SL GREEN REALTY CORP.

PROFILE OF SL GREEN REALTY CORP.

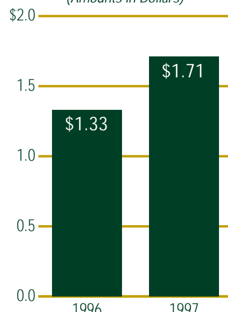
SL Green Realty Corp. is a fully integrated, self-administered and self-managed Real Estate Investment Trust (REIT) that primarily owns, manages, leases, acquires and repositions Class B office properties in emerging, high-growth submarkets of Manhattan.

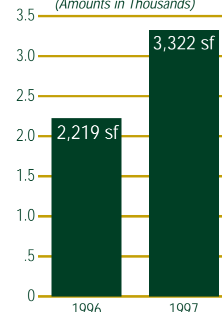
- SL Green is the only publicly-held equity REIT that specializes exclusively in Class B properties — office buildings that are more than 25 years old but which are in *good physical condition,* enjoy *widespread acceptance by high-quality tenants* and are *situated in desirable locations* in Manhattan.
- SL Green Realty Corp.'s common stock, listed on the New York Stock Exchange, is traded under the symbol: SLG.

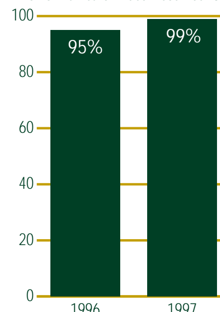
FINANCIAL HIGHLIGHTS

Pro Forma Results of Operations
Historical Balance Sheet Data
Year Ended 12/31/97
(Amounts in thousands except per share and operating data)

Total Revenues	$ 59,384
Funds From Operations	25,159
Funds From Operations Per Share (diluted)	1.70
Real Estate Assets (before depreciation)	338,818
Total Liabilities	172,661
Total Stockholders' Equity (including minority interest)	210,114
Annualized Dividend (per common share)	1.40







SL GREEN REALTY CORP.

DEAR FELLOW SHAREHOLDERS

As Chairman of the first publicly-held equity Real Estate Investment Trust to focus on the Manhattan office market, I take great pride in presenting the first Annual Report of SL Green Realty Corp.

STEPHEN L. GREEN
Chairman of the Board, Chief Executive Officer & President

For the past three years, New York City, and in particular Manhattan, has witnessed a spectacular renaissance. The City's underlying economy is strong and growing stronger every day. New York is not only the capital of international commerce, but has also become the center of culture, tourism and entertainment. New York City is indeed the world's most popular urban theme park.

With this story in hand, the roadshow for our initial public offering (IPO) was met with enthusiasm. I was energized by the tremendous response of the investor community — both institutional and retail — to owning a piece of New York City through the purchase of our stock. As a result, our IPO, completed on August 20, 1997, was a great success. We sold 11.6 million shares at $21 per share, raising $228.7 million in net proceeds.

Since the IPO, we have been hard at work growing the Company's real estate portfolio and earnings. By my standard of measurement, our first year of business, albeit a short one, has been a resounding success.

Our decision to go public was driven by the need for efficient equity capital to take advantage of an unprecedented convergence of factors that are dramatically affecting the value of New York City real estate:

- a vastly improving New York City economy,
- significant state and federal tax relief,
- decreasing office vacancy rates to single digits, and
- rental rates poised to significantly increase.

> ***"New York is not only the capital of international commerce, but has also become the center of culture, tourism and entertainment."***

Over the past four years we have seen this trend building. The time was right. The capital raised from the IPO, combined with the confidence and expertise of being the leaders of our market niche, enabled us to rapidly take advantage of acquisition opportunities.

Since 1980, SL Green has focused on Manhattan's Class B office properties. We have provided affordable rents to the small and medium size firms that comprise 99.7% of New York City's companies and 70.7% of its workforce. The size and diversity of New York City is mirrored in its real estate market. The City has more office buildings and square footage than the next six largest cities in America combined, with the greatest number of properties representing Class B buildings — more than 700 buildings comprising over 173 million square feet.

Having more than 18 years of experience in our niche market, we have developed an unparalleled knowledge of Manhattan's more than 30 fragmented and complex submarkets. We have managed and leased close to 11 million square feet and purchased 36 Class B properties. Although no one can dominate a market of this breadth, our intimate familiarity with the market and its submarkets affords us a significant competitive edge.

DAVID J. NETTINA
Executive Vice President, Chief Operating Officer & Chief Financial Officer

At the time of our offering, SL Green Realty Corp. had a portfolio of nine commercial properties consisting of 2.2 million square feet. Our announced goal was to purchase an additional $140 million worth of properties through the end of 1998.

You, our investors and shareholders, can judge for yourselves how well we have performed.

Since our IPO, we have closed on five properties and contracted to purchase one other, adding 2.8 million square feet to our portfolio. This represents 127% growth over the past seven months.

Our acquisition philosophy, however, goes well beyond just accumulating square footage. Most important is the quality of our purchases and our ability to create value. We strive to identify buildings located in New York's most dynamic submarkets — those that are at the forefront of New York City's continuing renaissance. We look for underperforming assets that can be repositioned in concert with improving conditions in their submarkets, which combined with creative renovation, aggressive leasing and efficient management, increase their value.

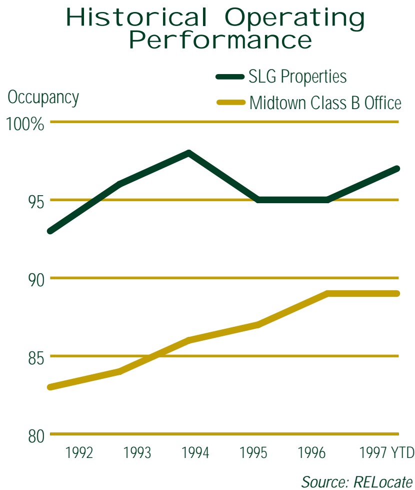
By way of example, in 1997 we acquired 17 Battery Place, located in Manhattan's resurgent financial district, and 110 East 42nd Street, across the street from Grand Central Station, at an average cost of $90 per square foot. This in a market where the replacement cost is upwards of $350 per square foot. And the opportunities continue today. Two property interests which we recently acquired are also strategically positioned: The Graybar Building (420 Lexington Avenue) adjacent and connected to Grand Central Station, and 1466 Broadway, on the corner of 42nd Street and Broadway, arguably the most famous intersection in the world. Our pending acquisition of 321 West 44th Street, a 200,000 square foot building which will be purchased for $88 per square foot, is located in the new Times Square redevelopment area — the most exciting real estate submarket in all of New York City.

But the creation of value takes time. Normally, the repositioning of a property takes 18–24 months to reach stabilization. Today, the Manhattan market is so strong that we have, in a number of cases, reached our goals ahead of schedule. A prime example is 1372 Broadway, a building located in

> ***"We strive to identify properties located in New York's most dynamic submarkets — those that are at the forefront of New York City's continuing renaissance."***

the heart of Manhattan's renowned garment district. In the five months since acquisition, leasing levels have risen from 83% to more than 94%.

Our history supports our success. From 1992 to 1997, SL Green has maintained an occupancy rate in its core portfolio which has consistently exceeded the market average by 6–11%. Today, our core property leasing levels stand at 99% while our entire portfolio, as of December 31, 1997, which included three acquisitions, totaled 94%.



Although our year as a public company was a short one, SL Green Realty achieved significant financial results:

- For the three months ended December 31, 1997, funds from operations (FFO) before minority interest were $6.1 million, or $0.41 per share (fully diluted), on revenues of $16.1 million compared to a pro forma FFO of $5.2 million or $0.35 per share (fully diluted), on revenues of $13.7 million, for the pro forma three months ended December 31 1996, an increase of 17%. As pro forma results normalize the year-to-year impact of properties acquired at the IPO, this represents a significant achievement.
- For the year ended December 31, 1997, pro forma FFO rose to $25.2 million, or $1.70 per share (fully diluted), on revenues of $59.4 million, versus pro forma FFO of $19.6 million, or $1.32 per share (fully diluted), on revenues of $53.2 million for the comparable period in 1996, an FFO increase of 29%. Additional details about our results are included in the financial section of this report.
- From the IPO through December 31, 1997 shareholders realized a total return in SL Green Realty stock of 25.94%.

While much has been accomplished, there were some disappointments. Impressive as 1997 results were, we could have done more, but for the time and energy management spent ramping up to the standards of public ownership. Also disappointing is the anticipated run-off in our third party management business. Although we intended to discontinue this business line, the run-off and resulting revenue loss, which will occur in 1998 will be earlier than anticipated. We expect to more than replace this lost revenue with our higher acquisition volume, but we will not benefit from what would have been a nice bonus to funds from operations.

In the above I have written about our accomplishments. Now it is time to look at where we want to go during the coming year.

We are already well ahead of schedule. Since our IPO, we have acquired (or are acquiring) six properties at a cost of $258 million versus our forecast of $140 million in acquisitions through the end of 1998.

SL GREEN REALTY CORP.

As of the writing of this letter, we are negotiating contracts for an additional $125 million worth of property. We have an ever-growing pipeline of attractive acquisitions which, heretofore, we might not have seen but for our access to capital, our proven acquisition track record, and the continuing dynamics of the New York City marketplace.

The pace of our recent acquisitions confirms what we already know: The advanced age and absentee ownership nature of many Class B property owners, the elimination of the New York State real estate gains tax, the reduction of federal capital gains taxes and recovering real estate values have combined to encourage family business and real estate partnerships to monetize their assets. In fact, of the nine properties we have acquired (or are acquiring) inclusive of those puchased at the IPO, seven have been the result of real estate partnerships winding down and two have been motivated by estate planning considerations.

The fundamentals for continued value creation are:

- Vacancy rates are now at single digits and still falling,
- No significant new construction projects are expected to be completed within the next three years,
- New York City's large and small business base is expanding, and
- Substantial public and private investment in NYC's infrastructure continues to improve the City's quality of life.

"We have demonstrated an uncanny ability to create value in both good times and bad."

All these factors translate into fierce competition for space by the existing tenant community. In each market class, both A and B, the better buildings will always attract the better tenants and the higher rents. While these market dynamics will also result in rising costs for properties, we have demonstrated an uncanny ability to create value in both good times and bad. And we certainly see 1998 as one of the good times.

I'd like to close with a word of sincerest gratitude to the people who contributed so mightily to our success: the people at SL Green Realty whose loyalty, creativity and commitment continue to inspire me, the investment community which has demonstrated its support time and again, and to our shareholders — our partners and participants in the growth of the most exciting City in the world.

Sincerely,

Stephen L. Green
Chairman of the Board,
Chief Executive Officer & President
March 25, 1998

A UNIQUE CLASS OF REIT

When SL Green Realty Corp. listed its shares with the New York Stock Exchange on August 15, 1997 it became the first publicly-traded real estate investment trust (REIT) to focus its talent, energies and resources exclusively on Manhattan's "Class B" office market.

GROWTH STRATEGIES FOR SUCCESS

The management team of SL Green is committed to capitalizing on opportunities in the Manhattan office market in three ways.

Property Acquisitions. By acquiring under-performing office properties at significant discounts to replacement costs, the Company seeks to provide attractive initial yields and maximize cash-flow growth potential.

Property Repositioning. Once acquired, the Company repositions these properties to exploit sub-market opportunities through renovations, active management and proactive leasing.

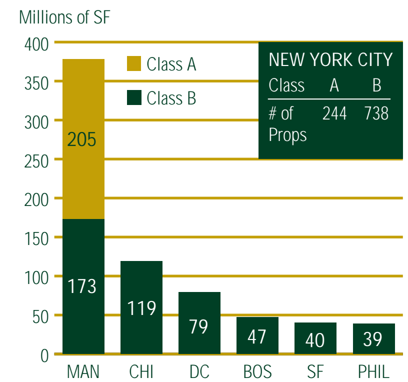
Integrated Leasing and Property Management. The Company will continue to optimize long-term cash flow from its properties through the implementation and integration of aggressive, targeted leasing and management programs, and the efficient management of operations.

SL Green Realty Corp. is located in midtown Manhattan. Companywide, SL Green employs approximately 230 people, more than 159 of which are engaged in the direct operation of the Company's properties and has established a staff of more than 42 professionals with expertise in all aspects of commercial real estate operations. In addition to Stephen L. Green, Chairman and CEO, the Company is led by six senior executives who average more than seven years with SL Green, and more than 19 years in the commercial real estate business.

EXCEPTIONAL CLASS B OPPORTUNITIES

The two major classes of commercial property in the Manhattan market are "Class A" and "Class B" office buildings. Class A properties are generally newer properties with higher finishes that obtain the highest rental rates in their markets.

The increasing number of tenants who do not require, desire or cannot afford Class A space are attracted to Class B office properties. In the case of SL Green, this attraction is due to the Company's prime locations, excellent amenities, distinguished architecture and more affordable rental rates.



The Manhattan office market is larger than the next six largest U.S. cities combined. The Class B market alone has more square footage than the total combined office square footage of San Francisco, Boston and Washington, D.C.

The recent growth in the New York metropolitan economy has been fueled by the

aug 15 1997

SL GREEN REALTY CORP. OPENS ON THE NEW YORK STOCK EXCHANGE

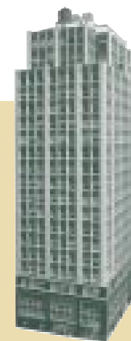
The stock opens $4 above the IPO price of $21.

aug 20 1997

SL GREEN COMPLETES ITS IPO

The Company sold 11,615,000 shares (including the underwriters overallotment). Net proceeds from the offering were $228.7 million.

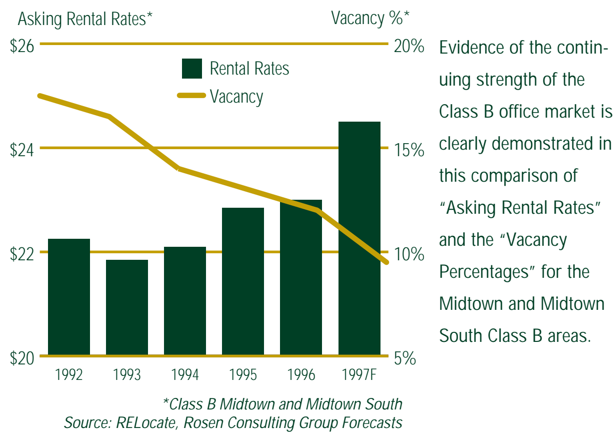
SL GREEN CLOSES ON IPO ACQUISITIONS



1140 AVENUE OF THE AMERICAS

- Submarket: Rockefeller Center
- Rentable SF: 191,000
- Built: 1926 Renovated: 1951

SL GREEN REALTY CORP.



Evidence of the continuing strength of the Class B office market is clearly demonstrated in this comparison of "Asking Rental Rates" and the "Vacancy Percentages" for the Midtown and Midtown South Class B areas.

service sector, the largest component of which is focused on business services, which include "new media," advertising, temporary help, and software and Internet development. These industries largely consist of smaller, growth-oriented firms that have historically been tenants of Class B buildings.

The fundamentals and outlook of the Manhattan office market hold significant opportunities for SL Green including:

- Generally declining vacancy rates and rising rental rates
- The opportunity to acquire well-located properties at a significant discount to replacement cost
- To generate higher potential returns and create value through capital improvements which enhance the appeal of these properties
- Limited institutional and public-company competition which are willing to pursue a labor-intensive investment
- Reduced tax impact on sale of real estate

Nearly two decades of experience focusing on this market, with limited competition, has helped SL Green to attain a "brand recognition" as *the real estate experts who specialize in Class B office properties.* Furthermore, the Company's extensive contacts within its industry and the New York City area often give SL Green the "inside track" on key acquisition opportunities. As a result, the Company has become one of the most active and successful owners of Class B office properties.

Barriers to entry for would-be competitors seeking to become large investors in the Class B office market include:

- The need to understand numerous submarkets and their respective complex dynamics
- A commitment to a labor-intensive management approach
- The ability to penetrate a relationship-driven marketplace

GROWTH THROUGH ACQUISITIONS

Events in the New York metropolitan economy provide an attractive environment for owning, operating and acquiring office properties in Manhattan.

As its ongoing performance demonstrates, SL Green capitalizes on these growth opportunities in its marketplace by acquiring office properties on a selective basis and enhancing their value through repositioning of the properties to capitalize on market needs.

"SL Green's acquisition strategy is focused on identifying properties that are underperforming where opportunities exist to significantly increase their value."

— Steven H. Klein,
Executive Vice President, Acquisitions

1372 BROADWAY
- Submarket: Garment Center
- Rentable SF: 508,000
- Built: 1914
  Renovated: 1985

50 WEST 23RD STREET
- Submarket: Chelsea
- Rentable SF: 333,000
- Built: 1892
  Renovated: 1992

> ***"By tailoring the aesthetics and functionality of a property to its specific submarket, we attract and retain a solid tenant roster."***
>
> **— Nancy Ann Peck, Executive Vice President, Development and Operations**

SL Green's advantages over other potential acquirers of Class B Manhattan office space which allow it to capitalize on these market needs include:

- Local market expertise
- A full-service, fully integrated real estate organization
- Long-term relationships with brokers and property owners which have developed over the 18 years that SL Green has been operating in the Manhattan market
- Historical institutional relationships with numerous financial institutions
- Enhanced access to capital as a public company and the ability to offer tax-advantaged acquisition structures

Utilizing the Company's strengths, SL Green will continue to evaluate prospects based on five key factors:

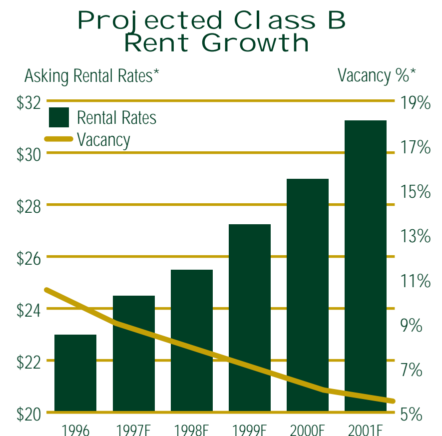
- The property's strategic location in its submarkets and its strategic fit within the Company's portfolio
- Current and projected occupancy and market rental rates and the ability to operate the property profitably at competitive rental rates
- The potential to modify and/or upgrade and reposition the property in its market to increase returns
- The quality of the construction and presence of existing and/or potential deferred maintenance issues
- The purchase price as compared to the replacement cost of the property

GROWTH THROUGH PROPERTY REPOSITIONING

Consistent with its core operating philosophy of maximizing asset value, SL Green repositions properties to enhance their cash flow and value. To achieve these goals, the Company works to increase occupancy and rental rates by positioning buildings to be consistent with the most desirable properties in their submarkets and matching the building's features to meet or exceed tenant expectations.

The decision to reposition a property will invariably involve physical renovation. The extent of renovation can range from relatively simple cosmetic changes to major construction or technology enhancements when a property's use is changed.

The accomplishment of SL Green's repositioning strategy is substantially enhanced by the Company's construction-management capabilities. At this writing, the construction management division has renovated approximately two million square feet of office space (including entire buildings) at an aggregate cost exceeding $100 million.



*Class B Midtown and Midtown South
Source: RELocate, Rosen Consulting Group Forecasts

Rental rates in the Manhattan Class B office market are projected to climb by nearly 50% during the next four years, while vacancies will be cut in half.

sept 15 1997

110 EAST 42ND STREET ACQUIRED

- Submarket: Grand Central District
- Rentable SF: 251,000

nov 5 1997

SL GREEN ANNOUNCES FIRST DIVIDEND DISTRIBUTION

$0.16 per share for the quarter ended September 30, 1997. This reflects a pro rata distribution of the anticipated quarterly dividend of $0.35 per share and an anticipated annual distribution of $1.40 per share.

dec 22 1997

17 BATTERY PLACE ACQUIRED

- Submarket: World Trade & The Battery
- Rentable SF: 811,000

GROWTH THROUGH INTEGRATED LEASING & MANAGEMENT

SL Green will continue its strategy of seeking to optimize long-term cash flow from its properties through the aggressive implementation and integration of targeted leasing, property repositioning and management programs. These programs include:

Proactive Leasing. Management believes its extensive knowledge of the Manhattan office market enhances its ability to monitor, understand and anticipate the current and future space needs of tenants in its submarkets. This leasing process encompasses:

- Extensive market research to determine strengths and weaknesses of a property
- An analysis of the building's physical characteristics, aesthetic attributes, floor plate sizes, services, elevators and mechanical systems
- An in-depth market analysis to determine the property's competitive position in the marketplace and perception in the brokerage community
- The development of an appropriate marketing strategy and communications program to disseminate information on the positive attributes/key features of the property/space to the marketplace and brokerage community

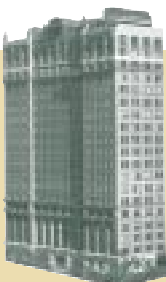
Implementation of Strategic Management Systems. Proactive management begins with a comprehensive operational and physical analysis of the property followed by a preventive maintenance assessment. The Company's in-house team of professionals evaluates all service contracts, surveys electrical capacity and costs and — after interviewing all building personnel — appraises personnel resources and payroll costs on an ongoing basis.

Based on an analysis of contractual lease obligations, the building's position in the market, and the capital/aesthetic improvements needed to bring the property to a desired level relative to its competition, SL Green develops and implements a management program. This program is designed to provide tenants with the highest level of service while maintaining the lowest cost of ownership.

Maximizing Tenant Satisfaction. SL Green provides tenants with a level of service and amenities more typically found in Class A properties. Characteristics of property redevelopment include upgraded or new entrances, lobbies, elevator cabs/mechanicals, hallways, bathrooms, windows, telecom systems and tenant spaces. Amenities include flowers in building lobbies, and uniformed concierges focused on tenant service in contrast to the security guards found at many Class B Manhattan office buildings. This level of service is the hallmark of SL Green and differentiates an SL Green building from others in this highly fragmented market.

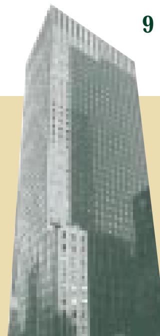
The consistency of SL Green's operational management and its commitment to tenant satisfaction, as well as its focus on value creation places the Company in a class of its own.

> ***"We expect trends in leasing and rental rates of Class B office properties to be highly favorable because the demand for cost-efficient office space is growing but the 'supply' is fixed."***
>
> **— Gerard Nocera**
> **Executive Vice President, Leasing**



dec 30 1997

ACQUIRES 633 THIRD AVENUE CONDOMINIUM INTERESTS
- Submarket: Grand Central District
- Rentable SF: 41,000



jan 26 1998

ANNOUNCES COMMITMENT TO PURCHASE 321 WEST 44TH STREET
- Submarket: Times Square District
- Rentable SF: 203,000

SL GREEN REALTY CORP.

THE SL GREEN PORTFOLIO

As of December 31, 1997, SL Green Realty Corp.'s portfolio included 12 Class B office properties located in six of the most important submarkets of Manhattan. Additionally, the Company has acquired operating or fee interests in two additional properties and has contracted one other, which will bring its total property portfolio to five million square feet.

CORE PORTFOLIO	YEAR BUILT/ RENOVATED	SUBMARKET	RENTABLE SQUARE FEET	PERCENT LEASED	ANNUALIZED 1997 RENT	NUMBER OF LEASES
673 First Avenue	1928/1990	Grand Central South	422,000	100%	$10,912,914	16
470 Park Avenue South	1912/1994	Park Avenue South/Flatiron	260,000	99	5,994,254	30
Bar Building 36 West 44th Street	1922/1985	Rockefeller Center	165,000	96	4,490,484	65
70 West 36th Street	1923/1994	Garment	151,000	100	2,850,097	41
1414 Avenue of the Americas	1923/1990	Rockefeller Center	111,000	99	3,409,628	33
29 West 35th Street	1911/1985	Garment	78,000	92	1,407,620	9
1997 ACQUISITIONS						
1372 Broadway	1914/1985	Garment	508,000	94	10,402,221	37
1140 Avenue of the Americas	1926/1951	Rockefeller Center	191,000	98	5,011,238	44
50 West 23rd Street	1892/1992	Chelsea	333,000	87	5,603,175	15
110 East 42nd Street	1921	Grand Central North	251,000	93	5,469,318	33
17 Battery Place	1903/1973	World Trade & The Battery	811,000	79	13,072,644	41
633 Third Avenue	1962	Grand Central North	41,000	100	1,030,920	3
TOTAL/WEIGHTED AVERAGE			**3,322,000**	**94%**	**$69,654,513**	**367**
PROPERTIES ACQUIRED OR CONTRACTED SINCE JANUARY 1, 1998						
420 Lexington Avenue (The Graybar Building)	1927	Grand Central North	1,188,000	83	*	320
1466 Broadway	1907/1982	Garment	289,000	87	*	134
321 West 44th Street	1929	Times Square	203,000	96	*	28
TOTAL			**5,002,000**	**91%**		**849**

*Properties acquired or to be acquired in 1998.

feb 3 1998

SL GREEN WINS HELMSLEY BID

SL Green inks contract to acquire 1466 Broadway and the long-term operating position on 420 Lexington Avenue (The Graybar Building).

mar 18 1998

CLOSES ON ACQUISITION OF HELMSLEY PROPERTIES

420 LEXINGTON AVENUE (THE GRAYBAR BUILDING)

- Submarket: Grand Central District
- Rentable SF: 1,188,000

1466 BROADWAY

- Submarket: Garment
- Rentable SF: 289,000

SL GREEN REALTY CORP.

SELECTED FINANCIAL DATA

THE COMPANY AND SL GREEN PREDECESSOR[1]

	THE COMPANY	SL GREEN PREDECESSOR				
	AUGUST 21 – DECEMBER 31,	JANUARY 1 – AUGUST 20,	YEAR ENDED DECEMBER 31,			(Unaudited)
(In thousands, except per share data)	1997	1997	1996	1995	1994	1993
OPERATING DATA:						
Total revenue	$23,207	$9,724	$10,182	$6,564	$6,600	$5,926
Property operating expenses	7,077	2,722	3,197	2,505	2,009	1,741
Real estate taxes	3,498	705	703	496	543	592
Interest	2,135	1,062	1,357	1,212	1,555	1,445
Depreciation and amortization	2,815	811	975	775	931	850
Marketing, general and administration	948	2,189	3,250	3,052	2,351	1,790
Total expenses	16,473	7,489	9,482	8,040	7,389	6,418
Operating income (loss)	6,734	2,235	700	(1,476)	(789)	(492)
Equity in net (loss) from Service Corp's	(101)	—	—	—	—	—
Equity in net income (loss) of uncombined joint ventures	—	(770)	(1,408)	(1,914)	(1,423)	88
Income (loss) before extraordinary item and minority interest	6,633	1,465	(708)	(3,390)	(2,212)	(404)
Minority interest	(1,074)	—	—	—	—	—
Income (loss) before extraordinary item	5,559	1,465	(708)	(3,390)	(2,212)	(404)
Extraordinary item (net of minority interest in 1997)	(1,874)	22,087	8,961	—	—	—
NET INCOME (LOSS)	**$3,685**	**$23,552**	**$8,253**	**$(3,390)**	**$(2,212)**	**$(404)**
Income per share before extraordinary item (basic and diluted)[2]	$0.45					
Net income per share (basic and diluted)[2]	$0.30					
Cash dividends declared per common share	$0.51					
Basic weighted average common shares outstanding	12,292					
Diluted weighted average common share and common share equivalents outstanding	12,404					

(In thousands)	THE COMPANY YEAR ENDED DECEMBER 31, 1997	SL GREEN PREDECESSOR YEAR ENDED DECEMBER 31, 1996	1995	1994	(Unaudited) 1993
BALANCE SHEET DATA:					
Commercial real estate, before accumulated depreciation	$338,818	$26,284	$15,559	$15,761	$15,352
Total assets	382,775	30,072	16,084	15,098	16,218
Mortgages and notes payable	128,820	16,610	12,700	12,699	12,698
Accrued interest payable	552	90	2,894	2,032	1,576
Minority interest	33,906	—	—	—	—
Stockholders' equity/owners' (deficit)	176,208	(8,405)	(18,848)	(15,521)	(13,486)

(In thousands)	THE COMPANY AUGUST 21 – DECEMBER 31, 1997	SL GREEN PREDECESSOR JANUARY 1 – AUGUST 20, 1997	YEAR ENDED DECEMBER 31, 1996	1995	1994	(Unaudited) 1993
OTHER DATA:						
Funds from operations[3]	$9,355	$ —	$ —	$ —	$ —	$ —
Net cash provided by (used in) operating activities	5,713	2,838	272	(234)	939	—
Net cash provided by financing activities	224,234	2,782	11,960	63	178	—
Net cash (used in) investing activities	(217,165)	(5,559)	(12,375)	(432)	(567)	—

[1]The selected financial data includes the combined financial statements of SL Green Predecessor for the periods up to and including August 20, 1997, and the consolidated financial statements of SL Green Realty Corp. (the "Company") for the period after August 20, 1997.

[2]The earnings per share amounts are presented to comply with Statement of Financial Accounting Standards No. 128, Earnings Per Share.

[3]The White Paper on Funds from Operations approved by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT") in March 1995 defines Funds from Operations as net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from debt restructuring and sales of properties, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. The Company believes that Funds from Operations is helpful to investors as a measure of the performance of an equity REIT because, along with cash flow from operating activities, financing activities and investing activities, it provides investors with an indication of the ability of the Company to incur and service debt, to make capital expenditures and to fund other cash needs. The Company computes Funds from Operations in accordance with standards established by NAREIT which may not be comparable to Funds from Operations reported by other REITs that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently than the Company. Funds from Operations does not represent cash generated from operating activities in accordance with GAAP and should not be considered as an alternative to net income (determined in accordance with GAAP) as an indication of the Company's financial performance or to cash flow from operating activities (determined in accordance with GAAP) as a measure of the Company's liquidity, nor is it indicative of funds available to fund the Company's cash needs, including its ability to make cash distributions.

SL GREEN REALTY CORP.

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

Overview

This report includes certain statements that may be deemed to be "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. All statements, other than statements of historical facts, included in this report that address activities, events or developments that the Company expects, believes or anticipates will or may occur in the future, including such matters as future capital expenditures, dividends and acquisitions (including the amount and nature thereof), expansion and other development trends of the real estate industry, business strategies, expansion and growth of the Company's operations and other such matters are forward-looking statements. These statements are based on certain assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions, expected future developments and other factors it believes are appropriate. Such statements are subject to a number of assumptions, risks and uncertainties, general economic and business conditions, the business opportunities that may be presented to and pursued by the Company, changes in laws or regulations and other factors, many of which are beyond the control of the Company. Any such statements are not guarantees of future performance and actual results or developments may differ materially from those anticipated in the forward-looking statements.

The following discussion related to the consolidated financial statements of the Company and the combined financial statements of SL Green Predecessor should be read in conjunction with the financial statements appearing elsewhere in this annual report. In connection with the Formation Transactions as described in Note 1 to the financial statements there were significant changes in the financial condition and results of operations of the Company which are outlined below, consequently, the comparison of the historical periods provides only limited information regarding the operations of the Company. Therefore, in addition to the historical comparison, the Company has provided a comparison of the results of operations on a pro forma basis.

RESULTS OF OPERATIONS

(In thousands, except percentage data)

Comparison of Year Ended December 31, 1997 to Year Ended December 31, 1996

For discussion purposes and to provide comparable periods for analysis, the following discussion of the results of operations (as presented on page 23) for the year ended December 31, 1997, combines the operating results of SL Green Predecessor for the period January 1, 1997 to August 20, 1997 and the operating results of the Company for the period August 21, 1997 to December 31, 1997. Management believes that this provides for more meaningful analysis of the financial statements to be made. The results of operations for the year ended December 31, 1996 represent solely the operating results of the SL Green Predecessor.

Rental revenue and escalation and reimbursement revenue for the year December 31, 1997 were $27,137, representing an increase of 411% compared to $5,250 for the year ended December 31, 1996. The increase is primarily attributable to (i) the Formation Transactions in which three buildings accounted for on the equity method are consolidated in the financial statements of the Company for the period August 21, 1997 to December 31, 1997 and three buildings (50 West 23rd Street, 1140 Avenue of the Americas and 1372 Broadway) were acquired (ii) the inclusion of revenue from 1414 Avenue of the Americas for the full year during 1997 as compared to six months (purchased in July 1996) during 1996, and (iii) the results of 110 East 42nd Street (acquired September 15, 1997), 17 Battery Place (acquired December 19, 1997) and 633 Third Avenue (acquired December 30, 1997) (collectively the "1997 Acquisitions") are included in the consolidated financial statements for a portion of the period August 21, 1997 to December 31, 1997 and not included during any portion of 1996.

Management fee income decreased $1,068 for the year ended December 31, 1997 compared to the year ended December 31, 1996 due to (i) lower management fee revenue being earned in the aggregate $600 and (ii) $500 in management fee income which was recorded in the equity income (loss) from Service Corp's for the period August 21, 1997 to December 31, 1997. As of the IPO date, all third party management income, and related expenses, are earned by SL Green Management Corp., a 95% owned subsidiary of the Company. This change in the recognition of income and expense from third party management business activity was made in order to maintain management fee revenue in a manner which is consistent with the REIT qualifying income test, as defined by the IRS.

During the reported periods for the Predecessor, management revenues were earned but not eliminated from affiliated properties in which the Predecessor had an interest as reflected below:

1997 (Pre-IPO)	$458
1996	447
1995	449

Leasing commission revenues increased $1,576 for year ended December 31, 1997 compared to the year ended December 31, 1996 due to strong leasing activity in the current market.

Investment income increased $485 for the year ended December 31, 1997 compared to the year ended December 31, 1996 due to interest income earned on cash on hand. The cash on hand primarily represents excess proceeds from the Company's Offering on August 21, 1997.

Other income decreased by $107 or 87% to $16 during the year ended December 31, 1997 compared to $123 during the year ended December 31, 1996, primarily due to a one-time consulting engagement in 1996.

Prior to the IPO, third party revenues and income were derived from various management, leasing and construction activities. As part of the Formation Transactions, to the extent the Company continues to pursue such business, it will be conducted through separate subsidiaries. The equity income (loss) from Service Corp's represents the Company's 95% interest in the net income or loss derived from these activities. From the period August 21, 1997 to December 31, 1997 the Company recognized $101 as its share of loss by these Subsidiaries.

Operating expenses, depreciation and amortization, and real estate taxes increased $6,602, $2,651 and $3,500, respectively, during the year ended December 31, 1997 as compared to the year ended December 31, 1996. The increase in these expenses are primarily attributable to (i) the Formation Transactions in which three buildings (50 West 23rd Street, 1140 Avenue of the Americas and 1372 Broadway) were acquired and three buildings previously accounted for on the equity method are consolidated in the financial statements of the Company for the period August 21, 1997 to December 31, 1997, (ii) the inclusion of expenses from 1414 Avenue of the Americas for the full year during 1997 as compared to six months (purchased July 1996) during 1996, and (iii) the results of the 1997 Acquisitions included in a portion of 1997 and not included during any portion of 1996.

Interest expense increased $1,840 for the year ended December 31, 1997 as compared to the year ended December 31, 1996. The increase is primarily due to (i) interest expense related to the capitalized lease acquired with a building previously accounted for under the equity method, (ii) increase of $21,000 in mortgage debt acquired in August 1997 ($14,000) and December 1997 ($7,000) and (iii) the borrowing of $76,000 on December 19, 1997 under the Credit Facility to finance the acquisition of 17 Battery Place.

Comparison of Year Ended December 31, 1996 to Year Ended December 31, 1995

Rental revenue increased $1,783, or 73.8%, to $4,199 from $2,416 for the year ended December 31, 1996 compared to the year ended December 31, 1995. The increase was due primarily to the acquisition of 1414 Avenue of the Americas during July 1996 which had rental revenue of $1,612 and increased occupancy.

Escalations and reimbursement revenues increased $293, or 38.6%, to $1,051 from $758 for the year ended December 31, 1995. The acquisition of 1414 Avenue of the Americas accounted for an increase of $428 which was offset by a decrease of $166 at 70

West 36th Street due to reduced real estate tax escalations and porter wage escalation revenue. New leases with more current base years utilized to calculate the escalations and a reduction in real estate tax expense accounted for the decreased escalation revenue.

Management revenues remained substantially unchanged with a slight increase for the year ended December 31, 1996 compared to the year ended December 31, 1995.

Leasing commission revenues increased $1,475, or 164.4%, to $2,372 from $897 for the year ended December 31, 1996 compared to the year ended December 31, 1995 due to the addition of several buildings under service contracts and intensified efforts (prior to the IPO) to perform leasing services for unaffiliated third parties.

Construction revenue decreased by $132, or 56.7%, to $101 from $233 for the year ended December 31, 1996 compared to the year ended December 31, 1995. Overall construction revenue remained constant but a larger amount related to property-owning partnerships and was eliminated pursuant to the equity method of accounting.

Other income for the year ended December 31, 1996 was $123 which consisted of miscellaneous consulting fees and interest.

Share of net loss of uncombined joint ventures decreased $506 or 26.4% to $1,408 from $1,914 for the year ended December 31, 1996 compared to the year ended December 31, 1995 as follows:

PROPERTY	INCREASE (DECREASE)
673 First Avenue	$(392)
470 Park Avenue South	(130)
29 West 35th Street	22
Bar Building	(6)
	$(506)

The decrease in net loss for 673 First Avenue was due primarily to lower interest expense as a result of mortgage loan principal amortization and lower amortization expense as a result of deferred leasing commissions written off during 1995 for a tenant that vacated.

The decrease in net loss for 470 Park Avenue South was due primarily to a reduction in real estate tax expense as a result of a decrease in assessed valuation.

The decrease in net income for 29 West 35th Street was due primarily to reduced rental revenue as a result of a vacancy.

The increase in net income for the Bar Building was due to the acquisition of an interest in the Property during October 1996.

Operating expenses increased $692, or 27.6%, to $3,197 from $2,505 for the year ended December 31, 1996 compared to the year ended December 31, 1995 due substantially to the inclusion of 1414 Avenue of the Americas which was acquired during July 1996.

Interest expense increased $145 or 12.0%, to $1,357 from $1,212 for the year ended December 31, 1996 compared to the year ended December 31, 1995. The inclusion of 1414 Avenue of the Americas accounted for an increase of $445 which was offset by a decrease of $300 for 70 West 36th Street due to refinancing at a lower interest rate.

Depreciation and amortization increased $200, or 25.9%, to $975 from $775 for the year ended December 31, 1996 compared to the year ended December 31, 1995. The increase was due primarily to the inclusion of 1414 Avenue of the Americas.

Real estate taxes increased $207 or 41.7%, to $703 from $496 for the year ended December 31, 1996 compared to year ended December 31, 1995. The increase was due to the inclusion of $290 for 1414 Avenue of the Americas offset by a decrease of $83 for 70 West 36th Street which resulted from a reduction in property assessment.

Marketing, general and administrative expenses increased $198, or 6.5%, to $3,250 from $3,052 for the year ended December 31, 1996 compared to the year ended December 31, 1995, due primarily to staff increases for the corporation which provided leasing services.

As a result of the foregoing, the loss before extraordinary item decreased $2,682, or 79.1%, to $708 from $3,390 for the year ended December 31, 1996 compared to the year ended December 31, 1995.

PRO FORMA RESULTS OF OPERATIONS

(In thousands, except percentage data)

Comparison of the year ended December 31, 1997 to the year ended December 31, 1996 are presented as if the Offering and Formation Transactions (see Notes to Consolidated Financial Statements) occurred on January 1, 1996 and the effect thereof was carried forward through December 31, 1997.

The pro forma results of operations do not purport to represent what the Company's results would have been assuming the completion of the Formation Transactions and the Offering at the beginning of the period indicated, nor do they purport to project the Company's financial results of operations at any future date or for any future period. The pro forma statements of operations should be read in conjunction with the pro forma financial statements of the Company included in the Company's registration statement on Form S-11 dated August 14, 1997 and the consolidated financial statements of the Company included elsewhere herein.

YEAR ENDED DECEMBER 31, 1997 COMPARED TO YEAR ENDED DECEMBER 31, 1996

(In thousands, except percentage data)	YEAR ENDED DECEMBER 31, (Unaudited) 1997	1996	DOLLAR CHANGE	PERCENT CHANGE
REVENUE				
Rental revenue	$49,472	$44,338	$5,134	11.6%
Escalations and reimbursement revenues	5,500	6,629	(1,129)	17.0
Leasing commissions	2,251	1,257	994	79.1
Investment income	485	20	465	2,325.0
Other income	1,676	945	731	77.4
TOTAL REVENUES	**59,384**	**53,189**	**6,195**	**11.7**
Equity in net income (loss) of Service Corp's	168	(504)	672	—
EXPENSES				
Operating expenses	13,165	12,299	866	7.0
Ground rent	4,297	3,925	372	9.5
Interest	5,509	5,858	(349)	(6.0)
Depreciation and amortization	7,413	6,979	434	6.2
Real estate taxes	8,658	8,248	410	5.0
Marketing, general and administrative	2,578	2,643	(65)	(2.5)
Total expenses	41,620	39,952	1,668	4.2
INCOME BEFORE MINORITY INTEREST AND EXTRAORDINARY ITEM	**$17,932**	**$12,733**	**$5,199**	**40.8%**

Rental revenue increased by $5,134 to $49,472 during the year ended December 31, 1997 as compared to $44,338 for the year ended December 31, 1996. The increase is primarily due to (i) the inclusion of $1,600 in additional rental income from 1414 Avenue of the Americas (acquired June 1996) for the full year 1997 compared to six months during the full year 1996, (ii) the recent 1997 acquisitions of 110 East 42nd Street, 17 Battery Place and 633 Third Avenue (the "1997 Acquisitions") increased revenue $1,300 and (iii) the remaining increase is due to re-tenanting and new tenant income generated in 1997.

Escalation and reimbursement revenue decreased $1,129 to $5,500 during the year ended December 31, 1997 as compared to $6,629 for the year ended December 31, 1996. The decrease is primarily due to the reduction of escalations revenue in old leases and the reduction of real estate taxes in 1997 compared to 1996 at certain properties due to the Company's overall program to reduce real estate tax assessments at the property level.

Leasing commission revenues increased by $944 to $2,251 during the year ended December 31, 1997

compared to $1,257 for the year ended December 31, 1996. The increase is primarily due to the maturation of the Company's tenant-rep business and the generally stronger leasing market during 1997.

Investment income increased by $465 to $485 during the year ended December 31, 1997 compared to $20 for the year ended December 31, 1996. The increase was due to interest income earned on cash on hand which consists primarily of net proceeds remaining from the Offering.

Other income increased by $731 to $1,676 during the year ended December 31, 1997 compared to $945 for the year ended December 31, 1996. The increase is due primarily to a large, non-recurring, tenant lease cancellation income at 1372 Broadway compared to prior year.

Operating expenses, depreciation and amortization and real estate taxes increased by $866, $434 and $410, respectively, during the year ended December 31, 1997 as compared to the year ended December 31, 1996. The increases are primarily due to the full year expense in 1997 for 1414 Avenue of the Americas (acquired June 1996) and the expense incurred from the 1997 Acquisitions.

The increase in ground rent is primarily due to a reclassification in 1997 between ground rent and interest expense (which had a corresponding decrease).

LIQUIDITY AND CAPITAL RESOURCES

The SL Green Predecessor historically relied on mortgage financing plus the use of its capital for the acquisition, redevelopment and renovation of properties. The proceeds from the Offering as well as a new mortgage loan in the amount of $14 million, which is secured by 50 West 23rd Street, were utilized to repay existing mortgage loans, acquire properties, pay Offering and Formation Transaction expenses and provide working capital. Total mortgage loans including the new mortgage loan amounted to $45.8 million as a result of the Formation Transactions. All mortgage loans encumbering the Properties at the time of the IPO closing had fixed interest rates ranging from 7.47% to 9.0%.

On December 19, 1997 the Company entered into a $140 million three year senior unsecured revolving credit facility (the "Credit Facility") due December 2000. Availability under the Credit Facility may be limited to an amount less than $140 million which is calculated by several factors including recent acquisition activity and most recent quarterly property performance. Outstanding loans under the Credit Facility bear interest at a rate per annum equal to the London Interbank Offered Rate ("LIBOR") applicable to each interest period plus 130 basis points to 145 basis points per annum. The Credit Facility requires the Company to comply with certain covenants, including but not limited to, maintenance of certain financial ratios. At December 31, 1997 the outstanding amount of indebtedness under the Credit Facility was $76 million, and the interest rate on such indebtedness was 7.265% per annum. At December 31, 1997 the Company's borrowing availability was $40 million.

On December 30, 1997 the Company entered into a $7 million additional advance under its existing mortgage loan which is secured by 50 West 23rd Street. The note bears interest at a rate of LIBOR plus 175 basis points (7.6875% at December 31, 1997), and can be fixed in the future at 150 basis points plus the ten year US Treasury Note rate and maturing co-terminously with the underlying mortgage note when certain income targets are met.

At December 31, 1997 the Company's mortgage loans and the outstanding balance under the Credit Facility represent approximately 25.2% of the Company's market capitalization based on an estimated total market capitalization (debt and equity, assuming conversion of all operating partnership units) of $509.2 million (based on a common stock price of $25.938 per share, the closing price of the Company's common stock on the New York Stock Exchange on December 31, 1997). As a matter of policy, the Company has established a maximum debt to market cap limit of 50%. This policy can be changed at any time however, by the Board of Directors. The Company's principal debt amortization is scheduled to be $1.97 million and $2.23 million for the years ended December 31, 1998 and 1999, respectively.

Subsequent to December 31, 1997, the Company asked the Credit Facility banking group to temporarily relieve the Company from its obligations under the financial covenants of the Credit Facility, in order to close an additional financing necessary to acquire the Helmsley Properties (the "Bridge Facility"). This Bridge Facility which closed in March financed the Helmsley Properties acquisition, paid off the outstanding balance on the Company's unsecured line of credit and will provide ongoing liquidity for future acquisition and corporate needs. The term of the Bridge Facility is one year. The interest rate is determined by a schedule of the percent of the loan commitment outstanding and the duration of the outstanding commitments raising from 170 basis points to 300 basis points over LIBOR (7.3875% at the date of borrowing). The original Credit Facility will remain committed but unused until the Bridge Facility is paid off through either permanent debt or an equity financing and the Company's covenant obligations are restored.

The Company estimates that for the 12 months ending December 31, 1998 and 1999, it will incur approximately $6.6 million and $3.2 million, respectively, of capital expenditures on properties currently owned. In 1998, over $5.8 million of the capital investments are dedicated to redevelopment costs associated with properties purchased at or after the Company's IPO. The Company expects to fund these capital expenditures with the Bridge Facility, Credit Facility, operating cash flow and cash on hand. Future property acquisitions may require substantial capital investments in such properties for refurbishment and leasing costs. The Company expects that these financing requirements will be provided primarily from its existing Credit Facility, from additional borrowings secured by one or more properties and from future issuances of equity and debt. The Company believes that it will have sufficient capital resources to satisfy its obligations during the next 12 month period. Thereafter, the Company expects that capital needs will be met through a combination of net cash provided by operations, borrowings and additional equity issuances.

The Company expects to continue making distributions to its stockholders primarily based on its distributions received from the Operating Partnership or, if necessary, from working capital or borrowings. The Operating Partnership income will be derived primarily from lease revenue from the Properties and, to a limited extent, from fees generated by the Service Corporations.

CASH FLOWS

(In thousands)

Comparison of the Year Ended December 31, 1997 to Years Ended December 31, 1996

Net cash provided by operating activities increased $8,279 during the year ended December 31, 1997 to $8,551 from $272 for the year ended December 31, 1996. The increase was due primarily to the inclusion of properties encompassed in the Offering and Formation Transaction (the acquisition of 50 West 23rd Street, 1140 Avenue of the Americas, and 1372 Broadway) as of August 21, 1997, the acquisition of 1414 Avenue of the Americas (acquired June 1996) 110 East 42nd Street (acquired September 1997) and 17 Battery Place (acquired December 1997) and an increase in leasing commission revenue and investment income. Net cash used in investing activity increased $210,349 during the year ended December 31, 1997 to $222,724 as compared to $12,375 for the year ended December 31, 1996. The increase is primarily due to the acquisition of certain properties at the date of the Offering, the purchase of 110 East 42nd Street in September 1997 and the purchase of an interest in 17 Battery Place and 633 Third Avenue in December 1997. Net cash provided by financing activities increased by $215,056 during the year ended December 31, 1997 to $227,016 as compared to $11,960 during the year ended December 31, 1996. The primary reason for the increase is (i) net proceeds from the sale of common stock (ii) net proceeds from mortgage notes payable and (iii) proceeds from the Credit Facility. These proceeds were used to purchase the properties described above.

Comparison of Year Ended December 31, 1996 to Year Ended December 31, 1995.

Net cash provided by operating activities increased $506 to $272 from a deficit of $234 for the year ended December 31, 1996 compared to the year ended December 31, 1995. The increase was due primarily

to the acquisition of 1414 Avenue of the Americas, an increase in leasing commission income. Net cash used in investing activities increased $11,943 to $12,375 from $432 for the year ended December 31, 1996 compared to the year ended December 31, 1995. The increase was due primarily to the acquisition of 1414 Avenue of the Americas plus contributions to the partnerships that own 470 Park Avenue South and the Bar Building. Net cash provided by financing activities increased $11,897 to $11,960 from $63 for the year ended December 31, 1996 compared to the year ended December 31, 1995. The increase was due primarily to the financing of the acquisition of 1414 Avenue of the Americas, the refinancing of the mortgage on 70 West 36th Street and net cash contribution from owners.

FUNDS FROM OPERATIONS

The White Paper on Funds from Operations approved by the Board of Governors of NAREIT in March 1995 defines Funds from Operations as net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from debt restructuring and sales of properties, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. The Company believes that Funds from Operations is helpful to investors as a measure of the performance of an equity REIT because, along with cash flow from operating activities, financing activities and investing activities, it provides investors with an indication of the ability of the Company to incur and service debt, to make capital expenditures and to fund other cash needs. The Company computes Funds from Operations in accordance with standards established by NAREIT which may not be comparable to Funds from Operations reported by other REITs that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently than the Company. Funds from Operations does not represent cash generated from operating activities in accordance with GAAP and should not be considered as an alternative to net income (determined in accordance with GAAP) as an indication of the Company's financial performance or to cash flow from operating activities (determined in accordance with GAAP) as a measure of the Company's liquidity, nor is it indicative of funds available to fund the Company's cash needs, including its ability to make cash distributions.

On a pro forma basis after giving effect to the Offering, Funds from Operations for the year ended December 31, 1997 and for the year ended December 31, 1996, respectively, are as follows:

(In thousands)	PRO FORMA YEAR ENDED DEC. 31, 1997	1996
Income before minority interest and extraordinary item	$17,932	$12,733
Add:		
Depreciation and amortization	7,413	6,979
Amortization of deferred financing costs and depreciation of non-rental real estate assets	(186)	(155)
Funds From Operations	$25,159	$19,557

INFLATION

Substantially all of the office leases provide for separate real estate tax and operating expense escalations over a base amount. In addition, many of the leases provide for fixed base rent increases or indexed escalations. The Company believes that inflationary increases may be at least partially offset by the contractual rent increases described above.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Financial Accounting Standards Board Statement No. 131 ("FAS No. 131") "Disclosure about Segments of an Enterprise and Related Information" is effective for financial statements issued for periods beginning after December 15, 1997. FAS No. 131 requires disclosures about segments of an enterprise and related information regarding the different types of business activities in which an enterprise engages and the different economic environments in which it operates.

The Company does not believe that the implementation of or FAS No. 131 will have a significant effect on its financial statements.

YEAR 2000 COMPLIANCE

The Company has determined that it will need to modify or replace significant portions of its software so that its computer systems will function properly with respect to dates in the year 2000 and beyond. The Company's comprehensive Year 2000 initiative is being managed by a team of internal staff and outside consultants. The team's activities are designed to ensure that there is no adverse effect on the Company's core business operations and that transactions with customers, suppliers, and financial institutions are fully supported. The Company is well under way with these efforts, which are scheduled to be completed in mid-1998. While the Company believes its planning efforts are adequate to address its Year 2000 concerns, there can be no guarantee that the systems of other companies on which the Company's systems and operations rely will be converted on a timely basis and will not have a material effect on the Company. The cost of the Year 2000 initiatives is not expected to be material to the Company's results of operation or financial position.

BALANCE SHEETS

(In thousands)	THE COMPANY DECEMBER 31, 1997 (CONSOLIDATED)	SL GREEN PREDECESSOR DECEMBER 31, 1996 (COMBINED)
ASSETS		
Commercial real estate properties, at cost: Land	$53,834	$4,465
Buildings and improvements	272,776	21,819
Property under capital lease	12,208	—
	338,818	**26,284**
Less accumulated depreciation	(23,800)	(5,721)
	315,018	**20,563**
Cash and cash equivalents	12,782	476
Restricted cash	10,310	1,227
Receivables	738	914
Related party receivables	1,971	1,186
Deferred rents receivable net of provision for doubtful accounts of $399 in 1997	11,563	1,265
Investment in service corporations	1,480	—
Mortgage loan receivable	15,500	—
Investment in uncombined joint venture	—	1,730
Deferred costs, net	6,099	1,371
Other assets	7,314	1,340
TOTAL ASSETS	**$382,775**	**$30,072**

See accompanying notes.

BALANCE SHEETS

(In thousands, except per share data)	THE COMPANY DECEMBER 31, 1997 (CONSOLIDATED)	SL GREEN PREDECESSOR DECEMBER 31, 1996 (COMBINED)
LIABILITIES AND STOCKHOLDERS' EQUITY/OWNERS' DEFICIT		
Mortgage notes payable	$52,820	$16,610
Revolving credit facility	76,000	—
Accrued interest payable	552	90
Accounts payable and accrued expenses	3,340	1,037
Accounts payable to related parties	367	2,213
Excess of distributions and share of losses over investments in uncombined joint ventures	—	17,300
Capitalized lease obligations	14,490	—
Deferred land lease payable	8,481	—
Dividend and distributions payable	5,136	—
Security deposits	11,475	1,227
TOTAL LIABILITIES	**172,661**	**38,477**
Minority interest	33,906	—
Commitments, contingencies and other matters		
STOCKHOLDERS' EQUITY/OWNERS' DEFICIT		
Preferred stock, $.01 par value 25,000 shares authorized, none outstanding		
Common stock, $.01 par value 100,000 shares authorized, 12,292 issued and outstanding	123	—
Additional paid – in capital	178,669	—
Distributions in excess of earnings	(2,584)	—
Total stockholders' equity	176,208	—
Owners' deficit	—	(8,405)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY/OWNERS' DEFICIT	**$382,775**	**$30,072**

See accompanying notes.

SL GREEN REALTY CORP.

STATEMENTS OF OPERATIONS

(In thousands, except per share data)	THE COMPANY AUGUST 21 – DECEMBER 31, 1997 (CONSOLIDATED)	SL GREEN PREDECESSOR JANUARY 1 – AUGUST 20, 1997	YEAR ENDED DECEMBER 31, 1996 (COMBINED)	1995
REVENUES				
Rental revenue	$20,033	$4,107	$4,199	$2,416
Escalation and reimbursement revenues	2,205	792	1,051	758
Management revenues, including $458 (1997), $447 (1996), and $449 (1995) from affiliates	—	1,268	2,336	2,260
Leasing commissions	484	3,464	2,372	897
Construction revenues, net, including $6 (1997), $35 (1996), and $82 (1995), from affiliates	—	77	101	233
Investment Income	485	—	—	—
Other income	—	16	123	—
TOTAL REVENUES	**23,207**	**9,724**	**10,182**	**6,564**
Equity in net (loss) from Service Corp's	(101)	—	—	—
Equity in net (loss) of uncombined joint ventures	—	(770)	(1,408)	(1,914)
EXPENSES				
Operating expenses	7,077	2,722	3,197	2,505
Interest	2,135	1,062	1,357	1,212
Depreciation and amortization	2,815	811	975	775
Real estate taxes	3,498	705	703	496
Marketing, general and administrative	948	2,189	3,250	3,052
TOTAL EXPENSES	**16,473**	**7,489**	**9,482**	**8,040**
Income (loss) before minority interest and extraordinary item	6,633	1,465	(708)	(3,390)
Minority interest in operating partnership	(1,074)	—	—	—
Extraordinary item, net of minority interest of $362 in 1997	(1,874)	22,087	8,961	—
NET INCOME (LOSS)	**$3,685**	**$23,552**	**$8,253**	**$(3,390)**
PER SHARE DATA				
Income per share before extraordinary item	$0.45			
Extraordinary item	(0.15)			
Net income per share - basic and diluted	$0.30			
Basic weighted average common shares outstanding	12,292			
Diluted weighted average common share and common share equivalents outstanding	12,404			

See accompanying notes.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(In thousands, except per share data)	DISTRIBUTIONS IN EXCESS OF EARNINGS	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	TOTAL
BALANCE AT AUGUST 21, 1997 (INCEPTION)	$—	$—	$—	$—
Net proceeds from Initial Public Offering of Common Stock	—	123	223,366	223,489
Net Income	3,685	—	—	3,685
Cash Distributions declared ($0.51 per common share of which none represented a return of capital for Federal Income Tax purposes)	(6,269)	—	—	(6,269)
Contribution of the net assets of SL Green Predecessor in exchange for Units of the Operating Partnership and other Formation Transactions	—	—	(44,697)	(44,697)
BALANCE AT DECEMBER 31, 1997	**$(2,584)**	**$123**	**$178,669**	**$176,208**

COMBINED STATEMENTS OF OWNERS' EQUITY (DEFICIT)

(In thousands)	SL GREEN PREDECESSOR
BALANCE AT DECEMBER 31, 1994	**$(15,521)**
Distributions	—
Contributions	63
Net loss for the year ended December 31, 1995	(3,390)
BALANCE AT DECEMBER 31, 1995	**(18,848)**
Distributions	(552)
Contributions	2,742
Net income for the year ended December 31, 1996	8,253
BALANCE AT DECEMBER 31, 1996	**(8,405)**
Distributions	(4,024)
Contributions	25
Net income for the period ended August 20, 1997	23,552
BALANCE AT AUGUST 20, 1997	**$11,148**

See accompanying notes.

SL GREEN REALTY CORP.

STATEMENTS OF CASH FLOWS

(In thousands)	THE COMPANY AUGUST 21 – DECEMBER 31, 1997 (CONSOLIDATED)	SL GREEN PREDECESSOR JANUARY 1 – AUGUST 20, 1997	YEAR ENDED DECEMBER 31, 1996 (COMBINED)	1995
OPERATING ACTIVITIES				
Net income (loss)	$3,685	$23,552	$8,253	$(3,390)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	2,815	811	975	775
Equity in net loss (income) from Service Corp's	101	—	—	—
Minority interest	712	—	—	—
Share of net (income) loss from uncombined joint ventures	—	(21,072)	1,763	2,249
Deferred rents receivable	(946)	(102)	(362)	87
Extraordinary non-cash portion, net of minority interest	803	—	(8,961)	—
Changes in operating assets and liabilities:				
Restricted cash	(223)	—	(563)	(38)
Receivables	(614)	(190)	(531)	47
Related party receivables	(1,633)	(365)	(170)	(299)
Deferred costs	(707)	(279)	(1,108)	(465)
Other assets	(3,101)	579	(287)	(858)
Accounts payable and accrued expenses	3,142	118	280	(180)
Accounts payable to related parties	830	(201)	121	948
Deferred land lease payable	297	—	—	—
Security deposits	—	77	—	—
Security deposits payable	—	(67)	564	29
Accrued interest payable	552	(23)	298	861
Net cash provided by (used in) operating activities	**5,713**	**2,838**	**272**	**(234)**
INVESTING ACTIVITIES				
Additions to land, buildings and improvements	(217,165)	(7,411)	(10,725)	(369)
Contributions to partnership investments	—	(25)	(1,650)	(63)
Distributions from partnership investments	—	1,877	—	—
Net cash used in investing activities	**(217,165)**	**(5,559)**	**(12,375)**	**(432)**

(In thousands, except per share data)	THE COMPANY AUGUST 21 – DECEMBER 31, 1997	SL GREEN PREDECESSOR JANUARY 1 – AUGUST 20, 1997	YEAR ENDED DECEMBER 31, 1996	1995
FINANCING ACTIVITIES				
Proceeds from mortgage notes payable	$21,000	$7,000	$16,680	$—
Payments of mortgage notes payable	(76,822)	(219)	(6,910)	—
Proceeds from senior revolving credit facility	76,000	—	—	—
Capitalized lease obligation	58	—	—	—
Mortgage loan receivable	(15,500)	—	—	—
Cash distributions to owners	—	(4,024)	(552)	—
Cash contributions from owners	—	25	2,742	63
Dividends and distributions paid	(2,348)	—	—	—
Deferred loan costs	(1,643)	—	—	—
Net proceeds from sale of common stock	228,704	—	—	—
Formation expenses	(5,215)	—	—	—
Net cash provided by financing activities	**224,234**	**2,782**	**11,960**	**63**
Net increase (decrease) in cash and cash equivalents	12,782	61	(143)	(603)
Cash and cash equivalents at beginning of period	—	476	619	1,222
Cash and cash equivalents at end of period	$12,782	$537	$476	$619
SUPPLEMENTAL CASH FLOW DISCLOSURES				
Interest paid	$1,583	$1,085	$1,059	$351
Income taxes paid	$ —	$ —	$ —	$35
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES				
Formation transaction activity:				
Assets acquired				
Commercial real estate, net	$91,123			
Other assets	$16,751			
Liabilities assumed				
Mortgage notes payable	$73,073			
Capitalized lease obligation	$14,431			
Deferred land lease	$ 8,184			
Security deposits payable	$ 4,262			

In December 1997 the Company declared distributions per unit of $0.35. The distributions were paid in 1998.

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1997
(Dollars in Thousands)

1. ORGANIZATION AND BASIS OF PRESENTATION

Initial Public Offering and Formation Transactions

SL Green Realty Corp. (the "Company"), a Maryland corporation, and SL Green Operating Partnership, L.P., (the "Operating Partnership"), were formed in June 1997 for the purpose of combining the commercial real estate business of S.L. Green Properties, Inc. and its affiliated partnerships and entities ("SL Green"). The Operating Partnership received a contribution of interest in the real estate properties as well as 95% of the economic interest in the management, leasing and construction companies (the "Service Corporations"). The Company qualifies as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended; and operates as a fully integrated, self-administered, self-managed REIT. A REIT is a legal entity that holds real estate interests and, through payments of dividends to shareholders, is permitted to reduce or avoid the payment of federal income taxes at the corporate level.

The authorized capital stock of the Company consists of 200 million shares of capital stock, $.01 par value, of which the Company has authorized the issuance of up to 100 million shares of Common Stock, $.01 par value per share, 75 million shares of Excess Stock, at $.01 par value per share, and 25 million shares of Preferred Stock, par value $.01 per share. On August 20, 1997, the Company issued 11.615 million shares of its Common Stock (including the underwriters' over-allotment option of 1.52 million shares) to the public through a public offering (the "Offering"). Concurrently with the consummation of the Offering, the Company issued 38,095 shares of restricted common stock pursuant to stock loans and 85,600 shares of restricted common stock to a financial advisor. In addition, the Company previously issued to its executive officers approximately 553,616 shares, as founders' shares. As of December 31, 1997, no shares of Excess Stock or Preferred Stock are issued and outstanding.

Concurrent with the consummation of the Offering, the Company and the Operating Partnership, together with the partners and members of the affiliated partnerships of the SL Green Predecessor and other parties which held ownership interests in the properties contributed to the Operating Partnership (collectively, the "Participants"), engaged in certain Formation Transactions (the "Formation Transactions").

The net cash proceeds received by the Company from the Offering (after deducting underwriting discounts) was $228.7 million. The Company utilized approximately $42.6 million of the Offering proceeds to repay mortgage indebtedness encumbering the properties, $1.5 million for prepayment penalties and other financing fees and expenses, approximately $6.6 million to purchase the direct or indirect interests of certain participants in the properties, approximately $95.5 million to acquire properties (50 West 23rd Street, 1140 Avenue of the Americas, and 1372 Broadway) approximately $3.4 million to pay certain expenses incurred in the Formation Transactions, $35.6 million to repay a loan from Lehman Brothers Holdings, Inc. ("LBHI") (which included $20 million to repay a loan that was made to a company indirectly owned by Stephen L. Green), $1.8 million to fund the advisory fee payment to Lehman Brothers, Inc. and $41.7 million to fund capital expenditures, general working capital needs and future acquisitions (See note 2).

Substantially all of the Company's assets are held by, and it conducts its operations through, the Operating Partnership, a Delaware limited partnership. The Company is the sole managing general partner of the Operating Partnership. Continuing investors hold, in the aggregate, a 16.2% limited partnership interest in the Operating Partnership.

Principles of Combination — SL Green Predecessor

The SL Green Predecessor is not a legal entity but rather a combination of real estate properties and affiliated real estate management, construction and leasing entities under common control and management of Stephen L. Green; and interests owned and managed by Stephen L. Green in entities accounted for on the equity method (see note 2) that are organized as partnerships and a limited liability company. The entities included in this financial statement have been combined for only the periods that they were under common control and management. All significant intercompany transactions and balances have been eliminated in combination. Capital contributions, distributions and profits and losses are allocated in accordance with the terms of the applicable agreements.

The accompanying combined financial statements include partnerships and corporations which are under common control as follows:

ENTITY	PROPERTY/SERVICE	STEPHEN L. GREEN PERCENTAGE OWNERSHIP	OWNERSHIP TYPE
OFFICE PROPERTY ENTITIES			
64-36 Realty Associates	70 West 36th Street	95%	General partner
1414 Management Associates, LP	1414 Avenue of the Americas	100%	General partner
SERVICE CORPORATIONS			
SL Green Management, Corp.	Management	100%	Sole shareholder
SL Green Leasing, Inc.	Management and leasing	100%	Sole shareholder
Emerald City Construction Corp.	Construction	100%	Sole shareholder

On June 30, 1997, the majority owner of SL Green Predecessor purchased the remaining 90% interest in Praedium Bar Associates LLC, which was funded by a loan from Lehman Brothers Holdings Inc., which as of that date is included in the combined financial statements (see note 2).

For the entities accounted for on the equity method, SL Green Predecessor records its investments in partnerships and limited liability company at cost and adjusts the investment accounts for its share of the entities' income or loss and for cash distributions and contributions.

Management

In order to maintain the Company's qualification as a REIT while realizing income from management leasing and construction contracts from third parties, all of the management operations with respect to properties in which the Company will not own 100% of the interest will be conducted through the Service Corporations. In so doing, the Company should not incur a risk of this revenue exceeding the 5% REIT Qualifying Income Test. The Company, through the Operating Partnership, owns 100% of the non-voting common stock (representing 95% of the total equity) of the Service Corporations. Through dividends on its equity interest, the Operating Partnership expects to receive substantially all of the cash flow from the Service Corporations' operations. All of the voting common stock of the Service Corporations (representing 5% of the total equity) is held by an SL Green affiliate. This controlling interest will give the SL Green affiliate the power to elect all directors of the Service Corporations. The Company accounts for its investment in the Service Corporations on the equity basis of accounting on the basis that it has significant influence with respect to management and operations.

All of the management and leasing with respect to the properties contributed and to be acquired by the Company will be conducted through the Management LLC. The Operating Partnership owns a 100% interest in the Management LLC.

Partnership Agreement

In accordance with the partnership agreement of the Operating Partnership (the "Operating Partnership Agreement"), all allocations of distributions and profits and losses are to be made in proportion to the percentage ownership interests of their respective partners. As the managing general partner of the Operating Partnership, the

Company will be required to take such reasonable efforts, as determined by it in its sole discretion, to cause the Operating Partnership to distribute sufficient amounts to enable the payment of sufficient distributions by the Company to avoid any federal income or excise tax at the Company level as a consequence of a sale of a SL Green property. Under the Operating Partnership Agreement each limited partner will have the right to redeem limited partnership interest for cash, or if the Company so elects shares of common stock. In accordance with the Operating Partnership Agreement, the Company is prohibited from selling 673 First Avenue and 470 Park Avenue South through August 2009. Pursuant to the terms of the Operating Partnership Agreement, the Units issued to the Company's management and continuing investors at the IPO may not, for up to two years from the IPO date, transfer any of their rights or redeem their Units as a limited partner without the consent of the Company.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Depreciation of Real Estate Properties

Depreciation and amortization is computed on the straight-line method as follows.

CATEGORY	TERM
Building (fee ownership)	40 years
Building improvements	remaining life of the building
Building (leasehold interest)	lesser of 40 years or remaining life of the lease including options
Property under Capital Lease	49 years
Furniture and fixtures	four to seven years
Tenant improvements	remaining life of the lease

Depreciation expense, including amortization of the capital lease asset, amounted to $2,526 for the period August 21, 1997 to December 31, 1997 and $591 for the period January 1, 1997 to August 20, 1997, $788 and $579 in 1996 and 1995 respectively.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Restricted Cash

Restricted cash primarily consists of security deposits held on behalf of tenants.

Revenue Recognition

Rental revenue is recognized on a straight-line basis over the term of the lease. The excess of rents recognized over amounts contractually due pursuant to the underlying leases are included in deferred rents receivable on the accompanying balance sheets. The Company established an allowance on a current basis for future potential tenant credit losses, which may occur against this account. The balance reflected on the balance sheet is net of such allowance.

Deferred Lease Costs

Deferred lease costs consist of fees and direct costs incurred to initiate and renew operating leases and are amortized on a straight-line basis over the initial lease term or renewal period as appropriate.

Rent Expense

Rent expense is recognized on a straight-line basis over the initial term of the lease. The excess of the rent expense recognized over the amounts contractually due pursuant to the underlining lease is included in the deferred land lease payable in the accompanying combined balance sheet.

Deferred Financing Costs

Deferred financing costs represent commitment fees, legal and other third party costs associated with obtaining commitments for financing which result in a closing of such financing. These costs are amortized over the terms of the respective agreements. Unamortized deferred financing costs are expensed when the associated debt is refinanced before maturity. Costs incurred in seeking financial transactions which do not close are expensed in the period incurred.

Earnings Per Share

In 1997, Statement of Financial Accounting Standards (SFAS) No. 128, Earnings Per Share ("SFAS No. 128"), replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. All earnings per share amounts for the quarter ended September 30, 1997 have been restated to conform to SFAS No. 128 requirements.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash investments and accounts receivable. The Company places its cash investments with high quality institutions. Management of the Company performs ongoing credit evaluation of its tenants and requires certain tenants to provide security deposits. Though these security deposits are insufficient to meet the terminal value of a tenant's lease obligation, they are a measure of good faith and a source of funds to offset the economic costs associated with lost rent and the costs associated with retenanting the space. Although the SL Green Predecessors' buildings and new acquisitions are all located in Manhattan, the tenants located in these buildings operate in various industries and no single tenant represents a dominant share of the Company's revenue and no tenant represents 10% of the Company's revenue. Approximately 19% of the Company's revenue for the period August 21, 1997 to December 31, 1997 was derived from 673 First Avenue.

Stock-Based Compensation

The Company accounts for its stock compensation arrangements under the provisions of APB opinion No. 25, "Accounting for Stock Issued to Employees". Since the stock options are granted by the Company at the fair value of the shares at the date of grant, no compensation expense is recognized in the financial statements. Awards of stock, restricted stock or employee loans to purchase stock which may be forgiven over a period of time are expensed as compensation expense on a current basis over the benefit period.

Income Taxes

The Company is taxed as a REIT under Section 856(c) of the Internal Revenue Code of 1986, as amended, commencing with the period August 21, 1997 to December 31, 1997. As a REIT, the Company generally is not subject to federal income tax. To maintain qualification as a REIT, the Company must distribute at least 95% of its REIT taxable income to its stockholders and meet certain other requirements. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to federal income tax on its taxable income at regular corporate rates. The Company may also be subject to certain state and local taxes on its income and property. Under certain circumstances, federal income and excise taxes may be due on its undistributed taxable income. At December 31, 1997, the Company believes it is in compliance with all REIT requirements and as such will not be subject to federal income taxes.

Recently Issued Accounting Pronouncements

SFAS No. 131, Disclosure about Segments of an Enterprise and Related Information ("SFAS No. 131"), is effective for financial statements issued for periods beginning after December 15, 1997. SFAS No. 131 requires disclosures about segments of an enterprise and related information regarding the different types of business activities in which an enterprise engages and the different economic environments in which it operates.

The Company does not believe that the implementation of SFAS No. 131 will have a significant effect on its financial statements.

2. INVESTMENT IN UNCOMBINED JOINT VENTURES

The SL Green Predecessor's investments in three partnerships and a limited liability company had been accounted for under the equity method since control was shared with other parties. The investment in partnerships and limited liability company were as follows:

PARTNERSHIPS/LIMITED LIABILITY COMPANY	PROPERTY	GREEN GROUP OWNERSHIP	OWNERSHIP TYPE
673 First Realty Company	673 First Avenue	67%	Co-general partner
470 Park South Associates, LP	470 Park Avenue South	65%	Co-general partner
29/35 Realty Associates, LP	29 West 35th Street	21.5%	Co-general partner
Praedium Bar Associates, LLC ("Praedium Bar")	36 West 44th Street	10%[A]	Has veto rights relating to sale and financing

[A]Praedium Bar acquired the first mortgage related to the property in October, 1996 which provides for substantially all the economic interest in the property and has the sole right to purchase the fee interest, (the property deed is in escrow), for a nominal cost; accordingly SL Green Predecessor has accounted for Praedium Bar investment as a ownership interest in the property. On June 30, 1997, the majority owner of SL Green Predecessor purchased the remaining 90% interest in Praedium Bar Associates, LLC for $6.3 million. The current owners of the fee interest in 36 West 44th Street and the leasehold interest in 35 West 43rd Street are obligated to transfer their interests, in this property to the Company not later than October 1, 1998.

Condensed combined financial statements of the partnerships and the limited liability company, are as follows:

(In thousands)	DECEMBER 31, 1996
CONDENSED BALANCE SHEETS	
ASSETS	
Commercial real estate property, net	$72,958
Deferred rent receivable	14,860
Cash and cash equivalents, including restricted cash of $1,588	3,811
Deferred costs and other assets	7,271
TOTAL ASSETS	**$98,900**
LIABILITIES	
Mortgages and accrued interest payable	$90,245
Obligations under capital lease	14,265
Deferred rent payable	11,459
Accounts payable and other liabilities	4,560
OWNERS' DEFICIT	
SL Green Predecessor	(15,570)
Other partners	(6,059)
Total owners' deficit	(21,629)
TOTAL LIABILITIES AND OWNERS' DEFICIT	**$98,900**

CONDENSED STATEMENTS OF OPERATIONS	JANUARY 1 – AUGUST 20,1997	YEAR ENDED DECEMBER 31, 1996	1995
Rental revenue and escalations	$13,552	$18,874	$17,934
Other revenue	—	28	18
Total revenues	13,552	18,902	17,952
Interest	5,320	7,743	7,785
Depreciation and amortization	2,510	3,580	3,768
Operating and other expenses	7,142	10,036	9,552
Total expenses	14,972	21,359	21,105
Operating loss before outside partner's interest	(1,420)	(2,457)	(3,153)
Elimination of inter-company management fees	240	355	335
Extraordinary gain on forgiveness of debt	33,419	—	—
Other partner share of the (income) loss	(10,922)	694	904
INCOME (LOSS) ALLOCATED TO THE SL GREEN PREDECESSOR	**$21,317**	**$(1,408)**	**$(1,914)**

There are several business relationships with related parties which involve management, leasing and construction fee revenues and maintenance expense. Transactions relative to the aforementioned combined statements of operations and balance sheet for the equity investees include the following before elimination of intercompany transactions:

	JANUARY 1 – AUGUST 20,1997	YEAR ENDED DECEMBER 31, 1996	1995
Management fee expenses	$448	$622	$563
Leasing commission expenses	295	218	48
Construction fees	1,796	185	376
Maintenance expenses	186	227	132

3. PROPERTY ACQUISITIONS

In connection with the Formation Transaction (see note 1), the Company acquired the first mortgage related to 1372 Broadway on August 21, 1997 which provides for substantially all of the economic interest in the property and has the sole right to purchase the fee interest; accordingly, the Company has accounted for the 1372 Broadway investment as ownership interest in the property. The Company purchased the fee interest in January 1998 for approximately $1 million.

On September 15, 1997, the Operating Partnership acquired the land and building at 110 East 42nd Street for $30 million. The acquisition was funded by proceeds of an LBHI loan and the Offering.

On December 19, 1997, the Operating Partnership exercised the Company's option to acquire an interest in 17 Battery Place for approximately $59 million. In connection with this acquisition, the Company also loaned $15.5 million to the co-tenant at 17 Battery Place. The mortgage receivable bears interest at 12% and is due September 30, 1998 and is secured by a first mortgage on the co-tenant's interest in the property. The cash required to purchase the property and fund the loan were funded through borrowings under the Company's senior unsecured revolving credit facility.

In connection with the acquisition of 17 Battery Place, prior to January 1, 1999, the Company is required to make available up to 153,000 rentable square feet of vacant office space to tenants of 17 Battery Place, who currently occupy portions of the co-tenants space. In order to convert the upper floors of the South Building into hotel/residential space, the co-tenant plans to exercise relocation options to relocate tenants from its hotel/residential space to the Company's office space.

SL GREEN REALTY CORP.

On December 30, 1997 the Operating Partnership acquired a condominium ownership interest at 633 Third Avenue for $10.5 million and a capital reserve of $1 million. The acquisition was funded by proceeds from a mortgage loan on 50 West 23rd Street and cash on hand.

The following table summarizes, on an unaudited pro forma basis, the combined results of operations of the Company for the years ended December 31, 1997 and 1996 as though each acquisition described above and each acquisition included in the Offering and Formation Transactions was made on January 1, 1996.

	1997	1996
Revenues	$80,675	$78,648
Pro forma net income	18,147	14,348
Pro forma basic earnings per share	1.47	1.18
Pro forma diluted earnings per share	1.46	1.17
Common and common equivalent share — basic	12,293	12,293
Common and common equivalent share — diluted	12,404	12,404

4. DEFERRED COSTS

Deferred costs consist of the following:

	1997	1996
Deferred financing	$3,147	$982
Deferred lease	7,201	1,613
Deferred offering	—	87
	10,348	2,682
Less accumulated amortization	(4,249)	(1,311)
	$6,099	**$1,371**

5. MORTGAGE NOTES PAYABLE AND REVOLVING CREDIT FACILITY

The mortgage notes payable collateralized by the respective properties and assignment of leases at December 31, 1997 and 1996 are as follows:

PROPERTY	MORTGAGE NOTES	1997	1996
1414 Avenue of the Americas	First mortgage note with interest payable at 7.875%, due June 1, 2006[A]	$—	$9,946
70 West 36th Street	First mortgage note with interest payable at LIBOR plus 2%, due January 29, 2001[AB]	—	6,664
50 West 23rd Street	Note payable to Lehman Brothers Holdings, Inc. with interest based on LIBOR plus 1.75% (7.6875% at December 31, 1997) due December, 2007[C]	7,000	—
50 West 23rd Street	Note payable to Lehman Brothers Holdings Inc., with interest at 7.47%, due August, 2007[C]	14,000	—
29 West 35th Street	First mortgage note with interest payable at 8.464%, due February 1, 2001	2,974	—
673 First Avenue	First mortgage note with interest payable at 9.0%, due December 13, 2003	18,013	—
470 Park Avenue South	First mortgage note with interest payable at 8.25%, due April 1, 2004	10,833	—
TOTAL MORTGAGE NOTES PAYABLE		**$52,820**	**$16,610**

[A]These loans were repaid in connection with proceeds from the Offering.

[B]In January, 1996, the first mortgage was bifurcated into a first and second mortgage; the second mortgage was acquired by an unrelated entity for no consideration. In December 1996 the holder of the second mortgage on 70 West 36th Street forgave the indebtedness for no consideration; as a result SL Green Predecessor recognized extraordinary income of $8,961. The remaining unpaid portion of the first mortgage was paid during August 1997.

[C]The Lehman Brothers Holdings Inc. loan is collateralized by partnership interests in certain Property-owning entities.

On December 19, 1997 the Company entered into a $140 million three year senior unsecured revolving credit facility (the “Credit Facility”) due December 2000. Availability under the Credit Facility may be limited to an amount less the $140 million which is calculated by several factors including recent acquisition activity and most recent quarterly property performance. Outstanding loans under the Credit Facility bear interest at a rate per annum equal to the London Interbank Offered Rate (“LIBOR”) applicable to each interest period plus 130 basis points to 145 basis points per annum. The Credit Facility requires the Company to comply with certain covenants, including but not limited to, maintenance of certain financial ratios. At December 31, 1997 the outstanding amount of indebtedness under the Credit Facility was $76 million, and the interest rate on such indebtedness was 7.265% per annum. At December 31, 1997 the Company’s borrowing availability was $40 million.

The interest rate of the existing mortgage loan which is collateralized by 50 West 23rd Street can be fixed in the future at 150 basis points plus the ten year US Treasury Note rate and maturing co-terminously with the underlying mortgage note when certain income targets are met.

Principal Maturities

Combined aggregate principal maturities of mortgages and notes payable as of December 31, 1997 are as follows:

1998	$1,973
1999	2,228
2000	79,241
2001	3,473
2002	3,782
Thereafter	38,123
	$128,820

Mortgage Recording Tax — Hypothecated Loan

The Operating Partnership received loans totaling approximately $69.5 million from LBHI. These loans are collateralized by the mortgages encumbering the Operating Partnership’s interests in 1140 Avenue of the Americas and 110 East 42nd Street. The loans are also collateralized by an equivalent amount of the Company’s cash which is held by LBHI and invested in US Treasury securities. Interest earned on the cash collateral is applied by Lehman to service the loans which interest rate is commensurate with that of the portfolio of US Treasury securities, which mature on May 15, 1998. The Operating Partnership and LBHI each have the right of offset and therefore the loans and the cash collateral have been presented on a net basis in the consolidated balance sheet at December 31, 1997. The purpose of these loans is to temporarily preserve mortgage recording tax credits for future potential acquisitions of real property which the Company may make, the financing of which may include property based debt, for which these credits would be applicable and provide a financial savings.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosures of estimated fair value were determined by management, using available market information and appropriate valuation methodologies. Considerable judgment is necessary to interpret market data and develop estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the SL Green Predecessor could realize on disposition of the financial instruments. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Cash equivalents, variable mortgages and fixed rate debt are carried at amounts which reasonably approximate their fair values.

Disclosure about fair value of financial instruments is based on pertinent information available to management as of December 31, 1997. Although management is not aware of any factors that would significantly affect the reasonable fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date and current estimates of fair value may differ significantly from the amounts presented herein.

7. RENTAL INCOME

The Operating Partnership is the lessor and sublessor to tenants under operating leases with expiration dates ranging from 1998 to 2011. The minimum rental amounts due under the leases are generally either subject to scheduled fixed increases or adjustments. The leases generally also require that the tenants reimburse the Company for increases in certain operating costs and real estate taxes above their base year costs. Approximate future minimum rents to be received over the next five years and thereafter for leases in effect at December 31, 1997 are as follows:

1998	$61,039
1999	59,423
2000	56,234
2001	53,146
2002	50,683
Thereafter	212,478
	$493,003

8. RELATED PARTY TRANSACTIONS

There are several business relationships with related parties, entities owned by Stephen L. Green or relatives of Stephen L. Green exclusive of the uncombined joint ventures (see note 2) which involve management, leasing, and construction fee revenues, rental income and maintenance expenses in the ordinary course of business. These transactions include the following:

	AUGUST 21 – DECEMBER 31, 1997	JANUARY 1 – AUGUST 20, 1997	1996	1995
Management revenues	$78	$172	$180	$221
Leasing commission revenues	8	29	37	36
Construction fees	14	37	25	69
Rental income	—	43	33	25
Maintenance expense	119	163	93	32

Amounts due from related parties at December 31, consist of:

	1997	1996
SL Green Properties Inc.	$—	$507
First Quality Maintenance	—	160
250 PAS, Associates, LP	—	363
SL Green Management	582	—
SL Green Leasing	498	—
Emerald City Corporation	166	—
Officers	725	156
	$1,971	**$1,186**

Amounts due to related parties at December 31, consist of:

	1997	1996
29 West 35th Street Predecessor Partnership	$45	$—
36 West 44th Street Predecessor Partnership	56	—
70 West 36th Street Predecessor Partnership	67	—
1414 Avenue of the Americas Predecessor Partnership	88	—
470 Park Avenue South Predecessor Partnership	72	—
673 First Avenue Predecessor Partnership	39	—
SL Green Properties, Inc.	—	2,213
	$367	**$2,213**

9. STOCKHOLDERS' EQUITY

The authorized capital stock of the Company consists of $200 million shares of capital stock, $.01 par value, of which the Company has authorized the issuance of up to 100 million shares of Common Stock $0.01 par value per share, 75 million shares of excess stock, at $0.01 par value per share and 25 million shares of preferred stock, par value $0.01 per share. Under the Company's Charter, the Board of Directors will have authority to issue, without any further action by the stockholders, shares of capital stock in one or more series having such preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms and conditions of redemption as the Board of Directors may determine.

During August 1997, the Company instituted the 1997 Stock Option and Incentive Plan (The "Stock Option Plan"). The Stock Option Plan authorizes (i) the grant of stock options that qualify as incentive stock options under Section 422 of the Code ("ISOs"), (ii) the grant of stock options that do not so qualify ("NQSOs"), (iii) the grant of stock options in lieu of cash Directors' fees and employee bonuses, (iv) grants of shares of Common Stock, in lieu of compensation and (v) the making of loans to acquire shares of Common Stock, in lieu of compensation. The exercise price of stock options will be determined by the Compensation Committee, but may not be less than 100% of the fair market value of the shares of Common Stock on the date of grant in the case of ISOs; provided that, in the case of grants of NQSOs granted in lieu of cash Director's fees and employee bonuses, the exercise price may not be less than 50% of the fair market value of the shares of Common Stock on the date of grant. At December 31, 1997, 1.1 million shares of Common Stock are reserved for exercise of warrants and stock options.

Options granted under the 1997 qualified stock option plan are exercisable at the fair market value on the date of grant and, subject to termination of employment, expire ten years form the date of grant, are not transferable other than on death, and are exercisable in three equal annual installments commencing one year from the date of grant (with the exception of 10,000 options which have a vesting period of one year).

Information on stock options is shown in the following table:

	SHARES OUTSTANDING	EXERCISABLE	PRICE RANGE
Balances at August 21, 1997	—	—	—
Granted	626,000	—	$21.00
Granted	34,000	—	$24.69
Granted	10,000	—	$26.19
Became Exercisable	—	—	—
Canceled	(10,000)	—	$21.00
Balances at December 31, 1997	660,000	—	$21.00 – $26.19

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" in accounting for stock-based employee compensation arrangements whereby no compensation cost related to stock options is deducted in determining net income. Had compensation cost for the Company's stock option plans been determined pursuant to Financial Accounting Standards Board Statement No. 123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation," the Company's pro forma net income and earnings per share would have differed. The Black-Scholes option pricing model estimates fair value of options using subjective assumptions which can materially effect fair value estimates and, therefore, do not necessarily provide a single measure of fair value of options. Using the Black-Scholes option pricing model for all options granted on or after August 20, 1997 and a risk-free interest rate of 5.00%, dividend yield on the Company's common stock of 5%, a volatility factor for the market price of the Company's Common Stock of .259 and a weighted-average expected life of options of approximately four years, the Company's pro forma net income, basic pro forma earnings per share and diluted pro forma earnings per share would have been $3,439, $0.28 and $0.28, respectively, for the period August 20, 1997 to December 31, 1997. For purposes of these pro forma disclosures, the estimated fair value of options is amortized over the options' vesting period. Since the number of options granted and their fair value may vary significantly from year to year, the pro forma compensation expense in future years may be materially different.

Earnings Per Share

Basic and diluted earnings per common share for the period ended December 31, 1997 have been computed based upon weighted average equivalent shares outstanding of 12,292 and 12,404 respectively. The difference in the weighted average shares outstanding represents the inclusion of common share equivalents from options issued and outstanding at December 31, 1997 in the calculation of diluted earnings per share which is not included in basic earnings per share.

10. BENEFIT PLANS

The building employees of the individual partnerships are covered by multi-employer defined benefit pension plans and post-retirement health and welfare plans. Contributions to these plans amounted to $35, $44, $30 and $7 during the periods August 21, 1997 to December 31, 1997, January 1, 1997 to August 20, 1997 and the years ended December 31, 1996 and 1995, respectively. Separate actuarial information regarding such plans is not made available to the contributing employers by the union administrators or trustees, since the plans do not maintain separate records for each reporting unit.

401(k) Plan

During August 1997, the Company implemented a 401(k) Savings/Retirement Plan (the "401(k) Plan") to cover eligible employees of the Company and any designated affiliate. The 401(k) Plan permits eligible employees of the Company to defer up to 15% of their annual compensation, subject to certain limitations imposed by the Code. The employees' elective deferrals are immediately vested and non-forfeitable upon contribution to the 401(k) Plan. The Company did not make any contributions to the 401(k) Plan during 1997.

11. COMMITMENTS AND CONTINGENCIES

The Company and the Operating Partnership are not presently involved in any material litigation nor, to their knowledge, is any material litigation threatened against them or their properties, other than routine litigation arising in the ordinary course of business. Management believes the costs, if any, incurred by the Company and the Operating Partnership related to this litigation will not materially affect the financial position, operating results or liquidity of the Company and the Operating Partnership.

The Company has entered into employment agreements with certain executive officers. Six executive officers have three year employment agreements which expire in August 2000. The base compensation associated with these employment agreements total $1,100 annually.

The SL Green Predecessor is the lessor and sub-lessor of commercial buildings under operating leases with expiration dates ranging from 1997 to 2031. The minimum rental amounts due under the leases are generally either subject to scheduled fixed increases or adjustments. The leases generally also require that the tenants reimburse the SL Green Predecessor for increases in certain operating costs and real estate taxes above their base year costs.

In April 1988, the SL Green Predecessor entered into a lease agreement for property at 673 First Avenue in New York City, which has been capitalized for financial statement purposes. Land was estimated to be approximately 70% of the fair market value of the property. The portion of the lease attributed to land is classified as an operating lease and the remainder as a capital lease. The initial lease term is 49 years with an option for an additional 26 years. Beginning in lease year 11 and 25, the lessor is entitled to additional rent as defined by the lease agreement.

The Company leases 673 First Avenue with a cost basis of $12,208 and cumulative amortization of $2,284 under a capital lease at December 31, 1997. The following is a schedule of future minimum lease payments under capital leases and noncancelable operating leases with initial terms in excess of one year as of December 31, 1997:

DECEMBER 31,	CAPITAL LEASES	NONCANCELABLE OPERATING LEASES
1998	$1,140	$3,101
1999	1,140	3,101
2000	1,177	3,218
2001	1,290	3,451
2002	1,290	4,741
Thereafter	62,886	158,015
Total minimum lease payments	68,923	175,627
Less amount representing interest	(54,433)	—
Present value of net minimum lease payments	$14,490	—

Rent expense under noncancelable operating leases for the year ended December 31, 1997 was $1,560.

12. ENVIRONMENTAL MATTERS

The management of the Company believes that the properties are in compliance in all material respects with applicable federal, state and local ordinances and regulations regarding environmental issues. Management is not aware of any environmental liability that management believes would have a material adverse impact on the Company's financial position, results of operations or cash flows. Management is unaware of any instances in which it would incur significant environmental cost if any of the properties were sold.

13. EXTRAORDINARY ITEMS

Forgiveness of mortgage debt totaling $22,087 (net of other partners' share of $11,332 for the period January 1, 1997 to August 20, 1997) is reflected in the accompanying SL Green Predecessor financial statements as an extraordinary gain.

Prepayment penalties of $1,071 (net of minority interest of $207) and unamortized deferred charges of $803 (net of minority interest of $155) related to mortgages paid in connection with the Formation Transactions were expensed and are reflected in the Company's financial statements as an extraordinary loss.

14. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following summary represents the Company's results of operations for the quarters ended September 30, 1997 (August 21, 1997 to September 30, 1997) and December 31, 1997 (in thousands, except share amounts):

	QUARTER ENDED	
	DECEMBER 31, 1997	SEPTEMBER 30, 1997
Total revenues	$16,058	$7,149
Income net of minority interest and before extraordinary item	$3,503	$2,056
Net income	$3,503	$182
Income per share before extraordinary item	$0.29	$0.17
Net income per share — basic	$0.29	$0.01
Net income per share — diluted	$0.28	$0.01

The 1997 quarters' earnings per share amounts have been restated to comply with SFAS No. 128.

15. SUBSEQUENT EVENTS

Acquisition of 321 and Helmsley Properties

The Company announced in February 1998 three (3) additional properties placed under contract for purchase at a cost of approximately $176 million. The properties aggregate rentable area is approximately 1.7 million square feet. The Company closed two of these acquisitions in March 1998 and the third is expected to close during the second quarter of 1998. Acquisition financing for these properties was obtained through a commitment from Lehman Brothers Holdings, Inc. for a short term bridge loan for up to $275 million. The Company expects to use these loan proceeds to (i) re-pay the current balance on its line of credit ($93 million at March 1, 1998), (ii) fund the closing of the announced acquisitions and (iii) provide for general corporate purposes. The three (3) acquisition properties are as follows:

321 West 44th Street

On January 26, 1998 SL Green announced it had placed under contract a 200,000 square foot office building at 321 West 44th Street. The property was contracted to be acquired for $17 million in cash and was approximately 96% leased at the time of acquisition. Closing is anticipated to occur during the second quarter of 1998.

Acquisition of Helmsley Properties

On February 20, 1998 the Company announced it had placed under contract for purchase of the fee interest in one property (1466 Broadway) and the operating interest of another property (420 Lexington Avenue, The Graybar Building) from the Helmsley organization. The Graybar Building is located adjacent to Grand Central Station and encompasses approximately 1.2 million square feet. 1466 Broadway is located in the heart of Times Square at 42nd Street and Broadway encompassing approximately 290,000 square feet. The aggregate base purchase price for the two properties is $142 million. At the time the acquisition was announced, The Graybar Building was 83% leased and 1466 Broadway was approximately 87% leased. The Company closed on these acquisitions on March 18, 1998.

Acquisition Financing

Subsequent to December 31, 1997, the Company asked the Credit Facility banking group to temporarily relieve the Company from its obligations under the financial covenants of the Credit Facility, in order to close an additional financing necessary to acquire the Helmsley properties (the "Bridge Facility"). This Bridge Facility, which closed in March, financed the Helmsley properties purchase, paid-off the outstanding balance on the Company's Credit Facility and will provide ongoing liquidity for future acquisition and corporate needs. The term of the Bridge Facility is one year. The interest rate is determined by a schedule of the percent of commitment outstanding and the duration of the outstanding commitments ranging from 170 basis points over LIBOR to 300 basis points over LIBOR (7.3875% at the date of borrowing). The original Credit Facility will remain committed but unused until the Bridge Facility is paid off through either permanent debt or an equity financing and the Company's financial covenant obligations are restored.

SL GREEN REALTY CORP.

REPORTS OF INDEPENDENT AUDITORS

The Board of Directors
SL Green Realty Corp.

We have audited the accompanying consolidated balance sheet of SL Green Realty Corp. as of December 31, 1997 and the related consolidated statements of operations, stockholders' equity and cash flows for the period August 21, 1997 (date of commencement of operations) to December 31, 1997. These financial statements are the responsibility of SL Green Realty Corp.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the consolidated financial position of SL Green Realty Corp. at December 31, 1997 and the consolidated results of its operations and its cash flows for the period August 21, 1997 (date of commencement of operations) to December 31, 1997 in conformity with generally accepted accounting principles.

New York, New York
February 10, 1998, except for the
last two paragraphs in Note 15,
as to which date is March 18, 1998

The Board of Directors
SL Green Realty Corp.

We have audited the accompanying combined balance sheet of SL Green Predecessor as of December 31, 1996 and the related combined statements of operations, owners' deficit and cash flows for the period from January 1, 1997 to August 20, 1997 and for each of the two years in the period ended December 31, 1996. These financial statements are the responsibility of SL Green Predecessor's management. Our responsibility is to express an opinion on these financial statements.

We conducted our audits in accordance with generally accepted auditing standards. 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 combined financial statements referred to above present fairly in all material respects, the combined financial position of SL Green Predecessor at December 31, 1996, and the combined results of its operations and its cash flows for the period from January 1, 1997 to August 20, 1997 and for each of the two years in the period ended December 31, 1996 in conformity with generally accepted accounting principles.

New York, New York
February 10, 1998