

The



DIESEL MACHINERY, INC

Difference

A PUBLICATION FOR AND ABOUT DMI CUSTOMERS • 2006 No. 1

Featured in this issue:

FULL-LINE MANUFACTURER

Komatsu expands product line
to provide customers with
complete equipment solutions

See article inside . . .



KOMATSU

A MESSAGE FROM THE CHAIRMAN



DIESEL MACHINERY, INC

Dear Equipment User:

By all economic forecasts, 2006 promises to be another good year for the construction, mining and logging industries (see related article inside). While the amount of growth may be slightly less than it's been the last two years, most forecasters — including the U.S. Commerce Department — foresee solid gains continuing.

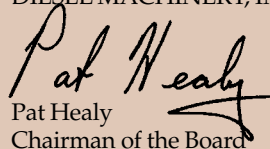
At Diesel Machinery, Inc., we're optimistic as well. Of course, we have no control over the amount of work that will be available to you, but we truly believe we can help you complete your jobs in the timeliest and most cost-effective manner.

One reason we're confident is our longtime relationship with Komatsu, which is truly one of the giants of the equipment manufacturing industry. The manufacturer is introducing many new products this year, notably those with the new ecot3 engines. We hope you'll take the time to read the article on Komatsu's expanding product line in this issue of your *DMI Difference*. It explains Komatsu's philosophy to compete head-to-head against the other full-line manufacturer in essentially every type and size of machine, and demonstrates the company's commitment to be the best.

Beyond the new products we'll be featuring this year, we're also excited about our growing product support capabilities. At DMI, we understand the importance of uptime to you and your operation. In light of that, we're continuing to bolster our service and parts departments in an effort to speed repairs and help you keep your equipment running for the longest time at the lowest cost. We hope you'll give us the opportunity to show what we can do for you.

Please feel free to stop in at any of our branch locations, or give us a call if there's any way we can be of service. All of us at DMI are looking forward to meeting your equipment and support needs for 2006 and beyond.

Sincerely,
DIESEL MACHINERY, INC.


Pat Healy
Chairman of the Board

We can help you
with any equipment
and product support
needs you may have
in the upcoming year

The



DIESEL MACHINERY, INC.

Difference

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Like many successful contractors, Loiseau Construction started out as a small family business. Find out how it grew to include 100 employees and a large fleet of equipment.

GUEST OPINION

Learn why supporters of the Clean Water Trust Fund want guaranteed funding for water infrastructure improvements. Christian Klein, Washington counsel for AED, provides the details.

INDUSTRY OUTLOOK

Construction industry analyst Andy Fanter explains why he and other experts expect construction and related industries to continue growing in 2006.

PRODUCT FOCUS

Whether it's construction, mining or logging, Komatsu is committed to providing a full product line to meet its customers' needs. Komatsu's Chairman and CEO Dave Grzelak explains what it means to be a full-line company.

PRODUCT UPDATE

Here's a look at the utility machines Komatsu showcased at the last International Construction and Utility Equipment Exposition.

KOMATSU & YOU

Ivor Hill, Vice President and General Manager of Komatsu America Utility Division, answers questions about the booming market for compact equipment and explains Komatsu's position in this equipment category.

PRODUCT SUPPORT

Find out why it's important to replace your undercarriage with Komatsu OEM parts.

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LOISEAU CONSTRUCTION, INC.

Jim Loiseau grows Flandreau-based company from single blade to large family business



Jim Loiseau,
President

When Jim Loiseau set out on his road to entrepreneurship in the mid-1970s, he wasn't planning on overseeing a large family operation that encompassed a massive fleet of equipment and a payroll to support a large volume in sales.

"Before I went into business for myself, I worked for other people, but I got burned out with the large-company atmosphere," said Loiseau, President of Flandreau, S.D.-based Loiseau Construction, Inc. "My goal was to go into business, hire a couple employees and do enough work to keep a small group of people busy. At first, that's the way it went."

Loiseau laid the groundwork for his current operation in 1975 when he bought a blade and began doing township work. As business picked up, he added a second blade, a dozer and a scraper and did work for area farmers such as soil conservation, waterways and terraces. Each year his equipment and employee lists grew, and so did the size of his projects.

Loiseau Construction relies heavily on Komatsu equipment, including excavators such as this PC400LC-6 it used to break and load paving along Interstate 90 between Mitchell and Sioux Falls.



"We started building county roads, farm ponds and lagoons for cities," he continued. "Eventually we moved into state highway work and that's been the bulk of our work for the last 15 years. Thirty years after I started, here I am with tons of iron and about 100 employees during peak time. But I wouldn't trade it. I've got my wife and kids working with me and a group of employees that are just like family. It's great."

Loiseau Construction is the epitome of a family business. Jim serves as President, his wife Mary Dell Loiseau is the Vice President, his son Shaw is the Treasurer and his daughter Jennifer Latham is Secretary. Jennifer's husband Darwin is a Superintendent with the company, which primarily tackles heavy highway projects either as a prime or subcontractor. The company still does county road work, builds ponds and lagoons and removes snow for eight townships along a 20-mile stretch of Interstate 29 near Flandreau.

"The vast majority of our work is highway construction, and we're the prime contractor on about 80 percent of our projects," Loiseau noted. "When we prime a job, we handle everything from the clearing and grubbing to seeding. We lay the pipe, remove concrete, put down the base materials, haul all the materials and do the dirt work. We sub out the paving, seeding and fencing, but the rest we do ourselves. On projects where we're a sub, the paving contractor hires us to remove concrete, regrade the road, put down the base and get the road ready for paving. It's a nice mix for us and we stay busy."

Large projects

Loiseau said his company stays busy doing three to five projects at any one time within about a 100-mile radius of Flandreau. Recent



Loading trucks along Highway 52 near Yankton was easy work for this Loiseau operator using a Komatsu WA500-3 wheel loader.

projects include the complete reconstruction of Highway 11 from Canton to Beresford. The 10-mile project called for removing existing pavement, moving and grading more than 1.5 million yards of dirt, installing new storm piping and adding new base material. Paving is expected to be done this year.

Loiseau Construction also completed a project on a five-mile stretch of Highway 52 near Yankton that involved regrading and moving more than 600,000 yards of dirt to turn the two-lane road into five lanes with a turning lane. The contractor also removed existing pavement, placed the subgrade materials and extended culverts. Loiseau crews did similar projects along Interstate 90 between Sioux Falls and Mitchell.

"Those jobs are typical of what we do," Loiseau said. "It's a long way from the early days of blading township roads. We've found a niche doing highway construction projects. Every job is different, of course, but they all have similar elements. We're very experienced in that type of work. We still do some of the other work, such as lagoon construction, but that's a very small percentage compared with our heavy highway construction."

Experienced staff

A large group of experienced, dedicated employees keeps the projects moving forward, according to Loiseau. Loiseau Construction has a long list of employees who have been with the company for 15 years or more, including Operator David Smith who has 29 years of service in the 30-year-old company. Superintendent Brad Bjerke is right behind him at 28 years. Loiseau said his family members all play key roles in the company, as well as Bookkeeper Gert Duffert, Mechanic Byron Meier and Mike Rice, who handles service on machinery.

"It's been a real pleasure to watch the company grow and see my family become active members in the business," he emphasized. "I'm lucky to have them working



This Loiseau Construction operator uses a Komatsu PC300LC-7 excavator to remove rock in preparation for road widening on Highway 52 near Yankton, S.D.



A Loiseau Construction operator uses a PC400LC-6 to excavate trenches and set pipe on the reconstruction of Highway 11 from Canton to Beresford.

with me. It's a family business, but that extends beyond my own family. We strive to treat everyone at Loiseau Construction like they're part of the family. We have a large number of husbands and wives who work for us, and in some cases the children of some of our employees work here. It's a group of people who really look out for one another and for others outside the business. Our people raise a lot of money for charitable organizations and have even set up funds for those in need. It's a phenomenal group.

"In an operation like this it's very tough to say who's key because everyone is," Loiseau added. "I've been very fortunate over the years to hire outstanding people who work hard to make sure things are done right. I didn't plan to get this big, but it makes it much easier to manage when you have an outstanding group of people like I have."



Brad Bjerke,
Superintendent

Loiseau Construction exceeds customer expectations

... continued



Darwin Latham,
Superintendent



Gert Duffert,
Bookkeeper

(L-R) Vice President Mary Dell Loiseau, Treasurer Shaw Loiseau and Secretary Jennifer Latham are the other officers in Loiseau Construction, along with President Jim Loiseau.



Operator Wes Monshaugen uses a Komatsu WA450-5 wheel loader to load trucks from a quarry near Flandreau.

"Our operators really like the comfort and ease of the controls in the Komatsus," Jim Loiseau said. "They like the lifting ability and the speed of the excavators and the breakout force and visibility of the loaders. They would rather run Komatsu than anything else."



Quality machinery

Loiseau has come to expect longevity from his employees, and he holds the same expectations for his equipment. For excavators and wheel loaders, he relies on Komatsu equipment purchased from Diesel Machinery, Inc.'s Sioux Falls branch through Sales Representative Roger Horstmeyer. DMI sold its first PC300LC-7 excavator to Loiseau. It became part of a fleet that includes two 96,712-pound PC400LC-6 excavators and three wheel loaders (a new 261-horsepower WA450-5, a WA500-3 and a WA420-3).

"Our operators really like the comfort and the ease of the controls in the Komatsus," Loiseau said. "They like the lifting ability and the speed of the excavators and the breakout

force and visibility of the loaders. We seek their input when we buy new equipment, and they would rather run Komatsu than anything else."

Loiseau especially likes the versatility of the 73,210-pound PC300LC-7. "It's really the perfect size," he said. "We've seen a shift in the last five years away from using scrapers and instead relying more on excavators and trucks to move dirt. The PC300 has fit in very well. It's got the capacity to do large amounts of work, but yet it's small enough that I can maneuver easily on smaller jobsites. The conditions are often wet in the areas where we work, and it handles those very well because it has low ground pressure. We use it to load trucks and do mass excavations, as well as set a variety of pipe sizes. It's very adaptable.

"You could say the same thing about the WA450-5," he continued. "We bought it because we wanted something we could put forks on to carry pipe and something large enough to load trucks. It's done everything we wanted it to."

Loiseau Construction relies on DMI for parts and service as needed. "Roger and DMI have always been very good to work with," Loiseau said. "We have mechanics and service people on staff to handle basic services. If we get in a bind or need parts, we call DMI. They've always been good about having a part on hand. If they don't, they can get it for us the next day. They do a good job of meeting our needs."

The quality continues

The folks at Loiseau Construction pride themselves on meeting and exceeding customer expectations. Loiseau said the company has grown because it has developed a reputation for quality work, done efficiently and on budget. Loiseau expects that to be the case well into the future. He's in the process of passing the torch to his children, who will one day take over Loiseau Construction.

"When someone hires us, they know what to expect," Loiseau noted. "They know our goal is to provide them with a job done right the first time, and we've been providing them with that for 30 years. We may have continued to get bigger but we've never lost sight of the most important things we offer — a quality product and good customer service." ■



CLEAN WATER TRUST FUND

Supporters want guaranteed money for water infrastructure improvements

Late last year, Rep. John J. Duncan, R-Tenn., chairman of the House Water Resources and Environment subcommittee, introduced an ambitious bill to address the nation's water needs. The Clean Water Trust Fund Act of 2005 would create a dedicated federal trust fund for water infrastructure improvements that would provide \$37.5 billion over the next five years.

In proposing the legislation, Chairman Duncan said, "I am aware of the problems faced by municipal wastewater treatment agencies. ... I have heard over and over from our utilities that we need this legislation to protect our clean water supply."

To overcome these challenges, the chairman's legislation would provide \$7.5 billion annually in dedicated funding for the Clean Water State Revolving Fund (CWSRF) between 2006 and 2010.

The CWSRF program provides grants to states. The states then match 20 percent of the grants and create loan programs for cities, towns and state agencies to make improvements to their sewer systems and treatment plants. Currently, funding for CWSRF comes from the federal government's general fund. This means the money for the program is appropriated each year from general tax revenues. Over three years, funding for the CWSRF has diminished by 33 percent, from \$1.35 billion in fiscal year (FY) 2004 to \$990 million in FY 2006.

The five-year guaranteed revenue stream for the CWSRF would not only provide states and municipalities with more money annually, but would also provide greater certainty in funding. Unlike now, when pressures on the overall federal budget can, and frequently do divert funding from water infrastructure, the Act

would implement user fees targeted specifically for the Clean Water Trust Fund (similar to the Highway Trust Fund and the Airport and Airways Trust Fund). This certainty would allow local governments to plan projects in advance, without fear that funding would not be available when the time came to begin the projects.

The public, for its part, has expressed support for dedicated, national investment in water. According to a March 2005 poll, 86 percent of Americans supported legislation that would create a long-term, sustainable and reliable trust fund for clean and safe water infrastructure. In addition, 67 percent of Americans would support spending on water infrastructure rather than tax cuts. The notable public support for water investment suggests that now may be the time for Congress to take a serious look at the Clean Water Trust Fund.

Look for increased focus on water infrastructure issues on Capitol Hill this year. ■

If approved, a new bill would provide five years of guaranteed money for the Clean Water State Revolving Fund, which has been cut substantially in recent years.



Christian A. Klein

This Guest Opinion, which first appeared in the newsletter, Washington Insights, was prepared by Christian Klein, who serves as Washington counsel for the Associated Equipment Distributors. Mr. Klein can be contacted at cklein@potomac-law.com.



CONTINUED GROWTH!

Analysts expect construction and related industries to move upward again in 2006

Economists can often look at the same set of data and come up with very different conclusions. But that's not the case with construction industry economists this year, as all of them forecast continued growth through 2006.

Of course, the amount of growth varies from minimal to robust. The biggest concerns, other than the possibility of natural or man-made disasters, center around the twin money

Some analysts see housing finally slowing down, although it's not a unanimous view. Even those who expect a slight decline note that the total number of new houses built in 2006 will still be the second-highest on record.

issues of inflation and higher interest rates. Some industry forecasters are concerned that the higher cost of construction materials will eat up much of this year's growth, and that higher interest rates may finally end housing's remarkable upward run (although the total number of houses to be built this year is, nonetheless, still expected to be the second highest in history).

A drop in residential construction is particularly significant because single-family and multifamily housing represent a very high percentage (about 57 percent last year, according to the U.S. Department of Commerce) of the nation's total construction activity.

While many forecasters, including the National Association of Home Builders, predict a housing decline this year — that's not a unanimous sentiment. The Commerce Department, for example, thinks a strong start to the housing market will carry it through this year to another record high, despite the higher interest rates. In fact, the Commerce Department is rather bullish all the way around, calling for a 6.0 percent increase in total construction in 2006 to a total construction put-in-place of more than \$1.2 trillion.

Almost all analysts see a good rise in nonresidential building this year, which includes commercial structures, as well as public works such as highways and bridges.

To help give more meaning to the numbers, we asked industry analyst Andy Fanter to interpret the data as it relates to contractors, loggers, miners and other equipment users across the country. Here are his findings.





The highway bill Congress passed last year will spur road-related construction activity.



THE YEAR AHEAD

For the majority of us, 2005 was a great year, and those of us who paid attention to the business even made a little money along the way. This year should see more of the same, although it would certainly be nice if we could avoid a catastrophic hurricane season like the one we just experienced.

Since the hurricane season has ended, we have seen fuel prices move downward. Decreases in energy prices could bring down the price of concrete. Material prices are another issue. With the construction boom continuing through 2006, along with additional highway work, material prices will remain high.

I think we'll see long-term interest rates continue to inch upward. The Federal Reserve will also continue to raise interest rates on short-term money to protect against inflation. Prices are *not* going to be going down on machines, parts or labor — but inflation should stay close to 3 percent.

The U.S. economy is growing nicely and Europe is beginning to see some growth in economic activity as well. The Chinese economy will continue to grow, gobbling up huge amounts of everything.

The housing situation

Yes, there is a housing bubble, but it is concentrated in the very hottest housing



Both mining and logging should do well in 2006, however, there will likely continue to be a shortage of some large equipment, so if you anticipate needing a mining machine or large truck, forecasters recommend ordering early.

markets, where speculation has occurred. Anybody who is speculating on housing in any of these red-hot areas, hoping to become rich through real estate, could be in for a shock. While a few may time their exit just right, I expect most of those speculators to become much poorer, but smarter. For most of us, the bigger housing-related problem is that when the bubble does burst in these overheated regions, it will make great headlines and cause some uncertainty in local markets throughout the country.

I look for rates for a 30-year mortgage to average around 6.5 percent, which, while higher than it has been, is still a historically

Continued . . .

Andy Fanter is an industry analyst with Cyclost-Intercast, a sales forecasting firm that works with more than 65 equipment distributors and manufacturers throughout the U.S. He can be reached at cafanter@aol.com or by calling (316) 755-2648.



It looks like another good year

... continued

reasonable mortgage interest rate. Housing permits will be around the 2 million mark, down slightly from the 2.2 million seen in 2005.

Offsetting that somewhat is the fact that 2006 will be the third consecutive year of major growth in the nonresidential construction market. Nonresidential projects are all those structures such as shopping malls, box retail stores, restaurants, fire stations, medical facilities, hotels and all those other buildings which are not apartments or houses. Somewhat ironically, it's the housing growth and low interest rates, both of which are now going in the other direction, which have contributed to the boom in the nonresidential construction market.

For the small contractor who has always been deeply involved in housing, 2006 may be the year to expand into nonresidential work, as growth in the nonresidential market will likely be double digit while housing will level off or decline slightly in some areas.

Even if housing declines a bit, there will still be a very large number of houses and other structures built this year, so the logging industry should also fare pretty well.

Mining and road building

Large machines for mining and big projects will remain in short supply throughout 2006. Manufacturers of mining equipment are running near capacity, and tire capacity in the world is at 100 percent. Even if the machine suppliers could make more equipment, they would have to come without tires. The good news is that commodity prices will remain at current levels all year long.

For those of you involved in road building, get ready for a busy season. The highway bill, which Congress has already passed and funded for the first three years, is going to make every governmental unit in the country hungry for new or improved highways. Most states are seeing significant tax revenue gains, so matching funds will be available in most areas. Typically, it takes state planners about six to nine months to gear up to spend the money that has become available.

One thing to consider, the availability of highway machines will decline throughout 2006. You should make plans early with your equipment distributor to ensure availability later in the year.

Be aware of possible shortages

A couple of things that all contractors should probably look out for is a shortage of both labor and material. Shortfalls in either or both could present significant problems and impact your ability to get work done in a timely manner this year, so you should be careful about giving an owner a firm occupancy date.

A positive sign is that both architectural firms and developers are busy this year and that's a nationwide situation — not just regional hot spots. Coastal areas will see the most activity, but growth will also be good in the central part of the country.

In summation, 2006 should be another good year. Be aware of rising interest rates, rising costs of building materials and labor, and shortages in certain machines. If you plan well and work these cautions into your bids, it will be another profitable year. ■

U.S. Dept. Of Commerce Construction Forecast

	2004	2005 (estimate)	2006 (forecast)
Residential	\$570.0 billion	\$649.8 billion	\$689.6 billion
Nonresidential	\$457.8 billion	\$486.3 billion	\$515.1 billion

Commercial building activity is expected to be strong throughout 2006, helping to offset a possible slowdown in housing construction.





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A FULL-LINE COMPANY

Komatsu's continually expanding product line is part of a "commitment to compete"



Dave Grzelak,
Chairman and CEO,
Komatsu America

Back in the 1970s, when Komatsu America was formed and the equipment maker started selling small to mid-size dozers in the U.S., few people would have guessed that within a couple of decades it would be the second-largest manufacturer and supplier of construction, mining and utility equipment in North America. But thanks to a number of agreements and acquisitions, combined with an aggressive desire to compete and be the best, that is exactly what has happened.

"We are a 'full line' company," said Dave Grzelak, Komatsu America Chairman and CEO. "What does that mean? It means we don't limit ourselves to certain machines or certain size classes. Instead, we manufacture and sell a complete line of heavy equipment and compete head-to-head in virtually all categories and sizes. There's only one other equipment manufacturer in the world that can make the same claim."

Some other equipment makers, according to Grzelak, are essentially "short line" companies,

meaning they specialize in certain types of machines or certain sizes. Some may specialize in agricultural equipment and make only small construction units. Others go up into the construction size, but don't offer some types of machines, or perhaps stop well short of Komatsu's largest construction-size models. When you get into mining-size equipment, the field narrows even more.

"It's no accident that we compete across-the-board with the only other full-line company," said Grzelak. "We're committed to compete for two primary reasons. One, we think it's important for the equipment industry in general to have competition in all size classes and machine types because it prevents market domination and spurs product improvement. And two, we do it because in many instances, we believe we make state-of-the-art products that don't just compete with, but are demonstrably superior to those of our main competitor, as well as all the short-line companies."

From smallest to largest

Today, Komatsu makes more than 100 machines ranging from compact units as small as a one-ton excavator and a 29-horsepower wheel loader, up to the largest dozer in the world, a 3,500-horsepower truck, and an excavator/mining shovel that weighs in at 770 tons. But perhaps the most important and significant aspect of those figures is that Komatsu also makes everything in between those extremes.

Komatsu utility equipment includes compact excavators, wheel loaders and a dozer, as well as backhoe loaders and skid steer loaders. The utility division also offers the unique Komatsu

An example of Komatsu's commitment to competing in all product lines and all class sizes is the 1,150-hp D575, the largest bulldozer in the world.



crawler carrier, which is essentially a track dump truck with a bed that rotates a full 360 degrees.

In construction-size machines, Komatsu makes hydraulic excavators, crawler dozers, wheel loaders, landfill dozers, material handlers, waste handlers, forestry machines, a wheel dozer, motor graders, articulated trucks, rigid-frame mechanical trucks (up to 69-ton capacity) and mobile crushers.

Komatsu mining equipment consists of excavators/shovels, dozers, wheel loaders, a motor grader, mechanical trucks (up to 164-ton capacity) and electric trucks (up to 330-ton capacity).

In certain machine categories, Komatsu probably has more sizes and models than any manufacturer. Take hydraulic excavators, for example. The company has nine utility models with less than 54 horsepower; 18 construction-size units (counting five tight-tail-swing and two wheel models) up to the 651-horsepower PC1250LC-7; and five mining excavators/shovels including the giant 4,020-horsepower PC8000. That's a breadth of offerings that no other manufacturer can match, and it doesn't even include Komatsu's excavator-based material handlers and log loaders.

Specialty equipment and innovations

Material handlers and forestry machines, as well as the crawler carrier, are examples of specialty equipment that Komatsu has added in recent years. Other such products include waste-handling wheel loaders, landfill dozers and mobile crushers.

"We're always looking for innovations to make equipment better for the customer, whatever the job is," said Grzelak. "We spend up to \$400 million a year on research and development (R & D), all of it on new products designed to make our customers more productive and more cost effective."

An example of Komatsu product innovation is the tight-tail-swing excavator.

"When Komatsu came out with the first tight-tail-swing machine in the mid- to late '90s, the old PC128UU that was painted purple, people



As the excavator/articulated dump truck combination gained widespread acceptance in the last decade or so as a cost-effective method of moving dirt, Komatsu introduced a highly regarded line of articulated haulers.



A leader in tight-tail-swing excavators, Komatsu offers nine compact models and construction-size units, including the PC308USLC-3, the industry's largest tight-tail-swing machine.



Compact equipment, such as skid steer loaders (above left) and specialty equipment, such as logging machines through Komatsu Forest, are now part of the large Komatsu family of machines.

would stop at jobsites and stare at it," said Grzelak. "Today, tight-tail-swing machines are a staple of many contractors' fleets."

Through the years, Komatsu has continued to push the tight-tail-swing envelope. In 2003, the company introduced the PC308USLC-3, which is the largest tight-tail-swing model on the market today. In total, Komatsu produces five construction-size and nine utility-size excavators that use the tight-tail-swing design.

Adding products

Also in recent years, Komatsu has added mainline products, such as articulated dump trucks.

Continued . . .

Komatsu's full line provides customer options

... continued

"In regard to articulated trucks, we weren't first in the marketplace, but in order to be a true full-line company, we knew we had to get into this important and growing segment," said Grzelak. "We spent a lot of time designing what we believed would be the best articulated truck and in 2001 we introduced it in the form of the HM400."

Today, Komatsu offers three artic models (30 ton, 35 ton and 40 ton).

Komatsu carried the same attitude into its utility line. "Again, we weren't the first, but because our customers were using utility-size machines, we believed we had to be in the business of supplying them," said Grzelak. "As the utility market has grown in the last decade or so, Komatsu has definitely grown with it and is continuing to grow with it."

In 2002, Komatsu opened a utility equipment manufacturing plant in Newberry, S.C., which today produces all the company's backhoes and skid steer loaders.

More of the same in the future

As for the future, Komatsu intends to continue to be involved at all levels of the equipment industry — and to lead the way in many product categories.

As an example of the company's commitment to compete at the highest level, Grzelak points to the new Komatsu machines with ecot3 engines that are just now hitting the market. They're designed not only to meet the latest EPA requirements, but to also boost productivity. "We fully expect our machines with ecot3 engines to be industry leaders in terms of performance and fuel efficiency."

He also cites a truly groundbreaking development that the company expects to unveil in the not-too-distant future. "Through our subsidiary Modular Mining, we're on the verge of introducing autonomous (driverless) trucks to the mining marketplace. It's an exciting advancement that we think holds the promise of helping many mines significantly lower their costs, and may eventually be applicable at smaller jobsites as well."

Grzelak says pioneering such products is one of the main advantages of being a full-line company like Komatsu.

"The reason we make so many different products and invest so heavily in R & D is that it puts us on the industry's cutting edge. Something that's really important is that when we do make a significant discovery, it's often transferable throughout much of our product line, so all equipment users end up benefitting from it.

"We think customers who use construction and utility-size equipment should take great comfort in the fact that the Komatsu that makes their PC200 excavators is the same Komatsu that makes these huge mining machines, including the largest dozer in the world. Why? Because there's a very high level of expectation from mining customers. The fact that we do business with them and are able to meet their equipment needs as well as their parts and service needs, we hope signals to contractors that we can do the same thing for them."

Don't look for Komatsu to change its philosophy any time soon. "We're absolutely committed to being a one-stop shop, where any and all equipment users can get whatever they need, under one roof. So yes, our intention is to continue to grow and expand our product line wherever necessary, to ensure that our customers will always have options." ■

With rigid-frame trucks ranging from 44-ton to 330-ton capacity and wheel loaders with buckets less than a yard to more than 26 yards, Komatsu can offer an equipment combination to meet any construction or mining requirement.





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PRODUCT UPDATE

NEW MACHINES AT UTILITY EXPO

Unique features of Komatsu machines are showcased at ICUEE

Equipment users wanting to see and demo the latest utility machines got the chance last fall at the International Construction and Utility Equipment Exposition (ICUEE) in Louisville, Ky. Held every two years, ICUEE is the show that features utility machines, many of which are available for demonstration as well as viewing.

The Komatsu display consisted of 13 utility machines, including a WA80-5 compact wheel loader, a D21P-8 compact dozer and a WB140-2N backhoe loader, as well as six different models of compact excavators and three skid steer loaders.

Bob Lessner, Director of Product Marketing for Komatsu Utility, ran down some of the unique aspects of Komatsu utility equipment.

"We offer a power angle blade on both the PC35 and PC50 compact excavators and there's only one other manufacturer that does that. On the backhoe, our excavator-style controls are a well-accepted option that's so popular we're considering making it standard equipment. The WA80-5 features a tilt-forward operator compartment, which nobody else has. It also has a creeper gear to separate ground speed from engine rpm so you can get maximum hydraulic flow along with low travel speed. We're now also offering an air-conditioning option on our skid steer loaders."

Track loader unveiled

As well as displaying many proven units, Komatsu used the ICUEE show to unveil its brand new CK30 track loader — an 84-horsepower machine that weighs 9,525 pounds.

Continued . . .



Komatsu had a large display at the International Construction and Utility Equipment Exposition (ICUEE) in Louisville, Ky., last fall. ICUEE is a biennial event that focuses on utility-size equipment and includes hands-on demonstrations.

At the ICUEE show, Komatsu unveiled its new CK30 track loader. It features a unique undercarriage design with an oscillating sub-frame that makes it much easier to climb curbs and other obstructions.



New track loader unveiled at ICUEE

... continued



This attendee tried out the Komatsu PC35MR-2 compact hydraulic excavator at the ICUEE show.



The SK1020 skid steer loader (right) and WB140 backhoe loader (below) were two machines Komatsu had available for demonstration at the event.



"What separates the CK30 from the competition is the undercarriage," said Skid Steer Loader Product Manager Bob Beesley. "We used a unique design whereby the front idler and first roller are on a sub-frame that oscillates on the front of the track frame. It helps you climb over curbs and obstructions more easily.

"Also, our front idler is a three-way idler," he added. "That means you have the two outer shells of the front idler actually running on the rubber track itself. The result is that you're not putting pressure on the chain and therefore it will wear longer."

The other significant item, according to Beesley, is that the cleats or wear pads on the CK30 are offset (rather than evenly spaced on both sides) to reduce vibration and provide a much smoother ride. "We took a great deal of care to try to make this the smoothest running track loader on the market, which not only makes it more comfortable for the operator, but also considerably improves longevity."

Beesley says the advantages of a track loader compared to a skid steer are that it requires the same working space, does less damage to the ground, and provides greater traction so you can push and load more material. ■



Komatsu Skid Steer Loader Product Manager Bob Beesley shows these ICUEE attendees some of the inner workings of the new track loader.

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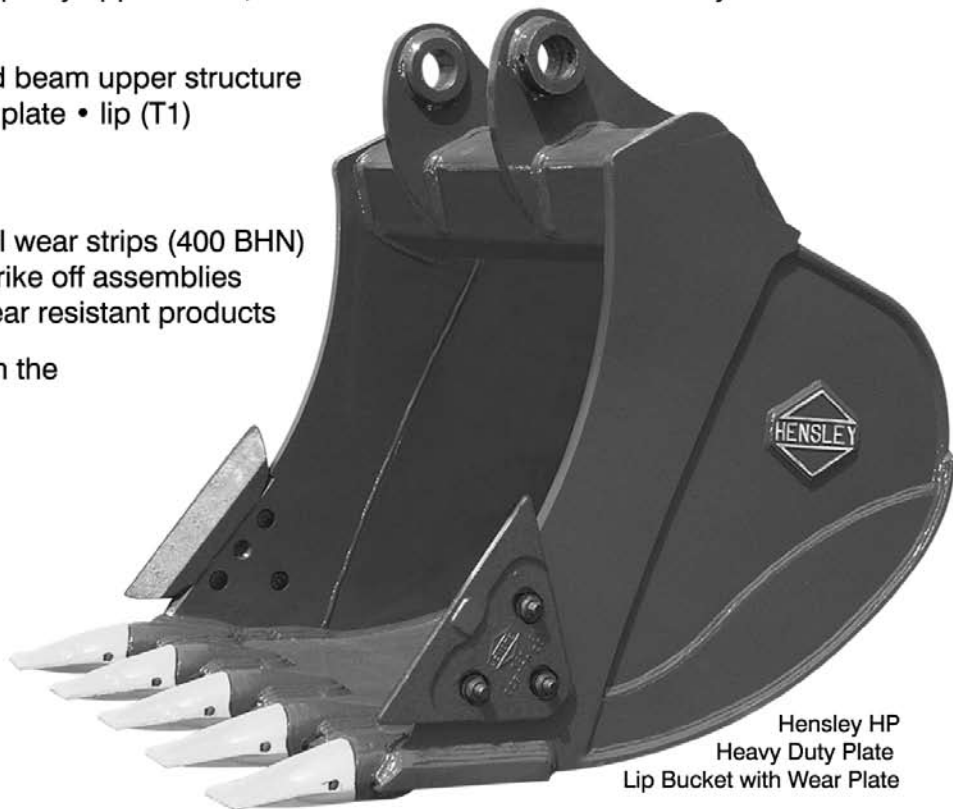
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COMPACT EQUIPMENT GROWTH

Komatsu makes strong gains in booming compact construction equipment market

QUESTION: What has happened to the compact construction equipment market in recent years?

ANSWER: It's been booming. In 2004, the compact market grew by 20 percent, followed by an additional 10 percent growth in 2005. More than 122,000 machines were sold in the U.S. last year, which made it about a \$4 billion business.

QUESTION: How does that compare with the construction equipment market?

ANSWER: The construction market has also exploded, but compact machines outsold construction machines more than two to one. In fact, there were more skid steer loaders alone sold last year than the total number of construction machines. Of course, construction-size equipment tends to cost a lot more, so the total dollars are higher on the construction side.

QUESTION: Where is the growth occurring in the compact construction equipment market?

ANSWER: Growth has been across the board, but one segment that's really taken off is the mini excavator, up more than 40 percent to about 22,000 units a year. Many people are turning to a mini excavator/skid steer loader combination in place of a backhoe loader because, for about the same price, they get two machines and a lot more versatility. Having said that, we know there's always going to be a place for the backhoe loader when you need to dig deeper or need more power, and in fact, backhoe sales have also continued to grow, although at a slower rate.

QUESTION: What about Komatsu specifically? How is it doing?

ANSWER: We got a late start in the compact equipment business, but we're working hard to catch and surpass our competitors. We now

Continued . . .



Ivor Hill
Vice President and General Manager
Komatsu America Utility Division

This is one of a series of articles based on interviews with key people at Komatsu discussing the company's commitment to its customers in the construction and mining industries — and their visions for the future.

Ivor Hill was born and raised in England, but has lived and worked in the U.S. most of his adult life. He came here in 1987 with a mining equipment company and joined Komatsu in 2000. Today, he's Vice President and General Manager of Komatsu America's Utility Division, which is at the other end of the heavy equipment spectrum from mining machines.

"The two industries are very different, but also very similar," Hill noted. "Of course, a mining machine may be 100 times larger than a compact machine, but what they do — dig holes and move material — is basically the same. And while mining equipment can cost well into the millions of dollars versus perhaps as little as \$20,000 for a skid steer loader, the importance of that skid steer loader purchase is just as great, and maybe even greater, to the guy who's making the payments. At Komatsu, we understand the expectations and needs of both customers and act accordingly."

Under Hill's guidance, Komatsu is rapidly on its way to becoming the number-two supplier of compact construction equipment in the United States. "Just like in construction, we offer almost every type of compact machine and every size — and what we don't have, we soon will."

When he's not on the job or spending time with his family, the 50-year-old Hill's passion is soccer. "I play in two outdoor leagues and one indoor league," he explained. "I have a hard time finding enough people my age who play, so I often go against many players who are much younger. But just because I'm older, they don't cut me any slack. I'm sure it's because of my British background. They want to show me that the U.S. plays pretty good soccer too."

Quality equipment and support spur growth

... continued

compete in 88 percent of the market. In other words, we have almost all the same machines and size classes that the other full-line companies have, and soon, we plan to be closer to 100 percent.

We didn't get into the business to be a bit player. We want to be one of the stars. In four years, we've gone from \$47 million in sales to more than \$200 million. In 2005 we increased our final deliveries by 33-percent versus year-to-date December 2004. Our goal is to be the number-two overall supplier of compact equipment, and number one in mini excavators, by 2007 — and we believe we're well on our way to accomplishing that.

QUESTION: What do you consider to be Komatsu's strengths in compact construction equipment?

ANSWER: Number one, it's the equipment itself. We make quality equipment that's reliable for the customer out on the job. Just as with our full-size machines, we believe our hydraulic system is superior, which is why we anticipate being number one in mini excavators in the near future. When you're digging around fiber optic lines and the like, you need complete control. On our skid steer loaders, two-speed control is standard. And on all our machines, we've emphasized comfort.

Komatsu makes six different skid steer loader models, plus a new track loader. Two-speed control is standard on all Komatsu skid steer loaders.

Skid steer and backhoe loaders are made at Komatsu's Newberry Manufacturing Operation in South Carolina.



Mini hydraulic excavators are the fastest-growing segment of the utility equipment industry. Komatsu expects to be number one in this important machine group in the near future.



Beyond the equipment itself, it's the support we provide, which lowers machine owning and operating costs. For example, with Komatsu Financial, we can often provide a creative finance plan if that's helpful. Plus, we have a very strong distributor network to service the machines we sell — and certainly, not everybody who sells utility equipment can make the same claim.

QUESTION: What new products is Komatsu Utility coming out with that you're excited about?

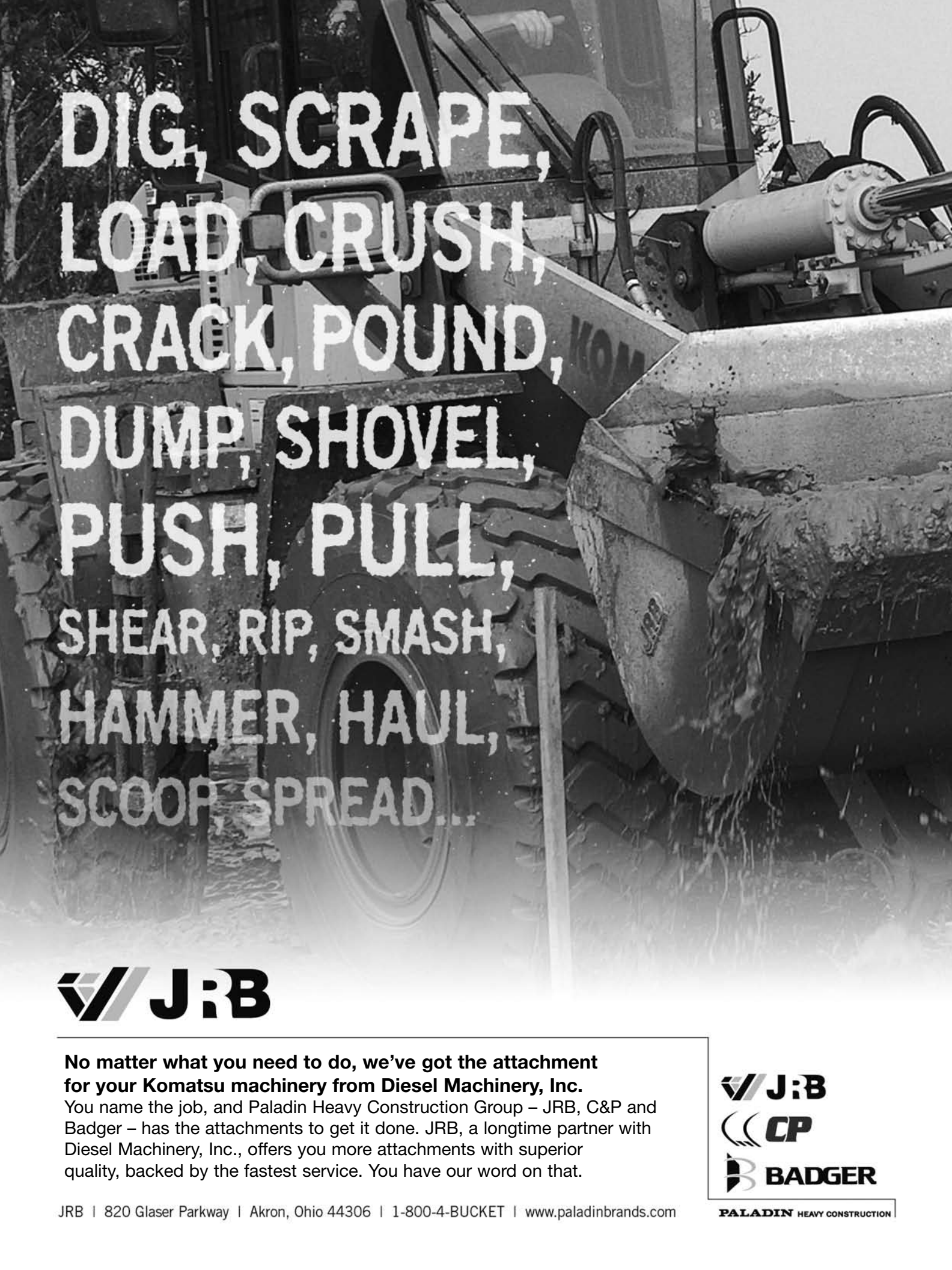
ANSWER: The big news in the first quarter is the introduction of our first two Compact Track Loaders (CTL). CTLs are very popular among landscapers because they can do heavier work, work better in limited space, and cause less ground damage than traditional skid steer loaders.

Beyond the CTLs, we recently introduced two new, small mini excavators (PC18MR-2 and PC20MR-2); we have a whole new line of Dash-5 compact wheel loaders; and we'll also soon be introducing the new models of the backhoe loaders.

QUESTION: What would people be most surprised to learn about the Komatsu Utility Division?

ANSWER: Many people may know that we have a manufacturing facility in Newberry, South Carolina, where we make all our backhoe and skid steer loaders. What they probably don't realize is that it's also our Utility Division headquarters. The advantage is that all our decision-makers are right there where the machines are being manufactured, so when necessary, we're able to make decisions very quickly.

The other thing that might surprise some people is the large amount of money we invest in research and development. There's a copycat mentality in much of the construction equipment business. At Komatsu, certainly we keep an eye on what's going on elsewhere in the industry, but most of our efforts are internal — looking for ways to incorporate technology to improve our existing products and make them more cost effective. I'm not saying no other equipment manufacturer does that, but I would bet that few, if any, do it to the extent that we do — and I'm very pleased that, on the utility side, we get our fair share of that R & D investment. ■



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CRACK, POUND,
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UNDERCARRIAGE REPLACEMENT

Crawler owners discover the benefits of quality plus price-competitive OEM parts

For more information on Komatsu OEM undercarriage, contact our parts department.

If you own a crawler dozer, you know much of the operating cost associated with it centers around undercarriage repair and replacement. With that in mind, Komatsu has taken steps to make its original equipment manufacturer (OEM) undercarriage more affordable and more readily available.

"The Komatsu OEM undercarriage is specifically designed to provide maximum life and performance for Komatsu track machines," said Dick Schaefer, Komatsu America Senior Product Manager for Undercarriage. "That's why, when a Komatsu dozer user replaces the original undercarriage, we want him to use our OEM product rather than an 'off brand' from the secondary or 'will-

fit' market. It's the only way we can assure him that he's going to continue to get the same type of performance he got from the original."

Two key issues

Schaefer says there are two key issues for people who buy what he refers to as "will-fit" undercarriage products. "One is that mixing and matching different undercarriage products could create a problem with consistency. The other key question is whether the quality of the 'will-fit' part is as good as the original equipment."

According to Schaefer, many dozer owners in the past have turned to "will-fit" undercarriage products in order to save a little money. "We think most dozer owners would prefer to buy OEM, so we studied our pricing structure and made our product more price competitive. At the same time, we increased our supply of undercarriage parts by expanding one of our manufacturing plants."

Real value

Schaefer says the actions have caused Komatsu dozer owners to take notice, as evidenced by an almost 200 percent sales increase in the last couple of years. "That tells us our customers recognize that Komatsu OEM undercarriage products represent real value, and while they may still be able to find undercarriage parts that cost less, those 'will-fit' parts may not provide the longevity or productivity of OEM."

Another plus for Komatsu OEM undercarriage, according to Schaefer, is that Komatsu backs it with a three-year, 4,000-hour breakage and leakage warranty that is among the best in the industry. ■

Komatsu has increased its supply of OEM undercarriages while at the same time, making them more price competitive. Komatsu urges its equipment users to use the OEM product to get maximum undercarriage performance and longevity.





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DISTRIBUTOR CERTIFIED USED EQUIPMENT

RELIABLE USED EQUIPMENT

How Komatsu Distributor Certified machines help eliminate the risks of buying used

In 2002, Dan Kramer started an excavation company, Kramer Excavating, in his hometown of Pleasant Hill, Mo. The company, with a work force of about a dozen people, specializes in moving dirt for commercial developments and residential subdivisions in the Kansas City area.

Like all earthmoving contractors, Kramer needs productive and reliable equipment to get his jobs done quickly and cost effectively. For a number of pieces, he has turned to Komatsu Distributor Certified used equipment from his local Komatsu distributor.

Komatsu Distributor Certified used machines are thoroughly inspected and rated based on specific criteria including age, hours, component wear and appearance. Special finance rates and extended warranties are also available on many Distributor Certified machines.

"We need machines that we can count on, day-in and day-out," said Kramer, who currently owns a Komatsu Distributor Certified PC220LC-6 hydraulic excavator. "The PC220, as well as previous Distributor Certified machines we've owned, including a D65 dozer and a WB140 backhoe loader, meets our productivity and reliability requirements at a price we can afford. Best of all, because it comes from my Komatsu dealer, I know it's going to work like it's supposed to, or they're going to make it right."

Peace of mind

In fact, Kramer says he did have an issue with an early Distributor Certified machine he owned. "My Komatsu distributor had a

replacement unit at our jobsite the next day. That kind of support and backing is crucial to me."

Whereas some equipment owners buy used machines at auction because they think they're getting the best bargains there, Kramer says "peace of mind" is worth much more to him. "I'm sure it's possible to get a good machine at a good price at auction. But I've seen people really get burned. In the vast majority of cases, I believe there's probably a reason a machine was sent to auction rather than traded in. I avoid auctions because I don't want to be the unsuspecting buyer who learns that reason too late. To me, a Komatsu Distributor Certified machine delivers excellent cost savings and a safety net as well." ■



For more information on Komatsu Distributor Certified used machines, talk to your sales representative or call or visit our nearest branch location.



Dan Kramer prefers Komatsu Distributor Certified used equipment like this PC220 hydraulic excavator to other used equipment because of the support and backup he knows he's going to get from his Komatsu distributor.

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