



Remington
Ilion Firearms – 2006 Budget Review

General Assumptions

- 2006 production ~ 9,000 units lower than 2005 projections
 - Shotguns – 286,000 (comparable to '05 projections)
 - Rifles – 176,000 (9,000 lower than '05 projections)
- New Product Introductions as follows:
 - 750 Woodsmaster (redesigned M/7400)
 - R6 Auto loading Shotgun (12ga)
 - 105 C11 Auto loading Shotgun (12ga)

In all, there are 54 new rifle SKU's (30,300 guns) & 17 new shotgun SKU's (44,322 guns)
- New SPL Fire Control will be included on all bolt action guns
- Steam will be supplied via temporary boiler system
- \$500 Lump Sum Payout 9/10/06 to all hourly employees
- 3% salary increase effective 7/1/06
- S & K contract expires in May '06; transition to complete "piece price"

2

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<u>Ilion Firearms Manpower</u>		
	Dec '05 Proj.	12/31/06
<u>Hourly:</u>		
Direct Labor	559	545
Support	224	223
Total Hourly	780	768
<u>Salary:</u>		
Production	29	29
Non-Production (*)	106	108
Total Salary	135	137
(*) (2) new positions (Plant Manager, Gen'l Acctg Mgr.)		
3		

4

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Material Cost Assumptions in 2006 Standards

- Steel price increase of 10%
- Synthetic long stock unit price increase due to product mix (i.e. from ADL to XCR & SPS)
- Embellishment costs per gun increase over '05 budget (lower volume)
- S & K cost per standard hour increase over '05 budget (lower volume)

5

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<u>Changes in Material Costs From 2005 Spending</u>		
➤ Steel price increase		\$0.1 MM
➤ Change in mix of Synthetic Long Stocks		\$0.1 MM
➤ Embellishment Costs (\$500,000):		
	Volume	Cost/Gun
2005 Budget	29,577	\$16.84
2005 Forecast	13,769	\$36.18
2006 Budget	19,609	\$25.40

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Changes in Material Costs From 2005 Spending (cont'd)			
➤ S & K:			
	Std Hours	Spending *	Rate/Std Hr
2005 Budget	103,737	\$6.8MM	\$ 66
2006 Budget	28,375	\$2.6MM	\$ 92
* Does not reflect "cash" outlay; reflects portion not associated with "piece price"			
	'05 Std	'06 Std	Incr/(Decr)
700 Long Stock	\$ 88	\$ 105	\$ 17
1187 "B" Stk/FE	\$ 131	\$ 182	\$ 51
870 Exp Stk/FE**	\$ 20	\$ 26	\$ 6
** 2006 M/870 Express stock & fore end (scr) cost was increased by \$6 over P.O. price to more fairly account for a "fully burdened" cost			

7

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<u>Material Price Variance</u>	
➤ Steel Surcharges	\$0.8 MM
➤ Plastics & Packaging	\$ 0.2 MM
Total	\$ 1.0 MM
8	

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Labor Assumptions

- Plant efficiencies budgeted at 70% (avg. for year).
- Hourly wage lump sum payout of \$500 on 9/10/06
- Budgeted direct labor overtime @ 12% (comparable to 2005 budget)
- Direct labor headcount decreasing from 559 as of 12/31/05 to 545 employees as of 12/31/06
 - ❖ This includes the addition of (9) people for the new SPL fire control
 - 7 machine operators & 2 builders

9

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<u>Changes in Labor Cost from 2005 Spending</u>	
➤ Efficiency Improvement	(\$ 0.3 MM)
➤ \$500 Lump Sum Payout on 9/10/06 (3 1/2 months)*	\$ 0.1 MM
➤ Full year impact of 2.75% wage increase in Sept '05	\$ 0.5 MM
➤ Direct Labor Overtime @ 12%	(\$ 0.3 MM)
➤ Manpower reduction of (14)*	(\$ 0.3 MM)
Total Labor Cost Changes	(\$ 0.3 MM)
* Budget as variance Sept - Dec	
** Net of additional 9 heads for SPL	
10	

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Overhead Assumptions

- (2) new Salary positions (Plant Manager, General Acctg Manager)
- 3% Salary increase effective July 1, 2006
- 11% increase in health care costs.
- Worker's Compensation costs slightly less than '05 levels
- Department spending @ '05 spending levels
- Steam costs reflect ~40% increase in fuel cost from '05 levels
 - \$17/Klbs vs \$12/Klbs
- 20+% increase in electricity costs (rate related)
- Maintenance costs @ '05 spending levels
- Freight cost increase based on fuel prices

11

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<u>Changes in Overhead Cost from 2005 Spending</u>	
	incr/(Decr)
2 Salary Positions	\$ 0.2 MM
General Salary Increase	\$ 0.2 MM
Health Care	\$ 0.7 MM
Worker's Comp	(\$ 0.1 MM)
401K Match	\$ 0.1 MM
Steam*	\$ 1.1 MM
Electricity	\$ 0.7 MM
Freight (Non-Raw Material)	\$ 0.3 MM
Total Overhead Cost Changes	\$ 3.2 MM
* Reflects cost of fuel only; does not include cost associated with temporary boiler	

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<u>Impact of Capitalized Variances</u>		
	<u>2005 Fest</u>	<u>2006 Budget</u>
Beginning Balance – 12/31/xx	\$2.6 MM	\$4.2 MM
Standards Change – 1/1/xx	(\$1.4 MM)	
Variances Incurred	\$9.9 MM	
Variances Released To P&L	(\$6.9 MM)	
Ending Inventory – 12/31/xx	\$4.2 MM	
Standards Change & Variances Incurred for 2006 not yet developed		
13		

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<u>Inventory Adjustments</u>			
(\$ in millions)	<u>'05 Fcst</u>	<u>'06 Budget</u>	<u>\$ change</u>
Scrap*	\$ 1.9	\$ 1.7	(\$ 0.2)
Cycle Counts	\$ 0.2	\$ 0.2	\$ ---
Physical Inv. Adj.	\$ 0.2	\$ 0.2	\$ ---
Excess/Obsolete**	\$ 0.9	\$ 0.5	(\$ 0.4)
Total Inv. Adjs.	\$ 3.2	\$ 2.6	(\$ 0.6)
(*) 10% reduction in scrap from '05 levels			
(**) '05 includes provision for O/U components & S&K related stores items			
14			

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<u>Non-Inventoriable Manufacturing Costs</u>			
(\$ in millions)	<u>'05 Fcst</u>	<u>'06 Budget</u>	<u>\$ change</u>
Warranty	\$ 2.3	\$ 2.4	+\$ 0.1
Project Op's Exp.	\$ 1.3	\$ 0.9	(\$ 0.4)
Other Period Cost	\$ 1.3	\$ 2.2	+\$ 0.9
Pension/OPEB	\$ 6.8	\$ 4.8	(\$ 2.0)
Total	\$11.7	\$10.3	(\$ 1.4)
3% increase in Warranty based on increased labor rates for RARC's.			
Project Operations expense based on '06 Capital Budget			
Other Period Costs include rental & labor associated with temporary boiler for steam production of \$1.2MM in '06; \$558M in legal fees and O&M accruals in '05			
Pension & OPEB expense based on data from corporate			
15			

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Risk Assessment

- Meeting Production schedule
- Unpredictability of utility costs
- Additional cost associated with the SPL Fire Control Project
- S & K (performance; impact of contract negotiations “piece price”)

Upside Assessment

- Volume Increase
- Freight Cost containment
- Lean Manufacturing Initiative

16