Kilroy Realty Corporation is shaping the future of Southern California commercial real estate. We’ve been committed to the region for more than 50 years. And we plan to be here for the next 50 and beyond. Our enduring success in the market is built on a clear set of business strategies that focus our portfolio in the highest growth markets, deliver flexible, high quality work environments and attentive service to our tenants, and produce long-term value for our shareholders.

Company Profile

Kilroy Realty Corporation is a Southern California-based real estate investment trust active in the office and industrial property markets of the western United States, primarily California. Founded in 1947 by John B. Kilroy, Sr., the company’s present chairman, the company has operated as a fully integrated real estate enterprise for five decades. Today, KRC owns and manages 12.3 million square feet of commercial space and is actively expanding its real estate portfolio with a development pipeline centered in several high-growth coastal submarkets of Southern California. At December 31, 2002, the company owned and managed 7.4 million square feet of office space and 4.9 million square feet of industrial space.
Financial Highlights

12 months ended December 31, In thousands except per share data

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$207,481</td>
<td>$209,645</td>
<td>$187,123</td>
<td>$159,717</td>
<td>$137,093</td>
</tr>
<tr>
<td>Net Income</td>
<td>$ 40,312</td>
<td>$ 38,431</td>
<td>$ 46,846</td>
<td>$ 39,895</td>
<td>$ 38,822</td>
</tr>
<tr>
<td>Funds from Operations (FFO)</td>
<td>$ 97,940</td>
<td>$ 91,558</td>
<td>$ 83,471</td>
<td>$ 80,631</td>
<td>$ 71,174</td>
</tr>
<tr>
<td>FFO per Share</td>
<td>$ 3.09</td>
<td>$ 3.00</td>
<td>$ 2.73</td>
<td>$ 2.50</td>
<td>$ 2.30</td>
</tr>
<tr>
<td>Dividends per Share</td>
<td>$ 1.98</td>
<td>$ 1.92</td>
<td>$ 1.80</td>
<td>$ 1.68</td>
<td>$ 1.62</td>
</tr>
</tbody>
</table>

Rentable Square Footage

At December 31

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Office Properties</td>
<td>7,447,605</td>
<td>7,225,448</td>
<td>6,624,443</td>
<td>6,147,985</td>
<td>5,600,459</td>
</tr>
<tr>
<td>Industrial Properties</td>
<td>4,880,963</td>
<td>5,085,945</td>
<td>5,807,555</td>
<td>6,477,132</td>
<td>6,157,107</td>
</tr>
<tr>
<td>Occupancy</td>
<td>94%</td>
<td>96%</td>
<td>97%</td>
<td>97%</td>
<td>96%</td>
</tr>
</tbody>
</table>
2002 was a difficult year for the economy and commercial real estate was no exception. Yet this is precisely when solid, well-managed companies reveal their true worth. Drawing on years of experience in Southern California markets through multiple economic cycles, Kilroy Realty Corporation navigated a difficult operating environment last year with determination and skill, while continuing to seek new opportunities to build value over time.

For a sixth consecutive year, KRC reported annual growth in profitability as measured by funds from operations, with FFO per share up 3% to $3.09. We also succeeded in renewing or replacing the overwhelming majority of expiring leases in our existing portfolio, at average rental rates 4.7% above prior levels. We ended 2002 with an overall occupancy rate in our existing portfolio of just under 94%. And we stabilized six new properties, aggregating 436,000 square feet of space, for a total investment of approximately $106 million.

But our financial results also reflect the market’s weakness. Both revenues and net operating income generated by our stabilized portfolio, measured on a same-store basis, were essentially unchanged from 2001. These results underscore the lower demand and tenant indecision that have characterized our markets for the last 12 months and reduced our average occupancy rate.

2003 is also likely to be a challenging year. Economic and geopolitical uncertainties have led businesses to defer hiring, curtail capital spending and postpone new real estate commitments. Given this environment, it is our view that California’s economy, like those of other states across the country, will continue to struggle. These conditions have also led to tenant credit issues within our portfolio that have put added pressure on the occupancy rate of our stabilized portfolio.

If there is a bright spot in our particular market circumstances at KRC, it is the resilience of the Southern California economy amid today’s generally weak operating environment. While the state as a whole struggles with an ongoing slump in its high technology industries, most of the impact has been absorbed in Northern California. And while statewide job losses have continued for a second year, the five-county Southern California region has held its own, with modest job gains and losses in individual counties netting out to virtually no net change. Some of our industries are actually gaining momentum, including entertainment, defense, health care and life sciences. Furthermore, when the business cycle turns, as it always does, it will likely be seen first in the small to medium-sized businesses that dominate commerce here.

This resilience bodes well for the region as a whole, but particularly for the geographic submarkets located along the coastal plains from San Diego to the Ventura County border. Suburban in character, decentralized in structure, and with a carefully negotiated balance of developed land and open space, these communities attract many of California’s fastest growing businesses along with the highly educated, affluent workers they employ.

It is in these submarkets that KRC concentrates its portfolio. And it is here, too, that we see a bright future for our company.

There is a quiet revolution taking place in commercial real estate today. A revolution prompted by our increasingly knowledge-based economy, enabled by the advancing capabilities of information and communications technologies, and sustained by the lifestyle expectations of highly prized knowledge workers.

In this revolution, location remains preeminent, but the where has radically altered. Centralized downtowns that once dominated entire metropolitan areas are losing ground to dynamic new micro-economies that can capitalize on both their unique quality of life and the region’s collective economic strength.

Amenities remain a critical factor in attracting and retaining tenants, but the what has been transformed. Rigid floorplans with rows of individual offices that isolate
employees from one another are giving way to more open, flexible environments that provide a choice of communal and private work spaces depending upon need.

Property management skills remain a strong differentiator among competing landlords, but the preferred who is driven by new, often highly individualized tenant demands. Ready access to high-tech infrastructure is a must, but only a beginning. From unique physical needs to personalized leasing arrangements, tenants now have requirements that are as different as the industries in which they compete.

This revolution, now evident in markets across the country, was born in our backyard. And no one in the commercial real estate industry understands it better than KRC. In the markets in which we choose to operate, and the individual properties we choose to develop, KRC is shaping the future of Southern California real estate. Our commitment to this region, and to the dynamic enterprises it fosters, has yielded a real estate portfolio of strong, enduring value. And it will continue to do so in the future.

We fully expect more challenges in 2003. Our organization is ready. But even as we tackle the challenges of the day, we are also carefully planning for the possibilities of the future. And in this set of markets collectively known as Southern California, KRC will continue to shape a future that delivers the highest quality and service to our tenants, and the best long-term value for our shareholders.

Thank you for your continued support.

Cordially,

John B. Kilroy, Jr.
President and Chief Executive Officer
SOFTWARE DEVELOPER INTUIT HAS BEEN A KRC TENANT IN THE UTC/GOVERNOR PARK SUBMARKET OF SAN DIEGO FOR MORE THAN FIVE YEARS.

LOS ANGELES' WESTSIDE HAS BECOME THE CORPORATE HOME OF CHOICE FOR HUNDREDS OF ENTERTAINMENT BUSINESSES, INCLUDING SONY MUSIC, A KRC TENANT SINCE 1997.
SITUATED JUST NORTH OF LOS ANGELES’ SPRAWLING SAN FERNANDO VALLEY, CALABASAS HAS ATTRACTED A BUSINESS COMMUNITY RICH IN DIVERSITY.

DIRECTV IS ONE OF SEVERAL ELECTRONICS, TELECOMMUNICATIONS, AEROSPACE AND ENTERTAINMENT FIRMS THAT FILL KRC’S OFFICE COMPLEX IMMEDIATELY ADJACENT TO LAX.

The Right Location

You know it when you see it. The ideal location for your particular lifestyle. It may be within an ocean breeze of the Pacific, or nestled in the chaparral of Southern California’s coastal plains, or smack in the middle of L.A.’s energetic Westside. Location is crucial in commercial real estate. No one knows that better than KRC. For more than 50 years, the company has focused on the office and industrial real estate needs of Southern California, learning local preferences, staying attuned to changing needs, nurturing long-term relationships. KRC’s portfolio today is concentrated in the best long-term markets of Southern California, where economic growth and valued lifestyles ensure demand and scarce land resources limit supply.
MANY KRC PROPERTIES SERVE AS REGIONAL OR CORPORATE HEADQUARTERS FOR GLOBAL ENTERPRISES THAT FIND A PRESENCE IN SOUTHERN CALIFORNIA ESSENTIAL.

COASTAL SAN DIEGO IS HOME TO A THRIVING LIFE SCIENCES INDUSTRY WITH UNIQUE REAL ESTATE NEEDS. DIVERSA CORPORATION IS ONE OF SEVERAL SUCH COMPANIES SERVED BY KRC.

KRC’S SIGNATURE LONG BEACH OFFICE COMPLEX COMBINES CONVENIENT ACCESS TO A GROWING COMMERCIAL AIRPORT WITH A RELAXED, CAMPUS-STYLE SETTING FAVORED BY MANY TENANTS.

SOUTHERN CALIFORNIA’S KNOWLEDGE WORKERS ARE A MOBILE GROUP. KRC OFFERS ADAPTABLE WORK SPACES THAT CAN SWIFTLY ADJUST TO CHANGING NEEDS.

A laptop, a PDA and a fully charged cell phone often accompany Southern Californians to work these days. But just where the work happens increasingly depends on what needs to be accomplished. Client presentation? Conference center. Drafting a speech? Book a private office. Need to crack a tough problem by noon? Maybe some gym time will clear your head. Southern California’s growing corps of knowledge workers carry their work wherever they go. KRC is shaping the spaces that can help them be most productive. In response to rising business demand for greater flexibility and choice, KRC is delivering a variety of adaptable, tech-rich work environments, often set in clusters of casual, campus-style properties, and equipped with sophisticated infrastructure and amenities to support the unique needs of individual tenants.

The_Right_Tools
THE MEMEC GROUP, A GLOBAL DISTRIBUTOR OF SPECIALTY SEMICONDUCTORS, LAST YEAR CHOSE A KRC PROPERTY IN COASTAL DEL MAR FOR ITS NEW CORPORATE HEADQUARTERS.

QUALITY OF LIFE INCREASINGLY MEANS QUALITY OF WORK ENVIRONMENT IN FAST-PACED SOUTHERN CALIFORNIA. KRC PROPERTY AMENITIES ADDRESS THE UNIQUE NEEDS OF INDIVIDUAL TENANTS.
Long-term value is built into real estate from the ground up. It flows from location, design, amenities, tenant services – and the flexibility to adapt to changing market conditions. KRC is creating such a real estate portfolio in one of the most powerful economies in the world. The company manages this portfolio to build value, not size. It operates individual properties to foster tenant relationships that endure. And it develops new real estate to capture opportunities that are difficult for competitors to replicate. Following these principles, KRC is delivering the best possible real estate value to both tenants and shareholders. In the process, it is shaping the future of commercial real estate in Southern California.
Directors and Management

Board of Directors

John B. Kilroy, Sr.
Chairman of the Board

John R. D’Eathe
President
Freehold Development
Canada Ltd.

William P. Dickey
President
The Dermot Company, Inc.

Matthew J. Hart
Executive Vice President
and Chief Financial Officer
Hilton Hotels Corporation

John B. Kilroy, Jr.
President and
Chief Executive Officer
Kilroy Realty Corp.

Dale F. Kinsella
Partner
Greenberg, Glusker,
Fields, Claman, Machtinger
& Kinsella L.L.P

Management

John B. Kilroy, Jr.
President and
Chief Executive Officer

Jeffrey C. Hawken
Executive Vice President
and Chief Operating Officer

Richard E. Moran Jr.
Executive Vice President
and Chief Financial Officer

Kathy M. Delgado
Senior Vice President,
Marketing and Leasing

John T. Fucci
Senior Vice President,
Asset Management

Tyler H. Rose
Senior Vice President
and Treasurer

Steve Scott
Senior Vice President,
San Diego

Justin Smart
Senior Vice President,
Los Angeles

Ann Marie Whitney
Senior Vice President
and Controller

Nadine K. Kirk
Vice President,
Legal Administration

Stan Low
Vice President,
Information Technology

Corporate Information

Corporate Headquarters
Kilroy Realty Corporation
12200 West Olympic Boulevard
Suite 200
Los Angeles, California 90064
Telephone: (310) 481-8400
Fax: (310) 481-6501
www.kilroyrealty.com

Transfer Agent
Mellon Investor Services L.L.C.
P.O. Box 3315
South Hackensack, NJ 07606
www.mellon-investor.com

Annual Stockholders Meeting
The company’s annual meeting
of stockholders will be held at
The Beverly Hilton Hotel in Beverly
Hills, California, at 10:00 am on

Dividend Reinvestment and
Direct Purchase Plan
The company has established a
plan under which shareholders may
automatically reinvest their divi-
dends or make periodic additional
cash investments in the company’s
common stock. For additional infor-
mation and enrollment materials,
please contact MellonBank, N.A.,
care of Mellon Investor Services
L.L.C., at (888) 816-7506.

Market Information
The company’s common stock is
listed on the New York Stock
Exchange under the ticker symbol:
KRC. The high and low quarterly
closing prices for the company’s
common stock in 2002 and 2001 are
shown below.

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<thead>
<tr>
<th>Year</th>
<th>High</th>
<th>Low</th>
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<tbody>
<tr>
<td>2002</td>
<td></td>
<td></td>
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<tr>
<td>Fourth Quarter</td>
<td>$23.64</td>
<td>$20.25</td>
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<tr>
<td>Third Quarter</td>
<td>$26.65</td>
<td>$22.05</td>
</tr>
<tr>
<td>Second Quarter</td>
<td>$29.64</td>
<td>$26.30</td>
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<tr>
<td>First Quarter</td>
<td>$28.30</td>
<td>$25.01</td>
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<tr>
<td>2001</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fourth Quarter</td>
<td>$26.32</td>
<td>$23.41</td>
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<tr>
<td>Third Quarter</td>
<td>$28.45</td>
<td>$24.06</td>
</tr>
<tr>
<td>Second Quarter</td>
<td>$29.10</td>
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<tr>
<td>First Quarter</td>
<td>$28.44</td>
<td>$25.70</td>
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