

Simon Property Group



1999 Annual Report



## CORPORATE PROFILE

Simon Property Group, Inc. (NYSE: SPG), headquartered in Indianapolis, Indiana, is a self-administered and self-managed real estate investment trust (REIT). Through subsidiary partnerships, it is engaged in the ownership, development, management, leasing, acquisition and expansion of income-producing, market-dominant retail properties. At December 31, 1999, the Company owned or had an interest in 259 properties comprising regional malls, community shopping centers and specialty and mixed-use properties containing 185 million square feet of gross leasable area (GLA) in 36 states and five assets in Europe. Simon Property Group attracts over 2 billion shopping visits annually to its properties and is the largest publicly traded retail real estate company in North America with a total market capitalization at December 31, 1999, of approximately \$17 billion.

---

## TABLE OF CONTENTS

Financial Highlights	2
Report to Shareholders	3
Selected Financial Data	16
Management's Discussion and Analysis	18
Financial Statements	33
Notes to Financial Statements	47
Board of Directors	74
Investor Information	75

## FINANCIAL HIGHLIGHTS \*

in millions, except per share amounts and statistical data

Year Ended December 31	1999	1998	1997	1996	1995
Total revenue	<b>\$1,893</b>	\$1,406	\$1,054	\$748	\$554
Total EBITDA	<b>1,843</b>	1,362	940	615	438
Funds from operations	<b>735</b>	544	415	281	198
Funds from operations per share – diluted	<b>3.06</b>	2.83	2.58	2.34	2.14

## STATISTICAL DATA

Regional mall comparable sales per square foot	<b>\$ 377</b>	346	318	298	278
Regional mall average base rent per square foot	<b>\$ 27.33</b>	25.70	23.65	20.68	19.18
Regional mall occupancy	<b>90.6%</b>	90.0%	87.3%	84.7%	85.5%
Gross leasable area (million square feet)	<b>185</b>	166	129	113	62

\* refer to complete financial statements on pages 33 to 73.

DAVID SIMON  
Chief Executive Officer



## TO OUR SHAREHOLDERS AND FELLOW EMPLOYEES

1999 was another year of significant accomplishment for Simon Property Group. Despite widespread predictions of gloom and doom, e-commerce did not kill the regional mall. As a matter of fact, to use an “e” world phrase, the mall demonstrated a tremendous amount of “stickiness.” It was our best year ever with total sales, sales per square foot, customer visits and occupancy all reaching record levels. Funds from operations (FFO) grew 35% in 1999, to \$735 million and on a per share basis the increase was 8%, to \$3.06 per share. We completed two key acquisitions, opened 6 new retail properties in major metropolitan markets, continued on our productive redevelopment program and unveiled our exciting, multi-faceted Internet and new media strategy.

We had a solid year in the management of our real estate, but I believe there is still significant embedded growth in our existing portfolio. The franchise value of our core business is great. We have a portfolio of properties that is unequalled in its combination of scale and quality. While this portfolio will always be the foundation of our profitability, we’re in the midst of a fundamental change within our organization.

That change is what I will refer to as a “relationship model.” At Simon we are developing relationships on an expanded scale with our tenants, by offering them opportunities and services not traditionally provided by a landlord. We’re developing relationships with strategic partners such as Turner Broadcasting System, Inc. and Enron Corp. to better serve our shoppers and tenants. But even more important, we’re developing one-to-one relationships with our shoppers, through offerings like our mall websites, MALLPeRKS, YourSherpa.com and FastFrog.com. I believe that this enhanced one-to-one relationship with our shopper lays the foundation for an expanded business model and new revenue streams for our Company.

Working closely with other “best in class” corporations is one way we add to the Simon shopping experience. Last year we allied ourselves with Time Inc. Custom Publishing, a division of Time Inc., to produce S magazine, the first national lifestyle magazine targeted to mall shoppers. In November, we joined with Turner Broadcasting System, Inc. to create the Simon Live Media Network that will converge physical place and virtual space to provide Simon shoppers a seamless, value-added, entertainment-oriented shopping experience. Simon Live Media platforms will include an exclusive in-mall television network, live events, interactive media stations and an Internet website.

Bringing electronic conveniences through technological advances to our 100 million regular shoppers is a logical step toward the creation of new revenue streams. Computers, cell phones, hand-held PDAs (personal digital assistants), e-mail and the Internet have clearly become an integral part of American life. In fact, the majority of Americans have embraced them faster and in greater quantities than even the most optimistic marketing experts ever predicted. For example, today there are more than 75 million cell phones in the United States. Adoption of technology by the public, particularly among younger people, reflects a permanent and profound change in how Americans interact with one another and with the world of commerce. Instead of ignoring this phenomenon, we intend to fully embrace it. We are firm believers in the value that an integrated clicks and mortar strategy can bring to our company.

At the heart of our efforts is building closer relationships with the shoppers who visit our properties. This is why we have been intensifying our efforts to make the name “Simon” synonymous with shopping—and the reason for our nationwide branding campaign launched in March of 1999. Results of this campaign have been exceptional.

## SIMON BRANDING CAMPAIGN – LAUNCHED MARCH 1, 1999

### Object of the Brand is to:

- Create a distinct identity for Simon's national network of malls
- Create a national communications platform which enables one-to-one customer marketing
- Establish an emotional link in the hearts and minds of consumers
- Increase shopper loyalty over time
- Provide employee and marketing partner benefits

### Initial Results of the Branding Campaign:

- In 1997, benchmark research indicated that only 3% of the shoppers surveyed knew Simon.
- In 2000, more than half of all mall shoppers surveyed recognized the Simon name and nearly 2/3 of Simon mall shoppers recognized and understood the Simon brand.
- Over half of Simon shoppers recognized the theme, "Simply the best shopping there is."



The one-to-one relationship programs we've developed so far, such as MALLPeRKS, our shopper loyalty program, are just a glimpse of what is possible in the retailing environment of the future. To begin with, we plan to take this program to a higher level from the current 2.5 million members. Success in expanding the program will mean more return visits and incremental sales for our tenants and will further our goal of developing the Simon brand name, enabling us to make new connections with shoppers.

How can we expand our shopper loyalty program? By offering even better value to shoppers, improving its ease of use and communicating more regularly and conveniently with members. This would not be possible without the recent advances of technology. Building a more intimate relationship with our customers also means obtaining a better understanding of their preferences, and customizing the shopping experience for each customer.

Ultimately, we intend to integrate the best aspects of the traditional bricks-and-mortar distribution channel with the vast potential offered by the Internet . . . clicks and mortar. Imagine, for example, the possibilities that can develop from leveraging the knowledge we gain through one-to-one customer relationships with the communications potential of the Internet. By knowing the kind of items an individual typically buys, we can contact that customer by e-mail when these items go on sale or when new merchandise arrives at one of our retailer-tenants in the nearest Simon mall or even as the customer walks through the mall.

We are developing a number of cutting-edge, Internet-related products geared toward this new business model.

- In 2000, we will rollout a new shopping portal for all of our malls at [shopsimon.com](http://shopsimon.com). Shoppers can find out what is happening at their local mall such as events and sales, enroll in MALLPeRKS, buy Simon gift certificates or click through to their favorite retailer's e-commerce site.
- TenantConnect.Net will enable us to deliver broadband technology to our retailers, enhancing their ability to deliver goods and services. It recognizes the fact that our space is the so-called "last mile," the conduit that reaches 20,000 tenant-retailers and the common areas of our malls. TenantConnect underwent beta testing in 1999.
- Simon has the resources, both human and financial, and the scale to actively explore the potential to bring together physical and virtual worlds. Additional futuristic possibilities are emerging through [clixnmortar.com](http://clixnmortar.com), our venture creation firm that incubates, develops and launches these products. We have beta tested two exciting products thus far.

One is FastFrog.com, a teen-oriented program. At the center of this is a PDA, a hand-held device capable of reading product bar codes. Our teenage shoppers are urged to "wish louder" by the use of a PDA while at the mall, scanning items they want to add to their personal online "wish list" registry. The teen can then manage this list and share it with friends and relatives.

YourSherpa.com



AT SHOPSIMON.COM YOU CAN

- Buy Simon gift certificates online
- Enroll in MALLPeRKS online
- For each mall in the Simon portfolio find:
  - ◆ Online shopping
  - ◆ Local mall events
  - ◆ National promotions
  - ◆ Mall information
  - ◆ Tenant directory
  - ◆ Theatre showings and times
  - ◆ Job postings
  - ◆ Driving directions
  - ◆ E-mail Registry Program (mall and store promotions)
- Access other Simon-related links: MALLPeRKS, "S" Magazine (home subscription available), Simon Youth Foundation, Simon.com, links to retailer websites

shop**simon**.com





Also successful at the beta-testing level was YourSherpa.com. YourSherpa combines the advantages of shopping in person with some of the attractions of online shopping. Our targeted audience, time-pressed upwardly mobile shoppers, are asked if they would like to “take the buying out of shopping.” Participants browse a store’s offerings and use the PDA to scan items they are interested in purchasing. The rest of the transaction is handled more like an online purchase, with the merchandise delivered and, if desired, wrapped and personalized. As in online shopping, the buyer avoids waiting in checkout lines and lugging merchandise to the parking lot. But unlike online shopping, the buyer may actually see and touch the merchandise prior to purchase. YourSherpa creates one-click shopping in the mall environment, enhancing the experience for the shopper.

Less obvious but perhaps even more important to this one-to-one relationship model is our key asset – our steadily growing base of shoppers. Consider the world of e-commerce. One of the most difficult but important components of e-commerce is generating sufficient “hits” on web sites. Millions of dollars are spent on advertising by e-commerce firms in an effort to generate hits. At Simon, we already have the hits, in the form of more than 100 million people already motivated to spend money, who make over 2 billion visits to our malls every year. That’s an extremely valuable asset; the challenge for us is leveraging that asset into new, profitable ventures.

During 1999 we made great strides in developing our one-to-one relationship model with our shoppers. We are investing a significant amount of resources to explore the various opportunities that technology has to offer in the development of this model. Think of it in these terms. America Online, Inc. (AOL), which is probably the best example of a one-to-one customer relationship model, has 22 million customers and a market capitalization of approximately \$125 billion. This equates to a market value of more than \$5,600 for each customer relationship. Simon has 100 million distinct customers and our \$6 billion equity market capitalization equates to a market value of only \$60 per relationship. Why does Wall Street value an AOL customer so much more than our customer? Because AOL has created a real one-to-one relationship with their customer. Rest assured, we are working at “warp speed” to create that kind of relationship with our customer, our shoppers.

On a less pleasant note, real estate stocks, including SPG, remained out of favor in 1999 as investors focused on Internet and technology stocks. Retail real estate companies suffered even more in the stock market from concerns that e-commerce would impact their business. As our operating performance in 1999 demonstrates, the mall is alive and well. And I believe our future is bright and the opportunities afforded us in the convergence of retail real estate and technology are endless. Our management team remains committed to growing our profitability.

As always, we are grateful for the support we receive from our shareholders, tenants, employees and shoppers. We look forward to working together to build a future that builds upon our current successes and continues into exciting new directions.

Sincerely,

A handwritten signature in black ink, appearing to be 'D. Simon', with a period at the end.

David Simon  
Chief Executive Officer

Indianapolis, IN  
March 17, 2000

## OPERATIONAL REVIEW

For Simon Property Group, 1999 was a year marked by growth on diverse fronts.

Total revenue grew to \$1.89 billion, up 35% from 1998. The Company's share of diluted funds from operations increased 53% to \$574.0 million. The increase on a per share, diluted basis was 8%, to \$3.06 in 1999 from \$2.83 in 1998. Comparable retail sales of tenants in place for at least 24 months grew 9% to \$377 per square foot.

Average base rents were up 6% at year-end, while the initial base rent on new store mall leases signed in 1999 grew by 27% over the rents paid by tenants whose stores closed or whose leases expired. We executed over 7 million square feet of mall store leases during 1999. This level of activity reflects the strong leasing momentum we currently enjoy as well as the increasing quality of our portfolio.

We made gains in occupancy as well, growing 60 basis points to 90.6% at year-end, an especially significant achievement in light of the fact that we lost 800,000 square feet of regional-mall, small-shop space to tenant bankruptcies during 1999 (nearly three times the vacancy caused by tenant bankruptcies a year earlier). We are confident that we will see ongoing gains in occupancy during 2000, as we continue to absorb this space. We also expect tenant bankruptcies to return to more normal levels in 2000.

Some people are so focused on the sheer size of our portfolio that they overlook its quality. As 1999 results indicate, we have a collection of properties that is both large and high-quality, featuring well-positioned, market-dominant malls that tend to grow at faster rates than do "average" malls. Consider these facts:

- 13 of our malls recorded 1999 sales exceeding \$550 per square foot.
- 38 of our malls had sales exceeding \$400 per square foot.
- 107 malls reported 1999 sales of more than \$300 per square foot.
- Just nine of our malls recorded sales of less than \$200 per square foot, and all but one of these are either under contract to be sold or are being marketed for sale.

Simon now owns or has an interest in over 250 properties comprising 185 million square feet of gross leasable area in 36 states, plus five assets in Europe. Together with its affiliated management company, Simon owns or manages 190 million square feet of gross leasable area in retail and mixed-use properties.

## PREEMINENT PORTFOLIO

Simon Property Group is the country's largest owner of malls and shopping centers, and works to offer the best shopping possible – from coast to coast. Simon owns and manages some of the nation's best malls, such as:

- Aventura Mall, Miami, FL
- Dadeland Mall, Miami, FL
- The Fashion Centre at Pentagon City, Arlington, VA
- The Florida Mall, Orlando, FL
- The Forum Shops at Caesars, Las Vegas, NV
- Lenox Square, Atlanta, GA
- Mall of America, Minneapolis, MN
- Phipps Plaza, Atlanta, GA
- Roosevelt Field, Long Island, NY
- South Shore Plaza, Boston, MA
- Town Center at Boca Raton, Boca Raton, FL
- The Westchester, White Plains, NY



### SIMON'S MOST SIGNIFICANT OPENING IN 1999 – MALL OF GEORGIA

- 1.6 million square foot super-regional center located in Gwinnett County on the fast-growing northeast side of metropolitan Atlanta
- Anchored by Nordstrom, Dillard's, Lord & Taylor, Rich's and JCPenney
- Immediately adjacent to the mall is a 140,000 square foot village featuring lifestyle tenants and restaurants. A 500-seat amphitheater and children's play area are part of the pedestrian-oriented outdoor streetscape of the village.
- Specialty anchors complement the mall and village and include: Bed Bath & Beyond, Galyan's, Haverty's, Restoration Hardware, Harold's, and Barnes & Noble.
- Design of the enclosed mall and its companion village combines imagination and respect for area history, featuring murals illustrating Georgia's unique heritage.



**PROPERTY INVESTMENTS: 1999**—Simon invested \$680 million in development and redevelopment in 1999. The 1999 investments centered around six new Simon centers—none of them traditional malls—which opened in 1999:

- The Shops at Sunset Place in South Miami, Florida, is a 510,000-square-foot specialty center that blends retail and entertainment, with anchors including an AMC 24-screen cinema, an IMAX theatre, NIKETOWN, Barnes & Noble, Virgin Megastore, GameWorks, Z Gallerie, Old Navy, Urban Outfitters and FAO Schwarz.
- The Mall of Georgia in suburban Atlanta is a 1.6 million-square-foot regional mall that includes a 140,000-square-foot pedestrian-oriented outdoor streetscape featuring lifestyle tenants and restaurants. Anchors include Nordstrom, Dillards, Lord & Taylor, Rich's, JCPenney, IMAX and Regal 20 Cinemas.
- The Mall of Georgia Crossing, adjacent to The Mall of Georgia, is a 441,000-square-foot power center anchored by Target, Best Buy, Staples, TJMaxx & More and Nordstrom Rack.
- Concord Mills in Concord, North Carolina, is a 1.4-million-square-foot value-oriented super-regional mall developed with The Mills Corporation and Kan Am. Anchors and major tenants at this mall in the Charlotte area include Books-A-Million, Bed Bath & Beyond, TJMaxx, Burlington Coat Factory, Bass Pro Outdoor World, AMC Theatres, Jillian's, Alabama Grill, Group USA, Sun & Ski and For Your Entertainment.
- The Shops at North East Mall is a 366,000-square-foot power center adjacent to Simon's North East Mall in Hurst, Texas, in the Fort Worth area. Anchors include Michaels, OfficeMax, PetsMart, TJMaxx, and Bed Bath & Beyond, along with Nordstrom Rack, Noodle Kidoodle, Ulta Cosmetics, Best Buy and Old Navy.
- Waterford Lakes Town Center in Orlando, Florida, is a 960,000-square-foot town center concept that blends retail, recreation, entertainment, restaurant and specialty users. The first phase opened in November and is anchored by Super Target, TJMaxx, Ross Dress for Less, Bed Bath & Beyond and Barnes & Noble, along with Old Navy and Regal 20-Plex Theatre. The second phase will open in 2000.

Major redevelopment projects were completed at Florida Mall in Orlando; The Shops at Mission Viejo in Mission Viejo, California; and Richmond Town Square in Cleveland, Ohio. Each is an example of our ability to improve the performance of a significant asset through an opportunistic expenditure of capital.

New projects currently under construction include the 430,000-square-foot Orlando Premium Outlets center in Florida (our first joint venture with Chelsea GCA Realty, the country's leading developer of upscale outlet centers) and the 1.4-million-square-foot value-oriented super-regional Arundel Mills in Anne Arundel County, Maryland (our fifth joint venture with The Mills Corporation). Major redevelopment projects slated for 2000 completion include LaPlaza Mall in McAllen, Texas; North East Mall in Hurst, Texas; Palm Beach Mall in West Palm Beach, Florida; and Town Center at Boca Raton in Florida.

**ACQUIRING QUALITY PROPERTIES**—Our focus on enhancing the quality of our portfolio is reflected in 1999's acquisition and disposition activity. Last October, Simon acquired 50 percent of the economic ownership of Mall of America, one of the most visited malls in the world. This super-regional mall in Bloomington, Minnesota, includes 2.8 million square feet of gross leasable space and a seven-acre amusement park. Mall of America is a highly productive mall, with 44 million customer visits a year and sales approaching \$550 per square foot.

Simon also completed its acquisition of the New England Development Company's regional mall portfolio in the fourth quarter of 1999. A limited-liability company, 49% owned by Simon, acquired interests in 13 malls in the New England Area, primarily in Boston. Simon also acquired 100% of an additional asset from the portfolio, and manages all 14 centers.

The Company also made progress toward its goal of selling certain non-core assets. During 1999 and the first month of 2000, Simon completed the disposition of five properties including a New York City office building, our interest in a hotel, two community centers and our interest in a regional mall. Our plan is to continue to market non-core assets, including our remaining office assets, for sale during 2000.

Our 1998 investment in Groupe BEG, a European development company, has expanded Simon's presence internationally – with three properties in Poland and two in France. Groupe BEG has significant experience in European retail properties. Our investment as of year-end 1999 was \$41 million.

**SIMON BRAND VENTURES**—We continue to be pleased with the progress of Simon Brand Ventures, our stable of partnership activities designed to enhance the shopping experience and boost our profits. Simon Brand Ventures added more than \$45 million to our net profits in 1999, with new alliances and partnerships including:

- Time Inc. Custom Publishing—Time publishes S magazine, the first national lifestyle magazine targeted to mall shoppers. Its monthly circulation is about 3 million copies.
- AT&T—This alliance makes AT&T the exclusive long-distance provider for the MALLPeRKS program.
- Enron Energy Services—Enron will supply or manage the energy-commodity requirements throughout the Simon portfolio.
- Ford Motor Company—An in-mall promotion showcased the introduction of the 2000 Ford Taurus.
- Microsoft Corp.—This alliance offered Simon mall gift certificates with the purchase of the MSN Internet Access online service.
- Turner Broadcasting/Time Warner—This exciting partnership will result in the introduction later this year of the Simon Live Media Network. The goal of our alliance is to create a new media operation and retail entertainment network benefiting from Turner/Time Warner's broadcasting and entertainment expertise and our customer asset base. Platforms will include an in-mall television network, an Internet web site, interactive media stations, and S magazine.

#### ACQUISITION OF THE NEW ENGLAND DEVELOPMENT PORTFOLIO

- In 1999, SPG acquired a portfolio of 14 regional malls – ten in Massachusetts; two in New Hampshire; and one each in Connecticut and Virginia – comprising 10.6 million square feet. SPG owns 49% of the limited liability company comprised of JPMorgan Investment Management's Strategic Property Fund, New York State Teachers Retirement System and Teachers Insurance and Annuity Association which acquired the portfolio.
- This high-quality portfolio generated sales of approximately \$400 per square foot in 1999.
- These assets, along with Simon's Burlington Mall and South Shore Plaza, give the Company a preeminent franchise in the Boston and New England markets.
- This portfolio was an ideal fit for Simon's strategy of owning high-quality, market-dominant retail real estate assets.



### SIMON LIVE MEDIA NETWORK STRATEGY

Simon's most valuable asset is its customer relationships. Optimizing the lifetime value of these relationships will provide the greatest return on this asset.

- Build high value relationships with shoppers through the shopper affinity program and shopsimon.com.
- Leverage these relationships with a fully integrated media distribution network that reaches a critical mass of Simon's best shoppers.
- Make strategic use of programming and content to offer shoppers a value-added experience that drives traffic and builds one-to-one communication with the consumer.





We also continued to develop our Merchant Resource Network, expanding our Preferred Vendors program serving tenants with everything from total facility management to architectural design to diaper-changing tables. Our tenants benefit from vendors that have been prescreened and prequalified, giving retailers the ability to more easily outsource non-core activities and focus instead on their primary business of retailing.

We will aggressively rollout our JCDecaux MallScape advertising fixtures in 2000, providing a unique opportunity for retailers and manufacturers to display their marketing messages literally adjacent to the actual point of sale.

**ELECTRONIC COMMERCE**—Our multi-tiered digital strategy, announced in 1999, is aimed at exploiting new retail opportunities in the Internet age. The first tier involves extending recognition of Simon properties on the World Wide Web through [shopsimon.com](http://shopsimon.com) and individual web sites for Simon malls. Enhanced websites offering shoppers the ability to join MALLPeRKS, buy Simon gift certificates online, learn about local mall events or click through to their favorite Simon stores are just a keystroke away for Simon shoppers.

Our strategy's second tier involves a venture-creation firm called [clixnmortar.com](http://clixnmortar.com), through which we plan to develop and launch products bringing together physical and online retailing. The goal is to extend into cyberspace the opportunities inherent in our physical mall space, our more than 2 billion annual shopper visits and our relationships with key retailers.

The initial components of this second-tier strategy underwent beta testing as 1999 came to a close. At The Mall of Georgia and Gwinnett Place, both in the Atlanta area, we tested [FastFrog.com](http://FastFrog.com). This teen "wish list" registry uses personal digital assistants to scan product bar codes, which are uploaded to a website. The teen can then manage this list and share it with friends and relatives. Seven teen-oriented retailers took part in our beta testing.

We tested the [YourSherpa.com](http://YourSherpa.com) shopping-assistant program at FAO Schwarz at Atlanta's Lenox Square. This program, which also uses a PDA, targets mid-to-high income baby boomers with a lot of shopping to do, too little time to do it and too few arms to carry the merchandise. Customers carry the PDA and shop at their convenience, ordering products for later delivery and avoiding checkout lines. One customer used YourSherpa to order more than \$6,000 worth of merchandise in a single visit.

We expect FastFrog and YourSherpa to be expanded in 2000, with more retailers participating and more malls offering these exciting shopping alternatives.

Another venture tested at seven properties in 1999 was [TenantConnect.Net](http://TenantConnect.Net), a national broadband retail extranet. The aim is to provide a cost-effective platform for retail initiatives using technology created by the venture's strategic partners. Advantages TenantConnect offers include speed, reliability, price flexibility, scalability, quality and consistency. During 2000, we plan to install TenantConnect in most existing Simon malls.

**SELECTED FINANCIAL DATA**

The following tables set forth selected combined and separate financial data for the Companies. The financial data should be read in conjunction with the combined financial statements and notes thereto and with Management's Discussion and Analysis of Financial Condition and Results of Operations.

Other data management believes is important in understanding trends in the Companies' business is also included in the tables.

**Simon Property Group, Inc. and SPG Realty Consultants, Inc. Combined:**

As of or for the Year Ended December 31,	1999 <sup>(1)</sup>	1998 <sup>(1)</sup>	1997 <sup>(1)</sup>	1996 <sup>(2)</sup>	1995
(in thousands, except per share data)					
<b>Operating Data:</b>					
Total revenue	\$ 1,892,703	\$ 1,405,559	\$ 1,054,167	\$ 747,704	\$ 553,657
Income before unusual and extraordinary items	316,100	236,230	203,133	134,663	101,505
Net income available to common shareholders	\$ 167,314	\$ 133,598	\$ 107,989	\$ 72,561	\$ 57,781
<b>Basic Earnings Per Paired Share:</b>					
Income before extraordinary items	\$ 1.00	\$ 1.02	\$ 1.08	\$ 1.02	\$ 1.08
Extraordinary items	(0.03)	0.04	—	(0.03)	(0.04)
Net income	\$ 0.97	\$ 1.06	\$ 1.08	\$ 0.99	\$ 1.04
Weighted average Paired Shares outstanding	172,089	126,522	99,920	73,586	55,312
<b>Diluted Earnings Per Paired Share:</b>					
Income before extraordinary items	\$ 1.00	\$ 1.02	\$ 1.08	\$ 1.01	\$ 1.08
Extraordinary items	(0.03)	0.04	—	(0.03)	(0.04)
Net income	\$ 0.97	\$ 1.06	\$ 1.08	\$ 0.98	\$ 1.04
Diluted weighted average Paired Shares outstanding	172,226	126,879	100,304	73,721	55,422
Distributions per Paired Share <sup>(3)</sup>	\$ 2.02	\$ 2.02	\$ 2.01	\$ 1.63	\$ 1.97
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 157,632	\$ 129,195	\$ 109,699	\$ 64,309	\$ 62,721
Total assets	14,223,243	13,277,000	7,662,667	5,895,910	2,556,436
Mortgages and other notes payable	8,768,951	7,973,372	5,077,990	3,681,984	1,980,759
Shareholders' equity	\$ 3,253,658	\$ 3,409,209	\$ 1,556,862	\$ 1,304,891	\$ 232,946
<b>Other Data:</b>					
Cash flow provided by (used in):					
Operating activities	\$ 627,056	\$ 529,415	\$ 370,907	\$ 236,464	\$ 194,336
Investing activities	(612,876)	(2,102,032)	(1,243,804)	(199,742)	(222,679)
Financing activities	14,257	1,592,113	918,287	(35,134)	(14,075)
Ratio of Earnings to Fixed Charges and Preferred Dividends <sup>(4)</sup>	1.36x	1.44x	1.54x	1.55x	1.66x
Funds from Operations (FFO) of Simon Group <sup>(5)</sup>	\$ 734,513	\$ 544,481	\$ 415,128	\$ 281,495	\$ 197,909
FFO allocable to the Companies	\$ 534,285	\$ 361,326	\$ 258,049	\$ 172,468	\$ 118,376

### Simon Property Group, Inc.:

As of or for the Year Ended December 31,	1999 <sup>(1)</sup>	1998 <sup>(1)</sup>	1997 <sup>(1)</sup>	1996 <sup>(2)</sup>	1995
(in thousands, except per share data)					
<b>Operating Data:</b>					
Total revenue	\$ 1,894,971	\$ 1,405,072	\$ 1,054,167	\$ 747,704	\$ 553,657
Income before unusual and extraordinary items	315,499	235,790	203,133	134,663	101,505
Net income available to common shareholders	\$ 165,944	\$ 133,286	\$ 107,989	\$ 72,561	\$ 57,781
<b>Basic Earnings Per Common Share:</b>					
Income before extraordinary items	\$ 0.99	\$ 1.01	\$ 1.08	\$ 1.02	\$ 1.08
Extraordinary items	(0.03)	0.04	—	(0.03)	(0.04)
Net income	\$ 0.96	\$ 1.05	\$ 1.08	\$ 0.99	\$ 1.04
Weighted average shares outstanding	172,089	126,522	99,920	73,586	55,312
<b>Diluted Earnings Per Common Share:</b>					
Income before extraordinary items	\$ 0.99	\$ 1.01	\$ 1.08	\$ 1.01	\$ 1.08
Extraordinary items	(0.03)	0.04	—	(0.03)	(0.04)
Net income	\$ 0.96	\$ 1.05	\$ 1.08	\$ 0.98	\$ 1.04
Diluted weighted average shares outstanding	172,226	126,879	100,304	73,721	55,422
Distributions per common share <sup>(3)</sup>	\$ 2.02	\$ 2.02	\$ 2.01	\$ 1.63	\$ 1.97
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 154,924	\$ 127,626	\$ 109,699	\$ 64,309	\$ 62,721
Total assets	14,199,318	13,269,129	7,662,667	5,895,910	2,556,436
Mortgages and other notes payable	8,768,841	7,990,288	5,077,990	3,681,984	1,980,759
Shareholders' equity	\$ 3,237,545	\$ 3,394,142	\$ 1,556,862	\$ 1,304,891	\$ 232,946

### SPG Realty Consultants, Inc.:

As of or for the Year Ended December 31,	1999 <sup>(1)</sup>	1998 <sup>(1)</sup>	1997	1996	1995
(in thousands, except per share data)					
<b>Operating Data:</b>					
Total revenue	\$ 2,277	\$ 4,582	\$ 6,214	\$ 9,805	\$ 10,423
Net income (loss)	1,370	(4,431)	1,177	(920)	(6)
<b>Basic Earnings Per Common Share:</b>					
Net income (loss)	\$ 0.80	\$ (5.17)	\$ 2.07	\$ (1.88)	\$ (0.01)
Weighted average shares outstanding	1,721	857	569	490	471
<b>Diluted Earnings Per Common Share:</b>					
Net income (loss)	\$ 0.80	\$ (5.17)	\$ 2.07	\$ (1.88)	\$ (0.01)
Diluted weighted average shares outstanding	1,722	857	569	490	471
Distributions per common share <sup>(3)</sup>	\$ —	\$ 0.39	\$ 0.40	\$ 0.425	\$ 0.625
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 2,708	\$ 1,569	\$ 4,147	\$ 4,797	\$ 2,759
Total assets	35,029	46,601	46,063	31,054	30,929
Mortgages and other notes payable	9,958	21,556	36,818	21,988	22,208
Shareholders' equity	16,113	15,067	4,316	5,039	4,320

#### Notes

- (1) Notes 3, 4 and 5 to the accompanying financial statements describe the NED Acquisition and the CPI Merger, which occurred August 27, 1999 and September 24, 1998, respectively, and other 1999, 1998 and 1997 real estate acquisitions and development. Note 2 to the accompanying financial statements describes the basis of presentation.
- (2) Beginning August 9, 1996, results include the DRC Merger.
- (3) Represents distributions declared per period, which, in 1996, includes a distribution of \$0.1515 per share declared on August 9, 1996, in connection with the DRC Merger, designated to align the time periods of distributions of the merged companies. SRC's distributions were declared prior to the CPI Merger.
- (4) In 1999, includes a \$12,000 unusual loss (see Note 13 to the accompanying financial statements) and a total of \$12,290 of asset write-downs. Excluding these items, the ratio would have been 1.39x in 1999.
- (5) Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations for a definition of Funds from Operations.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**

## FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Selected Financial Data, and all of the financial statements and notes thereto included elsewhere herein. Certain statements made in this report may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Simon Group (see below) to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions, which will, among other things, affect demand for retail space or retail goods, availability and creditworthiness of prospective tenants, lease rents and the terms and availability of financing; adverse changes in the real estate markets including, among other things, competition with other companies and technology; risks of real estate development and acquisition; governmental actions and initiatives; substantial indebtedness; conflicts of interests; maintenance of REIT status; and environmental/safety requirements.

**> Overview**

Simon Property Group, Inc. ("SPG"), a Delaware corporation, is a self-administered and self-managed real estate investment trust ("REIT"). Each share of common stock of SPG is paired ("Paired Shares") with 1/100th of a share of common stock of SPG Realty Consultants, Inc. ("SRC" and together with SPG, the "Companies"). Simon Property Group, L.P. (the "SPG Operating Partnership"), formerly known as Simon DeBartolo Group, L.P., is the primary subsidiary of SPG. Units of ownership interest ("Units") in the SPG Operating Partnership are paired ("Paired Units") with a Unit in SPG Realty Consultants, L.P. (the "SRC Operating Partnership" and together with the SPG Operating Partnership, the "Operating Partnerships"). The SRC Operating Partnership is the primary subsidiary of SRC. The Companies together with the Operating Partnerships are hereafter referred to as "Simon Group", which prior to the CPI Merger (see below) refers to Simon DeBartolo Group, Inc. and the SPG Operating Partnership.

Simon Group is engaged primarily in the ownership, operation, management, leasing, acquisition, expansion and development of real estate properties, primarily regional malls and community shopping centers. As of December 31, 1999, Simon Group owned or held an interest in 259 income-producing properties in the United States, which consisted of 168 regional malls, 78 community shopping centers, four specialty retail centers, five office and mixed-use properties and four value-oriented super-regional malls in 36 states (the "Properties"), five additional retail real estate properties operating in Europe and two properties currently under construction (the "Portfolio" or the "Portfolio Properties"). At December 31, 1999 and 1998, the Companies' direct and indirect ownership interests in the Operating Partnerships was 72.4% and 71.6%, respectively. The SPG Operating Partnership also holds substantially all of the economic interest in M.S. Management Associates, Inc. (the "Management Company"). See Note 8 to the attached financial statements for a description of the activities of the Management Company.

Operating results of Simon Group for the two years ended December 31, 1999 and 1998, and their comparability to the respective prior periods, have been significantly impacted by a number of Property acquisitions and openings beginning in 1997. The greatest impact on results of operations has come from the September 24, 1998 acquisition, through merger, of Corporate Property Investors, Inc. ("CPI") and Corporate Realty Consultants, Inc. (the "CPI Merger") (see Note 4 to the financial statements), and the acquisition of Shopping Center Associates (the "SCA Acquisition"), which included a series of transactions from September 29, 1997 to June 1, 1998 (see Note 5 to the financial statements).

In addition, Simon Group acquired ownership interests in, or commenced operations of, a number of other Properties throughout the comparative periods and, as a result, increased the number of Properties it accounts for using the consolidated method of accounting and sold interests in several Properties throughout the comparative periods (together, the "Property Transactions"). Please refer to "Liquidity and Capital Resources" for additional information on such 1999 activity and refer to Note 5 to the financial statements for information about acquisitions, dispositions and development activity prior to 1999.

## > Results of Operations

### Year Ended December 31, 1999 vs. Year Ended December 31, 1998

Operating income increased \$212.0 million or 33.0% in 1999 as compared to 1998. This increase is primarily the result of the CPI Merger (\$143.1 million) and the Property Transactions (\$23.0 million). Excluding these transactions, operating income increased approximately \$45.9 million, primarily resulting from an approximately \$15.1 million increase in consolidated revenues realized from marketing initiatives throughout the Portfolio from Simon Group's strategic marketing division, Simon Brand Ventures ("SBV"); a \$39.1 million increase in minimum rents; a \$6.3 million increase in gains from sales of peripheral properties; a \$4.7 million increase in interest income and a \$4.3 million increase in lease settlement income, partially offset by a \$14.1 million increase in depreciation and amortization and an \$8.6 million decrease in fee income. The increase in minimum rent primarily results from increased occupancy levels, the replacement of expiring tenant leases with renewal leases at higher minimum base rents, and a \$7.9 million increase in rents from tenants operating under license agreements. The increase in depreciation and amortization is primarily due to an increase in depreciable real estate realized through renovation and expansion activities.

Interest expense increased \$159.7 million, or 38.0% in 1999 as compared to 1998. This increase is primarily a result of the CPI Merger (\$125.0 million) and the Property Transactions (\$18.0 million). The remaining increase includes incremental interest resulting from the SPG Operating Partnership's 1998 issuance of \$1,075 million of public notes, the proceeds of which were used primarily to pay down the Credit Facility (see Liquidity and Capital Resources) (\$4.5 million), and incremental interest on borrowings under the Credit Facility to complete the NED Acquisition, and acquire ownership interests in the IBM Properties and Mall of America (\$6.3 million) (see Liquidity and Capital Resources and Notes 3 and 5 to the financial statements).

The \$3.4 million income tax benefit in 1999 represents SRC's pro rata share of the SRC Operating Partnership's current year losses and the realization of tax carryforward benefits for which a valuation allowance was previously provided.

Income from unconsolidated entities increased \$27.3 million in 1999, resulting from an increase in the Operating Partnerships' share of income from partnerships and joint ventures (\$28.4 million), partially offset by a decrease in its share of the income from the Management Company (\$1.1 million). The increase in the Operating Partnerships' share of income from partnerships and joint ventures is primarily the result of the joint venture interests acquired in the CPI Merger (\$17.2 million), the IBM Properties (\$3.2 million) and the NED Acquisition (\$3.1 million). The decrease in Management Company income is primarily the result of losses associated with interests in two parcels of land held by the Management Company (\$7.3 million), partially offset by increases in SBV revenues (\$2.9 million), construction services revenues (\$1.3 million) and increased earnings from a subsidiary captive insurance company (\$1.1 million).

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**

## FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As discussed further in Note 13 to the financial statements, the \$12.0 million unusual item in 1999 is the estimated result of damages arising from the litigation surrounding the 1996 acquisition through merger of DeBartolo Realty Corporation (the "DRC Merger"). The actual amount of damages has not yet been determined by the courts.

The \$6.7 million extraordinary loss and \$7.1 million extraordinary gain in 1999 and 1998, respectively, are the net results from refinancings, early extinguishments and/or forgiveness of debt.

Income before allocation to limited partners was \$297.4 million during 1999, an increase of \$54.0 million over 1998, primarily for the reasons discussed above. Income before allocation to limited partners was allocated to the Companies based on SPG's direct ownership of Ocean County Mall and certain net lease assets, and the Companies' preferred Unit preferences and weighted average ownership interests in the Operating Partnerships during the period. In addition, SRC recognizes an income tax provision (benefit) on its pro rata share of the earnings (losses) of the SRC Operating Partnership.

Preferred distributions of the SPG Operating Partnership represent distributions on preferred Units issued in connection with the NED Acquisition (see Note 3 to the financial statements). Preferred dividends of subsidiary represent distributions on preferred stock of SPG Properties, Inc., a 99.999% owned subsidiary of SPG.

Year Ended December 31, 1998 vs. Year Ended December 31, 1997

Operating income increased \$165.2 million or 34.6% in 1998 as compared to 1997. This increase is primarily the result of the CPI Merger (\$62.5 million), the SCA Acquisition (\$55.1 million), the Property Transactions (\$18.5 million) and approximately \$12.9 million from SBV. Excluding these transactions, operating income increased approximately \$16.2 million, primarily due to a \$20.2 million increase in minimum rent, and increases in gains from sales of peripheral properties (\$3.4 million) and interest income (\$2.8 million), partially offset by a \$6.3 million increase in depreciation and amortization and a \$4.3 million increase in recoverable expenses over tenant reimbursements. The increase in minimum rents results from increased occupancy levels, the replacement of expiring tenant leases with renewal leases at higher minimum base rents, and a \$4.3 million increase in rents from tenants operating under license agreements. The increase in depreciation and amortization is primarily due to an increase in depreciable real estate realized through renovation and expansion activities.

Interest expense increased \$132.1 million, or 45.9% in 1998 as compared to 1997. This increase is primarily a result of the CPI Merger (\$45.5 million), the SCA Acquisition (\$59.1 million) and the Property Transactions (\$15.0 million) and incremental interest (\$12.7 million) on borrowings under the Credit Facility to acquire the IBM Properties.

The \$7.3 million loss on the sale of an asset in 1998 is the result of the June 30, 1998 sale of Southtown Mall for \$3.3 million.

Income from unconsolidated entities increased \$9.4 million in 1998, resulting from an increase in the Operating Partnerships' share of income from partnerships and joint ventures (\$14.0 million), partially offset by a decrease in the Operating Partnerships' share of income from the Management Company (\$4.6 million). The increase in the Operating Partnerships' share of income from partnerships and joint ventures is primarily the result of the addition of the IBM Properties (\$14.5 million) and the CPI Merger (\$7.2 million), partially offset by the increase in the amortization of the excess of the Operating Partnerships' investment over their share of the equity in the underlying net assets of unconsolidated joint-venture Properties (\$8.7 million). The decrease in income from the Management Company includes a \$6.0 million decrease in development fee income.

The \$7.1 million gain from extraordinary items in 1998 is primarily the result of debt forgiveness, partially offset by prepayment penalties and write-offs of mortgage costs associated with early extinguishments of debt.

Income before allocation to limited partners was \$243.4 million in 1998, as compared to \$203.2 million in 1997, reflecting an increase of \$40.2 million, for the reasons discussed above, and was allocated to the Companies based on the Companies' direct ownership of Ocean County Mall and certain net lease assets, and the Companies' preferred Unit preference and weighted average ownership interest in the Operating Partnerships during the year.

Preferred dividends of subsidiary represent distributions on preferred stock of SPG Properties, Inc., a 99.999% owned subsidiary of SPG.

### > **Liquidity and Capital Resources**

As of December 31, 1999, Simon Group's balance of unrestricted cash and cash equivalents was \$157.6 million, including \$72.4 million related to Simon Group's gift certificate program, which management does not consider available for general working capital purposes. Simon Group has a \$1.25 billion unsecured revolving credit facility (the "Credit Facility") which had available credit of \$461 million at December 31, 1999. The Credit Facility bears interest at LIBOR plus 65 basis points and has an initial maturity of August 2002, with an additional one-year extension available at Simon Group's option. SPG and the SPG Operating Partnership also have access to public equity and debt markets.

Management anticipates that cash generated from operating performance will provide the necessary funds on a short- and long-term basis for its operating expenses, interest expense on outstanding indebtedness, recurring capital expenditures, and distributions to shareholders in accordance with REIT requirements. Sources of capital for nonrecurring capital expenditures, such as major building renovations and expansions, as well as for scheduled principal payments, including balloon payments, on outstanding indebtedness are expected to be obtained from: (i) excess cash generated from operating performance; (ii) working capital reserves; (iii) additional debt financing; and (iv) additional equity raised in the public markets.

**Sensitivity Analysis.** The Operating Partnerships' combined future earnings, cash flows and fair values relating to financial instruments are primarily dependent upon prevalent market rates of interest, primarily LIBOR. Based upon consolidated indebtedness and interest rates at December 31, 1999, a 0.25% increase in the market rates of interest would decrease future earnings and cash flows by approximately \$5.8 million, and would decrease the fair value of debt by approximately \$170 million. A 0.25% decrease in the market rates of interest would increase future earnings and cash flows by approximately \$5.8 million, and would increase the fair value of debt by approximately \$180 million.

### **Financing and Debt**

At December 31, 1999, Simon Group had combined consolidated debt of \$8,769 million, of which \$6,275 million was fixed-rate debt, bearing interest at a weighted average rate of 7.3% and \$2,494 million was variable-rate debt bearing interest at a weighted average rate of 6.6%. As of December 31, 1999, Simon Group had interest rate protection agreements related to \$438 million of combined consolidated variable-rate debt. Simon Group's interest rate protection agreements did not materially impact interest expense or weighted average borrowing rates in 1999.

Simon Group's share of total scheduled principal payments of mortgage and other indebtedness, including unconsolidated joint venture indebtedness over the next five years is \$6,017 million, with \$4,459 million thereafter. Simon Group's ratio of consolidated debt-to-market capitalization was 58.1% and 51.2% at December 31, 1999 and 1998, respectively. The increase is primarily the result of a decrease in the price of the Paired Shares in 1999.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**

## FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following summarizes significant financing and refinancing transactions completed in 1999:

**Financings Related to the NED Acquisition.** Simon Group's approximately \$894 million share of the cost of the NED Acquisition (see below) included the assumption of approximately \$530.0 million of mortgage indebtedness; \$177.1 million in cash; the issuance of 1,269,446 Paired Units valued at approximately \$36.4 million; the issuance of 2,584,227 7% Convertible Preferred Units in the SPG Operating Partnership valued at approximately \$72.8 million; and 2,584,227 8% Redeemable Preferred Units in the SPG Operating Partnership valued at approximately \$78.0 million. Simon Group's share of the cash portion of the purchase price was financed primarily using the Credit Facility.

**Secured Indebtedness.** During 1999, Simon Group refinanced approximately \$295 million of mortgage indebtedness on five of the Properties. Simon Group's share of the refinanced debt is approximately \$270 million. The weighted average maturity of the indebtedness increased from approximately 2.0 years to 7.4 years, while the weighted average interest rates decreased from approximately 8.0% to 7.7%.

**Credit Facility.** During 1999, Simon Group obtained a three-year extension on the Credit Facility to August 25, 2002, with an additional one-year automatic extension available at the option of the SPG Operating Partnership. The maximum and average amounts outstanding during 1999 under the Credit Facility were \$785 million and \$487 million, respectively.

**Unsecured Notes.** On February 4, 1999, the SPG Operating Partnership completed the sale of \$600 million of senior unsecured notes. The notes include two \$300 million tranches. The first tranche bears interest at 6.75% and matures on February 4, 2004 and the second tranche bears interest at 7.125% and matures on February 4, 2009. The SPG Operating Partnership used the net proceeds of approximately \$594 million to retire the \$450 million initial tranche of the \$1.4 billion unsecured bridge loan, which financed the majority of the cash portion of the CPI Merger (the "Merger Facility") and to pay \$142 million on the outstanding balance of the Credit Facility. Following this offering, the SPG Operating Partnership had \$250 million remaining on its debt shelf registration, under which debt securities may be issued.

In addition to these transactions, Simon Group has also received commitments from various lending institutions totaling \$550 million to payoff the second \$450 million tranche of the Merger Facility, which becomes due March 24, 2000 and bears interest at LIBOR plus 65 basis points. The new facility will mature March 2001 and also bears interest at LIBOR plus 65 basis points.

**Acquisitions and Disposals**

**The NED Acquisition.** During 1999, Simon Group acquired ownership interests in 14 regional malls from New England Development Company (the "NED Acquisition"). Simon Group acquired one of the properties directly and formed a joint venture with three partners ("Mayflower"), of which Simon Group owns 49.1%, to acquire interests in the remaining properties. Simon Group assumed management responsibilities for the portfolio, which includes approximately 10.7 million square feet of GLA.

**Other Acquisitions.** During 1999, in addition to the NED Acquisition, Simon Group acquired the remaining interests in four Properties, and 50% of the economic benefits of Mall of America for a combined price of approximately \$318 million. The purchase price included the assumption of a \$134 million pro rata share of mortgage indebtedness with a weighted average rate and maturity of 6.8% and 4.4 years, respectively; the issuance of 1,000,000 shares of 8% Redeemable Preferred Stock in SPG for \$24 million and \$160 million in cash funded primarily from the Credit Facility.



See Note 5 to the financial statements for 1998 and 1997 acquisition activity.

Management continues to review and evaluate a limited number of individual property and portfolio acquisition opportunities. Management believes, however, that due to the rapid consolidation of the regional mall business, coupled with the current status of the capital markets, that acquisition activity in the near term will be a less significant component of the Company's growth strategy. Management believes that funds on hand, and amounts available under the Credit Facility, together with the ability to issue shares of common stock and/or Units, provide the means to finance certain acquisitions. No assurance can be given that Simon Group will not be required to, or will not elect to, even if not required to, obtain funds from outside sources, including through the sale of debt or equity securities, to finance significant acquisitions, if any.

**Disposals.** During 1999, Simon Group sold an office building, an interest in a hotel, and two community centers for a total of \$59 million, resulting in a net loss of \$7 million. The SRC Operating Partnership, which owned the office building, used its \$11.8 million portion of the net proceeds primarily to repay the remaining \$10.6 million mortgage payable to the SPG Operating Partnership. The net proceeds from these sales were used primarily to reduce the outstanding balance on the Credit Facility.

In addition to the Property sales described above, as a continuing part of Simon Group's long-term strategic plan, management continues to pursue the sale of its remaining non-retail holdings and a number of retail assets that are no longer aligned with Simon Group's strategic criteria. These include interests in one regional mall and one community center sold in the first quarter of 2000 and one regional mall and four community centers, which are under contract for sale. Management expects the sale prices of its non-core assets, if sold, will not differ materially from the carrying value of the related assets.

### **Development Activity**

**New Developments.** Development activities are an ongoing part of Simon Group's business. During 1999, Simon Group opened six new Properties aggregating approximately 4.9 million square feet of GLA. In total, Simon Group invested approximately \$400 million on new developments in 1999. With fewer new developments currently under construction, Simon Group expects 2000 development costs to be approximately \$130 million.

**Strategic Expansions and Renovations.** A key objective of Simon Group is to increase the profitability and market share of the Properties through the completion of strategic renovations and expansions. During 1999, Simon Group invested approximately \$277 million on redevelopment projects and completed four major redevelopment projects, which added approximately 1.4 million square feet of GLA to the Portfolio. Simon Group has a number of renovation and/or expansion projects currently under construction, or in preconstruction development and expects to invest approximately \$270 million on redevelopment in 2000.

**International Expansion.** The SPG Operating Partnership and the Management Company have a 25% ownership interest in European Retail Enterprises, B.V. ("ERE") and Groupe BEG, S.A. ("BEG"), respectively, which are accounted for using the equity method of accounting. BEG and ERE are fully integrated European retail real estate developers, lessors and managers. Simon Group's total investment in ERE and BEG at December 31, 1999 was approximately \$41 million, with commitments for an additional \$22 million, subject to certain performance and other criteria, including Simon Group's approval of development projects. The agreements with BEG and ERE are structured to allow Simon Group to acquire an additional 25% ownership interest over time. As of December 31, 1999, BEG and ERE had three Properties open in Poland and two in France.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**

## FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**Other**

On September 30, 1999, Simon Group entered into a five year contract with Enron Energy Services for Enron to supply or manage all of the energy commodity requirements throughout the Portfolio. The contract includes electricity, natural gas and maintenance of energy conversion assets and electrical systems including lighting. This alliance is designed to reduce operating costs for Simon Group's tenants, as well as deliver incremental profit to Simon Group.

Also during the third quarter of 1999, Simon Group launched a new program designed to take advantage of new retail opportunities of the digital age. Elements of the strategy include digitizing the existing assets of the Properties by implementing internet web sites for each of the Properties, creating products that leverage the digitalization of consumers and Simon merchants through an enhanced broadband network called TenantConnect.net and incubating concepts that leverage the physical and virtual worlds through a venture creation subsidiary called clinxmortar.com, a subsidiary of the SRC Operating Partnership. As these programs are still in the development stage, management does not expect their revenues to be a significant component of combined revenues in 2000.

**Capital Expenditures on Consolidated Properties**

	1999	1998	1997
New Developments	\$ 226	\$ 22	\$ 80
Renovations and Expansions	248	250	197
Tenant Allowances	65	46	38
Recoverable Capital Expenditures	27	19	13
Other	—	12	4
<b>Total</b>	<b>\$ 566</b>	<b>\$ 349</b>	<b>\$ 332</b>

**Distributions**

SPG declared distributions on its common stock in 1999 aggregating \$2.02 per share. On January 20, 2000, SPG declared a distribution of \$0.5050 per Paired Share payable on February 18, 2000, to shareholders of record on February 4, 2000. The current combined annual distribution rate is \$2.02 per Paired Share. Future distributions will be determined based on actual results of operations and cash available for distribution.

**Investing and Financing Activities**

Cash used in investing activities during 1999 includes acquisitions of \$339 million, capital expenditures of \$505 million, investments in unconsolidated joint ventures of \$83 million consisting primarily of development funding, \$47 million of investments in and advances to the Management Company and a \$3 million investment in piiq.com. Capital expenditures includes development costs of \$86 million, renovation and expansion costs of approximately \$324 million and tenant costs, and other operational capital expenditures of approximately \$95 million. Acquisitions, including transaction costs, includes \$183 million for the NED Acquisition and \$156 million for the remaining interests in four existing Properties. These uses of cash are partially offset by distributions from unconsolidated entities of \$222 million; net proceeds of \$59 million from the sales of Simon Group's interests in a hotel and related land, an office building, and two community centers; and cash of \$83 million from the consolidations of Simon Group's gift certificate program and four Properties. Distributions from unconsolidated entities includes approximately \$116 million resulting from financing activities, with the remainder resulting primarily from those entities' operating activities.

Cash provided by financing activities during 1999 was \$14 million and included net equity distributions of \$560 million offset by net borrowings of \$574 million.

> **Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”)**

Management believes that there are several important factors that contribute to the ability of Simon Group to increase rent and improve profitability of its shopping centers, including aggregate tenant sales volume, sales per square foot, occupancy levels and tenant costs. Each of these factors has a significant effect on EBITDA. Management believes that EBITDA is an effective measure of shopping center operating performance because: (i) it is industry practice to evaluate real estate properties based on operating income before interest, taxes, depreciation and amortization, which is generally equivalent to EBITDA; and (ii) EBITDA is unaffected by the debt and equity structure of the property owner. EBITDA: (i) does not represent cash flow from operations as defined by generally accepted accounting principles; (ii) should not be considered as an alternative to net income as a measure of operating performance; (iii) is not indicative of cash flows from operating, investing and financing activities; and (iv) is not an alternative to cash flows as a measure of liquidity.

Total EBITDA for the Properties increased from \$940 million in 1997 to \$1,843 million in 1999, representing a compound annual growth rate of 40.0%. This growth is primarily the result of merger, acquisition and development activity during the comparative periods (\$775 million). The remaining growth in total EBITDA (\$128 million) reflects increased rental rates, increased tenant sales, improved occupancy levels and effective control of operating costs and the addition of GLA to the Portfolio through expansions. During this period, the operating profit margin increased from 64.4% to 65.3%. This improvement is also primarily attributable to aggressive leasing of new and existing space and effective control of operating costs.

The following summarizes total EBITDA for the Portfolio Properties and the operating profit margin of such properties, which is equal to total EBITDA expressed as a percentage of total revenue:

(in thousands)	1999	1998	1997
EBITDA of consolidated Properties	\$ 1,236,421	\$ 910,654	\$ 677,930
EBITDA of unconsolidated Properties	606,710	451,049	262,098
<b>Total EBITDA of Portfolio Properties</b>	<b>\$ 1,843,131</b>	<b>\$ 1,361,703</b>	<b>\$ 940,028</b>
EBITDA after minority interest <sup>(1)</sup>	\$ 1,455,272	\$ 1,068,233	\$ 746,842
Increase in total EBITDA from prior period	35.4%	44.9%	52.8%
Increase in EBITDA after minority interest from prior period	36.2%	43.0%	50.2%
Operating profit margin of the Portfolio Properties	65.3%	64.8%	64.4%

(1) EBITDA after minority interest represents Simon Group’s allocable portion of earnings before interest, taxes, depreciation and amortization for all Properties based on its economic ownership in each Property.

> **Funds from Operations (“FFO”)**

FFO is an important and widely used measure of the operating performance of REITs, which provides a relevant basis for comparison among REITs. FFO, as defined by NAREIT, means consolidated net income without giving effect to real estate related depreciation and amortization, gains or losses from extraordinary and unusual items and gains or losses on sales of real estate, plus the allocable portion, based on economic ownership interest, of funds from operations of unconsolidated joint ventures, all determined on a consistent basis in accordance with generally accepted accounting principles. Effective January 1, 2000, Simon Group adopted NAREIT’s clarification in the definition of FFO, which requires the inclusion of the effects of nonrecurring items not classified as extraordinary or resulting from the sales of depreciable real estate. Simon Group’s method of calculating FFO may be different from the methods used by other REITs. FFO: (i) does not represent cash flow from operations as defined by generally accepted accounting principles; (ii) should not be considered as an alternative to net income as a measure of operating performance; and (iii) is not an alternative to cash flows as a measure of liquidity.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**

## FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following summarizes FFO of Simon Group and the Companies and reconciles combined income before unusual and extraordinary items to FFO of Simon Group for the periods presented:

For the Year Ended December 31, (in thousands)	1999	1998	1997
FFO of Simon Group	\$ 734,513	\$ 544,481	\$ 415,128
Increase in FFO from prior period	34.9%	31.2%	47.5%
Reconciliation:			
Income before unusual and extraordinary items	\$ 316,100	\$ 236,230	\$ 203,133
Plus:			
Depreciation and amortization from combined consolidated properties	381,265	267,423	200,084
Simon Group's share of depreciation and amortization and extraordinary and other items from unconsolidated affiliates <sup>(1)</sup>	104,537	82,323	46,760
Loss (gain) on sale of real estate	7,062	7,283	(20)
Less:			
Minority interest portion of depreciation and amortization and extraordinary items	(5,128)	(7,307)	(5,581)
Preferred distributions (Including those of subsidiaries)	(69,323)	(41,471)	(29,248)
FFO of Simon Group	\$ 734,513	\$ 544,481	\$ 415,128
FFO allocable to the Companies	\$ 534,285	\$ 361,326	\$ 258,049

(1) Includes \$12.3 million of asset write-downs recognized in 1999.

> **Portfolio Data**

Operating statistics give effect to the NED Acquisition for 1999 only and the CPI Merger for 1998 and 1999 only. The value-oriented super-regional mall category consists of Arizona Mills, Grapevine Mills, Concord Mills and Ontario Mills. Operating statistics do not include those properties located outside of the United States.

**Aggregate Tenant Sales Volume and Sales per Square Foot.** Sales Volume includes total reported retail sales at mall and freestanding GLA owned by the Operating Partnerships ("Owned GLA") in the regional malls and all reporting tenants at community shopping centers. The \$9,248 million increase from 1996 to 1999 includes \$6,759 million from the CPI Merger, the NED Acquisition, the SCA Acquisition, and the IBM Properties. Excluding these Properties, 1999 sales were \$10,410 million, which is a compound annual growth rate of 9.5% since 1996. Retail sales at Owned GLA affect revenue and profitability levels because they determine the amount of minimum rent that can be charged, the percentage rent realized, and the recoverable expenses (common area maintenance, real estate taxes, etc.) the tenants can afford to pay.

The following illustrates the total reported sales of tenants at Owned GLA:

<u>Year Ended December 31,</u>	<u>Total Tenant Sales (in millions)</u>	<u>Annual Percentage Increase</u>
1999	\$ 17,169	17.7 %
1998	14,587	52.9
1997	9,539	20.4
1996	7,921	3.6

Regional mall sales per square foot increased 7.0% in 1999 to \$367 as compared to \$343 in 1998. In addition, sales per square foot at regional malls of reporting tenants operating for at least two consecutive years ("Comparable Sales") increased from \$346 to \$377, or 9.0%, from 1998 to 1999. Simon Group believes its strong sales growth in 1999 is the result of its continued aggressive retenanting efforts and the redevelopment of many of the Properties. Sales per square foot and Comparable Sales at the community shopping centers increased in 1999 by \$7 or 3.8% and \$10 or 5.6%, respectively.

**Tenant Occupancy Costs.** Tenant occupancy costs as a percentage of sales remained at 12.3% in 1999 and 1998 in the regional mall portfolio. A tenant's ability to pay rent is affected by the percentage of its sales represented by occupancy costs, which consist of rent and expense recoveries. As sales levels increase, if expenses subject to recovery are controlled, the tenant can pay higher rent. Management believes Simon Group is one of the lowest-cost providers of retail space, which has permitted the rents in both regional malls and community shopping centers to increase without raising a tenant's total occupancy cost beyond its ability to pay. Management believes continuing efforts to increase sales while controlling property operating expenses will continue the trend of increasing rents at the Properties.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**

## FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**Occupancy Levels and Average Base Rents.** Occupancy and average base rent is based on Owned GLA at mall and freestanding stores in the regional malls and all tenants at value-oriented regional malls and community shopping centers. Management believes the continued growth in regional mall occupancy is a result of a significant increase in the overall quality of Simon Group's Portfolio. The result of the increase in occupancy is a direct or indirect increase in nearly every category of revenue. Owned GLA increased 12.5 million square feet from December 31, 1998, to December 31, 1999, primarily as a result of the NED Acquisition, the purchase of an interest in Mall of America and the 1999 Property openings.

December 31,	Occupancy Levels		
	Regional Malls	Value-Oriented Regional Malls	Community Shopping Centers
<b>1999</b>	<b>90.6%</b>	<b>95.1%</b>	<b>88.6%</b>
1998	90.0	98.2	91.4
1997	87.3	93.8	91.3
1996	84.7	N/A	91.6

Year Ended December 31,	Average Base Rent per Square Foot					
	Regional Malls	% Change	Value-Oriented Regional Malls	% Change	Community Shopping Centers	% Change
<b>1999</b>	<b>\$27.33</b>	<b>6.3%</b>	<b>\$ 16.34</b>	<b>(0.4)%</b>	<b>\$8.36</b>	<b>8.9%</b>
1998	25.70	8.7	16.40	1.2	7.68	3.2
1997	23.65	14.4	16.20	N/A	7.44	(2.7)
1996	20.68	7.8	N/A	N/A	7.65	4.9

**> Year 2000 Project**

Simon Group undertook a project (the "Y2K Project") to identify and correct problems arising from the inability of information technology hardware and software systems to process dates after December 31, 1999. Simon Group's Y2K Project focused first upon Simon Group's key information technology systems (the "IT Component") and secondly upon the information systems of key tenants and key third party service providers as well as imbedded systems within common areas of substantially all of the Properties (the "Non-IT Component"). Among other things, the Y2K Project assessed year 2000 readiness of all critical items and developed and implemented replacement and contingency plans based upon the information collected.

Simon Group experienced no disruptions in its key information technology systems or in the operation of its Properties as a result of any year 2000 occurrence, nor is Simon Group aware that any of its key tenants or key suppliers experienced any year 2000 issues which, in turn, have had any material adverse impact upon Simon Group's results of operations.

Simon Group is also aware that other dates may cause similar problems for information technology hardware and software systems to process dates thereafter. Simon Group believes that its Y2K Project addressed those issues in Simon Group's IT Component and Non-IT Component, but has put in place contingency plans substantially similar to those designed for the Y2K Project to address information technology issues that may arise on those future dates.

To date, Simon Group has expended \$2.0 million on the Y2K Project and anticipates expending an additional \$180 thousand to complete the implementation of any contingency and replacement plans in connection with its Y2K Project. These cost estimates do not include costs expended by Simon Group following the DRC Merger for software, hardware and related costs necessary to upgrade its primary operating, financial accounting and billing systems, which allowed those systems to, among other things, become year 2000 ready.

> **Inflation**

Inflation has remained relatively low during the past four years and has had a minimal impact on the operating performance of the Properties. Nonetheless, substantially all of the tenants' leases contain provisions designed to lessen the impact of inflation. Such provisions include clauses enabling Simon Group to receive percentage rentals based on tenants' gross sales, which generally increase as prices rise, and/or escalation clauses, which generally increase rental rates during the terms of the leases. In addition, many of the leases are for terms of less than ten years, which may enable Simon Group to replace existing leases with new leases at higher base and/or percentage rentals if rents of the existing leases are below the then-existing market rate. Substantially all of the leases, other than those for anchors, require the tenants to pay a proportionate share of operating expenses, including common area maintenance, real estate taxes and insurance, thereby reducing Simon Group's exposure to increases in costs and operating expenses resulting from inflation.

However, inflation may have a negative impact on some of Simon Group's other operating items. Interest and general and administrative expenses may be adversely affected by inflation as these specified costs could increase at a rate higher than rents. Also, for tenant leases with stated rent increases, inflation may have a negative effect as the stated rent increases in these leases could be lower than the increase in inflation at any given time.

> **Seasonality**

The shopping center industry is seasonal in nature, particularly in the fourth quarter during the holiday season, when tenant occupancy and retail sales are typically at their highest levels. In addition, shopping malls achieve most of their temporary tenant rents during the holiday season. As a result of the above, earnings are generally highest in the fourth quarter of each year.

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

**> New Accounting Pronouncements**

On June 15, 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS 133"). SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company formally document, designate, and assess the effectiveness of transactions that receive hedge accounting.

SFAS 133 will be effective for Simon Group beginning with the 2001 fiscal year and may not be applied retroactively. Management is currently evaluating the impact of SFAS 133, which it believes could increase volatility in earnings and other comprehensive income.

On December 3, 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 ("SAB 101"), which addressed certain revenue recognition policies, including the accounting for overage rent by a landlord. SAB 101 requires overage rent to be recognized as revenue only when each tenant's sales exceeds their sales threshold. Simon Group currently recognizes overage rent based on reported and estimated sales through the end of the period, less the applicable prorated base sales amount. Simon Group will adopt SAB 101 effective January 1, 2000. Management is currently evaluating the impact of SAB 101 and expects to record a loss from the cumulative effect of a change in accounting principle of approximately \$13 million in the first quarter of 2000. In addition, SAB 101 will impact the timing in which overage rent is recognized throughout the year, but will not have a material impact on the total overage rent recognized in each full year.



## REPORT OF MANAGEMENT

The financial statements, including the financial analysis and all other information in this annual report, were prepared by management, which is responsible for their integrity and objectivity. Management believes the financial statements, which require the use of certain estimates and judgments, fairly and accurately reflect the Companies' financial position and operating results, in accordance with generally accepted accounting principles. All financial information in this annual report is consistent with the financial statements.

The Companies maintain a system of controls and procedures for financial reporting that is designed to provide reasonable assurance to the Companies' management and Board of Directors regarding the integrity and the fair and reliable preparation and presentation, in all material respects, of its published financial statements. This system of financial controls and procedures is reviewed, modified, and improved as changes occur in business conditions and operations, and as a result of suggestions from the Companies' internal auditors and independent auditors. There are inherent limitations in the effectiveness of any system of internal control, and accordingly, even an effective system of internal control can provide only reasonable assurance with respect to the financial statement preparation and may vary over time.

As part of management's responsibility for monitoring compliance with established policies and procedures, it relies on, among other things, audit procedures performed by the independent auditors and the Companies' internal auditors, to give assurance that established policies and procedures are adhered to in all areas subject to their audits. The Board of Directors, operating through its Audit Committee composed solely of outside directors, meets periodically with management, the internal auditors, and the independent auditors to review audit results, financial reporting, and internal control matters. The Audit Committee, internal auditors, and independent auditors have unrestricted access to one another to discuss their findings. The Audit Committee also has the primary responsibility to monitor and review the performance and effectiveness of the independent auditors.



David Simon  
Chief Executive Officer



James R. Giuliano, III  
Senior Vice President



Stephen E. Sterrett  
Senior Vice President and Treasurer

February 16, 2000.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of  
Simon Property Group, Inc. and SPG Realty Consultants, Inc.:

We have audited the accompanying combined balance sheets of Simon Property Group, Inc. and subsidiaries and its paired share affiliate, SPG Realty Consultants, Inc. and subsidiaries (see Note 2), as of December 31, 1999 and 1998, and the related combined statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1999. We have audited the accompanying consolidated balance sheets of Simon Property Group, Inc. (a Delaware corporation) and subsidiaries as of December 31, 1999 and 1998, and the related statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1999. We have also audited the accompanying consolidated balance sheets of SPG Realty Consultants, Inc. (a Delaware corporation) and subsidiaries as of December 31, 1999 and 1998, and the related statements of operations, shareholders' equity and cash flows for the two years in the period ended December 31, 1999. These financial statements are the responsibility of the Companies' management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated financial statements of SPG Realty Consultants, Inc. (formerly Corporate Realty Consultants, Inc.) and subsidiaries for the year ended December 31, 1997, were audited by other auditors whose report dated June 30, 1998, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 Simon Property Group, Inc. and subsidiaries and its paired share affiliate, SPG Realty Consultants, Inc. and subsidiaries, as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, the consolidated financial position of Simon Property Group, Inc. and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, and the consolidated financial position of SPG Realty Consultants, Inc. and subsidiaries as of December 31, 1999, and the results of their operations and their cash flows for the two years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Indianapolis, Indiana  
February 16, 2000.

**BALANCE SHEETS**

DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

December 31,	1999	1998
<b>Assets:</b>		
Investment properties, at cost	\$ 12,802,052	\$ 11,850,014
Less — accumulated depreciation	1,098,881	722,371
	11,703,171	11,127,643
Cash and cash equivalents	157,632	129,195
Tenant receivables and accrued revenue, net	289,152	218,581
Notes and advances receivable from Management Company and affiliate	162,082	115,378
Investment in partnerships and joint ventures, at equity	1,522,024	1,306,753
Investment in Management Company and affiliates	6,833	10,037
Other investments	44,902	50,176
Goodwill, net	39,556	58,134
Deferred costs and other assets, net	262,958	228,965
Minority interest, net	34,933	32,138
	<b>\$ 14,223,243</b>	<b>\$ 13,277,000</b>
<b>Liabilities:</b>		
Mortgages and other indebtedness	\$ 8,768,951	\$ 7,973,372
Accounts payable and accrued expenses	479,783	415,186
Cash distributions and losses in partnerships and joint ventures, at equity	32,995	29,139
Other liabilities	213,909	95,131
Total liabilities	<b>9,495,638</b>	<b>8,512,828</b>
<b>Commitments and Contingencies (Note 13)</b>		
Limited Partners' Interest in the Operating Partnerships	984,465	1,015,634
Limited Partners' Preferred Interest in the SPG Operating Partnership	149,885	—
Preferred Stock of Subsidiary	339,597	339,329
<b>Shareholders' Equity:</b>		
<i>Capital Stock of Simon Property Group, Inc.:</i>		
All series of preferred stock (Note 11)	542,838	717,916
Common stock, \$.0001 par value, 400,000,000 shares authorized, and 169,961,255 and 163,571,031 issued and outstanding, respectively	17	16
Class B common stock, \$.0001 par value, 12,000,000 shares authorized, 3,200,000 issued and outstanding	1	1
Class C common stock, \$.0001 par value, 4,000 shares authorized, issued and outstanding	—	—
<i>Capital Stock of SPG Realty Consultants, Inc.:</i>		
Common stock, \$.0001 par value, 7,500,000 shares authorized, 1,731,653 and 1,667,750 issued and outstanding, respectively	—	—
Capital in excess of par value	3,298,025	3,083,213
Accumulated deficit	(551,251)	(372,313)
Unrealized gain (loss) on long-term investment	(5,852)	126
Unamortized restricted stock award	(22,139)	(19,750)
Less common stock held in treasury at cost, 310,955 and 0 shares, respectively	(7,981)	—
Total shareholders' equity	<b>3,253,658</b>	<b>3,409,209</b>
	<b>\$ 14,223,243</b>	<b>\$ 13,277,000</b>

The accompanying notes are an integral part of these statements.

**STATEMENTS OF OPERATIONS**

DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

For the Year Ended December 31,	1999	1998	1997
<b>Revenue:</b>			
Minimum rent	\$ 1,146,659	\$ 850,708	\$ 641,352
Overage rent	60,976	49,689	38,810
Tenant reimbursements	583,777	429,470	322,416
Other income	101,291	75,692	51,589
Total revenue	1,892,703	1,405,559	1,054,167
<b>Expenses:</b>			
Property operating	294,699	226,426	176,846
Depreciation and amortization	382,176	268,442	200,900
Real estate taxes	187,627	133,698	98,830
Repairs and maintenance	70,760	53,296	43,000
Advertising and promotion	65,843	50,754	32,891
Provision for credit losses	8,541	6,614	5,992
Other	28,812	24,117	18,678
Total operating expenses	1,038,458	763,347	577,137
<b>Operating Income</b>	<b>854,245</b>	<b>642,212</b>	<b>477,030</b>
<b>Interest Expense</b>	<b>579,593</b>	<b>419,918</b>	<b>287,823</b>
<b>Income Before Minority Interest</b>	<b>274,652</b>	<b>222,294</b>	<b>189,207</b>
<b>Minority Interest</b>	<b>(10,719)</b>	<b>(7,335)</b>	<b>(5,270)</b>
<b>Gain (Loss) on Sales of Assets, Net</b>	<b>(7,062)</b>	<b>(7,283)</b>	<b>20</b>
<b>Income Tax Benefit of SRC</b>	<b>3,374</b>	<b>—</b>	<b>—</b>
<b>Income Before Unconsolidated Entities</b>	<b>260,245</b>	<b>207,676</b>	<b>183,957</b>
<b>Income From Unconsolidated Entities</b>	<b>55,855</b>	<b>28,554</b>	<b>19,176</b>
<b>Income Before Unusual and Extraordinary Items</b>	<b>316,100</b>	<b>236,230</b>	<b>203,133</b>
<b>Unusual Item (Note 13)</b>	<b>(12,000)</b>	<b>—</b>	<b>—</b>
<b>Extraordinary Items—Debt Related Transactions</b>	<b>(6,705)</b>	<b>7,146</b>	<b>58</b>
<b>Income Before Allocation to Limited Partners</b>	<b>297,395</b>	<b>243,376</b>	<b>203,191</b>
<b>Less:</b>			
Limited Partners' Interest in the Operating Partnerships	60,758	68,307	65,954
Preferred Distributions of the SPG Operating Partnership	2,917	—	—
Preferred Dividends of Subsidiary	29,335	7,816	—
<b>Net Income</b>	<b>204,385</b>	<b>167,253</b>	<b>137,237</b>
<b>Preferred Dividends</b>	<b>(37,071)</b>	<b>(33,655)</b>	<b>(29,248)</b>
<b>Net Income Available to Common Shareholders</b>	<b>\$ 167,314</b>	<b>\$ 133,598</b>	<b>\$ 107,989</b>
<b>Basic Earnings Per Common Paired Share:</b>			
Income before extraordinary items	\$ 1.00	\$ 1.02	\$ 1.08
Extraordinary items	(0.03)	0.04	—
Net income	\$ 0.97	\$ 1.06	\$ 1.08
<b>Diluted Earnings Per Common Paired Share:</b>			
Income before extraordinary items	\$ 1.00	\$ 1.02	\$ 1.08
Extraordinary items	(0.03)	0.04	—
Net income	\$ 0.97	\$ 1.06	\$ 1.08

The accompanying notes are an integral part of these statements.

**STATEMENTS OF CASH FLOWS**

DOLLARS IN THOUSANDS

For the Year Ended December 31,	1999	1998	1997
<b>Cash Flows From Operating Activities:</b>			
Net income	\$ 204,385	\$ 167,253	\$ 137,237
Adjustments to reconcile net income to net cash provided by operating activities—			
Depreciation and amortization	394,004	278,812	208,539
Extraordinary items	6,705	(7,146)	(58)
Loss (gain) on sales of assets, net	7,062	7,283	(20)
Limited partners' interest in Operating Partnerships	60,758	68,307	65,954
Preferred dividends of Subsidiary	29,335	7,816	—
Preferred distributions of the SPG Operating Partnership	2,917	—	—
Straight-line rent	(17,995)	(9,345)	(9,769)
Minority interest	10,719	7,335	5,270
Equity in income of unconsolidated entities	(55,855)	(28,554)	(19,176)
Income tax benefit of SRC	(3,374)	—	—
Changes in assets and liabilities—			
Tenant receivables and accrued revenue	(36,960)	(13,205)	(23,284)
Deferred costs and other assets	(23,090)	(7,846)	(30,203)
Accounts payable, accrued expenses and other liabilities	48,445	58,705	36,417
Net cash provided by operating activities	627,056	529,415	370,907
<b>Cash Flows From Investing Activities:</b>			
Acquisitions	(339,065)	(1,942,724)	(980,427)
Capital expenditures	(504,561)	(349,708)	(305,178)
Cash from mergers, acquisitions and consolidation of joint ventures, net	83,169	18,162	19,744
Change in restricted cash	—	7,686	(2,443)
Net proceeds from sale of assets	58,703	46,087	599
Investments in unconsolidated entities	(83,125)	(55,523)	(47,204)
Distributions from unconsolidated entities	221,707	195,557	144,862
Investments in and advances to Management Company and affiliate	(46,704)	(21,569)	(18,357)
Other investing activities	(3,000)	—	(55,400)
Net cash used in investing activities	(612,876)	(2,102,032)	(1,243,804)
<b>Cash Flows From Financing Activities:</b>			
Proceeds from sales of common and preferred stock, net	2,069	114,570	344,438
Minority interest distributions, net	(13,925)	(19,694)	(219)
Preferred dividends of Subsidiary	(29,335)	(7,816)	—
Preferred distributions of the SPG Operating Partnership	(2,913)	—	—
Preferred dividends and distributions to shareholders	(385,878)	(272,797)	(227,949)
Distributions to limited partners	(129,941)	(136,551)	(122,442)
Mortgage and other note proceeds, net of transaction costs	2,168,069	3,782,314	2,976,222
Mortgage and other note principal payments	(1,593,889)	(1,867,913)	(2,030,763)
Other refinancing transaction	—	—	(21,000)
Net cash provided by financing activities	14,257	1,592,113	918,287
<b>Increase In Cash and Cash Equivalents</b>	<b>28,437</b>	<b>19,496</b>	<b>45,390</b>
<b>Cash and Cash Equivalents, beginning of period</b>	<b>129,195</b>	<b>109,699</b>	<b>64,309</b>
<b>Cash and Cash Equivalents, end of period</b>	<b>\$ 157,632</b>	<b>\$ 129,195</b>	<b>\$ 109,699</b>

The accompanying notes are an integral part of these statements.

STATEMENTS OF SHAREHOLDERS' EQUITY

DOLLARS IN THOUSANDS

	SPG Preferred Stock	SPG Common Stock
<b>Balance at December 31, 1996</b>	\$ 292,912	\$ 10
Common stock issued to the public (5,858,887 shares)		1
Common stock issued in connection with acquisitions (2,193,037 shares)		
Stock options exercised (369,902 shares)		
Other common stock issued (82,484 shares)		
Stock incentive program (448,753 shares)		
Amortization of stock incentive		
Series C Preferred stock issued (3,000,000 shares)	146,072	
Conversion of Series A Preferred stock into 3,809,523 shares of common stock	(99,923)	
Transfer out of limited partners' interest in the Operating Partnership		
Unrealized gain on long-term investment		
Net income		
Distributions		
<b>Balance at December 31, 1997</b>	339,061	11
Common stock issued to the public (2,957,335 shares)		1
CPI Merger (Notes 4 and 11)		
SPG Preferred	717,916	
SPG Common (53,078,564 shares)		5
SRC Net Assets		
Preferred stock of Subsidiary	(339,061)	
Common stock issued in connection with acquisitions (519,889 shares)		
Stock incentive program (495,131 shares)		
Other common stock issued (81,111 shares)		
Amortization of stock incentive		
Transfer out of limited partners' interest in the Operating Partnerships		
Distributions		
Subtotal	717,916	17
<b>Comprehensive Income:</b>		
Unrealized loss on long-term investment		
Net income		
<b>Total Comprehensive Income:</b>	—	—
<b>Balance at December 31, 1998</b>	717,916	17
Preferred stock conversion (5,926,440 shares)	(199,320)	1
Common stock issued as dividend (153,890 shares)		
Preferred stock issued in acquisition	24,242	
Stock incentive program (537,861 shares)		
Amortization of stock incentive		
Shares purchased by subsidiary (310,955 shares)		
Stock options exercised (82,988 shares)		
Transfer out of limited partners' interest in the Operating Partnerships		
Distributions		
Subtotal	542,838	18
<b>Comprehensive Income:</b>		
Unrealized loss on long-term investment		
Net income		
<b>Total Comprehensive Income:</b>	—	—
<b>Balance at December 31, 1999</b>	\$ 542,838	\$ 18

The accompanying notes are an integral part of these statements.

SRC Common Stock	Unrealized Gain (Loss) on Long-Term Investment	Capital in Excess of Par Value	Accumulated Deficit	Unamortized Restricted Stock Award	Common Stock Held in Treasury	Total Shareholders' Equity
\$ —	\$ —	\$ 1,189,919	\$ (172,596)	\$ (5,354)	\$ —	\$ 1,304,891
		190,026				190,027
		70,000				70,000
		8,625				8,625
		2,268				2,268
		14,016		(13,262)		754
				5,386		5,386
						146,072
		99,923				—
		(82,869)				(82,869)
	2,420					2,420
			137,237			137,237
			(227,949)			(227,949)
—	2,420	1,491,908	(263,308)	(13,230)	—	1,556,862
		91,398				91,399
						717,916
		1,758,733				1,758,738
		14,755				14,755
						(339,061)
		17,176				17,176
		15,983		(15,983)		—
		2,182				2,182
				9,463		9,463
		(308,922)				(308,922)
			(276,258)			(276,258)
—	2,420	3,083,213	(539,566)	(19,750)	—	3,244,250
						(2,294)
			167,253			167,253
—	(2,294)	—	167,253	—	—	164,959
—	126	3,083,213	(372,313)	(19,750)	—	3,409,209
		199,319				—
		4,030				4,030
						24,242
		13,635		(12,990)		645
				10,601		10,601
					(7,981)	(7,981)
		2,138				2,138
		(4,310)				(4,310)
			(383,323)			(383,323)
—	126	3,298,025	(755,636)	(22,139)	(7,981)	3,055,251
						(5,978)
			204,385			204,385
—	(5,978)	—	204,385	—	—	198,407
\$ —	\$ (5,852)	\$ 3,298,025	\$ (551,251)	\$ (22,139)	\$ (7,981)	\$ 3,253,658

**BALANCE SHEETS**

DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

December 31,	1999	1998
<b>Assets:</b>		
Investment properties, at cost	\$ 12,794,484	\$ 11,816,325
Less — accumulated depreciation	1,097,629	710,012
	<b>11,696,855</b>	<b>11,106,313</b>
Cash and cash equivalents	154,924	127,626
Tenant receivables and accrued revenue, net	288,506	217,798
Notes and advances receivable from Management Company and affiliate	162,082	115,378
Mortgage note receivable from the SRC Operating Partnership (Interest at 6%, due 2013)	—	20,565
Note receivable from the SRC Operating Partnership (Interest at 8%, due 2009)	9,848	—
Investment in partnerships and joint ventures, at equity	1,512,671	1,303,251
Investment in Management Company and affiliates	6,833	10,037
Other investment	41,902	50,176
Goodwill, net	39,556	58,134
Deferred costs and other assets, net	250,210	227,713
Minority interest, net	35,931	32,138
	<b>\$ 14,199,318</b>	<b>\$ 13,269,129</b>
<b>Liabilities:</b>		
Mortgages and other indebtedness	\$ 8,768,841	\$ 7,972,381
Note payable to the SRC Operating Partnership (Interest at 8%, due 2008)	—	17,907
Accounts payable and accrued expenses	478,633	411,259
Cash distributions and losses in partnerships and joint ventures, at equity	32,995	29,139
Other liabilities	213,506	95,326
Total liabilities	<b>9,493,975</b>	<b>8,526,012</b>
<b>Commitments and Contingencies (Note 13)</b>		
Limited Partners' Interest in the SPG Operating Partnership	978,316	1,009,646
Limited Partners' Preferred Interest in the SPG Operating Partnership	149,885	—
Preferred Stock of Subsidiary	339,597	339,329
<b>Shareholders' Equity:</b>		
All series of preferred stock (Note 11)	542,838	717,916
Common stock, \$.0001 par value, 400,000,000 shares authorized, and 169,961,255 and 163,571,031 issued and outstanding, respectively	17	16
Class B common stock, \$.0001 par value, 12,000,000 shares authorized, 3,200,000 issued and outstanding	1	1
Class C common stock, \$.0001 par value, 4,000 shares authorized, issued and outstanding	—	—
Capital in excess of par value	3,283,566	3,068,458
Accumulated deficit	(552,933)	(372,625)
Unrealized gain (loss) on long-term investment	(5,852)	126
Unamortized restricted stock award	(22,139)	(19,750)
Less common stock held in treasury at cost, 310,955 and 0 shares, respectively	(7,953)	—
Total shareholders' equity	<b>3,237,545</b>	<b>3,394,142</b>
	<b>\$ 14,199,318</b>	<b>\$ 13,269,129</b>

The accompanying notes are an integral part of these statements.



**STATEMENTS OF OPERATIONS**

DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

For the Year Ended December 31,	1999	1998	1997
<b>Revenue:</b>			
Minimum rent	\$ 1,146,098	\$ 850,351	\$ 641,352
Overage rent	60,976	49,689	38,810
Tenant reimbursements	583,780	429,350	322,416
Other income	104,117	75,682	51,589
Total revenue	1,894,971	1,405,072	1,054,167
<b>Expenses:</b>			
Property operating	294,347	226,426	176,846
Depreciation and amortization	381,823	267,876	200,900
Real estate taxes	187,506	133,580	98,830
Repairs and maintenance	70,752	53,308	43,000
Advertising and promotion	65,843	50,754	32,891
Provision for credit losses	8,522	6,610	5,992
Other	27,811	23,973	18,678
Total operating expenses	1,036,604	762,527	577,137
<b>Operating Income</b>	<b>858,367</b>	<b>642,545</b>	<b>477,030</b>
<b>Interest Expense</b>	<b>579,848</b>	<b>420,282</b>	<b>287,823</b>
<b>Income Before Minority Interest</b>	<b>278,519</b>	<b>222,263</b>	<b>189,207</b>
<b>Minority Interest</b>	<b>(10,719)</b>	<b>(7,335)</b>	<b>(5,270)</b>
<b>Gain (Loss) on Sales of Assets, Net</b>	<b>(1,942)</b>	<b>(7,283)</b>	<b>20</b>
<b>Income Before Unconsolidated Entities</b>	<b>265,858</b>	<b>207,645</b>	<b>183,957</b>
<b>Income From Unconsolidated Entities</b>	<b>49,641</b>	<b>28,145</b>	<b>19,176</b>
<b>Income Before Unusual and Extraordinary Items</b>	<b>315,499</b>	<b>235,790</b>	<b>203,133</b>
<b>Unusual Item (Note 13)</b>	<b>(12,000)</b>	<b>—</b>	<b>—</b>
<b>Extraordinary Items—Debt Related Transactions</b>	<b>(6,705)</b>	<b>7,146</b>	<b>58</b>
<b>Income Before Allocation to Limited Partners</b>	<b>296,794</b>	<b>242,936</b>	<b>203,191</b>
<b>Less:</b>			
Limited Partners' Interest in the SPG Operating Partnership	61,527	68,179	65,954
Preferred Distributions of the SPG Operating Partnership	2,917	—	—
Preferred Dividends of Subsidiary	29,335	7,816	—
<b>Net Income</b>	<b>203,015</b>	<b>166,941</b>	<b>137,237</b>
<b>Preferred Dividends</b>	<b>(37,071)</b>	<b>(33,655)</b>	<b>(29,248)</b>
<b>Net Income Available to Common Shareholders</b>	<b>\$ 165,944</b>	<b>\$ 133,286</b>	<b>\$ 107,989</b>
<b>Basic Earnings Per Common Share:</b>			
Income before extraordinary items	\$ 0.99	\$ 1.01	\$ 1.08
Extraordinary items	(0.03)	0.04	—
Net income	\$ 0.96	\$ 1.05	\$ 1.08
<b>Diluted Earnings Per Common Share:</b>			
Income before extraordinary items	\$ 0.99	\$ 1.01	\$ 1.08
Extraordinary items	(0.03)	0.04	—
Net income	\$ 0.96	\$ 1.05	\$ 1.08

The accompanying notes are an integral part of these statements.

STATEMENTS OF SHAREHOLDERS' EQUITY

DOLLARS IN THOUSANDS

	Preferred Stock	All Classes of Common Stock
<b>Balance at December 31, 1996</b>	\$ 292,912	\$ 10
Common stock issued to the public (5,858,887 shares)		1
Common stock issued in connection with acquisitions (2,193,037 shares)		
Stock options exercised (369,902 shares)		
Other common stock issued (82,484 shares)		
Stock incentive program (448,753 shares)		
Amortization of stock incentive		
Series C Preferred stock issued (3,000,000 shares)	146,072	
Conversion of Series A Preferred stock into 3,809,523 shares of common stock	(99,923)	
Transfer out of limited partners' interest in the Operating Partnership		
Unrealized gain on long-term investment		
Net income		
Distributions		
<b>Balance at December 31, 1997</b>	339,061	11
Common stock issued to the public (2,957,335 shares)		1
CPI Merger (Notes 4 and 11)		
SPG Preferred	717,916	
SPG Common (53,078,564 shares)		5
Preferred stock of Subsidiary	(339,061)	
Common stock issued in connection with acquisitions (519,889 shares)		
Stock incentive program (495,131 shares)		
Other common stock issued (81,111 shares)		
Amortization of stock incentive		
Transfer out of limited partners' interest in the SPG Operating Partnership		
Distributions		
Subtotal	717,916	17
<b>Comprehensive Income:</b>		
Unrealized loss on long-term investment		
Net income		
<b>Total Comprehensive Income</b>	—	—
<b>Balance at December 31, 1998</b>	717,916	17
Preferred stock conversion (5,926,440 shares)	(199,320)	1
Common stock issued as dividend (153,890 shares)		
Preferred stock issued in acquisition	24,242	
Stock incentive program (537,861 shares)		
Amortization of stock incentive		
Shares purchased by subsidiary (310,955 shares)		
Stock options exercised (82,988 shares)		
Transfer out of limited partners' interest in the SPG Operating Partnership		
Distributions		
Subtotal	542,838	18
<b>Comprehensive Income:</b>		
Unrealized loss on long-term investment		
Net income		
<b>Total Comprehensive Income:</b>	—	—
<b>Balance at December 31, 1999</b>	\$ 542,838	\$ 18

The accompanying notes are an integral part of these statements.

Unrealized Gain on Long-Term Investment	Capital in Excess of Par Value	Accumulated Deficit	Unamortized Restricted Stock Award	Common Stock Held in Treasury	Total Shareholders' Equity
\$ —	\$1,189,919	\$(172,596)	\$ (5,354)	\$ —	\$1,304,891
	190,026				190,027
	70,000				70,000
	8,625				8,625
	2,268				2,268
	14,016		(13,262)		754
			5,386		5,386
					146,072
	99,923				—
	(82,869)				(82,869)
2,420					2,420
		137,237			137,237
		(227,949)			(227,949)
2,420	1,491,908	(263,308)	(13,230)	—	1,556,862
	91,398				91,399
					717,916
	1,758,733				1,758,738
					(339,061)
	17,176				17,176
	15,983		(15,983)		—
	2,182				2,182
			9,463		9,463
	(308,922)				(308,922)
		(276,258)			(276,258)
2,420	3,068,458	(539,566)	(19,750)	—	3,229,495
(2,294)					(2,294)
		166,941			166,941
(2,294)	—	166,941	—	—	164,647
126	3,068,458	(372,625)	(19,750)	—	3,394,142
	198,786				(533)
	4,016				4,016
					24,242
	13,587		(12,990)		597
			10,601		10,601
				(7,953)	(7,953)
	2,131				2,131
	(3,412)				(3,412)
		(383,323)			(383,323)
126	3,283,566	(755,948)	(22,139)	(7,953)	3,040,508
(5,978)					(5,978)
		203,015			203,015
(5,978)	—	203,015	—	—	197,037
<b>\$(5,852)</b>	<b>\$3,283,566</b>	<b>\$(552,933)</b>	<b>\$(22,139)</b>	<b>\$(7,953)</b>	<b>\$3,237,545</b>

**STATEMENTS OF CASH FLOWS**

DOLLARS IN THOUSANDS

For the Year Ended December 31,	1999	1998	1997
<b>Cash Flows From Operating Activities:</b>			
Net income	\$ 203,015	\$ 166,941	\$ 137,237
Adjustments to reconcile net income to net cash provided by operating activities—			
Depreciation and amortization	393,650	278,246	208,539
Extraordinary items	6,705	(7,146)	(58)
Loss (gain) on sales of assets, net	1,942	7,283	(20)
Limited partners' interest in Operating Partnership	61,527	68,179	65,954
Preferred dividends of Subsidiary	29,335	7,816	—
Preferred distributions of the SPG Operating Partnership	2,917	—	—
Straight-line rent	(17,998)	(9,334)	(9,769)
Minority interest	10,719	7,335	5,270
Equity in income of unconsolidated entities	(49,641)	(28,145)	(19,176)
Changes in assets and liabilities—			
Tenant receivables and accrued revenue	(36,994)	(13,438)	(23,284)
Deferred costs and other assets	(23,524)	(7,289)	(30,203)
Accounts payable, accrued expenses and other liabilities	48,123	76,915	36,417
Net cash provided by operating activities	629,776	547,363	370,907
<b>Cash Flows From Investing Activities:</b>			
Acquisitions	(339,065)	(1,942,724)	(980,427)
Capital expenditures	(491,357)	(345,619)	(305,178)
Cash from mergers, acquisitions and consolidation of joint ventures, net	83,169	16,616	19,744
Change in restricted cash	—	7,686	(2,443)
Proceeds from sale of assets	46,750	46,087	599
Investments in unconsolidated entities	(83,124)	(55,523)	(47,204)
Distributions from unconsolidated entities	221,509	195,497	144,862
Investments in and advances to Management Company and affiliate	(46,704)	(21,569)	(18,357)
Mortgage loan payoff from the SRC Operating Partnership	20,565	—	—
Loan to the SRC Operating Partnership	(9,848)	—	—
Other investing activities	—	—	(55,400)
Net cash used in investing activities	(598,105)	(2,099,549)	(1,243,804)
<b>Cash Flows From Financing Activities:</b>			
Proceeds from sales of common and preferred stock, net	1,463	92,570	344,438
Minority interest distributions, net	(14,923)	(19,694)	(219)
Preferred dividends of Subsidiary	(29,335)	(7,816)	—
Preferred distributions of the SPG Operating Partnership	(2,913)	—	—
Preferred dividends and distributions to shareholders	(385,878)	(272,797)	(227,949)
Distributions to limited partners	(129,941)	(136,551)	(122,442)
Note payoff to the SRC Operating Partnership	(17,907)	—	—
Mortgage and other note proceeds, net of transaction costs	2,168,069	3,782,314	2,976,222
Mortgage and other note principal payments	(1,593,008)	(1,867,913)	(2,030,763)
Other refinancing transaction	—	—	(21,000)
Net cash provided by (used in) financing activities	(4,373)	1,570,113	918,287
<b>Increase In Cash and Cash Equivalents</b>	<b>27,298</b>	<b>17,927</b>	<b>45,390</b>
<b>Cash and Cash Equivalents, beginning of period</b>	<b>127,626</b>	<b>109,699</b>	<b>64,309</b>
<b>Cash and Cash Equivalents, end of period</b>	<b>\$ 154,924</b>	<b>\$ 127,626</b>	<b>\$ 109,699</b>

The accompanying notes are an integral part of these statements.

**BALANCE SHEETS**

DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

December 31,	1999	1998
<b>Assets:</b>		
Investment properties, at cost	\$ 7,568	\$33,689
Less — accumulated depreciation	1,252	12,359
	<b>6,316</b>	21,330
Cash and cash equivalents	2,708	1,569
Note receivable from the SPG Operating Partnership (Interest at 8%, due 2008)	—	17,907
Accounts receivable	646	783
Investments in joint ventures, at equity	9,353	3,502
Other investment	3,000	—
Other (including \$0 and \$385 from related parties)	13,006	1,510
	<b>\$35,029</b>	<b>\$46,601</b>
<b>Liabilities:</b>		
Mortgages and other indebtedness	\$ 110	\$ 991
Mortgage payable to the SPG Operating Partnership (Interest at 6%, due 2013)	—	20,565
Notes payable to the SPG Operating Partnership (Interest at 8%, due 2009)	9,848	—
Other liabilities (including \$0 and \$289 to SPG Operating Partnership)	1,811	3,990
Minority interest	998	—
Total liabilities	<b>12,767</b>	<b>25,546</b>
<b>Commitments and Contingencies (Note 13)</b>		
Limited Partners' Interest in the SRC Operating Partnership	<b>6,149</b>	5,988
<b>Shareholders' Equity:</b>		
Common stock, \$.0001 par value, 7,500,000 shares authorized, 1,731,653 and 1,667,750 issued and outstanding, respectively	—	—
Capital in excess of par value	29,565	29,861
Accumulated deficit	(13,424)	(14,794)
Less common stock held in treasury at cost, 3,110 and 0 shares, respectively	(28)	—
Total shareholders' equity	<b>16,113</b>	<b>15,067</b>
	<b>\$35,029</b>	<b>\$46,601</b>

The accompanying notes are an integral part of these statements.

**STATEMENTS OF OPERATIONS**

DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

For the Year Ended December 31,	1999	1998	1997
<b>Revenue:</b>			
Minimum rent (including \$427, \$1,525 and \$1,227 from SPG/CPI)	\$ 1,052	\$ 2,822	\$ 3,108
Tenant reimbursements (including \$212, \$725 and \$679 from SPG/CPI)	210	916	968
Management fee income (including \$0, \$0 and \$1,710 from SPG/CPI)	—	—	1,732
Other income (none from SPG/CPI)	1,015	844	406
Total revenue	2,277	4,582	6,214
<b>Expenses:</b>			
Property operating (including \$0, \$113 and \$0 from SPG/CPI)	733	2,317	2,501
Depreciation and amortization	353	1,305	889
Management fees (including \$0, \$0 and \$1,400 to SPG/CPI)	—	—	1,576
Administrative and other (including \$131, \$450 and \$700 to SPG/CPI)	1,271	848	845
Merger-related costs	—	4,093	—
Total operating expenses	2,357	8,563	5,811
<b>Operating Income (Loss)</b>	<b>(80)</b>	<b>(3,981)</b>	<b>403</b>
<b>Interest Expense (including \$3,720, \$1,234 and \$1,234 to SPG/CPI)</b>	<b>3,787</b>	<b>1,279</b>	<b>1,365</b>
<b>Loss on Sale of Assets, Net</b>	<b>(5,120)</b>	<b>—</b>	<b>—</b>
<b>Gain on Sale of Partnership Interests to CPI</b>	<b>—</b>	<b>—</b>	<b>1,259</b>
<b>Income Tax Benefit (Expense)</b>	<b>3,374</b>	<b>190</b>	<b>(670)</b>
<b>Loss Before Unconsolidated Entities</b>	<b>(5,613)</b>	<b>(5,070)</b>	<b>(373)</b>
<b>Income From Unconsolidated Entities</b>	<b>6,214</b>	<b>767</b>	<b>1,550</b>
<b>Income (Loss) Before Allocation to Limited Partners</b>	<b>601</b>	<b>(4,303)</b>	<b>1,177</b>
<b>Less—Limited Partners' Interest in the SRC Operating Partnership</b>	<b>(769)</b>	<b>128</b>	<b>—</b>
<b>Net Income (Loss)</b>	<b>\$ 1,370</b>	<b>\$(4,431)</b>	<b>\$ 1,177</b>
<b>Net Income (Loss) Derived From:</b>			
Pre-CPI Merger period (Note 4)	\$ —	\$(4,743)	\$ 1,177
Post-CPI Merger period (Note 4)	1,370	312	—
	\$ 1,370	\$(4,431)	\$ 1,177
<b>Basic and Diluted Earnings Per Common Share:</b>			
Income (loss) before extraordinary items	\$ 0.80	\$ (5.17)	\$ 2.07
Extraordinary items	—	—	—
Net income (loss)	\$ 0.80	\$ (5.17)	\$ 2.07
<b>Basic Weighted Average Shares Outstanding</b>	<b>1,721</b>	<b>857</b>	<b>569</b>
<b>Diluted Weighted Average Shares Outstanding</b>	<b>1,722</b>	<b>857</b>	<b>569</b>

The accompanying notes are an integral part of these statements.

**STATEMENTS OF SHAREHOLDERS' EQUITY**

DOLLARS IN THOUSANDS

	Common Stock	Capital in Excess of Par Value	Accumulated Deficit	Common Stock Held in Treasury	Total Shareholders' Equity
<b>Balance at December 31, 1996</b>	\$ —	\$ 14,425	\$ (9,386)	\$ —	\$ 5,039
Acquisition and retirement of Common stock	—	(805)			(805)
Net income			1,177		1,177
Distributions			(1,095)		(1,095)
<b>Balance at December 31, 1997</b>	—	13,620	(9,304)	—	4,316
Common stock issued (1,109,019 shares)	—	14,102			14,102
Adjustment of limited partners' interest in the SRC Operating Partnership		2,139			2,139
Distributions	—	—	(1,059)		(1,059)
Subtotal	—	29,861	(10,363)	—	19,498
<b>Comprehensive Income:</b>					
Net loss			(4,431)		(4,431)
<b>Total Comprehensive Income</b>	—	—	(4,431)	—	(4,431)
<b>Balance at December 31, 1998</b>	—	29,861	(14,794)	—	15,067
Common stock issued (67,013 shares)	—	602			602
Shares purchased by subsidiary (3,110 shares)				(28)	(28)
Adjustment of limited partners' interest in the SRC Operating Partnership		(898)			(898)
Subtotal	—	29,565	(14,794)	(28)	14,743
<b>Comprehensive Income:</b>					
Net income			1,370		1,370
<b>Total Comprehensive Income:</b>	—	—	1,370	—	1,370
<b>Balance at December 31, 1999</b>	\$ —	\$ 29,565	\$ (13,424)	\$ (28)	\$ 16,113

The accompanying notes are an integral part of these statements.

**STATEMENTS OF CASH FLOWS**

DOLLARS IN THOUSANDS

For the Year Ended December 31,	1999	1998	1997
<b>Cash Flows From Operating Activities:</b>			
Net income (loss)	\$ 1,370	\$ (4,431)	\$ 1,177
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities—			
Depreciation and amortization	353	1,305	889
(Gain) loss on sales of assets, net	5,120	—	(1,259)
Limited partners' interest in SRC Operating Partnership	(769)	128	—
Straight-line rent	2	(12)	—
Equity in income of unconsolidated entities	(6,214)	(767)	(1,550)
Income tax (benefit) expense	(3,374)	(190)	670
Changes in assets and liabilities—			
Accounts receivable and other assets (including \$11, \$100 and \$125 from related parties)	468	(103)	(336)
Other liabilities (including \$104, \$(366) and \$305 to SPG/CPI)	327	(1,526)	902
Net cash provided by (used in) operating activities	(2,717)	(5,596)	493
<b>Cash Flows From Investing Activities:</b>			
Capital expenditures	(13,204)	(128)	(428)
Net proceeds from sales of assets (Including \$2,363 from CPI in 1997)	11,953	—	2,363
Investments in unconsolidated entities	—	(3,921)	(16,732)
Distributions from unconsolidated entities	198	19,193	1,827
Note receivable from the SPG Operating Partnership	—	(17,907)	—
Payoff of note from the SPG Operating Partnership	17,907	—	—
Other investment	(3,000)	—	—
Net cash provided by (used in) investing activities	13,854	(2,763)	(12,970)
<b>Cash Flows From Financing Activities:</b>			
Proceeds from sales of common stock, net	602	14,102	—
Contributions from limited partners	—	8,000	—
Minority interest contributions	998	—	—
Acquisition and retirement of common stock	—	—	(805)
Distributions to shareholders	—	(1,059)	(1,095)
Mortgage and other note proceeds, net of transaction costs (Including \$9,848 from the SPG Operating Partnership in 1999)	9,848	3,485	13,966
Mortgage and other note principal payments (Including \$21,446 to the SPG Operating Partnership in 1999)	(21,446)	(18,747)	(239)
Net cash provided by (used in) financing activities	(9,998)	5,781	11,827
<b>Change In Cash and Cash Equivalents</b>	<b>1,139</b>	<b>(2,578)</b>	<b>(650)</b>
<b>Cash and Cash Equivalents, beginning of period</b>	<b>1,569</b>	<b>4,147</b>	<b>4,797</b>
<b>Cash and Cash Equivalents, end of period</b>	<b>\$ 2,708</b>	<b>\$ 1,569</b>	<b>\$ 4,147</b>

The accompanying notes are an integral part of these statements.



**NOTES TO FINANCIAL STATEMENTS**

DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS AND WHERE INDICATED AS IN BILLIONS

**> Note 1—Organization**

Simon Property Group, Inc. (“SPG”), a Delaware corporation, is a self-administered and self-managed real estate investment trust (“REIT”) under the Internal Revenue Code of 1986, as amended (the “Code”). Each share of common stock of SPG is paired (“Paired Shares”) with a beneficial interest in 1/100th of a share of common stock of SPG Realty Consultants, Inc., also a Delaware corporation (“SRC” and together with SPG, the “Companies”).

Simon Property Group, L.P. (the “SPG Operating Partnership”), formerly known as Simon DeBartolo Group, L.P. (“SDG, LP”), is the primary subsidiary of SPG. Units of ownership interest (“Units”) in the SPG Operating Partnership are paired with a Unit in SPG Realty Consultants, L.P. (“Paired Units”) (the “SRC Operating Partnership” and together with the SPG Operating Partnership, the “Operating Partnerships”). The SRC Operating Partnership is the primary subsidiary of SRC. The Companies together with the Operating Partnerships are hereafter referred to as “Simon Group”.

SPG, primarily through the SPG Operating Partnership, is engaged in the ownership, operation, management, leasing, acquisition, expansion and development of real estate properties, primarily regional malls and community shopping centers. As of December 31, 1999, SPG and the SPG Operating Partnership owned or held an interest in 259 income-producing properties, which consisted of 168 regional malls, 78 community shopping centers, four specialty retail centers, five office and mixed-use properties and four value-oriented super-regional malls in 36 states (the “Properties”) and five additional retail real estate properties operating in Europe. SPG and the SPG Operating Partnership also owned an interest in two properties currently under construction and 11 parcels of land held for future development, which together with the Properties are hereafter referred to as the “Portfolio Properties”. At December 31, 1999 and 1998, the Companies’ direct and indirect ownership interests in the Operating Partnerships were 72.4% and 71.6%, respectively. The SPG Operating Partnership also holds substantially all of the economic interest in M.S. Management Associates, Inc. (the “Management Company”). See Note 8 for a description of the activities of the Management Company.

SRC, primarily through the SRC Operating Partnership, engages primarily in activities that capitalize on the resources, customer base and operating activities of SPG, which could not be engaged in by SPG without potentially impacting its status as a REIT. These activities include a program launched in 1999 designed to take advantage of new retail opportunities of the digital age. Elements of the strategy include digitizing the existing assets of the Properties by implementing internet web sites for each of the Properties, creating products that leverage the digitalization of consumers and Simon merchants through an enhanced broadband network called TenantConnect.net and incubating concepts that leverage the physical and virtual worlds through a subsidiary venture creation subsidiary called clixnmortar.com. The SRC Operating Partnership’s investment in the program is approximately \$12,700, which is included in other assets in SRC’s balance sheet as of December 31, 1999. Minority interest on the SRC balance sheet as of December 31, 1999 represents an 8.3% outside ownership interest in clixnmortar.com.

SRC has noncontrolling interests in two joint ventures which each own land held for sale, which are located adjacent to Properties. SRC also has an 18.5% ownership interest in piiq.com, an aggregator of internet retailers. This \$3,000 investment is accounted for on the cost basis of accounting and is included in other investment in SRC’s December 31, 1999 balance sheet. In addition, effective January 1, 2000, SRC formed Simon Brand Ventures, LLC, to continue and expand upon the mall marketing initiatives program established in 1997 by Simon Group to take advantage of Simon Group’s size and tenant relationships, primarily through strategic corporate alliances.

**NOTES TO FINANCIAL STATEMENTS**

DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS AND WHERE INDICATED AS IN BILLIONS

Simon Group is subject to risks incidental to the ownership and operation of commercial real estate. These include, among others, the risks normally associated with changes in the general economic climate, trends in the retail industry, creditworthiness of tenants, competition for tenants and customers, changes in tax laws, interest rate levels, the availability of financing, and potential liability under environmental and other laws. Like most retail properties, Simon Group's regional malls and community shopping centers rely heavily upon anchor tenants. As of December 31, 1999, 337 of the approximately 981 anchor stores in the Properties were occupied by three retailers. An affiliate of one of these retailers is a limited partner in the Operating Partnerships.

**> Note 2—Basis of Presentation**

The accompanying combined financial statements include SPG, SRC and their subsidiaries. The accompanying consolidated financial statements of SPG and SRC include SPG and its subsidiaries and SRC and its subsidiaries, respectively. All significant intercompany amounts have been eliminated. SPG's financial statements and the combined financial statements reflect the CPI Merger (see Note 4) as of the close of business on September 24, 1998. Operating results prior to the completion of the CPI Merger represent the operating results of Simon DeBartolo Group, Inc. and its subsidiaries ("SDG"), the predecessor to SPG for financial reporting purposes. Accordingly, the term Simon Group, prior to the CPI Merger, refers to SDG and the SPG Operating Partnership. The separate statements of SRC include the historical results of Corporate Realty Consultants, Inc. ("CRC"), the predecessor to SRC, for all periods prior to the CPI Merger. SRC, unlike CPI (see Note 4), was not subject to purchase accounting treatment.

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reported period. Actual results could differ from these estimates.

Properties which are wholly-owned or owned less than 100% and are controlled by Simon Group are accounted for using the consolidated method of accounting. Control is demonstrated by the ability of the general partner to manage day-to-day operations, refinance debt and sell the assets of the partnership without the consent of the limited partner and the inability of the limited partner to replace the general partner. The deficit minority interest balance in the accompanying balance sheets represents outside partners' interests in the net equity of certain Properties. Deficit minority interests were recorded when a partnership agreement provided for the settlement of deficit capital accounts before distributing the proceeds from the sale of partnership assets and/or from the intent (legal or otherwise) and ability of the partner to fund additional capital contributions. Investments in partnerships and joint ventures which represent noncontrolling ownership interests ("Joint Venture Properties") and the investment in the Management Company (see Note 8) are accounted for using the equity method of accounting. These investments are recorded initially at cost and subsequently adjusted for net equity in income (loss), which is allocated in accordance with the provisions of the applicable partnership or joint venture agreement, and cash contributions and distributions. The allocation provisions in the partnership or joint venture agreements are not always consistent with the ownership interests held by each general or limited partner or joint venturer, primarily due to partner preferences.

Net operating results of the Operating Partnerships are allocated after preferred distributions (see Note 11), based on their respective partners' ownership interests. The Companies' weighted average direct and indirect ownership interest in the Operating Partnerships during 1999, 1998 and 1997 were 72.3%, 66.2% and 62.1%, respectively.

> **Note 3—NED Acquisition**

During 1999, Simon Group acquired ownership interests in 14 regional malls from New England Development Company (the "NED Acquisition"). Simon Group acquired one of the Properties directly and formed a joint venture with three partners ("Mayflower"), of which Simon Group owns 49.1%, to acquire interests in the remaining Properties. The total cost of the NED Acquisition is approximately \$1.8 billion, of which Simon Group's share is approximately \$894 million. Simon Group assumed management responsibilities for the portfolio, which includes approximately 10.7 million square feet of GLA. Simon Group's share of the cost of the NED Acquisition included the assumption of approximately \$530,000 of mortgage indebtedness; \$177,050 in cash; the issuance of 1,269,446 Paired Units valued at approximately \$36,400; the issuance of 2,584,227 7% Convertible Preferred Units in the SPG Operating Partnership valued at approximately \$72,800; and 2,584,227 8% Redeemable Preferred Units in the SPG Operating Partnership valued at approximately \$78,000. Simon Group's share of the cash portion of the purchase price was financed primarily using the Credit Facility (see Note 9).

> **Note 4—CPI Merger**

For financial reporting purposes, as of the close of business on September 24, 1998, the CPI Merger was consummated pursuant to the Agreement and Plan of Merger dated February 18, 1998, among Simon DeBartolo Group, Inc., Corporate Property Investors, Inc. ("CPI"), and Corporate Realty Consultants, Inc. The CPI Merger included the addition of 23 regional malls, one community center, two office buildings and one regional mall and one community center under construction.

As part of the merger consideration, immediately prior to the consummation of the CPI Merger, the holders of CPI common stock were paid a merger dividend consisting of (i) \$90 in cash, (ii) 1.0818 additional shares of CPI common stock and (iii) 0.19 shares of 6.50% Series B convertible preferred stock of CPI per share of CPI common stock. Immediately prior to the CPI Merger, there were 25,496,476 shares of CPI common stock outstanding. The cash portion of the merger consideration was financed with borrowings of \$1.4 billion on the Merger Facility and \$237,000 on the Credit Facility (see Note 9). The remaining merger consideration was liabilities assumed of approximately \$2.3 billion. The aggregate value associated with the completion of the CPI Merger was approximately \$5.9 billion, including transaction costs and liabilities assumed, in accordance with the purchase method of accounting. The value of the consideration paid by SDG has been allocated to the estimated fair value of the CPI assets acquired and liabilities assumed and resulted in goodwill of \$41,021, as adjusted. Goodwill is amortized over the estimated life of the properties of 35 years.

In connection with the CPI Merger, CPI was renamed "Simon Property Group, Inc." CPI's paired-share affiliate, Corporate Realty Consultants, Inc., was renamed "SPG Realty Consultants, Inc." In addition SDG and SDG, LP were renamed "SPG Properties, Inc.", and "Simon Property Group, L.P.", respectively.

Upon completion of the CPI Merger, SPG transferred substantially all of the CPI assets acquired (other than one regional mall, Ocean County Mall, and certain net leased properties valued at approximately \$153,100) to the SPG Operating Partnership or one or more subsidiaries of the SPG Operating Partnership in exchange for 47,790,550 Units and 5,053,580 preferred Units in the SPG Operating Partnership. The preferred Units carry the same rights and equal the number of preferred shares issued and outstanding as a direct result of the CPI Merger. Likewise, the net assets of SRC, with a carrying value of approximately \$14,755, were transferred to the SRC Operating Partnership in exchange for Units.

**NOTES TO FINANCIAL STATEMENTS**

DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS AND WHERE INDICATED AS IN BILLIONS

SDG, LP contributed \$14,000 cash to CRC and \$8,000 cash to the SRC Operating Partnership on behalf of the SDG common stockholders and the limited partners of SDG, LP to obtain the beneficial interests in common stock of CRC, which were paired with the shares of common stock issued by SPG, and to obtain Units in the SRC Operating Partnership so that the limited partners of the SPG Operating Partnership would hold the same proportionate interest in the SRC Operating Partnership that they hold in the SPG Operating Partnership. The cash contributed to CRC and the SRC Operating Partnership in exchange for an ownership interest therein have been appropriately accounted for as capital infusion or equity transactions. The assets and liabilities of CRC are reflected at historical cost.

**> Note 5—Other Real Estate Acquisitions, Disposals and Developments****Acquisitions**

During 1999, in addition to the NED Acquisition, Simon Group acquired the remaining interests in four Properties, and a noncontrolling 27.5% ownership interest in the 2.8 million square-foot Mall of America for a combined price of approximately \$317,850, including the assumption of \$134,300 of mortgage indebtedness, 1,000,000 shares of 8% Redeemable Preferred Stock in SPG issued at \$24,242, and the remainder in cash, financed primarily through the Credit Facility and working capital. Simon Group is entitled to 50% of the economic benefits of Mall of America, due to a preference.

On February 27, 1998, Simon Group acquired a noncontrolling 50% joint venture interest in a portfolio of twelve regional malls and two community centers (the "IBM Properties") comprising approximately 10.7 million square feet of GLA. Simon Group's \$487,250 share of the purchase price included the assumption of indebtedness of \$242,500. Simon Group also assumed leasing and management responsibilities for six of the regional malls and one community center. Simon Group funded its share of the cash portion of the purchase price using borrowings from an interim \$300,000 unsecured revolving credit facility, which was subsequently retired using borrowings from the Credit Facility.

During 1998, in addition to the CPI Merger and the acquisition of the IBM Properties, Simon Group acquired 100% of one Property, a 90% interest in another Property and additional interests in a total of six Properties for approximately \$199,200, including the assumption of \$62,100 of indebtedness and 2,864,088 Units valued at approximately \$93,500, with the remainder in cash financed primarily through the Credit Facility and working capital. These transactions resulted in the addition of approximately 1.1 million square feet of GLA to the portfolio.

During 1997, Simon Group completed its cash tender offer for all of the outstanding shares of beneficial interests of The Retail Property Trust ("RPT"), a private REIT and the acquisition of RPT's operating partnership, Shopping Center Associates ("SCA"), which owned or had interests in twelve regional malls and one community center (the "SCA Properties"). In a series of subsequent transactions, Simon Group acquired the remaining ownership interest in three of the SCA Properties and sold its interest in four of the SCA Properties. The Property sales, which generated net cash proceeds of \$43,050, were accounted for as an adjustment to the allocation of the purchase price. At the completion

of these transactions (the "SCA Acquisition"), Simon Group owns 100% of eight of the nine SCA Properties, and a noncontrolling 50% ownership interest in the remaining Property. The total cost for the SCA Acquisition of approximately \$1.3 billion included shares of common stock of SPG valued at approximately \$50,000, Units in the SPG Operating Partnership valued at approximately \$25,300, the assumption of \$398,500 of consolidated indebtedness. Simon Group's pro rata share of joint venture indebtedness of \$76,750, with the remainder comprised primarily of cash financed using Simon Group's Credit Facility. On September 15, 1998, RPT transferred its ownership interest in SCA to the SPG Operating Partnership in exchange for 27,195,109 Units in the SPG Operating Partnership.

Also in 1997, Simon Group acquired ownership interests in four regional malls and one community center for an aggregate purchase price of approximately \$322,000. The purchase price included Units in the SPG Operating Partnership valued at \$1,100, common stock of SPG valued at approximately \$20,000 and the assumption of \$64,772 of mortgage indebtedness, with the remainder paid in cash primarily using proceeds from the Credit Facility, sales of equity securities and working capital.

### **Disposals**

During 1999, 1998 and 1997, Simon Group sold ownership interests in four, five and one property, respectively, at a combined sale price of \$58,700, \$120,000 and \$1,100, respectively. These sales generated net combined consolidated gains (losses) of (\$7,062), (\$7,283) and \$20 in 1999, 1998 and 1997, respectively. Simon Group is continuing to pursue the sale of its remaining non-retail holdings, along with a number of retail assets that are no longer aligned with Simon Group's strategic criteria. If these assets are sold, management expects the sale prices will not differ materially from the carrying value of the related assets.

### **Development Activity**

Development of new retail assets is an ongoing part of Simon Group's strategy. Simon Group's share of development costs in 1999 was approximately \$400,000. Six Properties opened in 1999 aggregating approximately 4.9 million square feet of GLA. During 1998, Simon Group opened two new community center Properties at a cost of approximately \$102,000, with approximately 577,000 square feet of GLA, and Simon Group opened four new Properties in 1997 at a cost of approximately \$230,000 with approximately 3,600,000 square feet of GLA. Construction also continues on two other new projects at an aggregate construction cost of approximately \$340,000, of which approximately \$140,000 is Simon Group's share. These developments are funded primarily with borrowings from the Credit Facility, construction loans and working capital.

In addition, Simon Group strives to increase profitability and market share of the existing Properties through the completion of strategic renovations and expansions. During 1999, 1998 and 1997, Simon Group invested approximately \$277,000, \$337,000 and \$229,000, respectively on renovation and expansion of the Properties. These projects were also funded primarily with borrowings from the Credit Facility, construction loans and working capital.

**NOTES TO FINANCIAL STATEMENTS**

DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS AND WHERE INDICATED AS IN BILLIONS

**Pro Forma**

The following unaudited pro forma summary financial information excludes any extraordinary items and combines the consolidated results of operations of SPG and SRC as if the CPI Merger had occurred on January 1, 1998, and was carried forward through December 31, 1998. Preparation of the pro forma summary information was based upon assumptions deemed appropriate by management. The pro forma summary information is not necessarily indicative of the results which actually would have occurred if the CPI Merger had been consummated on January 1, 1998, nor does it purport to represent the results of operations for future periods.

Year Ended December 31,	1998
Revenue	\$ 1,715,693
Net income before allocation to Limited Partners <sup>(1)</sup>	272,025
Net income available to holders of common stock	144,598
Net income per Paired Share <sup>(1)</sup>	\$ 0.87
Diluted Net income per Paired Share	\$ 0.87
Weighted average number of equivalent Paired Shares	165,349,561
Diluted weighted average number of equivalent Paired Shares	165,706,710

<sup>(1)</sup> Includes net gains on the sales of assets of \$37,973, or \$0.17 on a basic earnings per share basis.

> **Note 6—Summary of Significant Accounting Policies**

**Investment Properties**

Investment Properties are recorded at cost (predecessor cost for Properties acquired from certain of the SPG Operating Partnership's unitholders). Investment Properties for financial reporting purposes are reviewed for impairment on a Property-by-Property basis whenever events or changes in circumstances indicate that the carrying value of investment Properties may not be recoverable. Impairment of investment Properties is recognized when estimated undiscounted operating income is less than the carrying value of the Property. To the extent an impairment has occurred, the excess of carrying value of the Property over its estimated fair value is charged to income.

Investment Properties include costs of acquisitions, development and predevelopment, construction, tenant allowances and improvements, interest and real estate taxes incurred during construction, certain capitalized improvements and replacements, and certain allocated overhead. Depreciation on buildings and improvements is provided utilizing the straight-line method over an estimated original useful life, which is generally 35 years or the term of the applicable tenant's lease in the case of tenant inducements. Depreciation on tenant allowances and improvements is provided utilizing the straight-line method over the term of the related lease.

Certain improvements and replacements are capitalized when they extend the useful life, increase capacity, or improve the efficiency of the asset. All other repair and maintenance items are expensed as incurred.

### **Capitalized Software Costs**

Simon Group capitalizes the cost of internally developed software once management has determined that the software will result in probable future economic benefits. Capitalized costs include external direct costs related to software development and implementation and payroll-related costs of certain employees working solely on these aspects of the project. Capitalized software costs will be amortized on a straight line basis over three years beginning when the system is ready and available for its intended use.

### **Capitalized Interest**

Interest is capitalized on projects during periods of construction. Interest capitalized during 1999, 1998 and 1997 was \$19,641, \$10,567 and \$11,589, respectively.

### **Segment Disclosure**

Simon Group's interests in its regional malls, community centers and other assets represents one segment as they have similar economic and environmental conditions, business processes, types of customers (i.e. tenants) and services provided, and because resource allocation and other operating decisions are based on an evaluation of the entire portfolio.

### **Long-Term Investment**

Investments in securities classified as available for sale are reflected in other investments in the balance sheets at market value with the changes in market value reflected as comprehensive income in shareholders' equity.

### **Deferred Costs**

Deferred costs consist primarily of financing fees incurred to obtain long-term financing, costs of interest rate protection agreements, and internal and external leasing commissions and related costs. Deferred financing costs, including interest rate protection agreements, are amortized on a straight-line basis over the terms of the respective loans or agreements. Deferred leasing costs are amortized on a straight-line basis over the terms of the related leases. Deferred costs of \$149,863 and \$127,454 are net of accumulated amortization of \$121,477 and \$116,239 in 1999 and 1998, respectively.

Interest expense in the accompanying Consolidated Statements of Operations includes amortization of deferred financing costs of \$17,535, \$11,835, and \$8,338, for 1999, 1998 and 1997, respectively, and has been reduced by amortization of debt premiums and discounts of \$5,707, \$1,465 and \$699 for 1999, 1998 and 1997, respectively.

### **Revenue Recognition**

Simon Group, as a lessor, has retained substantially all of the risks and benefits of ownership of the investment Properties and accounts for its leases as operating leases. Minimum rents are accrued on a straight-line basis over the terms of their respective leases. Certain tenants are also required to pay overage rents based on sales over a stated base amount during the lease year. Through December 31, 1999, overage rents were recognized as revenues based on reported and estimated sales for each tenant through December 31, less the applicable prorated base sales amount. Differences between estimated and actual amounts are recognized in the subsequent year. As described in Note 15, Simon Group's accounting for overage rent will be modified effective January 1, 2000.

Reimbursements from tenants for real estate taxes and other recoverable operating expenses are recognized as revenue in the period the applicable expenditures are incurred.

**NOTES TO FINANCIAL STATEMENTS**

DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS AND WHERE INDICATED AS IN BILLIONS

**Allowance for Credit Losses**

A provision for credit losses is recorded based on management's judgment of tenant creditworthiness. The activity in the allowance for credit losses during 1999, 1998 and 1997 was as follows:

Year Ended	Balance at Beginning of Year	Provision for Credit Losses	Accounts Written Off	Balance at End of Year
December 31, 1999	\$ 14,491	\$ 8,541	\$ (8,565)	\$ 14,467
December 31, 1998	\$ 13,804	\$ 6,614	\$ (5,927)	\$ 14,491
December 31, 1997	\$ 7,918	\$ 5,992	\$ (106)	\$ 13,804

**Income Taxes**

**SPG.** SPG and certain of its subsidiaries are taxed as REITs under Sections 856 through 860 of the Code and applicable Treasury regulations relating to REIT qualification, which requires REITs to distribute at least 95% of their taxable income to shareholders and meet certain other asset and income tests as well as other requirements. Management intends to continue to adhere to these requirements and maintain the REIT status of SPG and its REIT subsidiaries. As REITs, these entities will generally not be liable for federal corporate income taxes. Thus, no provision for federal income taxes for the REITs has been included in the accompanying financial statements. If any of these entities fail to qualify as a REIT in any taxable year, it will be subject to federal income taxes on its taxable income at regular corporate tax rates. State income taxes were not significant in any of the periods presented.

**SRC.** SRC, a C Corporation, is subject to income taxes on its earnings. SRC follows the liability method of accounting for income taxes in accordance with SFAS No. 109, *Accounting For Income Taxes*. The provision (benefit) for income taxes reflected in the separate financial statements of SRC was (\$3,374), (\$190) and \$670 for 1999, 1998 and 1997, respectively. Deferred tax assets and liabilities consist primarily of tax credits, net operating loss carryforwards and asset basis differences. The net deferred tax asset (liability), net of necessary valuation allowances, at December 31, 1999 and 1998 was \$0 and (\$3,374), respectively, and is included in other liabilities in the accompanying balance sheets. A valuation allowance is provided for loss and credit carryforwards that management currently evaluates as not likely to be realized. The valuation allowance related to SRC's tax accounts is adjusted as necessary based on management's expectation of SRC's ability to utilize its tax benefit carryforwards. In 1998, SRC generated losses for which a valuation allowance was provided. In 1999, the income tax benefit represents SRC's pro rata share of the SRC Operating Partnership's current year losses and the realization of tax carryforward benefits for which a valuation allowance was previously provided.



### **Per Share Data**

In accordance with SFAS No. 128, *Earnings Per Share*, basic earnings per share is based on the weighted average number of shares of common stock outstanding during the period and diluted earnings per share is based on the weighted average number of shares of common stock outstanding combined with the incremental weighted average shares that would have been outstanding if all dilutive potential common shares would have been converted into shares at the earliest date possible. The weighted average number of Paired Shares used in the computation for 1999, 1998 and 1997 was 172,088,590; 126,522,228; and 99,920,280, respectively. The diluted weighted average number of equivalent Paired Shares used in the computation for 1999, 1998 and 1997 was 172,225,592; 126,879,377 and 100,304,344, respectively.

Combined basic and diluted earnings per Paired Share is presented in the financial statements based upon the weighted average number of Paired Shares outstanding of the Companies, giving effect to the CPI Merger as of the close of business on September 24, 1998. Management believes this presentation provides the shareholders with the most meaningful presentation of earnings for a single interest in the combined entities.

Neither series of convertible preferred stock issued and outstanding during the comparative periods had a dilutive effect on earnings per share, nor did any of the convertible preferred Units of the SPG Operating Partnership outstanding, which are convertible into Paired Shares on or after August 27, 2004 if certain conditions are met. Paired Units held by limited partners in the Operating Partnerships may be exchanged for Paired Shares, on a one-for-one basis in certain circumstances. If exchanged, the paired Units would not have a dilutive effect. The increase in weighted average shares outstanding under the diluted method over the basic method in every period presented for the Companies is due entirely to the effect of outstanding stock options. Basic earnings and diluted earnings were the same for all periods presented.

Simon Group accrues distributions when they are declared. SPG declared distributions in 1999 and 1998 aggregating \$2.02 per share of common stock, of which \$1.06 and \$0.97 represented a return of capital measured using generally accepted accounting principles. On a federal income tax basis, 10% of SPG's 1999 distribution represented a capital gain and 38% represented a return of capital. In 1998, 1% of SPG's 1998 distribution represented a capital gain and 48% represented a return of capital.

### **Statements of Cash Flows**

For purposes of the Statements of Cash Flows, all highly liquid investments purchased with an original maturity of 90 days or less are considered cash and cash equivalents. Cash equivalents are carried at cost, which approximates market value. Cash equivalents generally consist of commercial paper, bankers acceptances, Eurodollars, repurchase agreements and Dutch auction securities.

Cash paid for interest, net of any amounts capitalized, during 1999, 1998 and 1997 was \$566,191, \$397,560 and \$270,912, respectively.

### **Noncash Transactions**

Accrued and unpaid distributions were \$876 and \$3,428 at December 31, 1999 and 1998, respectively. Please refer to Notes 3, 4, 5 and 11 for additional discussion of noncash transactions.

### **Reclassifications**

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. These reclassifications have no impact on net operating results previously reported.

**NOTES TO FINANCIAL STATEMENTS**

DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS AND WHERE INDICATED AS IN BILLIONS

**> Note 7—Investment Properties**

Investment properties consist of the following:

December 31,	1999	1998
Land	\$ 2,137,579	\$ 2,094,881
Buildings and improvements	10,590,207	9,695,842
Total land, buildings and improvements	12,727,786	11,790,723
Furniture, fixtures and equipment	74,266	59,291
Investment properties at cost	12,802,052	11,850,014
Less—accumulated depreciation	1,098,881	722,371
Investment properties at cost, net	<b>\$11,703,171</b>	<b>\$11,127,643</b>

Investment properties includes \$201,349 and \$184,875 of construction in progress at December 31, 1999 and 1998, respectively.

**> Note 8—Investments in Unconsolidated Entities*****Joint Venture Properties***

From January 1, 1997 through December 31, 1999, the number of Properties Simon Group accounted for using the equity method of accounting has increased from 30 to 69. Please refer to Notes 3, 4 and 5.

Summary financial information of the Joint Venture Properties and a summary of Simon Group's investment in and share of income from such Properties follows.

**BALANCE SHEETS**

December 31,	1999	1998
<b>Assets:</b>		
Investment properties at cost, net	\$6,487,200	\$4,290,795
Cash and cash equivalents	171,372	173,778
Tenant receivables	160,477	140,579
Other assets	161,702	103,481
<b>Total assets</b>	<b>\$6,980,751</b>	<b>\$4,708,633</b>
<b>Liabilities and Partners' Equity:</b>		
Mortgages and other notes payable	\$4,484,598	\$2,861,589
Accounts payable, accrued expenses and other liabilities	291,457	227,677
<b>Total liabilities</b>	<b>4,776,055</b>	<b>3,089,266</b>
Partners' equity	2,204,696	1,619,367
<b>Total liabilities and partners' equity</b>	<b>\$6,980,751</b>	<b>\$4,708,633</b>
<b>Simon Group's Share of:</b>		
Total assets	\$2,843,025	\$1,910,021
Partners' equity	\$ 896,572	\$ 568,998
Add: Excess Investment	592,457	708,616
<b>Simon Group's net Investment in Joint Ventures</b>	<b>\$1,489,029</b>	<b>\$1,277,614</b>

**STATEMENTS OF OPERATIONS**

For the Year Ended December 31,	1999	1998	1997
<b>Revenue:</b>			
Minimum rent	\$ 570,902	\$ 442,530	\$ 256,100
Overage rent	25,957	18,465	10,510
Tenant reimbursements	276,207	204,936	120,380
Other income	57,695	31,045	19,364
<b>Total revenue</b>	<b>930,761</b>	<b>696,976</b>	<b>406,354</b>
<b>Operating Expenses:</b>			
Operating expenses and other	324,051	245,927	144,256
Depreciation and amortization	170,339	129,681	85,423
<b>Total operating expenses</b>	<b>494,390</b>	<b>375,608</b>	<b>229,679</b>
<b>Operating Income</b>	<b>436,371</b>	<b>321,368</b>	<b>176,675</b>
<b>Interest Expense</b>	<b>235,826</b>	<b>176,669</b>	<b>96,675</b>
<b>Extraordinary Items – Debt Extinguishments</b>	<b>(66)</b>	<b>(11,058)</b>	<b>(1,925)</b>
<b>Net Income</b>	<b>\$ 200,479</b>	<b>\$ 133,641</b>	<b>\$ 78,075</b>
<b>Third-Party Investors' Share of Net Income</b>	<b>122,087</b>	<b>88,314</b>	<b>55,507</b>
<b>Simon Group's Share of Net Income</b>	<b>\$ 78,392</b>	<b>\$ 45,327</b>	<b>\$ 22,568</b>
<b>Amortization of Excess Investment</b>	<b>27,252</b>	<b>22,625</b>	<b>13,878</b>
<b>Income from Unconsolidated Entities</b>	<b>\$ 51,140</b>	<b>\$ 22,702</b>	<b>\$ 8,690</b>

**NOTES TO FINANCIAL STATEMENTS**

DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS AND WHERE INDICATED AS IN BILLIONS

As of December 31, 1999 and 1998, the unamortized excess of Simon Group's investment over its share of the equity in the underlying net assets of the partnerships and joint ventures acquired ("Excess Investment") was \$592,457 and \$708,616, respectively, which is amortized over the life of the related Properties. Amortization included in income from unconsolidated entities for the years ended December 31, 1999, 1998 and 1997 was \$27,252, \$22,625 and \$13,878, respectively. Included in the 1999 amortization is a \$5,000 writedown on a joint venture investment.

At December 31, 1999, SRC's investment in unconsolidated joint ventures, which is included in the summary financial information above, represents noncontrolling interests in two joint ventures that each own land held for sale, which are adjacent to two of the Properties. Included in 1999 total assets, total revenue and net income above was \$18,505, \$12,539 and \$11,902, respectively, related to these SRC joint venture investments. During 1998, SRC also had a joint venture interest in a partnership which provided management and advisory services to a hotel. This investment was sold in 1999 for \$28,500, which resulted in a \$35 gain. Included in 1998 total assets, total revenue and net income above was \$5,367, \$481 and \$481, respectively, related to SRC's joint venture investments.

***The Management Company***

Simon Group holds 80% of the outstanding common stock, 5% of the outstanding voting common stock, and all of the 8% cumulative preferred stock of the Management Company. The remaining 20% of the outstanding common stock of the Management Company (representing 95% of the voting common stock) is owned directly by Melvin Simon, Herbert Simon and David Simon. Because Simon Group exercises significant influence over the financial and operating policies of the Management Company, it is reflected in the accompanying statements using the equity method of accounting. The Management Company, including its consolidated subsidiaries, provides management, leasing, development, project management, accounting, legal, marketing and management information systems services and property damage and general liability insurance coverage to certain Portfolio Properties. Simon Group incurred costs of \$75,697, \$58,748 and \$45,509 on consolidated Properties, related to services provided by the Management Company and its affiliates in 1999, 1998 and 1997, respectively. The Management Company also provides certain of such services to Melvin Simon & Associates, Inc. ("MSA"), and certain other nonowned properties for a fee. Fees for services provided by the Management Company to MSA were \$3,853, \$3,301 and \$3,073 for the years ended December 31, 1999, 1998 and 1997, respectively.

The SPG Operating Partnership manages substantially all wholly-owned Properties and 40 Properties owned as joint venture interests, and, accordingly, it reimburses a subsidiary of the Management Company for costs incurred relating to the management of such Properties. Substantially all employees of Simon Group (other than direct field personnel) are employed by such Management Company subsidiary. The Management Company records costs net of amounts reimbursed by the SPG Operating Partnership. Common costs are allocated using assumptions that management believes are reasonable. The SPG Operating Partnership's share of allocated common costs was \$55,051, \$42,546 and \$35,341 for 1999, 1998 and 1997, respectively. As of December 31, 1999 and 1998, amounts due from the Management Company for unpaid interest receivable and unpaid accrued preferred dividends were not material to the combined financial statements or to those of SPG. Amounts due to the Management Company under cost-sharing arrangements and management contracts are included in notes and advances receivable from Management Company and affiliates.

Included in operating income of the Management Company for 1999 is a \$7,290 loss resulting from interests in two parcels of land held for sale by the Management Company, which were written down to their respective estimated fair market values.

Summarized consolidated financial information of the Management Company and a summary of Simon Group's investment in and share of income from the Management Company follows:

**BALANCE SHEET DATA:**

December 31,	1999	1998
Total assets	\$ 184,501	\$ 198,952
Notes payable to Simon Group at 11%, due 2008, and advances	162,082	115,378
Shareholders' equity	21,740	7,279
<b>Simon Group's Share of:</b>		
Total assets	\$ 172,935	\$ 184,273
Shareholders' equity	\$ 23,889	\$ 10,037

**OPERATING DATA:**

For the Year Ended December 31,	1999	1998	1997
Total revenue	\$ 115,761	\$ 100,349	\$ 85,542
Operating Income	5,573	8,067	13,766
Net Income Available for Common Shareholders	\$ 4,173	\$ 6,667	\$ 12,366
Simon Group's Share of Net Income after intercompany profit elimination	\$ 4,715	\$ 5,852	\$ 10,486

**European Investment**

The SPG Operating Partnership and the Management Company have a 25% ownership interest in European Retail Enterprises, B.V. ("ERE") and Groupe BEG, S.A. ("BEG"), respectively, which are accounted for using the equity method of accounting. BEG and ERE are fully integrated European retail real estate developers, lessors and managers. Simon Group's total investment in ERE and BEG at December 31, 1999 was approximately \$41,000, with commitments for an additional \$22,000, subject to certain performance and other criteria, including Simon Group's approval of development projects. The agreements with BEG and ERE are structured to allow Simon Group to acquire an additional 25% ownership interest over time. As of December 31, 1999, BEG and ERE had three properties open in Poland and two in France.

The financial statements of Simon Group's European operations are measured utilizing the Euro and translated into U.S. dollars in accordance with SFAS No. 52, *Foreign Currency Translation*. Accordingly, results of operations are translated at the weighted average exchange rate for the period. The translation adjustment resulting from the conversion of BEG and ERE's balance sheets were not significant for the years ended December 31, 1999 and 1998.

**NOTES TO FINANCIAL STATEMENTS**

DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS AND WHERE INDICATED AS IN BILLIONS

**> Note 9—Indebtedness**

Simon Group's mortgages and other notes payable consist of the following:

December 31,	1999	1998
<b>Fixed-Rate Debt</b>		
Mortgages and other notes, including \$28 and \$1,917 net premiums, respectively. Weighted average interest and maturity of 7.4% and 6.1 years.	<b>\$2,304,435</b>	\$2,291,893
Unsecured notes, including (\$275) and \$7,992 net (discounts) premiums, respectively. Weighted average interest and maturity of 7.2% and 7.1 years.	<b>3,489,725</b>	2,896,563
6¾% Putable Asset Trust Securities, including \$913 and \$1,111 premiums, respectively, due November 2003.	<b>100,913</b>	101,111
7% Mandatory Par Put Remarketed Securities, including \$5,214 and \$5,273 premiums, respectively, due June 2028 and subject to redemption June 2008.	<b>205,214</b>	205,273
Commercial mortgage pass-through certificates. Five classes bearing interest at weighted average rates and maturities of 7.3% and 8.0 years.	<b>175,000</b>	175,000
<b>Total fixed-rate debt</b>	<b>6,275,287</b>	5,669,840
<b>Variable-Rate Debt</b>		
Mortgages and other notes, including \$884 and \$1,275 premiums, respectively. Weighted average interest and maturity of 7.0% and 3.1 years.	<b>\$ 558,664</b>	\$ 352,532
Credit Facility (see below)	<b>785,000</b>	368,000
Merger Facility (see below)	<b>950,000</b>	1,400,000
Commercial mortgage pass-through certificates, interest at 6.2%, due December 2007.	<b>50,000</b>	50,000
Unsecured term loans, interest at 6.6%, due February 2002.	<b>150,000</b>	133,000
<b>Total variable-rate debt</b>	<b>2,493,664</b>	2,303,532
<b>Total mortgages and other notes payable, net</b>	<b>\$8,768,951</b>	\$7,973,372

**General.** Certain of the Properties are cross-defaulted and cross-collateralized as part of a group of properties. Under certain of the cross-default provisions, a default under any mortgage included in the cross-defaulted package may constitute a default under all such mortgages and may lead to acceleration of the indebtedness due on each Property within the collateral package. Certain indebtedness is subject to financial performance covenants relating to leverage ratios, annual real property appraisal requirements, debt service coverage ratios, minimum net worth ratios, debt-to-market capitalization, and minimum equity values. Debt premiums and discounts are amortized over the terms of the related debt instruments. Certain mortgages and notes payable may be prepaid but are generally subject to a prepayment of a yield-maintenance premium.

**Mortgages and Other Notes.** Certain of the Properties are pledged as collateral to secure the related mortgage notes. The fixed and variable mortgage notes are nonrecourse; however certain notes have partial guarantees by affiliates of approximately \$643,667. The fixed-rate mortgages generally require monthly payments of principal and/or interest. Variable-rate mortgages are typically based on LIBOR.

**Unsecured Notes.** Certain of Simon Group's unsecured notes totaling \$825,000 with weighted average interests and maturities of 8.0% and 8.1 years, respectively, are structurally senior in right of payment to holders of other Simon Group unsecured notes to the extent of the assets and related cash flows of certain Properties. Certain of the unsecured notes are guaranteed by the SPG Operating Partnership.

On February 4, 1999, the SPG Operating Partnership completed the sale of \$600,000 of senior unsecured notes. These notes include two \$300,000 tranches. The first tranche bears interest at 6.75% and matures on February 4, 2004 and the second tranche bears interest at 7.125% and matures on February 4, 2009. The SPG Operating Partnership used the net proceeds of approximately \$594,000 to retire the \$450,000 initial tranche of the Merger Facility (see below) and to pay \$142,000 on the outstanding balance of the Credit Facility (see below).

**Credit Facility.** The Credit Facility is a \$1,250,000 unsecured revolving credit facility. During 1999, Simon Group obtained a three-year extension on the Credit Facility to August of 2002, with an additional one-year extension available at Simon Group's option. The Credit Facility bears interest at LIBOR plus 65 basis points, with an additional 15 basis point facility fee on the entire \$1,250,000. The maximum and average amounts outstanding during 1999 under the Credit Facility were \$785,000 and \$487,255, respectively. The Credit Facility is primarily used for funding acquisition, renovation and expansion and predevelopment opportunities. At December 31, 1999, the Credit Facility had an effective interest rate of 6.47%, with \$460,519 available after outstanding borrowings and letters of credit. The Credit Facility contains financial covenants relating to a capitalization value, minimum EBITDA and unencumbered EBITDA ratios and minimum equity values.

**The Merger Facility.** In conjunction with the CPI Merger, the SPG Operating Partnership and SPG, as co-borrowers, closed a \$1,400,000 medium term unsecured bridge loan (the "Merger Facility"). The Merger Facility bears interest at a base rate of LIBOR plus 65 basis points and \$450,000 of the remaining balance will mature on March 24, 2000, with the remaining \$500,000 due on September 24, 2000. The Merger Facility is subject to covenants and conditions substantially identical to those of the Credit Facility. Financing costs of \$9,707, which were incurred to obtain the Merger Facility, are amortized over 18 months.

#### **Debt Maturity and Other**

As of December 31, 1999, scheduled principal repayments on indebtedness were as follows:

2000	\$ 1,161,725
2001	268,474
2002	1,563,601
2003	1,135,047
2004	1,083,039
Thereafter	3,550,301
Total principal maturities	8,762,187
Net unamortized debt premiums	6,764
Total mortgages and other notes payable	\$ 8,768,951

The Joint Venture Properties have \$4,484,598 and \$2,861,589 of mortgages and other notes payable at December 31, 1999 and 1998, respectively. Simon Group's share of this debt was \$1,876,158 and \$1,227,044 at December 31, 1999 and 1998, respectively. This debt, including premiums of \$22,521 in 1999, becomes due in installments over various terms extending through 2010, with interest rates ranging from 6.26% to 9.98% (weighted average rate of 7.37% at December 31, 1999). The debt, excluding the \$22,521 of premiums, matures \$502,705 in 2000; \$226,374 in 2001; \$268,646 in 2002; \$844,459 in 2003; \$406,161 in 2004 and \$2,213,732 thereafter.

**NOTES TO FINANCIAL STATEMENTS**

DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS AND WHERE INDICATED AS IN BILLIONS

**Interest Rate Protection Agreements**

Simon Group has entered into interest rate protection agreements, in the form of "cap" or "swap" arrangements, with respect to certain of its variable-rate mortgages and other notes payable. Swap arrangements, which effectively fix Simon Group's interest rate on the respective borrowings, have been entered into for \$248,000 principal amount of consolidated debt. Cap arrangements, which effectively limit the amount by which variable interest rates may rise, have been entered into for \$190,000 principal amount of consolidated debt and cap LIBOR at rates ranging from 8.7% to 16.77% through the related debt's maturity. Costs of the caps (\$1,338) are amortized over the life of the agreements. The unamortized balance of the cap arrangements was \$187 and \$429 as of December 31, 1999 and 1998, respectively. Simon Group's hedging activity as a result of interest swaps and caps resulted in net interest (expense) savings of (\$1,880), \$263 and \$1,586 for the years ended December 31, 1999, 1998 and 1997, respectively. This did not materially impact Simon Group's weighted average borrowing rate.

**Fair Value of Financial Instruments**

The carrying value of variable-rate mortgages and other loans represents their fair values. The fair value of combined fixed-rate mortgages and other notes payable, was approximately \$5,649,467 and \$6,100,000 at December 31, 1999 and 1998, respectively. The fair value of the combined interest rate protection agreements at December 31, 1999 and 1998, was \$6,600 and (\$7,213), respectively. At December 31, 1999 and 1998, the estimated discount rates were 8.06% and 6.70%, respectively.

**> Note 10—Rentals under Operating Leases**

Simon Group receives rental income from the leasing of retail and mixed-use space under operating leases. Future minimum rentals to be received under noncancelable operating leases for each of the next five years and thereafter, excluding tenant reimbursements of operating expenses and percentage rent based on tenant sales volume, as of December 31, 1999, are as follows:

2000	\$ 959,563
2001	899,615
2002	839,027
2003	759,301
2004	662,415
Thereafter	2,417,495
	\$ 6,537,416

Approximately 1.8% of future minimum rents to be received are attributable to leases with an affiliate of a limited partner in the SPG Operating Partnership.



> **Note 11—Capital Stock**

SPG is authorized to issue up to 750,000,000 shares, par value \$0.0001 per share, of capital stock. The authorized shares of capital stock consist of 400,000,000 shares of common stock, 12,000,000 shares of Class B common stock, 4,000 shares of Class C common stock, 100,000,000 shares of preferred stock, and 237,996,000 shares of excess common stock. Each share of common stock of SPG is paired with 1/100th of a share of common stock of SRC.

SRC is authorized to issue up to 7,500,000 shares, par value \$0.0001 per share, of common stock. SRC's historical shares and per share amounts have been adjusted to give effect to the change in SRC's par value of common stock from \$0.10 per share to \$0.0001 per share and to the CPI Merger exchange ratio of 2.0818 and to change the pairing of SRC's stock from 1/10th to 1/100th.

The Board of Directors is authorized to reclassify the excess common stock into one or more additional classes and series of capital stock to establish the number of shares in each class or series and to fix the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, and qualifications and terms and conditions of redemption of such class or series, without any further vote or action by the shareholders. The issuance of additional classes or series of capital stock may have the effect of delaying, deferring or preventing a change in control of SPG without further action of the shareholders. The ability of the Board of Directors to issue additional classes or series of capital stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from acquiring, a majority of the outstanding voting stock of the Companies.

The holders of common stock of SPG are entitled to one vote for each share held of record on all matters submitted to a vote of shareholders, other than for the election of directors. The holders of Class B common stock are entitled to elect four of the thirteen members of the board. The holder of the Class C common stock is entitled to elect two of the thirteen members of the board. The Class B and Class C shares can be converted into shares of common stock at the option of the holders. Shares of Class B common stock convert automatically into an equal number of shares of common stock upon the sale or transfer thereof to a person not affiliated with Melvin, Herbert or David Simon. Shares of Class C common stock convert automatically into an equal number of shares of common stock upon the sale or transfer thereof to a person not affiliated with the members of the DeBartolo family or entities controlled by them. The Companies have reserved 3,200,000 and 4,000 shares of common stock for the possible conversion of the outstanding Class B and Class C shares, respectively.

**Common Stock Issuances**

During 1998, SPG issued 2,957,335 shares of its common stock in offerings generating combined net proceeds of approximately \$91,399. The net proceeds were contributed to the SPG Operating Partnership in exchange for a like number of Units. The SPG Operating Partnership used the net proceeds for general working capital purposes.

On November 11, 1997, SPG issued 3,809,523 shares of its common stock upon the conversion of all of the outstanding shares of SPG's 8.125% Series A Preferred Stock, \$.0001 par value per share.

On September 19, 1997, SPG issued 4,500,000 shares of its common stock in a public offering. SPG contributed the net proceeds of approximately \$146,800 to the SPG Operating Partnership in exchange for an equal number of Units. The SPG Operating Partnership used the net proceeds to retire a portion of the outstanding balance on the Credit Facility.

**NOTES TO FINANCIAL STATEMENTS**

DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS AND WHERE INDICATED AS IN BILLIONS

**Preferred Stock**

The following table summarizes each of the series of preferred stock of Simon Property Group, Inc.:

As of December 31,	1999	1998
Series A 6.5% Convertible Preferred Stock, 209,249 shares authorized, 53,271 and 209,249 issued and outstanding, respectively	\$ 68,073	\$ 267,393
Series B 6.5% Convertible Preferred Stock, 5,000,000 shares authorized, 4,844,331 issued and outstanding	450,523	450,523
Series C 7.00% Cumulative Convertible Preferred Stock, 2,700,000 shares authorized, none issued or outstanding	—	—
Series D 8.00% Cumulative Redeemable Preferred Stock, 2,700,000 shares authorized, none issued or outstanding	—	—
Series E 8.00% Cumulative Redeemable Preferred Stock, 1,000,000 shares authorized, 1,000,000 and 0 issued and outstanding, respectively	24,242	—
	<b>\$ 542,838</b>	<b>\$ 717,916</b>

**Series A Convertible Preferred Stock.** During 1999, 155,978 shares of SPG's Series A Convertible Preferred Stock were converted into 5,926,440 Paired Shares. In addition, another 153,890 Paired Shares were issued to the holders of the converted shares in lieu of the cash dividends allocable to those preferred shares. Each share of Series A Convertible Preferred Stock has a liquidation preference of \$1,000 and is convertible into 37.995 Paired Shares, subject to adjustment under certain circumstances. The Series A Convertible Preferred Stock is not redeemable, except as needed to maintain or bring the direct or indirect ownership of the capital stock of SPG into conformity with REIT requirements.

**Series B Convertible Preferred Stock.** Each share of the Series B Convertible Preferred Stock has a liquidation preference of \$100 and is convertible into 2.586 Paired Shares, subject to adjustment under circumstances identical to those of the Series A Preferred Stock. SPG may redeem the Series B Preferred Stock on or after September 24, 2003 at a price beginning at 105% of the liquidation preference plus accrued dividends and declining to 100% of the liquidation preference plus accrued dividends any time on or after September 24, 2008.

**Series C Cumulative Convertible Preferred Stock and Series D Cumulative Redeemable Preferred Stock.** In connection with the NED Acquisition, on August 27, 1999, SPG authorized these two new series of preferred stock to be available for issuance upon conversion by the holders or redemption by the SPG Operating Partnership of the 7.00% Preferred Units or the 8.00% Preferred Units, described below. Each of these new series of preferred stock has terms which are substantially identical to the respective series of Preferred Units.

**Series E Cumulative Redeemable Preferred Stock.** As part of the consideration for the purchase of ownership in Mall of America, SPG issued the Series E Cumulative Redeemable Preferred Stock for \$24,242. The Series E Cumulative Redeemable Preferred Stock is redeemable beginning August 27, 2004 at the liquidation value of \$25 per share.

### ***Preferred Stock of Subsidiary***

In connection with the CPI Merger, SPG Properties, Inc., formerly Simon DeBartolo Group, Inc., became a subsidiary of SPG. Accordingly, the 11,000,000 shares of Series B and Series C cumulative redeemable preferred stock described below have been reflected outside of equity as Preferred Stock of Subsidiary as of the date of the CPI Merger.

SPG Properties, Inc. has outstanding 3,000,000 shares of its 7.89% Series C Cumulative Step-Up Premium Rate<sup>SM</sup> Preferred Stock (the "Series C Preferred Shares") with a liquidation value of \$50.00 per share. Beginning October 1, 2012, the rate increases to 9.89% per annum. Management intends to redeem the Series C Preferred Shares prior to October 1, 2012. Beginning September 30, 2007, SPG Properties, Inc. may redeem the Series C Preferred Shares in whole or in part, using only the sale proceeds of other capital stock of SPG Properties, Inc., at a liquidation value of \$50.00 per share, plus accrued and unpaid distributions, if any, thereon. Additionally, the Series C Preferred Shares have no stated maturity and are not subject to any mandatory redemption provisions, nor are they convertible into any other securities of SPG Properties, Inc. The SPG Operating Partnership pays a preferred distribution to SPG Properties, Inc. equal to the dividends paid on the preferred stock.

SPG Properties, Inc. also has outstanding 8,000,000 shares of 8.75% Series B Cumulative Redeemable Preferred Stock, which it may redeem any time on or after September 29, 2006, at a liquidation value of \$25.00 per share, plus accrued and unpaid dividends. The liquidation value (other than the portion thereof consisting of accrued and unpaid dividends) is payable solely out of the sale proceeds of other capital shares of SPG Properties, Inc., which may include other series of preferred shares. The SPG Operating Partnership pays a preferred distribution to SPG Properties, Inc. equal to the dividends paid on the preferred stock.

### ***Limited Partners' Preferred Interests in the SPG Operating Partnership***

In connection with the NED Acquisition, the SPG Operating Partnership issued two new series of preferred Units during 1999 as a component of the consideration for the Properties acquired. The SPG Operating Partnership authorized 2,700,000, and issued 2,584,227, 7.00% Cumulative Convertible Preferred Units (the "7.00% Preferred Units") having a liquidation value of \$28.00 per Unit. The 7.00% Preferred Units accrue cumulative dividends at a rate of \$1.96 annually, which is payable quarterly in arrears. The 7.00% Preferred Units are convertible at the holders' option on or after August 27, 2004, into either a like number of shares of 7.00% Cumulative Convertible Preferred Stock of SPG with terms substantially identical to the 7.00% Preferred Units or Paired Units at a ratio of 0.75676 to one provided that the closing stock price of SPG's Paired Shares exceeds \$37.00 for any three consecutive trading days prior to the conversion date. The SPG Operating Partnership may redeem the 7.00% Preferred Units at their liquidation value plus accrued and unpaid distributions on or after August 27, 2009, payable in Paired Units. In the event of the death of a holder of the 7.00% Preferred Units, or the occurrence of certain tax triggering events applicable to a holder, the SPG Operating Partnership may be required to redeem the 7.00% Preferred Units at liquidation value payable at the option of the SPG Operating Partnership in either cash (the payment of which may be made in four equal annual installments) or Paired Shares.

**NOTES TO FINANCIAL STATEMENTS**

DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS AND WHERE INDICATED AS IN BILLIONS

The SPG Operating Partnership also authorized 2,700,000, and issued 2,584,227, 8.00% Cumulative Redeemable Preferred Units (the "8.00% Preferred Units") having a liquidation value of \$30.00. The 8.00% Preferred Units accrue cumulative dividends at a rate of \$2.40 annually, which is payable quarterly in arrears. The 8.00% Preferred Units are each paired with one 7.00% Preferred Unit or with the Units into which the 7.00% Preferred Units may be converted. The SPG Operating Partnership may redeem the 8.00% Preferred Units at their liquidation value plus accrued and unpaid distributions on or after August 27, 2009, payable in either new preferred units of the SPG Operating Partnership having the same terms as the 8.00% Preferred Units, except that the distribution coupon rate would be reset to a then determined market rate, or in Paired Units. The 8.00% Preferred Units are convertible at the holders' option on or after August 27, 2004, into 8.00% Cumulative Redeemable Preferred Stock of SPG with terms substantially identical to the 8.00% Preferred Units. In the event of the death of a holder of the 8.00% Preferred Units, or the occurrence of certain tax triggering events applicable to a holder, the SPG Operating Partnership may be required to redeem the 8.00% Preferred Units owned by such holder at their liquidation value payable at the option of the SPG Operating Partnership in either cash (the payment of which may be made in four equal annual installments) or Paired Shares.

**Notes Receivable from Former CPI Shareholders**

Notes receivable of \$27,168 from former CPI shareholders, which result from securities issued under CPI's executive compensation program and were assumed in the CPI Merger, are reflected as a deduction from capital in excess of par value in the statements of shareholders' equity in the accompanying combined financial statements and SPG's financial statements. Certain of such notes totaling \$9,519 bear interest at rates ranging from 5.31% to 6.00% and become due during the period 2000 to 2002. The remainder of the notes do not bear interest and become due at the time the underlying shares are sold.

**The Simon Property Group 1998 Stock Incentive Plan**

Simon Group has a stock incentive plan (the "1998 Plan"), which provides for the grant of equity-based awards during a ten-year period, in the form of options to purchase Paired Shares ("Options"), stock appreciation rights ("SARs"), restricted stock grants and performance unit awards (collectively, "Awards"). Options may be granted which are qualified as "incentive stock options" within the meaning of Section 422 of the Code and Options which are not so qualified. The Companies have reserved for issuance 6,300,000 Paired Shares under the 1998 Plan. Additionally, the partnership agreements require the Companies to sell Paired Shares to the Operating Partnerships, at fair value, sufficient to satisfy the exercising of stock options, and for the Companies to purchase Paired Units for cash in an amount equal to the fair market value of such Paired Shares.

**Administration.** The 1998 Plan is administered by SPG's Compensation Committee (the "Committee"). The Committee, in its sole discretion, determines which eligible individuals may participate and the type, extent and terms of the Awards to be granted to them. In addition, the Committee interprets the 1998 Plan and makes all other determinations deemed advisable for the administration of the 1998 Plan. Options granted to employees ("Employee Options") become exercisable over the period determined by the Committee. The exercise price of an Employee Option may not be less than the fair market value of the Paired Shares on the date of grant. Employee Options generally vest over a three-year period and expire ten years from the date of grant.

**Director Options.** The 1998 Plan provides for automatic grants of Options to directors (“Director Options”) of the Companies who are not also employees of the SPG Operating Partnership or its “affiliates” (“Eligible Directors”). Under the 1998 Plan, each Eligible Director is automatically granted Director Options to purchase 5,000 Paired Shares upon the director’s initial election to the Board of Directors, and upon each reelection, an additional 3,000 Director Options multiplied by the number of calendar years that have elapsed since such person’s last election to the Board of Directors. The exercise price of the options is equal to the fair market value of the Paired Shares on the date of grant. Director Options become vested and exercisable on the first anniversary of the date of grant or at such earlier time as a “change in control” of the Companies (as defined in the 1998 Plan). Director Options terminate 30 days after the optionee ceases to be a member of the Board of Directors.

**Restricted Stock.** The 1998 Plan also provides for shares of restricted common stock of the Companies to be granted to certain employees at no cost to those employees, subject to growth targets established by the Compensation Committee (the “Restricted Stock Program”). Restricted stock vests annually in four installments of 25% each beginning on January 1 following the year in which the restricted stock is awarded. During 1999, 1998 and 1997, a total of 537,861; 495,131 and 448,753 Paired Shares, respectively, net of forfeitures, were awarded under the Restricted Stock Program and predecessor programs. Through December 31, 1999 a total of 1,825,086 Paired Shares, net of forfeitures, were awarded. Approximately \$10,601, \$9,463 and \$5,386 relating to these awards were amortized in 1999, 1998 and 1997, respectively. The cost of restricted stock grants, which is based upon the stock’s fair market value at the time such stock is earned, awarded and issued, is charged to shareholders’ equity and subsequently amortized against earnings of Simon Group over the vesting period.

Simon Group accounts for stock-based compensation programs using the intrinsic value method, which measures compensation expense as the excess, if any, of the quoted market price of the stock at the grant date over the amount the employee must pay to acquire the stock. During 1999, Simon Group awarded 159,000 additional options to directors and employees. Director options vest over a twelve-month period, while 62,500 of the employee options granted during 1999 vest over two years, and 37,500 vested immediately. The impact on pro forma net income and earnings per share as a result of applying the fair value method, as prescribed by SFAS No. 123, *Accounting for Stock-Based Compensation*, which requires entities to measure compensation costs measured at the grant date based on the fair value of the award, was not material.

The fair value of the options at the date of grant was estimated using the Black-Scholes option pricing model with the following assumptions:

December 31,	1999	1998	1997
Weighted Average Fair Value per Option	\$3.27	\$7.24	\$3.18
Expected Volatility	19.78 – 19.89%	30.83 – 41.79%	17.63%
Risk-Free Interest Rate	5.25 – 5.78%	4.64 – 5.68%	6.82%
Dividend Yield	5.32 – 6.43%	6.24 – 6.52%	6.9%
Expected Life	10 years	10 years	10 years

**NOTES TO FINANCIAL STATEMENTS**

DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS AND WHERE INDICATED AS IN BILLIONS

The weighted average remaining contract life for options outstanding as of December 31, 1999 was 6.0 years.

Information relating to Director Options and Employee Options from December 31, 1996 through December 31, 1999 is as follows:

	Director Options		Employee Options	
	Options	Option Price per Share <sup>(1)</sup>	Options	Option Price per Share <sup>(1)</sup>
<b>Shares under option at December 31, 1996</b>	85,080	\$ 24.49	1,622,983	\$ 23.00
Granted	9,000	29.31	—	N/A
Exercised	(8,000)	23.62	(361,902)	23.29
Forfeited	—	N/A	(13,484)	23.99
<b>Shares under option at December 31, 1997</b>	86,080	\$ 24.12	1,247,597	\$ 22.90
Granted	—	N/A	385,000	30.40
CPI Options Assumed	—	N/A	304,209	25.48
Exercised	(8,000)	26.27	(38,149)	23.71
Forfeited	(3,000)	29.31	(4,750)	25.25
<b>Shares under option at December 31, 1998</b>	75,080	\$ 24.11	1,893,907	\$ 24.82
Granted	59,000	26.79	100,000	25.29
Exercised	(5,000)	22.25	(77,988)	23.21
Forfeited	—	N/A	(58,253)	23.48
<b>Shares under option at December 31, 1999</b>	129,080	\$ 25.41	1,857,666	\$ 24.95
<b>Options exercisable at December 31, 1999</b>	108,080	\$ 24.69	1,636,833	\$ 24.46

(1) Represents the weighted average price when multiple prices exist.

**Exchange Rights**

Limited partners in the Operating Partnerships have the right to exchange all or any portion of their Units for shares of common stock on a one-for-one basis or cash, as selected by the Board of Directors. The amount of cash to be paid if the exchange right is exercised and the cash option is selected will be based on the trading price of the Companies' common stock at that time. The Companies have reserved 65,444,680 Paired Shares for possible issuance upon the exchange of Paired Units.

**> 12. Employee Benefit Plans**

Simon Group maintains a tax-qualified retirement 401(k) savings plan. Under the plan, eligible employees can participate in a cash or deferred arrangement permitting them to defer up to a maximum of 12% of their compensation, subject to certain limitations. Participants' salary deferrals are matched at specified percentages, and the plan provides annual contributions of 1.5% of eligible employees' compensation. Simon Group contributed \$3,189, \$2,581 and \$2,727 to the plan in 1999, 1998 and 1997, respectively.

Except for the 401(k) plan, Simon Group offers no other postretirement or postemployment benefits to its employees.

> **Note 13—Commitments and Contingencies**

**Litigation**

*Triple Five of Minnesota, Inc., a Minnesota corporation, v. Melvin Simon, et. al.* On or about November 9, 1999, Triple Five of Minnesota, Inc. ("Triple Five") commenced an action in the District Court for the State of Minnesota, Fourth Judicial District, against, among others, Mall of America, certain members of the Simon family and entities allegedly controlled by such individuals, and Simon Group. Two transactions form the basis of the complaint: (i) the sale by Teachers Insurance and Annuity Association of America of one-half of its partnership interest in Mall of America Company and Minntertainment Company to the SPG Operating Partnership and related entities (the "Teachers Sale"); and (ii) a financing transaction involving a loan in the amount of \$312,000 obtained from The Chase Manhattan Bank ("Chase") that is secured by a mortgage placed on Mall of America's assets (the "Chase Mortgage").

The complaint, which contains twelve counts, seeks remedies of damages, rescission, constructive trust, accounting, and specific performance. Although the complaint names all defendants in several counts, Simon Group is specifically identified as a defendant in connection with the Teachers Sale.

The SPG Operating Partnership has agreed to indemnify Chase and other nonparties to the litigation that are related to the offering of certificates secured by the Chase Mortgage against, among other things, (i) any and all litigation expenses arising as a result of litigation or threatened litigation brought by Triple Five, or any of its owners or affiliates, against any person regarding the Chase Mortgage, the Teachers Sale, any securitization of the Chase Mortgage or any transaction related to the foregoing and (ii) any and all damages, awards, penalties or expenses payable to or on behalf of Triple Five (or payable to a third party as a result of such party's obligation to pay Triple Five) arising out of such litigation. These indemnity obligations do not extend to liabilities covered by title insurance.

Simon Group believes that the Triple Five litigation is without merit and intends to defend the action vigorously. To that end, all defendants have removed the action to federal court and have served a motion, which is pending, to dismiss Triple Five's complaint in its entirety on the grounds that the complaint fails to state a claim. Simon Group believes that neither the Triple Five litigation nor any potential payments under the indemnity, if any, will have a material adverse effect on Simon Group. Given the early stage of the litigation it is not possible to provide an assurance of the ultimate outcome of the litigation or an estimate of the amount or range of potential loss, if any.

*Carlo Angostinelli et al. v. DeBartolo Realty Corp. et al.* On October 16, 1996, a complaint was filed in the Court of Common Pleas of Mahoning County, Ohio, captioned *Carlo Angostinelli et al. v. DeBartolo Realty Corp. et al.* The named defendants are SD Property Group, Inc., an indirect 99%-owned subsidiary of SPG, and DeBartolo Properties Management, Inc., a subsidiary of the Management Company, and the plaintiffs are 27 former employees of the defendants. In the complaint, the plaintiffs alleged that they were recipients of deferred stock grants under the DeBartolo Realty Corporation ("DRC") Stock Incentive Plan (the "DRC Plan") and that these grants immediately vested under the DRC Plan's "change in control" provision as a result of the DRC Merger. Plaintiffs asserted that the defendants' refusal to issue them approximately 542,000 shares of DRC common stock, which is equivalent to approximately 370,000 Paired Shares computed at the 0.68 exchange ratio used in the DRC Merger, constituted a breach of contract and a breach of the implied covenant of good faith and fair dealing under Ohio law. Plaintiffs sought damages equal to such number of shares of DRC common stock, or cash in lieu thereof, equal to all deferred stock ever granted to them under the DRC Plan, dividends on such stock from the time of the grants, compensatory damages for breach of the implied covenant of good faith and fair dealing, and punitive damages. The plaintiffs and the defendants each filed motions for summary judgment.

## NOTES TO FINANCIAL STATEMENTS

DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS AND WHERE INDICATED AS IN BILLIONS

On October 31, 1997, the Court of Common Pleas entered a judgment in favor of the defendants granting their motion for summary judgment. The plaintiffs appealed this judgment to the Seventh District Court of Appeals in Ohio. On August 18, 1999, the District Court of Appeals reversed the summary judgement order in favor of the defendants entered by the Common Pleas Court and granted plaintiffs' cross motion for summary judgement, remanding the matter to the Common Pleas Court for the determination of plaintiffs' damages. The defendants petitioned the Ohio Supreme Court asking that they exercise their discretion to review and reverse the Appellate Court decision, but the Ohio Supreme court issued an order changing jurisdiction. The case has been remanded to the Court of Common Pleas of Mahoning County, Ohio, to calculate Plaintiffs' damages and rule upon counterclaims asserted by Simon Group. As a result of the appellate court's decision, Simon Group recorded a \$12,000 loss in 1999 related to this litigation in the accompanying combined statements of operations as an unusual item.

*Roel Vento et al v. Tom Taylor et al.* An affiliate of Simon Group is a defendant in litigation entitled Roel Vento et al v. Tom Taylor et al., in the District Court of Cameron County, Texas, in which a judgment in the amount of \$7,800 was entered against all defendants. This judgment includes approximately \$6,500 of punitive damages and is based upon a jury's findings on four separate theories of liability including fraud, intentional infliction of emotional distress, tortious interference with contract and civil conspiracy arising out of the sale of a business operating under a temporary license agreement at Valle Vista Mall in Harlingen, Texas. Simon Group appealed the verdict and on May 6, 1999, the Thirteenth Judicial District (Corpus Christi) of the Texas Court of Appeals issued an opinion reducing the trial court verdict to \$3,364 plus interest. Simon Group filed a petition for a writ of certiorari to the Texas Supreme Court requesting that they review and reverse the determination of the Appellate Court. The Texas Supreme Court has not yet determined whether it will take the matter up on appeal. Management, based upon the advice of counsel, believes that the ultimate outcome of this action will not have a material adverse effect on Simon Group.

Simon Group currently is not subject to any other material litigation other than routine litigation and administrative proceedings arising in the ordinary course of business. On the basis of consultation with counsel, management believes that such routine litigation and administrative proceedings will not have a material adverse impact on Simon Group's financial position or its results of operations.



### **Lease Commitments**

As of December 31, 1999, a total of 35 of the consolidated Properties are subject to ground leases. The termination dates of these ground leases range from 2000 to 2090. These ground leases generally require payments by Simon Group of a fixed annual rent, or a fixed annual rent plus a participating percentage over a base rate. Ground lease expense incurred by Simon Group for the years ended December 31, 1999, 1998 and 1997, was \$13,365, \$13,618 and \$10,511, respectively.

Future minimum lease payments due under such ground leases for each of the next five years ending December 31 and thereafter are as follows:

2000	\$ 7,544
2001	7,645
2002	7,925
2003	7,864
2004	7,407
Thereafter	495,963
	<hr/> \$ 534,348

### **Long-term Contract**

On September 30, 1999, Simon Group entered into a five year contract with Enron Energy Services for Enron to supply or manage all of the energy commodity requirements throughout Simon Group's portfolio. The contract includes electricity, natural gas and maintenance of energy conversion assets and electrical systems including lighting. Simon Group has committed to pay Enron a fixed percentage of the Portfolio's historical energy costs for these services over the term of the agreement.

### **Environmental Matters**

Nearly all of the Properties have been subjected to Phase I or similar environmental audits. Such audits have not revealed nor is management aware of any environmental liability that management believes would have a material adverse impact on the Company's financial position or results of operations. Management is unaware of any instances in which it would incur significant environmental costs if any or all Properties were sold, disposed of or abandoned.

### **> Note 14-Related Party Transactions**

Until April 15, 1999, when the Three Dag Hammarskjold building was sold, the SRC Operating Partnership received a substantial amount of its rental income from the SPG Operating Partnership for office space under lease. During the period prior to the CPI Merger, such rent was received from CPI.

In preparation for the CPI Merger, on July 31, 1998, CPI, with the assistance of the SPG Operating Partnership, completed the sale of the General Motors Building in New York, New York for approximately \$800,000. The SPG Operating Partnership and certain third-party affiliates each received a \$2,500 fee from CPI in connection with the sale.

## NOTES TO FINANCIAL STATEMENTS

DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS AND WHERE INDICATED AS IN BILLIONS

### > **Note 15—New Accounting Pronouncement**

On June 15, 1998, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities (“SFAS 133”)*. SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS 133 requires that changes in the derivative’s fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative’s gains and losses to offset related results on the hedged item in the income statement, and requires that a company formally document, designate, and assess the effectiveness of transactions that receive hedge accounting.

SFAS 133 will be effective for Simon Group beginning with the 2001 fiscal year and may not be applied retroactively. Management is currently evaluating the impact of SFAS 133, which it believes could increase volatility in earnings and other comprehensive income.

On December 3, 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (“SAB 101”), which addressed certain revenue recognition policies, including the accounting for overage rent by a landlord. SAB 101 requires overage rent to be recognized as revenue only when each tenant’s sales exceeds their sales threshold. Simon Group currently recognizes overage rent based on reported and estimated sales through the end of the period, less the applicable prorated base sales amount. Simon Group will adopt SAB 101 effective January 1, 2000. Management is currently evaluating the impact of applying SAB 101 and expects to record a loss from the cumulative effect of a change in accounting principle of approximately \$13,000 in the first quarter of 2000. In addition, SAB 101 will impact the timing in which overage rent is recognized throughout each year, but will not have a material impact on the total overage rent recognized in each full year.

> **Note 16—Quarterly Financial Data (Unaudited)**

Combined summarized quarterly 1999 and 1998 data is as follows:

1999	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Annual Amount
Total revenue	\$ 446,093	\$ 454,006	\$ 471,171	\$ 521,433	\$ 1,892,703
Operating income	196,898	206,643	214,782	235,922	854,245
Income before unusual and extraordinary items	67,388	67,338	87,125	94,249	316,100
Net income available to common shareholders	34,954	38,462	42,435	51,463	167,314
Net income before extraordinary items per Paired Share <sup>(1)</sup>	\$ 0.21	\$ 0.22	\$ 0.25	\$ 0.32	\$ 1.00
Net income per Paired Share <sup>(1)</sup>	\$ 0.21	\$ 0.22	\$ 0.24	\$ 0.30	\$ 0.97
Weighted average Paired Shares outstanding	168,986,602	173,342,399	173,471,352	173,167,054	172,088,590
Net income before extraordinary items per Paired Share – diluted <sup>(1)</sup>	\$ 0.21	\$ 0.22	\$ 0.25	\$ 0.32	\$ 1.00
Net income per Paired Share – diluted <sup>(1)</sup>	\$ 0.21	\$ 0.22	\$ 0.24	\$ 0.30	\$ 0.97
Weighted average Paired Shares outstanding – diluted	169,168,474	173,609,740	173,542,183	173,182,994	172,225,592
1998	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Annual Amount
Total revenue	\$ 300,257	\$ 310,375	\$ 322,338	\$ 472,589	\$ 1,405,559
Operating income	133,667	145,226	147,537	215,782	642,212
Income before unusual and extraordinary items	45,124	43,514	52,851	94,741	236,230
Net income available to common shareholders	23,948	27,467	28,966	53,217	133,598
Net income before extraordinary items per Paired Share <sup>(1)</sup>	\$ 0.22	\$ 0.21	\$ 0.25	\$ 0.32	\$ 1.02
Net income per Paired Share <sup>(1)</sup>	\$ 0.22	\$ 0.25	\$ 0.25	\$ 0.32	\$ 1.06
Weighted average Paired Shares outstanding	109,684,252	111,954,695	117,149,600	166,775,975	126,522,228
Net income before extraordinary items per Paired Share – diluted <sup>(1)</sup>	\$ 0.22	\$ 0.21	\$ 0.25	\$ 0.32	\$ 1.02
Net income per Paired Share – diluted <sup>(1)</sup>	\$ 0.22	\$ 0.25	\$ 0.25	\$ 0.32	\$ 1.06
Weighted average Paired Shares outstanding – diluted	110,071,475	112,381,667	117,474,932	167,077,557	126,879,377

(1) Primarily due to the cyclical nature of earnings available for common stock and the issuance of additional shares of common stock during the periods, the sum of the quarterly earnings per Paired Share varies from the annual earnings per Paired Share.

BOARD OF DIRECTORS

Melvin Simon, 73 <sup>(1)</sup>  
Co-Chairman of the Board,  
Simon Property Group, Inc.

Herbert Simon, 65 <sup>(1), (3), (4)</sup>  
Co-Chairman of the Board,  
Simon Property Group, Inc.

David Simon, 38 <sup>(1), (4)</sup>  
Chief Executive Officer,  
Simon Property Group, Inc.

Hans C. Mautner, 62 <sup>(1)</sup>  
Vice Chairman,  
Simon Property Group, Inc.

Richard S. Sokolov, 50 <sup>(1)</sup>  
President and Chief Operating Officer,  
Simon Property Group, Inc.

M. Denise DeBartolo York, 49 <sup>(4)</sup>  
Chairman,  
The Edward J. DeBartolo Corporation

Robert E. Angelica, 53 <sup>(3)</sup>  
Chairman and Chief Executive Officer,  
AT&T Investment Management Corporation

Birch Bayh, 72 <sup>(3), (4)</sup>  
Senior Partner,  
Oppenheimer, Wolff, Donnelly & Bayh, LLP

G. William Miller, 75 <sup>(2) (4)</sup>  
Chairman and Chief Executive Officer,  
G. William Miller & Co. Inc. and  
Chairman, HomePlace of America, Inc.

Fredrick W. Petri, 53 <sup>(2) (3)</sup>  
Partner,  
Petrone, Petri & Company

J. Albert Smith, Jr., 59 <sup>(2)</sup>  
Managing Director  
Bank One Corporation

Pieter S. van den Berg, 54  
Director Controller,  
PGGM

Philip J. Ward, 51 <sup>(3)</sup>  
Senior Managing Director,  
CIGNA Investments, Inc.

---

(1) Executive Committee Member

(2) Audit Committee Member

(3) Compensation Committee Member

(4) Nominating Committee Member

**INVESTOR INFORMATION****Corporate Headquarters**

Simon Property Group, Inc.  
115 W. Washington Street  
Indianapolis, IN 46204  
(317) 636-1600

**Website**

[www.shopsimon.com](http://www.shopsimon.com)

**Transfer Agent and Registrar**General Shareholder Correspondence:

First Chicago Trust Company, a division of EquiServe  
P.O. Box 2500  
Jersey City, NJ 07303-2500

Transfer of Stock Ownership:

First Chicago Trust Company, a division of EquiServe  
P.O. Box 2506  
Jersey City, NJ 07303-2506

Inside the US: 1-(800) 446-2617  
Outside the US: 1-(201) 324-0498  
TDD/TTY for the  
hearing impaired: 1-(201) 222-4955

Website:

[www.equiserve.com](http://www.equiserve.com)

**Counsel**

Baker & Daniels, Indianapolis, IN  
Willkie Farr & Gallagher, New York, NY

**Common Stock**

Simon Property Group, Inc. common stock is traded on the New York Stock Exchange under the symbol "SPG." The 6.50% Series B convertible preferred stock is traded on the New York Stock Exchange under the symbol "SPGPrB." SPG Properties, Inc. Series B cumulative redeemable preferred stock is traded on the New York Stock Exchange under the symbol "SGVPrB."

**Independent Accountants**

Arthur Andersen LLP  
Indianapolis, IN

**Shareholder Inquiries**

Shelly J. Doran, Director of Investor Relations  
Simon Property Group, Inc.  
P.O. Box 7033  
Indianapolis, IN 46207  
(317) 685-7330  
(800) 461-3439  
[sdoran@simon.com](mailto:sdoran@simon.com)

**Annual Report on Form 10-K**

A copy of the Simon Property Group, Inc. annual report on Form 10-K to the United States Securities and Exchange Commission will be furnished without charge upon written request to the Company's Investor Relations Department.

**Market Information**

The Company's common stock trades on the New York Stock Exchange ("NYSE") under the symbol "SPG". The quarterly price range on the NYSE for the common stock and the distributions declared per share for each quarter in the last two fiscal years are shown below:

	High	Low	Close	Declared Distribution
First Quarter 1999	28 <sup>3</sup> / <sub>4</sub>	23 <sup>7</sup> / <sub>8</sub>	27 <sup>7</sup> / <sub>16</sub>	\$ 0.5050
Second Quarter 1999	30 <sup>15</sup> / <sub>16</sub>	25 <sup>3</sup> / <sub>8</sub>	25 <sup>3</sup> / <sub>8</sub>	\$ 0.5050
Third Quarter 1999	27 <sup>1</sup> / <sub>2</sub>	22 <sup>7</sup> / <sub>16</sub>	22 <sup>7</sup> / <sub>16</sub>	\$ 0.5050
Fourth Quarter 1999	24 <sup>1</sup> / <sub>2</sub>	20 <sup>7</sup> / <sub>16</sub>	22 <sup>15</sup> / <sub>16</sub>	\$ 0.5050
First Quarter 1998	34 <sup>1</sup> / <sub>2</sub>	30 <sup>3</sup> / <sub>8</sub>	34 <sup>1</sup> / <sub>4</sub>	\$ 0.5050
Second Quarter 1998	34 <sup>7</sup> / <sub>8</sub>	31	32 <sup>1</sup> / <sub>2</sub>	\$ 0.5050
Third Quarter 1998	34 <sup>1</sup> / <sub>4</sub>	25 <sup>13</sup> / <sub>16</sub>	29 <sup>3</sup> / <sub>4</sub>	\$ 0.5050
Fourth Quarter 1998	30 <sup>7</sup> / <sub>8</sub>	26 <sup>1</sup> / <sub>8</sub>	28 <sup>1</sup> / <sub>2</sub>	\$ 0.5050 <sup>(1)</sup>

<sup>(1)</sup> Includes a \$0.4721 distribution declared in the third quarter of 1998, but not payable until the fourth quarter of 1998, related to the CPI Merger, designated to align the time periods of distribution payments of the merged companies.

**SIMON**  
*simply the best shopping there is*

115 West Washington Street  
Indianapolis, Indiana 46204  
317.636.1600  
[www.shopsimon.com](http://www.shopsimon.com)