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The offering is made only by the Prospectus. The Attorney General of the State of New York has not passed on or
endorsed the merits of this offering. Any representation to the contrary is unlawful.

New Issue

September 27, 1993

26,335,000 Shares



DUKE REALTY CORPORATION

Common Stock

Price \$11.875 Per Share

The New York Stock Exchange symbol is DRE

Copies of the Prospectus may be obtained in any State or jurisdiction in which this announcement is circulated from
only such of the undersigned or other dealers or brokers as may lawfully offer these securities in such State or jurisdiction.

22,384,750 Shares

The above shares were underwritten by the following group of U.S. Underwriters.

Merrill Lynch & Co.

A.G. Edwards & Sons, Inc.

Dean Witter Reynolds Inc.

Legg Mason Wood Walker
Incorporated

3,950,250 Shares

The above shares were underwritten by the following group of International Underwriters.

Merrill Lynch International Limited

A.G. Edwards & Sons, Inc.

Dean Witter International Inc.

Legg Mason Wood Walker
Incorporated

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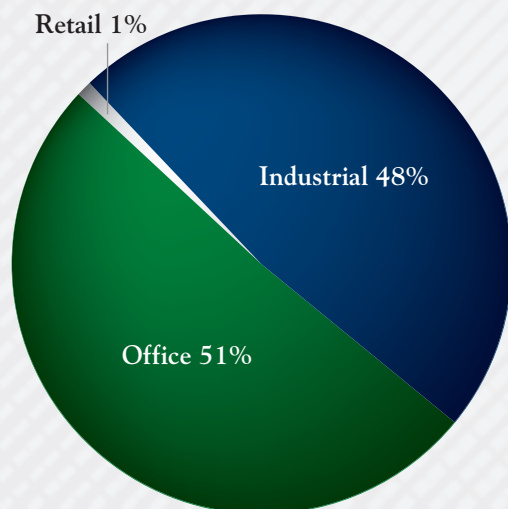
ABOUT THE COVER

The cover of this report celebrates that as of November 29, 2002, Duke Realty Corporation had paid more cumulative dividends than the original offering price of our shares in October, 1993. The significance of this accomplishment was made known to us through a 1999 book called *The Dividend Rich Investor*, where authors Joseph Tigue and Joseph Lisanti devoted a chapter to a small number of stocks that distributed enough dividends over 10 years to pay for their initial purchase price (called “free stocks”).

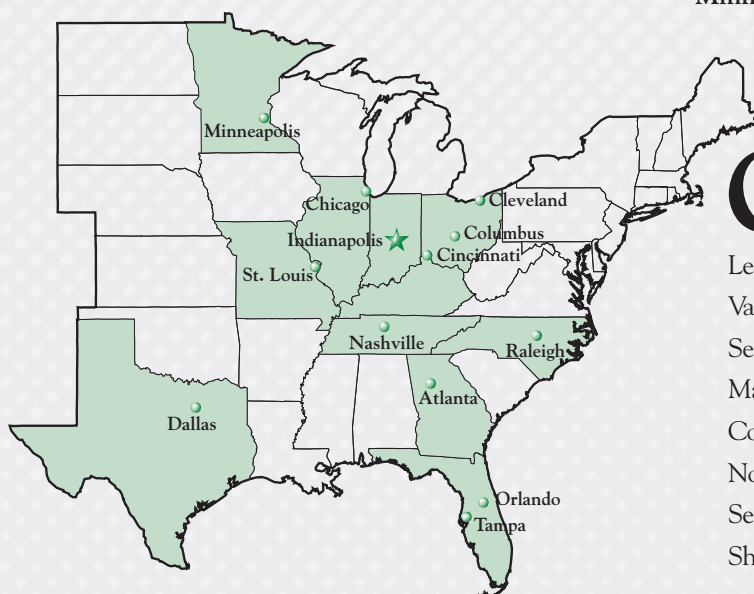
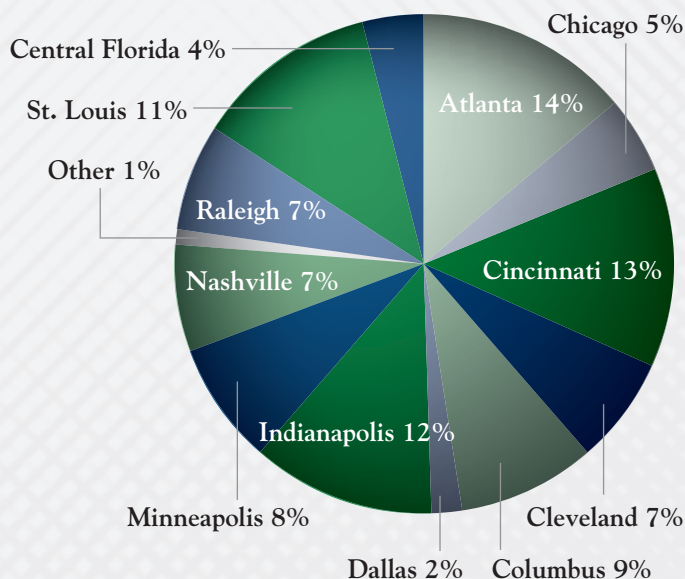
Replicated on the cover is the original tombstone announcement from our 1993 public offering. We have stamped this original tombstone “Paid in Full” to indicate that our dividends have now fully paid for our stock. In order to reflect current information, the share amounts and original stock price have been adjusted for our two-for-one stock split in 1997. Additionally, our current company name is shown instead of Duke Realty Investments, Inc., which was our name in 1993.

GEOGRAPHIC AND PRODUCT TYPE HIGHLIGHTS

Net Effective Rent by Property Type
December 31, 2002



Net Effective Rent by Market
December 31, 2002



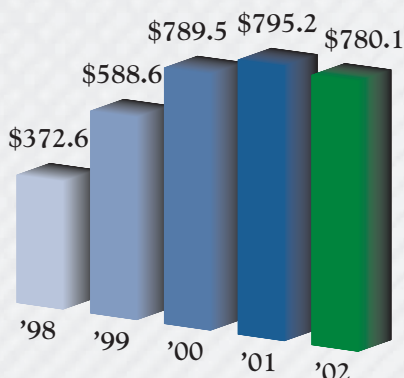
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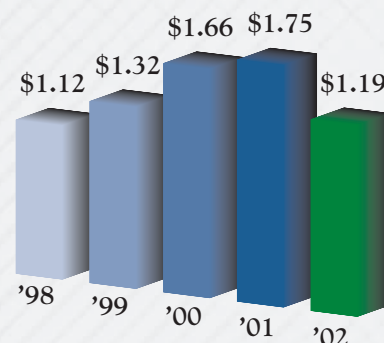
DUKE REALTY CORPORATION

Duke Realty Corporation is the largest publicly-traded office and industrial real estate company in the United States. Duke provides in-house a full range of services, backs them with nearly 30 years experience, and delivers valuable real estate solutions to satisfied customers across the Midwest and Southeast. At Duke, experienced people provide superior products and superior operating performance.

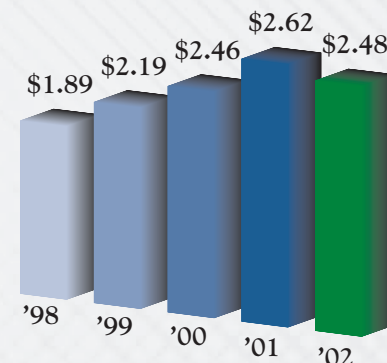
Total Revenues
(in millions)



Diluted Net Income Per Common Share



Diluted Funds From Operations (FFO) Per Common Share



Selected Consolidated Financial Data
(In thousands, except per share amounts)

	2002	2001	2000	1999	1998
Total Revenues	\$780,071	\$795,198	\$789,546	\$588,586	\$372,563
Net Income Available for Common Shares	161,272	229,967	212,958	139,636	90,871
Diluted Net Income per Common Share	1.19	1.75	1.66	1.32	1.12
Funds From Operations—Diluted	388,357	408,361	377,853	278,599	174,829
Diluted FFO per Common Share	2.48	2.62	2.46	2.19	1.89
Dividends Paid per Common Share	1.81	1.76	1.64	1.46	1.28
Total Assets	5,348,823	5,330,033	5,460,036	5,486,238	2,853,653
Total Shareholders' Equity	2,616,180	2,785,009	2,712,890	2,668,596	1,570,112
FFO Payout Ratio	73.2%	67.9%	68.3%	68.9%	69.8%

Senior Unsecured Debt Ratings

Standard & Poor's	BBB+	BBB+	BBB+	BBB+	BBB+
Moody's	Baa1	Baa1	Baa1	Baa1	Baa2
Fitch	BBB+	BBB+	BBB+	BBB+	BBB+

TO OUR SHAREHOLDERS:

As we anticipated, 2002 was a challenging year because of the recession that carried over from 2001. Though the economy was important, history will regard 2002 as the year when investors lost faith in Corporate America because of significant accounting fraud and corporate malfeasance at a number of previously well-regarded companies.

Like you, we at Duke Realty Corporation were distressed by the abuses that we witnessed in certain sectors of Corporate America. I am pleased to report that we stood out as an example of sound corporate governance in 2002. In fact, after we announced a number of incremental corporate governance improvements in July, two prominent industry analysts published reports stating that Duke had set the "gold standard" for corporate governance in the real estate industry.

While we certainly appreciate this recent recognition, our philosophy of running the company honestly and prudently for the benefit of all shareholders long precedes certain highly publicized corporate abuses. Since our public offering in 1993, we have had a majority of independent directors and have tried to operate as a model publicly-held company. Likewise, we were at the forefront of electing a lead director and of establishing a corporate governance committee of our Board of Directors.

Institutional Shareholder Services has evaluated Duke's corporate governance structure and policies and, as I write this letter on February 10, 2003, has determined that Duke outperformed 99.9% of the companies in the Russell 3000 Index and ranked first in the companies comprising ISS's real estate group. Please refer to page five of this report for more information about our corporate governance principles. Going forward, we intend to continue to stand out from the crowd in this important area.

The four critical measurements that we use each year to evaluate our performance reflect both the stability inherent in our business as well as a weak economic backdrop in 2002:

- **Funds From Operations (FFO) per share** declined 5.3 percent in 2002, the first time since our 1993 public offering that FFO declined from the previous year. While we would rather have had growth, the high quality and stability of our properties, with an average lease term of seven years, allowed us to weather the tough economic environment relatively well. Additionally, although our nearly \$800 million of dispositions in 2001 and 2002 put downward pressure on 2002 earnings, we continue to benefit from having one of the strongest balance sheets in the industry.
- **Return on Assets and Return on Equity** were 9.8 percent and 12.7 percent, respectively, compared to 10.5 percent and 13.8 percent in 2001. While down in 2002, our long-term targets for these ratios remain at 11.0 percent for return on assets and 15.0 percent for return on equity.



From left: Gene Zink, Vice Chairman, Executive Vice President and Chief Financial Officer; Dennis Oklak, President and Chief Operating Officer; Gary Burk, Vice Chairman and Executive Vice President; Thomas Hefner, Chairman and Chief Executive Officer

- **The Total Return** to Duke shareholders in 2002 was 12.2 percent compared to 3.8 percent for the NAREIT Equity Index and -22.1 percent for the S&P 500 Index. Clearly, the strong performance of Duke and the real estate industry in recent years, at least in part, can be attributed to generally less risky business models and better accounting and corporate governance practices as compared to the rest of the stock market. As always, our dividend provided a large part of our total return in 2002. Significantly, as highlighted on the cover of this report, we were very pleased to announce in December that we cumulatively have now paid more dividends than the original price of our shares at the 1993 offering. It is very rare for a public company to pay for itself with dividends in less than 10 years. This achievement dramatically demonstrates the long-term importance of paying a large and growing dividend. No matter how President Bush's dividend taxation proposal plays out, we will stay with the same general strategy that has made us one of the most attractive and top performing dividend stocks in America.

Total Return to Shareholders (December 31, 2002)				
	1 Year	3 Year	5 Year	Since 10/93 Offering
Duke	12.2%	17.5%	8.2%	16.1%
NAREIT Equity Index	3.8%	14.3%	3.3%	8.4%
S&P 500 Index	-22.1%	-14.6%	-0.6%	9.0%

OUTLOOK

From an economic standpoint, 2002 ended better than it began, and we are hopeful that things are returning to normal, albeit slowly. Throughout the year, we reported meaningful increases in development, acquisition and construction activity each quarter. This trend is clearly positive, but the most important driver of our business is the occupancy of our properties. At this point we believe our occupancy has bottomed for this cycle, but we have yet to see any meaningful occupancy improvement. This will be our primary focus in 2003.

While we expect our operating performance in 2003 to be flat compared to 2002, we are excited about our prospects for growth over what we think of as "the next five-year run." Specifically, there are several catalysts that should boost our performance as the economy recovers:

- We ended 2002 with in-service occupancy of 87 percent compared to a historic range of 92–95 percent. At approximately \$0.06 per share for each percentage increase in occupancy, we can improve earnings by more than \$0.30 per share annually by driving portfolio occupancy to more typical levels.
- By utilizing our more than \$800 million of unused debt capacity, we will be able to take advantage of our least expensive form of externally-raised capital. With average investment returns currently at least four percentage points higher than our cost of debt, more than \$0.20 per share may be added to our annual earnings.
- As the economy improves, we expect higher construction and development volumes to materialize beyond the improved levels of activity that we recently reported. As in the past, we expect those development projects that we either will own indefinitely or sell upon completion to be our most profitable source of external growth. Additionally, we anticipate that our third-party construction business will provide a greater contribution than before as we become more established in our newer markets. Also, across all of our markets, we are now providing expertise to our third-party clients in constructing a broader array of building types, including medical and hotel facilities in addition to the office and industrial buildings we have specialized in traditionally.
- Higher levels of construction and leasing activity also will allow more of our overhead costs, which are now included in general and administrative expenses, to be applied to projects. This could help reduce our overall expenses by \$0.03 to \$0.05 per share annually.

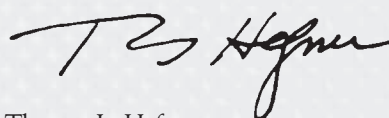
- Other expected sources of growth over time include rental rate improvement, which usually follows occupancy gains; re-financing maturing debt at lower interest rates; and potential opportunities to leverage our delivery system by accepting co-investments from institutional investors in certain assets.

These multiple sources of growth amount to perhaps the greatest launching pad of future performance that Duke has ever experienced. However, we cannot unleash most of this earnings power without an economic recovery that leads to improving demand from our clients. While we don't know yet if the positive business trends that we have seen lately are the real thing, we are confident that our future is bright. We are also confident that our business model, which is centered on creating value for our customers, will continue to stand the test of time. With our size, access to capital, market dominance and vertical integration, our business model gives us a significant competitive advantage in our Midwest and Southern markets.

Additionally, by continually fine-tuning instead of reinventing our strategy, we strengthen our core competencies while avoiding the unwise strategic distractions that have been prevalent in both the real estate industry and in Corporate America. In this new era where sound corporate governance and prudent management are highly valued, I will re-emphasize our assurance that was published in last year's annual report but warrants repeating: **We want our shareholders to know that managing and understanding risk is a hallmark of our management philosophy.**

On a personal note, I announced in January my intent to give up my title as Chief Executive Officer by April 30, 2004 and retire as Chairman of the Board approximately 12 months later. In that regard, your Board of Directors promoted Denny Oklak to President and Chief Operating Officer. Denny has been with the Company for 16 years. As part of this move, Gene Zink and Gary Burk were named Vice Chairmen and will assist me through this transition period.

To all of our shareholders, associates and friends, thank you for your continued confidence in Duke Realty Corporation.



Thomas L. Hefner
Chairman & Chief Executive Officer

VALUE CREATION

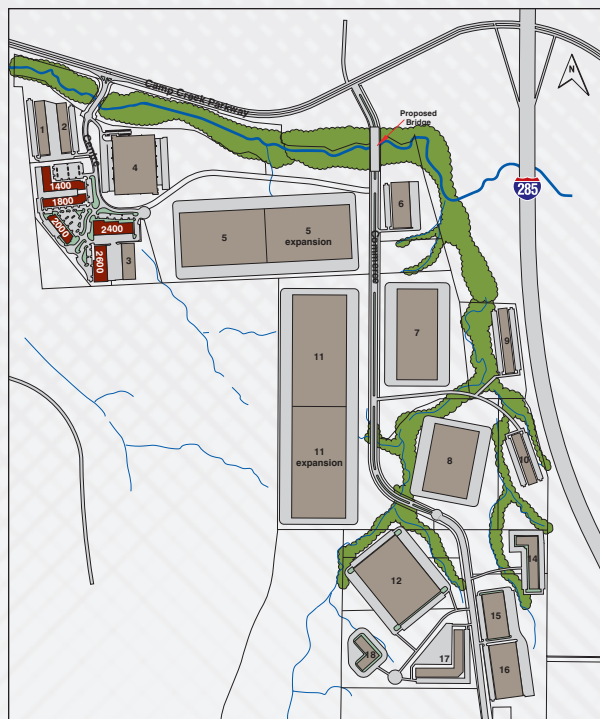
At Duke Realty, value creation means that we can produce risk-adjusted returns that are greater than a passive investor can achieve. With a hands on approach coupled with our long-term market presence, Duke properties have consistently had higher occupancies than other properties in the markets in which we operate. While maximizing returns from existing assets is of critical importance, Duke is particularly set apart from our competition by creating value with additional real estate skills that others lack.

As a vertically integrated design-build contractor we have a cost and timing advantage over our competitors. Vertical integration gives us more control in the development of new properties and build-to-suits for customers. Since our public offering in 1993, Duke has completed 383 developments that total \$3.1 billion of project costs. With an average stabilized return of 11.4 percent and an estimated value upon sale of more than \$3.8 billion (a 9.25 percent capitalization rate), this activity created over \$725 million of value for Duke shareholders.

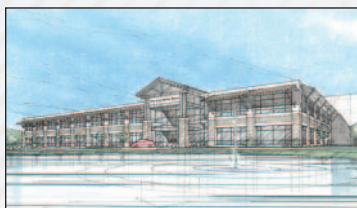
One of our core approaches to creating value and controlling risk through development is to **develop master-planned business parks** where we can control the overall environment of the park. Concentrating our assets in business parks allows us to better meet the needs of our tenants, is more efficient to manage, and makes for an institutional quality investment, which improves the marketability of the property if we decide to sell.

A recent example of a newly created Duke business park is Camp Creek Trade Center near the Atlanta-Hartsfield International Airport. After initially buying 5 buildings and 92 acres of land, by working closely with the local government, we accumulated 300 acres of undeveloped land that can accommodate \$150 million of future developments.

Once land is acquired and zoned in a business park, Duke creates value by developing buildings to meet market demand. This includes **build-to-suit developments** that are pre-leased on a long-term basis. One such project that we started in 2002 was a 1.1 million square foot bulk warehouse development in Dallas, Texas that is under construction for The Container Store. It is located in



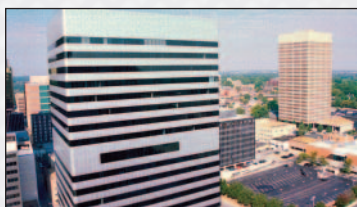
Camp Creek Trade Center Master Site Plan



The Container Store



Lowe's Inc.



Interco Tower

Freeport North Business Park where Duke has 2.1 million square feet of existing industrial assets that are 98 percent leased.

Our development and construction expertise also allows us to create value for customers and shareholders by **building facilities for clients that will own the project upon completion.**

An example of this is our work for Lowe's Inc. Since 1995 we have built over 5.7 million square feet of distribution facilities for Lowe's including 3.1 million square feet in 2002. In addition, we have been awarded a nearly 1.4 million square foot project for Lowe's in 2003.

Another important way we can create value is through **acquisitions**. In recent years, attractive acquisition opportunities have been scarce so we conserved our capital. However, at the end of 2002 we

were pleased to purchase the 344,000 square foot Interco tower in the Clayton submarket of St. Louis, Missouri. This project was purchased at below replacement cost in a submarket that has strong barriers to entry.

With one of the industry's strongest balance sheets and an unmatched delivery system of real estate services, we are poised for increased opportunities to create value as the economy recovers.

CORPORATE GOVERNANCE

Since the Company's inception, Duke not only has strived to be a top-performer operationally, but also to lead in issues important to investors such as disclosure and corporate governance. Duke's system of governance reinforces this commitment. Going forward, Duke will continue to show the investment community that the quality and integrity of its accounting and corporate governance practices are among the best in corporate America. Summarized below are some of the reasons for Duke's excellence.

Board Composition	Board is controlled by supermajority (67%+) of Independent Directors
Board Committees	Board Committee members are all Independent Directors
Lead Director	The Chairman of the Corporate Governance Committee serves as Lead Director of the Independent Directors
Board Guidelines	<ul style="list-style-type: none">Shareholder Rights Plan terminatedCode of Conduct applies to all Directors and Associates; waivers require the vote of Independent DirectorsEffective orientation program created for new DirectorsIndependence of Directors is reviewed annuallyIndependent Directors meet at least quarterly in executive sessionIndependent Directors receive no compensation from Duke other than as directorsEquity-based compensation plans require shareholder approvalBoard effectiveness and performance is reviewed annually by the Corporate Governance CommitteeCorporate Governance Committee conducts an annual review of CEO succession planIndependent Directors and all Board Committees may retain outside advisors, as they deem appropriateMandatory retirement age for Directors establishedOutstanding stock options may not be repricedDirectors required to offer resignation upon job change
Ownership	Minimum Stock Ownership Guidelines apply to all Directors and Officers

MISSION STATEMENT

It is the mission of Duke Realty Corporation to be the preeminent provider of real estate services. Through the development, construction, acquisition, asset and property management and leasing of industrial, office and retail properties, we will provide the highest standard of service and product execution in the industry, completely satisfying our customers. We will conduct our business in a manner that produces exceptional shareholder value and will challenge every member of our team to reach for the highest levels of integrity, creativity, drive and focus. Finally, we will make the communities where we do business, better places to live.

SELECTED CONSOLIDATED FINANCIAL DATA

The following sets forth selected consolidated financial and operating information on a historical basis for the Company for each of the years in the five-year period ended December 31, 2002. The following information should be read in conjunction

with Management's Discussion and Analysis of Financial Condition and Results of Operations and Financial Statements and Notes to Consolidated Financial Statements included in this Annual Report (in thousands, except per share amounts):

	2002	2001	2000	1999	1998
Results of Operations:					
Revenues:					
Rental Operations	\$711,491	\$714,739	\$706,747	\$534,555	\$347,847
Service Operations	68,580	80,459	82,799	54,031	24,716
Total Revenues from Continuing Operations	\$780,071	\$795,198	\$789,546	\$588,586	\$372,563
Net Income Available for Common Shares	\$161,272	\$229,967	\$212,958	\$139,636	\$90,871
Per Share Data:					
Basic Income per Common Share:					
Continuing Operations	\$1.16	\$1.75	\$1.67	\$1.33	\$1.13
Discontinued Operations	.04	.02	.01	—	—
Diluted Income per Common Share:					
Continuing Operations	1.15	1.73	1.65	1.32	1.12
Discontinued Operations	.04	.02	.01	—	—
Dividends paid per Common Share	1.81	1.76	1.64	1.46	1.28
Weighted Average Common Shares Outstanding	133,981	129,660	126,836	104,884	80,704
Weighted Average Common and Dilutive Potential Common Shares	150,839	151,710	147,441	120,511	92,468
Balance Sheet Data (at December 31):					
Total Assets	\$5,348,823	\$5,330,033	\$5,460,036	\$5,486,238	\$2,853,653
Total Debt	2,106,285	1,814,856	1,973,215	2,113,476	1,007,317
Total Preferred Equity	440,889	608,664	608,874	609,998	360,000
Total Shareholders' Equity	2,616,180	2,785,009	2,712,890	2,668,596	1,570,112
Total Common Shares Outstanding	135,007	131,416	127,932	125,823	86,053
Other Data:					
Funds From Operations (1)	\$337, 651	\$346,747	\$317,360	\$234,273	\$154,074
Cash Flow Provided by (Used by):					
Operating activities	\$569,596	\$349,668	\$363,350	\$315,635	\$221,188
Investing activities	(337,972)	91,539	(11,972)	(740,269)	(703,814)
Financing activities	(223,693)	(470,915)	(330,952)	436,449	479,223

(1) Funds From Operations is defined by the National Association of Real Estate Investment Trusts as net income or loss, excluding gains or losses from debt restructuring and sales of depreciated property, plus operating property depreciation and amortization and adjustments for minority interest and unconsolidated companies on the same basis. Funds From Operations does not represent cash flow from operations as defined by generally accepted accounting principles, should not be considered as an alternative to net income as an indicator of the Company's operating performance, and is not indicative of cash available to fund all cash flow needs.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

Certain statements in this Annual Report, including those related to the Company's future operations, constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the Company, or industry results, to differ materially from any predictions of future results, performance or achievements that we express or imply in this report. Some of the risks, uncertainties and other important factors that may affect future results include, among others:

- General economic and business conditions;
- The Company's continued qualification as a real estate investment trust;
- Competition for tenants and decrease in property occupancy;
- Potential increases in real estate construction costs;
- Potential changes in interest rates;
- Continuing ability to favorably raise debt and equity in the capital markets; and
- Other risks inherent in the real estate business including tenant defaults, potential liability relating to environmental matters and liquidity of real estate investments.

This list of risks and uncertainties, however, is not intended to be exhaustive. The Company has on file with the Securities and Exchange Commission ("SEC") a Report on Form 8K dated December 6, 2001, with additional risk factor information.

The words "believe," "estimate," "expect" and similar expressions or statements regarding future periods are intended to identify forward-looking statements. Although we believe that the plans, expectations and results expressed in or suggested by our forward-looking statements are reasonable, all forward-looking statements are inherently uncertain as they involve substantial risks and uncertainties beyond the Company's control. New factors emerge from time to time, and it is not possible for us to predict the nature or assess the potential impact of each new factor on the Company's business. Given these uncertainties, we caution you not to place undue reliance on these forward-looking statements. The Company undertakes no obligation to update or revise any of its forward-looking statements for events or circumstances that arise after the statement is made.

BUSINESS OVERVIEW

The Company is a self-administered and self managed real estate investment trust that began operations through a related entity in 1972. As of December 31, 2002, the Company:

- Owned or controlled 927 industrial, office and retail properties (including properties under development), consisting of over 108 million square feet located in 12 states; and
- Owned or controlled approximately 3,800 acres of land with an estimated future development potential of approximately 59 million square feet of industrial, office and retail properties.

The Company provides the following services for its properties and for certain properties owned by third parties:

- leasing;
- management;
- construction;
- development; and
- other tenant-related services.

The Company's operating results depend primarily upon income from the Rental Operations of its properties. This rental income is substantially influenced by the supply and demand for the Company's rental space. The Company's continued growth is dependent upon its ability to maintain occupancy rates and increase rental rates of its in-service portfolio. The Company's strategy for growth also includes developing and acquiring additional rental properties.

Rental Operations revenues decreased from \$714.7 million in 2001 to \$711.5 million in 2002, as the effects of a weakened economy lingered in the Company's markets for 2001 and 2002. The occupancy level of the Company's in-service portfolio decreased from 88.6% at December 31, 2001, to 87.1% at December 31, 2002 due to the following factors:

- The low occupancy levels of new developments placed in-service over the last twelve to eighteen months as a result of slow lease-up activity;
- The slowdown in demand in many of the Company's markets from the weakened economy; and
- The effects of the Company's disposition activities in 2000 and 2001 during which the Company sold over \$1 billion of assets in an effort to de-leverage the Company's balance sheet and dispose of unwanted properties.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

While these events have affected growth and related rental income, the Company believes that it has strong liquidity and financial flexibility (See additional discussion under Liquidity and Capital Resources). With a debt to market capitalization ratio of 32.7% and \$219 million available on its unsecured line of credit as of December 31, 2002, the Company believes that it is positioned to fund its operational expenses and shareholder distributions and to make future opportunistic real estate investments.

The following highlights the areas of Rental Operations that the Company considers critical for future revenue growth (all square footage totals and occupancy percentages reflect 100% of both wholly-owned properties and properties in joint ventures):

Same Property Performance: The Company tracks same property performance, which measures the performance of properties that were in-service for all reported portions of a two-year period by comparing the results of the second year with the results of the

first year. In 2002, net operating income from the same property portfolio increased just .3% over 2001, compared to 4.4% growth in 2001 over 2000. The lower growth in same property performance resulted from lower occupancies in the properties that rolled into the same property population in 2002, coupled with the fact that a majority of the properties sold over the past two years were from the same property population and were over 90% leased. The lower occupancy on our same property population was slightly offset by an increase in net effective rents; however, rental rate growth has decreased significantly from 2000 and 2001.

Occupancy Analysis: As discussed above, the ability to maintain occupancy rates is a principal driver of the Company's results of operations. The following table sets forth information regarding the Company's in-service portfolio of rental properties as of December 31, 2002 and 2001 (square feet in thousands):

Type	Total Square Feet		Percent of Total Square Feet		Percent Occupied	
	2002	2001	2002	2001	2002	2001
Industrial						
Service Centers	13,758	13,833	13.0%	13.4%	87.4%	88.7%
Bulk	66,021	64,786	62.8%	63.0%	87.1%	89.4%
Office	24,578	23,528	23.4%	22.9%	86.5%	86.0%
Retail	839	745	0.8%	0.7%	98.5%	96.8%
Total	105,196	102,892	100.0%	100.0%	87.1%	88.6%

The Company's lower occupancy percentage in 2002 as compared to 2001 was primarily caused by slower lease-up of new developments placed in-service during 2002 and 2001 and reduced demand for existing space. While the decline in occupancy appears to be slowing, and the Company is focused on leasing existing space, management cannot predict when the occupancy of these properties will increase.

Lease Expiration: The Company's ability to maintain and grow its occupancy rates primarily depends upon its continuing ability to re-lease expiring space. The following table reflects the Company's in-service lease expiration schedule as of December 31, 2002, by product type. The table indicates square footage and annualized net effective rents (based on December 2002 rental revenue) under expiring leases (in thousands):

Year of Expiration	Total Portfolio			Industrial		Office		Retail	
	Square Feet	Dollars	%	Square Feet	Dollars	Square Feet	Dollars	Square Feet	Dollars
2003	10,194	\$64,266	10%	8,200	\$40,074	1,994	\$24,192	—	\$—
2004	10,963	77,778	12%	8,248	39,784	2,692	37,587	23	407
2005	13,727	96,060	15%	10,828	54,391	2,861	41,165	38	504
2006	11,045	76,865	12%	8,725	45,491	2,315	31,296	5	78
2007	10,771	75,862	12%	8,199	41,209	2,514	33,934	58	719
2008	8,491	52,229	8%	6,912	30,958	1,555	20,901	24	370
2009	7,135	43,927	7%	5,776	25,112	1,340	18,446	19	369
2010	6,312	49,314	8%	4,511	21,403	1,785	27,647	16	264
2011	3,600	31,389	5%	2,325	11,193	1,259	19,951	16	245
2012	4,303	26,920	4%	3,267	12,526	1,018	13,896	18	498
2013 and Thereafter	5,037	46,849	7%	2,508	12,310	1,920	29,788	609	4,751
	91,578	\$641,459	100%	69,499	\$334,451	21,253	\$298,803	826	\$8,205
Total Portfolio Square Feet	105,196			79,779		24,578		839	
Percent Occupied	87.05%			87.12%		86.47%		98.46%	

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Lease Renewals: The Company renewed 72.1% of leases up for renewal in 2002, totaling 8.7 million square feet on which it attained a 3.3% growth in net effective rents. Slower demand for rental space reduced rental rates during 2002.

The Company does not currently expect its renewal percentage or its growth in net effective rents on new leases in 2003 to significantly differ from the re-leasing activity in 2002.

Future Development: The Company also expects to realize growth in earnings from Rental Operations through the

development and acquisition of additional rental properties. Specifically, the Company has approximately 3.1 million square feet of properties under development at December 31, 2002. These properties under development should provide future earnings through Service Operations income upon sale or from Rental Operations growth as they are placed in service as follows (in thousands, except percent leased and stabilized returns):

Anticipated In-Service Date	Square Feet	Percent Leased	Project Costs	Anticipated Stabilized Return
Held for Rental:				
1st Quarter 2003	638	100%	\$22,385	9.7%
2nd Quarter 2003	427	81%	42,232	10.8%
3rd Quarter 2003	38	69%	3,373	11.9%
Thereafter	1,462	68%	73,899	10.3%
	2,565	78%	\$141,889	10.4%
Held for Sale:				
1st Quarter 2003	17	82%	\$2,335	13.5%
2nd Quarter 2003	61	77%	6,887	10.9%
3rd Quarter 2003	159	70%	15,204	12.0%
Thereafter	256	100%	28,707	8.9%
	493	87%	\$53,133	10.2%
Total	3,058	80%	\$195,022	10.3%

RESULTS OF OPERATIONS

A summary of the Company's operating results and property statistics for each of the years in the three-year period ended

December 31, 2002, is as follows (in thousands, except number of properties and per share amounts):

	2002	2001	2000
Rental Operations revenues	\$711,491	\$714,739	\$706,747
Service Operations revenues	68,580	80,459	82,799
Earnings from Rental Operations	219,076	254,103	225,183
Earnings from Service Operations	30,270	35,115	32,760
Operating income	223,993	273,665	236,806
Net income available for common shares	161,272	229,967	212,958
Weighted average common shares outstanding	133,981	129,660	126,836
Weighted average common and dilutive potential common shares	150,839	151,710	147,441
Basic income per common share:			
Continuing operations	\$1.16	\$1.75	\$1.67
Discontinued operations	\$0.04	\$0.02	\$0.01
Diluted income per common share			
Continuing operations	\$1.15	\$1.73	\$1.65
Discontinued operations	\$0.04	\$0.02	\$0.01
Number of in-service properties at end of year	910	888	913
In-service square footage at end of year	105,196	102,892	100,962
Under development square footage at end of year	3,058	4,701	8,056

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

COMPARISON OF YEAR ENDED DECEMBER 31, 2002 TO YEAR ENDED DECEMBER 31, 2001

Rental Operations

Rental Operations are comprised of net income from rental properties ("Rental Net Income") and equity in earnings from unconsolidated companies ("Equity in Earnings"). Rental Net Income is defined as rental income less rental expenses and real estate taxes. Overall, Rental Net Income decreased from \$492.1 million in 2001 to \$483.9 million in 2002. The decrease is primarily attributable to an overall decrease in occupancy of the Company's in-service portfolio from 88.6% at December 31, 2001, to 87.1% at December 31, 2002. This decrease is the result of the weakened economy and its effect on business in the Company's markets. These markets are experiencing a shortage of demand compared to the supply of office and industrial space resulting from downsizing of leased space for existing tenants, the lack of new business growth, and the tendency of existing businesses to hold off on growth plans until the economy improves. These effects were somewhat mitigated by the Company recognizing \$27.4 million and \$18.3 million of lease termination fees in 2002 and 2001, respectively.

The Company analyzes the results of Rental Operations by office, industrial and retail portfolios. The following highlights the financial results for each of the Company's Rental Operations portfolios.

Office

Rental Net Income for Office properties increased from \$255.3 million in 2001, to \$265.8 million in 2002 as a result of the following:

- The Company experienced an increase in its in-service Office portfolio occupancy from 86.0% at December 31, 2001, to 86.5% at December 31, 2002.
- The Company's in-service Office portfolio has increased from 229 properties at December 31, 2001, to 239 properties at December 31, 2002.
- The Company recognized \$21.7 million in termination fees associated with this segment in 2002, compared to \$14.5 million in 2001.

Industrial

Rental Net Income for Industrial properties decreased to \$212.6 million in 2002, from \$223.1 million in 2001 as a result of the following:

- The Company experienced a decrease in its in-service Industrial portfolio occupancy from 89.3% at December 31, 2001, to 87.1% at December 31, 2002.
- The Company's in-service Industrial portfolio increased from 649 properties at December 31, 2001 to 661 properties at December 31, 2002.

- The Company recognized \$5.5 million of lease termination fees for the year ended December 31, 2002, compared to \$3.6 million in 2001.

Retail

Rental Net Income for Retail properties decreased to \$6.0 million in 2002, from \$15.0 million in 2001 in connection with the following:

- In August of 2001, the Company sold 21 properties or approximately 75% of its retail portfolio. As a result of this sale, the Company had eight months of operations associated with these properties in 2001.
- The Company's Retail portfolio had an in-service occupancy percentage of 98.5% at December 31, 2002, compared to 96.8% at December 31, 2001.

Equity in earnings decreased from \$31.4 million in 2001 to \$27.2 million for 2002 as a result of the following:

- The Company's share of lease termination fees for 2001 was approximately \$2.1 million, compared to approximately \$658,000 in 2002.
- During 2002, a 50% joint venture had increased interest expense of approximately \$900,000 as a result of \$71.0 million in debt assumed during the second quarter of 2001.

Depreciation and amortization expense for the year ended December 31, 2002, increased over the prior year through an increase in the Company's building asset basis, increased investments in tenant improvements and the expensing of undepreciated tenant improvements associated with the early terminations of tenants.

The \$5.2 million increase in interest expense is attributable to the following:

- Interest capitalized on development projects decreased from \$25.9 million in 2001 to \$13.5 million in 2002 because of decreased development activity by the Company over the past twelve to eighteen months in response to soft demand in most of the Company's markets.
- Interest expense on corporate unsecured debt increased from \$98.7 million in 2001 to \$100.8 million in 2002. The Company issued \$150 million of ten-year unsecured debt in August 2002 at an effective interest rate of 5.88% and \$50 million of ten-year unsecured debt in September 2002 at an effective interest rate of 5.45%. Also in 2002, the Company paid off \$50 million of debt that matured in September which had an effective rate of 7.31%.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

- Interest expense on the Company's secured debt decreased from \$30.8 million in 2001 to \$22.9 million in 2002 as the Company paid off \$13.5 million of secured debt throughout 2002 and experienced lower borrowings on its secured line of credit during 2002 compared to 2001. Additionally, the Company paid off approximately \$128.5 million of secured debt throughout 2001.
- Interest expense on the Company's \$500 million unsecured line of credit decreased by approximately \$1.1 million in 2002 compared to 2001 as the Company maintained lower balances on the line throughout most of 2002.

As a result of the above-mentioned items, earnings from Rental Operations decreased \$35.0 million from \$254.1 million for the year ended December 31, 2001, to \$219.1 million for the year ended December 31, 2002.

Service Operations

Service Operations primarily consist of leasing, management, construction and development services for joint venture properties and properties owned by third parties. Service Operations revenues decreased from \$80.5 million for the year ended December 31, 2001, to \$68.6 million for the year ended December 31, 2002. The prolonged effect of the slow economy has been the primary factor in the overall decrease in revenues. The Company experienced a decrease of \$12.7 million in net general contractor revenues because of a decrease in the volume of construction in 2002, compared to 2001, as well as slightly lower profit margins.

Property management, maintenance and leasing fee revenues decreased from \$22.8 million in 2001 to \$14.3 million in 2002 primarily because of a decrease in landscaping maintenance revenue resulting from the sale of the landscaping operations in the third quarter of 2001.

Construction management and development activity income represents construction and development fees earned on projects where the Company acts as the construction manager along with profits from the Company's held for sale program whereby the Company develops a property for sale upon completion. The increase in revenues of \$10.3 million in 2002 is primarily due to an increase in volume of the sale of properties from the held for sale program.

Service Operations expenses decreased from \$45.3 million in 2001 to \$38.3 million in 2002. The decrease is attributable to the decrease in construction and development activity and the reduced overhead costs as a result of the sale of the landscape business in 2001.

As a result of the above, earnings from Service Operations decreased from \$35.1 million for the year ended December 31, 2001, to \$30.3 million for the year ended December 31, 2002.

General and Administrative Expense

General and Administrative Expense increased from \$15.6 million in 2001 to \$25.4 million for the year ended December 31, 2002. The Company has been successful reducing total operating and administration costs; however, reduced construction and development activities have resulted in a greater amount of overhead being charged to general and administrative expense instead of being capitalized into development projects or charged to service operations.

Other Income and Expenses

Gain on sale of land and depreciable property dispositions, net of impairment adjustment, is comprised of the following amounts in 2002 and 2001:

	2002	2001
Gain on sales of depreciable properties	\$4,491	\$45,428
Gain on land sales	4,478	5,080
Impairment adjustment	(9,379)	(4,800)
Total	\$(410)	\$45,708

Gain on sales of depreciable properties represent sales of previously held for investment rental properties. Beginning in 2000 and continuing into 2001, the Company pursued favorable opportunities to dispose of real estate assets that no longer met long-term investment objectives. In 2002, the Company significantly reduced this property sales program until the business climate improves and provides better investment opportunities for the sale proceeds.

Gain on land sales represents sales of undeveloped land owned by the Company. The Company pursues opportunities to dispose of land in markets with a high concentration of undeveloped land and those markets where the land no longer meets strategic development plans of the Company.

The Company recorded a \$9.4 million adjustment in 2002 associated with six properties determined to have an impairment of book value. The Company has analyzed each of its in-service properties and has determined that there are no additional valuation adjustments that need to be made as of December 31, 2002. The Company recorded an adjustment of \$4.8 million in 2001 for one property that the Company had contracted to sell for a price less than its book value.

Other revenue for the year ended December 31, 2002, includes \$1.4 million of gain related to an interest rate swap that did not qualify for hedge accounting.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Discontinued Operations

The Company adopted Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets* ("SFAS 144"), on January 1, 2002. SFAS 144 requires the Company to report in discontinued operations the results of operations of a property that has either been disposed or is classified as held for sale, unless certain conditions are met.

The Company classified the results of operations of seven buildings in its December 31, 2002, held for sale portfolio as discontinued operations in accordance with SFAS 144. In addition, two properties were sold during 2002 that were identified as held for sale post adoption of SFAS 144; therefore, the results of operations and gains on disposal for these two properties are also reported in discontinued operations. The results of operations and gains from disposal for all other properties sold during the year ended December 31, 2002, are classified in continuing operations as these properties were identified as held for sale prior to the adoption of SFAS 144. The effect of the adoption of SFAS 144 resulted in net income, net of effects of minority interest, of \$2.9 million and \$3.1 million being classified as discontinued operations for the years ended December 31, 2002 and 2001, respectively. Additionally, the gain of \$2.5 million on the sale of the two properties sold in 2002 is classified as discontinued operations in accordance with SFAS 144.

Net Income Available for Common Shares

Net income available for common shares for the year ended December 31, 2002 was \$161.3 million compared to \$230.0 million for the year ended December 31, 2001. This decrease results primarily from the operating result fluctuations in Rental Operations, Service Operations, General and Administrative Expenses and earnings from sales of depreciable property as discussed above.

COMPARISON OF YEAR ENDED DECEMBER 31, 2001 TO YEAR ENDED DECEMBER 31, 2000

Rental Operations

Rental Net Income decreased from \$503.5 million in 2000 to \$492.1 million in 2001. This decrease is the result of an overall decrease in occupancy of in-service properties from 93.6 % at December 31, 2000, to 88.6% at December 31, 2001. Also contributing to the decline in Rental Net Income is the effects of the Company's property dispositions. During 2000 and 2001, the Company sold approximately \$1 billion of held for investment rental properties from its in-service portfolio. A majority of these properties were over 90% leased and the new developments placed in-service over the same time period were leased at lower percentages and therefore, the Company realized less rental income. These effects were somewhat mitigated by the Company recognizing \$18.3 million and \$7.0 million of lease termination fees in 2001 and 2000, respectively.

The Company analyzes the results of Rental Operations by office, industrial and retail portfolios. The following highlights the financial results for each of the Company's Rental Operations portfolios.

Office

Rental Net Income for Office properties increased from \$225.5 million in 2000, to \$255.3 million in 2001 as a result of the following:

- The Company experienced a decrease in its in-service Office portfolio occupancy from 91.3% at December 31, 2000, to 86.1% at December 31, 2001.
- The Company's in-service Office portfolio increased from 232 properties at December 31, 2000 to 239 properties at December 31, 2001.
- The Company recognized \$14.5 million in lease termination fees associated with this segment in 2001, compared to only \$3.8 million in 2000.

Industrial

Rental Net Income for Industrial properties decreased to \$223.1 million in 2001, from \$256.3 million in 2000 as a result of the following:

- The Company experienced a decrease in its in-service Industrial portfolio occupancy from 94.2% at December 31, 2000, to 89.3% at December 31, 2001.
- The Company's in-service Industrial portfolio decreased from 695 properties at December 31, 2000 to 663 properties at December 31, 2001.
- In 2001, the Company recognized \$3.6 million of lease termination fees, compared to \$2.9 million in 2000.

Retail

Rental Net Income for Retail properties decreased to \$15.0 million in 2001, from \$23.0 million in 2000 as a result of the following:

- In August of 2001, the Company sold 21 properties or approximately 75% of its retail portfolio. As a result of this sale, the Company had only eight months of operations associated with these properties in 2001, compared to twelve in 2000.
- The Company's retail portfolio had an in-service occupancy percentage of 96.7% at December 31, 2001, compared to 97.8% at December 31, 2000.
- The Company recognized approximately \$235,000 of lease termination fees in 2001 compared to \$289,000 in 2000.

Equity in earnings increased from \$14.6 million in 2000 to \$31.4 million for 2001. This increase is mainly the result of the Company selling a significant number of properties to two 50% owned joint ventures in the fourth quarter of 2000. The Company recognized \$14.8 million of additional equity in earnings in 2001 associated with these two ventures.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The \$19.5 million decrease in interest expense is primarily attributable to lower outstanding balances on the Company's lines of credit associated with the financing of the Company's investment and operating activities. The Company has maintained a significantly lower balance on its lines of credit throughout 2001 compared to 2000, as a result of its property dispositions proceeds used to fund future development, combined with a lower development level as a result of the slower economy. Additionally, the Company paid off \$128.5 million of secured mortgage loans throughout 2001, as well as an \$85 million unsecured term loan. These decreases were partially offset by an increase in interest expense on unsecured debt as a result of the Company issuing \$175.0 million of debt in February 2001, as well as a decrease in the amount of interest capitalized in 2001 versus 2000, because of the decrease in development activity by the Company.

As a result of the above-mentioned items, earnings from Rental Operations increased \$28.9 million from \$225.2 million for the year ended December 31, 2000, to \$254.1 million for the year ended December 31, 2001.

Service Operations

Service Operations revenues decreased from \$82.8 million for the year ended December 31, 2000, to \$80.5 million for the year ended December 31, 2001. The Company experienced a decrease of \$4.3 million in net general contractor revenues from third party jobs because of a decrease in the volume of construction in 2001, compared to 2000, as well as slightly lower profit margins. This decrease is the effect of businesses delaying or terminating plans to expand in the wake of the slowed economy.

Property management, maintenance and leasing fee revenues decreased approximately \$2.7 million mainly because of a decrease in landscaping maintenance revenue associated with the sale of the landscape business in the third quarter of 2001 (see discussion below).

Construction management and development activity income represents construction and development fees earned on projects where the Company acts as the construction manager along with profits from the Company's held for sale program whereby the Company develops a property for sale upon completion. The increase in revenues of \$2.2 million in 2001 is primarily because of an increase in profits on the sale of properties from the held for sale program.

Other income increased approximately \$2.4 million in 2001 over 2000; due to a \$1.8 million gain the Company recognized on the sale of its landscape business in the third quarter of 2001. The sale of the landscape business resulted in a total net profit of over \$9 million after deducting all related expenses. This gain will be recognized in varying amounts over the next seven years because the Company has an on-going contract to purchase future services from the buyer.

Service Operations expenses decreased by \$4.7 million for the year ended December 31, 2001, compared to the same period in

2000, as the Company reduced total overhead costs throughout 2001 in an effort to minimize the effects of decreased construction and development activity. The primary savings were experienced in employee salary and related costs through personnel reductions and reduced overhead costs from the sale of the landscaping business.

As a result, earnings from Service Operations increased from \$32.8 million for the year ended December 31, 2000, to \$35.1 million for the year ended December 31, 2001.

General and Administrative Expense

General and Administrative Expense decreased from \$21.1 million in 2000 to \$15.6 million for the year ended December 31, 2001, through overhead cost reduction efforts. In late 2000 and continuing throughout 2001, the Company introduced several cost cutting measures to reduce the amount of overhead, including personnel reductions, centralization of responsibilities and reduction of employee costs such as travel and entertainment.

Other Income and Expenses

Gain on sale of land and depreciable property dispositions, net of impairment adjustment, was comprised of the following amounts in 2001 and 2000:

	2001	2000
Gain on sales of depreciable properties	\$45,428	\$52,067
Gain on land sales	5,080	9,165
Impairment adjustment	(4,800)	(540)
Total	\$45,708	\$60,692

Gain on sales of depreciable properties represent sales of previously held for investment rental properties. Beginning in 2000 and continuing into 2001, the Company pursued favorable opportunities to dispose of real estate assets that no longer meet long-term investment objectives.

Gain on land sales represents sales of undeveloped land owned by the Company. The Company pursues opportunities to dispose of land in markets with a high concentration of undeveloped land and those markets where the land no longer meets strategic development plans of the Company.

The Company recorded a \$4.8 million asset impairment adjustment in 2001 on a single property that was sold in 2002.

Other expense for the year ended December 31, 2001, includes a \$1.4 million expense related to an interest rate swap that does not qualify for hedge accounting.

Net Income Available for Common Shares

Net income available for common shares for the year ended December 31, 2001 was \$230.0 million compared to \$213.0 million for the year ended December 31, 2000. This increase results primarily from the operating result fluctuations in Rental and Service Operations and earnings from sales of real estate assets explained above.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CRITICAL ACCOUNTING POLICIES

The preparation of the Company's consolidated financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. The Company's estimates, judgments and assumptions are continually evaluated based upon available information and experience. Note 1 to the Consolidated Financial Statements includes further discussion of the Company's significant accounting policies.

The Company has assessed the accounting policies used in the preparation of its financial statements. The following accounting policies are considered critical based upon materiality to the financial statements, degree of judgment involved in estimating reported amounts and sensitivity to changes in industry and economic conditions:

Accounting for joint ventures: The Company has equity interests ranging from 10–95% in joint ventures that own and operate rental properties and hold land for development. The Company consolidates those joint ventures that it controls through majority ownership interests or substantial participating rights. Control is further demonstrated by the ability of the general partner to manage day-to-day operations, refinance debt and sell the assets of the joint venture without the consent of the limited partner and inability of the limited partner to replace the general partner. The Company uses the equity method of accounting for those joint ventures where the Company does not have control over operating and financial policies. Under the equity method of accounting, the assets and liabilities of joint ventures for which the Company uses the equity method are not included on the Company's balance sheet.

Cost Capitalization: Direct and certain indirect costs, including interest, clearly associated with the development, construction, leasing or expansion of real estate investments are capitalized as a cost of the property. The following discusses the significant categories of costs incurred by the Company:

Within the Rental Operations of the Company, direct and indirect costs are capitalized under the guidelines of FASB 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects* ("FASB 67") and interest costs are capitalized under the guidelines of FASB 34, *Capitalization of Interest Cost* ("FASB 34"). The Company capitalizes these project costs associated with the initial construction of a property up to the time the property is substantially complete and ready for its intended use. The Company believes the completion of the building shell is the proper basis for determining substantial completion and that this basis is the most widely accepted standard in the real estate industry. The interest rate used to capitalize costs is based upon the Company's average borrowing rate on existing debt.

In addition, the Company capitalizes costs, including interest costs, on vacant space during extended lease-up periods after construction of the building shell has been completed if costs are being incurred to ready the vacant space for its intended use. If costs and activities incurred to ready the vacant space cease, then cost capitalization is also discontinued until such activities are resumed. Once necessary work has been completed on a vacant space, project costs are no longer capitalized. The Company ceases capitalization of all project costs on extended lease-up periods after the shorter of a one-year period after the completion of the building shell or when the property attains a 90% occupancy. The Company follows guidelines in FASB 34 and FASB 67 in determining the capitalization of project costs during the lease-up period of a property and believes that this treatment is consistent with real estate industry standards for project cost capitalization.

A portion of the direct costs associated with the construction/development division and the leasing division, as well as a portion of indirect costs, are capitalized into the cost of specific construction/development and leasing projects. The capitalized portion of these costs is based upon standard charges determined by the Company. The standard charges were established based upon time estimates developed by the Company to cover the direct overhead costs of the construction/development and leasing divisions and a portion of the remaining indirect overhead of the Company. The Company reviews these standards on a quarterly basis to ensure that the amounts capitalized are appropriate.

Impairment of Real Estate Investments: The Company evaluates its real estate investments upon occurrence of significant changes in the operations, but not less than annually, to assess whether any impairment indications are present that affect the recovery of the recorded value. If any real estate investment is considered impaired, a loss is provided to reduce the carrying value of the asset to its estimated fair value. The Company utilizes the guidelines established under SFAS 144 to determine if impairment conditions exist. Under SFAS 144, the Company reviews the expected undiscounted cash flows of each property in its held for rental portfolio to determine if there are any indications of impairment of a property. The review of anticipated cash flows involves subjective assumptions of estimated occupancy and rental rates and ultimate residual value. In addition to reviewing anticipated cash flows, the Company assesses other factors such as changes in business climate and legal factors that may affect the ultimate value of the property. These assumptions are subjective and may not ultimately be achieved.

Real estate assets to be disposed of are reported at the lower of their carrying value amount or the fair value less cost to sell.

Valuation of Receivables: The Company is subject to tenant defaults and bankruptcies that could affect the collection of outstanding receivables. In order to mitigate these risks, the Company performs in-house credit review and analysis on major existing tenants and all significant leases before they are executed. The Company has the following procedures and policies to evaluate the collectibility

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

of outstanding receivables and record allowances:

- A tenant "watch list" as well as a list of the 100 largest tenants based upon annual gross rent is maintained and monitored for tenants with potential risk; and
- The Company has a defined accounting policy to reserve for the entire tenant receivable balance of any tenant with an amount outstanding over 90 days.

Revenue Recognition on Long-Term Construction Contracts: The Company recognizes income on long-term construction contracts where the Company serves as a general contractor on the percentage of completion method. Using this method, profits are recorded on the basis of the Company's estimates of the overall profit and percentage of completion of individual contracts. A portion of the estimated profit is accrued based upon the Company's estimates of the percentage of completion of the construction contract. Cumulative revenues recognized may be less or greater than cumulative costs and profits billed at any point in time during a contract's term. This revenue recognition method involves inherent risk relating to profit and cost estimates that is reduced through approval and monitoring processes.

With regards to critical accounting policies, management has discussed the following with the Audit Committee:

- Criteria for identifying and selecting;
- Methodology in applying; and
- Impact to the financial statements.

The Audit Committee has reviewed the critical accounting policies identified by the Company.

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity

The Company expects to meet liquidity requirements over the next twelve months, including payments of dividends and distributions as well as recurring capital expenditures relating to

maintaining the Company's current real estate assets, primarily through the following:

- working capital; and
- net cash provided by operating activities.

The Company expects to meet long-term liquidity requirements, such as scheduled mortgage debt maturities, the retirement of unsecured notes and amounts outstanding under the unsecured credit facility, property acquisitions, financing of development activities and other non-recurring capital improvements, through the following:

- issuance of additional unsecured notes;
- undistributed cash available for distribution, if any; and
- proceeds received from real estate dispositions.

Rental Operations

The Company believes that its principal source of liquidity, cash flows from Rental Operations, provides a stable source of cash to fund operational expenses. The Company believes that this cash based revenue stream is substantially aligned with revenue recognition (except for periodic straight-line rental income accruals) as cash receipts from the leasing of rental properties are generally received in advance of or in a short time following the actual revenue recognition. The Company is subject to risks of decreased occupancy through market conditions as well as tenant defaults and bankruptcies, which would result in reduced cash flow from operations. However, management believes that these risks are mitigated by the Company's strong market presence in most of its locations and the fact that the Company performs in-house credit review and analysis on major tenants and all significant leases before they are executed.

Credit Facilities

The Company has the following lines of credit available (in thousands):

Description	Borrowing Capacity	Maturity Date	Interest Rate	Amount Outstanding at December 31, 2002
Unsecured Line of Credit	\$500,000	February 2004	LIBOR + .65%	\$281,000
Secured Line of Credit	\$50,000	January 2006	LIBOR + .60%	\$23,895

The lines of credit are used to fund development and acquisition of additional rental properties and to provide working capital.

In December 2002, the Company renewed its secured line of credit and reduced the amount available from \$100 million to \$50 million, reduced the interest rate from LIBOR + 1.05% to LIBOR + .60%, and extended the maturity date to January 2006.

Associated with the \$500 million line of credit are financial covenants that require the Company to meet defined levels of performance. As of December 31, 2002, the Company is in compliance with all covenants pertaining to the \$500 million line of credit.

Debt and Equity Securities

The Company currently has on file with the SEC an effective shelf registration statement that permits the Company to sell up to an additional \$420 million of unsecured debt securities. In addition, the Company has on file with the SEC an effective shelf registration statement that permits the Company to sell up to an additional \$250.7 million of common and preferred stock. From time-to-time, the Company expects to issue additional securities under these registration statements to fund development and acquisition of additional rental properties and to fund the repayment of the credit facilities and other long-term debt upon maturity.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The indenture governing the Company's unsecured notes also requires the Company to comply with financial ratios and other covenants regarding the operations of the Company. The Company is currently in compliance with all such covenants and expects to remain in compliance in the foreseeable future.

In January 2003, the Company completed an issuance of unsecured debt totaling \$175 million bearing interest at 5.25%, due 2010.

Sale of Real Estate Assets

The Company utilizes sales of real estate assets as an additional source of liquidity. During 2000 and 2001, the Company engaged in a capital-recycling program that resulted in sales of over \$1 billion of real estate assets during these two years. In 2002, this program was substantially reduced as capital needs were met through other sources and the slower business climate provided few opportunities to profitably reinvest sales proceeds. The Company continues to pursue opportunities to sell real estate assets when beneficial to the long-term strategy of the Company.

Uses of Liquidity

The Company's principal uses of liquidity include the following:

- Property investments and recurring leasing/capital costs;
- Dividends and distributions to shareholders and unitholders;
- Long-term debt maturities; and
- The Company's common stock repurchase program.

Property Investments and Other Capital Expenditures

One of the Company's principal uses of its liquidity is for the development, acquisition and recurring leasing/capital expenditures of its real estate investments.

A summary of the Company's recurring capital expenditures is as follows (in thousands):

	2002	2001	2000
Tenant improvements	\$28,011	\$18,416	\$31,955
Leasing costs	17,975	13,845	17,530
Building improvements	13,373	10,873	6,804
Total	\$59,359	\$43,134	\$56,289

Dividends and Distributions

In order to qualify as a REIT for federal income tax purposes, the Company must currently distribute at least 90% of its taxable income to its shareholders and Duke Realty Limited Partnership ("DRLP") unitholders. The Company paid dividends of \$1.81, \$1.76 and \$1.64 for the years ended December 31, 2002, 2001 and 2000, respectively. The Company expects to continue to distribute taxable earnings to meet the requirements to maintain its REIT status. However, distributions are declared at the discretion of the Company's Board of Directors and are subject to actual cash available for distribution, the Company's financial condition, capital requirements and such other factors as the Company's Board of Directors deems relevant.

Debt Maturities

Debt outstanding at December 31, 2002, totaled \$2.1 billion with a weighted average interest rate of 6.25% maturing at various dates through 2028. The Company had \$1.8 billion of unsecured debt and \$299.1 million of secured debt outstanding at December 31, 2002. Scheduled principal amortization of such debt totaled \$10.9 million for the year ended December 31, 2002.

Following is a summary of the scheduled future amortization and maturities of the Company's indebtedness at December 31, 2002 (in thousands):

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Year	Future Repayments			Weighted Average Interest Rate of Future Repayments
	Scheduled Amortization	Maturities	Total	
2003	\$10,309	\$249,437	\$259,746	7.61%
2004	8,724	462,151	470,875	4.11%
2005	8,192	205,980	214,172	7.17%
2006	7,702	170,074	177,776	6.38%
2007	5,932	114,615	120,547	7.07%
2008	4,939	133,852	138,791	6.20%
2009	4,802	275,000	279,802	7.31%
2010	4,194	—	4,194	6.30%
2011	3,462	175,000	178,462	6.93%
2012	1,977	200,000	201,977	5.76%
Thereafter	9,943	50,000	59,943	6.54%
	\$70,176	\$2,036,109	\$2,106,285	6.25%

Common Stock Repurchase Program

In January 2000, the Company's Board of Directors authorized a common stock repurchase program pursuant to which the Company was authorized to purchase up to \$100 million of currently issued and outstanding common stock. During 2001, the Board of Directors increased the size of this common stock repurchase program to \$250 million. This authority may be exercised from time to time and in such amounts as market conditions warrant. As of December 31, 2002, the Company has purchased 20,000 shares of common stock valued at \$437,000 under the

repurchase program. The Company considers the price of its common stock and the effect of repurchases on its financial condition in determining whether to purchase common stock under its repurchase program.

Historical Cash Flows

Cash and cash equivalents were \$17.4 million, \$9.5 million and \$39.2 million at December 31, 2002, 2001 and 2000, respectively. The 2002 increase of \$7.9 million and 2001 decrease of \$29.7 million is the result of the following increases and decreases in cash flows (amounts in thousands):

	Years Ended December 31,		
	2002	2001	2000
Net cash provided by Operating Activities	\$569.6	\$349.7	\$363.4
Net Cash Provided (Used) by Investing Activities	\$(338.0)	\$91.5	\$(12.0)
Net Cash Used for Financing Activities	\$(223.7)	\$(470.9)	\$(331.0)

Operating Activities

The \$219.9 million increase in net cash provided by operating activities in 2002 compared to 2001 resulted primarily from the following:

- The Company received net proceeds of \$168.2 million from its Build-to-Suit operations in 2002, compared to incurring net development costs of \$79.9 million in 2001. During 2002, the Company sold eight properties from its Build-to-Suit portfolio and at the same time reduced its development pipeline in favor of developing properties to be held as rental investments.

The Company's net cash provided by operating activities decrease of \$13.7 million from 2000 to 2001 was primarily the result of changes in cash provided by changes in operating and assets and liabilities.

Investing Activities

The decrease from net cash provided by investing activities in 2001 to 2002 was attributable to the following:

- During 2001, the Company's capital recycling program provided \$436.1 million in net proceeds from land and depreciated property sales, compared to \$52.2 million in 2002, as the Company curtailed its recycling program.
- Real estate development costs decreased from \$251.4 million in 2001 to \$158.1 million in 2002, due to a reduction in new development in 2002 in response to weakened demand in many of the Company's markets.
- The Company acquired \$98.1 million of real estate assets in 2002 compared to \$13.9 million in 2001.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

- The Company acquired \$92.2 million of undeveloped land in 2001 compared to \$27.5 million in 2002. The Company continually evaluates inventory of undeveloped land and strives to keep only land that meets long-term development opportunities.
- In 2001, the Company received \$50.0 million in distributions from unconsolidated companies associated with proceeds received from financing transactions on two joint ventures in which the Company has a 50% ownership interest.

The change from net cash used by investing activities in 2000 to net cash provided by investing activities in 2001 was the result of the following:

- Real estate development costs decreased by \$54.9 million.
- Cash from tax deferred exchange escrow, net, increased by \$43.5 million with the increased activity in the capital-recycling program.
- In 2001, net proceeds from land and depreciated property sales increased by \$22.4 million in connection with the capital recycling program.
- Net decreases in recurring tenant improvements, leasing costs and deferred leasing costs of \$45.6 million.
- In 2000, the Company received \$158.4 million in distributions from unconsolidated companies as a result of significant financing transactions with two joint ventures in which the Company has a 50% ownership interest (See discussion under Investments in Unconsolidated Companies).

Financing Activities

The \$247.2 million decrease in net cash used for financing activities from 2001 to 2002 resulted from the following:

- The Company had net borrowings of \$157.3 million on its unsecured line of credit in 2002 compared to net repayments of \$125.1 million in 2001. The change is primarily due to the Company's increased use of its line of credit in the latter part of 2002.
- During 2002, the Company redeemed its Series F Preferred Stock for \$150.0 million and a portion of its Series B Preferred Stock for \$17.7 million. In 2001, the Company redeemed its Series A Preferred Stock for \$75.0 million and issued its Series I Preferred Stock for net proceeds of \$72.2 million.
- In 2002, the Company redeemed its Series G Preferred Units for \$35.0 million
- In 2002, the Company issued \$200.0 million of unsecured debt compared to \$175.0 million in 2001.

- The Company paid off \$223.6 million of secured and unsecured debt in 2001 compared to \$72.0 million in 2002. During 2001, the Company took advantage of excess liquidity to pay off a portion of its secured debt early.
- Distributions to common shareholders increased from \$228.0 million in 2001 to \$242.5 million in 2002, which reflects the increase in common shares outstanding and the quarterly per share dividend increase from \$.45 to \$.455 in 2002.

The \$139.9 million increase in net cash used for financing activities from 2000 to 2001 was attributable to the following:

- The Company had net borrowings of \$14.7 million in 2000 compared to net repayments of \$125.1 million in 2001 as discussed above.
- The Company paid off \$75.7 million of secured debt in 2000 compared to \$223.6 million in 2001 as discussed above.

Credit Ratings

The Company is currently assigned investment grade corporate credit ratings on its senior unsecured notes from Fitch Ratings, Moody's Investor Service and Standard and Poor's Ratings Group. Currently, Fitch and Standard and Poor's have assigned a rating of BBB+ and Moody's Investors has assigned a rating of Baa1 to the senior notes. These ratings could change based upon, among other things, the Company's results of operations and financial condition.

The Company also has received credit ratings from the same rating agencies on its preferred stock. Fitch and Standard and Poor's have assigned a rating of BBB and Moody's Investors has assigned a rating of Baa2. These ratings could change based upon, among other things, the Company's results of operations and financial condition.

Derivative Financial Instruments

The Company is exposed to capital market risk, such as changes in interest rates. In order to manage the volatility relating to interest rate risk, the Company may enter into interest rate hedging arrangements from time to time. The Company does not utilize derivative financial instruments for trading or speculative purposes. On January 1, 2001, the Company adopted Statement of Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended ("SFAS 133"). SFAS 133 establishes accounting and reporting standards for derivative instruments and requires that entities recognize all derivatives as either assets or liabilities and measure those instruments at fair value. The cumulative effect of adopting SFAS 133 was not material to the Company's financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

During the years ended December 31, 2002 and 2001, the Company recorded a \$1.4 million gain and a \$1.4 million loss, respectively, associated with an interest rate contract that did not qualify for hedge accounting. The contract expired on December 30, 2002.

In December 2002, the Company simultaneously entered into two \$50 million forward-starting interest rate swaps. The Company designated the aggregate \$100 million swaps as a hedge to effectively fix the rate on financing expected in 2003. The Company expects and intends that the financing will be a ten-year fixed-rate semi-annual financing, pricing between May 1, 2003 and November 1, 2003. The fair value of the swaps was a liability of (\$2.1) million as of December 31, 2002, and is recorded in other liabilities in the accompanying balance sheet. The swaps qualify for hedge accounting under SFAS 133, therefore, changes in fair value will be recorded in other comprehensive income.

In July 2001, the Company terminated three interest rate swaps that were tied to an \$85 million unsecured term loan. The swaps qualified for hedge accounting under SFAS 133. The costs to terminate the swaps was \$548,000, which was recorded as interest expense and reversed out of other comprehensive income.

INVESTMENTS IN UNCONSOLIDATED COMPANIES

The Company has equity interests ranging from 10–64% in unconsolidated partnerships and joint ventures that own and operate rental properties and hold land for development. The equity method of accounting is used for these investments in which the Company has the ability to exercise significant influence, but not control, over operating and financial policies. As a result, the assets and liabilities of these joint ventures are not included on the Company's balance sheet.

The Company's investment in unconsolidated companies represents less than 6% of the Company's total assets as of December 31, 2002. This investment provides several benefits to the Company including increased market share and an additional source of capital to fund real estate projects.

The following table presents summarized financial information for the Company's investments in unconsolidated companies for the years ended December 31, 2002 and 2001 (in thousands, except percentages):

	Dugan Realty, LLC		Dugan Texas, LLC		Dugan Office, LLC		Other Industrial and Office Joint Ventures		Total	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
Land, buildings and tenant improvements, net	\$739,372	\$748,318	\$214,796	\$204,339	\$94,718	\$97,855	\$183,140	\$210,978	\$1,232,026	\$1,261,490
Land held for development	18,763	18,572	9,148	12,453	4,294	4,293	6,643	6,644	38,848	41,962
Other Assets	26,372	23,443	17,427	9,484	4,654	4,383	19,137	24,707	67,590	62,017
	\$784,507	\$790,333	\$241,371	\$226,276	\$103,666	\$106,531	\$208,920	\$242,329	\$1,338,464	\$1,365,469
Property indebtedness	\$408,305	\$401,185	\$17,200	\$17,200	\$69,936	\$70,658	\$84,452	\$92,434	\$579,893	\$581,477
Other liabilities	17,533	19,086	7,851	8,172	3,790	3,308	22,883	30,043	52,057	60,609
	425,838	420,271	25,051	25,372	73,726	73,966	107,335	122,477	631,950	642,086
Owners' equity	358,669	370,062	216,320	200,904	29,940	32,565	101,585	119,852	706,514	723,383
	\$784,507	\$790,333	\$241,371	\$226,276	\$103,666	\$106,531	\$208,920	\$242,329	\$1,338,464	\$1,365,469
Rental income	\$94,176	\$93,562	\$26,636	\$24,459	\$17,280	\$18,698	\$31,591	\$35,538	\$169,683	\$172,257
Net income	\$28,164	\$27,381	\$13,308	\$13,532	\$1,660	\$4,965	\$7,881	\$12,213	\$51,013	\$58,091
Total square feet	22,757	23,356	5,878	5,719	648	648	5,452	5,936	34,735	35,659
Percent leased	94.1%	92.8%	95.3%	85.9%	95.3%	94.6%	87.2%	79.2%	93.2%	89.5%
Company ownership percentage	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	10.0% – 64.0%	10.0% – 64.0%		

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In October 2000, the Company sold or contributed industrial properties and undeveloped land with a fair value of \$487 million to a joint venture (Dugan Realty LLC) in which the Company has a 50% interest and recognized a net gain of \$35.2 million. This transaction expanded an existing joint venture with an institutional real estate investor. As a result of the total transactions, the Company received \$363.9 million of proceeds. The joint venture partially financed this transaction with \$350 million of secured mortgage debt of which the Company has guaranteed \$90 million and agreed to provide additional capital contributions to pay all sums due under the remaining \$260 million. At December 31, 2002, this \$350 million of debt is collateralized by rental properties with a net carrying value substantially in excess of the outstanding debt. If required to make additional capital contributions, the Company will receive proportionately increased ownership in the respective collateralized properties. The Company does not anticipate that it will be required to satisfy the guarantee or additional capital contribution obligations. In connection with this transaction, the joint venture partners were given an option to put up to a \$50 million interest in the joint venture to the Company in exchange for common stock of the Company or cash, subject to timing and other restrictions. As a result of this put option, the Company deferred \$10.2 million of gain on sale of depreciated property and recorded a \$50 million liability. At December 31, 2002, the joint venture owned 130 buildings totaling approximately 23 million square feet with a value of approximately \$760 million. The Company provides real estate related services to the venture through its Service Operations.

In December 2000, the Company contributed 14 industrial properties, including five under development, totaling approximately three million square feet to a joint venture (Dugan Texas LLC) in which the Company has a 50% interest. The Company also contributed 145 acres of undeveloped land. The Company received \$33.1 million of proceeds and recorded a net gain of \$686,000 as a result of the transaction. At December 31, 2002, the joint venture owns 32 buildings totaling approximately 6 million square feet with a value of approximately \$224 million. The Company provides real estate related services to the venture through its Service Operations.

The Company does not have any relationships with unconsolidated entities or financial partnerships, such as "special purpose entities," which were established for the purpose of facilitating off-balance sheet arrangements or other specific purposes.

RELATED PARTY TRANSACTIONS

The Company provides property management, leasing, construction and other tenant related services to properties in which certain executives have ownership interests. The Company has an option to acquire these executive officers' interests in these properties (the "Option Properties"). The Company received fees totaling \$1.4 million, \$1.7 million and \$1.9 million in 2002, 2001 and 2000, respectively, for services provided to the Option Properties. The fees charged by the Company for such services are equivalent

to those charged to third-party owners for similar services.

On June 27, 2001, A. Ray Weeks, Jr. resigned his position as a director and Vice Chairman of the Company. On August 17, 2001, the Company redeemed 620,156 limited partnership units beneficially owned by Mr. Weeks and certain members of his immediate and extended family (the "Weeks Affiliates"). The deemed value of the units redeemed was \$15.7 million, which was based on the average closing stock price of the Company for a certain period of days preceding the redemption date. As consideration for the redemption, the Weeks Affiliates received a distribution of seven industrial rental properties and one undeveloped tract of land located in the Atlanta, Georgia metropolitan area with a value of \$31.7 million. The Weeks Affiliates also assumed a loan in the amount of \$16 million from Wachovia Bank, N.A. to the Company. The value of the properties distributed to the Weeks Affiliates was based on negotiations between Mr. Weeks and members of the Company's executive committee, and was approved by the unaffiliated members of the Board of Directors.

In 2002, the Company received lease termination fees totaling \$7.7 million from a tenant that is a subsidiary of Progress Energy. William Cavanaugh III is President and Chief Executive Officer of Progress Energy and a member of the Company's Board of Directors. The Company's independent directors approved the transaction and management believes that the amount received approximates a value that would have been charged to tenants with similar lease terms and commitments.

The Company has other related party transactions that are insignificant and terms are considered to be at arm's-length and equal to those negotiated with independent parties.

COMMITMENTS AND CONTINGENCIES

The Company has the following commitments and contingencies in addition to those previously disclosed:

In 1998 and 1999, members of management and the Board of Directors purchased \$69 million of common stock in connection with an Executive and Senior Officer Stock Purchase Plan. The purchases were financed by five-year personal loans at market interest rates from financial institutions. As of December 31, 2002, the outstanding balance on these loans is \$33.5 million as some participants have exited the program and repaid their principal balance. These loans are secured by \$41.0 million of common shares (based on a price per share of \$25.45 at December 31, 2002) purchased through this program and held at December 31, 2002, by the remaining plan participants. As a condition of the financing agreement with the financial institution, the Company has guaranteed repayment of principal, interest and other obligations for each participant, but is fully indemnified by the participants. In the opinion of management, it is not probable that the Company will be required to satisfy these guarantees.

The Company has entered into agreements, subject to the completion of due diligence requirements, resolution of certain

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

contingencies and completion of customary closing conditions, for the future acquisition of land totaling \$26.2 million. The acquisitions are scheduled to close periodically through 2003.

The Company renewed all major insurance programs for 2002–2003, including obtaining coverage for acts of terrorism for its properties. The Company believes that insurance is in place that provides adequate coverage to provide financial protection against normal insurance risks such that it believes that any loss experienced would not have a significant impact on the Company's liquidity, financial position, or results of operations.

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the amount of any ultimate liability with respect to

these actions will not materially affect the Company's consolidated financial statements or results of operations.

FUNDS FROM OPERATIONS

Management believes that Funds From Operations ("FFO") is the industry standard for reporting the operations of real estate investment trusts. FFO is defined by the National Association of Real Estate Investment Trusts as GAAP net income or loss, excluding gains or losses from sales of depreciated operating property, plus operating property depreciation and amortization and adjustments for minority interest and unconsolidated companies on the same basis.

The following table reflects the calculation of FFO for the years ended December 31 (in thousands):

	2002	2001	2000
Net income available for common shares	\$161,272	\$229,967	\$212,958
Add back (deduct):			
Depreciation and amortization	175,621	159,714	162,523
Share of adjustments for unconsolidated companies	17,657	14,177	9,104
Loss (Earnings) from depreciated property sales	3,430	(40,628)	(51,527)
Minority interest share of add-backs	(20,329)	(16,483)	(15,698)
Funds From Operations	\$337,651	\$346,747	\$317,360
Cash flow provided by (used by):			
Operating activities	\$569,596	\$349,668	\$363,350
Investing activities	(337,972)	91,539	(11,972)
Financing activities	(223,693)	(470,915)	(330,952)

While management believes that FFO is the most relevant and widely used measure of the Company's operating performance, such amount does not represent cash flow from operations as defined by generally accepted accounting principles, should not be considered as an alternative to net income as an indicator of the Company's operating performance, and is not indicative of cash available to fund all cash flow needs.

ACCOUNTING CHANGES

The Company elected to prospectively adopt Statement of Financial Accounting Standards No. 123, *Accounting for Stock Based Compensation*, ("SFAS 123") effective January 1, 2002.

As a result, the Company expenses stock options over the vesting period based upon the estimated fair value of the options at the date of grant. Additionally, the Company expenses the discount given to employees under the employee stock purchase plan. The Company recorded expense of \$405,000 for the year ended 2002 related to stock compensation from this accounting change.

In conjunction with the adoption of SFAS 123, the Company adopted SFAS No. 148, *Accounting for Stock Based Compensation—Transition and Disclosure*, which amends SFAS No. 123. SFAS No. 148 provides for alternative methods of transition for a voluntary adoption of SFAS 123 and amends the disclosure

requirements of SFAS 123 to require disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The adoption of this statement using the prospective method did not have a material impact on the financial position or results of operations of the Company.

The Company adopted SFAS No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets*, ("SFAS 144") on January 1, 2002. SFAS 144 requires the Company to report in discontinued operations the results of operations of a property that has either been disposed of or is classified as held for sale, unless certain conditions are met. The effect of adoption of SFAS 144 resulted in net income, net of effects of minority interest, of \$2.9 million, \$3.1 million and \$1.0 million being classified as discontinued operations for the three years ended December 31, 2002, 2001 and 2000, respectively. SFAS 144 also requires that any gains or losses from the sale of a property be reported in discontinued operations, unless certain conditions are met. The Company also classified a gain on the sale of properties, net of minority interest, of \$2.5 million as discontinued operations for the year ended December 31, 2002.



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RECENT ACCOUNTING PRONOUNCEMENTS

In April 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 145, which rescinded SFAS No. 4, SFAS No. 44 and SFAS No. 64, as well as amending SFAS No. 13. The adoption of this statement is not expected to have a material impact on the financial position or results of operations of the Company.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, which addresses financial accounting and reporting for costs associated with exit or disposal activities. The provisions of this statement are effective for exit and disposal activities that are initiated after December 31, 2002. The adoption of this statement is not expected to have a material impact on the financial position or results of operations of the Company.

In November 2002, FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* ("Interpretation 45"), which addresses the disclosure to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees. These disclosure requirements are included in the footnotes to the consolidated financial

statements. Interpretation 45 also requires the recognition of a liability by a guarantor at the inception of certain guarantees.

Interpretation 45 requires the guarantor to recognize a liability for the non-contingent component of the guarantee, which is the obligation to stand ready to perform in the event that specified triggering events or conditions occur. The initial measurement of this liability is the fair value of the guarantee at inception. The recognition of the liability is required even if it is not probable that payments will be required under the guarantee or if the guarantee was issued with a premium payment or as part of a transaction with multiple elements. The Company has adopted the disclosure requirements of Interpretation 45 and will apply the recognition and measurement provisions for all guarantees entered into or modified after December 31, 2002.

In January 2003, FASB issued Interpretation 46, *Consolidation of Variable Interest Entities* ("Interpretation 46"), which addresses consolidation of certain variable interest entities and is effective January 31, 2003. The Company will review its investments in unconsolidated companies based on this new accounting pronouncement, but does not anticipate that the adoption of Interpretation 46 will have a material impact on its financial statements.

INDEPENDENT AUDITORS' REPORT

The Shareholders and Directors of Duke Realty Corporation:

We have audited the consolidated financial statements of Duke Realty Corporation and Subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations, cash flows and shareholders' equity for each of the years in the three-year period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the

accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Duke Realty Corporation and Subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Indianapolis, Indiana
January 29, 2003

CONSOLIDATED BALANCE SHEETS

As of December 31 (in thousands, except per share amounts):

	2002	2001
ASSETS		
Real estate investments:		
Land and improvements	\$608,995	\$583,909
Buildings and tenant improvements	4,237,360	4,068,944
Construction in progress	85,756	154,086
Investments in unconsolidated companies	315,589	323,682
Land held for development	326,535	322,528
	5,574,235	5,453,149
Accumulated depreciation	(555,858)	(425,721)
Net real estate investments	5,018,377	5,027,428
Cash and cash equivalents	17,414	9,483
Accounts receivable, net of allowance of \$2,008 and \$2,820	15,415	23,142
Straight-line rent receivable, net of allowance of \$2,491 and \$841	52,062	42,751
Receivables on construction contracts	23,181	30,077
Deferred financing costs, net of accumulated amortization of \$15,390 and \$17,459	11,493	12,550
Deferred leasing and other costs, net of accumulated amortization of \$50,543 and \$41,284	112,772	97,117
Escrow deposits and other assets	98,109	87,485
	\$5,348,823	\$5,330,033
LIABILITIES AND SHAREHOLDERS' EQUITY		
Indebtedness:		
Secured debt	\$299,147	\$318,484
Unsecured notes	1,526,138	1,376,372
Unsecured lines of credit	281,000	120,000
	2,106,285	1,814,856
Construction payables and amounts due subcontractors	43,232	54,735
Accounts payable	548	2,274
Accrued expenses:		
Real estate taxes	51,474	51,462
Interest	27,374	24,313
Other	54,568	49,973
Other liabilities	106,811	117,577
Tenant security deposits and prepaid rents	33,710	34,644
Total liabilities	2,424,002	2,149,834
Minority interest	308,641	395,190
Shareholders' equity:		
Preferred shares (\$.01 par value); 5,000 shares authorized	440,889	608,664
Common shares (\$.01 par value); 250,000 shares authorized; 135,007 and 131,416 shares issued and outstanding	1,350	1,314
Additional paid-in capital	2,335,278	2,251,246
Accumulated other comprehensive income (loss)	(2,111)	(192)
Distributions in excess of net income	(159,226)	(76,023)
Total shareholders' equity	2,616,180	2,785,009
	\$5,348,823	\$5,330,033

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31 (in thousands, except per share amounts):

	2002	2001	2000
RENTAL OPERATIONS:			
Revenues:			
Rental income	\$684,311	\$683,348	\$692,191
Equity in earnings of unconsolidated companies	27,180	31,391	14,556
	711,491	714,739	706,747
Operating expenses:			
Rental expenses	127,045	120,839	117,798
Real estate taxes	73,395	70,415	70,894
Interest expense	117,073	111,880	131,418
Depreciation and amortization	174,902	157,502	161,454
	492,415	460,636	481,564
Earnings from rental operations	219,076	254,103	225,183
SERVICE OPERATIONS:			
Revenues:			
General contractor gross revenue	194,439	264,455	292,661
General contractor costs	(172,559)	(229,845)	(253,763)
Net general contractor revenue	21,880	34,610	38,898
Property management, maintenance and leasing fees	14,301	22,824	25,477
Construction management and development activity income	29,428	19,142	16,965
Other income	2,971	3,883	1,459
Total revenue	68,580	80,459	82,799
Operating expenses	38,310	45,344	50,039
Earnings from service operations	30,270	35,115	32,760
General and administrative expense	(25,353)	(15,553)	(21,137)
Operating income	223,993	273,665	236,806
OTHER INCOME (EXPENSE):			
Interest income	3,849	5,308	6,866
Earnings from sale of land and depreciable property dispositions, net of impairment adjustment	(410)	45,708	60,692
Other revenue (expense)	182	(2,582)	(963)
Other minority interest in earnings of subsidiaries	(1,093)	(2,411)	(2,145)
Minority interest in earnings of common unitholders	(17,955)	(32,019)	(31,919)
Minority interest in earnings of preferred unitholders	(7,560)	(8,408)	(8,408)
Income from continuing operations	201,006	279,261	260,929
Discontinued operations:			
Net income from discontinued operations, net of minority interest	2,868	3,148	1,010
Gain on sale of discontinued operations, net of minority interest	2,451	—	—
Income from discontinued operations	5,319	3,148	1,010
Net income	206,325	282,409	261,939
Dividends on preferred shares	(45,053)	(52,442)	(48,981)
Net income available for common shareholders	\$161,272	\$229,967	\$212,958
Basic net income per common share:			
Continuing operations	\$1.16	\$1.75	\$1.67
Discontinued operations	.04	.02	.01
Total	\$1.20	\$1.77	\$1.68
Diluted net income per common share:			
Continuing operations	\$1.15	\$1.73	\$1.65
Discontinued operations	.04	.02	.01
Total	\$1.19	\$1.75	\$1.66
Weighted average number of common shares outstanding	133,981	129,660	126,836
Weighted average number of common and dilutive potential common shares	150,839	151,710	147,441

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31 (in thousands):

	2002	2001	2000
Cash flows from operating activities:			
Net income	\$206,325	\$282,409	\$261,939
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of buildings and tenant improvements	154,565	138,723	143,800
Amortization of deferred leasing and other costs	21,056	20,991	18,723
Amortization of deferred financing costs	3,725	4,589	3,527
Minority interest in earnings	27,219	43,282	42,624
Straight-line rent adjustment	(12,500)	(12,593)	(14,519)
Earnings from land and depreciated property sales	(1,048)	(45,708)	(60,692)
Build-to-suit operations, net	168,199	(79,912)	(88,178)
Construction contracts, net	(11,656)	9,651	3,252
Other accrued revenues and expenses, net	9,136	(9,920)	55,385
Operating distributions received in excess of equity and earnings from unconsolidated companies	4,575	(1,844)	(2,511)
Net cash provided by operating activities	569,596	349,668	363,350
Cash flows from investing activities:			
Development of real estate investments	(158,131)	(251,405)	(306,347)
Acquisition of real estate investments	(98,062)	(13,927)	(5,932)
Acquisition of land held for development and infrastructure costs	(27,467)	(92,203)	(99,470)
Recurring tenant improvements	(28,011)	(18,416)	(31,955)
Recurring leasing costs	(17,975)	(13,845)	(17,530)
Recurring building improvements	(13,373)	(10,873)	(6,804)
Other deferred leasing costs	(18,219)	(10,621)	(39,018)
Other deferred costs and other assets	(17,790)	1,274	(12,042)
Tax deferred exchange escrow, net	—	27,260	(16,207)
Proceeds from land and depreciated property sales, net	52,186	436,113	413,752
Capital distributions from unconsolidated companies	—	59,249	158,351
Advances to unconsolidated companies	(11,130)	(21,067)	(48,770)
Net cash provided (used) by investing activities	(337,972)	91,539	(11,972)
Cash flows from financing activities:			
Proceeds from issuance of common shares, net	22,834	36,483	31,090
Proceeds (payments) from issuance (repurchase) of preferred shares, net	—	72,210	(1,124)
Payments for redemption of preferred stock	(167,953)	(75,018)	—
Payments for redemption of preferred units	(35,000)	—	—
Proceeds from indebtedness	200,000	175,000	—
Payments on indebtedness including principal amortization	(71,953)	(223,578)	(75,689)
Borrowings (payments) on lines of credit, net	157,305	(125,067)	14,658
Distributions to common shareholders	(242,475)	(228,039)	(207,909)
Distributions to preferred shareholders	(47,053)	(53,010)	(48,981)
Distributions to preferred unitholders	(7,559)	(8,408)	(8,408)
Distributions to minority interest	(28,576)	(36,221)	(33,229)
Deferred financing costs	(3,263)	(5,267)	(1,360)
Net cash used for financing activities	(223,693)	(470,915)	(330,952)
Net increase (decrease) in cash and cash equivalents	7,931	(29,708)	20,426
Cash and cash equivalents at beginning of year	9,483	39,191	18,765
Cash and cash equivalents at end of year	\$17,414	\$9,483	\$39,191
Other non-cash items:			
Assumption of debt for real estate acquisitions	\$9,566	\$16,403	\$—
Contributions of property to unconsolidated companies	\$—	\$4,501	\$245,502
Conversion of Limited Partner Units to common shares	\$60,509	\$36,351	\$8,347
Issuance of Limited Partner Units for real estate acquisitions	\$4,686	\$3,787	\$7,615
Transfer of debt in sale of depreciated property	\$2,432	\$16,000	\$72,650
Redemption of Limited Partner Units for sale of depreciated property	\$—	\$13,445	\$—
Impairment adjustments on depreciable property	\$9,400	\$4,800	\$540
Acquisition of partners' interest in unconsolidated companies	\$12,149	\$18,049	\$—

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands, except per share data):

	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Distributions In Excess of Net Income	Total
Balance at December 31, 1999	\$609,998	\$1,258	\$2,139,772	\$—	\$(82,432)	\$2,668,596
Net income	—	—	—	—	261,939	261,939
Distributions to preferred shareholders	—	—	—	—	(48,981)	(48,981)
Issuance of common shares	—	17	32,005	—	—	32,022
Acquisition of minority interest	—	4	8,343	—	—	8,347
Repurchase of Series D Preferred shares	(1,124)	—	—	—	—	(1,124)
Distributions to common shareholders (\$1.64 per share)	—	—	—	—	(207,909)	(207,909)
Balance at December 31, 2000	608,874	1,279	2,180,120	—	(77,383)	2,712,890
Comprehensive Income:						
Net income	—	—	—	—	282,409	282,409
Distributions to preferred shareholders	—	—	—	—	(53,010)	(53,010)
Transition adjustment resulting from adoption of SFAS No. 133	—	—	—	398	—	398
Gains (losses) on derivative instruments	—	—	—	(1,138)	—	(1,138)
Settlement of derivative instrument	—	—	—	548	—	548
Comprehensive income available for common shareholders						229,207
Issuance of common shares	—	20	37,825	—	—	37,845
Issuance of preferred shares	75,000	—	(2,614)	—	—	72,386
Acquisition of minority interest	—	15	36,336	—	—	36,351
Repurchase of Series D Preferred shares	(176)	—	—	—	—	(176)
Redemption of Series A Preferred shares	(75,000)	—	(18)	—	—	(75,018)
Conversion of Series D Preferred shares to common stock	(34)	—	34	—	—	0
Retirement of common shares	—	—	(437)	—	—	(437)
Distributions to common shareholders (\$1.76 per share)	—	—	—	—	(228,039)	(228,039)
Balance at December 31, 2001	608,664	1,314	2,251,246	(192)	(76,023)	2,785,009
Comprehensive Income:						
Net income	—	—	—	—	206,325	206,325
Distributions to preferred shareholders	—	—	—	—	(47,053)	(47,053)
Gains (losses) on derivative instruments	—	—	—	(1,919)	—	(1,919)
Comprehensive income available for common shareholders						157,353
Issuance of common shares	—	12	22,645	—	—	22,657
Acquisition of minority interest	—	24	60,485	—	—	60,509
Repurchase of Series D Preferred shares	(25)	—	—	—	—	(25)
Redemption of Series B Preferred shares	(17,750)	—	(178)	—	—	(17,928)
Redemption of Series F Preferred shares	(150,000)	—	—	—	—	(150,000)
Tax benefits from employee stock plans	—	—	856	—	—	856
FASB 123 compensation expense	—	—	224	—	—	224
Distributions to common shareholders (\$1.81 per share)	—	—	—	—	(242,475)	(242,475)
Balance at December 31, 2002	\$440,889	\$1,350	\$2,335,278	\$(2,111)	\$(159,226)	\$2,616,180

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. THE COMPANY

The Company's rental operations are conducted through Duke Realty Limited Partnership ("DRLP"), an entity in which the Company owns a 90.1% interest at December 31, 2002. The remaining interests in DRLP are redeemable for shares of the Company's common stock. The Company conducts Service Operations through Duke Realty Services Limited Partnership ("DRSLP"), in which the Company is the sole general partner. The Company also conducts Service Operations through Duke Construction Limited Partnership ("DCLP"), which is effectively 100% owned by DRLP. The consolidated financial statements include the accounts of the Company and its majority-owned or controlled subsidiaries.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned or controlled subsidiaries. The equity interests in these majority-owned or controlled subsidiaries not owned by the Company are reflected as minority interests in the consolidated financial statements. All significant inter-company balances and transactions have been eliminated in the consolidated financial statements. Investments in entities that the Company does not control through majority voting interest or where the other owner has substantial participating rights are not consolidated and are reflected as investments in unconsolidated companies.

Reclassifications

Certain 2000 and 2001 balances have been reclassified to conform to 2002 presentation.

Real Estate Investments

Real estate investments to be held for rental are stated at the lower of cost less accumulated depreciation or fair value if impairment is identified. Real estate investments to be disposed of are reported at the lower of their carrying amount or fair value less cost to sell. Buildings and land improvements are depreciated on the straight-line method over their estimated life not to exceed 40 and 15 years, respectively, and tenant improvement costs are depreciated on the straight-line method over the term of the related lease.

Direct and indirect costs, including interest and real estate taxes associated with the development, construction, leasing or expansion of real estate investments are capitalized as a cost of the property. Included in indirect costs is an estimate of internal costs associated with development and leasing of real estate investments. All external costs associated with the acquisition of real estate investments are capitalized as a cost of the property.

Upon the acquisition of rental property, the Company evaluates all in-place tenant lease agreements to determine if the leases are at, below or above market rates. If a lease is determined to be above or below market, a corresponding asset or liability is recorded and amortized into income over the life of the lease.

At the time of acquisition, a deferred lease commission asset is also recorded and amortized over the lease's remaining life.

The Company evaluates its real estate investments to be held and used upon occurrence of significant changes in the operations, but not less than annually, to assess whether any impairment indications are present, including recurring operating losses and significant adverse changes in legal factors or business climate that affect the recovery of the recorded value. If any real estate investment is considered impaired, a loss is provided to reduce the carrying value of the property to its estimated fair value.

The acquisitions of minority interests for the Company's common shares are recorded under the purchase method with assets acquired reflected at the fair market value of the Company's common stock on the date of acquisition, net of the retirement of any minority interest liabilities. The acquisition amounts are allocated to company assets based on their estimated fair values.

The Company has equity interests in unconsolidated partnerships and joint ventures which own and operate rental properties and hold land for development. The equity method of accounting is used for these investments in which the Company has the ability to exercise significant influence, but not control, over operating and financial policies. Any difference between the carrying amount of these investments and the underlying equity in net assets is amortized to equity in earnings of unconsolidated companies over the depreciable life of the property, generally 40 years.

Cash Equivalents

Highly liquid investments with a maturity of three months or less when purchased are classified as cash equivalents.

Deferred Costs

Costs incurred in connection with obtaining financing are amortized to interest expense on the straight-line method over the term of the related loan. All direct and indirect costs, including estimated internal costs, associated with the leasing of real estate investments owned by the Company are capitalized and amortized over the term of the related lease. Unamortized costs are charged to expense upon the early termination of the lease or upon early payment of the financing.

Revenues

Rental Operations

Rental income from leases with scheduled rental increases during their terms is recognized on a straight-line basis.

Service Operations

Management fees are based on a percentage of rental receipts of properties managed and are recognized as the rental receipts are collected. Maintenance fees are based upon established hourly rates and are recognized as the services are performed. Construction management and development fees for third party contracts are recognized as earned based on the terms of the contract, which approximates the percentage of completion method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company recognizes income on long-term construction contracts where the Company serves as a general contractor on the percentage of completion method. Using this method, profits are recorded on the basis of the Company's estimates of the percentage of completion of individual contracts, commencing when progress reaches a point where experience is sufficient to estimate final results with reasonable accuracy. That portion of the estimated earnings is accrued on the basis of the Company's estimates of the percentage of completion based on contract expenditures incurred and work performed.

Property Sales

Gains from sales of depreciated property are recognized in accordance with Statement of Financial Accounting Standards ("SFAS") No. 66, and are included in earnings from sales of land and depreciable property dispositions, net of impairment adjustment, in the Statement of Operations if identified as held for sale prior to adoption of SFAS 144 and in discontinued operations if identified as held for sale after adoption of SFAS 144.

Gains or losses from the sale of property which is considered held for sale in DCLP are recognized in accordance with SFAS 66 and are included in construction management and development activity income in the Statement of Operations.

Net Income Per Common Share

Basic net income per common share is computed by dividing net income available for common shares by the weighted average number of common shares outstanding for the period. Diluted net income per share is computed by dividing the sum of net income available for common shares and minority interest in earnings of unitholders, by the sum of the weighted average number of common shares and units outstanding and dilutive potential common shares for the period.

The following table reconciles the components of basic and diluted net income per share (in thousands):

	2002	2001	2000
Basic net income available for common shares	\$161,272	\$229,967	\$212,958
Joint venture partner convertible ownership net income	—	3,423	—
Minority interest in earnings of common unitholders	18,568	32,463	32,071
Diluted net income available for common shares and dilutive potential common shares	\$179,840	\$265,853	\$245,029
Weighted average number of common shares outstanding	133,981	129,660	126,836
Weighted average partnership units outstanding	15,442	18,301	19,070
Joint venture partner convertible ownership common share equivalents	—	2,092	—
Dilutive shares for stock-based compensation plans	1,416	1,657	1,535
Weighted average number of common shares and dilutive potential common shares	150,839	151,710	147,441

The Series D Convertible Preferred stock and the Series G Convertible Preferred limited partner units were anti-dilutive for the years ended December 31, 2002, 2001 and 2000; therefore, no conversion to common shares is included in weighted dilutive potential common shares. In September 2002, the Company redeemed the Series G Convertible Preferred units at their par value of \$35.0 million.

A joint venture partner in one of the Company's unconsolidated companies has the option to convert a portion of its ownership to Company common shares (see discussion in Investments in Unconsolidated Companies section). The effect of the option on earnings per share was dilutive for the year ended December 31, 2001; therefore, conversion to common shares is included in weighted dilutive potential common shares.

Federal Income Taxes

The Company has elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code. To qualify as a REIT, the Company must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its taxable income to its

stockholders. Management intends to continue to adhere to these requirements and to maintain the Company's REIT status. As a REIT, the Company is entitled to a tax deduction for some or all of the dividends it pays to its shareholders. Accordingly, the Company generally will not be subject to federal income taxes as long as it distributes an amount equal to or in excess of its taxable income currently to its stockholders. A REIT generally is subject to federal income taxes on any taxable income that is not currently distributed to its shareholders. If the Company fails to qualify as a REIT in any taxable year, it will be subject to federal income taxes and may not be able to qualify as a REIT for four subsequent taxable years.

REIT qualification reduces, but does not eliminate, the amount of state and local taxes paid by the Company. In addition, the Company's financial statements include the operations of taxable corporate subsidiaries that are not entitled to a dividends paid deduction and are subject to corporate federal, state and local income taxes. As a REIT, the Company may also be subject to certain federal excise taxes if it engages in certain types of transactions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table reconciles the Company's net income to its taxable income before the dividends paid deduction for the years ended December 31, 2002, 2001 and 2000:

	2002	2001	2000
Net income	\$206,325	\$282,409	\$261,939
Book/tax differences	27,698	(4,994)	(34,182)
Taxable income before adjustments	234,023	277,415	227,757
Less: capital gains	(4,203)	(24,850)	(6,975)
Adjusted taxable income subject to 90% dividend requirement	\$229,820	\$252,565	\$220,782

The Company's dividends paid deduction is summarized below:

	2002	2001	2000
Cash dividends paid	\$289,528	\$281,453	\$257,374
Less: Capital gains distribution	(4,203)	(24,850)	(6,975)
Less: Return of capital	(50,425)	—	(21,650)
Total dividends paid deduction attributable to adjusted taxable income	\$234,900	\$256,603	\$228,749

A summary of the tax characterization of the dividends paid per common share for the years ended December 31, 2002, 2001, and 2000 follows:

	2002	2001	2000
Total dividends paid per year	\$1.81	\$1.76	\$1.64
Ordinary income	78.2%	90.9%	85.6%
Return of capital	20.5%	0.0%	10.9%
Capital gains	1.3%	9.1%	3.5%
	100.0%	100.0%	100.0%

The Company recorded federal and state income taxes of \$10.4 million, \$4.6 million and \$8.0 million for 2002, 2001 and 2000, respectively, which were attributable to the earnings of the Company's taxable subsidiaries. The taxable REIT subsidiaries had no significant deferred income tax items.

Stock Based Compensation

For all issuances prior to 2002, the Company applies the recognition and measurement provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations in accounting for these plans. For stock options granted prior to 2002, no compensation expense is reflected in net income as all options granted had an exercise price equal to the market value of the underlying common stock on the date of the grant.

Effective January 1, 2002, the Company prospectively adopted the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to all awards granted after January 1, 2002.

Fair Value Of Financial Instruments

The fair values of the Company's financial instruments, other

than derivative financial instruments, are generally calculated as the present value of estimated future cash flows using a discount rate commensurate with the risks involved. The fair value approximates the carrying value for all financial instruments except indebtedness, which is discussed in Footnote 6 to the Consolidated Financial Statements.

Derivative Financial Instruments

The Company adopted SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by ("SFAS 133") on January 1, 2001. SFAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The Company uses derivative financial instruments such as interest rate swaps to mitigate its interest rate risk on a related financial instrument. SFAS 133 requires that changes in fair value of derivatives that qualify as cash flow hedges be recognized in other comprehensive income while the ineffective portion of the derivative's change in fair value be recognized immediately in earnings.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

To determine the fair value of derivative instruments, the Company uses standard market conventions and techniques such as discounted cash flow analysis, option pricing models and termination cost at each balance sheet date. All methods of assessing fair value result in a general approximation of value, and such value may never actually be realized.

Use Of Estimates

The preparation of the consolidated financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

3. RELATED PARTY TRANSACTIONS

The Company provides property management, leasing, construction and other tenant related services to properties in which certain executives have ownership interests. The Company has an option to acquire these executive officers' interests in these properties (the "Option Properties"). The Company received fees totaling \$1.4 million, \$1.7 million and \$1.9 million in 2002, 2001 and 2000, respectively, for services provided to the Option Properties. The fees charged by the Company for such services are equivalent to those charged to third-party owners for similar services.

On June 27, 2001, A. Ray Weeks, Jr. resigned his position as a director and Vice Chairman of the Company. On August 17, 2001, the Company redeemed 620,156 limited partnership units beneficially owned by Mr. Weeks and certain members of his immediate and extended family (the "Weeks Affiliates"). The deemed value of the units redeemed was \$15.7 million, which was based on the average closing stock price of the Company for a certain period of days preceding the redemption date. As consideration for the redemption, the Weeks Affiliates received a distribution of seven industrial rental properties and

one undeveloped tract of land located in the Atlanta, Georgia metropolitan area with a value of \$31.7 million. The Weeks Affiliates also assumed a loan in the amount of \$16 million from Wachovia Bank, N.A. to the Company. The value of the properties distributed to the Weeks Affiliates was based on negotiations between Mr. Weeks and members of the Company's executive committee, and was approved by the unaffiliated members of the Board of Directors.

In 2002, the Company received lease termination fees totaling \$7.7 million from a tenant that is a subsidiary of Progress Energy. William Cavanaugh III is President and Chief Executive Officer of Progress Energy and a member of the Company's Board of Directors. The Company's independent directors approved the transaction and management believes that the amount received approximates a value that would have been charged to tenants with similar lease terms and commitments.

The Company has other related party transactions that are insignificant and terms are considered to be at arm's-length and equal to those negotiated with independent parties.

4. INVESTMENTS IN UNCONSOLIDATED COMPANIES

The Company has equity interests ranging from 10–64% in unconsolidated partnerships and joint ventures that own and operate rental properties and hold land for development. The equity method of accounting is used for these investments in which the Company has the ability to exercise significant influence, but not control, over operating and financial policies. Any difference between the carrying amount of these investments and the underlying equity in net assets is amortized to equity in earnings of unconsolidated companies over the depreciable life of the property, generally 40 years.

Combined summarized financial information for all investments in unconsolidated companies as of December 31, 2002 and 2001, and for the years ended December 31, 2002, 2001, and 2000, are as follows (in thousands):

	2002	2001	2000
Land, buildings and tenant improvements, net	\$1,232,026	\$1,261,490	
Land held for development	38,848	41,962	
Other assets	67,590	62,017	
	\$1,338,464	\$1,365,469	
Property indebtedness	\$579,893	\$581,477	
Other liabilities	52,057	60,609	
	631,950	642,086	
Owners' equity	706,514	723,383	
	\$1,338,464	\$1,365,469	
Rental income	\$169,683	\$172,257	\$92,082
Net income	\$51,013	\$58,091	\$32,054

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following significant transactions involving unconsolidated companies in which the Company has an equity interest have occurred over the past three years:

In 2002, the Company recognized a gain of \$1.8 million on the sale of a "Build-to-Suit" building out of a joint venture in which the Company owned a 50% interest. The gain is recorded in equity in earnings in the Statement of Operations. In addition to this sale, the Company received approximately \$29.2 million of earnings distributions from its various joint ventures.

Also in 2002, the Company bought out its other partners' interest in six separate joint ventures. The Company had a 50% interest in each of these ventures prior to their acquisition.

In 2001, the Company received approximately \$50.0 million in cash distributions resulting from secured debt financing within two joint ventures. The Company has a 50% interest in both ventures. The debt is entirely collateralized by rental properties within the ventures and the Company is not a guarantor on the debt.

Also in 2001, the Company recognized a gain of \$2.9 million from the sale of a building out of a joint venture in which the Company owned a 50% interest. The gain is recorded in equity in earnings in the Statement of Operations.

In October 2000, the Company sold or contributed industrial properties and undeveloped land with a fair value of \$487 million to a joint venture (Dugan Realty LLC) in which the Company has a 50% interest and recognized a net gain of \$35.2 million. This transaction expanded an existing joint venture with an institutional real estate investor. As a result of the total transactions, the Company received \$363.9 million of proceeds. The joint venture financed this transaction with \$350 million of secured mortgage debt of which the Company has guaranteed \$90 million and agreed to provide additional capital contributions to pay all sums due under the remaining \$260 million. At December 31, 2002, this \$350 million of debt is collateralized by rental properties with net carrying value substantially in excess of the outstanding debt. If required to make additional capital contributions, the Company will receive proportionately increased ownership in the respective collateralized properties. The Company does not anticipate that it will be required to satisfy the guarantee or additional capital contribution obligations. In connection with this transaction, the joint venture partners were given an option to put up to \$50 million interest in the joint venture to the Company in exchange for common stock of the Company or cash, subject to timing and other restrictions. As a result of this put option, the Company deferred \$10.2 million of gain on sale of depreciated property and recorded a \$50 million liability. At December 31, 2002, the joint venture owns 130 buildings totaling approximately 23 million square feet with a net book value of approximately \$760 million. The Company provides real estate related services to the venture through its Service Operations.

In December 2000, the Company contributed 14 industrial

properties, including five under development, totaling approximately three million square feet to a joint venture (Dugan Texas LLC) in which the Company has a 50% interest. The Company also contributed 145 acres of undeveloped land. The Company received \$33.1 million of proceeds and recorded a net gain of \$686,000 as a result of the transaction. At December 31, 2002, the joint venture owns 32 buildings totaling approximately 6 million square feet with a value of approximately \$224 million. The Company provides real estate related services to the venture through its Service Operations.

5. REAL ESTATE INVESTMENTS

The Company adopted Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets* ("SFAS 144"), on January 1, 2002. SFAS 144 requires the Company to report in discontinued operations the results of operations of a property which has either been disposed or is classified as held for sale, unless certain conditions are met.

The Company has classified operations of nine buildings as discontinued operations in accordance with SFAS 144. As a result, the Company classified net income, net of minority interest, of \$2.9 million, \$3.1 million and \$1.0 million as net income from discontinued operations for the year ended December 31, 2002, 2001 and 2000. In addition, two of the properties were sold during 2002 that were identified as held for sale post adoption of SFAS 144; therefore, the gains on disposal for these two properties of \$2.5 million are also reported in discontinued operations.

At December 31, 2002, the Company had 3 industrial, 6 office and 6 retail properties comprising approximately 1.1 million square feet held for sale. Of these properties, 3 build-to-suit office and 3 build-to-suit retail properties were under development. Net operating income (defined as total property revenues, less property expenses, which include real estate taxes, repairs and maintenance, property management, utilities, insurance and other expenses) of the properties held for sale for the years ended December 31, 2002, 2001 and 2000 is approximately \$4.3 million, \$3.2 million, and \$1.1 million, respectively. Net book value of the properties held for sale at December 31, 2002, is approximately \$57.1 million. There can be no assurance that such properties held for sale will be sold.

In association with the Company's assessment of its properties under SFAS 144, six of its 910 properties were identified as having impairment in 2002. The Company recorded a \$9.4 million impairment adjustment associated with these properties in 2002. The Company has analyzed each of its in-service properties and has determined that there are no additional valuation adjustments that need to be made at December 31, 2002. In 2001, the Company recorded a \$4.8 million impairment adjustment on a single property that was sold in 2002.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. INDEBTEDNESS

Indebtedness at December 31 consists of the following (in thousands):

	2002	2001
Fixed rate secured debt, weighted average interest rate of 7.35% at December 31, 2002, and 7.79 % at December 31, 2001, maturity dates ranging from 2003 to 2017	\$259,376	\$274,358
Variable rate secured debt, weighted average interest rate of 1.71% at December 31, 2002, and 2.46% at December 31, 2001, maturity dates ranging from 2006 to 2025	39,771	44,126
Fixed rate unsecured notes, weighted average interest rate of 6.95% at December 31, 2002, and 7.13% at December 31, 2001, maturity dates ranging from 2003 to 2028	1,526,138	1,376,372
Unsecured line of credit, interest rate of 2.07% at December 31, 2002, and 2.58% at December 31, 2001, maturity date of 2004	281,000	120,000
	\$2,106,285	\$1,814,856

The fair value of the Company's indebtedness as of December 31, 2002, was \$2.3 billion.

As of December 31, 2002, the \$299.1 million of secured debt is collateralized by rental properties with a net carrying value of

\$561.3 million.

The Company has the following lines of credit available (in thousands):

Description	Borrowing Capacity	Maturity Date	Interest Rate	Outstanding at December 31, 2002
Unsecured Line of Credit	\$500,000	February 2004	LIBOR + .65%	\$281,000
Secured Line of Credit	\$50,000	January 2006	LIBOR + .60%	\$23,895

The lines of credit are used to fund development activities, to acquire additional rental properties and to provide working capital.

In December 2002, the Company renewed its secured line of credit by which the capacity was reduced from \$100 million to \$50 million, the interest rate reduced from LIBOR + 1.05% to LIBOR + .60%, and the maturity date extended to January 2006.

The \$500 million line of credit allows the Company an option to obtain borrowings from the financial institutions that participate in the line of credit at rates lower than the stated interest rate, subject to certain restrictions. Amounts outstanding on the line of credit at December 31, 2002 are at LIBOR + .65% (2.07% at December 31, 2002).

In January 2003, the Company completed an issuance of unsecured debt totaling \$175 million, bearing interest at 5.25% and due 2010.

At December 31, 2002, scheduled amortization and maturities of all indebtedness for the next five years and thereafter are as follows (in thousands):

Year	Amount
2003	\$259,746
2004	470,875
2005	214,172
2006	177,776
2007	120,547
Thereafter	863,169
	\$2,106,285

Cash paid for interest in 2002, 2001, and 2000 was \$125.9 million, \$140.5 million and \$156.5 million, respectively. Total interest capitalized in 2002, 2001 and 2000 was \$13.5 million, \$25.9 million and \$33.0 million, respectively.

7. SEGMENT REPORTING

The Company is engaged in four operating segments, the ownership and rental of office, industrial, and retail real estate investments ("Rental Operations") and the providing of various real estate services such as property management, maintenance, leasing, and construction management to third-party property owners ("Service Operations"). The Company's reportable segments offer different products or services and are managed separately because each requires different operating strategies and management expertise. There are no material intersegment sales or transfers.

Non-segment revenue to reconcile to total revenue consists mainly of equity in earnings of joint ventures. Non-segment assets reconciliation to total assets consists of corporate assets including cash, deferred financing costs and investments in unconsolidated subsidiaries.

The accounting policies of the segments are the same as those described in Note 2.

The Company assesses and measures segment operating results based on a performance measure referred to as Funds From Operations ("FFO"). The National Association of Real Estate Investment Trusts defines FFO as GAAP net income or loss,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

excluding gains or losses from sales of depreciated property, plus operating property depreciation and amortization and adjustments for minority interest and unconsolidated companies on the same basis. FFO is not a measure of operating results or cash flows from operating activities as measured by generally accepted accounting principles, is not necessarily indicative of cash available to fund cash needs and should not be considered an alternative to cash flows as a measure of liquidity. Interest expense and other

non-property specific revenues and expenses are not allocated to individual segments in determining the Company's performance measure.

The revenues and FFO for each of the reportable segments are summarized as follows for the years ended December 31, 2002, 2001, and 2000, and the assets of each reportable segment as of December 31, 2002 and 2001 (in thousands):

	2002	2001	2000
Revenues			
Rental Operations:			
Office	\$398,169	\$379,272	\$332,265
Industrial	276,353	286,088	327,697
Retail	6,933	18,212	28,467
Service Operations	68,580	80,459	82,799
Total Segment Revenues	750,035	764,031	771,228
Non-Segment Revenue	30,036	31,167	18,318
Consolidated Revenue from continuing operations	780,071	795,198	789,546
Discontinued Operations	7,491	8,610	5,079
Consolidated Revenue	\$787,562	\$803,808	\$794,625
Funds From Operations			
Rental Operations:			
Office	\$265,811	\$255,308	\$225,496
Industrial	212,620	223,065	256,336
Retail	5,990	15,036	23,008
Services Operations	30,270	35,115	32,760
Total Segment FFO	514,691	528,524	537,600
Non-Segment FFO:			
Interest expense	(117,073)	(111,880)	(131,418)
Interest income	3,849	5,308	6,866
General and administrative expense	(25,353)	(15,553)	(21,137)
Gain on land sales	4,478	5,080	9,165
Other expenses	(368)	(3,899)	(2,826)
Minority interest in earnings of common unitholders	(17,955)	(32,019)	(31,919)
Minority interest in earnings of preferred unitholders	(7,560)	(8,408)	(8,408)
Other minority interest in earnings of subsidiaries	(1,093)	(2,411)	(2,145)
Minority interest share of FFO adjustments	(20,329)	(16,483)	(15,698)
Joint Venture FFO	44,837	45,570	24,182
Dividends on preferred shares	(45,053)	(52,442)	(48,981)
Discontinued operations, net of minority interest	4,580	5,360	2,079
Consolidated FFO	337,651	346,747	317,360
Depreciation and amortization on continuing operations	(174,902)	(157,502)	(161,454)
Depreciation and amortization on discontinued operations	(719)	(2,212)	(1,069)
Share of joint venture adjustments	(17,657)	(14,177)	(9,104)
Earnings from depreciated property sales on continuing operations	(4,888)	40,628	51,527
Earnings from depreciated property sales on discontinued operations	1,458	—	—
Minority interest share of adjustments	20,329	16,483	15,698
Net income available for common shareholders	\$161,272	\$229,967	\$212,958
Assets			
Rental Operations			
Office	\$2,677,427	\$2,625,015	
Industrial	2,144,686	2,184,234	
Retail	71,072	64,946	
Service Operations	91,399	99,554	
Total Segment Assets	4,984,584	4,973,749	
Non-Segment Assets	364,239	356,284	
Consolidated Assets	\$5,348,823	\$5,330,033	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. LEASING ACTIVITY

Future minimum rents due to the Company under non-cancelable operating leases at December 31, 2002 are as follows (in thousands):

Year	Amount
2003	\$530,961
2004	495,229
2005	420,784
2006	346,385
2007	281,386
Thereafter	940,103
	<u>\$3,014,848</u>

In addition to minimum rents, certain leases require reimbursements of specified operating expenses which amounted to \$120.1 million, \$115.7 million, and \$114.2 million for the years ended December 31, 2002, 2001 and 2000, respectively.

9. EMPLOYEE BENEFIT PLANS

The Company maintains a 401(k) plan for the benefit of its full-time employees. The Company matches the employees' contributions up to three percent of the employees' salary and may also make annual discretionary contributions. Total expense recognized by the Company was \$1.7 million, \$1.3 million and \$3.2 million for the years ended 2002, 2001 and 2000, respectively.

The Company makes contributions to a contributory health and welfare plan as necessary to fund claims not covered by employee contributions. Total expense recognized by the Company related to this plan was \$4.9 million, \$5.6 million and \$6.0 million for 2002, 2001 and 2000, respectively. Included in total expense is an estimate based on historical experience of the effect of claims incurred but not reported as of year-end.

10. SHAREHOLDERS' EQUITY

The Company periodically accesses the public equity markets to fund the development and acquisition of additional rental properties. The proceeds of these offerings are contributed to DRLP in exchange for additional interest in the partnership.

The following series of preferred stock are outstanding as of December 31, 2002 (in thousands, except percentages):

Description	Shares Outstanding	Dividend Rate	Redemption Date	Liquidation Preference	Convertible
Series B Preferred	265	7.990%	September 30, 2007	\$132,250	No
Series D Preferred	535	7.375%	December 31, 2003	133,639	Yes
Series E Preferred	400	8.250%	January 20, 2004	100,000	No
Series I Preferred	300	8.450%	February 6, 2006	75,000	No

All series of preferred shares require cumulative distributions and have no stated maturity date.

The Series D Preferred shares are convertible at a conversion rate of .93677 common shares for each preferred share outstanding.

The dividend rate on the Series B Preferred shares increases to 9.99% after September 12, 2012. The Company repurchased 355,000 shares of the Series B Preferred shares in September 2002. The repurchase transaction was initiated by a group of Series B Preferred shareholders who voluntarily approached the Company with an opportunity for the Company to buyback these shares before their earliest stated redemption date.

The Company redeemed its \$150.0 million Series F Preferred shares in October 2002 at par value.

Effective August 31, 2002, the Company terminated a shareholder rights plan that had included the potential issuance of Series C Junior Preferred Stock.

11. STOCK BASED COMPENSATION

At December 31, 2002, the Company had nine stock-based employee compensation plans that are described more fully below. The Company is authorized to issue up to 8,569,860 shares of Company stock under these Plans.

Awards under the Company's plans generally vest over five years at 20% per year. Therefore, the expense related to stock-based employee compensation included in the determination of net income is less than that which would have been recognized if the fair value method had been applied to all awards since the original effective date of SFAS 123. The following table illustrates the effect on net income and earnings per share if the fair value method had been applied to all outstanding and unvested awards in each period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2002	2001	2000
Net income, as reported	\$161,272	\$229,967	\$212,958
Add: Stock-based employee compensation expense included in net income determined under fair value method	405	0	0
Deduct: Total stock based compensation expense determined under fair value method for all awards	(1,334)	(1,236)	(593)
Proforma Net Income	\$160,343	\$228,731	\$212,365
Basic net income per share			
As reported	\$1.20	\$1.77	\$1.68
Pro forma	\$1.20	\$1.76	\$1.67
Diluted net income per share			
As reported	\$1.19	\$1.75	\$1.66
Pro forma	\$1.19	\$1.74	\$1.65

The fair values of the options were determined using the Black-Scholes option-pricing model with the following assumptions:

	2002	2001	2000
Dividend yield	7.25%	7.50%	7.00%
Volatility	20.0%	20.2%	20.2%
Risk-free interest rate	4.7%	5.0%	5.8%
Expected life	6 years	6 years	6 years

Fixed Stock Option Plans

The Company had options outstanding under six fixed stock option plans as of December 31, 2002. Additional grants may be made under three of those plans.

A summary of the status of the Company's fixed stock option plans as of December 31, 2002, 2001 and 2000 and changes during the years ended on those dates follows:

	2002		2001		2000	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	4,691,659	\$21.12	5,235,464	\$19.52	5,043,965	\$19.00
Granted	676,038	23.37	718,320	24.98	958,786	20.04
Exercised	(1,203,534)	18.82	(982,243)	15.21	(440,924)	13.66
Forfeited	(243,965)	22.96	(279,882)	21.84	(326,363)	22.95
Outstanding, end of year	3,920,198	22.09	4,691,659	21.12	5,235,464	19.52
Options exercisable, end of year	2,297,500		2,965,930		3,112,706	
Weighted-average fair value of options granted during the year	\$2.05		\$2.19		\$2.18	

The options outstanding at December 31, 2002, under the fixed stock option plans have a range of exercise prices from \$11.87 to \$25.50 with a weighted average exercise price of \$22.09 and a weighted average remaining contractual life of 6.41 years. The options exercisable at December 31, 2002 have a weighted average exercise price of \$21.41.

Each option's maximum term is ten years. With limited exceptions, options vest at 20% per year, or, if earlier, upon the death, retirement or disability of the optionee or a change in control of the Company.

Performance Based Stock Plans

Performance shares are granted under the 2000 Performance Share Plan, with each performance share economically equivalent to one share of Company common stock. The performance shares vest over a 5-year period with the vesting percentage for a year dependent upon the Company's attainment of certain predefined levels of earnings growth for such year. The value of vested performance shares are payable in cash upon the retirement or termination of employment of the participant. At December 31, 2002, plan participants had the right to receive up to 61,922

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

performance shares, of which 30,423 were vested and 31,499 were contingent upon future earnings achievement.

For grants prior to 2002, compensation cost is based upon the value of the vested performance shares at the end of each applicable reporting period. No grants were made in 2002 under this plan. The compensation cost that has been charged against income for this plan was \$96,000, \$201,000 and \$962,000 for 2002, 2001 and 2000, respectively.

In October 2002, the company amended its Shareholder Value Plan ("SVP Plan") and Dividend Increase Unit Plans ("DIU Plans") by requiring that all payouts under these two plans to be in cash only. The SVP Plan is based on the Company's cumulative shareholder return for a three-year period as compared to the cumulative total return of the S&P 500 and the NAREIT Equity REIT Total Return indices. The DIU Plans are based upon increases in the Company's dividend. The total compensation cost that has been charged against income for these two plans was \$4.6 million, \$6.0 million and \$6.7 million for 2002, 2001 and 2000, respectively.

Directors Stock Payment Plan

Under the Company's 1999 Directors' Stock Payment Plan, non-employee members of the Company's Board of Directors are entitled to 1,200 shares of Company stock per year as partial compensation for their services as a board member. The shares are fully vested when issued and the value of the shares are recorded as an expense by the Company. The amount of that expense was \$274,000, \$260,000 and \$230,000 for 2002, 2001 and 2000, respectively.

Employee Stock Purchase Plan

Under the Company's Employee Stock Purchase Plan, employees are entitled to purchase Company common stock at a 15% discount through payroll deductions. Under SFAS 123, the Company is required to record the amount of the discount as compensation expense. The amount of that expense for 2002 was \$181,496.

12. DERIVATIVE INSTRUMENTS

The Company is exposed to capital market risk, such as changes in interest rates. In order to manage the volatility relating to interest rate risk, the Company may enter into interest rate hedging arrangements from time to time. The Company does not utilize derivative financial instruments for trading or speculative purposes. On January 1, 2001, the Company adopted Statement of Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended ("SFAS 133"). SFAS 133 establishes accounting and reporting standards for derivative instruments and requires that entities recognize all derivatives as either assets or liabilities and measure those instruments at fair value. The cumulative effect of adopting SFAS 133 was not material to the Company's financial statements.

During the years ended December 31, 2002 and 2001, the Company recorded a \$1.4 million gain and a \$1.4 million loss, respectively, associated with an interest rate contract that did not qualify for hedge accounting. The contract expired on December 30, 2002.

In December 2002, the Company simultaneously entered into two \$50 million forward-starting interest rate swaps. The Company designated the aggregate \$100 million swaps as a hedge to effectively fix the rate on financing expected in 2003. The Company expects and intends that the financing will be a ten-year fixed-rate semi-annual financing, pricing between May 1, 2003 and November 1, 2003. The fair value of the swaps was a liability of (\$2.1) million as of December 31, 2002, and is recorded in other liabilities in the accompanying balance sheet. The swaps qualify for hedge accounting under SFAS 133, therefore, changes in fair value will be recorded in other comprehensive income.

In July 2001, the Company terminated three interest rate swaps that were tied to an \$85 million unsecured term loan. The swaps qualified for hedge accounting under SFAS 133. The costs to terminate the swaps was \$548,000, which was recorded as interest expense and reversed out of other comprehensive income.

13. COMMITMENTS AND CONTINGENCIES

In 1998 and 1999, members of management and the Board of Directors purchased \$69 million of common stock in connection with an Executive and Senior Officer Stock Purchase Plan. The purchases were financed by five-year personal loans at market interest rates from financial institutions. As of December 31, 2002, the outstanding balance on these loans is \$33.5 million as some participants have exited the program and repaid their principal balance. These loans are secured by \$41.0 million of common shares purchased through this program and held at December 31, 2002, by the remaining plan participants. As a condition of the financing agreement with the financial institution, the Company has guaranteed repayment of principal, interest and other obligations for each participant, but is fully indemnified by the participants. In the opinion of management, it is not probable that the Company will be required to satisfy these guarantees.

The Company has entered into agreements, subject to the completion of due diligence requirements, resolution of certain contingencies and completion of customary closing conditions, for the future acquisition of land totaling \$26.2 million. The acquisitions are scheduled to close periodically through 2003 and will be paid for through a combination of cash or DRLP Limited Partner Unit issuance.

The Company renewed all major insurance programs for 2002-2003, including obtaining coverage for acts of terrorism for its properties. The Company believes that insurance is in place that provides adequate coverage to provide financial protection against normal insurance risks such that it believes that any loss experienced would not have a significant impact on the Company's liquidity, financial position, or results of operations.

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the amount of any ultimate liability with respect to these actions will not materially affect the Company's consolidated financial statements or results of operations.

SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Selected quarterly information for the years ended December 31, 2002 and 2001 is as follows (in thousands, except per share amounts):

2002	Quarter Ended			
	December 31	September 30	June 30	March 31
Revenues from Rental Operations	\$176,328	\$181,185	\$179,506	\$174,472
Revenues from Service Operations	11,641	11,824	15,604	29,511
Net income available for common shares	28,294	39,172	48,528	45,278
Basic income per common share	\$0.21	\$0.29	\$0.36	\$0.34
Diluted income per common share	\$0.21	\$0.29	\$0.36	\$0.34
Weighted average common shares	134,935	134,818	134,196	131,932
Weighted average common and dilutive potential common shares	150,692	151,256	151,092	150,270
Funds From Operations (1)	\$84,520	\$80,649	\$88,754	\$87,279
Cash flow provided by (used by):				
Operating activities	\$91,778	\$103,623	\$165,793	\$208,402
Investing activities	(129,840)	(58,260)	(104,517)	(45,355)
Financing activities	12,439	(4,831)	(72,281)	(159,020)
2001				
Revenues from Rental Operations	\$177,188	\$176,003	\$179,627	\$181,921
Revenues from Service Operations	12,835	21,676	23,627	22,321
Net income available for common shares	44,420	77,102	49,675	58,770
Basic income per common share	\$0.34	\$0.59	\$0.39	\$0.46
Diluted income per common share	\$0.34	\$0.58	\$0.38	\$0.45
Weighted average common shares	130,970	130,104	129,131	128,399
Weighted average common and dilutive potential common shares	149,842	158,594	149,572	151,031
Funds From Operations (1)	\$84,520	\$88,881	\$88,754	\$84,592
Cash flow provided by (used by):				
Operating activities	\$66,084	\$168,433	\$22,158	\$77,507
Investing activities	(27,948)	34,670	127,918	(27,615)
Financing activities	(38,157)	(296,626)	(85,940)	(50,192)

(1) Funds From Operations is defined by the National Association of Real Estate Investment Trusts as net income or loss, excluding gains or losses from sales of depreciated property, plus operating property depreciation and amortization and adjustments for minority interest and unconsolidated companies on the same basis. Funds From Operations does not represent cash flow from operations as defined by generally accepted accounting principles, should not be considered as an alternative to net income as an indicator of the Company's operating performance, and is not indicative of cash available to fund all cash flow needs.

MARKET PRICE AND DIVIDENDS

The Company's common shares are listed for trading on the New York Stock Exchange, symbol DRE. The following table sets forth the high and low sales prices of the common stock for the periods

indicated and the dividend paid per share during each such period. Comparable cash dividends are expected in the future.

Quarter Ended	High	2002 Low	Dividend	High	2001 Low	Dividend
December 31	\$25.84	\$21.50	\$.455	\$24.80	\$22.00	\$.45
September 30	28.88	21.40	.455	26.17	21.60	.45
June 30	28.95	25.46	.450	24.99	22.00	.43
March 31	26.50	22.92	.450	25.44	21.85	.43

On January 29, 2003, the Company declared a quarterly cash dividend of \$.455 per share, payable on February 28, 2003, to common shareholders of record on February 14, 2003.

SHAREHOLDER INFORMATION

CORPORATE HEADQUARTERS

600 East 96th Street, Suite 100
Indianapolis, IN 46240
317.808.6000

TRANSFER AGENT

For Dividend Payments, Address Changes, and/or
Registration Changes:
American Stock Transfer & Trust Company
59 Maiden Lane
New York, NY 10038
800.937.5449 or 212.936.5100
www.amstock.com

COMMON STOCK INFORMATION

Symbol: DRE
Exchange: NYSE

SHAREHOLDER CONTACT

For Shareholder Mailings and Company Information:
Duke Realty Corporation
Attn: Investor Relations
600 East 96th Street, Suite 100
Indianapolis, IN 46240
317.808.6005 or 800.875.3366
317.808.6770 FAX
IR@dukerealty.com

When used in this Annual Report, the word “believes,” “expects,” “estimates” and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially. In particular, among the factors that could cause actual results to differ materially are continued qualification as a real estate investment trust, general business and economic conditions, competition, increases in real estate construction costs, interest rates, accessibility of debt and equity capital markets and other risks inherent in the real estate business including tenant defaults, potential liability relating to environmental matters and liquidity of real estate investments. Readers are advised to refer to Duke’s Form 8-K Report as filed with the Securities and Exchange Commission on December 6, 2001 for additional information concerning these risks.

SHAREHOLDER SERVICES

Direct Stock Purchase and Dividend Reinvestment Plan

The Duke Direct Stock Purchase Plan offers participants a convenient and economical method to purchase the Company’s common stock, and to reinvest their dividends. Specific features of the Plan include:

- Automatic dividend reinvestment
- Optional cash investment availability twice per month
- Automatic purchase program
- Available to first-time investors
- Certificate safekeeping
- No commissions or fees on purchases

Shares sold through this Plan are offered through a prospectus which can be obtained by writing to Investor Relations at the Corporate Headquarters address or by calling American Stock Transfer & Trust Company at 1.800.278.4353 or 1.800.937.5449, or by visiting the Investor Information section of the Company’s website at www.dukerealty.com.

Shares may also be purchased on-line by visiting the Investor Information section of the Company’s website or by visiting www.investpower.com.

Direct Deposit of Dividends

Shareholders who hold their Duke shares in registered or certificate form can have their common stock dividends automatically deposited into their bank accounts. Information about this direct deposit program can be obtained by contacting the Company’s Investor Relations department or American Stock Transfer & Trust Company.

Interim Reports/Financial Information

Other information such as press releases, 10Q, 10K and other SEC filings, may be accessed via the Company’s website at www.dukerealty.com. Those interested in being placed on a mailing list for such information should either contact Shona Bedwell, Manager—Investor Relations at 317.808.6005, submit a written request to Investor Relations at the Corporate Headquarters address, or e-mail IR@dukerealty.com.

MANAGEMENT COMMITTEE

Thomas Hefner
Chairman and
Chief Executive Officer

Dennis Oklak
President and
Chief Operating Officer

Gary Burk
Vice Chairman and
Executive Vice President

Robert Chapman
Executive Vice President,
Southeast Region

Howard Feinsand
Executive Vice President
and General Counsel

John Guinee
Executive Vice President and
Chief Investment Officer

William Linville
Executive Vice President,
Midwest Region

Gene Zink
Vice Chairman,
Executive Vice President
and Chief Financial Officer

Jay Archer
Senior Vice President,
Indiana Industrial

Kerry Armstrong
Senior Vice President,
Atlanta Office

Jennifer Burk
Senior Vice President,
Indiana Office

Philip Cobb
Senior Vice President,
Construction

Matthew Cohoat
Senior Vice President
and Corporate Controller

James Connor
Senior Vice President,
Chicago

William DeBoer
Senior Vice President,
Construction

Robert Fessler
Senior Vice President,
Cincinnati

John Gaskin
Senior Vice President,
Deputy General Counsel
and Secretary

James Gray
Senior Vice President,
Minneapolis

Donald Hunter
Senior Vice President,
Columbus

Andrew Kelton
Senior Vice President,
Raleigh

Steven Kennedy
Senior Vice President,
Construction

Wayne Lingafelter
Senior Vice President,
Cleveland

M. Larry Myrvold
Senior Vice President,
Retail

John Nelley
Managing Director,
Nashville

John Nemecek
Senior Vice President,
Property & Asset Management

Paul Quinn
Senior Vice President and
Chief Information Officer

Thomas Peck
Senior Vice President,
Investor Relations

Kevin Rogus
Senior Vice President,
Construction

Christopher Seger
Senior Vice President,
Florida

Gregory Thurman
Senior Vice President,
Atlanta Industrial

Jeffrey Turner
Senior Vice President,
Dallas

James Windmiller
Senior Vice President,
Corporate Taxation

Jeffrey Behm
Vice President,
Financial Analysis

Denise Dank
Vice President,
Human Resources

Douglas Greer
Vice President,
Deputy General Counsel

Donna Hovey
Vice President,
Marketing Services

UNAFFILIATED DIRECTORS



Barrington Branch
President
The Branch-Shelton
Company



Geoffrey Button
Independent Property
Developer and Financier



William Cavanaugh, III
Chairman and Chief
Executive Officer
Progress Energy



Ngaire Cuneo
Principal
Red Associates, LLC



Charles Eitel
Chairman and Chief
Executive Officer
Simmons Company



L. Ben Lytle
Chairman
Anthem, Inc.



William McCoy
Partner
Franklin Street Partners



James Rogers
Chairman, President and
Chief Executive Officer
CINergy Corporation



Robert Woodward, Jr.
Chairman
Palmer-Donavin
Manufacturing Co.

AFFILIATED DIRECTORS

Gary Burk
Vice Chairman and
Executive Vice President

Thomas Hefner
Chairman and Chief Executive Officer

John Nelley
Managing Director, Nashville Operations

Gene Zink
Vice Chairman, Executive Vice President
and Chief Financial Officer

OTHERS

John Wynne
Chairman Emeritus

BOARD COMMITTEES

Audit Committee
Barrington Branch
Geoffrey Button
Ngaire Cuneo
Charles Eitel
William McCoy (Chair)
Robert Woodward, Jr.

Corporate Governance Committee
William Cavanaugh, III (Chair)
L. Ben Lytle
William McCoy
James Rogers
Executive Compensation Committee
Geoffrey Button
William Cavanaugh, III
Charles Eitel (Chair)
L. Ben Lytle
James Rogers

Finance Committee
Barrington Branch
William Cavanaugh, III
Ngaire Cuneo
L. Ben Lytle (Chair)
James Rogers
Robert Woodward, Jr.

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James Connor

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Wayne Lingafelter

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