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– Pasqualina Mancini, CA, Senior Manager, External Reporting – CN Financial Reporting Department

CASE STUDY

North America's Railroad™



Revenue: \$7.9 billion (2007)

Business: A major global transportation company, CN derives its revenues from the movement of a diversified and balanced portfolio of goods across North America, moving on approximately 20,400 (route) miles of railroad. Freight transported includes petroleum and chemicals, grain and fertilizers, coal, metals and minerals, forest products, intermodal and automotive products.

Employees: 22,696 staff (end of year 2007)

FSR Users: Managed by the External Reporting group, 60 users across various departments use FSR.

Founded: 1919; listed as a public company in 1995 (TSX: CNR; NYSE: CN I)

Company Background

CN is one of the largest freight railways in the Americas, and the only transcontinental network in North America. As such its lines span Canada and much of the United States, from the Atlantic to the Pacific oceans and south to the Gulf of Mexico. Its trains regularly deliver customer material to metropolitan areas such as Toronto, Chicago, Detroit, Buffalo, Memphis and many others. It is also a vital participant in the import and export of goods, serving the ports of Vancouver and Prince Rupert, B.C.; New Orleans, Louisiana; Montreal, Quebec; Halifax, Nova Scotia and Mobile, Alabama. The Company is also committed to improving the quality of life among the communities it works in, through many health and safety, environmental and philanthropic activities meant to accomplish this goal.

Situation Analysis

Consistent with CN's tradition of innovation in the pursuit of long-term growth, profitability and shareholder value creation, the Company's Financial Reporting department is always looking for ways to improve the way it operates. This commitment was evidenced by the Company's investigation in late 2007 into ways to improve what was already a highly-efficient process for creating and filing external reports with regulators in the United States (Securities & Exchange Commission) and in Canada.



"What we had in place was efficient, and we were able to consistently file our reports on time and without errors," says Pasqualina Mancini, CA. "But we wanted to obtain better visibility into the numbers, for both my External Reporting group and for our senior management, and also increase our control of the process. Costa Bucci, CN's Assistant Comptroller, Financial Reporting, and I were adamant about doing this without disrupting the proven success of our workflow process and with the support of the half-dozen key departments whose involvement is crucial for delivering our external reports to securities regulators."

The Financial Reporting department realized that having an automated solution that would provide one version of the truth and set and identify accountabilities among contributors would go a long way to increasing the control of, and visibility into, the process.

To accomplish these goals, a team including Financial Reporting and Business Optimization examined two products that promised to automate the manual creation of external reports. In December 2007, CN chose Clarity Financial Statement Reporting (Clarity FSR), with the goal of having the system 'live,' to facilitate the production of the second quarter 2008 report.

Working with Clarity consultants, Mancini and her implementation team set to work. The team's plan laid out a timetable that included having the Financial Reporting department learn how to use the software, then implement it and follow up with training the users, as well as producing an operating manual. "We took the opportunity to rethink the process and find the most efficient way possible to harness FSR to meet the Company's reporting needs. We began in February and concluded with the training exercise to engage contributors among the Financial Reporting, Law Department, Treasury Department, Supply Management and Financial Planning departments, at the end of May 2008," says Mancini.

As envisioned by Clarity, Clarity FSR automated external reporting solution improves the efficiency of the external reporting process, while delivering multiple output formats including XBRL, MS-Word, .pdf and HTML. Clarity FSR is used by organizations across all vertical markets to automate the creation and submission of regulatory filings and to produce other high-value documents such as Board Books and other statutory or regulatory filings. The enterprise-class application delivers measurable efficiencies by

automating a traditionally manual process, which in turn reduces key risks faced by publicly-held companies, including: risk of errors; risk of late filing; risk of non-compliance and risk of insider leaks.

A Good Product...

Out-of-the-box, Clarity FSR sets up its own database fed from SAP data warehouses into external report templates. FSR could automatically link to targeted Microsoft Excel files among CN's contributing departments and pull them into designated departmental buckets, mapping the thousands of lines and numbers ("objects") to the appropriate external report template. But Mancini and her team saw a better way.

...Is Made Better

"We set up FSR the way we wanted it and were initially concerned that FSR could link to and read the required files from their source locations so we had Clarity adjust FSR to import those files directly into FSR, giving us more control over them," says Mancini. "But we figured that if the 60-odd contributors in the various departments could do the work they had to do for us and complete their reports using FSR itself, many benefits would follow. So we asked Clarity to set up FSR so that the relevant Excel files could reside in the FSR database, each contributor with his or her own set of objects to maintain, and Clarity did so."

Contributors log on to FSR and work exactly the same as they had always worked, with one crucial difference. Having been built with collaboration in mind, it was easy for CN to setup FSR to simplify its contributors' tasks.

"We set up the objects in such a way that the users can only give us the information we need from them and what we considered to be important, supporting information to the financial disclosures. The templates were created so every object includes a list of all the worksheets in each object; a description of each worksheet and the identity of the user responsible for each worksheet, as well as information on which worksheets are protected and which ones are not," says Mancini. "Given all this information, users can easily tell which worksheets they need to update," says Mancini.

External reporting has pre-set Clarity FSR to give each user only what they need to work on and what Mancini needs to get from them. Contributors simply populate the assigned worksheets with their information. These pre-sets can be quite detailed; for example, for some users a variance

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analysis on their numbers is needed, so that was set up for them. Other important but easy to input qualifiers, such as specific foreign exchange (FX) rates, were also included in the templates.

Although at first apprehensive about learning a new application, contributors rapidly came on board, realizing that they could still work with their traditional Excel interface and have better direction as to what they were to provide.

More Improvements on the Way

“All of our many suggestions to improve Clarity FSR were considered and promptly implemented, giving us an automated solution that provides an integrated set of supporting documents to our financial disclosures, which in turn increases our control of, and visibility into the process for creating our external reports,” says Mancini.

CN plans to deploy automatic XBRL tagging functionality, which will enable the Company to tag its reports, as it is likely that the SEC will mandate that key external reports must be filed in XBRL format beginning year-end 2008. “The XBRL tagging functionality is important to us and now that we finally have it, we intend to file all of our external reports in both XBRL and in HTML for the SEC and as PDFs for Canadian jurisdictions.

“We continue to find new ways to use FSR and are pushing the Clarity developers to improve what is already an impressive product,” added Mancini.

For example, disparate departments oversee roughly numerous, major Excel files with all sorts of information pertaining to and in some cases forming content in CN’s external report.

“We will go the extra step of getting all the reasonableness tests that we previously documented manually, on paper, pulled into FSR. For me it’s a way of making sure that all of the information is accurate without having to review all of the supporting schedules, because people make small mistakes sometimes. So if I’m just checking their backup schedules, chances are you won’t catch the error manually, unless you perform what we call a ‘smell test’ to find it,” says Mancini.

Another interesting feature that has emerged with Clarity FSR version 6.3 is the ability to offload files out of FSR, giving people more flexibility in where and when they do their work. The feature allows users to bring files back out of FSR. “For example, in Q2, as part of our ‘going-live’ process, we did the work in FSR but asked everyone to

save a copy of their work outside of FSR, for added security, as part of our ‘go live’ backup plan,” says Mancini.

With this specific functionality, files can be exported and saved to a laptop, USB drive or to a home PC, to be worked on and then imported back into the corporate FSR system. This ‘check in and check out’ functionality adds a new level of convenience that few enterprise-class applications, unlike FSR, can boast.

Benefits Galore

Mancini is satisfied that the initial deployment and use of Clarity FSR to create CN’s Q2-2008 financial reports, and file the results, went well.

Control and visibility into the process lead her list of benefits. “FSR has all the information needed to review our progress and report creation ‘to date,’ electronically, rather than go through our massive collection of printouts in report binders. Now I have all that information available at the tip of my fingers, able to easily scroll up and down all of my Clarity objects containing the most up-to-date entries and find any backup I need,” says Mancini.

Mancini also notes that management confidence in the external reporting department, already at a high level prior to FSR, has been reinforced as well. “We offered the same high accessibility to a level of senior management, enrolling them as FSR users so they could look at support materials to our financial information and easily query what they see. Serge Pharand, our VP Accounting & Corporate Comptroller and my Assistant Comptroller, Costa Bucci, are particularly pleased with this new level of insight and usability.”

Summary

Prior to the deployment of FSR and the inclusion of many CN-inspired functionality improvements, everyone was running their own files. And with many files containing multiple worksheets, External Reporting had thousands of pages of numbers to deal with. FSR gives CN the ability to import numerous spreadsheets, each with multiple worksheets, into FSR. The spreadsheets now reside in FSR and many contributors can work on these spreadsheets ‘in FSR.’

Clarity FSR gives CN easier access to information; a more controlled process; better accountability and an integrated set of supporting documents to its financial reports. The financial reports can then be output into several formats, including XBRL, putting CN’s Financial Reporting department ahead of the curve.

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Since 1995, Clarity Systems has been helping large and mid-market companies around the world manage their performance. Clarity Systems understands the challenges that companies face when coordinating a complex Performance Management project. This single-minded focus is why Clarity Systems is known as the Performance Management Specialist.

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