

SL GREEN REALTY CORP.



1 9 9 8 A N N U A L R E P O R T

A NEW YORK STORY





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 Manhattan.

SL Green's Class B buildings are situated in Class A locations, thereby providing desirable environments with affordable rents to tenants of every type. Generally more than 25 years old, Class B properties offer a wide variety of amenities and infrastructure needs at rents generally 30% lower than Class A rates.

At year-end 1998, SL Green was the only public REIT focusing exclusively on Manhattan commercial office real estate, the second-largest public owner with a portfolio of 18 properties comprised of approximately 6.2 million rentable square feet.

F I N A N C I A L H I G H L I G H T S

OPERATING DATA

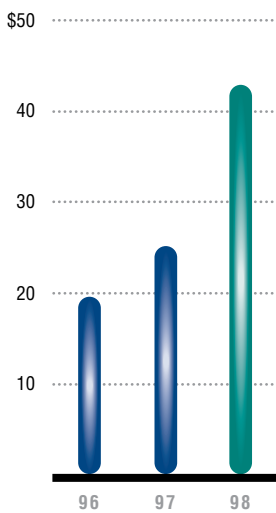
year ended December 31

in thousands except per share and operating data

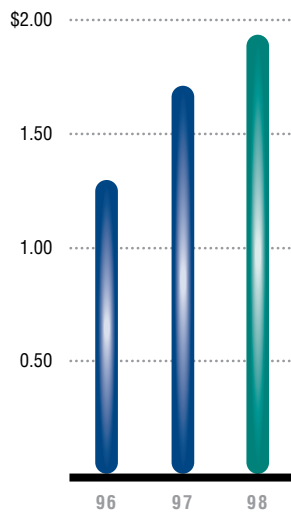
	1998	1997
Total revenue	\$ 136,972	\$ 59,384
Funds from operations	\$ 42,858	\$ 25,159
Funds from operations per share (diluted)	\$ 1.94	\$ 1.70
Real estate assets (before depreciation)	\$ 697,061	\$ 338,818
Total market capitalization	\$ 847,627	\$ 509,442
Annualized dividend (per common share)	\$ 1.40	\$ 1.40
FFO payout ratio	72%	82%



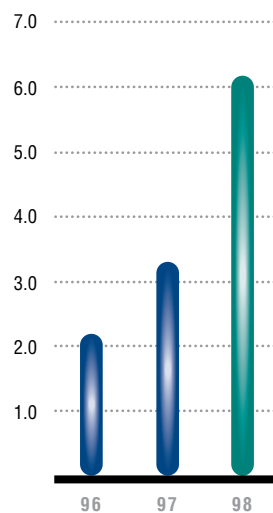
FUNDS FROM OPERATIONS
(In millions of dollars)



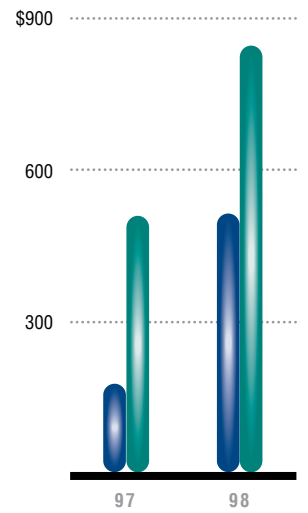
FFO PER SHARE (BASIC)
(In dollars)



NET RENTABLE AREA
(In millions of square feet)



BOOK CAPITALIZATION AND TOTAL MARKET CAPITALIZATION AT YEAR END
(In millions of dollars)



Note: 1996 and 1997 Total Revenue and Funds From Operations are based on pro forma results for calendar year ended December 31st for each of those years. Net rentable area includes square footage in buildings reported on the equity method.

■ Book Capitalization
■ Total Market Capitalization



Stephen L. Green
Chairman of the Board and Chief Executive Officer

David J. Nettina
President and Chief Operating Officer

Marc Holliday
Executive Vice President and Chief Investment Officer

In late August of 1998, global economic downturns sent a chill down Wall Street and in a matter of weeks the free-flowing equity tap had turned to a trickle. Illiquidity became the industry's byword and a barrage of headlines battered REIT stocks, resulting in an average share price decline of 24%* for the year. Conventional thinking projected that this global economic disruption would domino to financial markets, to New York business, and finally to New York real estate, where it would suddenly be 1988 revisited.

Certainly, we at SL Green took this market disruption seriously, but we were convinced that New York real estate fundamentals were quite strong and we advanced that opinion on several occasions last Fall. As veterans of New York real estate circa 1988-1992, we had ridden the City's recovery to its current renaissance. And I can tell you, it's a fundamentally different marketplace, with single-digit mid-town vacancy rates and di minimus new construction.

The multi-dimensional character of New York has continued to evolve, embracing both economic and cultural diversity. Today, its economic well-being is derived from not one, not two, but multiple industries—advertising, fashion, banking, finance, publishing, insurance, and tourism—all of which view New York as the center of their universe. In size alone, the City's central business district (CBD) is bigger than the combined CBDs of Los Angeles, San Francisco, Chicago, Boston, Philadelphia and Washington D.C. Finally, Manhattan enjoys a very critical and powerful dynamic, that being a continued in-migration of people, choosing to live and work in the same place; New York is truly a 24-hour city and has become the world's foremost urban theme park. These strong fundamentals and continued positive trends bode well for New York's long-term stability.

Against this backdrop, consider [SL Green's post-IPO achievements](#):

- an increase of 100% in the number of owned properties.
- an increase in net rentable area of 182%, to 6.2 million square feet.
- an increase in the owned property tenant portfolio of 284% to 1,013 tenants.
- an increase in market capitalization of 139% to \$847.6 million.
- a year-over-year increase in aggregate FFO of 70% to \$42.9 million,** and
- a year-over-year revenue increase of 131% to \$137 million.**

As Chairman and Chief Executive Officer, I am proud that our unique New York story included a strong growth element, not only in statistical terms, but also in SL Green's stature as a public company.

SL Green completed its first full year as a public company in 1998, an extraordinary 12 months packed with the challenges and opportunities of at least two full real estate cycles. To say that this type of environment sharpens your competitive instinct is an understatement, but it was in this environment that SL Green proved itself first as a powerful REIT contender, and then as a market consolidator.

We started our 1998 chapter as one of only two public companies focused on Class B properties in Manhattan, and we expected at least three more competitors to go public in 1998 with the stated business objective of focusing on Class B buildings in Manhattan. By mid-September our would-be competitors found equity markets closed and their REIT entries indefinitely postponed. By year end, Tower Realty—our only public competitor within our market class—announced it would be acquired by Reckson Associates Realty Corp., who in turn would change Tower's focus to Class A properties. As a result, SL Green became the only Manhattan "pure play," the only REIT focused on Class B properties, and, on a wholly-owned square footage basis, the second largest REIT owner of Manhattan commercial office buildings.

Last year's twists and turns had been prefaced by two years of dramatic growth in the REIT industry, a recurring theme sustained by free-flowing equity capital. The industry was in favor with investors, as 1997's record year for IPO offerings continued with additional follow-on offering capital. This included SL Green's public debut in August of 1997 and its preferred stock and secondary common equity offerings in May 1998—which collectively raised over \$614 million of gross proceeds, while lowering our overall leverage to approximately 7% this past summer—the lowest leverage ratio in the industry. How quickly things change.

TO OUR SHAREHOLDERS

In addition to our operating achievements, SL Green more quietly achieved significant advancements in developing state-of-the-art support and management information systems, laying the foundation for online decision making and the streamlining of internal administration, communication and coordination processes. These infrastructure improvements enabled us to smoothly, if not painlessly, absorb the 176% growth in our tenant base in 1998 alone.

SL Green's exciting New York story cannot be told without acknowledging the saga of hard work that brought us to this point. The Company's progress through the IPO and successful secondary is due largely to the expert guidance of a key management team—Dave Nettina, President and Chief Operating Officer; Ben Feldman, EVP, General Counsel; Steve Klein, EVP, Acquisitions; Gerry Nocera, EVP, Leasing; and Nancy Peck, EVP, Operations and Development—as well as the tireless efforts of our entire staff. Now, as we push through our next growth phase, we have enlisted the talents of Ann Iseley as Chief Financial Officer, and Marc Holliday, Chief Investment Officer, both of whom joined our ranks in 1998. Marc was a valuable advisor on SL Green's extremely successful IPO, and we're looking for him to help us extend that success, by taking responsibility for all SL Green's investment activities.

Thanks to the extraordinary efforts of our entire management team, SL Green successfully seized the opportunities of a swiftly changing market in 1998. We refined our investment strategy and strengthened our balance sheet and management capabilities, making our mark as a public REIT and laying the foundation to achieve a \$1 billion total market cap in 1999. Many have said that 1999 will be a year of separation, consolidation and exacting definition of companies and their markets. For us, this is a 1998 story. SL Green has already emerged as the dominant player in a field narrowed by constrained capital and increasingly higher barriers to entry.

In 1999, SL Green will continue to aggressively pursue the tremendous opportunity of Class B property in Manhattan, recognizing only 9% of New York office property is now publicly held. Clearly, scarce capital has changed the competitive environment...but in SL Green's favor. Our business strategy does not rely solely on the equity market, as we have significant opportunities to leverage our internal operating structure, and maximize our existing capital base. Additionally, we are exploring alternative sources of capital and ways to maximize our internal growth opportunities. Our alternative capital options include lending sources which will tap existing property equity, joint ventures which will extend existing capital, and the sale of mature assets.

SL Green's 1999 acquisition program will continue to follow our proven value-added approach, targeting properties with lower-than-average initial going-in yields (5%-8%), which will be converted to above average yields (10%-12%) within 18-30 months of acquisition.

As we have repeatedly demonstrated, SL Green will add value through property redevelopment and repositioning, resulting in rapid lease-up of vacant space at higher rents. This winning approach was best illustrated in 1998 with the Graybar Building, where in nine short months SL Green increased occupancy from 86% to 98% leased, reduced operating costs by \$1.5 million, and dovetailed the property's redevelopment with renovations underway at the Chrysler Building and the adjacent Grand Central Station.

We will also attempt to balance our value-added approach with investments where the going-in cash returns are relatively high (i.e. greater than 9.0%) and where increases to property value are attainable over a longer period of time (i.e. 3 - 5 years). A good example of this approach is our recent acquisition of a controlling interest in 555 West 57th Street (a.k.a. The BMW Building). We went into the transaction with returns in excess of 10% and 95% of leases in place. The low acquisition price of \$110/psf, combined with average rents 25% below market and the building's proximity to substantial development activities announced for Columbus Circle and the West-Side Penn Rail yards make this asset attractive on a current and long-term basis.

In 1999, SL Green expects to achieve an internal FFO growth rate of approximately 8-9% as we continue to bring our recent acquisitions toward stabilization, as well as benefit from approximately 380,000 square feet of expiring tenant leases with rents that are approximately 10-11% below market. These internal dynamics reinforce our confidence in achieving ongoing earnings expectations.

As the Company's second largest shareholder, my biggest disappointment of 1998 was, of course, our stock performance, concluding the year with a negative 11.2% total return; it was little consolation that we outperformed the Bloomberg Office REIT Average of a negative 18.1%. We firmly believe that we best serve our shareholders' interests by remaining focused on our proven value-added business strategy of buying and repositioning New York Class B real estate, not handicapping the twists and turns of the market. We steadfastly believe that our strategy will yield strong FFO growth and long term appreciation in shareholder value, and that these continued achievements will ultimately be recognized by the market.

Sincerely,



Stephen L. Green
Chairman of the Board and
Chief Executive Officer

MANHATTAN:



PRIVATE SECTOR EMPLOYMENT GROWTH IN NEW YORK CITY DURING 1998 WAS

8:20am

CLASS B VACANCY RATES HAVE DECLINED

New York City: though only 8% of its workers are employed in the financial sector, it is still considered the financial capital of the world. True, the City is home to offices of 93 of the world's top 100 banks (and 436 international banks in total), 46 Fortune 500 companies, six of the world's 10 largest securities firms, and the world's largest stock exchange.

But New York's preeminence as a corporate headquarters for multinational institutions is only part of its story. . . only part of the reason that private sector job growth in 1998 was the highest in recorded history. For all told, there are some 200,000 companies in New York. . . companies in a wide variety of industries. . . such as publishing, entertainment, the arts, advertising, health care, law, fashion and new media (which, for example, includes 2,600 firms employing a total of 50,000 people).

The dynamics of New York City's economy is reflected in the size and diversity of its commercial office market: clearly the largest in the country. . . larger, in fact, than that of the next six largest cities combined. But Manhattan's real estate is also as varied as the City's employer base. . . composed of distinct segments that are clearly different from each other, much as one New York neighborhood is to the next.

New York City's 400 million square feet of leasable office space, for example, is located within over 30 separate submarkets: Grand Central, Times Square, Midtown South, Penn Station, to name a few. Across these submarkets, buildings are classified into two principal categories. Class A buildings, which are generally newer properties, demand correspondingly higher rental rates. Class B properties, which account for 55% of Manhattan's office buildings and over 45% of its square footage, tend to be older and offer exceptional value by providing high-quality services, amenities and technology-friendly infrastructures with rents about 30% lower than comparable Class A structures.

ASTRONG DIVERSE MARKET

With New York's economy growing—by about 3% in 1998 and slightly less than that forecasted for 1999—and little new supply projected over the next three years, demand for office space is rising. Since 1997, Class B vacancy rates have fallen to 7.7% from 11.3%, while base rents have risen nearly 25%, from \$27 to \$33 per square foot.

9:40am

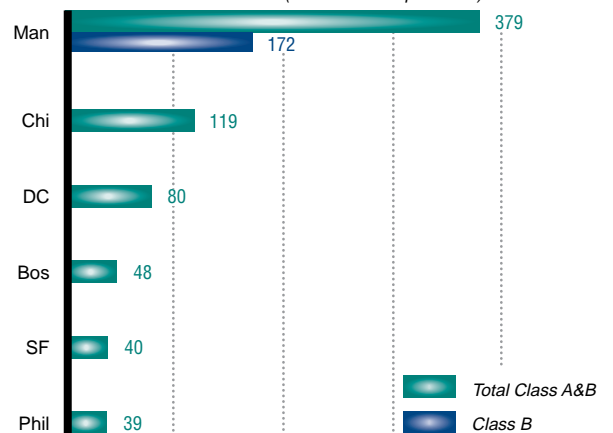
THE HIGHEST SINCE SUCH STATISTICS WERE FIRST RECORDED IN THE EARLY 1950S

OVER



A VAST, UNIQUE CLASS B MARKET

(in millions of square feet)

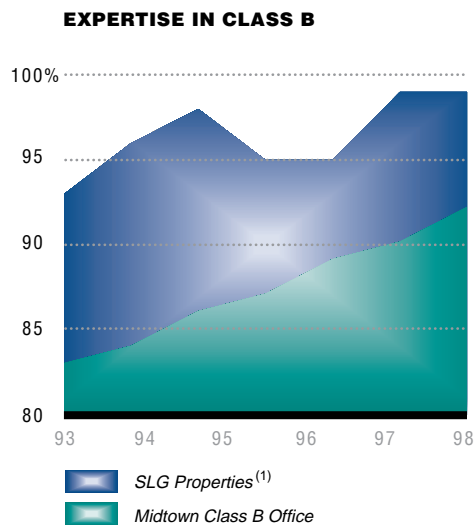


Manhattan's Class B market is bigger than the entire commercial business districts of any other U.S. city.

SL Green is the only publicly traded REIT that focuses exclusively on Manhattan Class B properties - office buildings that are more than 25 years old, but are in good physical condition, enjoy widespread acceptance by high-quality tenants, and are situated in desirable locations in Manhattan, often times right next to Class A properties, as is the case with the Graybar Building. The Company's long experience in the market enables it to create value by repositioning properties to enhance yields.

10:45am

MANHATTAN HAS THE FOURTH-LOWEST VACANCY RATE AMONG U.S.



SL Green's expertise is reflected in its superior performance: vacancy rates in the company's portfolio have been consistently lower than the market average.

Source: RELocate



CLASS B MARKET LEADER



LARGEST PUBLICLY OWNED HOLDER OF MANHATTAN COMMERCIAL OFFICE SPACE.

COMMERCIAL BUSINESS DISTRICTS

11,200m

Within the diverse New York commercial real estate market, SL Green's steadfast focus on Class B properties over the last two decades has made it the clear leader in this large segment. Following its IPO in 1997, the Company has moved quickly to cement this position, doubling its number of properties and tripling its net rentable square footage through the acquisition of 9 buildings. At year-end 1998, its portfolio consisted of 18 properties comprising approximately 6.2 million rentable square feet; early in 1999 the portfolio expanded again with the acquisition of the 20-story, 940,000 square foot building at 555 West 57th Street (the BMW building).

SL Green's goal is to acquire lower-yielding Class B buildings in which it can improve performance by lowering vacancy rates and raising rents through a combination of capital improvement and tenant lease roll-over. Because of its long-standing expertise and experience, SL Green is capable of, and has demonstrated its ability to realize this objective. The Company's goal is to achieve a stabilized, unleveraged NOI return between 10% and 12% within 30 months of a building's purchase.

This combination of external growth through acquisition and internal growth through repositioning lies at the heart of how SL Green adds value. While clearly an attractive strategy, it is hard to duplicate, as evidenced by the fact that during 1998 the only other REIT with a Class B focus was acquired and shifted its orientation toward A buildings. Other potential competitors saw their window of opportunity to enter the market closed because of their inability to tap the public equity markets.

ESSENTIAL TO THE COMPANY'S 10-12% STABILIZED NOI GOAL IS THE ABILITY OF ITS

2:40pm ONLY 9% OF MANHATTAN'S

SL Green's unique Class B focus and strategy are successful because of a similarly unique strength that the Company has worked hard to build: an integrated approach to real estate management that includes superior in-house financial, investment, technology, systems, maintenance, construction, marketing and leasing capabilities.

This approach begins with a well-defined acquisitions strategy to identify high-quality but undervalued properties that are well-situated within key submarkets and offer the potential for significant improvement from a financial and operating perspective because of lower vacancy rates or rent rolls. During the due diligence process, the SL Green investment team works seamlessly with the Company's renovation, property management and marketing professionals to analyze the current and potential return offered by a particular property, and whether the building's cost and any subsequent capital improvements are economically viable.

If so, the Company moves quickly on a post-acquisition basis to reposition a building by upgrading services, improving its physical appearance and floor plan or enhancing its technology platform. The overhaul of a property also includes an in-depth analysis of its competitive position in the marketplace, as well as its perception within the New York brokerage community. Based on these findings, SL Green develops an effective marketing strategy and communications program geared to the brokerage community, in order to publicize the property's positive attributes and key features.

The Company's sophisticated financial and information systems also support the goal of maximizing value on an ongoing basis. Through such tools, management maintains detailed current information on the composition of its properties' tenants, as well as on the conditions of, improvements made and rents charged under each lease.

IN-HOUSE CAPABILITIES

The value of SL Green's integrated, in-house capabilities are clear: the Company's portfolio consistently enjoys below-average vacancy rates; and its buildings also enjoy increased rents and more desirable tenants than they did on a pre-acquisition basis. But the true value of this approach is seen in the Company's ability to produce a higher NOI yield within 30 months of a property's purchase.

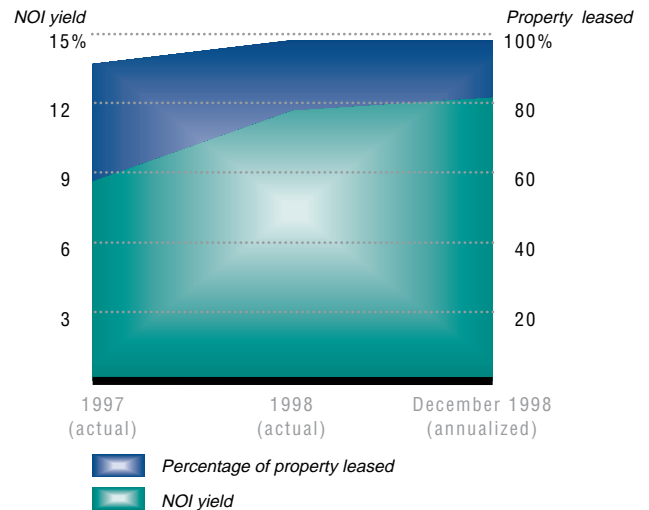
3 : 45 p m

MANAGEMENT, INTERNAL LEASING ARM AND IN-HOUSE CONSTRUCTION UNIT TO ADD VALUE.

OFFICE



VALUE ADDED THROUGH INCREASED OCCUPANCY AND OPERATING PERFORMANCE



The Company's ability to maximize value is demonstrated by the improved operating performance of its buildings at 1372 Broadway, 1140 Avenue of the Americas, and 50 West 23rd Street, which were acquired in August 1997 with IPO proceeds, and have been owned for 17 months.

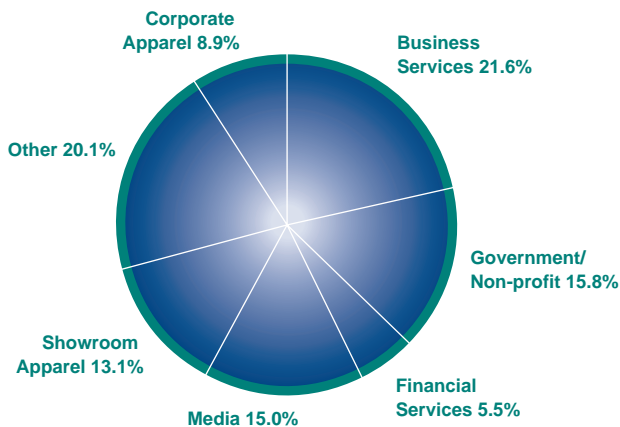
For nearly two decades, SL Green has remained true to its Class B focus. The success of its real estate management strategy—and the expertise and experience required to achieve it—are demonstrated by the Company’s unique status as the only REIT concentrating on Manhattan’s Class B market.

5:30pm

COMPANY’S CLASS B MARKET KNOWLEDGE AND CONTACTS,

CURRENT AND POTENTIAL CLASS B COMPETITORS ABANDONED OR DELAYED THEIR ENTRY INTO THE MARKET

DIVERSITY OF SL GREEN’S TENANT BASE



Reflecting the strength and diversity of the City’s economy, SL Green’s tenancy includes employers in a cross-section of industries.



ABILITY TO MAXIMIZE VALUE

11 OF THE 13 PROPERTIES PURCHASED OVER THE PAST 18 MONTHS NEVER WENT TO MARKET.

IN 1998, LEAVING SL GREEN AS THE ONLY MANHATTAN "PURE PLAY."

7:20pm

Purchased in May 1998, SL Green's building at 711 Third Avenue demonstrates the Company's local market expertise and strong in-house resources. Strong contacts within New York's Class B community facilitated the property's purchase directly from its owners. Excellent relationships with the City's brokerage community helped to improve occupancy from 79% at its acquisition to 96% at year-end 1998 and facilitated the signing of a major lease. In July 1998, Crain Communications Inc., chose the building as the new site for its *Crain's New York Business*, *Ad Age*, *Pension and Investments* and *Investment News* publications. A strong focus on property management fundamentals also led to significant growth in non-office rental revenue resulting from improved operation of the building's parking garage.

Another key property—the historic Graybar Building that's adjacent to Grand Central Terminal—also underscores SL Green's proven strategy to reposition properties, maximize value and obtain higher yields. Leveraging its quality reputation and contacts, the Company increased Graybar's occupancy rate from 86% at the time of purchase to 98% at year-end 1998. New leases are currently being signed at substantially higher rates per square foot: in the mid-to-upper \$30s vs. the upper \$20s on a pre-purchase basis.

Active management, however, does not stop once an acquired property stabilizes. Continuing to improve core properties is what truly sets SL Green apart. By routinely analyzing the current and potential returns of each property and prudently managing the operating fundamentals of the business, the Company ultimately attracts a higher quality tenancy, enhancing occupancy and rental rates.

THE SL GREEN PORTFOLIO

As of December 31, 1998, SL Green Realty Corp.'s portfolio included 18 Class B properties located in nine of the most important submarkets of Manhattan. Additionally, the Company has acquired a majority interest in one additional property bringing the total property portfolio to 7.2 million square feet.



Core Portfolio	Date Acquired	Submarket	Rentable Square Feet	Percent Leased
673 First Avenue	8/97	Grand Central South	422,000	100%
470 Park Avenue South	8/97	Park Avenue South	260,000	99
Bar Building 36 West 44th Street	8/97	Grand Central North	165,000	100
70 West 36th Street	8/97	Garment	151,000	100
1414 Avenue of the Americas	8/97	Rockefeller Center	111,000	99
29 West 35th Street	8/97	Garment	78,000	97
Total/Weighted Average			1,187,000	99%
1997 Acquisitions				
1372 Broadway	8/97	Garment	508,000	99%
1140 Avenue of the Americas	8/97	Rockefeller Center	191,000	100
50 West 23rd Street	8/97	Chelsea	333,000	96
110 East 42nd Street	9/97	Grand Central North	251,000	72
17 Battery Place	12/97	World Trade & Battery	811,000	85
633 Third Avenue	12/97	Grand Central North	41,000	100
Total/Weighted Average			3,322,000	93%
1998 Acquisitions				
420 Lexington Avenue (The Graybar Building)	3/98	Grand Central North	1,188,000	98%
1466 Broadway	3/98	Garment	289,000	90
321 West 44th Street	3/98	Times Square	203,000	97
440 Ninth Avenue	6/98	Penn Station	339,000	73
711 Third Avenue	5/98	Grand Central North	524,000	96
1412 Broadway	8/98	Garment	389,000	89
Total/Weighted Average			6,254,000	93%
Properties Acquired After January 1, 1999				
555 West 57th Street	1/99	Columbus Circle/ West Side	941,000	100%

SELECTED FINANCIAL DATA

The following table sets forth selected financial data for the Company, and on an historical combined basis for the SL Green Predecessor (as defined below), and should be read in conjunction with the Company's Financial Statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations". The balance sheet information as of December 31, 1998 and 1997 represents the consolidated balance sheet of the Company and the statement of income for the year ended December 31, 1998 and the period August 21, 1997 to December 31, 1997 represents consolidated results of the Company since the IPO. The combined balance sheet information as of December 31, 1996, 1995 and 1994 and statements of

income for the period January 1, 1997 to August 20, 1997 and for the years ended December 31, 1996, 1995, and 1994 of the SL Green Predecessor have been derived from the historical combined financial statements.

The "SL Green Predecessor" consists of the assets, liabilities and owners' deficits and results of operations of two properties, 1414 Avenue of the Americas and 70 West 36th Street, equity interests in four other properties, 673 First Avenue, 470 Park Avenue South, 29 West 35th Street and the Bar Building (which interests are accounted for under the equity method) and of the net assets and results of operations of the Company's affiliated Service Corporations.

The Company and the SL Green Predecessor (historical)

In Thousands (except per share data)	The Company			SL Green Predecessor		
	Year ended December 31, 1998	August 21-December 31, 1997	January 1-August 20, 1997	Year ended December 31,		
				1996	1995	1994
Operating Data:						
Total revenue	\$136,972	\$23,207	\$ 9,724	\$10,182	\$ 6,564	\$ 6,600
Property operating expenses	47,627	7,077	2,722	3,197	2,505	2,009
Real estate taxes	21,224	3,498	705	703	496	543
Interest	13,086	2,135	1,062	1,357	1,212	1,555
Depreciation and amortization	15,404	2,815	811	975	775	931
Loss on terminated project	1,065	—	—	—	—	—
Loss on hedge transaction	176	—	—	—	—	—
Marketing, general and administration	5,760	948	2,189	3,250	3,052	2,351
Total expenses	104,342	16,473	7,489	9,482	8,040	7,389
Operating income (loss)	32,630	6,734	2,235	700	(1,476)	(789)
Equity in net income (loss) from Service Corporations	387	(101)	—	—	—	—
Equity in net loss of uncombined joint ventures	—	—	(770)	(1,408)	(1,914)	(1,423)
Income (loss) before extraordinary items and minority interest	33,017	6,633	1,465	(708)	(3,390)	(2,212)
Minority interest	3,043	(1,074)	—	—	—	—
Income (loss) before extraordinary items	29,974	5,559	1,465	(708)	(3,390)	(2,212)
Extraordinary items (net of minority interest)	(522)	(1,874)	22,087	8,961	—	—
Net income (loss)	29,452	\$ 3,685	\$23,552	\$ 8,253	\$ (3,390)	\$ (2,212)
Mandatory preferred dividends and accretion	(5,970)					
Income available to common shareholders	\$ 23,482					
Income per common share before extraordinary item (basic and diluted) ⁽²⁾	\$ 1.22	\$ 0.45				
Net income per common share (basic and diluted) ⁽²⁾	\$ 1.19	\$ 0.30				
Cash dividends declared per common share	\$ 1.40	\$ 0.51				
Basic weighted average common shares outstanding	19,675	12,292				
Diluted weighted average common share and common share equivalents outstanding	19,739	12,404				

SELECTED FINANCIAL DATA (continued)

	The Company		SL Green Predecessor		
	1998	1997	December 31,		
			1996	1995	1994
Balance Sheet Data:					
Commercial real estate, before accumulated depreciation	\$697,061	\$338,818	\$ 26,284	\$ 15,559	\$ 15,761
Total assets	777,796	382,775	30,072	16,084	15,098
Mortgages and notes payable	162,162	128,820	16,610	12,700	12,699
Accrued interest payable	494	552	90	2,894	2,032
Minority interest	41,491	33,906	—	—	—
Stockholders' equity/owners' (deficit)	404,826	176,208	(8,405)	(18,848)	(15,521)

	The Company		SL Green Predecessor		
	Year ended December 31, 1998	August 21-December 31, 1997	January 1-August 20, 1997	Year ended December 31,	
			1996	1995	1994
Other Data:					
Funds from operations ⁽¹⁾	\$ 42,858	\$ 9,355	\$ —	\$ —	\$ —
Net cash provided by (used in) operating activities	22,665	5,713	2,838	272	(234)
Net cash provided by financing activities	347,382	224,234	2,782	11,960	63
Net cash (used in) investing activities	(376,593)	(217,165)	(5,559)	(12,375)	(432)

(1) 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, and significant non-recurring events that materially distort the comparative measurement of the company's performance over time 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. For a reconciliation of net income and Funds from Operations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Funds from Operations."

(2) The earnings per share amounts are presented to comply with statement of Financial Accounting Standards No. 128, Earnings Per Share. For further discussion of earnings per share and the impact of statement No. 128, see the notes to the consolidated financial statements.

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 the SL Green Predecessor should be read in conjunction with the financial statements. 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.

Financial Condition

Commercial real estate properties before accumulated depreciation increased approximately \$358 million from December 31, 1997 to December 31, 1998 primarily as a result of the purchase of the operating leasehold positions in 420 Lexington Avenue and 711 Third Avenue (including a 50% fee interest), and the property purchases of 1466 Broadway, 321 West 44th Street, 440 Ninth Avenue and 1412 Broadway. These acquisitions were funded through a short term loan facility (the "Acquisition Facility"), cash on hand and funds available under the Company's revolving credit facility (the "Credit Facility"). The Acquisition Facility also repaid \$93 million that was outstanding on the Company's Credit Facility.

The Company completed two public equity offerings on May 12, 1998, which included the issuance of 11.5 million shares of common stock and 4.6 million shares of 8% Preferred Income Equity Redeemable Shares with a mandatory liquidation preference of \$25.00 per share. These offerings raised net proceeds to the Company of \$353 million, after underwriters discount. Proceeds from the offerings were used to repay the Acquisition Facility (\$240 million), acquire 440 Ninth Avenue (\$32 million) and the outstanding mortgage and 50% fee interest in 711 Third Avenue (\$64.6 million) with the remainder used for working capital purposes. The Company acquired 1412 Broadway (\$82 million) during August 1998 and funded this acquisition with proceeds from borrowings on the Company's Credit Facility. During December 1998, the Company closed two short-term bridge financings totaling \$87.5 million. The proceeds were initially used to partially repay the Company's Credit Facility (\$23.8 million at December 31, 1998).

RESULTS OF OPERATIONS

In Thousands (except percentage data)

Comparison of year ended December 31, 1998 to year ended December 31, 1997

For discussion purposes, the results of operations for the year ended December 31, 1998 represent the operations of SL Green Realty Corp. and the results of operations for the year ended December 31, 1997 represent (i) the operating results of the SL Green Realty Predecessor (represented by 70 West 36th Street, 1414 Avenue of the Americas and 36 West 44th Street (since acquisition date in July 1997) for the period January 1, 1997 to August 20, 1997 and (ii) the results of the Company from August 21, 1997 to December 31, 1997. The following transactions have occurred that have had a material impact on the comparison of the 1998 and 1997 results: (i) the Formation Transactions resulted in three buildings previously accounted for under the equity method (673 Third Avenue, 470 Park Avenue South and 29 West 35th Street) which are now reported as property results, three acquired buildings (50 West 23rd Street, 1140 Avenue of the Americas and 1372 Broadway) collectively the "IPO Acquisitions" being included in the 1998 results which were included in the 1997 results of the Company as of August 21, 1997; (ii) the results of 110 East 42nd Street (acquired September 1997), 17 Battery Place (acquired December 1997) and 633 Third Avenue (acquired December 1997) "the 1997 Acquisitions" are included in the consolidated results for 1998 and were included for only a portion of the 1997 results (iii) the results of 420 Lexington Avenue (acquired March 1998), 1466 Broadway (acquired March 1998), 321 West 44th Street (acquired March 1998), 711 Third Avenue (acquired May 1998), 440 Ninth Avenue (acquired June 1998) and 1412 Broadway (acquired August 1998) (the "1998 Acquisitions") which are included for a portion of the 1998 results, and were not included in the 1997 results.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Rental revenue for the year ended December 31, 1998 totaled \$117.3 million representing an increase of \$93.2 million compared to \$24.1 million for the year ended December 31, 1997. The increase is primarily attributable to the revenue associated with the following: (i) the IPO Acquisitions, which increased rental revenue by \$28.1 million (ii) the 1997 Acquisitions, which increased rental revenue by \$17.8 million, (iii) the 1998 Acquisitions, which increased rental revenue by \$46.9 million and (iv) \$0.4 million due to increased rental revenue in the SL Green Predecessor buildings.

Escalation and reimbursement revenue for the year ended December 31, 1998 totaled \$15.9 million, representing an increase of \$12.9 million compared to \$3.0 million for the year ended December 31, 1997. The increase is primarily attributable to the revenue associated with the following: (i) the IPO Acquisitions, which increased revenue by \$3.3 million, (ii) the 1997 Acquisitions, which increased revenue by \$1.6 million, (iii) the 1998 Acquisitions, which increased revenue by \$8.0 million.

Investment income totaled \$3.3 million for the year ended December 31, 1998 representing an increase of \$2.8 million compared to \$0.5 million for the year ended December 31, 1997. This amount primarily represents interest income from the 17 Battery Place mortgage (\$1.9 million), interest on other mortgage notes (\$0.4 million) and interest from excess cash on hand (\$0.5 million).

As of the IPO date, third party management, leasing and construction revenues and related expenses are incurred by the Service Corporations, which are 95% owned subsidiaries of the Company, which are accounted for on the equity method. This change in recognition of income and expense from third party business activities was made in order to be consistent with the REIT qualifying income test, as defined by the IRS. Consequently, in 1998, management fees, leasing commissions and construction fees were recorded on these operating subsidiaries, compared to the 1997 third party revenue, which was recorded on the SL Green Predecessor.

Operating expenses for the year ended December 31, 1998 totaled \$36.5 million representing an increase of \$28.3 million compared to \$8.2 million for the year ended December 31, 1997. The increase was primarily attributable to: (i) the IPO Acquisitions, which increased operating expenses by \$6.3 million (ii) the 1997 Acquisitions, which increased operating expenses by \$6.7 million and (iii) the 1998 Acquisition properties with operating expenses of \$15.3 million.

Ground rent for the year ended December 31, 1998 totaled \$11.1 million representing an increase of \$9.5 million compared to \$1.6 million for the year ended December 31, 1997. This increase primarily results from newly acquired properties having ground and sub-lease lease arrangements at 420 Lexington Avenue (\$6.0 mil-

lion), and 711 Third Avenue (\$0.8 million) and increased ground rent at 673 First Avenue (\$2.5 million) and 1140 Avenue of the Americas (\$0.2 million).

Interest expense for the year ended December 31, 1998 totaled \$13.1 million representing an increase of \$9.9 million compared to \$3.2 million for the year ended December 31, 1997. This increase is primarily attributable to: (i) interest incurred on the Company's Credit Facility and Acquisition Facility (\$7.0 million) principally used to acquire new properties (ii) interest from the December 1998 bridge financings (\$0.3 million) and (iii) additional secured mortgage debt, including interest on the Company's capital lease obligation on 673 First Avenue which was previously accounted for under the equity method, (\$2.6 million).

Depreciation and amortization for the year ended December 31, 1998 totaled \$15.4 million representing an increase of \$11.8 million compared to \$3.6 million for the year ended December 31, 1997. The increase is primarily attributable to: (i) the IPO Acquisitions which increased depreciation by \$4.2 million (ii) the 1997 Acquisitions which increased depreciation by \$2.0 million (iii) the 1998 Acquisitions which increased depreciation by \$4.6 million, (iv) and an increase in the amortization of deferred finance costs totaling \$1.0 million associated with fees incurred on the Company's Credit and Acquisition Facilities.

Real estate taxes for the year ended December 31, 1998 totaled \$21.2 million representing an increase of \$17.0 million compared to \$4.2 million for the year ended December 31, 1997. The increase is primarily attributable to (i) the IPO Acquisitions, which increased real estate taxes by \$4.2 million (ii) the 1997 Acquisitions, which increased real estate taxes by \$3.2 million and (iii) the 1998 Acquisitions, which increased real estate taxes by \$9.6 million.

Marketing, general and administrative expense for the year ended December 31, 1998 totaled \$5.8 million, representing an increase of \$2.7 million compared to \$3.1 million for the year ended December 31, 1997. The increase is due to increased personnel costs associated with the Company's recent growth (\$2.1 million) and increased public entity and technology costs (\$0.6 million). This increase was partially off-set by third party costs included in the 1997 expense which were reclassified to the Service Corporations in 1998 to correspond with the reclassification of third party revenue which has been included in equity in net loss from Service Corporations since August 21, 1997.

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 in the financial statements) for the year ended December 31, 1997, combines the operating results of the 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 ended December 31, 1997 were \$27.1 million, representing an increase of 411% compared to \$5.3 million 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 were 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 \$1.1 million 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 \$0.6 million and (ii) \$0.5 million in management fee income which was recorded in the Equity Income (loss) from Service Corporations for the period August 21, 1997 to December 31, 1997. As of the IPO date, all third party management income and related expense are incurred on the books of 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 SL Green Predecessor, management revenues were earned from affiliated properties in which the SL Green Predecessor had an interest and were not eliminated. The amounts related to these properties are:

1997 (Pre-IPO)	\$0.5 million
1996	\$0.4 million
1995	\$0.4 million

Leasing commission revenues increased \$1.6 million for the year ended December 31, 1997 compared to the year ended December 31, 1996 due to strong 1997 leasing activity.

Investment income increased \$0.5 million 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 \$0.1 million or 87% to \$0.02 million during the year ended December 31, 1997 compared to \$0.1 million 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 Corporations 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 \$0.1 million as its share of the loss by these subsidiaries.

Operating expenses, depreciation and amortization, and real estate taxes increased \$6.6 million, \$2.7 million and \$3.5 million, respectively, as compared to the year ended December 31, 1996. The increase in these expenses is 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 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 \$1.9 million 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) an increase of \$0.02 million in mortgage debt acquired in August 1997 (\$0.01 million) and December 1997 (\$0.01 million) and (iii) the borrowing of \$0.1 million on December 19, 1997 under the Credit Facility to finance the acquisition of 17 Battery Place.

PRO FORMA RESULTS OF OPERATIONS

In Thousands

Comparison of the year ended December 31, 1998 to year ended December 31, 1997

The pro forma statement of operations for the year ended December 31, 1997 is presented as if the Company's IPO and the Formation Transactions occurred on January 1, 1997 and the effect thereof was carried forward through December 31, 1997. In addition to the IPO and Formation Transactions, the following transactions also affect the 1998 and 1997 comparable results: (i)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

the results of 110 East 42nd Street (acquired September 1997), 17 Battery Place (acquired December 1997) and 633 Third Avenue (acquired December 1997) the "1997 Acquisitions" are included in the consolidated results for the full year ended December 31, 1998 and included for a portion of 1997 results and (ii) the results of 420 Lexington Avenue (acquired March 1998), 1466 Broadway (acquired March 1998), 321 West 44th Street (acquired March 1998) 711 Third Avenue (acquired May 1998), 440 Ninth Avenue (acquired June 1998) and 1412 Broadway (acquired August 1998). the "1998 Acquisitions" are included in a portion of the 1998 results and not included in the 1997 results. During May 1998, the Company completed two public offerings for 11.5 million shares of common stock and 4.6 million of preferred shares resulting in net proceeds of \$353 million, net of underwriting costs.

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 Company's IPO 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 combined financial statements of the SL Green Predecessor included in the Company's registration statements on Form S-11 dated May 12, 1998 and August 14, 1997 and the consolidated financial statements of the Company, included elsewhere herein.

Year ended December 31, 1998 compared to year ended December 31, 1997

In Thousands	1998 (Historical)	1997 (Pro forma) (Unaudited)	Dollar Change
Revenue			
Rental revenue	\$117,304	\$49,472	\$67,832
Escalation & reimbursement revenues	15,923	5,500	10,423
Investment income	3,267	485	2,782
Leasing commissions	—	2,251	(2,251)
Other income	478	1,676	(1,198)
Total revenues	136,972	59,384	77,588
Equity in net income from Service Corporations	387	168	219
Expenses			
Operating expenses	36,545	13,165	23,380
Ground rent	11,082	4,297	6,785
Interest	13,086	5,509	7,577
Depreciation and amortization	15,404	7,413	7,991
Real estate taxes	21,224	8,658	12,566
Loss on terminated contract	1,065	—	1,065
Loss on hedge transaction	176	—	176
Marketing, general and administrative	5,760	2,578	3,182
Total expenses	104,342	41,620	62,722
Income before minority interest preferred stock dividends and extraordinary items	\$ 33,017	\$17,932	\$15,085

Rental revenue for the year ended December 31, 1998 totaled \$117.3 million representing an increase of \$67.8 million compared to \$49.5 million for the year ended December 31, 1997. The increase is primarily attributable to the revenue associated with the following properties not previously owned or acquired at the IPO date: (i) the 1997 Acquisitions, which increased rental revenue by \$17.8 million, (ii) the 1998 Acquisitions, which increased rental revenue by \$46.9 million and (iii) increased occupancy and additional rollover rental income in the other portfolio buildings which increased \$3.1 million.

Escalation and reimbursement revenue for the year ended December 31, 1998 totaled \$15.9 million, an increase of \$10.4 million compared to \$5.5 million during the year ended December 31, 1997. The increase is attributable to the revenue associated with: (i) the 1997 Acquisitions, which increased revenue by \$1.6 million, (ii) the 1998 Acquisitions, which increased revenue by \$8.0 million and (iii) the properties owned or acquired at the IPO date where revenue increased by \$0.8 million.

Investment income for the year ended December 31, 1998 totaled \$3.3 million, which represents an increase of \$2.8 million as compared to \$0.5 million for the year ended December 31, 1997. The increase in interest income is primarily due to the 17 Battery Place mortgage (\$1.9 million), other mortgage notes receivable (\$0.4 million) and the balance (\$0.5 million) earned from excess cash on hand.

Leasing commission income decreased \$2.3 million. Leasing commission income as reported in the 1997 pro forma financial statements represents Tenant-Rep income through September 30, 1997 and is subsequently being recorded by the Service Corporations for the remainder of 1997 and the comparable 1998 period. Tenant-rep revenue totaled \$2.6 million for the year ended December 31, 1998 representing a decrease of \$0.3 million compared to the year ended December 31, 1997. This decrease reflects the strong results in the 1997 period.

Other income for the year ended December 31, 1998 totaled \$0.5 million representing, a decrease of \$1.2 million as compared to December 31, 1997. The decrease is the result of 1997 lease termination income exceeding 1998 primarily due to a large tenant buy-out at 1372 Broadway.

Operating expenses for the year ended December 31, 1998 totaled \$36.5 million, representing an increase of \$23.4 million compared to \$13.1 million for the year ended December 31, 1997. The increase was primarily attributable to properties not previously

owned or acquired at the IPO date: (i) the 1997 Acquisitions, which increased operating expenses by \$6.7 million and (ii) the 1998 Acquisitions, which increased operating expenses by \$15.3 million (iii) \$1.4 million of increased costs from properties owned or acquired at the IPO primarily due to the provision for tenant straight-line credit loss which increased \$0.6 million.

Ground rent for the year ended December 31, 1998 totaled \$11.1 million, representing an increase of \$6.8 million compared to \$4.3 million for the year ended December 31, 1997. The increase is primarily attributable to the ground sub-lease rent on new acquisitions at 420 Lexington Avenue (\$6.0 million) and 711 Third Avenue (\$0.8 million).

Interest expense for the year ended December 31, 1998 totaled \$13.1 million, representing an increase of \$7.6 million compared to \$5.5 million for the year ended December 31, 1997. The increase is primarily attributable to interest incurred on the Company's Credit Facility and Acquisition Facility (\$7.0 million) and additional mortgage loans (\$0.6 million).

Depreciation and amortization for the year ended December 31, 1998 totaled \$15.4 million, representing an increase of \$8.0 million compared to \$7.4 million for the year ended December 31, 1997. The increase is primarily attributable to properties not previously owned or acquired at the IPO date: (i) the 1997 Acquisitions, which increased depreciation by \$2.0 million and (ii) the 1998 Acquisitions, which increased depreciation by \$4.6 million, (iii) amortization of financing costs increased \$0.9 million primarily due to fees recognized on the Company's revolving line of credit and acquisition facility and (iv) the properties owned or acquired at the IPO date which increased \$0.5 million primarily due to increased tenant improvement amortization.

Real estate taxes for the year ended December 31, 1998 totaled \$21.2 million, representing an increase of \$12.5 million compared to \$8.7 million for the year ended December 31, 1997. The increase is primarily attributable to properties not previously owned or acquired at the IPO date (i) the 1997 Acquisitions, which increased real estate taxes by \$3.2 million and (ii) the 1998 Acquisitions, which increased real estate taxes by \$9.6 million. These increases were partially off-set by a \$0.3 million reduction in taxes related to the core and IPO properties primarily from lower tax rates and management's effort to obtain reductions in assessed values.

Marketing, general and administrative expense for the year ended December 31, 1998 totaled \$5.8 million, representing an increase of \$3.2 million compared to \$2.6 million for the year ended December 31, 1997. The increase is due to additional staffing, and incremental absorption of lost third party management related costs (\$2.6 million), costs associated with management information systems and year 2000 compliance and higher public entity costs (\$0.6 million).

Comparison of the year ended December 31, 1997 to year ended December 31, 1996

The pro forma statements of operations for the years ended December 31, 1997 and 1996, respectively, are presented as if the Offering and Formation Transactions (see the notes to the 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	1997	1996	Dollar Change
	(Unaudited)		
Revenue			
Rental revenue	\$49,472	\$44,338	\$ 5,134
Escalation & reimbursement revenues	5,500	6,629	(1,129)
Leasing commissions	2,251	1,257	994
Investment income	485	20	465
Other income	1,676	945	731
Total revenues	59,384	53,189	6,195
Equity in net income (loss) of Service Corporations	168	(504)	672
Expenses			
Operating expenses	13,165	12,299	866
Ground rent	4,297	3,925	372
Interest	5,509	5,858	(349)
Depreciation and amortization	7,413	6,979	434
Real estate taxes	8,658	8,248	410
Marketing, general and administrative	2,578	2,643	(65)
Total expenses	41,620	39,952	1,668
Income before minority interest preferred stock dividends and extraordinary item	\$17,932	\$12,733	\$ 5,199

Rental revenue increased by \$5.1 million to \$49.5 million during the year ended December 31, 1997 as compared to \$44.3 million for the year ended December 31, 1996. The increase is primarily due to (i) the inclusion of \$1.6 million 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)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

the recent 1997 acquisitions of 110 East 42nd Street, 17 Battery Place and 633 Third Avenue (the "1997 Acquisitions") which increased revenue \$1.3 million and (iii) the remaining increase is due to re-tenanting and new tenant income generated in 1997.

Escalation and reimbursement revenue decreased \$1.1 million to \$5.5 million during the year ended December 31, 1997 as compared to \$6.6 million 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 \$0.9 million to \$2.3 million during the year ended December 31, 1997 compared to \$1.3 million 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 to \$0.5 million during the year ended December 31, 1997 compared to \$0.02 million 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 \$0.7 million to \$1.7 million during the year ended December 31, 1997 compared to \$0.9 million 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 the prior year.

Operating expenses, depreciation and amortization and real estate taxes increased by \$0.9 million, \$0.4 million and \$0.4 million, 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 July 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

During 1998, the Company financed its 1998 acquisitions primarily with proceeds from common and preferred stock offerings. Property level mortgage debt totaled \$50.9 million with interest rates ranging from 7.33% to 9%.

During December 1998, the Company closed two short-term bridge financings. The first financing was a \$51.5 million bridge loan with Prudential Securities at an interest rate (7.58% at December

31, 1998) equal to 200 basis points over the current one-month the London Interbank Offered Rate ("LIBOR"). The loan matures on December 30, 1999 and is secured by the properties located at 1412 Broadway and 633 Third Avenue. The second financing was a \$36 million bridge loan with Lehman Brothers at an interest rate (8.29% at December 31, 1998) equal to 275 basis points over the current one-month LIBOR. The loan matures on December 15, 1999 and is secured by the properties located at 70 West 36th Street, 1414 Avenue of the Americas and The Bar Building.

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 the \$140 million which is calculated by several factors including recent acquisition activity and most recent quarterly performance of certain unleveraged properties. Outstanding loans under the Credit Facility bear interest on a graduated rate per annum equal to 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.

In March 1998, the Company requested 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 "Acquisition Facility"). This Acquisition Facility closed on March 18, 1998 financed the Helmsley Properties acquisition, paid off the outstanding balance on the Company's Credit Facility and provided on-going liquidity for future acquisition and corporate needs. The term of the Acquisition Facility was one year. The interest rate was determined by a schedule of the percent of the loan commitment outstanding and the duration of the loan commitment outstanding ranging from 170 basis points to 300 basis points over LIBOR. The Acquisition Facility was paid off on May 18, 1998 through proceeds from the 1998 public offerings. The Company's Credit Facility was restored during May 1998; at year end \$23.8 million of borrowings were outstanding with remaining availability of \$110 million. Availability was reduced by the issuance of \$6.2 million of letters of credit. The effective borrowing rate at December 31, 1998 was 6.6%.

At December 31, 1998 the mortgage loans, secured bridge facilities and Credit Facility borrowings represented 19.1% of the Company's market capitalization based on a total market capitalization (debt and equity including preferred stock), assuming conversion of all operating partnership units of \$848 million (based on a common stock price of \$21.63 per share, the closing price of the Company's common stock on the New York Stock Exchange on December 31, 1998). The Company's principal debt maturities are

scheduled to be \$2.2 million and \$27.3 million for the years ending December 31, 1999 and 2000, respectively. The 1999 debt maturities exclude the secured bridge facilities being refinanced in 1999.

The Company expects to make distributions to its stockholders primarily based on its distributions received from the Operating Partnership primarily from property revenues or, if necessary, from working capital or borrowings.

The Company estimates that for the years ending December 31, 1999 and 2000, it will incur approximately \$27.3 million and \$5.9 million, respectively, of capital expenditures on properties currently owned. In 1999 and 2000, \$25.3 million and \$3.8 million, respectively, of the capital investments are associated with properties acquired at or after the Company's IPO. The Company expects to fund these capital expenditures with the 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 the Credit Facility, from additional borrowings secured by the 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 net cash provided by operations or additional borrowings.

In anticipation of financing properties, the Company executed a forward treasury rate lock on September 2, 1998 for \$100 million of future financing. The underlying rate for that position was 5.13%. On December 3, 1997 this rate lock expired and was not renewed. The negative value of this hedge at expiration was \$3.2 million. In connection with the hedge, during April 1999 the Company has mortgage commitments to complete five long-term mortgage financings totaling \$103 million on properties located at 70 West 36th Street, 36 West 44th Street, 1414 Avenue of the Americas, 633 Third Avenue and 1412 Broadway. The hedge cost represents a deferred financing cost which will be amortized over the life of these financings, except for \$0.2 million which related to a mismatch in terms resulting in a charge to 1998 earnings.

During January 1999, the Company completed acquisitions totaling \$65.4 million which it funded on the Company's Credit Facility.

On March 12, 1999 the Company entered into an agreement with Reckson Associates Realty Corp. to purchase four office properties totaling 675,000 square feet for \$84.5 million. The acquisition will be financed through a mortgage on the acquired properties (\$53 million) and a mortgage on the Graybar Building (\$65 million). The excess funds will be used to reduce the balance outstanding on the Company's Credit Facility.

CASH FLOWS

In Thousands

Comparison of year ended December 31, 1998 to year ended December 31, 1997

Net cash provided by operating activities increased \$14.1 million to \$22.7 million for the year ended December 31, 1998 as compared to \$8.6 million for the year ended December 31, 1997. The increase was due primarily to the operating cash flow generated by the IPO Acquisitions, 1997 Acquisitions and 1998 Acquisitions and an increase in investment income. Net cash used in investing activities increased \$153.9 million to \$376.6 million for the year ended December 31, 1998 compared to \$222.7 million for the year ended December 31, 1997. The increase was due primarily to the increased amount of property acquisitions in 1998 (\$339 million) as compared to the amount of property acquisitions in 1997 (\$224.4 million). Net cash provided by financing activities increased \$120.4 million to \$347.4 million for the year ended December 31, 1998 compared to \$227.0 million cash provided by financing activities for the year ended December 31, 1997. The increase was primarily due to net proceeds from the Company's 1998 public offerings of common stock (\$243.1 million) and preferred stock (\$110.4 million) which were used to pay off the Company's Acquisition Facility (\$240 million) and purchase certain 1998 acquisitions. The increase was partially off-set by the \$32.1 million common stock and Operating Partnership Unit dividend distribution payments and \$1.2 million in deferred loan cost payments.

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

Net cash provided by operating activities increased \$8.3 million during the year ended December 31, 1997 to \$8.6 million from \$0.3 million for the year ended December 31, 1996. The increase was due primarily to the inclusion of properties encompassed in the Offering and Formation Transactions (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 July 1996) 110 East 42nd Street (acquired September 1997) and 17 Battery Place (acquired December 1997) and an increase in leasing commission and investment income. Net cash used in investing activity increased \$210.3 million during the year ended December 31, 1997 to \$222.7 million as compared to \$12.4 million 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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Avenue in December 1997. Net cash provided by financing activities increased by \$215.0 million during the year ended December 31, 1997 to \$227.0 million as compared to \$12.0 million during the year ended December 31, 1996. The primary reason for the increase is (i) net proceeds from the Offering (ii) net proceeds from mortgage notes payable and (iii) proceeds from the Credit Facility. These proceeds were used to purchase the properties described above.

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 and significant non-recurring events that materially distort the comparative measurement of the Company's performance over time, 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, 1998, on a historical basis, are as follows:

In Thousands	Year ended December 31,	
	1998 (Historical)	1997 (Pro forma)
Income before minority interest and extraordinary item	\$33,017	\$17,932
Add:		
Depreciation and amortization	15,404	7,413
Loss on hedge transaction	176	—
Loss on terminated transaction	1,065	—
Less:		
Dividends on preferred shares	(5,720)	—
Amortization of deferred financing costs and depreciation of non-rental real estate assets	(1,084)	(186)
Funds From Operations	\$42,858	\$25,159

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

In June 1998, the FASB issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, which is required to be adopted in years beginning after June 15, 1999. The Statement permits early adoption as of the beginning of any fiscal quarter after its issuance. The Company expects to adopt the new Statement effective January 1, 2000. The Statement will require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through the income statement. If a derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged asset, liability, or firm commitment through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Company does not anticipate that the adoption of this Statement will have a significant effect on its results of operations or financial position.

YEAR 2000 COMPLIANCE

The Company is providing the following disclosure pursuant to the Securities and Exchange Commission's interpretation titled "Disclosure of Year 2000 Issues and Consequences by Public Companies, Investment Advisers Investment Companies, and Municipal Securities Issuers" effective August 4, 1998.

State of Readiness

The Company has identified three areas of focus for Year 2000 Compliance: internal information technology, property operating equipment, and third party service suppliers.

Information Technology In 1997, the Company began a project to update its information technology resources by installing new hardware and software throughout the Company. The Company completed the implementation of the systems during 1998. All hardware components and software were acquired from major U.S. manufacturers. The manufacturer of the new financial systems has supplied the Company with documentation of Year 2000 testing to demonstrate that their software meets and exceeds Year 2000 compliance requirements. The Company plans to internally test the financial systems, although there is no assurance this test will confirm Year 2000 compliance. The Company is currently contacting other software and hardware providers for confirmation of Year 2000 compliance with regard to its network and operating systems.

Property Operating Equipment The Company inquired regarding compliance status from all vendors providing services for systems identified as having potential Year 2000 compliance problems. The Company then tested each system with these vendors. The Company believes that it has identified all building operating systems (primarily elevators and fire safety systems) that contain embedded chips or use software that require Year 2000 testing. The Company received confirmation from these vendors and manufacturers that the equipment and related systems are Year 2000 compliant. In addition, the Company has since tested approximately 95% of these identified systems. During the course of this testing, the fire command station at one of the Company's properties failed due to a CPU chip which was subsequently replaced at no cost. The system was retested and found to be fully functional. Further testing is scheduled to be completed by March 31, 1999.

Third Party Service Suppliers At present, the Company has no automated interfaces from third party service providers into the Company's financial systems. However, the Company does rely on information from two types of third party service providers: financial institutions and a payroll and benefits processing company. The Company has begun the process of confirming with the third parties that systems that relate to the Company are Year 2000 compliant. The Company will not be able to test the systems of these service providers and will have to rely on these confirmation responses. However, the Company cannot represent that these responses are accurate and may result in lost services if these vendors are not Year 2000 compliant.

	Assessment	Remediation	Direct Testing	Indirect Testing	Implementation
Information Technology	100% complete	75% complete Expected completion 6/30/99	0% complete Expected completion 9/30/99	75% complete based on representations received from third party vendor	75% complete Expected completion 6/30/99
Property Operating	90% complete	95% complete	95% complete	Not applicable	70% complete
Third Party Service Providers	100% complete	Not yet fully assessed	Not applicable	25% complete based on representations received from third party vendors	50% complete Expected completion 9/30/99

Costs

The Company does not expect the direct costs related to Year 2000 to be material. These direct costs exclude the costs to replace the hardware and software systems, as the decision to replace these systems was not accelerated by the Year 2000 issues.

Risks

The Company believes that it has an effective program in place to identify and resolve Year 2000 issues in a timely manner. As noted above, the Company has not yet completed all necessary phases of the Year 2000 program. In the event that the Company does not complete any additional phases, the Company may be unable to collect rents, process Company payroll, and disburse funds. The Company also does not have any plan, and cannot make any assurances regarding any loss of governmental, utility services or financial market functionality that may be lost as a result of Year 2000. The Company cannot make any assurances that its tenants will be able to disburse funds to pay rental invoices due to Year 2000 compliance deficiencies.

Contingencies

The Company expects to complete all phases of its Year 2000 program by the end of the third quarter 1999 and currently has no contingency plan in place. The Company plans to evaluate the status of completion in June 1999 and determine whether such a plan is necessary.

MARKET RISK AND RISK MANAGEMENT POLICIES

The Company is exposed to changes in interest rates primarily from its floating rate debt arrangements. The Company currently does not use interest rate derivative instruments to manage exposure to interest rate changes. A hypothetical 100 basis point adverse move (increase) in interest rates along the entire interest rate curve would adversely affect the Company's annual interest cost by approximately \$1.1 million annually. Based on the acquisition activity during January 1999, and a mortgage commitment that will fix the rate on \$52 million of debt by April 1999, the additional interest cost on a 100 basis point increase in interest rates would result in a \$1.7 million annual increase in interest costs.

CONSOLIDATED BALANCE SHEETS

In Thousands (except per share data)	December 31,	
	1998	1997
Assets		
Commercial real estate properties, at cost:		
Land and land interests	\$112,123	\$ 53,834
Buildings and improvements	492,568	272,776
Building leasehold	80,162	—
Property under capital lease	12,208	12,208
	697,061	338,818
Less accumulated depreciation	(37,355)	(23,800)
	659,706	315,018
Cash and cash equivalents	6,236	12,782
Restricted cash	18,635	10,310
Receivables	3,951	738
Related party receivables	245	725
Deferred rents receivable, net of reserve for tenant credit loss of \$2,369 and \$399 in 1998 and 1997, respectively	20,891	11,563
Investment in and advances to Service Corporations	10,694	2,726
Mortgage loans receivable	26,401	15,500
Deferred costs, net	15,282	6,099
Other assets	15,755	7,314
Total assets	\$777,796	\$382,775
Liabilities and Stockholders' Equity		
Mortgage notes payable	\$50,862	\$ 52,820
Secured bridge facilities	87,500	—
Revolving credit facility	23,800	76,000
Accrued interest payable	494	552
Accounts payable and accrued expenses	5,588	3,340
Accounts payable to related parties	63	367
Capitalized lease obligations	14,741	14,490
Deferred land lease payable	9,947	8,481
Dividend and distributions payable	11,585	5,136
Security deposits	16,949	11,475
Total liabilities	221,529	172,661
Minority interest in operating partnership	41,491	33,906
Commitments and Contingencies		
8% Preferred Income Equity Redeemable Shares SM \$0.01 par value \$25.00 mandatory liquidation preference, 25,000 authorized and 4,600 outstanding at December 31, 1998	109,950	—
Stockholders' Equity		
Common stock, \$0.01 par value 100,000 shares authorized, 23,952 and 12,292 issued and outstanding at December 31, 1998 and 1997, respectively	240	123
Additional paid-in capital	416,939	178,669
Deferred compensation plan	(3,266)	—
Officers' loans	(528)	—
Distributions in excess of earnings	(8,559)	(2,584)
Total stockholders' equity	404,826	176,208
Total liabilities and stockholders' equity	\$777,796	\$382,775

The accompanying notes are an integral part to these financial statements.

STATEMENTS OF INCOME

In Thousands (except per share data)	SL Green Realty Corp		SL Green Predecessor	
	Year ended December 31, 1998	August 21- December 31, 1997	January 1- August 20, 1997	Year ended December 31, 1996
	(consolidated)		(combined)	
Revenues				
Rental revenue	\$117,304	\$20,033	\$ 4,107	\$ 4,199
Escalation and reimbursement revenues	15,923	2,205	792	1,051
Management revenues, including \$458 (1997), and \$447 (1996), from affiliates	—	—	1,268	2,336
Leasing commissions	—	484	3,464	2,372
Construction revenues, net, including \$6 (1997), and \$35 (1996), from affiliates	—	—	77	101
Investment income	3,267	485	—	—
Other income	478	—	16	123
Total revenues	136,972	23,207	9,724	10,182
Equity in net income/(loss) from Service Corporations	387	(101)	—	—
Equity in net (loss) of uncombined joint ventures	—	—	(770)	(1,408)
Expenses				
Operating expenses, including \$2,118 (1998), \$282 (1997), and \$93 (1996) to affiliates	36,545	5,517	2,709	3,197
Ground rent	11,082	1,560	13	—
Interest	13,086	2,135	1,062	1,357
Depreciation and amortization	15,404	2,815	811	975
Real estate taxes	21,224	3,498	705	703
Loss on terminated project	1,065	—	—	—
Loss on hedge transaction	176	—	—	—
Marketing, general and administrative	5,760	948	2,189	3,250
Total expenses	104,342	16,473	7,489	9,482
Income (loss) before minority interest and extraordinary item	33,017	6,633	1,465	(708)
Minority interest in operating partnership	(3,043)	(1,074)	—	—
Extraordinary item, net of minority interest of \$52 and \$362 in 1998 and 1997, respectively	(522)	(1,874)	22,087	8,961
Net income	29,452	\$ 3,685	\$23,552	\$ 8,253
Mandatory preferred stock dividends	(5,720)			
Mandatory preferred stock accretion	(250)			
Net income available to common shareholders	\$ 23,482			
Per share data:				
Income per common share before extraordinary item	\$ 1.22	\$ 0.45		
Extraordinary item per common share	(0.03)	(0.15)		
Net income per common share—basic and diluted	\$ 1.19	\$ 0.30		
Basic weighted average common shares outstanding	19,675	12,292		
Diluted weighted average common shares and common share equivalents outstanding	19,739	12,404		

The accompanying notes are an integral part to these financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

In Thousands (except per share data)	Distributions in Excess of Earnings	Common Stock	Officers' Loans	Additional Paid-In Capital	Deferred Compensation Plan	Total
Balance at August 20, 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
Net income	29,452	-	-	-	-	29,452
Preferred dividend and accretion requirement	(5,970)	-	-	-	-	(5,970)
Issuance of common stock net offering cost (\$1,615) and revaluation increase in minority interest (\$6,934)	-	115	-	234,709	-	234,824
Deferred compensation plan	-	2	-	3,561	\$(3,563)	-
Amortization of deferred compensation plan	-	-	-	-	297	297
Cash distributions declared (\$1.40 per common share of which none represented a return of capital for federal income tax purposes)	(29,457)	-	-	-	-	(29,457)
Officers' loan, net	-	-	\$(528)	-	-	(528)
Balance at December 31, 1998	\$ (8,559)	\$240	\$(528)	\$416,939	\$(3,266)	\$404,826

COMBINED STATEMENTS OF OWNERS' EQUITY (DEFICIT)

In Thousands	SL Green Predecessor
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

The accompanying notes are an integral part to these financial statements.

STATEMENTS OF CASH FLOWS

In Thousands (except per share data)	SL Green Realty Corp		SL Green Predecessor	
	Year ended December 31, 1998	August 21- December 31, 1997	January 1- August 20, 1997	Year ended December 31, 1996
	(consolidated)		(combined)	
Operating Activities				
Net income	\$ 29,452	\$ 3,685	\$23,552	\$ 8,253
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization	15,404	2,815	811	975
Equity in net (income) loss from Service Corporations	(387)	101	—	—
Minority interest	2,991	712	—	—
Share of net (income) loss from uncombined joint ventures	—	—	(21,072)	1,763
Deferred rents receivable	(11,748)	(946)	(102)	(362)
Provision for straight-line credit loss	2,420	—	—	—
Provision for bad debts	374	—	—	—
Amortization for officer loans and deferred compensation	747	—	—	—
Extraordinary items—non cash portion, net of minority interest in 1998 and 1997	574	803	—	(8,961)
Changes in operating assets and liabilities:				
Restricted cash	(6,147)	(223)	—	(563)
Receivables	(3,587)	(614)	(190)	(531)
Related party receivables	619	(1,633)	(365)	(170)
Deferred costs	(5,810)	(707)	(279)	(1,108)
Other assets	(8,441)	(3,101)	656	(287)
Accounts payable, accrued expenses and other liabilities	4,738	4,524	(173)	1,263
Deferred land lease payable	1,466	297	—	—
Net cash provided by operating activities	22,665	5,713	2,838	272
Investing Activities				
Additions to land, buildings and improvements	(357,243)	(217,165)	(7,411)	(10,725)
Contributions to partnership investments	—	—	(25)	(1,650)
Investment in and advances to Service Corporations	(8,449)	—	—	—
Mortgage loan receivable	(10,901)	—	—	—
Distributions from partnership investments	—	—	1,877	—
Net cash used in investing activities	(376,593)	(217,165)	(5,559)	(12,375)
Financing Activities				
Proceeds from mortgage notes payable	—	21,000	7,000	16,680
Payments of mortgage notes payable	(1,958)	(76,822)	(219)	(6,910)
Repayments of senior revolving credit facility	(207,450)	—	—	—
Proceeds from bridge financings	327,460	—	—	—
Repayments of bridge financings	(239,960)	—	—	—
Proceeds from senior revolving credit facility	155,250	76,000	—	—
Capitalized lease obligation	251	58	—	—
Mortgage loan receivable	—	(15,500)	—	—
Net proceeds from sale of 8% mandatory preferred stock	109,700	—	—	—
Cash distributions to owners	—	—	(4,024)	(552)
Cash contributions from owners	—	—	25	2,742
Dividends and distributions paid	(32,144)	(2,348)	—	—
Deferred loan costs	(5,822)	(1,643)	—	—
Net proceeds from sale of common stock	242,055	228,704	—	—
Formation expenses	—	(5,215)	—	—
Net cash provided by financing activities	347,382	224,234	2,782	11,960
Net (decrease) increase in cash and cash equivalents	(6,546)	12,782	61	(143)
Cash and cash equivalents at beginning of period	12,782	—	476	619
Cash and cash equivalents at end of period	\$ 6,236	\$ 12,782	\$ 537	\$ 476
Supplemental cash flow disclosures				
Interest paid	\$ 13,144	\$ 1,583	\$ 1,085	\$ 1,059
Supplemental disclosure of non-cash investing and financing activities				
Investing and Financing Activities:				
Land interest acquired for operating partnership units	\$ 1,000			
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 1998 and 1997 the Company declared distributions per unit of \$0.35, and these distributions were paid in 1999 and 1998, respectively.

The accompanying notes are an integral part to these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1998, In Thousands (except per share data)

NOTE 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 SL Green Properties, Inc. and its affiliated partnerships and entities ("SL Green Predecessor"). 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 believes it 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, \$.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) 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 officer 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, 1998, no shares of Excess Stock are issued and outstanding.

Concurrent with the consummation of the Offering in 1997, 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 \$42.6 million of the Offering proceeds to repay mortgage indebtedness encumbering the properties, including \$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) approx-

imately \$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 a Lehman Brothers, Inc. advisory fee and \$41.7 million to fund capital expenditures, general working capital needs and future acquisitions (see note 3).

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.

May 1998 Public Offerings On May 12, 1998 the Company completed the sale of 11.5 million shares of common stock and 4.6 million shares of 8% Preferred Income Equity Redeemable SharesSM with a mandatory liquidation preference of \$25.00 per share (the "PIERS"). Gross proceeds from these equity offerings (\$353 million, net of underwriter's discount) were used principally to repay the Acquisition Facility (see note 5) and acquire additional properties. These offerings resulted in the reduction of continuing investors' interest in the Operating Partnership from 16.2% to 9.2%.

Principles of Combination—SL Green Predecessor The SL Green Predecessor was 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 by Stephen L. Green in entities accounted for on the equity method (see note 2) that were 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 prior to August 21, 1997 include partnerships and corporations which are under common control as follows:

Entity	Property/Service	Stephen L. Green Percentage	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 are 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 will receive substantially all of the cash flow (if any) 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 gives 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 acquired by the Company are conducted through the management LLC. The Operating Partnership owns 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 (95% of taxable income) to avoid any federal income or excise tax at the Company level. 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's 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.

Principles of Consolidation The Consolidated Financial Statements include the accounts of The Company and its subsidiaries, all of which are wholly-owned or majority owned. All significant intercompany balances and transactions have been eliminated.

Marketable Securities Marketable securities held by the preferred stock subsidiaries are classified as available for sale. The cost of the securities approximates their fair value at December 31, 1998.

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
Property under capital lease	49 years (lease term)
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 \$13,555 for the year ended December 31, 1998, \$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 for the year ended December 31, 1996.

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 establishes, on a current basis, a reserve for future potential tenant credit losses which may occur against this account. The balance reflected on the balance sheet is net of such allowance.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 1998, In Thousands (except per share data)

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 balance sheet.

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 an estimated average lease term of seven years.

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. Deferred costs associated with the Company's forward treasury lock (see note 5) are classified as deferred financing costs and are to be amortized over the terms of the committed April 1999 mortgage financings.

Interest Rate Hedge Transactions The Company may enter into derivative financial instruments such as interest rate swaps and interest rate collars in order to mitigate its interest rate risk on a related financial instrument. The Company may designate these derivative financial instruments as hedges and applies deferral accounting. Gains and losses related to the termination of such derivative financial instruments are deferred and amortized to interest expense over the term of the debt instrument. Payments to or from counterparties are recorded as adjustments to interest expense.

The Company may also utilize interest rate contracts to hedge interest rate risk on anticipated debt offerings. These anticipatory hedges are designated, and effective, as hedges of identified debt issuances which have a high probability of occurring. Gains and losses resulting from changes in the market value of these contracts are deferred and amortized into interest expense over the life of the related debt instrument. Hedges determined to be ineffective and hedges not correlated to financings are charged to operations.

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 Predecessor's 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 (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. Approximately 19% and 11% of the Company's revenue was derived from 420 Lexington Avenue and 17 Battery Place, respectively, for the year ended December 31, 1998.

The Company currently has 74% of its work force covered by three collective bargaining agreements which service all of the Company's properties.

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, 1998, the Company believes it is in compliance with all REIT requirements and was not subject to federal income taxes.

Recently Issued Accounting Pronouncements In June 1998, the FASB issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, which is required to be adopted in years beginning after June 15, 1999. The Statement permits early adoption as of the beginning of any fiscal quarter after its issuance. The Company expects to adopt the new Statement effective January 1, 2000. The Statement will require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If a derivative is a hedge, depending on

the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged asset, liability, or firm commitment through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Company does not anticipate that the adoption of this Statement will have a significant effect on its results of operations or financial position.

NOTE 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 owners of the fee interest, in 36 West 44th Street and the leasehold interest in 35 West 43rd Street transferred their interests in this property to the Company on April 14, 1998.

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

	January 1- August 20, 1997	Year ended December 31, 1996
Condensed statements of operations		
Rental revenue and escalations	\$ 13,463	\$18,874
Other revenue	89	28
Total revenues	13,552	18,902
Interest	5,320	7,743
Depreciation and amortization	2,510	3,580
Operating and other expenses	7,142	10,036
Total expenses	14,972	21,359
Operating loss before outside partner's interest	(1,420)	(2,457)
Elimination of inter-company management fees	240	355
Extraordinary gain on forgiveness of debt	33,418	-
Other partner share of the (income) loss	(10,921)	694
Income (loss) allocated to the SL Green Predecessor	\$ 21,317	\$(1,408)

There were several business relationships with related parties which involved 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
Management fee expenses	\$ 448	\$ 622
Leasing commission expenses	295	218
Construction fees	1,796	185
Maintenance expenses	186	227

NOTE 3 Property Acquisitions

On August 14, 1998 the Company purchased the property located at 1412 Broadway–The Fashion Gallery Building–for \$72 million, plus approximately \$5 million for reimbursement of loan prepayment charges and \$5 million related to capital expenditures, commissions and other closing costs. The property is a 25–story office building totaling 389,000 square feet and had an occupancy rate at the date of acquisition, including pending leases, of 89.5%.

On August 6, 1998 the Company closed the acquisition of an existing first mortgage secured by the property located at 636 11th Avenue, which is a 469,000 square foot industrial and warehouse block front property located between 46th and 47th Streets for \$10.9 million. The mortgage bears interest at 8.875% at December 31, 1998. The Company had contracted to buy this mortgage on June 11, 1998 and simultaneously entered into an agreement to purchase the property during January 1999. This property is currently in Chapter 11 bankruptcy proceedings. During January 1999, the Company terminated this purchase agreement. The unrecoverable project costs and settlement costs resulted in a \$1.1 million charge to 1998 earnings.

On June 1, 1998, the Company acquired the property located at 440 Ninth Avenue for approximately \$32 million in cash. The 18–story, 340,000 square foot building was 76% occupied at the date of acquisition. In connection with this purchase, the Company obtained a \$6.2 million mortgage note receivable secured by the property located at 38 East 30th Street. The note's interest rate was 8% and was paid back during September 1998.

On May 21, 1998, the Company acquired the outstanding mortgage of the property located at 711 Third Avenue for approximately \$44.6 million in cash. The 20–story, 524,000 square foot building was 79% occupied at the date of acquisition. The Company's outstanding mortgage position provides for the Company to receive 100% of the economic benefit from the property, and accordingly for the period owned, the Company has recorded the operating results of the property in the statement of operations. On July 2,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 1998, In Thousands (except per share data)

1998 the Company acquired 50% of the fee interest in 711 Third Avenue for \$20 million and 44,772 Operating Partnership Units.

On April 14, 1998, the Company converted its mortgage interest in 36 West 44th Street into a fee interest and its mortgage interest in 36 West 43rd Street into a leasehold interest (collectively known as the Bar Building) for an additional cost of approximately \$1.0 million.

During March 1998, the Company purchased the operating leasehold interest in the property located at 420 Lexington Avenue (the "Graybar Building") and the fee interest in the property located at 1466 Broadway from the Helmsley organization for \$142 million. The Graybar Building is located adjacent to Grand Central Station and encompasses approximately 1.2 million square feet and the property at 1466 Broadway is located at 42nd Street and Broadway encompassing approximately 290,000 square feet.

During March 1998 the Company purchased the property located at 321 West 44th Street for approximately \$17 million, comprised of approximately 209,000 square feet.

On January 8, 1998, the Company acquired fee title to its property located at 1372 Broadway. Prior to this date the Company held a mortgagee's interest in this property with a right to acquire the fee.

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% is due March 31, 1999 and is secured by a first mortgage on the mortgagor's condominium interest in the property. The cash required to purchase the property and fund the loan were financed through borrowings under the Company's senior unsecured revolving credit facility.

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 (subsequently returned in 1998). 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, 1998 and 1997 as though each acquisition described above and each acquisition included in the Offering and Formation Transactions was made on January 1, 1997.

	1998	1997
Revenues	\$160,110	\$150,785
Pro forma net income	\$ 28,607	\$ 25,798
Pro forma basic earnings per common share	\$ 1.20	\$ 1.08
Pro forma diluted earnings per common share	\$ 1.20	\$ 1.08
Common and common equivalent share—basic	23,952	23,792
Common and common equivalent share—diluted	23,993	23,863

NOTE 4 Deferred Costs

Deferred costs consist of the following:	1998	1997
Deferred financing	\$ 8,342	\$ 3,147
Deferred lease	13,010	7,201
	21,352	10,348
Less accumulated amortization	(6,070)	(4,249)
	\$ 15,282	\$ 6,099

NOTE 5 Mortgage Notes Payable and Revolving Credit Facility

The mortgage notes payable collateralized by the respective properties and assignment of leases at December 31, 1998 and 1997 are as follows:

Property	Mortgage Notes	1998	1997
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	—	\$ 7,000
50 West 23rd Street	Note payable to Lehman Brothers Holdings Inc., with interest at 7.47% due August, 2007	—	14,000
50 West 23rd Street	Note payable to GMAC with interest at 7.33% due December 2007	\$21,000	—
29 West 35th Street	First mortgage note with interest payable at 8.464%, due February 1, 2001	2,903	2,974
673 First Avenue	First mortgage note with interest payable at 9.0%, due December 13, 2003	16,452	18,013
470 Park Avenue South	First mortgage note with interest payable at 8.25%, due April 1, 2004	10,507	10,833
	Total mortgage notes payable	\$50,862	\$52,820

As of December 31, 1998, the carrying values of 50 West 23rd Street, 29 West 35th Street, 673 Third Avenue and 470 Park Ave. South were \$35.6 million, \$5.6 million, \$33.7 million, and \$27.0 million, respectively.

During December 1998, the Company closed two short-term bridge financings. The first financing was a \$51.5 million bridge loan with Prudential Securities at an interest rate equal to 200 basis points over the current one-month London Interbank Offered Rate ("LIBOR") (7.58% at December 31, 1998 weighted average interest rate). The loan matures on December 30, 1999 and is secured by the properties located at 1412 Broadway and 633 Third Avenue. The second financing was a \$36 million bridge loan with Lehman Brothers at an interest rate equal to 275 basis points over the current one-month LIBOR (8.29% at December 31, 1998 weighted average interest rate). The loan matures on December 15, 1999 and is secured by the properties located at 70 West 36th Street, 1414 Avenue of the Americas and The Bar Building.

During March 1998, the Company converted the notes payable that were collateralized by 50 West 23rd Street into fixed rate obligations at an interest rate of 7.33%.

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 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 on a graduated rate per annum equal to the 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, 1998 the outstanding amount of indebtedness under the Credit Facility was \$23.8 million, and the interest rate on such indebtedness was 6.86% per annum. At December 31, 1998, the Company's borrowing availability was \$110 million. Availability under the Credit Facility was reduced further by letters of credit in the amount of \$6.2 million for acquisition deposits.

In anticipation of financing properties, the Company executed a forward treasury rate lock on September 2, 1998 for \$100 million of future financing. The underlying rate for that position was 5.13%. On December 3rd this rate lock expired and was not renewed. The negative value of this hedge at expiration was \$3.2 million. In connection with the hedge, during April 1999 the Company has commitments to complete five permanent mortgage financings totaling \$103 million on properties located at 70 West 36th Street, 36 West 44th Street, 1414 Avenue of the Americas, 633 Third Avenue and 1412 Broadway. The hedge cost represents a deferred financing cost which will be amortized over the life of these financings, except for \$0.2 million which related to a mismatch in terms resulting in a charge to 1998 earnings.

Principal Maturities Combined aggregate principal maturities of mortgages and notes payable as of December 31, 1998 are as follows:

1999	\$ 89,726
2000	27,309
2001	6,487
2002	3,932
2003	5,400
Thereafter	29,308
	\$162,162

Mortgage Recording Tax—Hypothecated Loan The Operating Partnership mortgage tax credit loans totaled approximately \$134 million from LBHI at December 31, 1998. These loans are collateralized by the mortgages encumbering the Operating Partnership's interests in 711 Third Avenue. The loans are also collateralized by an equivalent amount of the Company's cash which is held by LBHI and invested in six month US Treasury securities. Interest earned on the cash collateral is applied by LBHI to service the loans with an interest rate commensurate with that of the portfolio of US Treasury securities, which mature on May 18, 1999. 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, 1998. 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.

NOTE 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 Company 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, mortgage receivables, variable 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, 1998. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 1998, In Thousands (except per share data)

NOTE 7 Rental Income

The Operating Partnership is the lessor and the sublessor to tenants under operating leases with expiration dates ranging from 1999 to 2013. 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, 1998 are as follows:

1999	\$131,925
2000	121,522
2001	111,744
2002	101,244
2003	88,765
Thereafter	345,766
	<u>\$900,966</u>

NOTE 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 for the years ended December 31 include the following:

	The Company		SL Green Predecessor	
	1998	August 21- December 31, 1997	January 1- August 20, 1997	1996
Management revenues	\$ 178	\$ 78	\$172	\$180
Leasing commission revenues	181	8	29	37
Construction fees	-	14	37	25
Rental income	-	-	43	33
Maintenance expense	2,118	119	163	93

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

	1998	1997
17 Battery Condominium Association	\$245	\$ -
Officers	528	725
	<u>\$773</u>	<u>\$725</u>

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

	1998	1997
29 West 35th Street Predecessor Partnership	\$ -	\$ 45
36 West 44th Street Predecessor Partnership	12	56
70 West 36th Street Predecessor Partnership	12	67
1414 Avenue of the Americas Predecessor Partnership	25	88
470 Park Avenue South Predecessor Partnership	6	72
673 First Avenue Predecessor Partnership	8	39
	<u>\$63</u>	<u>\$367</u>

NOTE 9 Stockholders' Equity

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, 1998, 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 from 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	670,000	-	\$ 21.00-\$26.19
Canceled	(10,000)	-	\$21.00
Balances at December 31, 1997	660,000	-	\$ 21.00-\$26.19
Granted	1,306,000	-	\$18.375-\$27.00
Vested	-	188,666	\$ 21.00-\$26.19
Cancelled	(168,000)	-	\$18.375-\$27.00
Balances at December 31, 1998	<u>1,798,000</u>	<u>188,666</u>	

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 common stock of 5%, a volatility factor for the market price of the Company's Common Stock of .3695 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 common share would have been \$20.9 million, \$1.06 and \$1.06, respectively, for the year ended December 31, 1998 and \$3.4 million, \$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. The estimated fair market value of the Company's options issued during 1998 and 1997 were \$6.2 million and \$2.7 million, respectively.

Earnings Per Share The basic and diluted earnings per common share for the year ended December 31, 1998 have been computed based upon weighted average equivalent shares outstanding of 19,675 and 19,739 respectively. 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 differences in the weighted average shares outstanding represents the inclusion of common share equivalents from options issued and outstanding at December 31, 1998 and 1997 in the calculation of diluted earnings per share which is not included in basic earnings per share. The conversion of the PIERS which are currently anti-dilutive using the "if converted" method, may result in the dilution to future earnings per share calculations.

Preferred Stock The Company's 8% Preferred Income Equity Redeemable Shares (the "PIERS") are non-vesting and are convertible at any time at the option of the holder into the Company's common stock at a conversion price of \$24.475 per share. The conversion of all PIERS would result in the issuance of 4,699,000 of the Company's common stock which has been reserved for issuance. The PIERS receive annual dividends of \$2.00 per shares paid on a quarterly basis, and dividends are cumulative. On or after July 15, 2003 the PIERS may be redeemed at the option of Company at a redemption price of \$25.889 and thereafter at prices declining to the mandatory liquidation preference of \$25.00 on or after July 15, 2007 with a mandatory redemption on April 15, 2008 at a price of \$25.00 per share. The PIERS were recorded net of underwriters' discount and issuance costs. These costs are being accreted over the expected term of the PIERS using the interest method.

NOTE 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 \$366, \$35, \$44, and \$30 during the year ended December 31, 1998, the periods August 21, 1997 to December 31, 1997, January 1, 1997 to August 20, 1997 and the year ended December 31, 1996, 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.

Effective January 1, 1999 the Company implemented a deferred compensation plan (the "Deferred Plan") covering certain executives of the Company. In connection with the Deferred Plan the Company issued 240,000 restricted shares. The shares issued under the Deferred Plan were granted to certain executives and vesting will occur annually upon the Company meeting established financial performance criteria. Annual vesting occurs at rates ranging from 15% to 35% once performance criteria are reached.

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 1998 and 1997.

NOTE 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.

During July 1998, the Company issued 150,000 common shares in connection with an employment contract. These shares vest annually at rates ranging from 15% to 35% and were recorded at fair market value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 1998, In Thousands (except per share data)

The Company has entered into employment agreements with certain executives. Nine executives have employment agreements which expire between July 2000 and July 2003. The cash based compensation associated with these employment agreements totals approximately \$1.8 million annually.

During March 1998, the Company acquired an operating sub-leasehold position at 420 Lexington Avenue. The operating sub-leasehold position requires annual ground lease payments totaling \$6 million and sub-leasehold position payments totaling \$1.1 million (excluding an operating sub-lease position purchased January 1999—see note 16). The ground lease and sub-leasehold positions expire 2008. The Company may extend the positions through 2029 and the extension has no additional cost.

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 property located at 1140 Avenue of the Americas operates under a net ground lease (\$348 annually) with a term expiration date of 2016 with an option to renew for an additional 50 years.

The property located at 711 Third Avenue operates under an operating sub-lease which expires in 2083. Under the terms of the sub-lease, the Company is responsible for annual ground rent payments of \$1.6 million increasing to \$3.1 million on July 2001 for the next ten years. Ground rent is reset after year ten based on the estimated fair market value of the property.

The Company continues to lease 673 First Avenue which has been classified as a capital lease with a cost basis of \$12,208 and cumulative amortization of \$2,533 and \$2,284 under a capital lease at December 31, 1998 and 1997, respectively. 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, 1998:

December 31,	Capital leases	Noncancelable Operating leases
1999	\$ 1,140	\$ 11,725
2000	1,177	11,792
2001	1,290	12,850
2002	1,290	13,625
2003	1,290	13,625
Thereafter	61,600	363,028
Total minimum lease payments	67,787	\$426,645
Less amount representing interest	(53,046)	
Present value of net minimum lease payments	\$ 14,741	

NOTE 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.

NOTE 13 Extraordinary Items

In March 1998, the Company requested 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 "Acquisition Facility"). This Facility closed on March 18, 1998 financed the Helmsley Properties acquisition, paid off the outstanding balance on the Company's Credit Facility and provides ongoing liquidity for future acquisition and corporate needs. The term of the Facility was one year. The interest rate was determined by a schedule of the percent of the loan commitment outstanding and the duration of the loan commitment outstanding ranging from 170 basis points to 300 basis points over LIBOR. As a result of the Company's May 1998 Public Equity Offerings, on May 18, 1998 the Company repaid the Facility prior to its scheduled maturity date of March 18, 1999. The Company's early extinguishment of the Facility resulted in the write-off of unamortized deferred financing costs totaling approximately \$574 which were classified as an extraordinary loss during the quarter ended June 30, 1998.

Forgiveness of subordinated property 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 the 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. This debt was forgiven in connection with the Formation Transactions.

NOTE 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) through December 31, 1998 (in thousands, except share amounts)

	Quarter ended December 31, 1997	Quarter ended September 30, 1997
Total revenues	\$16,058	\$7,149
Income net of minority interest and before extraordinary item	\$ 3,533	\$2,056
Extraordinary item	–	(1,874)
Net income	\$ 3,503	\$ 182
Income per common share before extraordinary item	\$ 0.29	\$ 0.17
Net income per common share—basic	\$ 0.29	\$ 0.01
Net income per common share—diluted	\$ 0.28	\$ 0.01

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

	Quarter ended December 31, 1998	Quarter ended September 30, 1998	Quarter ended June 30, 1998	Quarter ended March 31, 1998
Total revenues	\$40,063	\$40,460	\$34,252	\$22,197
Income net of minority interest and before extraordinary item	\$ 9,256	\$10,256	\$ 6,372	\$ 4,089
Extraordinary item	–	–	(522)	–
Net income	9,256	10,256	5,850	4,089
Preferred dividends and accretion	(2,346)	(2,433)	(1,191)	–
Income available to common shareholders	\$ 6,910	\$ 7,823	\$ 4,659	\$ 4,089
Income per common share before extraordinary item	\$ 0.29	\$ 0.33	\$ 0.28	\$ 0.33
Net income per common share—basic and diluted	\$ 0.29	\$ 0.33	\$ 0.25	\$ 0.33

NOTE 15 Segment Information

The Company is a REIT engaged in owning, managing, leasing and repositioning class B office properties in Manhattan, New York and has one reportable office real estate segment. The Company evaluates real estate performance and allocates resources based on net income.

The Company's real estate portfolio is located in the midtown and downtown markets of Manhattan. The primary sources of revenue are generated from tenant rents and escalations and reimbursement revenue. All real estate property operating expenses primarily consist of security, maintenance, utility costs and ground rent expense (at certain applicable properties). The single office real estate business segment meets the quantitative threshold for determining reportable segments. The Company has no tenant with rental revenue greater than 10% of the Company's revenue.

NOTE 16 Subsequent Events**Graybar Building Sublease**

During January 1999, the Company purchased a sub-leasehold interest in 420 Lexington Avenue for \$27.3 million. The sub-leasehold expires on December 30, 2008 with one 21-year renewal term expiring on December 30, 2029.

BMW Building

During January 1999, the Company acquired a 65% interest in the property located at 555 West 57th Street (The BMW Building) for approximately \$66.7 million (including an acquired 65% interest in existing mortgage debt totaling \$44 million). The 941,000 square foot property was approximately 100% leased as of the acquisition date.

The Company funded these acquisitions through its Credit Facility.

On March 12, 1999 the Company entered into an agreement with Reckson Associates Realty Corp. to purchase four office properties totaling 675,000 square feet for \$84.5 million. The acquisition will be financed through a mortgage on the acquired properties (\$53 million) and a mortgage on the Graybar Building (\$65 million). The excess funds will be used to reduce the balance outstanding on the Company's Credit Facility.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of SL Green Realty Corp.

We have audited the accompanying consolidated balance sheets of SL Green Realty Corp. as of December 31, 1998 and 1997 and the related consolidated statements of income, stockholders' equity and cash flows for the year ended December 31, 1998 and 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 audits.

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 financial statements referred to above present fairly in all material respects, the consolidated financial position of SL Green Realty Corp. at December 31, 1998 and 1997 and the consolidated results of its operations and its cash flows for the year ended December 31, 1998 and 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, 1999 except for the last paragraph in Note 16,
as to which the date is March 12, 1999

To the Board of Directors of SL Green Realty Corp.

We have audited the accompanying combined balance sheet of SL Green Predecessor as of December 31, 1996 (not presented herein) and the related combined statements of income, owners' deficit and cash flows for the period from January 1, 1997 to August 20, 1997 and for the year 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 based on our audits.

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 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 the year ended December 31, 1996 in conformity with generally accepted accounting principles.



New York, New York

February 10, 1998

DIRECTORS—NON OFFICERS

John H. Alschuler, Jr.
Executive Committee; Audit Committee;
Compensation Committee
President;
Hamilton, Rabinowitz & Alschuler, Jr.

Edwin Thomas Burton, Jr.
Audit Committee, Chairman; Compensation Committee
Visiting Professor of Commerce;
University of Virginia

John S. Levy
Audit Committee; Compensation Committee
Private Investor

OFFICERS

Stephen L. Green
Chairman of the Board and Chief Executive Officer;
Executive Committee

David J. Nettina
President and Chief Operating Officer

Marc Holliday
Executive Vice President and Chief Investment Officer

Benjamin P. Feldman
Executive Vice President—
Secretary and General Counsel;
Director; Executive Committee

Ann Iseley
Executive Vice President and Chief Financial Officer

Steven H. Klein
Executive Vice President—Acquisitions

Gerard Nocera
Executive Vice President—Leasing

Nancy Ann Peck
Executive Vice President—Development and Operations

EXECUTIVE OFFICES

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STOCK LISTING

NYSE Symbol: SLG, SLG PrA

ANNUAL REPORT, FORM 10K

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ANNUAL MEETING

Wednesday, May 19, 1999
At the Company's property at
110 East 42nd Street
5th Floor Conference Room
at 10 am

SHAREHOLDERS

On March 1, 1999 the Company had approximately 3,500 shareholders.



420 Lexington Avenue

New York, NY 10170

212.594.2700