

To Our Shareholders

Vornado's **Funds From Operations** for the year ended December 31, 2003 was \$518.2 million, \$4.44 per diluted share, compared to \$439.8 million, \$3.91 per diluted share, for the year ended December 31, 2002.

Net Income applicable to common shares for the year ended December 31, 2003 was \$439.9 million, \$3.80 per diluted share, versus \$209.7 million, \$1.91 per diluted share, for the previous year. Here are the financial results by segment:

(\$ IN MILLIONS, EXCEPT PER SHARE DATA)	% of 2003 Adjusted EBITDA	2003	2002	Same Store
EBITDA:				
New York Office	31%	331.2	320.9	3.3%
CESCR	28%	292.3	289.7	(1.7%)
Total Office	59%	623.5	610.6	1.0%
Retail	13%	138.9	113.9	4.5%
Merchandise Mart	11%	117.9	108.1	4.1%
Temperature Controlled Logistics	7%	78.0	69.8	4.8%
Newkirk Joint Venture	7%	76.9	69.6	3.9%
Alexander's	3%	23.0	39.4	4.0%
Hotel Pennsylvania	1%	4.6	7.6	(39.5%)
Other	(1%)	(9.1)	(57.2)	
EBITDA before minority interest and gains on sale of real estate	100%	1,053.7	961.8	
Funds from Operations		518.2	439.8	
Funds from Operations per share		\$4.44	\$3.91	

Internally, at budget meetings and such, Joe Macnow uses as an earnings metric Funds from Operations *Adjusted for Comparability*. This metric allows us to focus on the core business by eliminating certain one-time items. One-timers are inevitable, can be either good or

bad, but I admit we sometimes have a few too many of them. The following chart reconciles Funds from Operations as Reported to Funds from Operations Adjusted for Comparability:

This letter and this Annual Report contain forward-looking statements as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are not guarantees of performance. The Company's future results, financial condition and business may differ materially from those expressed in these forward looking statements. These forward looking statements are subject to numerous assumptions, risks and uncertainties. Many of the factors that will determine these items are beyond our ability to control or predict. For further discussion of these factors, see "Forward Looking Statements" and "Item 1. Business-Risk Factors" in the Company's annual report on Form 10-K for the year ended December 31, 2003.