



**Simon Property Group, Inc.**  
**Annual Report 2000**

## 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, 2000, the Company owned or had an interest in 252 properties comprising regional malls, community shopping centers and specialty and mixed-use properties containing 186 million square feet of gross leasable area (GLA) in 36 states and five assets in Europe. Simon Property Group attracts over two 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, 2000, of approximately \$17.5 billion.

## Financial Highlights\*

| in millions, except per share amounts and statistical data | 2000            | 1999     | 1998     | 1997     | 1996   | 1995   |
|--|-----------------|----------|----------|----------|--------|--------|
| Total revenue  | <b>\$ 2,021</b> | \$ 1,893 | \$ 1,406 | \$ 1,054 | \$ 748 | \$ 554 |
| Simon's share of EBITDA                                    | <b>1,617</b>    | 1,455    | 1,068    | 747      | 497    | 357    |
| Funds from operations                                      | <b>793</b>      | 715      | 544      | 415      | 274    | 198    |
| Funds from operations per share – diluted                  | <b>3.28</b>     | 2.98     | 2.83     | 2.58     | 2.28   | 2.14   |

### Statistical Data, Regional Malls

|                                   |                |          |          |          |          |          |
|-----------------------------------|----------------|----------|----------|----------|----------|----------|
| Comparable sales per square foot  | <b>\$ 384</b>  | \$ 377   | \$ 346   | \$ 318   | \$ 298   | \$ 278   |
| Average base rent per square foot | <b>\$28.31</b> | \$ 27.33 | \$ 25.70 | \$ 23.65 | \$ 20.68 | \$ 19.18 |
| Occupancy at December 31          | <b>91.8%</b>   | 90.6%    | 90.0%    | 87.3%    | 84.7%    | 85.5%    |

\* Refer to complete financial statements on pages 37 to 77.

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# To Our Shareholders and Fellow Employees

**W**hat an eventful year 2000 turned out to be! It took us five weeks to elect a president; after nearly a decade of boom, the U.S. economy finally showed some signs of weakness; as the internet bubble burst, a whole generation of investors learned the hard way that the stock market doesn't always go up; and, by the way, pure play "e-tailers" didn't impact the regional mall and our brand-name, brick and mortar-based retailers as was previously predicted by experts.

The stock market's tumultuous ride of 2000 reminded everyone that profits, cash flow and a sound business strategy really do matter. And the e-tailers that didn't recognize this became expensive footnotes in the history books.

## **Core Business**

Our #1 priority is the ownership and operation of a portfolio of highly productive, market-dominant retail assets. This portfolio is the cornerstone of our business. In 2000, it generated over \$1.6 billion of EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization), and nearly \$800 million of funds from operations. Much of this cash flow was distributed to our shareholders

through our \$2.02 per share annual dividend, yet over \$300 million was retained to reduce our indebtedness and grow our business.

2000 was the most profitable year in the company's history. Total consolidated revenues were \$2.02 billion, up 7% from \$1.89 billion in 1999. Diluted funds from operations increased 10% to \$3.28 per share from \$2.98 per share in 1999.

Our leasing group executed leases for 8.1 million square feet in 2000. This performance helped grow occupancy for mall and freestanding stores in regional malls by 120 basis points to 91.8% at year-end compared with 90.6% a year earlier. Average base rents increased to \$28.31 per square foot, and sales per square foot increased to \$384. In fact, 15 Simon properties had average sales of more than \$550 per square foot and 40 malls had sales of more than \$400 per square foot – dramatic evidence of the selling power a Simon property delivers to its retail tenants.

Instead of acquiring and building new properties at the pace of the previous five years, we invested approximately \$200 million during the past year redeveloping and expanding our existing properties. We

completed major redevelopment and expansion programs at North East Mall in Hurst, TX; The Shops at Mission Viejo in Mission Viejo, CA; and Town Center at Boca Raton in Boca Raton, FL; creating market-dominant malls for the future.

**T**wo new development projects were completed in 2000. In the second quarter we opened Orlando Premium Outlets, a 50% owned joint venture with Chelsea Property Group, the nation's leading owner of upscale, fashion-oriented outlet centers. Strategically located with frontage on Interstate 4 and near the entrance to Disney World in Orlando, this project has already produced sales in excess of \$500 per square foot. In the fourth quarter we also opened Arundel Mills, a 1.3 million-square-foot super-regional mall in the Baltimore-Washington D.C. corridor. Simon owns 37.5% of this, our fifth joint venture with The Mills Corporation.

In addition, we enhanced the quality of our portfolio by selling \$216 million in non-core assets and used those proceeds to reduce debt. We also improved our balance sheet in January 2001, with the issuance of \$500 million of senior unsecured fixed-rate notes: \$300 million matures





David Simon, Chief Executive Officer

in 2006 and \$200 million in 2011. Our ability to sell these unsecured notes underscores the confidence that institutional investors place in our company, and the strength and flexibility of our balance sheet.

#### **Simon Brand Ventures and Simon Business Network**

Four years ago, we recognized the potential for our regional mall portfolio to produce additional revenue streams for Simon, and we launched an effort to develop this complementary business. Early in 2000, we divided this effort into two distinct business units to provide additional focus.

**T**he mission of Simon Brand Ventures (SBV) is to develop a one-to-one relationship with our shopper and monetize the untapped asset of the 2 billion shopping visits made annually to our malls. In 2000, we upgraded our [shopsimon.com](http://shopsimon.com) website, rolled out elegant JCDecaux advertising display units in 40 malls, and continued to add sponsorships.

Simon Business Network (SBN) was created to leverage the size and scale of our portfolio to lower operating costs for us and our tenants and to create ways in which

our tenants can improve the efficiency and profitability of their store operations. In 2000, SBN initiated a major alliance with the Enron Corporation across our portfolio, which fixes our energy costs at favorable pricing for up to 10 years. Through this agreement, Simon's exposure to the volatile energy markets has been significantly reduced. SBN also enhanced its Total Facility Support program, which performs routine maintenance and other functions for our tenants.

Together, SBV and SBN produced \$62 million of funds from operations for Simon in 2000. These revenues did not exist four years ago.

#### **MerchantWired**

In mid-2000, we launched MerchantWired, the regional mall industry's first major consortium. With partners The Macerich Company; Rodamco North America, NV; The Rouse Company; Taubman Centers, Inc; and Westfield America, Inc.; MerchantWired has already brought high-speed connectivity to

over 300 malls and is now delivering a complete, secure broadband technology infrastructure and network services to a variety of our tenants nationwide. We're genuinely excited about the long-term outlook for MerchantWired, and greatly appreciate the cooperation of our fellow regional mall owners in creating a company that will enhance the productivity of our retailers and our malls. Simon owns 53% of MerchantWired.

#### **Outlook**

At Simon, our business strategy has been developed with a long-term view. The \$12 billion of acquisitions we completed over the past five years, which significantly enhanced the quality of our portfolio, were an integral part of our strategy. Our goal is to own a national portfolio of highly-productive well-located regional malls that dominate retailing in their respective trade areas. With more than 250 properties, 177 of which are regional malls (including 75 in the 20 largest U.S. markets), that national

**“It seems nothing can kill the shopping mall. Not the Internet, the softening economy, declining consumer confidence or sluggish retail sales.”**

*—The Wall Street Journal, March 14, 2001*

portfolio is now in place. And with 2000 sales of \$384 per square foot, which is significantly above the national average for regional malls, our portfolio is comprised of very productive centers where retailers want to be.

Size, national scope and quality properties are major strengths of Simon. We are twice as large as our nearest competitor. We are the only real estate company that can instantly provide retailers hundreds of locations, which is why retailers seeking to roll out new concepts choose Simon.

**R**etail real estate remains generally out of favor with the financial community. The focus on faltering retailers, e-commerce and a weak economy has caused concern regarding our industry's future. The reality is that retailing is, and always has been, an extremely competitive and cyclical business. Those that provide goods which capture the mood and tastes of the buying public are rewarded and those who do not are choked with inventory and sometimes fail. *That is the only certainty about retailing.* It is a reality we have dealt with routinely and successfully since our predecessor company opened its first mall back in 1965. We expect it, are experienced in this

predictable phase of retailing, and are well prepared to deal with it. The demise of Montgomery Ward in 2000 is the most recent example. The vast majority of Wards' locations in Simon malls will be retented soon with financially stronger, more productive retailers.

**O**ur experience has been that retailers close stores in weak locations and gravitate to prime venues. This rewards malls that are attractive, continually upgraded and well situated. Well-located regional malls continue to be America's favorite shopping destinations. The Simon portfolio is well-positioned to take advantage of this phenomenon.

We enter 2001 with an up-to-date and highly attractive property portfolio that is 75 percent newly constructed, expanded or redeveloped during the past seven years. Most of the costs of this redevelopment are behind us. Consequently, discretionary cash flow (after common and preferred dividends and capital expenditures) will increase significantly in 2001.

Recognizing that the economy was slowing, we have cut back on new developments to avoid having excess new space to lease in a soft economy. Only one new development is slated for completion in 2001—

Bowie Town Center in Annapolis, Maryland, a 667,000 square-foot open-air regional shopping center.

**O**ur key focus in 2001 is to increase our return on equity by improving the performance of our core portfolio, increasing occupancy and rents. We will also emphasize the expeditious retenting of space made available by recent bankruptcies and continue to increase profitability through the growth of Simon Brand Ventures and Simon Business Network.

We have built a company for the long term. As the economy heads into a cyclical downturn, we are well positioned not only to withstand the hard times, but to prosper.

We are grateful for the ongoing support of our shareholders and the commitment of our employees. We were also gratified in 2000 to have been recognized by *Fortune* magazine as one of America's most admired companies. It's a testament to the hard work and efforts of our organization.

Sincerely,



David Simon

Indianapolis, March 19, 2001



National scope, superior locations and extremely well-designed and constructed facilities are the underlying strengths of Simon.

Orlando Premium Outlets in Orlando, FL

## The Core Business— Ownership of Regional Malls

The source of Simon's strength and earnings power is its real estate portfolio—more than 250 properties, encompassing 186 million square feet of gross leasable area in prime locations across 36 states. The portfolio includes dominant suburban malls, upscale properties and malls with a significant tourism component.

The gross leasable area in Simon malls could contain all the football playing fields in the NFL plus those of the 236 Division 1A and 1AA colleges and universities in America and still have room left over for more than 60,000 regulation size, doubles tennis courts.

But size alone is not the whole story. Location and retail mix are critical. Simon has 75 malls in the 20

largest cities in the U.S. Its total of 177 malls are strategically located in many of the top household income demographic areas in the U.S. — in 36 states from Florida's Gold Coast, Atlanta's suburban areas, Minneapolis' Mall of America and the New York City Metro area to Texas, Las Vegas, and Orange County in Southern California. Simon malls drive sales. Within the Top 150 malls in the U.S., Simon owns 26%; Simon's nearest competitor

owns about 10%; and the next four competitors combined do not equal Simon's market position.

Simon uses a proprietary business model to determine which malls merit additional funds for expansion and redevelopment and which properties are to be sold. In the past four years, Simon has invested more than \$1 billion redeveloping its portfolio, including \$200 million in 2000. As a result, more than 75% of its portfolio has been newly constructed or



Atrium Mall in Boston, MA

redeveloped since 1993, the year of Simon's IPO. Simon also aggressively prunes its non-core assets—selling off more than \$200 million in the past two years.

### Development Highlights

Simon completed three new development projects in 2000.

- Orlando Premium Outlets is a 430,000 square foot upscale outlet center located on I-4 midway between Walt Disney World and Sea World. Simon owns 50% of this project which was jointly developed by Simon and Chelsea Property Group.
- Arundel Mills is a 1.3 million square foot value-oriented super-regional mall in Anne Arundel County, Maryland, in the middle of the highly trafficked Baltimore/Washington, D.C. corridor. This project is the fifth Simon joint venture with The Mills Corporation. Simon's ownership percentage is 37.5%.
- The 356,000 square foot second phase of Waterford Lakes Town Center in Orlando was completed in the fourth quarter. Simon owns 100% of this 927,000 square foot center.

Major redevelopment activities completed in 2000:

- Addition of Saks Fifth Avenue and mall renovation at North East Mall in Hurst, TX.
- New food court, PF Chang's, and California Café as well as the expansion and remodel of Robinsons-May at The Shops at Mission Viejo in Mission Viejo, CA.
- Addition of Nordstrom, expansion of Lord & Taylor, mall expansion and renovation, food court renovation and new parking structure at Town Center at Boca Raton in Boca Raton, FL.
- New Dillard's, addition of Foley's Home Store and mall renovation at LaPlaza Mall in McAllen, TX.

### Performance Highlights

Simon's growth has been substantial and consistent. Since 1995:

- Consolidated revenues have increased 265% to more than \$2 billion—an average annual compound growth rate of 29.5%;
- EBITDA has increased from \$357 million to \$1.6 billion—an average annual compound growth rate of 35.3%;
- Average base rents per square foot have increased from \$19.18 to \$28.31;
- Funds from operations per share have grown from \$2.14 to \$3.28—an average annual compound growth rate of 8.9%;

- Portfolio size has tripled—from 62 million square feet of gross leasable area to 186 million square feet.

Moreover, Simon's properties are highly productive. More than 72% of Simon's EBITDA is derived from regional malls generating sales in excess of \$300 per square foot.

### Safety in Diversification

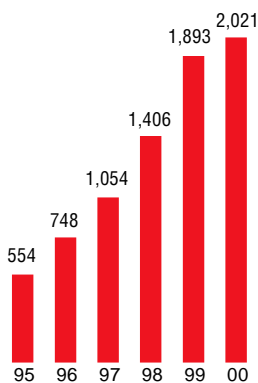
Simon's properties have substantial geographic diversification. Thirty-three percent are in the South, 30% in the Midwest, 26% in the East, and 11% in the West.

Simon also has a broad base of tenants—more than 4,400. Consequently, no single, in-line retail company:

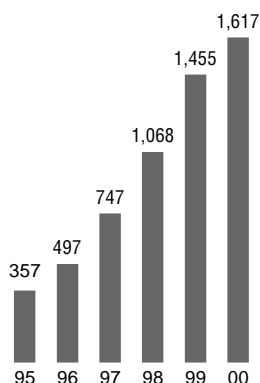
- Occupies more than 2% of gross leasable space; or
- Represents more than 3.6% of annualized base minimum rent.

In addition, no more than 9% of in-line leased square footage expires in any calendar year, and the average amount that will expire in any single year during the next five years is 7.1%. However, Simon is far and away the largest landlord to most national mall-based retailers. Many of Simon's retailers generate between 10 and 20 percent of their total sales and profits from stores located in Simon properties.

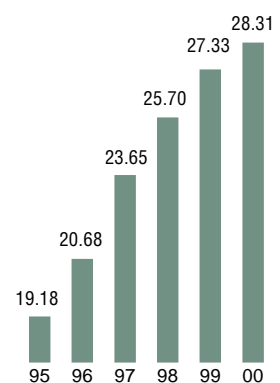
Consolidated Revenues  
(in millions of dollars)



Simon's Share of EBITDA  
(in millions of dollars)



Regional Mall Average Base Rents  
(in dollars per square foot)







Although Simon leases space to the top twenty national retailers, no in-line tenant occupies more than two percent of its gross leasable area.

### Future Potential

There is significant imbedded growth within the current portfolio. For example:

- Lease expirations provide a built-in opportunity for growth. The average rent on the 21 million square feet of leases expiring during the next five years is \$28.55 per square foot. Last year, 8.1 million square feet of new leases were executed at an average initial rent of \$35.13 per square foot, an increase of over 20%.
- Even though occupancy is presently at 91.8% of capacity, the opportunity to raise it to a 95% level is realistic.
- Simon currently captures 12.1% of

its tenants' sales as occupancy costs paid to the landlord. Because of its high productivity level, Simon believes tenants can pay in excess of 13% of sales as occupancy costs.

- Simon is taking advantage of the quality of its assets. It is presently building additional revenue streams through new business initiatives, which are described on pages 10-16 in this report.

### Summary

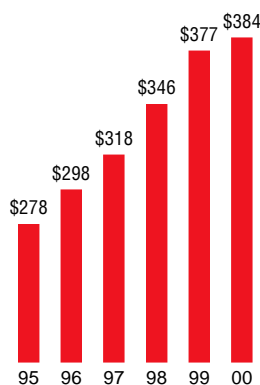
Simon is the market leader because it has maintained a vigilant focus on four critical areas:

- Asset quality, which translates into superior sales productivity and consistent operational growth.

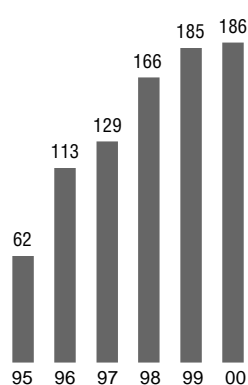
- Financial management that has enabled it to secure funds for expansion at attractive rates.
- Nurturing tenant relationships and attracting high quality, national tenants to its properties.
- Developing an organizational team to an unprecedented scope and depth that has given it the ability to successfully maintain occupancy in anchor and in-line stores.

As a result, Simon has become the nation's dominant retail REIT, more than twice as large as its nearest competitor. Its portfolio has substantial upside potential and insulation from setbacks during downturns in the national economy. ■

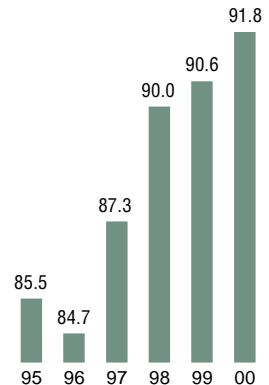
Regional Mall Comparable Sales (per square foot)



Gross Leasable Area (in millions of square feet)



Regional Mall Occupancy at 12/31 (as a percent of GLA)



Location is critical. Simon has 75 malls in the 20 largest cities in the U.S.



Town Center at Boca Raton in Boca Raton, FL





Simon invested \$1 billion since 1993, including \$200 million in 2000, to upgrade and expand its properties nationwide.

The Shops at Mission Viejo in Mission, Viejo, CA

## The Current Retail Environment

The current slowdown that the U.S. economy is experiencing was inevitable – our economy has always contained cyclical peaks and valleys. And the retailing environment is obviously influenced by the health of the overall economy. In the second half of 2000, retail spending slowed as consumers' confidence fell, and shoppers became more cautious about their own financial situations.

What does this mean for Simon? One thing is for certain – the regional mall will continue to be America's favorite place to shop. Over the years the mall has withstood the threat of mail-order catalogs, TV shopping, big box retailers and Internet shopping because malls provide entertain-

ment, the opportunity to socialize, the ability to touch and feel the merchandise and instant fulfillment – all things that catalogs and the Internet cannot offer.

Tenant bankruptcies may increase in the short-term, as evidenced by Montgomery Ward, but this is nothing new. Remember Melville Corporation, Edison Brothers and Petrie Stores? Probably not. Yet they were major tenants of Simon malls as recently as seven years ago. All went out of business and were replaced with stronger, more viable retailers. By the time a retailer goes out of business, it has ceased being a meaningful attraction for shoppers.

As we retenant the Montgomery Ward spaces, the new tenants will strengthen and enhance those malls. For every Paul Harris, currently in liquidation, there is an H&M, an exciting European retailer aggressively expanding into U.S. malls. The names will change but that is part of the Simon business strategy – to find and cultivate the retailing successes of tomorrow.

With a portfolio unmatched in size as well as geographic and tenant diversity, Simon is best positioned to withstand the cyclical valleys of the U.S. economy. ■






Simon Brand Ventures is a program to build a second stream of income for the company. It brings national and regional companies in contact with the individuals who visit Simon malls more than two billion times each year.

The Florida Mall in Orlando, FL





Simon has contractual alliances with national companies such as Pepsi Cola, AT&T, Ford Motor Company and Visa® that give them exclusive access to Simon mall shoppers.

## Simon Brand Ventures

**S**imon Brand Ventures (SBV) is a business-to-consumer program that is building a new and growing revenue stream for Simon from the 100 million shoppers who make 2 billion visits to its properties each year. Simon's consumer advertising differentiates its malls from others as a way to build traffic for its retailer tenants. In addition, SBV views each mall as a marketing opportunity for national and regional companies that want exposure to Simon shoppers. Since 1997, major brands such as Pepsi, AT&T, Ford Motor Co. and Visa have all forged alliances with Simon.

SBV's ongoing success will be accelerated by the creation of a common area destination point that features an enhanced service desk, mobile kiosks, offline/online shopping tools such as product searches and gift registries, a forum to gather customer feedback and a new

marketing vehicle for retailers and SBV partners.

The in-mall interactive program will enable retailers and SBV partners to capture consumer data, provide a place for sponsors to interact with shoppers, facilitate the purchase of gift certificates that may be used at any tenant store at any Simon mall, and drive traffic to Simon's web site: [shopsimon.com](http://shopsimon.com). It will deliver an integrated approach to shopping and provide links to retailers' Web sites. It will also be a clearinghouse for mall and corporate information, details about mall events and sales, store locations, and job opportunities.

Simon continues to explore other innovations that complement the services we offer tenants and shoppers. Our majority-owned [clixnmortar](http://clixnmortar.com) e-commerce venture and partner Found, Inc., are developing a wire-

less "wish-list" and gift-registry product that will combine the best of our FastFrog and YourSherpa programs.

**S**imon and Found also are jointly developing a program that will enable online shoppers to learn where the merchandise they want is located. If it is in inventory at a Simon mall, the program will direct them to the nearest retail store. If it is not in inventory at a mall store, they will be able to order it online from the retailer.

We also joined with other leading real estate companies to form a real estate technology company: Constellation Real Technologies. The company intends to form, incubate and sponsor real estate-related Internet, e-commerce and broadband enterprises and acquire interests in synergistic companies. ■



In 2000, more than 1,800 Simon mall retailers utilized Total Facility Support, and 80+ vendor partners are now a part of the Simon Business Network



## Simon Business Network

In 2000, we formed the Simon Business Network, a business-to-business program that leverages our marketplace strength for the benefit of our tenants. Our goal is to provide our retailer tenants with a competitively priced, broad-based offering of products and services that generates a profit for Simon and simultaneously reduces tenant operating costs.

Not only does Simon Business Network deliver value by aggregating tenant purchases for greater buying power, it also streamlines buying practices internally and externally.

Simon Business Network delivers a wide variety of products and services, including MRO procurement, design and construction, energy, technology and communica-

tions, security services, leasing, traffic counting and waste management. A Preferred Vendor Program confers the “Simon Seal of Superiority” to selected vendors of

specialized products ranging from computers and light bulbs to holiday décor and services including public relations, employment and cabling.

SBN also offers tenants Total



SBN provides a “win-win” situation for Simon, its retailers and its vendors.



**Fact:**

**Business-to-business and business-to-consumer initiatives contributed \$62 million to FFO in 2000, an increase of 38% over the prior year.**



Facility Support, a comprehensive maintenance and construction service developer partnership with well-established, national facility-maintenance companies such as Control, Unicco and Varsity.

Total Facility Construction offers competitive rates and extensive knowledge of retail build-out. Total Security Connection is Simon's offering of bundled security services through strategic alliances with IPC Services and Control Security Services.

Simon Business Network's Waste Handling offering aggregates all related business to one provider, Allied/BFI, which counts Simon as one of its largest customers worldwide.

A strategic partnership with the country's leading energy-management company, Enron, is the key to Simon Business Network's Energy Management service. Last year, Simon made a deal with an Enron subsidiary to supply its energy needs for up to the next ten years at fixed rates. Through this program Simon has the opportunity to cap annual energy costs for its properties.

Total Facility Support also

includes a partnership with RCT People Counters that gives the Simon Business Network the power to provide a customer counter service that can help retailers collect and maximize shopper-traffic data.

The acceptance of our business-to-business and business-to-consumer initiatives has been excellent. They provide benefits for shoppers and foster increased efficiency and profitability for retailers. ■





**American Eagle Outfitters announced its selection of MerchantWired as its broadband infrastructure provider in October of 2000.**



**MerchantWired's high speed network enables us to meet our goals of better servicing our customers while simultaneously increasing our revenues.**



## MerchantWired

The final component of our value-added offerings to retailers is MerchantWired, a service technology and network service provider.

Simon owns a 53 percent equity interest in MerchantWired, which was formed in 2000 with five other leading regional mall operators.

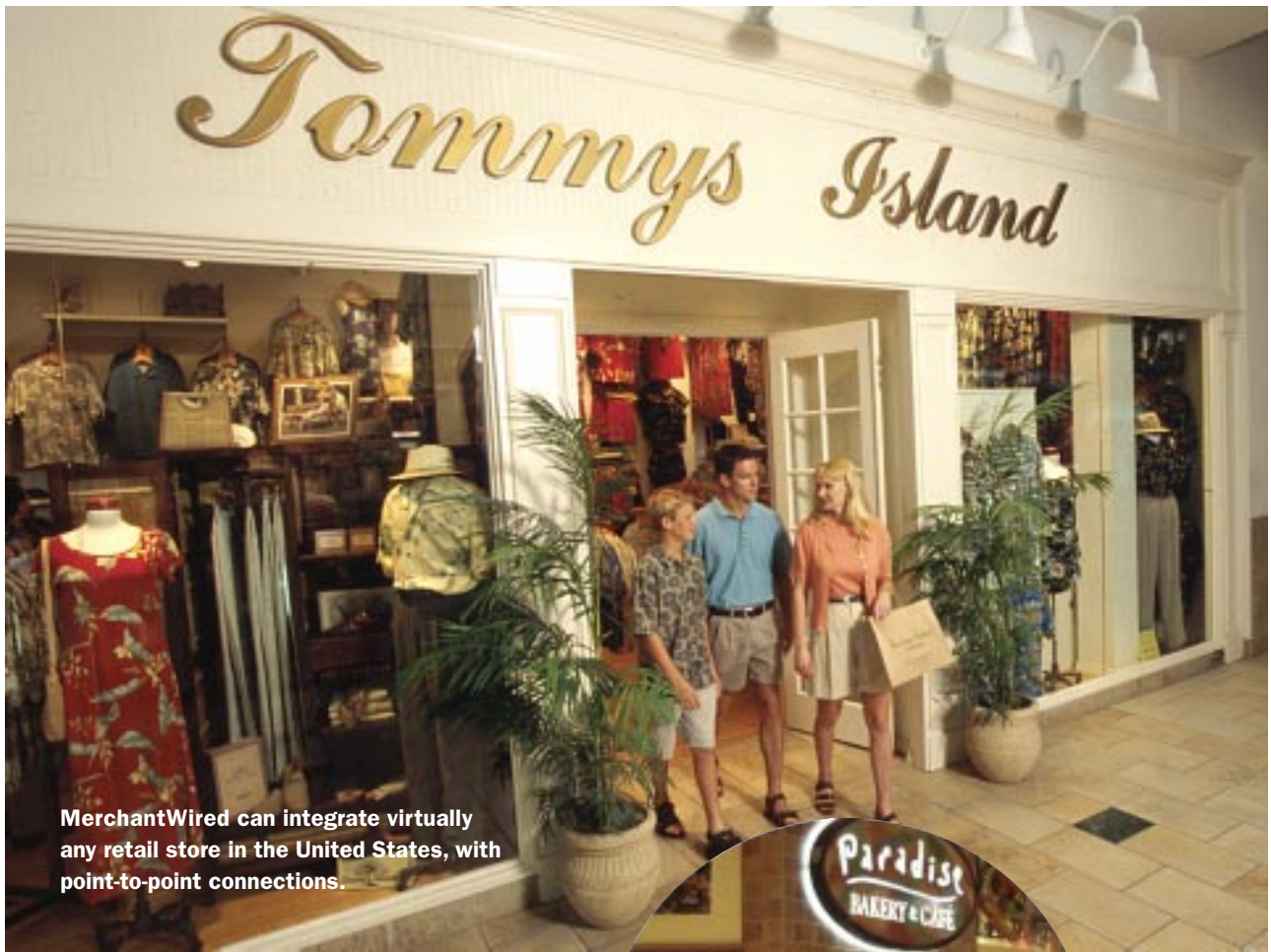
MerchantWired provides retailers with high-speed, broadband links to their headquarters and other retail sites. More than 300 malls across

the country have been wired, with more to be added to the network in 2001.

For retailers, MerchantWired provides one comprehensive standard and managed network solution, with single connections from in-mall stores. Retailers benefit by shifting network-management responsibilities to a single source. Its infrastructure allows for a more reliable connection along with lower costs.

The service also relieves retailers from the challenges of recruiting and retaining skilled technical/networking staff.

The response has been positive. Twelve retailers have begun running their production environment on the network, and retailers representing more than 7,000 store locations have already chosen MerchantWired for their networking and managed-network services.



MerchantWired can integrate virtually any retail store in the United States, with point-to-point connections.

Simon malls attracted more than 100 million shoppers in 2000.

Retailers are using MerchantWired for a variety of technological applications. Examples include centralized inventory control, high-speed credit authorization, store polling, enhanced point-of-sale interaction, real-time access to data, multimedia Web cams, interactive training, security/shrinkage applications, wireless integration and voice over the Internet.

MerchantWired's partners are technology leaders. AT&T provides ATM and frame-relay backbone services, broadband connectivity and access to consumer applications. IBM oversees the network's operations center; Cisco Systems supplies networking equipment;

Intermedia provides ATM and frame-relay services; and Symbol Technologies offers in-mall wireless infrastructure.

MerchantWired can integrate virtually any retail store in the United States, with point-to-point connections comparable to existing options.

MerchantWired plans to continually add and improve services. For example, negotiations are underway to provide co-location/server hosting services beginning in 2001. We have signed agreements to provide professional services for integrating store



systems. MerchantWired is testing wireless infrastructures and evaluating other networking alternatives

and is launching a credit-card authorization process that enables retailers to receive approval in as little as 3.5 seconds. MerchantWired is reviewing a variety of other retail applications that will be offered.

Our technology initiatives will add revenue to our company without diverting attention from our core business of owning and managing retail real estate. ■





The Fashion Mall at Keystone in Indianapolis, IN



Mall of Georgia in Buford (Atlanta), GA

# Simon Portfolio: Regional Malls at December 31, 2000

## ALASKA

Anchorage 5th Avenue Mall<sup>M</sup>, Anchorage

## ARIZONA

Arizona Mills, Tempe (Phoenix)

Metrocenter, Phoenix

Southgate Mall, Yuma

## ARKANSAS

McCain Mall, North Little Rock

University Mall, Little Rock

## CALIFORNIA

Brea Mall, Brea (Orange County)

Laguna Hills Mall, Laguna Hills, (Orange County)

Ontario Mills, Ontario (Orange County)

Santa Rosa Plaza, Santa Rosa

The Shops at Mission Viejo, Mission Viejo  
(Orange County)

Westminster Mall, Westminster (Orange County)

## COLORADO

Aurora Mall, Aurora (Denver)

Mesa Mall, Grand Junction

## CONNECTICUT

Crystal Mall, Waterford

## FLORIDA

Aventura Mall, North Miami Beach

Boynton Beach Mall, Boynton Beach  
(West Palm Beach)

Coral Square, Coral Springs (Ft. Lauderdale)

Cordova Mall, Pensacola

Crystal River Mall, Crystal River

Dadeland Mall, Miami

DeSoto Square, Bradenton

Edison Mall, Fort Myers

Gulf View Square, Port Richey

Indian River Mall, Vero Beach

Lake Square Mall, Leesburg

Melbourne Square, Melbourne

Miami International Mall, Miami

Orange Park Mall, Orange Park

Orlando Premium Outlets, Orlando

Paddock Mall, Ocala

Palm Beach Mall, West Palm Beach

Port Charlotte Town Center, Port Charlotte

Seminole Towne Center, Sanford (Orlando)

The Avenues, Jacksonville

The Florida Mall, Orlando

The Shops at Sunset Place, South Miami

Town Center at Boca Raton, Boca Raton

Treasure Coast Square, Jensen Beach

Tyrone Square, St. Petersburg

University Mall, Pensacola

## GEORGIA

Gwinnett Place, Duluth (Atlanta)

Lenox Square, Atlanta

Mall of Georgia, Buford (Atlanta)

Northlake Mall, Atlanta

Phipps Plaza, Atlanta

Town Center at Cobb, Kennesaw (Atlanta)

## ILLINOIS

Alton Square, Alton (St. Louis)

Lincolnwood Town Center, Lincolnwood (Chicago)

Machesney Park Mall, Rockford

Northfield Square Mall, Bourbonnais

Northwoods Shopping Center, Peoria

O'Hare International Ctr. \*, Rosemont (Chicago)

Orland Square, Orland Park (Chicago)

River Oaks Center, Calumet City (Chicago)

Riverway\*, Rosemont (Chicago)

South Park Mall, Moline

White Oaks Mall, Springfield

## INDIANA

Castleton Square, Indianapolis

Circle Centre, Indianapolis

Claypool Court<sup>M</sup>, Indianapolis

College Mall, Bloomington

Eastland Mall, Evansville

Greenwood Park Mall, Greenwood (Indianapolis)

Lafayette Square, Indianapolis

Markland Mall, Kokomo

Mounds Mall, Anderson

Muncie Mall, Muncie

Richmond Square, Richmond

The Fashion Mall at Keystone, Indianapolis

Tippecanoe Mall, Lafayette

University Park Mall, Mishawaka (South Bend)

Washington Square, Indianapolis

## IOWA

Lindale Mall, Cedar Rapids

North Park Mall, Davenport

Southern Hills Mall, Sioux City

South Ridge Mall, Des Moines

## KANSAS

Hutchinson Mall, Hutchinson

Towne East Square, Wichita

Towne West Square, Wichita

West Ridge Mall, Topeka

## LOUISIANA

New Orleans Centre, New Orleans

Prien Lake Mall, Lake Charles

South Park Mall, Shreveport

## MARYLAND

Arundel Mills, Anne Arundel County (Baltimore)

Forest Village Park Mall, Forestville  
(Washington, D.C.)

Golden Ring Mall, Baltimore

St. Charles Towne Center, Waldorf  
(Washington, D.C.)

## MASSACHUSETTS

Arsenal Mall, Watertown (Boston)

Atrium Mall, Chestnut Hill (Boston)

Auburn Mall, Auburn (Boston)

Burlington Mall, Burlington (Boston)

Cape Cod Mall, Hyannis

Emerald Square, North Attleboro (Boston)

Greendale Mall, Worcester (Boston)

Liberty Tree Mall, Danvers (Boston)

Northshore Mall, Peabody (Boston)

Solomon Pond Mall, Marlborough (Boston)

South Shore Plaza, Braintree (Boston)

Square One Mall, Saugus (Boston)

## MINNESOTA

Mall of America, Bloomington (Minneapolis)

Miller Hill Mall, Duluth

## MISSOURI

Battlefield Mall, Springfield

Independence Center, Independence  
(Kansas City)

St. Louis Centre<sup>M</sup>, St. Louis

## NEBRASKA

Crossroads Mall, Omaha

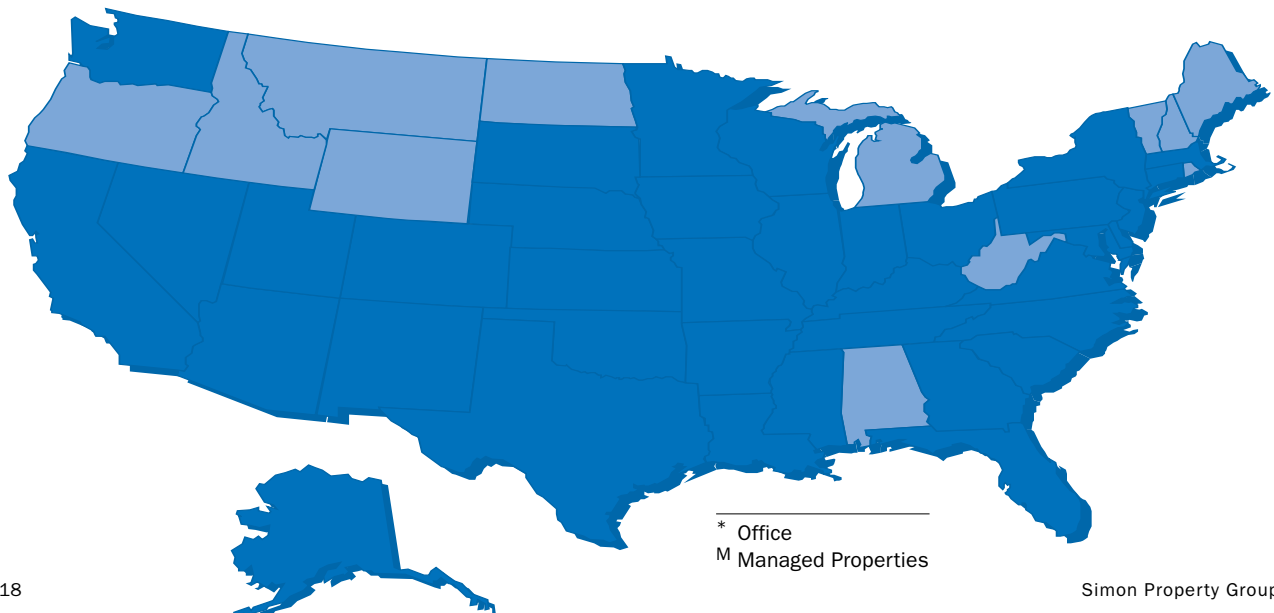
## NEVADA

The Forum Shops at Caesars, Las Vegas

## NEW HAMPSHIRE

Mall at Rockingham Park, Salem (Boston)

Mall of New Hampshire, Manchester (Boston)





## NEW JERSEY

Bergen Mall, Paramus (New York)  
Brunswick Square, East Brunswick (New York)  
Livingston Mall, Livingston (New York)  
Menlo Park Mall, Edison (New York)  
Newport Centre<sup>M</sup>, Jersey City (New York)  
Ocean County Mall, Toms River  
Rockaway Townsquare, Rockaway (New York)

## NEW MEXICO

Cottonwood Mall, Albuquerque

## NEW YORK

Chautauqua Mall, Lakewood  
Eastern Hills Mall, Williamsville  
Jefferson Valley Mall, Yorktown  
Nanuet Mall, Nanuet (New York)  
Roosevelt Field, Garden City (New York)  
Smith Haven Mall, Lake Grove (New York)  
The Source, Westbury (New York)  
The Westchester, White Plains (New York)  
Walt Whitman Mall, Huntington (New York)

## NORTH CAROLINA

Biltmore Square, Asheville  
Concord Mills, Concord (Charlotte)

## OHIO

Great Lakes Mall, Mentor (Cleveland)  
Lima Mall, Lima  
North Towne Square, Toledo  
Randall Park Mall, North Randall (Cleveland)  
Richmond Town Square, Richmond Heights  
(Cleveland)  
Southern Park Mall, Boardman (Youngstown)  
Summit Mall, Akron  
Upper Valley Mall, Springfield  
Woodville Mall, Northwood (Toledo)

## OKLAHOMA

Eastland Mall, Tulsa  
Heritage Park Mall, Midwest City  
(Oklahoma City)  
Oakwood Mall<sup>M</sup>, Enid

## PENNSYLVANIA

Century III Mall, West Mifflin (Pittsburgh)  
Cheltenham Square, Philadelphia  
Granite Run Mall, Media (Philadelphia)  
Ross Park Mall, Pittsburgh  
South Hills Village, Pittsburgh

## SOUTH CAROLINA

Anderson Mall, Anderson  
Haywood Mall, Greenville

## SOUTH DAKOTA

Empire Mall, Sioux Falls  
Rushmore Mall, Rapid City

## TENNESSEE

Knoxville Center, Knoxville  
Oak Court Mall, Memphis  
Raleigh Springs Mall, Memphis  
West Town Mall, Knoxville

## TEXAS

Amigoland Mall, Brownsville  
Barton Creek Square, Austin  
Broadway Square Mall, Tyler  
Cielo Vista Mall, El Paso  
Golden Triangle Mall<sup>M</sup>, Denton (Dallas)  
Grapevine Mills, Grapevine (Dallas)  
Highland Mall, Austin  
Ingram Park Mall, San Antonio  
Irving Mall, Irving (Dallas)

La Plaza Mall, McAllen  
Lakeline Mall, Austin  
Longview Mall, Longview  
Midland Park Mall, Midland  
Midway Mall<sup>M</sup>, Sherman  
North East Mall, Hurst (Ft. Worth)  
Richardson Square, Richardson (Dallas)  
Rolling Oaks Mall, N. San Antonio  
Sunland Park Mall, El Paso  
Valle Vista Mall, Harlingen  
Windsor Park Mall, San Antonio

## UTAH

Trolley Square, Salt Lake City

## VIRGINIA

Apple Blossom Mall, Winchester  
Charlottesville Fashion Square, Charlottesville  
Chesapeake Square, Chesapeake (Norfolk)  
The Fashion Centre at Pentagon City, Arlington  
(Washington, D.C.)  
Lynnhaven Mall<sup>M</sup>, Virginia Beach (Norfolk)  
Valley Mall, Harrisonburg  
Virginia Center Commons, Glen Allen

## WASHINGTON

Columbia Center, Kennewick  
Northgate Mall, Seattle  
Tacoma Mall, Tacoma

## WISCONSIN

Bay Park Square, Green Bay  
Forest Mall, Fond Du Lac  
Memorial Mall, Sheboygan

Eastgate, Indianapolis  
Eastland Convenience Ctr., Evansville  
Greenwood Plus, Greenwood  
Griffith Park Plaza, Griffith  
Keystone Shoppes, Indianapolis  
Markland Plaza, Kokomo  
Mounds Mall Cinema, Anderson  
Muncie Towne Plaza, Muncie  
New Castle Plaza, New Castle  
Northwood Plaza, Fort Wayne  
Teal Plaza, Lafayette  
Tippecanoe Plaza, Lafayette  
University Center, Mishawaka  
Village Park Plaza, Carmel  
Wabash Village, West Lafayette  
Washington Plaza, Indianapolis

## IOWA

Wood Plaza, Fort Dodge

## KANSAS

West Ridge Plaza, Topeka  
Wichita, Wichita

## KENTUCKY

Park Plaza, Hopkinsville

## MARYLAND

Glen Burnie, Glen Burnie  
St. Charles Towne Plaza, Waldorf

## MISSISSIPPI

Ridgewood Court, Jackson

## MISSOURI

Regency Plaza, St. Charles

## NEW JERSEY

Newport Plaza<sup>M</sup>, Jersey City  
Rockaway Convenience Ctr., Rockaway

## NEW YORK

Cobblestone Court, Victor

## OHIO

Boardman Plaza, Youngstown  
Great Lakes Plaza, Mentor  
Lima Center, Lima  
Northland Plaza, Columbus

## OKLAHOMA

Eastland Plaza, Tulsa

## PENNSYLVANIA

Great Northeast Plaza, Philadelphia

## SOUTH CAROLINA

Charles Towne Square, Charleston

## SOUTH DAKOTA

Empire East, Sioux Falls

## TENNESSEE

Knoxville Commons, Knoxville

## TEXAS

Celina Plaza, El Paso  
Ingram Plaza, San Antonio  
Lakeline Plaza, Austin  
Mainland Crossing, Texas City  
The Arboretum, Austin  
The Shops at North East Mall, Hurst

## VIRGINIA

Chesapeake Center, Chesapeake  
Fairfax Court, Fairfax  
Martinsville Plaza, Martinsville

## WISCONSIN

Memorial Plaza, Sheboygan

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# Community Centers at December 31, 2000

## CONNECTICUT

The Plaza at Buckland Hills, Manchester

## FLORIDA

Gaitway Plaza, Ocala  
Highland Lakes Center, Orlando  
Indian River Commons, Vero Beach  
Royal Eagle Plaza, Coral Springs  
Terrace @ the Florida Mall, Orlando  
The Grove @ Lakeland Square, Lakeland  
Waterford Lakes Town Center, Orlando  
West Town Corners, Altamonte Springs  
Westland Park Plaza, Jacksonville

## GEORGIA

Mall of Georgia Crossing, Buford (Atlanta)

## ILLINOIS

Bloomington Court, Bloomington  
Bridgeview Court, Bridgeview  
Countryside Plaza, Countryside  
Crystal Court, Crystal Lake  
Forest Plaza, Rockford  
Fox River Plaza, Elgin  
Lake Plaza, Waukegan  
Lake View Plaza, Orland Park  
Lincoln Crossing, O'Fallon  
Matteson Plaza, Matteson  
North Ridge Plaza, Joliet  
North Riverside Park Plaza, North Riverside  
The Yards Plaza, Chicago  
White Oaks Plaza, Springfield  
Willow Knolls Court, Peoria

## INDIANA

Brightwood Plaza, Indianapolis  
Century, Merrillville

## 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 we believe 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,  | 2000                                  | 1999 <sup>(1)</sup> | 1998 <sup>(1)</sup> | 1997 <sup>(1)</sup> | 1996 <sup>(2)</sup> |
|---|---------------------------------------|---------------------|---------------------|---------------------|---------------------|
|   | (in thousands, except per share data) |                     |                     |                     |                     |
| <b>Operating Data:</b>  |                                       |                     |                     |                     |                     |
| Total revenue   | \$ 2,020,751                          | \$ 1,892,703        | \$ 1,405,559        | \$ 1,054,167        | \$ 747,704          |
| Income before unusual item,<br>extraordinary items, and cumulative<br>effect of accounting change | 347,419                               | 316,100             | 236,230             | 203,133             | 134,663             |
| Net income available to<br>common shareholders  | \$ 186,528                            | \$ 167,314          | \$ 133,598          | \$ 107,989          | \$ 72,561           |
| <b>Basic Earnings Per Paired Share:</b>   |                                       |                     |                     |                     |                     |
| Income before extraordinary items and<br>cumulative effect of accounting change                   | \$ 1.13                               | \$ 1.00             | \$ 1.02             | \$ 1.08             | \$ 1.02             |
| Extraordinary items   | —                                     | (0.03)              | 0.04                | —                   | (0.03)              |
| Cumulative effect of accounting change  | (0.05)                                | —                   | —                   | —                   | —                   |
| Net income  | \$ 1.08                               | \$ 0.97             | \$ 1.06             | \$ 1.08             | \$ 0.99             |
| Weighted average Paired Shares outstanding  | 172,895                               | 172,089             | 126,522             | 99,920              | 73,586              |
| <b>Diluted Earnings Per Paired Share:</b>   |                                       |                     |                     |                     |                     |
| Income before extraordinary items and<br>cumulative effect of accounting change                   | \$ 1.13                               | \$ 1.00             | \$ 1.02             | \$ 1.08             | \$ 1.01             |
| Extraordinary items   | —                                     | (0.03)              | 0.04                | —                   | (0.03)              |
| Cumulative effect of accounting change  | (0.05)                                | —                   | —                   | —                   | —                   |
| Net income  | \$ 1.08                               | \$ 0.97             | \$ 1.06             | \$ 1.08             | \$ 0.98             |
| Diluted weighted average<br>Paired Shares outstanding   | 172,994                               | 172,226             | 126,879             | 100,304             | 73,721              |
| Distributions per Paired Share <sup>(3)</sup>   | \$ 2.02                               | \$ 2.02             | \$ 2.02             | \$ 2.01             | \$ 1.63             |
| <b>Balance Sheet Data:</b>  |                                       |                     |                     |                     |                     |
| Cash and cash equivalents   | \$ 223,111                            | \$ 157,632          | \$ 129,195          | \$ 109,699          | \$ 64,309           |
| Total assets  | 13,937,945                            | 14,223,243          | 13,277,000          | 7,662,667           | 5,895,910           |
| Mortgages and other notes payable   | 8,728,582                             | 8,768,951           | 7,973,372           | 5,077,990           | 3,681,984           |
| Shareholders' equity  | \$ 3,064,471                          | \$ 3,253,658        | \$ 3,409,209        | \$ 1,556,862        | \$ 1,304,891        |
| <b>Other Data:</b>  |                                       |                     |                     |                     |                     |
| Cash flow provided by (used in):  |                                       |                     |                     |                     |                     |
| Operating activities  | \$ 701,516                            | \$ 627,056          | \$ 529,415          | \$ 370,907          | \$ 236,464          |
| Investing activities  | (75,941)                              | (612,876)           | (2,102,032)         | (1,243,804)         | (199,742)           |
| Financing activities  | (560,096)                             | 14,257              | 1,592,113           | 918,287             | (35,134)            |
| Ratio of Earnings to Fixed Charges<br>and Preferred Dividends <sup>(4)</sup>                      | 1.37x                                 | 1.36x               | 1.44x               | 1.54x               | 1.55x               |
| Funds from Operations (FFO)<br>of Simon Group <sup>(5)</sup>                                      | \$ 793,158                            | \$ 715,223          | \$ 544,481          | \$ 415,128          | \$ 274,259          |
| FFO allocable to the Companies  | \$ 575,655                            | \$ 520,346          | \$ 361,326          | \$ 258,049          | \$ 168,035          |



## Simon Property Group, Inc.:

| As of or for the Year Ended December 31,   | 2000         | 1999 <sup>(1)</sup> | 1998 <sup>(1)</sup> | 1997 <sup>(1)</sup> | 1996 <sup>(2)</sup> |
|--|--------------|---------------------|---------------------|---------------------|---------------------|
| (in thousands, except per share data)  |              |                     |                     |                     |                     |
| <b>Operating Data:</b>   |              |                     |                     |                     |                     |
| Total revenue  | \$ 2,012,737 | \$ 1,894,971        | \$ 1,405,072        | \$ 1,054,167        | \$ 747,704          |
| Income before unusual, extraordinary items, and cumulative effect of accounting change | 355,120      | 315,499             | 235,790             | 203,133             | 134,663             |
| Net income available to common shareholders  | \$ 192,103   | \$ 165,944          | \$ 133,286          | \$ 107,989          | \$ 72,561           |
| <b>Basic Earnings Per Common Share:</b>  |              |                     |                     |                     |                     |
| Income before extraordinary items and cumulative effect of accounting change           | \$ 1.16      | \$ 0.99             | \$ 1.01             | \$ 1.08             | \$ 1.02             |
| Extraordinary items  | —            | (0.03)              | 0.04                | —                   | (0.03)              |
| Cumulative effect of accounting change   | (0.05)       | —                   | —                   | —                   | —                   |
| Net income   | \$ 1.11      | \$ 0.96             | \$ 1.05             | \$ 1.08             | \$ 0.99             |
| Weighted average shares outstanding  | 172,895      | 172,089             | 126,522             | 99,920              | 73,586              |
| <b>Diluted Earnings Per Common Share:</b>  |              |                     |                     |                     |                     |
| Income before extraordinary items and cumulative effect of accounting change           | \$ 1.16      | \$ 0.99             | \$ 1.01             | \$ 1.08             | \$ 1.01             |
| Extraordinary items  | —            | (0.03)              | 0.04                | —                   | (0.03)              |
| Cumulative effect of accounting change   | (0.05)       | —                   | —                   | —                   | —                   |
| Net income   | \$ 1.11      | \$ 0.96             | \$ 1.05             | \$ 1.08             | \$ 0.98             |
| Diluted weighted average shares outstanding  | 172,994      | 172,226             | 126,879             | 100,304             | 73,721              |
| Distributions per common share <sup>(3)</sup>  | \$ 2.02      | \$ 2.02             | \$ 2.02             | \$ 2.01             | \$ 1.63             |
| <b>Balance Sheet Data:</b>   |              |                     |                     |                     |                     |
| Cash and cash equivalents  | \$ 214,404   | \$ 154,924          | \$ 127,626          | \$ 109,699          | \$ 64,309           |
| Total assets   | 13,911,407   | 14,199,318          | 13,269,129          | 7,662,667           | 5,895,910           |
| Mortgages and other notes payable  | 8,728,582    | 8,768,841           | 7,990,288           | 5,077,990           | 3,681,984           |
| Shareholders' equity   | \$ 3,054,012 | \$ 3,237,545        | \$ 3,394,142        | \$ 1,556,862        | \$ 1,304,891        |

## SPG Realty Consultants, Inc.:

| As of or for the Year Ended December 31,            | 2000      | 1999 <sup>(1)</sup> | 1998 <sup>(1)</sup> | 1997     | 1996      |
|---|-----------|---------------------|---------------------|----------|-----------|
| (in thousands, except per share data)               |           |                     |                     |          |           |
| <b>Operating Data:</b>                              |           |                     |                     |          |           |
| Total revenue                                       | \$ 12,479 | \$ 2,277            | \$ 4,582            | \$ 6,214 | \$ 9,805  |
| Net income (loss)                                   | (5,575)   | 1,370               | (4,431)             | 1,177    | (920)     |
| <b>Basic and Diluted Earnings Per Common Share:</b> |           |                     |                     |          |           |
| Net income (loss)                                   | \$ (3.22) | \$ 0.80             | \$ (5.17)           | \$ 2.07  | \$ (1.88) |
| Basic weighted average shares outstanding           | 1,729     | 1,721               | 857                 | 569      | 490       |
| Diluted weighted average shares outstanding         | 1,730     | 1,722               | 857                 | 569      | 490       |
| Distributions per common share <sup>(3)</sup>       | \$ —      | \$ —                | \$ 0.39             | \$ 0.40  | \$ 0.425  |
| <b>Balance Sheet Data:</b>                          |           |                     |                     |          |           |
| Cash and cash equivalents                           | \$ 8,707  | \$ 2,708            | \$ 1,569            | \$ 4,147 | \$ 4,797  |
| Total assets  | 56,864    | 35,029              | 46,601              | 46,063   | 31,054    |
| Mortgages and other notes payable                   | 29,425    | 9,958               | 21,556              | 36,818   | 21,988    |
| Shareholders' equity                                | 10,459    | 16,113              | 15,067              | 4,316    | 5,039     |

## 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 and 1998 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. The 1999 and 1996 amounts are restated to reflect NAREIT's clarification of the definition of FFO.

## Management's Discussion and Analysis

### of Financial Condition and Results of Operations

You should read the following discussion in conjunction with the Selected Financial Data, and all of the financial statements and notes thereto that are included in this report. Certain statements made in this report may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These 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. We undertake no duty or obligation to update or revise these forward-looking statements, whether as a result of new information, future developments, or otherwise.

#### OVERVIEW

Who we are — 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. In this report, the terms "we", "us" and "our" refer to the Companies and the Operating Partnerships, which prior to the CPI Merger (see below) refers to Simon DeBartolo Group, Inc. and the SPG Operating Partnership.

We are 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, 2000, we owned or held an interest in 252 income-producing properties in the United States, which consisted of 165 regional malls, 73 community shopping centers, five specialty retail centers, four office and mixed-use properties and five 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 and 11 parcels of land held for future development (the "Portfolio" or the "Portfolio Properties"). At both December 31, 2000 and 1999, the Companies' direct and indirect ownership interests in the Operating Partnerships were 72.4%. 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.

Our operating results for the two years ended December 31, 2000 and 1999, and their comparability to the respective prior periods, were significantly impacted by a number of Property acquisitions and openings beginning in 1998. 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). In addition, we 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 we account for using the consolidated method of accounting and sold interests in several Properties throughout the

comparative periods (together with the CPI merger, the “Property Transactions”). “Liquidity and Capital Resources” contains additional information on the 2000 activity and Note 5 to the financial statements contains information about acquisitions and dispositions prior to 2000.

### **CUMULATIVE EFFECT OF ACCOUNTING CHANGE**

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 its sales threshold. We previously recognized overage rent based on reported and estimated sales through the end of the period, less the applicable prorated base sales amount. We adopted SAB 101 effective January 1, 2000 and recorded a loss from the cumulative effect of an accounting change of \$12.3 million, which includes our \$1.8 million share from unconsolidated entities.

### **RESULTS OF OPERATIONS**

#### **Year Ended December 31, 2000 vs. Year Ended December 31, 1999**

Operating income increased \$46.3 million or 5.4% in 2000 as compared to 1999. This increase includes the net result of the Property Transactions (\$9.7 million). Excluding these transactions, operating income increased approximately \$36.6 million or 4.3%, primarily resulting from a \$54.6 million increase in minimum rents, a \$20.1 million increase in consolidated revenues realized from marketing initiatives throughout the Portfolio from our strategic marketing division, Simon Brand Ventures (“SBV”), a \$3.9 million increase in miscellaneous income, and an \$8.6 million increase in lease settlements, partially offset by a \$31.8 million increase in depreciation and amortization, a \$7.2 million increase in corporate expenses previously recorded on the Management Company, primarily due to SBV’s, previously part of the Management Company, incorporation as a wholly-owned LLC subsidiary of SRC, and a \$9.4 million increase in other expenses. 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 \$5.1 million increase in rents from tenants operating under license agreements. The increase in miscellaneous income results from gift certificate sales previously recorded on the Management Company and incidental fee revenues. The increase in depreciation and amortization is primarily due to an increase in depreciable real estate realized through renovation and expansion activities. The increase in other expenses primarily results from technology initiative start up costs and the write-off of a \$3.0 million investment in piii.com, an online shopping site that has ceased operations.

Interest expense increased \$56.1 million, or 9.7% in 2000 as compared to 1999. This increase is primarily the result of overall increases in interest rates during the comparative periods (\$20.6 million), the Property Transactions (\$7.0 million) and incremental interest on borrowings under our Credit Facility to complete the NED Acquisition (\$12.4 million) and acquire an ownership interest in Mall of America (\$3.8 million), with the remainder being primarily from borrowings for Property redevelopments that opened in the comparative periods.

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

The \$9.1 million net gain on the sales of assets in 2000 results from the sale of our interests in an office building, two regional malls and four community shopping centers for approximately \$142.6 million, partially offset by a \$10.6 million asset write-down on two Properties recognized in the second quarter of 2000. In 1999, we recognized a net loss of \$7.1 million on the sale of four Properties.



## Management's Discussion and Analysis

### of Financial Condition and Results of Operations

Income from unconsolidated entities increased \$27.9 million in 2000, resulting from a \$26.1 million increase in income from the Management Company and a \$1.8 million increase in income from unconsolidated partnerships and joint ventures. The increase in Management Company income is primarily the result of a \$6.7 million increase in management fees due to property acquisitions and increased minimum rents, \$7.3 million of asset write-downs recognized in 1999, \$4.6 million in 2000 residual land sales, as well as a \$5.3 million increase in the income tax benefit, which is primarily due to the reversal of valuation allowances due to 2000 income and forecasted future income.

During the first quarter of 2000, we recorded a \$12.3 million expense resulting from the cumulative effect of an accounting change described above.

Income before allocation to limited partners was \$334.4 million for the year ended December 31, 2000, which reflects a \$37.0 million or 12.5% increase over 1999, 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.

Preferred distributions of the SPG Operating Partnership represent distributions on preferred Units issued in connection with the NED Acquisition. Preferred dividends of subsidiary represent distributions on preferred stock of SPG Properties, Inc., a 99.999% owned subsidiary of SPG.

#### **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 remaining 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 our strategic marketing division, 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 remaining Property Transactions (\$18.0 million). The remaining increase includes incremental interest resulting from the SPG Operating Partnership's 1998 issuance of \$1.1 billion of public notes, the proceeds of which were used primarily to pay down our Credit Facility (see Liquidity and Capital Resources) (\$4.5 million), and incremental interest on borrowings under our 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 & 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).

As discussed further in Note 13 to the financial statements, the \$12.0 million unusual item in 1999 is the result of damages arising from the litigation surrounding the 1996 acquisition through merger of DeBartolo Realty Corporation (the "DRC Merger").

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.

## LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2000, our balance of unrestricted cash and cash equivalents was \$223.1 million, including \$116.5 million related to our gift certificate program, which we do not consider available for general working capital purposes. We have a \$1.25 billion unsecured revolving credit facility (the "Credit Facility") which had available credit of \$598.5 million at December 31, 2000. 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 our option. SPG and the SPG Operating Partnership also have access to public equity and debt markets. Our current corporate bond ratings are Baa1 by Moody's Investors Service and BBB+ by Standard & Poor's.

We anticipate that cash generated from operating performance will provide the funds we need on a short- and long-term basis for 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:

- excess cash generated from operating performance
- working capital reserves
- additional debt financing
- additional equity raised in the public markets

## Management's Discussion and Analysis

of Financial Condition and Results of Operations

### FINANCING AND DEBT

At December 31, 2000, we had combined consolidated debt of \$8.7 billion, of which \$6.1 billion was fixed-rate debt, bearing interest at a weighted average rate of 7.3% and \$2.6 billion was variable-rate debt bearing interest at a weighted average rate of 7.5%. As of December 31, 2000, we had interest rate protection agreements related to \$404.0 million of combined consolidated variable-rate debt. Our interest rate protection agreements did not materially impact interest expense or weighted average borrowing rates in 2000.

Our share of total scheduled principal payments of mortgage and other indebtedness, including unconsolidated joint venture indebtedness over the next five years is \$7.1 billion, with \$3.6 billion thereafter. Our ratio of consolidated debt-to-market capitalization was 57.0% and 58.1% at December 31, 2000 and 1999, respectively.

**Market Risk – Sensitivity Analysis.** Our combined future earnings, cash flows and fair values relating to financial instruments are dependent upon prevalent market rates of interest, primarily LIBOR. Based upon consolidated indebtedness and interest rates at December 31, 2000, a 0.25% increase in the market rates of interest would decrease future earnings and cash flows by approximately \$5.9 million, and would decrease the fair value of debt by approximately \$220.0 million. A 0.25% decrease in the market rates of interest would increase future earnings and cash flows by approximately \$5.9 million, and would increase the fair value of debt by approximately \$230.0 million. We manage our exposure to interest rate risk by a combination of interest rate protection agreements to effectively fix or cap a portion of our variable rate debt and by refinancing fixed rate debt at times when rates and terms are appropriate.

The following summarizes significant financing and refinancing transactions completed in 2000:

**Secured Indebtedness.** During 2000, we refinanced approximately \$1.1 billion of mortgage indebtedness on twelve of the Properties. Our share of the refinanced debt is approximately \$556 million. The weighted average maturity of the indebtedness increased from approximately 0.6 years to 6.7 years, while the weighted average interest rates increased from approximately 7.77% to 7.84%.

**Credit Facility.** During 2000 the maximum and average amounts outstanding under the Credit Facility were \$830 million and \$715 million, respectively. The weighted average interest rate was 7.34% for 2000.

**Unsecured Notes.** On March 24, 2000, we refinanced \$450.0 million of unsecured debt, which became due and bore interest at LIBOR plus 65 basis points. The new facility matures March 24, 2001 and also bears interest at LIBOR plus 65 basis points. In addition, during September 2000, we refinanced \$500.0 million of unsecured debt, which became due and bore interest at LIBOR plus 65 basis points, with a new \$475.0 million facility and borrowings from the Credit Facility. The new \$475.0 million facility matures September 2001 and bears interest at LIBOR plus 65 basis points.

On January 11, 2001, we issued \$500.0 million of unsecured debt to institutional investors pursuant to Rule 144A in two tranches. The first tranche is \$300.0 million bearing an interest rate of 7 3/8% due January 20, 2006 and the second tranche is \$200.0 million bearing an interest rate of 7 3/4% due January 20, 2011. The net proceeds of the offering were used to repay the remaining portion of the indebtedness under the Merger Facility due March 24, 2001 and to repay a portion of the Merger Facility due September 24, 2001.



## ACQUISITIONS AND DISPOSALS

We continue to review and evaluate a limited number of individual property and portfolio acquisition opportunities. However, due to the rapid consolidation of the regional mall business and the current status of the capital markets, we believe that acquisition activity in the near term will be a less significant component of our growth strategy. We believe 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. We cannot assure you that we 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.

See Note 5 to the financial statements for 1999 and 1998 acquisition activity.

**Disposals.** During 2000, we sold our interests in two regional malls, four community shopping centers and an office building for a total of approximately \$142.6 million, including the buyer's assumption of approximately \$25.9 million of mortgage debt, which resulted in a net gain of \$19.7 million. The net proceeds of \$114.6 million were used to reduce the outstanding borrowings on the Credit Facility, to repurchase Paired Shares, and for general corporate purposes.

In addition, on July 31, 2000, we sold our 1,408,450 shares of common stock of Chelsea Property Group, Inc. for \$50.0 million, which equaled our original investment. No gain or loss was recognized on the transaction. The net proceeds were used for general corporate purposes.

In addition to the Property sales described above, as a continuing part of our long-term strategic plan, we continue to pursue the sale of our remaining non-retail holdings and a number of retail assets that are no longer aligned with our strategic criteria. We expect the sale prices of any 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 our business. During 2000, we opened two new Properties aggregating approximately 1.7 million square feet of GLA. In total, we invested approximately \$179.6 million on new developments in 2000. With fewer new developments currently under construction, we expect 2001 development costs to be approximately \$76.2 million.

**Strategic Expansions and Renovations.** One of our key objectives is to increase the profitability and market share of the Properties through the completion of strategic renovations and expansions. During 2000, we invested approximately \$201.6 million on redevelopment projects and completed five major redevelopment projects, which added approximately 1.2 million square feet of GLA to the Portfolio. We have a number of renovation and/or expansion projects currently under construction, or in preconstruction development and expect to invest approximately \$121.0 million on redevelopment in 2001.

## Management's Discussion and Analysis

### of Financial Condition and Results of Operations

**International Expansion.** The SPG Operating Partnership and the Management Company have a 29% 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. Our total cash investment in ERE and BEG at December 31, 2000 was approximately \$45.8 million, with commitments for an additional \$16.6 million, subject to certain performance and other criteria, including our approval of development projects. The agreements with BEG and ERE are structured to allow us to acquire an additional 25% ownership interest over time. As of December 31, 2000, BEG and ERE had three Properties open in Poland and two in France.

**Technology Initiatives.** We continue to evolve our technology initiatives through our association with several third party participants. Through our clixmortar subsidiary, we have formed an alliance with Found Inc. to build an infrastructure for retailers where shoppers can identify merchandise on line that is actually in inventory at a store and initiate a transaction either at the store or online. Through MerchantWired LLC, we are creating, along with all the other leading retail real estate developers, a full service retail infrastructure company that provides retailers across the country access to a high speed, highly reliable and secure broadband network. The SPG Operating Partnership owns an approximately 53% noncontrolling interest in MerchantWired LLC and accounts for it using the equity method of accounting. In addition, in 2000 we joined with other leading real estate companies across a broad range of property sectors to form Constellation Real Technologies, which is designed to form, incubate and sponsor real estate-related Internet, e-commerce and technology enterprises; acquire interests in existing "best of breed" companies; and act as a consolidator of real estate technology across property sectors. In September, Constellation announced its initial investment of \$25.0 million in FacilityPro.com, a business-to-business electronic marketplace designed for the efficient procurement of facilities' products and services. Our share of this investment is \$2.5 million.

These new activities may generate losses in the initial years of operation, while programs are being developed and customer bases are being established. We have investments totaling approximately \$53.0 million related to such programs through December 31, 2000. We expect to continue to invest in these programs over the next two years and together with the other members of MerchantWired, LLC have guaranteed our pro rata share of equipment lease payments up to \$46.0 million. There is no assurance that our technology programs will succeed.

### CAPITAL EXPENDITURES ON CONSOLIDATED PROPERTIES

|                                  | 2000          | 1999         | 1998         |
|----------------------------------|---------------|--------------|--------------|
| New Developments                 | \$ 58         | \$226        | \$ 22        |
| Renovations and Expansions       | 194           | 248          | 250          |
| Tenant Allowances                | 65            | 65           | 46           |
| Operational Capital Expenditures | 49            | 27           | 19           |
| Other                            | —             | —            | 12           |
| Total                            | <u>\$ 366</u> | <u>\$566</u> | <u>\$349</u> |

## **DISTRIBUTIONS**

SPG declared distributions on its common stock in 2000 aggregating \$2.02 per share. On February 6, 2001, SPG declared a distribution of \$0.5050 per Paired Share payable on February 28, 2001, to shareholders of record on February 16, 2001. 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**

Pursuant to a stock repurchase program authorized by the Board of Directors of SPG, on August 8, 2000, we purchased 1,596,100 Paired Shares at an average price of \$25.00 per Paired Share. The purchase is part of a plan announced by management earlier in the year to make opportunistic repurchases of Paired Shares during 2000 funded solely by a portion of the net proceeds realized from sales of our non-core assets.

During 2000, 478,454 limited partner units were purchased for approximately \$11.1 million.

Cash used in investing activities during 2000 includes capital expenditures of \$419.4 million, investments in unconsolidated joint ventures of \$161.6 million consisting primarily of development funding, \$1.3 million in acquisition costs, and \$20.3 million of investments in and advances to the Management Company. Capital expenditures includes development costs of \$71.2 million, renovation and expansion costs of approximately \$233.3 million and tenant costs, and other operational capital expenditures of approximately \$114.9 million. These uses of cash are partially offset by distributions from unconsolidated entities of \$362.1 million; net proceeds of \$114.6 million from the sales of our interests in two regional malls, four community shopping centers and an office building; and net proceeds of \$50.0 million from the sale of stock held as an investment. Distributions from unconsolidated entities includes approximately \$277.1 million resulting from financing activities, with the remainder resulting primarily from those entities' operating activities.

Cash used in financing activities during 2000 includes net equity distributions of \$557.5 million, \$51.0 million to purchase treasury stock and limited partner units, and net debt payments of \$48.4 million.

## **EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION ("EBITDA")**

We believe that there are several important factors that contribute to our ability to increase rent and improve profitability of our 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. We believe that EBITDA is an effective measure of shopping center operating performance because:

- 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
- EBITDA is unaffected by the debt and equity structure of the property owner.

However, you should understand that EBITDA:

- does not represent cash flow from operations as defined by accounting principles generally accepted in the United States
- should not be considered as an alternative to net income as a measure of operating performance
- is not indicative of cash flows from operating, investing and financing activities
- is not an alternative to cash flows as a measure of liquidity.



## Management's Discussion and Analysis

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Total EBITDA for the Properties increased from \$1,362 million in 1998 to \$2,102 million in 2000, representing a compound annual growth rate of 24.2%. This growth is primarily the result of merger, acquisition and development activity during the comparative periods (\$611 million). The remaining growth in total EBITDA (\$129 million) reflects increased rental rates, increased tenant sales, improved occupancy levels, effective control of operating costs and the addition of GLA to the Portfolio through expansions. During this period, the operating profit margin decreased from 64.8% to 64.5%. There were no major acquisitions during 2000.

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)   | 2000               | 1999        | 1998        |
|--|--------------------|-------------|-------------|
| EBITDA of consolidated Properties                            | <b>\$1,320,633</b> | \$1,236,421 | \$ 910,654  |
| EBITDA of unconsolidated Properties                          | <b>781,513</b>     | 606,710     | 451,049     |
| Total EBITDA of Portfolio Properties                         | <b>\$2,102,146</b> | \$1,843,131 | \$1,361,703 |
| EBITDA after minority interest <sup>(1)</sup>                | <b>\$1,616,616</b> | \$1,455,272 | \$1,068,233 |
| Increase in total EBITDA from prior period                   | <b>14.1%</b>       | 35.4%       | 44.9%       |
| Increase in EBITDA after minority interest from prior period | <b>11.1%</b>       | 36.2%       | 43.0%       |
| Operating profit margin of the Portfolio Properties          | <b>64.5%</b>       | 65.3%       | 64.8%       |

(1) EBITDA after minority interest represents our 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 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 accounting principles generally accepted in the United States. Effective January 1, 2000, we adopted NAREIT's clarification in the definition of FFO, which requires the inclusion of the effects of nonrecurring items not classified as extraordinary, cumulative effect of accounting change or resulting from the sales of depreciable real estate. However, FFO:

- does not represent cash flow from operations as defined by accounting principles generally accepted in the United States
- should not be considered as an alternative to net income as a measure of operating performance
- is not an alternative to cash flows as a measure of liquidity.

The following summarizes our FFO and that of the Companies and reconciles our combined income before unusual item, extraordinary items and cumulative effect of accounting change to our FFO for the periods presented:

| For the Year Ended December 31,  | 2000             | 1999 <sup>(1)</sup> | 1998      |
|--|------------------|---------------------|-----------|
|  | (in thousands)   |                     |           |
| Our FFO  | <b>\$793,158</b> | \$715,223           | \$544,481 |
| Increase in FFO from prior period  | <b>10.9%</b>     | 31.4%               | 31.2%     |
| Reconciliation:  |                  |                     |           |
| Income before unusual item, extraordinary items and cumulative effect of accounting change | <b>\$347,419</b> | \$316,100           | \$236,230 |
| Plus:  |                  |                     |           |
| Depreciation and amortization from combined consolidated properties                        | <b>418,670</b>   | 381,265             | 267,423   |
| Our share of depreciation and amortization and other items from unconsolidated affiliates  | <b>119,562</b>   | 97,247              | 82,323    |
| Loss (gain) on sale of real estate   | <b>(9,132)</b>   | 7,062               | 7,283     |
| Unusual items  | —                | (12,000)            | —         |
| Less:  |                  |                     |           |
| Minority interest portion of depreciation and amortization and extraordinary items         | <b>(5,951)</b>   | (5,128)             | (7,307)   |
| Preferred distributions (Including those of subsidiaries)                                  | <b>(77,410)</b>  | (69,323)            | (41,471)  |
| Our FFO  | <b>\$793,158</b> | \$715,223           | \$544,481 |
| FFO allocable to the Companies   | <b>\$575,655</b> | \$520,346           | \$361,326 |

(1) Restated to reflect NAREIT's clarification of the definition of FFO.

## Management's Discussion and Analysis

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### PORTFOLIO DATA

Operating statistics give effect to newly acquired properties beginning in the year of acquisition. The value-oriented super-regional mall category consists of Arizona Mills, Arundel 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 \$3,486 million increase from 1998 to 2000 includes \$1,355 million from the NED Acquisition and other acquisitions. Excluding these Properties, 2000 sales were \$16,718 million, which is a compound annual growth rate of 7.1 % since 1998. 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:

| Year Ended December 31, | Total Tenant Sales<br>(in millions) | Annual Percentage<br>Increase |
|-------------------------|-------------------------------------|-------------------------------|
| <b>2000</b>             | <b>\$18,073</b>                     | <b>5.3%</b>                   |
| 1999                    | 17,169                              | 17.7                          |
| 1998                    | 14,587                              | 52.9                          |

We believe our sales growth in 2000 is the result of our 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 2000 by \$2 or 1.2% and \$2 or 1.1%, respectively.

**Tenant Occupancy Costs.** Tenant occupancy costs as a percentage of sales was 12.1% in 2000 and 12.3% in 1999 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. We believe we are 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. We also believe that our continuing efforts to increase sales while controlling property operating expenses will continue the trend of increasing rents at the Properties.



**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. We believe the continued growth in regional mall occupancy is a result of a significant increase in the overall quality of our Portfolio. The result of the increase in occupancy is a direct or indirect increase in nearly every category of revenue.

| December 31, | Occupancy Levels |                               |                            |
|--------------|------------------|-------------------------------|----------------------------|
|              | Regional Malls   | Value-Oriented Regional Malls | Community Shopping Centers |
| <b>2000</b>  | <b>91.8%</b>     | <b>92.9%</b>                  | <b>91.5%</b>               |
| 1999         | 90.6             | 95.1                          | 88.6                       |
| 1998         | 90.0             | 98.2                          | 91.4                       |

| Year Ended December 31, | Average Base Rent per Square Foot |             |                               |             |                            |              |
|-------------------------|-----------------------------------|-------------|-------------------------------|-------------|----------------------------|--------------|
|                         | Regional Malls                    | % Change    | Value-Oriented Regional Malls | % Change    | Community Shopping Centers | % Change     |
| <b>2000</b>             | <b>\$28.31</b>                    | <b>3.6%</b> | <b>\$17.45</b>                | <b>6.8%</b> | <b>\$9.36</b>              | <b>12.0%</b> |
| 1999                    | 27.33                             | 6.3         | 16.34                         | (0.4)       | 8.36                       | 8.9          |
| 1998                    | 25.70                             | 8.7         | 16.40                         | 1.2         | 7.68                       | 3.2          |

## 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. These provisions include clauses enabling us 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 us 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 our exposure to increases in costs and operating expenses resulting from inflation.

However, inflation may have a negative impact on some of our 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.

## Management's Discussion and Analysis

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### 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, our earnings are generally highest in the fourth quarter of each year.

### RETAIL CLIMATE AND TENANT BANKRUPTCIES

A number of local, regional, and national retailers, including both in-line and anchor tenants, have recently announced store closings or filed for bankruptcy. Some changeover in tenants is normal in our business. We lost 800,000 square feet of tenants in 2000 to bankruptcies or restructurings. Pressures which affect consumer confidence, job growth, energy costs and income gains can affect retail sales growth and a continuing soft economic cycle may impact our ability to retenant property vacancies resulting from these store closings or bankruptcies.

The geographical diversity of our portfolio mitigates some of our risk in the event of an economic downturn. In addition, the diversity of our tenant mix also is a factor because no single retailer represents neither more than 2.0% of total GLA nor more than 3.5% of our annualized base minimum rent. Bankruptcies and store closings may, in some circumstances, create opportunities for us to release spaces at higher rents to tenants with enhanced sales performance. Our previously demonstrated ability to successfully retenant anchor and in line store locations reflects our resilience to fluctuations in economic cycles. While these factors reflect some of the inherent strengths of our portfolio in a difficult retail environment, successful execution of a releasing strategy is not assured.

### ENVIRONMENTAL MATTERS

See Note 13 in the Notes to Financial Statements for discussion of environmental matters.

### NEW ACCOUNTING PRONOUNCEMENTS

See Footnote 15 of the Notes to Financial Statements for a discussion of the impact of new accounting pronouncements.

## 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



Stephen E. Sterrett  
Executive Vice President and Chief Financial Officer

February 7, 2001

## 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, 2000 and 1999, and the related combined statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2000. We have audited the accompanying consolidated balance sheets of Simon Property Group, Inc. (a Delaware corporation) and subsidiaries as of December 31, 2000 and 1999, and the related statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2000. We have also audited the accompanying consolidated balance sheets of SPG Realty Consultants, Inc. (a Delaware corporation) and subsidiaries as of December 31, 2000 and 1999, and the related statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2000. 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.

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, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, the consolidated financial position of Simon Property Group, Inc. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, and the consolidated financial position of SPG Realty Consultants, Inc. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

As explained in Note 15 to the financial statements, effective January 1, 2000, the Companies adopted Staff Accounting Bulletin No. 101, which addressed certain revenue recognition policies, including the accounting for overage rent by a landlord.

ARTHUR ANDERSEN LLP

Indianapolis, Indiana  
February 7, 2001.



## Balance Sheets

Dollars in thousands, except per share amounts

| December 31,   | 2000                | 1999                |
|--|---------------------|---------------------|
| <b>Assets:</b>   |                     |                     |
| Investment properties, at cost   | \$13,045,133        | \$12,802,052        |
| Less — accumulated depreciation  | 1,480,719           | 1,098,881           |
|  | <u>11,564,414</u>   | <u>11,703,171</u>   |
| Cash and cash equivalents  | 223,111             | 157,632             |
| Tenant receivables and accrued revenue, net  | 302,198             | 289,152             |
| Notes and advances receivable from Management Company and affiliates   | 182,401             | 162,082             |
| Investment in unconsolidated entities, at equity   | 1,315,836           | 1,528,857           |
| Other investments  | —                   | 44,902              |
| Goodwill, net  | 38,384              | 39,556              |
| Deferred costs and other assets, net   | 269,867             | 262,958             |
| Minority interest, net   | 41,734              | 34,933              |
|  | <u>\$13,937,945</u> | <u>\$14,223,243</u> |
| <b>Liabilities:</b>  |                     |                     |
| Mortgages and other indebtedness   | \$ 8,728,582        | \$ 8,768,951        |
| Accounts payable and accrued expenses  | 451,207             | 478,907             |
| Cash distributions and losses in partnerships and joint ventures, at equity  | 44,634              | 32,995              |
| Accrued dividends  | 18,266              | 876                 |
| Other liabilities  | 227,552             | 213,909             |
| Total liabilities  | <u>9,470,241</u>    | <u>9,495,638</u>    |
| <b>Commitments and Contingencies (Note 13)</b>   |                     |                     |
| Limited Partners' Interest in the Operating Partnerships   | 913,482             | 984,465             |
| Limited Partners' Preferred Interest in the SPG Operating Partnership (Note 11)  | 149,885             | 149,885             |
| Preferred Stock of Subsidiary (Liquidation value \$350,000)  | 339,866             | 339,597             |
| <b>Shareholders' Equity:</b>   |                     |                     |
| <b>CAPITAL STOCK OF SIMON PROPERTY GROUP, INC.</b> (750,000,000 total shares authorized, \$ .0001 par value, 237,996,000 shares of excess common stock):                                       |                     |                     |
| All series of preferred stock, 100,000,000 shares authorized, 5,881,116 and 5,897,602 issued and outstanding, respectively; Liquidation values \$559,065 and \$562,704, respectively (Note 11) | 538,684             | 542,838             |
| Common stock, \$.0001 par value, 400,000,000 shares authorized, 170,840,315 and 170,272,210 issued and outstanding, respectively   | 17                  | 17                  |
| 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   | —                   | —                   |
| <b>CAPITAL STOCK OF SPG REALTY CONSULTANTS, INC.:</b>  |                     |                     |
| Common stock, \$.0001 par value, 7,500,000 shares authorized, 1,740,443 and 1,734,762 issued and outstanding, respectively   | —                   | —                   |
| Capital in excess of par value   | 3,313,557           | 3,298,025           |
| Accumulated deficit  | (715,288)           | (551,251)           |
| Unrealized loss on long-term investment  | —                   | (5,852)             |
| Unamortized restricted stock award   | (19,982)            | (22,139)            |
| Common stock held in treasury at cost, 2,098,555 and 310,955 shares, respectively  | (52,518)            | (7,981)             |
| Total shareholders' equity   | <u>3,064,471</u>    | <u>3,253,658</u>    |
|  | <u>\$13,937,945</u> | <u>\$14,223,243</u> |

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,   | 2000              | 1999              | 1998              |
|---|-------------------|-------------------|-------------------|
| <b>Revenue:</b>   |                   |                   |                   |
| Minimum rent  | \$ 1,227,782      | \$ 1,146,659      | \$ 850,708        |
| Overage rent  | 56,438            | 60,976            | 49,689            |
| Tenant reimbursements   | 602,829           | 583,777           | 429,470           |
| Other income  | 133,702           | 101,291           | 75,692            |
| Total revenue   | <u>2,020,751</u>  | <u>1,892,703</u>  | <u>1,405,559</u>  |
| <b>Expenses:</b>  |                   |                   |                   |
| Property operating  | 320,548           | 294,699           | 226,426           |
| Depreciation and amortization   | 420,065           | 382,176           | 268,442           |
| Real estate taxes   | 191,190           | 187,627           | 133,698           |
| Repairs and maintenance   | 73,918            | 70,760            | 53,296            |
| Advertising and promotion   | 65,797            | 65,843            | 50,754            |
| Provision for credit losses   | 9,644             | 8,541             | 6,614             |
| Other   | 39,021            | 28,812            | 24,117            |
| Total operating expenses  | <u>1,120,183</u>  | <u>1,038,458</u>  | <u>763,347</u>    |
| <b>Operating Income</b>   | <b>900,568</b>    | <b>854,245</b>    | <b>642,212</b>    |
| <b>Interest Expense</b>   | <b>635,678</b>    | <b>579,593</b>    | <b>419,918</b>    |
| <b>Income Before Minority Interest</b>  | <b>264,890</b>    | <b>274,652</b>    | <b>222,294</b>    |
| <b>Minority Interest</b>  | <b>(10,370)</b>   | <b>(10,719)</b>   | <b>(7,335)</b>    |
| <b>Gain (Loss) on Sales of Assets, Net of Asset Write Downs</b><br>of \$10,572, \$0, and \$0, respectively  | <b>9,132</b>      | <b>(7,062)</b>    | <b>(7,283)</b>    |
| <b>Income Tax Benefit of SRC</b>  | <b>—</b>          | <b>3,374</b>      | <b>—</b>          |
| <b>Income Before Unconsolidated Entities</b>  | <b>263,652</b>    | <b>260,245</b>    | <b>207,676</b>    |
| <b>Income From Unconsolidated Entities</b>  | <b>83,767</b>     | <b>55,855</b>     | <b>28,554</b>     |
| <b>Income Before Unusual Item, Extraordinary Items and</b><br><b>Cumulative Effect of Accounting Change</b> | <b>347,419</b>    | <b>316,100</b>    | <b>236,230</b>    |
| <b>Unusual Item (Note 13)</b>   | <b>—</b>          | <b>(12,000)</b>   | <b>—</b>          |
| <b>Extraordinary Items—Debt Related Transactions</b>  | <b>(649)</b>      | <b>(6,705)</b>    | <b>7,146</b>      |
| <b>Cumulative Effect of Accounting Change (Note 15)</b>   | <b>(12,342)</b>   | <b>—</b>          | <b>—</b>          |
| <b>Income Before Allocation to Limited Partners</b>   | <b>334,428</b>    | <b>297,395</b>    | <b>243,376</b>    |
| <b>Less:</b>  |                   |                   |                   |
| Limited Partners' Interest in the Operating Partnerships  | 70,490            | 60,758            | 68,307            |
| Preferred Distributions of the SPG Operating Partnership  | 11,267            | 2,917             | —                 |
| Preferred Dividends of Subsidiary   | 29,335            | 29,335            | 7,816             |
| <b>Net Income</b>   | <b>223,336</b>    | <b>204,385</b>    | <b>167,253</b>    |
| <b>Preferred Dividends</b>  | <b>(36,808)</b>   | <b>(37,071)</b>   | <b>(33,655)</b>   |
| <b>Net Income Available to Common Shareholders</b>  | <b>\$ 186,528</b> | <b>\$ 167,314</b> | <b>\$ 133,598</b> |
| <b>Basic and Diluted Earnings Per Common Paired Share:</b>  |                   |                   |                   |
| Income before extraordinary items and cumulative<br>effect of accounting change                             | \$ 1.13           | \$ 1.00           | \$ 1.02           |
| Extraordinary items   | —                 | (0.03)            | 0.04              |
| Cumulative effect of accounting change (Note 15)  | (0.05)            | —                 | —                 |
| <b>Net income</b>   | <b>\$ 1.08</b>    | <b>\$ 0.97</b>    | <b>\$ 1.06</b>    |

The accompanying notes are an integral part of these statements.

## Statements of Cash Flows

Dollars in thousands

| For the Year Ended December 31,   | 2000              | 1999              | 1998              |
|---|-------------------|-------------------|-------------------|
| <b>Cash Flows From Operating Activities:</b>  |                   |                   |                   |
| Net income  | \$ 223,336        | \$ 204,385        | \$ 167,253        |
| Adjustments to reconcile net income to net cash provided by operating activities—               |                   |                   |                   |
| Depreciation and amortization   | 430,472           | 394,004           | 278,812           |
| Unusual item  | —                 | 12,000            | —                 |
| Extraordinary items   | 649               | 6,705             | (7,146)           |
| Cumulative effect of accounting change  | 12,342            | —                 | —                 |
| (Gain) loss on sales of assets, net of asset write downs of \$10,572, \$0 and \$0, respectively | (9,132)           | 7,062             | 7,283             |
| Limited partners' interest in Operating Partnerships  | 70,490            | 60,758            | 68,307            |
| Preferred dividends of Subsidiary   | 29,335            | 29,335            | 7,816             |
| Preferred distributions of the SPG Operating Partnership  | 11,267            | 2,917             | —                 |
| Straight-line rent  | (15,590)          | (17,995)          | (9,345)           |
| Minority interest   | 10,370            | 10,719            | 7,335             |
| Equity in income of unconsolidated entities   | (83,767)          | (55,855)          | (28,554)          |
| Other   | 3,000             | (3,374)           | —                 |
| Changes in assets and liabilities—  |                   |                   |                   |
| Tenant receivables and accrued revenue  | (8,482)           | (36,960)          | (13,205)          |
| Deferred costs and other assets   | (10,086)          | (23,090)          | (7,846)           |
| Accounts payable, accrued expenses and other liabilities  | 37,312            | 36,445            | 58,705            |
| Net cash provided by operating activities   | 701,516           | 627,056           | 529,415           |
| <b>Cash Flows From Investing Activities:</b>  |                   |                   |                   |
| Acquisitions  | (1,325)           | (339,065)         | (1,942,724)       |
| Capital expenditures  | (419,382)         | (504,561)         | (349,708)         |
| Cash from mergers, acquisitions and consolidation of joint ventures, net                        | —                 | 83,169            | 18,162            |
| Change in restricted cash   | —                 | —                 | 7,686             |
| Net proceeds from sale of assets  | 114,576           | 58,703            | 46,087            |
| Net proceeds from sale of investment  | 49,998            | —                 | —                 |
| Investments in unconsolidated entities  | (161,580)         | (83,125)          | (55,523)          |
| Distributions from unconsolidated entities  | 362,091           | 221,707           | 195,557           |
| Investments in and advances to Management Company and affiliate                                 | (20,319)          | (46,704)          | (21,569)          |
| Other investing activities  | —                 | (3,000)           | —                 |
| Net cash provided by (used in) investing activities   | (75,941)          | (612,876)         | (2,102,032)       |
| <b>Cash Flows From Financing Activities:</b>  |                   |                   |                   |
| Proceeds from sales of common and preferred stock, net  | 1,208             | 2,069             | 114,570           |
| Purchase of treasury stock and limited partner units  | (50,972)          | —                 | —                 |
| Minority interest distributions, net  | (16,224)          | (13,925)          | (19,694)          |
| Preferred dividends of Subsidiary   | (29,335)          | (29,335)          | (7,816)           |
| Preferred distributions of the SPG Operating Partnership  | (11,267)          | (2,913)           | —                 |
| Preferred dividends and distributions to shareholders   | (369,979)         | (385,878)         | (272,797)         |
| Distributions to limited partners   | (131,923)         | (129,941)         | (136,551)         |
| Mortgage and other note proceeds, net of transaction costs                                      | 1,474,527         | 2,168,069         | 3,782,314         |
| Mortgage and other note principal payments  | (1,426,131)       | (1,593,889)       | (1,867,913)       |
| Net cash (used in) provided by financing activities   | (560,096)         | 14,257            | 1,592,113         |
| <b>Increase In Cash and Cash Equivalents</b>  | <b>65,479</b>     | <b>28,437</b>     | <b>19,496</b>     |
| <b>Cash and Cash Equivalents, beginning of period</b>   | <b>157,632</b>    | <b>129,195</b>    | <b>109,699</b>    |
| <b>Cash and Cash Equivalents, end of period</b>   | <b>\$ 223,111</b> | <b>\$ 157,632</b> | <b>\$ 129,195</b> |

The accompanying notes are an integral part of these statements.

## Statements of Shareholders' Equity

Dollars in thousands

|  | SPG<br>Preferred<br>Stock | SPG<br>Common<br>Stock |
|--|---------------------------|------------------------|
| <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   | <u>717,916</u>            | <u>17</u>              |
| <b>Comprehensive Income:</b>   |                           |                        |
| Unrealized loss on long-term investment                                  |                           |                        |
| Net income   |                           |                        |
| <b>Total Comprehensive Income:</b>                                       | <u>—</u>                  | <u>—</u>               |
| <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   | <u>542,838</u>            | <u>18</u>              |
| <b>Comprehensive Income:</b>   |                           |                        |
| Unrealized loss on long-term investment                                  |                           |                        |
| Net income   |                           |                        |
| <b>Total Comprehensive Income:</b>                                       | <u>—</u>                  | <u>—</u>               |
| <b>Balance at December 31, 1999</b>                                      | 542,838                   | 18                     |
| Series A Preferred stock conversion (84,046 Paired Shares)               | (2,827)                   |                        |
| Series B Preferred stock conversion (36,913 Paired Shares)               | (1,327)                   |                        |
| Common stock issued as dividend (1,242 Paired Shares)                    |                           |                        |
| Stock options exercised (27,910 Paired Shares)                           |                           |                        |
| Other  |                           |                        |
| Stock incentive program (417,994 Paired Shares, net)                     |                           |                        |
| Amortization of stock incentive  |                           |                        |
| Shares purchased by subsidiary (191,500 Paired Shares)                   |                           |                        |
| Treasury shares purchased (1,596,100 Paired Shares)                      |                           |                        |
| Transfer out of limited partners' interest in the Operating Partnerships |                           |                        |
| Distributions  |                           |                        |
| Subtotal   | <u>538,684</u>            | <u>18</u>              |
| <b>Comprehensive Income:</b>   |                           |                        |
| Unrealized loss on long-term investment                                  |                           |                        |
| Net income   |                           |                        |
| <b>Total Comprehensive Income:</b>                                       | <u>—</u>                  | <u>—</u>               |
| <b>Balance at December 31, 2000</b>                                      | <u>\$ 538,684</u>         | <u>\$ 18</u>           |

The accompanying notes are an integral part of these statements.



| SRC<br>Common<br>Stock | Unrealized<br>Gain (Loss)<br>on Long-Term<br>Investment | Capital in<br>Excess of<br>Par Value | Accumulated<br>Deficit | Unamortized<br>Restricted<br>Stock Award | Common<br>Stock Held<br>in Treasury | Total<br>Shareholders'<br>Equity |
|------------------------|---|--------------------------------------|------------------------|--|-------------------------------------|----------------------------------|
| \$ —                   | \$ 2,420  | \$1,491,908<br>91,398                | \$(263,308)            | \$(13,230)                               | \$ —                                | \$1,556,862<br>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)   |                                      |                        |  |                                     | (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)   |                                      |                        |  |                                     | (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                        |
|                        |   | 2,827                                |                        |  |                                     | —                                |
|                        |   | 1,327                                |                        |  |                                     | —                                |
|                        |   | 31                                   |                        |  |                                     | 31                               |
|                        |   | 1,036                                |                        |  |                                     | 1,036                            |
|                        |   | 85                                   |                        |  |                                     | 85                               |
|                        |   | 9,613                                |                        | (9,613)                                  |                                     | —                                |
|                        |   |                                      |                        | 11,770                                   |                                     | 11,770                           |
|                        |   |                                      |                        |  | (4,539)                             | (4,539)                          |
|                        |   |                                      |                        |  | (39,998)                            | (39,998)                         |
|                        |   | 613                                  |                        |  |                                     | 613                              |
|                        |   |                                      | (387,373)              |  |                                     | (387,373)                        |
| —                      | (5,852)   | 3,313,557                            | (938,624)              | (19,982)                                 | (52,518)                            | 2,835,283                        |
|                        | 5,852   |                                      |                        |  |                                     | 5,852                            |
|                        |   |                                      | 223,336                |  |                                     | 223,336                          |
| —                      | 5,852   | —                                    | 223,336                | —  | —                                   | 229,188                          |
| \$ —                   | \$ —  | \$ 3,313,557                         | \$ (715,288)           | \$ (19,982)                              | \$ (52,518)                         | \$ 3,064,471                     |

## Balance Sheets

Dollars in thousands, except per share amounts

| December 31,   | 2000                | 1999                |
|--|---------------------|---------------------|
| <b>Assets:</b>   |                     |                     |
| Investment properties, at cost   | \$13,037,506        | \$12,794,484        |
| Less — accumulated depreciation  | 1,479,378           | 1,097,629           |
|  | <u>11,558,128</u>   | <u>11,696,855</u>   |
| Cash and cash equivalents  | 214,404             | 154,924             |
| Tenant receivables and accrued revenue, net  | 296,785             | 288,506             |
| Notes and advances receivable from Management Company and affiliates   | 182,401             | 162,082             |
| Note receivable from the SRC Operating Partnership (Interest at 8%, due 2009)  | 29,425              | 9,848               |
| Investment in unconsolidated entities, at equity   | 1,308,838           | 1,519,504           |
| Other investments  | —                   | 41,902              |
| Goodwill, net  | 38,384              | 39,556              |
| Deferred costs and other assets, net   | 240,665             | 250,210             |
| Minority interest, net   | 42,377              | 35,931              |
|  | <u>\$13,911,407</u> | <u>\$14,199,318</u> |
| <b>Liabilities:</b>  |                     |                     |
| Mortgages and other indebtedness   | \$ 8,728,582        | \$ 8,768,841        |
| Accounts payable and accrued expenses  | 439,190             | 477,757             |
| Cash distributions and losses in partnerships and joint ventures, at equity  | 44,634              | 32,995              |
| Accrued dividends  | 18,266              | 876                 |
| Other liabilities  | 227,481             | 213,506             |
| Total liabilities  | <u>9,458,153</u>    | <u>9,493,975</u>    |
| <b>Commitments and Contingencies (Note 13)</b>   |                     |                     |
| Limited Partners' Interest in the SPG Operating Partnership  | 909,491             | 978,316             |
| Limited Partners' Preferred Interest in the SPG Operating Partnership (Note 11)  | 149,885             | 149,885             |
| Preferred Stock of Subsidiary (Liquidation value \$350,000)  | 339,866             | 339,597             |
| <b>Shareholders' Equity:</b> (750,000,000 total shares authorized,<br>\$.0001 par value, 237,996,000 shares of excess common stock):   |                     |                     |
| All series of preferred stock, 100,000,000 shares authorized,<br>5,881,116 and 5,897,602 issued and outstanding, respectively;<br>Liquidation values \$559,065 and \$562,704, respectively (Note 11) | 538,684             | 542,838             |
| Common stock, \$.0001 par value, 400,000,000 shares authorized,<br>170,840,315 and 170,272,210 issued and outstanding, respectively  | 17                  | 17                  |
| Class B common stock, \$.0001 par value, 12,000,000 shares<br>authorized, 3,200,000 issued and outstanding   | 1                   | 1                   |
| Class C common stock, \$.0001 par value, 4,000 shares authorized,<br>issued and outstanding  | —                   | —                   |
| Capital in excess of par value   | 3,299,016           | 3,283,566           |
| Accumulated deficit  | (711,395)           | (552,933)           |
| Unrealized loss on long-term investment  | —                   | (5,852)             |
| Unamortized restricted stock award   | (19,982)            | (22,139)            |
| Common stock held in treasury at cost,<br>2,098,555 and 310,955 shares, respectively   | (52,329)            | (7,953)             |
| Total shareholders' equity   | <u>3,054,012</u>    | <u>3,237,545</u>    |
|  | <u>\$13,911,407</u> | <u>\$14,199,318</u> |

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,  | 2000              | 1999              | 1998              |
|--|-------------------|-------------------|-------------------|
| <b>Revenue:</b>  |                   |                   |                   |
| Minimum rent   | \$ 1,227,857      | \$ 1,146,098      | \$ 850,351        |
| Overage rent   | 56,438            | 60,976            | 49,689            |
| Tenant reimbursements  | 602,829           | 583,780           | 429,350           |
| Other income   | 125,613           | 104,117           | 75,682            |
| Total revenue  | <u>2,012,737</u>  | <u>1,894,971</u>  | <u>1,405,072</u>  |
| <b>Expenses:</b>   |                   |                   |                   |
| Property operating   | 310,728           | 294,347           | 226,426           |
| Depreciation and amortization  | 419,922           | 381,823           | 267,876           |
| Real estate taxes  | 191,180           | 187,506           | 133,580           |
| Repairs and maintenance  | 73,916            | 70,752            | 53,308            |
| Advertising and promotion  | 65,470            | 65,843            | 50,754            |
| Provision for credit losses  | 9,644             | 8,522             | 6,610             |
| Other  | 32,313            | 27,811            | 23,973            |
| Total operating expenses   | <u>1,103,173</u>  | <u>1,036,604</u>  | <u>762,527</u>    |
| <b>Operating Income</b>  | <b>909,564</b>    | <b>858,367</b>    | <b>642,545</b>    |
| <b>Interest Expense</b>  | <b>637,173</b>    | <b>579,848</b>    | <b>420,282</b>    |
| <b>Income Before Minority Interest</b>   | <b>272,391</b>    | <b>278,519</b>    | <b>222,263</b>    |
| <b>Minority Interest</b>   | <b>(10,725)</b>   | <b>(10,719)</b>   | <b>(7,335)</b>    |
| <b>Gain (Loss) on Sales of Assets, Net of Asset Write Downs of \$10,572, \$0 and \$0, Respectively</b> | <b>9,132</b>      | <b>(1,942)</b>    | <b>(7,283)</b>    |
| <b>Income Before Unconsolidated Entities</b>   | <b>270,798</b>    | <b>265,858</b>    | <b>207,645</b>    |
| <b>Income From Unconsolidated Entities</b>   | <b>84,322</b>     | <b>49,641</b>     | <b>28,145</b>     |
| <b>Income Before Unusual Items, Extraordinary Items and Cumulative Effect of Accounting Change</b>     | <b>355,120</b>    | <b>315,499</b>    | <b>235,790</b>    |
| <b>Unusual Item (Note 13)</b>  | <b>—</b>          | <b>(12,000)</b>   | <b>—</b>          |
| <b>Extraordinary Items—Debt Related Transactions</b>   | <b>(649)</b>      | <b>(6,705)</b>    | <b>7,146</b>      |
| <b>Cumulative Effect of Accounting Change (Note 15)</b>  | <b>(12,342)</b>   | <b>—</b>          | <b>—</b>          |
| <b>Income Before Allocation to Limited Partners</b>  | <b>342,129</b>    | <b>296,794</b>    | <b>242,936</b>    |
| <b>Less:</b>   |                   |                   |                   |
| Limited Partners' Interest in the SPG Operating Partnership  | 72,616            | 61,527            | 68,179            |
| Preferred Distributions of the SPG Operating Partnership   | 11,267            | 2,917             | —                 |
| Preferred Dividends of Subsidiary  | 29,335            | 29,335            | 7,816             |
| <b>Net Income</b>  | <b>228,911</b>    | <b>203,015</b>    | <b>166,941</b>    |
| <b>Preferred Dividends</b>   | <b>(36,808)</b>   | <b>(37,071)</b>   | <b>(33,655)</b>   |
| <b>Net Income Available to Common Shareholders</b>   | <b>\$ 192,103</b> | <b>\$ 165,944</b> | <b>\$ 133,286</b> |
| <b>Basic and Diluted Earnings Per Common Share:</b>  |                   |                   |                   |
| Income before extraordinary items and cumulative effect of accounting change                           | \$ 1.16           | \$ 0.99           | \$ 1.01           |
| Extraordinary items  | —                 | (0.03)            | 0.04              |
| Cumulative effect of accounting change (Note 15)   | (0.05)            | —                 | —                 |
| Net income   | <u>\$ 1.11</u>    | <u>\$ 0.96</u>    | <u>\$ 1.05</u>    |
| <b>Basic Weighted Average Shares Outstanding</b>   | <b>172,895</b>    | <b>172,089</b>    | <b>126,522</b>    |
| <b>Diluted Weighted Average Shares Outstanding</b>   | <b>172,994</b>    | <b>172,226</b>    | <b>126,879</b>    |

The accompanying notes are an integral part of these statements.

## Statements of Shareholders' Equity

Dollars in thousands

|   | Preferred<br>Stock | All Classes<br>of Common<br>Stock |
|---|--------------------|-----------------------------------|
| <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  | <u>717,916</u>     | <u>17</u>                         |
| <b>Comprehensive Income:</b>  |                    |                                   |
| Unrealized loss on long-term investment                                     |                    |                                   |
| Net income  |                    |                                   |
| <b>Total Comprehensive Income:</b>  | <u>—</u>           | <u>—</u>                          |
| <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  | <u>542,838</u>     | <u>18</u>                         |
| <b>Comprehensive Income:</b>  |                    |                                   |
| Unrealized loss on long-term investment                                     |                    |                                   |
| Net income  |                    |                                   |
| <b>Total Comprehensive Income:</b>  | <u>—</u>           | <u>—</u>                          |
| <b>Balance at December 31, 1999</b>   | 542,838            | 18                                |
| Series A Preferred stock conversion (84,046 Paired Shares)                  | (2,827)            |                                   |
| Series B Preferred stock conversion (36,913 Paired Shares)                  | (1,327)            |                                   |
| Common stock issued as dividend (1,242 Paired Shares)                       |                    |                                   |
| Stock options exercised (27,910 Paired Shares)                              |                    |                                   |
| Other   |                    |                                   |
| Stock incentive program (417,994 Paired Shares, net)                        |                    |                                   |
| Amortization of stock incentive   |                    |                                   |
| Shares purchased by subsidiary (191,500 Paired Shares)                      |                    |                                   |
| Treasury shares purchased (1,596,100 Paired Shares)                         |                    |                                   |
| Transfer out of limited partners' interest in the SPG Operating Partnership |                    |                                   |
| Distributions   |                    |                                   |
| Subtotal  | <u>538,684</u>     | <u>18</u>                         |
| <b>Comprehensive Income:</b>  |                    |                                   |
| Unrealized gain on long-term investment                                     |                    |                                   |
| Net income  |                    |                                   |
| <b>Total Comprehensive Income:</b>  | <u>—</u>           | <u>—</u>                          |
| <b>Balance at December 31, 2000</b>   | <u>\$ 538,684</u>  | <u>\$ 18</u>                      |

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 |
|---|--------------------------------|---------------------|------------------------------------|-------------------------------|----------------------------|
| \$ 2,420                                | \$1,491,908<br>91,398          | \$(263,308)         | \$(13,230)                         | \$ —                          | \$1,556,862<br>91,399      |
|   | 1,758,733                      |                     |                                    |                               | 717,916<br>1,758,738       |
|   | 17,176                         |                     |                                    |                               | (339,061)<br>17,176        |
|   | 15,983                         |                     | (15,983)                           |                               | —                          |
|   | 2,182                          |                     |                                    |                               | 2,182                      |
|   | (308,922)                      |                     | 9,463                              |                               | 9,463<br>(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                    |
| (5,852)                                 | 3,283,566                      | (552,933)           | (22,139)                           | (7,953)                       | 3,237,545                  |
|   | 2,819                          |                     |                                    |                               | (8)                        |
|   | 1,324                          |                     |                                    |                               | (3)                        |
|   | 31                             |                     |                                    |                               | 31                         |
|   | 1,036                          |                     |                                    |                               | 1,036                      |
|   | 85                             |                     |                                    |                               | 85                         |
|   | 9,573                          |                     | (9,613)                            |                               | (40)                       |
|   |                                |                     | 11,770                             |                               | 11,770                     |
|   |                                |                     |                                    | (4,522)                       | (4,522)                    |
|   |                                |                     |                                    | (39,854)                      | (39,854)                   |
|   | 582                            |                     |                                    |                               | 582                        |
|   |                                | (387,373)           |                                    |                               | (387,373)                  |
| (5,852)                                 | 3,299,016                      | (940,306)           | (19,982)                           | (52,329)                      | 2,819,249                  |
| 5,852                                   |                                |                     |                                    |                               | 5,852                      |
|   |                                | 228,911             |                                    |                               | 228,911                    |
| 5,852                                   | —                              | 228,911             | —                                  | —                             | 234,763                    |
| \$ —                                    | \$ 3,299,016                   | \$ (711,395)        | \$ (19,982)                        | \$ (52,329)                   | \$ 3,054,012               |

## Statements of Cash Flows

Dollars in thousands

| For the Year Ended December 31,   | 2000              | 1999              | 1998              |
|---|-------------------|-------------------|-------------------|
| <b>Cash Flows From Operating Activities:</b>  |                   |                   |                   |
| Net income  | \$ 228,911        | \$ 203,015        | \$ 166,941        |
| Adjustments to reconcile net income to net cash provided by operating activities—               |                   |                   |                   |
| Depreciation and amortization   | 430,329           | 393,650           | 278,246           |
| Unusual item  | —                 | 12,000            | —                 |
| Extraordinary items   | 649               | 6,705             | (7,146)           |
| Cumulative effect of accounting change  | 12,342            | —                 | —                 |
| (Gain) loss on sales of assets, net of asset write downs of \$10,572, \$0 and \$0, respectively | (9,132)           | 1,942             | 7,283             |
| Limited partners' interest in Operating Partnership   | 72,616            | 61,527            | 68,179            |
| Preferred dividends of Subsidiary   | 29,335            | 29,335            | 7,816             |
| Preferred distributions of the SPG Operating Partnership  | 11,267            | 2,917             | —                 |
| Straight-line rent  | (15,590)          | (17,998)          | (9,334)           |
| Minority interest   | 10,725            | 10,719            | 7,335             |
| Equity in income of unconsolidated entities   | (84,322)          | (49,641)          | (28,145)          |
| Changes in assets and liabilities—  |                   |                   |                   |
| Tenant receivables and accrued revenue  | (3,715)           | (36,994)          | (13,438)          |
| Deferred costs and other assets   | (2,782)           | (23,524)          | (7,289)           |
| Accounts payable, accrued expenses and other liabilities  | 26,084            | 36,123            | 76,915            |
| Net cash provided by operating activities   | 706,717           | 629,776           | 547,363           |
| <b>Cash Flows From Investing Activities:</b>  |                   |                   |                   |
| Acquisitions  | (1,325)           | (339,065)         | (1,942,724)       |
| Capital expenditures  | (409,428)         | (491,357)         | (345,619)         |
| Cash from mergers, acquisitions and consolidation of joint ventures, net                        | —                 | 83,169            | 16,616            |
| Change in restricted cash   | —                 | —                 | 7,686             |
| Proceeds from sale of assets  | 114,576           | 46,750            | 46,087            |
| Proceeds from sale of investment  | 49,998            | —                 | —                 |
| Investments in unconsolidated entities  | (161,580)         | (83,124)          | (55,523)          |
| Distributions from unconsolidated entities  | 360,292           | 221,509           | 195,497           |
| Investments in and advances to Management Company and affiliate                                 | (20,319)          | (46,704)          | (21,569)          |
| Mortgage loan payoff from the SRC Operating Partnership   | —                 | 20,565            | —                 |
| Loan to the SRC Operating Partnership   | (19,577)          | (9,848)           | —                 |
| Net cash provided by (used in) investing activities   | (87,363)          | (598,105)         | (2,099,549)       |
| <b>Cash Flows From Financing Activities:</b>  |                   |                   |                   |
| Proceeds from sales of common and preferred stock, net  | 1,175             | 1,463             | 92,570            |
| Purchase of treasury stock and limited partner units  | (50,828)          | —                 | —                 |
| Minority interest distributions, net  | (16,224)          | (14,923)          | (19,694)          |
| Preferred dividends of Subsidiary   | (29,335)          | (29,335)          | (7,816)           |
| Preferred distributions of the SPG Operating Partnership  | (11,267)          | (2,913)           | —                 |
| Preferred dividends and distributions to shareholders   | (369,979)         | (385,878)         | (272,797)         |
| Distributions to limited partners   | (131,923)         | (129,941)         | (136,551)         |
| Note payoff to the SRC Operating Partnership  | —                 | (17,907)          | —                 |
| Mortgage and other note proceeds, net of transaction costs                                      | 1,474,527         | 2,168,069         | 3,782,314         |
| Mortgage and other note principal payments  | (1,426,020)       | (1,593,008)       | (1,867,913)       |
| Net cash (used in) provided by financing activities   | (559,874)         | (4,373)           | 1,570,113         |
| <b>Increase In Cash and Cash Equivalents</b>  | <b>59,480</b>     | <b>27,298</b>     | <b>17,927</b>     |
| <b>Cash and Cash Equivalents, beginning of period</b>   | <b>154,924</b>    | <b>127,626</b>    | <b>109,699</b>    |
| <b>Cash and Cash Equivalents, end of period</b>   | <b>\$ 214,404</b> | <b>\$ 154,924</b> | <b>\$ 127,626</b> |

The accompanying notes are an integral part of these statements.

## Balance Sheets

Dollars in thousands, except per share amounts

| December 31,  | 2000            | 1999            |
|---|-----------------|-----------------|
| <b>Assets:</b>  |                 |                 |
| Cash and cash equivalents   | \$ 8,707        | \$ 2,708        |
| Accounts receivable (including \$2,984 and \$0 from related parties)  | 8,394           | 646             |
| Total current assets  | <u>17,101</u>   | <u>3,354</u>    |
| Investment properties, at cost, less accumulated depreciation<br>of \$1,341 and \$1,252, respectively                         | 6,286           | 6,316           |
| Investment in unconsolidated entities, at equity  | 6,998           | 9,353           |
| Investment in technology initiatives  | 23,583          | 15,708          |
| Other noncurrent assets   | 2,896           | 298             |
|   | <u>\$56,864</u> | <u>\$35,029</u> |
| <b>Liabilities:</b>   |                 |                 |
| Accounts payable and accrued expenses (including \$4,855 and \$0 from related parties)  | \$12,346        | \$ 1,811        |
| Total current liabilities   | <u>12,346</u>   | <u>1,811</u>    |
| Mortgages and other indebtedness  | —               | 110             |
| Note payable to the SPG Operating Partnership (Interest at 8%, due 2009)  | 29,425          | 9,848           |
| Minority interest   | 643             | 998             |
| Total liabilities   | <u>42,414</u>   | <u>12,767</u>   |
| <b>Commitments and Contingencies (Note 13)</b>  |                 |                 |
| <b>Limited Partners' Interest in the SRC Operating Partnership</b>  | <b>3,991</b>    | <b>6,149</b>    |
| <b>Shareholders' Equity:</b>  |                 |                 |
| Common stock, \$.0001 par value, 7,500,000 shares authorized,<br>1,740,443 and 1,734,762 issued and outstanding, respectively | —               | —               |
| Capital in excess of par value  | 29,647          | 29,565          |
| Accumulated deficit   | (18,999)        | (13,424)        |
| Less common stock held in treasury at cost, 20,986 and 3,110 shares, respectively   | (189)           | (28)            |
| Total shareholders' equity  | <u>10,459</u>   | <u>16,113</u>   |
|   | <u>\$56,864</u> | <u>\$35,029</u> |

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,   | 2000                    | 1999                   | 1998                    |
|---|-------------------------|------------------------|-------------------------|
| <b>Revenue:</b>   |                         |                        |                         |
| Rental income (including \$0, \$427 and \$1,525 from SPG/CPI)                               | \$ 312                  | \$ 1,357               | \$ 3,122                |
| Tenant reimbursements (including \$0, \$212 and \$725 from SPG/CPI)                         | —                       | 210                    | 916                     |
| Marketing and fee income from the SPG Operating Partnership                                 | 8,583                   | —                      | —                       |
| Insurance premiums  | 2,829                   | —                      | —                       |
| Other income  | 755                     | 710                    | 544                     |
| Total revenue   | <u>12,479</u>           | <u>2,277</u>           | <u>4,582</u>            |
| <b>Expenses:</b>  |                         |                        |                         |
| Property operating (including \$0, \$0 and \$113 to SPG/CPI)                                | —                       | 733                    | 2,317                   |
| Depreciation and amortization   | 143                     | 353                    | 1,305                   |
| Technology initiatives startup costs  | 5,547                   | —                      | —                       |
| Loss on investment  | 3,000                   | —                      | —                       |
| Insurance losses  | 2,719                   | —                      | —                       |
| General and administrative expenses (including \$2,076, \$131 and \$450 to related parties) | 8,263                   | 1,271                  | 848                     |
| Merger-related costs  | —                       | —                      | 4,093                   |
| Total operating expenses  | <u>19,672</u>           | <u>2,357</u>           | <u>8,563</u>            |
| <b>Operating Loss</b>   | <b>(7,193)</b>          | <b>(80)</b>            | <b>(3,981)</b>          |
| <b>Interest Expense</b> (including \$308, \$3,720 and \$1,234 to SPG/CPI)                   | <b>308</b>              | <b>3,787</b>           | <b>1,279</b>            |
| <b>Minority Interest</b>  | <b>355</b>              | <b>—</b>               | <b>—</b>                |
| <b>Loss on Sale of Assets, Net</b>  | <b>—</b>                | <b>5,120</b>           | <b>—</b>                |
| <b>Income Tax Benefit</b>   | <b>—</b>                | <b>3,374</b>           | <b>190</b>              |
| <b>Loss Before Unconsolidated Entities</b>  | <b>(7,146)</b>          | <b>(5,613)</b>         | <b>(5,070)</b>          |
| <b>(Loss) Income From Unconsolidated Entities</b>   | <b>(555)</b>            | <b>6,214</b>           | <b>767</b>              |
| <b>(Loss) Income Before Allocation to Limited Partners</b>                                  | <b>(7,701)</b>          | <b>601</b>             | <b>(4,303)</b>          |
| <b>Less—Limited Partners' Interest in the SRC Operating Partnership</b>                     | <b>(2,126)</b>          | <b>(769)</b>           | <b>128</b>              |
| <b>Net (Loss) Income</b>  | <b><u>\$(5,575)</u></b> | <b><u>\$ 1,370</u></b> | <b><u>\$(4,431)</u></b> |
| <b>Net (Loss) Income Derived From:</b>  |                         |                        |                         |
| Pre-CPI Merger period (Note 4)  | \$ —                    | \$ —                   | \$(4,743)               |
| Post-CPI Merger period (Note 4)   | (5,575)                 | 1,370                  | 312                     |
|   | <u>\$(5,575)</u>        | <u>\$ 1,370</u>        | <u>\$(4,431)</u>        |
| <b>Basic and Diluted Earnings Per Common Share:</b>   |                         |                        |                         |
| Net (loss) Income   | <u>\$ (3.22)</u>        | <u>\$ 0.80</u>         | <u>\$ (5.17)</u>        |
| <b>Basic Weighted Average Shares Outstanding</b>  | <b>1,729</b>            | <b>1,721</b>           | <b>857</b>              |
| <b>Diluted Weighted Average Shares Outstanding</b>  | <b><u>1,730</u></b>     | <b><u>1,722</u></b>    | <b><u>857</u></b>       |

The accompanying notes are an integral part of these statements.



## Statements of Shareholders' Equity

Dollars in thousands

|  | Common<br>Stock | Capital in<br>Excess of<br>Par Value | Accumulated<br>Deficit | Common<br>Stock Held<br>in Treasury | Total<br>Shareholders'<br>Equity |
|--|-----------------|--------------------------------------|------------------------|-------------------------------------|----------------------------------|
| <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<br>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<br>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                           |
| Common stock issued (5,681 shares)   | —               | 51                                   |                        |                                     | 51                               |
| Shares purchased by subsidiary (1,915 shares)                                | —               |                                      |                        | (17)                                | (17)                             |
| Treasury shares purchased (15,961 shares)                                    | —               |                                      |                        | (144)                               | (144)                            |
| Adjustment of limited partners' interest<br>in the SRC Operating Partnership |                 | 31                                   |                        |                                     | 31                               |
| Subtotal   | —               | 29,647                               | (13,424)               | (189)                               | 16,034                           |
| <b>Comprehensive Income:</b>   |                 |                                      |                        |                                     |                                  |
| Net loss   |                 |                                      | (5,575)                |                                     | (5,575)                          |
| <b>Total Comprehensive Income:</b>   | —               | —                                    | (5,575)                | —                                   | (5,575)                          |
| <b>Balance at December 31, 2000</b>  | \$ —            | \$ 29,647                            | \$ (18,999)            | \$ (189)                            | \$ 10,459                        |

The accompanying notes are an integral part of these statements.

## Statements of Cash Flows

Dollars in thousands

| For the Year Ended December 31,   | 2000            | 1999            | 1998            |
|---|-----------------|-----------------|-----------------|
| <b>Cash Flows From Operating Activities:</b>  |                 |                 |                 |
| Net (loss) income   | \$ (5,575)      | \$ 1,370        | \$ (4,431)      |
| Adjustments to reconcile net (loss) income to net cash used in operating activities—                        |                 |                 |                 |
| Depreciation and amortization   | 143             | 353             | 1,305           |
| Loss on investment  | 3,000           | —               | —               |
| Loss on sales of assets, net  | —               | 5,120           | —               |
| Limited partners' interest in SRC Operating Partnership   | (2,126)         | (769)           | 128             |
| Minority interest   | (355)           | —               | —               |
| Straight-line rent  | —               | 2               | (12)            |
| Equity in income of unconsolidated entities   | 555             | (6,214)         | (767)           |
| Income tax benefit  | —               | (3,374)         | (190)           |
| Changes in assets and liabilities—  |                 |                 |                 |
| Accounts receivable   | (4,768)         | 468             | (103)           |
| Other non-current assets  | (7,304)         | —               | —               |
| Accounts payable and accrued expenses   | 11,227          | 327             | (1,526)         |
| Net cash used in operating activities   | <u>(5,203)</u>  | <u>(2,717)</u>  | <u>(5,596)</u>  |
| <b>Cash Flows From Investing Activities:</b>  |                 |                 |                 |
| Investment in technology initiatives and other capital expenditures   | (9,953)         | (13,204)        | (128)           |
| Net proceeds from sales of assets   | —               | 11,953          | —               |
| Investments in unconsolidated entities  | —               | —               | (3,921)         |
| Distributions from unconsolidated entities  | 1,799           | 198             | 19,193          |
| 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 (used in) provided by investing activities   | <u>(8,154)</u>  | <u>13,854</u>   | <u>(2,763)</u>  |
| <b>Cash Flows From Financing Activities:</b>  |                 |                 |                 |
| Proceeds from sales of common stock, net  | 33              | 602             | 14,102          |
| Purchase of treasury stock  | (144)           | —               | —               |
| Contributions from limited partners   | —               | —               | 8,000           |
| Minority interest contributions   | —               | 998             | —               |
| Distributions to shareholders   | —               | —               | (1,059)         |
| Loan from the SPG Operating Partnership   | 19,577          | 9,848           | —               |
| Mortgage and other note proceeds, net of transaction costs  | —               | —               | 3,485           |
| Mortgage and other note principal payments<br>(Including \$21,446 to the SPG Operating Partnership in 1999) | (110)           | (21,446)        | (18,747)        |
| Net cash provided by (used in) financing activities   | <u>19,356</u>   | <u>(9,998)</u>  | <u>5,781</u>    |
| <b>Change In Cash and Cash Equivalents</b>  | <b>5,999</b>    | <b>1,139</b>    | <b>(2,578)</b>  |
| <b>Cash and Cash Equivalents, beginning of period</b>   | <b>2,708</b>    | <b>1,569</b>    | <b>4,147</b>    |
| <b>Cash and Cash Equivalents, end of period</b>   | <b>\$ 8,707</b> | <b>\$ 2,708</b> | <b>\$ 1,569</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

### 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", which prior to the CPI Merger (Note 4) refers to Simon DeBartolo Group, Inc. and its subsidiaries ("SDG") and the SPG Operating Partnership.

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, 2000, SPG and the SPG Operating Partnership owned or held an interest in 252 income-producing properties in the United States, which consisted of 165 regional malls, 73 community shopping centers, five specialty retail centers, four office and mixed-use properties and five 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 both December 31, 2000 and 1999, the Companies' direct and indirect ownership interests in the Operating Partnerships were 72.4%. 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. The program [clixnmortar.com](http://clixnmortar.com) formed an alliance with a third party to build an infrastructure for retailers where shoppers can identify merchandise online that is actually in inventory at a store and initiate a transaction either at the store or online. The SRC Operating Partnership's investment in this program was \$23,583 and \$12,708, as of December 31, 2000 and December 31, 1999, respectively, which is included in investments in technology initiatives on SRC's balance sheets. To date, the majority of such investment is comprised of internally developed software costs. Minority interest on the SRC balance sheets represents an 8.3% outside ownership interest in [clixnmortar.com](http://clixnmortar.com). SRC also has noncontrolling interests in two joint ventures which each own land held for sale, which are located adjacent to Properties.

Simon Group has recently formed Simon Brand Ventures, LLC ("SBV"), a business to consumer initiative, and Simon Business Network ("SBN"), a business to business initiative, to continue to expand upon certain mall marketing initiatives to take advantage of Simon Group's size and tenant relationships, primarily through strategic corporate alliances. Beginning in 2000, certain SBV income, previously included in Management Company's results of operations, was included in SRC's results of operations. SBV is focused on leveraging Simon Group's 100 million unique shoppers and their 2 billion annual shopping visits to contribute to Simon Group's second-curve revenue strategy. The SBV

## Notes to Financial Statements

Dollars in thousands, except per share amounts and where indicated as in billions

concept and initiatives were started in 1997 to create a new medium for connecting consumers with retailers and sponsors by developing a combination of shopping, entertainment and community. SBN is focused on leveraging Simon Group's assets to create new businesses which will drive greater value to its Portfolio Properties, retailers and other developers and generate new sources of revenue for Simon Group. SBN's strategy is to provide a competitively valued, broad-based offering of products and services via a unique and dominant business-to-business marketplace and service network focused on the real estate industry and their tenants. SBV has also entered into cost sharing arrangements with the Management Company similar to those of the SPG Operating Partnership (see Note 8). Effective January 1, 2001, ownership of SBV transferred from SRC to the SPG Operating Partnership.

During 2000, SRC's wholly-owned insurance subsidiary, Marigold Indemnity, Ltd ("Marigold"), began providing general liability insurance coverage to a third party that provides outsourcing services at certain properties. Marigold reinsures the majority of the risk through a third party indemnity company.

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, 2000, 333 of the approximately 975 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.

## 2. BASIS OF PRESENTATION AND CONSOLIDATION

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 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. The acquisition of SRC, unlike CPI (see Note 4), was not subject to purchase accounting treatment.

Properties which are wholly-owned or owned less than 100% and are controlled by Simon Group are accounted for using the consolidation 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 are recorded when a partnership agreement provides 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 2000, 1999 and 1998 was 72.4%, 72.3% and 66.2%, respectively.

### **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 a noncontrolling 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).

### **4. CPI MERGER**

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. ("CRC"). 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.

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 and 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.

SDG, LP contributed cash to CRC and 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



## Notes to Financial Statements

Dollars in thousands, except per share amounts and where indicated as in billions

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.

### **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> | <u>272,025</u>     |
| Net income available to holders of common stock                 | <u>144,598</u>     |
| Basic net income per Paired Share <sup>(1)</sup>                | \$ 0.87            |
| Diluted net income per Paired Share                             | \$ 0.87            |
| Basic weighted average number of equivalent Paired Shares       | <u>165,349,561</u> |
| Diluted weighted average number of equivalent Paired Shares     | <u>165,706,710</u> |

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

## **5. OTHER REAL ESTATE ACQUISITIONS AND DISPOSALS**

### **Acquisitions**

During 1999, 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, 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.

### ***Disposals***

During 2000, 1999 and 1998, Simon Group sold ownership interests in seven, four and five properties, respectively, at a combined gross sale price of \$142,575, \$58,700 and \$120,000, respectively. These sales generated net combined consolidated gains (losses) of \$19,704, (\$7,062) and (\$7,283) in 2000, 1999 and 1998, 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.

During 2000, SRC wrote-off its \$3.0 million investment in a technology venture.

## **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.

### ***Use of Estimates***

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States, 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.

### ***Capitalized Interest***

Interest is capitalized on projects during periods of construction. Interest capitalized during 2000, 1999 and 1998 was \$19,831, \$19,641 and \$10,567, respectively.

## Notes to Financial Statements

Dollars in thousands, except per share amounts and where indicated as in billions

### **Segment Disclosure**

Simon Group's interests in its regional malls, community centers and other assets represent 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. These investments were sold in 2000.

### **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 \$162,453 and \$149,863 are net of accumulated amortization of \$149,052 and \$121,477 as of December 31, 2000 and 1999, respectively.

Interest expense in the accompanying Combined Statements of Operations includes amortization of deferred financing costs of \$15,798, \$17,535, and \$11,835, for 2000, 1999 and 1998, respectively, and has been reduced by amortization of debt premiums and discounts of \$5,391, \$5,707 and \$1,465 for 2000, 1999 and 1998, respectively.

### **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 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.

### **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. Beginning January 1, 2000, the Companies recognize overage rents only when each tenant's sales exceeds its sales threshold. Previously, overage rents were recognized as revenues based on reported and estimated sales for each tenant through December 31, less the applicable base sales amount. Differences between estimated and actual amounts are recognized in the subsequent year. See Note 15 for description and impact of the accounting change.

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

### **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 2000, 1999 and 1998 was as follows:

| Year Ended        | Balance at Beginning of Year | Provision for Credit Losses | Accounts Written Off | Balance at End of Year |
|-------------------|------------------------------|-----------------------------|----------------------|------------------------|
| December 31, 2000 | <b>\$ 14,467</b>             | <b>\$ 9,644</b>             | <b>\$ (4,003)</b>    | <b>\$ 20,108</b>       |
| December 31, 1999 | \$14,491                     | \$ 8,541                    | \$ (8,565)           | \$14,467               |
| December 31, 1998 | \$13,804                     | \$ 6,614                    | \$ (5,927)           | \$14,491               |

### **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 90% 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 fails 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, franchise or other taxes were not significant in any of the periods presented.

SRC. SRC, a C Corporation, is subject to income taxes on its earnings. The provision (benefit) for income taxes reflected in the separate financial statements of SRC was \$0, (\$3,374) and (\$190) for 2000, 1999 and 1998, 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 both December 31, 2000 and 1999 was \$0. 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 2000 and 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.

## Notes to Financial Statements

Dollars in thousands, except per share amounts and where indicated as in billions

### Per Share Data

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 following table sets forth the computation for the Companies' basic and diluted earnings per share. The extraordinary items and cumulative effect of accounting change amounts presented in the reconciliation below represent the common shareholders' pro rata share of the respective statements of operations line items.

| Year Ended December 31,   | 2000        | 1999        | 1998        |
|---|-------------|-------------|-------------|
| Common Shareholders' share of income before extraordinary items, unusual items and cumulative effect of accounting change | \$ 195,932  | \$ 172,159  | \$ 128,870  |
| Common Shareholders' share of extraordinary items   | (470)       | (4,845)     | 4,728       |
| Common Shareholders' share of cumulative effect of accounting change  | (8,934)     | —           | —           |
| Net Income available to Common Shareholders   | \$ 186,528  | \$ 167,314  | \$ 133,598  |
| Weighted Average Shares Outstanding – Basic   | 172,894,555 | 172,088,590 | 126,522,228 |
| Effect of stock options   | 99,538      | 137,002     | 357,149     |
| Weighted Average Shares Outstanding – Diluted   | 172,994,093 | 172,225,592 | 126,879,377 |

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.

Simon Group accrues distributions when they are declared. SPG declared distributions in 2000 and 1999 aggregating \$2.02 per share of common stock, of which \$0.94 and \$1.06 represented a return of capital measured using accounting principles generally accepted in the United States. On a federal income tax basis, 49% of SPG's 2000 distribution represented a capital gain, 11% represented a return of capital, and 4% represented unrecaptured Section 1250 gain. In 1999, 10% of SPG's 1999 distribution represented a capital gain and 38% represented a return of capital.



### **Cash and Cash Equivalents**

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.

### **Noncash Transactions**

Accrued and unpaid distributions were \$18,266 and \$876 at December 31, 2000 and 1999, 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.

## **7. INVESTMENT PROPERTIES**

Investment properties consist of the following:

| December 31,                           | 2000                 | 1999                 |
|--|----------------------|----------------------|
| Land                                   | \$ 2,000,521         | \$ 1,988,660         |
| Buildings and improvements             | 10,954,559           | 10,739,126           |
| Total land, buildings and improvements | 12,955,080           | 12,727,786           |
| Furniture, fixtures and equipment      | 90,053               | 74,266               |
| Investment properties at cost          | 13,045,133           | 12,802,052           |
| Less—accumulated depreciation          | 1,480,719            | 1,098,881            |
| Investment properties at cost, net     | <u>\$ 11,564,414</u> | <u>\$ 11,703,171</u> |

Investment properties includes \$122,284 and \$201,349 of construction in progress at December 31, 2000 and 1999, respectively.

## Notes to Financial Statements

Dollars in thousands, except per share amounts and where indicated as in billions

### 8. INVESTMENTS IN UNCONSOLIDATED ENTITIES

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,   | 2000               | 1999               |
|--|--------------------|--------------------|
| <b>Assets:</b>   |                    |                    |
| Investment properties at cost, net                       | \$6,573,412        | \$6,487,200        |
| Cash and cash equivalents                                | 192,138            | 171,372            |
| Tenant receivables                                       | 165,918            | 160,477            |
| Other assets   | 276,975            | 161,702            |
| Total assets   | <u>\$7,208,443</u> | <u>\$6,980,751</u> |
| <b>Liabilities and Partners' Equity:</b>                 |                    |                    |
| Mortgages and other notes payable                        | \$5,135,488        | \$4,484,598        |
| Accounts payable, accrued expenses and other liabilities | 347,733            | 291,457            |
| Total liabilities  | <u>5,483,221</u>   | <u>4,776,055</u>   |
| Partners' equity   | <u>1,725,222</u>   | <u>2,204,696</u>   |
| Total liabilities and partners' equity                   | <u>\$7,208,443</u> | <u>\$6,980,751</u> |
| <b>Simon Group's Share of:</b>                           |                    |                    |
| Total assets   | <u>\$2,929,647</u> | <u>\$2,843,025</u> |
| Partners' equity   | <u>\$ 679,591</u>  | <u>\$ 896,572</u>  |
| Add: Excess Investment                                   | 558,675            | 592,457            |
| Simon Group's net Investment in Joint Ventures           | <u>\$1,238,266</u> | <u>\$1,489,029</u> |

**STATEMENTS OF OPERATIONS**

For the Year Ended December 31,

|  | 2000              | 1999       | 1998       |
|--|-------------------|------------|------------|
| <b>Revenue:</b>  |                   |            |            |
| Minimum rent   | \$ 766,379        | \$ 570,902 | \$ 442,530 |
| Overage rent   | 31,174            | 25,957     | 18,465     |
| Tenant reimbursements  | 377,673           | 276,207    | 204,936    |
| Other income   | 61,062            | 57,695     | 31,045     |
| Total revenue  | <b>1,236,288</b>  | 930,761    | 696,976    |
| <b>Operating Expenses:</b>   |                   |            |            |
| Operating expenses and other   | 454,775           | 324,051    | 245,927    |
| Depreciation and amortization  | 238,932           | 170,339    | 129,681    |
| Total operating expenses   | <b>693,707</b>    | 494,390    | 375,608    |
| <b>Operating Income</b>  | <b>542,581</b>    | 436,371    | 321,368    |
| <b>Interest Expense</b>  | <b>357,692</b>    | 235,826    | 176,669    |
| <b>Loss on Sale of Assets</b>  | <b>(6,990)</b>    | –          | (6,818)    |
| <b>Income Before Extraordinary Items and<br/>Cumulative Effect of Accounting Change (“IBEC”)</b> | <b>177,899</b>    | 200,545    | 137,881    |
| <b>Cumulative Effect of Accounting Change</b>  | <b>(3,948)</b>    | –          | –          |
| <b>Extraordinary Items – Debt Extinguishments</b>  | <b>(1,842)</b>    | (66)       | (4,240)    |
| <b>Net Income</b>  | <b>\$ 172,109</b> | \$ 200,479 | \$ 133,641 |
| <b>Third-Party Investors’ Share of IBEC</b>  | <b>104,006</b>    | 122,153    | 92,554     |
| <b>Simon Group’s Share of IBEC</b>   | <b>\$ 73,893</b>  | \$ 78,392  | \$ 45,327  |
| <b>Amortization of Excess Investment</b>   | <b>20,972</b>     | 27,252     | 22,625     |
| <b>Income from Unconsolidated Entities</b>   | <b>\$ 52,921</b>  | \$ 51,140  | \$ 22,702  |

As of December 31, 2000 and 1999, 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 \$558,675 and \$592,457, respectively, which is amortized over the life of the related Properties. Amortization included in income from unconsolidated entities for the years ended December 31, 2000, 1999 and 1998 was \$20,972, \$27,252 and \$22,625, respectively. Included in the 1999 amortization is a \$5,000 writedown on a joint venture investment.

## Notes to Financial Statements

Dollars in thousands, except per share amounts and where indicated as in billions

At December 31, 2000, 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 2000 total assets, total revenue and net income above was \$10,721, \$4,156 and \$3,771, 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 1999 total assets, total revenue and net income above was \$18,505, \$12,539 and \$11,902, respectively, related to SRC's joint venture investments. Included in 1998 total revenue and net income above was \$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 certain Simon family members. Because Simon Group exercises significant influence but not control 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 \$79,357, \$75,697 and \$58,748 on consolidated Properties, related to services provided by the Management Company and its affiliates in 2000, 1999 and 1998, 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 \$4,246, \$3,853 and \$3,301 for the years ended December 31, 2000, 1999 and 1998, respectively.

The SPG Operating Partnership manages substantially all wholly-owned and joint venture Properties except for 44 Properties of which 29 are managed by the Management Company, 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 \$60,874, \$55,051 and \$42,546 for 2000, 1999 and 1998, respectively. As of December 31, 2000 and 1999, amounts due from the Management Company for unpaid accrued interest 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.

Simon Group's net investment in the Management Company as of December 31, 2000 and 1999 was \$32,936 and \$6,833, respectively. 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,  | 2000       | 1999       |
|---|------------|------------|
| Total assets  | \$ 225,272 | \$ 184,501 |
| Notes payable to Simon Group at 11%, due 2008, and advances | 182,401    | 162,082    |
| Shareholders' equity  | 35,630     | 21,740     |
| <b>Simon Group's Share of:</b>                              |            |            |
| Total assets  | \$ 212,838 | \$ 172,935 |
| Shareholders' Equity  | \$ 39,078  | \$ 23,889  |

**OPERATING DATA:**

| For the Year Ended December 31,   | 2000      | 1999       | 1998       |
|---|-----------|------------|------------|
| Total revenue   | \$ 93,618 | \$ 115,761 | \$ 100,349 |
| Operating Income  | 37,290    | 5,573      | 8,067      |
| Net Income Available for Common Shareholders                            | \$ 35,890 | \$ 4,173   | \$ 6,667   |
| Simon Group's Share of Net Income after intercompany profit elimination | \$ 30,846 | \$ 4,715   | \$ 5,852   |

**European Investment**

The SPG Operating Partnership and the Management Company have a 29% 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 cash investment in ERE and BEG at December 31, 2000 was approximately \$45.8 million, with commitments for an additional \$16.6 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, 2000, BEG and ERE had three properties open in Poland and two in France.

The translation adjustment resulting from the conversion of BEG and ERE's financial statements from Euros to U.S. dollars was not significant for the years ended December 31, 2000 and 1999.



## Notes to Financial Statements

Dollars in thousands, except per share amounts and where indicated as in billions

### 9. INDEBTEDNESS

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

| December 31,  | 2000               | 1999        |
|---|--------------------|-------------|
| <b>Fixed-Rate Debt</b>  |                    |             |
| Mortgages and other notes, including (\$3,045) and \$28 net (discounts) premiums, respectively. Weighted average interest and maturity of 7.5% and 5.8 years. | <b>\$2,178,926</b> | \$2,304,435 |
| Unsecured notes, including \$4,752 and \$275 net discounts, respectively. Weighted average interest and maturity of 7.2% and 6.1 years.                       | <b>3,485,248</b>   | 3,489,725   |
| 6¾% Putable Asset Trust Securities, including \$701 and \$913 premiums, respectively, due November 2003.  | <b>100,701</b>     | 100,913     |
| 7% Mandatory Par Put Remarketed Securities, including \$5,150 and \$5,214 premiums, respectively, due June 2028 and subject to redemption June 2008.          | <b>205,150</b>     | 205,214     |
| Commercial mortgage pass-through certificates. Five classes bearing interest at weighted average rates and maturities of 7.3% and 4.0 years.                  | <b>175,000</b>     | 175,000     |
| Total fixed-rate debt   | <b>6,145,025</b>   | 6,275,287   |
| <b>Variable-Rate Debt</b>   |                    |             |
| Mortgages and other notes, including \$375 and \$884 premiums, respectively. Weighted average interest and maturity of 7.9% and 2.8 years.                    | <b>\$ 757,436</b>  | \$ 558,664  |
| Credit Facility (see below)   | <b>645,000</b>     | 785,000     |
| Merger Facility (see below)   | <b>925,000</b>     | 950,000     |
| Simon ERE Facility (see below)  | <b>33,192</b>      | —           |
| Commercial mortgage pass-through certificates, interest at 6.2%, due December 2004.   | <b>50,000</b>      | 50,000      |
| Unsecured term loans, weighted average rates and maturities of 7.47% and 1.2 years.   | <b>172,929</b>     | 150,000     |
| Total variable-rate debt  | <b>2,583,557</b>   | 2,493,664   |
| Total mortgages and other notes payable, net  | <b>\$8,728,582</b> | \$8,768,951 |

**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 \$618,667. 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 7.1 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 2000 under the Credit Facility were \$830,000 and \$714,645, respectively. The Credit Facility is primarily used for funding acquisition, renovation and expansion and predevelopment opportunities. At December 31, 2000, the Credit Facility had an effective interest rate of 7.30%, with \$598,519 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, 2001, with the remaining \$475,000 due on September 24, 2001. 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, were amortized over 18 months.

**Subsequent Event.** On January 11, 2001, the Simon Group issued \$500,000 of unsecured debt to institutional investors pursuant to Rule 144A in two tranches. The first tranche is \$300,000 bearing an interest rate of 7 $\frac{3}{8}$ % due January 20, 2006 and the second tranche is \$200,000 bearing an interest rate of 7 $\frac{3}{4}$ % due January 20, 2011. The net proceeds of the offering were used to repay the remaining portion of the indebtedness under the Merger Facility due March 24, 2001 and to repay a portion of the Merger Facility due September 24, 2001.

**Simon ERE Facility.** On July 31, 2000 Simon ERE Loan, LLC, a wholly owned subsidiary of Simon Group, entered into a Euro-denominated unsecured Credit Agreement to fund Simon Group's European investment, consisting of a 25 million Euros term loan and a 35 million Euros revolving credit facility. The interest rate for each loan is Euribor plus 0.60% with a facility fee of 0.15%. The interest rate on 30 million Euros is swapped at 7.75%. The maturity date is July 31, 2004 including a one year extension. These loans are guaranteed by the SPG Operating Partnership.

## Notes to Financial Statements

Dollars in thousands, except per share amounts and where indicated as in billions

### **Debt Maturity and Other**

As of December 31, 2000, scheduled principal repayments on indebtedness were as follows:

|   |                     |
|---|---------------------|
| 2001                                    | \$ 1,164,354        |
| 2002                                    | 779,381             |
| 2003                                    | 1,841,814           |
| 2004                                    | 1,490,759           |
| 2005                                    | 816,058             |
| Thereafter                              | <u>2,637,787</u>    |
| Total principal maturities              | 8,730,153           |
| Net unamortized debt discounts          | <u>(1,571)</u>      |
| Total mortgages and other notes payable | <u>\$ 8,728,582</u> |

The Joint Venture Properties have \$5,135,488 and \$4,484,598 of mortgages and other notes payable at December 31, 2000 and 1999, respectively. Simon Group's share of this debt was \$2,166,788 and \$1,876,158 at December 31, 2000 and 1999, respectively. This debt, including premiums of \$17,158 in 2000, becomes due in installments over various terms extending through 2011, with interest rates ranging from 6.00% to 9.75% (weighted average rate of 7.61% at December 31, 2000). The debt, excluding the \$17,158 of premiums, matures \$290,162 in 2001; \$310,214 in 2002; \$688,679 in 2003; \$448,445 in 2004; \$915,286 in 2005 and \$2,465,544 thereafter.

Cash paid for interest, net of any amounts capitalized, during 2000, 1999 and 1998 was \$646,200, \$566,191 and \$397,560, respectively.

### **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 \$213,200 principal amount of consolidated debt. Cap arrangements, which effectively limit the amount by which variable interest rates may rise, have been entered into for \$191,000 principal amount of consolidated debt and cap LIBOR at rates ranging from 7.4% to 16.77% through the related debt's maturity. Costs of the caps (\$403) are amortized over the life of the agreements. The unamortized balance of the cap arrangements was \$248 and \$187 as of December 31, 2000 and 1999, respectively. Simon Group's hedging activity as a result of interest swaps and caps resulted in net interest (expense) savings of \$316, (\$1,880) and \$263 for the years ended December 31, 2000, 1999 and 1998, respectively. This did not materially impact Simon Group's weighted average borrowing rate. Please refer to Note 15.

### **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 \$6,453,165 and \$5,649,467 at December 31, 2000 and 1999, respectively. The fair value of the combined interest rate protection agreements at December 31, 2000 and 1999, was (\$296) and \$6,600, respectively. At December 31, 2000 and 1999, the estimated discount rates were 7.17% and 8.06%, respectively. The fair values of combined fixed-rate mortgages and other notes payable and combined interest rate protection agreements are estimated using cash flows discounted at current borrowing rates and at current market rates, respectively.

## 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, 2000, are as follows:

|            |                     |
|------------|---------------------|
| 2001       | \$ 1,010,887        |
| 2002       | 953,057             |
| 2003       | 874,618             |
| 2004       | 779,022             |
| 2005       | 686,174             |
| Thereafter | <u>2,447,753</u>    |
|            | <u>\$ 6,751,511</u> |

Approximately 1.5% of future minimum rents to be received are attributable to leases with an affiliate of a limited partner in the SPG Operating Partnership.

## 11. CAPITAL STOCK

SRC's 1998 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.

## Notes to Financial Statements

Dollars in thousands, except per share amounts and where indicated as in billions

### 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.

### Preferred Stock

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

| As of December 31,   | 2000      | 1999      |
|--|-----------|-----------|
| Series A 6.5% Convertible Preferred Stock, 209,249 shares authorized, 51,059 and 53,271 issued and outstanding, respectively         | \$ 65,246 | \$ 68,073 |
| Series B 6.5% Convertible Preferred Stock, 5,000,000 shares authorized, 4,830,057 and 4,844,331 issued and outstanding, respectively | 449,196   | 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 issued and outstanding                  | 24,242    | 24,242    |
|  | \$538,684 | \$542,838 |

**Series A Convertible Preferred Stock.** During 2000, 2,212 shares of SPG's Series A Convertible Preferred Stock were converted into 84,046 Paired Shares. In addition, another 1,242 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.** During 2000, 14,274 shares of SPG's Series B Convertible Preferred Stock were converted into 36,913 Paired Shares. 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 \$19,667 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 \$2,018 bear interest at rates ranging from 6.00% to 7.50% and become due during the period 2001 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 2000, 1999 and 1998, a total of 417,994; 537,861 and 495,131 Paired Shares, respectively, net of forfeitures, were awarded under the Restricted Stock Program and predecessor programs with a weighted average grant price of \$22.94, \$25.50, and \$32.69, respectively. Through December 31, 2000 a total of 2,243,080 Paired Shares, net of forfeitures, were awarded. Approximately \$11,770, \$10,601 and \$9,463 relating to these awards were amortized in 2000, 1999 and 1998, 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 2000, Simon Group awarded 750,750 additional options to directors and employees. The 24,000 options granted to Directors vest over a twelve-month period, while the remaining 726,750 employee options granted during 2000 vest over three years. 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,                           | 2000           | 1999           | 1998           |
|--|----------------|----------------|----------------|
| Weighted Average Fair Value per Option | \$1.57         | \$3.27         | \$7.24         |
| Expected Volatility                    | 20.00 – 20.01% | 19.78 – 19.89% | 30.83 – 41.79% |
| Risk-Free Interest Rate                | 6.08 – 6.47%   | 5.25 – 5.78%   | 4.64 – 5.68%   |
| Dividend Yield                         | 8.68 – 7.76%   | 5.32 – 6.43%   | 6.24 – 6.52%   |
| Expected Life                          | 10 years       | 10 years       | 10 years       |

The weighted average remaining contract life for options outstanding as of December 31, 2000 was 6.18 years.

## Notes to Financial Statements

Dollars in thousands, except per share amounts and where indicated as in billions

Information relating to Director Options and Employee Options from December 31, 1997 through December 31, 2000 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, 1997</b> | <u>86,080</u>    | <u>\$24.12</u>                        | <u>1,247,597</u> | <u>\$22.90</u>                        |
| 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> | <u>75,080</u>    | <u>\$24.11</u>                        | <u>1,893,907</u> | <u>\$24.82</u>                        |
| Granted   | 62,000           | 26.90                                 | 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> | <u>132,080</u>   | <u>\$25.49</u>                        | <u>1,857,666</u> | <u>\$24.95</u>                        |
| Granted   | 24,000           | 26.03                                 | 726,750          | 23.41                                 |
| Exercised                                       | (1,360)          | 24.63                                 | (43,350)         | 23.44                                 |
| Forfeited                                       | —                | N/A                                   | (28,000)         | 23.41                                 |
| <b>Shares under option at December 31, 2000</b> | <u>154,720</u>   | <u>\$25.67</u>                        | <u>2,513,066</u> | <u>\$24.55</u>                        |
| <b>Options exercisable at December 31, 2000</b> | <u>130,720</u>   | <u>\$25.61</u>                        | <u>1,705,900</u> | <u>\$24.77</u>                        |
| <b>Exercise Price Range</b>                     |                  | <u>\$22.25-\$29.31</u>                |                  | <u>\$22.25-\$32.38</u>                |

(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 Paired Units for Paired 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 64,966,226 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 16% of their compensation, subject to certain limitations. Participants' salary deferrals are matched at specified percentages up to a total of 4%, and the plan provides annual contributions of 1.5% of eligible employees' compensation. Simon Group contributed \$3,492, \$3,189 and \$2,581 to the plan in 2000, 1999 and 1998, respectively.

### 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. 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. 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



## Notes to Financial Statements

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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 did not grant the petition for review. The case was remanded to the Court of Common Pleas of Mahoning County, Ohio, to conduct discovery relevant to each plaintiff's damages and the counterclaims asserted by Simon Group. The Trial Court referred these matters to a Magistrate. Plaintiffs filed a Supplemental Motion for Summary Judgement on the question of damages. The Magistrate ruled on the counterclaims and found in Defendants' favor on one of them. On December 27, 2000, the Trial Court rendered judgment for the plaintiffs in the combined total amount of \$12,000, which includes a set-off of approximately \$2,000 with impact to two of the plaintiffs. Defendants have appealed this judgment and plaintiffs have cross-appealed. Those appeals are pending before the District Court of Appeals. Simon Group recorded a \$12,000 loss in the third quarter of 1999 related to this litigation 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 granted certiorari and heard oral arguments on October 4, 2000. A decision is expected to be rendered during the second quarter of 2001. 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, claims and administrative proceedings arising in the ordinary course of business. On the basis of consultation with counsel, management believes that such routine litigation, claims 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, 2000, a total of 34 of the consolidated Properties are subject to ground leases. The termination dates of these ground leases range from 2002 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, 2000, 1999 and 1998, was \$13,654, \$13,365 and \$13,618, 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:

|            |                  |
|------------|------------------|
| 2001       | \$ 7,845         |
| 2002       | 7,984            |
| 2003       | 7,906            |
| 2004       | 7,439            |
| 2005       | 7,133            |
| Thereafter | 489,178          |
|            | <u>\$527,485</u> |

**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.

**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

### 15. NEW ACCOUNTING PRONOUNCEMENT

On June 15, 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended in June of 2000 by SFAS No. 138, "Accounting for Derivative Instruments and Hedging Activities." These statements, which are effective for Simon Group on January 1, 2001, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts. These statements require that every derivative instrument be recorded in the balance sheet as either an asset or a liability measured at its fair value. Changes in the fair value of derivatives are to be recorded each period in earnings or comprehensive income, depending on whether the derivative is designated and effective as part of a hedged transaction, and on the type of hedge transaction. Gains or losses on derivative instruments reported in other comprehensive income must be reclassified as earnings in the period in which earnings are affected by the underlying hedged item, and the ineffective portion of all hedges must be recognized in earnings in the current period. These new standards will result in additional volatility in reported assets, liabilities, earnings and other comprehensive income.

SFAS No. 133 requires that as of the date of initial adoption, the difference between the fair value of the derivative instruments to be recorded on the balance sheet and the previous carrying amount of those derivatives be reported in net income or other comprehensive income, as appropriate, as the cumulative effect of a change in accounting principle in accordance with APB 20 "Accounting Changes."

On January 1, 2001, Simon Group recorded the effect of the transition to SFAS No. 133 as a cumulative effect of a change in accounting principle, which resulted in an immaterial impact to the results of operations and the financial position of Simon Group.

SFAS No. 133 further requires that the fair value and effectiveness of each hedging instrument must be measured quarterly. The result of each measurement could result in fluctuations in reported assets, liabilities, other comprehensive income and earnings as these changes in fair value and effectiveness are recorded to the financial statements. Simon Group anticipates, on an ongoing basis, the fluctuations to the aforementioned areas will be immaterial to the financial statements taken as a whole.

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 its sales threshold. Simon Group previously recognized overage rent based on reported and estimated sales through the end of the period, less the applicable prorated base sales amount. Simon Group adopted SAB 101 effective January 1, 2000 and recorded a loss from the cumulative effect of an accounting change of \$12.3 million in the first quarter of 2000, which includes Simon Group's \$1.8 million share from unconsolidated entities.

## 16. QUARTERLY FINANCIAL DATA (UNAUDITED)

Combined summarized quarterly 2000 and 1999 data is as follows:

| 2000   | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter |
|--|------------------|-------------------|------------------|-------------------|
| Total revenue  | \$ 477,851       | \$ 487,659        | \$ 493,926       | \$ 561,315        |
| Operating income   | 207,144          | 216,302           | 219,413          | 257,709           |
| Income before extraordinary items<br>and cumulative effect of<br>accounting change                                       | 71,136           | 75,912            | 77,434           | 122,937           |
| Net income available to<br>common shareholders   | 28,243           | 41,012            | 42,025           | 75,248            |
| Income before extraordinary<br>items and cumulative effect of<br>accounting change per Paired<br>Share—Basic and Diluted | \$ 0.21          | \$ 0.24           | \$ 0.24          | \$ 0.44           |
| Net income per Paired Share—<br>Basic and Diluted  | \$ 0.16          | \$ 0.24           | \$ 0.24          | \$ 0.44           |
| Weighted average Paired<br>Shares outstanding  | 173,222,954      | 173,672,074       | 172,759,374      | 171,934,468       |
| Diluted weighted average Paired<br>Shares outstanding  | 173,268,218      | 173,815,090       | 172,862,078      | 172,037,113       |
| 1999   | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter |
| Total revenue  | \$ 446,093       | \$ 454,006        | \$ 471,171       | \$ 521,433        |
| Operating income   | 196,898          | 206,643           | 214,782          | 235,922           |
| Income before unusual and<br>extraordinary items   | 67,388           | 67,338            | 87,125           | 94,249            |
| Net income available to<br>common shareholders   | 34,954           | 38,462            | 42,435           | 51,463            |
| Income before extraordinary<br>items per Paired Share—<br>Basic and Diluted  | \$ 0.21          | \$ 0.22           | \$ 0.25          | \$ 0.32           |
| Net income per Paired Share—<br>Basic and Diluted  | \$ 0.21          | \$ 0.22           | \$ 0.24          | \$ 0.30           |
| Weighted average Paired<br>Shares outstanding  | 168,986,602      | 173,342,399       | 173,471,352      | 173,167,054       |
| Diluted weighted average Paired<br>Shares outstanding  | 169,168,474      | 173,609,740       | 173,542,183      | 173,182,994       |

## Board of Directors

Melvin Simon, 74 <sup>(1)</sup>  
Co-Chairman of the Board,  
Simon Property Group, Inc.

Herbert Simon, 66 <sup>(1), (3), (4)</sup>  
Co-Chairman of the Board,  
Simon Property Group, Inc.

David Simon, 39 <sup>(1), (4)</sup>  
Chief Executive Officer,  
Simon Property Group, Inc.

Hans C. Mautner, 63 <sup>(1)</sup>  
Vice Chairman,  
Simon Property Group, Inc.

Richard S. Sokolov, 51 <sup>(1)</sup>  
President and Chief Operating Officer,  
Simon Property Group, Inc.

M. Denise DeBartolo York, 50 <sup>(4)</sup>  
Chairman,  
The Edward J. DeBartolo Corporation

Robert E. Angelica, 54 <sup>(3)</sup>  
Chairman and Chief Executive Officer,  
AT&T Investment Management Corporation

Birch Bayh, 73 <sup>(3), (4)</sup>  
Senior Partner,  
Oppenheimer Wolff & Donnelly, LLP

G. William Miller, 76 <sup>(2) (4)</sup>  
Chairman and Chief Executive Officer,  
G. William Miller & Co. Inc.

Fredrick W. Petri, 54 <sup>(2) (3)</sup>  
Partner,  
Petrone, Petri & Company

J. Albert Smith, Jr., 60 <sup>(2)</sup>  
Managing Director  
Bank One Corporation

Pieter S. van den Berg, 55  
Director Controller,  
PGGM

Philip J. Ward, 52 <sup>(3)</sup>  
Senior Managing Director,  
CIGNA Investments, Inc.

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(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

### TRANSFER AGENT AND REGISTRAR

Mellon Investor Services LLC  
PO. Box 3315  
South Hackensack, NJ 07606  
or 85 Challenger Road  
Ridgefield Park, NJ 07660  
(888) 213-0965  
www.mellon-investor.com

TDD for Hearing Impaired: (800) 231-5469

Foreign Shareholders: (201) 329-8660

TDD for Foreign Shareholders: (201) 329-8354

### COUNSEL

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

### ANNUAL MEETING

The Annual Meeting of Stockholders of Simon Property Group, Inc. will be held on Tuesday, May 8, 2001 at the Hyatt Regency, One South Capital Avenue, Indianapolis, IN at 10:00 a.m., local time.

### 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.  
PO. Box 7033  
Indianapolis, IN 46207  
(317) 685-7330  
(800) 461-3439  
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 2000  | \$25.500 | \$21.875 | \$23.313 | \$0.505               |
| Second Quarter 2000 | 27.125   | 22.188   | 22.188   | 0.505                 |
| Third Quarter 2000  | 26.813   | 22.688   | 23.438   | 0.505                 |
| Fourth Quarter 2000 | 24.938   | 21.500   | 24.000   | 0.505                 |
| First Quarter 1999  | 28.750   | 23.875   | 27.438   | 0.505                 |
| Second Quarter 1999 | 30.938   | 25.375   | 25.375   | 0.505                 |
| Third Quarter 1999  | 27.500   | 22.438   | 22.438   | 0.505                 |
| Fourth Quarter 1999 | 24.500   | 20.438   | 22.938   | 0.505                 |

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