



SIMON

simply the best shopping there is

98

ANNUAL REPORT

Simon Property Group, Inc.

Simon Property Group, Inc. (NYSE: SPG), headquartered in Indianapolis, Indiana, is a self-administered and self-managed real estate investment trust (REIT). Through subsidiary partnerships, it is engaged 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, 1998, the Company owned or had an interest in 242 properties comprising regional malls, community shopping centers and specialty and mixed-use properties containing 166 million square feet of gross leasable area (GLA) in 35 states. Simon Property Group (Simon), together with its affiliated management company, manages approximately 180 million square feet of GLA in retail and mixed-use projects and attracts over 2.3 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, 1998, of nearly \$17 billion.

HIGHLIGHTS OF 1998

.....
IN THOUSANDS, EXCEPT PER
SHARE AMOUNTS. PLEASE
REFER TO COMPLETE
FINANCIAL STATEMENTS ON
PAGES 43-83.

December 31,	1998 ⁽¹⁾	1997 ⁽¹⁾	% change
Total Revenue	\$ 1,405,559	\$1,054,167	33.3%
Total EBITDA of the Simon Group	\$ 1,361,703	\$ 940,028	44.9%
Funds from Operations (FFO) of the Simon Group ⁽²⁾	\$ 544,481	\$ 415,128	31.2%
Funds from Operations per Share ⁽²⁾	\$ 2.85	\$ 2.58	10.5%
Regional Mall Occupancy ⁽³⁾	90.0%	87.3%	2.7%
Regional Mall Average Base Rent ⁽³⁾	\$ 25.70	\$ 23.65	8.7%
Comparable Sales per Square Foot ⁽³⁾	\$ 346	\$ 318	8.8%
Gross Leasable Area	165,881	128,773	28.8%
Share Price at December 31	\$ 28.50	\$ 32.69	(12.8)%

⁽¹⁾ See financial statements Note 3 and Note 4 for discussion of acquisition activities.

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

⁽³⁾ Mall and freestanding tenants in regional malls.

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Record Performance: revenues rose 33% to \$1.4 billion, funds from operations increased to \$544 million; acquisitions completed totaling over \$5 billion; more than \$300 million invested in redevelopment projects; nationwide "branding" campaign launched.	
THE YEAR IN REVIEW	5
Completed CPI acquisition for \$5.1 billion; acquired 50% interest in a portfolio of 12 regional malls; opened two new projects in Austin, TX and Muncie, IN; completed major renovations and expansions in FL, IN, LA and NY; commenced construction on the Mall of Georgia; membership in MALLPeRKS increased to more than two million; developed a consistent message of branding the Simon name throughout the Company's portfolio; and opened first mall project in Europe.	
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TO OUR SHAREHOLDERS

.....
AND FELLOW EMPLOYEES

RECORD REVENUES & EARNINGS,
MAJOR ACQUISITIONS, BRANDING,
AND SIMON BRAND VENTURES

For Simon Property Group, 1998 was a year of significant accomplishment: record earnings and growth; outstanding portfolio performance; completion of the largest acquisition in industry history; the opening of our first international project; and the launch of several new innovative programs to benefit our shoppers and retailers. The events of 1998 firmly established Simon as the world's leading retail real estate company. 1999 promises to be another year of significant accomplishment as we open five new projects, assimilate and improve the assets acquired in 1998 and create brand awareness throughout the Simon portfolio.

RECORD EARNINGS AND PORTFOLIO PERFORMANCE

Consolidated revenues increased 33% in 1998 to \$1.4 billion. Funds from operations (FFO) rose 31% to \$544 million. On a per share basis, this amounted to \$2.85 per share, up 10.5% from \$2.58 in 1997.

Our regional mall portfolio has never been stronger. Occupancy for

Simon's senior executives are (left to right): David Simon, Chief Executive Officer; Melvin and Herbert Simon, Co-Chairmen of the Board of Directors; and Richard S. Sokolov, President & Chief Operating Officer.

mall and freestanding stores increased to 90.0%, up from 87.3% in 1997. In 1998, our leasing group executed over 7 million square feet of leases. Retail sales by our tenants grew 8.8% to \$346 per square foot in 1998 and the average initial base rent for new and renewal mall store leases increased by 15.7%. This growth in occupancy, tenant sales and rents, combined with the positive effect of our redevelopment efforts and our Simon Brand Venture (SBV) initiatives, resulted in same property EBITDA (earnings before interest, taxes, depreciation and amortization) growth of 6%.

ACQUISITIONS

1998 was a landmark year in the growth of our company through acquisitions. We continue to be the leader in the consolidation of our industry and our track record reflects that our acquisition activities add value to the company. Through these acquisitions, we have increased the quality of our portfolio,

added significant new markets, expanded our presence in existing markets and increased earnings. Simon's aggressive cost control, enhanced leasing, and implementation of revenue generating initiatives, including our SBV initiatives, improved the operating performance of all the individual assets and major portfolios we have acquired since our IPO. Simon is now clearly the most important landlord to its retailers because it is not only their largest landlord but also its quality locations provide a significant percentage of their sales and profitability as well.

Simon acquired two major mall portfolios in 1998. In September, we completed the \$5.1 billion acquisition of Corporate Property Investors (CPI), the nation's largest, and most productive, privately owned retail mall company. CPI owned 23 outstanding malls in markets such as Atlanta, New York, Boca Raton and Boston. This portfolio generated an industry leading \$422 per square

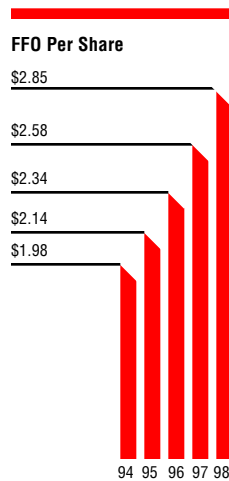


foot in sales in 1998.

We also acquired a 50% interest in a portfolio of 12 regional malls in a joint venture with The Macerich Company. This transaction enhanced our mall portfolio with excellent locations in growing middle markets in the Midwest, a region where we have a history of successful operations.

NEW DEVELOPMENT

Profitable opportunities exist in the



United States for selective new development as a result of population shifts, growth in metropolitan markets, and the existence of infill locations. We have 5 million square feet of exciting new development projects under construction, including projects in growing markets such as Charlotte, Orlando, Ft.

Worth and Atlanta. The diversity in asset type represented by these projects demonstrates Simon's versatility as a developer.

The Shops at Sunset Place in South Miami, Florida opened in January of 1999. Shops is a one-of-a-kind specialty retail center that reflects the innovation of our organization. It blends retail and entertainment with a tenant lineup unparalleled in South Florida. We encourage all of our shareholders to visit this unique project.

The Mall of Georgia is a 1.5 million square foot super-regional mall opening late summer 1999 in the Atlanta suburb of Buford, in fast-growing Gwinnett County. This development combines a traditional

mall featuring Dillard's, Lord & Taylor, JCPenney, Nordstrom, a 20 screen Regal and IMAX movie theater complex, and a village retail environment with freestanding restaurants and big box retailers. We are also developing an adjacent power center, The Mall of Georgia Crossing, as part of the complex, featuring Target and other complimentary retailers.

Concord Mills, a 1.4 million square foot value-oriented super-regional mall, is scheduled to open in September in the Charlotte, North Carolina suburb of Concord. Also scheduled for completion in 1999 are two community centers – The Shops at Northeast Plaza in Ft. Worth, Texas and Waterford Lakes Town Center in Orlando.

REDEVELOPMENT

We continued our practice of investing redevelopment capital to increase our properties' market share and franchise value, as well as to raise barriers to entry by competing projects. In 1998, we invested \$300 million in redevelopment projects that will generate financial returns in excess of the company's cost of capital. Included in this activity were major renovations and expansions at Aventura Mall in Miami; Castleton Square in Indianapolis; Prien Lake in Lake Charles, Louisiana; and Walt Whitman Mall on Long Island.

1999 promises to be an equally active and productive year with the completion of major renovation and expansion projects at The Shops at Mission Viejo in Mission Viejo, California; North East Mall in Ft. Worth; and Florida Mall in Orlando.

CAPITAL

Our growth has been achieved while maintaining the integrity of our capital structure and balance sheet. We are pleased that Simon continues to be afforded the highest investment rating of any company in the mall sector and, because of our approach, we have been successful in accessing the public and private markets for unsecured and property level mortgage debt. In 1998, we completed our most active year of capital markets activity ever, raising and arranging \$7 billion in well-timed capital market transactions. An example of this successful strategy was the recent issue of \$600 million of senior unsecured debt. This allowed us to fix floating rates and extend loan maturities at an attractive overall rate of less than 7%.

SIMON BRAND VENTURES

Simon Brand Ventures, our strategic marketing division launched in 1997, is a comprehensive program designed to leverage the size, quality and marketplace dominance of the Simon portfolio to create customer and retailer-targeted business opportunities. We are pleased to report that in 1998, SBV exceeded our financial expectations and created numerous alliances in the areas of marketing and aggregation of services. Simon's shopper affinity program, MALLPeRKS (the industry's only national mall-shopper loyalty program), doubled the number of shoppers enrolled to over 2 million.

We are positioned to continue this momentum into 1999. We believe that the mall has been greatly undervalued as a marketing vehicle. Our "portal," the Simon

portfolio, generates over \$32 billion in annual retail sales and is visited approximately 2.3 billion times per year by over 100 million distinct shoppers. These shoppers are coveted by consumer advertisers and providers of goods and services due to their quality demographics and predisposition to shop. There is significant value embedded in our company from marketing access to these "impressions" or "hits."

BRANDING

Simon is already a recognized name in the real estate industry and among our retail tenants with over two hundred forty properties across the country and a forty-year history of leadership, pioneering, and innovation in the retail real estate business. Over time, strong leadership and the dedication of our talented employees have worked to build substantial brand equity among our retailers. Our individual properties such as The Forum Shops, Dadeland Mall, Roosevelt Field, and Lenox Square have also established a brand name of their own. And in 1998 we sold over \$105 million of Simon gift certificates in our malls for use in any Simon property.

We believe we can accelerate the momentum of our company initiatives by more firmly establishing the Simon brand in relation to our properties. We believe that branding will help strengthen the positive perception of our centers in an environment of increasing choices for consumers and will create an emotional link between our customers and all aspects of the Simon shopping experience. It will define who and what we are and set

standards for us to follow in the management and ownership of our properties. Our statement is this:



THE INTERNET

Internet-based retailing or "e-commerce" has received a great deal of attention over the last few months. While the growth rate has been impressive, electronic retailing currently represents only a small portion of the total goods and services being purchased. E-commerce will continue to grow, however, we do not believe that it will have a significant long-term impact on the health and viability of the company's regional malls. Electronic retailing cannot replace the social interaction or the immediate fulfillment of a purchase decision that a Simon mall provides. Nor can you see a recently released movie, try on a dress, have your hair cut, eat a meal or have your children sit on Santa's lap, on-line.

In fact, through our size, national scope of operations and quality of portfolio, we are focused on taking advantage of synergies that we believe exist between on-line and on-location shopping. We have the resources and commitment to invest in the research and development efforts necessary to prosper in the "e-commerce" environment.

1999

We have undergone a significant transformation as a public company. Not only have we grown 5-fold since our IPO five years ago, but our portfolio is significantly more productive, averaging \$350 per square foot in sales. And when you add in our

hallmark innovation, including cutting-edge developments and our SBV program, we believe that we have positioned the company for future growth and prosperity.

When we went public we promised industry leadership through portfolio growth and property enhancement, and steady gains in revenues and profit. In 1999, we expect to continue this growth by improving property-operating performance through occupancy, sales and rent increases, reaping the financial benefits from our new development and redevelopment programs and continuing the expansion of our marketing initiatives.

As always, we would like to thank our dedicated Board of Directors and our 6,300 employees for their untiring efforts this past year that greatly contributed to our record-breaking performance.

Sincerely,

Melvin Simon
Co-Chairman of the Board

Herbert Simon
Co-Chairman of the Board

David Simon
Chief Executive Officer

Richard S. Sokolov
President and
Chief Operating Officer

Indianapolis, IN
March 17, 1999

ACQUISITIONS

.....
 \$5 BILLION CPI ACQUISITION
 COMPLETED; PORTFOLIO SIZE
 INCREASES BY 29% TO 166
 MILLION SQUARE FEET.

SIMON (SPG) continued to expand its market-leading presence in 1998. Through acquisitions, Simon has grown into a retail mall company that is larger than its next three competitors combined. SPG now owns a significant percentage of the nation's best malls and is able to offer retailers quality locations in every region of the country and most of the major U.S. metropolitan markets.

Last year acquisitions totaling \$5.7 billion added 37.6 million square feet of gross leasable area to our portfolio. We gained a significant presence in the major metro-



Roosevelt Field, located on Long Island, New York, is one of the country's most productive malls. Acquired in 1998, it contributes to SPG's dominant position in the New York metropolitan area.

politan areas of Boston and Atlanta and strengthened our presence in New York City, California, Florida and the Midwest.

The growth in our portfolio benefits SPG in two distinct ways: national presence and local market dominance. Our larger national portfolio helps us negotiate more mutually beneficial arrangements with the country's leading retailers.

The more national we become, the better we are positioned to meet the growth plans of national retail companies. Our increasingly dominant position in a number of American cities gives us the ability to deliver entire markets to our tenants as well as gain substantial operating efficiencies.

1998 ACQUISITIONS

The \$5.1 billion transaction with Corporate Property Investors (CPI), the most significant retail transaction of 1998, was completed in September. CPI's collection of 23 regional malls, one community center and two office buildings was the country's largest privately-held retail portfolio and one of the most productive as well. The CPI portfolio includes some of America's most desirable retail real estate, including: Roosevelt Field on Long Island, New York; Lenox Square and Phipps Plaza in Atlanta; and Town Center in Boca Raton, Florida.

The overall quality of the CPI portfolio is evidenced by its \$422 retail sales per-square-foot productivity and its 92% occupancy rate.

The CPI transaction brought Simon into Atlanta and Boston. The addition of its New York City metropolitan malls to Simon's existing properties moved Simon into the dominant retail mall position in Metro New York City.

CPI's portfolio included the 1.6-million-square-foot General Motors office building in New York City, which was sold prior to closing, lowering the aggregate cost of

LENOX SQUARE



Lenox Square, located in the prestigious Buckhead section of Atlanta, was acquired by SPG in 1998. Lenox is Atlanta's premier shopping location.

ACQUISITIONS

12 MALLS ADDED IN MIDDLE AMERICA; ADDITIONAL ASSETS ACQUIRED IN AUSTIN, TEXAS AND FLORIDA

the deal and affirming our mission as a real estate developer focused solely on retailing. "Simonizing" the CPI portfolio by adding existing SPG management techniques and revenue programs and introducing operating efficiencies will improve the cash flow of the CPI properties by \$50 million annually.

Last year we also invested \$487.5 million with The Macerich Company in a 50/50 joint venture to acquire 12 regional malls formerly owned by the IBM Master Pension Trust. The purchase added 10.7 million square feet to our portfolio.

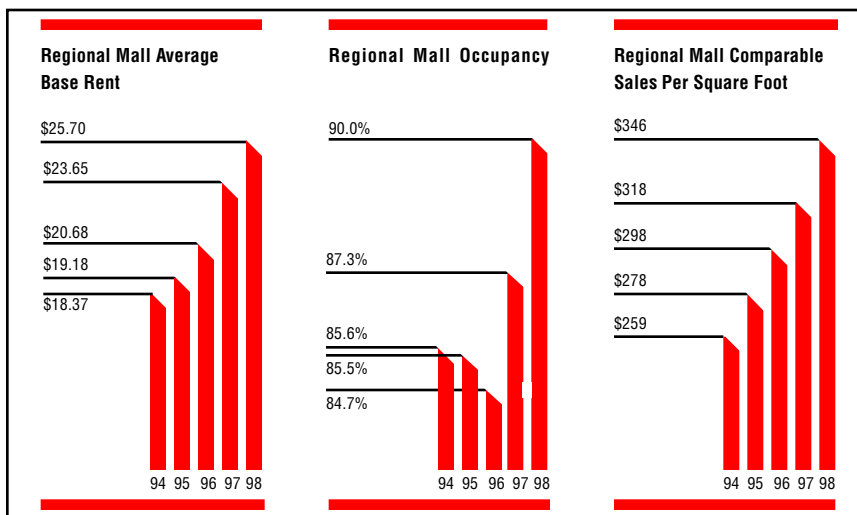
THE IBM portfolio further diversified our assets, giving our lineup prominent malls in such middle-market communities as Des Moines, Iowa; Sioux Falls, South Dakota; and Evansville, Indiana. Like our major-

which strategically complements our ownership of University Mall, the other regional mall in that community. We acquired the remaining 50 percent of Rolling Oaks Mall in San Antonio, Texas, and an additional 35 percent interest in Lakeline Mall and Lakeline Plaza in Austin, Texas. And in December we acquired The Arboretum in Austin, a 210,000-square-foot open-air specialty center anchored by Barnes & Noble, The Pottery Barn, Structure, Bath & Body and The Arbor Theater. We now own all three malls plus The Arboretum in the fast-growing and affluent Austin market.

DEVELOPMENTS AND REDEVELOPMENTS

We invest our capital conservatively yet effectively to increase market share, enhance franchise value and raise the barriers to entry by competing projects. This results in increased shareholder value because returns on such projects exceed our cost of capital. Our development and redevelopment programs demonstrate a proactive commitment even in markets where we already dominate.

Through the years, Simon has proven itself an outstanding developer of multiple retail formats, including regional malls, specialty and entertainment centers, community centers and value-oriented super-regional malls. The past year was no exception with the completion of two new community centers and a specialty center. These included:



market properties, these malls dominate their respective markets.

Also in 1998 Simon acquired Cordova Mall in Pensacola, Florida,

NEW PROJECT OPENINGS

PROJECTS OPENED IN 1998

PROJECT NAME/LOCATION	PROPERTY TYPE	ANCHOR/MAJOR TENANTS	OWNERSHIP%	GLA
Lakeline Plaza Austin, TX	Community Center	Linens 'N Things, TJMaxx, Old Navy, Toys "R" Us, OfficeMax, Party City	85%	262,000
Muncie Plaza Muncie, IN	Community Center	Kohl's, TJMaxx, OfficeMax, Shoe Carnival, Factory Card Outlet	100%	173,000

PROJECTS TO BE OPENED IN 1999

The Shops at Sunset Place South Miami, FL	Specialty Center	AMC 24 Theatre, NIKETOWN, Barnes & Noble, IMAX Theatre, Virgin Megastore, FAO Schwarz, Z Gallerie, GameWorks	37.5%	510,000
The Mall of Georgia Buford, GA (Atlanta)	Super-Regional	Nordstrom, Dillard's, Lord & Taylor, Galyans JC Penney, Bed Bath & Beyond, Haverty's Barnes & Noble	50%	1,500,000
The Mall of Georgia Crossing Buford, GA (Atlanta)	Community Center	Target, Nordstrom Rack, Best Buy, Uptons Staples, TJMaxx & More	50%	444,000
Concord Mills Concord, NC (Charlotte)	Value-Oriented Super-Regional	Books-A-Million, Bed Bath & Beyond, TJMaxx, Burlington Coat Factory, AMC Theatres, Bass Pro Outdoor World, Jillian's, Alabama Grill, Group USA, Embassy Suites Hotel, Host Marriot Services (food court)	37.5%	1,400,000
The Shops at Northeast Plaza Hurst, TX	Community Center	Michaels, OfficeMax, PetsMart, Cost Plus, TJMaxx, Bed Bath & Beyond, Party City	100%	323,000
Waterford Lakes Town Center Orlando, FL	Community Center	Regal 20-Plex, Super Target, TJMaxx, Bed Bath & Beyond, Barnes & Noble, Ross Dress for Less, Just For Feet, Waves Music, OfficeMax, Party City	100%	920,000



Mall of Georgia is a 1.5 million square foot super-regional mall under construction in the Atlanta suburb of Buford.

NEW DEVELOPMENT

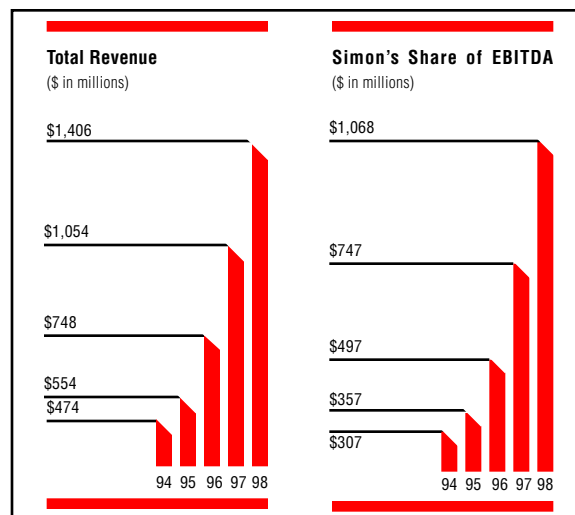
FIVE MILLION SQUARE FEET OF PROJECTS TO OPEN IN 1999 AND THE YEAR 2000

- Muncie Plaza, adjacent to the Muncie Mall in Muncie, Indiana, opened in the spring of 1998. Principal tenants are Kohl's, TJMaxx and OfficeMax.
- Lakeline Plaza, next to Lakeline Mall in Austin, Texas, opened in two phases in 1998. Its major tenants are Linens 'N Things, TJMaxx, Toys "R" Us, OfficeMax and Old Navy.
- The 510,000-square-foot The Shops at Sunset Place in South Miami, Florida, opened in January 1999. This specialty center brings an unmatched tenant lineup to South Florida. It blends retail and entertainment with such names as AMC Theatres, FAO Schwarz, IMAX, GameWorks, NIKETOWN, Virgin Megastore, Z Gallerie and Barnes & Noble. The center was 95 percent leased when it opened.

nation for Miami's vast tourism trade and local population. The Shops at Sunset Place is a testament to the Company's innovative spirit in blending retail, shopping and entertainment in one dynamic location. This is nothing new for us, as we pioneered the introduction of entertainment into the retail environment with cutting-edge projects such as Mall of America and The Forum Shops at Caesars.

More than 5 million square feet of new development projects set to open later in 1999 and 2000 currently are under construction. They include:

- The Mall of Georgia, a 1.5-million-square-foot super-regional mall in the Atlanta suburb of Buford. Scheduled to open in August 1999, The Mall of Georgia will be anchored by Dillard's, Lord & Taylor, JCPenney, Galyan's, Bed Bath & Beyond, Haverty's and Barnes & Noble. Nordstrom will join the lineup in March 2000.
- Adjacent to The Mall of Georgia will be the 444,000-square-foot Mall of Georgia Crossing, a power center anchored by Target, Uptons, TJMaxx & More, Best Buy, Nordstrom Rack and Staples, is slated to open in October 1999. We own 50 percent of both projects, which we are developing jointly with Ben Carter Properties.
- Concord Mills in the Charlotte, North Carolina, suburb of Concord is scheduled to open in Sep-



Early results from The Shops at Sunset have been extremely encouraging. The design and tenant mix of this unique center have combined to create a "must-see" desti-

REDEVELOPMENT ACTIVITIES COMPLETED IN 1998

PROPERTY NAME	LOCATION	SCOPE OF PROJECT
<i>Major Redevelopment Projects:</i>		
Aventura Mall	Miami, FL	Addition of AMC Theatres, Burdines and Bloomingdale's; expansions of JCPenney, Lord & Taylor, and Sears; small shop expansion
Castleton Square	Indianapolis, IN	Addition of Galyan's and Von Maur; L.S. Ayres expansion; Lazarus remodel; mall renovation; and addition of new food court
Independence Center	Independence, MO	Addition of Old Navy, Sears expansion and mall renovation
Irving Mall	Irving, TX	Addition of Barnes & Noble, Old Navy and General Cinema
Prien Lake Mall	Lake Charles, LA	Addition of Dillard's and Sears; mall renovation and small shop expansion with food court
Richardson Square	Dallas, TX	Addition of Old Navy, Stein Mart and Ross Dress for Less; mall renovation and addition of new food court
Tyrone Square	St. Petersburg, FL	Addition of food court and Borders; mall renovation
Walt Whitman Mall	Huntington, NY	Addition of Lord & Taylor, Saks Fifth Avenue and Bloomingdale's; mall renovation

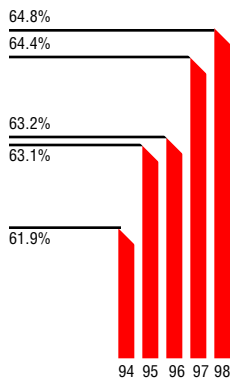


Bloomingdale's opened in 1998 in the newly renovated and expanded Walt Whitman Mall. Lord & Taylor was also added in 1998 with Saks Fifth Avenue slated to open in 1999. Walt Whitman Mall was acquired in the CPI transaction and is located in Huntington (Long Island), New York.

MALL EXPANSION & REDEVELOPMENT

.....
 \$300 MILLION INVESTED IN 1998; MAJOR PROJECTS COMPLETED IN NEW YORK, FLORIDA, INDIANA AND LOUISIANA

Operating Profit Margin



Noble, Waves Music, Party City and OfficeMax.

- The Shops at North East Plaza in Hurst, Texas, will open in November 1999 adjacent to Simon's North East Mall. The 323,000-square-foot power center will be anchored by Michaels, Office Max, PetsMart, Cost Plus, TJMaxx, Bed Bath & Beyond and Party City.
- Waterford Lakes Town Center in Orlando, Florida, will open its first phase of 557,000 square feet in November 1999, with an additional 363,000 square feet to open a year later. Anchors of the power center will include a Regal 20-Plex, Super Target, Bed Bath & Beyond, Just For Feet, TJMaxx, Ross Dress for Less, Barnes &

- Simon and Chelsea GCA Realty are jointly developing Orlando Premium Outlets, a 433,000-square-foot power center located in Orlando on I-4 less than two miles from the main entrance to Disney World. Simon has a 50 percent ownership in the project, scheduled to open in the summer of 2000.

SIMON'S existing portfolio provided additional opportunities for revenue enhancement through asset redevelopment. These projects expanded our market share and increased the barriers to entry by others, all accomplished at financial returns accretive to earnings. In 1998 we invested \$300 million, redeveloping our existing properties by adding theaters, department stores or big-box users, and in some cases completing full-scale redevelopment of dominant, franchise locations. Some examples:

- We added AMC Theatres and Bloomingdale's to Aventura Mall in Miami, Florida. Burdines will open in August 1999. We also expanded JCPenney, Lord & Taylor and Sears and added specialty shops.
- Prien Lake Mall in Lake Charles, Louisiana, is the only authentic regional mall in Southwest Loui-

◀ **This new food court was a key component of the \$33 million renovation and expansion of Castleton Square in Indianapolis, Indiana.**

Lakeline Plaza in Austin, Texas opened in 1998 and complements SPG's successful adjacent Lakeline Mall. Together they serve the rapidly growing northern section of Austin.



SIMON BRAND VENTURES

.....
 AFFINITY MARKETING THAT
 LEVERAGES THE BUYING POWER
 OF SIMON MALL SHOPPERS



Acquired in 1998, The Arboretum in Austin, Texas is a unique open-air specialty center with upscale tenants such as Pottery Barn.

siana, a position solidified by last year's renovation and expansion. We added two anchor stores—Sears and Dillard's—a food court and an increased mix of national specialty stores.

- Walt Whitman Mall in Huntington, New York, saw the addition of Lord & Taylor and Bloomingdale's and a complete renovation. Saks Fifth Avenue is slated to open there in March, 1999.
- At Castleton Square in Indianapolis, we added Galyan's and remodeled Lazarus and completed a mall renovation that included the addition of a food court.

Less and a food court.

- Tyrone Square in St. Petersburg, Florida, added a food court in connection with its renovation. Borders is to open there in March, 1999.

Additional redevelopment projects are slated for completion in 1999 and 2000. The major projects encompass renovation, expansion and addition of anchors at Florida Mall in Orlando; LaPlaza Mall in McAllen, Texas; The Shops at Mission Viejo in Mission Viejo, California; North East Mall in Hurst, Texas; Palm Beach Mall in West Palm Beach, Florida; Richmond Town Square in Cleveland; and Town Center at Boca Raton in Florida.

New anchors at the various centers include Nordstrom, Saks Fifth Avenue, Dillard's, Burdines, Kaufman's, Borders and Old Navy. All projects are to be completed by November 1999 except for LaPlaza and Boca Town Center, which are scheduled for November 2000.

SIMON BRAND VENTURES

1998 was the first full calendar year of operations of Simon Brand Ventures. Results have exceeded our expectations. This marketing strategy has three main components: Affinity Marketing, the Simon Media Network and the Merchant Resource Network.

The cornerstone of Affinity Marketing is MALLPeRKS, the country's largest frequent shopper

- The mall renovation at Independence Center in Independence, Missouri, included the addition of Old Navy and an expansion of Sears.
- At Irving Mall in Irving, Texas, we added Barnes & Noble, Old Navy and General Cinema.
- We renovated Richardson Square in Dallas, Texas, and added Old Navy, Stein Mart, Ross Dress for



WLMW 21st
Reading
Fun Day

WLMW 21st
Reading
Fun Day

WLMW
Reading
Fun Day

Reading Fun Day at Roosevelt Field – Participating in the 5th annual event is actor Richard Kind. Community involvement is an integral part of Simon’s management philosophy.

ENHANCING THE SHOPPING EXPERIENCE

WEBSITES, VISA AND PEPSI
PROMOTIONS, SHOPPING LINE
PHONE SERVICE

The National Football League brought its NFL Experience events to selected Simon malls.



program. MALLPeRKS had enrolled more than two million members by year-end 1998. MALLPeRKS rewards members with points for every dollar they spend at a Simon mall. These points may be exchanged for cash discounts and other incentives offered by participating merchants. In addition, a new strategic partnership with AT&T offers long-distance services to MALLPeRKS customers.

MALLPeRKS serves our interests as well as those of our customers. It fosters shopper loyalty, which is extremely important to tenants. It also builds a highly valuable database of the best customers at every Simon mall.

Our partnerships through Simon Media Network bring in revenue and enhance the shopping experience at Simon properties by providing marketing partners a direct, cost-effective marketing channel to consumers and retailers. Examples include 1998 promotions with Visa, Pepsi and the NFL.

An alliance with Visa U.S.A. allows Simon to leverage the strength of Visa's advertising and promotions while giving Visa exclusive access to Simon common areas for promoting its product.

We joined forces with the Pepsi-Cola Company to align both groups' huge customer bases to drive purchasing and brand loyalty among teenagers and young adults. Pepsi used the Simon Mall portfolio to successfully launch Pepsi One.

We participated in joint marketing efforts with the National Football League, which brought its NFL Experience events to Simon properties and offered free gifts to customers making mall purchases with Visa cards.

An alliance with JCDecaux, the world's largest streetscape advertiser, will yield a new mall media platform, *Simon MallScape 2000*. JCDecaux will create elegant mall advertising furniture through which brand marketers can reach the over 100 million shoppers that visit Simon properties every year.

Our latest Simon Brand Ventures initiative is a partnership with Time Inc. Custom Publishing to produce and distribute "S," a monthly magazine, in Simon malls. The magazine includes a variety of articles, many reprinted from such Time Inc. publications as *Sports Illustrated* and *Health*. The publications are localized to fit the mall where they are distributed but collectively offer a prime opportunity to connect the Simon name with a quality shopping experience.

Monthly circulation is expected to be in excess of 2.2 million and Simon creates another source of revenue through the sale of advertising.

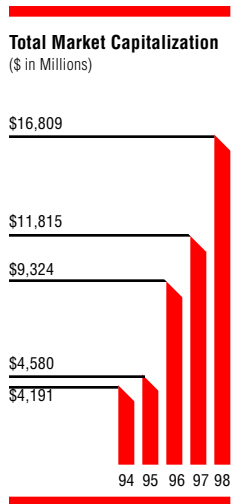
The Merchant Resource Network helps tenants reduce their operating costs. The Network negotiates master contracts for cleaning and maintenance services for its members, providing rates substantially below



Acquired in the 1998 CPI transaction, the highly-productive Roosevelt Field generates sales per square foot in excess of \$585.

BRANDING

CAMPAIGN LAUNCHED TO CREATE A NATIONAL MALL BRAND



those that an individual tenant could negotiate.

Our partnership with Browning Ferris Industries provides tenants significant discounts on waste-management services. This and other Merchant Resource Network services enhance our relationship with tenants by lowering their costs.

BRANDING

On March 1, 1999, we launched the Company's nationwide branding campaign. The campaign will leverage our legacy of innovation and market leadership to create an emotional link for consumers with the quality experience with which Simon has become synonymous throughout its 40-year history.

There is much work to be done as research shows that shoppers do not have the proper awareness of the added value that a Simon-managed shopping center can deliver. Our aim is to make shoppers cog-

nizant of this added value and aware of who is delivering it to them.

Succeeding in this endeavor promises a boost to long-term profitability for the company, its investors and its tenants. By motivating shoppers to *actively seek out* a Simon mall, our revenues and profits should expand considerably.

We have identified key attributes that we intend to enhance and promote: relationship-building, quality of experience and innovation. Our branding campaign, including advertising and communications, will reflect these attributes. The overall theme is "**Simon, simply the best shopping there is.**" Through each component of the campaign, the ease and fun of the Simon shopping experience is demonstrated and Simon is established as a company that provides consumers with simply the best shopping there is!



On-mall communication will be a central part of our branding. Our properties register 2.3 billion visits a year, making our malls a powerful network for reaching people. Simon branding will be everywhere — parking lot banners, nearby billboards, eye catching signage on mall doors, prominent displays of the Simon pledge to customers on posters and panels throughout the

◀ JCDcaux and SPG will partner in the installation of distinctive and elegant advertising structures similar to this one throughout the Company's mall portfolio over the next 18 months.



Phipps Plaza in Atlanta, Georgia was acquired in 1998. Anchored by Saks Fifth Avenue, Parisian and Lord & Taylor, this upscale mall generates sales per square foot in excess of \$550.

INTERNATIONAL

.....
SIMON PURCHASES INTEREST IN A EUROPEAN RETAIL DEVELOPER AND OPENS FIRST PROJECT IN EUROPE.

mall, each medium advertising mall products and services.

Traditional broadcast and print advertising further communicate our message. Two 30-second television spots depict shoppers at our malls. The first conveys a broad emotional message, an "image" piece designed to establish the Simon name and connect it with mall management. The second spot is more specific, outlining components of the Simon brand that include convenience, selection, value and entertainment.

Coordinated radio ads support the themes and make use of the same music. Mall print advertising includes prominent display of the Simon brand alongside the mall

side the U.S. Yet while the appeal of individual American products in foreign markets is great, these retailers have not, for the most part, aggressively expanded internationally. In addition, many countries outside of the U.S. are under-retailed and therefore, provide prime opportunities for profitable development.

Simon's strategy is to expand internationally through corporate investments or joint ventures with companies experienced in the particular markets. This will facilitate expansion by our U.S. retailers into well-managed assets while introducing international retailers to SPG. We will bring our management expertise and development philosophy to these international ventures as well as our brand name identity.

To implement this strategy, in partnership with institutional partners, in 1998 we acquired an interest in Groupe BEG, a European development company with significant experience in European retail properties. Our first joint venture project opened in October 1998 in Krakow, Poland, 100% leased and featuring a Carrefour hypermarket. Two other projects are under construction and more are in pre-construction development.

Our international efforts are relatively small at this point, but they represent the creation of a new avenue for growth, both for Simon and for our American partners. As we expand globally, we will build on the tenant-landlord relationships that have been profitable for us and for our tenants in the U.S. ■



Simon's first shopping mall in Europe opened 100% leased in Krakow, Poland in October 1998.

name. We also plan to promote our brand name through direct mail, targeting individuals on our proprietary, MALLPerKS shopper mailing list.

INTERNATIONAL

Even as we continue to pursue opportunities in the U.S., we recognize that various major domestic retailers are now looking to expand out-

SIMON REGIONAL MALLS AT DECEMBER 31, 1998

ALASKA

Anchorage 5th Avenue Mall★ -Anchorage

ARIZONA

Arizona Mills-Tempe (Phoenix)

Metrocenter-Phoenix

Southgate Mall-Yuma

ARKANSAS

McCain Mall-N. Little Rock

University Mall-Little Rock

CALIFORNIA

Brea Mall-Brea (Orange County)

Laguna Hills Mall-Laguna Hills (Orange County)

Ontario Mills-Ontario (Orange County)

Santa Rosa Plaza-Santa Rosa

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

Westminster Mall-Westminster (Orange County)

COLORADO

Aurora Mall-Aurora (Denver)

Mesa Mall-Grand Junction

CONNECTICUT

Crystal Mall-Waterford

FLORIDA

Aventura Mall-North Miami Beach

Boynton Beach Mall-Boynton Beach (West Palm Beach)

Coral Square-Coral Springs (Ft. Lauderdale)

Cordova Mall-Pensacola

Countryside Mall★ -Clearwater (Tampa)

Crystal River Mall-Crystal River

Dadeland Mall-Miami

DeSoto Square-Bradenton

Edison Mall-Fort Myers

Florida Mall-Orlando

Gulf View Square-Port Richey

Indian River Mall-Vero Beach

Lake Square Mall-Leesburg

Lakeland Square-Lakeland

Melbourne Square-Melbourne

Miami International Mall-Miami

Orange Park Mall-Orange Park

Orlando Premium Outlets◆ -Orlando

Paddock Mall-Ocala

Palm Beach Mall-West Palm Beach

Port Charlotte Town Center-Port Charlotte

Seminole Towne Center-Sanford (Orlando)

The Avenues-Jacksonville

The Fashion Mall at Plantation★ - Plantation (Ft. Lauderdale)

The Shops at Sunset Place◆ ■ - South Miami

Town Center at Boca Raton-Boca Raton

Treasure Coast Mall-Jensen Beach

Tyrone Square-St. Petersburg

University Mall-Pensacola

GEORGIA

Gwinnett Place-Duluth (Atlanta)

Lenox Office Building■ -Atlanta

Lenox Square-Atlanta

The Mall of Georgia◆ - Buford (Atlanta)

Phipps Plaza-Atlanta

Northlake Mall-Atlanta

Town Center at Cobb-Marietta (Atlanta)

ILLINOIS

Alton Square-Alton (St. Louis)

Lincolnwood Town Center-Lincolnwood (Chicago)

Machesney Park Mall-Rockford

Northfield Square Mall-Bourbonnais

Northwoods Shopping Center-Peoria

O'Hare International Center■ -Rosemont (Chicago)

Orland Square-Orland Park (Chicago)

River Oaks Center-Calumet City (Chicago)

Riverway■ -Rosemont (Chicago)

SouthPark Mall-Moline

White Oaks Mall-Springfield

INDIANA

Castleton Square-Indianapolis

Circle Centre-Indianapolis

Claypool Court■ ★ -Indianapolis

College Mall-Bloomington

Eastland Mall-Evansville

Greenwood Park Mall-Greenwood (Indianapolis)

Lafayette Square-Indianapolis

Markland Mall-Kokomo

Mounds Mall-Anderson

Muncie Mall-Muncie

Richmond Square-Richmond

The Fashion Mall at Keystone at the Crossing-Indianapolis

Tiptecanoe Mall-Lafayette

University Park Mall-Mishawaka (South Bend)

Washington Square-Indianapolis

IOWA

Lindale Mall-Cedar Rapids

NorthPark Mall-Davenport

Southern Hills Mall-Sioux City

SouthRidge Mall-Des Moines

KANSAS

Hutchinson Mall-Hutchinson

Towne East Square-Wichita

Towne West Square-Wichita

West Ridge Mall-Topeka

LOUISIANA

New Orleans Centre■ -New Orleans

Prien Lake Mall-Lake Charles

South Park Mall-Shreveport

MARYLAND

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

Golden Ring Mall-Baltimore

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

MASSACHUSETTS

Burlington Mall-Burlington (Boston)

South Shore Plaza-Brain tree (Boston)

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

Forum Shops at Caesars■ -Las Vegas

The Tower Shops■ -Las Vegas

NEW JERSEY

Bergen Mall-Paramus (New York)

Brunswick Square-East Brunswick (New York)

Livingston Mall-Livingston (New York)

Menlo Park Mall-Edison (New York)

Newport Centre★ -Jersey City (New York)

Ocean County Mall-Toms River

Rockaway Townsquare-Rockaway (New York)

SIMON REGIONAL MALLS AT DECEMBER 31, 1998

NEW MEXICO

Cottonwood Mall–Albuquerque

NEW YORK

Chautauqua Mall–Lakewood

Eastern Hills Mall–Williamsville

Jefferson Valley Mall–Yorktown

Manhattan Mall ★–New York

Nanuet Mall–Nanuet (New York)

Roosevelt Field–Garden City (New York)

Smith Haven Mall–Lake Grove (New York)

The Source–Westbury (New York)

The Westchester–White Plains (New York)

Three Dag Hammarskjold ■–New York

Walt Whitman Mall–Huntington (New York)

NORTH CAROLINA

Biltmore Square–Asheville

Concord Mills ◆–Concord (Charlotte)

OHIO

Great Lakes Mall–Mentor (Cleveland)

Great Northern Mall ★–Cleveland

Lima Mall–Lima

North Towne Square–Toledo

Randall Park Mall–North Randall (Cleveland)

Richmond Town Square–Richmond Heights (Cleveland)

Southern Park Mall–Boardman (Youngstown)

Summit Mall–Akron

Upper Valley Mall–Springfield

Woodville Mall – Northwood (Toledo)

OKLAHOMA

Eastland Mall–Tulsa

Heritage Park Mall–Midwest City (Oklahoma City)

Oakwood Mall ★–Enid

PENNSYLVANIA

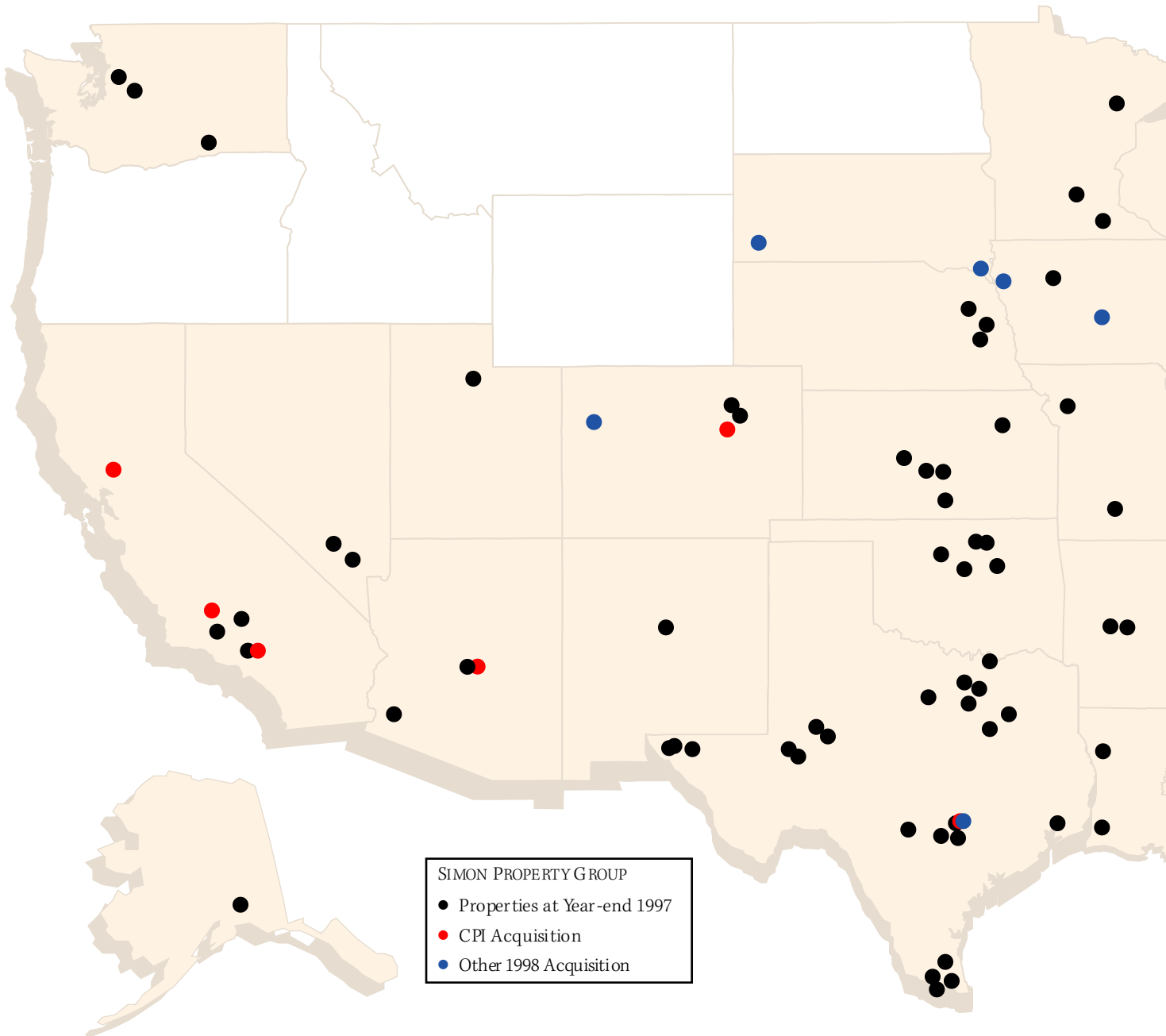
Century III Mall–West Mifflin (Pittsburgh)

Cheltenham Square–Philadelphia

Granite Run Mall–Media (Philadelphia)

Ross Park Mall–Pittsburgh

South Hills Village–Pittsburgh



SIMON REGIONAL MALLS AT DECEMBER 31, 1998

SOUTH CAROLINA

Anderson Mall–Anderson
 Haywood Mall–Greenville

SOUTH DAKOTA

Empire Mall–Sioux Falls
 Rushmore Mall–Rapid City

TENNESSEE

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

TEXAS

Amigoland Mall–Brownsville
 Barton Creek Square–Austin
 Broadway Square–Tyler
 Cielo Vista Mall–El Paso
 Golden Triangle Mall ★–Denton (Dallas)
 Grapevine Mills–Grapevine (Dallas)
 Highland Mall–Austin
 Ingram Park Mall–San Antonio
 Irving Mall–Irving (Dallas)
 La Plaza Mall–McAllen
 Lakeline Mall–Austin
 Longview Mall–Longview
 Midland Park Mall–Midland
 Midway Mall ★–Sherman

North East Mall–Hurst (Ft. Worth)
 Richards on Square–Richardson (Dallas)
 Rolling Oaks Mall–N. San Antonio
 Sunland Park Mall–El Paso
 Valle Vista Mall–Harlingen
 Windsor Park Mall–San Antonio

UTAH

Trolley Square ■–Salt Lake City

VIRGINIA

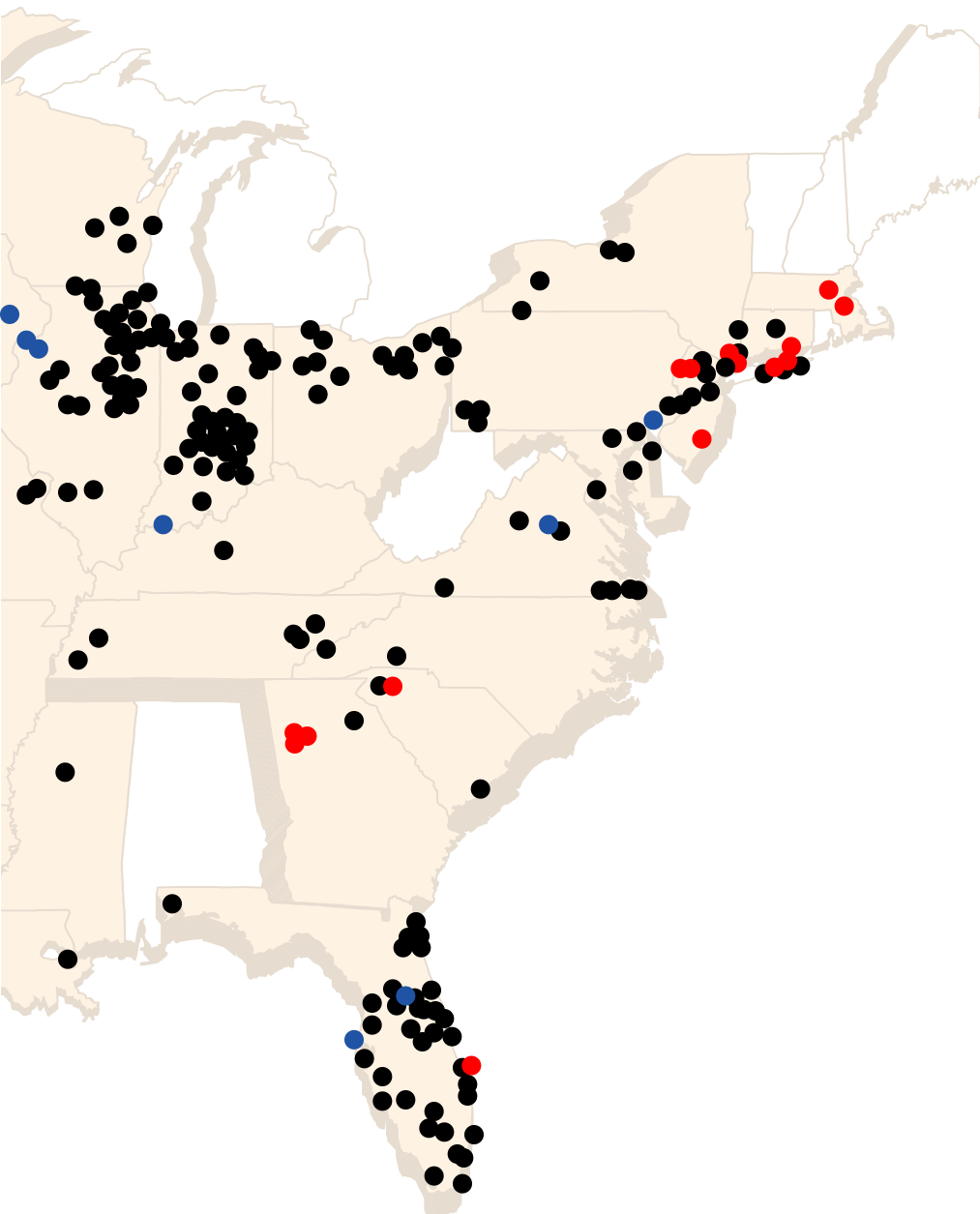
Charlottesville Fashion Square–
 Charlottesville
 Chesapeake Square–Chesapeake (Norfolk)
 Fashion Centre at Pentagon City ■–Arlington
 (Washington, D.C.)
 Lynnhaven Mall ★–Virginia Beach (Norfolk)
 Valley Mall–Harri sonburg
 Virginia Center Commons–Glen Allen

WASHINGTON

Columbia Center–Kennewick
 Northgate Shopping Center–Seattle
 Tacoma Mall–Tacoma

WISCONSIN

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



SIMON COMMUNITY CENTERS AT DECEMBER 31, 1998

COLORADO

Arvada Plaza–Arvada (Denver)
Aurora Plaza–Aurora (Denver)

CONNECTICUT

The Plaza at Buckland Hills–Manchester (Hartford)

FLORIDA

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

GEORGIA

Hamm ond Square–Sandy Springs (Atlanta)
The Mall of Georgia Crossing ✓–Buford (Atlanta)

ILLINOIS

Bloomi ngdale Court–Bloomi ngdale (Chicago)
Bri dgeview Court–Bri dgeview (Chicago)
Buffalo Grove Towne Center–Buffalo Grove (Chicago)
Countr yside Plaza–Countr yside (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)
Ridge Plaza ●–Arlington Heights (Chicago)
The Yards Plaza–Chicago
White Oaks Plaza–Springfield
Willow Knolls Court–Peoria

INDIANA

Brigh twood Plaza–Indianapolis
Century–Merrillville (Chicago)
Eastgate–Indianapolis
Eastland Convenience Center–Evansville
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–Fort Wayne
Teal Plaza–Lafayette
Tippecanoe Plaza–Lafayette
University Center–Mishawaka
Village Park Plaza–Carmel (Indianapolis)
Wabash Village–West Lafayette
Washington Plaza–Indianapolis

IOWA

Wood Plaza–Fort Dodge

KANSAS

West Ridge Plaza–Topeka
Wichita–Wichita

KENTUCKY

Park Plaza–Hopkinsville

MARYLAND

Glen Burnie–Glen Burnie (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
Rockaway Convenience Center–Rockaway

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

SOUTH CAROLINA

Charles Towne Square–Charleston

SOUTH DAKOTA

Empire East–Sioux Falls

TENNESSEE

Knoxville Commons–Knoxville

TEXAS

The Arboretum–Austin
Celina Plaza–El Paso
Ingram Plaza–San Antonio
Lakeline Plaza–Austin
Mainland Crossing–Texas City (Galveston)
The Shops at Northeast Plaza ✓–Hurst (Ft. Worth)

VIRGINIA

Chesapeake Center–Chesapeake (Norfolk)
Fairfax Court–Fairfax (Washington, D.C.)
Martinsville Plaza–Martinsville

WISCONSIN

Memorial Plaza–Sheboygan

REGIONAL MALLS

- ★ Simon Managed
- ◆ Under Development/Construction
- Mixed-Use, Office or Specialty Property

COMMUNITY CENTERS

- Simon Managed
- ✓ Under Development/Construction

SELECTED FINANCIAL DATA

.....
DOLLARS IN THOUSANDS,
EXCEPT PER SHARE DATA

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

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

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

As of or for the Year Ended December 31,		1998 ⁽¹⁾	1997 ⁽¹⁾	1996 ⁽¹⁾	1995	1994
(in thousands, except per share data)						
OPERATING DATA:	Total revenue	\$ 1,405,559	\$ 1,054,167	\$ 747,704	\$ 553,657	\$ 473,676
	Income before extraordinary items	236,230	203,133	134,663	101,505	60,308
	Net income available to common shareholders	\$ 133,598	\$ 107,989	\$ 72,561	\$ 57,781	\$ 23,377
BASIC EARNINGS PER COMMON SHARE:	Income before extraordinary items	\$ 1.02	\$ 1.08	\$ 1.02	\$ 1.08	\$ 0.71
	Extraordinary items	0.04	–	(0.03)	(0.04)	(0.21)
	Net income	\$ 1.06	\$ 1.08	\$ 0.99	\$ 1.04	\$ 0.50
	Weighted average paired shares outstanding	126,522	99,920	73,586	55,312	47,012
DILUTED EARNINGS PER COMMON SHARE:	Income before extraordinary items	\$ 1.02	\$ 1.08	\$ 1.01	\$ 1.08	\$ 0.71
	Extraordinary items	0.04	–	(0.03)	(0.04)	(0.21)
	Net income	\$ 1.06	\$ 1.08	\$ 0.98	\$ 1.04	\$ 0.50
	Diluted weighted average paired shares outstanding	126,879	100,304	73,721	55,422	47,214
	Distributions per common share ⁽²⁾	\$ 2.02	\$ 2.01	\$ 1.63	\$ 1.97	\$ 1.90
BALANCE SHEET DATA:	Cash and cash equivalents	\$ 129,195	\$ 109,699	\$ 64,309	\$ 62,721	\$ 105,139
	Total assets	13,277,000	7,662,667	5,895,910	2,556,436	2,316,860
	Mortgages and other indebtedness	7,973,372	5,077,990	3,681,984	1,980,759	1,938,091
	Shareholders' equity	\$ 3,409,209	\$ 1,556,862	\$ 1,304,891	\$ 232,946	\$ 57,307
OTHER DATA:	Cash flow provided by (used in):					
	Operating activities	\$ 529,415	\$ 370,907	\$ 236,464	\$ 194,336	\$ 128,023
	Investing activities	(2,102,032)	(1,243,804)	(199,742)	(222,679)	(266,772)
	Financing activities	1,592,113	918,287	(35,134)	(14,075)	133,263
	Ratio of Earnings to Fixed Charges and Preferred Dividends	1.44x	1.54x	1.55x	1.66x	1.43x
	Funds from Operations (FFO) of Simon Group ⁽³⁾	\$ 544,481	\$ 415,128	\$ 281,495	\$ 197,909	\$ 167,761
	FFO allocable to the Companies	\$ 361,326	\$ 258,049	\$ 172,468	\$ 118,376	\$ 92,604

Simon Property Group, Inc.:

As of or for the Year Ended December 31,		1998 ⁽¹⁾	1997 ⁽¹⁾	1996 ⁽¹⁾	1995	1994
(in thousands, except per share data)						
OPERATING DATA:	Total revenue	\$ 1,405,072	\$ 1,054,167	\$ 747,704	\$ 553,657	\$ 473,676
	Income before extraordinary items	235,790	203,133	134,663	101,505	60,308
	Net income available to common shareholders	\$ 133,286	\$ 107,989	\$ 72,561	\$ 57,781	\$ 23,377
BASIC EARNINGS PER COMMON SHARE:	Income before extraordinary items	\$ 1.01	\$ 1.08	\$ 1.02	\$ 1.08	\$ 0.71
	Extraordinary items	0.04	-	(0.03)	(0.04)	(0.21)
	Net income	\$ 1.05	\$ 1.08	\$ 0.99	\$ 1.04	\$ 0.50
	Weighted average shares outstanding	126,522	99,920	73,586	55,312	47,012
DILUTED EARNINGS PER COMMON SHARE:	Income before extraordinary items	\$ 1.01	\$ 1.08	\$ 1.01	\$ 1.08	\$ 0.71
	Extraordinary items	0.04	-	(0.03)	(0.04)	(0.21)
	Net income	\$ 1.05	\$ 1.08	\$ 0.98	\$ 1.04	\$ 0.50
	Diluted weighted average shares outstanding	126,879	100,304	73,721	55,422	47,214
	Distributions per common share ⁽²⁾	\$ 2.02	\$ 2.01	\$ 1.63	\$ 1.97	\$ 1.90
BALANCE SHEET DATA:	Cash and cash equivalents	\$ 127,626	\$ 109,699	\$ 64,309	\$ 62,721	\$ 105,139
	Total assets	13,269,129	7,662,667	5,895,910	2,556,436	2,316,860
	Mortgages and other indebtedness	7,972,381	5,077,990	3,681,984	1,980,759	1,938,091
	Shareholders' equity	\$ 3,394,142	\$ 1,556,862	\$ 1,304,891	\$ 232,946	\$ 57,307

SPG Realty Consultants, Inc.:

As of or for the Year Ended December 31,		1998	1997	1996	1995	1994
(in thousands, except per share data)						
OPERATING DATA:	Total revenue	\$ 4,912	\$ 6,214	\$ 9,805	\$ 10,423	\$ 11,184
	Net income (loss)	(4,431)	1,177	(920)	(6)	387
BASIC EARNINGS PER COMMON SHARE:	Net income (loss)	\$ (5.17)	\$ 2.07	\$ (1.88)	\$ (0.01)	\$ 0.86
	Weighted average shares outstanding	857	569	490	471	450
DILUTED EARNINGS PER COMMON SHARE:	Net income (loss)	\$ (5.17)	\$ 2.07	\$ (1.88)	\$ (0.01)	\$ 0.86
	Diluted weighted average shares outstanding	857	569	490	471	450
	Distributions per common share ⁽²⁾	\$ 0.39	\$ 0.40	\$ 0.425	\$ 0.625	\$ 1.00
BALANCE SHEET DATA:	Cash and cash equivalents	\$ 1,569	\$ 4,147	\$ 4,797	\$ 2,759	\$ 4,588
	Total assets	46,601	46,063	31,054	30,929	32,239
	Mortgages and other indebtedness	21,556	36,818	21,988	22,208	22,409
	Shareholders' equity	15,067	4,316	5,039	4,320	5,650

- NOTES**
- (1) Note 3, 4 and 7 to the accompanying financial statements describes the CPI Merger and the DRC Merger, which occurred on September 24, 1998 and August 9, 1996, respectively, and other 1998, 1997 and 1996 real estate acquisitions and development. Note 2 to the accompanying financial statements describes the basis of presentation.
 - (2) Represents distributions declared per period, which, in 1996, includes a distribution of \$0.1515 per share declared on August 9, 1996, in connection with the DRC Merger, designated to align the time periods of distributions of the merged companies. The current annual distribution rate is \$2.02 per paired share. SPG Realty Consultants, Inc's distributions were declared prior to the CPI Merger.
 - (3) Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations for a definition of Funds from Operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

• • • • •
OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

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

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

OVERVIEW Simon Property Group, Inc. ("SPG"), a Delaware corporation, formerly known as Simon DeBartolo Group, Inc. ("SDG"), is a self-administered and self-managed real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). Each share of common stock of SPG is paired with 1/100th of a share of common stock of SPG Realty Consultants, Inc. ("SRC" and together with SPG, the "Companies").

Simon Property Group, L.P. (the "SPG Operating Partnership"), formerly known as Simon DeBartolo Group, L.P. ("SDG, LP"), is the primary subsidiary of SPG. Units of ownership interest ("Units") in the SPG Operating Partnership are paired with 1/100th of a Unit in SPG Realty Consultants, L.P. (the "SRC Operating Partnership" and together with the SPG Operating Partnership, the "Operating Partnerships"). The SRC Operating Partnership is the primary subsidiary of SRC. The Companies together with the Operating Partnerships are hereafter referred to as "Simon Group", which prior to the CPI Merger (see below) refers to SDG and the SPG Operating Partnership.

The Companies, primarily through the Operating Partnerships, are engaged primarily in the ownership, operation, management, leasing, acquisition, expansion and development of real estate properties, primarily regional malls and community shopping centers. As of December 31, 1998, Simon Group owns or holds an interest in 242 income-producing properties, which consist of 153 regional malls, 77 community shopping centers, three specialty retail centers, six office and mixed-use properties and three value-oriented super-regional malls in 35 states (the "Properties"). Simon Group also owns interests in one regional mall, one value-oriented super-regional mall, one specialty retail center and three community centers currently under construction and twelve parcels of land held for future development (collectively, the "Development Properties", and together with the Properties, the "Portfolio Properties"). At December 31, 1998 and 1997, the Companies' direct and indirect ownership interest in the Operating Partnerships was 71.6% and 63.9%, respectively. The SPG Operating Partnership also holds substantially all of the economic interest in M.S. Management Associates, Inc. (the "Management Company"). See Note 8 to the attached financial statements for a description of the activities of the Management Company.

Operating results of Simon Group for the two years ended December 31, 1998 and 1997, and their comparability to the respective prior periods, have been significantly impacted by a number of Property acquisitions and openings beginning in 1996. The greatest impact on results of operations has come from the CPI Merger (see Liquidity and Capital Resources),

which was consummated as of the close of business on September 24, 1998, the merger with DeBartolo Realty Corporation (the "DRC Merger") which was completed on August 9, 1996, and the acquisition of Shopping Center Associates (the "SCA Acquisition"), which included a series of transactions from September 29, 1997 to June 1, 1998. In addition, Simon Group 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 April 11, 1996, Simon Group acquired the remaining 50% economic ownership interest in Ross Park Mall for approximately \$101 million. On July 31, 1996, Simon Group opened the approximately \$75 million wholly-owned Cottonwood Mall in Albuquerque, New Mexico. On August 29, 1997, Simon Group opened the 55%-owned, \$89 million phase II expansion of The Forum Shops at Caesar's. On December 30, 1997, Simon Group acquired 100% of The Fashion Mall at Keystone at the Crossing, along with an adjacent community center, in Indianapolis, Indiana for \$124.5 million. On January 26, 1998, Simon Group acquired 100% of Cordova Mall in Pensacola, Florida for approximately \$87.3 million. On May 5, 1998, in a series of transactions, Simon Group acquired the remaining 50.1% interest in Rolling Oaks Mall for 519,889 shares of SPG's common stock, valued at approximately \$17.2 million. Please refer to "Liquidity and Capital Resources" for additional information on 1998 activity.

RESULTS OF OPERATIONS

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

Total revenue increased \$351.4 million or 33.3% in 1998 as compared to 1997. This increase is primarily the result of the CPI Merger (\$136.3 million), the SCA Acquisition (\$121.7 million), the Property Transactions (\$48.2 million) and approximately \$12.9 million of consolidated revenues realized from marketing initiatives throughout the portfolio from Simon Group's strategic marketing division, Simon Brand Ventures ("SBV"). Excluding these transactions, total revenues increased \$32.3 million, primarily due to a \$20.2 million increase in minimum rent, a \$10.1 million increase in other income and a \$3.8 million increase in tenant reimbursements. The increase in minimum rents results from increased occupancy levels, the replacement of expiring tenant leases with renewal leases at higher minimum base rents, and a \$4.3 million increase in rents from tenants operating under license agreements. The increase in other income is primarily the result of increases in gains from sales of peripheral properties (\$3.4 million) and interest income (\$2.8 million) and a fee (\$2.5 million) earned from CPI in connection with the sale of the General Motors Building in New York, New York. The increase in tenant reimbursements is offset by a \$4.6 million increase in property operating expenses for comparable properties.

Total operating expenses increased \$186.2 million, or 32.3%, in 1998 as compared to 1997. This increase is primarily the result of the CPI Merger (\$73.8 million, including \$27.5 million of depreciation and amortization), the SCA Acquisition (\$66.6 million, including \$20.9 million of depreciation and amortization) and the Property Transactions (\$29.7 million, including \$12.9 million of depreciation and amortization). Excluding these transactions, operating expenses increased \$16.1 million or 2.8%, primarily due to increases in depreciation and amortization (\$6.3 million), property operating expenses (\$4.6 million) and advertising and promotion (\$3.7 million). The increase in depreciation and amortization is primarily due to an increase in depreciable real estate realized through renovation and expansion activities. The increase in property operating expenses is offset by a \$3.8 million net increase in tenant reimbursements.

Interest expense increased \$132.1 million, or 45.9% in 1998 as compared to 1997. This increase is primarily as a result of the CPI Merger (\$45.5 million), the SCA Acquisition (\$59.1 million) and the Property Transactions (\$15.0 million) and incremental interest (\$12.7 million) on borrowings under the Credit Facility to acquire the IBM Properties (see Note 7 to the financial statements).

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

Income from unconsolidated entities increased \$9.4 million from \$19.2 million in 1997 to \$28.6 million in 1998, resulting from an increase in the Operating Partnerships' share of income from partnerships and joint ventures (\$14.0 million), partially offset by a decrease in the Operating Partnerships' share of income from M.S. Management Associates Inc. (the "Management Company") (\$4.6 million). The increase in the Operating Partnerships' share of income from partnerships and joint ventures is primarily the result of the addition of the IBM Properties (\$14.5 million) and the CPI Merger (\$7.2 million), partially offset by the increase in the amortization of the excess of the Operating Partnerships' investment over their share of the equity in the underlying net assets of unconsolidated joint-venture Properties (\$8.7 million). The decrease in Management Company includes a \$6.0 million decrease in development fee income.

The \$7.1 million loss from extraordinary items in 1998 is the result of prepayment penalties and write-offs of mortgage costs associated with early extinguishments of debt.

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

Preferred distributions of subsidiary represent distributions on preferred stock of SPG Properties, Inc. (formerly "Simon DeBartolo Group, Inc." prior to the CPI Merger), a 99.99% owned subsidiary of SPG.

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 SCA 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 SCA 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 SCA Acquisition (\$13.9 million) and the Property Transactions (\$9.1 million).

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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 from unconsolidated entities increased from \$9.5 million in 1996 to \$19.2 million in 1997, resulting from an increase in the SPG Operating Partnership's share of the Management Company's 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 SPG Operating Partnership's share of the Management Company's gains on sales of peripheral property (\$1.9 million). The increase in the SPG Operating Partnership's share of income from partnerships and joint ventures is primarily the result of the DRC Merger (\$4.9 million), the SCA 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 SPG Operating Partnership's investment over its share of the equity in the underlying net assets of unconsolidated joint-venture Properties (\$8.8 million).

Income before allocation to limited partners 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 SPG based on SPG's preferred unit preference and weighted average ownership interest in the SPG Operating Partnership during the year.

Preferred distributions increased by \$16.6 million to \$29.2 million in 1997 as a result of SPG's issuance of \$200 million of 8³/₄% Series B cumulative redeemable preferred stock on September 27, 1996 and \$150 million of 7.89% Series C Cumulative Step-Up Premium RateSM 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 8¹/₈% Series A convertible preferred stock into 3,809,523 shares of common stock on November 11, 1997.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 1998, Simon Group's balance of unrestricted cash and cash equivalents was \$129.2 million. In addition to its cash balance, Simon Group has a \$1.25 billion unsecured revolving credit facility (the "Credit Facility") which had \$880.8 million available after outstanding borrowings and letters of credit at December 31, 1998. The Credit Facility bears interest at LIBOR plus 65 basis points and has an initial maturity of September 1999, with a one-year extension available at Simon Group's option. SPG and the SPG Operating Partnership also have access to public equity and debt markets.

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

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Sensitivity Analysis. The Operating Partnerships' combined future earnings, cash flows and fair values relating to financial instruments are primarily dependent upon prevalent market rates of interest, primarily LIBOR. Based upon consolidated indebtedness and interest rates at December 31, 1998, a 1% increase in the market rates of interest would decrease future earnings and cash flows by approximately \$15.5 million, and would decrease the fair value of debt by approximately \$800 million. A 1% decrease in the market rates of interest would increase future earnings and cash flows by approximately \$15.5 million, and would increase the fair value of debt by approximately \$1.1 billion.

Financing and Debt. At December 31, 1998, Simon Group had combined consolidated debt of \$7,973 million, of which \$5,670 million is fixed-rate debt bearing interest at a weighted average rate of 7.3% and \$2,303 million is variable-rate debt bearing interest at a weighted average rate of 6.1%. As of December 31, 1998, Simon Group had interest rate protection agreements related to \$938 million of combined consolidated variable-rate debt. Simon Group's hedging activity as a result of these interest rate protection agreements resulted in net interest savings of \$263 thousand for the year ended December 31, 1998. This did not materially impact Simon Group's weighted average borrowing rates.

Simon Group's share of total scheduled principal payments of mortgage and other indebtedness, including unconsolidated joint venture indebtedness over the next five years is \$4.729 million, with \$4,315 million thereafter. Simon Group's ratio of consolidated debt-to-market capitalization was 51.2% and 46.0% at December 31, 1998 and 1997, respectively. The increase is primarily the result of a 12.8% decrease in the Companies' common stock price in 1998.

The following summarizes significant financing and refinancing transactions completed in 1998:

Financings related to the CPI Merger. The cost of the CPI Merger (see below) included the issuance of 53,078,564 shares of common stock and 4,844,331 shares of 6.50% Series B Convertible Preferred Stock to the CPI shareholders. Each share of Series B Convertible Preferred Stock is convertible into 2.586 paired shares of common stock of the Companies, subject to adjustment under certain circumstances described in Note 11 of the financial statements. Also resulting from the CPI Merger, SPG became the issuer of 209,249 shares of 6.50% Series A Convertible Preferred Stock. Each share of which is convertible into 37.995 paired shares of the Companies' common stock, subject to adjustment under the same circumstances as SPG's 6.50% Series B Convertible Preferred Stock described above. On February 26, 1999, 150,000 of such shares were converted.

To finance the cash portion of the CPI Merger, the SPG Operating Partnership and SPG, as co-obligors, obtained a \$1.4 billion unsecured bridge loan (the "Merger Facility"). The Merger Facility bears interest at a base rate of LIBOR plus 65 basis points and has stated maturities at the following intervals (i) \$450 million on June 24, 1999 (ii) \$450 million on March 24, 2000 and (iii) \$500 million on September 24, 2000. In February 1999 the initial \$450 million maturity was retired with proceeds from an unsecured debt offering, which is described below. The Merger Facility is subject to covenants and conditions substantially identical to those of the Credit Facility. Simon Group drew the entire \$1.4 billion available on the Merger Facility, along with \$237 million on the Credit Facility, to pay for the cash portion of the dividend declared in conjunction with the CPI Merger, as well as closing costs associated with the CPI Merger. Financing costs of \$9.5 million, which were incurred to obtain the Merger Facility, are being amortized over 18 months.

Also in conjunction with the CPI Merger, the SPG Operating Partnership transferred substantially all of the CPI assets and \$825 million of unsecured notes (the "CPI Notes") to Retail Property Trust ("RPT"), a 99.999% owned REIT subsidiary of the SPG Operating Partnership.

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As a result, the CPI Notes are structurally senior in right of payment to holders of other Simon Group unsecured notes to the extent of the assets of RPT only, with over 99.999% of the excess cash flow plus any capital event transactions available for the other Simon Group unsecured notes. The CPI Notes pay interest semiannually, and bear interest ranging from 7.05% to 9.00% (weighted average of 8.03%), and have various due dates through 2016 (average maturity of 9.1 years). The CPI Notes contain leverage ratios, annual real property appraisal requirements, debt service coverage ratios and minimum net worth ratios. Additionally, consolidated mortgages totaling \$2.1 million, and a pro-rata share of \$143.5 million of nonconsolidated joint venture indebtedness was assumed in the CPI Merger and as a result of acquiring the remaining interest in Palm Beach Mall, Simon Group began accounting for that Property using the consolidated method of accounting, adding \$50.7 million to consolidated indebtedness. A net premium of \$19.2 million was recorded in accordance with the purchase method of accounting to adjust the CPI Notes and mortgage indebtedness assumed in the CPI Merger to fair value, which is being amortized over the remaining lives of the related indebtedness.

Secured Indebtedness. During 1998, Simon Group refinanced approximately \$545 million of mortgage indebtedness on 19 of its Properties into four separate cross-collateralized and cross-defaulted pools. These refinancings included additional borrowings of approximately \$270 million, which Simon Group used primarily to paydown the Credit Facility and for general working capital needs. The weighted average maturity of the indebtedness increased from approximately 5.6 years to 7.1 years, while the weighted average interest rates decreased from approximately 7.6% to 7.3%.

Credit Facility. The maximum and average amounts outstanding during 1998 under the Credit Facility were \$992 million and \$584 million, respectively.

Equity Financings. During 1998, SPG issued 2,957,335 shares of its common stock in offerings generating aggregate net proceeds of approximately \$91.4 million. The net proceeds were contributed to the SPG Operating Partnership in exchange for a like number of Units. The SPG Operating Partnership used the net proceeds for general working capital purposes. In addition, SPG issued 519,889 shares of common stock valued at \$17.2 million to acquire the remaining 50.1% interest in Rolling Oaks Mall.

Unsecured Notes. On June 22, 1998, Simon Group completed the sale of \$1.075 billion of senior unsecured debt securities. The issuance included three tranches of notes as follows (1) \$375 million bearing interest at 6.625% and maturing on June 15, 2003 (2) \$300 million bearing interest at 6.75% and maturing on June 15, 2005 and (3) \$200 million bearing interest at 7.375% and maturing on June 15, 2018. This offering also included a fourth tranche of \$200 million of 7.00% Mandatory Par Put Remarketed Securities due June 15, 2028, which are subject to redemption on June 16, 2008. The net proceeds of approximately \$1.062 billion were combined with \$40 million of working capital and used to retire and terminate a \$300 million unsecured revolving credit facility and to reduce the outstanding balance of the Credit Facility.

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

LIQUIDITY AND
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The CPI Merger. For financial reporting purposes, as of the close of business on September 24, 1998, pursuant to the Agreement and Plan of Merger dated February 18, 1998, among Simon DeBartolo Group, Inc., Corporate Property Investors, Inc., and Corporate Realty Consultants, Inc., the CPI Merger was consummated. As a result, the consolidated results of operations include an additional 17 regional malls, two office buildings and one community center, with an additional six regional malls being accounted for using the equity method of accounting.

The total purchase price associated with the CPI Merger is approximately \$5.9 billion including transaction costs and liabilities assumed. This includes a per share dividend paid immediately prior to the CPI Merger to the holders of CPI common stock of (i) \$90 in cash, (ii) 1.0818 additional shares of common stock and (iii) 0.19 shares of 6.50% Series B convertible preferred stock. The dividend was paid on a total of 25,496,476 shares of CPI common stock.

See Note 3 to the financial statements for additional information about the CPI Merger.

Acquisitions and Disposals. During 1998, in addition to the CPI Merger, Simon Group acquired 100% of one Property and additional interests in a total of 21 Properties for approximately \$657 million, including the assumption of \$271 million of indebtedness and 2,864,088 Units valued at approximately \$93 million, with the remainder in cash financed primarily through the Credit Facility and working capital. These transactions resulted in the addition of approximately 11.8 million square feet of GLA to the portfolio.

Simon Group and several joint venture partners have collectively acquired a 44 percent ownership position in Groupe BEG, S.A. ("BEG"). BEG is a fully integrated European retail real estate developer, lessor and manager. Simon Group, and its affiliated Management Company, have contributed \$27.5 million of equity capital for a 22% ownership interest and are committed to an additional investment of \$28.7 million over the next 12 months, subject to certain financial and other conditions including Simon Group's approval of development projects. The agreement with BEG is structured to allow Simon Group and its partners to collectively acquire a controlling interest in BEG over time.

Effective June 1, 1998, Simon Group sold The Promenade for \$33.5 million. No gain or loss was recognized on this transaction. Effective June 30, 1998, Simon Group sold Southtown Mall for \$3.3 million and recorded a \$7.2 million loss on the transaction.

See Note 4 to the financial statements for 1997 and 1996 acquisition activity.

On February 25, 1999 Simon Group entered into a definitive agreement with New England Development Company ("NED") to acquire and assume management responsibilities for NED's portfolio of up to 14 regional malls aggregating approximately 10.6 million square feet of GLA. The purchase price for the portfolio is approximately \$1.725 billion. Simon Group expects to form a joint venture to acquire the portfolio, with Simon Group's ultimate ownership to be between 30% to 50%.

Management continues to actively review and evaluate a number of individual property and portfolio acquisition opportunities. Management believes that funds on hand and amounts available under the Credit Facility, together with the ability to issue shares of common stock and/or Units, provide the means to finance certain acquisitions. No assurance can be given that Simon Group will not be required to, or will not elect to, even if not required to, obtain funds from outside sources, including through the sale of debt or equity securities, to finance significant acquisitions, if any.

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Portfolio Restructuring. As a continuing part of Simon Group's long-term strategic plan, management is evaluating the potential sale of non-retail holdings, along with a number of retail assets that are no longer aligned with Simon Group's strategic criteria. If these assets are sold, management expects the sale prices will not differ materially from the carrying value of the related assets.

Development Activity. Development activities are an ongoing part of Simon Group's business. During 1998, Simon Group opened two new community shopping centers at a combined cost of approximately \$47.3 million, adding 465,500 square-feet of GLA to the portfolio. Each of these new community centers is adjacent to an existing regional mall in Simon Group's portfolio. In addition, The Shops at Sunset Place, a destination-oriented retail and entertainment project containing approximately 510,000 square feet of GLA, opened in January of 1999 in South Miami, Florida. Simon Group owns a noncontrolling 37.5% of this specialty retail center.

Construction also continues on the following projects, which have an aggregate construction cost of approximately \$620 million, Simon Group's share of which is approximately \$347 million:

- Concord Mills, a 37.5%-owned value-oriented super regional mall project, containing approximately 1.4 million square feet of GLA, is scheduled to open in September of 1999 in Concord (Charlotte), North Carolina.
- The Mall of Georgia, an approximately 1.5 million square foot regional mall project, is scheduled to open in August of 1999. Adjacent to the regional mall, The Mall of Georgia Crossing is an approximately 444,000 square-foot community shopping center project, which is scheduled to open in October of 1999. Simon Group is funding 85% of the capital requirements of the project. Simon Group has a noncontrolling 50% ownership interest in each of these development projects after the return of its equity and a 9% return thereon.
- In addition to Mall of Georgia Crossing, two other new community center projects are under construction: The Shops at North East Plaza and Waterford Lakes at a combined 1,243,000 square feet of GLA.

Strategic Expansions and Renovations. A key objective of Simon Group is to increase the profitability and market share of the Properties through the completion of strategic renovations and expansions. In 1998, Simon Group completed construction and opened nine new expansion and/or renovation projects: Aventura Mall in Miami, Florida; Castleton Square in Indianapolis, Indiana; Independence Center in Independence, Missouri; Irving Mall in Irving, Texas; Prien Lake Mall in Lake Charles, Louisiana; Richardson Square in Dallas, Texas; Tyrone Square in St. Petersburg, Florida; Walt Whitman Mall in Huntington, New York; and West Town Mall in Knoxville, Tennessee.

Simon Group currently has five major expansion projects under construction at an aggregate cost of approximately \$465 million, Simon Group's share of which is approximately \$422 million:

- A \$146 million renovation and expansion of The Shops at Mission Viejo in Mission Viejo, California, including the additions of Nordstrom and Saks Fifth Avenue with expansions of Macy's and Robinsons-May is scheduled for completion in the winter of 1999. In addition, a new food court is scheduled to open late in 2000. Simon Group owns 100% of this mall.

LIQUIDITY AND
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- North East Mall will have an additional 308,000 square feet of GLA including a 73,000 square foot small shop expansion, a new Nordstrom and Saks Fifth Avenue when its \$103 million renovation and expansion project, which is scheduled to open in the fall of 2000, is complete. Simon Group owns 100% of this regional mall.
- An approximately 200,000 square-foot small shop expansion of The Florida Mall in Orlando, Florida, as well as the addition of Burdines, is scheduled for completion in November of 1999. Expansions of Dillard's, Parisian and JCPenney are also included in this \$86 million project. Simon Group has a noncontrolling 50% ownership interest in this project.
- The \$65 million expansion and renovation of Town Center at Boca Raton in Boca Raton, Florida includes the addition of Nordstrom, a relocation of Saks Fifth Avenue, a mall renovation and the expansions of Lord & Taylor and Bloomingdale's, with more than 100,000 additional square feet of small shops. This wholly-owned development project is scheduled for completion in the summer of 2000.
- Richmond Town Square is in the middle of a \$57 million renovation and expansion project which includes a new Kaufmann's and a JCPenney renovation that opened in November 1998, a Sears remodel and a new food court scheduled to open in May of 1999 and a new Sony Cinema scheduled to open early in 2000.

Simon Group has a number of smaller renovation and/or expansion projects currently under construction aggregating approximately \$200 million, nearly all of which relates to wholly-owned Properties. In addition, preconstruction development continues on a number of project expansions, renovations and anchor additions at additional properties. Simon Group 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. Consolidated capital expenditures, excluding acquisitions, were \$349 million, \$332 million and \$211 million for the periods ended December 31, 1998, 1997 and 1996, respectively.

	1998	1997	1996
New Developments	\$ 22	\$ 80	\$ 80
Renovations and Expansions	250	197	86
Tenant Allowances—Retail	45	37	24
Tenant Allowances—Offices	1	1	6
Recoverable Capital Expenditures	19	13	11
Other	12	4	4
Total	\$ 349	\$ 332	\$ 211

Distributions. SPG declared distributions on its common stock in 1998 aggregating \$2.02 per share. On January 20, 1999, SPG declared a distribution of \$0.5050 per share of common stock payable on February 19, 1999, to shareholders of record on February 5, 1999. The current combined annual distribution rate is \$2.02 per share of common stock. For federal income tax purposes, 1% of the 1998 common stock distributions represented a capital gain and 48% represented a return of capital. None of the 1997 distributions represented a capital gain and 35% represented a return of capital. Future distributions will be determined based on actual

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results of operations and cash available for distribution. For purposes of the former CPI shareholders, 9.7% of the distributions declared by CPI during 1998, prior to the CPI Merger, represented a capital gain.

Investing and Financing Activities. In March 1998, Simon Group transferred its 50% ownership interest in The Source, an approximately 730,000 square-foot regional mall, to a newly formed limited partnership in which it has a 50% ownership interest, with the result that Simon Group now owns an indirect noncontrolling 25% ownership interest in The Source. In connection with this transaction, Simon Group's partner in the newly formed limited partnership is entitled to a preferred return of 8% on its initial capital contribution, a portion of which was distributed to Simon Group. Simon Group applied the distribution against its investment in The Source.

In August 1998, Simon Group admitted an additional partner into the partnership which owns The Shops at Sunset Place for \$35 million, which was distributed to Simon Group. Simon Group now holds a 37.5% noncontrolling interest in this Property, which opened in January 1999. Simon Group applied the distribution against its investment in the Property.

Cash used in investing activities for the year ended December 31, 1998 of \$2,102 million is primarily the result of the CPI Merger and other acquisitions of \$1,943 million, \$350 million of capital expenditures and \$22 million of investments in and advances to the Management Company, partially offset by net distributions from unconsolidated entities of \$140 million, cash received from acquired Properties of \$18 million, net proceeds of \$46 million from the sales of Sherwood Gardens, The Promenade and Southtown Mall and an \$8 million decrease in restricted cash. In addition to the \$1,659 million paid in connection with the CPI Merger, acquisitions includes \$240 million for the acquisition of the IBM Properties, \$41 million for the acquisition of Arboretum and \$3 million for the acquisition of Cordova Mall. Capital expenditures includes development costs of \$58 million, renovation and expansion costs of approximately \$222 million and tenant costs and other operational capital expenditures of approximately \$66 million. Development costs include \$39 million for the Shops at Sunset Place and \$14 million at Waterford Lakes. Net distributions from unconsolidated entities primarily consists of \$55 million from Florida Mall, \$33 million from The Source transactions described above, \$30 million associated with The Shops at Sunset Place transaction described above and \$12 million from the IBM Properties.

Cash provided by financing activities for the year ended December 31, 1998 was \$1,592 million and includes net borrowings of \$1,914 million primarily used to fund the CPI Merger and other acquisition and development activity and net proceeds from sales of common stock of \$115 million, partially offset by total distributions to minority interest partners of consolidated Properties, shareholders of the Companies, SPG Properties, Inc. and limited partners in the Operating Partnerships of \$437 million.

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

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

EARNINGS BEFORE INTEREST,
TAXES, DEPRECIATION AND
AMORTIZATION ("EBITDA")
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Total EBITDA for the Properties increased from \$387 million in 1994 to \$1,362 million in 1998, representing a compound annual growth rate of 37.0%. This growth is primarily the result of the CPI Merger (\$113 million), the DRC Merger (\$418 million), the SCA Acquisition (\$123 million), the IBM acquisition (\$73 million), and other Properties developed or acquired during the comparative periods (\$214 million). The remaining growth in total EBITDA (\$33 million) reflects the addition of GLA to the Portfolio Properties through 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 61.9% to 64.8%. This improvement is also primarily attributable to aggressive leasing of new and existing space and effective control of operating costs.

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

For the Year Ended December 31,	1998	1997	1996	1995	1994
EBITDA of consolidated Properties	\$ 910,654	\$677,930	\$467,292	\$343,875	\$290,243
EBITDA of unconsolidated Properties	451,049	262,098	148,030	93,673	96,592
Total EBITDA of Portfolio Properties	\$1,361,703	\$940,028	\$615,322	\$437,548	\$386,835
EBITDA after minority interest ⁽¹⁾	\$1,068,233	\$746,842	\$497,215	\$357,158	\$307,372
Increase in total EBITDA from prior period	44.9%	52.8%	40.6%	13.1%	11.6%
Increase in EBITDA after minority interest from prior period	43.0%	50.2%	39.2%	16.2%	20.0%
Operating profit margin of the Portfolio Properties	64.8%	64.4%	62.5% ⁽²⁾	63.1%	61.9%

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

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

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FUNDS FROM OPERATIONS
("FFO")

FFO, as defined by NAREIT, means the consolidated net income of Simon Group 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 Simon Group's economic 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 Simon Group. Simon Group's method of calculating FFO may be different from the methods used by other REITs. FFO: (i) does not represent cash flow from operations as defined by generally accepted accounting principles; (ii) should not be considered as an alternative to net income as a measure of operating performance or to cash flows from operating, investing and financing activities; and (iii) is not an alternative to cash flows as a measure of liquidity.

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

For the Year Ended December 31,	1998	1997	1996
FFO of Simon Group	\$544,481	\$415,128	\$281,495
Increase in FFO from prior period	31.2%	47.5%	42.2%
Reconciliation:			
Income before extraordinary items	\$236,230	\$203,133	\$134,663
Plus:			
Depreciation and amortization from combined consolidated properties	267,423	200,084	135,226
Simon Group's share of depreciation and amortization and extraordinary items from unconsolidated affiliates	82,323	46,760	20,159
Merger integration costs	-	-	7,236
Loss on sale of real estate	7,283	-	-
Less:			
Gain on the sale of real estate	-	(20)	(88)
Minority interest portion of depreciation, and amortization and extraordinary items	(7,307)	(5,581)	(3,007)
Preferred dividends (Including those of Subsidiary)	(41,471)	(29,248)	(12,694)
FFO of Simon Group	\$544,481	\$415,128	\$281,495
FFO allocable to the Companies	\$361,326	\$258,049	\$172,468

PORTFOLIO DATA Operating statistics give effect to the CPI Merger for 1998 only and the DRC Merger for all periods presented. Statistics include all Properties except for the redevelopment area at Irving Mall, Charles Towne Square, Richmond Town Square and The Shops at Mission Viejo, 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 1995 to 1998, total reported retail sales at mall and freestanding GLA owned by the Operating Partnerships ("Owned GLA") in the regional malls and all reporting tenants at community shopping centers increased from \$7,649 million to \$14,587 million. Sales for 1998 includes \$3,180 million, \$1,060 million, and \$1,041 million from the CPI Properties, the SCA Acquisition, and the IBM Properties, respectively. Excluding these Properties, 1998 sales were \$9,305 million, which is a compound annual growth rate of 6.8%. 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
1998	\$14,587	52.9%
1997	9,539	20.4
1996	7,921	3.6
1995	7,649	-

Regional mall sales per square foot increased 9.0% in 1998 to \$343 as compared to \$315 in 1997. In addition, sales per square foot of reporting tenants operating for at least two consecutive years ("Comparable Sales") increased from \$318 to \$346, or 8.8%, from 1997 to 1998. Simon Group believes its strong sales growth in 1998 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 1998 to \$176 as compared to \$179 in 1997. Sales statistics for value-oriented super-regional malls are not provided as this category is comprised of newly constructed malls with insufficient history to provide meaningful comparisons.

Occupancy Levels. Occupancy levels for mall and freestanding Owned GLA at the regional malls increased from 87.3% at December 31, 1997, to 90.0% at December 31, 1998. Occupancy levels for all tenants at the value-oriented super-regional malls increased from 93.8% at December 31, 1997, to 98.2% at December 31, 1998. Occupancy levels for all tenants at the community shopping centers increased slightly, from 91.3% at December 31, 1997, to 91.4% at December 31, 1998. Owned GLA has increased 20.2 million square feet from December 31, 1997, to December 31, 1998, primarily as a result of the IBM acquisition, the CPI Merger, the acquisition of the Arboretum, and the 1998 Property openings.

December 31,	Occupancy Levels		
	Regional Malls	Value-Oriented Regional Malls	Community Shopping Centers
1998	90.0%	98.2%	91.4%
1997	87.3	93.8	91.3
1996	84.7	N/A	91.6
1995	85.5	N/A	93.6

Tenant Occupancy Costs. Tenant occupancy costs as a percentage of sales increased from 11.5% in 1997 to 12.3% in 1998 in the regional mall portfolio. A tenant's ability to pay rent is affected by the percentage of its sales represented by occupancy costs, which consist of rent and expense recoveries. As sales levels increase, if expenses subject to recovery are controlled, the tenant can pay higher rent. Management believes Simon Group is one of the lowest-cost providers of retail space, which has permitted the rents in both regional malls and community shopping centers to increase without raising a tenant's total occupancy cost beyond its ability to pay. Management believes continuing efforts to increase sales while controlling property operating expenses will continue the trend of increasing rents at the Properties.

Average Base Rents. Average base rents per square foot of mall and freestanding Owned GLA at regional malls increased 34.0%, from \$19.18 in 1995 to \$25.70 in 1998. For all tenants at the community shopping centers, average base rents of Owned GLA increased 5.3%, from \$7.29 in 1995 to \$7.68 in 1998.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

The following highlights this trend:

Year Ended December 31,	Average Base Rent per Square Foot					
	Regional Malls	% Change	Value-Oriented Regional Malls	% Change	Community Shopping Centers	% Change
1998	\$25.70	8.7%	\$16.40	1.2%	\$7.68	3.2%
1997	23.65	14.4	16.20	N/A	7.44	(2.7)
1996	20.68	7.8	N/A	N/A	7.65	4.9
1995	19.18	4.4	N/A	N/A	7.29	2.4

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

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

YEAR 2000 COSTS Simon Group has undertaken a project to identify and correct problems arising from the inability of information technology hardware and software systems to process dates after December 31, 1999. This Year 2000 project consists of two primary components. The first component focuses on Simon Group's key information technology systems (the "IT Component") and the second component focuses on the information systems of key tenants and key third party service providers as well as imbedded systems within common areas of substantially all of the Properties (the "Non-IT Component"). Key tenants include the 20 largest base rent contributors and anchor tenants with over 25,000 square feet of GLA. Key third party service providers are those providers whose Year 2000 problems, if not addressed, would be likely to have a material adverse effect on Simon Group's operations.

The IT Component of the Year 2000 project is being managed by the information services department of Simon Group who have actively involved other disciplines within Simon Group who are directly impacted by an IT Component of the project. The Non-IT Component is being managed by a steering committee of 25 employees, including senior executives of a number of Simon Group's departments. In addition, outside consultants have been engaged to assist in the Non-IT Component.

MANAGEMENT'S DISCUSSION AND ANALYSIS

.....
OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

STATUS OF PROJECT *IT Component.* Simon Group's primary operating, financial accounting and billing systems and Simon Group's standard primary desktop software have been determined to be Year 2000 ready. Simon Group's information services department has also completed its assessment of other "mission critical" applications within Simon Group and is currently implementing solutions to those applications in order for them to be Year 2000 ready. It is expected that the implementation of these mission critical solutions will be complete by September 30, 1999.

Non-IT Component. The Non-IT Component includes the following phases: (1) an inventory of Year 2000 items which are determined to be material to Simon Group's operations; (2) assigning priority to identified items; (3) assessing Year 2000 compliance status as to all critical items; (4) developing replacement or contingency plans based on the information collected in the preceding phases; (5) implementing replacement and contingency plans; and (6) testing and monitoring of plans, as applicable.

Phase (1) and Phase (2) are complete and Phase (3) is in process. The assessment of compliance status of key tenants is approximately 82% complete, the assessment of compliance status of key third party service providers is approximately 80% complete, the assessment of compliance status of critical inventoried components at the Properties is approximately 79% complete and the assessment of compliance status of non-critical inventoried components at the Properties is approximately 75% complete. Simon Group expects to complete Phase (3) by April 30, 1999. The development of contingency or replacement plans (Phase (4)) is scheduled to be completed by September 30, 1999. Development of such plans is ongoing. Implementation of contingency and replacement plans (Phase (5)) has commenced and will continue through 1999 to the extent Year 2000 issues are identified. Any required testing (Phase (6)) is to be completed throughout the remainder of 1999.

Costs. Simon Group estimates that it will spend approximately \$1.5 million in incremental costs for its Year 2000 project. This amount will be incurred over a period that commenced in January 1997 and is expected to end in September 1999. Costs incurred through December 31, 1998 are estimated at approximately \$500 thousand. Such amounts are expensed as incurred. These estimates do not include the costs expended by Simon Group following its 1996 merger with DeBartolo Realty Corporation for software, hardware and related costs necessary to upgrade its primary operating, financial accounting and billing systems, which allowed those systems to, among other things, become Year 2000 compliant.

Risks. The most reasonably likely worst case scenario for Simon Group with respect to the Year 2000 problems would be disruptions in operations at the Properties. This could lead to reduced sales at the Properties and claims by tenants which would in turn adversely affect Simon Group's results of operations.

Simon Group has not yet completed all phases of its Year 2000 project and Simon Group is dependent upon key tenants and key third party suppliers to make their information systems Year 2000 compliant. In addition, disruptions in the economy generally resulting from Year 2000 problems could have an adverse effect on Simon Group's operations.

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 Companies' financial position and operating results, in accordance with generally accepted accounting principles. All financial information in this annual report is consistent with the financial statements.

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

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



David Simon
Chief Executive Officer



James R. Giuliano, III
Senior Vice President



Stephen E. Sterrett
Senior Vice President and Treasurer

**REPORT OF
INDEPENDENT
PUBLIC
ACCOUNTANTS**

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of Simon Property Group, Inc. and subsidiaries and its paired share affiliate, SPG Realty Consultants, Inc. and subsidiaries, as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, the consolidated financial position of Simon Property Group, Inc. and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, and the consolidated financial position of SPG Realty Consultants, Inc. and subsidiaries as of December 31, 1998, and the results of their operations and their cash flows for the year ended December 31, 1998, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Indianapolis, Indiana
February 17, 1999.

BALANCE SHEETS

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DOLLARS IN THOUSANDS,
EXCEPT PER SHARE AMOUNTS

December 31,	1998	1997
Assets:		
Investment properties, at cost	\$ 11,850,014	\$6,867,354
Less — accumulated depreciation	722,371	461,792
	11,127,643	6,405,562
Goodwill	58,134	—
Cash and cash equivalents	129,195	109,699
Restricted cash	867	8,553
Tenant receivables and accrued revenue, net	218,581	188,359
Notes and advances receivable from Management Company and affiliate	115,378	93,809
Investment in partnerships and joint ventures, at equity	1,306,753	612,140
Investment in Management Company and affiliates	10,037	3,192
Other investment	50,176	53,785
Deferred costs and other assets	228,098	164,413
Minority interest	32,138	23,155
	<u>\$ 13,277,000</u>	<u>\$7,662,667</u>
Liabilities:		
Mortgages and other indebtedness	\$ 7,973,372	\$5,077,990
Accounts payable and accrued expenses	415,186	245,121
Cash distributions and losses in partnerships and joint ventures, at equity	29,139	20,563
Other liabilities	95,131	67,694
Total liabilities	<u>8,512,828</u>	<u>5,411,368</u>
Commitments and Contingencies (Note 13)		
Limited Partners' Interest in the Operating Partnerships	1,015,634	694,437
Preferred Stock of Subsidiary (Note 11)	339,329	—
Shareholders' Equity:		
<i>Capital Stock of Simon Property Group, Inc.:</i>		
Series B and C cumulative redeemable preferred stock (Note 11)	—	339,061
Series A convertible preferred stock, 209,249 shares authorized, 209,249 and 0 issued and outstanding, respectively	267,393	—
Series B convertible preferred stock, 5,000,000 shares authorized, 4,844,331 and 0 issued and outstanding, respectively	450,523	—
Common stock, \$.0001 par value, 400,000,000 shares authorized, and 163,571,031 and 106,439,001 issued and outstanding, respectively	16	10
Class B common stock, \$.0001 par value, 12,000,000 shares authorized, 3,200,000 issued and outstanding	1	1
Class C common stock, \$.0001 par value, 4,000 shares authorized, issued and outstanding	—	—
<i>Capital Stock of SPG Realty Consultants, Inc.:</i>		
Common stock, \$.0001 par value, 7,500,000 shares authorized, 1,667,750.31 issued and outstanding	—	—
Capital in excess of par value	3,083,213	1,491,908
Accumulated deficit	(372,313)	(263,308)
Unrealized gain on long-term investment	126	2,420
Unamortized restricted stock award	(19,750)	(13,230)
Total shareholders' equity	<u>3,409,209</u>	<u>1,556,862</u>
	<u>\$ 13,277,000</u>	<u>\$7,662,667</u>

The accompanying notes are an integral part of these statements.

STATEMENTS OF OPERATIONS

DOLLARS IN THOUSANDS,
EXCEPT PER SHARE AMOUNTS

For the Year Ended December 31,	1998	1997	1996
Revenue:			
Minimum rent	\$ 850,708	\$ 641,352	\$ 438,089
Overage rent	49,689	38,810	30,810
Tenant reimbursements	429,470	322,416	233,974
Other income	75,692	51,589	44,831
Total revenue	1,405,559	1,054,167	747,704
Expenses:			
Property operating	226,426	176,846	129,094
Depreciation and amortization	268,442	200,900	135,780
Real estate taxes	133,698	98,830	69,173
Repairs and maintenance	53,296	43,000	31,779
Advertising and promotion	50,754	32,891	24,756
Merger integration costs	—	—	7,236
Provision for credit losses	6,614	5,992	3,460
Other	24,117	18,678	14,914
Total operating expenses	763,347	577,137	416,192
Operating Income	642,212	477,030	331,512
Interest Expense	419,918	287,823	202,182
Income Before Minority Interest	222,294	189,207	129,330
Minority Interest	(7,335)	(5,270)	(4,300)
Gains (Loss) on Sales of Assets, Net	(7,283)	20	88
Income Before Unconsolidated Entities	207,676	183,957	125,118
Income From Unconsolidated Entities	28,554	19,176	9,545
Income Before Extraordinary Items	236,230	203,133	134,663
Extraordinary Items	7,146	58	(3,521)
Income Before Allocation to Limited Partners	243,376	203,191	131,142
Less—Limited Partners' Interest in the Operating Partnerships	68,307	65,954	45,887
Preferred Dividends of Subsidiary	7,816	—	—
Net Income	167,253	137,237	85,255
Preferred Dividends	(33,655)	(29,248)	(12,694)
Net Income Available to Common Shareholders	\$ 133,598	\$ 107,989	\$ 72,561
Basic Earnings Per Common Paired Share:			
Income before extraordinary items	\$ 1.02	\$ 1.08	\$ 1.02
Extraordinary items	0.04	—	(0.03)
Net income	\$ 1.06	\$ 1.08	\$ 0.99
Diluted Earnings Per Common Paired Share:			
Income before extraordinary items	\$ 1.02	\$ 1.08	\$ 1.01
Extraordinary items	0.04	—	(0.03)
Net income	\$ 1.06	\$ 1.08	\$ 0.98

The accompanying notes are an integral part of these statements.

STATEMENTS OF CASH FLOWS

.....
DOLLARS IN THOUSANDS

For the Year Ended December 31,	1998	1997	1996
Cash Flows From Operating Activities:			
Net income	\$ 167,253	\$ 137,237	\$ 85,255
Adjustments to reconcile net income to net cash provided by operating activities—			
Depreciation and amortization	278,812	208,539	143,582
Extraordinary items	(7,146)	(58)	3,521
Loss (gains) on sales of assets, net	7,283	(20)	(88)
Limited partners' interest in Operating Partnerships	68,307	65,954	45,887
Preferred dividends of Subsidiary	7,816	—	—
Straight-line rent	(9,345)	(9,769)	(3,502)
Minority interest	7,335	5,270	4,300
Equity in income of unconsolidated entities	(28,554)	(19,176)	(9,545)
Changes in assets and liabilities—			
Tenant receivables and accrued revenue	(13,205)	(23,284)	(6,422)
Deferred costs and other assets	(7,846)	(30,203)	(12,756)
Accounts payable, accrued expenses and other liabilities	58,705	36,417	(13,768)
Net cash provided by operating activities	529,415	370,907	236,464
Cash Flows From Investing Activities:			
Acquisitions	(1,942,724)	(980,427)	(56,069)
Capital expenditures	(349,708)	(305,178)	(195,833)
Cash from mergers, acquisitions and consolidation of joint ventures, net	18,162	19,744	37,053
Change in restricted cash	7,686	(2,443)	1,474
Proceeds from sale of assets	46,087	599	399
Investments in unconsolidated entities	(55,523)	(47,204)	(62,096)
Distributions from unconsolidated entities	195,557	144,862	36,786
Investments in and advances (to) / from Management Company	(21,569)	(18,357)	38,544
Other investing activities	—	(55,400)	—
Net cash used in investing activities	(2,102,032)	(1,243,804)	(199,742)
Cash Flows From Financing Activities:			
Proceeds from sales of common and preferred stock, net	114,570	344,438	201,704
Minority interest distributions, net	(19,694)	(219)	(5,115)
Preferred dividends of Subsidiary	(7,816)	—	—
Preferred dividends and distributions to shareholders	(272,797)	(227,949)	(166,640)
Distributions to limited partners	(136,551)	(122,442)	(90,763)
Mortgage and other note proceeds, net of transaction costs	3,782,314	2,976,222	1,293,582
Mortgage and other note principal payments	(1,867,913)	(2,030,763)	(1,267,902)
Other refinancing transaction	—	(21,000)	—
Net cash provided by (used in) financing activities	1,592,113	918,287	(35,134)
Increase In Cash and Cash Equivalents	19,496	45,390	1,588
Cash and Cash Equivalents, beginning of period	109,699	64,309	62,721
Cash and Cash Equivalents, end of period	\$ 129,195	\$ 109,699	\$ 64,309

The accompanying notes are an integral part of these statements.

STATEMENTS OF SHAREHOLDERS' EQUITY

.....
DOLLARS IN THOUSANDS

Balance at December 31, 1995

Stock options exercised (372,151 shares)
Common stock issued in connection with DRC Merger (37,873,965 shares)
Class C Common stock issued in connection with DRC Merger (4,000 shares)
Common stock issued in connection with severance program (70,074 shares)
Series B Preferred stock issued, net of issuance costs (8,000,000 shares)
Stock incentive program (200,030 shares)
Amortization of stock incentive
Transfer out of limited partners' interest in the Operating Partnership
Net income
Distributions
Other

Balance at December 31, 1996

Common stock issued to the public (5,858,887 shares)
Common stock issued in connection with acquisitions (2,193,037 shares)
Stock options exercised (369,902 shares)
Other common stock issued (82,484 shares)
Stock incentive program (448,753 shares)
Amortization of stock incentive
Series C Preferred stock issued (3,000,000 shares)
Conversion of Series A Preferred stock into 3,809,523 shares of common stock
Transfer out of limited partners' interest in the Operating Partnership
Unrealized gain on long-term investment
Net income
Distributions

Balance at December 31, 1997

Common stock issued to the public (2,957,335 shares)
CPI Merger (Notes 3 and 11)
 SPG Preferred
 SPG Common (53,078,564 shares)
 SRC Net Assets
Preferred stock of Subsidiary (Note 11)
Common stock issued in connection with acquisitions (519,889 shares)
Stock incentive program (495,131 shares)
Other common stock issued (81,111 shares)
Amortization of stock incentive
Transfer out of limited partners' interest in the Operating Partnerships
Distributions

Subtotal

Other Comprehensive Income:

Unrealized loss on long-term investment
Net income

Total Comprehensive Income:

Balance at December 31, 1998

The accompanying notes are an integral part of these statements.

SPG Preferred Stock	SPG Common Stock	SRC Common Stock	Unrealized Gain on Long-Term Investment	Capital in Excess of Par Value	Accumulated Deficit	Unamortized Restricted Stock Award	Total Shareholders' Equity
\$ 99,923	\$ 7	\$ -	\$ -	\$ 266,718	\$(131,015)	\$ (2,687)	\$ 232,946
				8,677			8,677
	3			922,276			922,279
				100			100
				1,841			1,841
192,989				4,751		(4,751)	-
						2,084	2,084
				(14,382)			(14,382)
					85,255		85,255
					(126,836)		(126,836)
				(62)			(62)
292,912	10	-	-	1,189,919	(172,596)	(5,354)	1,304,891
	1			190,026			190,027
				70,000			70,000
				8,625			8,625
				2,268			2,268
				14,016		(13,262)	754
						5,386	5,386
146,072							146,072
(99,923)				99,923			-
				(82,869)			(82,869)
			2,420				2,420
					137,237		137,237
					(227,949)		(227,949)
339,061	11	-	2,420	1,491,908	(263,308)	(13,230)	1,556,862
	1			91,398			91,399
717,916							717,916
	5			1,758,733			1,758,738
	-			14,755			14,755
(339,061)							(339,061)
				17,176			17,176
				15,983		(15,983)	-
				2,182			2,182
						9,463	9,463
				(308,922)			(308,922)
					(276,258)		(276,258)
717,916	17	-	2,420	3,083,213	(539,566)	(19,750)	3,244,250
			(2,294)				(2,294)
					167,253		167,253
-	-	-	(2,294)	-	167,253	-	164,959
\$717,916	\$ 17	\$ -	\$ 126	\$3,083,213	\$(372,313)	\$(19,750)	\$3,409,209

SIMON PROPERTY GROUP, INC. CONSOLIDATED

BALANCE SHEETS

DOLLARS IN THOUSANDS,
EXCEPT PER SHARE AMOUNTS

December 31,	1998	1997
Assets:		
Investment properties, at cost	\$ 11,816,325	\$ 6,867,354
Less — accumulated depreciation	710,012	461,792
	<u>11,106,313</u>	<u>6,405,562</u>
Goodwill	58,134	—
Cash and cash equivalents	127,626	109,699
Restricted cash	867	8,553
Tenant receivables and accrued revenue, net	217,798	188,359
Notes and advances receivable from Management Company and affiliates	115,378	93,809
Note receivable from SRC (Interest at 6%, due 2013)	20,565	—
Investment in partnerships and joint ventures, at equity	1,303,251	612,140
Investment in Management Company and affiliates	10,037	3,192
Other investment	50,176	53,785
Deferred costs and other assets	226,846	164,413
Minority interest	32,138	23,155
	<u>\$ 13,269,129</u>	<u>\$ 7,662,667</u>
Liabilities:		
Mortgages and other indebtedness	\$ 7,972,381	\$ 5,077,990
Notes payable to SRC (Interest at 8%, due 2008)	17,907	—
Accounts payable and accrued expenses	411,259	245,121
Cash distributions and losses in partnerships and joint ventures, at equity	29,139	20,563
Other liabilities	95,326	67,694
Total liabilities	<u>8,526,012</u>	<u>5,411,368</u>
Commitments and Contingencies (Note 13)		
Limited Partners' Interest in the SPG Operating Partnership	1,009,646	694,437
Preferred Stock of Subsidiary (Note 11)	339,329	—
Shareholders' Equity:		
Series B and C cumulative redeemable preferred stock (Note 11)	—	339,061
Series A convertible preferred stock, 209,249 shares authorized, 209,249 and 0 issued and outstanding, respectively	267,393	—
Series B convertible preferred stock, 5,000,000 shares authorized, 4,844,331 and 0 issued and outstanding, respectively	450,523	—
Common stock, \$.0001 par value, 400,000,000 shares authorized, and 163,571,031 and 106,439,001 issued and outstanding, respectively	16	10
Class B common stock, \$.0001 par value, 12,000,000 shares authorized, 3,200,000 issued and outstanding	1	1
Class C common stock, \$.0001 par value, 4,000 shares authorized, issued and outstanding	—	—
Capital in excess of par value	3,068,458	1,491,908
Accumulated deficit	(372,625)	(263,308)
Unrealized gain on long-term investment	126	2,420
Unamortized restricted stock award	(19,750)	(13,230)
Total shareholders' equity	<u>3,394,142</u>	<u>1,556,862</u>
	<u>\$ 13,269,129</u>	<u>\$ 7,662,667</u>

The accompanying notes are an integral part of these statements.

STATEMENTS OF OPERATIONS

DOLLARS IN THOUSANDS,
EXCEPT PER SHARE AMOUNTS

For the Year Ended December 31,	1998	1997	1996
Revenue:			
Minimum rent	\$ 850,351	\$ 641,352	\$ 438,089
Overage rent	49,689	38,810	30,810
Tenant reimbursements	429,350	322,416	233,974
Other income	75,682	51,589	44,831
Total revenue	1,405,072	1,054,167	747,704
Expenses:			
Property operating	226,426	176,846	129,094
Depreciation and amortization	267,876	200,900	135,780
Real estate taxes	133,580	98,830	69,173
Repairs and maintenance	53,308	43,000	31,779
Advertising and promotion	50,754	32,891	24,756
Merger integration costs	—	—	7,236
Provision for credit losses	6,610	5,992	3,460
Other	23,973	18,678	14,914
Total operating expenses	762,527	577,137	416,192
Operating Income	642,545	477,030	331,512
Interest Expense	420,282	287,823	202,182
Income Before Minority Interest	222,263	189,207	129,330
Minority Interest	(7,335)	(5,270)	(4,300)
Gains (Loss) on Sales of Assets, Net	(7,283)	20	88
Income Before Unconsolidated Entities	207,645	183,957	125,118
Income From Unconsolidated Entities	28,145	19,176	9,545
Income Before Extraordinary Items	235,790	203,133	134,663
Extraordinary Items	7,146	58	(3,521)
Income Before Allocation to Limited Partners	242,936	203,191	131,142
Less—Limited Partners' Interest in the SPG Operating Partnership	68,179	65,954	45,887
Preferred Dividends of Subsidiary	7,816	—	—
Net Income	166,941	137,237	85,255
Preferred Dividends	(33,655)	(29,248)	(12,694)
Net Income Available to Common Shareholders	\$ 133,286	\$ 107,989	\$ 72,561
Basic Earnings Per Common Share:			
Income before extraordinary items	\$ 1.01	\$ 1.08	\$ 1.02
Extraordinary items	0.04	—	(0.03)
Net income	\$ 1.05	\$ 1.08	\$ 0.99
Diluted Earnings Per Common Share:			
Income before extraordinary items	\$ 1.01	\$ 1.08	\$ 1.01
Extraordinary items	0.04	—	(0.03)
Net income	\$ 1.05	\$ 1.08	\$ 0.98

The accompanying notes are an integral part of these statements.

STATEMENTS OF SHAREHOLDERS' EQUITY

.....
DOLLARS IN THOUSANDS

Balance at December 31, 1995

Stock options exercised (372,151 shares)
Common stock issued in connection with DRC Merger (37,873,965 shares)
Class C Common stock issued in connection with DRC Merger (4,000 shares)
Common stock issued in connection with severance program (70,074 shares)
Series B Preferred stock issued, net of issuance costs (8,000,000 shares)
Stock incentive program (200,030 shares)
Amortization of stock incentive
Transfer out of limited partners' interest in the Operating Partnership
Net income
Distributions
Other

Balance at December 31, 1996

Common stock issued to the public (5,858,887 shares)
Common stock issued in connection with acquisitions (2,193,037 shares)
Stock options exercised (369,902 shares)
Other common stock issued (82,484 shares)
Stock incentive program (448,753 shares)
Amortization of stock incentive
Series C Preferred stock issued (3,000,000 shares)
Conversion of Series A Preferred stock into 3,809,523 shares of common stock
Transfer out of limited partners' interest in the Operating Partnership
Unrealized gain on long-term investment
Net income
Distributions

Balance at December 31, 1997

Common stock issued to the public (2,957,335 shares)
CPI Merger (Notes 3 and 11)
 SPG Preferred
 SPG Common (53,078,564 shares)
Preferred stock of Subsidiary (Note 11)
Common stock issued in connection with acquisitions (519,889 shares)
Stock incentive program (495,131 shares)
Other common stock issued (81,111 shares)
Amortization of stock incentive
Transfer out of limited partners' interest in the SPG Operating Partnership
Distributions

Subtotal

Other Comprehensive Income:

Unrealized loss on long-term investment
Net income

Total Comprehensive Income:

Balance at December 31, 1998

The accompanying notes are an integral part of these statements.

Preferred Stock	All Classes of Common Stock	Unrealized Gain on Long-Term Investment	Capital in Excess of Par Value	Accumulated Deficit	Unmortgaged Restricted Stock Award	Total Shareholders' Equity
\$ 99,923	\$ 7	\$ -	\$ 266,718	\$(131,015)	\$ (2,687)	\$ 232,946
			8,677			8,677
	3		922,276			922,279
			100			100
			1,841			1,841
192,989						192,989
			4,751		(4,751)	-
					2,084	2,084
			(14,382)			(14,382)
				85,255		85,255
				(126,836)		(126,836)
			(62)			(62)
292,912	10	-	1,189,919	(172,596)	(5,354)	1,304,891
	1		190,026			190,027
			70,000			70,000
			8,625			8,625
			2,268			2,268
			14,016		(13,262)	754
					5,386	5,386
146,072						146,072
(99,923)			99,923			-
			(82,869)			(82,869)
		2,420				2,420
				137,237		137,237
				(227,949)		(227,949)
339,061	11	2,420	1,491,908	(263,308)	(13,230)	1,556,862
	1		91,398			91,399
717,916						717,916
(339,061)	5		1,758,733			1,758,738
			17,176			(339,061)
			15,983		(15,983)	17,176
			2,182			-
					9,463	2,182
			(308,922)			9,463
				(276,258)		(308,922)
						(276,258)
717,916	17	2,420	3,068,458	(539,566)	(19,750)	3,229,495
		(2,294)				(2,294)
				166,941		166,941
-	-	(2,294)	-	166,941	-	164,647
\$717,916	\$ 17	\$ 126	\$3,068,458	\$(372,625)	\$(19,750)	\$3,394,142

STATEMENTS OF CASH FLOWS

.....
DOLLARS IN THOUSANDS

For the Year Ended December 31,	1998	1997	1996
Cash Flows From Operating Activities:			
Net income	\$ 166,941	\$ 137,237	\$ 85,255
Adjustments to reconcile net income to net cash provided by operating activities—			
Depreciation and amortization	278,246	208,539	143,582
Extraordinary items	(7,146)	(58)	3,521
Loss (gains) on sales of assets, net	7,283	(20)	(88)
Limited partners' interest in Operating Partnership	68,179	65,954	45,887
Preferred dividends of Subsidiary	7,816	—	—
Straight-line rent	(9,334)	(9,769)	(3,502)
Minority interest	7,335	5,270	4,300
Equity in income of unconsolidated entities	(28,145)	(19,176)	(9,545)
Changes in assets and liabilities—			
Tenant receivables and accrued revenue	(13,438)	(23,284)	(6,422)
Deferred costs and other assets	(7,289)	(30,203)	(12,756)
Accounts payable, accrued expenses and other liabilities	76,915	36,417	(13,768)
Net cash provided by operating activities	547,363	370,907	236,464
Cash Flows From Investing Activities:			
Acquisitions	(1,942,724)	(980,427)	(56,069)
Capital expenditures	(345,619)	(305,178)	(195,833)
Cash from DRC Merger, acquisitions and consolidation of joint ventures, net	16,616	19,744	37,053
Change in restricted cash	7,686	(2,443)	1,474
Proceeds from sale of assets	46,087	599	399
Investments in unconsolidated entities	(55,523)	(47,204)	(62,096)
Distributions from unconsolidated entities	195,497	144,862	36,786
Investments in and advances (to) / from Management Company	(21,569)	(18,357)	38,544
Other investing activities	—	(55,400)	—
Net cash used in investing activities	(2,099,549)	(1,243,804)	(199,742)
Cash Flows From Financing Activities:			
Proceeds from sales of common and preferred stock, net	92,570	344,438	201,704
Minority interest distributions, net	(19,694)	(219)	(5,115)
Preferred dividends of Subsidiary	(7,816)	—	—
Preferred dividends and distributions to shareholders	(272,797)	(227,949)	(166,640)
Distributions to limited partners	(136,551)	(122,442)	(90,763)
Mortgage and other note proceeds, net of transaction costs	3,782,314	2,976,222	1,293,582
Mortgage and other note principal payments	(1,867,913)	(2,030,763)	(1,267,902)
Other refinancing transaction	—	(21,000)	—
Net cash provided by (used in) financing activities	1,570,113	918,287	(35,134)
Increase In Cash and Cash Equivalents	17,927	45,390	1,588
Cash and Cash Equivalents, beginning of period	109,699	64,309	62,721
Cash and Cash Equivalents, end of period	\$ 127,626	\$ 109,699	\$ 64,309

The accompanying notes are an integral part of these statements.

BALANCE SHEETS

.....
DOLLARS IN THOUSANDS,
EXCEPT PER SHARE AMOUNTS

December 31,	1998	1997
Assets:		
Investment properties, at cost	\$ 33,689	\$ 33,561
Less — accumulated depreciation	12,359	11,043
	21,330	22,518
Cash and cash equivalents	1,569	4,147
Note receivable from SPG (Interest at 8%, due 2008)	17,907	—
Tenant receivables	783	478
Investments in joint ventures, at equity	3,502	18,007
Other (including \$385 and \$485 from related parties)	1,510	913
	\$ 46,601	\$ 46,063
Liabilities:		
Mortgages and other indebtedness	\$ 991	\$ 1,184
Mortgage payable to SPG (Interest at 6%, due 2013)	20,565	20,565
Notes payable (Interest at 12%, due 2007)	—	15,069
Other liabilities (including \$289 and \$655 to SPG/CPI)	3,990	4,929
Total liabilities	25,546	41,747
Commitments and Contingencies (Note 13)		
Limited Partners' Interest in the SRC Operating Partnership	5,988	—
Shareholders' Equity:		
Common stock, \$.0001 par value, 7,500,000 shares authorized, 1,667,750.31 and 558,730.87 issued and outstanding, respectively	—	—
Capital in excess of par value	29,861	13,620
Accumulated deficit	(14,794)	(9,304)
Total shareholders' equity	15,067	4,316
	\$ 46,601	\$ 46,063

The accompanying notes are an integral part of these statements.

STATEMENTS OF OPERATIONS

.....
 IN THOUSANDS, EXCEPT
 PER SHARE AMOUNTS

For the Year Ended December 31,	1998	1997	1996
Revenue:			
Minimum rent (including \$1,525, \$1,227 and \$1,523 from SPG/CPI)	\$ 3,010	\$ 3,108	\$ 3,461
Tenant reimbursements (including \$725, \$679 and \$745 from SPG/CPI)	916	968	1,202
Management fee income (including \$0, \$1,710 and \$4,627 from SPG/CPI)	-	1,732	4,638
Other income (including \$385, \$0 and \$0 from SPG/CPI)	986	406	504
Total revenue	4,912	6,214	9,805
Expenses:			
Property operating (including \$579, \$550 and \$545 to SPG/CPI)	2,982	3,051	3,165
Depreciation and amortization	1,305	889	938
Management fees (including \$0, \$1,400 and \$2,640 to SPG/CPI)	-	1,576	2,832
Administrative and other (including \$113, \$150 and \$1,368 to SPG/CPI)	513	295	1,540
Merger-related costs	4,093	-	-
Write-down of land investment	-	-	1,100
Total operating expenses	8,893	5,811	9,575
Operating Income	(3,981)	403	230
Interest Expense (including \$1,234, \$1,234 and \$1,234 to SPG/CPI)	1,279	1,365	1,364
Income (Loss) Before Gain on Sale of Partnership Interests	(5,260)	(962)	(1,134)
Gain on Sale of Partnership Interests to CPI	-	1,259	-
Income (Loss) Before Unconsolidated Entities	(5,260)	297	(1,134)
Income (Loss) From Unconsolidated Entities	767	1,550	(4)
Income (Loss) Before Allocation to Limited Partners	(4,493)	1,847	(1,138)
Less—Limited Partners' Interest in the SRC Operating Partnership	128	-	-
Income (Loss) Before Income Taxes	(4,621)	1,847	(1,138)
Provision (Benefit) For Income Taxes	(190)	670	(218)
Net Income (Loss)	\$(4,431)	\$ 1,177	\$ (920)
Net Income (Loss) Derived From:			
Pre-CPI Merger period (Note 3)	\$ (4,743)	\$ 1,177	\$ (920)
Post-CPI Merger period (Note 3)	312	-	-
	\$(4,431)	\$ 1,177	\$ (920)
Basic and Diluted Net Income (Loss) Per Common Share:	\$ (5.17)	\$ 2.07	\$ (1.88)
Basic and Diluted Weighted Average Shares Outstanding	857	569	490

The accompanying notes are an integral part of these statements.

**STATEMENTS OF
SHAREHOLDERS'
EQUITY**

.....
DOLLARS IN THOUSANDS

	Common Stock (Note 11)	Capital in Excess of Par Value	Accumulate d Deficit	Total Shareholders' Equity
Balance at December 31, 1995	\$ -	\$ 11,821	\$ (7,501)	\$ 4,320
Common stock issued to the public	-	3,295		3,295
Acquisition and retirement of Common stock	-	(691)		(691)
Net income (loss)			(920)	(920)
Distributions			(965)	(965)
Balance at December 31, 1996	-	14,425	(9,386)	5,039
Acquisition and retirement of Common stock	-	(805)		(805)
Net income (loss)			1,177	1,177
Distributions			(1,095)	(1,095)
Balance at December 31, 1997	-	13,620	(9,304)	4,316
Common stock issued (1,109,019.44 shares)	-	14,102		14,102
Adjustment of limited partners' interest in the SRC Operating Partnership		2,139		2,139
Distributions	-	-	(1,059)	(1,059)
Subtotal	-	29,861	(10,363)	19,498
Other Comprehensive Income:				
Net income (loss)			(4,431)	(4,431)
Total Comprehensive Income:	-	-	(4,431)	(4,431)
Balance at December 31, 1998	\$ -	\$ 29,861	\$(14,794)	\$ 15,067

The accompanying notes are an integral part of these statements.

**STATEMENTS
OF CASH
FLOWS**

DOLLARS IN THOUSANDS

For the Year Ended December 31,	1998	1997	1996
Cash Flows From Operating Activities:			
Net income (loss)	\$ (4,431)	\$ 1,177	\$ (920)
Adjustments to reconcile net income (loss) to net cash provided by operating activities—			
Depreciation and amortization	1,305	889	938
Gain on sale of assets, net	—	(1,259)	—
Limited partners' interest in SRC Operating Partnership	128	—	—
Straight-line rent	(12)	—	—
Equity in income of unconsolidated entities	(767)	(1,550)	4
Changes in assets and liabilities—			
Write-down of land investment	—	—	1,100
Tenant receivables and other assets (including \$100, \$125 and \$(80) from related parties)	(293)	334	21
Other liabilities (including \$(366), \$305 and \$(140) to SPG/CPI)	(1,526)	902	(374)
Net cash provided by (used in) operating activities	(5,596)	493	769
Cash Flows From Investing Activities:			
Capital expenditures	(128)	(428)	—
Net proceeds from sales of assets to CPI	—	2,363	—
Investments in unconsolidated entities	(3,921)	(16,732)	(165)
Distributions from unconsolidated entities	19,193	1,827	15
Note receivable from SPG	(17,907)	—	—
Net cash used in investing activities	(2,763)	(12,970)	(150)
Cash Flows From Financing Activities:			
Proceeds from sales of common stock, net	14,102	—	3,295
Contributions from limited partners	8,000	—	—
Acquisition and retirement of common stock	—	(805)	(691)
Distributions to shareholders	(1,059)	(1,095)	(965)
Mortgage and other note proceeds, net of transaction costs	3,485	13,966	—
Mortgage and other note principal payments	(18,747)	(239)	(220)
Net cash provided by financing activities	5,781	11,827	1,419
Change In Cash and Cash Equivalents	(2,578)	(650)	2,038
Cash and Cash Equivalents, beginning of period	4,147	4,797	2,759
Cash and Cash Equivalents, end of period	\$ 1,569	\$ 4,147	\$ 4,797

The accompanying notes are an integral part of these statements.

Note 1—ORGANIZATION Simon Property Group, Inc. (“SPG”), a Delaware corporation, formerly known as Simon DeBartolo 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”). Each share of common stock of SPG is paired with a beneficial interest in 1/100th of a share of common stock of SPG Realty Consultants, Inc., also a Delaware corporation (“SRC” and together with SPG, the “Companies”).

Simon Property Group, L.P. (the “SPG Operating Partnership”), formerly known as Simon DeBartolo Group, L.P. (“SDG, LP”), is the primary subsidiary of SPG. Units of ownership interest (“Units”) in the SPG Operating Partnership are paired with a beneficial interest in 1/100th of a Unit in SPG Realty Consultants, L.P. (the “SRC Operating Partnership” and together with the SPG Operating Partnership, the “Operating Partnerships”). The SRC Operating Partnership is the primary subsidiary of SRC. The Companies together with the Operating Partnerships are hereafter referred to as “Simon Group”.

The Companies, primarily through the Operating Partnerships, are engaged primarily in the ownership, operation, management, leasing, acquisition, expansion and development of real estate properties, primarily regional malls and community shopping centers. As of December 31, 1998, Simon Group owned or held an interest in 242 income-producing properties, which consist of 153 regional malls, 77 community shopping centers, three specialty retail centers, six office and mixed-use properties and three value-oriented super-regional malls in 35 states (the “Properties”). Simon Group also owned interests in one regional mall, one value-oriented super-regional mall, one specialty center and three community centers currently under construction and twelve parcels of land held for future development (collectively, the “Development Properties”, and together with the Properties, the “Portfolio Properties”). At December 31, 1998 and 1997, the Companies’ direct and indirect ownership interests in the Operating Partnerships were 71.6% and 63.9%, respectively. The SPG Operating Partnership also holds substantially all of the economic interest in M.S. Management Associates, Inc. (the “Management Company”). See Note 8 for a description of the activities of the Management Company.

SRC engages primarily in the ownership, operation, acquisition and development of real estate properties either directly or through interests in joint ventures. SPG and SRC are parties to an agreement pursuant to which SRC may not engage in any activity that could be engaged in by SPG without jeopardizing its status as a REIT unless SPG shall have been given a right of first refusal to engage in such activity, and SPG may not refer to any person other than SRC any business opportunity that could not be engaged in by SPG without jeopardizing its status as a REIT unless SRC shall have been given the right of first refusal to take advantage of such opportunity.

Simon Group is subject to risks incidental to the ownership and operation of commercial real estate. These include, among others, the risks normally associated with changes in the general economic climate, trends in the retail industry, creditworthiness of tenants, competition for tenants, changes in tax laws, interest rate levels, the availability of financing, and potential liability under environmental and other laws. Like most retail properties, Simon Group’s regional malls and community shopping centers rely heavily upon anchor tenants. As of December 31, 1998, 314 of the approximately 875 anchor stores in the Properties were occupied by three retailers. An affiliate of one of these retailers is a limited partner in the Operating Partnerships.

NOTES TO FINANCIAL STATEMENTS

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

Note 2—BASIS OF PRESENTATION

The accompanying combined financial statements include SPG, SRC and their subsidiaries. All significant intercompany amounts have been eliminated. The combined financial statements reflect the CPI Merger (see Note 3) as of the close of business on September 24, 1998. Operating results prior to the completion of the CPI Merger represent the operating results of Simon DeBartolo Group, Inc. and its subsidiaries (“SDG”), the predecessor to SPG for financial reporting purposes. Accordingly, the term Simon Group, prior to the CPI Merger, refers to SDG and the SPG Operating Partnership.

The accompanying consolidated financial statements for SPG include the accounts of SPG and its subsidiaries. All significant intercompany amounts have been eliminated. The financial statements reflect the CPI Merger as of the close of business on September 24, 1998. Operating results prior to the CPI Merger represent the operating results of SDG.

The accompanying consolidated financial statements of SRC include the accounts of its newly formed subsidiary, the SRC Operating Partnership. Because the cash contributed to SRC and the SRC Operating Partnership in exchange for shares of common stock and Units, in connection with the CPI Merger, represented equity transactions, SRC, unlike CPI (see Note 3), is not subject to purchase accounting treatment. The separate statements of SRC include the historical results of Corporate Realty Consultants, Inc. (“CRC”), the predecessor to SRC, for all periods presented.

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

Properties which are wholly-owned (“Wholly-Owned Properties”) or owned less than 100% and are controlled by Simon Group (“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 partner to replace the general partner. The deficit minority interest balance in the accompanying balance sheets represents outside partners’ interests in the net equity of certain Properties. Deficit minority interests were recorded when a partnership agreement provided for the settlement of deficit capital accounts before distributing the proceeds from the sale of partnership assets and/or from the intent (legal or otherwise) and ability of the partner to fund additional capital contributions. Investments in partnerships and joint ventures which represent noncontrolling 14.7% to 85.0% direct and indirect ownership interests (“Joint Venture Properties”) and the investment in the Management Company (see Note 8) are accounted for using the equity method of accounting. These investments are recorded initially at cost and subsequently adjusted for net equity in income (loss) and cash contributions and distributions.

Net operating results of the Operating Partnerships are allocated after preferred distributions (see Note 11), based on their respective partners’ ownership interests. The Companies’ weighted average direct and indirect ownership interest in the Operating Partnerships during 1998, 1997 and 1996 were 66.2%, 62.1% and 61.2%, respectively. At December 31, 1998 and 1997, the Companies’ direct and indirect ownership interest was 71.6% and 63.9%, respectively.

NOTES TO FINANCIAL STATEMENTS

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

Note 3—CPI MERGER For financial reporting purposes, as of the close of business on September 24, 1998, the CPI Merger was consummated pursuant to the Agreement and Plan of Merger dated February 18, 1998, among Simon DeBartolo Group, Inc., Corporate Property Investors, Inc. (“CPI”), and Corporate Realty Consultants, Inc.

Pursuant to the terms of the CPI Merger, SPG Merger Sub, Inc., a substantially wholly-owned subsidiary of CPI, merged with and into SDG with SDG continuing as the surviving company. SDG became a majority-owned subsidiary of CPI. The outstanding shares of common stock of SDG were exchanged for a like number of shares of CPI. Beneficial interests in CRC were acquired for \$14,000 in order to pair the common stock of CPI with 1/100th of a share of common stock of CRC, the paired share affiliate.

Immediately prior to the consummation of the CPI Merger, the holders of CPI common stock were paid a merger dividend consisting of (i) \$90 in cash, (ii) 1.0818 additional shares of CPI common stock and (iii) 0.19 shares of 6.50% Series B convertible preferred stock of CPI per share of CPI common stock. Immediately prior to the CPI Merger, there were 25,496,476 shares of CPI common stock outstanding. The aggregate value associated with the completion of the CPI Merger was approximately \$5.9 billion including transaction costs and liabilities assumed.

To finance the cash portion of the CPI Merger consideration, \$1.4 billion was borrowed under a new senior unsecured medium term bridge loan, which bears interest at a base rate of LIBOR plus 65 basis points and matures in three mandatory amortization payments (on June 22, 1999, March 24, 2000 and September 24, 2000). An additional \$237,000 was also borrowed under the SPG Operating Partnership’s existing \$1.25 billion credit facility (the “Credit Facility”). In connection with the CPI Merger, CPI was renamed “Simon Property Group, Inc.” CPI’s paired share affiliate, Corporate Realty Consultants, Inc., was renamed “SPG Realty Consultants, Inc.” In addition SDG and SDG, LP were renamed “SPG Properties, Inc.”, and “Simon Property Group, L.P.”, respectively.

Upon completion of the CPI Merger, SPG transferred substantially all of the CPI assets acquired, which consisted primarily of 23 regional malls, one community center, two office buildings and one regional mall under construction (other than one regional mall, Ocean County Mall, and certain net leased properties valued at approximately \$153,100) and liabilities assumed (except that SPG remains a co-obligor with respect to the Merger Facility (see Note 9)) of approximately \$2.3 billion to SPG Operating Partnership or one or more subsidiaries of the SPG Operating Partnership in exchange for 47,790,550 limited partnership interests and 5,053,580 preferred partnership interests in SPG Operating Partnership. The preferred partnership interests carry the same rights and equal the number of preferred shares issued and outstanding as a direct result of the CPI Merger. Likewise, the net assets of SRC, with a carrying value of approximately \$14,755, were transferred to the SRC Operating Partnership in exchange for partnership interests.

The Companies accounted for the merger between SDG and the CPI merger subsidiary as a reverse purchase in accordance with Accounting Principles Board Opinion No. 16. Although paired shares of the former CPI and CRC were issued to SDG common stock holders and SDG became a substantially wholly owned subsidiary of CPI following the CPI Merger, CPI is considered the business acquired for accounting purposes. SDG is considered the acquiring company because the SDG common stockholders hold a majority of the common stock of SPG, post-merger. The value of the consideration paid by SDG has been allocated to the estimated fair value of the CPI assets acquired and liabilities assumed which resulted in

Note 3—CPI MERGER
CONTINUED

goodwill of \$58,134, as adjusted. Goodwill is being amortized over the estimated life of the properties of 35 years. Purchase accounting will be finalized when SPG completes and implements its combined operating plan, which is expected to occur by the third quarter of 1999.

SDG, LP contributed \$14,000 cash to CRC and \$8,000 cash to the SRC Operating Partnership on behalf of the SDG common stockholders and the limited partners of SDG, LP to obtain the beneficial interests in common stock of CRC, which were paired with the shares of common stock issued by SPG, and to obtain Units in the SRC Operating Partnership so that the limited partners of the SDG Operating Partnership would hold the same proportionate interest in the SRC Operating Partnership that they hold in the SDG Operating Partnership. The cash contributed to CRC and the SRC Operating Partnership in exchange for an ownership interest therein have been appropriately accounted for as capital infusion or equity transactions. The assets and liabilities of CRC have been reflected at historical cost. Adjusting said assets and liabilities to fair value would only have been appropriate if the SDG stockholders' beneficial interests in CRC exceeded 80%.

Note 4—THE DRC MERGER AND
OTHER REAL ESTATE
ACQUISITIONS, DISPOSALS
AND DEVELOPMENTS

The DRC Merger

On August 9, 1996, SPG acquired the national shopping center business of DeBartolo Realty Corporation and subsidiaries ("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, SPG acquired all the outstanding common stock of DRC (55,712,529 shares), at an exchange ratio of 0.68 shares of SPG's common stock for each share of DRC common stock. A total of 37,873,965 shares of SPG's common stock was issued by SPG, to the DRC shareholders. DRC and the acquisition subsidiary merged. DRC became a 99.9% subsidiary of SPG and changed its name to SD Property Group, Inc. The purchase price was allocated to the fair value of the assets and liabilities using the purchase method of accounting.

Acquisitions and Disposals

On January 26, 1998, Simon Group acquired Cordova Mall in Pensacola, Florida for approximately \$87,300, including the assumption of a \$28,935 mortgage, which was later retired, and the issuance of 1,713,016 Units, valued at approximately \$55,500. This 874,000 square-foot regional mall is wholly-owned by Simon Group.


Effective May 5, 1998, in a series of transactions, Simon Group acquired the remaining 50.1% interest in Rolling Oaks Mall for 519,889 shares of SPG's common stock, valued at approximately \$17,176.

Effective June 30, 1998, Simon Group sold Southtown Mall for \$3,250 and recorded a \$7,219 loss on the transaction.

On December 7, 1998, a joint venture partnership, in which Simon Group owns a controlling 90% interest, purchased The Arboretum, a 209,000 square-foot community center in Austin, Texas. Concurrent with the acquisition, the joint venture obtained a \$34,000 mortgage on the Property bearing interest at LIBOR plus 1.5%. Simon Group's share of the \$45,000 purchase price was \$40,500, which was funded primarily with the net proceeds of the mortgage, with the remainder being funded from working capital.

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On September 29, 1997, Simon Group completed its cash tender offer for all of the outstanding shares of beneficial interests of The Retail Property Trust (“RPT”), a private REIT. 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 (the “SCA Properties”). During 1997, Simon Group exchanged its 50% interests in two SCA Properties to a third party for the remaining 50% interests in two other SCA Properties, acquired the remaining 50% ownership interest in another of the SCA Properties and acquired the remaining 1.2% interest in SCA. During 1998, Simon Group sold the community center and a regional mall for \$9,550 and \$33,500, respectively. These Property sales were accounted for as an adjustment to the allocation of the purchase price. At the completion of these transactions (the “SCA Acquisition”), Simon Group owns 100% of eight of the nine SCA Properties, and a noncontrolling 50% ownership interest in the remaining Property. The total cost for the acquisition of SCA and related transactions of approximately \$1,300,000 includes shares of common stock of SPG valued at approximately \$50,000, Units in the SPG Operating Partnership valued at approximately \$25,300, the assumption of \$398,500 of consolidated indebtedness and Simon Group’s pro rata share of joint venture indebtedness of \$76,750, with the remainder comprising primarily of cash financed using Simon Group’s Credit Facility. On September 15, 1998, RPT transferred its ownership interest in SCA to the SPG Operating Partnership in exchange for 27,195,109 Units in the SPG Operating Partnership.

Also in 1997, Simon Group acquired a 100% ownership interest in the Fashion Mall at Keystone at the Crossing, along with an adjacent community center; the remaining 30% ownership interest in 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%. Simon Group paid an aggregate purchase price of approximately \$322,000 for these acquisitions, which included Units in the SPG Operating Partnership valued at \$1,100, common stock of SPG valued at approximately \$20,000 and the assumption of \$64,772 of mortgage indebtedness, with the remainder paid in cash primarily using proceeds from the Credit Facility, sales of equity securities and working capital.

In 1996, Simon Group acquired the remaining 50% ownership interest in two regional malls for 472,410 Units in the SPG Operating Partnership, the assumption of \$57,000 of mortgage indebtedness and \$56,100 in cash, primarily using proceeds from the Credit Facility and working capital.

See also Note 7 for Joint Venture Property acquisition and disposal activity.

Development Activity

Development activities are an ongoing part of Simon Group’s strategy to gain a competitive advantage in the retail real estate business. During 1998, 1997 and 1996, Simon Group invested approximately \$102,000, \$230,000 and \$169,000, respectively on new consolidated and unconsolidated joint venture development projects adding approximately 577,000; 3,600,000; and 3,160,000 square feet of GLA to its portfolio. In addition, The Shops at Sunset Place, a destination-oriented retail and entertainment project containing approximately 510,000 square feet of GLA opened in January of 1999 in South Miami, Florida. Construction also continues on several other projects at an aggregate construction cost of approximately \$620,000, of which approximately \$347,000 is Simon Group’s share. These developments are funded primarily with borrowings from the Credit Facility, construction loans and working capital.

Note 4—THE DRC MERGER AND
OTHER REAL ESTATE
ACQUISITIONS, DISPOSALS
AND DEVELOPMENTS
CONTINUED

In addition, Simon Group strives to increase profitability and market share of the existing Properties through the completion of strategic renovations and expansions. During 1998, 1997 and 1996, Simon Group invested approximately \$337,000, \$229,000 and \$93,000, respectively on renovation and expansion of the Properties. These projects were also funded primarily with borrowings from the Credit Facility, construction loans and working capital.

Pro Forma

The following unaudited pro forma summary financial information excludes any extraordinary items and combines the consolidated results of operations of SPG and SRC as if the CPI Merger and the SCA Acquisition had occurred as of January 1, 1997, and were carried forward through December 31, 1998. Preparation of the pro forma summary information was based upon assumptions deemed appropriate by management. The pro forma summary information is not necessarily indicative of the results which actually would have occurred if the CPI Merger and the SCA Acquisition had been consummated at January 1, 1997, nor does it purport to represent the results of operations for future periods.

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Year Ended December 31,	1998	1997
Revenue	\$ 1,715,693	\$ 1,588,168
Net income before allocation to Limited Partners ⁽¹⁾	272,025	308,513
Net income available to holders of common stock	144,598	167,477
Net income per paired share ⁽¹⁾	\$ 0.87	\$ 1.08
Net income per paired share – assuming dilution	\$ 0.87	\$ 1.08
Weighted average number of equivalent paired shares of common stock outstanding	165,349,561	154,432,287
Weighted average number of equivalent paired shares of common stock outstanding – assuming dilution	165,706,710	154,800,733

⁽¹⁾ Includes net gains on the sales of assets in 1998 and 1997 of \$37,973 and \$123,689, respectively, or \$0.17 and \$0.57 on a basic earnings per share basis, respectively.

Note 5—SUMMARY OF
SIGNIFICANT ACCOUNTING
POLICIES

Investment Properties

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

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

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

Capitalized Interest

Interest is capitalized on projects during periods of construction. Interest capitalized during 1998, 1997 and 1996 was \$10,567, \$11,589 and \$5,831, respectively.

Segment Disclosure

Simon Group is engaged in the business of owning, operating, managing, leasing, expanding and developing retail real estate properties. Although Simon Group's regional mall portfolio and office and mixed-use Properties are looked at internally on a divisional basis, the chief executive officer makes resource allocation and other operating decisions based on an evaluation of the entire portfolio. Simon Group's interests in its community centers and other assets have been aggregated with the regional malls as they have similar economic and environmental conditions, business processes, types of customers (i.e. tenants) and services provided. Further, the community centers, offices and other assets each represent less than 10% and in total represent less than 15% of Simon Group's total assets, revenues and earnings before interest, taxes, depreciation and amortization.

Other Investment

Investments in securities classified as available for sale are reflected at market value with the changes in market value reflected in shareholders' equity.

Deferred Costs

Deferred costs consist primarily of financing fees incurred to obtain long-term financing, costs of interest rate protection agreements, and internal and external leasing commissions and related costs. Deferred financing costs, including interest rate protection agreements, are amortized on a straight-line basis over the terms of the respective loans or agreements. Deferred leasing costs are amortized on a straight-line basis over the terms of the related leases. Deferred costs consist of the following:

December 31,	1998	1997
Deferred financing costs	\$101,215	\$ 72,348
Leasing costs and other	142,478	121,060
	243,693	193,408
Less-accumulated amortization	116,239	87,666
Deferred costs, net	\$127,454	\$105,742

Interest expense in the accompanying Consolidated Statements of Operations includes amortization of deferred financing costs of \$11,835, \$8,338 and \$8,434, for 1998, 1997 and 1996, respectively, and has been reduced by amortization of debt premiums and discounts of \$1,465, \$699 and \$632 for 1998, 1997 and 1996, respectively.

Note 5—SUMMARY OF
SIGNIFICANT ACCOUNTING
POLICIES, CONTINUED

Revenue Recognition

Simon Group, as a lessor, has retained substantially all of the risks and benefits of ownership of the investment Properties and accounts for its leases as operating leases. Minimum rents are accrued on a straight-line basis over the terms of their respective leases. Certain tenants are also required to pay overage rents based on sales over a stated base amount during the lease year. Overage rents are recognized as revenues based on reported and estimated sales for each tenant through December 31, less the applicable base sales amount. Differences between estimated and actual amounts are recognized in the subsequent year.

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 1998, 1997 and 1996 was as follows:

Year Ended	Balance at Beginning of Year	Provision for Credit Losses	Accounts Written Off	Balance at End of Year
December 31, 1998	\$13,804	\$6,614	\$(5,927)	\$14,491
December 31, 1997	\$ 7,918	\$5,992	\$ (106)	\$13,804
December 31, 1996	\$ 5,485	\$3,460	\$(1,027)	\$ 7,918

Income Taxes

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

SRC. SRC is subject to income taxes. The provision for income taxes reflected in the separate financial statements of SRC was (\$190), \$670 and (\$218) for 1998, 1997 and 1996, respectively. During 1998, SRC generated operating losses for which a valuation allowance was provided. The deferred tax liability of \$3,374 and \$3,564 as of December 31, 1998 and 1997, respectively, consisted primarily of asset basis differences for book and tax purposes. The deferred tax liability is accounted for using the liability method of accounting and is included in other liabilities in the accompanying Balance Sheets.

Per Share Data

Effective January 1, 1998, Simon Group retroactively adopted SFAS No. 128 (Earnings Per Share). Accordingly, basic earnings per share is based on the weighted average number of shares of common stock outstanding during the period and diluted earnings per share is based on the weighted average number of shares of common stock outstanding combined with the incremental weighted average shares that would have been outstanding if all

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dilutive potential common shares would have been converted into shares at the earliest date possible. The weighted average number of shares used in the computation for 1998, 1997 and 1996 was 126,522,228; 99,920,280; and 73,585,602, respectively. The diluted weighted average number of equivalent shares used in the computation for 1998, 1997 and 1996 was 126,879,377; 100,304,344 and 73,721,134, respectively.

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

Both series of convertible preferred stock issued and outstanding during the comparative periods did not have a dilutive effect on earnings per share. Paired Units held by limited partners in the Operating Partnerships may be exchanged for paired shares of common stock of the Companies, on a one-for-one basis in certain circumstances. If exchanged, the paired Units would not have a dilutive effect. The increase in weighted average shares outstanding under the diluted method over the basic method in every period presented for the Companies is due entirely to the effect of outstanding stock options, including 304,210 additional options issued in connection with the CPI Merger. Basic earnings and diluted earnings were the same for all periods presented.

It is the Companies' policy to accrue distributions when they are declared. SPG declared distributions in 1998 and 1997 aggregating \$2.02 and \$2.01 per share, respectively. The current combined annual distribution rate is \$2.02 per share. The following is a summary of distributions per paired share declared in 1998 and 1997, which represented a return of capital measured using generally accepted accounting principles:

For the Year Ended December 31,	1998	1997
Distributions per share:		
From book net income	\$1.06	\$1.08
Representing return of capital	0.96	0.93
Total distributions	\$2.02	\$2.01

On a federal income tax basis, 1% of SPG's 1998 distribution represented a capital gain and 48% represented a return of capital. In 1997, none of the distributions represented a capital gain and 35% represented a return of capital.

Statements of Cash Flows

For purposes of the Statements of Cash Flows, all highly liquid investments purchased with an original maturity of 90 days or less are considered cash and cash equivalents. Cash equivalents are carried at cost, which approximates market value. Cash equivalents generally consist of commercial paper, bankers acceptances, Eurodollars, repurchase agreements and Dutch auction securities. Cash and cash equivalents do not include restricted cash of \$867 and \$8,553 as of December 31, 1998 and 1997, respectively, to fund certain future capital expenditures.

Cash paid for interest, net of any amounts capitalized, during 1998, 1997 and 1996 was \$397,560; \$270,912; and \$191,965, respectively.

Note 5—SUMMARY OF
SIGNIFICANT ACCOUNTING
POLICIES, CONTINUED

Noncash Transactions

Accrued and unpaid distributions were \$3,428 at December 31, 1998 and represented distributions payable on SPG's 6.5% Series A Convertible Preferred Stock, which are paid semiannually on March 31 and September 30 of each year. Please refer to Notes 3, 4, 7 and 11 for additional discussion of noncash transactions.

Reclassifications

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

Note 6—INVESTMENT
PROPERTIES

Investment properties consist of the following:

December 31,	1998	1997
Land	\$ 2,034,445	\$1,253,953
Buildings and improvements	9,756,278	5,560,112
Total land, buildings and improvements	11,790,723	6,814,065
Furniture, fixtures and equipment	59,291	53,289
Investment properties at cost	11,850,014	6,867,354
Less—accumulated depreciation	722,371	461,792
Investment properties at cost, net	\$ 11,127,643	\$6,405,562

Investment properties includes \$184,875 and \$158,609 of construction in progress at December 31, 1998 and 1997, respectively.

Note 7—INVESTMENT IN
PARTNERSHIPS AND
JOINT VENTURES

Joint Venture Property Acquisitions and Dispositions

On February 27, 1998, Simon Group, in a joint venture partnership with The Macerich Company ("Macerich"), acquired a portfolio of twelve regional malls and two community centers (the "IBM Properties") comprising approximately 10.7 million square feet of GLA at a purchase price of \$974,500, including the assumption of \$485,000 of indebtedness. Simon Group and Macerich, as noncontrolling 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 and one community center. Simon Group funded its share of the cash portion of the purchase price using borrowings from an interim \$300,000 unsecured revolving credit facility, which was subsequently retired using borrowings from the Credit Facility.

In March 1998, Simon Group transferred its 50% ownership interest in The Source, an approximately 730,000 square-foot regional mall, to a newly formed limited partnership in which it has a 50% ownership interest, with the result that Simon Group now owns an indirect noncontrolling 25% ownership interest in The Source. In connection with this transaction, Simon Group's partner in the newly formed limited partnership is entitled to a preferred return of 8% on its initial capital contribution, a portion of which was distributed to Simon Group. Simon Group applied the distribution against its investment in The Source.

In August 1998, Simon Group admitted an additional partner into the partnership which owns The Shops at Sunset Place for \$35,200, which was distributed to Simon Group. Simon Group now holds a 37.5% noncontrolling interest in this Property, which opened in January 1999. Simon Group applied the distribution against its investment in the Property.

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Joint Venture Property Summary Financial Information

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

BALANCE SHEETS

December 31,	1998	1997
Assets:		
Investment properties at cost, net	\$4,290,795	\$2,734,686
Cash and cash equivalents	173,778	101,582
Tenant receivables	140,579	87,008
Other assets	103,481	71,873
Total assets	\$4,708,633	\$2,995,149
Liabilities and Partners' Equity:		
Mortgages and other notes payable	\$2,861,589	\$1,888,512
Accounts payable, accrued expenses and other liabilities	227,677	212,543
Total liabilities	3,089,266	2,101,055
Partners' equity	1,619,367	894,094
Total liabilities and partners' equity	\$4,708,633	\$2,995,149
Simon Group's Share of:		
Total assets	\$1,910,021	\$1,009,691
Partners' equity	\$ 568,998	\$ 227,458
Add: Excess Investment	708,616	364,119
Simon Group's net Investment in Joint Ventures	\$1,277,614	\$ 591,577

STATEMENTS OF OPERATIONS

For the Year Ended December 31,	1998	1997	1996
Revenue:			
Minimum rent	\$442,530	\$256,100	\$144,166
Overage rent	18,465	10,510	7,872
Tenant reimbursements	204,936	120,380	73,492
Other income	31,045	19,364	11,178
Total revenue	696,976	406,354	236,708
Operating Expenses:			
Operating expenses and other	245,927	144,256	88,678
Depreciation and amortization	129,681	85,423	50,328
Total operating expenses	375,608	229,679	139,006
Operating Income	321,368	176,675	97,702
Interest Expense	176,669	96,675	48,918
Extraordinary Items – Debt Extinguishments	(11,058)	(1,925)	(1,314)
Net Income	\$133,641	\$ 78,075	\$ 47,470
Third-Party Investors' Share of Net Income	88,314	55,507	38,283
Simon Group's Share of Net Income	\$ 45,327	\$ 22,568	\$ 9,187
Amortization of Excess Investment	22,625	13,878	5,127
Income from Unconsolidated Entities	\$ 22,702	\$ 8,690	\$ 4,060

Note As of December 31, 1998 and 1997, the unamortized excess of Simon Group's investment over its share of the equity in the underlying net assets of the partnerships and joint ventures 7- ("Excess Investment") was \$708,616 and \$364,119, respectively. This Excess Investment, which 10- resulted primarily from the CPI Merger and the DRC Merger, is being amortized generally 13- over the life of the related Properties. Amortization included in income from unconsolidated 16- entities for the years ended December 31, 1998, 1997 and 1996 was \$22,625, \$13,878 and \$5,127, 19- respectively.

The net income or net loss for each Joint Venture Property 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.

At December 31, 1998, SRC's investment in unconsolidated joint ventures, which is included in the summary financial information above, consists of (1) a 50% noncontrolling interest in Mill Creek Land, LLC ("Mill Creek"), with an additional 15% preferential return, which was formed to purchase the land which Mall of Georgia is being built upon and (2) a 25% limited partner interest in Cambridge Hotel Associates, a partnership which provides management and advisory services to the Cambridge Hotel in Cambridge, Massachusetts. Included in total assets, total revenue and net income above is \$5,367, \$481, and \$481 respectively, related to these SRC joint ventures investments.

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Note 8—INVESTMENT IN MANAGEMENT COMPANY

Simon Group holds 80% of the outstanding common stock, 5% of the outstanding voting common stock, and all of the 8% cumulative preferred stock of the Management Company. The remaining 20% of the outstanding common stock of the Management Company (representing 95% of the voting common stock) is owned directly by Melvin Simon, Herbert Simon and David Simon. Because Simon Group exercises significant influence over the financial and operating policies of the Management Company, it is reflected in the accompanying statements using the equity method of accounting. The Management Company, including its consolidated subsidiaries, provides management, leasing, development, project management, accounting, legal, marketing and management information systems services and property damage and general liability insurance coverage to certain Portfolio Properties. These services, excluding insurance coverage, are also provided to Melvin Simon & Associates, Inc. ("MSA"), and certain other nonowned properties for a fee. Simon Group incurred costs of \$145,655, \$85,229 and \$30,949 on consolidated Properties, related to services provided by the Management Company and its affiliates in 1998, 1997 and 1996, respectively. Fees for services provided by the Management Company to MSA were \$3,301, \$3,073 and \$4,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

The SPG Operating Partnership manages substantially all Wholly-Owned Properties and 26 Properties owned as joint venture interests, and, accordingly, it reimburses a subsidiary of the Management Company for costs incurred relating to such Properties, including management, leasing, development, accounting, legal, marketing, and management information systems. Substantially all employees of Simon Group (other than direct field personnel) are employed by such Management Company subsidiary. The Management Company records costs net of amounts reimbursed by the SPG Operating Partnership. Common costs are allocated based on payroll and related costs using assumptions that management believes are reasonable. The SPG Operating Partnership's share of allocated common costs was \$42,546, \$35,341 and \$29,262 for 1998, 1997 and 1996, respectively.

At December 31, 1998 and 1997, total notes receivable and advances due from the Management Company and its consolidated affiliates were \$115,378 and \$93,809, respectively. Unpaid interest income receivable from the Management Company at December 31, 1998 and 1997, was \$722 and \$485, respectively. Accrued and unpaid preferred dividends due from the Management Company at December 31, 1998 and 1997 were \$117 and \$0, respectively. Amounts payable by the SPG Operating Partnership under the cost-sharing arrangement and management contracts were \$4,968 and \$1,725 at December 31, 1998 and 1997, respectively, and are reflected in accounts payable and accrued expenses in SPG's accompanying Consolidated Balance Sheets.

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

BALANCE SHEET DATA:

December 31,	1998	1997
Total assets	\$198,952	\$137,750
Notes payable to Simon Group at 11%, due 2008, and advances	115,378	93,809
Shareholders' equity	7,279	482
Simon Group's Share of:		
Total assets	\$184,273	\$128,596
Shareholders' equity	\$ 10,037	\$ 3,192

OPERATING DATA:

For the Year Ended December 31,	1998	1997	1996
Total revenue	\$100,349	\$ 85,542	\$ 78,665
Operating Income	8,067	13,766	9,073
Net Income Available for Common Shareholders	\$ 6,667	\$ 12,366	\$ 7,673
Simon Group's Share of Net Income after intercompany profit elimination	\$ 5,852	\$ 10,486	\$ 5,485

Note 9—INDEBTEDNESS Simon Group's mortgages and other notes payable consist of the following:

December 31,	1998	1997
Fixed-Rate Debt		
Mortgages and other notes, including \$1,917 and \$888 net premiums, respectively	\$2,291,893	\$2,006,552
Unsecured public notes, including \$7,278 net premium and \$4,453 net discount, respectively	2,617,277	905,547
Mandatory Par Put Remarketed Securities, including \$5,273 premium	205,273	—
Medium-term notes, net of \$714 and \$771 discounts, respectively	279,286	279,229
Commercial mortgage pass-through certificates	175,000	175,000
6¾% Putable Asset Trust Securities, including \$1,111 and \$1,297 premiums, respectively	101,111	101,297
Total fixed-rate debt	5,669,840	3,467,625
Variable-Rate Debt		
Mortgages and other notes, including \$1,275 and \$696 premium, respectively	\$ 352,532	\$ 451,820
Credit facility	368,000	952,000
Merger facility	1,400,000	—
Unsecured term loans	133,000	133,000
Commercial mortgage pass-through certificates	50,000	50,000
Construction loan	—	23,545
Total variable-rate debt	2,303,532	1,610,365
Total mortgages and other notes payable, net	\$7,973,372	\$5,077,990

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Fixed-Rate Debt

Mortgages and Other Notes. The fixed-rate mortgage loans bear interest ranging from 6.57% to 10.00% (weighted average of 7.55% at December 31, 1998), require monthly payments of principal and/or interest and have various due dates through 2027 (average maturity of 5.9 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 \$706,042. 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 and Mandatory Par Put Remarketed Securities. In connection with the CPI Merger, RPT, a REIT and the 99.999% owned subsidiary of the SPG Operating Partnership, took title to substantially all of the CPI assets and assumed \$825,000 of unsecured notes (the "CPI Notes"), as described in Note 3. The CPI Notes are structurally senior in right of payment to holders of other Simon Group unsecured notes to the extent of the assets and related cash flow of RPT only, with over 99.999% of the excess cash flow plus any capital

event transactions available for the other Simon Group unsecured notes. The CPI Notes pay interest semiannually at rates ranging from 7.05% to 9.00% (weighted average of 8.03%), and have various due dates through 2016 (average maturity of 9.1 years). The CPI Notes contain leverage ratios, annual real property appraisal requirements, debt service coverage ratios and minimum net worth ratios.

The CPI Notes together with existing Simon Group nonconvertible investment-grade unsecured debt securities aggregate \$2,617,277 (the "Notes"). In addition, Simon Group has outstanding \$205,273 of 7.00% Mandatory Par Put Remarketed Securities ("MOPPRS") at December 31, 1998. The Notes pay interest semiannually at rates ranging from 6.63% to 9.0% (weighted average of 7.25%), and have various due dates through 2018 (average maturity of 8.3 years). The MOPPRS are due June 15, 2028, and are subject to redemption on June 16, 2008. The premium received relating to the MOPPRS of approximately \$5,302 is being amortized over the life of the debt securities. The MOPPRS and certain of the Notes are guaranteed by the SPG Operating Partnership and contain leverage ratios and minimum EBITDA and unencumbered EBITDA ratios.

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

Medium-Term Notes. On May 15, 1997, Simon Group established a Medium-Term Note ("MTN") program. On June 24, 1997, Simon Group 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, Simon Group issued the remaining \$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.

Commercial Mortgage Pass-Through Certificates. Simon Group has outstanding a series of six classes of commercial mortgage pass-through certificates cross-collateralized by seven 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%.

6¾% 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. The net discount relating to the PATS is being amortized over their remaining life.

Variable-Rate Debt

Mortgages and Other Notes. The variable-rate mortgage loans and other notes bear interest ranging from 5.61% to 7.74% (weighted average of 6.39% at December 31, 1998) and are due at various dates through 2004 (average maturity of 3.3 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.

Note 9—INDEBTEDNESS
CONTINUED

Credit Facility. The Credit Facility is a \$1,250,000 unsecured revolving credit facility which initially matures in September of 1999, with a one-year extension available at Simon Group's option. The Credit Facility bears interest at LIBOR plus 65 basis points, with an additional 15 basis point facility fee on the entire \$1,250,000. The maximum and average amounts outstanding during 1998 under the Credit Facility were \$992,000 and \$583,668, respectively. The Credit Facility is primarily used for funding acquisition, renovation and expansion and predevelopment opportunities. At December 31, 1998, the Credit Facility had an effective interest rate of 6.2%, with \$880,800 available after outstanding borrowings and letters of credit. The Credit Facility contains financial covenants relating to a capitalization value, minimum EBITDA and unencumbered EBITDA ratios and minimum equity values.

The Merger Facility. In conjunction with the CPI Merger, the SPG Operating Partnership and SPG, as co-borrowers, closed a \$1,400,000 medium term unsecured bridge loan (the "Merger Facility"). The Merger Facility bears interest at a base rate of LIBOR plus 65 basis points and will mature at the following intervals (i) \$450,000 on June 24, 1999 (ii) \$450,000 on March 24, 2000 and (iii) \$500,000 on September 24, 2000. As described above, in February 1999 the initial \$450,000 maturity on the Merger Facility was retired with proceeds from a \$600,000 unsecured debt offering. The Merger Facility is subject to covenants and conditions substantially identical to those of the Credit Facility. Simon Group drew the entire \$1,400,000 available on the Merger Facility along with \$237,000 on the Credit Facility to pay for the cash portion of the dividend declared in conjunction with the CPI Merger, as well as certain other costs associated with the CPI Merger. Financing costs of \$9,456, which were incurred to obtain the Merger Facility, are being amortized over 18 months.

Unsecured Term Loans. Simon Group has two unsecured term loans outstanding at December 31, 1998, totaling \$133,000, which were obtained to retire mortgage indebtedness. These term loans bear interest at LIBOR plus 0.65% and mature on January 31, 2000. Simon Group has an interest-rate protection agreement covering one of these term loans in the amount of \$63,000, which effectively fixes the interest rate at 6.14%.

Debt Maturity and Other

As of December 31, 1998, scheduled principal repayments on indebtedness were as follows:

1999	\$1,030,354
2000	1,464,646
2001	260,382
2002	835,067
2003	722,514
Thereafter	3,644,269
Total principal maturities	7,957,232
Net unmortized debt premiums	16,140
Total mortgages and other notes payable	\$7,973,372

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.

Net extraordinary gains (losses) resulting from the early extinguishment, refinancing or forgiveness of debt of \$7,146, \$58 and \$(3,521) were incurred for the years ended December 31, 1998, 1997 and 1996, respectively.

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The Joint Venture Properties have \$2,861,589 and \$1,888,512 of mortgages and other notes payable at December 31, 1998 and 1997, respectively. Simon Group's share of this debt was \$1,227,044 and \$770,776 at December 31, 1998 and 1997, respectively. This debt, including a premium of \$20,868 in 1998, becomes due in installments over various terms extending through 2009, with interest rates ranging from 5.44% to 9.75% (weighted average rate of 6.99% at December 31, 1998). The debt, excluding the \$20,868 premium, matures \$17,270 in 1999; \$220,961 in 2000; \$9,622 in 2001; \$265,603 in 2002; \$435,298 in 2003 and \$1,891,967 thereafter.

Interest Rate Protection Agreements

Simon Group 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. Swap arrangements, which effectively fix Simon Group's interest rate on the respective borrowings, have been entered into for \$550,000 principal amount of consolidated debt. Cap arrangements, which effectively limit the amount by which variable interest rates may rise, have been entered into for \$387,999 principal amount of consolidated debt and cap LIBOR at rates ranging from 5.49% to 16.765% through the related debt's maturity. Costs of the caps (\$1338) are amortized over the life of the agreements. The unamortized balance of the cap arrangements was \$429 and \$2,006 as of December 31, 1998 and 1997, respectively. Simon Group's hedging activity as a result of interest swaps and caps resulted in net interest savings of \$263, \$1,586 and \$2,165 for the years ended December 31, 1998, 1997 and 1996, respectively. This did not materially impact Simon Group's weighted average borrowing rate.

Fair Value of Financial Instruments

The carrying value of variable-rate mortgages and other loans represents their fair values. The fair value of fixed-rate mortgages and other notes payable was approximately \$6,100,000 and \$3,900,000 at December 31, 1998 and 1997, respectively. The fair value of the interest rate protection agreements at December 31, 1998 and 1997, was (\$7,213) and (\$692), respectively. At December 31, 1998 and 1997, the estimated discount rates were 6.70% and 6.66%, respectively.

NOTE 10—RENTALS UNDER OPERATING LEASE

Simon Group receives rental income from the leasing of retail and mixed-use space under operating leases. Future minimum rentals to be received under noncancelable operating leases for each of the next five years and thereafter, excluding tenant reimbursements of operating expenses and percentage rent based on tenant sales volume, as of December 31, 1998, are as follows:

1999	\$ 921,481
2000	830,849
2001	767,379
2002	704,928
2003	625,220
Thereafter	2,259,675
	<u>\$6,109,532</u>

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 SPG Operating Partnership.

Note 11—CAPITAL STOCK In connection with the CPI Merger, SPG restated its certificate of incorporation to, among other things, restate the number of shares and classes of capital stock authorized for issuance. SPG is now authorized to issue up to 750,000,000 shares, par value \$0.0001 per share, of capital stock. The authorized shares of capital stock consist of 400,000,000 shares of common stock, 12,000,000 shares of Class B common stock, 4,000 shares of Class C common stock, 100,000,000 shares of preferred stock, including 209,249 shares of Series A Convertible Preferred Stock and 5,000,000 shares of Class B Convertible Preferred Stock, and 237,996,000 shares of excess common stock. Each share of common stock of SPG is paired with 1/100th of a share of common stock of SRC.

The articles of incorporation of SRC were also restated in conjunction with the CPI Merger. SRC is now authorized to issue up to 7,500,000 shares, par value \$0.0001 per share, of common stock. SRC's historical shares and per share amounts have been adjusted to give effect to the change in SRC's par value of common stock from \$.10 per share to \$.0001 per share and to the CPI Merger exchange ratio of 2.0818 and to change the pairing of SRC's stock from 1/10th to 1/100th.

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

The holders of common stock of SPG are entitled to one vote for each share held of record on all matters submitted to a vote of shareholders, other than for the election of directors. The holders of Class B common stock are entitled to elect four of the thirteen members of the board. The holder of the Class C common stock, 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 Companies have reserved 3,200,000 and 4,000 shares of common stock for the possible conversion of the outstanding Class B and Class C shares, respectively.

Common Stock Issuances

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

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

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

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

Preferred Stock

SPG has 209,249 shares of 6.50% Series A Convertible Preferred Stock outstanding. Each share of Series A Convertible Preferred Stock is convertible into 37.995 paired shares of common stock of the Companies, subject to adjustment under certain circumstances including (i) a subdivision or combination of shares of common stock of the Companies, (ii) a declaration of a distribution of additional shares of common stock of the Companies, issuances of rights or warrants by the Companies and (iii) any consolidation or merger, which the Companies are a part of or a sale or conveyance of all or substantially all of the assets of the Companies to another person or any statutory exchange of securities with another person. The Series A Convertible Preferred Stock is not redeemable, except as needed to maintain or bring the direct or indirect ownership of the capital stock of SPG into conformity with REIT requirements.

In addition, SPG has 4,844,331 shares of 6.50% Series B Convertible Preferred Stock outstanding. Each share of Series B Convertible Preferred Stock is convertible into 2.586 paired shares of common stock of the Companies, subject to adjustment under circumstances identical to those of the Series A Preferred Stock described above. The Companies may redeem the Series B Preferred Stock on or after September 24, 2003 at a price beginning at 105% of the liquidation preference plus accrued dividends and declining to 100% of the liquidation preference plus accrued dividends any time on or after September 24, 2008.

Preferred Stock of Subsidiary

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

On July 9, 1997, SPG Properties, Inc. sold 3,000,000 shares of its 7.89% Series C Cumulative Step-Up Premium RateSM 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. Management 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 SPG Properties, Inc. 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 SPG Properties, Inc., which may include other classes or series of preferred stock. Additionally, the Series C

Note 11—CAPITAL STOCK
CONTINUED

Preferred Shares have no stated maturity and are not subject to any mandatory redemption provisions, nor are they convertible into any other securities of SPG Properties, Inc. SPG Properties, Inc. contributed the net proceeds of this offering of approximately \$146,000 to the SPG Operating Partnership in exchange for preferred Units, the economic terms of which are substantially identical to the Series C Preferred Shares.

On September 27, 1996, SPG Properties, Inc. 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. SPG Properties, Inc. 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 SPG Properties, Inc., which may include other series of preferred shares. SPG Properties, Inc. contributed the proceeds to the SPG Operating Partnership in exchange for preferred Units. The SPG Operating Partnership pays a preferred distribution to SPG Properties, Inc. equal to the dividends paid on the preferred stock.

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Notes Receivable from Former CPI Shareholders


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

The Simon Property Group 1998 Stock Incentive Plan

At the time of the CPI Merger, Simon Group adopted 'The Simon Property Group 1998 Stock Incentive Plan' (the "1998 Plan"). The 1998 Plan provides for the grant of equity-based awards during the ten-year period following its adoption, in the form of options to purchase paired shares of the Companies' common stock ("Options"), stock appreciation rights ("SARs"), restricted stock grants and performance unit awards (collectively, "Awards"). Options may be granted which are qualified as "incentive stock options" within the meaning of Section 422 of the Code and Options which are not so qualified.

The primary purpose of the 1998 Plan is to attract and retain the best available eligible officers, directors, key employees, advisors and consultants. The Companies have reserved for issuance 6,300,000 paired shares of common stock under the 1998 Plan, which includes 2,230,875 shares reserved for the exercise of options granted and grants of restricted stock allocated under the previously existing Stock Incentive Program and DRC Plan, which are described below. If stock options granted in connection with the 1998 Plan are exercised at any time or from time to time, the partnership agreement requires the Companies to sell to the Operating Partnerships, at fair market value, paired shares of the Companies' common stock sufficient to satisfy the exercised stock options. The Companies are also obligated to purchase paired Units for cash in an amount equal to the fair market value of such shares.

Administration. The 1998 Plan is administered by Simon Group's Compensation Committee (the "Committee"). The Committee, in its sole discretion, determines which eligible individuals may participate and the type, extent and terms of the Awards to be granted to them. In addition, the Committee interprets the 1998 Plan and makes all other



determinations deemed advisable for the administration of the 1998 Plan. Options granted to employees (“Employee Options”) become exercisable over the period determined by the Committee. The exercise price of an Employee Option may not be less than the fair market value of the shares of the common stock on the date of grant. Currently, Employee Options outstanding 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 Employee Options expire ten years from the date of grant.

Director Options. The 1998 Plan provides for automatic grants of Options (“Director Options”) to directors of the Companies who are not also employees of the SPG Operating Partnership or its “affiliates” (“Eligible Directors”). Under the 1998 Plan, each Eligible Director is automatically granted Director Options to purchase 5,000 shares of the Companies’ common stock upon the director’s initial election to the Board of Directors. Eligible Directors will also receive Director Options to purchase 3,000 shares of common stock multiplied by the number of calendar years that have elapsed since such person’s last election to the Board of Directors upon each reelection of the Eligible Director to the Board of Directors. The exercise price of the options is equal to 100% of the fair market value of the Companies’ common stock on the date of grant. Director Options become vested and exercisable on the first anniversary of the date of grant or at such earlier time as a “change in control” of the Companies (as defined in the 1998 Plan). Director Options will terminate 30 days after the optionee ceases to be a member of the Board of Directors.

Restricted Stock. In October 1994, under a previous stock incentive program, the Compensation Committee approved a five-year stock incentive program (the “Stock Incentive Program”), under which shares of restricted common stock of SPG were granted to certain employees at no cost to those employees if SPG attained certain growth targets established by the Compensation Committee from time to time. In addition, in 1994, DRC 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 also based upon growth targets established by their Compensation Committee. At the time of the DRC Merger, SPG 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. Both the Stock Incentive Program and the DRC Plan provided for a percentage of each of these restricted stock grants to be earned and awarded each year. 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.

The terms and conditions concerning vesting of the restricted stock grant to the Companies’ President and Chief Operating Officer are different from those established by the DRC Plan and are specifically set forth in the employment contract with 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.

Note 11—CAPITAL STOCK
CONTINUED

During 1998, 1997 and 1996, a total of 495,131; 448,753 and 200,030 shares of common stock, respectively, net of forfeitures, were deemed earned and awarded under the Stock Incentive Program and the DRC Plan. Through December 31, 1998, a total of 1,287,225 shares of common stock, net of forfeitures, were deemed earned and awarded under these programs. Approximately \$9,463, \$5,386 and \$2,084 relating to these programs were amortized in 1998, 1997 and 1996, respectively. The cost of restricted stock grants, which is based upon the stock's fair market value at the time such stock is earned, awarded and issued, is charged to shareholders' equity and subsequently amortized against earnings of Simon Group over the vesting period.

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. Simon Group has elected to account for stock-based compensation programs using the intrinsic value method consistent with existing accounting policies. Simon Group granted 5,000 and 380,000 options during April 1998 and September 1998, respectively. The options vest over a three-year period. The fair value at date of grant for options granted during 1998 was \$6.19 and \$7.25 per option for the April and September grants, respectively. The fair value at the date of grant for options granted during the years ended December 31, 1997 and 1996 was \$3.18 and \$2.13 per option, respectively. The impact on pro forma net income and earnings per share as a result of applying the fair value method was not material.

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

December 31,	1998	1997	1996
Expected Volatility	30.83 – 41.79%	17.63%	17.48%
Risk-Free Interest Rate	4.64 – 5.68%	6.82%	6.63%
Dividend Yield	6.24 – 6.52%	6.9%	7.5%
Expected Life	10 years	10 years	10 years

The weighted average remaining contract life for options outstanding as of December 31, 1998 was 6.1 years.

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Information relating to the Options from January 1, 1996 through December 31, 1998 is as follows:

	Director Options		Employee Options	
	Options	Option Price per Share	Options	Option Price per Share
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	29.31	–	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
Granted	–	N/A	385,000	30.40 ⁽¹⁾
CPI Options Acquired	–	N/A	304,210	25.48 ⁽¹⁾
Exercised	(8,000)	26.27 ⁽¹⁾	(38,149)	23.71 ⁽¹⁾
Forfeited	(3,000)	29.31	(4,750)	25.25
Shares under option at December 31, 1998	75,080	\$ 24.11 ⁽¹⁾	1,893,908	\$ 24.82 ⁽¹⁾
Options exercisable at December 31, 1998	75,080	\$ 24.11 ⁽¹⁾	1,508,908	\$ 23.39 ⁽¹⁾

(1) Represents the weighted average price

Exchange Rights

Limited partners in the Operating Partnerships have the right to exchange all or any portion of their Units for shares of common stock on a one-for-one basis or cash, as selected by the Board of Directors. The amount of cash to be paid if the exchange right is exercised and the cash option is selected will be based on the trading price of the Companies' common stock at that time. The Companies have reserved 64,182,157 paired shares of common stock for possible issuance upon the exchange of Units.

Note 12—EMPLOYEE BENEFIT PLANS

Simon Group maintains a tax-qualified retirement 401(k) savings plan. Under the plan, eligible employees can participate in a cash or deferred arrangement permitting them to defer up to a maximum of 12% of their compensation, subject to certain limitations. Participants' salary deferrals are matched at specified percentages, and the plan provides annual contributions of 3% of eligible employees' compensation. Simon Group contributed \$2,581, \$2,727 and \$2,350 to the plans in 1998, 1997 and 1996, respectively.

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

Note 13—COMMITMENTS AND
CONTINGENCIES

Litigation

Richard E. Jacobs, et al. v. Simon DeBartolo Group, L.P. On September 3, 1998, a complaint was filed in the Court of Common Pleas in Cuyahoga County, Ohio, captioned Richard E. Jacobs, et al. v. Simon DeBartolo Group, L.P. The plaintiffs are all principals or affiliates of The Richard E. Jacobs Group, Inc. ("Jacobs"). The plaintiffs allege in their complaint that the SPG Operating Partnership engaged in malicious prosecution, abuse of process, defamation, libel, injurious falsehood/unlawful disparagement, deceptive trade practices under Ohio law, tortious interference and unfair competition in connection with the SPG Operating Partnership's acquisition by tender offer of shares in RPT, a Massachusetts business trust, and certain litigation instituted in September, 1997, by the SPG Operating Partnership against Jacobs in federal district court in New York, wherein the SPG Operating Partnership alleged that Jacobs and other parties had engaged, or were engaging in activity which violated Section 10(b) of the Securities Exchange Act of 1934, as well as certain rules promulgated thereunder. Plaintiffs in the Ohio action are seeking compensatory damages in excess of \$200,000, punitive damages and reimbursement for fees and expenses. It is difficult to predict the ultimate outcome of this action and there can be no assurance that the SPG Operating Partnership will receive a favorable verdict. Based upon the information known at this time, in the opinion of management, it is not expected that this action will have a material adverse effect on Simon Group.

Carlo Angostinelli et al. v. DeBartolo Realty Corp. et al. On October 16, 1996, a complaint was filed in the Court of Common Pleas of Mahoning County, Ohio, captioned Carlo Angostinelli et al. v. DeBartolo Realty Corp. et al. The named defendants are SD Property Group, Inc., an indirect 99%-owned subsidiary of SPG, and DeBartolo Properties Management, Inc., a subsidiary of the Management Company, and the plaintiffs are 27 former employees of the defendants. In the complaint, the plaintiffs alleged that they were recipients of deferred stock grants under the 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 paired shares of common stock of the Companies 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 judgment. On October 31, 1997, the Court entered a judgment in favor of the Company granting the Company's motion for summary judgment. The plaintiffs have appealed this judgment and the matter is pending. While it is difficult to predict the ultimate outcome of this action, based on the information known to date, it is not expected that this action will have a material adverse effect on Simon Group.

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, tortious interference with contract and civil conspiracy arising out of the sale of a business operating under a temporary license agreement at Valle Vista Mall in

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Harlingen, Texas. The Company is seeking to overturn the award and has appealed the verdict. The Company's appeal is pending. Although management is optimistic that the Company 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 Simon Group.

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

Lease Commitments

As of December 31, 1998, a total of 37 of the Wholly-Owned and Minority Interest Properties are subject to ground leases. The termination dates of these ground leases range from 1999 to 2087. These ground leases generally require payments by Simon Group of a fixed annual rent, or a fixed annual rent plus a participating percentage over a base rate. Ground lease expense incurred by Simon Group for the years ended December 31, 1998, 1997 and 1996, was \$13,618, \$10,511 and \$8,506, 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:

1999	\$ 7,871
2000	7,934
2001	8,033
2002	8,313
2003	8,320
Thereafter	499,664
	\$540,135

Environmental Matters

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

**Note 14—RELATED PARTY
TRANSACTIONS**

SRC receives a substantial amount of its rental income from SPG, and from CPI for periods prior to the CPI Merger, for office space under lease. During 1997 and 1996 SRC also received management fee income under various management contracts with affiliates of CPI. These contracts had expired as of December 31, 1997.

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

Note 15—NEW ACCOUNTING
PRONOUNCEMENT

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

Statement 133 will be effective for Simon Group beginning with the 1999 fiscal year and may not be applied retroactively. Management does not expect the impact of Statement 133 to be material to the financial statements. However, the Statement could increase volatility in earnings and other comprehensive income.

On April 3, 1998 the Accounting Standards Executive Committee issued Statement of Position 98-5 ("SOP 98-5"), *Reporting on the Costs of Start-Up Activities*, which is effective for fiscal years beginning after December 15, 1998. SOP 98-5 states that costs of start-up activities, including organization costs, should be expensed as incurred. Management does not expect the impact of SOP 98-5 to be material to the financial statements.

**NOTES TO
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Note 16—QUARTERLY
FINANCIAL DATA (UNAUDITED)

Combined Summarized quarterly 1998 and 1997 data is as follows:

1998	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Annual Amount
Total revenue	\$ 300,257	\$ 310,375	\$ 322,338	\$ 472,589	\$1,405,559
Operating income	133,667	145,226	147,537	215,782	642,212
Income before extra-ordinary items	45,124	43,514	52,851	94,741	236,230
Net income available to common shareholders	23,948	27,467	28,966	53,217	133,598
Net income before extraordinary items per paired share ⁽¹⁾	\$ 0.22	\$ 0.21	\$ 0.25	\$ 0.32	\$ 1.02
Net income per paired share ⁽¹⁾	\$ 0.22	\$ 0.25	\$ 0.25	\$ 0.32	\$ 1.06
Weighted Average Common Paired Shares Outstanding	109,684,252	111,954,695	117,149,600	166,775,975	126,522,228
Net income before extraordinary items per paired share – assuming dilution ⁽¹⁾	\$ 0.22	\$ 0.21	\$ 0.25	\$ 0.32	\$ 1.02
Net income per paired share – assuming dilution ⁽¹⁾	\$ 0.22	\$ 0.25	\$ 0.25	\$ 0.32	\$ 1.06
Weighted Average Common Paired Shares Outstanding – Assuming Dilution	110,071,475	112,381,667	117,474,932	167,077,557	126,879,377

1997	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Annual Amount
Total revenue	\$ 242,414	\$ 245,055	\$ 259,783	\$ 306,915	\$1,054,167
Operating income	111,706	114,455	117,572	133,297	477,030
Income 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 ⁽¹⁾	\$ 0.23	\$ 0.27	\$ 0.28	\$ 0.29	\$ 1.08
Net income per common share ⁽¹⁾	\$ 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 ⁽¹⁾	\$ 0.23	\$ 0.27	\$ 0.28	\$ 0.29	\$ 1.08
Net income per common share – assuming dilution ⁽¹⁾	\$ 0.08	\$ 0.25	\$ 0.45	\$ 0.28	\$ 1.08
Weighted Average Common Shares Outstanding – Assuming Dilution	97,369,777	97,874,561	99,170,829	106,698,238	100,304,344

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

**Note 17—SUBSEQUENT EVENTS
(UNAUDITED)**

On February 25, 1999 Simon Group entered into a definitive agreement with New England Development Company (“NED”) to acquire and assume management responsibilities for NED’s portfolio of up to 14 regional malls aggregating approximately 10.6 million square feet of GLA. The purchase price for the portfolio is approximately \$1.725 billion. Simon Group expects to form a joint venture to acquire the portfolio, with Simon Group’s ultimate ownership to be between 30% to 50%.

On February 26, 1999, 150,000 shares of SPG’s Series A Convertible Preferred stock were converted into 5,699,250 paired shares of common stock of the Companies, with 59,249 shares of Series A Convertible Preferred stock remaining outstanding.

**BOARD
OF
DIRECTORS**
Melvin Simon, 72 ⁽¹⁾

Co-Chairman of the Board, Simon Property Group, Inc.

Herbert Simon, 64 ^{(1), (3), (4)}

Co-Chairman of the Board, Simon Property Group, Inc.

David Simon, 37 ^{(1), (4)}

Chief Executive Officer, Simon Property Group, Inc.

Hans C. Mautner, 61 ⁽¹⁾

Vice Chairman, Simon Property Group, Inc.

Richard S. Sokolov, 49 ⁽¹⁾

President and Chief Operating Officer, Simon Property Group, Inc.

M. Denise DeBartolo York, 48 ⁽⁴⁾

Chairman and Chief Executive Officer, The Edward J. DeBartolo Corporation

Robert E. Angelica, 52 ⁽³⁾

President and Chief Investment Officer, AT&T Investment Management Corporation

Birch Bayh, 71 ^{(3), (4)}

Senior Partner, Oppenheimer, Wolff, Donnelly & Bayh, LLP

G. William Miller, 74 ^{(2), (4)}Chairman and Chief Executive Officer, G. William Miller & Co. Inc. and
Chairman, Waccamaw Corporation**Fredrick W. Petri, 52** ^{(2), (3)}

Partner, Petrone, Petri & Company

J. Albert Smith, Jr., 58 ⁽²⁾

Managing Director – Bank One Corporation

Pieter S. van den Berg, 53

Director Controller, Pensioenfonds PGGM

Philip J. Ward, 50 ⁽³⁾

Senior Managing Director, CIGNA Investments, Inc.

Director, Patriot American Hospitality, Inc.

⁽¹⁾ Executive Committee Member⁽²⁾ Audit Committee Member⁽³⁾ Compensation Committee Member⁽⁴⁾ Nominating Committee Member

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

WEBSITE www.simon.com

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

TRANSFER AGENT AND REGISTRAR General Shareholder Correspondence:
First Chicago Trust Company, a division of EquiServe
P.O. Box 2500
Jersey City, NJ 07303-2500

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

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

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Willkie Farr & Gallagher, New York, NY

INDEPENDENT ACCOUNTANTS Arthur Andersen LLP
Indianapolis, IN

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

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

COMMON STOCK MARKET PRICES AND DISTRIBUTIONS	High	Low	Close	Distribution
	First Quarter 1997	32¾	28¾	30¼
Second Quarter 1997	32	27¾	32	\$0.5050
Third Quarter 1997	34¾	29	33	\$0.5050
Fourth Quarter 1997	33 ¹⁵ / ₁₆	28¾	32 ¹¹ / ₁₆	\$0.5050
First Quarter 1998	34½	30¾	34¼	\$0.5050
Second Quarter 1998	34¾	31	32½	\$0.5050
Third Quarter 1998	34¼	25 ¹³ / ₁₆	29¾	\$0.5050
Fourth Quarter 1998	30¾	26½	28½	\$0.5050 ⁽¹⁾

⁽¹⁾ Includes a \$0.4721 distribution declared in the third quarter of 1998, but not payable until the fourth quarter of 1998, related to the CPI merger, designated to align the time periods of distribution payments of the merged companies. The current annual distribution rate is \$2.02 per share.

INVESTOR INFORMATION



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