Simon DeBartolo Group, Inc.
1997 Annual Report

Simon DeBartolo 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 primarily in the ownership, development, management, leasing, acquisition and expansion of income-producing, market-dominant retail properties, primarily regional malls, community shopping centers and specialty retail centers. At December 31, 1997, the Company owned or had an interest in 202 properties comprising regional malls, community shopping centers and specialty and mixed-use properties containing 129 million square feet of gross leasable area (GLA) in 33 states. Simon DeBartolo Group (Simon), together with its affiliated management company, managed approximately 145 million square feet of GLA in retail and mixed-use projects and attracts over 1.6 billion shopping visits annually to its properties.

Simon is the largest publicly traded retail real estate company in North America with a total market capitalization at December 31, 1997, of nearly $12 billion. At year-end, there were approximately 171 million SPG shares and partnership units outstanding.

On February 19, 1998, Simon announced the signing of a definitive merger agreement to acquire Corporate Property Investors (CPI). CPI owns a portfolio of 23 high quality regional malls plus several office buildings including the General Motors building in New York City. This $5.8 billion transaction is expected to close in the third quarter of 1998.

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Cover

One of the country's most successful shopping venues, The Forum Shops at Caesars in Las Vegas was expanded and doubled in size in 1997.

In 1997 Simon became the first REIT to generate annual revenues in excess of $1 billion. This milestone was accomplished through strong financial performance in 1997 including increases in occupancy, rents and tenant sales.

The Company has more than tripled in size since its December 1993 initial public offering and improved its financial performance annually through the development of new projects, redevelopment of its existing portfolio and the completion of over $5 billion of acquisitions.

(In thousands, except as noted)	1997[1]	1996[1]	% change
Total Revenue	**$1,054,167**	$747,704	41.0%
Total EBITDA of the Operating Partnership	**$ 940,028**	$615,322	52.8%
Funds from Operations (FFO) of the Operating Partnership	**$ 415,128**	$281,495	47.5%
Funds from Operations per Share [2]	**$ 2.58**	$ 2.34	10.3%
Comparable Sales per Square Foot [3]	**$ 318**	$ 298	6.7%
Gross Leasable Area	**128,773**	113,280	13.7%
Share Price at December 31	**$ 32.69**	$ 31.00	5.4%

(1) See financial statements Note 3 for discussion of acquisition activities.

(2) See financial statements for description of Funds From Operations.

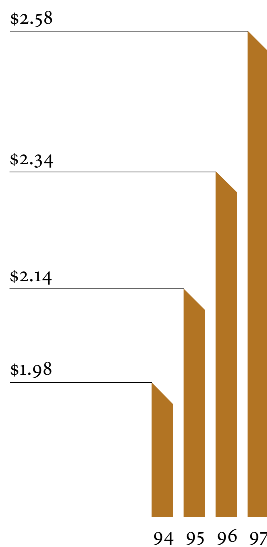
(3) Mall and freestanding tenants in regional malls.

To Our Shareholders and Fellow Employees:

Your Company is about building shareholder value in the retail real estate business. It's about providing retailers with world class venues in which they can build lasting and mutually beneficial relationships with their customers. And it's about providing our shareholders with consistent and reliable performance. As a real estate investment trust (REIT), we provide an opportunity for investors to participate in the ownership of commercial real estate. As the world's largest retail real estate investment trust, we are committed to use our vast resources and marketing expertise to serve our constituents—shoppers, retailers, investors and other strategic partners. Our vision is to be the industry's unquestioned leader. We accomplish this by developing new retail properties, enhancing the performance of our existing portfolio, growing our Company through acquisitions, and creating new revenue opportunities from the millions of customers that pass through our doors every year.

On February 19, 1998, we significantly enhanced your Company with the announcement of the $5.8 billion acquisition of Corporate Property Investors (CPI). CPI owns a portfolio of 23 malls, including some of the country's most productive and dynamic properties such as Roosevelt Field in Long Island, Lenox Square and Phipps Plaza in Atlanta and the Town Center in Boca Raton. The merger between Simon and CPI creates a company bigger than our next four largest competitors combined and results in a national retail real estate powerhouse owning over 20% of the country's best malls. Our portfolio will total over 160 million square feet of space and our malls will average over $340 per square foot in sales. This provides an unmatched platform from which to grow our business and increase our profitability. We eagerly look forward to the expected third quarter closing of the CPI transaction and the opportunities this merger provides.

Simon's FFO Per Share



We are also pleased to report that 1997 was a record year for your Company. Revenues grew 41% to $1.054 billion, and we became the first REIT to post annual revenues in excess of $1 billion. Funds from operations grew to $415 million. On a per share basis the growth was 10% to $2.58 per share. The primary drivers of our FFO growth were strong increases in occupancy (up 2.6% to 87.3%), tenant sales (up 6.7% to $318 per square foot) and average base rents (up 14.4% to $23.65 per square foot). We also fully absorbed the DeBartolo portfolio and substantially improved the performance of these assets; opened four new, exciting retail projects; redeveloped 14 of our existing properties; acquired an additional $1.6 billion of regional malls, and generated over $8 million of profit from our newly launched division, Simon Brand Ventures. In short, it was a great year.

We were also the beneficiary of an improving retail climate. The level of tenant bankruptcies was greatly reduced in 1997, and most of our anchor and specialty retail tenants posted solid sales gains. We believe retailers have adjusted to a low inflation environment and are managing costs and inventories to improve their profitability. This bodes well for Simon as we head into 1998 with significant leasing momentum.

Growth Focus

Our growth efforts are focused on four fronts: developing new malls, acquiring existing ones, enhancing properties already in our portfolio, and creating new revenue streams.

New Developments

The past year saw the opening of three major developments that demonstrated not only how effectively we can build new projects, but also how opportunistic Simon can be in taking advantage of changing trends in retailing.

- On Long Island, we filled a market niche with an innovative project called The Source. Linked to an existing Fortunoff store, we added a mix of value-oriented, quality tenants plus some of the nation's most innovative restaurant operators.

- Grapevine Mills in Dallas and Arizona Mills in Phoenix are the latest efforts from our joint venture with The Mills Corporation. These value-oriented, super-regional malls have exceeded initial budgeted expectations.

Acquisitions

We completed over $1.6 billion of acquisitions in 1997, adding 12 high quality, market dominant regional malls to the Simon portfolio.

Included in this was the acquisition of Retail Property Trust (RPT), a private REIT, and its 10 regional malls. The RPT portfolio has outstanding properties such as The Westchester in White Plains, New York, Menlo Park Mall in Edison, New Jersey and South Hills Village in Pittsburgh, Pennsylvania. We acquired a 50% ownership of Dadeland Mall in Miami, Florida, one of the nation's most productive regional malls, and expect to begin an ambitious expansion of Dadeland. The Fashion Mall at Keystone at the Crossing, an upscale property in our hometown of Indianapolis, was also purchased, and we increased our ownership stake in two other properties.

Redevelopment

1997 was an active year, as we completed 14 projects ranging from simple renovations to large scale expansions. The Forum Shops at Caesars in Las Vegas, already one of the country's most productive retail venues, is now nearly twice its original size. This 235,000 square foot expansion features a cadre of new premier tenants.

Simon Brand Ventures

1997 saw the creation of our Simon Brand Ventures division. It is a major national marketing thrust designed to capitalize on the vast audience of shoppers we already serve. Simon Brand Ventures also is exploring new ways to bring value to our tenants through expanded marketing efforts, information sharing and cost aggregation opportunities.

A flagship effort of Simon Brand Ventures is the MALLPeRKS program, the only national mall-shopper loyalty program. We've already passed a million members and are adding thousands of names every week.

We also initiated strategic alliances with Pepsi, VISA, Browning-Ferris Industries, AmeriCash and SMARTALK. More than a dozen additional projects are underway, all designed to provide exceptional value to our shoppers and tenants.

Financial Stability

Our capital market activity provided an additional endorsement of your Company by the financial community. During 1997 we raised more than $3 billion through public and private placements. Our market-leading position combined with sound financial practices continues to give us access to funds for expansion at interest rates more favorable than those available to many of our competitors.

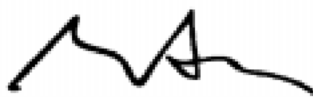
Looking Ahead

Our efforts of the past year have laid a solid foundation for the future, which will be further strengthened by our merger with Corporate Property Investors.

Through our role as the retail real estate sector's leading consolidator, we have created a company that is the unquestioned industry leader, with a portfolio of unmatched scale, market share (national and regional) and quality. And our management team is energized at the prospect of managing and enhancing a portfolio unrivaled in every respect.

We greatly appreciate our shareholder support in 1997, welcome our new shareholders from the CPI transaction and look optimistically forward to the future. And we're grateful for the efforts of our employees, who have generously responded to the demands of industry leadership by uncovering new ways for Simon to prosper into the 21st century.

Sincerely,



Melvin Simon
Co-Chairman of the Board

Herbert Simon
Co-Chairman of the Board

David Simon
Chief Executive Officer

Richard S. Sokolov
President & Chief Operating Officer

Indianapolis, March 15, 1998

Front: Herbert (left) and Melvin Simon, Co-Chairmen of the Board of Directors. Rear: Richard S. Sokolov, President & Chief Operating Officer (left), and David Simon, Chief Executive Officer.

■ The mission of Simon is to be the industry's premier retail real estate company, owning a portfolio of high quality, market dominant assets. During 1997, through strong financial performance, the acquisition of 12 premier regional malls, the opening of four new properties and the redevelopment of 14 existing assets, we continued to fulfill that mission.

1997 was an outstanding year for Simon. Total revenues climbed to a record $1.054 billion. Funds from operations, or FFO, grew by a strong 48 percent to $415 million. On a per share basis, the growth in FFO was 10% to $2.58. We opened four new properties, were in the process of building three others, and completed 14 expansions and renovations.

■ In addition, we created additional building blocks for continued growth by acquiring $1.6 billion of real estate, adding 12 promising malls to our already productive portfolio. At the end of 1997 we owned or had an interest in 202 properties, including regional malls, community shopping centers and specialty and mixed-use properties totaling 129 million square feet in 33 states. Together with its affiliated management company, Simon owned or managed about 145 million square feet of leasable space in retail and mixed-use properties, more than twice the size of our next largest competitor.

■ 1997 also saw the full integration of the DeBartolo portfolio into Simon. We substantially improved the performance of these assets in 1997. In the first full year of ownership we increased our profitability by $38 million through cost savings and revenue enhancements.

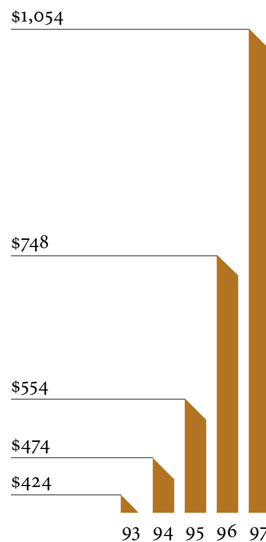
■ Internal growth played a significant role in our results for 1997. Strong occupancy gains were realized from the portfolio. Occupancy at year-end was 87.3 percent, up 2.6 percent from the prior year, and average base rents increased 14% to $23.65 per square foot. We leased well over 5 million square feet of space to tenants in 1997. This leasing activity, coupled with our industry leading position and a strong economy, has enhanced our leasing momentum, which we believe bodes well for continued occupancy growth.

New Developments

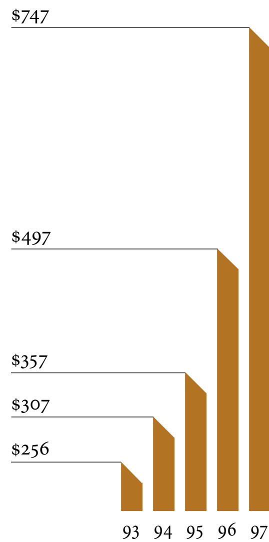
■ Simon has the ability to develop any type of retail real estate asset, including regional malls, specialty and entertainment centers, community shopping centers, value-oriented retail centers and premium factory-outlets.

Population shifts and growth in metropolitan markets continue to give rise to selected new development opportunities. Even within developed retail areas, infill locations offer viable development opportunities. The Company's new developments further opportunities to create synergies with our existing assets and expand our already deep relationships with retailers.

Simon's Total Revenue
($ in millions)



The Westchester is an 830,000 square foot regional mall in White Plains, New York. Acquired by Simon in 1997, this highly-productive mall generated sales per square foot of $470 in 1997.



Our development focus is on growing major metropolitan markets. Since our initial public offering we have completed 10 new projects, adding 10 million square feet in locations that include Orlando, Austin, Los Angeles, Indianapolis, Dallas, Phoenix, and Long Island, New York.

Major projects opened in 1997 included:

- The Source on Long Island, New York. This specialty center opened in September with an exciting mix of value-oriented retail and entertainment tenants, including Rainforest Café, Nordstrom Rack, Off 5th-Saks Fifth Avenue Outlet, Old Navy, ABC Home, ABC Carpet, Cheesecake Factory, and Bertolini's. The 730,000 square foot retail and entertainment complex connects with Fortunoff's existing flagship store and is located in the heart of Long Island's most vibrant retail area.
- Grapevine Mills in the Dallas/Fort Worth area. This value-oriented super-regional mall opened in October. Major tenants include Off 5th-Saks Fifth Avenue Outlet, Rainforest Café, Books-A-Million, Virgin Megastore, AMC Theatres and GameWorks. The 1.2 million-square-foot center, located only 2 miles from the Dallas-Ft. Worth airport, is a partnership with The Mills Corporation and Kan Am Partners.
- Arizona Mills in Tempe, Arizona. This value-oriented super-regional mall opened in November, with tenants including JCPenney Outlet, Virgin Megastore, GameWorks, Harkins Theater, IMAX Theatre, Group USA and Linens 'N Things. Arizona Mills is a joint venture with The Mills Corporation and Taubman Realty Group.

Both Mills projects opened strongly and have exceeded our expectations.

Projects slated to open in 1998 include:

- The Shops at Sunset Place in South Miami. A unique, open-air specialty center designed to take advantage of the more than 9 million tourists that visit Miami annually, The Shops at Sunset Place will open this fall and feature such tenants as AMC 24 Theatre, NIKE-TOWN, Barnes & Noble, IMAX Theatre, GameWorks and FAO Schwarz.
- Lakeline Plaza in Austin, Texas. This power center, located adjacent to Simon's Lakeline Mall, is due to open in two phases in May and November. Lakeline Plaza will include as major tenants Linens 'N Things, TJMaxx, Toys "R" Us, OfficeMax and Old Navy.
- Muncie Plaza in Muncie, Indiana. Scheduled to open in April, Muncie Plaza is to be anchored by Kohl's, TJMaxx, OfficeMax and Shoe Carnival, and is located adjacent to Simon's recently expanded Muncie Mall.

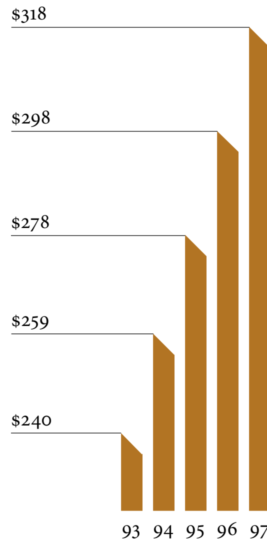
New Projects Opened in 1997

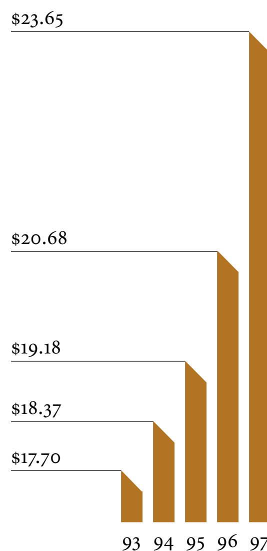
Project Name/Location	Property Type	Anchor/Major Tenants	Ownership %	GLA
Arizona Mills/ Tempe, Arizona	Value-Oriented Super-Regional	Virgin Megastore, Rainforest Café, Harkins Theater, American Wilderness, Off 5th-Saks Avenue Outlet, GameWorks, JCPenney Outlet Store and Linens 'N Things	26.3%	1,200,000
Grapevine Mills/ Grapevine (Dallas/ Fort Worth), Texas	Value-Oriented Super-Regional	Virgin Megastore, Off 5th-Saks Fifth Avenue Outlet, Burlington Coat Factory, Rainforest Café, GameWorks, Bed, Bath & Beyond, American Wilderness, Old Navy and AMC Theatres	37.5%	1,200,000
Indian River Commons/ Vero Beach, Florida	Community Center	HomePlace, Lowe's, OfficeMax and Service Merchandise	50%	260,000
The Source/ Westbury (Long Island), New York	Specialty Center	Fortunoff, Nordstrom Rack, Off 5th-Saks Fifth Avenue Outlet, Old Navy, Circuit City, Virgin Megastore, ABC Home and ABC Carpet	50%	730,000

New Projects to be Opened in 1998

Project Name/Location	Property Type	Anchor/Major Tenants	Ownership %	GLA
The Shops at Sunset Place South Miami, Florida	Specialty Center	AMC 24 Theatre, NIKETOWN, Barnes & Noble, IMAX Theatre, Virgin Megastore, FAO Schwarz, Z Gallerie and GameWorks	75%	510,000
Lakeline Plaza Austin, Texas	Community Center	Linens 'N Things, TJMaxx, Old Navy, Toys "R" Us, OfficeMax and Party City	65%	380,000
Muncie Plaza Muncie, Indiana	Community Center	Kohl's, TJMaxx, OfficeMax, Shoe Carnival and Factory Card Outlet	100%	196,000

Simon opened The Source in Westbury (Long Island), New York in September of 1997. This unique value-oriented retail and entertainment complex illustrates the Company's strategy of developing new assets in major metropolitan markets. 1.1 million people live within a 10-mile-radius of The Source.





Lakeline Plaza and Muncie Plaza are examples of our strategy to enhance the dominance of our regional malls by constructing adjacent community centers.

Property Redevelopment

Our existing portfolio contains many opportunities for profit growth. We capitalize on existing franchise locations by the timely redevelopment of already market dominant assets, thus further raising barriers to competition. Redevelopment activities range from adding department stores, theatres and specialty retail space to a freshening of the mall's entrances and common areas.

Simon has a proven track record of increasing sales, occupancy and rents through these redevelopment efforts, having completed over 40 such projects in the last four years.

- The most noteworthy expansion of the year was completed in August at The Forum Shops at Caesars in Las Vegas. This glamorous center, already one of the nation's most successful shopping venues, nearly doubled in size, adding such tenants as Virgin Megastore, NIKETOWN, Cheesecake Factory and FAO Schwarz. In keeping with its glitzy Las Vegas surroundings, The Forum sports Roman-style architecture complete with statues, fountains and animatronic features. The centerpiece of the new addition is an impressive, eight-story-high Roman Great Hall. Also in keeping with Las Vegas, our tenants at The Forum Shops are big winners, pulling in sales well in excess of $1,000 per square foot annually.

- Major expansion projects to be completed include:

  - Aventura Mall in Miami. A $92 million expansion saw the opening of Bloomingdale's and 255,000 square feet of shops late in 1997, with an AMC 24 Theatre to open in 1998. The addition of Burdines will occur in 1999 along with expansions to Sears, Lord & Taylor, JCPenney and Macy's.

  - Prien Lake Mall in Lake Charles, Louisiana. This $30 million project due to be completed in November will add Sears and Dillard's, renovate JCPenney and the existing mall, and add 68,000 square feet of shops and a food court.

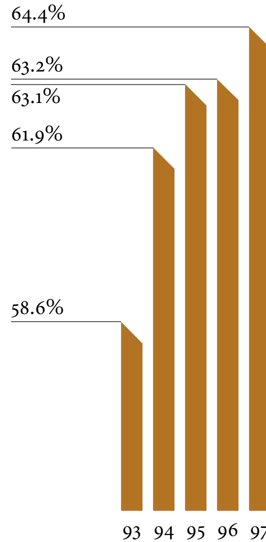
  - Mission Viejo Mall in Mission Viejo, California. Due to be finished in 2000, this project, located in the rapidly growing southern portion of Orange County, will add Nordstrom, and two additional fashion department stores plus 130,000 square feet of shops and a food court. Macy's and Robinson-May will be expanded.

  - North East Mall in Hurst, Texas. This project to be finished in the year 2000 will add Nordstrom and another department store, expand Dillard's and JCPenney and add 60,000 square feet of shops. We are also constructing an adjacent power center as part of the redevelopment of North East Mall, located in the western suburbs of Dallas.

1997 Redevelopment Activities

Property Name	Location	Scope of Project
Major Redevelopment Projects:		
Aventura Mall	Miami, Florida	Addition of Bloomingdale's and 255,000 square feet of space
The Forum Shops at Caesars	Las Vegas, Nevada	235,000 square foot expansion including such tenants as NIKETOWN, Virgin Megastore, FAO Schwarz and Cheesecake Factory
Muncie Mall	Muncie, Indiana	Relocation of L.S. Ayres, addition of Elder Beerman and mall renovation and expansion
Other Redevelopments:		
Alton Square	Alton, Illinois	Addition of Sears and mall renovation
Chautauqua Mall	Jamestown, New York	Addition of JCPenney, new food court and mall renovation
Columbia Center	Kennewick, Washington	Addition of Barnes & Noble and ACT III Theater
Knoxville Center	Knoxville, Tennessee	Mall renovation and expansion of existing Regal Cinema
La Plaza Mall	McAllen, Texas	Addition of Foley's
Northfield Square	Bradley, Illinois	Addition of Cinemark Theater
Northgate Shopping Center	Seattle, Washington	Mall renovation and new food court
Orange Park Mall	Jacksonville, Florida	Addition of AMC 24 Theatre
Paddock Mall	Ocala, Florida	Mall renovation and new food court
Richmond Square	Richmond, Indiana	Addition of Dillard's and mall renovation
Southern Park Mall	Youngstown, Ohio	Small shop expansion, new food court and mall renovation

An animated Trojan horse stands guard at the entrance of FAO Schwarz, one of 35 new retailers added in the 1997 expansion of The Forum Shops at Caesars in Las Vegas, Nevada.



Center court fountain at Menlo Park Mall in Edison, New Jersey. This market dominant center serves the New Jersey suburbs of New York City.

Growth Through Acquisition

Our strategy is to increase market share, both nationally and in targeted major metropolitan areas, through acquisitions. Last year we fulfilled our goal of acquiring high quality assets, adding 12 dominant regional malls and increasing ownership of our existing portfolio by acquiring partners' joint-venture interests. We believe that acquisitions of quality, market dominant centers enable us to increase our profitability and accelerate our growth. We also have a track record of increasing profitability of properties through our management techniques.

■ Simon made significant inroads last year into major markets through its $1.3 billion acquisition of the Retail Property Trust portfolio. That portfolio included 10 regional malls in such markets as New York, Chicago, Los Angeles and Pittsburgh. These malls are more than 90 percent leased and generate annual sales in excess of $330 per square foot. The properties are in eight states and include about 10 million square feet of leasable space. They are well-maintained, having enjoyed continual investment, which means very little incremental capital is required to maintain market share.

■ Dadeland Mall in Miami, Florida is one of the country's most productive regional malls, with sales per square foot of over $675 and total retail sales of over $525 million. Dadeland benefits from the nine million tourists that visit the Miami area annually. In July Simon acquired a 50% ownership interest in Dadeland and assumed management, leasing and development responsibilities. Simon is finalizing plans for a significant expansion of small shop and department store space, further enhancing the franchise of one of the country's top regional malls.

■ The Fashion Mall at Keystone at the Crossing was acquired on December 29, 1997. Located on the affluent north side of Simon's hometown of Indianapolis, the Fashion Mall boasts the city's most upscale tenant lineup.

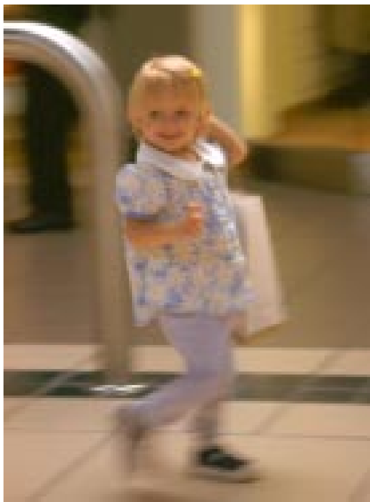
■ Simon also increased its ownership in two existing regional malls in 1997. It purchased the remaining 30% of Virginia Center Commons in Richmond, Virginia and now owns 100% of this asset. Additionally, Simon purchased 48%, and now owns 50%, of West Town Mall in Knoxville, Tennessee.

■ Simon's growth via acquisitions continued through the end of the year. On December 29 the Company announced the formation of a 50/50 joint venture with The Macerich Company to acquire a portfolio of 12 regional malls in eight states. The malls, which average 89 percent occupancy and more than $260 in annual sales per square foot, are the dominant assets in their respective markets. Significant reinvestment has been made in this portfolio, fueling its future growth. This transaction closed in February, 1998.

1997 Acquisitions

Property Name	Location	Ownership %	GLA	Anchors
RPT Acquisition:				
Charlottesville Fashion Square	Charlottesville, Virginia	100%	570,000	Belk, JCPenney, Sears and Stone & Thomas
Edison Mall	Fort Meyers, Florida	100%	990,000	Dillard's, Burdines, JCPenney and Sears
Laguna Hills Mall	Laguna Hills, California	100%	810,000	Macy's, JCPenney and Sears
Menlo Park Mall	Edison, New Jersey	100%	1,300,000	Nordstrom and Macy's
Oak Court Mall	Memphis, Tennessee	100%	850,000	Goldsmith's, Dillard's and Dillard's Men's
Orland Square	Orland Park, Illinois	100%	1,220,000	Marshall Field, Carson Pirie Scott, JCPenney and Sears
River Oaks Center	Calumet City, Illinois	100%	1,340,000	Marshall Field, Carson Pirie Scott, JCPenney and Sears
South Hills Village	Pittsburgh, Pennsylvania	100%	1,110,000	Kaufmann's, Lazarus and Sears
The Promenade	Woodland Hills, California	100%	600,000	Macy's, Macy's Men's and AMC Theatre
The Westchester	White Plains, New York	50%	830,000	Nordstrom and Nieman Marcus
Other Asset Acquisitions:				
Dadeland Mall	Miami, Florida	50%	1,400,000	Saks Fifth Avenue, Lord & Taylor, Burdines, Burdines Home, JCPenney and Limited/Express
The Fashion Mall at Keystone at the Crossing	Indianapolis, Indiana	100%	650,000	Parisian and Jacobsons

The Westchester, located in the metropolitan New York City suburb of White Plains, was part of the 1997 RPT acquisition. This upscale mall, which serves the affluent Westchester County area, is anchored by Nordstrom and Nieman Marcus.



You're never too young to enjoy the experience of shopping in a Simon mall.

Partnering with Others

Simon recognizes that combining our strengths with others can accelerate our growth. Examples of strategic alliances include:

- The Mills Corporation—Last year we opened Grapevine Mills and Arizona Mills and experienced exceptional performance from our Ontario Mills during its first full year of operations. A fourth project is now under development in Charlotte, North Carolina, and is scheduled for a 1999 opening.
- Chelsea GCA Realty—The goal of our alliance is to develop and acquire premium manufacturers' outlet shopping centers with 500,000 or more square feet of gross leasable area. Our first joint project, in Houston, is expected to begin construction in 1998.
- DLJ Real Estate Capital Partners—Our partnership is focused on acquiring and developing entertainment-oriented real estate projects. It will specialize in smaller projects, such as theater, restaurant and lifestyle complexes.

The Future—Simon Brand Ventures

In 1997, more than 100 million shoppers visited our malls over a billion and a half times. Our merger with CPI will increase these visits to over 2.3 billion annually. Almost one million people work inside Simon malls for nearly 4,000 retailers in approximately 17,000 stores. In mid 1997, Simon created a new division, Simon Brand Ventures, to bring significant additional value and opportunities to our shoppers, tenants and their employees beyond what has been done traditionally. Simon Brand Ventures seeks to increase the awareness among these groups that a Simon mall provides benefits not found in competing malls or other retail venues. There are more than 20 distinct initiatives currently underway.

- July saw the second-generation rollout of an ambitious Simon Brand Ventures initiative called MALLPeRKS, the shopping center industry's only national customer loyalty program. Like a frequent-flyer program, MALLPeRKS rewards members with one point for every dollar spent with any tenant of a Simon MALLPeRKS mall. More than a million shoppers have already signed up, and new members are enrolling at a rate in excess of 15,000 a week. Members recorded more than $200 million in store receipts in 1997.

- The MALL V.I.P. credit card also rewards the loyalty of Simon customers. The cash-back VISA card, created through an alliance of real estate companies led by Simon, offers a two percent rebate on in-mall purchases in over 400 malls nationwide, plus a one percent rebate on purchases made elsewhere.

- Simon Brand Ventures is entering into strategic partnerships with leading consumer brands, including Pepsi-Cola. The

Located in Miami, Florida, Dadeland Mall's tremendous tourist base and high traffic counts (in excess of 20 million shopping visits annually) make it one of the country's most productive regional malls with annual sales per square foot in excess of $675.

Pepsi partnership, announced at the start of 1998, will result in a national proprietary "Teen Affinity Program" designed to capture teen purchasing loyalty and help our tenants gain a larger share of the more than $100 billion teens spend each year.

Simon believes its connection with Pepsi will enable it to benefit from the proven marketing power of Pepsi's "GeneratioNext" campaign. Pepsi also stands to gain by becoming the exclusive soft drink vendor for common mall space controlled by Simon. The malls will feature Pepsi vending machines equipped with state-of-the-art technology that will allow soft drink sales to be integrated with mall-reward programs such as MALLPeRKS.

■ A four-year strategic marketing agreement with VISA U.S.A. is allowing Simon to leverage the strength of the credit card issuer's advertising and promotions. In return, VISA will promote its products at Simon properties nationwide.

■ Other new technologies already have found their way into Simon malls through the Company's relationship with the automated teller network AmeriCash, ATM maker Diebold and prepaid-calling-card provider SMARTALK. In August, installation began for over 300 "electronic concierge" ATMs with multiple dispensing capabilities, including cash, phone cards and mall gift certificates, a first in the industry.

■ Another 1997 achievement was the establishment of the Simon Youth Foundation, whose mission is to provide economic, educational and enrichment opportunities for young people. Our ultimate goal is to house educational resource centers in every mall in the Simon portfolio to fulfill this mission.

In 1998, we will launch the first three Simon educational resource centers. The Foundation also made substantial progress in establishing alliances with other national non-profit organizations for the purpose of raising public awareness and additional funds to further the Foundation's growth.

Into Cyberspace

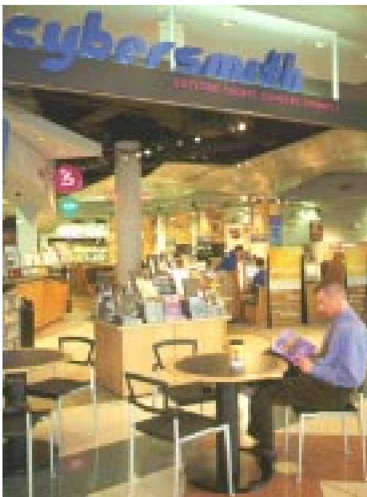
With a growing amount of commerce taking place on the Internet, Simon set up an internet site to follow its retail links into cyberspace. Already, the Simon site at www.simon.com provides extensive corporate background and valuable information for investors. The web site features information about the Company's portfolio of regional malls, community centers and other properties. Continually updated news and financial highlights keep investors up to date.

Construction of Simon's on-ramp to the Information Superhighway, however, is far from complete. Future links will include leasing information to attract new Simon tenants, as well as data on employment opportunities at Simon malls. In addition, the Company plans to integrate its current on-line presence with MALLPeRKS,

Muncie Mall – Simon completed an extensive expansion and renovation of this 660,000 square foot regional mall in Muncie, Indiana during 1997. The redevelopment project has already positively impacted the center as tenants are generating strong increases in sales.

Aventura Mall in Miami, Florida – Simon has a vibrant retail development program which incubates new retailers and supplements a property's merchandise mix through the use of carts and kiosks located in common areas. This program generated revenues of over $60 million in 1997.

Rainforest Café at The Source in Westbury (Long Island), New York – The Source offers shoppers high profile dining and entertainment destinations in addition to quality and value-oriented retail tenants.



Cybersmith is a unique new retailer – In March of 1998, Simon announced an alliance with Cybersmith to roll out a network of in-mall "cybercafes," providing Simon shoppers access to Internet services.

enabling MALLPeRKS members to check their account status and review the rewards available from Simon's marketing and merchant partners.

■ The Company's cyberspace commitment also will be aided by a Simon Brand Ventures alliance with AIM Smart Corporation, which was announced in December. The initiative eventually will offer free Internet access to users of the interactive shopping service featuring mall tenants. The project is planned to begin with AIM Smart pavilions in three malls, with another 100 to be added over the following 18 months.

The in-mall workstation will allow shoppers to search product and store offerings and receive customized messages and coupons. A special Smart Shopper Explorer browser designed to be used off-site incorporates Microsoft's Internet Explorer 4.0 into a tool for accessing mall offers and receiving shopping information on-line.

Such a commitment to on-line innovations has turned the heads of many who spend time in cyberspace. When *PC Week* recognized the nation's top information technology trend setters, Simon was the only real estate company on the list.

Financing Initiatives

■ Our financing strategy is to provide the capital necessary to fund continued Simon growth and maintain our role as the premier retail real estate company in the U.S. We seek to maintain sufficient financial flexibility to access capital in many forms, including secured debt, unsecured debt, common stock and preferred stock. And we strive to manage the overall financial structure of the Company in a way that preserves or improves our borrowing costs.

■ 1997 was marked by three stock offerings through which we raised over $300 million. In July the Company sold 3 million shares of Series C Preferred Stock. The preferred stock bears a dividend rate of 7.89%. Simon sold 4.5 million shares of its common stock September 16. The Company also issued 747,000 shares of common stock to Smith Barney Inc. and 301,887 shares of common stock to Legg Mason Wood Walker, Inc. for deposit into REIT Unit Trusts. Proceeds from all offerings were contributed to the Company's operating partnership for general working-capital purposes as well as to reduce amounts outstanding under its credit facility.

■ Simon was also very active in the debt capital markets last year, completing financings aggregating over $3 billion including the issuance of $680 million of senior unsecured debt. We anticipate continued strong capital activity in 1998 as we continue to manage our balance sheet in line with our target capital structure.

■ Simon also significantly enhanced its corporate credit facility in 1997. The aggregate capacity was increased $500 million to $1.25 billion and the base borrowing rate was reduced 25 basis points to LIBOR + .65%. ■

Vibrant food courts, like this one at The Source, are an integral part of the shopping experience, lengthening the shopping visit and increasing food and retail purchases.

We are the largest landlord to most of the nation's major department stores and specialty retailers. Many of these merchants generate over 10% of their total retail sales from stores located in Simon properties. We view our relationship with retailers, however, as much more than just landlord and tenant. We are strategic partners with our tenants, providing them with vibrant shopping destinations designed to attract consumers seeking a broad array of goods and services, thus affording our tenants every opportunity to generate profitable sales performance.

The Gap, one of the nation's premier retailers, has over 120 locations in the Simon portfolio.

The Shops at Sunset Place is Simon's 510,000 square foot specialty center under construction in South Miami, Florida. This project is scheduled to open in October 1998.

Our objectives in operating a center are designed to benefit the retailers: attract more shoppers by offering a broad array of goods and services; aggressively control operating costs while providing an attractive and safe shopping environment at a lower cost to our tenants; and provide valuable tools for our tenants to better manage their costs and increase sales.

- Simon attracts more shoppers to its centers by creatively merchandising the centers, incorporating entertainment and lifestyle tenants alongside traditional mall based retailers, and by aggressively marketing and promoting the center in its trade area.

- Simon uses relationships with strategic vendors to reduce operating costs. Such is the case with Southeast Service Corporation, which provides janitorial and maintenance services at over 90 Simon centers, allowing us to ensure high quality service while reducing costs an average of 10%.

- In February, 1998, Simon announced a venture with Browning-Ferris Industries through which BFI will provide waste removal for Simon malls nationally, resulting in reduced tenant costs for this service by an average of 10%. In addition, rental revenue for Simon will be generated based upon square footage levels serviced by BFI. This is just one example of Simon's ability to aggregate costs to increase our overall profit margin.

- In its centers, Simon utilizes an RCT Systems video-based people counter to capture data on mall traffic and shopping patterns. Retailers are provided the resulting data to help them better manage operations and control costs.

- The SavingsTimes® is a marketing tool designed to drive tenant sales. Shoppers are informed of discounts and tenant sales through this monthly publication, which generated over $160 million of sales in 1997.

Smith Haven Mall — A Case Study

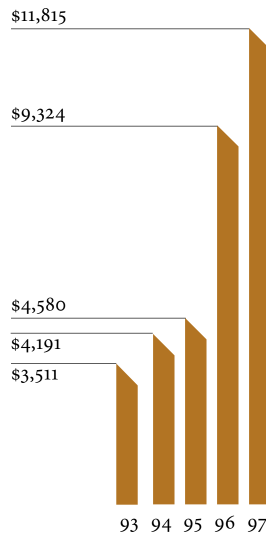
The advantages of leasing retail space in a Simon mall became readily apparent to the tenants of our Smith Haven Mall on Long Island. When we acquired this property in December of 1995, we immediately focused on increasing traffic counts for all tenants, as well as setting the stage for more long-term enhancements. Tenants quickly discovered that our efforts yield results.

Our first-year development activities included the immediate addition of JCPenney, complementing the existing anchor lineup of Macy's, Sterns and Sears. We also set out to enhance the merchandise mix, quickly adding several well-known specialty retailers such as Brookstone, Guess and Gap Kids. We also initiated new marketing programs, designed to increase traffic and attract new shoppers.

As a result, comparable sales grew 5.2 percent in the first year, compared with a decline of 5 percent the prior year. We also improved the daily operations of the center while reducing costs, allowing our tenants to increase their overall profitability. ■

Menlo Park Mall in Edison, New Jersey – This 1.3 million square foot mall was added to the Simon portfolio as a result of the 1997 acquisition of Retail Property Trust, and is anchored by Nordstrom and Macy's. This highly productive mall generated sales per square foot of $420 in 1997.

For many, owning stock in Simon is a convenient vehicle for investing in retail real estate. As the world's largest retail real estate investment trust (REIT), Simon provides investors with property diversity, established tenants, day-to-day real estate management expertise and certain tax advantages inherent in most REITs, to which a growing number of investors have been attracted in recent years.



AS A RECENT *Forbes Magazine* article pointed out, through REITs private groups or individuals now own a large portion of U.S. commercial real estate, which is valued at nearly $3 trillion—described as a "great treasure trove of assets and cash flows" that has for the most part been the province of institutions.

REITs are acquiring real estate at an accelerating rate, putting these kinds of investments within reach of a much broader audience of investors. There are now more than 200 publicly traded REITs operating in the United States, with assets totaling more than $200 billion. Functioning like a mutual fund for real estate, a REIT is basically a corporation or business trust that pools the capital of many investors to provide capital for the acquisition and ownership of commercial real estate. It offers a number of significant advantages, all of which are applicable to Simon:

- **A Small Investment**—Shares in publicly-traded REITs can be purchased in small lots. In contrast, becoming part of a real estate partnership typically requires an investment of at least several thousand dollars.
- **Tax Benefits**—A qualified REIT generally does not pay federal corporate income taxes, and most states follow the federal treatment. This allows a greater distribution of income to shareholders and eliminates the "double taxation" often incurred by stock investments.
- **Current Income**—REITs are required by law to distribute at least 95% of their taxable income to shareholders. Thus, REITs provide a return that is usually in excess of a normal corporation and is very attractive to income oriented investors.
- **Liquidity**—Since REIT shares such as Simon's trade on major stock exchanges, they can be readily converted into cash.
- **Professional Management**—REITs are run by experienced property managers.
- **Diversification**—A large REIT with properties across the U.S. reduces the investment risk compared with an investment in one or several properties.
- **Performance Monitoring**—A public REIT's financial performance is under constant review from its independent auditors, directors, Wall Street analysts, and the business and financial news media. This adds a measure of protection to the investor. ■

NORTHWEST AIRLINES

WORLD Traveler

MARCH 1998

MALL Magicians!

By artfully blending shopping with entertainment, Melvin, David and Herbert Simon have parlayed Simon DeBartolo Group into a $11 billion real estate empire. (see page 48)

Melvin, Herbert and David Simon were featured in the March 1998 issue of Northwest Airlines World Traveler magazine. Northwest Airlines is a partner of Simon, serving as the official airline of Mall of America.

Simon Regional Malls at December 31, 1997

Alaska
Anchorage 5th Avenue Mall★ – *Anchorage*

Arizona
Arizona Mills – *Tempe (Phoenix)*
Southgate Mall – *Yuma*

Arkansas
McCain Mall – *North Little Rock*
University Mall – *Little Rock*

California
Laguna Hills Mall – *Laguna Hills*
Mission Viejo Mall – *Mission Viejo*
Ontario Mills – *Ontario (Los Angeles)*
The Pavilion Shops★■ – *San Jose*
The Promenade – *Woodland Hills*

Florida
Aventura Mall – *Miami*
The Avenues – *Jacksonville*
Boynton Beach Mall – *Boynton Beach (West Palm Beach)*
Coral Square – *Coral Springs (Ft. Lauderdale)*
Countryside Mall★ – *Clearwater (Tampa)*
Crystal River Mall – *Crystal River*
Cutler Ridge Mall★ – *Miami*
Dadeland Mall – *Miami*
DeSoto Square – *Bradenton*
Edison Mall – *Ft. Myers*
The Fashion Mall at Plantation★ – *Plantation (Ft. Lauderdale)*
The Florida Mall – *Orlando*
Gulf View Square – *Port Richey*
Indian River Mall – *Vero Beach*
Lakeland Square – *Lakeland*
Melbourne Square – *Melbourne*
Miami International Mall – *Miami*
Orange Park Mall – *Jacksonville*
Paddock Mall – *Ocala*
Palm Beach Mall – *West Palm Beach*
Port Charlotte Town Center – *Port Charlotte*
Seminole Towne Center – *Sanford (Orlando)*
The Shops at Sunset Place◆■ – *South Miami*
Treasure Coast Square – *Jensen Beach*
Tyrone Square – *St. Petersburg*
University Mall – *Pensacola*

Illinois
Alton Square – *Alton (St. Louis)*
Forest Park Mall★ – *Forest Park (Chicago)*
Lincolnwood Town Center – *Lincolnwood (Chicago)*
Machesney Park Mall – *Rockford*
Northfield Square – *Bradley*
Northwoods Mall – *Peoria*
O'Hare International Center■ – *Rosemont (Chicago)*
Orland Square – *Orland Park (Chicago)*
River Oaks Center – *Calumet City (Chicago)*
Riverway■ – *Rosemont (Chicago)*
White Oaks Mall – *Springfield*

Indiana
Castleton Square – *Indianapolis*
Circle Centre – *Indianapolis*
College Mall – *Bloomington*
The Fashion Mall at Keystone at the Crossing – *Indianapolis*
Greenwood Park Mall – *Greenwood (Indianapolis)*
Lafayette Square – *Indianapolis*
Markland Mall – *Kokomo*
Mounds Mall – *Anderson*
Muncie Mall – *Muncie*
Richmond Square – *Richmond*
Southtown Mall – *Ft. Wayne*
Tippecanoe Mall – *Lafayette*
University Park Mall – *South Bend*
Washington Square – *Indianapolis*

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
Forest Village Park Mall – *Forestville (Washington, D.C.)*
Golden Ring Mall – *Baltimore*
St. Charles Towne Center – *Waldorf (Washington, D.C.)*

Minnesota
Mall of America®★ – *Bloomington (Minneapolis)*
Maplewood Mall★ – *Maplewood (St. Paul)*
Miller Hill Mall – *Duluth*

Missouri
Battlefield Mall – *Springfield*
Independence Center – *Independence (Kansas City)*
St. Louis Centre★ – *St. Louis*

Nebraska
Crossroads Mall – *Omaha*
Fremont Mall – *Fremont*

Nevada
The Forum Shops at Caesars■ – *Las Vegas*
The Tower Shops■ – *Las Vegas*

New Jersey
Bergen Mall – *Paramus*
Brunswick Square – *East Brunswick*
Menlo Park Mall – *Edison*
Newport Centre★ – *Jersey City*

New Mexico
Cottonwood Mall – *Albuquerque*

New York
Chautauqua Mall – *Jamestown*
Eastern Hills Mall – *Buffalo*
Jefferson Valley Mall – *Yorktown Heights (New York)*
Manhattan Mall★ – *New York*
Smith Haven Mall – *Lake Grove (Long Island)*
The Source – *Westbury (Long Island)*
The Westchester – *White Plains*

North Carolina
Biltmore Square – *Asheville*

Ohio
Great Lakes Mall – *Mentor (Cleveland)*
Great Northern Mall★ – *Cleveland*
Lima Mall – *Lima*
North Towne Square – *Toledo*
Randall Park Mall – *Cleveland*
Richmond Town Square – *Cleveland*
Southern Park Mall – *Youngstown*
Summit Mall – *Akron*
Upper Valley Mall – *Springfield*
Woodville Mall – *Toledo*

Oklahoma
Eastland Mall – *Tulsa*
Heritage Park Mall – *Midwest City (Oklahoma City)*
Oakwood Mall* – *Enid*

Pennsylvania
Century III Mall – *Pittsburgh*
Cheltenham Square – *Philadelphia*
Ross Park Mall – *Pittsburgh*
South Hills Village – *Pittsburgh*

South Carolina
Anderson Mall – *Anderson*

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 – *Tyler*
Cielo Vista Mall – *El Paso*
Golden Triangle Mall* – *Denton (Dallas)*
Grapevine Mills – *Grapevine (Dallas)*
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* – *Sherman*
North East Mall – *Hurst (Ft. Worth)*
Richardson Square – *Dallas*
Rolling Oaks Mall – *San Antonio*
Sunland Park Mall – *El Paso*
Valle Vista Mall – *Harlingen*
Windsor Park Mall – *San Antonio*

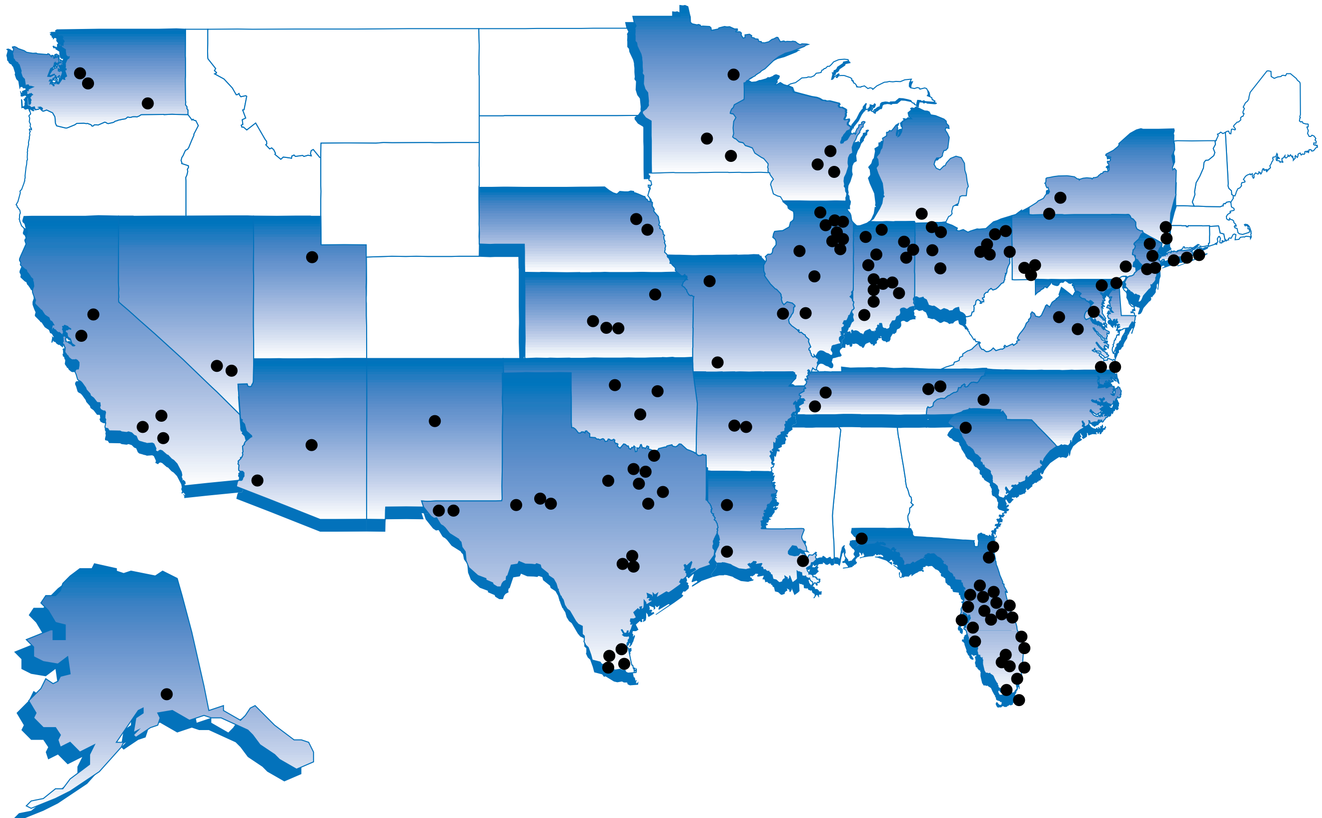
Utah
Trolley Square▪ – *Salt Lake City*

Virginia
Charlottesville Fashion Square – *Charlottesville*
Chesapeake Square – *Chesapeake (Norfolk)*
The Fashion Centre at Pentagon City▪ – *Arlington (Washington, D.C.)*
Lynnhaven Mall* – *Virginia Beach (Norfolk)*
Virginia Center Commons – *Richmond*

Washington
Columbia Center – *Kennewick*
Northgate Mall – *Seattle*
Tacoma Mall – *Tacoma*

Wisconsin
Bay Park Square – *Green Bay*
Forest Mall – *Fond du Lac*
Memorial Mall – *Sheboygan*

* Simon Managed
♦ Under Development/Construction
▪ Mixed-Use or Specialty Property



Simon Community Centers at December 31, 1997

California
Sherwood Gardens – *Salinas*

Colorado
Arvada Plaza – *Arvada (Denver)*
Aurora Plaza – *Aurora (Denver)*

Connecticut
The Plaza at Buckland Hills – *Manchester (Hartford)*

Florida
Gaitway Plaza – *Ocala*
The Grove at Lakeland Square – *Lakeland*
Highland Lakes Center – *Orlando*
Indian River Commons – *Vero Beach*
Royal Eagle Plaza – *Coral Springs (Ft. Lauderdale)*
Terrace at The Florida Mall – *Orlando*
Volusia Plaza* – *Daytona Beach*
West Town Corners – *Altamonte Springs (Orlando)*
Westland Park Plaza – *Jacksonville*

Georgia
Hammond Square – *Sandy Springs (Atlanta)*

Illinois
Bloomingdale Court – *Bloomingdale (Chicago)*
Bridgeview Court – *Bridgeview (Chicago)*
Buffalo Grove Towne Center – *Buffalo Grove (Chicago)*
Burbank Town Center* – *Burbank (Chicago)*
Countryside Plaza – *Countryside (Chicago)*
Crystal Court – *Crystal Lake (Chicago)*
Forest Plaza – *Rockford*
Fox River Plaza – *Elgin (Chicago)*
Lake Plaza – *Waukegan (Chicago)*
Lake View Plaza – *Orland Park (Chicago)*
Lincoln Crossing – *O'Fallon (St. Louis)*
Matteson Plaza – *Matteson (Chicago)*
North Ridge Plaza – *Joliet (Chicago)*
North Riverside Park Plaza – *North Riverside (Chicago)*
Oaks of Oakbrook* – *Oakbrook (Chicago)*
Ridge Plaza* – *Arlington Heights (Chicago)*
White Oaks Plaza – *Springfield*
Willow Knolls Court – *Peoria*
The Yards Plaza – *Chicago*

Indiana
Brightwood Plaza – *Indianapolis*
Century – *Merrillville (Chicago)*
Eastgate – *Indianapolis*
Greenwood Plus – *Greenwood (Indianapolis)*
Griffith Park Plaza – *Griffith (Chicago)*
Keystone Shoppes – *Indianapolis*
Markland Plaza – *Kokomo*
Marwood Plaza – *Indianapolis*
Mounds Mall Cinema – *Anderson*
Muncie Plaza♦ – *Muncie*
New Castle Plaza – *New Castle*
Northwood Plaza – *Ft. Wayne*
Teal Plaza – *Lafayette*
Tippecanoe Plaza – *Lafayette*
University Center – *South Bend*
Village Park Plaza – *Westfield (Indianapolis)*
Wabash Village – *West Lafayette*
Washington Plaza – *Indianapolis*

Iowa
Wood Plaza – *Ft Dodge*

Kansas
West Ridge Plaza – *Topeka*
Wichita – *Wichita*

Kentucky
Park Plaza – *Hopkinsville*

Maryland
Glen Burnie – *Baltimore*
St. Charles Towne Plaza – *Waldorf (Washington, D.C.)*

Mississippi
Ridgewood Court – *Jackson*

Missouri
Regency Plaza – *St. Charles (St. Louis)*

Nebraska
Maplewood Square– *Omaha*

New Jersey
Newport Plaza* – *Jersey City*

New York
Cobblestone Court – *Victor (Rochester)*
Cohoes Commons – *Rochester*

Ohio
Boardman Plaza – *Youngstown*
Great Lakes Plaza – *Mentor (Cleveland)*
Lima Center – *Lima*
Northland Plaza – *Columbus*

Oklahoma
Clark's Plaza* – *Shawnee (Oklahoma City)*
Eastland Plaza – *Tulsa*

Pennsylvania
Great Northeast Plaza – *Philadelphia*

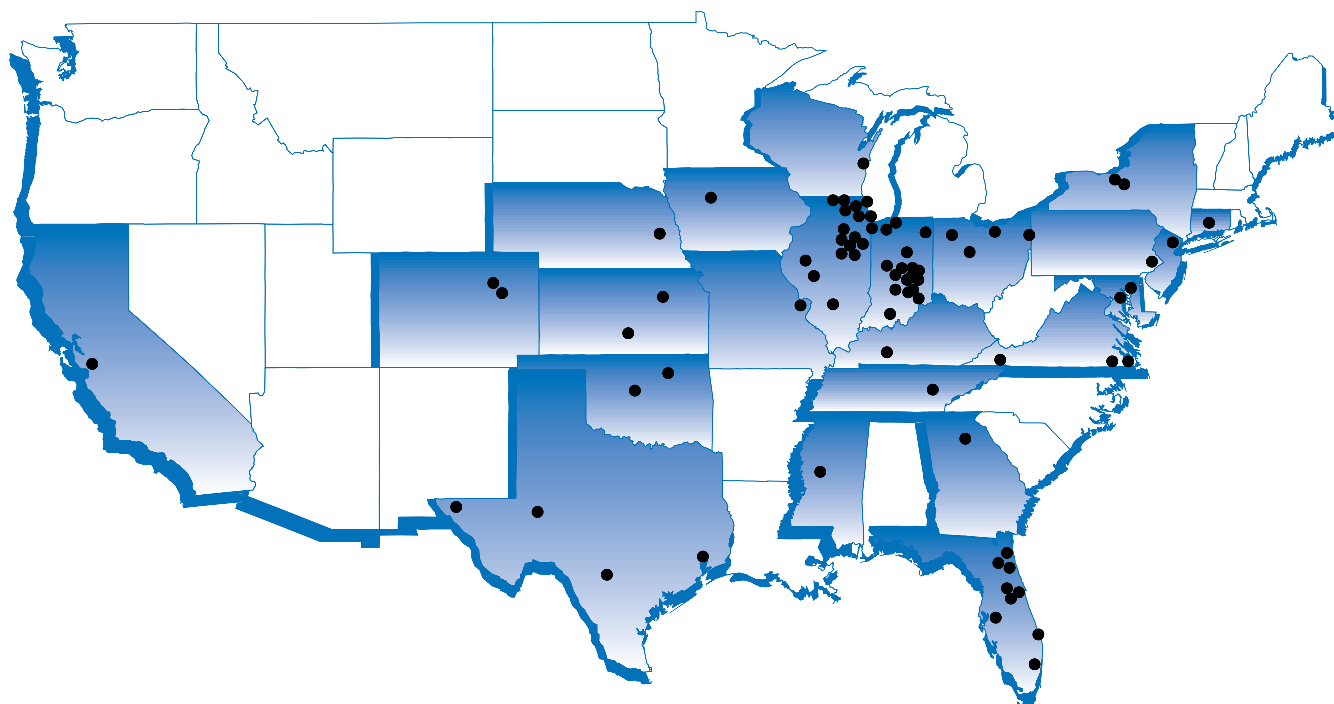
Tennessee
Knoxville Commons – *Knoxville*

Texas
Celina Plaza – *El Paso*
Ingram Plaza – *San Antonio*
Lakeline Plaza♦ – *Austin*
Mainland Crossing – *Texas City (Galveston)*

Virginia
Chesapeake Center – *Chesapeake (Norfolk)*
Fairfax Court – *Fairfax (Washington, D.C.)*
Martinsville Plaza – *Martinsville*
New Market South* – *Newport News (Norfolk)*

Wisconsin
Memorial Plaza – *Sheboygan*

* Simon Managed
♦ Under Development/Construction



Selected Financial Data

(Dollars in thousands, except per share data)

The following table sets forth selected consolidated financial data for the Company and combined historical financial data of Simon Property Group (the “Predecessor”). The financial data should be read in conjunction with the financial statements and notes thereto and with Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Other data management believes is important in understanding trends in the Company’s business is also included in the table.

	The Company					*Predecessor*
	For the Year Ended December 31,				*December 20 to December 31,*	*January 1, to December 19,*
	1997 (1)	*1996(1)*	*1995(1)*	*1994*	*1993*	*1993*
Operating Data:						
Total revenue	**$1,054,167**	$ 747,704	$ 553,657	$ 473,676	$ 18,424	$ 405,869
Income of the Operating Partnership before extraordinary items	**203,133**	134,663	101,505	60,308	8,707	6,912
Net income (loss) available to common shareholders	**$ 107,989**	$ 72,561	$ 57,781	$ 23,377	$ (11,366)	$ 33,101
Basic Earnings Per Common Share (2):						
Income before extraordinary items	**$ 1.08**	$ 1.02	$ 1.08	$ 0.71	$ 0.11	N/A
Extraordinary items	–	(0.03)	(0.04)	(0.21)	(0.39)	N/A
Net income (loss)	**$ 1.08**	$ 0.99	$ 1.04	$ 0.50	$ (0.28)	N/A
Weighted average shares outstanding	**99,920**	73,586	55,312	47,012	40,950	N/A
Diluted Earnings Per Common Share (2):						
Income before extraordinary items	**$ 1.08**	$ 1.01	$ 1.08	$ 0.71	$ 0.11	N/A
Extraordinary items	–	(0.03)	(0.04)	(0.21)	(0.39)	N/A
Net income (loss)	**$ 1.08**	$ 0.98	$ 1.04	$ 0.50	$ (0.28)	N/A
Diluted weighted average shares outstanding	**100,304**	73,721	55,422	47,214	40,957	N/A
Distributions per common share (3)	**$ 2.01**	$ 1.63	$ 1.97	$ 1.90	–	N/A
Balance Sheet Data:						
Cash and cash equivalents	**$ 109,699**	$ 64,309	$ 62,721	$ 105,139	$ 110,625	N/A
Total assets	**7,662,667**	5,895,910	2,556,436	2,316,860	1,793,654	N/A
Mortgages and other indebtedness	**5,077,990**	3,681,984	1,980,759	1,938,091	1,455,884	N/A
Shareholders’ equity	**$1,556,862**	$1,304,891	$ 232,946	$ 57,307	$ 29,521	N/A
Other Data:						
Cash flow provided by (used in):						
Operating activities	**$ 370,907**	$ 236,464	$ 194,336	$ 128,023	N/A	N/A
Investing activities	**(1,243,804)**	(199,742)	(222,679)	(266,772)	N/A	N/A
Financing activities	**918,287**	(35,134)	(14,075)	133,263	N/A	N/A
Funds from Operations (FFO) of the Operating Partnership (4)	**$ 415,128**	$ 281,495	$ 197,909	$ 167,761	N/A	N/A
FFO allocable to Company	**$ 258,049**	$ 172,468	$ 118,376	$ 92,604	N/A	N/A

Notes

(1) Note 3 to the accompanying financial statements describes the DRC Merger, which occurred on August 9, 1996, and the 1997, 1996, and 1995 real estate acquisitions and development.

(2) Per share data is reflected only for the Company, because the historical combined financial statements of the Predecessor are a combined presentation of partnerships and corporations.

(3) Represents distributions declared per period. A distribution of $0.1515 per share was declared on August 9, 1996, in connection with the DRC Merger, designated to align the time periods of distributions of the merged companies. The current annual distribution rate is $2.02 per share.

(4) Please refer to Management’s Discussion and Analysis of Financial Condition and Results of Operations for a definition of Funds from Operations.

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

Overview

The financial results reported reflect the merger completed on August 9, 1996 (the "DRC Merger") of Simon Property Group, Inc. and DeBartolo Realty Corporation ("DRC"), in accordance with the purchase method of accounting, valued at $3.0 billion. The DRC Merger resulted in the addition of 49 regional malls, 11 community centers and 1 mixed-use property. These properties included 47,052,267 square feet of retail space gross leasable area ("GLA") and 558,636 of office GLA. Of these properties, 40 regional malls, 10 community centers and the mixed-use property are being accounted for using the consolidated method of accounting. The remaining properties are being accounted for using the equity method of accounting.

On September 29, 1997, the Operating Partnership completed its cash tender offer for all of the outstanding shares of beneficial interests of The Retail Property Trust ("RPT"). RPT owned 98.8% of Shopping Center Associates ("SCA"), which owned or had interests in twelve regional malls and one community center, comprising approximately twelve million square feet of GLA in eight states. Following the completion of the tender offer, the SCA portfolio was restructured. The Operating Partnership exchanged its 50% interests in two SCA properties to a third party for similar interests in two other SCA properties, in which it had 50% interests, with the result that SCA now owns interests in a total of eleven properties. Effective November 30, 1997, the Operating Partnership also acquired the remaining 50% ownership interest in another of the SCA properties. In addition, an affiliate of the Operating Partnership acquired the remaining 1.2% interest in SCA. At the completion of these transactions, the Operating Partnership directly or indirectly now owns 100% of ten of the eleven SCA properties, and 50% of the remaining property.

In addition, the Operating Partnership acquired ownership interests in or commenced operations of several other Properties throughout the comparative periods and, as a result, increased the number of Properties it accounts for using the consolidated method of accounting (the "Property Transactions"). The following is a listing of such transactions: On February 23, 1995, the Operating Partnership acquired an additional 50% interest in White Oaks Mall, increasing its ownership to 77%. On August 1, 1995, the Operating Partnership purchased the remaining 50% ownership in Crossroads Mall. On September 25, 1995, the Operating Partnership acquired the remaining 55% ownership in Knoxville Center. On April 11, 1996, the Operating Partnership acquired the remaining 50% economic ownership interest in Ross Park Mall. On July 31, 1996, the Operating Partnership opened the wholly-owned Cottonwood Mall in Albuquerque, New Mexico. On August 29, 1997, the Operating Partnership opened the 55%-owned, $89 million phase II expansion of The Forum Shops at Caesar's. (See "Liquidity and Capital Resources" for additional information regarding these transactions.)

Results of Operations

Year Ended December 31, 1997 vs. Year Ended December 31, 1996

Total revenue increased $306.5 million or 41.0% in 1997 as compared to 1996. This increase is primarily the result of the DRC Merger ($234.1 million), the RPT acquisition ($30.6 million) and the Property Transactions ($28.4 million). Excluding these transactions, total revenues increased $13.4 million, which includes a $15.4 million increase in minimum rent and a $7.1 million increase in tenant reimbursements, partially offset by a $7.5 million decrease in other income. The $15.4 million increase in minimum rents results from increased occupancy levels, the replacement of expiring tenant leases with renewal leases at higher minimum base rents, and a $4.4 million increase in rents from tenants operating under license agreements. The $7.1 million increase in tenant reimbursements is partially offset by a net increase in recoverable expenses. The $7.5 million decrease in other income is primarily the result of decreases in lease settlement income ($3.0 million), interest income ($1.3 million) and gains from sales of peripheral properties ($1.7 million).

Total operating expenses increased $160.9 million, or 38.7%, in 1997 as compared to 1996. This increase is primarily the result of the DRC Merger ($113.5 million), the RPT acquisition ($15.9 million), the Property Transactions ($17.3 million), and the increase in depreciation and amortization ($10.1 million), primarily due to an increase in depreciable real estate realized through renovation and expansion activities.

Interest expense increased $85.6 million, or 42.4% in 1997 as compared to 1996. This increase is primarily as a result of the DRC Merger ($61.1 million), the RPT acquisition ($13.9 million) and the Property Transactions ($9.1 million).

The $0.1 million gain from extraordinary items in 1997 is the net result of gains realized on the forgiveness of debt ($31.1 million) and the write-off of net unamortized debt premiums ($8.4 million), partially offset by the acquisition of the contingent interest feature on four loans ($21.0 million) and prepayment penalties and write-offs of mortgage costs associated with early extinguishments of debt ($18.4 million). The $3.5 million extraordinary loss in 1996 is the result of write-offs of mortgage costs associated with early extinguishments of debt.

Income (loss) from unconsolidated entities increased from $9.5 million in 1996 to $19.2 million in 1997, resulting from an increase in the Operating Partnership's share of M.S. Management Associates Inc.'s (the "Management Company") income ($5.0 million) and an increase in its share of income from partnerships and joint ventures ($4.6 million). The increase in Management Company income is primarily the result of income realized through marketing initiatives ($2.0 million) and the Operating Partnership's share of the Management Company's gains on sales of peripheral property ($1.9 million). The increase in the Operating Partnership's share of income from partnerships and joint ventures is primarily the result of the DRC Merger ($4.9 million), the RPT acquisition ($3.2 million), and the nonconsolidated joint-venture Properties acquired or commencing operations during 1997 ($5.0 million), partially offset by the increase in the amortization of the excess of the Operating Partnership's investment over its share of the equity in the underlying net assets of unconsolidated joint-venture Properties ($8.8 million).

Income of the Operating Partnership was $203.2 million in 1997, as compared to $131.1 million in 1996, reflecting an increase of $72.0 million, for the reasons discussed above, and was allocated to the Company based on the Company's preferred unit preference and ownership interest in the Operating Partnership during the period.

Preferred distributions increased by $16.6 million to $29.2 million in 1997 as a result of the Company's issuance of $200 million of 8 3/4% Series B cumulative redeemable preferred stock

on September 27, 1996 and $150 million of 7.89% Series C Cumulative Step-Up Premium Rate[SM] Preferred Stock on July 9, 1997, partially offset by a reduction in preferred distributions ($2.0 million) resulting from the conversion of the $100 million 8 1/8% Series A convertible preferred stock into 3,809,523 shares of common stock on November 11, 1997.

Year Ended December 31, 1996 vs. Year Ended December 31, 1995

Total revenue increased $194.0 million, or 35.0%, in 1996 as compared to 1995. Of this increase, $155.7 million and $37.7 million are attributable to the DRC Merger and the Property Transactions, respectively. The remaining increase includes net increases in minimum rent, lease settlements and miscellaneous income of $9.3 million, $1.8 million and $2.3 million, respectively, partially offset by a net decrease in tenant reimbursements of $11.8 million. The minimum rent increase results from increases of $1.50 and $0.36 in average base minimum rents per square foot for regional mall stores and community shopping centers, respectively. Regional mall store leases executed during 1996 were $4.86 per square foot greater than leases expiring; community shopping center leases were $2.02 greater.

Total operating expenses increased $113.7 million, or 37.6%, in 1996 as compared to 1995. Of this increase, $85.1 million and $18.6 million are the result of the DRC Merger (including $7.2 million of integration costs) and the Property Transactions, respectively. The remaining $10.0 million increase is primarily the result of a net increase in depreciation and amortization ($8.9 million).

Interest expense increased $52.0 million, or 34.6%, to $202.2 million for 1996 as compared to $150.2 million for 1995. Of this increase, $41.1 million and $15.4 million are attributable to the DRC Merger and the Property Transactions, respectively. In addition, the Operating Partnership realized incremental interest expenses in 1996 related to borrowings used to acquire additional ownership interests in and/or make equity investments in unconsolidated joint venture properties of $4.9 million. Offsetting these increases were interest savings realized as a result of restructuring the Operating Partnership's credit facilities, from the proceeds of the Company's 6,000,000 share common stock offering on April 19, 1995, and from the proceeds of the Series A preferred stock offering and a portion ($34.4 million) of the proceeds of the Series B preferred stock offering, which were used to pay down debt (described under "Financing and Debt").

Income (loss) from unconsolidated entities increased from $1.4 million in 1995 to $9.5 million in 1996, primarily resulting from an increase in the Operating Partnership's share of the Management Company income ($9.2 million), partially offset by a decrease in its share of income from partnerships and joint ventures ($1.1 million). The increase in Management Company income is primarily the result of the DRC Merger ($4.4 million) and the Management Company's losses in 1995 related to the settlement of a mortgage receivable ($3.9 million) and the liquidation of a partnership investment ($1.0 million).

Extraordinary items of $3.5 million in 1996 and $3.3 million in 1995 result from write-offs of mortgage costs associated with early extinguishments of debt.

Income of the Operating Partnership increased from $98.2 million in 1995 to $131.1 million in 1996, an increase of $32.9 million, for the reasons discussed above, and was allocated to the Company based on the Company's ownership interest during the period.

Preferred dividends increased by $11.2 million in 1996 as a result of the Company's issuance of $100 million of 8 1/8% Series A convertible preferred stock on October 27, 1995, and $200 million of 8 3/4% Series B cumulative redeemable preferred stock on September 27, 1996.

Liquidity and Capital Resources

As of December 31, 1997, the Operating Partnership's balance of unrestricted cash and cash equivalents was $109.7 million. In addition to its cash balance, the Operating Partnership has a $1.25 billion unsecured revolving credit facility (the "Credit Facility") which had $284.3 million available after outstanding borrowings and letters of credit at December 31, 1997. The Company and the Operating Partnership also have access to public equity and debt markets. The Company has an equity shelf registration statement currently effective, under which $950 million in equity securities may be issued. The Operating Partnership has a debt shelf registration statement currently effective, under which $850 million in debt securities may be issued.

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

Sensitivity Analysis. The Operating Partnership's future earnings, cash flows and fair values relating to financial instruments is primarily dependent upon prevalent market rates of interest, such as LIBOR. Based upon consolidated indebtedness and interest rates at December 31, 1997, a 1% increase in the market rates of interest would decrease future earnings and cash flows by approximately $14 million, and would decrease the fair value of debt by approximately $505 million. A 1% decrease in the market rates of interest would increase future earnings and cash flows by approximately $14 million, and would increase the fair value of debt by approximately $683 million.

Financing and Debt. At December 31, 1997, the Operating Partnership had consolidated debt of $5,078.0 million, of which $3,467.6 million is fixed-rate debt bearing interest at a weighted average rate of 7.4% and $1,610.4 million is variable-rate debt bearing interest at a weighted average rate of 6.4%. As of December 31, 1997, the Operating Partnership had interest rate protection agreements related to $430.4 million of consolidated variable-rate debt. In addition, swap arrangements on an additional $148 million of consolidated variable-rate debt were obtained in January of 1998. The Operating Partnership's hedging activity as a result of these interest rate protection agreements resulted in net interest savings of $1.6 million for the year ended December 31, 1997. This did not materially impact the Operating Partnership's weighted average borrowing rates.

Scheduled principal payments of consolidated mortgage indebtedness over the next five years is $2,638 million, with $2,442 million thereafter. The Company's ratio of consolidated debt-to-market capitalization was 46.0% and 41.5% at December 31, 1997 and 1996, respectively.

The following summarizes significant financing and refinancing transactions completed in 1997:

Secured Indebtedness. On January 31, 1997, the Operating Partnership completed a refinancing transaction involving debt on four wholly-owned Properties. The transaction consisted of the payoff of one loan totaling $43.4 million, a restatement of the interest rate on the three remaining loans, the acquisition of the contingent interest feature on all four loans for $21.0

million, and $3.9 million of principal reductions on two additional loans. This transaction, which was funded using the Credit Facility, resulted in an extraordinary loss of $23.2 million, including the write-off of deferred mortgage costs of $2.2 million.

On May 15, 1997, the Operating Partnership refinanced approximately $140 million in existing debt on The Forum Shops at Caesar's. The new debt consists of three classes of notes totaling $180 million, with $90 million bearing interest at 7.125% and the other $90 million bearing interest at LIBOR plus 0.30%, all of which will mature on May 15, 2004. Approximately $40 million of the borrowings were placed in escrow to pay for construction costs required in connection with the development of the expansion of this project, which opened on August 29, 1997. As of December 31, 1997, $8.6 million remains in escrow.

On June 5, 1997, the Operating Partnership closed a $115 million construction loan for The Shops at Sunset Place. The loan initially bears interest at LIBOR plus 1.25% and matures on June 30, 2000, with two one-year extensions available.

On September 2, 1997, the Operating Partnership completed a refinancing of $453 million of commercial mortgage pass through certificates and a $48 million mortgage loan, resulting in releases of mortgages encumbering 18 of the Properties. The Operating Partnership funded this refinancing with the proceeds of a $225 million secured loan and borrowings of $294 million under the Credit Facility, which were later reduced with the proceeds from the sale of $180 million of notes issued on September 10, 1997, as described below. Subsequently, on December 22, 1997, the Operating Partnership retired the $225 million secured loan with the net proceeds from a $225 million series of multiclass mortgage pass-through certificates. This new facility includes six classes of certificates cross-collaterallized by the same seven Properties as the original $225 million secured loan and matures on December 19, 2004. Five of the six classes covering $175 million bear fixed interest rates ranging from 6.716% to 8.233%, with the remaining $50 million class bearing interest at LIBOR plus 0.365%.

On September 4, 1997, the Operating Partnership transferred ownership of one Property and paid $6.6 million to its lender, fully satisfying the property's mortgage note payable of $42 million. This property no longer met the Operating Partnership's criteria for its ongoing strategic plan. The Operating Partnership recognized a gain on this transaction of approximately $31.1 million in the third quarter of 1997.

Credit Facility. During 1997, the Operating Partnership obtained several improvements to its Credit Facility. The Credit Facility agreement was amended to increase the borrowing limit to $1.25 billion and reduce the interest rate from LIBOR plus 0.90% to LIBOR plus 0.65%. In addition, the Credit Facility's competitive bid feature, which has further reduced interest costs, was increased from $150 million to $625 million.

Medium Term Notes. On May 15, 1997, the Operating Partnership established a Medium-Term Note ("MTN") program. On June 24, 1997, the Operating Partnership completed the sale of $100 million of notes under the MTN program. The notes sold bear interest at 7.125% and have a stated maturity of June 24, 2005. The net proceeds of this sale were used primarily to pay down the Credit Facility. On September 10, 1997, the Operating Partnership issued an additional $180 million principal amount of notes under its MTN program, which mature on September 20, 2007 and bear interest at 7.125% per annum. The Operating Partnership used the net proceeds of this offering to pay down the borrowings made under the Credit Facility.

Liquidity and Capital Resources, continued

Equity Financings. On July 9, 1997 the Company sold 3,000,000 shares of 7.89% Series C Cumulative Step-Up Premium Rate[SM] Preferred Stock (the "Series C Preferred Shares") in a public offering at $50.00 per share. Beginning October 1, 2012, the rate increases to 9.89% per annum. The Company intends to redeem the Series C Preferred Shares prior to October 1, 2012. The Company contributed the net proceeds of this offering of approximately $146 million to the Operating Partnership in exchange for preferred units. The Operating Partnership used the net proceeds for the purchase of additional ownership interest in West Town Mall, to pay down the Credit Facility and for general working capital purposes.

During 1997, the Company and the Operating Partnership issued 8,051,924 additional shares of common stock and 876,712 additional Units, respectively, in public and private offerings, at prices ranging from $30.09 to $33.25 per share, and generating net proceeds of approximately $286 million. The proceeds of such offerings were used primarily to acquire additional ownership interests in Properties and to repay existing indebtedness.

Unsecured Notes. On July 17, 1997, the Operating Partnership completed a $250 million public offering, of two tranches of its seven-year and twelve-year non-convertible senior unsecured debt securities. The first tranche was for $100 million at 6¾% with a maturity of July 15, 2004. The second tranche was for $150 million at 7% with a maturity of July 15, 2009. The notes pay interest semi-annually, and contain covenants relating to minimum leverage, EBITDA and unencumbered EBITDA ratios.

On October 15, 1997, the SEC declared effective the Operating Partnership's registration statement, which provides for the offering, from time to time, of up to $1 billion aggregate public offering price of nonconvertible investment grade unsecured debt securities of the Operating Partnership. The net proceeds of such offerings may be used to fund property acquisition or development activity, retire existing debt or for any other purpose deemed appropriate by the Operating Partnership. Subsequently, on October 22, 1997, the Operating Partnership completed the sale of $150 million of its eight-year non-convertible senior unsecured debt securities under this new $1 billion debt shelf registration. The notes bear interest at 6⅞%, and mature on October 27, 2005. The notes pay interest semi-annually, and contain covenants relating to minimum leverage, EBITDA and unencumbered EBITDA ratios. The Operating Partnership used $114.8 million of the net proceeds of approximately $147 million, along with an escrow refund of approximately $4 million to retire existing mortgages on Miller Hill Mall, Muncie Mall, and Towne West Square, with the remaining proceeds going to reduce the amount outstanding on the Credit Facility.

Other. During 1997, in connection with the RPT acquisition, the Operating Partnership assumed consolidated mortgages of $123.5 million, unsecured debt totaling $275.0 million and a pro-rata share of joint venture mortgage indebtedness of $76.8 million.

Investment and Acquisitions. Management continues to actively review and evaluate a number of individual property and portfolio acquisition opportunities. Management believes that funds on hand, amounts available under the Credit Facility, together with the ability to issue shares of common stock and/or Units, provide the means to finance certain acquisitions. No assurance can be given that the Company 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.

On June 16, 1997, the Operating Partnership purchased 1,408,450 shares of common stock of Chelsea GCA Realty, Inc. ("Chelsea"), a publicly traded REIT, for approximately $50 million using borrowings from the Credit Facility. The shares purchased represent approximately 9.2% of Chelsea's outstanding common stock, and had a market value of $53.8 million at December 31, 1997. In connection with this transaction the Operating Partnership and Chelsea have formed a strategic alliance to develop and acquire manufacturer's outlet shopping centers with 500,000 square feet or more of GLA in the United States.

On July 10, 1997, the Operating Partnership acquired an additional 48% interest in West Town Mall in Knoxville, Tennessee for $67.4 million and 35,598 Units valued at approximately $1.1 million. This transaction increased the Operating Partnership's ownership of West Town Mall to 50%.

On August 8, 1997, a subsidiary of the Operating Partnership acquired a 50% interest in a trust that owns Dadeland Mall, a 1.4 million square-foot super-regional mall in Miami, Florida for approximately $128 million. A portion of the purchase price was paid in the form of 658,707 shares of the Company's common stock, valued at approximately $20 million. The remaining portion of the purchase price was financed using borrowings from the Credit Facility.

As described previously, during 1997 the Operating Partnership completed the purchase of RPT and its subsidiary SCA, which owned or had interests in twelve regional malls and one community center, comprising approximately twelve million square feet of GLA in eight states. The Operating Partnership exchanged its 50% interests in two SCA properties to a third party for similar interests in two other SCA properties, in which it had 50% interests, with the result that SCA now owns interests in a total of eleven properties. Effective November 30, 1997, the Operating Partnership also acquired the remaining 50% ownership interest in another of the SCA properties. The Operating Partnership now owns 100% of ten of the eleven SCA properties acquired, and a noncontrolling 50% interest in the remaining property. The total cost for the acquisition of RPT and related transactions is estimated at $1.3 billion, including shares of common stock valued at approximately $50 million, Units valued at approximately $25.3 million, the assumption of $398.5 million of consolidated indebtedness and the Operating Partnership's $76.8 million pro rata share of joint venture indebtedness.

On December 29, 1997, the Operating Partnership formed a joint venture partnership with The Macerich Company ("Macerich") to acquire a portfolio of twelve regional malls comprising approximately 10.7 million square feet of GLA. This transaction closed on February 27, 1998 at a total purchase price of $974.5 million, including the assumption of $485.0 million of indebtedness. The Operating Partnership and Macerich were each responsible for one half of the purchase price, including indebtedness assumed and each assumed leasing and management responsibilities for six of the regional malls. The Operating Partnership funded its share of the cash due at closing with a new six-month $242.0 million unsecured loan which bears interest at 6.42%. The Operating Partnership owns 50% of this joint venture.

On December 30, 1997, the Operating Partnership acquired The Fashion Mall at Keystone at the Crossing, a 651,671 square-foot regional mall, along with an adjacent 29,140 square-foot community center, in Indianapolis, Indiana for $124.5 million, including the assumption of a $64.8 million mortgage. These Properties are wholly-owned by the Operating Partnership.

Liquidity and Capital Resources, continued

On December 31, 1997, the Operating Partnership acquired the remaining 30% ownership interest in Virginia Center Commons as well as the management contract on that Property for a total of $2.3 million. The Operating Partnership now owns 100% of this Property.

On January 26, 1998, the Operating Partnership acquired Cordova Mall in Pensacola, Florida for $87.3 million, which included the assumption of a $28.9 million mortgage and 1,713,016 Units, valued at approximately $55.5 million. This 874,000 square-foot regional mall is wholly-owned by the Operating Partnership.

See Note 3 to the consolidated financial statements for 1996 and 1995 acquisition activity.

Development Activity. Development activities are an ongoing part of the Operating Partnership's business. The Operating Partnership opened one new regional mall, two value-oriented super-regional malls and one new community shopping center during 1997. On September 5, 1997, the Operating Partnership opened The Source, a 730,000 square-foot regional mall in Westbury (Long Island), New York. On October 31, 1997, the Operating Partnership opened Grapevine Mills, a 1.2 million square-foot value-oriented super-regional mall in Grapevine (Dallas/Fort Worth), Texas, and on November 20, 1997, the Operating Partnership opened Arizona Mills, a 1.2 million square-foot value-oriented super-regional mall in Tempe, Arizona. In March 1997, the Operating Partnership opened Indian River Commons, a 260,000 square-foot community shopping center in Vero Beach, Florida, which is immediately adjacent to an existing regional mall Property. The Operating Partnership has joint venture partners on each of these Properties and accounts for them using the equity method of accounting.

Construction also continues on the following projects:

- The Shops at Sunset Place, a destination-oriented retail and entertainment project containing approximately 510,000 square feet of GLA is scheduled to open in October of 1998 in South Miami, Florida. The Operating Partnership owns 75% of this $149 million project. Construction financing of $115 million closed on this property in June 1997. The loan initially bears interest at LIBOR plus 125 basis points and matures on June 30, 2000.

- Muncie Plaza, a 196,000 square-foot community center project, is scheduled to open in April of 1998 in Muncie, Indiana, adjacent to Muncie Mall. This approximately $14 million project is wholly-owned by the Operating Partnership.

- Lakeline Plaza, a 380,000 square-foot community center project, is scheduled to open in two phases in May and November of 1998 in Austin, Texas, adjacent to Lakeline Mall. On January 30, 1998, the Operating Partnership increased its ownership interest in this approximately $34 million project from 50% to 65%.

In addition, the Operating Partnership is in the preconstruction development phase on a new value-oriented super-regional mall, a factory outlet center and a new community center project. Concord Mills, an approximately $200 million development, is scheduled to open in 1999. This 1,400,000 square-foot value-oriented super-regional mall development project is 50%-owned by the Operating Partnership. Houston Premium Outlets is a 462,000 square-foot factory outlet

project in Houston, Texas. This approximately $89 million project, of which the Operating Partnership has a 50% ownership interest in, is scheduled to begin construction in 1998 and open in 1999. The Shops at North East Mall, an approximately $55 million development, which is immediately adjacent to North East Mall, an existing regional mall in the Company's portfolio, is scheduled to open in Hurst, Texas, in 1999. This 391,000 square-foot development project is wholly-owned by the Operating Partnership.

Strategic Expansions and Renovations. A key objective of the Operating Partnership is to increase the profitability and market share of the Properties through the completion of strategic renovations and expansions. In 1997, the Operating Partnership completed construction and opened fourteen major expansion and/or renovation projects: Alton Square in Alton, Illinois; Aventura Mall in Miami, Florida; Chautauqua Mall in Jamestown, New York; Columbia Center in Kennewick, Washington; The Forum Shops at Caesar's in Las Vegas, Nevada; Knoxville Center in Knoxville, Tennessee; La Plaza in McAllen, Texas; Muncie Mall in Muncie, Indiana; Northfield Square in Bradley, Illinois; Northgate Mall in Seattle, Washington; Orange Park Mall in Jacksonville, Florida; Paddock Mall in Ocala, Florida; Richmond Square in Richmond, Indiana; and Southern Park Mall in Youngstown, Ohio.

The Operating Partnership currently has four major expansion projects under construction, and is in the preconstruction development stage with two additional major expansion projects. The aggregate cost of the projects is approximately $208 million.

- A 255,000 square-foot small shop expansion and the addition of a 24-screen AMC Theatre complex to Aventura Mall in Miami, Florida, are scheduled to open in March 1998. Lord & Taylor, Macy's, JCPenney and Sears are also expanding at this Property. In addition, the Operating Partnership added a Bloomingdales to this project in November of 1997. The Operating Partnership has a 33% ownership interest in this project.

- A 180,000 square-foot small shop expansion of The Florida Mall in Orlando, Florida, as well as the addition of Burdines, is scheduled for completion in the winter of 1999. The Operating Partnership has a 50% ownership interest in this project. Dillard's, Gayfers, JCPenney and Sears are also expanding.

- A 68,000 square-foot small shop expansion of Prien Lake Mall in Lake Charles, Louisiana, as well as the addition of Dillard's and Sears, is scheduled for completion in the winter of 1998. The Operating Partnership owns 100% of Prien Lake Mall.

Liquidity and Capital Resources, continued

The Operating Partnership has a number of smaller renovation and/or expansion projects currently under construction aggregating approximately $105 million, of which the Operating Partnership's share is approximately $100 million. In addition, preconstruction development continues on a number of project expansions, renovations and anchor additions at additional properties. The Operating Partnership expects to commence construction on many of these projects in the next 12 to 24 months.

It is anticipated that these projects will be financed principally with access to debt and equity markets, existing corporate credit facilities and cash flow from operations.

Capital Expenditures. Capital expenditures, excluding acquisitions, were $330.9 million, $211.4 million and $102.9 million for the periods ended December 31, 1997, 1996 and 1995, respectively.

	1997	*1996*	*1995*
New Developments	**$ 79.9**	$ 80.1	$ 29.7
Renovations and Expansions	**196.6**	86.3	38.9
Tenant Allowances—Retail	**36.7**	24.0	17.2
Tenant Allowances—Offices	**1.2**	6.1	4.3
Capital Expenditures Recoverable from Tenants	**12.9**	11.4	8.0
Other	**3.6**	3.5	4.8
Total	**$ 330.9**	$ 211.4	$ 102.9

Distributions. The Company declared distributions on its common stock in 1997 aggregating $2.01 per share. On January 23, 1998, the Company declared a distribution of $0.5050 per share of common stock payable on February 20, 1998, to shareholders of record on February 6, 1998. The current annual distribution rate is $2.02 per share of common stock. For federal income tax purposes, 35% of the 1997 common stock distributions and 64% of the 1996 common stock distributions represented a return of capital. Future distributions will be determined based on actual results of operations and cash available for distribution.

Investing and Financing Activities. Cash used in investing activities for the year ended December 31, 1997 of $1,243.8 million is primarily the result of acquisitions of $980.4 million, $305.2 million of capital expenditures, advances to the Management Company of $18.4 million and other investing activities of $55.4 million, including $50.0 million for the purchase of Chelsea stock, partially offset by net distributions from unconsolidated entities of $97.7 million and cash received from the acquisition of RPT of $19.7 million. Cash paid for acquisitions includes $745.5 million for the RPT acquisition and related transactions, $108.0 million for Dadeland Mall, $66.3 million for West Town Mall and $60.6 million for the acquisition of The Fashion Mall at Keystone at the Crossing and Keystone Shoppes. Capital expenditures includes development costs of $62.6 million, including $31.0 million at The Shops at Sunset Place, $11.3 million at Muncie Plaza, $7.0 million at Cottonwood Mall and $11.2 million for the acquisition of the land ($9.2 million) and other development costs ($2.0 million) at The Shops at North East Mall. Also included in capital expenditures is renovation and expansion costs of

approximately $191.6 million, including $34.7 million, $15.6 million, $15.1 million, $12.2 million, and $10.6 million for the phase II expansion of Forum Shops at Caesar's, Miami International Mall, Northgate Mall, Charles Towne Square and Knoxville Center, respectively, and tenant costs and other operational capital expenditures of approximately $51.0 million. Net distributions from unconsolidated entities is primarily due to reimbursements of $70.1 million and $38.8 million from Dadeland Mall and West Town Mall, respectively, as a result of mortgages obtained on those Properties during 1997.

Cash received from financing activities for the year ended December 31, 1997 of $918.3 million includes net proceeds from the sales of the Company's common stock and Series C preferred stock of $344.4 million and net borrowings of $945.5 million, partially offset by distributions to shareholders and limited partners of $350.4 million and $21.0 million for the retirement of a contingent interest feature on four mortgage loans. Net borrowings were used primarily to fund the acquisition of RPT and the related transactions ($757.0 million), other acquisitions ($180.0 million) and development and investment activity.

Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA")

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

Total EBITDA for the Properties increased from $346.7 million in 1993 to $940.0 million in 1997, representing a compound annual growth rate of 28.2%. Of this growth, $336.8 million, or 56.8%, is a result of the DRC Merger and $34.5 million or 5.8% is a result of the RPT acquisition. The remaining growth in total EBITDA reflects the addition of GLA to the Portfolio Properties through property acquisitions, developments and expansions, increased rental rates, increased tenant sales, improved occupancy levels and effective control of operating costs. During this period, the operating profit margin increased from 58.6% to 64.4%. This improvement is also primarily attributable to aggressive leasing of new and existing space and effective control of operating costs.

Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"), continued

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:

For the Year Ended December 31,	*1997*	*1996*	*1995 (in thousands)*	*1994*	*1993*
EBITDA of consolidated Properties	**$677,930**	$467,292	$343,875	$290,243	$244,397
EBITDA of unconsolidated Properties	**262,098**	148,030	93,673	96,592	102,282
Total EBITDA of Portfolio Properties (1)	**$940,028**	$615,322	$437,548	$386,835	$346,679
EBITDA after minority interest (2)	**$746,842**	$497,215	$357,158	$307,372	$256,169
Increase in total EBITDA from prior period	**52.8%**	40.6%	13.1%	11.6%	9.5%
Increase in EBITDA after minority interest from prior period	**50.2%**	39.2%	16.2%	20.0%	12.4%
Operating profit margin of the Portfolio Properties	**64.4%**	62.5% (3)	63.1%	61.9%	58.6%

(1) On a pro forma basis, assuming the DRC Merger and the RPT acquisition and related transactions had occurred on January 1, 1996, EBITDA would be $1,019 million and $911 million in 1997 and 1996, respectively, representing an 11.8% growth.

(2) EBITDA after minority interest represents earnings before interest, taxes, depreciation and amortization for all Properties after distribution to the third-party joint ventures' partners.

(3) The 1996 operating profit margin, excluding the $7.2 million merger integration costs, is 63.2%.

Funds from Operations ("FFO")

FFO, as defined by NAREIT, means the consolidated net income of the Operating Partnership and its subsidiaries without giving effect to real estate related depreciation and amortization, gains or losses from extraordinary items, gains or losses on sales of real estate, gains or losses on investments in marketable securities and any provision/benefit for income taxes for such period, plus the allocable portion, based on the Operating Partnership's ownership interest, of funds from operations of unconsolidated joint ventures, all determined on a consistent basis in accordance with generally accepted accounting principles. Management believes that FFO is an important and widely used measure of the operating performance of REITs which provides a relevant basis for comparison among REITs. FFO is presented to assist investors in analyzing the performance of the Company. FFO: (i) does not represent cash flow from operations as defined by generally accepted accounting principles; (ii) should not be considered as an alternative to net income as a measure of the Company's operating performance or to cash flows from operating, investing and financing activities; and (iii) is not an alternative to cash flows as a measure of the Company's liquidity. In March 1995, NAREIT modified its definition of FFO. The modified definition provides that amortization of deferred financing costs and depreciation of nonrental real estate assets are no longer to be added back to net income in arriving at FFO. This modification was adopted by the Company beginning in 1996. Additionally the FFO for prior periods has been restated to reflect the modification in order to make the amounts comparative. Under the previous definition, FFO for the year ended December 31, 1995 was $208.3 million.

The following summarizes FFO of the Operating Partnership and the Company and reconciles income of the Operating Partnership before extraordinary items to FFO for the periods presented:

For the Year Ended December 31,	***1997***	*1996* *(in thousands)*	*1995*
FFO of the Operating Partnership	**$415,128**	$281,495	$197,909
Increase in FFO from prior period	**47.5%**	42.2%	18.0%
Reconciliation:			
Income of the Operating Partnership before extraordinary items	**$203,133**	$134,663	$101,505
Plus:			
Depreciation and amortization from consolidated properties	**200,084**	135,226	92,274
The Operating Partnership's share of depreciation and amortization and extraordinary items from unconsolidated affiliates	**46,760**	20,159	6,466
Merger integration costs	–	7,236	–
The Operating Partnership's share of (gains) or losses on sales of real estate	**(20)**	(88)	2,054
Less:			
Minority interest portion of depreciation, and amortization and extraordinary items	**(5,581)**	(3,007)	(2,900)
Preferred dividends	**(29,248)**	(12,694)	(1,490)
FFO of the Operating Partnership	**$415,128**	$281,495	$197,909
FFO allocable to the Company	**$258,049**	$172,468	$118,376

Portfolio Data

Operating statistics give effect to the DRC Merger and are based upon the business and properties of the Operating Partnership and DRC on a combined basis for all periods presented. The purpose of this presentation is to provide a more comparable set of statistics on the portfolio as a whole. The following statistics exclude Charles Towne Square, Richmond Town Square and Mission Viejo Mall, which are all undergoing extensive redevelopment. The value-oriented super-regional mall category consists of Arizona Mills, Grapevine Mills and Ontario Mills.

Aggregate Tenant Sales Volume and Sales per Square Foot. From 1994 to 1997, total reported retail sales at mall and freestanding GLA owned by the Operating Partnership ("Owned GLA") in the regional malls and value-oriented super-regional malls, and all reporting tenants at community shopping centers increased 25.3% from $7,611 million to $9,539 million, a compound annual growth rate of 7.8%. 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.

Portfolio Data, continued

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

Year Ended December 31,	*Total Tenant Sales (in millions)*	*Annual Percentage Increase*
1997	**$ 9,539**	**20.4%**
1996	7,921	3.6
1995	7,649	0.5
1994	7,611	4.7

Regional mall sales per square foot increased 8.8% in 1997 to $315 as compared to $290 in 1996. In addition, sales per square foot of reporting tenants operating for at least two consecutive years ("Comparable Sales") increased from $298 to $318, or 6.7%, from 1996 to 1997. The Company believes its strong sales growth in 1997 is the result of its aggressive retenanting efforts and the redevelopment of many of the Properties. Sales per square foot at the community shopping centers decreased in 1997 to $183 as compared to $187 in 1996. Sales statistics for value-oriented super-regional malls are not provided as this category is comprised of new malls with insufficient history to provide meaningful comparisons.

Occupancy Levels. Occupancy levels for regional malls increased from 84.7% at December 31, 1996, to 87.3% at December 31, 1997. Occupancy levels for value-oriented super-regional malls was 93.8% at December 31, 1997. Occupancy levels for community shopping centers decreased slightly, from 91.6% at December 31, 1996, to 91.3% at December 31, 1997. Owned GLA has increased 10.7 million square feet from December 31, 1996, to December 31, 1997, primarily as a result of the RPT acquisition, the acquisitions of Dadeland Mall, The Fashion Center at Keystone at the Crossing, and Keystone Shoppes and the 1997 Property openings.

	Occupancy Levels		
December 31,	*Regional Malls*	*Value-Oriented Regional Malls*	*Community Shopping Centers*
1997	**87.3%**	**93.8%**	**91.3%**
1996	84.7	N/A	91.6
1995	85.5	N/A	93.6
1994	85.6	N/A	93.9

Tenant Occupancy Costs. Tenant occupancy costs as a percentage of sales increased slightly from 11.4% in 1996 to 11.5% in 1997 in the regional mall portfolio, excluding the SCA Properties. A tenant's ability to pay rent is affected by the percentage of its sales represented by occupancy costs, which consist of rent and expense recoveries. As sales levels increase, if expenses subject to recovery are controlled, the tenant can pay higher rent. Management believes the Operating

Partnership is one of the lowest-cost providers of retail space, which has permitted the rents in both regional malls and community shopping centers to increase without raising a tenant's total occupancy cost beyond its ability to pay. Management believes continuing efforts to increase sales while controlling property operating expenses will continue the trend of increasing rents at the Properties.

Average Base Rents. Average base rents per square foot of mall and freestanding Owned GLA at regional malls increased 28.7%, from $18.37 in 1994 to $23.65 in 1997. Average base rents per square foot of Owned GLA at value-oriented super-regional malls was $16.20 in 1997. In community shopping centers, average base rents of Owned GLA increased 4.5%, from $7.12 in 1994 to $7.44 in 1997.

The following highlights this trend:

	Average Base Rent per Square Foot Mall and Freestanding Stores at:					
Year Ended December 31,	*Regional Malls*	*% Change*	*Value-Oriented Regional Malls*	*% Change*	*Community Center Shopping Centers*	*% Change*
1997	**$23.65**	**14.4%**	**$16.20**	**N/A**	**$7.44**	**(2.7%)**
1996	20.68	7.8	N/A	N/A	7.65	4.9
1995	19.18	4.4	N/A	N/A	7.29	2.4
1994	18.37	3.8	N/A	N/A	7.12	N/A

Inflation

Inflation has remained relatively low during the past four years and has had a minimal impact on the operating performance of the Properties. Nonetheless, substantially all of the tenants' leases contain provisions designed to lessen the impact of inflation. Such provisions include clauses enabling the Operating Partnership 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 the Operating Partnership 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 the Operating Partnership's exposure to increases in costs and operating expenses resulting from inflation.

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

Year 2000 Costs

Management continues to assess the impact of the Year 2000 Issue on its reporting systems and operations. The Year 2000 Issue exists because many computer systems and applications abbreviate dates by eliminating the first two digits of the year, assuming that these two digits would always be "19". Unless corrected, this shortcut would cause problems when the century date occurs. On that date, some computer programs may misinterpret the date January 1, 2000 as January 1, 1900. This could cause systems to incorrectly process critical financial and operational information, or stop processing altogether.

To help facilitate the Operating Partnership's continued growth, substantially all of the computer systems and applications in use in its home office in Indianapolis have been, or are in the process of being, upgraded and modified. The Operating Partnership is of the opinion that, in connection with those upgrades and modifications, it has addressed applicable Year 2000 Issues as they might affect the computer systems and applications located in its home office. The Operating Partnership continues to evaluate what effect, if any the Year 2000 Issue might have at its portfolio properties. The Operating Partnership anticipates that the process of reviewing this issue at the portfolio properties and the implementation of solutions to any Year 2000 Issue which it may discover will require the expenditure of sums which the Operating Partnership does not expect to be material. Management expects to have all systems appropriately modified before any significant processing malfunctions could occur and does not expect the Year 2000 Issue will materially impact the financial condition or operations of the Operating Partnership.

Definitive Merger Agreement

On February 19, 1998, the Company and Corporate Property Investors ("CPI") signed a definitive agreement to merge the two companies. The merger is expected to be completed in the third quarter of 1998 and is subject to approval by the shareholders of the Company as well as customary regulatory and other conditions. A majority of the CPI shareholders have already approved the transaction. Under the terms of the agreement, the shareholders of CPI will receive, in a reverse triangular merger, consideration valued at $179 for each share of CPI common stock held consisting of $90 in cash, $70 in the Company's common stock and $19 worth of 6.5% convertible preferred stock. The common stock component of the consideration is based upon a fixed exchange ratio using the Company's February 18, 1998 closing price of $33 5/8 per share, and is subject to a 15% symmetrical collar based upon the price of the Company's common stock determined at closing. In the event the Company's common stock price at closing is outside the parameters of the collar, an adjustment will be made in the cash component of consideration. The total purchase price, including indebtedness which would be assumed, is estimated at $5.8 billion.

Seasonality

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

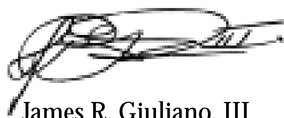
Report of Management

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 Company's 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 Company maintains a system of controls and procedures for financial reporting that is designed to provide reasonable assurance to the Company's 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 Company's 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 Company's internal auditors, to give assurance that established policies and procedures are adhered to in all areas subject to their audits. The Board of Directors, operating through its Audit Committee composed solely of outside directors, meets periodically with management, the internal auditors, and the independent auditors to review audit results, financial reporting, and internal control matters. The Audit Committee, internal auditors, and independent auditors have unrestricted access to one another to discuss their findings. The Audit Committee also has the primary responsibility to monitor and review the performance and effectiveness of the independent auditors.

David Simon
Chief Executive Officer



James R. Giuliano, III
Senior Vice President

Stephen E. Sterrett
Senior Vice President and Treasurer

Report of Independent Public Accountants

To the Board of Directors of
Simon DeBartolo Group, Inc.:

We have audited the accompanying consolidated balance sheets of SIMON DeBARTOLO GROUP, INC. (a Maryland corporation) and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Simon DeBartolo Group, Inc. and subsidiaries as of December 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Indianapolis, Indiana
February 17, 1998

Balance Sheets

(Dollars in thousands, except per share amounts)

December 31,	1997	1996
Assets:		
Investment properties, at cost	**$ 6,867,354**	$ 5,301,021
Less — accumulated depreciation	**461,792**	279,072
	6,405,562	5,021,949
Cash and cash equivalents	**109,699**	64,309
Restricted cash	**8,553**	6,110
Tenant receivables and accrued revenue, net	**188,359**	166,119
Notes and advances receivable from Management Company and affiliate	**93,809**	75,452
Investment in partnerships and joint ventures, at equity	**612,140**	394,409
Investment in Management Company and affiliates	**3,192**	–
Other investment	**53,785**	–
Deferred costs and other assets	**164,413**	138,492
Minority interest	**23,155**	29,070
Total assets	**$ 7,662,667**	$ 5,895,910
Liabilities:		
Mortgages and other indebtedness	**$ 5,077,990**	$ 3,681,984
Accounts payable and accrued expenses	**245,121**	170,203
Cash distributions and losses in partnerships and joint ventures, at equity	**20,563**	17,106
Investment in Management Company and affiliates	**–**	8,567
Other liabilities	**67,694**	72,876
Total liabilities	**5,411,368**	3,950,736
Commitments and Contingencies (Note 13)		
Limited Partners' Interest in the Operating Partnership	**694,437**	640,283
Shareholders' Equity:		
Series A convertible preferred stock, 0 and 4,000,000 shares authorized, issued and outstanding, respectively	**–**	99,923
Series B cumulative redeemable preferred stock, 9,200,000 shares authorized, 8,000,000 issued and outstanding, respectively	**192,989**	192,989
Series C cumulative redeemable preferred stock, 3,000,000 and 0 shares authorized, issued and outstanding, respectively	**146,072**	–
Common stock, $.0001 par value, 375,796,000 and 374,796,000 shares authorized, and 106,439,001 and 93,676,415 issued and outstanding, respectively	**10**	9
Class B common stock, $.0001 par value, 12,000,000 shares authorized, 3,200,000 issued and outstanding	**1**	1
Class C common stock, $.0001 par value, 4,000 shares authorized, issued and outstanding	**–**	–
Capital in excess of par value	**1,491,908**	1,189,919
Accumulated deficit	**(263,308)**	(172,596)
Unrealized gain on long-term investment	**2,420**	–
Unamortized restricted stock award	**(13,230)**	(5,354)
Total shareholders' equity	**1,556,862**	1,304,891
Total liabilities, limited partners' interest and shareholders' equity	**$ 7,662,667**	$ 5,895,910

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,	1997	1996	1995
Revenue:			
Minimum rent	**$641,352**	$438,089	$307,857
Overage rent	**38,810**	30,810	23,278
Tenant reimbursements	**322,416**	233,974	192,994
Other income	**51,589**	44,831	29,528
Total revenue	**1,054,167**	747,704	553,657
Expenses:			
Property operating	**176,846**	129,094	96,851
Depreciation and amortization	**200,900**	135,780	92,739
Real estate taxes	**98,830**	69,173	53,941
Repairs and maintenance	**43,000**	31,779	24,614
Advertising and promotion	**32,891**	24,756	18,888
Merger integration costs	**–**	7,236	–
Provision for credit losses	**5,992**	3,460	2,858
Other	**18,678**	14,914	12,630
Total operating expenses	**577,137**	416,192	302,521
Operating Income	**477,030**	331,512	251,136
Interest Expense	**287,823**	202,182	150,224
Income Before Minority Interest	**189,207**	129,330	100,912
Minority Interest	**(5,270)**	(4,300)	(2,681)
Gains on Sales of Assets, Net	**20**	88	1,871
Income Before Unconsolidated Entities	**183,957**	125,118	100,102
Income From Unconsolidated Entities	**19,176**	9,545	1,403
Income Before Extraordinary Items	**203,133**	134,663	101,505
Extraordinary Items	**58**	(3,521)	(3,285)
Income of the Operating Partnership	**203,191**	131,142	98,220
Less—Limited Partners' Interest in the Operating Partnership	**65,954**	45,887	38,949
Net Income	**137,237**	85,255	59,271
Preferred Dividends	**(29,248)**	(12,694)	(1,490)
Net Income Available to Common Shareholders	**$107,989**	$ 72,561	$ 57,781
Basic Earnings Per Common Share:			
Income before extraordinary items	**$ 1.08**	$ 1.02	$ 1.08
Extraordinary items	**–**	(0.03)	(0.04)
Net income	**$ 1.08**	$ 0.99	$ 1.04
Diluted Earnings Per Common Share:			
Income before extraordinary items	**$ 1.08**	$ 1.01	$ 1.08
Extraordinary items	**–**	(0.03)	(0.04)
Net income	**$ 1.08**	$ 0.98	$ 1.04

The accompanying notes are an integral part of these statements.

Statements of Shareholders' Equity

(Dollars in thousands)

	Preferred Stock	All Classes of Common Stock	Capital in Excess of Par Value	Accumulated Deficit	Unrealized Gain on Long-Term Investment	Unamortized Restricted Stock Award	Total Shareholders' Equity
Balance at December 31, 1994	$ –	$ 6	$ 135,565	$ (78,264)	$ –	$ –	$ 57,307
Stock options exercised (6,876 shares)			164				164
Common stock issued, net of issuance costs (9,797,563 shares)		1	221,416				221,417
Series A Preferred stock issued, net of issuance costs (4,000,000 shares)	99,923						99,923
Stock incentive program (143,311 shares)			3,608			(3,605)	3
Amortization of stock incentive						918	918
Transfer out of limited partners' interest in the Operating Partnership			(94,035)				(94,035)
Net income				59,271			59,271
Distributions				(112,022)			(112,022)
Balance at December 31, 1995	99,923	7	266,718	(131,015)	–	(2,687)	232,946
Stock options exercised (372,151 shares)			8,677				8,677
Common stock issued in connection with DRC Merger (37,873,965 shares)		3	922,276				922,279
Class C Common stock issued in connection with DRC Merger (4,000 shares)			100				100
Common stock issued in connection with severance program (70,074 shares)			1,841				1,841
Series B Preferred stock issued, net of issuance costs (8,000,000 shares)	192,989						192,989
Stock incentive program (200,030 shares)			4,751			(4,751)	–
Amortization of stock incentive						2,084	2,084
Transfer out of limited partners' interest in the Operating Partnership			(14,382)				(14,382)
Net income				85,255			85,255
Distributions				(126,836)			(126,836)
Other			(62)				(62)
Balance at December 31, 1996	292,912	10	1,189,919	(172,596)	–	(5,354)	1,304,891
Common stock issued to the public (5,858,887 shares)		1	190,026				190,027
Common stock issued in connection with acquisition (2,193,037 shares)			70,000				70,000
Stock options exercised (369,902 shares)			8,625				8,625
Other common stock issued (82,484 shares)			2,268				2,268
Stock incentive program (448,753 shares)			14,016			(13,262)	754
Amortization of stock incentive						5,386	5,386
Series C Preferred stock issued (3,000,000 shares)	146,072						146,072
Conversion of Series A Preferred stock into 3,809,523 shares of common stock	(99,923)		99,923				–
Transfer out of limited partners' interest in the Operating Partnership			(82,869)				(82,869)
Unrealized gain on long-term investment					2,420		2,420
Net income				137,237			137,237
Distributions				(227,949)			(227,949)
Balance at December 31, 1997	**$339,061**	**$11**	**$1,491,908**	**$(263,308)**	**$2,420**	**$(13,230)**	**$1,556,862**

The accompanying notes are an integral part of these statements.

Simon DeBartolo Group, Inc., Consolidated

Statements of Cash Flows

(Dollars in thousands)

For the Year Ended December 31,	1997	1996	1995
Cash Flows From Operating Activities:			
Net income	$ 137,237	$ 85,255	$ 59,271
Adjustments to reconcile net income to net cash provided by operating activities—			
Depreciation and amortization	208,539	143,582	101,262
Extraordinary Items	(58)	3,521	3,285
Gains on sales of assets, net	(20)	(88)	(1,871)
Limited partners' interest in Operating Partnership	65,954	45,887	38,949
Straight-line rent	(9,769)	(3,502)	(1,126)
Minority interest	5,270	4,300	2,681
Equity in income of unconsolidated entities	(19,176)	(9,545)	(1,403)
Changes in assets and liabilities—			
Tenant receivables and accrued revenue	(23,284)	(6,422)	5,502
Deferred costs and other assets	(30,203)	(12,756)	(14,290)
Accounts payable, accrued expenses and other liabilities	36,417	(13,768)	2,076
Net cash provided by operating activities	370,907	236,464	194,336
Cash Flows From Investing Activities:			
Acquisitions	(980,427)	(56,069)	(88,272)
Capital expenditures	(305,178)	(195,833)	(98,220)
Cash from DRC Merger, acquisitions and consolidation of joint ventures, net	19,744	37,053	4,346
Change in restricted cash	(2,443)	1,474	–
Proceeds from sale of assets	599	399	2,550
Investments in unconsolidated entities	(47,204)	(62,096)	(22,180)
Distributions from unconsolidated entities	144,862	36,786	6,214
Investments in and advances (to) / from Management Company	(18,357)	38,544	(27,117)
Other investing activities	(55,400)	–	–
Net cash used in investing activities	(1,243,804)	(199,742)	(222,679)
Cash Flows From Financing Activities:			
Proceeds from sales of common and preferred stock, net	344,438	201,704	242,377
Minority interest distributions, net	(219)	(5,115)	(3,680)
Distributions to shareholders	(227,949)	(166,640)	(104,785)
Distributions to limited partners	(122,442)	(90,763)	(72,941)
Mortgage and other note proceeds, net of transaction costs	2,976,222	1,293,582	456,520
Mortgage and other note principal payments	(2,030,763)	(1,267,902)	(531,566)
Other refinancing transaction	(21,000)	–	–
Net cash provided by (used in) financing activities	918,287	(35,134)	(14,075)
Increase (Decrease) In Cash and Cash Equivalents	45,390	1,588	(42,418)
Cash and Cash Equivalents, beginning of period	64,309	62,721	105,139
Cash and Cash Equivalents, end of period	$ 109,699	$ 64,309	$ 62,721

The accompanying notes are an integral part of these statements.

Note 1–Organization

Simon DeBartolo Group, Inc. (the "Company"), formerly known as Simon Property Group, Inc., is a self-administered and self-managed real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). On August 9, 1996, the Company acquired the national shopping center business of DeBartolo Realty Corporation ("DRC"), The Edward J. DeBartolo Corporation and their affiliates as the result of the DRC Merger. (See Note 3)

Simon DeBartolo Group, L.P. ("the Operating Partnership") is a subsidiary partnership of the Company. The Company, through the Operating Partnership, is engaged primarily in the ownership, operation, management, leasing, acquisition, expansion and development of real estate properties, primarily regional malls and community shopping centers. On December 31, 1997, Simon Property Group, L.P., a Delaware limited partnership ("SPG, LP"), merged (the "Partnership Merger") into the Operating Partnership. Prior to the Partnership Merger, the Operating Partnership and the Company held all of the partnership interests of SPG, LP, which held interests in certain of the Portfolio Properties (as defined below). As a result of the Partnership Merger, the Operating Partnership now directly or indirectly owns or holds interests in all of the Portfolio Properties and directly holds substantially all of the economic interest in the Management Company (described below).

As of December 31, 1997, the Operating Partnership owns or holds an interest in 202 income-producing properties, which consist of 120 regional malls, 72 community shopping centers, three specialty retail centers, four mixed-use properties and three value-oriented super-regional malls in 33 states (the "Properties"). The Operating Partnership also owns interests in one specialty retail center and two community centers currently under construction and nine parcels of land held for future development (collectively, the "Development Properties," and together with the Properties, the "Portfolio Properties"). At December 31, 1997 and 1996, the Company's ownership interest in the Operating Partnership was 63.9% and 61.4%, respectively. The Operating Partnership also holds substantially all of the economic interest in M.S. Management Associates, Inc. (the "Management Company"). See Note 7 for a description of the activities of the Management Company.

The Operating Partnership 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, changes in tax laws, interest rate levels, the availability of financing, and potential liability under environmental and other laws. Like most retail properties, the Operating Partnership's regional malls and community shopping centers rely heavily upon anchor tenants. As of December 31, 1997, 248 of the approximately 715 anchor stores in the Properties were occupied by three retailers. An affiliate of one of these retailers is a limited partner in the Operating Partnership and the Chief Operating Officer of another of these retailers is a director of the Company.

Note 2–Basis of Presentation

The accompanying consolidated financial statements of the Company include all accounts of the Company, its wholly-owned qualified REIT subsidiaries and its majority-owned subsidiary, the Operating Partnership. All significant intercompany amounts have been eliminated. The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles, which requires management to make estimates and assumptions that affect the reported amounts of the Company's assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reported periods. Actual results could differ from these estimates.

Properties which are wholly-owned ("Wholly-Owned Properties") or owned less than 100% and are controlled by the Operating Partnership ("Minority Interest Properties") are accounted for using the consolidated method of accounting. Control is demonstrated by the ability of the general partner to manage day-to-day operations, refinance debt and sell the assets of the partnership without the consent of the limited partner and the inability of the limited

Note 2–Basis of Presentation (continued)

partner to replace the general partner. Investments in partnerships and joint ventures which represent noncontrolling 14.7% to 50.0% ownership interests ("Joint Venture Properties") and the investment in the Management Company (see Note 7) 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) and cash contributions and distributions.

Net operating results of the Operating Partnership are allocated after preferred distributions (see Note 11), based on its partners' ownership interests. The Company's weighted average ownership interest in the Operating Partnership during 1997, 1996 and 1995 was 62.1%, 61.2% and 60.3%, respectively. At December 31, 1997 and 1996, the Company's ownership interest was 63.9% and 61.4%, respectively.

The deficit minority interest balance in the accompanying Consolidated Balance Sheets represents outside partners' interests in the net equity of certain Properties. Deficit minority interests were recorded when a partnership agreement provided for the settlement of deficit capital accounts before distributing the proceeds from the sale of partnership assets and/or from the intent (legal or otherwise) and ability of the partner to fund additional capital contributions.

Note 3–The DRC Merger and Real Estate Acquisitions and Developments

The DRC Merger

On August 9, 1996, the Company acquired the national shopping center business of DRC for an aggregate value of $3.0 billion (the "DRC Merger"). The acquired portfolio consisted of 49 regional malls, 11 community centers and 1 mixed-use Property. These Properties included 47,052,267 square feet of retail space gross leasable area ("GLA") and 558,636 of office GLA. Pursuant to the DRC Merger, the Company acquired all the outstanding common stock of DRC (55,712,529 shares), at an exchange ratio of 0.68 shares of the Company's common stock for each share of DRC common stock (the "Exchange Ratio"). A total of 37,873,965 shares of the Company's common stock was issued by the Company, to the DRC shareholders. DRC and the acquisition subsidiary merged. DRC became a 99.9% subsidiary of the Company and changed its name to SD Property Group, Inc. This portion of the transaction was valued at approximately $923,179, based upon the number of DRC shares of common stock acquired (55,712,529 shares), the Exchange Ratio and the last reported sales price of the Company's common stock on August 9, 1996 ($24.375). In connection therewith, the Company changed its name to Simon DeBartolo Group, Inc.

In connection with the DRC Merger, the general and limited partners of SPG, LP contributed 49.5% (47,442,212 units of partnership interest) of the total outstanding units of partnership interest ("Units") in SPG, LP to the operating partnership of DRC, DeBartolo Realty Partnership, L.P. ("DRP, LP") in exchange for 47,442,212 Units of partnership interest in DRP, LP, whose name was changed to Simon DeBartolo Group, L.P. ("SDG, LP"). The Company retained a 50.5% partnership interest (48,400,641 Units) in SPG, LP but assigned its rights to receive distributions of profits on 49.5% (47,442,212 Units) of the outstanding Units of partnership interest in SPG, LP to SDG, LP. The limited partners of DRP, LP approved the contribution made by the partners of SPG, LP and simultaneously exchanged their 38.0% (34,203,623 Units) partnership interest in DRP, LP, adjusted for the Exchange Ratio, for a smaller partnership interest in SDG, LP. The exchange of the limited partners' 38.0% partnership interest in DRP, LP for Units of SDG, LP has been accounted for as an acquisition of minority interest by the Company and is valued based on the estimated fair value of the consideration issued (approximately $566,900). The Units of SDG, LP may under certain circumstances be exchangeable for common stock of the Company on a one-for-one basis. Therefore, the value of the acquisition of the DRP, LP limited partners' interest acquired was based upon the number of DRP, LP Units exchanged (34,203,623), the Exchange Ratio and the last reported sales price per share of the Company's common stock on August 9, 1996 ($24.375). The limited partners of SPG, LP received a 23.7% partnership interest in SDG, LP (37,282,628

Units) for the contribution of their 38.9% partnership interest in SPG, LP (37,282,628 Units) to SDG, LP. The interests transferred by the partners of SPG, LP to DRP, LP have been appropriately reflected at historical costs.

Upon completion of the DRC Merger, the Company became a general partner of SDG, LP with 36.9% (57,605,796 Units) of the outstanding partnership Units in SDG, LP and became the managing general partner of SPG, LP with 24.3% (37,873,965 Units in SPG, LP) of the outstanding partnership Units in SPG, LP. The Company remained the sole general partner of SPG, LP with 1% of the outstanding partnership Units (958,429 Units) and 49.5% interest in the capital of SPG, LP, and SDG, LP became a special limited partner in SPG, LP with 49.5% (47,442,212 Units) of the outstanding partnership Units in SPG, LP and an additional 49.5% interest in the profits of SPG, LP. SPG, LP did not acquire any interest in SDG, LP. Upon completion of the DRC Merger, the Company directly and indirectly owned a controlling 61.2% (95,479,761 Units) partnership interest in SDG, LP.

For financial reporting purposes, the completion of the DRC Merger resulted in a reverse acquisition by the Company, using the purchase method of accounting, directly or indirectly, of 100% of the net assets of DRP, LP for consideration valued at $1.5 billion, including related transaction costs. The purchase price was allocated to the fair value of the assets and liabilities. Final adjustments to the purchase price allocation were not completed until 1997, however no material changes were recorded in 1997.

Although the Company was the accounting acquirer, SDG, LP (formerly DRP, LP) became the primary operating partnership through which the business of the Company is being conducted. As a result of the DRC Merger, the Company's initial operating partnership, SPG, LP, became a subsidiary of SDG, LP with 99% of the profits allocable to SDG, LP and 1% of the profits allocable to the Company. Cash flow allocable to the Company's 1% profit interest in SDG, LP was absorbed by public company costs and related expenses incurred by the Company. However, because the Company was the accounting acquirer and, upon completion of the DRC Merger, acquired majority control of SDG, LP; SPG, LP is the predecessor to SDG, LP for financial reporting purposes. Accordingly, the financial statements of SDG, LP for the post-Merger periods reflect the reverse acquisition of DRP, LP by the Company and for all pre-Merger comparative periods, the financial statements of SDG, LP reflect the financial statements of SPG, LP as the predecessor to SDG, LP for financial reporting purposes.

As described in Note 1, on December 31, 1997, SPG, LP merged into the Operating Partnership and as a result, the Operating Partnership now directly or indirectly owns or holds interests in all of the Portfolio Properties and directly holds substantially all of the economic interest in the Management Company.

Acquisitions

On January 26, 1998, the Operating Partnership acquired a regional mall in Pensacola, Florida for $87,283, which included Units valued at $55,523 and the assumption of $28,935 of mortgage indebtedness.

On September 29, 1997, the Operating Partnership completed its cash tender offer for all of the outstanding shares of beneficial interests of The Retail Property Trust ("RPT"). RPT owned 98.8% of Shopping Center Associates ("SCA"), which owned or had interests in twelve regional malls and one community center, comprising approximately twelve million square feet of GLA in eight states. Following the completion of the tender offer, the SCA portfolio was restructured. The Operating Partnership exchanged its 50% interests in two SCA properties to a third party for similar interests in two other SCA properties, in which it had 50% interests, with the result that SCA now owns interests in a total of eleven properties. Effective November 30, 1997, the Operating Partnership also acquired the remaining 50% ownership interest in another of the SCA properties. In addition, an affiliate of the Operating Partnership acquired the remaining 1.2% interest in SCA. At the completion of these transactions, the Operating Partnership now

Note 3–The DRC Merger and Real Estate Acquisitions and Developments (continued)

owns 100% of ten of the eleven SCA properties, and a noncontrolling 50% ownership interest in the remaining property. The total cost for the acquisition of RPT and related transactions is estimated at $1,300,000, which includes shares of common stock of the Company valued at approximately $50,000, Units valued at approximately $25,300, the assumption of $398,500 of consolidated indebtedness and the Operating Partnership's pro rata share of joint venture indebtedness of $76,750. Final adjustments to the purchase price allocation were not completed at December 31, 1997. While no material changes to the allocation are anticipated, changes will be recorded in 1998.

Also in 1997, the Operating Partnership acquired a 100% ownership interest in the Fashion Mall at Keystone at the Crossing, along with an adjacent community center, the remaining 30% ownership interest and management contract of Virginia Center Commons, a noncontrolling 50% ownership of Dadeland Mall and an additional noncontrolling 48% ownership interest of West Town Mall, increasing its total ownership interest to 50%. The Operating Partnership paid an aggregate purchase price of approximately $322,000 for these Properties, which included Units valued at $1,100, common stock of the Company valued at approximately $20,000 and the assumption of $64,772 of mortgage indebtedness, with the remainder paid in cash.

In 1996, the Operating Partnership acquired the remaining 50% ownership interest in two regional malls at an aggregate purchase price of $113,100 plus 472,410 Units.

During 1995, the Operating Partnership acquired the remaining ownership interest in two regional malls, an additional controlling 50% interest in a third mall and a controlling 75% ownership interest in a joint venture redevelopment project. The aggregate purchase price for the regional mall interests acquired included $18,500; 2,142,247 Units; and the assumption of $41,250 of mortgage indebtedness. The 75% interest in the redevelopment project was acquired for $11,406.

Developments

During 1997, the Operating Partnership opened four new Joint Venture Properties at an aggregate cost of approximately $550,000 (of which the Operating Partnership's share was approximately $206,000): Indian River Commons, an approximately 260,000 square-foot community center, which is immediately adjacent to an existing regional mall Property, opened in March of 1997; The Source, an approximately 730,000 square-foot regional mall opened in September; Grapevine Mills, a 1.5 million square-foot value-oriented super-regional mall, opened in October; and Arizona Mills, a 1.2 million square-foot value-oriented super-regional mall, opened in November.

During 1996, the Operating Partnership opened one new approximately $75,000 Wholly-Owned Property and three Joint Venture Properties at an aggregate cost of approximately $250,000 (of which the Operating Partnership's share was approximately $83,000): Cottonwood Mall, an approximately 750,000 square-foot wholly-owned regional mall opened in July; Ontario Mills, an approximately 1.3 million square-foot value oriented super-regional mall, opened in November; Indian River Mall, an approximately 750,000 square-foot regional mall, also opened in November; and The Tower Shops, an approximately 60,000 square-foot specialty retail center opened in November as well.

The Operating Partnership also opened three new Joint Venture Properties during 1995 at an aggregate cost of approximately $370,000 (of which the Operating Partnership's share was approximately $133,000): Circle Centre, an approximately 800,000 square-foot regional mall, opened in September; Seminole Towne Center, an approximately 1.1 million square-foot regional mall, also opened in September; and Lakeline Mall, an approximately 1.1 million square-foot regional mall, opened in October.

Pro Forma

The following unaudited pro forma summary financial information combines the consolidated results of operations of the Company as if the DRC Merger and the RPT acquisition had occurred as of January 1, 1996, and were carried forward through December 31, 1997. Preparation of the pro forma summary information was based upon assumptions deemed appropriate by the Company. The pro forma summary information is not necessarily indicative of the results which actually would have occurred if the DRC Merger and the RPT acquisition had been consummated at January 1, 1996, nor does it purport to represent the future financial position and results of operations for future periods.

Year Ended December 31,	*1997*	*1996*
Revenue	**$ 1,172,082**	$ 1,099,903
Net income of the Operating Partnership	**195,372**	154,229
Net income available to holders of common stock	**103,118**	86,845
Net income per share	**$ 1.02**	$ 0.89
Net income per share – assuming dilution	**$ 1.02**	$ 0.89
Weighted average number of shares of common stock outstanding	**101,353,723**	97,991,599
Weighted average number of shares of common stock outstanding – assuming dilution	**101,737,787**	98,127,131

Note 4–Summary of Significant Accounting Policies

Investment Properties

Investment Properties are recorded at the lower of cost (predecessor cost for Properties acquired from Melvin Simon, Herbert Simon and certain of their affiliates (the "Simons")) or net realizable value. Net realizable value of investment Properties for financial reporting purposes is reviewed for impairment on a Property-by-Property basis whenever events or changes in circumstances indicate that the carrying amount 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 net realizable value will be charged to income. The Operating Partnership adopted Statement of Financial Accounting Standards ("SFAS") No. 121 (Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of) on January 1, 1996. The adoption of this pronouncement had no impact on the accompanying consolidated financial statements.

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

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

Capitalized Interest

Interest is capitalized on projects during periods of construction. Interest capitalized by the Company during 1997, 1996 and 1995 was $11,589, $5,831 and $1,515, respectively.

Note 4–Summary of Significant Accounting Policies (continued)

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 consist of the following:

December 31,	*1997*	*1996*
Deferred financing costs	**$ 72,348**	$ 64,931
Leasing costs and other	**121,060**	97,380
	193,408	162,311
Less–accumulated amortization	**87,666**	70,386
Deferred costs, net	**$105,742**	$ 91,925

Interest expense in the accompanying Consolidated Statements of Operations includes amortization of deferred financing costs of $8,338, $8,434 and $8,523 for 1997, 1996 and 1995, respectively, and has been reduced by amortization of debt premiums and discounts of $699, $632 and $0 for 1997, 1996 and 1995, respectively.

Revenue Recognition

The Operating Partnership, 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. Overage rents are recognized when earned.

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 1997, 1996 and 1995 was as follows:

Year Ended	*Balance at Beginning of Year*	*Provision for Credit Losses*	*Accounts Written Off*	*Balance at End of Year*
December 31, 1997	**$7,918**	**$5,992**	**$ (106)**	**$13,804**
December 31, 1996	$5,485	$3,460	$ (1,027)	$ 7,918
December 31, 1995	$4,169	$2,858	$ (1,542)	$ 5,485

Income Taxes

The Company 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 for 1994 and subsequent years. In order to maintain qualification as a REIT, the Company is required to distribute at least 95% of its taxable income to shareholders and meet certain other asset and income tests as well as other requirements. It is the intention of management to continue to adhere to these requirements and maintain the Company's REIT status. As a REIT, the Company will generally not be liable for federal corporate income taxes. Thus, no provision for federal income taxes has been included in the accompanying consolidated financial statements. If the Company 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 taxes were not significant in 1997, 1996, or 1995.

Per Share Data

The Company adopted SFAS No. 128 (Earnings Per Share) in the current period. Basic earnings per share is based on the weighted average number of shares of common stock outstanding during the period. The weighted average number of shares used in the computation for 1997, 1996 and 1995 was 99,920,280; 73,585,602; and 55,312,078, respectively. In accordance with SFAS No. 128, 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 diluted weighted average number of shares used in the computation for 1997, 1996 and 1995 was 100,304,344; 73,721,134; and 55,421,692, respectively. Units held by limited partners in the Operating Partnership may be exchanged for shares of common stock of the Company on a one-for-one basis in certain circumstances and therefore are not dilutive (see Note 11). The Company's Series A, Series B and Series C preferred stock have not been considered in the computations of diluted earnings per share for any of the periods presented, as they did not have a dilutive effect. Accordingly, the increase in weighted average shares outstanding under the diluted method over the basic method in every period presented for the Company is due entirely to the effect of outstanding options under both the Employee Plan and the Director Plan (see Note 11). There were no changes in earnings from basic earnings per share to diluted earnings per share for any of the periods presented.

It is the Company's policy to accrue distributions when they are declared. The Company declared distributions in 1997 aggregating $2.01 per share. In 1996 accrued distributions totaled $1.63 per share, which included a $0.1515 distribution on August 9, 1996, in connection with the DRC Merger, designated to align the time periods of distribution payments of the merged companies. The current annual distribution rate is $2.02 per share. The following is a summary of distributions per share declared in 1997 and 1996, which represented a return of capital measured using generally accepted accounting principles:

For the Year Ended December 31,	***1997***	*1996*
Distributions per share:		
From book net income	**$ 1.08**	$0.99
Representing return of capital	**0.93**	0.64
Total distributions	**$ 2.01**	$1.63

On a federal income tax basis, 35% of the 1997 distributions and 64% of the 1996 distributions represented return of capital.

Statements of Cash Flows

For purposes of the Statements of Cash Flows, all highly liquid investments purchased with an original maturity of 90 days or less are considered cash and cash equivalents. Cash equivalents are carried at cost, which approximates market value. Cash equivalents generally consist of commercial paper, bankers acceptances, Eurodollars, repurchase agreements and Dutch auction securities. Cash and cash equivalents do not include restricted cash of $8,553 and $6,110 as of December 31, 1997 and 1996, respectively. Cash is restricted at December 31, 1997 primarily to pay for construction costs for the phase II expansion of The Forum Shops at Caesar's, and in 1996 cash was restricted primarily for renovations, redevelopment and other activities of the 17 properties which collateralized the commercial pass-through certificates that were retired in 1997 (see Note 9).

Cash paid for interest, net of any amounts capitalized, during 1997, 1996 and 1995 were $282,501; $197,796; and $142,345, respectively.

Noncash Transactions

Please refer to Notes 3 and 11 for a discussion of noncash transactions.

Note 4–Summary of Significant Accounting Policies (continued)

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.

Note 5–Investment Properties

Investment properties consist of the following:

December 31,	*1997*	*1996*
Land	**$1,253,953**	$1,003,221
Buildings and improvements	**5,560,112**	4,270,244
Total land, buildings and improvements	**6,814,065**	5,273,465
Furniture, fixtures and equipment	**53,289**	27,556
Investment properties at cost	**6,867,354**	5,301,021
Less–accumulated depreciation	**461,792**	279,072
Investment properties at cost, net	**$6,405,562**	$5,021,949

Building and improvements includes $158,609 and $86,461 of construction in progress at December 31, 1997 and 1996, respectively.

Note 6–Investment in Partnerships and Joint Ventures

As of December 31, 1997 and 1996, the unamortized excess of the Operating Partnership's investment over its share of the equity in the underlying net assets of the partnerships and joint ventures ("Excess Investment") was approximately $364,119 and $232,927, respectively. This Excess Investment is being amortized generally over the life of the related Properties. Amortization included in income from unconsolidated entities for the years ended December 31, 1997 and 1996 was $13,878 and $5,127, respectively.

Summary financial information of partnerships and joint ventures accounted for using the equity method and a summary of the Operating Partnership's investment in and share of income from such partnerships and joint ventures follows.

Balance Sheets

December 31,	*1997*	*1996*
Assets:		
Investment properties at cost, net	**$2,734,686**	$1,887,555
Cash and cash equivalents	**101,582**	61,267
Tenant receivables	**87,008**	58,548
Other assets	**71,873**	69,365
Total assets	**$2,995,149**	$2,076,735
Liabilities and Partners' Equity:		
Mortgages and other notes payable	**$1,888,512**	$1,121,804
Accounts payable, accrued expenses and other liabilities	**212,543**	213,394
Total liabilities	**2,101,055**	1,335,198
Partners' equity	**894,094**	741,537
Total liabilities and partners' equity	**$2,995,149**	$2,076,735
The Operating Partnership's Share of:		
Total assets	**$1,009,691**	$ 602,084
Partners' equity	**$ 227,458**	$ 144,376
Add: Excess Investment	**364,119**	232,927
Operating Partnership's net Investment in Joint Ventures	**$ 591,577**	$ 377,303

Statements of Operations

For the Year Ended December 31,	*1997*	*1996*	*1995*
Revenue:			
Minimum rent	**$256,100**	$144,166	$ 83,905
Overage rent	**10,510**	7,872	2,754
Tenant reimbursements	**120,380**	73,492	39,500
Other income	**19,364**	11,178	13,980
Total revenue	**406,354**	236,708	140,139
Operating Expenses:			
Operating expenses and other	**144,256**	88,678	46,466
Depreciation and amortization	**85,423**	50,328	26,409
Total operating expenses	**229,679**	139,006	72,875
Operating Income	**176,675**	97,702	67,264
Interest Expense	**96,675**	48,918	28,685
Extraordinary Items	**(1,925)**	(1,314)	(2,687)
Net Income	**$ 78,075**	$ 47,470	$ 35,892
Third-Party Investors' Share of Net Income	**55,507**	38,283	30,752
The Operating Partnership's Share of Net Income	**$ 22,568**	$ 9,187	$ 5,140
Amortization of Excess Investment	**13,878**	5,127	–
Income from Unconsolidated Entities	**$ 8,690**	$ 4,060	$ 5,140

The net income or net loss for each partnership and joint venture is allocated in accordance with the provisions of the applicable partnership or joint venture agreement. The allocation provisions in these agreements are not always consistent with the ownership interests held by each general or limited partner or joint venturer, primarily due to partner preferences. The Operating Partnership receives substantially all of the economic benefit of Biltmore Square, Chesapeake Square, Northfield Square and Port Charlotte Town Center, resulting from advances made to these joint ventures.

Note 7–Investment in Management Company

The Operating Partnership holds 80% of the outstanding common stock, 5% of the outstanding voting common stock, and all of the preferred stock of the Management Company. The remaining 20% of the outstanding common stock of the Management Company (representing 95% of the voting common stock) is owned directly by Melvin Simon, Herbert Simon and David Simon. The Management Company, including its consolidated subsidiaries, provides management, leasing, development, accounting, legal, marketing and management information systems services to one Wholly-Owned Property and 27 Minority Interest and Joint Venture Properties, Melvin Simon & Associates, Inc. ("MSA"), and certain other nonowned properties. Because the Operating Partnership exercises significant influence over the financial and operating policies of the Management Company, it is reflected in the accompanying statements using the equity method of accounting.

In connection with the DRC Merger, the Management Company purchased 95% of the voting stock (665 shares of common stock) of DeBartolo Properties Management, Inc. ("DPMI"), a DRC management company, for $2,500 in cash. DPMI provides architectural, design, construction and other services primarily to the Properties. During 1996, DPMI formed a captive insurance company, which provided property damage and general liability insurance for certain Properties in 1997 and 1996. The Operating Partnership paid a total of $9,628 and $2,383 to this wholly-owned subsidiary of the Management Company for insurance coverage during 1997 and 1996, respectively. The Management Company accounts for both DPMI and the captive insurance company using the consolidated method of accounting.

Note 7–Investment in Management Company (continued)

During 1995, the Management Company liquidated its interest in a partnership investment which held a 9.8-acre parcel of land, resulting in a loss of $958 to the Management Company. Further, an undeveloped two-acre parcel of land, for which the Management Company held a mortgage, was sold in December 1995, resulting in a loss of $3,949 for the Management Company.

Management, development and leasing fees charged to the Operating Partnership relating to the Minority Interest Properties were $8,343, $6,916 and $5,353 for the years ended December 31, 1997, 1996 and 1995, respectively. Architectural, contracting and engineering fees charged to the Operating Partnership for 1997 and 1996 were $67,258 and $21,650, respectively. Fees for services provided by the Management Company to MSA were $3,073, $4,000 and $4,572 for the years ended December 31, 1997, 1996 and 1995, respectively.

At December 31, 1997 and 1996, total notes receivable and advances due from the Management Company and consolidated affiliates were $93,809 and $75,452, respectively, which included $11,474 due from DPMI in 1997 and 1996. Unpaid interest income receivable from the Management Company at December 31, 1997 and 1996, was $485 and $0, respectively. All preferred dividends due from the Management Company were paid by December 31, 1997 and 1996.

Summarized consolidated financial information of the Management Company and a summary of the Operating Partnership's investment in and share of income (loss) from the Management Company follows.

Balance Sheet Data:

December 31,	*1997*	*1996*
Total assets	**$137,750**	$110,263
Notes payable to the Operating Partnership at 11%, due 2008	**66,859**	63,978
Shareholders' equity (deficit)	**482**	(11,879)
The Operating Partnership's Share of:		
Total assets	**$128,596**	$ 96,316
Shareholders' equity (deficit)	**$ 3,088**	$ (13,567)

Operating Data:

For the Year Ended December 31,	*1997*	*1996*	*1995*
Total revenue	**$ 85,542**	$ 78,665	$ 43,118
Operating Income	**13,766**	9,073	1,986
Net Income (Loss) Available for Common Shareholders	**$ 12,366**	$ 7,673	$ (4,321)
The Operating Partnership's Share of Net Income (Loss) after intercompany profit elimination	**$ 10,486**	$ 5,485	$ (3,737)

The Operating Partnership manages substantially all Wholly-Owned Properties and substantially all of the Minority Interest and Joint Venture Properties that were owned by DRC prior to the DRC Merger, and, accordingly, it reimburses the Administrative Services Partnership ("ASP"), a subsidiary of the Management Company, for costs incurred, including management, leasing, development, accounting, legal, marketing, and management information systems. Substantially all employees (other than direct field personnel) are employed by ASP which is owned 1% by the Operating Partnership and 99% by the Management Company. The Management Company records costs net of amounts reimbursed by the Operating Partnership. Common costs are allocated based on payroll and related costs. In management's opinion, allocations under the cost-sharing arrangement are reasonable. The Operating Partnership's share of allocated common costs was $35,341, $29,262 and $21,874 for 1997, 1996 and 1995, respectively.

Amounts payable by the Operating Partnership under the cost-sharing arrangement and management contracts were $1,725 and $3,288 at December 31, 1997 and 1996, respectively, and are reflected in accounts payable and accrued expenses in the accompanying Consolidated Balance Sheets.

Note 8–Other Investments

On June 16, 1997, the Operating Partnership purchased 1,408,450 shares of common stock of Chelsea GCA Realty, Inc. ("Chelsea"), a publicly traded REIT, for $50,000 using borrowings from the Operating Partnership's Credit Facility (See below). The shares purchased represent approximately 9.2% of Chelsea's outstanding common stock. In addition, the Operating Partnership and Chelsea announced that they have formed a strategic alliance to develop and acquire manufacturer's outlet shopping centers with 500,000 square feet or more of GLA in the United States. In accordance with SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities", the Operating Partnership's shares of Chelsea stock are classified as 'available-for-sale securities'. Accordingly, the investment is being reflected at its market value of $53,785, as of December 31, 1997, in the accompanying consolidated balance sheets in other investments. Management currently does not intend to sell these securities. The unrealized gain of $3,785, of which the Company's share was $2,420, is reflected in shareholders' equity, with the remaining $1,365 being reflected in the limited partners' interest in the Operating Partnership.

Note 9–Indebtedness

Mortgages and other notes payable consist of the following:

December 31,	*1997*	*1996*
Fixed-Rate Debt		
Mortgages, net	**$2,006,552**	$2,076,428
Unsecured public notes, net	**905,547**	249,161
Medium-term notes, net	**279,229**	–
Commercial mortgage pass-through certificates, net	**175,000**	377,650
6¾% Putable Asset Trust Securities, net	**101,297**	101,472
Total fixed-rate debt	**3,467,625**	2,804,711
Variable-Rate Debt		
Mortgages, net	**$ 451,820**	$ 561,985
Credit facility	**952,000**	230,000
Unsecured term loans	**133,000**	–
Commercial mortgage pass-through certificates, net	**50,000**	85,288
Construction loan	**23,545**	–
Total variable-rate debt	**1,610,365**	877,273
Total mortgages and other notes payable	**$5,077,990**	$3,681,984

Fixed-Rate Debt

Mortgage Loans & Other Notes. The fixed-rate mortgage loans bear interest ranging from 5.81% to 10.00% (weighted average of 7.71% at December 31, 1997), require monthly payments of principal and/or interest and have various due dates through 2027 (average maturity of 6.5 years). Certain of the Properties are pledged as collateral to secure the related mortgage note. The fixed and variable mortgage notes are nonrecourse and certain ones have partial guarantees by affiliates of approximately $583,158. 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 of the Properties are subject to financial performance covenants relating to debt-to-market capitalization, minimum earnings before interest, taxes, depreciation and amortization ("EBITDA") ratios and minimum equity values.

Unsecured Notes. The Operating Partnership has consolidated nonconvertible investment-grade unsecured debt securities aggregating $905,547 (the "Notes") at December 31, 1997. The Notes pay interest semiannually, and bear interest rates ranging from 6.75% to 7.625% (weighted average of 6.95%), and have various due dates through 2009 (average maturity of 8.2 years).

Note 9–Indebtedness (continued)

Certain of the Notes are guaranteed by the Operating Partnership and contain leverage ratios and minimum EBITDA and unencumbered EBITDA ratios.

The Operating Partnership currently has $850,000 remaining available for issuance on its $1,000,000 shelf registration with the SEC, which became effective in October 1997.

Medium-Term Notes. On May 15, 1997, the Operating Partnership established a Medium-Term Note ("MTN") program. On June 24, 1997, the Operating Partnership completed the sale of $100,000 of notes under the MTN program, which bear interest at 7.125% and have a stated maturity of June 24, 2005. On September 10, 1997, the Operating Partnership issued an additional $180,000 principal amount of notes under its MTN program. These notes mature on September 20, 2007 and bear interest at 7.125% per annum. The net proceeds from each of these sales were used primarily to pay down the Credit Facility (defined below).

Commercial Mortgage Pass-Through Certificates. Prior to September 2, 1997, DeBartolo Capital Partnership ("DCP"), a Delaware general partnership whose interest is owned 100% by affiliated entities, held commercial mortgage pass-through certificates in the face amount of approximately $453,000. This debt was secured by assets of 17 of the Wholly-Owned Properties. On September 2, 1997, the Operating Partnership refinanced these certificates along with a $48,000 mortgage loan, resulting in releases of mortgages encumbering 18 of the Properties.

The Operating Partnership subsequently issued a series of six classes of commercial mortgage pass-through certificates cross-collateralized by seven of such Properties, which matures on December 19, 2004. Five of the six classes totaling $175,000 bear fixed interest rates ranging from 6.716% to 8.233%, with the remaining $50,000 class bearing interest at LIBOR plus 0.365%. In addition, the Operating Partnership used the net proceeds from the sale of the $180,000 MTN's described above and net borrowings under the Credit Facility of approximately $114,000 to retire the original certificates and the $48,000 mortgage loan.

6 ¾% Putable Asset Trust Securities (PATS). The PATS, issued December 1996, pay interest semiannually at 6.75% and mature in 2003. These notes contain leverage ratios and minimum EBITDA and unencumbered EBITDA ratios.

Variable-Rate Debt

Mortgages and Other Notes. The variable-rate mortgage loans and other notes bear interest ranging from 6.00% to 7.74% (weighted average of 6.58% at December 31, 1997) and are due at various dates through 2004 (average maturity of 2.5 years). Certain of the Properties are subject to collateral, cross-default and cross-collateral agreements, participation agreements or other covenants relating to debt-to-market capitalization, minimum EBITDA ratios and minimum equity values.

Credit Facility. The Operating Partnership has a $1,250,000 unsecured revolving credit facility (the "Credit Facility") initially matures in September of 1999, with a one-year extension available at the option of the Operating Partnership. The Credit Facility bears interest at LIBOR plus 65 basis points. The maximum and average amounts outstanding during 1997 under the Credit Facility were $952,000 and $461,362, respectively. The Credit Facility is primarily used for funding acquisition, renovation and expansion and predevelopment opportunities. At December 31, 1997, the Credit Facility had an effective interest rate of 6.56%, with $284,300 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.

Unsecured Term Loans. The Operating Partnership has two unsecured term loans outstanding at December 31, 1997. On June 30, 1997, the Operating Partnership closed a $70,000 unsecured term loan which bears interest at LIBOR plus 0.75% and matures on September 29, 1998. On September 17, 1997, the Operating Partnership retired a $63,000 mortgage loan secured by Lincolnwood Towne Center with a second unsecured term loan, which bears interest at LIBOR plus 0.75% and matures on January 31, 1999.

Debt Maturity and Other

As of December 31, 1997, scheduled principal repayments on indebtedness were as follows:

1998	$ 390,835
1999	1,209,011
2000	291,740
2001	250,091
2002	496,321
Thereafter	2,442,335
Total principal maturities	5,080,333
Net unamortized debt premiums	(2,343)
Total mortgages and other notes payable	$5,077,990

Debt premiums and discounts are being 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.

The unconsolidated partnerships and joint ventures have $1,888,512 and $1,121,804 of mortgages and other notes payable at December 31, 1997 and 1996, respectively. The Operating Partnership's share of this debt was $770,776 and $448,218 at December 31, 1997 and 1996, respectively. This debt becomes due in installments over various terms extending to December 28, 2009, with interest rates ranging from 6.09% to 9.75% (weighted average rate of 7.34% at December 31, 1997). The debt matures $228,626 in 1998; $20,490 in 1999; $222,076 in 2000; $228,475 in 2001; $310,681 in 2002; and $878,164 thereafter.

The $58 net extraordinary gain in 1997 results from a $31,136 gain realized on the forgiveness of debt and an $8,409 gain from write-offs of net unamortized debt premiums, partially offset by the $21,000 acquisition of the contingent interest feature on four loans, and $18,487 of prepayment penalties and write-offs of mortgage costs associated with early extinguishments of debt. In addition, net extraordinary losses resulting from the early extinguishment or refinancing of debt of $3,521 and $3,285 were incurred for the years ended December 31, 1996 and 1995, respectively.

Interest Rate Protection Agreements

The Operating Partnership has entered into certain interest rate protection agreements, in the form of "cap" or "swap" arrangements, with respect to the majority of its variable-rate mortgages and other notes payable. Cap arrangements, which effectively limit the amount by which variable interest rates may rise, have been entered into for $380,379 principal amount of consolidated debt and cap LIBOR at rates ranging from 5.0% to 9.5% through the related debt's maturity. One swap arrangement, which effectively fixes the Operating Partnership's interest rate on the respective borrowings, has been entered into for $50,000 principal amount of consolidated debt, which matures September 2001. In addition, swap arrangements on an additional $148,000 of consolidated variable-rate debt were obtained in January of 1998. Costs of the caps and swaps ($7,580) are amortized over the life of the agreements. The unamortized balance of the cap and swap arrangements was $2,006 as of December 31, 1997. The Operating Partnership's hedging activity as a result of interest swaps and caps resulted in net interest savings of $1,586, $2,165 and $3,528 for the years ended December 31, 1997, 1996 and 1995, respectively. This did not materially impact the Operating Partnership's weighted average borrowing rate.

Fair Value of Financial Instruments

The carrying value of variable-rate mortgages and other loans represents their fair values. The fair value of fixed-rate mortgages and other notes payable was approximately $3,900,000 and $3,000,000 at December 31, 1997 and 1996, respectively. The fair value of the interest rate protection agreements at December 31, 1997 and 1996, was ($692) and $5,616, respectively. At December 31, 1997 and 1996, the estimated discount rates were 6.66% and 7.25%, respectively.

Note 10–Rentals under Operating Leases

The Operating Partnership 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, 1997, are as follows:

1998	$ 623,652
1999	580,561
2000	521,398
2001	469,331
2002	420,169
Thereafter	1,768,777
	$4,383,888

Approximately 2.9% of future minimum rents to be received are attributable to leases with JCPenney Company, Inc., an affiliate of a limited partner in the Operating Partnership.

Note 11–Capital Stock

Under its Charter, as supplemented, the Company is authorized to issue 650,000,000 shares, par value $0.0001 per share, of capital stock. The authorized shares of capital stock consist of 9,200,000 shares of Series B preferred stock, 3,000,000 shares of Series C preferred stock, 375,796,000 shares of common stock, 12,000,000 shares of Class B common stock, 4,000 shares of Class C common stock, and 250,000,000 shares of excess stock.

The Board of Directors is authorized to reclassify the excess 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 the Company 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 Company. The Company has no current plans to issue any additional classes or series of stock, except as described in Note 15.

The holders of common stock of the Company 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, which was issued in connection with the DRC Merger, as described below, 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 the Simons. 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 Company has 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.

As described in Note 3, in connection with the DRC Merger on August 9, 1996, the Company issued 37,873,965 shares of common stock and 4,000 shares of Class C common stock.

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

On November 11, 1997, the Company issued 3,809,523 shares of its common stock upon

the conversion of all of the outstanding shares of the Company's 8.125% Series A Preferred Stock, $.0001 par value per share.

On September 27, 1996, the Company completed a $200,000 public offering of 8,000,000 shares of Series B cumulative redeemable preferred stock, generating net proceeds of approximately $193,000. Dividends on the preferred stock are paid quarterly in arrears at 8.75% per annum. The Company may redeem the preferred stock any time on or after September 29, 2006, at a redemption price of $25.00 per share, plus accrued and unpaid dividends. The redemption price (other than the portion thereof consisting of accrued and unpaid dividends) is payable solely out of the sale proceeds of other capital shares of the Company, which may include other series of preferred shares. The Company contributed the proceeds to the Operating Partnership in exchange for preferred Units. The Operating Partnership pays a preferred distribution to the Company equal to the dividends paid on the preferred stock.

On July 9, 1997, the Company sold 3,000,000 shares of 7.89% Series C Cumulative Step-Up Premium Rate℠ Preferred Stock (the "Series C Preferred Shares") in a public offering at $50.00 per share. Beginning October 1, 2012, the rate increases to 9.89% per annum. The Company intends to redeem the Series C Preferred Shares prior to October 1, 2012. The Series C Preferred Shares are not redeemable prior to September 30, 2007. Beginning September 30, 2007, the Series C Preferred Shares may be redeemed at the option of the Company in whole or in part, at a redemption price of $50.00 per share, plus accrued and unpaid distributions, if any, thereon. The redemption price of the Series C Preferred Shares may only be paid from the sale proceeds of other capital stock of the Company, which may include other classes or series of preferred stock. 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 the Company. The Company contributed the net proceeds of this offering of approximately $146,000 to the Operating Partnership in exchange for preferred units, the economic terms of which are substantially identical to the Series C Preferred Shares. The Operating Partnership used the proceeds to increase its ownership interest in West Town Mall (See Note 3), to pay down the Credit Facility and for general working capital purposes.

Stock Option Plans

The Company and the Operating Partnership adopted an Employee Stock Plan (the "Employee Plan"). The Company also adopted a Director Stock Option Plan (the "Director Plan" and, together with the Employee Plan, the "Stock Option Plans") for the purpose of attracting and retaining eligible officers, directors and employees. The Company has reserved for issuance 4,595,000 shares of common stock under the Employee Plan and 100,000 shares of common stock under the Director Plan. If stock options granted in connection with the Stock Option Plans are exercised at any time or from time to time, the partnership agreement requires the Company to sell to the Operating Partnership, at fair market value, shares of the Company's common stock sufficient to satisfy the exercised stock options. The Company also is obligated to purchase Units for cash in an amount equal to the fair market value of such shares.

Employee Plan

The Employee Plan is currently administered by the Company's Compensation Committee (the "Committee"). During the ten-year period following the adoption of the Employee Plan, the Committee may, subject to the terms of the Employee Plan and in certain instances subject to board approval, grant to key employees (including officers and directors who are employees) of the Operating Partnership or its "affiliates" (as defined in the Employee Plan) the following types of awards: stock options (including options with a reload feature), stock appreciation rights, performance units and shares of restricted or unrestricted common stock. Awards granted under the Employee Plan become exercisable over the period determined by the Committee. The exercise price of an option may not be less than the fair market value of the shares of the common stock on the date of grant. The options vest 40% on the first anniversary of the date of grant, an additional 30% on the second anniversary of the grant date and become fully vested three years after the grant date. The options expire ten years from the date of grant.

Note 11–Capital Stock (continued)

Director Plan

Directors of the Company who are not also employees of the Company or its "affiliates" (as defined in the Director Plan) participate in the Director Plan. Under the Director Plan, each eligible director is automatically granted options ("Director Options") to purchase 5,000 shares of common stock upon the director's initial election to the Board of Directors and 3,000 shares of common stock upon each reelection of the director to the Board of Directors. The exercise price of the options is equal to 100% of the fair market value of the Company's common stock on the date of grant. Director Options become exercisable on the first anniversary of the date of grant or at such earlier time as a "change in control" of the Company occurs and will remain exercisable through the tenth anniversary of the date of grant (the "Expiration Date"). Prior to their Expiration Dates, Director Options will terminate 30 days after the optionee ceases to be a member of the Board of Directors.

SFAS No. 123, "Accounting for Stock-Based Compensation," requires entities to measure compensation costs related to awards of stock-based compensation using either the fair value method or the intrinsic value method. Under the fair value method, compensation expense is measured at the grant date based on the fair value of the award. Under the intrinsic value method, compensation expense is equal to 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. Entities electing to measure compensation costs using the intrinsic value method must make pro forma disclosures of net income and earnings per share as if the fair value method had been applied. The Operating Partnership has elected to account for stock-based compensation programs using the intrinsic value method consistent with existing accounting policies. The impact on pro forma net income and earnings per share as a result of applying the fair value method was not material.

Information relating to the Stock Option Plans from January 1, 1995 through December 31, 1997 is as follows:

	Director Plan		*Employee Plan*	
	Options	*Option Price per Share*	*Options*	*Option Price per Share*
Shares under option at December 31, 1994	40,000	$22.25-27.00	2,070,147	$22.25-25.25
Granted	15,000	24.9375	–	N/A
Exercised	–	N/A	(6,876)	23.44
Forfeited	–	N/A	(49,137)	23.60[1]
Shares under option at December 31, 1995	55,000	$22.25-27.00	2,014,134	$22.25-25.25
Granted	44,080	23.50[1]	–	N/A
Exercised	(5,000)	22.25	(367,151)	23.33[1]
Forfeited	(9,000)	25.52[1]	(24,000)	24.21[1]
Shares under option at December 31, 1996	85,080	$ 15-27.38	1,622,983	$22.25-25.25
Granted	9,000	29.3125	–	N/A
Exercised	(8,000)	23.62[1]	(361,902)	23.29[1]
Forfeited	–	N/A	(13,484)	23.99[1]
Shares under option at December 31, 1997	**86,080**	**$ 15-27.38**	**1,247,597**	**$22.25-25.25**
Options exercisable at December 31, 1997	**77,080**	**$ 23.96[1]**	**1,247,597**	**$ 22.90[1]**
Shares available for grant at December 31, 1997	**920**		**1,611,474**	

(1) Represents the weighted average price

Stock Incentive Programs

Two stock incentive programs are currently in effect.

In October 1994, under the Employee Plan of the Company and the Operating Partnership, the Company's Compensation Committee approved a five-year stock incentive program (the "Stock Incentive Program"), under which shares of restricted common stock of the Company were granted to certain employees at no cost to those employees. A percentage of each of these restricted stock grants can be earned and awarded each year if the Company attains certain growth targets measured in Funds From Operations, as those growth targets may be established by the Company's Compensation Committee from time to time. Any restricted stock earned and awarded vests in four installments of 25% each on January 1 of each year following the year in which the restricted stock is deemed earned and awarded.

In 1994, and prior to the DRC Merger, DRC also established a five-year stock incentive program (the "DRC Plan") under which shares of restricted common stock were granted to certain DRC employees at no cost to those employees. The DRC Plan also provided that this restricted stock would be earned and awarded based upon DRC's attainment of certain economic goals established by the Compensation Committee of DRC's Board of Directors. At the time of the DRC Merger, the Company and the Operating Partnership agreed to assume the terms and conditions of the DRC Plan and the economic criteria upon which restricted stock under both the Stock Incentive Program and the DRC Plan would be deemed earned and awarded were aligned with one another. Further, other terms and conditions of the DRC Plan and Stock Incentive Program were modified so that beginning with calendar year 1996, the terms and conditions of these two programs are substantially the same. It should be noted that the terms and conditions concerning vesting of the restricted stock grant to the Company's President and Chief Operating Officer, a former DRC employee, are different from those established by the DRC Plan and are specifically set forth in the employment contract between the Company and such individual.

In March 1995, an aggregate of 1,000,000 shares of restricted stock was granted to 50 executives, subject to the performance standards, vesting requirements and other terms of the Stock Incentive Program. Prior to the DRC Merger, 2,108,000 shares of DRC common stock were deemed available for grant to certain designated employees of DRC, also subject to certain performance standards, vesting requirements and other terms of the DRC Plan. During 1997, 1996 and 1995, a total of 448,753; 200,030; and 144,196 shares of common stock of the Company, respectively, net of forfeitures, were deemed earned and awarded under the Stock Incentive Program and the DRC Plan. Approximately $5,386; $2,084; and $918 relating to these programs were amortized in 1997, 1996 and 1995, respectively. The cost of restricted stock grants, 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 the Operating Partnership over the vesting period.

Exchange Rights

Limited partners in the Operating Partnership have the right to exchange all or any portion of their Units for shares of common stock on a one-for-one basis or cash, as selected by the Company's 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 Company's common stock at that time. The Company has reserved 61,850,762 shares of common stock for possible issuance upon the exchange of Units.

Note 12–Employee Benefit Plans

The Operating Partnership and affiliated entities maintain a tax-qualified retirement 401(k) savings plan. Under the plan, eligible employees can participate in a cash or deferred arrangement permitting them to defer up to a maximum of 12% of their compensation, subject to certain limitations. Participants' salary deferrals are matched at specified percentages, and the plan provides annual contributions of 3% of eligible employees' compensation. The Operating Partnership contributed $2,727; $2,350; and $1,716 to the plans in 1997, 1996 and 1995, respectively.

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

Note 13–Commitments and Contingencies

Litigation

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., a 99%-owned subsidiary of the Company, and DPMI, 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 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 661,000 shares of DRC common stock, which is equivalent to approximately 450,000 shares of common stock of the Company 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 complaint was served on the defendants on October 28, 1996. The plaintiffs and the Company each filed motions for summary judgement. On October 31, 1997, the Court entered a judgement in favor of the Company granting the Company's motion for summary judgement. The plaintiffs have appealed this judgement and the matter is pending. While it is difficult for the Company to predict the ultimate outcome of this action, based on the information known to the Company to date, it is not expected that this action will have a material adverse effect on the Company.

Roel Vento et al v. Tom Taylor et al. An affiliate of the Company 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 has been 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, tortuous 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. The Company is seeking to overturn the award and has appealed the verdict. The Company's appeal is pending. Although the Company is optimistic that it may be able to reverse

or reduce the verdict, there can be no assurance thereof. Management, based upon the advice of counsel, believes that the ultimate outcome of this action will not have a material adverse effect on the Company.

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

Lease Commitments

As of December 31, 1997, a total of 31 of the Properties are subject to ground leases. The termination dates of these ground leases range from 1998 to 2087. These ground leases generally require payments by the Operating Partnership of a fixed annual rent, or a fixed annual rent plus a participating percentage over a base rate. Ground lease expense incurred by the Operating Partnership for the years ended December 31, 1997, 1996 and 1995, was $10,511, $8,506 and $6,700, 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:

1998	$ 7,208
1999	7,218
2000	7,280
2001	7,378
2002	7,658
Thereafter	492,270
	$529,012

Environmental Matters

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

Note 14–Quarterly Financial Data (Unaudited)

Summarized quarterly 1997 and 1996 data is as follows:

1997	*First Quarter*	*Second Quarter*	*Third Quarter* [1]	*Fourth Quarter*	*Total*
Total revenue	$ 242,414	$ 245,055	$ 259,783	$ 310,222	$1,057,474
Operating income	111,706	114,455	117,572	133,297	477,030
Income of the Operating Partnership before extraordinary items	43,062	48,413	54,286	57,372	203,133
Net income available to common shareholders	8,233	24,951	44,642	30,163	107,989
Net income before extraordinary items per common share [2]	0.23	0.27	0.28	0.29	1.08
Net income per common share [2]	0.08	0.26	0.45	0.28	1.08
Weighted Average Common Shares Outstanding	96,972,858	97,520,174	98,785,776	106,312,139	99,920,280
Net income before extraordinary items per common share – assuming dilution [2]	0.23	0.27	0.28	0.29	1.08
Net income per common share – assuming dilution [2]	$ 0.08	$ 0.26	$ 0.45	$ 0.28	$ 1.08
Weighted Average Common Shares Outstanding – Assuming Dilution	97,369,777	97,363,839	99,170,829	106,698,238	100,304,344

1996	*First Quarter*	*Second Quarter*	*Third Quarter* [(1)]	*Fourth Quarter*	*Total*
Total revenue	$ 139,444	$ 143,761	$ 202,436	$ 262,063	$ 747,704
Operating income	61,073	63,051	82,715	124,673	331,512
Income of the Operating Partnership before extraordinary items	23,832	23,968	28,839	58,024	134,663
Net income available to common shareholders	13,154	13,412	14,784	31,211	72,561
Net income before extraordinary items per common share [(2)]	0.23	0.23	0.20	0.33	1.02
Net income per common share [(2)]	0.23	0.23	0.18	0.32	0.99
Weighted Average Common Shares Outstanding	58,382,176	58,560,225	80,397,469	96,673,964	73,585,602
Net income before extraordinary items per common share – assuming dilution [(2)]	0.23	0.23	0.20	0.33	1.01
Net income per common share – assuming dilution [(2)]	$ 0.23	$ 0.23	$ 0.18	$ 0.32	$ 0.98
Weighted Average Common Shares Outstanding – Assuming Dilution	58,404,318	58,599,582	80,515,223	96,988,085	73,721,134

(1) The third quarter of 1997 reflects the amounts as amended in Form 10-Q/A.

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

Note 15–Subsequent Events (Unaudited)

Proposed CPI Merger

On February 19, 1998, the Company and Corporate Property Investors ("CPI") signed a definitive agreement to merge the two companies. The merger is expected to be completed by the end of the third quarter of 1998 and is subject to approval by the shareholders of the Company as well as customary regulatory and other conditions. A majority of the CPI shareholders have already approved the transaction. Under the terms of the agreement, the shareholders of CPI will receive, in a reverse triangular merger, consideration valued at $179 for each share of CPI common stock held consisting of $90 in cash, $70 in the Company's common stock and $19 worth of 6.5% convertible preferred stock. The common stock component of the consideration is based upon a fixed exchange ratio using the Company's February 18, 1998 closing price of $33⅝ per share, and is subject to a 15% symmetrical collar based upon the price of the Company's common stock determined at closing. In the event the Company's common stock price at closing is outside of the parameters of the collar, an adjustment will be made in the cash component of consideration. The total purchase price, including indebtedness which would be assumed, is estimated at $5.8 billion.

Macerich Partnership

On February 27, 1998, the Operating Partnership, in a joint venture partnership with The Macerich Company ("Macerich"), acquired a portfolio of twelve regional malls comprising approximately 10.7 million square feet of GLA at a purchase price of $974,500, including the assumption of $485,000 of indebtedness. The Operating Partnership and Macerich, as 50/50 partners in the joint venture, were each responsible for one half of the purchase price, including indebtedness assumed and each assumed leasing and management responsibilities for six of the regional malls.

Board of Directors

Melvin Simon, 71 [1]
Co-Chairman of the Board, Simon DeBartolo Group, Inc.

Herbert Simon, 63 [1], [3], [4]
Co-Chairman of the Board, Simon DeBartolo Group, Inc.

David Simon, 36 [1], [4]
Chief Executive Officer, Simon DeBartolo Group, Inc.

Richard S. Sokolov, 48 [1]
President and Chief Operating Officer, Simon DeBartolo Group, Inc.

M. Denise DeBartolo York, 47 [4]
Chairman and Chief Executive Officer, The Edward J. DeBartolo Corporation

Birch Bayh, 70 [3], [4]
Senior Partner, Bayh, Connaughton & Malone, P.C.

William T. Dillard, II, 52 [2]
President, Chief Operating Officer and Director, Dillard Department Stores, Inc.

G. William Miller, 72 [2]
Chairman and Chief Executive Officer, G. William Miller & Co. Inc. and
Chairman, Waccamaw Corporation

Fredrick W. Petri, 51 [2]
Partner, Petrone, Petri & Company

Terry S. Prindiville, Sr., 62 [3], [4]
Retired Executive Vice President and Director of Support Services, JCPenney Company, Inc.

J. Albert Smith, Jr., 57 [2]
President, Bank One, Indianapolis, NA

Philip J. Ward, 49 [3]
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 DeBartolo Group, Inc.
115 W. Washington Street
Indianapolis, IN 46204
(317) 636-1600

Website

www.simon.com

Common Stock

Simon DeBartolo Group, Inc. common stock is traded on the New York Stock Exchange under the symbol "SPG." The Series B preferred stock is traded on the New York Stock Exchange under the symbol "SPGPrB."

Transfer Agent and Registrar

First Chicago Trust Company of New York
P.O. Box 2500
Jersey City, NJ 07303-2500
(800) 446-2617
Internet Address: www.fctc.com

Counsel

Baker & Daniels
Indianapolis, IN

Independent Accountants

Arthur Andersen LLP
Indianapolis, IN

Shareholder Inquiries

Shelly J. Doran, Director of Investor Relations
Simon DeBartolo Group, Inc.
P.O. Box 7033
Indianapolis, IN 46207
(317) 685-7330

Annual Report on Form 10-K

A copy of the Simon DeBartolo 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.

Common Stock Market Prices and Distributions

	High	*Low*	*Close*	*Declared Distribution*
First Quarter 1996	$24\frac{5}{8}$	$21\frac{1}{8}$	$23\frac{1}{8}$	$0.4925
Second Quarter 1996	$24\frac{3}{4}$	$22\frac{1}{8}$	$24\frac{1}{2}$	$0.4925
Third Quarter 1996	$25\frac{3}{4}$	$22\frac{7}{8}$	$25\frac{1}{2}$	$0.1515 (1)
Fourth Quarter 1996	31	$25\frac{3}{8}$	31	$0.4925
First Quarter 1997	**$32\frac{3}{4}$**	**$28\frac{3}{8}$**	**$30\frac{1}{4}$**	**$0.4925**
Second Quarter 1997	**32**	**$27\frac{7}{8}$**	**32**	**$0.5050**
Third Quarter 1997	**$34\frac{3}{8}$**	**29**	**33**	**$0.5050**
Fourth Quarter 1997	**$33\frac{15}{16}$**	**$28\frac{7}{8}$**	**$32\frac{11}{16}$**	**$0.5050**

(1) Represents a distribution declared in the third quarter of 1996 related to the DRC Merger, designated to align the time periods of distribution payments of the merged companies.

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Simon DeBartolo Group, Inc.

1997 Annual Report

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