

# Kirby Corporation 1997 Annual Report

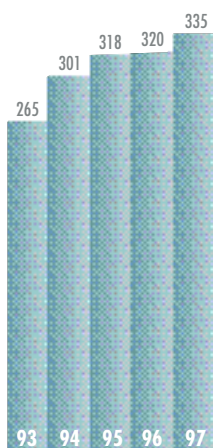


# FINANCIAL HIGHLIGHTS

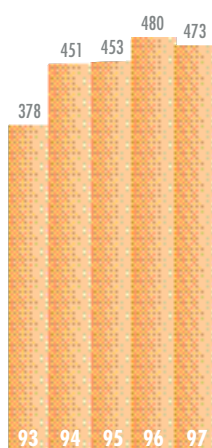
For the years ended December 31,

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Revenues:										
Transportation and diesel repair	\$ 55,227	\$ 102,440	\$ 134,260	\$ 151,291	\$ 186,635	\$ 264,853	\$ 300,731	\$ 318,225	\$ 320,016	\$ 335,244
Other, including insurance	42,668	38,896	41,524	37,742	43,430	62,543	77,003	53,917	3,568	1,290
	<u>\$ 97,895</u>	<u>\$ 141,336</u>	<u>\$ 175,784</u>	<u>\$ 189,033</u>	<u>\$ 230,065</u>	<u>\$ 327,396</u>	<u>\$ 377,734</u>	<u>\$ 372,142</u>	<u>\$ 323,584</u>	<u>\$ 336,534</u>
Net earnings from continuing operations before cumulative effect of accounting changes	\$ 7,720	\$ 8,913	\$ 13,500	\$ 13,298	\$ 9,175	\$ 18,176	\$ 16,969	\$ 6,958	\$ 21,208	\$ 22,705
Net earnings (loss) from discontinued operations before cumulative effect of accounting changes	—	—	—	—	4,423	4,653	(316)	2,425	6,021	(1,023)
Net earnings before cumulative effect of accounting changes	7,720	8,913	13,500	13,298	13,598	22,829	16,653	9,383	27,229	21,682
Cumulative effect on prior years of accounting changes	—	—	—	—	(12,917)	—	—	—	—	—
Net earnings	<u>\$ 7,720</u>	<u>\$ 8,913</u>	<u>\$ 13,500</u>	<u>\$ 13,298</u>	<u>\$ 681</u>	<u>\$ 22,829</u>	<u>\$ 16,653</u>	<u>\$ 9,383</u>	<u>\$ 27,229</u>	<u>\$ 21,682</u>
Net earnings per share (diluted):										
Net earnings from continuing operations before cumulative effect of accounting changes	\$ .33	\$ .39	\$ .60	\$ .61	\$ .41	\$ .69	\$ .59	\$ .25	\$ .82	\$ .92
Net earnings (loss) from discontinued operations before cumulative effect of accounting changes	—	—	—	—	.19	.17	(.01)	.09	.24	(.04)
Net earnings before cumulative effect of accounting changes	.33	.39	.60	.61	.60	.86	.58	.34	1.06	.88
Cumulative effect on prior years of accounting changes	—	—	—	—	(.57)	—	—	—	—	—
Net earnings	<u>\$ .33</u>	<u>\$ .39</u>	<u>\$ .60</u>	<u>\$ .61</u>	<u>\$ .03</u>	<u>\$ .86</u>	<u>\$ .58</u>	<u>\$ .34</u>	<u>\$ 1.06</u>	<u>\$ .88</u>
Net cash flow from continuing operations (before changes in operating assets and liabilities)	\$ 14,058	\$ 19,467	\$ 30,032	\$ 28,620	\$ 28,971	\$ 51,112	\$ 54,265	\$ 61,839	\$ 44,595	\$ 50,255
Property and equipment, net	\$ 37,201	\$ 100,335	\$ 105,152	\$ 128,371	\$ 212,275	\$ 260,501	\$ 281,622	\$ 275,184	\$ 277,622	\$ 272,384
Transportation and diesel repair assets	\$ 86,010	\$ 152,044	\$ 153,736	\$ 180,221	\$ 301,759	\$ 378,385	\$ 450,806	\$ 453,299	\$ 479,976	\$ 472,639
Long-term debt	\$ 18,335	\$ 77,025	\$ 68,428	\$ 80,702	\$ 158,922	\$ 120,559	\$ 159,497	\$ 179,226	\$ 181,950	\$ 154,818
Stockholders' equity	\$ 79,125	\$ 87,929	\$ 97,112	\$ 111,625	\$ 122,825	\$ 211,749	\$ 222,976	\$ 205,333	\$ 205,754	\$ 218,269

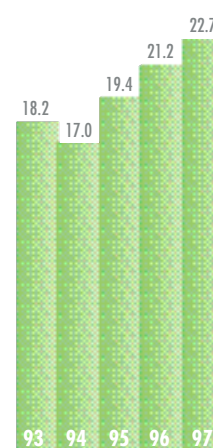
Transportation and Diesel Repair Revenues  
\$ in millions



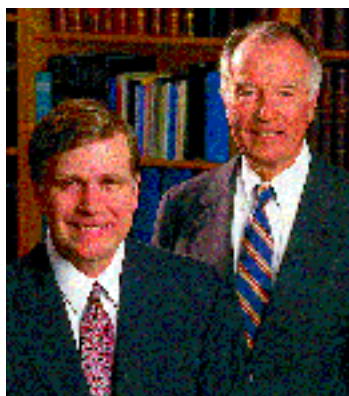
Transportation and Diesel Repair Assets  
\$ in millions



Earnings from Continuing Operations\*  
\$ in millions



\*Excludes the adoption of SFAS 121.



J.H. Pyne, President      George A. Peterkin, Jr., Chairman

Kirby Corporation is the largest operator of inland tank barges in the United States, serving ports, terminals and facilities along the entire inland waterway system. During the past year, to enhance service and improve efficiency, we integrated our

inland tank barge companies into a single, centrally dispatched operation. As of January 1, 1998, the integration was complete. Our inland companies will now operate under the name "Kirby Inland Marine."

While prospects for the inland tank barge market continue to look bright, the future of the offshore domestic product tanker market remains uncertain, as additional tanker capacity entered the offshore market in 1997 and more capacity is scheduled to enter in 1998. Refinery output also increased in the Northeast and on the West Coast, thus reducing the need for product transportation by offshore tankers. The domestic offshore tanker market may someday be an attractive business when supply and demand balance; however, significant future fleet replacement challenges exist, requiring large amounts of capital in order to participate. Based on these and other market factors, we determined in late 1997 that the long-term interests of Kirby shareholders would best be served by exiting the offshore domestic tanker business and focusing on the inland tank barge market. Early in 1998, Kirby agreed to sell its seven offshore tankers, along with seven harbor tugs, land and buildings to Hvide Marine Incorporated and August Trading Company, Inc. for \$38.6 million in cash. The Company recorded a \$4.0 million after-tax loss from this sale in 1997. We expect to close this transaction in mid March.

We also eliminated our participation in the offshore freighter market by selling our two remaining freighters for salvage, one in July 1997 and one in October. Both sales followed foreign aid food trips and took advantage of higher foreign scrap steel prices.

Our Diesel Repair Division continues to provide strong auxiliary support to our position as the inland marine transportation leader. Kirby remains the only company with diesel repair centers servicing all three coasts, the Mississippi and Ohio rivers and the Caribbean.

### Cost Reduction Effort Successful

We stated in last year's report that, as a result of our reorganization and cost reduction efforts, we expected an additional \$.30 to \$.40 per share improvement in earnings from 1997 to 1999. During 1997 we were successful in reducing our costs and expenses by approximately \$3.4 million, or \$.09 per share, after taxes. We believe we can still achieve this goal as we apply the productivity enhancement provided by our centralized dispatching system, continue to leverage our purchasing needs and work hard on reducing costs.

Our cost reduction effort is challenged by inflationary pressures in some parts of the economy. We compete against a booming offshore well service industry for shipyard space and afloat personnel. Consequently, in 1997 our shipyard costs increased, and due to a shortage of vessel tankermen, we had to utilize contract personnel to meet demand. These increases in maintenance and labor costs offset some of the savings gained from our successful reorganization and may continue to do so.

We are also being challenged by the recruitment and retention of crews. Kirby has recognized this challenge for many years and has built a training infrastructure to facilitate its internal needs. We will also need to continue to enhance our compensation system in the future to insure that we continue to attract and retain competent and stable employees.

Despite the difficult operating and market environment, Kirby generated net earnings from continuing operations of \$.92 per share in 1997. While this was a record performance, we do not consider it to be satisfactory and will strive to do better in 1998.

#### Continuing Commitment to Enhance Shareholder Value

While concentrating on the inland marine market and seeking improvements in operating efficiency, Kirby remains committed to growth as a Company goal. We will look for further opportunities to enhance our positions as the dominant U.S. inland tank barge operator and premier aftermarket support supplier for large diesel engine applications. Our strong cash flow and balance sheet will allow us to take advantage of market expansion opportunities when they appear. In 1997 cash flow, before changes in operating assets and liabilities, totaled \$50 million. Over the past year, we utilized our cash flow to build new barges, pay down debt and continue to repurchase the Company's stock.

In February 1998, we announced a Dutch Auction tender offer to repurchase up to 3 million shares, representing 12% of the Company's outstanding common stock. We are able to use this vehicle to offer liquidity to our shareholders by applying the proceeds of the sale of our tanker fleet and accumulated cash resources, without jeopardizing our investment grade credit rating or our capability to respond quickly to acquisition opportunities. If 3 million shares are purchased in the tender offer, we will have repurchased approximately 25% of our common stock since 1995.

#### New Director Added to Board

Bob G. Gower, the Chief Executive Officer of Specified Fuels and Chemicals, and former President and Chief Executive Officer of Lyondell Petrochemical Company, was elected to the Kirby Board of Directors on January 20, 1998. Bob Gower's election continues our commit-

ment to focus our Board on our core business and on building shareholder value. He will provide the Board with administrative experience as well as expertise in the refining and chemical processing industry, one of Kirby's largest markets.

#### Looking Ahead

We enter 1998 focused on our core competency of inland marine transportation with a new operating name, flying one company flag and operating with one boat color scheme. The industry fundamentals for the inland market remain very sound. Water transportation remains an economical and flexible means of delivery for most bulk products serving American industry.

Our emphasis on the inland marine market, our more streamlined operating structure and our continued focus on cost reduction and efficiency should result in steadily improving profitability over the coming years. We thank our employees, managers, directors, suppliers, customers and shareholders for their continuing support. Together we can expect to prosper as we move toward the year 2000.

Respectfully submitted,



George A. Peterkin, Jr.  
Chairman of the Board



J.H. Pyne  
President

Houston, Texas

March 6, 1998



The United States inland waterway system extends 26,000 miles, with 11,000 miles used for significant domestic commerce. This navigable waterway system links the United States heartland to the world. Kirby's primary inland distribution area encompasses the Gulf Intracoastal Waterway from Brownsville, Texas, to St. Marks, Florida, plus the Mississippi River and its tributaries. Kirby is capable of transporting liquid bulk cargoes from one end of this inland waterway network to the other without a change of carrier.

The United States possesses a long coastline providing numerous ports and harbors. Kirby's primary offshore distribution area is the Gulf of Mexico and the Caribbean, with occasional other destinations as cargo offers.



### Services Offered



Kirby Inland Marine operates the largest fleet of towboats and tank barges transporting bulk liquid cargoes over the U.S. inland waterway system. Domestic marine shipping is the most cost effective method of bulk transport, carrying 15% of intercity freight and serving over 90% of the population, yet comprising only 2% of U.S. transportation costs. The typical inland tank barge can carry the equivalent cargo of 15 rail cars or 60 tractor trailer trucks. Atypical Mississippi River tow of 30 barges can carry as much cargo as 450 rail cars or 1,800 trucks.



Kirby greatly reduced its participation in offshore services in early 1998 in order to concentrate on its highly successful inland marine operations. Additional vessels, representing unneeded capacity based on the current balance between demand and capacity, entered the offshore market in 1997, with more scheduled to enter the market in 1998 and beyond. In response to these and other market factors, Kirby signed an agreement in early 1998 to sell seven tankers, seven harbor tugs, land and buildings to Hvide Marine Incorporated and August Trading Company, Inc. for \$38.6 million in cash. Closing of the transaction is scheduled for mid March 1998. Kirby also concluded its exit from the offshore break-bulk freighter market by scrapping one freighter in July 1997 and the last freighter in October.



Kirby's Diesel Repair Division provides service, replacement parts and engine rebuilding for the large, medium-speed diesel engines used extensively in marine, shortline and industrial railroad, and power generation applications. Kirby is the East Coast distributor for General Motors Electro-Motive Division (EMD) parts and after-market services.

## Products Transported/Service Provided

Principal inland barge cargoes are chemicals, petrochemical feedstocks, gasoline additives, refined petroleum products and liquid fertilizer products. The Kirby inland fleet of 519 tank barges and 127 towboats has a total liquid cargo capacity of 9.4 million barrels and represents about 18% of the total U.S. tank barge capacity.

Kirby owns and operates two offshore tank barge/tug units transporting chemicals and refined petroleum products in niche markets under term contracts. Kirby also owns one dry-bulk barge/tug unit engaged in the transportation of coal, limestone, cement, fertilizer, flour, raw sugar, scrap steel and grain. Through two partnerships, Kirby manages five additional offshore dry-bulk barge/tug units servicing long-term coal and limestone contracts, with some participation in spot cargo markets.

EMD engines have a significant market share in marine, railroad and power generation applications. Kirby also has distributor agreements with Woodward's engine control systems and Falk's marine reduction gears. Kirby sells genuine replacement parts, overhauls and services diesel engines and provides rebuilt parts and engines.

## Key Market Factors

- The market for tank barge transport services is driven by the volume of production in three primary commodity groups: petrochemicals, refined products and liquid fertilizer. The demand drivers for each group are different, but Kirby has the flexibility to reallocate equipment to respond to the stronger demand in each market when necessary.
- Demand for transportation of petrochemicals used in the production of plastics and paper products (benzene, styrene, acrylonitrile and caustic soda) generally follows the national economy and is affected by production of housing, automobiles and consumer goods.
- Demand for gasoline, gasoline substitutes (such as ethylene) and additives (such as MTBE) is driven by the overall economy, while the demand for heating oil and diesel oil tends to vary with prevailing weather conditions and agricultural needs.
- Demand for transportation of liquid fertilizer fluctuates with domestic nitrogen-based fertilizer consumption, which can be measured by changes in domestic corn and wheat production.
- Kirby's partnership with a Florida utility services the long-term coal requirements of the utility partner's power generation facility. Such movements insure a base load requirement for the dry-bulk barge operations owned by the partnership, with incremental capacity available to participate in the spot cargo market.
- Niche market opportunities employ Kirby's two offshore tank barge/tug units under term requirements transporting chemicals and refined petroleum products.
- Dry spot cargo market opportunities include participation in government-directed preference food aid cargoes to underdeveloped countries.
- Demand for diesel repair services generally reflects the activity of the industries it supports. Kirby's Diesel Repair Division has grown by 18% annually since 1989 and is positioned to grow further through internal growth and potential acquisitions.
- Growth in Kirby's market share is driven by a general shift in customer preferences from small local providers to larger national suppliers and a specific movement by large diesel equipment operators to Kirby's enhanced support capabilities.

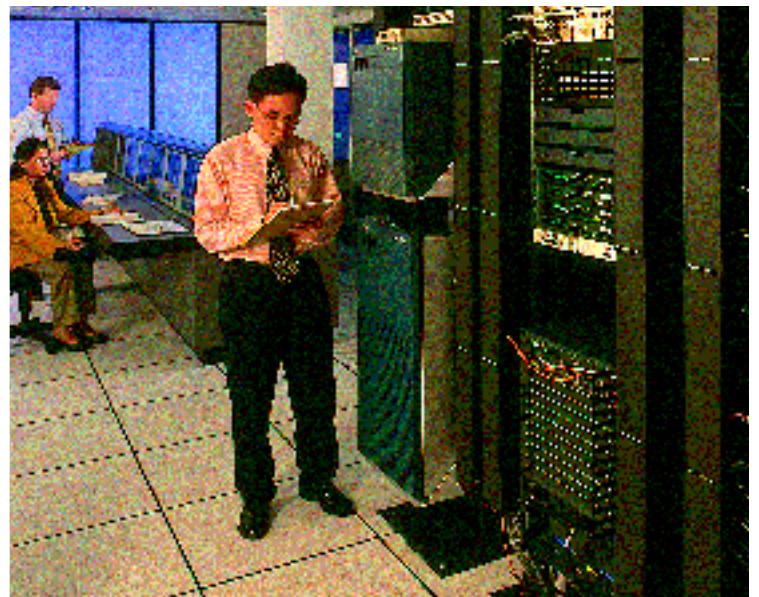
## Kirby Corporation Sets a New Standard for Domestic Marine Transportation

As of January 1, 1998, Kirby's inland tank barge companies began operating under a single name — Kirby Inland Marine. This final step completed the consolidation of Kirby's canal, linehaul and river fleets into a closely integrated, highly efficient entity. Kirby's 127 towboats and 519 barges, with 9.4 million barrels of capacity, will soon be recognized throughout the inland waterways under a single boat color scheme and a common flag. Kirby has been the largest operator of inland tank barges for several years and has the unique capability to transport cargo throughout America's inland waterway system without a change of carrier. Kirby towboats and barges service the entire Mississippi River System from New Orleans to the Midwest, including the Ohio and Illinois rivers and accessing cities like Chicago and Pittsburgh, plus the Gulf Intracoastal Waterway from Texas to Florida. Kirby is the supplier more likely to have a barge and towboat available nearest a customer's pickup point, and through its new centralized dispatching system, it can minimize repositioning and power costs. The completion of this consolidation allows Kirby to bring these operating efficiencies to market and better communicate those efficiencies to its customers.

### Kirby Inland Marine Centralized Operations

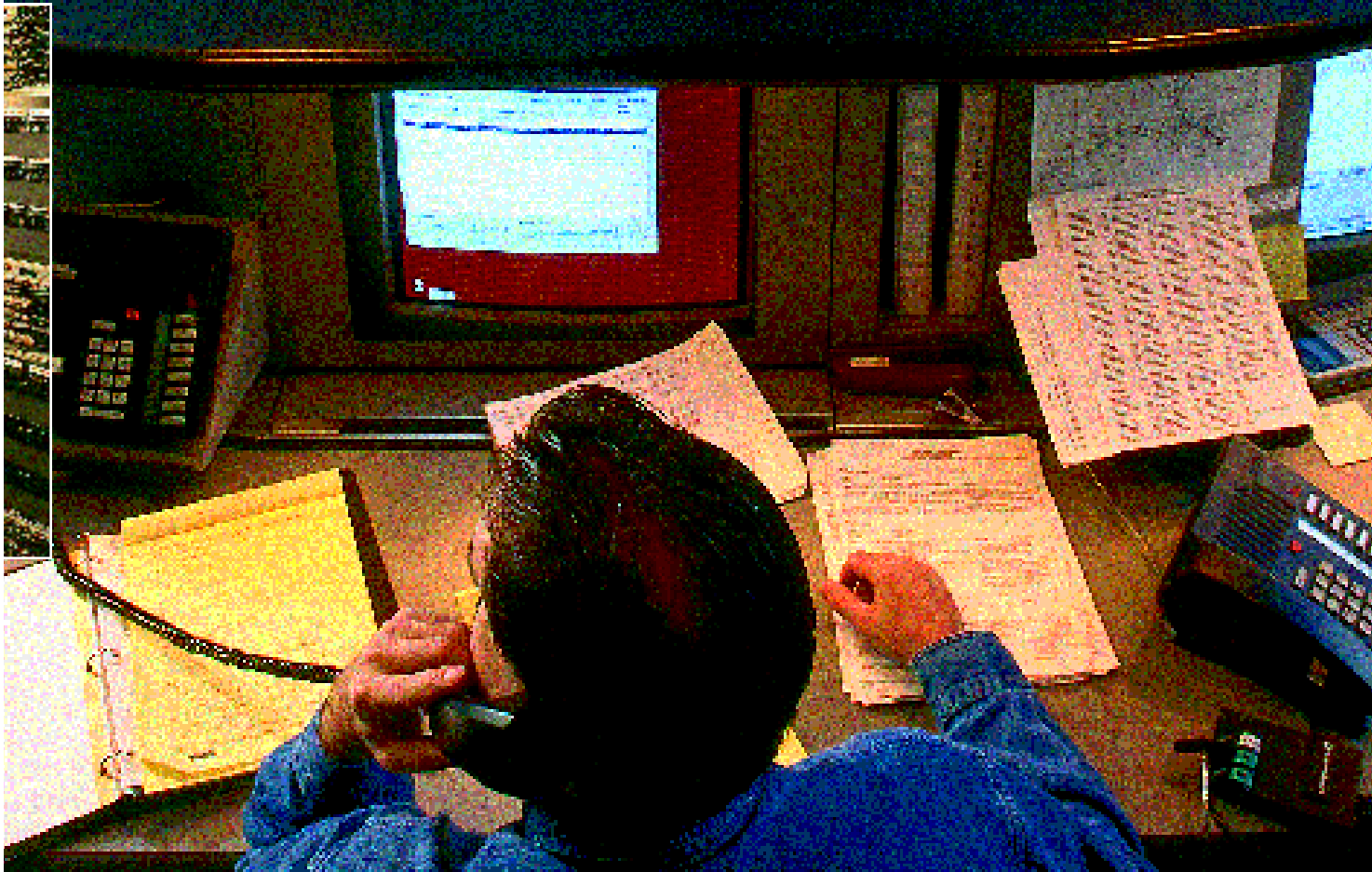
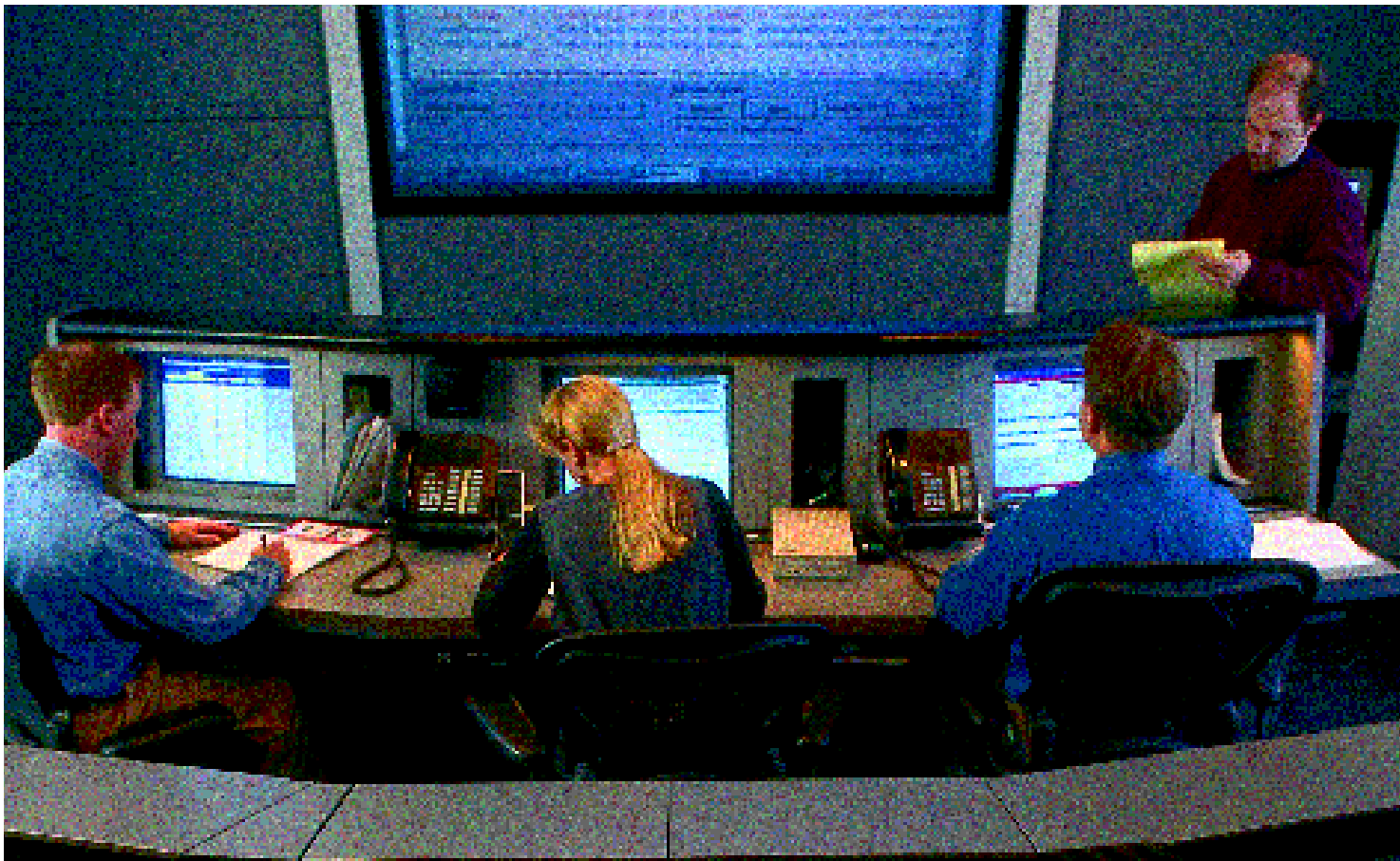
One of the key benefits of the consolidation of Kirby's inland tank barge operations under Kirby Inland Marine is greater efficiency in boat dispatching and load management. A centralized dispatching center at Kirby's headquarters in Houston, Texas, now oversees all Kirby Inland Marine operations. A large display screen in the command center can show the precise location of every Kirby towboat and barge operating on the inland waterways. Kirby dispatchers can cross-reference that information with customer load and delivery information, and provide detailed status reports to Kirby customers on their cargoes.

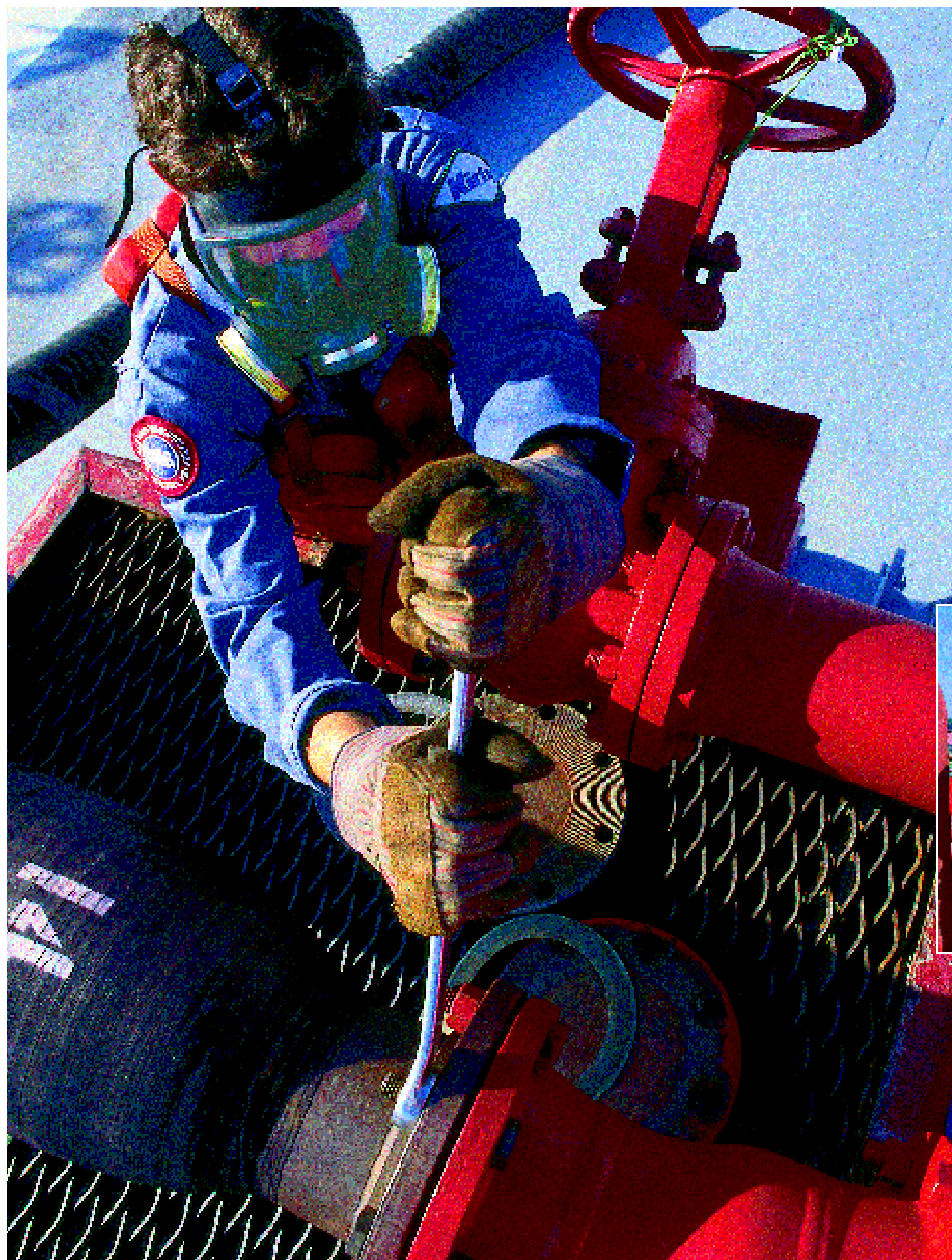
Centralized dispatching allows Kirby to precisely match customer requirements to available resources



*Kirby's computer system (above) and dispatching center (right) work hand in hand with customers, corporate personnel and vessel personnel. An electronic interface enables Kirby to efficiently match customer needs to barges and towboats, achieving maximum utilization of the fleet.*







drawn from Kirby's large pool of barges and towboats. Kirby can combine barges into tows that provide an optimal match of tonnage carried to horsepower provided. Kirby barges spend less time waiting to be towed and are able to make more trips per year. This efficient matching of resources to customer needs will both reduce customer costs and increase overall revenue per barge.

Kirby Inland Marine is well positioned to take advantage of future changes in the inland marine market. While demand for inland marine transportation continues to grow, capacity is declining. Traffic has increased from 187 million waterborne tons in 1986 to 210 million in 1995. In 1986, 3,650 tank barges were operating on the inland waterways, while today less than 2,900 tank barges remain in service. No significant independent construction is currently adding to that reduced capacity. The Kirby Inland Marine fleet of extensively equipped



*Kirby fully endorses the development and implementation of effective training programs. Centralized training is provided through Kirby's training facilities, which include state-of-the-art equipment, instructional aids, and a working towboat, tank barge and shore tank facility. During 1997, over 1,050 employees completed training courses at Kirby's Training Center.*

and well maintained tank barges and towboats should continue to prosper in this market.

### **Kirby Inland Marine Transportation**

Kirby Inland Marine provides tank barge transportation in all three inland river system configurations: canal unit tows, river unit tows and linehaul. Canal operations encompass the transportation of petrochemical feedstocks, processed chemicals and refined petroleum products along the Gulf Intracoastal Waterway, the Mississippi River below Baton Rouge, and in the Houston Ship Channel. Typical service includes the transport of petrochemical feedstocks between refineries and the delivery of processed chemicals and feedstocks to chemical plants and waterfront terminals. A canal tow consists of one to five barges, pushed by an 800 to 1900 horsepower towboat.

Kirby's river unit tows transport petrochemical feedstocks, processed chemicals, refined petroleum products and agricultural chemicals along the Mississippi, Illinois, Ohio and Arkansas rivers. A river unit tow typically includes four to eight barges, pushed by a 2000 to 5600 horsepower towboat. A river unit tow is a dedicated tow, with the same barges and towboat generally used for each trip.

Kirby's linehaul operation transports petrochemical feedstocks, processed chemicals, agricultural chemicals and lube oils along the Mississippi, Illinois and Ohio rivers as well as the Gulf Intracoastal Waterway. A linehaul canal tow usually comprises three to five barges with a 1400 to 1900 horsepower towboat. A linehaul river tow is much longer, consisting of 10 to 25 barges using a 3000 to 5600 horsepower towboat. A linehaul river tow functions similarly to a train, dropping off and picking up barges as it moves up and down the river. Typically, loaded barges containing products from Gulf Coast refineries and chemical plants are collected in the lower Mississippi River area around Baton Rouge and transported upriver to river-front terminals and plants on the Mississippi, Illinois and Ohio rivers.

A linehaul river tow leaves Baton Rouge every five to six days.

Kirby Inland Marine also operates the largest commercial barge fleet service in the ports of Houston, Galveston and Freeport. Kirby currently has three fleets operating in those ports to provide barge delivery and transfer services to customers, as well as supporting Kirby's normal fleet operations.

#### *Kirby Inland Marine Customer Service*

In 1998, Kirby will also begin offering cargo services to selected customers. These services will include captive and third party tankering services. Highly trained Kirby tankermen will be made available to verify customer load transfers.

As the largest and most efficient provider of inland marine tank barge transportation, Kirby has built an industry reputation for quality customer service. Kirby's personnel are among the most highly trained in the industry. All Kirby operations are ISO 9002 certified. One of the goals of consolidating Kirby's inland operations into Kirby Inland Marine was to provide the basis for further enhancement of customer services. Many of Kirby's customers have been customers for a long time. Because Kirby has built a base of experience with an understanding of their operations, it can use that knowledge to optimize the services provided.

This knowledge, combined with our new computerized central dispatching system, will allow Kirby to provide a new level of customer service to both long-term customers and new customers operating in similar industries. Kirby Inland Marine will have the ability to provide complete load management, both shoreside and vessel-side, for its customers. Kirby can provide to its customers regular reports with up-to-date information on the exact location of a load in transit. This information can be used to create the most



*Courses at the Kirby Training Center are designed to include both classroom and hands-on operational instruction, with the goal of enhancing the career development of our vessel employees.*

efficient combinations of load, horsepower and tightly scheduled pickups and drop-offs. The result will be to maximize delivery efficiency, while minimizing customer costs.

#### *Kirby Inland Marine Safety and Operational Training*

Kirby operates one of the most complete marine transportation training centers in the industry. All Kirby training courses are designed to meet Coast Guard, DOT and OSHA requirements. The Kirby Training Center, located near the Houston Ship Channel, combines state-of-the-art electronic training aids with a dedicated training towboat, the "Educator," to provide a thorough and complete training experience. Continuous training for all positions, from deckhand to tankerman to captain, is part of the regular training curriculum. Special classes address specific skill areas like radar observation, vapor recovery and HAZCOM.

The results of this emphasis on training are demonstrated by Kirby's outstanding safety record. The U.S. Coast Guard and the U.S. Department of Transportation have both recognized Kirby for its excellence in marine safety and environmental protection. Kirby considers quality training, with an emphasis on

safety and environmental protection, to be a natural part of its dedication to customer service, as well as its responsibility to the industry.

### Kirby Offshore Operations

Kirby's offshore operations, after the sale of the tankers, will include two offshore tank barge/tug units and one offshore dry-bulk barge/tug unit. The offshore tank barge/tug units primarily transport refined petroleum products in niche markets under term requirements. The offshore dry-bulk barge/tug unit can be used to transport products

such as coal, cement, limestone, sugar, grain, flour or fertilizer. These assets continue to operate under the name Dixie Carriers.

Kirby's offshore operations also include two partnership arrangements. Dixie Fuels Limited is a partnership with a Florida utility. Under a long-term contract, it transports coal from New Orleans to Florida, then back-hauls Florida limestone to an Alabama cement plant. This partnership operates four dry-bulk barge/tug units. Through a second partnership, Kirby operates a single dry-bulk barge/tug unit engaged in spot market trade.

## KIRBY MARINE TRANSPORTATION

<b>BALANCE SHEETS</b> (In thousands)			
December 31,		1996	1997
<b>Assets</b>			
Current assets		\$ 54,718	\$ 63,578
Property and equipment, at cost less depreciation		266,761	259,797
Other assets		20,232	22,403
Assets of discontinued operations		51,167	40,672
		<u>\$ 392,878</u>	<u>\$ 386,450</u>
<b>Liabilities and Stockholder's Equity</b>			
Current liabilities		\$ 43,398	\$ 39,091
Long-term debt, including debt allocated from parent		130,894	116,291
Long-term liabilities-other		5,781	5,104
Deferred income taxes		33,763	27,746
Stockholder's equity		179,042	198,218
		<u>\$ 392,878</u>	<u>\$ 386,450</u>
<b>STATEMENTS OF EARNINGS</b> (In thousands)			
For the years ended December 31,	1995	1996	1997
Revenues:			
Transportation	<u>\$ 267,687</u>	<u>\$ 249,594</u>	<u>\$ 256,108</u>
Costs and expenses:			
Cost of sales and operating expenses	167,202	151,914	158,542
Selling, general and administrative	27,666	26,646	25,607
Taxes, other than on income	8,572	7,044	7,497
Depreciation and amortization	29,006	25,818	24,920
	<u>232,446</u>	<u>211,422</u>	<u>216,566</u>
Operating income	35,241*	38,172	39,542
Equity in earnings of marine partnerships	2,638	3,912	3,084
Other income (expense)	237	2,136	(162)
Interest expense and allocated interest expense	(10,471)	(9,467)	(9,172)
Earnings from continuing operations before taxes on income	<u>\$ 27,645*</u>	<u>\$ 34,753</u>	<u>\$ 33,292</u>
The financial statements are presented net of certain intercompany transactions and include allocated parent company debt and interest expense and, as such, do not represent the financial statements of the marine transportation operations on a separate basis.			
*Operating income and earnings from continuing operations before taxes on income are presented excluding the effect of a \$16.8 million write-down recorded by the Company in conjunction with the adoption of SFAS 121.			



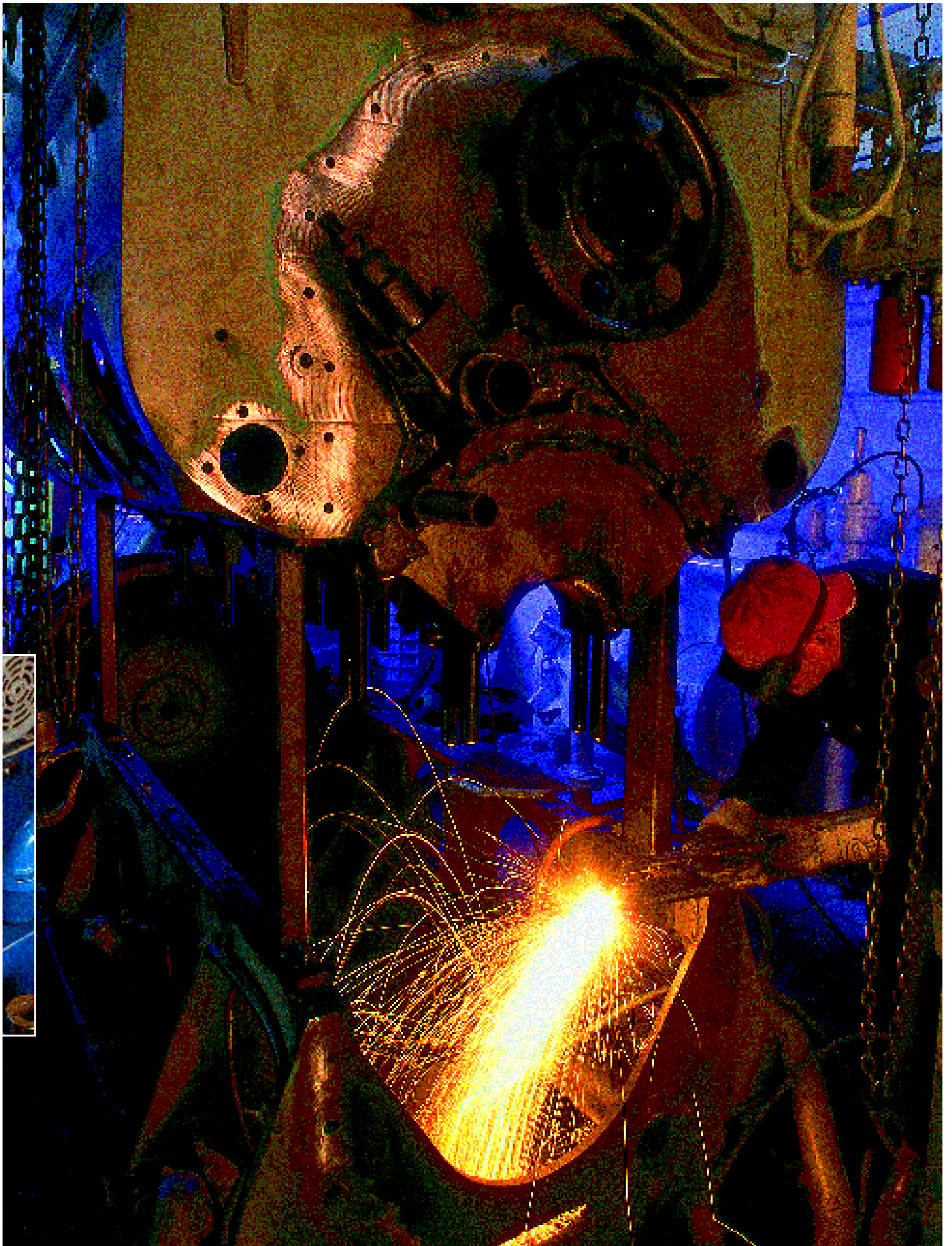
## Kirby Corporation Sets the Standard for Diesel Engine Support Services

The Kirby Diesel Repair Division provides service, replacement parts and engine rebuilding for large, medium-speed diesel engines, primarily General Motors Electro-Motive Division (EMD) diesel engines. These diesel engines are essential to the daily operations of inland marine fleets, offshore tugs, oilfield service vessels, commercial fishing vessels, shortline and industrial railroads, the power generation industry and the military. Large diesel engines represent significant capital expenditures for their operators and have a long operating life. Quality service and support for this equipment is a critical factor in all of these industries, but particularly for the marine and railroad industries. The Kirby Diesel Repair Division's nationwide presence and reputation for quality have resulted in a steadily increasing share of the diesel engine support market. Today, Kirby has the largest service area of any diesel repair company, encompassing the United States, Alaska and parts of the Caribbean and Pacific Rim. Kirby currently operates eight service centers, employing over 100 mechanics and service technicians.

Kirby provides support for the entire domestic marine industry as well as various other industries that rely on large, medium-speed diesel engines through its non-exclusive service centers. The Kirby Diesel Repair Division is also the authorized distributor for EMD diesel engines, parts and service in 17 Eastern states and portions of the Caribbean. The Diesel Repair Division's role as an EMD distributor was the natural result of Kirby's 30-year relationship with General Motors Electro-Motive Division. As an EMD distributor, Kirby sells genuine EMD replacement parts, provides trained mechanics to overhaul and repair EMD diesel engines, and operates facilities to rebuild component parts or entire engines. As a complement to its EMD products, Kirby's Diesel Repair Division also serves as a distributor for Woodward's engine control systems and Falk's marine reduction gears.



*In-house (above) and on-site (right) diesel repair technicians offer genuine manufacturer's parts, rebuilt parts and repair services to meet customer requirements.*





1997 was a good year for the diesel repair industry as the strong economy kept these engines in consistent use in many market sectors. Particularly strong activity in the offshore well service industry, combined with steady growth in other market areas, drove the demand for diesel repair services.

Because of the importance of large diesel engines in the marine industry, the Kirby Diesel Repair Division is positioned as an excellent complement to Kirby Inland Marine. Since Kirby's diesel repair operation is primarily a service business, it requires smaller capital commitments than Kirby's marine operations. Profitability in the diesel repair market depends on the

maintenance of good margins on parts and labor. Kirby has successfully employed several strategies to improve those margins. Kirby's national presence and reputation for quality help reduce pricing pressure in key situations. Kirby's steady growth also allows fixed costs for facilities, inventories and administration to be distributed over a larger base. By consistently emphasizing service over parts sales, Kirby has established a reputation and market presence place Kirby's Diesel Repair Division in an excellent position for continued growth and profitability in 1998.

#### KIRBY DIESEL REPAIR

##### *BALANCE SHEETS* (In thousands)

December 31,	1996	1997
<b>Assets</b>		
Current assets	\$ 39,640	\$ 39,333
Property and equipment, at cost less depreciation	2,588	2,441
Other assets	5,784	5,516
	<u>\$ 48,012</u>	<u>\$ 47,290</u>
<b>Liabilities and Stockholder's Equity</b>		
Current liabilities	\$ 15,554	\$ 12,760
Long-term debt allocated from parent	9,572	13,717
Long-term liabilities-other	333	470
Stockholder's equity	22,553	20,343
	<u>\$ 48,012</u>	<u>\$ 47,290</u>

##### *STATEMENTS OF EARNINGS* (In thousands)

For the years ended December 31,	1995	1996	1997
<b>Revenues:</b>			
Diesel repair and parts sales	\$ 50,538	\$ 70,422	\$ 79,136
<b>Costs and expenses:</b>			
Cost of sales and operating expenses	39,881	54,092	59,074
Selling, general and administrative	6,373	9,908	12,659
Taxes, other than on income	131	163	234
Depreciation and amortization	753	883	980
	<u>47,138</u>	<u>65,046</u>	<u>72,947</u>
Operating income	3,400	5,376	6,189
Other income	104	87	9
Interest expense and allocated interest expense	(226)	(424)	(1,078)
Earnings before taxes on income	<u>\$ 3,278</u>	<u>\$ 5,039</u>	<u>\$ 5,120</u>

The financial statements are presented net of certain intercompany transactions and include allocated parent company debt and interest expense and, as such, do not represent the financial statements of the diesel repair operations on a separate basis.



## OPERATING LOCATIONS

### KIRBY CORPORATION

1775 St. James Place, Suite 200  
P. O. Box 1745  
Houston, Texas 77251-1745  
713/435-1000  
Facsimile: 713/435-1010

### KIRBY INLAND

#### Kirby Inland Marine

1775 St. James Place, Suite 300  
P. O. Box 1537  
Houston, Texas 77251-1537  
713/435-1000  
Facsimile: 713/435-1453

7747 Tom Drive  
Baton Rouge, Louisiana 70806  
504/926-4711  
Facsimile: 504/927-4917

716 Highway 1 North  
P. O. Box 5758  
Greenville, Mississippi 38704  
601/378-9100  
Facsimile: 601/335-2903

#### Western Towing Company

18350 Market Street  
Channelview, Texas 77530  
713/435-1800  
Facsimile: 713/435-1818

### KIRBY OFFSHORE

#### Dixie Carriers, Inc. Dixie Fuels Limited Dixie Fuels II, Limited

1775 St. James Place, Suite 200  
P. O. Box 1537  
Houston, Texas 77251-1537  
713/435-1000  
Facsimile: 713/435-1149

333 W. P. A. Road  
Belle Chasse, Louisiana 70037  
504/392-7800  
Facsimile: 504/391-2295

### KIRBY DIESEL REPAIR

#### Engine Systems, Inc.

1220 Washington Street  
P. O. Box 1928  
Rocky Mount, North Carolina 27804  
919/977-2720  
Facsimile: 919/446-3830

2032 Atlantic Avenue  
Chesapeake, Virginia 23324  
757/543-3000  
Facsimile: 757/543-1595

11801 N.W. 100th Road  
Suite 11  
Medley, Florida 33178  
305/885-5575  
Facsimile: 305/885-6422

850 S. Marietta Ave.  
Suite 200  
South Bend, Indiana 46601  
219/233-9477  
Facsimile: 219/233-9565

#### Marine Systems, Inc.

**Gulf Coast:**  
116 Capital Boulevard  
Houma, Louisiana 70360  
504/851-4990  
Facsimile: 504/872-5284

**Midwest:**  
3880 Industrial Drive  
Paducah, Kentucky 42001  
502/443-8900  
Facsimile: 502/443-8902

**West Coast:**  
950 N. W. Leary Way  
Seattle, Washington 98107  
206/784-3302  
Facsimile: 206/784-3358

#### Rail Systems, Inc.

Airpark Business Center V  
505 Airpark Center Drive  
Nashville, Tennessee 37217  
615/360-9400  
Facsimile: 615/360-9464





## PRINCIPAL OPERATING OFFICERS

### KIRBY CORPORATION

George A. Peterkin, Jr.,  
*Chairman of the  
Board of Directors*

J. H. Pyne,  
*President and  
Chief Executive Officer*

Brian K. Harrington,  
*Senior Vice President, Treasurer and Chief Financial Officer*

G. Stephen Holcomb,  
*Vice President and Controller*

Thomas G. Adler,  
*Secretary*

### Kirby Marine Transportation Corporation

J. H. Pyne,  
*President*

Brian K. Harrington,  
*Vice President*

Ronald C. Dansby,  
*President –  
Inland Division*

Dorman L. Strahan,  
*President –  
Diesel Repair Division*

Mark R. Buese,  
*Vice President –  
Administration*

Jack M. Sims,  
*Vice President –  
Human Resources*

William P. Wilson,  
*Vice President –  
Accounting*

### Kirby Inland

Ronald C. Dansby,  
*President*

**Kirby Inland Marine**  
William G. Ivey,  
*Executive Vice President*

Mel R. Jodeit,  
*Vice President and  
General Manager*

Scott E. Mickey,  
*Vice President and  
General Manager*

William D. Oliver,  
*Vice President and  
General Manager – Maintenance*

David L. Shaw,  
*Vice President and  
General Manager – Operations*

Carl R. Whitlatch,  
*Vice President and Controller*

### Western Towing Company

John W. Sansing, Jr.,  
*Vice President and  
General Manager*

### Kirby Offshore

J. H. Pyne,  
*President*

**Dixie Carriers, Inc.**  
Kenneth C. Bush,  
*Executive Vice President*

Thomas J. Johnson,  
*Vice President – Marketing*

### Kirby Diesel Repair

Dorman L. Strahan,  
*President*

John A. Manno,  
*Vice President –  
Marketing and Business Development*

**Engine Systems, Inc.**  
P. Scott Mangan,  
*Vice President and  
General Manager*

Thomas W. Horner,  
*General Manager –  
Nuclear Business and  
Power Control Services*

**Marine Systems, Inc.**  
Lynn A. Ahlemeyer,  
*Vice President and  
General Manager*

**Rail Systems, Inc.**  
L. Michael Clavio,  
*General Manager*

*The new Kirby Inland Marine Operations and Training Center nears completion at its location on the San Jacinto River east of Houston. Kirby Inland Marine operations management, administrative and instructional personnel for the Kirby training curriculum, and Western Towing personnel will relocate to this building in April 1998. Barges from Western Towing's fleet operations appear in the foreground.*

## D I R E C T O R S



**George F. Clements, Jr.**, 72, is an independent oil and gas producer and private investor. He has served as a Director since 1985, chairs the Audit Committee and serves on the Compensation Committee.



**C. Sean Day**, 48, is President and Chief Executive Officer of Navios Corporation, a company engaged in the operation of foreign flag bulk vessels trading worldwide. He has served as a Director since January 1996 and serves on the Audit Committee and Strategic Planning Committee.



**Bob G. Gower**, 60, is Chairman and Chief Executive Officer of Specified Fuels & Chemicals, a custom processor of specialty chemicals and manufacturer of reference fuels. From 1988 to 1997 he served first as President and then as Chairman of Lyondell Petrochemical Company. He was elected a Director in January 1998 and serves on the Audit Committee.



**William M. Lamont, Jr.**, 49, is a private investor. He has served as a Director since 1979 and chairs the Compensation Committee. He also serves on the Executive Committee and Committee on Directors and Board Governance.



**George A. Peterkin, Jr.**, 70, is Chairman of the Board of Kirby. He has served as a Director since 1973, as President from 1973 to 1995 and serves on the Executive Committee, Committee on Directors and Board Governance and Strategic Planning Committee. He also served as President of Kirby's predecessor company, Kirby Industries, Inc., from 1973 to 1976 and as a Director of Industries from 1969 to 1976.



**J. H. Pyne**, 50, is President and Chief Executive Officer of Kirby. He has served as a Director since 1988, as Executive Vice President from 1992 to 1995 and as President of Kirby Inland Marine, Inc. since 1984. He also serves on the Executive Committee, Committee on Directors and Board Governance and Strategic Planning Committee.



**Robert G. Stone, Jr.**, 74, is a private investor. He has served as Chairman Emeritus since 1995 and served as Chairman of the Board from 1983 to 1995. He chairs the Committee on Directors and Board Governance and serves on the Compensation Committee, Executive Committee and Strategic Planning Committee. He is also a director of Core Industries Inc., NovaCare, Inc., Russell Reynolds Associates, Inc. and Tejas Gas Corporation.



**Thomas M. Taylor**, 55, is President of Thomas M. Taylor & Co. He has served as a Director since January 1996 and serves on the Compensation Committee, Committee on Directors and Board Governance and Strategic Planning Committee. He is also a director of Encal Energy Ltd., La Quinta Inns, Inc., MacMillan Bloedel Limited, Moore Corporation Limited and John Wiley & Sons, Inc.



**J. Virgil Waggoner**, 70, is a private investor. He served as President and Chief Executive Officer of Sterling Chemicals, Inc. from 1986 to 1996. He has served as a Director since 1993 and serves on the Audit Committee and Compensation Committee. He is also a director of Sterling Chemicals, Inc. and Gulfwest Oil Company.



Advisory Director

**Henry Gilchrist**, 73, is an attorney and senior shareholder in the law firm of Jenkins & Gilchrist, a Professional Corporation. He was elected by the Board in 1987 to serve as an Advisory Director. He served as a Director from 1976 to 1987 and as Secretary and General Counsel from 1976 to 1997.