight revenues in 2003, transporting a variety of forest products including wood pulp, lumber, newsprint, paper, panel board and fibreboard. CPR mainly moves wood pulp from British Columbia and eastern Canada, lumber from British Columbia and newsprint from eastern Canada, primarily destined for the U.S.

Industrial Products

CPR s industrial products business represented approximately 12% of freight revenues in 2003. The industrial products business line includes many input commodities, such as chemicals, plastics, aggregates, metals, steel and scrap and energy-related products. CPR transports chemicals such as glycol, styrene, methanol and ethanol to destinations within the domestic North American market and to export markets in the Pacific Rim.

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Intermodal

CPR s intermodal business accounted for approximately 27% of CPR s total freight revenues in fiscal 2003. This business line, which generally consists of high-value, time-sensitive shipments, has grown significantly in recent years. CPR also believes that the intermodal business has attractive, long-term growth prospects. To enhance competitiveness and prepare for continued growth, CPR has increased capacity at its intermodal terminals in Vancouver, Calgary, Chicago, Toronto and Montreal.

Import/Export Intermodal

The international segment handles mainly containers of consumer goods between the ports of Vancouver, Montreal, New York and Philadelphia and inland Canadian and U.S. destinations.

North American Intermodal

North American intermodal traffic, transporting mainly retail goods, moves between Toronto, Montreal, Chicago and several western Canadian cities. CPR has entered into co-location initiatives, under which major retailers have built regional distribution facilities adjacent to certain CPR intermodal terminals.

Expressway

CPR s expressway provides high-quality intermodal services in the short-haul market. Expressway works in partnership with the trucking industry by carrying standard, non-reinforced trailers between major urban centres. A number of major motor carriers serving the automotive, resource, food and retail sectors use Expressway.

Canadian Pacific Logistics Solutions

Canadian Pacific Logistics Solutions (CPLS) is a newly formed division of CPR which provides consulting services, logistics management, operations support and transloading (the transfer of a shipment from one mode of transportation to another).

Other Business

CPR earns additional revenues through the sale or lease of its assets. These arrangements include infrastructure and operating agreements with government-sponsored commuter rail authorities, the sale of CPR s rights to lay fibre-optic cable along its track right-of-way and contracts with passenger service operators. CPR also operates the   Royal Canadian Pacific , a luxury train composed of CPR s historic business car fleet.

Safety

CPR s Safety and Health Management Committee, established in 1996, provides ongoing focus, leadership, commitment and support for efforts to improve the safety of CPR s operations, and the safety and health of all CPR employees. The Company s safety management process, called the Safety Framework, involves more than 1,000 employees in planning and implementing safety-related activities. This safety management process, combined with a planning process that encompasses all operational functions, ensures a continuous and consistent focus on safety.

In 2003, U.S. Federal Railroad Administration (FRA) personal injuries per 200,000 employee hours (100 employee years) were 3.1, down approximately 14% from 2002 and down 30% since 1999. FRA reportable train accidents per million train miles were 1.8, the same as in 2002, and are down approximately 14% since 1999.

Competition

CPR s primary competitors for freight transportation in Canada and the U.S. include other railways and trucking companies. In Canada and the U.S., CPR is subject to competition for freight traffic from other Class 1 railways, particularly BNSF, CN, NS, CSX and Union Pacific. Competition is based mainly on price, service and accessibility to markets. Competition with the trucking industry is generally focused on freight rates, flexibility of service and transit time performance.

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In 2002, CPR became the first railway in North America to be approved under a new Canada Border Services Agency program to streamline clearance at the border for imports from the U.S. Under the Customs Self-Assessment (CSA) program, goods and shippers approved as low risk have a virtual fast lane into Canada on CPR. Eligible goods include finished vehicles, parts for vehicles, food products and other common items frequently imported from the U.S.

The CSA program reduces the cost of compliance with Canada s import regulations. Under the program, approved importers can file monthly summary customs reports on their shipments instead of a report on each shipment. Approved importers also benefit from improved efficiencies, as their goods can be delivered directly to their facilities without stopping for inspection at the border or waiting for customs clearance. CPR benefits from improved freight car velocity, as shipments for customers approved under CSA can move more easily across the U.S. border.

Most recently, CPR and the Canadian and U.S. customs agencies signed a declaration of principles to further enhance security at the Canada-U.S. border and to ensure secure rail access to the U.S. The joint government-industry initiative to enhance the security of U.S.-bound rail shipments ensures trade continues to flow between the two countries. These discussions were part of the larger process of implementing the Smart Border Declaration adopted by Canada and the U.S. in December 2001.

CPR also secured accreditation under U.S. Customs and Border Protection (C&BP) Customs-Trade Partnership Against Terrorism (C-TPAT) program. C-TPAT is a joint government-business initiative designed to build cooperative relationships that strengthen overall supply chain and border security.

CPR and customs officials are working to implement the measures outlined in the declaration of principles.

Labour Relations

As at December 31, 2003, approximately 78% of CPR s workforce is unionized, with approximately 81% of CPR s workforce located in Canada. Unionized employees are represented by a total of 37 bargaining agents. Seven bargaining agents represent CPR employees in Canada and the remaining 30 represent employees in CPR s U.S. operations.

Labour Relations Canada

Agreements are currently in place with four of the seven bargaining units in Canada. Of the collective agreements currently in effect, two expire at the end of 2004, the Canadian Auto Workers (CAW) and the International Brotherhood of Electrical Workers (IBEW), and two expire at the end of 2005, the Rail Canada Traffic Controllers (RCTC) and the Canadian Pacific Police Association (CPPA).

Collective agreements with freight car and locomotive repair employees (represented by the CAW) and signal maintenance employees (represented by the IBEW) provide for wage increases of 2% annually in 2001, 2002 and 2003 and 3% in 2004 and contain improvements to health plans, pension and life insurance benefits, as well as work-rule changes designed to increase flexibility and reduce costs.

In June 2003, members of the CPPA ratified a three-year agreement. In August 2003, the RCTC also ratified a three-year agreement. Both agreements are in effect until the end of 2005 and allow for wage increases for 2003, 2004 and 2005 of 2%, 3% and 2%, respectively. They include benefit plan, pension and work-rule changes designed to contain costs and maximize value for employees.

Train crew employees have elected the Teamsters Canada Rail Conference as their bargaining agent, replacing the Canadian Council of Railway Operating Unions (CCROU). CPR s collective agreement with the CCROU expired on December 31, 2002, however, negotiations had been suspended pending the outcome of the representational vote by union members. CPR expects to begin negotiating a collective agreement in 2004.

A three-year collective agreement was ratified in January 2004 by members of the United Steel Workers of America (USWA). The agreement with the USWA, which represents clerical employees of CPR, extends to the end of 2006.

Negotiations with the Brotherhood of Maintenance of Way Employees (BMWE) have been delayed due to an attempt by another union to represent the BMWE membership. At this time, management is unable to predict when bargaining may resume with the union, which represents employees who maintain CPR s track.

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ITEM 4 NARRATIVE DESCRIPTION OF THE BUSINESS

Labour Relations U.S.

CPR is party to collective agreements with 30 bargaining units in the U.S. This includes 16 bargaining units representing employees of CPR s Soo Line and 14 bargaining units representing employees of CPR s D&H. In the U.S., Class 1 railroads negotiate collectively on a national basis, which impacts the duration of the negotiating process with CPR s Soo Line. At the national level, the bargaining units for the track maintainers, trainmen, yardmasters, boilermakers, locomotive engineers, clerks, and signalmen have ratified agreements that extend until the end of 2004. Although Soo Line does not participate at the national level, the parties traditionally incorporate many of the nationally negotiated terms into their settlements. As many of the national agreements were just finalized in the latter part of 2003, Soo Line negotiations are now progressing. The D&H is not a Class 1 railroad and therefore negotiates contracts independent of national negotiations.

Soo Line

Fifteen of the 16 collective agreements applicable to Soo Line employees expired at the end of 1999. The collective agreement with the track maintenance workers (BMWE) extends to the end of 2004. At December 31, 2003, Section VI notices indicating the intent to begin bargaining had been received from all of the remaining bargaining units. Negotiations continue with the bargaining units representing locomotive engineers, trainmen, yardmasters, clerks and signalmen. The bargaining unit representing train dispatchers is currently in mediation. Negotiations with the remaining bargaining units are being held in abeyance pending the resolution of national settlements.

D&H

At December 31, 2003, D&H had agreements in effect with four of its 14 bargaining units. Agreements with six of the bargaining units expired on January 1, 2003. Section VI notices have already been received from five of these six bargaining units. There are four agreements that expired at the end of 2001 and negotiations are ongoing with these bargaining units. This includes the bargaining unit for the carmen that is currently in mediation. The four remaining agreements with the trainmen, track maintainers, yardmasters and police extend to the end of 2004.

Environmental Protection

CPR is governed by legislation and regulations in Canada and the U.S. relating to waste and wastewater management, storage tanks, contaminated sites, spill reporting and emergency response, environmental assessment, and other environmental matters.

CPR has implemented and trained its employees in environmental protection policies and procedures and has improved its environmental infrastructure by upgrading diesel fuel storage and dispensing areas, wastewater treatment plants and waste storage areas. CPR also has procedures in place to minimize the impact of its operations on ecologically sensitive areas, such as fish habitat and national parks. CPR continues to focus on preventing spills and other incidents that may have a negative impact on the environment. As a precaution, CPR has established a Strategic Emergency Response Contractor network and has located spill equipment kits across Canada and the U.S. to ensure a rapid and efficient response to environmental incidents. The Company established the contractor network in the U.S. Midwest and the network has been able to respond within three hours to incidents anywhere on the 3,200 miles of track in the region. The Company has set this response time as the target for CPR s entire system. In addition, CPR regularly updates and tests its emergency preparedness and response plans to ensure rapid and effective action.

CPR undertakes environmental compliance audits or inspections of its operations to monitor environmental performance against federal, provincial, state and municipal regulations and against CPR s own environmental policies. In 2000, CPR s environmental audit program was benchmarked by an external consultant against the programs of Fortune 500 corporations from the automotive, utility and chemical industries. The consultant assessed CPR s programs, including documentation, to be superior in relation to the documentation and programs instituted by a number of other corporations in the Fortune 500 group.

Site investigation and characterization are ongoing at a U.S. location where environmental contamination has been identified at sites formerly leased to third parties by Soo Line. Soo Line is participating in the State of Minnesota s voluntary investigation and clean up program and the site is the subject of ongoing fieldwork that is being undertaken in conjunction with the appropriate State authorities, to determine the extent and magnitude of the contamination and the appropriate remediation plan.

ITEM 4 NARRATIVE DESCRIPTION OF THE BUSINESS

At this time, the investigative fieldwork has not been completed, the extent and magnitude of the contamination have not yet been determined and no remediation action plan has been developed. Soo Line has initiated civil litigation against its former lessees and expects to ultimately recover a substantial portion of its investigative and clean-up costs.

In 1995, CPR recorded a provision of $144 million, before tax, to cover anticipated expenditures on environmental remediation programs. The Company re-evaluated its environmental liability needs in 1999 and as a result it increased expected remediation costs by $50 million before tax. Other smaller adjustments to the environmental remediation program and related accruals are made by the Company annually, or as required, based on ongoing changes to, and analysis of, the remediation program and related costs.

CPR spent approximately $38 million in 2003 for environmental management. Of this amount, $15 million was spent on ongoing operations, including $2.4 million for the disposal of derailment wastes, $3 million was related to capital program upgrades and $20 million was spent under remediation programs.

CPR became a Responsible Care® partner of the Canadian Chemical Producers Association in 1998. Responsible Care® is a chemical industry initiative that involves a public commitment to continually improve the industry s environmental, health and safety performance. CPR successfully completed its first Responsible Care® verification in June 2002 and was granted Responsible Care® practice-in-place status.

CPR also became a partner of the American Chemistry Council in 1999. As such, CPR is required to undergo verification every three years of its commitment to continuously improve its environmental, health and safety performance and community outreach efforts. The American Chemistry Council recently made verification mandatory for all member and partner companies. CPR is scheduled to be verified for the first time in the U.S. by 2006.

Regulation and Other Issues

CPR s rail operations in Canada are subject to regulation of service, rate setting, network rationalization and safety by the CTA, the Railway Safety Act (RSA) and certain other statutes. The Company s U.S. rail operations are subject to regulations administered by the U.S. Surface Transportation Board (STB) and the FRA.

Canadian Regulation

CPR s economic activities, including matters relating to rates, level of service obligations and line discontinuance, are subject to the provisions of the CTA.

The CTA contains shipper rate and service protections, including final-offer arbitration, competitive line rates, and compulsory interswitching (which allows a shipper to request a railway to move its traffic to the nearest competitive interchange point with another railway within a 30-kilometre radius for a regulated fee). However, to gain recourse to certain of these protections, shippers must establish that they would suffer substantial commercial harm if the relief sought were not granted. These shipper protections also extend to western grain transportation.

In 2000, the Minister of Transport (the Minister) initiated a review of the CTA to assess whether it provides Canadians with an efficient, flexible and affordable transportation system . The report of the panel appointed by the Minister to conduct the review was released on July 18, 2001. The report acknowledged there is a significant level of competition within the Canadian transportation industry, railways are entitled to adequate financial returns, and railways have improved their productivity and returned productivity improvements to customers. In addition, the panel recognized that the freight rail system works well for the vast majority of users in most markets.

On February 25, 2003, the federal government introduced a bill with miscellaneous changes to the CTA. The bill did not become legislation. It is not known whether the federal government will reintroduce the proposed changes in the current or any future Parliament.

During 2002, Ferroequus Railway Company Limited (Ferroequus), a company with no railway equipment or infrastructure, applied to the Canadian Transportation Agency (the Agency) to obtain running rights over the tracks of CN from a CN/CPR

ITEM 4 NARRATIVE DESCRIPTION OF THE BUSINESS

interchange at Camrose, Alberta, to Prince Rupert, British Columbia, for the movement of grain shipments originating on CPR s railway lines. Following a public hearing, the Agency dismissed the application on the basis that it was not in the public interest. Ferroequus appeal of the Agency s decision was dismissed by the Federal Court of Appeal.

Pursuant to the CTA, CPR and CN are subject to prescribed limits on revenue from transporting western Canadian grain. Penalties may be imposed if these limits are exceeded. In 2003, the Agency determined that CPR and CN revenues for the movement of grain in western Canada did not exceed their limits for the 2002 - 2003 crop year.

Canada s federally-regulated railways are also subject to the RSA, which governs safety and operational aspects of the industry, as well as the Canadian Transportation Accident Investigation and Safety Board Act. The RSA was amended in 1999, providing new regulation-making powers to Transport Canada. Significant new regulations have been proposed, including regulations relating to rail safety management systems, crossing standards, whistle bans and the prevention of unauthorized access to railway rights-of-way. The regulations respecting rail safety management systems were implemented in 2001. The remaining regulations took effect in 2003. CPR is also subject to legislation relating to the environment and the transportation of hazardous materials. Amendments to the Transportation of Dangerous Goods regulations were enacted in August 2002.

U.S. Regulation

There have been efforts in recent years to re-regulate certain aspects of the U.S. rail industry previously deregulated under the Staggers Rail Act of 1980. The rail industry opposes such re-regulation.

The STB regulates a variety of railway matters, including service levels, certain freight car rental payments, certain rail traffic rates, the terms under which railways may gain access to each other s facilities and traffic, mergers or acquisitions of railways and the abandonment, sale, and discontinuance of operations on rail lines.

In June 2001, the STB issued new regulations governing mergers and consolidation of Class 1 railways in the U.S. CPR believes these new regulations require applicants to demonstrate that a proposed transaction would be in the public interest and would enhance competition where necessary to offset any negative effects.

The FRA governs all safety-related aspects of railway operations within the U.S. and, therefore, has jurisdiction over CPR operations conducted within the U.S. State and local regulatory agencies may also exercise jurisdiction over certain safety and operational matters of local significance.

Insurance

CPR maintains insurance policies to protect its operations. CPR s insurance policies include, but are not limited to, liability insurance covering its railway operations, directors and officers liability insurance, automobile insurance and property insurance. The latter includes business interruption loss in the event of catastrophic damage to CPR s infrastructure. Only CPR s property coverage excludes terrorism, except for any relief provided by the U.S. Terrorism Risk Insurance Act. CPR believes that it has adequate insurance in place to protect the Company from known and unknown liabilities.

Related-party Transactions

In 2003, CPR provided no rail services to related parties.

CPR entered into agreements with former affiliate CP Ships Ltd. (CP Ships), a related party of CPR prior to completion of the Arrangement, for the transportation of CP Ships container rail traffic through the Port of Montreal. The agreements provide for the use of CPR rail services for all of CP Ships container rail traffic on specified routes to and from certain cities in Canada and the U.S. The agreements with CP Ships were to expire on January 31, 2004. However, the parties have entered into a new long-term agreement extending the arrangement to 2014. The terms of the new agreement do not differ materially from those contained in the agreements entered into prior to the completion of the Arrangement.

CPR has entered into an agreement with former affiliate Fording Inc. (Fording), a related party of CPR prior to completion of the Arrangement, for the transportation of all of the coal processed at Fording s mines in British Columbia to the Port of Vancouver. The initial term of the Fording agreement expires on March 31, 2005.

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ITEM 5 SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The following table presents selected financial and operating information for CPR for the years ended December 31, 1999 through 2003 for income statement data and December 31, 2000 through 2003 for all other financial and operating information presented.

	2003	2002	2001	2000	1999
	(in millions, except per share data)				
INCOME STATEMENT DATA:					
Revenues	**$3,660.7**	$3,665.6	$3,698.6	$3,655.1	$3,496.4
Operating expenses, before other specified items(1)(2)	**2,920.1**	2,809.1	2,857.6	2,809.9	2,734.1
Operating income, before loss on transfer of assets to outsourcing firm and special charge for labour restructuring and asset impairment in 2003, spin-off related and incentive compensation charges in 2001(1), and restructuring, environmental and Y2K charges in 1999(2)	**740.6**	856.5	841.0	845.2	762.3
Other charges, before foreign exchange gains and losses on long-term debt (FX on LTD) and bridge financing fees related to spin-off(1)	**33.5**	21.8	26.4	21.0	21.8
Interest expense	**218.7**	242.2	209.6	167.0	136.6
Income tax expense, before FX on LTD, income tax recovery and income tax on other specified items(1)(2)(3)	**152.2**	185.2	224.7	247.1	235.4
Income, before other specified items and FX on LTD(1)(2)	**$ 336.2**	$ 407.3	$ 380.3	$ 410.1	$ 368.5
FX on LTD(3) (net of tax)	**224.4**	16.7	(48.2)	(39.2)	37.5
Other specified items:					
Loss on transfer of assets to outsourcing firm	**(28.9)**				
Restructuring, asset impairment and/or environmental charges	**(228.5)**				(472.2)
Y2K charges					(28.4)
Spin-off related and incentive compensation charges			(24.5)		
Bridge financing fees related to spin-off			(17.2)		
Revaluation of future income taxes	**59.3**				
Tax rate change effect on future income tax liability	**(52.7)**				
Income tax recovery		72.0	64.0	131.7	
Income tax on other specified items	**88.9**		18.1		199.1
Net income(3)	**$ 398.7**	$ 496.0	$ 372.5	$ 502.6	$ 104.5

Basic earnings per share, before other specified items and FX on LTD(1)(2)(3)	**$**	**2.12**	$	2.57	$	2.40	$	2.59	$	2.33
Diluted earnings per share, before other specified items and FX on LTD(1)(2)(3)	**$**	**2.11**	$	2.56	$	2.39	$	2.58	$	2.32
Basic earnings per share(3)	**$**	**2.51**	$	3.13	$	2.35	$	3.18	$	0.66
Diluted earnings per share(3)	**$**	**2.51**	$	3.11	$	2.34	$	3.17	$	0.66

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ITEM 5 SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

	2003	2002	2001	2000
	(in millions, except per share data)			
BALANCE SHEET DATA:				
Total assets[3]	**$ 9,957.1**	$ 9,660.8	$ 9,661.1	$ 8,658.2
Long-term debt, before current portion	**$ 3,348.9**	$ 2,922.1	$ 3,709.0	$ 2,276.3
Shareholders equity	**$ 3,675.2**	$ 3,386.4	$ 2,972.4	$ 3,435.6
FINANCIAL RATIOS:				
Operating ratio, before other specified items[1]	**79.8%**	76.6%	77.3%	76.9%
Annual return on capital employed (after taxes), before other specified items and FX on LTD[4]	**7.3%**	9.1%	8.7%	9.5%
Net-debt to net-debt-plus-equity[5]	**46.8%**	47.3%	51.8%	39.1%
OPERATING DATA:				
GTMs (millions)	**219,961**	209,596	212,928	211,946
Average train weights (tons)	**5,492**	5,473	5,580	5,418
U.S. gallons of fuel per thousand GTMs	**1.25**	1.24	1.25	1.29
Average number of active employees	**16,126**	16,116	16,987	17,965

Notes:

(1) Excludes other specified items which are described under the heading Other Specified Items in the Management s Discussion and Analysis incorporated by reference into Item 6 of this Annual Information Form. It should be noted that CPR s operating results, before FX on LTD and other specified items, as described in this AIF, have no standardized meanings prescribed by Canadian generally accepted accounting principles (GAAP) and, therefore, are unlikely to be comparable to similar measures presented by other companies. In recent prior disclosure documents, CPR has referred to certain items excluded from non-GAAP earnings measures as non-recurring items . However, in this AIF and accompanying documents, items (other than FX on LTD) excluded from non-GAAP earnings measures have been identified as other specified items in compliance with Revised Canadian Securities Administrators (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.

(2) Excludes other specified items in 1999 of $472.2 million ($284.4 million after tax) in restructuring and environmental charges and $28.4 million ($17.1 million after tax) in charges related to Y2K remediation work.

(3) Restated. Effective January 1, 2002, CPR was required to adopt retroactively, with restatement, the new Canadian Institute of Chartered Accountants accounting standard for the treatment of FX on LTD.

(4) Return on capital employed (after taxes) is calculated as income, before other specified items and FX on LTD, less interest expense, divided by average net-debt-plus-equity, and multiplied by one minus CPRC s normalized tax rate for each respective period.

(5) Net-debt to net-debt-plus-equity has been calculated by dividing total debt (being long-term debt, including long-term debt maturing within one year, plus advances from affiliates) by total capitalization (being total debt plus total shareholders equity).

Reference is made to the factors affecting the comparability of the foregoing financial data under the headings Summary of significant accounting policies , New accounting policies and Future accounting changes in Notes 1, 2 and 3, respectively, in the Notes to Consolidated Financial Statements included in the Company s 2003 Annual Report.

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ITEM 5 SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

Declared Dividends and Dividend Policy

Quarterly dividends of $0.1275 per Common Share were declared by the Board of Directors and were payable: on January 28, 2002, April 29, 2002, July 29, 2002, and October 28, 2002, to holders record on December 27, 2001, March 27, 2002, June 27, 2002 and September 27, 2002, respectively; and on January 27, 2003, April 28, 2003, July 28, 2003, and October 27, 2003 to holders of record on December 27, 2002, March 28, 2003, June 27, 2003, and September 26, 2003, respectively. In addition, a dividend of $0.1275 was declared on December 10, 2003, payable on January 26, 2004, to holders of record on December 24, 2003. The aforementioned dividend payable on January 28, 2002, was declared by the Board of Directors on December 4, 2001, and was the first dividend declared following the initial listing of CPR s Common Shares on the Toronto and New York stock exchanges in October 2001.

The Board of Directors will give consideration on a quarterly basis to the payment of future dividends. The amount of any future quarterly dividends will be determined based on a number of factors that may include the results of operations, financial condition, cash requirements and future prospects of the Company. The Company is, however, under no obligation to declare dividends and the declaration of dividends is wholly within the Board of Directors discretion. Further, the Board of Directors may cease declaring dividends or may declare dividends in amounts that are different from those previously declared. Finally, restrictions in the credit or financing agreements entered into by the Company or the provisions of applicable law may preclude the payment of dividends in certain circumstances.

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ITEM 6 MANAGEMENT S DISCUSSION AND ANALYSIS

Reference is made to the section entitled Management s Discussion and Analysis set out on pages 1 to 30 of the Company s 2003 Annual Report and to the quarterly financial data set out on page 16 thereof, which are incorporated by reference in this Annual Information Form.

ITEM 7 MARKET FOR SECURITIES

Stock Exchange Listings

The common shares of CPR are listed on the Toronto Stock Exchange and the New York Stock Exchange under the symbol CP.

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ITEM 8 DIRECTORS AND OFFICERS

The following are the names and municipalities of residence of the directors and officers of the Company, their positions and principal occupations within the past five years, the period during which each director has served as director of the Company, and the date on which each director s term of office expires.

Directors

Name and municipality of residence	Position held and principal occupation within the preceding five years(1)	Year of annual meeting at which term of office expires (Director since)
S.E. Bachand(2)(3)(5) Ponte Vedra Beach, Florida	Former President and Chief Executive Officer, Canadian Tire Corporation, Limited (hard goods retailer specializing in automotive, sports and leisure and home products)	2004 (2001)
J.E. Cleghorn, O.C., F.C.A.(2)(3)(6) Toronto, Ontario	Chairman, SNC-Lavalin Group Inc., (international engineering and construction firm)	2004 (2001)
T.W. Faithfull(3)(4)(6) Richmond, Surrey, England	Retired President and Chief Executive Officer Shell Canada Limited (oil and gas company)	2004 (2003)
J. Lamarre(3)(4)(6) Montreal, Québec	President and Chief Executive Officer, SNC-Lavalin Group Inc. (international engineering and construction firm)	2004 (2001)
J.E. Newall, O.C.(3) Calgary, Alberta	Chairman, Canadian Pacific Railway Limited, and NOVA Chemicals Corporation (chemicals company producing styrenics and olefins and polyolefin products)	2004 (2001)
Dr. J.R. Nininger(3)(4)(5) Ottawa, Ontario	Retired President and Chief Executive Officer, The Conference Board of Canada (private not-for-profit research group)	2004 (2001)
M. Paquin(3)(4) Montreal, Québec	President and Chief Executive Officer, Logistec Corporation (international stevedoring company)	2004 (2001)
M.E.J. Phelps, O.C.(3)(4)(5) West Vancouver, British Columbia	Chairman, Dornoch Capital Inc. (private investment company)	2004 (2001)
R. Phillips, O.C.(2)(3)(6) Regina, Saskatchewan	Retired President and Chief Executive Officer, IPSCO Inc. (steel manufacturing company)	2004 (2001)
R.J. Ritchie Calgary, Alberta	President and Chief Executive Officer, Canadian Pacific Railway Limited	2004 (2001)

The Rt. Hon. The Viscount Weir(3)(4)(6) Ayrshire, Scotland	Chairman, CP Ships Inc. (an international shipping company)	2004 (2001)
M.W. Wright(2)(3)(5) Longboat Key, Florida	Retired Chairman of the Board and Chief Executive Officer, SUPERVALU INC. (food distributor and grocery retailer)	2004 (2001)

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ITEM 8 DIRECTORS AND OFFICERS

Notes:

(1) S.E. Bachand was President and Chief Executive Officer of Canadian Tire Corporation, Limited from March 1993 to August 2000. He was also a director of Krystal Bond Inc. when it was cease traded on April 12, 2002, for failure to file financial statements, and it has since ceased to operate as a going concern. J.E. Cleghorn was Chairman and Chief Executive Officer of the Royal Bank of Canada from January 1995 to July 2001. Dr. J.R. Nininger was President and Chief Executive Officer of The Conference Board of Canada from September 1978 to August 2001. M.E.J. Phelps was Chairman and Chief Executive Officer of Westcoast Energy Inc. from June 1988 until March 2002. R. Phillips was President and Chief Executive Officer of IPSCO Inc. from 1982 until December 2001. R.J. Ritchie became President of Canadian Pacific Railway Company in July 1995 and continues to hold that position. Lord Weir was Chairman, Balfour Beatty plc from 1999 to May 2003. M.W. Wright was Chairman and Chief Executive Officer of SUPERVALU INC. from June 1981 until June 2001 and Chairman until June 2002.

(2) Member of the Audit, Finance and Risk Management Committee.

(3) Member of the Corporate Governance and Nominating Committee.

(4) Member of the Environmental and Safety Committee.

(5) Member of the Management Resources and Compensation Committee.

(6) Member of the Pension Trust Fund Committee.

Senior Officers

Name and municipality of residence	Position held	Principal occupation within the preceding five years
J.E. Newall, O.C. Calgary, Alberta	Chairman	Chairman, NOVA Chemicals Corporation; Chief Executive Officer, NOVA Corporation (chemicals company producing styrenics, olefins and polyolefin products)
R.J. Ritchie Calgary, Alberta	President and Chief Executive Officer	President and CEO, Canadian Pacific Railway Company
M.T. Waites Municipal District of Rockyview, Alberta	Executive Vice-President and Chief Financial Officer	Executive Vice-President and Chief Financial Officer; Chief Executive Officer, U.S. Network, Canadian Pacific Railway Company; Executive Vice-President and Chief Financial Officer, Canadian Pacific Railway Company; Vice-President and Comptroller, Canadian Pacific

		Railway Company
F.J. Green Calgary, Alberta	Executive Vice-President, Operations and Marketing	Executive Vice-President, Operations and Marketing, Canadian Pacific Railway Company; Senior Vice-President, Marketing, Canadian Pacific Railway Company; Vice-President, Yield & Asset Performance, Canadian Pacific Railway Company; Vice-President, Marketing, Canadian Pacific Railway Company; Vice-President, Resource Products Group, Canadian Pacific Railway Company
W.P. Bell Calgary, Alberta	Vice-President, Investor Relations	Vice-President, Investor Relations, Canadian Pacific Railway Company; Vice-President, E-Business, Canadian Pacific Railway Company; Vice-President, Logistics Systems, Canadian Pacific Railway Company
P. Clark Calgary, Alberta	Vice-President, Communications and Public Affairs	Vice-President, Communications and Public Affairs, Canadian Pacific Railway Company

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ITEM 8 DIRECTORS AND OFFICERS

Name and municipality of residence	Position held	Principal occupation within the preceding five years
J.J. Doolan Municipal District of Rockyview, Alberta	Vice-President and Treasurer	Vice-President and Treasurer, Canadian Pacific Railway Company; Assistant Treasurer, Canadian Pacific Railway Company; President, River Ridge Financial Management Ltd.(financial consulting and management company); General Manager, Treasury, PanCanadian Petroleum Limited; Treasurer, PanCanadian Petroleum Limited
B.W. Grassby Calgary, Alberta	Vice-President and Comptroller	Vice-President and Comptroller, Canadian Pacific Railway Company; Vice-President, Finance and Secretary, Controller and Assistant Secretary, CAE Electronics Ltd. (hi-tech electronics company)
P.A. Guthrie Municipal District of Rockyview, Alberta	Vice-President, Law	Vice-President, Law, Canadian Pacific Railway Company; Assistant Vice-President Legal Services and General Counsel, Canadian Pacific Railway Company; Chief Regulatory Counsel, Canadian Pacific Railway Company
R.V. Horte Calgary, Alberta	Corporate Secretary	Corporate Secretary, Canadian Pacific Railway Company; Senior Assistant Corporate Secretary, Canadian Pacific Railway Limited and Canadian Pacific Railway Company; Assistant Corporate Secretary, Canadian Pacific Railway Limited and Canadian Pacific Railway Company
G.A. Feigel Calgary, Alberta	Assistant Corporate Secretary	Assistant Corporate Secretary, Canadian Pacific Railway Company; Assistant Corporate Secretary, Canadian Pacific Limited

C.A. Connolly Municipal District of Rockyview, Alberta	Assistant Treasurer	Assistant Treasurer, Capital Markets, Canadian Pacific Railway Company; Director of Capital Markets, Treasury, Canadian Pacific Railway Company; Director of Finance, Information Services, Canadian Pacific Railway Company; Executive Assistant to the President & Chief Executive Officer, Canadian Pacific Railway Company

Shareholdings of Directors and Officers

As at December 31, 2003, the directors and senior officers, as a group, beneficially owned, either directly or indirectly, or exercised control or direction over a total of 154,493 Common Shares of CPR, representing 0.10% of the outstanding Common Shares as of that date.

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ITEM 9 ADDITIONAL INFORMATION

When the securities of the Company are in the course of a distribution pursuant to a short-form prospectus, or a preliminary short-form prospectus has been filed in respect of a distribution of its securities, copies of the following documents may be obtained upon request from the Corporate Secretary, Canadian Pacific Railway Limited, Suite 2000, 401-9th Avenue SW, Calgary, Alberta, T2P 4Z4:

(i) this Annual Information Form, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in this Annual Information Form,

(ii) the Company s comparative financial statements for its most recently completed financial year for which financial statements have been filed, together with the accompanying report of the auditor and a copy of the most recent interim financial statements of the Company that have been filed, if any, for any period after the end of its most recently completed financial year,

(iii) the Company s information circular in respect of its most recent annual meeting of shareholders that involved the election of directors; and

(iv) any other documents that are incorporated by reference into the preliminary short-form prospectus or the short-form prospectus that are not required to be provided under paragraphs (i), (ii) or (iii).

At any other time, copies of any other documents referred to in paragraphs (i), (ii) and (iii) above may be obtained upon request from the Corporate Secretary. A person who is not a security holder of the Company may be required to pay a reasonable charge for such copies.

Additional information, including directors and officers remuneration and indebtedness, principal holders of the Company s securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the Company s information circular for its most recent annual meeting of shareholders that involved the election of directors. Additional information is provided in the Company s comparative financial statements for its most recently completed financial year.

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management s discussion and analysis

February 19, 2004

This Management s Discussion and Analysis (MD&A) supplements the consolidated financial statements and related notes for the year ended December 31, 2003. Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars.

business profile and strategy

BUSINESS PROFILE

Canadian Pacific Railway Limited and its subsidiaries (collectively CPR or the Company) operate a transcontinental railway in Canada and the United States. The Company provides rail and intermodal transportation services over a network of approximately 14,000 miles, serving the principal business 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. Agreements and alliances with other carriers extend CPR s market reach east of Montreal in Canada, throughout the U.S. and into Mexico. CPR transports bulk commodities, merchandise freight, and intermodal traffic. Bulk commodities include grain, coal, sulphur and potash. Merchandise freight consists of finished vehicles and automotive parts, and forest and industrial products. Intermodal traffic consists largely of high-value, time-sensitive consumer products transported in overseas

containers that can be handled by train, ship and truck, and in domestic containers and trailers that can move by train and truck.

STRATEGY

CPR s goals are to become the preferred business partner for rail-based transportation services in North America and to be at the forefront of the railway industry in operating profitability and return on capital employed. Its principal strategies to accomplish these goals include maximizing the strengths of its North American railway franchise by operating a low-cost scheduled railway, developing new products and services in cooperation with customers and partners, and extending the reach of the franchise through marketing and operating partnerships and alliances with other railways and transport companies in North America. CPR s overall marketing and sales activities within each line of business are focused on targeted growth, product efficiency and maximizing value from existing assets.

ADDITIONAL INFORMATION

CPR files its Consolidated Financial Statements, MD&A, Annual Information Form, press releases and other required filing documents on SEDAR at www.Sedar.com in Canada and on EDGAR at www.sec.gov in the U.S.

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highlights summary

For the year ended December 31 (in millions, except per share data)	**2003**	2002	2001
Revenues	**$3,660.7**	$3,665.6	$3,698.6
Operating expenses	**2,920.1**	2,809.1	2,857.6
Operating income, before the following:	**740.6**	856.5	841.0
Special charge for labour restructuring and asset impairment	**228.5**		
Loss on transfer of assets to outsourcing firm	**28.9**		
Spin-off related and incentive compensation charges			24.5
Operating income	**483.2**	856.5	816.5
Other charges	**33.5**	21.8	26.4
Foreign exchange (gains) losses on long-term debt (FX on LTD)	**(209.5)**	(13.4)	58.2
Bridge financing fees related to spin-off			17.2
Interest expense	**218.7**	242.2	209.6
Income tax expense	**41.8**	109.9	132.6
Net income	**$ 398.7**	$ 496.0	$ 372.5
Basic earnings per share	**$ 2.51**	$ 3.13	$ 2.35
Diluted earnings per share	**$ 2.51**	$ 3.11	$ 2.34
Total assets	**$9,957.1**	$9,660.8	$9,661.1
Total long-term financial liabilities	**$5,327.3**	$4,776.6	$5,522.3

operating results

CPR s net income for the year ended December 31, 2003, was $398.7 million, down $97.3 million from $496.0 million in 2002, and up $26.2 million from $372.5 million in 2001. When compared to 2002, net income in 2003 benefited from higher foreign exchange gains on long-term debt (LTD) as the Canadian dollar strengthened relative to the U.S. dollar (FX) but declined due to the net effect of FX on U.S. dollar-denominated revenues and expenses, a special charge (the special charge) taken in the second quarter of 2003 and a loss on the transfer of assets in the fourth quarter of 2003 (discussed further in the Non-GAAP Earnings section, under the subheading Other Specified Items). Net income in 2002 increased over 2001 due to higher foreign exchange gains on long-term debt and a decrease in operating expenses as a result of cost-cutting initiatives.

Operating income in 2003 was $483.2 million, down $373.3 million from $856.5 million in 2002, and a decrease of $333.3 million from $816.5 million in 2001. Most of the decline in 2003, compared to 2002, was due to the net effect of FX on U.S. dollar-denominated revenues and expenses, the special charge and the loss on transfer of assets, described above. Operating income was also negatively affected by lower grain volumes in the first half of 2003 due to drought on the Canadian prairies, higher fuel prices and increased costs as a result of service disruptions in the first quarter of 2003 caused by severe winter weather conditions and derailments. CPR s operating income in 2002 increased over 2001 due mainly to costs included in 2001 expenses related to CPR s spin-off from Canadian Pacific Limited (CPL).

Diluted earnings per share (EPS) in 2003 were $2.51, decreasing $0.60 from $3.11 in 2002, and improving $0.17 from $2.34 in 2001. Diluted EPS is calculated by dividing net income by the weighted average number of shares outstanding, adjusted for outstanding stock options.

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. It also reduces operating income because 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 a significant portion of its long-term debt in U.S. dollars as a currency hedge.

The Canadian dollar appreciated more than 11% in 2003, with the average annual foreign exchange rate for converting U.S. dollars to Canadian dollars increasing to $0.7099 in 2003 from $0.6368 in 2002. This reduced revenues in 2003 by approximately $192 million and operating expenses by approximately $137 million. The Canadian dollar s gain reduced operating income in 2003 by $55 million and after-tax income before FX on LTD and other specified items by $22 million.

non-gaap earnings

CPR presents non-GAAP operating earnings to provide a basis for evaluating underlying earnings trends that can be compared with results in the prior periods. Non-GAAP earnings exclude foreign currency translation effects on long-term debt as well as other specified items that 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, before FX on LTD and other specified items, to net income as presented in the financial statements is detailed in the table on page 5.

It should be noted that CPR s operating results, before FX on LTD and other specified items, as described in this MD&A, have no standardized meanings prescribed by

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Canadian generally accepted accounting principles (GAAP) 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. However, in this MD&A and accompanying documents, items (other than FX on LTD) excluded from non-GAAP earnings measures have been identified as other specified items in compliance with Revised Canadian Securities Administrators (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.

NON-GAAP RESULTS

Income, before FX on LTD and other specified items, was $336.2 million in 2003, down $71.1 million from $407.3 million in 2002, and decreasing $44.1 million from $380.3 million in 2001. The Company moved higher freight volumes in 2003, compared with 2002. However, additional income generated by this growth was more than offset by the negative effect of FX on U.S. dollar-denominated revenues and expenses, severe winter weather conditions, derailments and persistently high fuel prices. In 2002, a focus on containing costs and generating strong growth in several business sectors created higher income than in 2001.

NON-GAAP PERFORMANCE INDICATORS

For the year ended December 31	**2003**	2002	2001
Operating ratio, before other specified items [1]	**79.8%**	76.6%	77.3%
Basic EPS, before FX on LTD and other specified items [1]	**$ 2.12**	$ 2.57	$ 2.40
Diluted EPS, before FX on LTD and other specified items [1]	**$ 2.11**	$ 2.56	$ 2.39

[1] These earnings measures have no standardized meanings prescribed by Canadian GAAP and, therefore, are unlikely to be comparable to similar measures of other companies. Other specified items are described under the subheading Other Specified Items.

summarized statement of consolidated income
(reconciliation of non-GAAP earnings to GAAP earnings)

For the year ended December 31 (in millions)	**2003**	2002	2001
Revenues	$ **3,660.7**	$ 3,665.6	$ 3,698.6
Operating expenses, before other specified items (1)	**2,920.1**	2,809.1	2,857.6
Operating income, before other specified items (1)	**740.6**	856.5	841.0
Other charges	**33.5**	21.8	26.4
Interest expense	**218.7**	242.2	209.6
Income tax expense, before income tax on FX on LTD and other specified items (1)	**152.2**	185.2	224.7
Income, before FX on LTD and other specified items (1)	**336.2**	407.3	380.3
Foreign exchange gains (losses) on long-term debt			
FX on LTD gain (loss)	**209.5**	13.4	(58.2)
Income tax on FX on LTD	**14.9**	3.3	10.0
FX on LTD (net of tax)	**224.4**	16.7	(48.2)
Other specified items			
Special charge for labour restructuring and asset impairment	**(228.5)**		
Loss on transfer of assets to outsourcing firm	**(28.9)**		
Income tax on special charges	**88.9**		
Special charge and loss on transfer of assets (net of tax)	**(168.5)**		
Spin-off related and incentive compensation charges			(41.7)
Income tax on spin-off related and incentive compensation charges			18.1
Spin-off related and incentive compensation charges (net of tax)			(23.6)
Revaluation of future income taxes	**59.3**		
Effect of increase in tax rates	**(52.7)**		
Income tax recovery		72.0	64.0

Net income	$ **398.7**	$ 496.0	$ 372.5

(1) These earnings measures have no standardized meanings prescribed by Canadian GAAP and, therefore, are unlikely to be comparable to similar measures of other companies. Other specified items are described under the subheading Other Specified Items .

Operating income, before other specified items, was $740.6 million in 2003, a decrease of $115.9 million from $856.5 million in 2002, and a decline of $100.4 million from $841.0 million in 2001. Most of the decline in 2003 from 2002 was due to the effect of FX on U.S. dollar-denominated revenues and expenses, severe winter weather conditions, derailments and higher fuel prices.

Operating income in 2002 increased from 2001 due to cost containment measures and growth in several business sectors.

Diluted EPS, before FX on LTD and other specified items, was $2.11 in 2003, a decline of $0.45 from $2.56 in 2002, and a decrease of $0.28 from $2.39 in 2001. Diluted EPS, before FX on LTD and other specified items, is calculated by dividing income, before FX on LTD and other specified items, by the weighted average number of shares outstanding, adjusted for outstanding stock options.

The Company s operating ratios, before other specified items, in 2003, 2002 and 2001 were 79.8 %, 76.6 % and 77.3 %, respectively. The operating ratio, before other specified items, is calculated by dividing total operating expenses, before other specified items, by total revenues. The operating ratio demonstrates the percentage of revenues used to operate the railway. A lower number indicates higher efficiency and, therefore, higher profitability.

FOREIGN EXCHANGE GAINS (LOSSES) ON LONG-TERM DEBT

These gains or losses are excluded to eliminate the impact of volatile short-term exchange rate fluctuations, which can only be realized when net U.S. dollar-denominated long-term debt matures or is settled.

Foreign exchange gains on long-term debt were $209.5 million in 2003, an increase of $196.1 million from $13.4 million in 2002. Foreign exchange gains increased $267.7 million in 2003 from a loss of $58.2 million in 2001. The change was due to the effect of FX, net of hedging, on U.S. dollar-denominated long-term debt.

OTHER SPECIFIED ITEMS

Other specified items 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.

Other specified items in 2003 included the special charge of $150.1 million after tax ($228.5 million before tax) to recognize the cost of a productivity program to eliminate 820 job positions by the end of 2005 and to reflect the fair market value of certain under-performing assets.

In the fourth quarter of 2003, CPR transferred assets to IBM Canada Ltd. as part of a seven-year, $200-million agreement reached with IBM to operate and enhance CPR 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. The Company recognized a loss of $18.4 million ($28.9 million before tax) on the transfer of these assets. This loss is included in other specified items in 2003.

In December 2003, the Government of Ontario repealed previously announced future income tax rate reductions. The Company s future income taxes, which were previously based on these reduced rates, have been adjusted upwards by $52.7 million to reflect the change.

CPR recognized a $64-million decrease in future income tax expense in 2001 as a result of similar future corporate tax rate reductions instituted by various provincial governments in 2001 and a reduction in the apportioned provincial tax rate caused by the amalgamation on January 1, 2001, of Canadian Pacific Railway Company and its Canadian subsidiary, St. Lawrence & Hudson Railway Company Limited (StL&H).

Following a revaluation in 2003 of various other components that determine its future income tax liability, the Company reduced the estimate of its future income tax liability by $59.3 million.

In 2002, there was one other specified item of $72 million resulting from a favourable income tax ruling relating to prior years.

In 2001, CPR incurred expenses of $23.6 million after tax ($41.7 million before tax), including legal costs, incentive compensation charges and bridge financing fees, related to its spin-off from parent company CPL.

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volumes

Higher freight volumes result in increases in revenues and certain variable expenses such as fuel and crew costs. A 4% increase in carloads and 6% increase in revenue ton-miles (RTM) in 2003 were largely responsible for a 6% increase in freight revenues, excluding the effect of FX, and related variable expenses, compared with 2002.

RTMs were 114,599 million in 2003, up 6,910 million, or 6%, from 107,689 million in 2002, and up 3,977 million, or 4%, from

110,622 million in 2001. RTMs are defined as the movement of a revenue-producing ton of freight one mile.

CPR handled 2,539.2 thousand carloads in 2003, increasing 91.9 thousand, or 4%, in 2003 from 2,447.3 thousand in 2002, and increasing 116.3 thousand, or 5%, from 2,422.9 thousand in 2001. Carloads are comprised of revenue-generating shipments of containers, trailers and loaded freight cars.

For the year ended December 31	**2003**	2002	2001
Carloads (in thousands)			
Grain	**308.7**	291.1	342.8
Coal	**359.6**	351.8	379.2
Sulphur and fertilizers	**189.0**	174.4	170.0
Forest products	**164.2**	174.2	171.6
Industrial products	**263.4**	271.9	276.2
Intermodal	**1,077.1**	1,005.8	916.9
Automotive	**177.2**	178.1	166.2
Total carloads	**2,539.2**	2,447.3	2,422.9
Revenue ton-miles (in millions)			
Grain	**23,040**	20,808	24,785
Coal	**22,155**	21,904	24,229
Sulphur and fertilizers	**18,186**	15,737	14,941
Forest products	**10,789**	11,014	10,684
Industrial products	**13,229**	12,801	13,033
Intermodal	**24,636**	22,493	20,347
Automotive	**2,564**	2,932	2,603

Total revenue ton-miles	**114,599**	107,689	110,622

revenues

The Company s revenues are derived primarily from the transportation of freight. Other revenues are generated mainly from leasing of CPR track and other assets, container storage and terminal services fees, switching fees, land sales and income from business partnerships.

Total revenues, which consist of freight and other revenues, were $3,660.7 million in 2003, decreasing

$4.9 million from $3,665.6 million in 2002, and declining $37.9 million from $3,698.6 million in 2001. Strong volume growth was achieved in 2003, compared to 2002. However, corresponding growth in freight revenues was significantly offset by a negative impact of approximately $192 million from FX on U.S. dollar-denominated revenues.

For the year ended December 31 (in millions)	**2003**	2002	2001
Grain	**$ 644.4**	$ 631.4	$ 749.3
Coal	**444.0**	442.5	474.1
Sulphur and fertilizers	**417.4**	401.3	380.7
Forest products	**328.8**	360.3	354.4
Industrial products	**400.4**	422.1	430.7
Intermodal	**940.1**	881.9	803.6
Automotive	**304.2**	332.4	303.9
Total freight revenues	**$3,479.3**	$3,471.9	$3,496.7
Other revenues	**181.4**	193.7	201.9
Total revenues	**$3,660.7**	$3,665.6	$3,698.6

FREIGHT REVENUES

Freight revenues, which are earned from transportation of bulk, merchandise and intermodal goods, were $3,479.3 million in 2003, an increase of $7.4 million from $3,471.9 million in 2002, and a decrease of $17.4 million from $3,496.7 million in 2001. Volume growth in 2003, compared to 2002, helped to offset the approximately $186-million negative effect of FX. In 2003, grain revenues improved as crop shipments began to recover from the drought-induced decline experienced throughout 2002 and the first half of 2003. Revenues increased in the intermodal and sulphur and fertilizers businesses. Revenues decreased in 2002 from 2001 due mainly to the drought-induced drop in grain shipments and reduced coal shipments.

Grain

In 2003, Canadian grain products, consisting mainly of durum, spring wheat, barley, canola, flax and oats, were primarily transported to Canadian and U.S. markets for domestic consumption and to Canadian ports for export. U.S. grain products mainly include durum, spring wheat, corn, soybeans and barley shipped from the midwestern U.S. to other points in the Midwest, the Pacific Northwest and northeastern U.S. Grain revenues in 2003 were $644.4 million, up $13.0 million (increased $51 million, excluding the effect of FX) from $631.4 million in the same period in 2002, and down $104.9 million from $749.3 million in 2001. U.S. and Canadian grain shipments benefited in 2003 from a larger crop production and favourable market conditions in the second half of the year. This growth was partially offset by a reduction in revenues as a result of the effect of FX, the effects of the drought on revenues in the first half of 2003 and the repercussions in the first quarter of 2003 of a labour disruption at the Port of Vancouver that was resolved in the fourth quarter of 2002. Revenues in 2002 were substantially lower than in 2001 due to drought conditions and the labour disruption at the Port of Vancouver.

Coal

CPR s Canadian coal business consists primarily of metallurgical coal transported from southeastern British Columbia to the Port of Vancouver, the eastern U.S. and eastern Canada. CPR transports U.S. coal, primarily thermal coal and petroleum coke, mainly within the U.S. Midwest. In 2003, coal revenues were $444.0 million, increasing $1.5 million (increased $13 million, excluding the effect of FX) from $442.5 million in 2002, and declining $30.1 million from $474.1 million in 2001. Revenues in 2003 increased over 2002 due to strong world demand for metallurgical coal in the fourth quarter, offset by reduced export rail shipments in the first three quarters of 2003 and the effect of FX. Coal revenues were lower in 2002 than in 2001 due to reduced shipments of metallurgical coal, partially offset by increased U.S. coke and thermal coal traffic.

Sulphur and Fertilizers

Sulphur and fertilizers include chemical fertilizers, potash and sulphur that are shipped mainly from western Canada to the ports of Vancouver and Portland, Oregon, as well as other Canadian and northern U.S. destinations. Revenues were $417.4 million in 2003, rising $16.1 million (increased $33 million, excluding the effect of FX) from $401.3 million in 2002 and increasing $36.7 million from $380.7 million in 2001. Higher sulphur transportation rates, which are tied to the market price, and stronger export volumes of potash resulted in higher revenues in 2003, compared to 2002. The increase was partially offset by the effect of FX and declines in the chemical fertilizers market during 2003. Revenues rose in 2002 over 2001 due to an increase in CPR s market share of export potash and higher demand for sulphur in domestic markets.

Forest Products

Forest products include lumber, wood pulp, paper products and panel transported from key producing areas in western Canada, Ontario and Quebec to various destinations in North America. Forest products revenues were $328.8 million in 2003, decreasing $31.5 million (decreased $6 million, excluding the effect of FX) from $360.3 million in 2002, and declining $25.6 million from $354.4 million in 2001. Revenues were lower in 2003 than in 2002 mainly as a result of the effect of FX and declines in the markets for wood pulp and newsprint. Revenues in 2002 were higher than in 2001 as a result of increased shipments of lumber and wood pulp, which were partially offset by reduced shipments of paper and newsprint.

Industrial Products

Industrial products include chemicals, plastics, aggregates, steel, and mine and energy-related products shipped throughout North America. In 2003, industrial products revenues were $400.4 million, down $21.7 million (increased $10 million, excluding the effect of FX) from $422.1 million in 2002, and down $30.3 million from $430.7 million in 2001. The decrease in revenues in 2003 from 2002 was due mainly to the effect of FX, partially offset by increased demand for aggregates and energy-related products in 2003. Revenues in 2002 were lower than in 2001 due to customer plant closures and reduced aggregates, glycol and styrene shipments.

Intermodal

Intermodal business consists of domestic and international (import-export) traffic. CPR s domestic segment handles primarily retail goods between eastern and western Canada. The international segment handles mainly containers of consumer goods between the ports of Vancouver, Montreal, New York/New Jersey and Philadelphia and inland Canadian and U.S. destinations. Intermodal revenues were $940.1 million in 2003, increasing $58.2 million (increased $95 million, excluding the effect of FX) from $881.9 million in 2002, and growing $136.5 million from $803.6 million in 2001. In 2003, CPR s international business grew due mainly to increased volumes at the Port of Vancouver. Growth in the domestic intermodal market was due largely to the success of CPR s co-location initiative, under which major retailers have built regional distribution facilities adjacent to certain CPR intermodal terminals. In 2002, intermodal revenues grew relative to 2001 mainly as a result of higher traffic volumes in the domestic segment, and strong revenue growth in the international segment.

Automotive

Automotive business consists of the transportation of domestic and import vehicles, automotive parts and agricultural equipment from North American assembly plants and the Port of Vancouver to destinations in the Canadian and U.S. marketplace. In 2003, automotive revenues were $304.2 million, down $28.2 million (decreased $4 million, excluding the effect of FX) from $332.4 million in 2002, and increasing $0.3 million from $303.9 million in 2001. Revenues in 2003 were lower than in 2002 due to the effect of FX, power outages in eastern

Canada and the northeastern U.S. in the third quarter, and a decline in consumer demand. Automotive revenues in 2002 were higher than in 2001 due to increased demand for vehicles.

Other Revenues

Other revenues in 2003 were derived mainly from leasing of CPR track and other assets, switching fees, container storage and terminal services fees, land sales and income from business partnerships. Other revenues were $181.4 million in 2003, a decrease of $12.3 million (decreased $6 million, excluding the effect of FX) from $193.7 million in 2002, and a decline of $20.5 million from $201.9 million in 2001. Other revenues in 2003 were lower than in 2002 due to the effect of FX, lower switching fees and reduced income from business partnerships. In addition, there were favourable adjustments in 2002 as a result of a gain on a property sale from a previous period, partially offset by increased land sales and container storage fees.

performance indicators

For the year ended December 31	**2003**	2002(1)	2001(1)
Productivity indicators			
Gross ton-miles (GTM) of freight (millions)	**219,961**	209,596	212,928
Train-miles (thousands)	**40,053**	38,299	38,162
Average train weights (tons)	**5,492**	5,473	5,580
Efficiency and other indicators			
U.S. gallons of fuel per 1,000 GTMs	**1.25**	1.24	1.25
Average number of active employees	**16,126**	16,116	16,987
Miles of road operated at end of period	**13,848**	13,874	13,893
Freight revenue per RTM (cents)	**3.04**	3.22	3.16

Safety indicators			
FRA personal injuries per 200,000 employee-hours	**3.1**	3.6	3.9
FRA train accidents per million train-miles	**1.8**	1.8	2.0

(1) Certain prior period figures have been restated to conform with presentation used in 2003.

PRODUCTIVITY INDICATORS

Productivity indicators reflect the Company s operational activity.

GTMs of freight measure the movement of total train weight over one mile in a year. The total train weight is comprised of the weight of the freight cars, their contents and locomotives being returned to terminals.

Train-miles measure the distance traveled between terminals or stations in a year.

Average train weight is the average total weight of all trains operated in a year, calculated by dividing GTMs by train-miles.

Fluctuations in these indicators normally drive corresponding fluctuations in certain variable costs such as fuel and crew costs.

EFFICIENCY AND OTHER INDICATORS

U.S. gallons of fuel per 1,000 GTMs is the total fuel consumed in freight and yard operations for every 1,000 GTMs traveled. This metric is calculated by dividing the total amount of fuel issued to CPR locomotives, excluding commuter and non-freight activities, by the total freight-related GTMs. The result indicates how efficiently the Company is using fuel. Despite improved efficiencies, this indicator remained relatively constant in 2003, compared to 2002, as a result of harsh operating conditions in the first quarter of 2003. Improvements in 2002 over 2001 were due mainly to the acquisition of new fuel-efficient locomotives.

Miles of road operated is the total length of all rail lines over which CPR operates, excluding track on which it has haulage rights. An increase in GTMs without a corresponding increase in miles of road operated indicates higher efficiency.

Average number of active employees is the average number of actively employed workers for the year. The number of actively employed workers includes employees who are taking vacation and statutory holidays and other forms of short-term paid leave,

and excludes individuals who have a continuing employment relationship with CPR but are not currently working. This indicator is calculated by adding the monthly average employee counts and dividing this total by 12. CPR s average number of active employees was flat in 2003, compared with 2002, as reductions made under restructuring initiatives were offset by hiring to handle business growth. The average number of employees decreased in 2002 from 2001 due primarily to earlier restructuring initiatives.

Freight revenue per RTM is the amount of freight revenue earned for every RTM moved, calculated by dividing the total freight revenue by the total RTMs in a year. This indicator decreased in 2003, compared to 2002, due mainly to changes in the mix of commodities moved and the effect of FX, partially offset by an increase in rates. An improvement in 2002 over 2001 also was a result of changes in the commodity mix.

SAFETY INDICATORS

Safety is a key priority for CPR s management and its Board of Directors. CPR uses two key safety indicators:

Federal Railroad Administration (FRA) personal injuries per 200,000 employee-hours is the number of personal injuries, multiplied by 200,000 and divided by total employee-hours. Personal injuries are defined as injuries that require employees to lose time away from work, modify their normal duties or obtain medical treatment beyond minor first aid. Employee-hours are the total hours worked, excluding vacation and sick time, by all employees, excluding contractors.

FRA train accidents per million train-miles is calculated as the number of train accidents, multiplied by 1,000,000 and divided by total train-miles. Train accidents included in this metric are those that meet the FRA reporting threshold of US$6,700.

A decrease in the above measures reflects an improvement in safety.

operating expenses, before other specified items

Operating expenses, before other specified items, were $2,920.1 million in 2003, increasing $111.0 million from $2,809.1 million in 2002, and increasing $62.5 million from $2,857.6 million in 2001. In 2003, FX had a favourable impact of approximately $137 million on operating expenses, which was offset by inflation, higher

depreciation and fuel prices, increases due to higher costs associated with larger freight volumes, and service disruptions in the first quarter of 2003 caused by severe winter weather conditions and derailments. Expenses in 2002 decreased from 2001 due to productivity improvement measures in 2002.

	2003		2002		2001	
(in millions)	**Expense**	**% of revenue**	Expense	% of revenue	Expense	% of revenue
Compensation and benefits	**$1,152.6**	**31.5%**	$1,131.1	30.9%	$1,122.1	30.3%
Fuel	**393.3**	**10.8**	357.5	9.7	403.0	10.9
Materials	**176.8**	**4.8**	165.7	4.5	180.9	4.9
Equipment rents	**238.2**	**6.5**	255.0	7.0	272.1	7.4
Depreciation and amortization	**381.5**	**10.4**	348.4	9.5	334.4	9.1
Purchased services and other	**577.7**	**15.8**	551.4	15.0	545.1	14.7
Total	**$2,920.1**	**79.8%**	$2,809.1	76.6%	$2,857.6	77.3%

COMPENSATION AND BENEFITS

Compensation and benefits expense includes employee wages, salaries and fringe benefits. In 2003, this expense was $1,152.6 million, increasing $21.5 million (increased $58 million, excluding the effect of FX) from $1,131.1 million in 2002, and rising $30.5 million from $1,122.1 million in 2001. Expenses in 2003 increased over 2002 as higher costs associated with inflation, severe winter conditions, pension expense and selective hiring to handle larger freight volumes were partially offset by lower variable incentive compensation costs, restructuring initiatives, expense adjustments during the first quarter of 2003 and the positive impact of FX. Expenses in 2002 increased over 2001 mainly as a result of inflation and higher fringe benefits and variable incentive costs in 2002, mostly offset by cost savings realized through restructuring initiatives.

FUEL

Fuel expense consists of the cost of fuel used by locomotives and includes provincial, state and federal fuel taxes. In 2003, fuel expense was $393.3 million, up $35.8 million (increased $65 million, excluding the effect

of FX) from $357.5 million in 2002, and a decrease of $9.7 million from $403.0 million in 2001. Fuel expense in 2003 was higher than in 2002 as a result of significantly higher fuel prices and greater consumption associated with increased freight volumes and severe winter operating conditions. These increases were partially offset by CPR s fuel-hedging program and the positive effect of FX. Fuel expense in 2002 declined from 2001 as a result of lower fuel prices in 2002, a successful hedging program and gains in fuel efficiency.

MATERIALS, PURCHASED SERVICES AND OTHER

Materials, purchased services and other expense encompasses a wide range of costs, including the cost of materials used for track, locomotive, freight car and building maintenance, and expenses for joint facilities, personal injury and damage, environmental, property and other taxes, contractor and consulting fees, and insurance. This expense was $754.5 million in 2003, increasing $37.4 million (increased $78 million, excluding the effect of FX) from $717.1 million in 2002, and increasing $28.5 million from $726.0 million in 2001. Expenses increased in 2003 over 2002 due to higher insurance premiums, derailment costs, volume-related expenses and favourable adjustments made in 2002. Costs in 2002 declined from 2001 as increased insurance and other expenses were more than offset by initiative savings and lower locomotive maintenance expenses.

EQUIPMENT RENTS

Equipment rents expense includes the cost to lease freight cars and locomotives from other railways and companies. In 2003, equipment rents expense was $238.2 million, a decrease of $16.8 million (increased $6 million, excluding the effect of FX) from $255.0 million in 2002, and a decline of $33.9 million from $272.1 million in 2001. The decrease in 2003 primarily resulted from the positive impact of FX, reduced compensation to private freight car owners and capitalization of rents associated with a variable-interest entity (refer to Note 2 of the Notes to Consolidated Financial Statements) in 2003. This was partially offset by higher expenses that resulted from weather-related service issues and higher traffic volumes. Expenses in 2002, compared to 2001, decreased due to improved asset utilization and other initiatives, which more than offset higher car hire payments that resulted from increased non-bulk traffic.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense represents the charge associated with the use of track and roadway, buildings, locomotives, freight cars and other depreciable assets. This expense was $381.5 million in 2003, increasing $33.1 million (increased $41 million, excluding the effect of FX) from $348.4 million in 2002, and up $47.1 million from $334.4 million in 2001. The increase in 2003 over 2002 was due largely to additions to CPR s capital assets and increased depreciation rates on certain assets, mostly related to information systems hardware equipment. The increase was partially mitigated by the effect of FX. Expenses in 2002, compared to 2001, increased as a result of capital additions, partially offset by the favourable impact of depreciation rate revisions in 2002.

other income statement items

OTHER CHARGES

Other charges consist of amortization of long-term accruals, gains or losses due to the effect of FX on accounts receivable and accounts payable, various costs associated with financing, and interest and other miscellaneous income. Other charges were $33.5 million in 2003, increasing $11.7 million from $21.8 million in 2002 and increasing $7.1 million from $26.4 million in 2001. The increase in 2003, compared to 2002, was due to a benefit in 2002 from interest income on a tax recovery and interest paid in 2003 on an income tax settlement. The decrease in expense in 2002 from 2001 was due to interest income recorded in 2002 from the tax recovery.

INTEREST EXPENSE

Interest expense includes interest on long-term debt and capital leases. Interest expense was $218.7 million in 2003, a decrease of $23.5 million (decreased $1 million, excluding the effect of FX) from $242.2 million in 2002, and an increase of $9.1 million from $209.6 million in 2001. The decrease in 2003 from 2002 was due to the replacement of higher-cost debt with lower-cost debt and the positive impact of FX and interest rate swaps. The decrease was partially offset by interest on a new $350-million 4.9 % Medium Term Notes issuance in July 2003. Interest expense in 2002 was higher than in 2001 because the 2002 amount included a full year of interest on the increased debt following the spin-off from CPL, partially mitigated by the early redemption of CPR s 8.85 % Debentures.

INCOME TAXES

The effective income tax rate for 2003 was 9.49 %, compared with a normalized rate (income tax rate based on income adjusted for FX on LTD and other specified items) of 31.16 %. The normalized rate for 2004 is expected to be 33 % to 35 %.

In December 2003, the Government of Ontario repealed previously announced future income tax rate reductions. The Company s future income tax liability, which was previously based on these reduced rates, has been increased by $52.7 million to reflect the change. This adjustment is also discussed in the section Non-GAAP Earnings , under the subheading Other Specified Items .

Following a revaluation in 2003 of various components used to determine its future income tax liability, the Company reduced the estimate of its future income tax liability by $59.3 million. This adjustment is also discussed in the section Non-GAAP Earnings , under the subheading Other Specified Items .

In 2002, the Company reported an income tax recovery of approximately $72.0 million stemming from a favourable tax decision by the Federal Court of Appeal. This decision resulted in an effective tax rate of 18%, compared with a normalized income tax rate of approximately 31%.

CPR recognized a $64-million decrease in future income tax expense in 2001 as a result of future corporate tax rate reductions instituted by various provincial governments in 2001 and a reduction in the apportioned provincial tax rate caused by the amalgamation on January 1, 2001, of Canadian Pacific Railway Company and its Canadian subsidiary, StL&H. This resulted in an effective tax rate of 26% for 2001, compared to a normalized rate for the year of approximately 37%.

fourth-quarter summary

NON-GAAP EARNINGS

Income, excluding FX on LTD and other specified items, was $115.0 million in fourth-quarter 2003, decreasing $5.0 million from $120.0 million in fourth-quarter 2002. The decline was due to a negative effect from FX of approximately $24 million and an increase in fuel, depreciation and compensation and benefits expenses, largely offset by higher grain, intermodal and coal revenues.

OPERATING RESULTS

The Company reported net income of $175.2 million in the fourth quarter of 2003, an increase of $49.6 million from $125.6 million in the same period of 2002. The

increase was due mainly to FX on LTD of $44.3 million in 2003 a rise of $38.2 million over FX on LTD of $6.1 million in 2002.

Operating income for the three-month period ended December 31, 2003, was $196.8 million in 2003, a decrease of $41.2 million from $238.0 million in the same period of 2002. The decrease was mainly attributable to a loss of $18.4 million ($28.9 million before tax) on assets transferred to IBM Canada Ltd. under an outsourcing agreement.

Diluted EPS were $1.10 in the fourth quarter of 2003, an increase of $0.31, compared with $0.79 in the same period of 2002.

REVENUES

Total revenues were $963.5 million in the fourth quarter of 2003, an increase of $13.1 million (increased $93 million, excluding the effect of FX) from $950.4 million in fourth-quarter 2002. Grain revenues in the fourth quarter of 2003 were $188.7 million, up $26.6 million (increased $44 million, excluding the effect of FX) from $162.1 million in the same period of 2002 as a result of favourable market conditions and increased crop production. Coal revenues were $116.2 million, up $12.9 million (increased $18 million, excluding the effect of FX) from $103.3 million, reflecting stronger demand for coal. Forest products revenues were $73.7 million, down $15.3 million (decreased $5 million, excluding the effect of FX) from $89.0 million in 2002, due mainly to a decline in shipments of wood pulp, newsprint and lumber. Intermodal revenues grew in the fourth quarter of 2003 to $246.4 million, an increase of $9.8 million (increased $26 million, excluding the effect of FX) from $236.6 million in the same period of 2002, due mainly to increased volumes through the Port of Vancouver. Automotive revenues were $75.9 million, down $13.1 million (decreased $3 million, excluding the effect of FX) from fourth-quarter 2002 revenues of $89.0 million due to a decline in demand for automobiles. Industrial products revenues were $104.2 million in the fourth quarter of 2003, a drop of $4.5 million (increased

$9 million, excluding the effect of FX) from $108.7 million in 2002 as the effect of FX more than offset increased volumes. Sulphur and fertilizers revenues were unchanged (increased $7 million, excluding the effect of FX) in the fourth quarter at $98.5 million as a result of high sulphur rates and a strong export potash market in 2003, offset by the effect of FX.

EXPENSES

Operating expenses in the fourth quarter of 2003 were $766.7 million, up $54.3 million (increased $81 million, excluding the effect of FX) from $712.4 million in the same period of 2002. Compensation and benefits expense in fourth-quarter 2003 was $302.8 million, an increase of $22.6 million (increased $37 million, excluding the effect of FX), compared with $280.2 million in the fourth quarter of 2002. The increase was largely due to inflation, higher pension and incentive compensation expenses and selective hiring to handle business growth, partially offset by cost savings from workforce reductions. Materials, purchased services and other expenses were $183.4 million, down marginally (increased $17 million, excluding the effect of FX) from $184.1 million in 2002, as equipment repair costs in 2003 and favourable adjustments taken in 2002 were offset by the effect of FX. Depreciation and amortization expense was $99.0 million in 2003, up $11.5 million (increased $15 million, excluding the effect of FX), compared with $87.5 million in the fourth quarter of 2002 due mostly to investments in new assets. Fuel expense was $98.0 million, compared with $98.2 million in 2002 (increased $12 million, excluding the effect of FX), as higher fuel prices and increased consumption associated

with volume growth were offset by the effect of FX. Equipment rents expense was $54.6 million in the fourth quarter of 2003, down $7.8 million (increased $1 million, excluding the effect of FX) from $62.4 million in 2002, as increased rentals to accommodate higher volumes and lower receipts for CPR freight car use were more than offset by FX and the capitalization of rents associated with a variable-interest entity (refer to Note 2 of the Notes to Consolidated Financial Statements) in 2003.

Also affecting operating income in the fourth quarter of 2003 was a loss of $18.4 million ($28.9 million before tax) on the transfer of computing infrastructure assets to IBM Canada Ltd., discussed under the subheading Other Specified Items on page 6.

OTHER INCOME STATEMENT ITEMS

FX on LTD grew to $44.3 million ($72.0 million after tax) in fourth-quarter 2003, up $38.2 million from $6.1 million ($5.6 million after tax) in the same period of 2002. The increase was due to the effect of FX on U.S. dollar-denominated debt. Other charges grew to $13.4 million in 2003, increasing $5.8 million from $7.6 million in 2002, due mainly to interest income resulting from an income tax settlement in 2002. Interest expense was $50.3 million in fourth-quarter 2003, a decrease of $7.2 million (increased $2 million, excluding the effect of FX) from $57.5 million in 2002, due to the favourable effect of FX and reduced interest expense as CPR replaced higher-cost debt with lower-cost debt, offset by interest on new debt issued in 2003.

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QUARTERLY FINANCIAL DATA

	For the quarter ended			
(in millions, except per share data) (unaudited)	Dec. 31	Sept. 30	June 30	March 31
2003				
Total revenue	**$963.5**	**$ 904.3**	**$914.1**	**$ 878.8**
Operating income	**$196.8**	**$ 207.6**	**$ (39.0)**	**$ 117.8**
Net income	**$175.2**	**$ 93.9**	**$ 27.7**	**$ 101.9**
Basic earnings per share	**$ 1.11**	**$ 0.59**	**$ 0.17**	**$ 0.64**
Diluted earnings per share	**$ 1.10**	**$ 0.59**	**$ 0.17**	**$ 0.64**
2002				
Total revenue	$950.4	$ 917.3	$922.5	$ 875.4&nbs