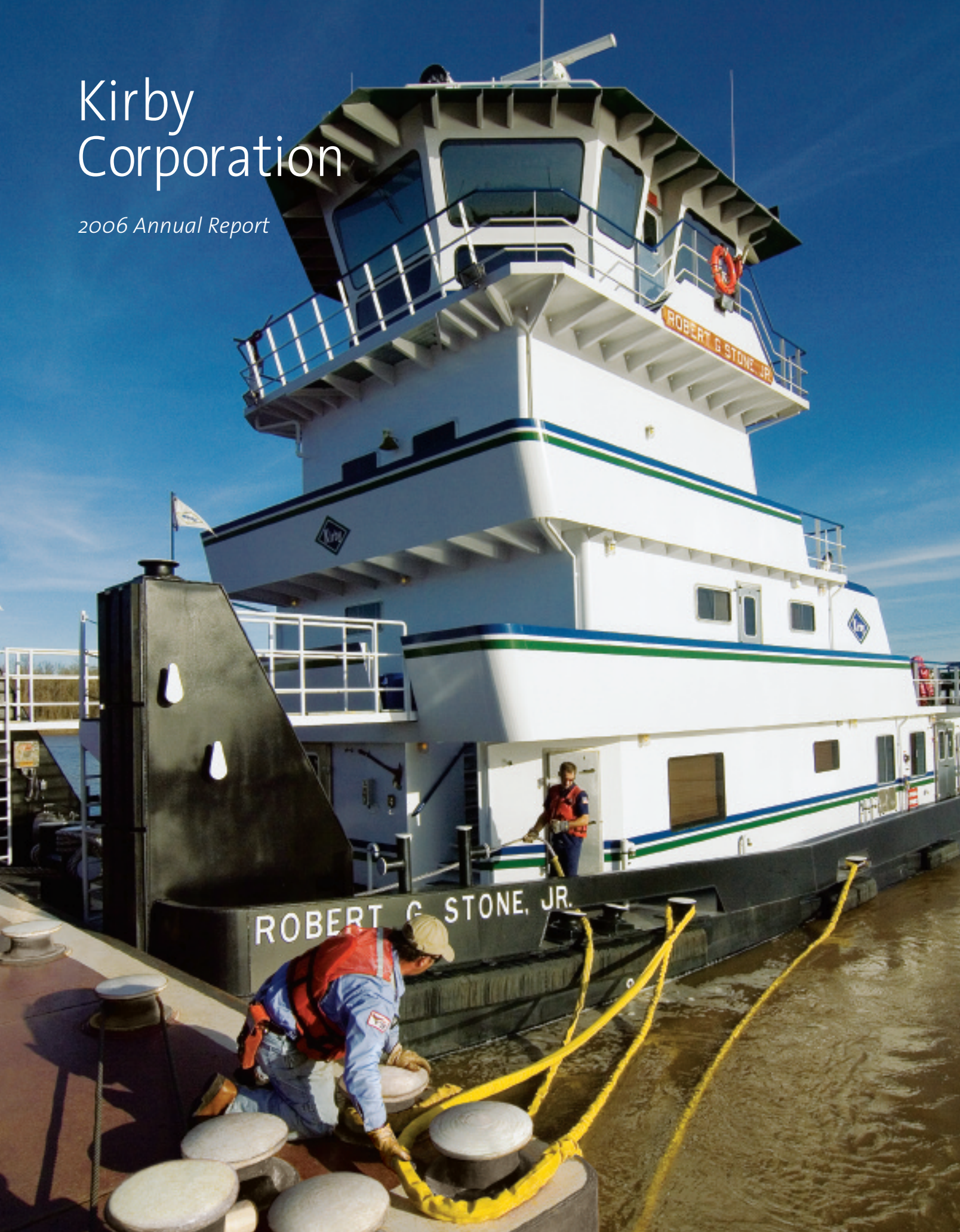


# Kirby Corporation

2006 Annual Report



## 2006 Quarterly Review

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

### First Quarter

	<u>2006</u>	<u>2005</u>	<u>Change</u>
Revenues	\$224,903	\$184,444	<b>22%</b>
Net earnings	\$ 22,580	\$ 13,279	<b>70%</b>
Earnings per share	\$ .43	\$ .26	<b>65%</b>
EBITDA	\$ 54,266	\$ 39,545	<b>37%</b>

- Petrochemical and black oil products volumes strong
- Higher rates on contract renewals and spot market pricing
- Favorable winter weather conditions benefited results
- Diesel engine services benefited from strong sales and price increases in majority of its markets

### Second Quarter

	<u>2006</u>	<u>2005</u>	<u>Change</u>
Revenues	\$243,292	\$199,276	<b>22%</b>
Net earnings	\$ 23,333	\$ 18,447	<b>26%</b>
Earnings per share	\$ .44	\$ .36	<b>22%</b>
EBITDA	\$ 56,514	\$ 46,830	<b>21%</b>

- Petrochemical and black oil products volumes strong
- Higher rates on contract renewals and spot market pricing
- Tight vessel personnel labor pool and shortage of Gulf Coast charter towboats negatively impacted results
- Diesel engine services benefited from strong sales and price increases in majority of its markets, and an accretive acquisition during the quarter

### Third Quarter

	<u>2006</u>	<u>2005</u>	<u>Change</u>
Revenues	\$264,612	\$198,741	<b>33%</b>
Net earnings	\$ 25,600	\$ 17,285	<b>48%</b>
Earnings per share	\$ .48	\$ .34	<b>41%</b>
EBITDA	\$ 62,549	\$ 44,601	<b>40%</b>

- Petrochemical, black oil products and refined products volumes strong
- Higher rates on contract renewals and spot market pricing
- Tight vessel personnel labor pool and shortage of Gulf Coast charter towboats negatively impacted results
- Diesel engine services benefited from strong sales and price increases in majority of its markets, and accretive acquisitions during the year

### Fourth Quarter

	<u>2006</u>	<u>2005</u>	<u>Change</u>
Revenues	\$251,411	\$213,261	<b>18%</b>
Net earnings	\$ 23,938	\$ 19,770	<b>21%</b>
Earnings per share	\$ .45	\$ .38	<b>18%</b>
EBITDA	\$ 60,470	\$ 50,334	<b>20%</b>

- Petrochemical, black oil products and refined products volumes strong
- Higher rates on contract renewals and spot market pricing
- Unfavorable weather conditions and plant turnarounds in December negatively impacted results
- Diesel engine services benefited from strong sales and price increases in majority of its markets, and accretive acquisitions during the year

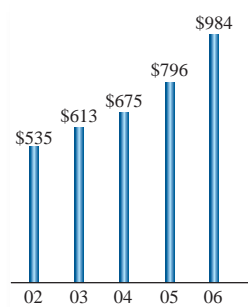
Statements made in this Annual Report with respect to the future are forward-looking statements. These statements reflect Management's reasonable judgment with respect to future events. Forward-looking statements involve risks and uncertainties. Actual results could differ materially from those anticipated as a result of various factors. Forward-looking statements are based on currently available information and Kirby assumes no obligation to update any such statements. A list of these factors can be found in Kirby's Annual Report on Form 10-K for the year ended December 31, 2006, included in this Annual Report and filed with the Securities and Exchange Commission.

**Cover:** The crew of the *M/V Robert G. Stone, Jr.*, a new Kirby Inland Marine 2100 horsepower towboat, builds tow for departure on the Atchafalaya River in Louisiana.

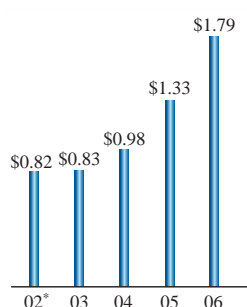
## Financial Highlights:

(In thousands, except per share amounts)	For the years ended December 31,				
	2006	2005	2004	2003	2002
<b>Revenues:</b>					
Marine transportation	\$ 807,216	\$ 685,999	\$ 588,828	\$ 530,411	\$ 450,280
Diesel engine services	177,002	109,723	86,491	83,063	85,123
	<u>\$ 984,218</u>	<u>\$ 795,722</u>	<u>\$ 675,319</u>	<u>\$ 613,474</u>	<u>\$ 535,403</u>
<b>Net earnings</b>	<u>\$ 95,451</u>	<u>\$ 68,781</u>	<u>\$ 49,544</u>	<u>\$ 40,918</u>	<u>\$ 27,446*</u>
<b>Net earnings per share (diluted)</b>	<u>\$ 1.79</u>	<u>\$ 1.33</u>	<u>\$ .98</u>	<u>\$ .83</u>	<u>\$ .56*</u>
<b>Weighted average shares outstanding (diluted)</b>	<u>53,304</u>	<u>51,562</u>	<u>50,314</u>	<u>49,012</u>	<u>48,788</u>
<b>EBITDA—Earnings before interest, taxes, depreciation and amortization:**</b>					
Net earnings	\$ 95,451	\$ 68,781	\$ 49,544	\$ 40,918	\$ 27,446
Interest expense	15,201	12,783	13,263	14,628	13,540
Provision for taxes on income	58,751	42,341	30,365	25,079	18,047
Depreciation and amortization	64,396	57,405	55,120	53,328	45,507
<b>EBITDA**</b>	<u>\$ 233,799</u>	<u>\$ 181,310</u>	<u>\$ 148,292</u>	<u>\$ 133,953</u>	<u>\$ 104,540</u>
Property and equipment, net	\$ 766,606	\$ 642,381	\$ 574,211	\$ 536,512	\$ 486,852
Total assets	\$ 1,271,119	\$ 1,025,548	\$ 904,675	\$ 854,961	\$ 791,758
Long-term debt, including current portion	\$ 310,362	\$ 200,036	\$ 218,740	\$ 255,265	\$ 266,001
Stockholders' equity	\$ 631,995	\$ 537,542	\$ 435,235	\$ 372,132	\$ 323,311

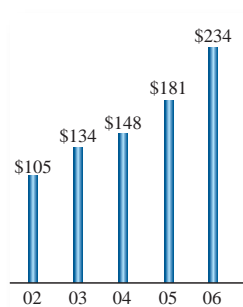
**Revenues**  
(In millions)



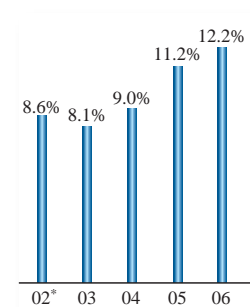
**Earnings Per Share**



**EBITDA\*\***  
(In millions)



**Return on Invested Capital**



\* The 2002 year includes an after-tax impairment of assets charge of \$12.5 million, or \$.26 per share. The Earnings Per Share and Return on Invested Capital tables exclude the 2002 charge.

\*\* 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).

## To Our Shareholders

The 2006 year was a record-setting year for Kirby Corporation in all key financial areas. Revenues were \$984.2 million, net earnings \$95.5 million and earnings per share \$1.79. These record financial results follow 2005's record year and reflect increases over 2005 of 24% in revenues, 39% in net earnings and 35% in earnings per share. Kirby's record 2006 EBITDA of \$233.8 million exceeded 2005's \$181.3 million by 29%.

On May 31, 2006, Kirby common stock was split two-for-one for stockholders of record as of May 10, 2006. The stock split allowed us to achieve two objectives: provide greater liquidity for stockholders and allow Kirby stock to be more accessible and attractive to a broader range of investors. During 2006, Kirby stock achieved a record high stock price of \$41.36 per share and traded between this high and \$25.13. The stock closed 2006 at \$34.13 per share.

2006 was a great year to be in the inland tank barge business due to the balance between tank barge capacity and the demand for that capacity, and the outlook for 2007 is also very positive. Kirby's major customers are household names, the foremost petrochemical and refining companies in the United States. With their product volumes that require tank barge transportation continuing to expand, additional tank barge capacity will be needed to handle the extra volumes. Additionally, with approximately one-third of the United States tank barge fleet older than 30 years, significant rebuilding will be required to meet both current and future demands. Our customers require safe and reliable service. Our safety performance continued to improve during 2006, and our commitment to behavior-based safety paid dividends in reduced personnel and environmental safety incidents. Additionally, our ongoing investment in Kirby's proprietary logistics management software enables us to provide ever-improving levels of communication and service to our customers.

During 2006, we made a strategic decision to enhance our diesel engine services operation by entering the Gulf Coast region high-speed diesel engine services business, a perfect complement to our long-standing medium-speed franchise. In June 2006, Kirby acquired Global Power Holding Company ("Global") for \$101.7 million, and in July purchased Marine Engine Specialists, Inc. ("MES") for \$6.9 million. With these two acquisitions, Kirby became a Gulf Coast factory-authorized full-service marine dealer for Cummins, Detroit Diesel and John Deere high-speed diesel engines, Allison transmissions, and Caterpillar high-speed diesel engines in Louisiana.

The acquisitions position Kirby as the "one-stop shop" for servicing the diesel engine requirements of its customers. With high-speed engines comprising the majority of the propulsion engine market, these acquisitions allow us to extend our service capabilities with current customers, many of whom have both high-speed and medium-speed engines, as well as to expand our base with high-speed engine customers. These two acquisitions were immediately accretive to earnings.

We are pleased to report that for 2006 we exceeded our objective of a 12% return on invested capital, earning 12.2%, a significant improvement over the 11.2% return in 2005 and 9.0% in 2004. Additionally, our cash flow remained strong in 2006 with net cash from operations of \$150.4 million. Our cash flow and borrowings under our bank revolving credit facility were used for capital expenditures and acquisitions totaling \$283.0 million, including \$58.6 million for new barge and towboat construction, \$80.5 million primarily for upgrading our existing fleet and

\$143.9 million for the acquisition of businesses and marine equipment, including Global and MES as noted above. As of December 31, 2006, our debt was \$310.4 million compared with \$200.0 million at the end of 2005. Our debt-to-capitalization at December 31, 2006 was 32.9% compared with 27.1% one year earlier.

On June 14, 2006, Kirby increased its bank revolving credit facility from its previous \$150 million to \$250 million and extended the maturity date to June 14, 2011. This credit facility allows for an increase in bank commitments up to a maximum of \$325 million.

Kirby's marine transportation segment provided record results in 2006, a reflection of continued strong petrochemical, black oil products and refined products demand. Contract rates during 2006 increased in the 4% to 8% average range and spot market pricing increased 20% to 25%. The marine transportation operating margin improved to 19.0% as compared with 17.4% in 2005 and 15.7% in 2004. In addition to strong volumes, the 2006 results were positively impacted by generally favorable weather conditions with delay days down 17% from 2005. Both the relatively mild winter weather in the first quarter of 2006 and the absence of Gulf Coast hurricanes provided significant improvements over corresponding periods in 2005 when harsh winter weather conditions in the first quarter and Hurricanes Katrina and Rita in the third quarter negatively impacted results.

Record results were also reported by our diesel engine services segment, resulting from continued strong in-house and in-field service activity and direct part sales in the majority of its markets, and the accretive earnings from the acquisitions of Global and MES. Results were also positively impacted by higher service rates and parts pricing implemented during 2005 and 2006, as well as higher levels of service activities, which generally generate a higher operating margin than direct part sales, and better labor utilization. The diesel engine services operating margin improved to 14.9% from 11.7% in 2005 and 9.7% in 2004.

With the continuing environment of strong demand and capacity shortages in marine transportation, our 2006 capital construction program included fleet replacement and enhancement programs, as well as fleet additions. Our 2006 program included the construction of twenty-three 30,000 barrel barges and two 10,000 barrel barges at a cost of \$47 million. Fifteen of the 30,000 barrel barges and the two 10,000 barrel barges are new capacity, adding 470,000 barrels to our barge fleet. We have taken delivery of nineteen of the 30,000 barrel barges and one 10,000 barrel barge, with the balance scheduled for delivery throughout the 2007 first half.



*Berdon Lawrence*

*Joe Pyne*

The fleet replacement and enhancement program and fleet additions will continue in 2007 with a capital spending range of \$135 to \$145 million. Major projects include the construction of twenty 30,000 barrel barges and six 10,000 barrel barges at a cost of approximately \$51 million. Fourteen of the 30,000 barrel barges and all six of the 10,000 barrel barges are new capacity, adding 480,000 barrels to our barge fleet. Delivery is scheduled throughout 2007 and 2008.

Kirby also contracted in 2005 for the construction of four 2100 horsepower towboats for use on the Mississippi River at a cost of \$13 million. The *M/V Robert G. Stone, Jr.* was placed in service in October 2006 and the *M/V Archie Wilson* in February 2007. The remaining two 2100 horsepower towboats are due in the first half of 2007. We also contracted in 2006 for the construction of four 1800 horsepower towboats for use on the Gulf Intracoastal Waterway at a cost of \$13 million. These four towboats are scheduled to be placed in service in the second half of 2007.

In addition to the Global and MES acquisitions noted above, the Company was very active in making other acquisitions during 2006 and the first quarter of 2007. During this period the Company purchased the following:

- In January 2006, increased its ownership in Osprey Line, operator of a container on barge feeder service, to 67%.
- In March 2006, purchased the remaining 65% interest in the Dixie Fuel Limited partnership from Progress Fuels Corporation for \$15.8 million in cash and extended the expiration date of the transportation contracts from 2008 to 2010. Dixie Fuels owned and operated four offshore barge and tug units under long-term contracts moving coal and rock in the Gulf of Mexico.
- In April 2006, purchased Gulf Coast Fire & Safety Co. for \$1 million in cash and integrated it into Kirby Logistics Management to provide sales and rental of equipment related to fire suppression and protection.
- In July 2006, signed an agreement to purchase 11 towboats from Capital Towing Limited for \$15 million in cash. Purchased nine of the towboats in 2006 for \$13.3 million, with two towboats scheduled to be purchased in 2007.
- In January 2007, acquired Coastal Towing, Inc., owner of 37 tank barges, for \$19.3 million in cash, subject to working capital adjustments. Kirby had been operating these tank barges since 2002 under a barge management agreement.
- In January 2007, purchased 21 tank barges from Cypress Leasing for \$15 million in cash. Kirby had been leasing these barges since 1994.
- In February 2007, completed the purchase of 11 tank barges from Midland Marine Corporation and Shipyard Marketing, Inc. for \$10.6 million in cash. Purchased four of the barges in the 2006 fourth quarter for \$3.3 million and seven in February 2007 for \$7.3 million. Kirby had been leasing the barges prior to the purchase.
- In February 2007, purchased P&S Diesel Service, Inc., a Gulf Coast high-speed diesel engine services provider, for \$1.45 million in cash.
- In February 2007, purchased from NAK Engineering, Inc., for a net \$3.5 million in cash, the assets and technology to support Nordberg medium-speed diesel engines used in nuclear applications.

Kirby is committed to preparing for the future and building value over the long term. We continue to reinvest in our strategic tank barge replacement and fleet expansion program to meet customer demand. We continue to work to leverage customer relationships and distribution systems to do more for our customers, including increased efficiencies. We continue to seek accretive synergistic acquisitions in both core businesses, and most importantly, we continue to invest significantly in our employees' training, both ashore and afloat.

As we look at 2007, the supply and demand in our marine transportation segment is in balance. Volumes continue to grow as United States petrochemical and refining companies expand their facilities and operate at close to full capacity. The United States economy continues to prosper, although some recent softness has been noted. We feel that the investments we continue to make in our existing fleet, our tank barge replacement program and our new tank barge and towboat construction program position Kirby well for the future, ensuring a safe and well-maintained fleet to meet the volume demands of our customers. With one-third of the industry tank barges in use today older than 30 years, and with new construction currently limited to between 100 and 140 barges per year depending on size, the risk of any near-term sustained excess tank barge capacity is minimal. Additionally, we anticipate our diesel engine services business will continue to perform well. With the Global and MES acquisitions, our customer base should continue to grow as we offer our customers a single source for all their diesel engine services requirements. All of these factors combine to provide a very positive outlook for Kirby in the foreseeable future.

We would be remiss not to note the death of Robert G. Stone, Jr. in 2006. Mr. Stone served as Chairman of Kirby from 1983 to 1995 and as Chairman Emeritus from 1995 until his death in April 2006. Bob helped guide Kirby from a company primarily engaged in oil and gas exploration in 1983 to the marine transportation and diesel engine services company it is today. He was a terrific supporter of Kirby, and his leadership, friendship and optimism will be greatly missed. To honor Bob, a new 2100 horsepower towboat that was placed into service in October 2006 bears his name, a fitting tribute to this great man. The *M/V Robert G. Stone, Jr.* is pictured on the cover and on pages 10 and 11.

We truly believe that our marine transportation and diesel engine services employees are the best in the business. To our vessel employees, mechanics, machinists and engineers, and our shoreside and office staff, we thank each of you for your outstanding accomplishments in making 2006 a record-setting year. Finally, we want to thank our shareholders for their ongoing support and loyalty in helping make 2006 such a successful year.

Respectfully submitted,



C. Berdon Lawrence  
Chairman of the Board



Joseph H. Pyne  
President and Chief Executive Officer

Houston, Texas  
March 2, 2007



## Marine Transportation

Kirby Inland Marine, LP

The M/V Captain James Hoover, a Kirby 1000 horsepower towboat, pushes a pressure barge, one of 65 operated by the Company, along the Gulf Intracoastal Waterway.

### Services Offered

- Kirby Inland Marine is the leading United States transporter of bulk liquid products, offering distribution services throughout the Mississippi River System and Gulf Intracoastal Waterway.
- Kirby transports petrochemicals, black oil products, refined petroleum products and agricultural chemicals for a blue chip petrochemical and refining customer base.

### Strengths

- Provides customers safe, dependable and cost-effective transportation of bulk liquid products.
- With an approximate 32% share of the United States inland tank barge market, Kirby's fleet consists of 904 inland tank

barges, comprising 17.0 million barrels of cargo capacity, and 245 inland towboats.

- Kirby's fleet size, distribution and communication systems allow for better barge and towboat utilization through backhaul opportunities, faster turnarounds, more efficient use of horsepower and barges positioned closer to cargoes, as well as lower incremental costs.
- Kirby's towboats are operated by highly trained crews and supported by an experienced shoreside staff and state-of-the-art training facilities.
- Approximately 70% of business under term contracts, 30% spot market.

### Marine Transportation Markets

Markets Served	2006 Revenue Distribution	Products Moved	Drivers
Petrochemicals	67%	Benzene, Styrene, Methanol, Acrylonitrile, Xylene, Caustic Soda, Butadiene, Propylene	Housing, Consumer Goods, Clothing, Automobiles
Black Oil Products	20%	Residual Fuel Oil, No. 6 Fuel Oil, Coker Feedstocks, Vacuum Gas Oil, Asphalt, Boiler Fuel, Crude Oil, Ship Bunkers	Road Construction, Refinery Utilization, Fuel for Power Plants and Ships
Refined Petroleum Products	10%	Gasoline Blends, No. 2 Oil, Jet Fuel, Heating Oil, Naphtha	Vehicle Usage, Air Travel, Weather Conditions, Refinery Utilization
Agricultural Chemicals	3%	Anhydrous Ammonia, Nitrogen-Based Liquid Fertilizer, Industrial Ammonia	Corn, Cotton and Wheat Production, Chemical Feedstock Usage

### Tank Barge Fleet (Active)

Petrochemical/Refined products	708
Pressure	65
Black oil products	114
Anhydrous ammonia	12
Specialty	5
<b>Total</b>	<b>904</b>
<b>Total Barrel Capacity</b>	<b>17.0 MM</b>

### Towboat Fleet (Active)

Less than 800 hp	1
800–1300 hp	114
1400–1900 hp	84
2000–2400 hp	12
2500–3200 hp	17
3300–4900 hp	13
5200 hp and greater	2
Spot charters	2
<b>Total</b>	<b>245</b>





## Diesel Engine Services

Kirby Engine Systems, Inc.

Steve Pellegrin and Corey Bourg rebuild a 1350 horsepower Cummins KT 38 M2 engine from a Gulf of Mexico oil service crewboat.

### Services Offered

- Kirby Engine Systems is the recognized United States leader in both in-house and in-field servicing and rebuilding of medium-speed and high-speed diesel engines and ancillary products, and the sale of related parts.
- Services three distinct markets: marine, power generation and railroad applications.
- Significantly expanded high-speed service capabilities along the Gulf Coast with the acquisitions of Global Power Holding Company and Marine Engine Specialists, Inc. in 2006.
- Provides customers with both medium-speed and high-speed diesel engines a single source for service and parts, a capability that is essential to the day-to-day operations of engines and ancillary products.

### Strengths

- Kirby has the largest service area of any United States diesel engine service provider, with eight medium-speed and seven high-speed service and parts facilities.
- Kirby has long-term distributorships and authorized service center relationships with manufacturers of medium-speed and high-speed diesel engines and ancillary products, including a 41-year relationship with Electro-Motive Diesel, Inc.
- In-house service, provided by project engineers, mechanics and machinists, consists of direct sales of OEM (Original Equipment Manufacturer) replacement parts and the refurbishment or rebuilding of parts, engines and ancillary products in strict compliance with the latest factory specifications.
- In-field service is provided on a worldwide basis by project engineers and mechanics to meet customers' immediate needs.
- Employs over 300 factory-trained and authorized project engineers, mechanics and machinists.

### Diesel Engine Services Markets

Markets Served	2006 Revenue Distribution	Customers
Marine	72%	Inland River Carriers – Dry and Liquid, Offshore Towing – Dry and Liquid, Offshore Oilfield Services – Drilling Rigs & Supply Boats, Harbor Towing, Dredging, Great Lakes Ore Carriers
Power Generation	16%	Standby Power Generation, Pumping Stations
Railroad	12%	Passenger (Transit Systems), Class II, Shortline, Industrial

### Service Locations

**Medium-Speed**  
 Houma, LA (2 locations)  
 Rocky Mount, NC  
 Chesapeake, VA  
 Paducah, KY  
 Seattle, WA  
 Hollywood, FL  
 Tampa, FL

**High-Speed**  
 Houma, LA (2 locations)  
 Baton Rouge, LA  
 Belle Chasse, LA  
 Morgan City, LA  
 New Iberia, LA  
 Houston, TX

### Manufacturer Relationships

**Medium-Speed**  
 Electro-Motive Diesel, Inc.  
 Alco  
 Cooper Bessemer  
 Nordberg

**High-Speed**  
 Caterpillar (in Louisiana)  
 Cummins  
 Detroit Diesel  
 John Deere

**Ancillary Products**  
 Allison Transmissions (transmissions)  
 Twin Disc (transmissions)  
 Falk Corporation (reduction gears)  
 Ingersoll-Rand (starters)  
 Woodward Governor (governors)  
 Oil States Industries (marine clutches)

## Kirby Inland Marine, LP—Putting America’s Inland Waterways to Work

There are over 12,000 miles of commercially navigable inland waterways in the United States. These “highways on the water” provide one of the most efficient, economical and environmentally safe modes of transportation for bulk liquid cargoes available today. From Brownsville, Texas, in the west to St. Marks, Florida, in the east, and from Baton Rouge, Louisiana, in the south to Chicago, Illinois, and Pittsburgh, Pennsylvania, in the north, Kirby Inland Marine, LP serves customers through its three operational fleets: Canal, River and Linehaul.

**Canal.** Canal operations transport petrochemical feedstocks, processed chemicals, black oil products, refined petroleum products and pressurized products primarily on the Gulf Intracoastal Waterway, the Mississippi River below Baton Rouge and the Houston Ship Channel. In the inland tank barge business, the word “tow” is used to describe the combination of a towboat and one or more barges. A Canal tow typically consists of an 800 to 1900 horsepower towboat pushing one to six 10,000 to 30,000 barrel tank barges.

**River.** River tows are considerably larger than Canal tows. A typical River “unit tow” consists of a 3000 to 6000 horsepower towboat pushing four to eight barges. These tows transport the same types of products as Canal tows with the addition of agricultural chemicals. River tows operate along the Mississippi River and its tributaries, including the Illinois, Ohio, Tennessee, Red and Tombigbee Rivers. A unit tow is a dedicated tow in the service of a single customer with the same towboat and barges generally used for each trip.

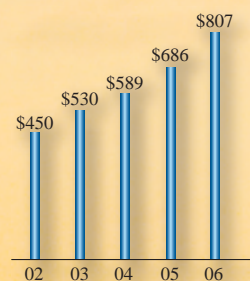
**Linehaul.** A Linehaul tow drops off and picks up barges as it moves up and down a waterway, operating similarly to a train. Linehaul tows transport the same types of products as Canal and River tows. A typical linehaul operation picks up loaded barges from Gulf Coast plants and refineries located on the Gulf Intracoastal Waterway, tows them to a staging point near Baton Rouge, then transports the barges upriver to terminals and plants on the Mississippi, Illinois and Ohio Rivers, dropping off barges at customer docks along the way and picking up barges on the return trip to Baton Rouge. Linehaul River tows utilize 3600 to 6000 horsepower towboats pushing 10 to 25 barges. Linehaul Gulf Intracoastal Waterway tows consist of 1400 to 1900 horsepower towboats with three to six barges.



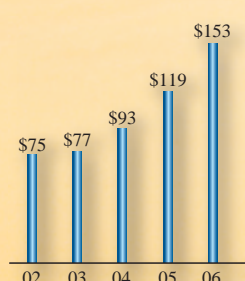
**Working Our Waterways.** Whether utilized in a Canal, River or Linehaul tow, Kirby Inland Marine's towboats and barges provide safe, efficient transportation for its customers. To move the same amount of product as one Kirby 90,000 barrel tow would require more than 120 railroad cars or 450 trucks. One gallon of fuel can move one ton of freight 522 miles by barge compared with 80 miles by truck and 403 miles by railroad. Kirby Inland Marine, using America's extensive waterway system, is pleased to be able to offer its customers one of the safest and most efficient and environmentally sound methods for transporting bulk liquid cargoes available today.

**Results of Operations.** Kirby Inland Marine reported record revenues of \$807.2 million in 2006, 18% over 2005. Operating income for 2006 was a record \$153.2 million, 28% over 2005, and the operating margin improved to 19.0% compared with 17.4% for 2005. The record results reflected continued strong petrochemical, black oil products and refined products demand, as customers continued to operate their plants and refineries at high utilization rates, and favorable operating conditions. Rates on contracts renewed during 2006 increased in the 4% to 8% average range, while spot market pricing, including fuel, increased 20% to 25%.

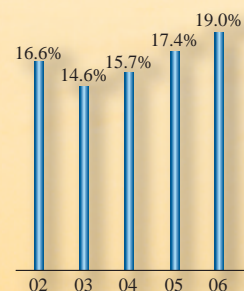
**Revenues**  
(In millions)



**Operating Income**  
(In millions)



**Operating Margin**



*A Kirby pressure barge approaches the Colorado River Locks located on the Gulf Intracoastal Waterway near Bay City, Texas.*

## *M/V Robert G. Stone, Jr. and M/V Archie Wilson—Kirby's New Towboats*

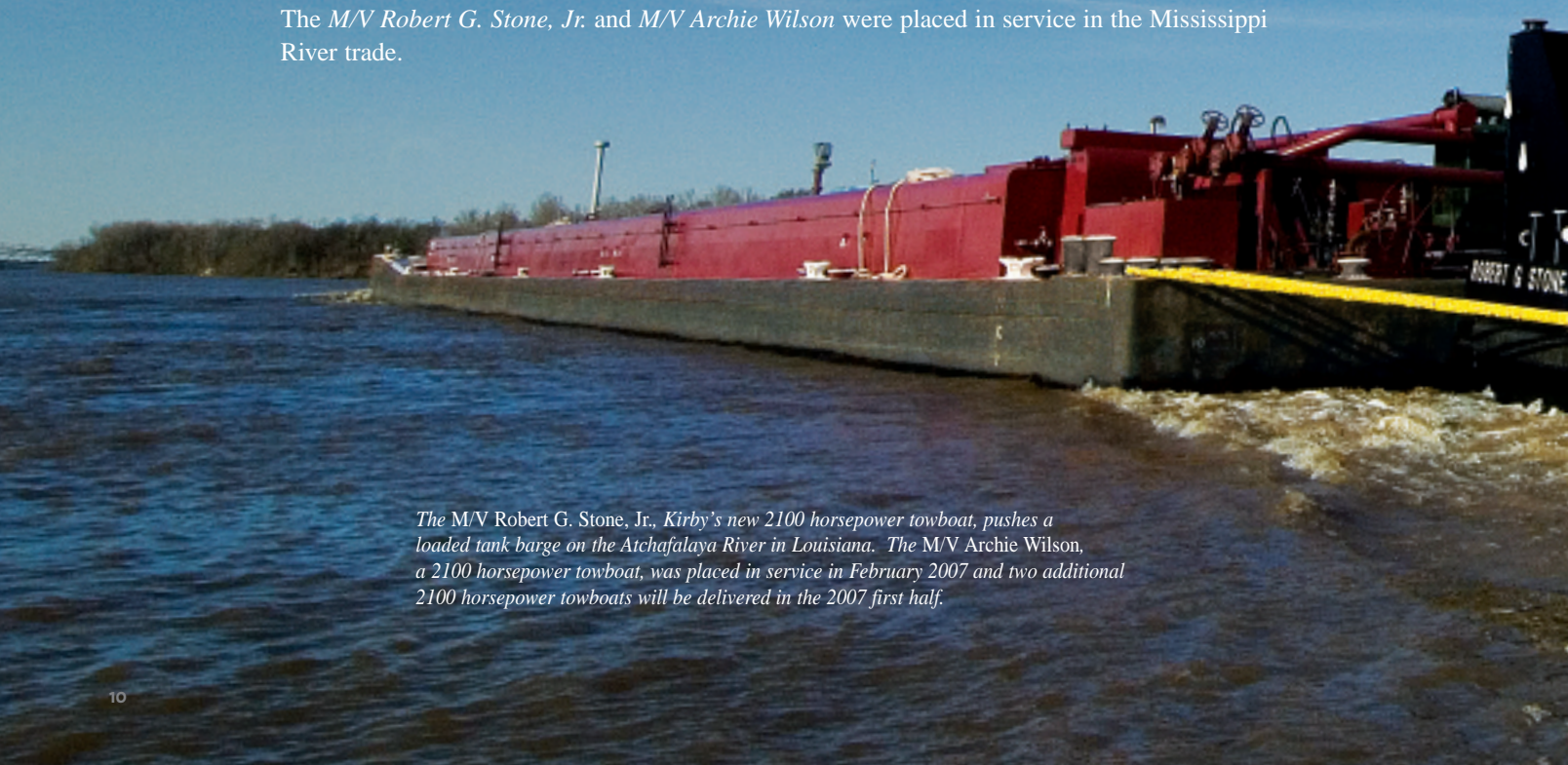
On October 30, 2006, Kirby took delivery of the *M/V Robert G. Stone, Jr.*, the first of four 2100 horsepower towboats ordered in late 2005. On February 7, 2007, the second towboat, the *M/V Archie Wilson*, was delivered. The two remaining towboats will be delivered in the 2007 first half.

The *M/V Robert G. Stone, Jr.* is named after the late Bob Stone, the Chairman of Kirby Corporation from 1983 to 1995 and Chairman Emeritus from 1995 until his death in April 2006. Bob Stone was a renowned sailor, serving as Commodore of the New York Yacht Club and as Chairman of the Board of Trustees of the Mystic Seaport Museum. The *M/V Robert G. Stone, Jr.* is featured on the cover of this Annual Report and a picture of Bob Stone, along with a resolution adopted by the Kirby Board of Directors on April 25, 2006, is presented on the back cover.

The *M/V Archie Wilson* is named after the late Archie Wilson, President of Dixie Carriers, Inc., predecessor company to Kirby Inland Marine, from 1973 to 1984 and member of the Dixie Carriers and Kirby Inland Marine Board of Directors until his death in 1999. During his tenure as President and later as a Director, Archie Wilson was very instrumental in developing the strategy that propelled Kirby from a medium-size tank barge company to the Kirby of today. He was also very active in marine transportation industry organizations, serving terms as President of the Marine Transportation Council and as Chairman of the American Waterways Operators.

At first glance, one feature that makes the *M/V Robert G. Stone, Jr.* and *M/V Archie Wilson* stand out from other towboats in the Kirby fleet is the shape of the wheelhouse. The wheelhouses and wheelman consoles are designed to provide an unobstructed view of the main deck and sides of the towboat. The hulls are designed for improved performance. The fuel tanks are positioned in the hull for maximum environmental protection and the towboats have a state-of-the-art steering system. Propulsion is provided by two Cummins 1050 horsepower diesel engines and the fuel tank capacity is 22,144 gallons of diesel fuel. Throughout the towboats are many features with crew comfort in mind, including larger crew quarters, galley and lounge facilities. The towboats are 90 feet long and 34 feet wide with an operating draft of 8½ feet.

The *M/V Robert G. Stone, Jr.* and *M/V Archie Wilson* were placed in service in the Mississippi River trade.

A large red Kirby towboat is shown from a side-on perspective, pushing a black tank barge on a river. The towboat has a prominent wheelhouse and various deck structures. The barge is long and narrow, with a yellow safety line visible along its side. The water is dark blue, and the sky is clear. The name 'ROBERT G. STONE' is visible on the side of the towboat.

*The M/V Robert G. Stone, Jr., Kirby's new 2100 horsepower towboat, pushes a loaded tank barge on the Atchafalaya River in Louisiana. The M/V Archie Wilson, a 2100 horsepower towboat, was placed in service in February 2007 and two additional 2100 horsepower towboats will be delivered in the 2007 first half.*



ROBERT G STONE, JR.

Kirby

## The “*Person In Charge*”—Kirby’s Vessel Tankerman

Every cargo transfer, whether from a ship or shore facility to a Kirby tank barge or from a Kirby tank barge to a ship or shore facility, requires the supervision of a United States Coast Guard certified tankerman. This role is challenging as the job requires that each transfer be conducted in an environmentally safe and operationally efficient manner. Working as a certified tankerman requires knowledge, training and focused attention. As a matter of fact, the job of the tankerman is so critical that, during a transfer, the tankerman is referred to as “the PIC”—literally, the *Person In Charge*.

Because Kirby boats and barges operate 24/7/365, there is more to being a tankerman than safely conducting cargo transfers. Tankermen also assist with deckhand duties including using ropes and lines to ensure that barges are properly lashed to the towboat, general maintenance of equipment and taking a turn in the galley preparing meals for the crew.

What distinguishes the Kirby tankerman from others on the United States Inland Waterways is the intense training and supervision that the individual receives as he or she progresses toward full tankerman status as a Coast Guard certified *Tankerman PIC (Barge) Dangerous Liquid*.

Kirby has established and implemented a rigorous training program to ensure that every tankerman is fully capable of safely and efficiently loading and discharging a wide variety of liquid products ranging from refined petroleum products to hazardous cargoes. The program begins with two weeks of Basic Deckhand Training at the Kirby Training Center in Channelview, Texas. This training includes learning how to make and break tow and what it takes to work on a Kirby towboat, with the main focus on safety. Once the training is completed, the new deckhand is assigned to a Kirby towboat where these skills are applied under the supervision of a certified tankerman.

After two 14 to 20 day tours, the deckhand returns to the Kirby Training Center for Basic Tankerman Training. During this two-week class, the deckhand learns the basics of tankering using Kirby’s 1,000 barrel tank barge simulator. The deckhand also learns basic pollution prevention and firefighting. The deckhand then returns to the towboat for four months of loading and discharge training under the supervision and assessment of a certified tankerman. This assessment determines whether the deckhand can progress further in the training program.

After six months of rigorous training and classroom work, and ten supervised loads and discharges, the deckhand returns to the Training Center for two more days of training. Called Tankerman License Preparation, this training includes a review of the handling of hazardous cargoes, pollution prevention and additional supervised transfers on the Training Center’s barge simulator.

The tankerman program outlined above has received United States Coast Guard approval. Those who complete the program and earn the Kirby Training Center Certificate meet the training, service and examination requirements for certification as *Tankerman PIC (Barge) Dangerous Liquid*. However, this does not complete the Kirby tankerman’s training. Over the next two years, Kirby tankermen progress from Level 1 to Level 4 Tankerman as they gain proficiency in handling a wider array of liquid cargoes and advance without any incidents, spills or other miscues from one level to the next.

*A Kirby tankerman aboard the M/V Archie Wilson readies for cargo transfer operations at a South Louisiana petrochemical plant. Kirby has established and implemented a rigorous training program to ensure that every tankerman is fully capable of safely and efficiently loading and discharging a wide variety of liquid products ranging from refined petroleum products to hazardous cargoes.*



ARCHIE WILSON

## Kirby Engine Systems Adds Gulf Coast High-Speed Diesel Engine Service

**Offers customers a single source for all their engines, gear and transmission requirements.**

Kirby Engine Systems has historically provided nationwide diesel engine services and remanufactured and replacement parts for medium-speed diesel engines and reduction gears essential to the operations of marine companies, power generation facilities and railroad operators. Kirby services these markets through three subsidiaries: Marine Systems, Inc., Engine Systems, Inc. and Rail Systems, Inc. In 2004, through an acquisition, Kirby expanded its Midwest Paducah, Kentucky operations to include high-speed diesel engines. During 2006, Kirby significantly expanded its Gulf Coast operations with the acquisitions of two Gulf Coast region high-speed service providers. Today, Kirby offers its customers a single source for all their engine, gear and transmission service and parts requirements, further advancing its position as a recognized leader and value-added provider of diesel engine services.

**Acquisition of Global Power Holding Company and Marine Engine Specialists, Inc. In**

June 2006 Kirby acquired Global for \$101.7 million, and in July 2006 Kirby acquired MES for \$6.9 million. With the purchase of Global, Kirby now operates factory-authorized, full-service marine dealerships for Cummins, Detroit Diesel and John Deere high-speed engines and Allison transmissions in the Gulf Coast region, as well as an authorized marine dealer for Caterpillar in Louisiana. The acquisition of MES added a full-service John Deere dealership and a Detroit Diesel service provider in the Gulf Coast region.

The high-speed diesel engine population in the United States is considerably larger than the medium-speed population, as approximately 75% of the commercial vessels operating in the United States have high-speed propulsion engines. In addition, the high-speed diesel engines are used to power shipboard generators and barge pumps. The best example of the use of medium-speed and high-speed diesel engines is Kirby's marine transportation fleet. Kirby operates 128 medium-speed propulsion engines on its larger Mississippi River towboats and offshore tugboats. Kirby's fleet also operates over 2,000 high-speed engines used as propulsion engines as well as to supply power for generators and pumps on smaller towboats, and for cargo transfer pumps on over 900 Kirby tank barges.

With the acquisitions of Global and MES, Kirby significantly expanded its high-speed service for its Midwest and Gulf Coast regions, extending its capabilities from the Great Lakes to the Gulf Intracoastal Waterway.

**Distributorships.** One of the keys to Kirby's success is its long-term relationships it has with the manufacturers of medium-speed and high-speed diesel engines. The principal medium-speed diesel engines serviced by Kirby are those manufactured by Electro-Motive Diesel, Inc. ("EMD"). Kirby has enjoyed a 41-year relationship with EMD, serving as both an authorized distributor in certain regions and markets, as well as an authorized service center. As stated above, with the acquisitions of Global and MES, Kirby now has dealership relationships with Caterpillar, Cummins, Detroit Diesel and John Deere diesel engines, and Allison transmissions. A list of manufacturer relationships is provided on page 7.

*Lonnie Dufrene and Lance Landry use a laptop computer to perform diagnostic checks on a 2000 horsepower Caterpillar 3516B marine main propulsion engine.*

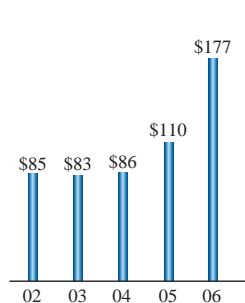




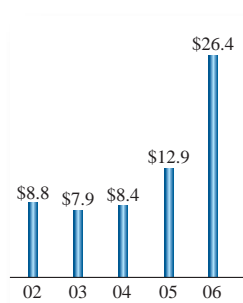
**Service Technicians and Service Locations.** Today, Kirby employs over 300 factory-trained and authorized project engineers, mechanics and machinists, providing in-house and in-field service. Kirby's in-house service consists of direct sales of OEM (Original Equipment Manufacturer) replacement parts and the refurbishment or rebuilding of parts, engines and reduction gears in compliance with factory specifications. In-house service is provided through 15 strategically located United States parts and service facilities. In-field service is provided by project engineers and mechanics throughout the world, as Kirby's service teams provide the service to meet its customers' needs wherever the customers' equipment is located. Kirby has the ability to supply project engineers and mechanics from any number of locations to support increased customer requirements in any one geographic area. During 2006, Kirby's service teams responded to customers' needs throughout the United States, as well as at international destinations in Bahrain, China, Guam, Japan, Mexico, Nigeria, Peru, Trinidad and Venezuela.

**Results of Operations.** Kirby Engine Systems reported record revenue for 2006 of \$177.0 million, a 61% increase over 2005. Operating income for 2006 was \$26.4 million, a 105% increase over 2005. The operating margin improved to 14.9% for 2006 compared with 11.7% for 2005. The record-setting 2006 results reflected the accretive acquisitions of Global and MES, continued strong marine, offshore oil service, power generation and railroad markets, higher service rates and parts pricing implemented during 2005 and 2006, higher labor utilization and larger service revenue versus direct parts revenue mix. During 2006, 64% of the diesel engine services revenue was from service versus 58% for 2005.

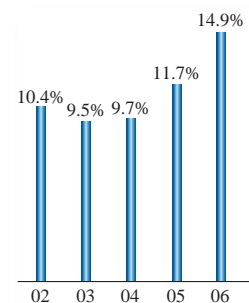
**Revenues**  
(In millions)



**Operating Income**  
(In millions)



**Operating Margin**



*Steve Colwart performs maintenance on a 3000 horsepower EMD marine propulsion engine and a 225 horsepower Cummins powered generator on a Mississippi River towboat. Kirby offers its customers a single source for all their engine, gear and transmission service and parts requirements.*



## Board of Directors

**C. Sean Day**<sup>2,3,4</sup>  
Chairman of  
Teekay Shipping Corporation  
Director since 1996

**Bob G. Gower**<sup>1,2,3</sup>  
President and  
Chief Executive Officer of  
Carbon Nanotechnologies, Inc.  
Director since 1998

**Walter E. Johnson**<sup>4</sup>  
Chairman of  
Amegy Bank of Texas  
Director since 2001

**William M. Lamont, Jr.**<sup>1,3,4</sup>  
Private Investor  
Director since 1979

**C. Berdon Lawrence**<sup>1</sup>  
Chairman of the Board of Kirby  
Director since 1999

**David L. Lemmon**<sup>2</sup>  
Private Investor  
Director since 2006

**Monte J. Miller**<sup>3</sup>  
Private Investor  
Director since 2006

**George A. Peterkin, Jr.**<sup>1,2</sup>  
Chairman Emeritus of Kirby  
Director since 1973

**Joseph H. Pyne**<sup>1</sup>  
President and  
Chief Executive Officer of Kirby  
Director since 1988

<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

**Ronald A. Dragg**  
Vice President and Controller

**G. Stephen Holcomb**  
Vice President—Investor Relations

**Jack M. Sims**  
Vice President—Human Resources

**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

**Mel R. Jodeit**  
Senior Vice President—Sales

**John E. Russell**  
Senior Vice President—Sales

**David L. Shaw**  
Senior Vice President—Vessel Operations

**Gregory R. Binion**  
Vice President—Sales

**Skye M. Durant**  
Vice President—Vessel  
Personnel and Training

**Robert D. Goolsby**  
Vice President—Facility Operations

**James C. Guidry**  
Vice President—Canal Vessel Operations

**Mark C. Lawrence**  
Vice President—Kirby Logistics  
Management

**C. Gene Moore**  
Vice President—River Vessel Operations

**Richard C. Northcutt**  
Vice President—Traffic

**John W. Sansing, Jr.**  
Vice President—Maintenance

**Cliff R. Stanich**  
Vice President—Sales

**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

### Osprey Line, L.L.C.

**Christian G. O'Neil**  
President

**Charles J. Duet**  
Vice President—Project Cargo

### 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.

**Timothy P. Brady**  
Senior Vice President

**Lynn A. Ahlemeyer**  
Vice President—Gulf Coast and  
West Coast

**Thomas W. Bottoms**  
Vice President—Midwest

**Troy A. Bourgeois**  
Vice President—Sales

**Bart J. Hohensee**  
Vice President

### Rail Systems, Inc.

**John A. Manno**  
Vice President

## Shareholder Information

### Annual Meeting

The 2007 Annual Meeting of Stockholders will be held at 55 Waugh Drive, 8th Floor, Houston, Texas 77007, at 10:00 a.m. (CDT), Tuesday, April 24, 2007.

### Corporate Headquarters

#### Executive Office:

55 Waugh Drive, Suite 1000  
Houston, Texas 77007  
Telephone: (713) 435-1000  
Fax: (713) 435-1011  
Web site: [www.kirbycorp.com](http://www.kirbycorp.com)

#### Mailing Address:

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

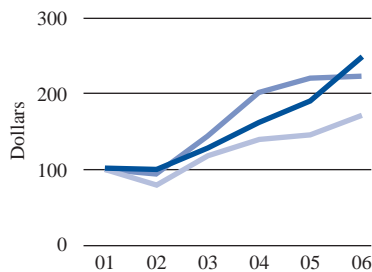
### Inquiries Regarding Stock Holdings

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

Computershare Trust Company, N.A.  
P.O. Box 43078  
Providence, Rhode Island 02940-3078  
Telephone: (781) 575-2897  
Internet: <http://computershare.com>

### Comparison of 5 Year Cumulative Total Return

Return on \$100 invested on 12/31/01 in stock or index, including reinvestment of dividends.  
Fiscal year ending December 31.



■ Kirby Corporation    ■ Russell 2000    ■ Dow Jones US Marine Transportation

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.

### Web Site

For more investor information, as well as information about Kirby, visit Kirby's web site at [www.kirbycorp.com](http://www.kirbycorp.com).

### 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, 2007, there were 53,175,000 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
2007		
First Quarter (through March 1, 2007)	\$38.20	\$33.06
2006		
First Quarter	\$34.30	\$25.13
Second Quarter	\$40.59	\$32.35
Third Quarter	\$41.36	\$28.09
Fourth Quarter	\$37.05	\$30.54
2005		
First Quarter	\$22.79	\$19.88
Second Quarter	\$22.87	\$18.60
Third Quarter	\$22.84	\$22.06
Fourth Quarter	\$27.77	\$22.96

### 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 web site 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, 2006, 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, in 2006, Kirby 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.



*Robert G. Stone, Jr.*  
1923 - 2006

Resolution Adopted by the Board of Directors of Kirby Corporation, April 25, 2006

*WHEREAS, Robert G. Stone, Jr. has served Kirby Corporation for 23 years, first as Chairman of the Board from 1983 to 1995 and then as a director and Chairman Emeritus from 1995 until his death on April 18, 2006;*

*WHEREAS, with his astute guidance, creative thinking, calm leadership and collegial manner, Bob Stone steered Kirby through difficult times and was instrumental in setting Kirby on its course to becoming the premier inland tank barge transportation company in the United States;*

*WHEREAS, while Bob Stone is justly acclaimed for his extraordinary contributions to Harvard University, his contributions to Kirby have been equally valuable to Kirby's stockholders and employees;*

*RESOLVED, that the Board of Directors adopts these resolutions as a memorial to Bob Stone, a leader, advisor, mentor and friend whose contributions to Kirby Corporation and its extended family throughout his tenure are irreplaceable, but will continue to benefit Kirby, its stockholders and its employees for years to come.*



**Kirby Corporation**

Corporate Headquarters: 55 Waugh Drive, Suite 1000, Houston, Texas 77007

Mailing Address: P. O. Box 1745, Houston, Texas 77251-1745

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Web site: [www.kirbycorp.com](http://www.kirbycorp.com)