

Finally, we derive our liquidity primarily from our leases that generate positive net cash flow from operations and distributions from unconsolidated entities that totaled \$1.1 billion in 2003. In addition, we generate the majority of our revenues from leases with retail tenants including:

- Base minimum rents, cart and kiosk rentals,
- Overage and percentage rents based on tenants' sales volume, and
- Recoveries of substantially all of our recoverable expenditures, which consist of property operating, real estate tax, repairs and maintenance, and advertising and promotional expenditures.

Revenues of M.S. Management Associates, Inc. (the "Management Company"), after intercompany eliminations, consist primarily of management fees that are typically based upon the revenues of the property being managed. We generate revenues from outlot land sales and, due to our size and tenant relationships, from the following:

- Simon Brand Ventures ("Simon Brand") mall marketing initiatives, including the sale of gift cards. We completed the roll-out of our Simon Gift Card program to substantially all our regional malls during 2003.
- Consumer focused strategic corporate alliances that Simon Brand enters into with third parties.
- Simon Business Network ("Simon Business") property operating services to our tenants and others resulting from its relationships with vendors.

### Results Overview

Our core business fundamentals remained stable during 2003. Regional mall comparable sales per square foot ("psf") strengthened in 2003, increasing 2.8% to \$402 psf from \$391 in 2002, as the overall economy begins to show signs of recovery and as a result of our dispositions of lower quality Properties. Our regional mall average base rents increased 5.1% to \$32.26 psf from \$30.70 psf. In addition, we maintained strong regional mall leasing spreads of \$8.29 psf in 2003 increasing from \$7.77 psf in 2002. The regional mall leasing spread for 2003 includes new store leases signed at an average of \$41.28 psf initial base rents as compared to \$32.99 psf for store leases terminating or expiring in the same period. Our same store leasing spread for 2003 was \$7.29 or a 19.2% growth rate and is calculated by comparing leasing activity completed in 2003 with the prior tenants rents for those exact same spaces. Finally, our regional mall occupancy was down by 30 basis points to 92.4% as of December 31, 2003 from 92.7% as of December 31, 2002 primarily due to retailer bankruptcy-related closings during the last four months of the year.

During 2003, we completed acquisitions or increases in ownership of core Properties through the following transactions:

- On March 14, 2003, we purchased the remaining minority interest in The Forum Shops at Caesars ("Forum Shops") in Las Vegas, NV from the minority limited partner.
- On August 20, 2003, we purchased a 100% leasehold stake in Stanford Shopping Center in Palo Alto, California from Stanford University. Stanford University holds, as lessor, a long-term ground lease underlying the asset.
- In the fourth quarter 2003, through a series of transactions we increased our ownership interest in Kravco Investments L.P. ("Kravco"), a Philadelphia, PA based owner of regional malls to approximately 80% and to 50% in its affiliated management company. The portfolio consists of six regional malls, five of which are in the Philadelphia metropolitan area, and four community centers.

In addition, during 2003, we realized the full year benefits of the acquisitions we made during 2002 consisting primarily of the Rodamco North America, N.V. acquisition (the "Rodamco acquisition"). These acquisitions increased consolidated total revenues in 2003 by \$74.3 million and consolidated operating income by \$22.1 million compared to the year ended December 31, 2002.