

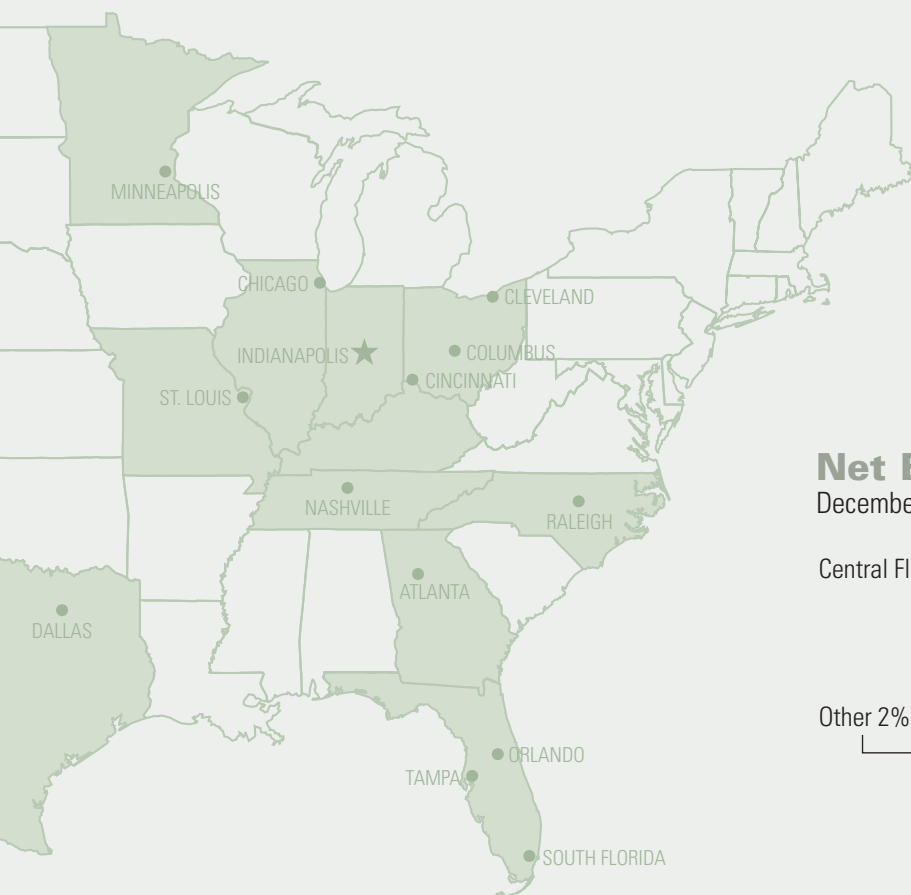


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ANNUAL REPORT



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 more than 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.

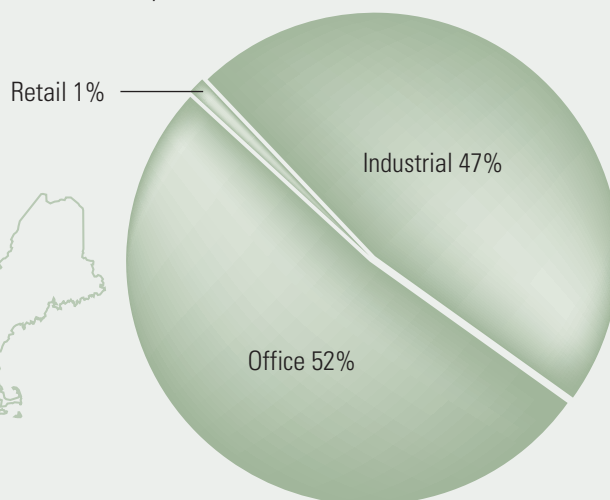


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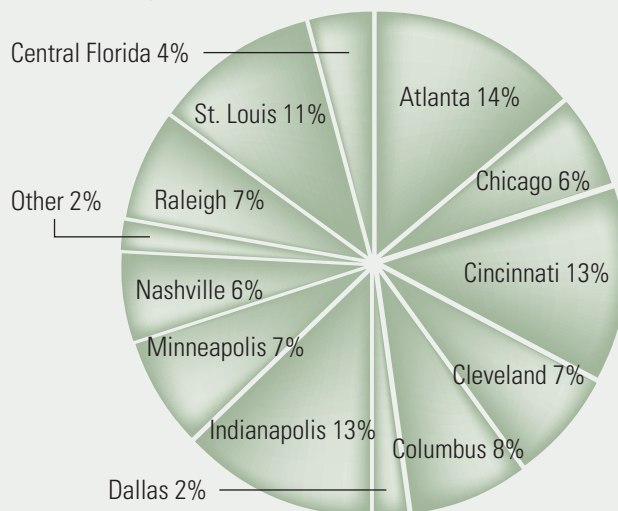
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PORTFOLIO HIGHLIGHTS

Net Effective Rent by Property Type December 31, 2003



Net Effective Rent by Market December 31, 2003



FINANCIAL DATA OVERVIEW

Selected Consolidated Financial Data

(In thousands, except per share amounts)

	2003	2002	2001	2000	1999
Total Revenues from Continuing Operations	\$789,866	\$766,652	\$781,473	\$776,782	\$577,960
Net Income Available for Common Shares	161,911	153,969	227,743	212,958	139,636
Diluted Net Income per Common Share	1.19	1.14	1.74	1.66	1.32
Funds From Operations—Diluted	382,237	370,774	401,023	377,853	278,599
Diluted FFO per Common Share	2.45	2.36	2.57	2.46	2.19
Dividends Paid per Common Share	1.83	1.81	1.76	1.64	1.46
Total Assets	5,561,249	5,348,823	5,330,033	5,460,036	5,486,238
Total Shareholders' Equity	2,666,749	2,617,336	2,785,323	2,712,890	2,668,596
FFO Payout Ratio	74.9%	76.9%	69.3%	68.3%	68.9%

Senior Unsecured Debt Ratings

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

Total Revenues From Continuing Operations

(in millions)



Diluted Net Income Per Common Share



Diluted Funds From Operations (FFO) Per Common Share



TO OUR SHAREHOLDERS:



from left: Thomas Hefner, Chairman and Chief Executive Officer; Gary Burk, Construction/Development Specialist and Vice Chairman; Gene Zink, Vice Chairman

Ten years ago, after completing our 1993 public stock offering, Gene Zink, Chief Financial Officer, Gary Burk, President of Construction Services, and I pondered the future of Duke Realty Corporation as a public company. At the time, real estate markets were improving after the 1991 recession, and we were excited to combine the Company's proven growth strategy and strong balance sheet with the accelerating economy.

What a great 10 years we had! From October of 1993 through last year, we grew from a \$600 million company located primarily in three Midwestern markets to a more than \$7.5 billion company with a super-regional presence in both the Midwest and Southeast United States. More importantly, our growth in size during this time occurred in conjunction with superior returns for Duke shareholders, who received a 17.2 percent average total return per year compared to 10.9 percent for the

Total Return to Shareholders

(December 31, 2003)

Closing price: \$31.00

	Duke	NAREIT Equity Index	S&P 500
1 Year	29.9%	37.1%	28.7%
3 Year	15.7%	17.5%	-4.1%
5 Year	13.6%	14.4%	-0.6%
10 Year	18.4%	12.1%	11.1%
Since 10/93 Offering	17.2%	10.9%	11.0%

NAREIT Equity Index and 11.0 percent for the S&P 500 Index. Including dividend reinvestment, a \$1,000 initial investment in Duke shares at our 1993 offering was worth more than \$5,000 at the end of 2003.

Beginning in 2002 and throughout 2003, with close oversight by our Board of Directors, the Company underwent an extensive succession planning process that resulted from the decisions of Gene, Gary and me to conclude our day-to-day service to the Company after more than 20 years of working together as a team. Specifically, on January 1, 2004, Gene and Gary stepped down from their executive positions, and Matt Cohoat and Steve Kennedy, both longtime Duke veterans of 14 and 17 years, respectively, assumed the positions of Chief Financial Officer and Executive Vice President of Construction. Additionally, at our annual meeting on April 28th, I intend to turn over the Chief Executive Officer position to Denny Oklak, currently our President and Chief Operating

Officer. Denny is a 17-year Duke executive who I believe will make a great CEO. Through April of 2005, I will remain Chairman of the Board of Directors, with Gary and Gene serving as Vice Chairmen through 2004.

As I close my executive service at Duke Realty Corporation, I want to thank the many Duke associates who have been both a pleasure to lead and who have contributed greatly to the Company's success. Highest on this list of fine people are Gene Zink and Gary Burk. It has been an honor to work together with each of you to accomplish more than we ever dreamed when we first met more than 20 years ago. It is also quite satisfying for me to see the personal growth of Denny Oklak and his ongoing team of Duke veterans who will lead the Company into the next 10-year run. Currently, real estate markets are improving after the recent recession, and it is again exciting to see the Company combine its proven growth strategy and industry leading balance sheet with the improving economy.

To our many shareholders, friends and associates I once more thank you for your support and confidence in Duke Realty Corporation. It has been my privilege to be your chief executive these past 10 years.

Thomas L. Hefner
Chairman and Chief Executive Officer



Duke Realty is a great franchise. With nearly 110 million square feet of office and industrial properties in thirteen major markets throughout the Midwest and Southeast, Duke Realty is a name recognized by everyone in the real estate industry. We have one of the industry's strongest balance sheets. We have unmatched development capabilities compared to other public real estate companies. Our in-house construction company is one of the largest and most efficient construction organizations in the United States. And our corporate governance is exemplary in the real estate industry and beyond. We have Tom Hefner, Gene Zink, and Gary Burk along with an outstanding group of independent directors to thank for this great Company. We intend to continue to build upon this franchise and grow the Company during the next decade and beyond.

For the last two years, we have been focusing on streamlining our operations to improve our efficiency and provide opportunities for growth. We have aligned all of our operating and support groups into three regions with regional offices in Indianapolis, Atlanta, and Chicago. We formed a new National Development and Construction group to focus on build-to-suit development and third-party construction opportunities with national customers outside of our core markets. And we appointed Bob Chapman Senior Executive Vice President, Head of Real Estate Operations, to oversee the new structure.

With this great franchise, refined operating structure and strong balance sheet, we are primed for growth as the real estate environment improves along with a healthier economy. On our 3,800 acres of land for future development owned or controlled in the Company's thirteen markets, we can fuel this growth with more than 47 million square feet of industrial development and 13 million square feet of office development. The estimated value of this future development is approximately \$3.6 billion.

We will also pursue property acquisitions in our existing markets and in new markets as opportunities arise. Our strong balance sheet places us in a great position to take advantage of these



*(back row) Steven Kennedy, EVP, Construction; Robert Fessler, EVP, Atlanta Region; Chris Seger, EVP, National Development/Construction; Denise Dank, SVP, Human Resources; James Connor, EVP, Chicago Region; Howard Feinsand, EVP, General Counsel; Paul Quinn, SVP, Chief Information Officer
(front row) Matthew Cohoat, EVP, Chief Financial Officer; Robert Chapman, SEVP, Real Estate Operations; Dennis Oklak, President & COO; John Guinee, EVP, Chief Investment Officer*

opportunities. Since we went public in 1993, our stated philosophy has been to keep our debt-to-total market capitalization ratio between twenty-five and forty percent. We ended 2003 at just over thirty percent, which means we have approximately \$1 billion of debt capacity before we would need to find other funding alternatives.

We cannot accomplish this growth without a team of great Associates throughout the Company. With the support and guidance of our Board of Directors, we have embarked on formal succession planning not at just the top level of the Company, but also for key positions throughout the Company. We have in-place leadership assessment and development programs for more than one hundred key Associates. We also have training plans in place for all Associates throughout the Company.

We thank Tom, Gene and Gary for their tireless dedication to Duke over the last three decades. We are excited about the opportunities that await us. Thank you for your support of Duke Realty Corporation.

Dennis D. Oklak
President and Chief Operating Officer

2003 OPERATING RESULTS AND OUTLOOK

In last year's annual report we correctly predicted that occupancy had bottomed for the recent down-cycle, although we had yet to see any meaningful occupancy improvement. We also said that improving occupancy was our primary focus in 2003. With this backdrop, total in-service occupancy increased more than 2.2 percent in 2003, including a 1.7 percent increase in the second half of the year that was driven by strong performance from our industrial portfolio. This set the stage for our return to year-over-year growth in funds from operations (FFO) per share in both the third and fourth quarters. Including the effect of impairment adjustments that we are now required to include in FFO, and both positive and negative adjustments to earnings for the redemption of preferred stock and units in 2003 and 2002, respectively, per share FFO grew 3.8 percent to \$2.45 per share. Excluding these accounting changes, FFO per share was \$2.43 for all of 2003 compared to \$2.48 in 2002. The yearly change in FFO per share is one of the key measurements that we use to gauge our performance.

Other key measurements that we monitor and report to you each year include our Return on Shareholder's Equity and Return on Real Estate Investments ratios, which were unchanged at 12.1 percent and down slightly from 9.5 percent to 9.3 percent, respectively. Given the economic backdrop that existed at the beginning of the year, we believe that our overall financial performance in 2003 was respectable and within the expectations of both the financial community and ourselves.

In addition to our occupancy increase in 2003, we also started \$306 million of third-party construction jobs compared to \$199 million in 2002. This improvement was important as we had a relatively quiet year of new development starts of \$108 million, as market conditions were unfavorable for most new projects that were not pre-leased.

Our acquisitions in 2003 of \$232 million, with a 10.1 percent stabilized return, were ahead of expectations and should provide a positive impact to future earnings when combined with our \$151 million of dispositions of mature and non-strategic assets at a 9.7 percent stabilized return. Continually recycling our older and less strategic assets is an important discipline that helps to maintain the overall high quality of our portfolio, which had an average age of less than 9.5 years at year-end 2003.

Outlook

With better leasing activity and general economic improvement in our markets, we are optimistic about our future prospects. As usual, the most important driver of our business is occupancy. While the improvement in our industrial portfolio seems well underway, our office markets are still generally slow. Although our office occupancy finished the year down slightly, it improved 0.9 percent in the second half of the year. The key driver of our office markets is job growth. We are encouraged that some markets like Atlanta are starting to show healthy job creation. However, it is too early to say that overall office fundamentals are materially improving. Nonetheless, with each percent of occupancy equal to \$0.06 per share of earnings, occupancy improvement of both our office and industrial properties remains our primary focus in 2004.

Another area of potential growth is to broaden our third-party construction and build-to-suit development businesses. In recent years, we have increasingly pursued construction and development opportunities outside of our core markets for certain existing clients. Based upon our success, we recently established the National Development and Construction division headed by Chris Seger, one of our most experienced business unit leaders, to proactively pursue construction and build-to-suit opportunities outside of our 13 core markets.

Future growth should also be fueled by the combination of our strong financial position and lower interest rates that have resulted in a more than 1.65 percent reduction over the past three years of the weighted average interest rate of our debt. With arguably the best access to capital of any company in the office/industrial business, we continue to achieve investment returns that are 4–5 percent greater than our cost of long-term debt. The use of our approximately \$1 billion of debt capacity adds wind at our backs as the economy recovers and development opportunities accelerate.



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 Policies	<ul style="list-style-type: none">No Shareholder Rights Plan (Poison Pill)Code of Conduct applies to all Directors and Associates; waivers require the vote of Independent DirectorsEffective orientation program 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 DirectorsOutstanding stock options may not be repricedDirectors required to offer resignation upon job change
Ownership	Minimum Stock Ownership Guidelines apply to all Directors and Executive Officers

The Company's Code of Conduct and its Corporate Governance Guidelines are available in the investor information/corporate governance section of the Company's website at www.dukerealty.com. A copy of these documents may also be obtained without charge by writing to Duke Realty Corporation, 600 East 96th Street, Suite 100, Indianapolis, Indiana 46240, Attention: Investor Relations.

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, 2003. The following information should be read in conjunction with Management's

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

	2003	2002	2001	2000	1999
Results of Operations:					
Revenues:					
Rental Operations	\$730,410	\$698,072	\$701,014	\$693,983	\$523,929
Service Operations	59,456	68,580	80,459	82,799	54,031
Total Revenues from Continuing Operations	\$789,866	\$766,652	\$781,473	\$776,782	\$577,960
Net Income Available for Common Shares	\$161,911	\$153,969	\$227,743	\$212,958	\$139,636
Per Share Data :					
Basic Income per Common Share:					
Continuing Operations	\$1.08	\$1.11	\$1.71	\$1.66	\$1.30
Discontinued Operations	0.11	0.04	0.05	0.02	0.03
Diluted Income per Common Share:					
Continuing Operations	1.08	1.10	1.69	1.64	1.29
Discontinued Operations	0.11	0.04	0.05	0.02	0.03
Dividends paid per Common Share	1.83	1.81	1.76	1.64	1.46
Weighted Average Common Shares Outstanding	135,595	133,981	129,660	126,836	104,884
Weighted Average Common and Dilutive Potential Common Shares	151,141	150,839	151,710	147,441	120,511
Balance Sheet Data (at December 31):					
Total Assets	\$5,561,249	\$5,348,823	\$5,330,033	\$5,460,036	\$5,486,238
Total Debt	2,335,536	2,106,285	1,814,856	1,973,215	2,113,476
Total Preferred Equity	540,508	440,889	608,664	608,874	609,998
Total Shareholders' Equity	2,666,749	2,617,336	2,785,323	2,712,890	2,668,596
Total Common Shares Outstanding	136,594	135,007	131,416	127,932	125,823
Other Data:					
Funds From Operations ¹	\$335,989	\$321,886	\$340,315	\$317,360	\$234,273
Cash Flow Provided by (Used by):					
Operating activities	\$368,628	\$569,596	\$349,668	\$363,350	\$315,635
Investing activities	(320,696)	(337,972)	91,539	(11,972)	(740,269)
Financing activities	(52,714)	(223,693)	(470,915)	(330,952)	436,449

¹ Funds From Operations ("FFO") is used by industry analysts and investors as a supplemental operating performance measure of an equity real estate investment trust ("REIT"). FFO is calculated in accordance with the definition that was adopted by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT"). FFO, as defined by NAREIT, represents net income (loss) determined in accordance with accounting principles generally accepted in the United States ("GAAP"), excluding extraordinary items as defined under GAAP and gains or losses from sales of previously depreciated operating real estate assets, plus certain non-cash items such as real estate asset depreciation and amortization, and after adjustment for unconsolidated partnerships and joint ventures.

Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminished predictably over time. Since real estate values instead have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. Thus, NAREIT created FFO as a supplemental measure of REIT operating performance that excludes historical cost depreciation, among other items, from GAAP net income. Management believes that the use of FFO, combined with the required primary GAAP presentations, has improved the understanding of operating results of REITs among the investing public and made comparisons of REIT operating results more meaningful. Management considers FFO to be a useful measure for reviewing comparative operating and financial performance (although FFO should be reviewed in conjunction with net income which remains the primary measure of performance) because by excluding gains or losses related to sales of previously depreciated operating real estate assets and excluding real estate asset depreciation and amortization, FFO assists in comparing the operating performance of a company's real estate between periods or as compared to different companies.



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 Current Report on Form 8-K dated July 24, 2003, with additional risk factor information.

The words "believe," "estimate," "expect," "anticipate" 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, 2003, the Company:

- Owned or jointly controlled 899 industrial, office and retail properties (including properties under development), consisting of over 109.0 million square feet primarily located in 10 states; and
- Owned or jointly controlled approximately 3,800 acres of land with an estimated future development potential of more than 60.0 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 rental income from its office, industrial and retail properties ("Rental Operations"). 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 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 2003, net operating income from the same property portfolio decreased by 3.5% from 2002, compared to 0.3% growth in 2002 over 2001. The current year decline is a result of a decrease of \$8.8 million in same property lease termination fees compared to 2002. In addition to the decrease in lease termination fees, the Company increased the use of free rent concessions in 2003 as an incentive to attract quality tenants.



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

Occupancy Analysis: 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, 2003 and 2002 (square feet in thousands):

Type	Total Square Feet		Percent of Total Square Feet		Percent Occupied	
	2003	2002	2003	2002	2003	2002
Industrial						
Service Centers	13,200	13,758	12.4%	13.0%	85.8%	87.4%
Bulk	66,068	66,021	62.2%	62.8%	91.1%	87.1%
Office	26,213	24,578	24.7%	23.4%	86.2%	86.5%
Retail	739	839	0.7%	0.8%	98.5%	98.5%
Total	106,220	105,196	100.0%	100.0%	89.3%	87.1%

The overall increase in occupancy for 2003 was the result of increased activity primarily in the bulk industrial product, fewer lease terminations through lease buyouts and fewer tenant bankruptcies. An improving economy coupled with increased business spending and aggressive leasing led to the overall occupancy increase. The current year decrease in Service Centers' occupancy was mainly the result of a tenant terminating 241,000 square feet through a lease buyout in December 2003 in exchange for a termination payment of \$3.0 million.

Lease Expiration and Renewals: 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, 2003, by product type. The table indicates square footage and annualized net effective rents (based on December 2003 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
2004	11,717	\$77,603	11%	9,092	\$41,621	2,625	\$35,982	—	\$—
2005	13,124	91,409	14%	10,289	50,825	2,799	40,084	36	500
2006	10,827	76,367	12%	8,507	44,545	2,318	31,789	2	33
2007	11,192	77,080	12%	8,490	41,276	2,677	35,527	25	277
2008	13,122	79,650	12%	10,538	46,383	2,563	32,904	21	363
2009	8,797	58,830	9%	6,727	31,021	2,050	27,421	20	388
2010	6,956	52,659	8%	5,053	25,392	1,889	27,031	14	236
2011	3,783	32,904	5%	2,461	12,290	1,306	20,369	16	245
2012	4,597	28,389	4%	3,547	13,655	1,043	14,401	7	333
2013	3,725	38,629	6%	1,673	7,888	1,989	29,826	63	915
2014 and Thereafter	7,002	44,952	7%	5,151	21,266	1,327	20,150	524	3,536
	94,842	\$658,472	100%	71,528	\$336,162	22,586	\$315,484	728	\$6,826
Total Portfolio Square Feet	106,220			79,269		26,212		739	
Percent Occupied	89.3%			90.2%		86.2%		98.5%	

The Company renewed 72.3% of its leases up for renewal in 2003, totaling 8.1 million square feet on which it attained a 1.4% growth in net effective rents. The relatively flat growth in rental rates is indicative of excess vacancies in many of the Company's markets requiring competitive pricing strategies to retain current tenants. The average term of renewals decreased to 3.5 years in 2003, from 4.4 years in 2002. The Company is currently renewing tenants for shorter terms in anticipation of better market rates for future renewal periods.

The Company's lease renewal percentages over the past three years have remained relatively consistent at a 70–75% success rate despite the relatively weak market conditions. The Company does not currently expect its renewal percentage in 2004 to significantly differ from that experienced in 2003.

Future Development: Another source of growth in earnings for the Company is the development of additional rental properties. The Company had approximately 2.8 million square feet of properties under development at December 31, 2003 with total projected costs



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

of approximately \$160.3 million. The total projected costs of properties under development at December 31, 2002 was \$195.0 million. The lower volume reflects the relative slowdown in business expansion in response to the overall weakened economy, and the Company's plan to limit the development of speculative properties until activity increases.

The properties under development are expected to provide future Rental Operations growth as they are placed in service or, for those properties that are being developed for sale, earnings through Service Operations upon their eventual sale. A summary of the properties under development as of December 31, 2003, 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 2004	1,485	64%	\$59,738	9.9%
2nd Quarter 2004	225	36%	16,257	11.0%
3rd Quarter 2004	200	53%	11,997	9.9%
Thereafter	193	100%	6,475	9.9%
	2,103	63%	\$94,467	10.1%
Held-for-sale:				
1st Quarter 2004	422	100%	\$37,110	9.0%
2nd Quarter 2004	26	100%	2,567	11.6%
3rd Quarter 2004	262	100%	26,143	10.1%
Thereafter	—	—	—	—
	710	100%	\$65,820	9.5%
Total	2,813	73%	\$160,287	9.9%

Acquisition and Disposition Activity: The Company has an active capital recycling program based upon a strategy to dispose of non-strategic assets and utilize the proceeds to fund new development and acquisitions of more desirable properties. Through this program, the Company is continually improving the overall quality of its investment portfolio. During 2000 and 2001, the Company disposed of over \$1 billion of properties, which generated substantially greater proceeds than were required to fund new development and acquisitions. The excess proceeds were utilized to pay down Company debt, which has reduced the Company's debt-to-total market capitalization ratio to a conservative 30.8% at December 31, 2003.

Dispositions of held-for-rental properties slowed in 2003 and 2002, totaling \$126 million and \$41 million, respectively, as the slower business climate limited reinvestment opportunities. The disposition proceeds were used to partially fund 2003 and 2002 acquisitions of \$232 million and \$114 million, respectively. The Company will continue to pursue both disposition and acquisition opportunities that arise in 2004. While management expects the volume of acquisitions to exceed dispositions, management cannot predict when or if these opportunities will arise.

FUNDS FROM OPERATIONS

Funds From Operations ("FFO") is used by industry analysts and investors as a supplemental operating performance measure of an equity real estate investment trust ("REIT"). FFO is calculated in accordance with the definition that was adopted by the Board of

Governors of the National Association of Real Estate Investment Trusts ("NAREIT"). FFO, as defined by NAREIT, represents net income (loss) determined in accordance with accounting principles generally accepted in the United States of America ("GAAP"), excluding extraordinary items as defined under GAAP and gains or losses from sales of previously depreciated operating real estate assets, plus certain non-cash items such as real estate asset depreciation and amortization, and after adjustment for unconsolidated partnerships and joint ventures.

Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. Thus, NAREIT created FFO as a supplemental measure of REIT operating performance that excludes historical cost depreciation, among other items, from GAAP net income. Management believes that the use of FFO, combined with the required primary GAAP presentations, has improved the understanding of operating results of REITs among the investing public and made comparisons of REIT operating results more meaningful. Management considers FFO to be a useful measure for reviewing comparative operating and financial performance (although FFO should be reviewed in conjunction with net income which remains the primary measure of performance) because by excluding gains or losses related to sales of previously depreciated operating real estate assets and



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

excluding real estate asset depreciation and amortization, FFO assists in comparing the operating performance of a company's real estate between periods or as compared to different companies.

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

	2003	2002	2001
Net income available for common shares	\$161,911	\$153,969	\$227,743
Add back (deduct):			
Depreciation and amortization	196,234	175,621	159,714
Share of adjustments for unconsolidated companies	18,839	17,598	14,177
Loss (Earnings) from depreciated property sales	(22,141)	(5,949)	(45,428)
Minority interest share of add-backs	(18,854)	(19,353)	(15,891)
Funds From Operations	\$335,989	\$321,886	\$340,315

Funds From Operations for 2002 and 2001 have been restated to include the effects of the Company's adoption of the SEC's July 31, 2003 Staff Policy Statement that clarifies the application of FASB-EITF Topic D-42, *The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock*. See discussion of Restatement of Net Income below. Additionally, the Company has restated 2002 and 2001 FFO through the adoption of recent guidance from the SEC requiring the inclusion of impairment adjustments in the calculation of FFO.

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, 2003, follows (in thousands, except number of properties and per share amounts):

	2003	2002	2001
Rental Operations revenues	\$730,410	\$698,072	\$701,014
Service Operations revenues	59,456	68,580	80,459
Earnings from Rental Operations	185,012	216,612	250,902
Earnings from Service Operations	21,821	30,270	35,115
Operating income	184,689	221,560	270,478
Net income available for common shares	161,911	153,969	227,743
Weighted average common shares outstanding	135,595	133,981	129,660
Weighted average common and dilutive potential common shares	151,141	150,839	151,710
Basic income per common share:			
Continuing operations	\$1.08	\$1.11	\$1.71
Discontinued operations	\$0.11	\$0.04	\$0.05
Diluted income per common share:			
Continuing operations	\$1.08	\$1.10	\$1.69
Discontinued operations	\$0.11	\$0.04	\$0.05
Number of in-service properties at end of year	884	910	888
In-service square footage at end of year	106,220	105,196	102,982
Under development square footage at end of year	2,813	3,058	4,701



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

COMPARISON OF YEAR ENDED DECEMBER 31, 2003 TO YEAR ENDED DECEMBER 31, 2002

Rental Income from Continuing Operations

Rental income from continuing operations increased from \$670.9 million in 2002 to \$706.7 million in 2003. The following table reconciles rental income by reportable segment to the Company's total reported rental income from continuing operations for the years ended December 31, 2003 and 2002 (in thousands):

	2003	2002
Office	\$421,660	\$395,542
Industrial	273,307	264,572
Retail	7,999	6,885
Other	3,756	3,893
Total	\$706,722	\$670,892

Although the Company's three reportable segments comprising Rental Operations (office, industrial and retail) are all within the real estate industry, they are not necessarily affected by the same economic and industry conditions. For example, the Company's retail segment experienced high occupancies and strong overall performance during 2003, while the Company's office and industrial segments reflected the weaker economic environment for those property types. The primary causes of the increase in rental income from continuing operations, with specific references to a particular segment when applicable, are summarized below:

- During 2003, in-service occupancy improved from 87.1% at the end of 2002 to 89.3% at the end of 2003. The second half of 2003 was highlighted by a significant increase in the industrial portfolio occupancy of 2.1% along with a slight increase in office portfolio occupancy of 0.9%. Increased occupancy continues to be management's primary focus for 2004.
- Lease termination fees totaled \$27.4 million in 2002 compared to \$17.2 million in 2003. Most of this decrease was attributable to the office segment, which recognized \$21.1 million of termination fees in 2002 as compared to \$11.8 million in 2003. Lease termination fees relate to specific tenants that pay a fee to terminate their lease obligations before the end of the contractual lease term. The high volume of termination fees in 2002 was reflective of the contraction of the business of large office users

during that year and their desire to downsize their use of office space. The decrease in termination fees for 2003 was indicative of an improving economy and a more stable financial position of the Company's tenants. Although there is no way to predict the amount of future lease termination fees, management believes that the amount of these fees will continue to decline in 2004.

- During the year ended 2003, the Company acquired \$232 million of properties totaling 2.1 million square feet. The acquisitions were primarily Class A office buildings in existing markets with overall occupancy near 90%. Revenues associated with these acquisitions totaled \$10.2 million in 2003. In addition, revenues from 2002 acquisitions totaled \$15.8 million in 2003 compared to \$4.8 million in 2002. This significant increase is primarily due to a large office acquisition that closed at the end of December 2002.
- Developments placed in-service in 2003 provided revenues of \$6.6 million, while revenues associated with developments placed in-service in 2002 totaled \$13.7 million in 2003 compared to \$4.7 million in 2002.
- Proceeds from dispositions of held for rental properties totaled \$126.1 million in 2003, compared to \$40.9 million in 2002. These properties generated revenue of \$12.5 million in 2003 versus \$19.6 million in 2002.

Equity in Earnings of Unconsolidated Companies

Equity in earnings represents the Company's ownership share of net income from investments in unconsolidated companies. These joint ventures generally own and operate rental properties and hold land for development. These earnings decreased from \$27.2 million in 2002 to \$23.6 million in 2003. This decrease is a result of the following significant activity:

- In 2002, a \$1.8 million gain was recognized on a property that was developed and sold upon completion to a third party.
- In 2003, the Company's total investment in joint ventures decreased. This decrease was the result of the Company acquiring its partner's interest in three joint ventures, selling its interest in two and one venture being dissolved in the current year. While the number of joint ventures decreased, the joint ventures' occupancy increased from 93.2% to 94.0% in 2003.



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

Rental Expenses and Real Estate Taxes

The following table reconciles rental expenses and real estate taxes by reportable segment to the Company's total reported amounts in the statement of operations for the years ended December 31, 2003 and 2002 (in thousands):

	2003	2002
Rental Expenses:		
Office	\$104,447	\$92,401
Industrial	36,954	30,252
Retail	926	494
Other	1,690	1,394
Total	\$144,017	\$124,541
Real Estate Taxes:		
Office	\$43,049	\$38,608
Industrial	31,123	29,206
Retail	477	445
Other	4,131	3,047
Total	\$78,780	\$71,306

The increased rental and real estate tax expenses for 2003, as compared to 2002, was the result of the Company's increase in average in-service square feet and occupancy. These increases resulted from the Company's acquisition activities and new developments placed in service in 2003.

Interest Expense

The Company's interest expense increased from \$114.7 million in 2002 to \$129.1 million in 2003. Although the Company benefited from significantly lower interest rates during the year, interest expense increased because of increased borrowings during the year and a decrease in the amount of interest that was capitalized. The increased borrowings reflected the funding of the Company's developments during the year and the excess of properties acquired over those disposed. Interest capitalized for 2003 was significantly lower than 2002 as development activity for 2003 was substantially slower than prior years. Development starts for 2003 totaled only \$108 million compared to approximately \$225 million for 2002. Other significant factors impacting interest expense for 2003 are summarized as follows (in thousands):

- The Company continued to replace secured debt financing with unsecured debt, and paid off over \$120 million of secured loans throughout 2003. The payoffs included secured loans due in 2003 and those due in 2004 and beyond for which the Company was able to take advantage of expired or negotiated lower pre-payment penalties and utilize lower financing costs from unsecured debt offerings or the unsecured line of credit.
- Approximately \$425 million of new unsecured debt was issued in 2003. The Company issued \$175

million of seven-year debt in January 2003 at an effective interest rate of 5.37%, \$150 million of ten-year debt in May 2003 at an effective interest rate of 4.64% and \$100 million of four-year debt in November 2003 at an effective interest rate of 3.63%. The Company retired \$175 million of debt in June 2003 that had an effective interest rate of 7.33%.

- The Company utilized its \$500 million unsecured line of credit more heavily in 2003 than it did during 2002 in order to take advantage of the historically low borrowing costs. The balance on the line of credit was \$351 million at December 31, 2003 compared to \$281 million at December 31, 2002.

Depreciation and Amortization Expense

Depreciation and amortization expense for 2003 increased by over \$22.5 million compared to 2002 because of an increase in tenant improvements and leasing costs. As discussed earlier, the Company experienced higher overall occupancy and more acquisition activity in 2003, which resulted in increased capital expenditures for tenant improvements and deferred lease commissions as well as increases in held for investment property basis. The following highlights the significant changes in depreciable and amortizable property during 2003:

- The basis of the held for investment property portfolio increased by \$166 million as a result of the Company's development and acquisition activity.
- The Company incurred tenant improvement costs of \$91.3 million in 2003.
- The Company incurred lease commissions of \$41.6 million in 2003.

Also contributing to the increased expense in 2003 was the effect of Statement of Financial Accounting Standards No. 141, *Business Combinations* ("SFAS 141"), on acquisitions. This accounting pronouncement requires the allocation of a portion of a property's purchase price to intangible assets for leases acquired and in-place at the closing date of the acquisition. These intangible assets are amortized over the remaining life of the leases (generally 3–5 years) as compared to the building basis portion of the acquisition, which is depreciated over 40 years. The amortization associated with the acquired lease intangible assets recorded on 2003 acquisitions totaled \$4.2 million.

Service Operations

Service Operations primarily consist of leasing, management, construction and development services for joint venture properties and properties owned by third parties. These operations are heavily influenced by the current state of the economy as leasing and management fees are dependent upon occupancy while construction and development services rely on businesses expanding operations. The following highlights the significant components of revenues in Service Operations:



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

- The Company experienced more than a 2% decrease in its overall gross profit margin percentage in its general contractor business in 2003 because of more competitive pricing in many of its markets. However, despite this decrease, the Company was able to increase its net general contractor revenues from \$21.9 million in 2002 to \$26.8 million in 2003 because of a significant increase in volume. This volume increase was attributable to the low cost of financing available to businesses, thereby making it more attractive for them to own instead of lease facilities. The Company has a substantial backlog of \$175.6 million for third party work as of December 31, 2003 that will carry into 2004.
- Property management, maintenance and leasing fee revenues have remained fairly constant between 2002 and 2003 as the number of properties managed by the Company has not changed significantly.
- 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 under which the Company develops a property with the intent to sell upon completion. The decrease in revenues from \$29.4 million in 2002 to \$15.5 million in 2003 is primarily due to fewer properties being sold in 2003 from the held-for-sale program. During 2002, the Company sold eight held-for-sale properties for a pre-tax gain of \$28.2 million compared to the sale of four properties in 2003 for a pre-tax gain of \$15.4 million in 2003. Profit margins on held-for-sale transactions fluctuate by sale depending on the type of property being sold, the strength of the underlying tenant and the nature of the sale, such as a pre-contracted purchase price for a primary tenant versus a sale on the open market.

Service Operations expenses decreased from \$38.3 million in 2002 to \$37.6 million in 2003. Included in these amounts are income taxes which decreased to \$5.7 million in 2003 from \$8.4 million in 2002 primarily as a result of lower income from the disposition of held-for-sale properties. Other Service Operations expenses increased by approximately \$2.0 million in 2003 over 2002. This increase was driven primarily from the costs associated with increased third party construction volume.

General and Administrative Expense

General and administrative expense decreased from \$25.3 million in 2002 to \$22.1 million for the year ended December 31, 2003. The decrease is primarily attributable to an increase in construction volume for third party projects resulting in a greater allocation of overhead to Service Operations operating expenses.

Other Income and Expenses

Gain on sale of land and depreciable property dispositions, net of impairment adjustment, is comprised of the following amounts in 2003 and 2002:

	2003	2002
Gain on sales of depreciable properties	\$0	\$4,491
Gain on sale of joint venture interests	8,639	0
Gain on land sales	7,695	4,478
Impairment adjustment	(560)	(6,629)
Total	\$15,774	\$2,340

Gain on sales of depreciable properties represent sales of previously held for investment rental properties which did not qualify to be classified as discontinued operations under SFAS 144 (see discussion under Discontinued Operations below). There were no such sales in 2003.

In 2003, the Company sold its interests in two joint ventures that owned and operated depreciable investment property. The Company owned 50% of each of these joint ventures.

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 \$560,000 of impairment charges on three land parcels that were sold in 2003. 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, 2003. The \$6.6 million adjustment recorded in 2002 was associated with four properties determined to be impaired.

Other revenue and expenses is comprised primarily of the write-off of contract development costs for abandoned development projects and gains on terminations of interest rate swaps. In 2003, the Company recorded contract development expenses of \$1.0 million compared to \$1.2 million in 2002. The Company accumulates costs of potential projects as an asset until such time as the costs are capitalized into a new project or expensed for a failed project.

In 2003, the Company terminated four forward starting interest rate swap agreements for a net gain of \$643,000. The swap agreements were entered into as hedges for future anticipated debt issuances. These agreements were terminated as a result of the Company's capital needs being met through the issuance of the Series J Preferred Stock in lieu of the contemplated debt issuances. In 2002, a \$1.4 million gain was recognized in connection with a swap that did not qualify for hedge accounting. The Company has no swaps or other derivative instruments outstanding at December 31, 2003. See discussion of the Company's use of derivative instruments in the footnotes to the financial statements.



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

Discontinued Operations

The Company adopted Statement of Financial Accounting Standard 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.

At December 31, 2003, the Company classified the results of operations and gains or losses of 45 buildings as discontinued operations. Of these buildings, 2 were sold in 2002 and 42 were sold in 2003. Impairment charges of \$500,000 were recognized in 2003 relating to a single property that was sold in 2003. As a result of the sale, these charges were classified in discontinued operations for 2003. One property is owned at December 31, 2003, and is under contract to sell in 2004. Impairment charges totaling \$2.7 million that were recognized in 2002 have been reclassified to discontinued operations as the properties to which they pertain were sold in 2003. Beginning in 2002, results of operations and any gains or losses on all sales of depreciable properties are classified in discontinued operations.

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

Rental Income from Continuing Operations

Rental income from continuing operations increased from \$669.6 million in 2001 to \$670.9 million in 2002. The following table reconciles rental income by reportable segment to the Company's total reported rental income from continuing operations for the years ended December 31, 2002 and 2001 (in thousands):

	2002	2001
Office	\$395,542	\$374,805
Industrial	264,572	272,891
Retail	6,885	18,165
Other	3,893	3,762
Total	\$670,892	\$669,623

The following significant fluctuations are the primary causes of the increase in rental income from continuing operations for all three segments, with specific references to a particular segment when applicable:

- Throughout 2002, in-service occupancy decreased from 88.6% at the end of 2001 to 87.1% at the end of 2002. The decline was the result of the weakened economy and its effect on business in the Company's markets. These markets experienced 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.

- Lease termination fees totaled \$27.4 million in 2002 compared to \$17.9 million in 2001. In 2002, there were significant individual termination fees received, particularly in the office portfolio, where \$21.1 million of termination fees were recognized compared to \$12.1 million in 2001. This trend was consistent with the continuing decline in occupancy for office space in many of the Company's markets.
- 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.

Equity in Earnings of Unconsolidated Companies

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 issued during the second quarter of 2001.

Rental Expenses and Real Estate Taxes

The following table reconciles rental expenses and real estate taxes by reportable segment to the Company's total reported amounts in the statement of operations for the years ended December 31, 2002 and 2001 (in thousands):

	2002	2001
Rental Expenses:		
Office	\$92,401	\$86,782
Industrial	30,252	28,214
Retail	494	1,619
Other	1,394	1,797
Total	\$124,541	\$118,412
Real Estate Taxes:		
Office	\$38,608	\$33,893
Industrial	29,206	29,520
Retail	445	1,553
Other	3,047	3,281
Total	\$71,306	\$68,247

The Company's three reportable segments comprising Rental Operations (office, industrial and retail) are all within the real estate industry. The increased rental and real estate tax expense were the result of the Company's increased real estate assets associated with current year developments and acquisitions.



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

Depreciation and Amortization

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.

Interest Expense

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 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%.
- 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.

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 under which 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 was 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.

General and Administrative Expense

General and Administrative Expense increased from \$15.5 million in 2001 to \$25.3 million for the year ended December 31, 2002. The Company was successful in reducing total operating and administration costs; however, reduced construction and development activities 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, was 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	(6,629)	(4,800)
Total	\$2,430	\$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 the amount of its property sales.

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.

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

RESTATEMENT OF NET INCOME

In July of 2003, the SEC issued a Staff Policy Statement that clarified the application of FASB-EITF Topic D-42 (Topic D-42), *The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock*. Under Topic D-42, the difference between the amounts paid to the holders of preferred stock upon redemption and the carrying amount of the preferred stock on the issuer's balance sheet must be subtracted from net income when computing earnings per share. The Staff Policy Statement clarified that, in computing the reduction in net income, the carrying amount of the preferred stock should be reduced by the issuance costs of the preferred stock. As a result of this clarification, the Company's net income per share was restated for 2002 and 2001. The impact of this restatement is summarized as follows:

	Twelve Months Ended December 31,	
	2002	2001
Net income available for common shareholders:		
Prior to Topic D-42	\$161,272	\$229,967
Post adoption of Topic D-42	\$153,969	\$227,743
Basic net income per common share:		
Prior to Topic D-42	\$1.20	\$1.77
Post adoption of Topic D-42	\$1.15	\$1.76
Diluted net income per common share:		
Prior to Topic D-42	\$1.19	\$1.75
Post adoption of Topic D-42	\$1.14	\$1.74

CRITICAL ACCOUNTING POLICIES

The preparation of the Company's consolidated financial statements in conformity with accounting principles generally accepted in the United States (GAAP) 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's management has assessed the accounting policies used in the preparation of its financial statements and discussed them with the Company's Audit Committee and independent auditors. 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 SFAS 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects* ("SFAS 67"), and interest costs are capitalized under the guidelines of SFAS 34, *Capitalization of Interest Cost* ("SFAS 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 SFAS 34 and SFAS 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.

All direct construction and development costs associated with the development of a new property are capitalized. In addition, all leasing commissions paid to third parties for new leases or lease renewals are capitalized. A portion of the Company's indirect costs associated with its construction/ development and leasing efforts are capitalized. In assessing the amount of indirect costs to be capitalized, the Company first allocates payroll costs, on a department-by-department basis, among activities for which capitalization is warranted



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

(i.e., construction, development and leasing) and those for which capitalization is not warranted (e.g., property management, maintenance, acquisitions and dispositions and general corporate functions). To the extent the employees of a department split their time between capitalizable and non-capitalizable activities, the allocations are made based on estimates of the actual amount of time spent in each activity. Once the payroll costs are allocated, the non-payroll costs of each department are allocated among the capitalizable and non-capitalizable activities in the same proportion as payroll costs. The capitalized cost pool does not include any costs allocable to its executive officers.

To ensure that an appropriate amount of costs are capitalized, the amount of capitalized costs that are allocated to a specific project are limited to amounts using standards developed by the Company. These standards consist of a percentage of the total development costs of a project and a percentage of the total gross lease amount payable under a specific lease. These standards are derived after considering both the amount of costs that would need to be paid by the Company if the services were performed by third parties, and the amounts that would be allocated if the personnel in the departments were working at full capacity. The use of these standards ensures that overhead costs attributable to downtime or to unsuccessful projects or leasing activities are not capitalized by the Company.

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 the anticipated cash flows 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 estimated cost to sell.

Acquisition of Real Estate Property: The Company treats each material property acquisition as a "business" within the scope of SFAS 141. In accordance with that statement, the Company allocates the purchase price of acquired properties to net tangible and identified intangible assets based on their respective fair value.

The allocation to tangible assets (building and land) is based upon management's determination of the value of the property as if it were vacant using discounted cash flow models similar to those used by independent appraisers. Factors considered by management include

an estimate of carrying costs during the expected lease-up periods considering current market conditions, and costs to execute similar leases. The remaining purchase price is allocated among three categories of intangible assets consisting of the above or below market component of in-place leases, the value of in-place leases and the value of customer relationships.

- The value allocable to the above or below market component of an acquired in-place lease is determined based upon the present value (using an interest rate which reflects the risks associated with the lease) of the difference between (i) the contractual amounts to be paid pursuant to the lease over its remaining term, and (ii) management's estimate of the amounts that would be paid using current fair market rates over the remaining term of the lease. The amounts allocated to above or below market leases are included in deferred leasing and other costs in the balance sheet and are amortized to rental income over the remaining terms of the respective leases.
- The total amount of intangible assets is further allocated to in-place lease values and to customer relationship values, based upon management's assessment of their respective values. These intangible assets are included in deferred leasing and other costs in the balance sheet and are depreciated over the remaining term of the existing lease, or the anticipated life of the customer relationship, as applicable.

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 established the following procedures and policies to evaluate the collectibility of outstanding receivables and record allowances:

- The Company maintains a tenant "watch list" containing a list of significant tenants for which the payment of receivables and future rent may be at risk. Various factors such as late rent payments, lease or debt instrument defaults, and indications of a deteriorating financial position are considered when determining whether to include a tenant on the watch list.
- As a matter of policy, the Company reserves the entire receivable balance, including straight-line rent, of any tenant with an amount outstanding over 90 days.
- Straight-line rent receivables for any tenant on the watch list or any other tenant identified as a potential long-term risk, regardless of the status of rent



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

receivables, are reviewed and reserved as necessary. In addition, a general reserve for straight-line rent receivables is provided in an amount equal to 1% to 2% of the outstanding balance.

Revenue Recognition on Construction Contracts: The Company recognizes income on 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 profits 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 risks relating to profit and cost estimates with those risks 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 on 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 its 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

Although the Company historically has not used any other sources of funds to pay for recurring capital expenditures on its current real

estate investments, the use of borrowings or property disposition proceeds may be needed to fund such expenditures during periods of high leasing volume. This situation could arise in 2004 if the Company experiences a significant increase in its occupancy.

The Company expects to meet its long-term liquidity requirements, such as scheduled mortgage debt maturities, preferred stock redemptions, 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, primarily from the following sources:

- issuance of additional unsecured notes;
- issuance of additional preferred stock;
- undistributed cash provided by operating activities, 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, and potential reduction in rental rates upon renewal or re-letting of properties, 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 had the following line of credit available (in thousands):

Description	Borrowing Capacity	Maturity Date	Interest Rate	Amount Outstanding at December 31, 2003
Unsecured Line of Credit	\$500,000	February 2004	LIBOR + .65%	\$351,000

The line of credit is used to fund development activities to acquire additional rental properties and to provide working capital.

In January 2004, the Company renewed the unsecured line of credit, extending the maturity date to January 2007 and lowering the interest rate from LIBOR + .65% to LIBOR + .60%.

The line of credit contains financial covenants that require the Company to meet defined levels of performance. As of December 31, 2003, the Company is in compliance with all such covenants and expects to remain in compliance for the foreseeable future.



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

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 \$670 million of unsecured debt securities as of December 31, 2003. 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 \$400.7 million of common and preferred stock as of December 31, 2003. 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.

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 for the foreseeable future.

In January 2004, the Company completed a \$125 million unsecured debt offering at an effective interest rate of 3.4%, due January 2008.

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. In 2002 and 2003, volume was substantially reduced as capital needs were met through other sources and the slower business climate provided fewer opportunities to profitably reinvest sale 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;
- Recurring leasing/capital costs;
- Dividends and distributions to shareholders and unitholders;
- Long-term debt maturities; and
- Other contractual obligations.

Property Investments

The Company evaluates development and acquisition opportunities based upon market outlook, supply, and long-term growth potential.

Recurring expenditures

A summary of the Company's recurring capital expenditures is as follows for the year ended December 31, (in thousands):

	2003	2002	2001
Tenant improvements	\$35,972	\$28,011	\$18,416
Leasing costs	20,932	17,975	13,845
Building improvements	19,544	13,373	10,873
Totals	\$76,448	\$59,359	\$43,134

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. The Company paid dividends per share of \$1.83, \$1.81 and \$1.76 for the years ended December 31, 2003, 2002 and 2001, 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, 2003, totaled \$2.3 billion with a weighted average interest rate of 5.65% maturing at various dates through 2028. The Company had \$2.1 billion of unsecured debt and \$208.6 million of secured debt outstanding at December 31, 2003. Scheduled principal amortization of such debt totaled \$9.0 million for the year ended December 31, 2003.



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

Following is a summary of the scheduled future amortization and maturities of the Company's indebtedness at December 31, 2003,

including the \$351 million outstanding on the unsecured line of credit in 2007 maturities to reflect the January 2004 renewal (in thousands):

Year	Future Repayments			Weighted Average Interest Rate of Future Repayments
	Scheduled Amortization	Maturities	Total	
2004	\$8,064	\$166,834	\$174,898	7.37%
2005	7,749	205,980	213,729	7.21%
2006	7,326	180,186	187,512	6.00%
2007	5,842	565,615	571,457	3.21%
2008	4,922	134,028	138,950	6.31%
2009	4,694	275,000	279,694	7.38%
2010	4,076	175,000	179,076	5.38%
2011	3,334	175,000	178,334	6.94%
2012	1,944	200,000	201,944	5.85%
2013	1,581	150,000	151,581	4.62%
Thereafter	8,361	50,000	58,361	6.64%
	\$57,893	\$2,277,643	\$2,335,536	5.65%

Historical Cash Flows

A comparison of the Company's historical cash flows for 2003, 2002 and 2001 is as follows (in millions):

	Years Ended December 31,		
	2003	2002	2001
Net cash provided by Operating Activities	\$368.6	\$569.6	\$349.7
Net Cash Provided (Used) by Investing Activities	(320.7)	(338.0)	91.5
Net Cash Used for Financing Activities	(52.7)	(223.7)	(470.9)

Operating Activities

Cash flows from operating activities provide the cash necessary to meet normal, operational requirements. The receipt of rental income from Rental Operations continues to provide the primary source of revenues and operating cash flows for the Company. However, in 2002, as explained in more detail below, the Company had a large number of sales of buildings developed with the intent to sell, resulting in a significant source of operational cash flows and revenues in 2002 compared to 2001 and 2003. While the Company continues to pursue these opportunities, revenues from rental operations will continue to be the primary source of revenue of the Company. Management continues to focus on increasing occupancy as its primary objective for 2004.

- The Company sold eight build-for-sale properties in 2002 generating sales proceeds of \$196.9 million. In contrast, four properties were sold in 2003 with gross proceeds of \$50.1 million, and eleven properties were sold in 2001 with gross proceeds of \$102.2 million.
- The Company has a backlog of build-for-sale buildings as of December 31, 2003, with projected

project costs of \$65.8 million that it anticipates selling throughout 2004.

Investing Activities

Investing activities are one of the primary uses of the Company's liquidity. Development and acquisition activity is necessary to generate additional rental revenues and provide cash flows for operational requirements. Highlights of significant cash uses are as follows:

- Development costs decreased from \$251.4 million in 2001 and \$158.1 million in 2002 to \$129.2 million in 2003. This trend is reflective of the weakened economy and excess supply over demand in many of the Company's markets. New developments, particularly speculative office, have been limited by management in an effort to focus on lease-ups of existing properties in most markets.
- Acquisitions of real estate have increased significantly since 2001 as the Company continues to view acquisitions in current markets as sources for growth opportunities.



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

- Recurring costs for tenant improvements, lease commissions and building improvements have also continued to increase over the past three years in direct relation to the re-leasing of vacant space. As occupancy fell to a low in 2001, management focused its attention over the past two years on improving and re-letting its existing spaces. Towards the latter half of 2003, occupancy improved in the Company's in-service portfolio. Management anticipates these costs to remain high in 2004 as occupancy trends upward, but occupancy trends are not predictable.
- Proceeds from property sales increased in 2003 over 2002 as the Company again looked to dispose of non-strategic assets. The Company experienced significant sales in 2000 and 2001 as efforts were made to de-leverage the balance sheet in anticipation of a slowed economy in 2001 and 2002. This strategy has created a low debt to market capitalization for the Company as of the end of 2003. Sales of property will continue to be utilized as part of the Company's capital recycling program to fund acquisitions and new development.

Financing Activities

The Company increased its borrowings under both its unsecured line of credit and in the public debt markets as a source of capital over the past two years. In order to enhance its flexibility with respect to its properties, the Company has continued to replace secured debt with unsecured debt. The low leverage resulting from the large volume of property dispositions in 2000 and 2001 provided the Company with the opportunity to borrow funds at very attractive rates. Highlights of significant financing activities are as follows:

- The Company received \$425.0 million in proceeds from unsecured debt offerings in 2003 and repaid \$135.5 million of secured debt in accordance with the strategy outlined above. The Company has obtained very low coupon rates on its newly issued debt and has staggered the maturity dates over the next 10 years, with no single year having disproportionate maturities.
- Borrowings on the unsecured line of credit have increased since 2001 as the Company has taken advantage of lower interest rates and excess capacity to fund development, acquisition and working capital needs. The Company renewed its unsecured line in January 2004, extending the due date to 2007 and lowering the interest rate from LIBOR + .65% to LIBOR + .60%.

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

Financial Instruments

In December 2002, the Company simultaneously entered into two \$50 million forward-starting interest rate swaps as a hedge to effectively fix the rate on unsecured debt financings expected in 2003. The fair value of the swaps was a liability of \$2.1 million as of December 31, 2002, and was recorded in other liabilities in the accompanying balance sheet.

In February 2003, the Company simultaneously entered into two additional \$25 million forward-starting interest rate swaps as a hedge to effectively fix the rate on unsecured debt financings expected in 2003. All four swaps qualified for hedge accounting under Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended ("SFAS 133"); therefore, changes in fair value were recorded in other comprehensive income.

In July 2003, the Company terminated the swaps for a net gain of \$643,000, which is included in other revenue in the Statements of Operations. The swaps were terminated because the Company's capital needs were met through the issuance of the Series J Preferred Stock in lieu of the previously contemplated issuance of debt.

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 cost to terminate the swaps was \$548,000, which was recorded as interest expense.

In May 2003, the FASB issued Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* ("SFAS 150"). SFAS 150 establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. SFAS 150 is effective for all financial instruments created or modified after May 31, 2003, and otherwise is effective July 1, 2003. The Company includes the operations of five joint ventures in its consolidated financial statements. These joint ventures are partially owned by unaffiliated parties that have noncontrolling interests. SFAS 150 requires the disclosure of the estimated settlement value of these noncontrolling interests.



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

As of December 31, 2003, the estimated settlement value of these noncontrolling interests was approximately \$4.3 million as compared to the minority interest liability recorded on the Company's books for these joint ventures of \$1.2 million.

OFF BALANCE SHEET ARRANGEMENTS

Investments in Unconsolidated Companies

The Company has equity interests ranging from 10–64% in unconsolidated 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, 2003. These investments provide several benefits to the Company including increased market share, tenant and property diversification and an additional source of capital to fund real estate projects.

The following table presents summarized financial information for unconsolidated companies for the years ended December 31, 2003 and 2002 (in thousands, except percentages):

	Dugan Realty, LLC		Dugan Texas, LLC		Dugan Office, LLC		Other Industrial and Office Joint Ventures		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Land, buildings and tenant improvements, net	\$727,411	\$739,372	\$209,602	\$214,796	\$91,170	\$94,718	\$145,049	\$183,140	\$1,173,232	\$1,232,026
Land held for development	17,663	18,763	12,710	9,148	4,293	4,294	16,662	6,643	51,328	38,848
Other assets	29,213	26,372	16,535	17,427	2,934	4,654	13,514	19,137	62,196	67,590
	\$774,287	\$784,507	\$238,847	\$241,371	\$98,397	\$103,666	\$175,225	\$208,920	\$1,286,756	\$1,338,464
Property indebtedness	\$409,349	\$408,305	\$16,035	\$17,200	\$69,160	\$69,936	\$83,188	\$84,452	\$577,732	\$579,893
Other liabilities	18,232	17,533	9,342	7,851	3,460	3,790	10,657	22,883	41,691	52,057
	427,581	425,838	25,377	25,051	72,620	73,726	93,845	107,335	619,423	631,950
Owner's equity	346,706	358,669	213,470	216,320	25,777	29,940	81,380	101,585	667,333	706,514
	\$774,287	\$784,507	\$238,847	\$241,371	\$98,397	\$103,666	\$175,225	\$208,920	\$1,286,756	\$1,338,464
Rental income	\$97,150	\$94,176	\$28,248	\$26,636	\$18,202	\$17,280	\$26,627	\$31,591	\$170,227	\$169,683
Net income	\$23,397	\$28,164	\$12,688	\$13,308	\$1,536	\$1,660	\$3,444	\$7,881	\$41,065	\$51,013
Total square feet	22,761	22,757	5,808	5,878	652	648	4,465	5,452	33,686	34,735
Percent leased	94.8%	94.1%	95.0%	95.3%	87.4%	95.3%	89.4%	87.2%	94.0%	93.2%
Company ownership percentage	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	10.0%–64.0%	10.0%–64.0%		

Off Balance Sheet Arrangements

The Company does not have any relationships with unconsolidated entities or financial partnerships, such as "special purpose entities,"

which are generally established for the purpose of facilitating off-balance sheet arrangements or other specific purposes.



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

Contractual Obligations

As of December 31, 2003, the Company is subject to certain

contractual payment obligations as described in the schedule below (in thousands):

Contractual Obligations	Total	Payments due by Period					
		2004	2005	2006	2007	2008	Thereafter
Long-term debt ¹	\$1,984,536	\$174,898	\$213,729	\$187,512	\$220,458	\$138,950	\$1,048,989
Line of credit ²	351,000	—	—	—	351,000	—	—
Share of mortgage debt of unconsolidated joint ventures ³	278,732	29,246	65,214	5,627	45,920	985	131,740
Capital leases	2,003	501	501	501	500	—	—
Ground leases	5,657	344	344	355	359	359	3,896
Development and construction backlog costs ⁴	196,553	196,553	—	—	—	—	—
Future land acquisitions ⁵	13,816	13,816	—	—	—	—	—
Other ⁶	5,531	996	943	713	540	327	2,012
Total Contractual Obligations	\$2,837,828	\$416,354	\$280,731	\$194,708	\$618,777	\$140,621	\$1,186,637

¹ This long term debt consists of both secured and unsecured debt.

² In January 2004, the maturity of the Company's line-of-credit was extended to 2007.

³ The Company has guaranteed \$92.0 million of the total \$278.7 million Company share of unconsolidated joint venture debt.

⁴ Estimated remaining costs on the completion of held-for-rental, held-for-sale and third-party construction projects.

⁵ These land acquisitions are subject to the completion of due diligence requirements, resolution of certain contingencies and completion of customary closing conditions. If the Company were to terminate these contracts, the Company would forfeit its total escrow amount of \$100,000 and would have no further contractual obligations.

⁶ This amount consists of operating leases and infrastructure development commitments.

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 had an option to acquire the executive officers' interests in these properties. Two of these properties, the Bank One Towers office buildings in Cincinnati, Ohio, were acquired in August 2003 at a price of \$45.5 million. The terms of this acquisition were reviewed and approved by the independent members of the Company's Board of Directors. The options on the remaining properties expired in October 2003, as the independent members of the Board of Directors of the Company determined that it was not in the best interests of the Company to exercise the options.

The Company received fees totaling \$1.2 million, \$1.4 million and \$1.7 million in 2003, 2002 and 2001, respectively, for services provided to these properties. The fees charged by the Company for such services are equivalent to those charged to third-party owners for similar services.

The Company provides property management, leasing, construction and other tenant related services to unconsolidated companies in which the Company has equity interest. For the years ended December 31, 2003, 2002 and 2001, respectively, the Company received management fees of \$4.9 million, \$4.9 million and \$4.7 million, leasing fees of \$2.3 million, \$2.5 million and \$2.8 million and construction and development fees of \$1.4 million, \$4.5 million and \$5.2 million from these unconsolidated companies. These fees were charged at market rates and the Company eliminates its ownership percentage of these fees in the consolidated financials.

In 2002, the Company received lease termination fees totaling \$7.7 million from a tenant that is a subsidiary of Progress Energy, Inc. William Cavanaugh III is President and Chief Executive Officer of Progress Energy, Inc. 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 are at terms that management considers to be 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, certain 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 from financial institutions. As of December 31, 2003, the outstanding balance on these loans was \$11.7 million as some participants have exited the program and repaid their principal balance. These loans were secured by common shares with a fair market value of \$18.2 million purchased through this program and owned by the remaining plan participants at December 31, 2003. As a condition of the financing agreement with the financial institution, the Company guaranteed the repayment of



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

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.

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, the repayment of which was directly or indirectly guaranteed by the Company. The guarantee associated with \$260 million of such debt expired in December 2003 without the Company being required to satisfy the guarantee. The remaining \$90 million of such debt is still guaranteed by the Company. 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 (at the option of the Company), subject to certain 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.

The Company has guaranteed the repayment of \$3.5 million of economic development bonds issued by the City of Carmel, Indiana. The Company will be required to make payments under its guarantee to the extent that incremental taxes from one of its office park developments are not sufficient to pay the bond debt service. Management does not believe that it is probable that the Company will be required to make any significant payments in satisfaction of this guarantee.

The Company has also guaranteed the repayment of a \$2 million mortgage loan encumbering the real estate of one its unconsolidated joint ventures. Management believes that the value of the real estate exceeds the loan balance and that the Company will not be required to satisfy this guarantee.

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 \$13.8 million. The acquisitions are scheduled to close periodically through 2004 and will be paid for by cash.

The Company renewed all of its major insurance policies in 2003. These policies include coverage for acts of terrorism for its properties. The Company believes that this insurance provides adequate coverage against normal insurance risks and that any loss experienced would not have a significant impact on the Company's liquidity, financial position, or results of operations.

Broadband Office, Inc. and Official Committee of Unsecured Creditors of Broadband Office, Inc. recently filed a complaint against a group of real estate investment trusts and real estate operating companies and certain affiliated entities and individuals in connection with the formation and management of Broadband Office. Among the defendants are Duke Realty Corporation, Duke Realty Limited Partnership and Mr. Dennis Oklak, one of the Company's executive officers. The complaint alleges various breaches of purported fiduciary duties by the defendants, seeks recharacterization or equitable subordination of debt, seeks recovery of alleged avoidable transfers, appears to seek to hold them liable for, among other things, the debt of Broadband Office under alter-ego, veil-piercing and partnership theories, and seeks other relief under other theories. The complaint seeks aggregate damages in excess of \$300 million from all of the defendants. The Company believes that it has meritorious defenses to the plaintiff's allegations and intends to vigorously defend this litigation. Due to the inherent uncertainties of the litigation process and the judicial system, the Company is not able to predict the outcome of this litigation. If this litigation is not resolved in the Company's favor, it could have a material adverse effect on its business, financial condition and 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.

RECENT ACCOUNTING PRONOUNCEMENTS

In January 2003, FASB issued Interpretation 46, *Consolidation of Variable Interest Entities* ("Interpretation 46"), which addresses the consolidation of certain entities in which a company has a controlling financial interest through means other than voting rights. This interpretation was revised in December 2003. For calendar year companies, Interpretation 46 contains an effective date of December 31, 2003 for special purpose entities and periods ending after March 15, 2004 for all other entities. The Company does not own interests in special purpose entities and management does not believe that the adoption of Interpretation 46 will have a material impact on the Company's financial statements.



INDEPENDENT AUDITORS' REPORT

The Shareholders and Directors of Duke Realty Corporation:

We have audited the consolidated balance sheets of Duke Realty Corporation and Subsidiaries as of December 31, 2003 and 2002, 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, 2003. 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, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Indianapolis, Indiana
January 28, 2004



CONSOLIDATED BALANCE SHEETS

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

	2003	2002
ASSETS		
Real estate investments:		
Land and improvements	\$641,544	\$608,995
Buildings and tenant improvements	4,452,624	4,237,360
Construction in progress	119,441	85,756
Investments in unconsolidated companies	295,837	315,589
Land held for development	314,996	326,535
	5,824,442	5,574,235
Accumulated depreciation	(677,357)	(555,858)
Net real estate investments	5,147,085	5,018,377
Cash and cash equivalents	12,632	17,414
Accounts receivable, net of allowance of \$2,430 and \$2,008	16,215	15,415
Straight-line rent receivable, net of allowance of \$1,240 and \$2,491	71,049	52,062
Receivables on construction contract, including retentions	44,905	23,181
Deferred financing costs, net of accumulated amortization of \$10,703 and \$15,390	13,421	11,493
Deferred leasing and other costs, net of accumulated amortization of \$67,317 and \$50,543	158,562	112,772
Escrow deposits and other assets	97,380	98,109
	\$5,561,249	\$5,348,823
LIABILITIES AND SHAREHOLDERS' EQUITY		
Indebtedness:		
Secured debt	\$208,649	\$299,147
Unsecured notes	1,775,887	1,526,138
Unsecured line of credit	351,000	281,000
	2,335,536	2,106,285
Construction payables and amounts due subcontractors, including retentions	60,789	43,232
Accounts payable	2,268	548
Accrued expenses:		
Real estate taxes	52,958	51,474
Interest	33,259	27,374
Other	51,808	54,568
Other liabilities	107,113	106,811
Tenant security deposits and prepaid rents	37,975	33,710
Total liabilities	2,681,706	2,424,002
Minority interest	212,794	307,485
Shareholders' equity:		
Preferred shares (\$0.01 par value); 5,000 shares authorized; 1,898 and 1,499 shares issued and outstanding	540,508	440,889
Common shares (\$0.01 par value); 250,000 shares authorized; 136,594 and 135,007 shares issued and outstanding	1,366	1,350
Additional paid-in capital	2,379,817	2,345,961
Accumulated other comprehensive income (loss)	—	(2,111)
Distributions in excess of net income	(254,942)	(168,753)
Total shareholders' equity	2,666,749	2,617,336
	\$5,561,249	\$5,348,823

See accompanying Notes to Consolidated Financial Statements.



CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended December 31 (in thousands, except per share amounts):

	2003	2002	2001
RENTAL OPERATIONS:			
Revenues:			
Rental income from continuing operations	\$706,722	\$670,892	\$669,623
Equity in earnings of unconsolidated companies	23,688	27,180	31,391
	730,410	698,072	701,014
Operating expenses:			
Rental expenses	144,017	124,541	118,412
Real estate taxes	78,780	71,306	68,247
Interest expense	129,160	114,675	109,544
Depreciation and amortization	193,441	170,938	153,909
	545,398	481,460	450,112
Earnings from continuing rental operations	185,012	216,612	250,902
SERVICE OPERATIONS:			
Revenues:			
General contractor gross revenue	286,689	194,439	264,455
General contractor costs	(259,930)	(172,559)	(229,845)
Net general contractor revenue	26,759	21,880	34,610
Property management, maintenance and leasing fees	14,731	14,301	22,824
Construction management and development activity income	15,486	29,428	19,142
Other income	2,480	2,971	3,883
Total revenue	59,456	68,580	80,459
Operating expenses	37,635	38,310	45,344
Earnings from service operations	21,821	30,270	35,115
General and administrative expense	(22,144)	(25,322)	(15,539)
Operating income	184,689	221,560	270,478
OTHER INCOME (EXPENSE):			
Interest income	3,590	3,783	5,037
Earnings from sale of land and depreciable property dispositions, net of impairment adjustment	15,774	2,340	45,708
Other revenue (expense)	(734)	182	(2,582)
Other minority interest in earnings of subsidiaries	(586)	(1,093)	(2,411)
Minority interest in earnings of common unitholders	(15,987)	(17,141)	(31,276)
Minority interest in earnings of preferred unitholders	(1,904)	(7,560)	(8,408)
Income from continuing operations	184,842	202,071	276,546
Discontinued operations:			
Net income from discontinued operations, net of minority interest	2,661	5,111	6,177
Gain on sale of discontinued operations, net of impairment adjustment and minority interest	11,729	(15)	—
Income from discontinued operations	14,390	5,096	6,177
Net income	199,232	207,167	282,723
Dividends on preferred shares	(37,321)	(45,053)	(52,442)
Adjustment for redemption of preferred stock	—	(8,145)	(2,538)
Net income available for common shareholders	\$161,911	\$153,969	\$227,743
Basic net income per common share:			
Continuing operations	\$1.08	\$1.11	\$1.71
Discontinued operations	0.11	0.04	0.05
Total	\$1.19	\$1.15	\$1.76
Diluted net income per common share:			
Continuing operations	\$1.08	\$1.10	\$1.69
Discontinued operations	0.11	0.04	0.05
Total	\$1.19	\$1.14	\$1.74
Weighted average number of common shares outstanding	135,595	133,981	129,660
Weighted average number of common and dilutive potential common shares	151,141	150,839	151,710

See accompanying Notes to Consolidated Financial Statements.



CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31 (in thousands):

	2003	2002	2001
Cash flows from operating activities:			
Net income	\$199,232	\$207,167	\$282,723
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of buildings and tenant improvements	168,959	154,565	138,723
Amortization of deferred leasing and other costs	27,275	21,056	20,991
Amortization of deferred financing costs	3,626	3,725	4,589
Minority interest in earnings	20,036	26,377	42,968
Straight-line rent adjustment	(22,387)	(12,500)	(12,593)
Earnings from land and depreciated property sales	(28,776)	(1,048)	(45,708)
Build-to-suit operations, net	(20,899)	168,199	(79,912)
Construction contracts, net	(3,210)	(11,656)	9,651
Other accrued revenues and expenses, net	15,989	9,136	(9,920)
Operating distributions received in excess of (less than) equity in earnings from unconsolidated companies	8,783	4,575	(1,844)
Net cash provided by operating activities	368,628	569,596	349,668
Cash flows from investing activities:			
Development of real estate investments	(129,199)	(158,131)	(251,405)
Acquisition of real estate investments	(201,819)	(98,062)	(13,927)
Acquisition of land held for development and infrastructure costs	(32,944)	(27,467)	(92,203)
Recurring tenant improvements	(35,972)	(28,011)	(18,416)
Recurring leasing costs	(20,932)	(17,975)	(13,845)
Recurring building improvements	(19,544)	(13,373)	(10,873)
Other deferred leasing costs	(17,167)	(18,219)	(10,621)
Other deferred costs and other assets	(25,264)	(17,790)	1,274
Tax deferred exchange escrow, net	—	—	27,260
Proceeds from land and depreciated property sales, net	167,626	52,186	436,113
Capital distributions from unconsolidated companies	—	—	59,249
Advances to unconsolidated companies	(5,481)	(11,130)	(21,067)
Net cash provided (used) by investing activities	(320,696)	(337,972)	91,539
Cash flows from financing activities:			
Proceeds from issuance of common shares, net	14,026	22,834	36,483
Proceeds from issuance of preferred shares, net	96,700	—	72,210
Payments for redemption of preferred stock	(20)	(167,953)	(75,018)
Redemption of warrants	(4,692)	—	—
Proceeds from unsecured debt issuance	425,000	200,000	175,000
Payments on unsecured debt	(175,000)	—	—
Proceeds from debt refinancing	38,340	—	—
Proceeds from issuance of secured debt	40,000	—	—
Payments on secured indebtedness including principal amortization	(143,542)	(71,953)	(223,578)
Proceeds (repayments on lines of credit), net	46,105	157,305	(125,067)
Payment for redemption of preferred units	(65,000)	(35,000)	—
Distributions to common shareholders	(248,100)	(242,475)	(228,039)
Distributions to preferred shareholders	(37,321)	(47,053)	(53,010)
Distributions to preferred unitholders	(4,859)	(7,560)	(8,408)
Distributions to minority interest	(28,484)	(28,575)	(36,221)
Deferred financing costs	(5,867)	(3,263)	(5,267)
Net cash used for financing activities	(52,714)	(223,693)	(470,915)
Net increase (decrease) in cash and cash equivalents	(4,782)	7,931	(29,708)
Cash and cash equivalents at beginning of year	17,414	9,483	39,191
Cash and cash equivalents at end of year	\$12,632	\$17,414	\$9,483
Other non-cash items:			
Assumption of debt for real estate acquisitions	\$—	\$9,566	\$16,403
Contributions of property to unconsolidated companies	\$5,009	\$—	\$4,501
Conversion of Limited Partner Units to common shares	\$26,546	\$60,509	\$36,351
Issuance of Limited Partner Units for real estate acquisitions	\$3,187	\$4,686	\$3,787
Transfer of debt in sale of depreciated property	\$—	\$2,432	\$16,000
Redemption of Limited Partner Units for depreciated property	\$—	\$—	\$13,445
Acquisition of partners' interest in unconsolidated companies	\$20,630	\$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	Distributions In Excess of Net Income	Total
Balance at December 31, 2000	\$608,874	\$1,279	\$2,180,120	\$—	\$(77,383)	\$2,712,890
Comprehensive Income:						
Net income	—	—	—	—	282,723	282,723
Distributions to preferred shareholders	—	—	—	—	(53,010)	(53,010)
Adjustment for carrying value of preferred stock redemption	—	—	2,538	—	(2,538)	—
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						229,521
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	—	—	—
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	\$2,253,784	\$(192)	\$(78,247)	\$2,785,323
Comprehensive Income:						
Net income	—	—	—	—	207,167	207,167
Distributions to preferred shareholders	—	—	—	—	(47,053)	(47,053)
Adjustment for carrying value of preferred stock redemptions	—	—	8,145	—	(8,145)	—
Gains (losses) on derivative instruments	—	—	—	(1,919)	—	(1,919)
Comprehensive income available for common shareholders						158,195
Issuance of common shares	—	12	22,855	—	—	22,867
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
Retirement of common shares	—	—	(210)	—	—	(210)
Distributions to common shareholders (\$1.81 per share)	—	—	—	—	(242,475)	(242,475)
Balance at December 31, 2002	\$440,889	\$1,350	\$2,345,961	\$(2,111)	\$(168,753)	\$2,617,336
Comprehensive Income:						
Net income	—	—	—	—	199,232	199,232
Distributions to preferred shareholders	—	—	—	—	(37,321)	(37,321)
Gains (losses) on derivative instruments	—	—	—	2,111	—	2,111
Comprehensive income available for common shareholders						164,022
Issuance of common shares	—	7	14,253	—	—	14,260
Issuance of preferred shares	100,000	—	(3,300)	—	—	96,700
Acquisition of minority interest	—	9	26,537	—	—	26,546
Repurchase of Series D Preferred shares	(20)	—	—	—	—	(20)
Conversion of Series D Preferred shares	(361)	—	361	—	—	—
Redemption of Warrants	—	—	(4,692)	—	—	(4,692)
Tax benefits from employee stock plans	—	—	542	—	—	542
FASB 123 compensation expense	—	—	155	—	—	155
Distributions to common shareholders (\$1.83 per share)	—	—	—	—	(248,100)	(248,100)
Balance at December 31, 2003	\$540,508	\$1,366	\$2,379,817	\$—	\$(254,942)	\$2,666,749

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"). Approximately 90.1% of the common partnership interests of DRLP ("Units") were owned by the Company at December 31, 2003. The remaining Units 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.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its controlled subsidiaries. The equity interests in these controlled subsidiaries not owned by the Company are reflected as minority interests in the consolidated financial statements. All significant intercompany 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 under the equity method of reporting.

Reclassifications

Certain 2001 and 2002 balances have been reclassified to conform to the 2003 presentation.

Real Estate Investments

Rental real property, including land, land improvements, buildings and building improvements, are included in real estate investments and are generally stated at cost. 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 using 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. Indirect costs include an estimate of internal costs associated with the 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.

Construction in process and land held for development are included in real estate investments and are stated at cost. Real estate investments also include the Company's equity interests in unconsolidated 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.

The Company adopted Statement of Financial Accounting Standard No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets* ("SFAS 144"), in 2002. In accordance with this statement, properties held for rental are individually evaluated for impairment when conditions exist which may indicate that it is probable that the sum of expected future cash flows (on an undiscounted basis) from a rental property over its anticipated holding period is less than is historical net cost basis. Upon determination that a permanent impairment has occurred, a loss is recorded to reduce the net book value of that property to its fair market value. Real properties to be disposed of are reported at the lower of historical net cost basis or its estimated fair market value, less costs to sell. Once a property is designated as held for disposal, no further depreciation expense is recorded.

In accordance with Statement of Financial Accounting Standard No. 141, *Business Combinations* ("SFAS 141"), the Company allocates the purchase price of acquired properties to net tangible and identified intangible assets based on their respective fair values. The allocation to tangible assets (building and land) is based upon management's determination of the value of the property as if it were vacant using discounted cash flow models similar to those used by independent appraisers. Factors considered by management include an estimate of carrying costs during the expected lease-up periods considering current market conditions, and costs to execute similar leases. The remaining purchase price is allocated among three categories of intangible assets consisting of the above or below market component of in-place leases, the value of in-place leases and the value of customer relationships.

The value allocable to the above or below market component of an acquired in-place lease is determined based upon the present value (using a discount rate which reflects the risks associated with the acquired leases) of the difference between (i) the contractual amounts to be paid pursuant to the lease over its remaining term, and (ii) management's estimate of the amounts that would be paid using fair market rates over the remaining term of the lease. The amounts allocated to above or below market leases are included in deferred leasing and other costs in the balance sheet and are amortized to rental income over the remaining terms of the respective leases.

The total amount of intangible assets is further allocated to in-place lease values and to customer relationship values based upon management's assessment of their respective values. These intangible assets are included in deferred leasing and other costs in the balance sheet and are depreciated over the remaining term of the existing lease, or the anticipated life of the customer relationship, as applicable.

Cash Equivalents

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



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Deferred Costs

Costs incurred in connection with obtaining financing are amortized to interest expense on the straight-line method, which approximates a constant spread 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 represent fee based third party contracts and are recognized as earned based on the terms of the contract, which approximates the percentage of completion method.

The Company recognizes income on construction contracts where the Company serves as a general contractor on the percentage of completion method. Using this method, profits are recorded based on the Company's estimates of the percentage of completion of individual contracts, commencing when the work performed under the contracts reach a point where the final costs can be estimated with reasonable accuracy. The percentage of completion estimates are based on a

comparison of the contract expenditures incurred to the estimated final costs. Changes in job performance, job conditions and estimated profitability may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

Property Sales

Gains from sales of depreciated property are recognized in accordance with Statement of Financial Accounting Standard No. 66, *Accounting for Sale of Real Estate* ("SFAS 66"), and are included in earnings from sales of land and depreciable property dispositions, net of any impairment adjustments, 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 that were developed with the intent to sell and not for long-term rental 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 common share is computed by dividing the sum of net income available for common shareholders and the minority interest in earnings allocable to Units not owned by the Company, by the sum of the weighted average number of common shares and minority Units outstanding, including any dilutive potential common shares for the period.

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

	2003	2002	2001
Basic net income available for common shares	\$161,911	\$153,969	\$227,743
Joint venture partner convertible ownership net income	—	—	3,423
Minority interest in earnings of common unitholders	17,546	17,726	32,149
Diluted net income available for common shares and dilutive potential common shares	\$179,457	\$171,695	\$263,315
Weighted average number of common shares outstanding	135,595	133,981	129,660
Weighted average partnership units outstanding	14,685	15,442	18,301
Joint venture partner convertible ownership common share equivalents	—	—	2,092
Dilutive shares for stock-based compensation plans	861	1,416	1,657
Weighted average number of common shares and dilutive potential common shares	151,141	150,839	151,710

The Company's outstanding Series D Convertible Preferred Stock was anti-dilutive for the years ended December 31, 2003, 2002 and 2001; therefore, no conversion to common shares is included in weighted average dilutive potential common shares. In September 2002, the Company redeemed the Series G Convertible Preferred Units at their par value of \$35.0 million. These Units were anti-dilutive for the years

ended December 31, 2002 and 2001; therefore, no conversion to common shares was included in weighted average dilutive potential common shares.

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. The effect of this option on earnings per



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

share was anti-dilutive for the years ended December 31, 2003 and 2002 and was dilutive for the year ended December 31, 2001; therefore, conversion to common shares was included in weighted dilutive potential common shares for that year.

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 to distribute at least 90% of its adjusted 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.

The following table reconciles the Company's net income to its taxable income before the dividends paid deduction for the years ended December 31, 2003, 2002 and 2001:

	2003	2002	2001
Net income	\$199,232	\$207,167	\$282,723
Book/tax differences	35,082	26,856	(5,308)
Taxable income before adjustments	234,314	234,023	277,415
Less: capital gains	(32,009)	(4,203)	(24,850)
Adjusted taxable income subject to 90% dividend requirement	\$202,305	\$229,820	\$252,565

The Company's dividends paid deduction is summarized below:

	2003	2002	2001
Cash dividends paid	\$284,868	\$289,528	\$281,453
Less: Capital gains distribution	(32,009)	(4,203)	(24,850)
Less: Return of capital	(46,637)	(50,425)	—
Total dividends paid deduction attributable to adjusted taxable income	\$206,222	\$234,900	\$256,603

A summary of the tax characterization of the dividends paid for the years ended December 31, 2003, 2002 and 2001 follows:

	2003	2002	2001
Common Shares			
Ordinary income	69.7%	78.2%	90.9%
Return of capital	19.1%	20.5%	0.0%
Capital gains	11.2%	1.3%	9.1%
	100.0%	100.0%	100.0%
Preferred Shares			
Ordinary income	88.8%	98.7%	90.9%
Capital gains	11.2%	1.3%	9.1%
	100.0%	100.0%	100.0%



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company recorded federal and state income taxes of \$4.2 million, \$12.0 million and \$5.2 million for 2003, 2002 and 2001, respectively, which were primarily attributable to the earnings of the Company's taxable REIT subsidiaries. The taxable REIT subsidiaries had no significant deferred income tax items.

Stock Based Compensation

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 all stock based awards issued prior to 2002. Accordingly, 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.

In 2002, the Company prospectively adopted the fair value recognition provisions of SFAS 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), for all awards granted after January 1, 2002.

Awards under the Company's stock based employee compensation plans generally vest over five years at 20% per year. Therefore, the expense related to these plans 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.

	2003	2002	2001
Net income, as reported	\$161,911	\$153,969	\$227,743
Add: Stock-based employee compensation expense included in net income determined under fair value method	155	224	0
Deduct: Total stock based compensation expense determined under fair value method for all awards	(778)	(1,153)	(1,236)
Proforma Net Income	\$161,288	\$153,040	\$226,507
Basic net income per share			
As reported	\$1.19	\$1.15	\$1.76
Pro forma	\$1.19	\$1.14	\$1.75
Diluted net income per share			
As reported	\$1.19	\$1.14	\$1.74
Pro forma	\$1.18	\$1.13	\$1.73

Derivative Financial Instruments

The Company periodically enters into certain interest rate protection agreements to effectively convert or cap floating rate debt to a fixed rate, and to hedge anticipated future financing transactions. Net amounts paid or received under these agreements are recognized as an adjustment to the interest expense of the corresponding debt. The Company does not utilize derivative financial instruments for trading or speculative purposes.

The Company adopted SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended ("SFAS 133"), on January 1, 2001. SFAS 133 requires that all derivative instruments be recorded on the balance sheet as assets or liabilities at their fair value. The cumulative effect of adopting SFAS 133 was not material to the Company's financial statements on the date of adoption. Derivatives that are not hedges must be adjusted to fair value through the recording of income or expense. If a derivative qualifies as a hedge, the changes in fair value of the effective portion of the hedge are recognized in other comprehensive income, while the ineffective portion of the derivative's change in fair value is recognized in earnings. The Company estimates the fair value of derivative instruments using standard market conventions and techniques such as discounted cash flow analysis, option pricing models and termination cost at each balance sheet date.

Use Of Estimates

The preparation of the financial statements requires management to make a number of estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the 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 had an option to acquire the executive officers' interests in these properties. Two of these properties, the Bank One Towers office buildings in Cincinnati, Ohio, were acquired in August 2003 at a price of \$45.5 million. The terms of this acquisition were reviewed and approved by the independent members of the Company's Board of Directors. The options on the remaining properties expired in October 2003, as the independent members of the Board of Directors of the Company determined that it was not in the best interest of the Company to exercise those options.

The Company received fees totaling \$1.2 million, \$1.4 million and \$1.7 million in 2003, 2002 and 2001, respectively, for services provided to



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

these properties. The fees charged by the Company for such services are equivalent to those charged to third-party owners for similar services.

The Company provides property management, leasing, construction and other tenant related services to unconsolidated companies in which the Company has an equity interest. For the years ended December 31, 2003, 2002 and 2001, respectively, the Company received management fees of \$4.9 million, \$4.9 million and \$4.7 million, leasing fees of \$2.3 million, \$2.5 million and \$2.8 million and construction and development fees of \$1.4 million, \$4.5 million and \$5.2 million from these unconsolidated companies. These fees were recorded at market rates and the Company eliminates its ownership percentage of these fees in the consolidated financials.

In 2002, the Company received lease termination fees totaling \$7.7 million from a tenant that is a subsidiary of Progress Energy, Inc. William Cavanaugh III is President and Chief Executive Officer of Progress Energy, Inc. 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 are at terms that management considers to be 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 joint ventures that own and operate rental properties and hold land for development.

Combined summarized financial information for the unconsolidated companies as of December 31, 2003 and 2002, and for the years ended December 31, 2003, 2002, and 2001, are as follows (in thousands):

	2003	2002	2001
Land, buildings and tenant improvements, net	\$1,173,232	\$1,232,026	
Land held for development	51,328	38,848	
Other assets	62,196	67,590	
	\$1,286,756	\$1,338,464	
Property indebtedness	\$577,732	\$579,893	
Other liabilities	41,691	52,057	
	619,423	631,950	
Owners' equity	667,333	706,514	
	\$1,286,756	\$1,338,464	
Rental income	\$170,227	\$169,683	\$172,257
Net income	\$41,065	\$51,013	\$58,091
Earnings distributions received	\$30,844	\$29,238	\$37,022

The Company's share of the scheduled payments of long term debt for the unconsolidated joint ventures for each of the next five years and thereafter as of December 31, 2003, are as follows (in thousands):

Year	Future Repayments
2004	\$29,246
2005	65,214
2006	5,627
2007	45,920
2008	985
Thereafter	131,740
	\$278,732

The following significant transactions involving the unconsolidated companies have occurred over the past three years:

During 2003, the Company purchased its partner's interest in three separate joint ventures. The Company had a 50% interest in each of

these ventures prior to their acquisition. The Company also sold its 50% interest in two separate joint ventures to its partners. In addition, the Company contributed cash and undeveloped land to a joint venture that owns undeveloped land and an office building in return for a 50% interest.

In 2002, the Company recognized a gain of \$1.8 million on the sale of a building that was developed for sale by a joint venture in which the Company owned a 50% interest. The gain was included in equity in earnings in the Statement of Operations. The Company also 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.

During 2001, the Company received approximately \$50.0 million in cash distributions resulting from secured debt financing within two 50% owned joint ventures. The debt is nonrecourse to the Company and is secured by rental properties owned by the joint ventures. In addition, the Company recognized a gain of \$2.9 million from the



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

sale of depreciable property by a joint venture in which the Company owned a 50% interest. The gain is included in equity in earnings in the Statement of Operations.

(5) REAL ESTATE INVESTMENTS

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 which has either been disposed or is classified as held-for-sale, unless certain conditions are met.

The Company has classified operations of 45 buildings as discontinued operations in accordance with SFAS 144. These 45 buildings consist of thirty-four industrial, seven office and four retail properties. As a result,

the Company classified net income, net of minority interest, of \$2.7 million, \$5.1 million and \$6.2 million as net income from discontinued operations for the years ended December 31, 2003, 2002 and 2001, respectively. Forty-two of these properties were sold during 2003, two properties were sold during 2002 and one operating property is classified as held-for-sale at December 31, 2003; therefore, the gains on disposal of these properties, net of impairment adjustment and minority interest, of \$11.7 million and (\$15,000) for the year ended December 31, 2003 and 2002, respectively, are also reported in discontinued operations.

The following table illustrates the major classes of assets and operations affected by the 45 buildings identified as discontinued operations at December 31, 2003 (in thousands):

	2003	2002	2001
Balance Sheet:			
Real estate investments, net	\$951	\$108,106	
Other Assets	294	14,395	
Total Assets	\$1,245	\$122,501	
Accrued Expenses	\$32	\$2,192	
Other Liabilities	—	991	
Equity	1,213	119,318	
Total Liabilities and Equity	\$1,245	\$122,501	
Statement of Operations:			
Revenues	\$12,495	\$19,635	\$22,335
Expenses:			
Operating	4,410	5,690	5,445
Interest	2,346	3,608	4,286
Depreciation and Amortization	2,793	4,683	5,805
General and Administrative	24	32	20
Operating Income	2,922	5,622	6,779
Other Income	25	76	271
Minority interest expense—operating and other income	(286)	(587)	(873)
Income from discontinued operations, before gain on sale	2,661	5,111	6,177
Gain on sale of property, net of impairment adjustment	13,002	(17)	—
Minority interest expense—gain on sales	(1,273)	2	—
Income from discontinued operations	\$14,390	\$5,096	\$6,177

The Company allocates interest expense to discontinued operations as permitted under EITF 87-24, *Allocation of Interest to Discontinued Operations*, and has included such interest expense in computing net income from discontinued operations. Interest expense allocable to discontinued operations includes interest on the debt for the secured properties and an allocable share of the Company's consolidated unsecured interest expense for unencumbered properties. The allocation of unsecured interest expense to discontinued operations was based upon the Gross Book Value of the discontinued operations unencumbered population as it related to the Company's entire unencumbered population.

At December 31, 2003, the Company had four office, three industrial and one retail properties comprising approximately 785,000 square feet classified as held-for-sale. With the exception of one industrial property mentioned above, each of these properties was under development on that date and had no operations. 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, 2003, 2002 and 2001 was approximately \$206,000, \$89,000 and \$88,000, respectively. The net book value of the properties held-for-sale at December 31, 2003, was approximately \$47.2 million.

In 2003 the Company recorded \$1.1 million of impairment adjustments for one industrial building and three land parcels that were held-for-sale. These adjustments reflect the write-down of the carrying value of the properties to their projected sales price, less selling expenses, once it became probable that the properties would be sold. Each of these properties was later sold in 2003.

The Company recorded a \$9.4 million impairment adjustment for six properties in 2002. This total consisted of a \$7.7 million adjustment for three industrial properties and a \$1.7 million adjustment for three



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

office properties. The properties were identified as impaired upon the comparison of their projected undiscounted cash flows to their carrying value. The impairment adjustment reflects the write-down of the carrying value of the properties to their estimated fair market value. In estimating fair market value, management considers valuation factors used by independent appraisers, including the sales of comparable properties, replacement cost and the capitalization of future expected net operating income.

In 2001, the Company recorded a \$4.8 million impairment adjustment for an industrial property that was sold in 2002. This adjustment reflected the write-down of the carrying value of that property to an amount equal to its projected sales price, less selling expenses, once it became probable the property would be sold.

(6) INDEBTEDNESS

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

	2003	2002
Fixed rate secured debt, weighted average interest rate of 6.94% at December 31, 2003, and 7.35 % at December 31, 2002, maturity dates ranging from 2004 to 2017	\$153,460	\$259,376
Variable rate secured debt, weighted average interest rate of 2.42% at December 31, 2003, and 1.71% at December 31, 2002, maturity dates ranging from 2006 to 2025	55,189	39,771
Fixed rate unsecured notes, weighted average interest rate of 6.41% at December 31, 2003, and 6.95% at December 31, 2002, maturity dates ranging from 2004 to 2028	1,775,887	1,526,138
Unsecured line of credit, interest rate of 1.77% at December 31, 2003, and 2.07% at December 31, 2002, maturity date of 2007	351,000	281,000
	\$2,335,536	\$2,106,285

The fair value of the Company's indebtedness as of December 31, 2003, was \$2.5 billion.

As of December 31, 2003, the \$208.6 million of secured debt was collateralized by rental properties with a carrying value of \$453.7 million

and by letters of credit in the amount of \$15 million.

The Company had one unsecured line of credit available at December 31, 2003, described as follows (in thousands):

Description	Borrowing Capacity	Maturity Date	Interest Rate	Outstanding at December 31, 2003
Unsecured Line of Credit	\$500,000	February 2004	LIBOR + .65%	\$351,000

In January 2004, the line of credit was extended through January 2007 at an interest rate of LIBOR plus 0.60%. The line of credit is used to fund development activities and acquire additional rental properties and to provide working capital.

At December 31, 2003, the scheduled amortization and maturities of all indebtedness for the next five years and thereafter were as follows (in thousands):

Year	Amount
2004	\$174,898
2005	213,729
2006	187,512
2007	571,458
2008	138,950
Thereafter	1,048,989
	\$2,335,536

The amount of interest paid in 2003, 2002, and 2001 was \$130.1 million, \$125.9 million and \$140.5 million, respectively. The amount of interest capitalized in 2003, 2002 and 2001 was \$6.7 million, \$13.5 million and \$25.9 million, respectively.

In January 2004, the Company issued \$125.0 million of unsecured debt having an effective interest rate of 3.36% due 2008.

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. At December 31, 2003, the Company is in compliance with all such covenants and expects to remain in compliance for the foreseeable future.

(7) SEGMENT REPORTING

The Company is engaged in four operating segments: the ownership and rental of office, industrial and retail real estate investments (collectively, "Rental Operations"), and the providing of various real estate services such as property management, maintenance, leasing, development 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 consists mainly of equity in earnings of unconsolidated companies. Non-segment assets consist of corporate



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

assets including cash, deferred financing costs and investments in unconsolidated companies. Interest expense and other non-property specific revenues and expenses are not allocated to individual segments in determining the Company's performance measure.

The Company assesses and measures segment operating results based upon an industry performance measure referred to as Funds From Operations ("FFO"), which management believes is a useful indicator of the Company's operating performance. FFO is used by industry analysts and investors as a supplemental operating performance measure of an equity real estate investment trust ("REIT"). FFO is calculated in accordance with the definition that was adopted by the Board of Governors of the National Association of

Real Estate Investment Trusts ("NAREIT"). FFO, as defined by NAREIT, represents net income (loss) determined in accordance with accounting principles generally accepted in the United States of America ("GAAP"), excluding extraordinary items as defined under GAAP and gains or losses from sales of previously depreciated operating real estate assets, plus certain non-cash items such as real estate asset depreciation and amortization, and after adjustment for unconsolidated partnerships and joint ventures.

The revenues and FFO for each of the reportable segments for the years ended December 31, 2003, 2002, and 2001, and the assets of each reportable segment as of December 31, 2003 and 2002 are summarized as follows (in thousands):

	2003	2002	2001
REVENUES			
Rental Operations:			
Office	\$421,660	\$395,542	\$374,805
Industrial	273,307	264,572	272,891
Retail	7,999	6,885	18,165
Service Operations	59,456	68,580	80,459
Total Segment Revenues	762,422	735,579	746,320
Non-Segment Revenue	27,444	31,073	35,153
Consolidated Revenue from continuing operations	789,866	766,652	781,473
Discontinued Operations	12,495	20,910	22,335
Consolidated Revenue	\$802,361	\$787,562	\$803,808
FUNDS FROM OPERATIONS			
Rental Operations:			
Office	\$274,164	\$264,533	\$254,130
Industrial	205,231	205,115	215,156
Retail	6,593	5,947	14,993
Services Operations	21,821	30,270	35,115
Total Segment FFO	507,809	505,865	519,394
Non-Segment FFO:			
Interest expense	(129,160)	(114,675)	(109,544)
Interest income	3,590	3,783	5,037
General and administrative expense	(22,144)	(25,322)	(15,539)
Gain on land sales	7,135	4,478	5,080
Impairment charges on depreciable property	(500)	(9,379)	(4,800)
Other expenses	(2,796)	(368)	(3,899)
Minority interest in earnings of subsidiaries	(586)	(1,093)	(2,411)
Minority interest in earnings of common unitholders	(15,938)	(17,141)	(31,276)
Minority interest in earnings of preferred unitholders	(1,904)	(7,560)	(8,408)
Minority interest share of FFO adjustments	(18,854)	(19,353)	(15,891)
Joint Venture FFO	42,526	44,778	45,570
Dividends on preferred shares	(37,321)	(45,053)	(52,442)
Adjustment for redemption of preferred stock	—	(8,145)	(2,538)
Discontinued operations, net of minority interest	4,132	11,071	11,982
Consolidated FFO	335,989	321,886	340,315
Depreciation and amortization on continuing operations	(193,441)	(170,938)	(153,909)
Depreciation and amortization on discontinued operations	(2,793)	(4,683)	(5,805)
Share of joint venture adjustments	(18,839)	(17,598)	(14,177)
Earnings from depreciated property sales on continuing operations	—	7,241	45,428
Earnings (loss) from depreciated property sales on discontinued operations	22,141	(1,292)	—
Minority interest share of adjustments	18,854	19,353	15,891
Net income available for common shareholders	\$161,911	\$153,969	\$227,743
	December 31, 2003	December 31, 2002	
ASSETS			
Rental Operations:			
Office	\$2,884,834	\$2,677,427	
Industrial	2,177,483	2,144,686	
Retail	47,293	71,072	
Service Operations	111,318	91,399	
Total Segment Assets	5,220,928	4,984,584	
Non-Segment Assets	340,321	364,239	
Consolidated Assets	\$5,561,249	\$5,348,823	



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In addition to revenues and FFO, the Company also reviews its recurring capital expenditures in measuring the performance of its individual segments. These recurring capital expenditures consist of tenant improvements, leasing commissions and building improvements. These expenditures are reviewed by the Company to determine the

costs associated with re-leasing vacant space. The Company's recurring capital expenditures by segment are summarized as follows for the years ended December 31, 2003, 2002 and 2001, respectively (in thousands):

	2003	2002	2001
Recurring Capital Expenditures			
Office	\$44,602	\$31,616	\$20,426
Industrial	31,711	27,398	22,176
Retail	135	345	532
Total	\$76,448	\$59,359	\$43,134

(8) LEASING ACTIVITY

Future minimum rents due to the Company under non-cancelable operating leases at December 31, 2003, are as follows (in thousands):

Year	Amount
2004	\$558,432
2005	505,625
2006	434,301
2007	368,852
2008	298,722
Thereafter	912,439
	\$3,078,371

In addition to minimum rents, certain leases require reimbursements of specified operating expenses that amounted to \$130.3 million, \$120.1 million, and \$115.7 million for the years ended December 31, 2003, 2002 and 2001, respectively.

(9) EMPLOYEE BENEFIT PLANS

The Company maintains a 401(k) plan for its full-time employees. The Company makes matching contributions up to an amount equal

to three percent of the employees' salary and may also make annual discretionary contributions. The total expense recognized by the Company for this plan was \$1.6 million, \$1.7 million and \$1.3 million for the years ended 2003, 2002 and 2001, respectively.

The Company makes contributions to a contributory health and welfare plan as necessary to fund claims not covered by employee contributions. The total expense recognized by the Company related to this plan was \$6.4 million, \$4.9 million and \$5.6 million for 2003, 2002 and 2001, respectively. These expense amounts include estimates based upon the historical experience 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 or to pay down debt. The proceeds of these offerings are contributed to DRLP in exchange for an additional interest in DRLP.

The following series of preferred stock were outstanding as of December 31, 2003 (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	533	7.375%	December 31, 2003	133,257	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
Series J Preferred	400	6.625%	August 29, 2008	100,000	No

All series of preferred shares require cumulative distributions and have no stated maturity date (although the Company may redeem them on or following their optional redemption dates).

The Series B, Series E, Series I and Series J Preferred Stock may be redeemed only at the Company's option, in whole or in part.

The Series D Preferred Stock may be redeemed at the Company's

option in whole or in part, as well as at the option of a shareholder's estate, upon the death of a shareholder.

The Company issued \$100 million of Series J Preferred Shares in August 2003.

The Series D Preferred shares are convertible at a conversion rate of 0.93677 common shares for each preferred share outstanding.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

The Company redeemed its \$100.0 million Series E Preferred Shares on January 20, 2004, at par value.

(11) STOCK BASED COMPENSATION

At December 31, 2003, the Company had nine stock-based employee compensation plans that are described more fully below. The Company is authorized to issue up to 7,812,984 shares of Company stock under these Plans.

Fixed Stock Option Plans

The Company had options outstanding under six fixed stock option plans as of December 31, 2003. 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, 2003, 2002 and 2001 and changes during the years ended on those dates follows:

	2003		2002		2001	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	3,920,198	\$22.09	4,691,659	\$21.12	5,235,464	\$19.52
Granted	609,390	25.48	676,038	23.37	718,320	24.98
Exercised	(773,625)	21.87	(1,203,534)	18.82	(982,243)	15.21
Forfeited	(169,603)	23.63	(243,965)	22.96	(279,882)	21.84
Outstanding, end of year	3,586,360	22.65	3,920,198	22.09	4,691,659	21.12
Options exercisable, end of year	2,014,875		2,297,500		2,965,930	
Weighted-average fair value of options granted during the year	\$1.81		\$2.05		\$2.19	

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

	2003	2002	2001
Dividend yield	7.25%	7.25%	7.50%
Volatility	20.0%	20.0%	20.1%
Risk-free interest rate	3.2%	4.7%	5.0%
Expected life	6 years	6 years	6 years

The options outstanding at December 31, 2003, under the fixed stock option plans have a range of exercise prices from \$12.94 to \$29.23 with a weighted average exercise price of \$22.65 and a weighted average remaining contractual life of 6.17 years. The options exercisable at December 31, 2003 have a weighted average exercise price of \$21.61.

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, 2003, plan participants had the right to receive up to 64,849 performance shares, of which 33,350 were vested and 31,499 were contingent upon future earnings achievement.

The amount of compensation cost was based upon the intrinsic value of the vested performance shares at the end of each applicable reporting period. The compensation cost that was charged against income for this plan was \$529,000, \$96,000 and \$201,000 for 2003, 2002 and 2001, 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. Payments made under the Company's SVP Plan are based upon the



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. Payments under the DIU Plans are based upon increases in the Company's dividend per common share. The total compensation cost that was charged against income for these two plans was \$1.6 million, \$4.6 million and \$6.0 million for 2003, 2002 and 2001, 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 services as a board member. The shares are fully vested when issued and the Company records the value of the shares as an expense. The amount of that expense was \$415,000, \$274,000 and \$260,000 for 2003, 2002 and 2001, 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 2003 and 2002 was \$219,000 and \$181,000, respectively.

(12) FINANCIAL INSTRUMENTS

In December 2002, the Company simultaneously entered into two \$50 million forward-starting interest rate swaps as a hedge to effectively fix the rate on unsecured debt financings expected in 2003. The fair value of the swaps was a liability of \$2.1 million as of December 31, 2002, and was recorded in other liabilities in the accompanying balance sheet.

In February 2003, the Company simultaneously entered into two additional \$25 million forward-starting interest rate swaps as a hedge to effectively fix the rate on unsecured debt financings expected in 2003. All four swaps qualified for hedge accounting under SFAS 133; therefore, changes in fair value were recorded in other comprehensive income.

In July 2003, the Company terminated the swaps for a net gain of \$643,000, which is included in other revenue in the Statements of Operations. The swaps were terminated because the Company's capital needs were met through the issuance of the Series J Preferred Stock in lieu of the previously contemplated issuance of debt.

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 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.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* ("SFAS 150"). SFAS 150 establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. SFAS 150 is effective for all financial instruments created or modified after May 31, 2003, and otherwise is effective July 1, 2003. The Company includes the operations of five joint ventures in its consolidated financial statements. These joint ventures are partially owned by unaffiliated parties that have noncontrolling interests. SFAS 150 requires the disclosure of the estimated settlement value of these noncontrolling interests. As of December 31, 2003, the estimated settlement value of these noncontrolling interests was approximately \$4.3 million as compared to the minority interest liability recorded on the Company's books for these joint ventures of \$1.2 million.

(13) RECENT ACCOUNTING PRONOUNCEMENTS

In July of 2003, the SEC issued a Staff Policy Statement that clarifies the application of FASB-EITF Topic D-42 (Topic D-42), *The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock*. Under Topic D-42, the difference between the amounts paid to the holders of preferred stock and the carrying amount of the preferred stock on the issuer's balance sheet must be subtracted from net income when computing earnings per share. The Staff Policy Statement clarified that, in computing the reduction in net income, the carrying amount of the preferred stock should be reduced by the issuance costs of the preferred stock. As a result of this clarification, the Company's net income per share was restated for 2002 and 2001. The impact of this statement is summarized as follows:

	Twelve Months Ended December 31,	
	2002	2001
Net income available for common shareholders:		
Prior to Topic D-42	\$161,272	\$229,967
Post adoption of Topic D-42	\$153,969	\$227,743
Basic net income per common share:		
Prior to Topic D-42	\$1.20	\$1.77
Post adoption of Topic D-42	\$1.15	\$1.76
Diluted net income per common share:		
Prior to Topic D-42	\$1.19	\$1.75
Post adoption of Topic D-42	\$1.14	\$1.74

In January 2003, the FASB issued Interpretation 46, *Consolidation of Variable Interest Entities* ("Interpretation 46"), which addresses the consolidation of certain entities in which a company has a controlling financial interest through means other than voting rights. This interpretation was revised in December 2003. For calendar year companies, Interpretation 46 contains an effective date of December



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31, 2003 for special purpose entities and periods ending after March 15, 2004 for all other entities. The Company does not own interests in special purpose entities and management does not believe that the adoption of Interpretation 46 will have a material impact on the Company's financial statements.

(14) COMMITMENTS AND CONTINGENCIES

In 1998 and 1999, certain 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, 2003, the outstanding balance on these loans was \$11.7 million as some participants have exited the program and repaid their principal balance. These loans were secured by common shares with a fair market value of \$18.2 million purchased through this program and owned by the remaining plan participants at December 31, 2003. As a condition of the financing agreement with the financial institution, the Company 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.

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, the repayment of which was directly or indirectly guaranteed by the Company. The guarantee associated with \$260 million of such debt expired in December 2003 without the Company being required to satisfy the guarantee. The remaining \$90 million of such debt is still guaranteed by the Company. 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 (at the option of the Company), subject to certain 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.

The Company has guaranteed the repayment of \$3.5 million of economic development bonds issued by the City of Carmel, Indiana. The Company will be required to make payments under its guarantee to the extent that incremental taxes from one of its office park developments are not sufficient to pay the bond debt service. Management does not believe that it is probable that the Company will be required to make any significant payments in satisfaction of this guarantee.

The Company has also guaranteed the repayment of a \$2 million mortgage loan encumbering the real estate of one its unconsolidated joint ventures. Management believes that the value of the real estate exceeds the loan balance and that the Company will not be required to satisfy this guarantee.

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 \$13.8 million. The acquisitions are scheduled to close periodically through 2004 and will be paid for by cash.

The Company renewed all of its major insurance policies in 2003. These policies include coverage for acts of terrorism for its properties. The Company believes that this insurance provides adequate coverage against normal insurance risks and that any loss experienced would not have a significant impact on the Company's liquidity, financial position, or results of operations.

Broadband Office, Inc. and Official Committee of Unsecured Creditors of Broadband Office, Inc. recently filed a complaint against a group of real estate investment trusts and real estate operating companies and certain affiliated entities and individuals in connection with the formation and management of Broadband Office. Among the defendants are Duke Realty Corporation, Duke Realty Limited Partnership and Mr. Dennis Oklak, one of the Company's executive officers. The complaint alleges various breaches of purported fiduciary duties by the defendants, seeks recharacterization or equitable subordination of debt, seeks recovery of alleged avoidable transfers, appears to seek to hold them liable for, among other things, the debt of Broadband Office under alter-ego, veil-piercing and partnership theories, and seeks other relief under other theories. The complaint seeks aggregate damages in excess of \$300 million from all of the defendants. The Company believes that it has meritorious defenses to the plaintiff's allegations and intends to vigorously defend this litigation. Due to the inherent uncertainties of the litigation process and the judicial system, the Company is not able to predict the outcome of this litigation. If this litigation is not resolved in the Company's favor, it could have a material adverse effect on its business, financial condition and 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, 2003 and 2002 is as follows (in thousands, except per share amounts):

2003	Quarter Ended			
	December 31	September 30	June 30	March 31
Revenues from Rental Operations	\$187,455	\$181,914	\$179,739	\$181,302
Revenues from Service Operations	25,680	12,693	11,661	9,422
Net income available for common shares	49,711	40,185	34,538	37,477
Basic income per common share	\$0.37	\$0.30	\$0.26	\$0.28
Diluted income per common share	\$0.36	\$0.30	\$0.25	\$0.28
Weighted average common shares	136,105	135,706	135,386	135,170
Weighted average common and dilutive potential common shares	151,661	151,244	151,019	150,627
Funds From Operations ¹	\$93,737	\$84,730	\$80,332	\$77,190
Cash flow provided by (used by):				
Operating activities	\$133,855	\$72,735	\$103,156	\$58,882
Investing activities	(57,596)	(126,384)	(75,390)	(61,326)
Financing activities	(64,558)	42,909	(28,604)	(2,461)
2002				
Revenues from Rental Operations	\$173,127	\$177,744	\$176,026	\$171,175
Revenues from Service Operations	11,641	11,814	15,604	29,521
Net income available for common shares	21,568	38,595	48,528	45,278
Basic income per common share	\$0.16	\$0.29	\$0.36	\$0.34
Diluted income per common share	\$0.16	\$0.28	\$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	\$65,700	\$80,072	\$88,835	\$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)

¹ Funds From Operations ("FFO") is used by industry analysts and investors as a supplemental operating performance measure of an equity real estate investment trust ("REIT"). FFO is calculated in accordance with the definition that was adopted by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT"). FFO, as defined by NAREIT, represents net income (loss) determined in accordance with accounting principles generally accepted in the United States ("GAAP"), excluding extraordinary items as defined under GAAP and gains or losses from sales of previously depreciated operating real estate assets, plus certain non-cash items such as real estate asset depreciation and amortization, and after adjustment for unconsolidated partnerships and joint ventures.

Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminished predictably over time. Since real estate values instead have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. Thus, NAREIT created FFO as a supplemental measure of REIT operating performance that excludes historical cost depreciation, among other items, from GAAP net income. Management believes that the use of FFO, combined with the required primary GAAP presentations, has improved the understanding of operating results of REITs among the investing public and made comparisons of REIT operating results more meaningful. Management considers FFO to be a useful measure for reviewing comparative operating and financial performance (although FFO should be reviewed in conjunction with net income which remains the primary measure of performance) because by excluding gains or losses related to sales of previously depreciated operating real estate assets and excluding real estate asset depreciation and amortization, FFO assists in comparing the operating performance of a company's real estate between periods or as compared to different companies.



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,

low and closing sales prices of the common stock for the periods indicated and the dividend paid per share during each such period.

Quarter Ended	2003				2002			
	High	Low	Close	Dividend	High	Low	Close	Dividend
December 31	\$31.76	\$28.19	\$31.00	\$0.460	\$25.84	\$21.50	\$25.45	\$0.455
September 30	29.40	27.05	29.20	0.460	28.88	21.40	24.62	0.455
June 30	29.30	26.10	27.55	0.455	28.95	25.46	28.95	0.450
March 31	27.50	24.25	26.98	0.455	26.50	22.92	26.00	0.450

On January 28, 2004, the Company declared a quarterly cash dividend of \$0.460 per share, payable on February 27, 2004, to common shareholders of record on February 12, 2004.

SHAREHOLDER INFORMATION

CORPORATE HEADQUARTERS

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

TRANSFER AGENT

For Dividend Payments, Address Changes, Account Inquiry and/or Registration Changes, visit www.amstock.com, or submit a written request to:
American Stock Transfer & Trust Company
59 Maiden Lane
New York, NY 10038
800.937.5449 or 212.936.5100

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

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.

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 July 24, 2003 for additional information concerning these risks.



MANAGEMENT COMMITTEE

Dennis Oklak

President and
Chief Operating Officer

Robert Chapman

Senior Executive Vice President
Real Estate Operations

Matthew Cohoat

Executive Vice President
Chief Financial Officer

James Connor

Executive Vice President
Chicago Region

Howard Feinsand

Executive Vice President
General Counsel

Robert Fessler

Executive Vice President
Atlanta Region

John Guinee

Executive Vice President
Chief Investment Officer

Steven Kennedy

Executive Vice President
Construction

Chris Seger

Executive Vice President
National Development/Construction

Denise Dank

Senior Vice President
Human Resources

Paul Quinn

Senior Vice President
Chief Information Officer

Jay Archer

Senior Vice President
Indiana Industrial

Kerry Armstrong

Senior Vice President
Atlanta Office

Petter Berntzen

Senior Vice President
Construction, Chicago Region

Gary Burk

Construction/Development
Specialist and Vice Chairman

Jennifer Burk

Senior Vice President
Indiana Office

Jerome Crylen

Senior Vice President
St. Louis Operations

William DeBoer

Senior Vice President
Construction, Indianapolis Region

John Gaskin

Senior Vice President
Deputy General Counsel and Secretary

Pete Harrington

Senior Vice President
National Development/Construction

Cindy Huang

Senior Vice President
Retail Operations

Donald Hunter

Senior Vice President
Columbus Operations

Douglas Irmischer

Senior Vice President
Florida Operations

Andrew Kelton

Senior Vice President
Raleigh Operations

Wayne Lingafelter

Senior Vice President
Cleveland Operations

William Linville

Development Projects Specialist

Paul Meyer

Senior Vice President
Construction, Atlanta Region

John Nelley

Managing Director
Nashville Operations

Thomas Peck

Senior Vice President
Investor Relations and Capital Markets

Kevin Rogus

Senior Vice President
Cincinnati Operations

Don Tennenhouse

Senior Vice President
Marketing

Jeffrey Turner

Senior Vice President
Dallas Operations

James Windmiller

Senior Vice President
Financial Analysis,
Reporting and Taxation

Nicholas Anthony

Vice President
Acquisitions/Dispositions

Jeff Behm

Vice President
Portfolio Management

Rudy Behne

Vice President
Interior Maintenance

Chris Brown

Vice President
Acquisitions/Dispositions

Karen Finan

Vice President
Marketing Management and
Corporate Programs

Jon Finn

Vice President
Regional Asset Manager

Alissa Helgessen

Vice President
Acquisitions/Dispositions

Donna Hovey

Vice President
Public, Media and
Community Relations

Keith Konkoli

Vice President
Property and Asset Management

Joanne McAnlis

Vice President
Tenant Services

Mark Milnamow

Vice President
Controller

John Nemecek

Vice President
Regional Asset Management

Mike Pitts

Vice President
Controller

Darrel Isaacs

Assistant Vice President
Director of Internal Audit

Kürşad Oğuz

Senior Manager
Financial Analysis



2003 BOARD OF DIRECTORS



*(back row) Robert Woodward, Barrington Branch, Gary Burk, Ngaire Cuneo, Thomas Hefner, John Nelley, Geoffrey Button, Jack Shaw, James Rogers, Gene Zink
(front row) L. Ben Lytle, William Cavanaugh, William McCoy, Charles Eitel*

UNAFFILIATED DIRECTORS

Barrington H. Branch

President
The Branch-Shelton Company

Geoffrey Button

Independent Real Estate and
Financing Consultant

William Cavanaugh III

Chairman
Progress Energy, Inc.

Ngaire Cuneo

Partner
Red Associates, LLC

Charles R. Eitel

Chairman, CEO
The Simmons Company

L. Ben Lytle

Chairman Emeritus, Director
Anthem, Inc.

William O. McCoy

Partner
Franklin Street Partners

James E. Rogers

Chairman, President, CEO
CINergy Corporation

Jack R. Shaw

Vice President, Treasurer
The Regenstrief Foundation

Robert J. Woodward, Jr.

Chairman
Palmer-Donavin Manufacturing Co.

AFFILIATED DIRECTORS

Gary Burk

Vice Chairman

Thomas L. Hefner

Chairman, CEO

John W. Nelley, Jr.

Managing Director
Nashville Operations

Darell (Gene) E. Zink, Jr.

Vice Chairman

OTHERS

John W. Wynne

Chairman Emeritus

BOARD COMMITTEES

Audit

William McCoy (Chair)
Barrington Branch
Ngaire Cuneo
Jack Shaw
Robert Woodward

Executive Compensation

Charles Eitel (Chair)
Geoffrey Button
William Cavanaugh
L. Ben Lytle
James Rogers

Finance

Robert Woodward (Chair)
Barrington Branch
Geoffrey Button
Charles Eitel
Jack Shaw

Corporate Governance

William Cavanaugh (Chair
and Lead Director)
Ngaire Cuneo
L. Ben Lytle
William McCoy
James Rogers



INDIANAPOLIS HEADQUARTERS

600 East 96th Street, Suite 100
Indianapolis, IN 46240
317.808.6000
Park 100: 7225 Woodland Drive
Indianapolis, IN 46278
317.808.6800

Jennifer Burk—Office
317.808.6101
Jay Archer—Industrial
317.808.6813
Cindy Huang—Retail
317.808.6175

ATLANTA

3950 Shackleford Road, Suite 300
Duluth, GA 30096
770.717.3200

Kerry Armstrong
770.717.3212

MINNEAPOLIS

1600 Utica Avenue South, Suite 250
Minneapolis, MN 55416
952.543.2900

James Connor
630.577.7914

CHICAGO

4225 Naperville Road, Suite 150
Lisle, IL 60532
630.577.7900

James Connor
630.577.7914

NASHVILLE

782 Melrose Avenue
Nashville, TN 37211
615.884.2300

John Nelley
615.884.2320

CINCINNATI

4555 Lake Forest Drive, Suite 400
Cincinnati, OH 45242
513.956.4400

Kevin Rogus
513.956.4465

ORLANDO

4700 Millenia Boulevard, Suite 380
Orlando, FL 32839
407.241.0000

Doug Irmscher
407.241.0028

CLEVELAND

6150 Oak Tree Boulevard, Suite 550
Cleveland, OH 44131
216.643.6000

Wayne Lingafelter
216.643.6200

RALEIGH

1800 Perimeter Park Drive, Suite 200
Morrisville, NC 27560
919.461.8000

Andrew Kelton
919.461.8003

COLUMBUS

5600 Blazer Parkway, Suite 100
Dublin, OH 43017
614.932.6000

Donald Hunter
614.932.6014

ST. LOUIS

635 Maryville Centre Drive, Suite 200
St. Louis, MO 63141
314.212.8000

Jerry Crylen
314.212.8025

DALLAS

5495 Belt Line Road, Suite 360
Dallas, TX 75254
972.361.6700

Jeffrey Turner
972.361.6704

TAMPA

10150 Highland Manor Drive, Suite 150
Tampa, FL 33610
813.635.8500

Doug Irmscher
407.241.0028

INVESTOR RELATIONS

600 East 96th Street, Suite 100
Indianapolis, IN 46240
317.808.6005
800.875.3366
IR@dukerealty.com

