

# Kirby Corporation

*2004 Annual Report*



# 2004 Quarterly Review

(In thousands, except per share amounts) (Unaudited)

## First Quarter

	2004	2003	Change
Revenues	\$157,315	\$148,200	6%
Net earnings	\$ 9,020	\$ 6,868	31%
Earnings per share	\$ .36	\$ .28	29%
EBITDA	\$ 31,720	\$ 26,763	19%

- Petrochemical market stronger, as U.S. and global economies improved
- Black oil and refined products Midwest markets strong
- Agricultural chemical market weak
- Results negatively impacted by navigational delays caused by winter weather conditions

## Second Quarter

	2004	2003	Change
Revenues	\$170,876	\$158,739	8%
Net earnings	\$ 13,778	\$ 11,789	17%
Earnings per share	\$ .55	\$ .48	15%
EBITDA	\$ 39,103	\$ 35,776	9%

- Petrochemical and black oil products markets continued to strengthen
- Refined products Midwest market at normal seasonal level
- Agricultural chemical market remained weak

## Third Quarter

	2004	2003	Change
Revenues	\$173,389	\$154,507	12%
Net earnings	\$ 13,250	\$ 11,211	18%
Earnings per share	\$ .53	\$ .46	15%
EBITDA	\$ 38,730	\$ 35,212	10%

- Petrochemical and black oil products markets continued strong
- Refined products Midwest market reflected typical summer demand
- Agricultural chemical market remained weak
- Results negatively impacted by Hurricane Ivan, higher fuel prices, closure for repair of a major Ohio River lock and sale of a 50% owned liquid products terminal

## Fourth Quarter

	2004	2003	Change
Revenues	\$173,739	\$152,028	14%
Net earnings	\$ 13,496	\$ 11,050	22%
Earnings per share	\$ .53	\$ .45	18%
EBITDA	\$ 38,739	\$ 36,202	7%

- Petrochemical and black oil products markets continued strong
- Refined products Midwest market at normal seasonal level
- Agricultural chemical market improved due to low Midwest inventory levels
- Results negatively impacted by navigational delays caused by winter weather conditions

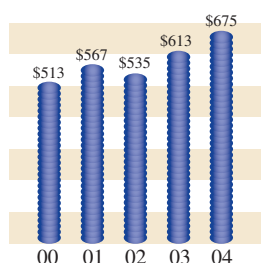
Statements made in this Annual Report with respect to the future are forward-looking statements. These statements reflect Management's reasonable judgment with respect to future events. Forward-looking statements involve risks and uncertainties. Actual results could differ materially from those anticipated as a result of various factors. A list of these factors can be found in Kirby's Annual Report on Form 10-K for the year ended December 31, 2004, included in this Annual Report and filed with the Securities and Exchange Commission.

**Cover:** The *M/V Riverside*, a Kirby Inland Marine 1350 horsepower towboat, operates on the Gulf Intracoastal Waterway pushing two loaded double hull, 30,000 barrel capacity, inland tank barges.

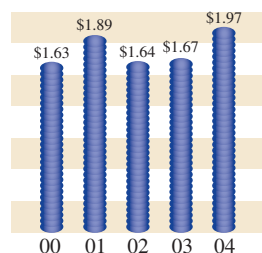
## Financial Highlights:

	For the years ended December 31,				
(In thousands, except per share amounts)	2004	2003	2002	2001	2000
Revenues:					
Marine transportation	\$ 588,828	\$ 530,411	\$ 450,280	\$ 481,283	\$ 443,203
Diesel engine services	86,491	83,063	85,123	85,601	69,441
	<u>\$ 675,319</u>	<u>\$ 613,474</u>	<u>\$ 535,403</u>	<u>\$ 566,884</u>	<u>\$ 512,644</u>
Net earnings	<u>\$ 49,544</u>	<u>\$ 40,918</u>	<u>\$ 27,446</u>	<u>\$ 39,603</u>	<u>\$ 34,113</u>
Net earnings per share (diluted)	<u>\$ 1.97</u>	<u>\$ 1.67</u>	<u>\$ 1.13</u>	<u>\$ 1.63</u>	<u>\$ 1.39</u>
Weighted average shares outstanding (diluted)	<u>25,157</u>	<u>24,506</u>	<u>24,394</u>	<u>24,270</u>	<u>24,566</u>
Earnings before interest, taxes, depreciation and amortization (EBITDA):*					
Net earnings	\$ 49,544	\$ 40,918	\$ 27,446	\$ 39,603	\$ 34,113
Interest expense	13,263	14,628	13,540	19,038	23,917
Provision for taxes on income	30,365	25,079	18,047	27,523	23,699
Depreciation and amortization	55,120	53,328	45,507	50,244	48,204
EBITDA	<u>\$ 148,292</u>	<u>\$ 133,953</u>	<u>\$ 104,540</u>	<u>\$ 136,408</u>	<u>\$ 129,933</u>
Property and equipment, net	\$ 574,211	\$ 536,512	\$ 486,852	\$ 466,239	\$ 453,807
Total assets	\$ 904,675	\$ 854,961	\$ 791,758	\$ 752,435	\$ 746,541
Long-term debt, including current portion	\$ 218,740	\$ 255,265	\$ 266,001	\$ 249,737	\$ 293,372
Stockholders' equity	\$ 435,235	\$ 372,132	\$ 323,311	\$ 301,022	\$ 262,649

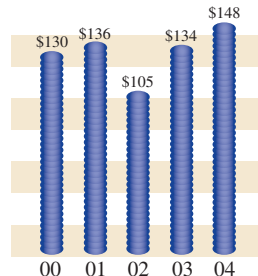
**Revenues**  
(In millions)



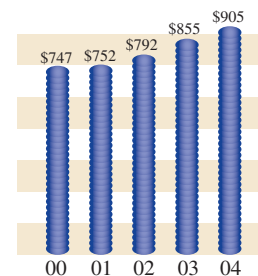
**Earnings Per Share After Adjustments\*\***



**EBITDA\***  
(In millions)



**Assets**  
(In millions)



### Net earnings and earnings per share after adjustments\*\*

	For the years ended December 31,				
(In thousands, except per share amounts)	2004	2003	2002	2001	2000
Net earnings	\$ 49,544	\$ 40,918	\$ 27,446	\$ 39,603	\$ 34,113
Adjustments, net of taxes:					
Impairment of assets	—	—	12,498	—	—
Amortization of goodwill expense	—	—	—	6,253	5,844
Merger related charges	—	—	—	—	130
Net earnings after adjustments	<u>\$ 49,544</u>	<u>\$ 40,918</u>	<u>\$ 39,944</u>	<u>\$ 45,856</u>	<u>\$ 40,087</u>
Net earnings per share (diluted)	<u>\$ 1.97</u>	<u>\$ 1.67</u>	<u>\$ 1.13</u>	<u>\$ 1.63</u>	<u>\$ 1.39</u>
Adjustments, net of taxes	<u>—</u>	<u>—</u>	<u>.51</u>	<u>.26</u>	<u>.24</u>
Net earnings per share after adjustments (diluted)	<u>\$ 1.97</u>	<u>\$ 1.67</u>	<u>\$ 1.64</u>	<u>\$ 1.89</u>	<u>\$ 1.63</u>

\* EBITDA, defined as net earnings before interest expense, taxes on income, depreciation and amortization, is a non-GAAP financial measure used by Kirby because of its wide acceptance as a measure of operating profitability before nonoperating expenses (interest and taxes) and noncash charges (depreciation and amortization).

\*\* Net earnings and earnings per share after adjustments are non-GAAP financial measures used by Kirby that exclude non-recurring adjustments in order to present a measure of net earnings that facilitates a comparison of results from one period to results from another period on a more consistent basis, since the non-recurring items are materially different in nature and amount from one period to another. The adjustments generally represent items that are outside normal business operations and are therefore difficult to predict for future periods.

## To Our Shareholders

The 2004 year was a record year for Kirby Corporation. Revenues, net earnings, earnings per share and EBITDA were all at their highest levels in Kirby's history. This performance was reflected in the price of Kirby stock, which ended the year at \$44.38 per share, up 27% over the year-end 2003 closing price of \$34.88 per share.

Our 2004 record results were attributable to several factors: hard work by our employees, safe operations, cost control and improved economic conditions. Improved U.S. and global economic conditions allowed our petrochemical customers to operate their plants at high utilization rates, generating strong volumes for our marine transportation segment. Higher refinery utilization rates and high natural gas prices created additional opportunities for the transportation of heavy refinery residual oil by-products such as vacuum gas oil and No. 6 oil, which is used by industrial customers as an alternative to natural gas.

Our ongoing effort to eliminate unnecessary costs included improved management of our fleet, managing horsepower and fleet efficiency, and better management of our diesel engine services inventory, all contributing to our improved margins in 2004. This was achieved through the dedication of both our afloat and shoreside employees and our management team's focus on running Kirby more efficiently. Our employees are the foundation upon which Kirby has grown from a small marine transportation company with 71 tank barges in 1988 to the largest tank barge operator in the U.S. today with 885 tank barges. We want to express our thanks to them for working hard for Kirby's shareholders.

For 2004, we recorded significant gains in revenue, earnings, earnings per share and EBITDA when compared with 2003. Revenues increased 10% to \$675.3 million compared with 2003 revenues of

\$613.5 million. Net earnings for 2004 were \$49.5 million, a 21% increase over 2003 net earnings of \$40.9 million. Earnings per share for 2004 were \$1.97, up 18% compared with \$1.67 per share for 2003. EBITDA for 2004 was up 11% to \$148.3 million compared with \$134.0 million for 2003.

Kirby's cash generation continued at a strong level during 2004 with net cash provided from operations at \$126.8 million, an increase of \$14.5 million over 2003.

The cash was used for three primary purposes: acquisitions, fleet replacement and enhancements, and debt reduction. In April 2004, Kirby purchased the diesel engine services operation of Walker Paducah Corp. for \$5.8 million in cash, expanding our Midwest diesel market. Also in April 2004, we purchased a one-third interest in Osprey Line, LLC, an operator of a barge feeder service for cargo containers, for \$4.2 million. Capital expenditures for 2004 totaled \$93.6 million, consisting of \$43.6 million for new tank barges and \$50.0 million primarily for upgrading our existing marine transportation fleet. We also reduced our debt levels from \$255.3 million at December 31, 2003, to \$218.7 million at December 31, 2004, a reduction of \$36.6 million. As a result, our debt-to-capitalization ratio at December 31, 2004 was 33.4%, down from 40.7% at December 31, 2003. This is Kirby's lowest debt-to-capitalization ratio in recent years.

Fleet utilization levels allowed Kirby to begin to raise transportation rates. With the improved petrochemical and black oil volumes throughout 2004, we were able to pass through to our contract customers rate increases on average of 3% to 4%. Depending on when the contract was priced to market, some contracts were increased by a higher percentage, while others were adjusted by a lower percentage. Spot market pricing

# 21%

Net earnings were up  
21% in 2004, making it  
our best year ever.



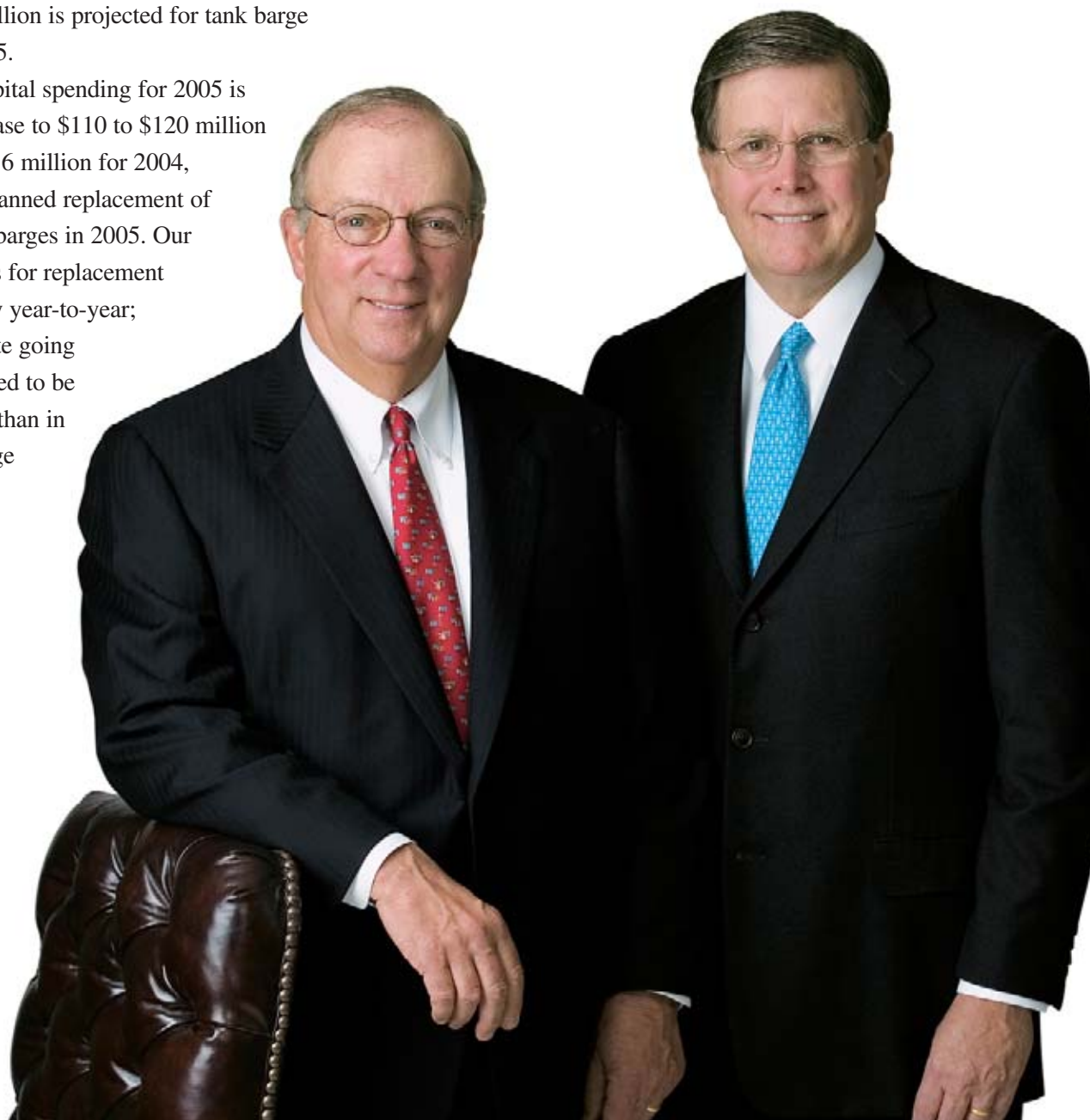
during 2004 increased in the 15% to 20% range. The 2004 year marks the first year since 2000 that we have been able to pass through to our customers the cost increases we have incurred, thereby improving our operating margin. We reversed the erosion in our operating margin that began in 2001.

One of the key issues in the marine segment is ensuring that we have the capacity to meet demand in the coming years. To this end, in 2001, Kirby embarked on a strategic plan of replacing older tank barges and capacity with new tank barges. During 2004, \$43.6 million was spent on new tank barge construction and another \$65 million is projected for tank barge construction in 2005.

Our projected capital spending for 2005 is anticipated to increase to \$110 to \$120 million compared with \$93.6 million for 2004, higher due to the planned replacement of a larger number of barges in 2005. Our capital expenditures for replacement equipment will vary year-to-year; however, the run rate going forward is anticipated to be substantially lower than in 2005. Our tank barge

construction program for 2005 is discussed in more detail under Tank Barge Construction Program on page 8.

As previously noted, in April 2004, Kirby acquired a one-third interest in Osprey Line, an operator of a barge feeder service for cargo containers on the U.S. inland waterways and coastal service along the Gulf of Mexico. We believe that increased demand by containers on truck and rail modes of transportation will cause increased congestion over the next few years and lead



Berdon Lawrence,  
*Chairman of the Board*

Joe Pyne,  
*President and  
Chief Executive Officer*

to the enhancement of container transport on the inland waterways as a preferred alternative. We are of the opinion that this business will develop into a key component of the U.S. transportation system over the next 5–10 years, as it is in Europe today. The Osprey Line market is very complementary with Kirby's existing marine transportation markets.

Our diesel engine services segment reported record revenue and improved operating income over 2003. These results were positively impacted by the April 2004 purchase of Walker, a Midwest marine diesel engine services operation. The nuclear power generation and railroad markets were strong, particularly during the second half of 2004. The East and West Coast marine markets and Gulf Coast offshore well service market were relatively weak during 2004.

Kirby is fortunate to have a strong and experienced Executive Management team providing leadership for both the marine transportation and diesel engine services segments. The drive, dedication and determination of Steve Valerius, Jim Farley and Bill Ivey on the marine transportation side and Lynn Strahan and Walter Berry on the diesel engine services side were exhibited in our 2004 record results. Additional detail on these senior executives is found in their respective sections of this annual report.

The Sarbanes-Oxley Act of 2002 is a reality for SEC registrants these days. We are pleased to report that Kirby received a clean opinion with no material weaknesses in the required assessment of the effectiveness of its internal controls as required by Section 404 of the Act. This was the result of having good processes in place prior to Sarbanes-Oxley passage and hard work by Kirby employees in fine-tuning these processes to be consistent with the requirements.

In last year's letter to shareholders, we stated that "We remain cautiously optimistic about an improved 2004 market for both our marine transportation and diesel engine services." We also noted that Kirby was

"poised to take advantage of an economic recovery." This preparation and cautious optimism were rewarded during 2004 with record financial results.

While there are challenges for 2005 in regard to high and volatile feedstock and energy prices, our core petrochemical customers generally expect that 2005 will be even better than 2004. Overall, our marine transportation customer base is healthier than it has been for several years. Additionally, we anticipate a stronger diesel engine services market in 2005. We enter 2005 with a great deal of momentum for a continuation of our record results, improving our operating margins and continuing to generate outstanding operating cash flow.

Our Executive Management team joins us in recognizing and thanking all of our employees for making Kirby the company it is today. It is because of our dedicated vessel and shoreside employees, our mechanics, machinists and engineers, and our office staff that we have been able to capitalize on opportunities that will result in improved financial performance for Kirby and enhanced value for our shareholders.

We are also grateful for the guidance and dedication of our Board of Directors.

Respectfully submitted,



C. Berdon Lawrence  
Chairman of the Board



Joseph H. Pyne  
President and Chief Executive Officer

Houston, Texas  
March 4, 2005

# Kirby at a Glance

## Kirby Inland Marine

### Services Offered

Kirby Inland Marine is the largest transporter of bulk liquid products on the Mississippi River System and the Gulf Intracoastal Waterway, providing transportation that is essential to hundreds of industries. Kirby's tank barge fleet represents approximately 33% of the U.S. inland tank barge capacity, transporting petrochemicals, black oil products, refined petroleum products and agricultural chemicals.

Kirby's fleet consists of 885 inland tank barges, with a liquid cargo capacity of 16.4 million barrels, and 235 inland towboats.

Approximately 70% of Kirby Inland Marine's 2004 revenues were delivered from term contracts and 30% from spot market movements.

Tank Barge Fleet (Active)		Towboat Fleet (Active)	
Petrochemical/Refined products	701	Less than 800 hp	1
Pressure	63	800–1300 hp	122
Black oil	105	1400–1900 hp	81
Anhydrous ammonia	13	2000–2400 hp	4
Specialty	3	2500–3200 hp	14
Total	885	3300–4900 hp	10
		5200 hp and greater	3
Total Barrel Capacity	16.4 MM	Total	235

### Markets

**Petrochemicals:** Represented 68% of 2004 marine transportation revenue. The market historically tracks the general domestic economy, and is driven by the sale of durable and non-durable consumer goods, housing and automobiles.

**Black Oil Products:** Represented 18% of 2004 marine transportation revenue. The market is driven by the demand for refinery feedstocks, fuel for electrical generation and ships, and road construction.

**Refined Petroleum Products:** Represented 10% of 2004 marine transportation revenue. The market is driven by automobile usage, air travel and weather conditions that lead to increased use of No. 2 oil for heating.

**Agricultural Chemicals:** Represented 4% of 2004 marine transportation revenue. The market is driven by the need for anhydrous ammonia and nitrogen-based fertilizer used in corn, cotton and wheat production, and for use as a chemical feedstock.

## Diesel Engine Services

### Services Offered

Kirby Engine Systems provides in-house and in-field servicing and rebuilding of large medium-speed and high-speed diesel engines and reduction gears. Through its subsidiaries, Marine Systems, Inc., Engine Systems, Inc. and Rail Systems, Inc., Kirby provides a service essential to the day-to-day operation of engines used in marine, power generation and railroad applications.

Kirby provides in-house service through eight U.S. locations as well as worldwide in-field service. In addition, Kirby sells OEM (Original Equipment Manufacturers) replacement parts, as well as refurbished or rebuilt parts.

Kirby has long-term distributorship and service center relationships with the manufacturers of large medium-speed diesel engines and reduction gears, including a 39-year relationship with the Electro-Motive Division of General Motors. Kirby's Midwest operation was approved as an authorized parts and service provider in its trade area for Caterpillar, Cummins and Detroit Diesel high-speed diesel engines.

Service Locations	Distributorships
Houma, LA (2 locations)	Electro-Motive Division of General Motors
Rocky Mount, NC	ALCO
Chesapeake, VA	Cooper-Energy Services
Paducah, KY	Falk Corporation
Seattle, WA	Ingersoll-Rand
Medley, FL	Woodward Governor
Tampa, FL	Oil States Industries

### Markets

**Marine:** Represented 59% of 2004 diesel engine services revenue. Market consists of engines on inland and offshore towing vessels, harbor tugboats, offshore oil service vessels, oil and gas drilling rigs, commercial fishing fleets, dredging vessels, commercial ferries and U.S. Government vessels.

**Power Generation:** Represented 20% of 2004 diesel engine services revenue. Market consists of engines used for standby power generation and other industrial uses.

**Railroad:** Represented 21% of 2004 diesel engine services revenue. Market consists of engine and non-engine locomotive components for shortline, industrial, Class II and certain transit railroads.



## Kirby Inland Marine—Providing the customer safe, dependable and cost-effective transportation of bulk liquid products

Each day, 365 days a year, 24 hours a day, Kirby Inland Marine's fleet of 885 inland tank barges and 235 tow-boats transports bulk liquid products on the Mississippi River System, including the Mississippi, Ohio and Illinois Rivers, and along the Gulf Intracoastal Waterway, from Brownsville, Texas, to St. Marks, Florida.

Each day hundreds of product transfers are performed for customers, loading and discharging a wide variety of bulk liquid cargoes. These customer transfers are completed using the latest in barge equipment technology by some of the most experienced and skilled vessel personnel in the industry. Kirby Inland Marine's goals for each transfer are simple: meet or exceed the customer's requirements for each transfer; establish and maintain a culture of responsiveness to customer communications; and complete the job safely, with no injuries and no spills.

Kirby Management believes in doing the job right and being responsive to the needs of its customers. The mission is to be the best in the industry. Kirby Inland Marine not only is the leading inland tank barge company in the United States in terms of fleet size, but more importantly is the value leader in providing safe, efficient and consistent levels of service.

### [A Record Year for Safety and Financial Performance](#)

The 2004 year was a record year for Kirby Inland Marine in the two measurements that matter the most, safety and financial performance.

On the safety side, records were set for safety performance with a decided improvement over 2003 in critical safety statistics such as injuries and spills. On the financial side, Kirby Inland Marine reported record revenue of \$588.8 million and record operating





income of \$92.5 million. The financial results are more fully described under 2004 Results of Operations on page 9.

Kirby Inland Marine's commitment to safety is summarized in one statement, "Safety is our franchise to operate." As a company, Kirby lives and breathes safety, and year after year, safety is the number one goal. On June 10, 2004, 144 Kirby towboats were recognized for their safety accomplishments by being presented the Jones F. Devlin Award. The Devlin award, named after Captain Devlin of the U.S. Coast Guard, an early advocate of maritime safety, is conferred upon vessels that have operated at least two years without a lost time injury. Not only did Kirby have 144 towboats that went two years without an injury, 24 of these towboats exceeded 10 years, highlighted by the *M/V Dixie Traveler* maintaining its safety record for 17 years, the *M/V Angelina* and *M/V Dixie Challenge* for 16 years, and the *M/V Frio* for 15 years.

Kirby credits its vessel employees' dedication and awareness of the importance of safety, as well as its shoreside staff's continuing efforts to make the vessel environment inherently safer, as the reasons for these important safety achievements.

### Markets Served

Kirby Inland Marine focuses on providing tank barge services to four primary markets: petrochemicals, black oil products, refined petroleum products and agricultural chemicals.

The petrochemical market accounted for 68% of 2004 transportation revenue, transporting bulk liquid petrochemicals such as benzene, methanol, xylene, styrene and acrylonitrile, products used in the manufacture of plastics, fibers and paper. The drivers for the manufactured products are durable and non-durable consumer goods, housing and automobiles.

Black oil products comprise Kirby's second largest market, providing 18% of 2004 transportation revenue. Products transported include residual fuel, asphalt,



*A Kirby tow with two new 30,000 barrel tank barges transits the Gulf Intracoastal Waterway near the Louisiana-Texas border.*

No. 6 fuel oil, coker feedstocks and ship engine fuel. The drivers for the products are refinery production, road construction, power plants and ships.

The refined petroleum products market includes the transportation primarily into the Midwest of gasoline blends, jet fuel, No. 2 oil, heating oil and diesel fuel. Accounting for 10% of 2004 transportation revenue, the market is driven by vehicle usage, air travel and weather conditions.

The agricultural chemical market accounted for 4% of 2004 transportation revenue. Products transported include anhydrous ammonia and nitrogen-based fertilizers, with the drivers primarily corn, cotton and wheat production, and chemical feedstock usage.

### Tank Barge Construction Program

In anticipation of continued demand for tank barge capacity, Kirby's tank barge construction program is designed to build tank barges to replace older tank barges that were retired or scheduled to be retired. In practice, due to the high cost of maintenance for older tank barges, this ongoing strategy of new construction ensures that older barges nearing the end of their service life are replaced by state-of-the-art equipment that provides increased safety, environmental and capacity solutions for Kirby's customers.

To ensure Kirby has the tank barge capacity to meet customer requirements and maintain capacity, over the last three years, Kirby spent \$76 million on new tank barge construction, including \$44 million in 2004. During the last three years, Kirby took delivery of 27 double hull, 30,000 barrel capacity, tank barges for

use in the petrochemical and refined products markets and 18 double hull, 30,000 barrel capacity, tank barges for use in the black oil market. This process of capacity replacement continues in 2005 with a contract for the delivery of 10 double hull, 30,000 barrel capacity, petrochemical and refined product tank barges, and

seven double hull, 30,000 barrel capacity, black oil tank barges at a cost of \$39 million, subject to the cost of steel.

In a change to Kirby's plan of building tank barges to replace capacity removed or scheduled to be removed from service, Kirby's 2005 construction program will also include 20 double hull, 10,000 barrel capacity, tank barges and one double hull, 30,000 barrel capacity, specialty barge, adding an additional 230,000 barrels to Kirby's overall fleet capacity. The cost of the 21 tank barges is \$28 million, subject to the cost of steel. This additional capacity positions Kirby to

obtain petrochemical movements Kirby currently does not have the capacity to handle.

### Executive Management

Kirby Inland Marine's Executive Management team provides strong, experienced leadership for the Inland operations. Steve Valerius, President of Kirby Inland Marine, brings 26 years of experience in the marine industry. Steve is supported by Jim Farley, Executive Vice President – Operations, and Bill Ivey, Executive Vice President – Marketing. Both of these men have spent their careers in the marine transportation business and bring over 60 years of combined experience to Kirby's leadership team.



*Kirby Inland Marine vessel tankermen monitor the cargo transfer process at a petrochemical customer's dock.*

## 2004 Results of Operations

As noted earlier, Kirby Inland Marine reported record financial results for 2004, a reflection of increased transportation volumes generated by an improved petrochemical market, primarily the result of improvements in the U.S. and global economies. In addition, the black oil market also experienced improved volumes, with increased refinery production generating more demand for waterborne transportation of heavier refinery residual oil by-products. Refined products volumes into the Midwest were generally at normal seasonal levels, while agricultural chemical volumes were weak for most of the year, reflecting some improvement in the fourth quarter. The 2004 record results were also positively impacted by the record safety performance, cost control efforts, horsepower and fleet efficiency, and the segment's ability to increase contract rates on average by 3% to 4%. In addition, spot market rates for 2004 were 15% to 20% higher than 2003.

The record results were certainly not achieved without challenges. Kirby incurred record navigational delay days, including key lock closures for repairs during the second and third quarters, high water conditions during the second and fourth quarters, Hurricane Ivan in September and a significant number of fog days along the Gulf Coast in the first and fourth quarters. Delay days for 2004 totaled 8,392, a 30% increase over the 6,462 delay days experienced in 2003.

*Jim Farley, Executive Vice President – Operations;  
Steve Valerius, President;  
Bill Ivey, Executive Vice President – Marketing*

### Kirby Inland Marine

#### Statements of Operating Income (In thousands)

For the years ended December 31,	2004	2003	2002
Revenues:			
Marine transportation	<b>\$ 588,828</b>	\$ 530,411	\$ 450,280
Costs and expenses:			
Costs of sales and operating expenses	<b>365,590</b>	332,600	269,838
Selling, general and administrative	<b>65,278</b>	57,271	52,967
Taxes, other than on income	<b>13,349</b>	12,824	10,548
Depreciation and amortization	<b>52,076</b>	50,442	42,332
	<b>496,293</b>	453,137	375,685
Operating income	<b>\$ 92,535</b>	\$ 77,274	\$ 74,595
Operating margin	<b>15.7%</b>	14.6%	16.6%





## Kirby Engine Systems, the recognized leader in both in-house and in-field servicing and rebuilding of diesel engines and reduction gears

Kirby Engine Systems has historically provided service and support for large medium-speed diesel engines and reduction gears for critical marine, power generation and railroad applications. An acquisition during 2004 expanded our service and support to include high-speed diesel engines as well as our traditional medium-speed market.

### Acquisition of Walker Boat Yard Diesel Operation

In April 2004, Kirby Engine Systems expanded its Midwest operation with the purchase of the Paducah, Kentucky, diesel service operation of Walker Paducah Corp., more commonly known as Walker Boat Yard, a longtime fixture on the Ohio River. Walker was an authorized marine dealer for Caterpillar, Cummins and Detroit Diesel high-speed engines, as well as an authorized service center of the Electro-Motive Division of General Motors. The acquisition, consisting of equipment and inventory, facilitated Kirby's entry during the 2004 third quarter into the high-speed diesel engine market in the Midwest. Kirby's Midwest operation now provides full engine and reduction gear service supporting medium-speed and high-speed diesel operators on the inland river system from the Great Lakes to Greenville, Mississippi.

### Nationwide In-house Service and Worldwide In-field Service

With eight U.S. parts and service facilities, Kirby has the largest service area of any U.S. diesel engine service provider. Kirby's in-house service consists of direct sales of OEM (Original Equipment Manufacturer) replacement parts, as well as refurbished or rebuilt parts and engines. All in-house repairs or

rebuids are completed by project engineers, mechanics and machinists, and involve inspection, repairs or rebuilding in compliance with factory specifications.

In-field service is provided by project engineers and mechanics throughout the world. During 2004, Kirby's skilled service teams responded to customers' needs throughout the U.S., including the Great Lakes in the dead of winter. Other U.S. projects during 2004 provided

service in Petersburg, Alaska, and Maaleea Bay, Maui, Hawaii. International destinations serviced during 2004 by Kirby service teams included Santiago, Chile, Asuncion, Paraguay, the South China Sea offshore Vietnam, Bahrain, the Tasman Sea offshore Australia, and Kashiwazaki City and Sasebo, Japan. In short, Kirby Engine Systems engineers and mechanics go where the work takes them.



*Dylan Pellegrin records torque values and gear clearances while Mike Clavio uses a torque wrench in the assembly of one of the camshaft drive gears on a 20-cylinder, 3600 horsepower EMD diesel engine.*



## Executive Management

Kirby Engine Systems' Executive Management team plays a vital role in building Kirby's outstanding reputation for operational and customer service excellence in the servicing and rebuilding of diesel engines and reduction gears. Lynn Strahan, President of Kirby Engine Systems, brings over 28 years of experience in the diesel engine service business. Walter Berry, Executive Vice President, brings over 16 years of experience in the diesel engine services and shipyard businesses.

## 2004 Results of Operations

Kirby Engine Systems reported record revenue for 2004 of \$86.5 million, a 4% increase over 2003. Operating income for 2004 totaled \$8.4 million, a 6% increase compared with 2003. The higher 2004 results were primarily from increased direct parts sales to nuclear power generation and railroad customers. In addition, the Kirby segment benefited from the acquisition of Walker in April 2004 and improvement in the Midwest dry cargo market, a market serviced by Walker. The segment's East Coast and West Coast marine markets were weak for the

majority of 2004, reflecting some improvement in the fourth quarter. The Gulf Coast offshore oil service market remained weak during all of 2004.

The operating margin for 2004 was 9.7%, a slight improvement over the 2003 margin of 9.5% but less than the 2002 margin of 10.4%. The lower margin reflected an increase in direct parts sales, as parts sales generally earn a lower margin than service work.

### Kirby Engine Systems

#### Statements of Operating Income (In thousands)

For the years ended December 31,	2004	2003	2002
Revenues:			
Diesel engine services	\$ 86,491	\$ 83,063	\$ 85,123
Costs and expenses:			
Costs of sales and operating expenses	64,723	62,266	63,928
Selling, general and administrative	11,882	11,530	11,111
Taxes, other than on income	335	332	303
Depreciation and amortization	1,163	1,045	940
	78,103	75,173	76,282
Operating income	\$ 8,388	\$ 7,890	\$ 8,841
Operating margin	9.7%	9.5%	10.4%

Walter Berry, Executive Vice President;  
Lynn Strahan, President



## Board of Directors

### **C. Sean Day**<sup>2, 4</sup>

Chairman of  
Teekay Shipping Corporation  
Joined board 1996

### **Bob G. Gower**<sup>1, 2, 3</sup>

President and  
Chief Executive Officer of  
Carbon Nanotechnologies, Inc.  
Joined board 1998

### **Walter E. Johnson**

Chairman of  
Amegy Bank of Texas  
Joined board 2001

### **William M. Lamont, Jr.**<sup>1, 3, 4</sup>

Private Investor  
Joined board 1979

### **C. Berdon Lawrence**<sup>1</sup>

Chairman of the Board of Kirby  
Joined board 1999

### **George A. Peterkin, Jr.**<sup>1, 2</sup>

Chairman Emeritus of Kirby  
Joined board 1973

### **Joseph H. Pyne**<sup>1</sup>

President and  
Chief Executive Officer of Kirby  
Joined board 1988

### **Robert G. Stone, Jr.**<sup>3, 4</sup>

Chairman Emeritus of Kirby  
Joined board 1983

### **Richard C. Webb**<sup>3</sup>

Founder and Managing Director of  
Abshier Webb & Donnelly LLC  
Joined board 2000

<sup>1</sup> Executive Committee

<sup>2</sup> Audit Committee

<sup>3</sup> Compensation Committee

<sup>4</sup> Governance Committee

## Officers

### **Kirby Corporation**

#### **C. Berdon Lawrence**

Chairman of the Board

#### **Joseph H. Pyne**

President and Chief Executive Officer

#### **Norman W. Nolen**

Executive Vice President, Treasurer and  
Chief Financial Officer

#### **Mark R. Buese**

Senior Vice President—Administration

#### **Jack M. Sims**

Vice President—Human Resources

#### **G. Stephen Holcomb**

Vice President—Investor Relations

#### **Howard G. Runser**

Vice President—Information Technology

#### **Ronald A. Dragg**

Controller

#### **Thomas G. Adler**

Secretary

### **Kirby Inland Marine, LP**

#### **Steven P. Valerius**

President

#### **James F. Farley**

Executive Vice President—Operations

#### **William G. Ivey**

Executive Vice President—Marketing

#### **Gregory R. Binion**

Vice President—Sales

#### **Skye M. Durant**

Vice President—Vessel  
Personnel and Training

#### **Robert D. Goolsby**

Vice President—Facility Operations

#### **Mel R. Jodeit**

Vice President—Sales

#### **Mark C. Lawrence**

Vice President—Kirby Logistics  
Management

#### **Richard C. Northcutt**

Vice President—Traffic

#### **John E. Russell**

Vice President—Sales

#### **John W. Sansing, Jr.**

Vice President—Maintenance

#### **David L. Shaw**

Vice President—Vessel Operations

#### **Carl R. Whitlatch**

Vice President and Controller

#### **William M. Withers**

Vice President—Sales

### **Dixie Offshore Transportation Company**

#### **Joseph H. Pyne**

President

#### **Kenneth C. Bush**

Executive Vice President

#### **Thomas J. Johnson**

Vice President—Marketing

### **Kirby Engine Systems, Inc.**

#### **Dorman Lynn Strahan**

President

#### **T. Walter Berry**

Executive Vice President

#### **David H. Farrar**

Controller

### **Engine Systems, Inc.**

#### **John A. Manno**

Vice President

#### **P. Scott Mangan**

Vice President—East Coast

### **Marine Systems, Inc.**

#### **Lynn A. Ahlemeyer**

Vice President—Gulf Coast and West Coast

#### **Thomas W. Bottoms**

Vice President—Midwest

#### **Troy A. Bourgeois**

Vice President—Sales

### **Rail Systems, Inc.**

#### **John A. Manno**

Vice President

# Shareholder Information

## Annual Meeting

The 2005 Annual Meeting of Stockholders will be held at 55 Waugh Drive, 8th Floor, Houston, Texas 77007, at 10:00 a.m. (CDT), Tuesday, April 26, 2005.

## Corporate Headquarters

### Executive Office:

55 Waugh Drive, Suite 1000  
Houston, Texas 77007  
Telephone: (713) 435-1000  
Fax: (713) 435-1011  
www.kirbycorp.com

### Mailing Address:

P.O. Box 1745  
Houston, Texas 77251-1745

## Inquiries Regarding Stock Holdings

Registered shareholders (shares held in owner's name) should address communications concerning address changes, lost certificates and stock transfers to:

EquiServe Trust Company, N.A.  
P.O. Box 219045  
Kansas City, MO 64121-9045  
Telephone: (816) 843-4299  
Internet: <http://www.equiserve.com>

Beneficial shareholders (shares held in the name of banks or brokers) should address communications to their banks or stockbrokers.

All other inquiries should be addressed to G. Stephen Holcomb, Vice President—Investor Relations, at Kirby's corporate headquarters.

## Independent Registered Accountants

KPMG LLP  
700 Louisiana, Suite 3000  
Houston, Texas 77002

## Common Stock Information

Stock trading symbol—KEX

The New York Stock Exchange is the principal market for Kirby's common stock. As of March 1, 2005, there were 25,004,000 common shares outstanding held by approximately 900 registered shareholders. The number of registered shareholders does not reflect the number of beneficial owners of common stock.

## Common Stock Market Price

	Sales Price	
	High	Low
2005		
First Quarter (through March 1, 2005)	\$45.21	\$39.76
2004		
First Quarter	\$36.54	\$30.19
Second Quarter	\$39.09	\$33.20
Third Quarter	\$40.38	\$33.65
Fourth Quarter	\$46.48	\$38.87
2003		
First Quarter	\$29.25	\$21.62
Second Quarter	\$28.44	\$24.28
Third Quarter	\$30.68	\$25.93
Fourth Quarter	\$35.75	\$28.40

## Reporting Calendar

First Quarter Results:

Press Release – Wednesday, April 27, 2005\*  
Conference Call – Thursday, April 28, 2005

Second Quarter Results:

Press Release – Wednesday, July 27, 2005\*  
Conference Call – Thursday, July 28, 2005

Third Quarter Results:

Press Release – Wednesday, October 26, 2005\*  
Conference Call – Thursday, October 27, 2005

Fourth Quarter Results:

Press Release – Wednesday, January 25, 2006\*  
Conference Call – Thursday, January 26, 2006

\*Announcement at 5:00 pm central time

## Financial and Investor Relations

Copies of Kirby's Form 10-K (which is incorporated in this Annual Report) and copies of Kirby's Form 10-Q reports are available free of charge. Either contact G. Stephen Holcomb, Vice President—Investor Relations, at Kirby's corporate headquarters, e-mail [Steve.Holcomb@kirbycorp.com](mailto:Steve.Holcomb@kirbycorp.com), or visit Kirby's website at [www.kirbycorp.com](http://www.kirbycorp.com).

## Certifications

Kirby has included as Exhibits 31.1 and 31.2 to its Annual Report on Form 10-K for the year ended December 31, 2004, filed with the Securities and Exchange Commission certificates of the Chief Executive Officer and Chief Financial Officer regarding the quality of Kirby's public disclosure. In addition, Kirby has submitted to the New York Stock Exchange (NYSE) a certificate of the Chief Executive Officer certifying that he was not aware of any violation by Kirby of NYSE corporate governance listing standards as of the date of the certification.

## **Kirby Corporation**

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Houston, Texas 77007

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Houston, Texas 77251-1745

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Fax: (713) 435-1011

