

SIMON PROPERTY GROUP INC /DE/  
Form 10-Q  
August 04, 2017  
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2017

SIMON PROPERTY GROUP, INC.

SIMON PROPERTY GROUP, L.P.

(Exact name of registrant as specified in its charter)

|                                                      |                              |                              |
|------------------------------------------------------|------------------------------|------------------------------|
| Delaware                                             | 001 14469                    | 04 6268599                   |
| (Simon Property Group, Inc.)                         | (Simon Property Group, Inc.) | (Simon Property Group, Inc.) |
| Delaware                                             | 001-36110                    | 34-1755769                   |
| (Simon Property Group, L.P.)                         | (Simon Property Group, L.P.) | (Simon Property Group, L.P.) |
| (State of incorporation                              | (Commission File No.)        | (I.R.S. Employer             |
| or organization)                                     |                              | Identification No.)          |
| 225 West Washington Street                           |                              |                              |
| Indianapolis, Indiana 46204                          |                              |                              |
| (Address of principal executive offices)             |                              |                              |
| (317) 636 1600                                       |                              |                              |
| (Registrant's telephone number, including area code) |                              |                              |

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Simon Property Group, Inc.    Yes    No    Simon Property Group, L.P.    Yes    No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Simon Property Group, Inc.    Yes    No    Simon Property Group, L.P.    Yes    No

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Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act (check one):

Simon Property Group, Inc.:

|                         |                   |                                                                           |                           |
|-------------------------|-------------------|---------------------------------------------------------------------------|---------------------------|
| Large accelerated filer | Accelerated filer | Non accelerated filer<br>(Do not check if a smaller<br>reporting company) | Smaller reporting company |
|                         |                   |                                                                           | Emerging growth company   |

Simon Property Group, L.P.:

|                         |                   |                                                                           |                           |
|-------------------------|-------------------|---------------------------------------------------------------------------|---------------------------|
| Large accelerated filer | Accelerated filer | Non-accelerated filer<br>(Do not check if a smaller<br>reporting company) | Smaller reporting company |
|                         |                   |                                                                           | Emerging growth company   |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Simon Property Group, Inc.

Simon Property Group, L.P.

Indicate by check mark whether Registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).

|                            |     |    |                            |     |    |
|----------------------------|-----|----|----------------------------|-----|----|
| Simon Property Group, Inc. | Yes | No | Simon Property Group, L.P. | Yes | No |
|----------------------------|-----|----|----------------------------|-----|----|

As of June 30, 2017, Simon Property Group, Inc. had 310,834,778 shares of common stock, par value \$0.0001 per share, and 8,000 shares of Class B common stock, par value \$0.0001 per share, outstanding. Simon Property Group, L.P. has no common stock outstanding.

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EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the quarterly period ended June 30, 2017 of Simon Property Group, Inc., a Delaware corporation, and Simon Property Group, L.P., a Delaware limited partnership. Unless stated otherwise or the context otherwise requires, references to “Simon” mean Simon Property Group, Inc. and references to the “Operating Partnership” mean Simon Property Group, L.P. References to “we,” “us” and “our” mean collectively Simon, the Operating Partnership and those entities/subsidiaries owned or controlled by Simon and/or the Operating Partnership.

Simon is a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code. We are structured as an umbrella partnership REIT under which substantially all of our business is conducted through the Operating Partnership, Simon’s majority owned partnership subsidiary, for which Simon is the general partner. As of June 30, 2017, Simon owned an approximate 86.8% ownership interest in the Operating Partnership, with the remaining 13.2% ownership interest owned by limited partners. As the sole general partner of the Operating Partnership, Simon has exclusive control of the Operating Partnership’s day to day management.

We operate Simon and the Operating Partnership as one business. The management of Simon consists of the same members as the management of the Operating Partnership. As general partner with control of the Operating Partnership, Simon consolidates the Operating Partnership for financial reporting purposes, and Simon has no material assets or liabilities other than its investment in the Operating Partnership. Therefore, the assets and liabilities of Simon and the Operating Partnership are the same on their respective financial statements.

We believe that combining the quarterly reports on Form 10-Q of Simon and the Operating Partnership into this single report provides the following benefits:

- enhances investors’ understanding of Simon and the Operating Partnership by enabling investors to view the business as a whole in the same manner as management views and operates the business;
- eliminates duplicative disclosure and provides a more streamlined presentation since substantially all of the disclosure in this report applies to both Simon and the Operating Partnership; and
- creates time and cost efficiencies through the preparation of one combined report instead of two separate reports.

We believe it is important for investors to understand the few differences between Simon and the Operating Partnership in the context of how we operate as a consolidated company. The primary difference is that Simon itself does not conduct business, other than acting as the general partner of the Operating Partnership and issuing equity or equity related instruments from time to time. In addition, Simon itself does not incur any indebtedness, as all debt is incurred by the Operating Partnership or entities/subsidiaries owned or controlled by the Operating Partnership.

The Operating Partnership holds, directly or indirectly, substantially all of our assets, including our ownership interests in our joint ventures. The Operating Partnership conducts substantially all of our business and is structured as a partnership with no publicly traded equity. Except for the net proceeds from equity issuances by Simon, which are contributed to the capital of the Operating Partnership in exchange for, in the case of common stock issuances by Simon, common units of partnership interest in the Operating Partnership, or units, or, in the case of preferred stock issuances by Simon, preferred units of partnership interest in the Operating Partnership, or preferred units, the Operating Partnership, directly or indirectly, generates the capital required by our business through its operations, the incurrence of indebtedness, proceeds received from the disposition of certain properties and joint ventures and the issuance of units or preferred units to third parties.

The presentation of stockholders’ equity, partners’ equity and noncontrolling interests are the main areas of difference between the consolidated financial statements of Simon and those of the Operating Partnership. The differences between stockholders’ equity and partners’ equity result from differences in the equity issued at the Simon and

Operating Partnership levels. The units held by limited partners in the Operating Partnership are accounted for as partners' equity in the Operating Partnership's financial statements and as noncontrolling interests in Simon's financial statements. The noncontrolling interests in the Operating Partnership's financial statements include the interests of unaffiliated partners in various consolidated partnerships. The noncontrolling interests in Simon's financial statements include the same noncontrolling interests at the Operating Partnership level and, as previously stated, the units held by limited partners of the Operating Partnership. Although classified differently, total equity of Simon and the Operating Partnership is the same.

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To help investors understand the differences between Simon and the Operating Partnership, this report provides:

- separate consolidated financial statements for Simon and the Operating Partnership;
- a single set of condensed notes to such consolidated financial statements that includes separate discussions of noncontrolling interests and stockholders' equity or partners' equity, accumulated other comprehensive income (loss) and per share and per unit data, as applicable;
- a combined Management's Discussion and Analysis of Financial Condition and Results of Operations section that also includes discrete information related to each entity; and
- separate Part II, Item 2. Unregistered Sales of Equity Securities and Use of Proceeds sections related to each entity.

This report also includes separate Part I, Item 4. Controls and Procedures sections and separate Exhibits 31 and 32 certifications for each of Simon and the Operating Partnership in order to establish that the requisite certifications have been made and that Simon and the Operating Partnership are each compliant with Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 and 18 U.S.C. §1350. The separate discussions of Simon and the Operating Partnership in this report should be read in conjunction with each other to understand our results on a consolidated basis and how management operates our business.

In order to highlight the differences between Simon and the Operating Partnership, the separate sections in this report for Simon and the Operating Partnership specifically refer to Simon and the Operating Partnership. In the sections that combine disclosure of Simon and the Operating Partnership, this report refers to actions or holdings of Simon and the Operating Partnership as being "our" actions or holdings. Although the Operating Partnership is generally the entity that directly or indirectly enters into contracts and joint ventures, holds assets and incurs debt, we believe that reference to "we," "us" or "our" in this context is appropriate because the business is one enterprise and we operate substantially all of our business through the Operating Partnership.

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Simon Property Group, Inc.

Simon Property Group, L.P.

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Simon Property Group, Inc.

Unaudited Consolidated Balance Sheets

(Dollars in thousands, except share amounts)

|                                                                                                                                                                       | June 30,<br>2017 | December 31,<br>2016 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|----------------------|
| <b>ASSETS:</b>                                                                                                                                                        |                  |                      |
| Investment properties, at cost                                                                                                                                        | \$ 35,695,397    | \$ 35,226,089        |
| Less - accumulated depreciation                                                                                                                                       | 11,378,345       | 10,865,754           |
|                                                                                                                                                                       | 24,317,052       | 24,360,335           |
| Cash and cash equivalents                                                                                                                                             | 488,614          | 560,059              |
| Tenant receivables and accrued revenue, net                                                                                                                           | 640,080          | 664,619              |
| Investment in unconsolidated entities, at equity                                                                                                                      | 2,321,111        | 2,367,583            |
| Investment in Klépierre, at equity                                                                                                                                    | 1,830,484        | 1,797,394            |
| Deferred costs and other assets                                                                                                                                       | 1,368,625        | 1,353,588            |
| Total assets                                                                                                                                                          | \$ 30,965,966    | \$ 31,103,578        |
| <b>LIABILITIES:</b>                                                                                                                                                   |                  |                      |
| Mortgages and unsecured indebtedness                                                                                                                                  | \$ 23,422,685    | \$ 22,977,104        |
| Accounts payable, accrued expenses, intangibles, and deferred revenues                                                                                                | 1,205,267        | 1,214,022            |
| Cash distributions and losses in partnerships and joint ventures, at equity                                                                                           | 1,370,333        | 1,359,738            |
| Other liabilities                                                                                                                                                     | 492,143          | 455,040              |
| Total liabilities                                                                                                                                                     | 26,490,428       | 26,005,904           |
| Commitments and contingencies                                                                                                                                         |                  |                      |
| Limited partners' preferred interest in the Operating Partnership and noncontrolling redeemable interests in properties                                               | 184,379          | 137,762              |
| <b>EQUITY:</b>                                                                                                                                                        |                  |                      |
| Stockholders' Equity                                                                                                                                                  |                  |                      |
| Capital stock (850,000,000 total shares authorized, \$0.0001 par value, 238,000,000 shares of excess common stock, 100,000,000 authorized shares of preferred stock): |                  |                      |
| Series J 83/8% cumulative redeemable preferred stock, 1,000,000 shares authorized, 796,948 issued and outstanding with a liquidation value of \$39,847                | 43,241           | 43,405               |
| Common stock, \$0.0001 par value, 511,990,000 shares authorized, 319,929,605 and 319,823,322 issued and outstanding, respectively                                     | 32               | 32                   |
| Class B common stock, \$0.0001 par value, 10,000 shares authorized, 8,000 issued and outstanding                                                                      | —                | —                    |
| Capital in excess of par value                                                                                                                                        | 9,587,026        | 9,523,086            |
| Accumulated deficit                                                                                                                                                   | (4,731,402)      | (4,459,387)          |
| Accumulated other comprehensive loss                                                                                                                                  | (103,872)        | (114,126)            |
| Common stock held in treasury, at cost, 9,094,827 and 6,756,748 shares, respectively                                                                                  | (1,068,310)      | (682,562)            |
| Total stockholders' equity                                                                                                                                            | 3,726,715        | 4,310,448            |
| Noncontrolling interests                                                                                                                                              | 564,444          | 649,464              |
| Total equity                                                                                                                                                          | 4,291,159        | 4,959,912            |
| Total liabilities and equity                                                                                                                                          | \$ 30,965,966    | \$ 31,103,578        |

The accompanying notes are an integral part of these statements.

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Simon Property Group, Inc.

Unaudited Consolidated Statements of Operations and Comprehensive Income

(Dollars in thousands, except per share amounts)

|                                                                                                                                   | For the Three Months Ended<br>June 30, |            | For the Six Months Ended<br>June 30, |              |
|-----------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|------------|--------------------------------------|--------------|
|                                                                                                                                   | 2017                                   | 2016       | 2017                                 | 2016         |
| REVENUE:                                                                                                                          |                                        |            |                                      |              |
| Minimum rent                                                                                                                      | \$ 851,552                             | \$ 822,224 | \$ 1,698,350                         | \$ 1,640,760 |
| Overage rent                                                                                                                      | 29,764                                 | 31,250     | 57,967                               | 60,167       |
| Tenant reimbursements                                                                                                             | 380,527                                | 367,062    | 759,442                              | 738,676      |
| Management fees and other revenues                                                                                                | 31,367                                 | 34,478     | 61,914                               | 67,878       |
| Other income                                                                                                                      | 68,338                                 | 60,366     | 129,638                              | 144,614      |
| Total revenue                                                                                                                     | 1,361,548                              | 1,315,380  | 2,707,311                            | 2,652,095    |
| EXPENSES:                                                                                                                         |                                        |            |                                      |              |
| Property operating                                                                                                                | 107,371                                | 104,756    | 211,419                              | 207,817      |
| Depreciation and amortization                                                                                                     | 322,396                                | 303,585    | 633,228                              | 604,199      |
| Real estate taxes                                                                                                                 | 113,415                                | 107,505    | 220,073                              | 216,929      |
| Repairs and maintenance                                                                                                           | 21,700                                 | 22,842     | 47,301                               | 48,907       |
| Advertising and promotion                                                                                                         | 36,496                                 | 33,172     | 72,444                               | 68,210       |
| Provision for credit losses                                                                                                       | 2,659                                  | 4,944      | 7,870                                | 8,608        |
| Home and regional office costs                                                                                                    | 36,476                                 | 40,326     | 79,455                               | 78,933       |
| General and administrative                                                                                                        | 13,074                                 | 15,125     | 27,075                               | 29,989       |
| Other                                                                                                                             | 21,812                                 | 23,889     | 45,627                               | 44,366       |
| Total operating expenses                                                                                                          | 675,399                                | 656,144    | 1,344,492                            | 1,307,958    |
| OPERATING INCOME                                                                                                                  | 686,149                                | 659,236    | 1,362,819                            | 1,344,137    |
| Interest expense                                                                                                                  | (207,174)                              | (213,995)  | (405,373)                            | (433,185)    |
| Loss on extinguishment of debt                                                                                                    | (128,618)                              | —          | (128,618)                            | —            |
| Income and other taxes                                                                                                            | (5,990)                                | (7,115)    | (2,470)                              | (22,301)     |
| Income from unconsolidated entities                                                                                               | 92,017                                 | 84,990     | 161,101                              | 175,616      |
| Gain upon acquisition of controlling interests<br>and sale or disposal of assets and interests in<br>unconsolidated entities, net | 4,989                                  | 4,209      | 4,989                                | 26,897       |
| CONSOLIDATED NET INCOME                                                                                                           | 441,373                                | 527,325    | 992,448                              | 1,091,164    |
| Net income attributable to noncontrolling<br>interests                                                                            | 58,549                                 | 71,102     | 131,053                              | 153,111      |
| Preferred dividends                                                                                                               | 834                                    | 834        | 1,669                                | 1,669        |
| NET INCOME ATTRIBUTABLE TO<br>COMMON STOCKHOLDERS                                                                                 | \$ 381,990                             | \$ 455,389 | \$ 859,726                           | \$ 936,384   |
| BASIC AND DILUTED EARNINGS PER<br>COMMON SHARE:                                                                                   |                                        |            |                                      |              |
| Net income attributable to common stockholders                                                                                    | \$ 1.23                                | \$ 1.45    | \$ 2.75                              | \$ 3.01      |
| Consolidated Net Income                                                                                                           | \$ 441,373                             | \$ 527,325 | \$ 992,448                           | \$ 1,091,164 |
| Unrealized loss on derivative hedge agreements                                                                                    | (21,545)                               | (320)      | (22,798)                             | (15,095)     |
|                                                                                                                                   | 2,439                                  | 3,199      | 5,059                                | 142,538      |

|                                                                               |            |            |            |              |
|-------------------------------------------------------------------------------|------------|------------|------------|--------------|
| Net loss reclassified from accumulated other comprehensive loss into earnings |            |            |            |              |
| Currency translation adjustments                                              | 16,745     | (3,492)    | 29,892     | 17,441       |
| Changes in available-for-sale securities and other                            | (1,152)    | 171        | (463)      | 12,062       |
| Comprehensive income                                                          | 437,860    | 526,883    | 1,004,138  | 1,248,110    |
| Comprehensive income attributable to noncontrolling interests                 | 58,065     | 72,858     | 132,490    | 177,285      |
| Comprehensive income attributable to common stockholders                      | \$ 379,795 | \$ 454,025 | \$ 871,648 | \$ 1,070,825 |

The accompanying notes are an integral part of these statements.

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Simon Property Group, Inc.

Unaudited Consolidated Statements of Cash Flows

(Dollars in thousands)

|                                                                                                                             | For the Six Months Ended<br>June 30, |              |
|-----------------------------------------------------------------------------------------------------------------------------|--------------------------------------|--------------|
|                                                                                                                             | 2017                                 | 2016         |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                                                                |                                      |              |
| Consolidated Net Income                                                                                                     | \$ 992,448                           | \$ 1,091,164 |
| Adjustments to reconcile consolidated net income to net cash provided by operating activities —                             |                                      |              |
| Depreciation and amortization                                                                                               | 675,608                              | 642,646      |
| Loss on debt extinguishment                                                                                                 | 128,618                              | —            |
| Gain upon acquisition of controlling interests and sale or disposal of assets and interests in unconsolidated entities, net | (4,989)                              | (26,897)     |
| Straight-line rent                                                                                                          | (11,970)                             | (25,866)     |
| Equity in income of unconsolidated entities                                                                                 | (161,101)                            | (175,616)    |
| Distributions of income from unconsolidated entities                                                                        | 161,833                              | 163,679      |
| Changes in assets and liabilities —                                                                                         |                                      |              |
| Tenant receivables and accrued revenue, net                                                                                 | 46,748                               | 58,992       |
| Deferred costs and other assets                                                                                             | (29,289)                             | (16,846)     |
| Accounts payable, accrued expenses, intangibles, deferred revenues and other liabilities                                    | 11,677                               | (17,305)     |
| Net cash provided by operating activities                                                                                   | 1,809,583                            | 1,693,951    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                                                                |                                      |              |
| Acquisitions                                                                                                                | (87,741)                             | (307,223)    |
| Funding of loans to related parties                                                                                         | (49,668)                             | —            |
| Repayments of loans to related parties                                                                                      | —                                    | 8,207        |
| Capital expenditures, net                                                                                                   | (318,948)                            | (383,460)    |
| Cash impact from the consolidation of properties                                                                            | 7,536                                | 38,980       |
| Net proceeds from sale of assets                                                                                            | —                                    | 36,433       |
| Investments in unconsolidated entities                                                                                      | (93,459)                             | (172,802)    |
| Purchase of marketable and non-marketable securities                                                                        | (3,837)                              | (4,636)      |
| Distributions of capital from unconsolidated entities and other                                                             | 296,007                              | 303,659      |
| Net cash used in investing activities                                                                                       | (250,110)                            | (480,842)    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                                                                |                                      |              |
| Proceeds from sales of common stock and other, net of transaction costs                                                     | (164)                                | (164)        |
| Purchase of shares related to stock grant recipients' tax withholdings                                                      | (2,789)                              | (4,146)      |
| Purchase of treasury stock and limited partner units                                                                        | (396,169)                            | —            |
| Distributions to noncontrolling interest holders in properties                                                              | (6,150)                              | (5,251)      |
| Contributions from noncontrolling interest holders in properties                                                            | 236                                  | 260          |
| Preferred distributions of the Operating Partnership                                                                        | (958)                                | (957)        |
| Distributions to stockholders and preferred dividends                                                                       | (1,094,925)                          | (1,000,333)  |
| Distributions to limited partners                                                                                           | (165,741)                            | (159,242)    |
| Loss on debt extinguishment                                                                                                 | (128,618)                            | —            |
| Proceeds from issuance of debt, net of transaction costs                                                                    | 5,749,137                            | 7,442,218    |

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|                                                  |             |             |
|--------------------------------------------------|-------------|-------------|
| Repayments of debt                               | (5,584,777) | (7,302,347) |
| Net cash used in financing activities            | (1,630,918) | (1,029,962) |
| (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | (71,445)    | 183,147     |
| CASH AND CASH EQUIVALENTS, beginning of period   | 560,059     | 701,134     |
| CASH AND CASH EQUIVALENTS, end of period         | \$ 488,614  | \$ 884,281  |

The accompanying notes are an integral part of these statements.

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Simon Property Group, L.P.

## Unaudited Consolidated Balance Sheets

(Dollars in thousands, except unit amounts)

|                                                                                                              | June 30,<br>2017 | December 31,<br>2016 |
|--------------------------------------------------------------------------------------------------------------|------------------|----------------------|
| <b>ASSETS:</b>                                                                                               |                  |                      |
| Investment properties, at cost                                                                               | \$ 35,695,397    | \$ 35,226,089        |
| Less — accumulated depreciation                                                                              | 11,378,345       | 10,865,754           |
|                                                                                                              | 24,317,052       | 24,360,335           |
| Cash and cash equivalents                                                                                    | 488,614          | 560,059              |
| Tenant receivables and accrued revenue, net                                                                  | 640,080          | 664,619              |
| Investment in unconsolidated entities, at equity                                                             | 2,321,111        | 2,367,583            |
| Investment in Klépierre, at equity                                                                           | 1,830,484        | 1,797,394            |
| Deferred costs and other assets                                                                              | 1,368,625        | 1,353,588            |
| Total assets                                                                                                 | \$ 30,965,966    | \$ 31,103,578        |
| <b>LIABILITIES:</b>                                                                                          |                  |                      |
| Mortgages and unsecured indebtedness                                                                         | \$ 23,422,685    | \$ 22,977,104        |
| Accounts payable, accrued expenses, intangibles, and deferred revenues                                       | 1,205,267        | 1,214,022            |
| Cash distributions and losses in partnerships and joint ventures, at equity                                  | 1,370,333        | 1,359,738            |
| Other liabilities                                                                                            | 492,143          | 455,040              |
| Total liabilities                                                                                            | 26,490,428       | 26,005,904           |
| Commitments and contingencies                                                                                |                  |                      |
| Preferred units, various series, at liquidation value, and noncontrolling redeemable interests in properties | 184,379          | 137,762              |
| <b>EQUITY:</b>                                                                                               |                  |                      |
| Partners' Equity                                                                                             |                  |                      |
| Preferred units, 796,948 units outstanding. Liquidation value of \$39,847                                    | 43,241           | 43,405               |
| General Partner, 310,842,778 and 313,074,574 units outstanding, respectively                                 | 3,683,474        | 4,267,043            |
| Limited Partners, 47,272,794 and 47,276,095 units outstanding, respectively                                  | 560,180          | 644,348              |
| Total partners' equity                                                                                       | 4,286,895        | 4,954,796            |
| Nonredeemable noncontrolling interests in properties, net                                                    | 4,264            | 5,116                |
| Total equity                                                                                                 | 4,291,159        | 4,959,912            |
| Total liabilities and equity                                                                                 | \$ 30,965,966    | \$ 31,103,578        |

The accompanying notes are an integral part of these statements.

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Simon Property Group, L.P.

Unaudited Consolidated Statements of Operations and Comprehensive Income

(Dollars in thousands, except per unit amounts)

|                                                                                                                                   | For the Three Months Ended<br>June 30, |            | For the Six Months Ended<br>June 30, |              |
|-----------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|------------|--------------------------------------|--------------|
|                                                                                                                                   | 2017                                   | 2016       | 2017                                 | 2016         |
| REVENUE:                                                                                                                          |                                        |            |                                      |              |
| Minimum rent                                                                                                                      | \$ 851,552                             | \$ 822,224 | \$ 1,698,350                         | \$ 1,640,760 |
| Overage rent                                                                                                                      | 29,764                                 | 31,250     | 57,967                               | 60,167       |
| Tenant reimbursements                                                                                                             | 380,527                                | 367,062    | 759,442                              | 738,676      |
| Management fees and other revenues                                                                                                | 31,367                                 | 34,478     | 61,914                               | 67,878       |
| Other income                                                                                                                      | 68,338                                 | 60,366     | 129,638                              | 144,614      |
| Total revenue                                                                                                                     | 1,361,548                              | 1,315,380  | 2,707,311                            | 2,652,095    |
| EXPENSES:                                                                                                                         |                                        |            |                                      |              |
| Property operating                                                                                                                | 107,371                                | 104,756    | 211,419                              | 207,817      |
| Depreciation and amortization                                                                                                     | 322,396                                | 303,585    | 633,228                              | 604,199      |
| Real estate taxes                                                                                                                 | 113,415                                | 107,505    | 220,073                              | 216,929      |
| Repairs and maintenance                                                                                                           | 21,700                                 | 22,842     | 47,301                               | 48,907       |
| Advertising and promotion                                                                                                         | 36,496                                 | 33,172     | 72,444                               | 68,210       |
| Provision for credit losses                                                                                                       | 2,659                                  | 4,944      | 7,870                                | 8,608        |
| Home and regional office costs                                                                                                    | 36,476                                 | 40,326     | 79,455                               | 78,933       |
| General and administrative                                                                                                        | 13,074                                 | 15,125     | 27,075                               | 29,989       |
| Other                                                                                                                             | 21,812                                 | 23,889     | 45,627                               | 44,366       |
| Total operating expenses                                                                                                          | 675,399                                | 656,144    | 1,344,492                            | 1,307,958    |
| OPERATING INCOME                                                                                                                  | 686,149                                | 659,236    | 1,362,819                            | 1,344,137    |
| Interest expense                                                                                                                  | (207,174)                              | (213,995)  | (405,373)                            | (433,185)    |
| Loss on extinguishment of debt                                                                                                    | (128,618)                              | —          | (128,618)                            | —            |
| Income and other taxes                                                                                                            | (5,990)                                | (7,115)    | (2,470)                              | (22,301)     |
| Income from unconsolidated entities                                                                                               | 92,017                                 | 84,990     | 161,101                              | 175,616      |
| Gain upon acquisition of controlling interests<br>and sale or disposal of assets and interests in<br>unconsolidated entities, net | 4,989                                  | 4,209      | 4,989                                | 26,897       |
| CONSOLIDATED NET INCOME                                                                                                           | 441,373                                | 527,325    | 992,448                              | 1,091,164    |
| Net income (loss) attributable to noncontrolling<br>interests                                                                     | 74                                     | 565        | (170)                                | 1,294        |
| Preferred unit requirements                                                                                                       | 1,313                                  | 1,313      | 2,626                                | 2,626        |
| NET INCOME ATTRIBUTABLE TO<br>UNITHOLDERS                                                                                         | \$ 439,986                             | \$ 525,447 | \$ 989,992                           | \$ 1,087,244 |
| NET INCOME ATTRIBUTABLE TO<br>UNITHOLDERS ATTRIBUTABLE TO:                                                                        |                                        |            |                                      |              |
| General Partner                                                                                                                   | \$ 381,990                             | 455,389    | \$ 859,726                           | \$ 936,384   |
| Limited Partners                                                                                                                  | 57,996                                 | 70,058     | 130,266                              | 150,860      |
| Net income attributable to unitholders                                                                                            | \$ 439,986                             | \$ 525,447 | \$ 989,992                           | \$ 1,087,244 |
| BASIC AND DILUTED EARNINGS PER<br>UNIT:                                                                                           |                                        |            |                                      |              |

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|                                                                               |            |            |              |              |
|-------------------------------------------------------------------------------|------------|------------|--------------|--------------|
| Net income attributable to unitholders                                        | \$ 1.23    | \$ 1.45    | \$ 2.75      | \$ 3.01      |
| Consolidated net income                                                       | \$ 441,373 | \$ 527,325 | \$ 992,448   | \$ 1,091,164 |
| Unrealized loss on derivative hedge agreements                                | (21,545)   | (320)      | (22,798)     | (15,095)     |
| Net loss reclassified from accumulated other comprehensive loss into earnings | 2,439      | 3,199      | 5,059        | 142,538      |
| Currency translation adjustments                                              | 16,745     | (3,492)    | 29,892       | 17,441       |
| Changes in available-for-sale securities and other                            | (1,152)    | 171        | (463)        | 12,062       |
| Comprehensive income                                                          | 437,860    | 526,883    | 1,004,138    | 1,248,110    |
| Comprehensive income attributable to noncontrolling interests                 | 397        | 565        | 1,072        | 1,294        |
| Comprehensive income attributable to unitholders                              | \$ 437,463 | \$ 526,318 | \$ 1,003,066 | \$ 1,246,816 |

The accompanying notes are an integral part of these statements.

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Simon Property Group, L.P.

Unaudited Consolidated Statements of Cash Flows

(Dollars in thousands)

|                                                                                                                             | For the Six Months Ended<br>June 30, |              |
|-----------------------------------------------------------------------------------------------------------------------------|--------------------------------------|--------------|
|                                                                                                                             | 2017                                 | 2016         |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                                                                |                                      |              |
| Consolidated Net Income                                                                                                     | \$ 992,448                           | \$ 1,091,164 |
| Adjustments to reconcile consolidated net income to net cash provided by operating activities —                             |                                      |              |
| Depreciation and amortization                                                                                               | 675,608                              | 642,646      |
| Loss on debt extinguishment                                                                                                 | 128,618                              | —            |
| Gain upon acquisition of controlling interests and sale or disposal of assets and interests in unconsolidated entities, net | (4,989)                              | (26,897)     |
| Straight-line rent                                                                                                          | (11,970)                             | (25,866)     |
| Equity in income of unconsolidated entities                                                                                 | (161,101)                            | (175,616)    |
| Distributions of income from unconsolidated entities                                                                        | 161,833                              | 163,679      |
| Changes in assets and liabilities —                                                                                         |                                      |              |
| Tenant receivables and accrued revenue, net                                                                                 | 46,748                               | 58,992       |
| Deferred costs and other assets                                                                                             | (29,289)                             | (16,846)     |
| Accounts payable, accrued expenses, intangibles, deferred revenues and other liabilities                                    | 11,677                               | (17,305)     |
| Net cash provided by operating activities                                                                                   | 1,809,583                            | 1,693,951    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                                                                |                                      |              |
| Acquisitions                                                                                                                | (87,741)                             | (307,223)    |
| Funding of loans to related parties                                                                                         | (49,668)                             | —            |
| Repayments of loans to related parties                                                                                      | —                                    | 8,207        |
| Capital expenditures, net                                                                                                   | (318,948)                            | (383,460)    |
| Cash impact from the consolidation of properties                                                                            | 7,536                                | 38,980       |
| Net proceeds from sale of assets                                                                                            | —                                    | 36,433       |
| Investments in unconsolidated entities                                                                                      | (93,459)                             | (172,802)    |
| Purchase of marketable and non-marketable securities                                                                        | (3,837)                              | (4,636)      |
| Distributions of capital from unconsolidated entities and other                                                             | 296,007                              | 303,659      |
| Net cash used in investing activities                                                                                       | (250,110)                            | (480,842)    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                                                                |                                      |              |
| Issuance of units and other                                                                                                 | (164)                                | (164)        |
| Purchase of units related to stock grant recipients' tax withholdings                                                       | (2,789)                              | (4,146)      |
| Purchase of limited partner units                                                                                           | (396,169)                            | —            |
| Distributions to noncontrolling interest holders in properties                                                              | (6,150)                              | (5,251)      |
| Contributions from noncontrolling interest holders in properties                                                            | 236                                  | 260          |
| Partnership distributions                                                                                                   | (1,261,624)                          | (1,160,532)  |
| Loss on debt extinguishment                                                                                                 | (128,618)                            | —            |
| Mortgage and unsecured indebtedness proceeds, net of transaction costs                                                      | 5,749,137                            | 7,442,218    |
| Mortgage and unsecured indebtedness principal payments                                                                      | (5,584,777)                          | (7,302,347)  |
| Net cash used in financing activities                                                                                       | (1,630,918)                          | (1,029,962)  |

|                                                  |            |            |
|--------------------------------------------------|------------|------------|
| (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | (71,445)   | 183,147    |
| CASH AND CASH EQUIVALENTS, beginning of period   | 560,059    | 701,134    |
| CASH AND CASH EQUIVALENTS, end of period         | \$ 488,614 | \$ 884,281 |

The accompanying notes are an integral part of these statements.

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Simon Property Group, Inc.  
Simon Property Group, L.P.  
Condensed Notes to Consolidated Financial Statements  
(Unaudited)  
(Dollars in thousands, except share, per share, unit and per unit amounts  
and where indicated in millions or billions)

1. Organization

Simon Property Group, Inc. is a Delaware corporation that operates as a self-administered and self-managed real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code. REITs will generally not be liable for U.S. federal corporate income taxes as long as they distribute not less than 100% of their REIT taxable income. Simon Property Group, L.P. is our majority-owned Delaware partnership subsidiary that owns all of our real estate properties and other assets. In these condensed notes to the consolidated financial statements, unless stated otherwise or the context otherwise requires, references to "Simon" mean Simon Property Group, Inc. and references to the "Operating Partnership" mean Simon Property Group, L.P. References to "we," "us" and "our" mean collectively Simon, the Operating Partnership and those entities/subsidiaries owned or controlled by Simon and/or the Operating Partnership. Unless otherwise indicated, these condensed notes to consolidated financial statements apply to both Simon and the Operating Partnership. According to the Operating Partnership's partnership agreement, the Operating Partnership is required to pay all expenses of Simon.

We own, develop and manage premier shopping, dining, entertainment and mixed-use destinations, which consist primarily of malls, Premium Outlets®, and The Mills®. As of June 30, 2017, we owned or held an interest in 207 income producing properties in the United States, which consisted of 108 malls, 68 Premium Outlets, 14 Mills, four lifestyle centers, and 13 other retail properties in 37 states and Puerto Rico. Internationally, as of June 30, 2017, we had ownership interests in nine Premium Outlets in Japan, four Premium Outlets in South Korea, two Premium Outlets in Canada, two Premium Outlets in Malaysia and one Premium Outlet in Mexico. We also own an interest in eight Designer Outlet properties in Europe and one Designer Outlet property in Canada, of which six properties are consolidated. Of the eight properties in Europe, two are located in Italy, two are located in the Netherlands and one each is located in Austria, Germany, France and the United Kingdom. As of June 30, 2017, we also owned a 20.7% equity stake in Klépierre SA, or Klépierre, a publicly traded, Paris based real estate company which owns, or has an interest in, shopping centers located in 16 countries in Europe.

2. Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of all controlled subsidiaries, and all significant intercompany amounts have been eliminated. Due to the seasonal nature of certain operational activities, the results for the interim period ended June 30, 2017 are not necessarily indicative of the results to be expected for the full year.

These consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and include all of the information and disclosures required by accounting principles generally accepted in the United States (GAAP) for interim reporting. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. In the opinion of management, all adjustments necessary for fair presentation (including normal recurring accruals) have been included. The consolidated financial statements in this Form 10-Q should be read in conjunction with the audited consolidated financial statements and related notes contained in the combined 2016 Annual Report on Form 10-K of Simon and the Operating Partnership.

As of June 30, 2017, we consolidated 134 wholly owned properties and 19 additional properties that are less than wholly owned, but which we control or for which we are the primary beneficiary. We account for the remaining 81 properties, or the joint venture properties, as well as our investments in Klépierre, Aéropostale, and HBS Global Properties, or HBS, using the equity method of accounting, as we have determined we have significant influence over their operations. We manage the day to day operations of 58 of the 81 joint venture properties, but have determined that our partner or partners have substantive participating rights with respect to the assets and operations of these joint venture properties. Our investments in joint ventures in Japan, South Korea, Mexico, Malaysia, Germany, Canada, and the United Kingdom comprise 19 of the remaining 23 properties. These international properties are managed by joint ventures in which we share control.

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Condensed Notes to Consolidated Financial Statements

(Unaudited)

(Dollars in thousands, except share, per share, unit and per unit amounts  
and where indicated in millions or billions)

Preferred distributions of the Operating Partnership are accrued at declaration and represent distributions on outstanding preferred units of partnership interests, or preferred units, and are included in net income attributable to noncontrolling interests. We allocate net operating results of the Operating Partnership after preferred distributions to limited partners and to Simon based on the partners' respective weighted average ownership interests in the Operating Partnership. Net operating results of the Operating Partnership attributable to limited partners are reflected in net income attributable to noncontrolling interests. Simon's weighted average ownership interest in the Operating Partnership was 86.8% and 86.1% for the six months ended June 30, 2017 and 2016, respectively. As of June 30, 2017 and December 31, 2016, Simon's ownership interest in the Operating Partnership was 86.8% and 86.9%, respectively. We adjust the noncontrolling limited partners' interests at the end of each period to reflect their interest in the net assets of the Operating Partnership.

Preferred unit requirements in the Operating Partnership's accompanying consolidated statements of operations and comprehensive income represent distributions on outstanding preferred units and are recorded when declared.

### 3. Significant Accounting Policies

#### Cash and Cash Equivalents

We consider all highly liquid investments purchased with an original maturity of 90 days or less to be cash and cash equivalents. Cash equivalents are carried at cost, which approximates fair value. Cash equivalents generally consist of commercial paper, bankers' acceptances, Eurodollars, repurchase agreements, and money market deposits or securities. Financial instruments that potentially subject us to concentrations of credit risk include our cash and cash equivalents and our trade accounts receivable. We place our cash and cash equivalents with institutions of high credit quality. However, at certain times, such cash and cash equivalents are in excess of Federal Deposit Insurance Corporation and Securities Investor Protection Corporation insurance limits.

#### Marketable and Non Marketable Securities

Marketable securities consist primarily of the investments of our captive insurance subsidiaries, available for sale securities, our deferred compensation plan investments, and certain investments held to fund the debt service requirements of debt previously secured by investment properties. At June 30, 2017 and December 31, 2016, we had marketable securities of \$160.9 million and \$156.2 million, respectively, generally accounted for as available-for-sale, which are adjusted to their quoted market price with a corresponding adjustment in other comprehensive income (loss). Net unrealized gains recorded in accumulated other comprehensive income (loss) as of June 30, 2017 and December 31, 2016 were approximately \$14.9 million and \$15.4 million, respectively, and represent the valuation adjustments for our marketable securities.

The types of securities included in the investment portfolio of our captive insurance subsidiaries typically include U.S. Treasury or other U.S. government securities as well as corporate debt securities with maturities ranging from less than 1 year to 10 years. These securities are classified as available for sale and are valued based upon quoted market

prices or other observable inputs when quoted market prices are not available. The amortized cost of debt securities, which approximates fair value, held by our captive insurance subsidiaries is adjusted for amortization of premiums and accretion of discounts to maturity. Changes in the values of these securities are recognized in accumulated other comprehensive income (loss) until the gain or loss is realized or until any unrealized loss is deemed to be other than temporary. We review any declines in value of these securities for other than temporary impairment and consider the severity and duration of any decline in value. To the extent an other than temporary impairment is deemed to have occurred, an impairment charge is recorded and a new cost basis is established.

Our insurance subsidiaries are required to maintain statutory minimum capital and surplus as well as maintain a minimum liquidity ratio. Therefore, our access to these securities may be limited. Our deferred compensation plan investments are classified as trading securities and are valued based upon quoted market prices. The investments have a

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matching liability as the amounts are fully payable to the employees that earned the compensation. Changes in value of these securities and changes to the matching liability to employees are both recognized in earnings and, as a result, there is no impact to consolidated net income.

At June 30, 2017 and December 31, 2016, we had investments of \$213.4 million and \$210.5 million, respectively, in non marketable securities that we account for under the cost method. We regularly evaluate these investments for any other-than-temporary impairment in their estimated fair value and determined that no material adjustment in the carrying value was required for the three or six months ended June 30, 2017.

### Fair Value Measurements

Level 1 fair value inputs are quoted prices for identical items in active, liquid and visible markets such as stock exchanges. Level 2 fair value inputs are observable information for similar items in active or inactive markets, and appropriately consider counterparty creditworthiness in the valuations. Level 3 fair value inputs reflect our best estimate of inputs and assumptions market participants would use in pricing an asset or liability at the measurement date. The inputs are unobservable in the market and significant to the valuation estimate. We have no investments for which fair value is measured on a recurring basis using Level 3 inputs.

The marketable securities we held at June 30, 2017 and December 31, 2016 were primarily classified as having Level 1 fair value inputs. In addition, we had derivative instruments which were classified as having Level 2 inputs, which consist primarily of foreign currency forward contracts and interest rate swap agreements with a gross liability balance of \$7.2 million at June 30, 2017 and a gross asset value of \$11.9 million and \$43.9 million at June 30, 2017 and December 31, 2016, respectively.

Note 6 includes a discussion of the fair value of debt measured using Level 2 inputs. Notes 5 and 9 include discussions of the fair values recorded in purchase accounting using Level 2 and Level 3 inputs. Level 3 inputs to our purchase accounting and impairment analyses include our estimations of net operating results of the property, capitalization rates and discount rates.

### Noncontrolling Interests

#### Simon

Details of the carrying amount of Simon's noncontrolling interests are as follows:

|                                                          | As of<br>June 30,<br>2017 | As of<br>December 31,<br>2016 |
|----------------------------------------------------------|---------------------------|-------------------------------|
| Limited partners' interests in the Operating Partnership | \$ 560,180                | \$ 644,348                    |

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|                                                           |            |            |
|-----------------------------------------------------------|------------|------------|
| Nonredeemable noncontrolling interests in properties, net | 4,264      | 5,116      |
| Total noncontrolling interests reflected in equity        | \$ 564,444 | \$ 649,464 |

Net income attributable to noncontrolling interests (which includes nonredeemable and redeemable noncontrolling interests in consolidated properties, limited partners' interests in the Operating Partnership and preferred distributions payable by the Operating Partnership on its outstanding preferred units) is a component of consolidated net income. In addition, the individual components of other comprehensive income (loss) are presented in the aggregate for both controlling and noncontrolling interests, with the portion attributable to noncontrolling interests deducted from comprehensive income attributable to common stockholders.

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(Unaudited)

(Dollars in thousands, except share, per share, unit and per unit amounts and where indicated in millions or billions)

A rollforward of nonredeemable noncontrolling interests is as follows:

|                                                                                                                                                                             | For the Three Months<br>Ended<br>Ended June 30, |            | For the Six Months Ended<br>Ended June 30, |            |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|------------|--------------------------------------------|------------|
|                                                                                                                                                                             | 2017                                            | 2016       | 2017                                       | 2016       |
| Noncontrolling interests, beginning of period                                                                                                                               | \$ 621,738                                      | \$ 771,957 | \$ 649,464                                 | \$ 744,905 |
| Net income attributable to noncontrolling interests after preferred distributions and income attributable to redeemable noncontrolling interests in consolidated properties | 58,393                                          | 70,739     | 131,338                                    | 152,198    |
| Distributions to noncontrolling interest holders                                                                                                                            | (83,680)                                        | (76,716)   | (167,901)                                  | (160,444)  |
| Other comprehensive (loss) income allocable to noncontrolling interests:                                                                                                    |                                                 |            |                                            |            |
| Unrealized (loss) gain on derivative hedge agreements                                                                                                                       | (2,837)                                         | 381        | (2,981)                                    | (1,722)    |
| Net loss (gain) reclassified from accumulated other comprehensive loss into earnings                                                                                        | 322                                             | (1,417)    | 668                                        | 18,729     |
| Currency translation adjustments                                                                                                                                            | 2,181                                           | 3,087      | 3,799                                      | 5,783      |
| Changes in available-for-sale securities and other                                                                                                                          | (150)                                           | (295)      | (49)                                       | 1,385      |
|                                                                                                                                                                             | (484)                                           | 1,756      | 1,437                                      | 24,175     |
| Adjustment to limited partners' interest from change in ownership in the Operating Partnership                                                                              | (35,100)                                        | (13,822)   | (68,335)                                   | (18,965)   |
| Units exchanged for common shares                                                                                                                                           | (1,341)                                         | (69,989)   | (1,353)                                    | (70,005)   |
| Long-term incentive performance units                                                                                                                                       | 4,853                                           | 12,101     | 19,558                                     | 24,162     |
| Contributions by noncontrolling interests, net, and other                                                                                                                   | 65                                              | 260        | 236                                        | 260        |
| Noncontrolling interests, end of period                                                                                                                                     | \$ 564,444                                      | \$ 696,286 | \$ 564,444                                 | \$ 696,286 |

The Operating Partnership

Our evaluation of the appropriateness of classifying the Operating Partnership's common units of partnership interest, or units, held by Simon and the Operating Partnership's limited partners within permanent equity considered several significant factors. First, as a limited partnership, all decisions relating to the Operating Partnership's operations and distributions are made by Simon, acting as the Operating Partnership's sole general partner. The decisions of the general partner are made by Simon's Board of Directors or management. The Operating Partnership has no other governance structure. Secondly, the sole asset of Simon is its interest in the Operating Partnership. As a result, a share of common stock of Simon, or common stock, if owned by the Operating Partnership, is best characterized as being

similar to a treasury share and thus not an asset of the Operating Partnership.

Limited partners of the Operating Partnership have the right under the Operating Partnership's partnership agreement to exchange their units for shares of common stock or cash, as selected by Simon as the sole general partner. Accordingly, we classify units held by limited partners in permanent equity because Simon may elect to issue shares of common stock to limited partners exercising their exchange rights rather than using cash. Under the Operating Partnership's partnership agreement, the Operating Partnership is required to redeem units held by Simon only when Simon has repurchased shares of common stock. We classify units held by Simon in permanent equity because the decision to redeem those units would be made by Simon.

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(Unaudited)

(Dollars in thousands, except share, per share, unit and per unit amounts  
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Net income attributable to noncontrolling interests (which includes nonredeemable and redeemable noncontrolling interests in consolidated properties) is a component of consolidated net income.

A rollforward of nonredeemable noncontrolling interests is as follows:

|                                                                                 | For the Three Months<br>Ended<br>June 30,<br>2017 |          | For the Six Months<br>Ended<br>June 30,<br>2017 |          |
|---------------------------------------------------------------------------------|---------------------------------------------------|----------|-------------------------------------------------|----------|
|                                                                                 | 2016                                              |          | 2016                                            |          |
| Noncontrolling nonredeemable interests in properties, net — beginning of period | \$ 4,647                                          | \$ 3,459 | \$ 5,116                                        | \$ 3,456 |
| Net income attributable to noncontrolling nonredeemable interests               | 397                                               | 682      | 1,072                                           | 1,339    |
| Distributions to noncontrolling nonredeemable interestholders                   | (845)                                             | (548)    | (2,160)                                         | (1,202)  |
| Contributions by noncontrolling interests, net, and other                       | 65                                                | 260      | 236                                             | 260      |
| Noncontrolling nonredeemable interests in properties, net — end of period       | \$ 4,264                                          | \$ 3,853 | \$ 4,264                                        | \$ 3,853 |

## Accumulated Other Comprehensive Income (Loss)

## Simon

The changes in components of Simon's accumulated other comprehensive income (loss) consisted of the following net of noncontrolling interest as of June 30, 2017:

|                                                                         | Currency<br>translation<br>adjustments | Accumulated<br>derivative<br>gains, net | Net unrealized<br>gains on<br>marketable<br>securities | Total        |
|-------------------------------------------------------------------------|----------------------------------------|-----------------------------------------|--------------------------------------------------------|--------------|
| Beginning balance                                                       | \$ (157,864)                           | \$ 30,374                               | \$ 13,364                                              | \$ (114,126) |
| Other comprehensive income (loss) before reclassifications              | 26,094                                 | (19,817)                                | (414)                                                  | 5,863        |
| Amounts reclassified from accumulated other comprehensive income (loss) | —                                      | 4,391                                   | —                                                      | 4,391        |
| Net current-period other comprehensive income (loss)                    | 26,094                                 | (15,426)                                | (414)                                                  | 10,254       |

|                |              |           |           |              |
|----------------|--------------|-----------|-----------|--------------|
| Ending balance | \$ (131,770) | \$ 14,948 | \$ 12,950 | \$ (103,872) |
|----------------|--------------|-----------|-----------|--------------|

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Simon Property Group, Inc.

Simon Property Group, L.P.

Condensed Notes to Consolidated Financial Statements

(Unaudited)

(Dollars in thousands, except share, per share, unit and per unit amounts  
and where indicated in millions or billions)

The reclassifications out of accumulated other comprehensive income (loss) consisted of the following during the six months ended June 30:

|                                                                         | 2017                                                                   | 2016                                                                   |                                                                                                                             |
|-------------------------------------------------------------------------|------------------------------------------------------------------------|------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|
| Details about accumulated other comprehensive income (loss) components: | Amount reclassified from accumulated other comprehensive income (loss) | Amount reclassified from accumulated other comprehensive income (loss) | Affected line item where net income is presented                                                                            |
| Currency translation adjustments                                        | \$ —                                                                   | \$ (136,806)                                                           | Gain upon acquisition of controlling interests and sale or disposal of assets and interests in unconsolidated entities, net |
|                                                                         | —                                                                      | 17,976                                                                 | Net income attributable to noncontrolling interests                                                                         |
|                                                                         | \$ —                                                                   | \$ (118,830)                                                           |                                                                                                                             |
| Accumulated derivative gains, net                                       | \$ (5,059)                                                             | \$ (6,104)                                                             | Interest expense                                                                                                            |
|                                                                         | —                                                                      | 372                                                                    | Gain upon acquisition of controlling interests and sale or disposal of assets and interests in unconsolidated entities, net |
|                                                                         | 668                                                                    | 753                                                                    | Net income attributable to noncontrolling interests                                                                         |
|                                                                         | \$ (4,391)                                                             | \$ (4,979)                                                             |                                                                                                                             |

## The Operating Partnership

The changes in accumulated other comprehensive income (loss) by component consisted of the following as of June 30, 2017:

|                   | Currency translation adjustments | Accumulated derivative gains, net | Net unrealized gains on marketable securities | Total        |
|-------------------|----------------------------------|-----------------------------------|-----------------------------------------------|--------------|
| Beginning balance | \$ (181,706)                     | \$ 34,956                         | \$ 15,383                                     | \$ (131,367) |

|                                                                         |              |           |           |              |
|-------------------------------------------------------------------------|--------------|-----------|-----------|--------------|
| Other comprehensive income (loss) before reclassifications              | 29,893       | (22,798)  | (463)     | 6,632        |
| Amounts reclassified from accumulated other comprehensive income (loss) | —            | 5,059     | —         | 5,059        |
| Net current-period other comprehensive income (loss)                    | 29,893       | (17,739)  | (463)     | 11,691       |
| Ending balance                                                          | \$ (151,813) | \$ 17,217 | \$ 14,920 | \$ (119,676) |

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Simon Property Group, Inc.

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The reclassifications out of accumulated other comprehensive income (loss) consisted of the following during the six months ended June 30:

|                                                                         | 2017                                                                   | 2016                                                                   |                                                                                                                             |
|-------------------------------------------------------------------------|------------------------------------------------------------------------|------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|
| Details about accumulated other comprehensive income (loss) components: | Amount reclassified from accumulated other comprehensive income (loss) | Amount reclassified from accumulated other comprehensive income (loss) | Affected line item where net income is presented                                                                            |
| Currency translation adjustments                                        |                                                                        |                                                                        | Gain upon acquisition of controlling interests and sale or disposal of assets and interests in unconsolidated entities, net |
|                                                                         | \$ —                                                                   | \$ (136,806)                                                           |                                                                                                                             |
|                                                                         | \$ —                                                                   | \$ (136,806)                                                           |                                                                                                                             |
| Accumulated derivative gains, net                                       | \$ (5,059)                                                             | \$ (6,104)                                                             | Interest expense                                                                                                            |
|                                                                         |                                                                        |                                                                        | Gain upon acquisition of controlling interests and sale or disposal of assets and interests in unconsolidated entities, net |
|                                                                         | —                                                                      | 372                                                                    |                                                                                                                             |
|                                                                         | \$ (5,059)                                                             | \$ (5,732)                                                             |                                                                                                                             |

## Derivative Financial Instruments

We record all derivatives on our consolidated balance sheets at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether we have designated a derivative as a hedge and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. We may use a variety of derivative financial instruments in the normal course of business to selectively manage or hedge a portion of the risks associated with our indebtedness and interest payments. Our objectives in using interest rate derivatives are to add stability to interest expense and to manage our exposure to interest rate movements. To accomplish this objective, we primarily use interest rate swaps and caps. We require that hedging derivative instruments be highly effective in reducing the risk exposure that they are designated to hedge. As a result, there is no significant ineffectiveness from any of our derivative activities. We formally designate any instrument that meets these hedging criteria as a hedge at the inception of the derivative contract. We have no credit risk related hedging or derivative activities.

As of June 30, 2017, we had no outstanding interest rate derivatives. As of December 31, 2016, we had the following outstanding interest rate derivative:

| Interest Rate Derivative | Number of Instruments | Notional Amount  |
|--------------------------|-----------------------|------------------|
| Interest Rate Swap       | 1                     | \$ 250.0 million |

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The carrying value of our interest rate swap agreement, at fair value, as of December 31, 2016, was a net asset value of \$21.1 million, all of which was included in deferred costs and other assets. We generally do not apply hedge accounting to interest rate caps, which had a nominal value as of June 30, 2017 and December 31, 2016, respectively.

We are also exposed to fluctuations in foreign exchange rates on financial instruments which are denominated in foreign currencies, primarily in Japan and Europe. We use currency forward contracts and foreign currency denominated debt to manage our exposure to changes in foreign exchange rates on certain Yen and Euro denominated receivables and net investments. Currency forward contracts involve fixing the Yen:USD or Euro:USD exchange rate for delivery of a specified amount of foreign currency on a specified date. The currency forward contracts are typically cash settled in U.S. dollars for their fair value at or close to their settlement date.

We had the following Euro:USD forward contracts at June 30, 2017 and December 31, 2016 (in millions):

|                |                 | Asset Value as of |              |
|----------------|-----------------|-------------------|--------------|
|                |                 | June 30,          | December 31, |
| Notional Value | Maturity Date   | 2017              | 2016         |
| € 50.0         | August 11, 2017 | \$ 11.6           | \$ 15.5      |
| € 50.0         | May 15, 2019    | 0.3               | 3.9          |
| € 50.0         | May 15, 2019    | (2.1)             | 1.5          |
| € 50.0         | May 15, 2020    | (2.3)             | 1.1          |
| € 50.0         | May 14, 2021    | (2.5)             | 0.6          |

Asset balances in the above table are included in deferred costs and other assets. We have designated the above as net investment hedges. Accordingly, we report the changes in fair value in other comprehensive income (loss). Changes in the value of these forward contracts are offset by changes in the underlying hedged Euro-denominated joint venture investment.

The total gross accumulated other comprehensive income related to our derivative activities, including our share of the other comprehensive income from unconsolidated entities, approximated \$17.2 million and \$35.0 million as of June 30, 2017 and December 31, 2016, respectively.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, "Revenue From Contracts With Customers." ASU 2014-09 amends the existing accounting standards for revenue recognition. The new standard provides accounting guidance for all revenue arising from contracts with customers and affects all entities that enter into contracts to provide goods or services to their customers. The guidance also

provides a model for the measurement and recognition of gains and losses on the sale of certain nonfinancial assets, such as property, including real estate.

Our revenues that will be impacted by this standard primarily include management, development, leasing and financing fee revenues for services performed related to various domestic joint ventures that we manage, licensing fees earned from various international properties, sales of real estate, including land parcels and operating properties, and other ancillary income earned at our properties. Through the first six months of 2017 and for the year ended December 31, 2016, these revenues were less than 6.0% and 7.0% of consolidated revenue, respectively. We expect that the amount and timing of revenue recognition from our management services to joint ventures referenced above and licensing fee arrangements will be generally consistent with our current measurement and pattern of recognition. In addition, we do not actively sell operating properties as part of our core business strategy and, accordingly, the sale of properties does not generally constitute a significant part of our revenue and cash flows. As a result, we do not expect the adoption of this

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standard to have a significant impact on our consolidated financial statements as a whole. We expect to adopt the standard using the modified retrospective approach, which requires a cumulative effect adjustment, if any, as of the date of adoption. The new standard is effective for us beginning with the first quarter of 2018.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments — Overall: Recognition and Measurement of Financial Assets and Financial Liabilities," which will require entities to recognize changes in equity investments with readily determinable fair values in net income. We will record a cumulative-effect adjustment to beginning retained earnings in the year of adoption to reclassify unrealized gains and losses previously reported in accumulated other comprehensive income for equity investments with readily determinable fair values that are currently being accounted for as available for sale securities and certain investments currently being accounted for using the cost method for which the measurement alternative described below is not elected. For those equity investments that do not have readily determinable fair values, the ASU permits the application of a measurement alternative using the cost of the investment, less any impairments, plus or minus changes resulting from observable price changes for an identical or similar investment of the same issuer. This guidance will be applied prospectively upon the occurrence of an event which establishes fair value to all other investments we currently account for using the cost method. The guidance will be effective for us beginning with the first quarter of 2018.

In February 2016, the FASB issued ASU 2016-02, "Leases," which will result in lessees recognizing most leased assets and corresponding lease liabilities on the balance sheet. Lessor accounting will remain substantially similar to the current accounting; however, certain refinements were made to conform the standard with the recently issued revenue recognition guidance in ASU 2014-09, specifically related to the allocation and recognition of contract consideration earned from lease and non-lease revenue components. Leasing costs that are eligible to be capitalized as initial direct costs are also limited by ASU 2016-02.

Substantially all of our revenue and the revenues of our equity method investments are earned from arrangements that are within the scope of ASU 2016-02, thus we anticipate that the timing of recognition and financial statement presentation of certain revenues, particularly those that relate to consideration from non-lease components, including fixed common area maintenance arrangements, may be affected. Upon adoption of ASU 2016-02, consideration related to these non-lease components will be accounted for using the guidance in ASU 2014-09. Further, leases of land and other arrangements where we are the lessee will be recognized on our balance sheet. We will adopt ASU 2016-02 beginning in the first quarter of 2019 using the modified retrospective approach required by the standard. We are currently evaluating the impact that the adoption of the new standard will have on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses," which introduces new guidance for an approach based on expected losses to estimate credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. Instruments in scope include loans, held-to-maturity debt securities, and net investments in leases as well as reinsurance and trade receivables. This standard will be effective for us in fiscal years beginning after December 15, 2019. We are currently evaluating the

impact that the adoption of the new standard will have on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, “Business Combinations: Clarifying the Definition of a Business”, which amends guidance that assists preparers in evaluating whether a transaction will be accounted for as an acquisition of an asset or a business, likely resulting in more acquisitions being accounted for as asset acquisitions. There are certain differences in accounting under these models, including the capitalization of transaction expenses and application of a cost accumulation model in an asset acquisition. The standard is effective for annual periods beginning after December 15, 2018. We adopted this standard early as of January 1, 2017 as permitted under the standard.

In February 2017, the FASB issued ASU 2017-05, “Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets”, which clarifies the scope and application of Accounting Standards Codification 610-20 on the sale or transfer of nonfinancial assets and in substance assets to noncustomers, including partial sales. The standard generally

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aligns the measurement of a retained interest in a nonfinancial asset with that of a retained interest in a business. It also eliminates the use of the carryover basis for contributions of real estate into a joint venture where control of the real estate is not retained, which will result in the recognition of a gain or loss upon contribution. This standard will be effective for us for applicable transactions beginning with the first quarter of 2018.

## 4. Per Share and Per Unit Data

We determine basic earnings per share and basic earnings per unit based on the weighted average number of shares of common stock or units, as applicable, outstanding during the period and we consider any participating securities for purposes of applying the two-class method. We determine diluted earnings per share and diluted earnings per unit based on the weighted average number of shares of common stock or units, as applicable, outstanding combined with the incremental weighted average number of shares or units, as applicable, that would have been outstanding assuming all potentially dilutive securities were converted into shares of common stock or units, as applicable, at the earliest date possible. The following tables set forth the computation of basic and diluted earnings per share and basic and diluted earnings per unit.

## Simon

|                                                                       | For the Three Months Ended<br>June 30, |             | For the Six Months Ended<br>June 30, |             |
|-----------------------------------------------------------------------|----------------------------------------|-------------|--------------------------------------|-------------|
|                                                                       | 2017                                   | 2016        | 2017                                 | 2016        |
| Net Income attributable to Common<br>Stockholders — Basic and Diluted | \$ 381,990                             | \$ 455,389  | \$ 859,726                           | \$ 936,384  |
| Weighted Average Shares<br>Outstanding — Basic and Diluted            | 311,579,301                            | 313,399,467 | 312,191,241                          | 311,407,955 |

For the three and six months ended June 30, 2017, potentially dilutive securities include units that are exchangeable for common stock and long-term incentive performance units, or LTIP units, granted under our long-term incentive performance programs that are convertible into units and exchangeable for common stock. No securities had a material dilutive effect for the three or six months ended June 30, 2017 and 2016. We have not adjusted net income attributable to common stockholders and weighted average shares outstanding for income allocable to limited partners or units, respectively, as doing so would have no dilutive impact. We accrue dividends when they are declared.

## The Operating Partnership

|  | For the Three Months Ended<br>June 30, | For the Six Months Ended<br>June 30, |
|--|----------------------------------------|--------------------------------------|
|--|----------------------------------------|--------------------------------------|

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|                                 | 2017        | 2016        | 2017        | 2016         |
|---------------------------------|-------------|-------------|-------------|--------------|
| Net Income attributable to      |             |             |             |              |
| Unitholders — Basic and Diluted | \$ 439,986  | \$ 525,447  | \$ 989,992  | \$ 1,087,244 |
| Weighted Average Units          |             |             |             |              |
| Outstanding — Basic and Diluted | 358,865,806 | 361,761,991 | 359,494,630 | 361,578,379  |

For the three and six months ended June 30, 2017, potentially dilutive securities include LTIP units. No securities had a material dilutive effect for the three or six months ended June 30, 2017 and 2016. We accrue distributions when they are declared.

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5. Investment in Unconsolidated Entities

Real Estate Joint Ventures and Investments

Joint ventures are common in the real estate industry. We use joint ventures to finance properties, develop new properties and diversify our risk in a particular property or portfolio of properties. As discussed in Note 2, we held joint venture interests in 81 properties as of June 30, 2017.

Certain of our joint venture properties are subject to various rights of first refusal, buy sell provisions, put and call rights, or other sale or marketing rights for partners which are customary in real estate joint venture agreements and the industry. We and our partners in these joint ventures may initiate these provisions (subject to any applicable lock up or similar restrictions), which may result in either the sale of our interest or the use of available cash or borrowings, or the use of limited partnership interests in the Operating Partnership, to acquire the joint venture interest from our partner.

We may provide financing to joint ventures primarily in the form of interest bearing construction loans. As of June 30, 2017 and December 31, 2016, we had construction loans and other advances to related parties totaling \$64.6 million and \$12.3 million, respectively, which are included in deferred costs and other assets in the accompanying consolidated balance sheets.

Unconsolidated Entity Transactions

On September 15, 2016, we and our partners, through two separate joint ventures, acquired certain assets and liabilities of Aéropostale, a retailer of apparel and accessories, out of bankruptcy. Our noncontrolling interest in the retail operations venture and in the licensing venture is 49.05% and 28.45%, respectively. Our aggregate initial investment in the ventures was \$33.1 million, which included our share of working capital funded into the retail business. We eliminate our share of rents and other tenant charges on leasing activities with this venture.

On April 14, 2016, we and a joint venture partner completed the acquisition of The Shops at Crystals, a luxury shopping center on the Las Vegas Strip, for \$1.1 billion. The transaction was funded with a combination of cash on hand, cash from our partner, and a \$550.0 million 3.74% fixed-rate mortgage financing that will mature on July 1, 2026. We have a 50% noncontrolling interest in this joint venture and manage the day-to-day operations. Substantially all of our investment has been determined to relate to investment property based on estimated fair values at the acquisition date.

As of June 30, 2017, we had an 11.1% noncontrolling equity interest in HBS, a venture formed with Hudson's Bay Company. The venture has 42 properties in the U.S. and, subsequent to formation, acquired 41 properties from Germany's leading department store, Kaufhof. In exchange for our interest, we committed to contribute \$100.0 million for improvements to certain properties. As of June 30, 2017, we had funded \$52.0 million of this commitment. In addition, we contributed \$178.5 million in connection with the acquisition of the Kaufhof department

stores. Our share of net income, net of amortization of our excess investment, was \$3.3 million and \$6.8 million for the three months ended June 30, 2017 and 2016, respectively, and \$6.5 million and \$7.9 million for the six months ended June 30, 2017 and 2016, respectively. Total revenues, operating income and consolidated net income were approximately \$183.0 million, \$177.9 million, and \$129.7 million, respectively, for the six months ended June 30, 2017 and \$175.8 million, \$133.9 million, and \$87.4 million, respectively, for the six months ended June 30, 2016.

#### European Investments

At June 30, 2017, we owned 63,924,148 shares, or approximately 20.7%, of Klépierre, which had a quoted market price of \$40.99 per share. Our share of net income, net of amortization of our excess investment, was \$15.9 million and \$5.6 million for the three months ended June 30, 2017 and 2016, respectively, and \$23.1 million and \$18.7 million for the six months ended June 30, 2017 and 2016, respectively. Based on applicable Euro:USD exchange rates and after our conversion of Klépierre's results to GAAP, Klépierre's total revenues, operating income and consolidated net income were

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approximately \$713.2 million, \$251.6 million and \$209.7 million, respectively, for the six months ended June 30, 2017 and \$730.8 million, \$232.1 million and \$131.3 million, respectively, for the six months ended June 30, 2016.

During the first half of 2017, Klépierre completed the disposal of its interest in certain shopping centers. In connection with these disposals, we recorded a gain of \$5.0 million, representing our share of the gains recognized by Klépierre, which is included in gain upon acquisition of controlling interests and sale or disposal of assets and interests in unconsolidated entities, net in the accompanying consolidated statements of operations and comprehensive income.

We had an interest in a European investee that had interests in nine and seven Designer Outlet properties as of June 30, 2017 and December 31, 2016, respectively. On January 1, 2016, we gained control of the entity through terms of the underlying venture agreement requiring a remeasurement of our previously held equity interest to fair value resulting in a non-cash gain of \$12.1 million in earnings during the first quarter of 2016, including amounts reclassified from accumulated other comprehensive income (loss) related to the currency translation adjustment previously recorded on our investment. The gain is included in gain upon acquisition of controlling interests and sale or disposal of assets and interests in unconsolidated entities, net in the accompanying consolidated statements of operations and comprehensive income. As a result of the change in control, we consolidated two of the outlet properties on January 1, 2016. The consolidation required us to recognize the entity's identifiable assets and liabilities at fair value in our consolidated financial statements along with the related redeemable noncontrolling interest representing our partners' share. The fair value of the consolidated assets and liabilities relates primarily to investment property, investments in unconsolidated entities and assumed mortgage debt. Due to certain redemption rights held by our venture partner, the noncontrolling interest is presented (i) in the accompanying Simon consolidated balance sheet outside of equity in limited partners' preferred interest in the Operating Partnership and noncontrolling redeemable interests in properties and (ii) in the accompanying Operating Partnership consolidated balance sheet within preferred units, various series, at liquidation value, and noncontrolling redeemable interests in properties.

On July 25, 2016, this European investee also acquired the remaining 33% interest in two Italian outlet centers in Naples and Venice, as well as the remaining interests in related expansion projects and working capital for cash consideration of €145.5 million. This resulted in the consolidation of these two properties on the acquisition date, requiring a remeasurement of our previously held equity interest to fair value and the recognition of a non-cash gain of \$29.3 million in earnings during the third quarter of 2016. Substantially all of our investment has been determined to relate to investment property based on estimated fair value at the acquisition date.

On April 7, 2017, this European investee acquired an additional 15.7% investment in the Roermond Designer Outlets Phase 4 expansion for cash consideration of approximately \$17.9 million, bringing its total noncontrolling interest in the expansion to 51.3%.

On April 21, 2017, this European investee acquired a 100% interest in an outlet center in Roosendaal, Netherlands for cash consideration of \$69.8 million and the assumption of existing mortgage debt of \$40.1 million. In May, the assumed loan was refinanced with a \$69.0 million 1.85% variable rate mortgage due in 2024, after available extension options. Substantially all of our investment has been determined to relate to investment property based on estimated

fair value at the acquisition date.

In addition, we have a noncontrolling interest in a European property management and development company that provides services to the Designer Outlet properties.

As of June 30, 2017, our legal percentage ownership interests in these properties ranged from 45% to 94%.

We also have minority interests in Value Retail PLC and affiliated entities, which own or have interests in and operate nine luxury outlets located throughout Europe and we have a direct minority ownership in three of those outlets. Our investment in these entities is accounted for under the cost method. At both June 30, 2017 and December 31, 2016, the carrying value of these non-marketable investments was \$140.8 million and is included in deferred costs and other assets.

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## Asian Joint Ventures

We conduct our international Premium Outlet operations in Japan through a joint venture with Mitsubishi Estate Co., Ltd. We have a 40% noncontrolling ownership interest in this joint venture. The carrying amount of our investment in this joint venture was \$244.9 million and \$227.5 million as of June 30, 2017 and December 31, 2016, respectively, including all related components of accumulated other comprehensive income (loss). We conduct our international Premium Outlet operations in South Korea through a joint venture with Shinsegae International Co. We have a 50% noncontrolling ownership interest in this joint venture. The carrying amount of our investment in this joint venture was \$139.4 million and \$130.9 million as of June 30, 2017 and December 31, 2016, respectively, including all related components of accumulated other comprehensive income (loss).

## Summary Financial Information

A summary of our equity method investments and share of income from such investments, excluding Klépierre, our investment in Aéropostale, and HBS, follows.

## COMBINED BALANCE SHEETS

|                                                                       | June 30,<br>2017 | December 31,<br>2016 |
|-----------------------------------------------------------------------|------------------|----------------------|
| Assets:                                                               |                  |                      |
| Investment properties, at cost                                        | \$ 18,043,831    | \$ 17,549,078        |
| Less - accumulated depreciation                                       | 6,129,070        | 5,892,960            |
|                                                                       | 11,914,761       | 11,656,118           |
| Cash and cash equivalents                                             | 837,136          | 778,455              |
| Tenant receivables and accrued revenue, net                           | 346,648          | 348,139              |
| Deferred costs and other assets                                       | 400,775          | 351,098              |
| Total assets                                                          | \$ 13,499,320    | \$ 13,133,810        |
| Liabilities and Partners' Deficit:                                    |                  |                      |
| Mortgages                                                             | \$ 14,522,493    | \$ 14,237,576        |
| Accounts payable, accrued expenses, intangibles, and deferred revenue | 900,784          | 867,003              |
| Other liabilities                                                     | 357,639          | 325,078              |
| Total liabilities                                                     | 15,780,916       | 15,429,657           |
| Preferred units                                                       | 67,450           | 67,450               |
| Partners' deficit                                                     | (2,349,046)      | (2,363,297)          |
| Total liabilities and partners' deficit                               | \$ 13,499,320    | \$ 13,133,810        |
| Our Share of:                                                         |                  |                      |
| Partners' deficit                                                     | \$ (1,061,589)   | \$ (1,018,755)       |
| Add: Excess Investment                                                | 1,778,885        | 1,791,691            |

|                                                          |            |            |
|----------------------------------------------------------|------------|------------|
| Our net Investment in unconsolidated entities, at equity | \$ 717,296 | \$ 772,936 |
|----------------------------------------------------------|------------|------------|

“Excess Investment” represents the unamortized difference of our investment over our share of the equity in the underlying net assets of the joint ventures or other investments acquired and is allocated on a fair value basis primarily to

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investment properties, lease related intangibles, and debt premiums and discounts. We amortize excess investment over the life of the related depreciable components of investment properties, typically no greater than 40 years, the terms of the applicable leases and the applicable debt maturity, respectively. The amortization is included in the reported amount of income from unconsolidated entities.

## COMBINED STATEMENTS OF OPERATIONS

|                                                                                                                                       | For The Three<br>Months Ended<br>June 30, |            | For The Six<br>Months Ended<br>June 30, |            |
|---------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|------------|-----------------------------------------|------------|
|                                                                                                                                       | 2017                                      | 2016       | 2017                                    | 2016       |
| REVENUE:                                                                                                                              |                                           |            |                                         |            |
| Minimum rent                                                                                                                          | \$ 465,705                                | \$ 458,267 | \$ 916,760                              | \$ 897,114 |
| Overage rent                                                                                                                          | 46,447                                    | 46,903     | 97,816                                  | 96,527     |
| Tenant reimbursements                                                                                                                 | 212,465                                   | 212,265    | 428,246                                 | 423,206    |
| Other income                                                                                                                          | 71,753                                    | 54,806     | 136,079                                 | 113,486    |
| Total revenue                                                                                                                         | 796,370                                   | 772,241    | 1,578,901                               | 1,530,333  |
| OPERATING EXPENSES:                                                                                                                   |                                           |            |                                         |            |
| Property operating                                                                                                                    | 132,028                                   | 131,413    | 265,013                                 | 262,494    |
| Depreciation and amortization                                                                                                         | 159,748                                   | 149,721    | 313,202                                 | 281,200    |
| Real estate taxes                                                                                                                     | 63,977                                    | 59,429     | 130,560                                 | 120,938    |
| Repairs and maintenance                                                                                                               | 20,471                                    | 18,480     | 40,701                                  | 38,234     |
| Advertising and promotion                                                                                                             | 21,836                                    | 20,777     | 44,034                                  | 43,306     |
| Provision for credit losses                                                                                                           | 2,789                                     | 2,885      | 6,566                                   | 5,574      |
| Other                                                                                                                                 | 45,030                                    | 43,625     | 88,384                                  | 88,679     |
| Total operating expenses                                                                                                              | 445,879                                   | 426,330    | 888,460                                 | 840,425    |
| Operating Income                                                                                                                      | 350,491                                   | 345,911    | 690,441                                 | 689,908    |
| Interest expense                                                                                                                      | (146,440)                                 | (151,022)  | (288,647)                               | (294,781)  |
| Gain on sale or disposal of assets and interests<br>in unconsolidated entities, net                                                   | —                                         | 6,049      | —                                       | 60,522     |
| Net Income                                                                                                                            | \$ 204,051                                | \$ 200,938 | \$ 401,794                              | \$ 455,649 |
| Third-Party Investors' Share of Net Income                                                                                            | \$ 104,265                                | \$ 100,391 | \$ 203,950                              | \$ 219,200 |
| Our Share of Net Income                                                                                                               | 99,786                                    | 100,547    | 197,844                                 | 236,449    |
| Amortization of Excess Investment                                                                                                     | (22,979)                                  | (25,558)   | (45,436)                                | (48,770)   |
| Our Share of Gain on Sale or Disposal of Assets<br>and Interests in Unconsolidated Entities, net                                      | —                                         | (2,487)    | —                                       | (2,487)    |
| Our Share of Gain on Sale or Disposal of Assets<br>and Interests Included in Other Income in the<br>Consolidated Financial Statements | —                                         | —          | —                                       | (36,153)   |

|                                     |           |           |            |            |
|-------------------------------------|-----------|-----------|------------|------------|
| Income from Unconsolidated Entities | \$ 76,807 | \$ 72,502 | \$ 152,408 | \$ 149,039 |
|-------------------------------------|-----------|-----------|------------|------------|

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Our share of income from unconsolidated entities in the above table, aggregated with our share of the results of Klépierre, our investment in Aéropostale, and HBS, is presented in income from unconsolidated entities in the accompanying consolidated statements of operations and comprehensive income. Unless otherwise noted, our share of the gain on sale or disposal of assets and interests in unconsolidated entities, net is reflected within gain upon acquisition of controlling interests, sale or disposal of assets and interests in unconsolidated entities, net in the accompanying consolidated statements of operations and comprehensive income.

6. Debt

Unsecured Debt

At June 30, 2017, our unsecured debt consisted of \$15.0 billion of senior unsecured notes of the Operating Partnership, \$585.0 million outstanding under the Operating Partnership's \$4.0 billion unsecured revolving credit facility, or Credit Facility, \$323.6 million outstanding under the Operating Partnership's \$3.5 billion supplemental unsecured revolving credit facility, or Supplemental Facility, and together with the Credit Facility, the Credit Facilities, and \$942.8 million outstanding under the Operating Partnership's global unsecured commercial paper note program, or Commercial Paper program. The June 30, 2017 balance on the Supplemental Facility included \$198.6 million (U.S. dollar equivalent) of Yen-denominated borrowings. Foreign currency denominated borrowings under the Supplemental Facility are designated as net investment hedges of a portion of our international investments.

On June 30, 2017, we had an aggregate available borrowing capacity of \$5.6 billion under the Credit Facilities. The maximum aggregate outstanding balance under the Credit Facilities during the six months ended June 30, 2017 was \$960.9 million and the weighted average outstanding balance was \$371.9 million. Letters of credit of \$19.8 million were outstanding under the Credit Facilities as of June 30, 2017.

On March 17, 2017, the Operating Partnership amended and extended the Credit Facility. The initial borrowing capacity of \$4.0 billion may be increased to \$5.0 billion during its term and provides for borrowings denominated in U.S. dollars, Euros, Yen, Sterling, Canadian dollars and Australian dollars. Borrowings in currencies other than the U.S. dollar are limited to 95% of the maximum revolving credit amount, as defined. The initial maturity date of the Credit Facility was extended to June 30, 2021 and can be extended for an additional year to June 30, 2022 at our sole option, subject to our continued compliance with the terms thereof. The base interest rate on the Credit Facility was reduced to LIBOR plus 77.5 basis points from 80 basis points with a facility fee of 10 basis points.

The Supplemental Facility's borrowing capacity of \$3.50 billion may be increased to \$4.25 billion during its term. The initial maturity date of the Supplemental Facility is June 30, 2019, which can be extended for an additional year to June 30, 2020 at our sole option, subject to our continued compliance with the terms thereof. The base interest rate on the Supplemental Facility is LIBOR plus 80 basis points with an additional facility fee of 10 basis points. The Supplemental Facility provides for borrowings denominated in U.S. dollars, Euro, Yen, Sterling, Canadian dollars and Australian dollars.

The Operating Partnership also has available a Commercial Paper program of \$1.0 billion, or the non-U.S. dollar equivalent thereof. The Operating Partnership may issue unsecured commercial paper notes, denominated in U.S. dollars, Euros and other currencies. Notes issued in non-U.S. currencies may be issued by one or more subsidiaries of the Operating Partnership and are guaranteed by the Operating Partnership. Notes will be sold under customary terms in the U.S. and Euro commercial paper note markets and rank (either by themselves or as a result of the guarantee described above) pari passu with the Operating Partnership's other unsecured senior indebtedness. The Commercial Paper program is supported by the Credit Facilities and, if necessary or appropriate, we may make one or more draws under either of the Credit Facilities to pay amounts outstanding from time to time on the Commercial Paper program. On June 30, 2017, we had \$942.8 million outstanding under the Commercial Paper program, fully comprised of U.S. dollar denominated notes with a weighted average interest rate of 1.13%. These borrowings mature on various dates through October 2, 2017 and reduce amounts otherwise available under the Credit Facilities.

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On June 1, 2017, the Operating Partnership completed the issuance of \$600.0 million of senior unsecured notes at a fixed interest rate of 2.63% with a maturity date of June 15, 2022 and \$750.0 million of senior unsecured notes at a fixed interest rate of 3.38% with a maturity date of June 15, 2027. Proceeds from the unsecured notes offering were used to pay down the Credit Facility and for the early redemption of senior unsecured notes in June 2017 as discussed below.

During the six months ended June 30, 2017, the Operating Partnership redeemed at par \$600.0 million of senior unsecured notes with a fixed interest rate of 2.15% and completed the early redemption of a series of senior unsecured notes comprising \$1.25 billion with a fixed interest rate of 5.65%. We recorded a \$128.6 million loss on extinguishment of debt in the second quarter of 2017 as a result of the early redemption.

Mortgage Debt

Total mortgage indebtedness was \$6.7 billion and \$6.5 billion at June 30, 2017 and December 31, 2016, respectively.

On April 21, 2017, as discussed in Note 5, through our European investee, we acquired Rosada Designer Outlet in Roosendaal, Netherlands, subject to an existing Euribor-based variable rate mortgage loan of \$40.1 million (U.S. dollar equivalent).

Covenants

Our unsecured debt agreements contain financial and other non-financial covenants. If we were to fail to comply with these covenants, after the expiration of the applicable cure periods, the debt maturity could be accelerated or other remedies could be sought by the lender, including adjustments to the applicable interest rate. As of June 30, 2017, we were in compliance with all covenants of our unsecured debt.

At June 30, 2017, we or our subsidiaries were the borrowers under 46 non-recourse mortgage notes secured by mortgages on 49 properties, including two separate pools of cross-defaulted and cross-collateralized mortgages encumbering a total of five properties. Under these cross-default provisions, a default under any mortgage included in the cross-defaulted pool may constitute a default under all mortgages within that pool and may lead to acceleration of the indebtedness due on each property within the pool. Certain of our secured debt instruments contain financial and other non-financial covenants which are specific to the properties that serve as collateral for that debt. If the applicable borrower under these non-recourse mortgage notes were to fail to comply with these covenants, the lender could accelerate the debt and enforce its rights against their collateral. At June 30, 2017, the applicable borrowers under these non-recourse mortgage notes were in compliance with all covenants where non-compliance could individually, or giving effect to applicable cross-default provisions in the aggregate, have a material adverse effect on our financial condition, liquidity or results of operations.

Fair Value of Debt

The carrying values of our variable rate mortgages and other loans approximate their fair values. We estimate the fair values of consolidated fixed rate mortgages using cash flows discounted at current borrowing rates and other indebtedness using cash flows discounted at current market rates. We estimate the fair values of consolidated fixed rate unsecured notes using quoted market prices, or, if no quoted market prices are available, we use quoted market prices for securities with similar terms and maturities. The book value of our consolidated fixed rate mortgages and unsecured indebtedness, including commercial paper, was \$21.7 billion and \$22.1 billion as of June 30, 2017 and December 31,

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2016, respectively. The fair values of these financial instruments and the related discount rate assumptions as of June 30, 2017 and December 31, 2016 are summarized as follows:

|                                                                                                 | June 30,<br>2017 |   | December 31,<br>2016 |   |
|-------------------------------------------------------------------------------------------------|------------------|---|----------------------|---|
| Fair value of fixed-rate mortgages and unsecured indebtedness                                   | \$ 22,282        |   | \$ 22,703            |   |
| Weighted average discount rates assumed in calculation of fair value for fixed-rate mortgages   | 4.06             | % | 4.12                 | % |
| Weighted average discount rates assumed in calculation of fair value for unsecured indebtedness | 3.86             | % | 3.83                 | % |

## 7. Equity

During the six months ended June 30, 2017, Simon issued 107,242 shares of common stock to thirteen limited partners of the Operating Partnership in exchange for an equal number of units pursuant to the partnership agreement of the Operating Partnership. These transactions increased Simon's ownership interest in the Operating Partnership.

On February 13, 2017, Simon's Board of Directors authorized a two-year extension of the previously authorized \$2.0 billion common stock repurchase plan through March 31, 2019. Simon may repurchase the shares in the open market or in privately negotiated transactions as market conditions warrant. During the six months ended June 30, 2017, Simon purchased 2,399,051 shares at an average price of \$165.14 per share as part of this program. During the six months ended June 30, 2016, no purchases were made as part of this program. As Simon repurchases shares under this program, the Operating Partnership repurchases an equal number of units from Simon.

## Temporary Equity

## Simon

Simon classifies as temporary equity those securities for which there is the possibility that Simon could be required to redeem the security for cash irrespective of the probability of such a possibility. As a result, Simon classifies one series of preferred units in the Operating Partnership and noncontrolling redeemable interests in properties in temporary equity. Each of these securities is discussed further below.

Limited Partners' Preferred Interest in the Operating Partnership and Noncontrolling Redeemable Interests in Properties. The redemption features of the preferred units in the Operating Partnership contain provisions which could require the Operating Partnership to settle the redemption in cash. As a result, this series of preferred units in the Operating Partnership remains classified outside permanent equity. The remaining interests in a property or portfolio of properties which are redeemable at the option of the holder or in circumstances that may be outside Simon's control

are accounted for as temporary equity. The carrying amount of the noncontrolling interest is adjusted to the redemption amount assuming the instrument is redeemable at the balance sheet date. Changes in the redemption value of the underlying noncontrolling interest are recorded within accumulated deficit. There were no noncontrolling interests redeemable at amounts in excess

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of fair value as of June 30, 2017 and December 31, 2016. The following table summarizes the preferred units in the Operating Partnership and the amount of the noncontrolling redeemable interests in properties as follows:

|                                                                                                                            | As of<br>June 30,<br>2017 | As of<br>December 31,<br>2016 |
|----------------------------------------------------------------------------------------------------------------------------|---------------------------|-------------------------------|
| 7.50% Cumulative Redeemable Preferred Units, 260,000 units authorized,<br>255,373 issued and outstanding                   | \$ 25,537                 | \$ 25,537                     |
| Other noncontrolling redeemable interests in properties                                                                    | 158,842                   | 112,225                       |
| Limited partners' preferred interest in the Operating Partnership and<br>noncontrolling redeemable interests in properties | \$ 184,379                | \$ 137,762                    |

## The Operating Partnership

The Operating Partnership classifies as temporary equity those securities for which there is the possibility that the Operating Partnership could be required to redeem the security for cash, irrespective of the probability of such a possibility. As a result, the Operating Partnership classifies one series of preferred units and noncontrolling redeemable interests in properties in temporary equity. The following table summarizes the preferred units and the amount of the noncontrolling redeemable interests in properties as follows:

|                                                                                                          | As of<br>June 30,<br>2017 | As of<br>December 31,<br>2016 |
|----------------------------------------------------------------------------------------------------------|---------------------------|-------------------------------|
| 7.50% Cumulative Redeemable Preferred Units, 260,000 units authorized,<br>255,373 issued and outstanding | \$ 25,537                 | \$ 25,537                     |
| Other noncontrolling redeemable interests in properties                                                  | 158,842                   | 112,225                       |
| Total preferred units, at liquidation value, and noncontrolling redeemable<br>interests in properties    | \$ 184,379                | \$ 137,762                    |
| Stock Based Compensation                                                                                 |                           |                               |

Awards under our stock based compensation plans primarily take the form of LTIP units and restricted stock grants. Restricted stock and awards under the LTIP programs are all performance based and are based on various individual, corporate and business unit performance measures as further described below. The expense related to these programs, net of amounts capitalized, is included within home and regional office costs and general and administrative costs in the accompanying statements of operations and comprehensive income.



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LTIP Programs. The Compensation Committee has approved long term, performance based incentive compensation programs, or the LTIP programs, for certain senior executive officers. Awards under the LTIP programs take the form of LTIP units, a form of limited partnership interest issued by the Operating Partnership, and will be considered earned if, and only to the extent to which, applicable total shareholder return, or TSR, performance measures are achieved during the performance period. Once earned, LTIP units are subject to a two-year vesting period. One half of the earned LTIP units will vest on January 1 of each of the second and third years following the end of the applicable performance period, subject to the participant maintaining employment with us through those dates and certain other conditions as described in those agreements. Awarded LTIP units not earned are forfeited. Earned and fully vested LTIP units are the equivalent of units. During the performance period, participants are entitled to receive distributions on the LTIP units awarded to them equal to 10% of the regular quarterly distributions paid on a unit of the Operating Partnership. As a result, we account for these LTIP units as participating securities under the two class method of computing earnings per share.

From 2010 to 2016, the Compensation Committee approved LTIP unit grants as shown in the table below. Grant date fair values of the LTIP units are estimated using a Monte Carlo model, and the resulting expense is recorded regardless of whether the TSR performance measures are achieved if the required service is delivered. The grant date fair values are being amortized into expense over the period from the grant date to the date at which the awards, if any, would become vested. The extent to which LTIP units were earned, and the aggregate grant date fair value, are as follows:

| LTIP Program             | LTIP Units Earned        | Grant Date Fair Value           |
|--------------------------|--------------------------|---------------------------------|
| 2010 LTIP program        |                          |                                 |
| 1-year 2010 LTIP program | 133,673                  | 1-year program — \$7.2 million  |
| 2-year 2010 LTIP program | 337,006                  | 2-year program — \$14.8 million |
| 3-year 2010 LTIP program | 489,654                  | 3-year program — \$23.0 million |
| 2011-2013 LTIP program   | 469,848                  | \$35.0 million                  |
| 2012-2014 LTIP program   | 401,203                  | \$35.0 million                  |
| 2013-2015 LTIP program   | 466,405                  | \$28.5 million                  |
| 2014-2016 LTIP program   | 120,314                  | \$27.5 million                  |
| 2015-2017 LTIP program   | To be determined in 2018 | \$25.1 million                  |
| 2016-2018 LTIP program   | To be determined in 2019 | \$26.3 million                  |

The Compensation Committee did not establish a 2017-2019 LTIP program.

We recorded compensation expense, net of capitalization, related to these LTIP programs of approximately \$5.1 million and \$13.0 million for the six months ended June 30, 2017 and 2016, respectively.

Restricted Stock. The Compensation Committee awarded 69,269 shares of restricted stock to employees during the six months ended June 30, 2017 at a weighted-average fair market value of \$171.89 per share. On May 10, 2017, our non-employee Directors were awarded an aggregate of 7,864 shares of restricted stock at a fair market value of

\$165.65 per share. These shares represent a portion of the compensation we pay our non-employee Directors, and all of the shares have been placed in a non-employee Director deferred compensation account maintained by us. The grant date fair value of the employee restricted stock awards is being recognized as expense over the three-year vesting service period. The grant date fair value of the non-employee Director restricted stock awards is being recognized as expense over the one-year vesting service period. In accordance with the Operating Partnership's partnership agreement, the Operating Partnership issued an equal number of units to Simon that are subject to the same vesting conditions as the restricted stock.

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We recorded compensation expense, net of capitalization, related to restricted stock of approximately \$5.3 million and \$4.6 million for the six months ended June 30, 2017 and 2016, respectively.

**Other Compensation Arrangements.** On July 6, 2011, in connection with the execution of an employment agreement, the Compensation Committee granted David Simon, Simon's Chairman and Chief Executive Officer, a retention award in the form of 1,000,000 LTIP units, or the Award, for his continued service as Simon's Chairman and Chief Executive Officer through July 5, 2019. Effective December 31, 2013, the Award was modified, or the Current Award, and as a result the LTIP units will now become earned and eligible to vest based on the attainment of Company based performance goals, in addition to the service based vesting requirement included in the original Award. If the relevant performance criteria are not achieved, all or a portion of the Current Award will be forfeited. The Current Award does not contain an opportunity for Mr. Simon to receive additional LTIP units above and beyond the original Award should our performance exceed the higher end of the performance criteria. The performance criteria of the Current Award are based on the attainment of specific funds from operations, or FFO, per share. If the performance criteria have been met, a maximum of 360,000 LTIP units, or the A units, 360,000 LTIP units, or the B units, and 280,000 LTIP units, or the C units, may become earned on December 31, 2015, December 31, 2016 and December 31, 2017, respectively. Based on the Company's performance in 2015, 360,000 A units were earned. Based on the Company's performance in 2016, 360,000 B units were earned. The earned A units will vest on January 1, 2018, earned B units will vest on January 1, 2019 and earned C units, if any, will vest on June 30, 2019, subject to Mr. Simon's continued employment through such applicable date. The grant date fair value of the retention award of \$120.3 million is being recognized as expense over the eight year term of his employment agreement on a straight line basis based through the applicable vesting periods of the A units, B units and C units.

## Changes in Equity

## Simon

The following table provides a reconciliation of the beginning and ending carrying amounts of total equity, equity attributable to common stockholders and equity attributable to noncontrolling interests:

|                                                   | Preferred<br>Stock | Common<br>Stock | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Capital in<br>Excess of<br>Par Value | Accumulated<br>Deficit | Common<br>Stock<br>Held in<br>Treasury | Noncontrolling<br>interests | Total<br>Equity |
|---------------------------------------------------|--------------------|-----------------|-----------------------------------------------------------|--------------------------------------|------------------------|----------------------------------------|-----------------------------|-----------------|
| June 30, 2017                                     | \$ 43,405          | \$ 32           | \$ (114,126)                                              | \$ 9,523,086                         | \$ (4,459,387)         | \$ (682,562)                           | \$ 649,464                  | \$ 4,959,9      |
| Issuance of limited<br>units for<br>common shares |                    |                 |                                                           | 1,353                                |                        |                                        | (1,353)                     | —               |
| Repurchase of common<br>stock                     |                    |                 |                                                           |                                      |                        | (396,169)                              |                             | (396,169)       |

|                        |           |       |              |              |                |                |             |              |
|------------------------|-----------|-------|--------------|--------------|----------------|----------------|-------------|--------------|
| units                  |           |       |              |              |                |                | 19,558      | 19,558       |
| se and disposition     |           |       |              |              |                |                |             |              |
| controlling interests, |           |       |              |              |                |                |             |              |
| other                  | (164)     |       | (5,748)      | (38,485)     | 10,421         | 236            | (33,740)    |              |
| ment to limited        |           |       |              |              |                |                |             |              |
| s' interest            |           |       |              |              |                |                |             |              |
| change in              |           |       |              |              |                |                |             |              |
| ship in the            |           |       |              |              |                |                |             |              |
| ng Partnership         |           |       | 68,335       |              |                | (68,335)       | —           |              |
| utions to common       |           |       |              |              |                |                |             |              |
| olders and limited     |           |       |              |              |                |                |             |              |
| s, excluding           |           |       |              |              |                |                |             |              |
| ng Partnership         |           |       |              |              |                |                |             |              |
| ed interests           |           |       |              | (1,094,925)  |                | (165,741)      | (1,260,666) |              |
| utions to other        |           |       |              |              |                |                |             |              |
| controlling            |           |       |              |              |                |                |             |              |
| partners               |           |       |              |              |                | (2,160)        | (2,160)     |              |
| prehensive income,     |           |       |              |              |                |                |             |              |
| ng \$957               |           |       |              |              |                |                |             |              |
| able to preferred      |           |       |              |              |                |                |             |              |
| s in                   |           |       |              |              |                |                |             |              |
| erating                |           |       |              |              |                |                |             |              |
| ship and a \$1,242     |           |       |              |              |                |                |             |              |
| tributable to          |           |       |              |              |                |                |             |              |
| controlling            |           |       |              |              |                |                |             |              |
| able interests in      |           |       |              |              |                |                |             |              |
| ies                    |           |       | 10,254       | 861,395      |                | 132,775        | 1,004,419   |              |
| , 2017                 | \$ 43,241 | \$ 32 | \$ (103,872) | \$ 9,587,026 | \$ (4,731,402) | \$ (1,068,310) | \$ 564,444  | \$ 4,291,100 |

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## The Operating Partnership

The following table provides a reconciliation of the beginning and ending carrying amounts of total equity, equity attributable to partners and equity attributable to noncontrolling interests:

|                                                                                                                                                                                                                  | Preferred<br>Units | Simon (Managing<br>General Partner) | Limited<br>Partners | Noncontrolling<br>interests | Total<br>Equity |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|-------------------------------------|---------------------|-----------------------------|-----------------|
| January 1, 2017                                                                                                                                                                                                  | \$ 43,405          | \$ 4,267,043                        | \$ 644,348          | \$ 5,116                    | \$ 4,959,912    |
| Limited partner units<br>exchanged to units                                                                                                                                                                      |                    | 1,353                               | (1,353)             |                             | —               |
| Treasury unit purchase                                                                                                                                                                                           |                    | (396,169)                           |                     |                             | (396,169)       |
| LTIP Units                                                                                                                                                                                                       |                    |                                     | 19,558              |                             | 19,558          |
| Purchase and disposition of<br>noncontrolling interests, net<br>and other                                                                                                                                        | (164)              | (33,812)                            |                     | 236                         | (33,740)        |
| Adjustment to limited<br>partners' interest from<br>change in ownership in the<br>Operating Partnership                                                                                                          |                    | 68,335                              | (68,335)            |                             | —               |
| Distributions to limited<br>partners, excluding<br>preferred interests classified<br>as temporary equity                                                                                                         | (1,669)            | (1,093,256)                         | (165,741)           | (2,160)                     | (1,262,826)     |
| Comprehensive income,<br>excluding \$957 attributable<br>to preferred interests in<br>the Operating Partnership<br>and a \$1,242 loss<br>attributable to<br>noncontrolling redeemable<br>interests in properties | 1,669              | 869,980                             | 131,703             | 1,072                       | 1,004,424       |
| June 30, 2017                                                                                                                                                                                                    | \$ 43,241          | \$ 3,683,474                        | \$ 560,180          | \$ 4,264                    | \$ 4,291,159    |

## 8. Commitments and Contingencies

## Litigation

We are involved from time-to-time in various legal and regulatory proceedings that arise in the ordinary course of our business, including, but not limited to, commercial disputes, environmental matters, and litigation in connection with transactions such as acquisitions and divestitures. We believe that current proceedings will not have a material adverse effect on our financial condition, liquidity, or results of operations. We record a liability when a loss is considered probable and the amount can be reasonably estimated.

In May 2010, Opry Mills sustained significant flood damage. Insurance proceeds of \$50 million have been funded by the primary insurer and remediation and restoration work has been completed. The property re-opened on March 29, 2012. The excess insurance carriers (those providing coverage above \$50 million) denied our claim under the policy for additional proceeds (of up to \$150 million) to pay further amounts for restoration costs and business interruption losses. In the first quarter of 2015, summary judgment was granted in our favor, concluding that up to \$150 million of additional coverage is available under our excess insurance policy for this claim. In July and August 2015, trial on the damages portion of our claim was completed and the jury entered a verdict for damages in the amount of \$204.1 million (inclusive of the \$50.0 million previously paid by the primary carrier). In April 2016, the court entered final judgment in the amount of the jury verdict, which amount will bear interest from the date of the jury's verdict. We and the excess insurance carriers have appealed certain portions of the trial court's rulings and the jury's verdict, respectively. We will continue our efforts through the conclusion of the pending litigation, including any and all appeals, to recover our losses, including consequential damages, under the excess insurance policies for Opry Mills and we believe recovery is probable, but no assurance can be made that our efforts to recover these funds will be successful.

#### Guarantees of Indebtedness

Joint venture debt is the liability of the joint venture and is typically secured by the joint venture property, which is non-recourse to us. As of June 30, 2017 and December 31, 2016, the Operating Partnership guaranteed joint venture related mortgage indebtedness of \$219.2 million and \$400.5 million, respectively (of which we have a right of recovery

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from our venture partners of \$10.8 million). Mortgages guaranteed by the Operating Partnership are secured by the property of the joint venture which could be sold in order to satisfy the outstanding obligation and which has an estimated fair value in excess of the guaranteed amount.

Concentration of Credit Risk

Our U.S. Malls, Premium Outlets, and The Mills rely heavily upon anchor tenants to attract customers; however, anchor retailers do not contribute materially to our financial results as many anchor retailers own their spaces. All material operations are within the United States and no customer or tenant accounts for 5% or more of our consolidated revenues.

9. Real Estate Acquisitions and Dispositions

As discussed in Note 5, during the six months ended June 30, 2017, Klépierre disposed of its interest in certain shopping centers resulting in a gain of which our share was \$5.0 million.

During January of 2016, we disposed of our interests in two unconsolidated multi-family residential investments and one consolidated retail property. Our share of the gross proceeds from these transactions was \$72.4 million. The gain on the consolidated retail property was \$10.6 million. The aggregate gain of \$36.9 million from the sale of the two unconsolidated multi-family residential investments is included in other income and resulted in an additional \$7.2 million in taxes included in income and other taxes.

On April 14, 2016, we acquired a 50% interest in The Shops at Crystals.

On January 1, 2016, we gained control of the European investee that held our interest in six Designer Outlet properties, requiring a remeasurement of our previously held equity interest to fair value and a corresponding non-cash gain of \$12.1 million and which also resulted in the consolidation of two of the six properties, which had been previously unconsolidated. In February 2016, we and our partner, through this European investee, acquired a noncontrolling 75.0% ownership interest in an outlet center in Ochtrup, Germany for cash consideration of approximately \$38.3 million. On July 25, 2016, as further discussed in Note 5, this European entity also acquired the remaining 33% interest in two Italian outlet centers in Naples and Venice. The consolidation of these two properties resulted in a remeasurement of our previously held equity interest to fair value and a corresponding non-cash gain of \$29.3 million. On April 21, 2017, this European investee acquired a 100% interest in an outlet center in Roosendaal, Netherlands for cash consideration of \$69.8 million and the assumption of existing mortgage debt of \$40.1 million. In May, the assumed loan was refinanced with a \$69.0 million 1.85% variable rate mortgage due in 2024, after available extension options.

Unless otherwise noted, gains and losses on the above transactions are included in gain upon acquisition of controlling interests and sale or disposal of assets and interests in unconsolidated entities, net in the accompanying consolidated statements of operations and comprehensive income. We expense business acquisition, potential acquisition and

disposition related costs as they are incurred. We incurred a minimal amount of transaction expenses during the three and six months ended June 30, 2017 and 2016.

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### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto included in this report.

#### Overview

Simon Property Group, Inc. is a Delaware corporation that operates as a self-administered and self-managed real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code. REITs will generally not be liable for U.S. federal corporate income taxes as long as they distribute not less than 100% of their REIT taxable income. Simon Property Group, L.P. is our majority-owned Delaware partnership subsidiary that owns all of our real estate properties and other assets. Unless stated otherwise or the context otherwise requires, references to "Simon" mean Simon Property Group, Inc. and references to the "Operating Partnership" mean Simon Property Group, L.P. References to "we," "us" and "our" mean collectively Simon, the Operating Partnership and those entities/subsidiaries owned or controlled by Simon and/or the Operating Partnership. According to the Operating Partnership's partnership agreement, the Operating Partnership is required to pay all expenses of Simon.

We own, develop and manage premier shopping, dining, entertainment and mixed-use destinations, which consist primarily of malls, Premium Outlets®, and The Mills®. As of June 30, 2017, we owned or held an interest in 207 income-producing properties in the United States, which consisted of 108 malls, 68 Premium Outlets, 14 Mills, four lifestyle centers, and 13 other retail properties in 37 states and Puerto Rico. In addition, we have redevelopment and expansion projects, including the addition of anchors, big box tenants, and restaurants, underway at 25 properties in the United States and Canada, and we have one outlet and one other significant retail project under development. Internationally, as of June 30, 2017, we had ownership interests in nine Premium Outlets in Japan, four Premium Outlets in South Korea, two Premium Outlets in Canada, two Premium Outlets in Malaysia and one Premium Outlet in Mexico. We also own an interest in eight Designer Outlet properties in Europe and one Designer Outlet property in Canada, of which six properties are consolidated. Of the eight properties in Europe, two are located in Italy, two are located in the Netherlands and one each is located in Austria, Germany, France and the United Kingdom. We also have one international outlet property under development. As of June 30, 2017, we also owned a 20.7% equity stake in Klépierre SA, or Klépierre, a publicly traded, Paris-based real estate company which owns, or has an interest in, shopping centers located in 16 countries in Europe.

We generate the majority of our revenues from leases with retail tenants including:

- base minimum rents,
- overage and percentage rents based on tenants' sales volumes, and
- recoverable expenditures such as property operating, real estate taxes, repair and maintenance, and advertising and promotional expenditures.

Revenues of our management company, after intercompany eliminations, consist primarily of management fees that are typically based upon the revenues of the property being managed.

We invest in real estate properties to maximize total financial return which includes both operating cash flows and capital appreciation. We seek growth in earnings, funds from operations, or FFO, and cash flows by enhancing the profitability and operation of our properties and investments. We seek to accomplish this growth through the following:

- attracting and retaining high quality tenants and utilizing economies of scale to reduce operating expenses,
- expanding and re-tenanting existing highly productive locations at competitive rental rates,
- selectively acquiring or increasing our interests in high quality real estate assets or portfolios of assets,

- generating consumer traffic in our retail properties through marketing initiatives and strategic corporate alliances, and
- selling selective non core assets.

We also grow by generating supplemental revenues from the following activities:

- establishing our malls as leading market resource providers for retailers and other businesses and consumer focused corporate alliances, including payment systems (such as handling fees relating to the sales of bank issued prepaid cards), national marketing alliances, static and digital media initiatives, business development, sponsorship, and events,

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- offering property operating services to our tenants and others, including waste handling and facility services, and the provision of energy services,
  - selling or leasing land adjacent to our properties, commonly referred to as “outlots” or “outparcels,” and
  - generating interest income on cash deposits and investments in loans, including those made to related entities.
- We focus on high quality real estate across the retail real estate spectrum. We expand or redevelop properties to enhance profitability and market share of existing assets when we believe the investment of our capital meets our risk reward criteria. We selectively develop new properties in markets we believe are not adequately served by existing retail outlet properties.

We routinely review and evaluate acquisition opportunities based on their ability to enhance our portfolio. Our international strategy includes partnering with established real estate companies and financing international investments with local currency to minimize foreign exchange risk.

To support our growth, we employ a three fold capital strategy:

- provide the capital necessary to fund growth,
- maintain sufficient flexibility to access capital in many forms, both public and private, and
- manage our overall financial structure in a fashion that preserves our investment grade credit ratings.

We consider FFO, net operating income, or NOI, portfolio NOI and comparable property NOI (NOI for properties owned and operated in both periods under comparison) to be key measures of operating performance that are not specifically defined by accounting principles generally accepted in the United States, or GAAP. We use these measures internally to evaluate the operating performance of our portfolio and provide a basis for comparison with other real estate companies. Reconciliations of these measures to the most comparable GAAP measure are included below in this discussion.

## Results Overview

Diluted earnings per share and diluted earnings per unit decreased \$0.26 during the first six months of 2017 to \$2.75 from \$3.01 for the same period last year. The decrease in diluted earnings per share and diluted earnings per unit was primarily attributable to:

- a 2016 gain on acquisitions and dispositions of \$26.9 million, or \$0.07 per diluted share/unit, related to a non-cash gain on the consolidation of properties of \$12.1 million, or \$0.03 per diluted share/unit, and a gain on the sale of our interest in four properties of \$14.8 million, or \$0.04 per diluted share/unit,
- gains in 2016 related to the disposition of our interests in two multi-family residential investments of \$29.7 million, net of tax, or \$0.08 per diluted share/unit,
- a charge on early extinguishment of debt of \$128.6 million, or \$0.36 per diluted share/unit, in 2017, partially offset by
- improved operating performance and solid core business fundamentals in 2017 and the impact of our acquisition and expansion activity,
- increased consolidated lease settlement activity in 2017 of \$12.2 million, or \$0.03 per diluted share/unit, and
- decreased interest expense in 2017 of \$27.8 million, or \$0.08 per diluted share/unit.

Solid core business fundamentals during the first six months of 2017 were primarily driven by strong leasing activity. Portfolio NOI grew by 5.3% for the six month period in 2017 over the prior year period. Comparable property NOI grew 4.1% for our portfolio of U.S. Malls, Premium Outlets, and The Mills. Total sales per square foot, or psf, increased from \$607 psf at June 30, 2016 to \$618 psf at June 30, 2017, for our U.S. Malls and Premium Outlets. Average base minimum rent for U.S. Malls and Premium Outlets increased 3.3% to \$52.10 psf as of June 30, 2017, from \$50.43 psf as of June 30, 2016. Leasing spreads in our U.S. Malls and Premium Outlets were favorable as we were able to lease available square feet at higher rents, resulting in an open/close leasing spread (based on total tenant

payments — base minimum rent plus common area maintenance) of \$8.13 psf (\$71.25 openings compared to \$63.12 closings) as of June 30, 2017, representing a 12.9% increase. Ending occupancy for our U.S. Malls and Premium Outlets decreased 0.7% to 95.2% as of June 30, 2017, from 95.9% as of June 30, 2016.

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Our effective overall borrowing rate at June 30, 2017 on our consolidated indebtedness decreased 49 basis points to 3.26% as compared to 3.75% at June 30, 2016. This reduction was primarily due to a decrease in the effective overall borrowing rate on fixed rate debt of 47 basis points (3.35% at June 30, 2017 as compared to 3.82% at June 30, 2016) and a decrease in the amount of our fixed rate debt partially offset by an increase in the effective overall borrowing rate on variable rate debt of 56 basis points (2.08% at June 30, 2017 as compared to 1.52% at March 31, 2016) and an increase in the amount of our variable rate debt. At June 30, 2017, the weighted average years to maturity of our consolidated indebtedness was 7.2 years as compared to 7.4 years at December 31, 2016. Our financing activity for the six months ended June 30, 2017 included:

- Increasing our USD denominated borrowings by \$585.0 million on the Operating Partnership's \$4.0 billion unsecured revolving credit facility, or Credit Facility.
- Increasing our borrowings under the Operating Partnership's global unsecured commercial paper note program, or the Commercial Paper program, by \$68.5 million through the issuance of U.S. dollar denominated notes.
- Completing the issuance, on June 1, 2017, of \$600.0 million of senior unsecured notes at a fixed interest rate of 2.63% with a maturity date of June 15, 2022 and \$750.0 million of senior unsecured notes at a fixed interest rate of 3.38% with a maturity date of June 15, 2027.
- Repaying our Euro denominated borrowings of \$79.3 million (U.S. dollar equivalent) under the Commercial Paper program.
- Redeeming at par \$600.0 million of senior unsecured notes with a fixed interest rate of 2.15%.
- Completing the early redemption of a series of senior unsecured notes comprising \$1.25 billion with a fixed interest rate of 5.65%. We recorded a \$128.6 million loss on extinguishment of debt in the second quarter of 2017 as a result of the early redemption.

### United States Portfolio Data

The portfolio data discussed in this overview includes the following key operating statistics: ending occupancy, average base minimum rent per square foot, and total sales per square foot for our domestic assets. We include acquired properties in this data beginning in the year of acquisition and remove disposed properties in the year of disposition. For comparative purposes, we separate the information related to The Mills from our other U.S. operations. We also do not include any information for properties located outside the United States.

The following table sets forth these key operating statistics for:

- properties that are consolidated in our consolidated financial statements,
- properties we account for under the equity method of accounting as joint ventures, and
- the foregoing two categories of properties on a total portfolio basis.

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|                                           | June 30,<br>2017 | June 30,<br>2016 | %/Basis Points<br>Change (1) |
|-------------------------------------------|------------------|------------------|------------------------------|
| U.S. Malls and Premium Outlets:           |                  |                  |                              |
| Ending Occupancy                          |                  |                  |                              |
| Consolidated                              | 95.3%            | 96.2%            | -90 bps                      |
| Unconsolidated                            | 94.7%            | 94.9%            | -20 bps                      |
| Total Portfolio                           | 95.2%            | 95.9%            | -70 bps                      |
| Average Base Minimum Rent per Square Foot |                  |                  |                              |
| Consolidated                              | \$ 50.52         | \$ 48.48         | 4.2%                         |
| Unconsolidated                            | \$ 56.48         | \$ 56.22         | 0.5%                         |
| Total Portfolio                           | \$ 52.10         | \$ 50.43         | 3.3%                         |
| Total Sales per Square Foot               |                  |                  |                              |
| Consolidated                              | \$ 602           | \$ 592           | 1.7%                         |
| Unconsolidated                            | \$ 665           | \$ 657           | 1.2%                         |
| Total Portfolio                           | \$ 618           | \$ 607           | 1.8%                         |
| The Mills:                                |                  |                  |                              |
| Ending Occupancy                          | 97.7%            | 98.7%            | -100 bps                     |
| Average Base Minimum Rent per Square Foot | \$ 30.56         | \$ 28.12         | 8.7%                         |
| Total Sales per Square Foot               | \$ 581           | \$ 562           | 3.4%                         |

(1) Percentages may not recalculate due to rounding. Percentage and basis point changes are representative of the change from the comparable prior period.

Ending Occupancy Levels and Average Base Minimum Rent per Square Foot. Ending occupancy is the percentage of gross leasable area, or GLA, which is leased as of the last day of the reporting period. We include all company owned space except for mall anchors, mall majors, mall freestanding and mall outlots in the calculation. Base minimum rent per square foot is the average base minimum rent charge in effect for the reporting period for all tenants that would qualify to be included in ending occupancy.

Total Sales per Square Foot. Total sales include total reported retail tenant sales on a trailing 12 month basis at owned GLA (for mall stores with less than 10,000 square feet) in the malls and The Mills and stores with less than 20,000 square feet in the Premium Outlets. Retail sales at owned GLA affect revenue and profitability levels because sales 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.) that tenants can afford to pay.

#### Current Leasing Activities

During the six months ended June 30, 2017, we signed 405 new leases and 634 renewal leases (excluding mall anchors and majors, new development, redevelopment and leases with terms of one year or less) with a fixed minimum rent across our U.S. Malls and Premium Outlets portfolio, comprising approximately 3.3 million square feet, of which 2.4 million square feet related to consolidated properties. During the comparable period in 2016, we signed 515 new leases and 769 renewal leases with a fixed minimum rent, comprising approximately 4.2 million square feet, of which 3.1 million square feet related to consolidated properties. The average annual initial base minimum rent for new leases was \$59.09 per square foot in 2017 and \$60.57 per square foot in 2016 with an average tenant allowance on new leases of \$43.27 per square foot and \$39.75 per square foot, respectively.



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## Japan Data

The following are selected key operating statistics for our Premium Outlets in Japan. The information used to prepare these statistics has been supplied by the managing venture partner.

|                                           | June 30,<br>2017 | June 30,<br>2016 | %/Basis Points<br>Change |
|-------------------------------------------|------------------|------------------|--------------------------|
| Ending Occupancy                          | 99.7%            | 99.8%            | -10 bps                  |
| Total Sales per Square Foot               | ¥ 102,308        | ¥ 100,783        | 1.51%                    |
| Average Base Minimum Rent per Square Foot | ¥ 5,054          | ¥ 5,005          | 0.99%                    |

## Results of Operations

The following acquisitions, dispositions and openings of consolidated properties affected our consolidated results in the comparative periods:

- On April 21, 2017, through our European investee, we acquired Rosada Designer Outlet, a 247,500 square foot center in Roosendaal, Netherlands. We have a 94% interest in this new center.
- On April 13, 2017, through our European investee, we opened Provence Designer Outlet, a 269,000 square foot center in Miramas, France. We have a 90% interest in this new center.
- During the first quarter of 2016, we consolidated two Designer Outlet properties in Europe that had previously been accounted for under the equity method. During the third quarter of 2016, we consolidated two more Designer Outlet properties in Europe, which were previously accounted for under the equity method.
- During 2016, we disposed of three retail properties.

The following acquisitions, dispositions and openings of joint venture properties affected our income from unconsolidated entities in the comparative periods:

- On June 29, 2017, we and our partner opened Norfolk Premium Outlets, a 332,000 square foot center in Norfolk, Virginia. We have a 65% noncontrolling interest in this new center.
- On June 15, 2017, we and our partner opened Genting Highlands Premium Outlets in Kuala Lumpur, Malaysia. We have a 50% noncontrolling interest in this 278,000 square foot center.
- On April 6, 2017, we and our partner opened Siheung Premium Outlets, a 444,400 square foot center in Siheung (Seoul), South Korea. We have a 50% noncontrolling interest in this new center.
- On November 3, 2016, we and our partner opened a 500,000 square foot retail component of Brickell City Centre in Miami, Florida. We have a 25% noncontrolling interest in the retail component of this center.
- On October 27, 2016, we and our partner opened Clarksburg Premium Outlets, a 392,000 square foot outlet center in Clarksburg, Maryland. We have a 66% noncontrolling interest in this new center.
- On September 15, 2016, we were part of a consortium that completed the acquisition of Aéropostale, out of bankruptcy. Our noncontrolling interest in the retail operations venture and in the licensing venture is 49.05% and 28.45%, respectively.
- On June 24, 2016, we and our partner opened a 355,000 square foot outlet center in Columbus, Ohio. We have a 50% noncontrolling interest in this new center.
- On April 14, 2016, we acquired a 50% noncontrolling interest in The Shops at Crystals, a 262,000 square foot mall in Las Vegas, Nevada.
- On February 1, 2016, through our European investee, we and our partner acquired a 75.0% noncontrolling interest in an outlet center in Ochtrup, Germany.
- During 2016, we disposed of our interests in four retail properties.

For the purposes of the following comparison between the three and six months ended June 30, 2017 and 2016, the above transactions are referred to as the property transactions. In the following discussions of our results of operations,

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“comparable” refers to properties we owned or held interests in and operated in both of the periods under comparison.

Three months ended June 30, 2017 vs. Three months ended June 30, 2016

Minimum rents increased \$29.3 million during 2017, of which the property transactions accounted for \$15.3 million of the increase. Comparable rents increased \$14.0 million, or 1.8%, primarily attributable to an increase in base minimum rents as well as incremental revenue from our redevelopment and expansion activity.

Tenant reimbursements increased \$13.5 million, due to a \$5.1 million increase attributable to the property transactions and a \$8.4 million, or 2.4%, increase in the comparable properties due to annual fixed contractual increases related to common area maintenance.

Total other income increased \$8.0 million, primarily due to an increase in lease settlement income, land and other non-retail real estate sales and gift card revenue, offset partially by a decrease in financing fees and interest income.

Depreciation and amortization expense increased \$18.8 million primarily due to the additional depreciable assets related to the property transactions and our continued redevelopment and expansion activities.

Interest expense decreased \$6.8 million primarily due to the net impact of our financing activities and the reduction in our effective overall borrowing rate as previously discussed.

During 2017, we recorded a loss on extinguishment of debt of \$128.6 million as a result of an early redemption of a series of senior unsecured notes.

Income from unconsolidated entities increased \$7.0 million primarily due to favorable results of operations primarily from our international investments.

During the second quarter of 2017, we recorded a \$5.0 million gain related to Klépierre’s sale of certain assets. During the second quarter of 2016, we recorded a gain of \$4.2 million on the sale of two consolidated retail properties and the disposition of our interest in one unconsolidated retail property.

Simon’s net income attributable to noncontrolling interests decreased \$12.6 million due to a decrease in the net income of the Operating Partnership.

Six months ended June 30, 2017 vs. Six months ended June 30, 2016

Minimum rents increased \$57.6 million during 2017, of which the property transactions accounted for \$24.9 million of the increase. Comparable rents increased \$32.7 million, or 2.1%, primarily attributable to an increase in base minimum rents as well as incremental revenue from our redevelopment and expansion activity.

Tenant reimbursements increased \$20.8 million, due to a \$7.2 million increase attributable to the property transactions and a \$13.6 million, or 1.9%, increase in the comparable properties due to annual fixed contractual increases related to common area maintenance.

Total other income decreased \$15.0 million, primarily due to a \$36.2 million pre-tax gain on the sale of our interests in two multi-family residential investments during 2016, partially offset by an increase in gift card revenue, lease settlement income and land and other non-retail real estate sales.

Depreciation and amortization expense increased \$29.0 million primarily due to the additional depreciable assets related to the property transactions and our continued redevelopment and expansion activities.

Interest expense decreased \$27.8 million primarily due to the net impact of our financing activities during 2017 and 2016 and the reduction in our effective overall borrowing rate as previously discussed.

During 2017, we recorded a loss on extinguishment of debt of \$128.6 million as a result of an early redemption of a series of senior unsecured notes.

Income and other taxes decreased \$19.8 million as a result of a taxable gain on the sale of a multi-family residential investment during 2016, as well as higher taxes on certain of our international investments in 2016. Additionally, in 2017, there was a tax benefit related to our investment in the retail operations venture of Aéropostale due to the normal seasonal operating losses retailers typically experience in the first half of the year.

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Income from unconsolidated entities decreased \$14.5 million primarily as a result of our investment in the retail operations venture of Aéropostale due to the normal seasonal operating losses retailers typically experience in the first half of the year.

During 2017, we recorded a \$5.0 million gain related to Klépierre's sale of certain assets. During 2016, we recorded a gain of \$14.8 million on the sale of three consolidated retail properties and disposition of our interest in one unconsolidated retail property. We also recorded a non-cash remeasurement gain of \$12.1 million related to the change in control of our interest in the European outlet properties as further discussed in Note 5 of the accompanying condensed notes to consolidated financial statements.

Simon's net income attributable to noncontrolling interests decreased \$22.1 million due to a decrease in the net income of the Operating Partnership.

## Liquidity and Capital Resources

Because we own long lived income producing assets, our financing strategy relies primarily on long term fixed rate debt. Floating rate debt comprised only 7.0% of our total consolidated debt at June 30, 2017. We also enter into interest rate protection agreements to manage our interest rate risk. We derive most of our liquidity from positive net cash flow from operations and distributions of capital from unconsolidated entities that totaled \$2.1 billion in the aggregate during the six months ended June 30, 2017. In addition, the Credit Facilities and the Commercial Paper program provide alternative sources of liquidity as our cash needs vary from time to time. Borrowing capacity under these sources may be increased as discussed further below.

Our balance of cash and cash equivalents decreased \$71.4 million during the first six months of 2017 to \$488.6 million as of June 30, 2017 as further discussed in "Cash Flows" below.

On June 30, 2017, we had an aggregate available borrowing capacity of \$5.6 billion under the Credit Facilities, net of outstanding borrowings of \$908.6 million and amounts outstanding under the Commercial Paper program of \$942.8 million and letters of credit of \$19.8 million. For the six months ended June 30, 2017, the maximum aggregate amount outstanding under the Credit Facilities was \$960.9 million and the weighted average amount outstanding was \$371.9 million. The weighted average interest rate was 1.09% for the six months ended June 30, 2017.

Simon has historically had access to public equity markets and the Operating Partnership has historically had access to private and public long and short-term unsecured debt markets and access to secured debt and private equity from institutional investors at the property level.

Our business model and Simon's status as a REIT require us to regularly access the debt markets to raise funds for acquisition, development and redevelopment activity, and to refinance maturing debt. Simon may also, from time to time, access the equity capital markets to accomplish our business objectives. We believe we have sufficient cash on hand and availability under the Credit Facilities and the Commercial Paper program to address our debt maturities and capital needs through 2017.

## Cash Flows

Our net cash flow from operating activities and distributions of capital from unconsolidated entities for the six months ended June 30, 2017 totaled \$2.1 billion. In addition, we had net proceeds from our debt financing and repayment activities, including the \$128.6 million debt extinguishment charge, of \$35.7 million in 2017. These activities are further discussed below under "Financing and Debt." During the first six months of 2017, we also:

- funded the acquisition of our interests in two international retail properties, the aggregate cash portion of which was \$87.7 million,
- paid stockholder dividends and unitholder distributions totaling approximately \$1.3 billion and preferred unit distributions totaling \$2.6 million,
- funded consolidated capital expenditures of \$318.9 million (including development and other costs of \$28.1 million, redevelopment and expansion costs of \$199.1 million, and tenant costs and other operational capital expenditures of \$91.7 million),
- funded investments in unconsolidated entities of \$93.5 million, and
- funded the repurchase of our common stock of \$396.2 million.

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In general, we anticipate that cash generated from operations will be sufficient to meet operating expenses, monthly debt service, recurring capital expenditures, and dividends to stockholders and/or distributions to partners necessary to maintain Simon's REIT qualification on a long term basis. In addition, we expect to be able to generate or obtain capital for nonrecurring capital expenditures, such as acquisitions, major building redevelopments and expansions, as well as for scheduled principal maturities on outstanding indebtedness, from:

- excess cash generated from operating performance and working capital reserves,
- borrowings on the Credit Facilities and Commercial Paper program,
- additional secured or unsecured debt financing, or
- additional equity raised in the public or private markets.

We expect to generate positive cash flow from operations in 2017, and we consider these projected cash flows in our sources and uses of cash. These cash flows are principally derived from rents paid by our retail tenants. A significant deterioration in projected cash flows from operations could cause us to increase our reliance on available funds from the Credit Facilities and Commercial Paper program, curtail planned capital expenditures, or seek other additional sources of financing as discussed above.

## Financing and Debt

### Unsecured Debt

At June 30, 2017, our unsecured debt consisted of \$15.0 billion of senior unsecured notes of the Operating Partnership, \$585.0 million outstanding under the Operating Partnership's Credit Facility, \$323.6 million outstanding under the Operating Partnership's Supplemental Facility and \$942.8 million outstanding under the Operating Partnership's Commercial Paper program. The June 30, 2017 balance on the Supplemental Facility included \$198.6 million (U.S. dollar equivalent) of Yen-denominated borrowings. Foreign currency denominated borrowings under the Supplemental Facility are designated as net investment hedges of a portion of our international investments.

On June 30, 2017, we had an aggregate available borrowing capacity of \$5.6 billion under the Credit Facilities. The maximum aggregate outstanding balance under the Credit Facilities during the six months ended June 30, 2017 was \$960.9 million and the weighted average outstanding balance was \$371.9 million. Letters of credit of \$19.8 million were outstanding under the Credit Facilities as of June 30, 2017.

On March 17, 2017, the Operating Partnership amended and extended the Credit Facility. The initial borrowing capacity of \$4.0 billion may be increased to \$5.0 billion during its term and provides for borrowings denominated in U.S. dollars, Euros, Yen, Sterling, Canadian dollars and Australian dollars. Borrowings in currencies other than the U.S. dollar are limited to 95% of the maximum revolving credit amount, as defined. The initial maturity date of the Credit Facility was extended to June 30, 2021 and can be extended for an additional year to June 30, 2022 at our sole option, subject to our continued compliance with the terms thereof. The base interest rate on the Credit Facility was reduced to LIBOR plus 77.5 basis points from 80 basis points with a facility fee of 10 basis points.

The Supplemental Facility's borrowing capacity of \$3.50 billion may be increased to \$4.25 billion during its term. The initial maturity date of the Supplemental Facility is June 30, 2019, which can be extended for an additional year to June 30, 2020 at our sole option, subject to our continued compliance with the terms thereof. The base interest rate on the Supplemental Facility is LIBOR plus 80 basis points with an additional facility fee of 10 basis points. The Supplemental Facility provides for borrowings denominated in U.S. dollars, Euro, Yen, Sterling, Canadian dollars and Australian dollars.

The Operating Partnership also has available a Commercial Paper program of \$1.0 billion, or the non-U.S. dollar equivalent thereof. The Operating Partnership may issue unsecured commercial paper notes, denominated in U.S.

dollars, Euros and other currencies. Notes issued in non-U.S. currencies may be issued by one or more subsidiaries of the Operating Partnership and are guaranteed by the Operating Partnership. Notes will be sold under customary terms in the U.S. and Euro commercial paper note markets and rank (either by themselves or as a result of the guarantee described above) pari passu with the Operating Partnership's other unsecured senior indebtedness. The Commercial Paper program is supported by the Credit Facilities and, if necessary or appropriate, we may make one or more draws under either of the Credit Facilities to pay amounts outstanding from time to time on the Commercial Paper program. On June 30, 2017, we had \$942.8 million outstanding under the Commercial Paper program, fully comprised of U.S. dollar denominated notes with a weighted average interest rate of 1.13%. These borrowings mature on various dates through October 2, 2017 and reduce amounts otherwise available under the Credit Facilities.

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On June 1, 2017, the Operating Partnership completed the issuance of \$600.0 million of senior unsecured notes at a fixed interest rate of 2.63% with a maturity date of June 15, 2022 and \$750.0 million of senior unsecured notes at a fixed interest rate of 3.38% with a maturity date of June 15, 2027. Proceeds from the unsecured notes offering were used to pay down the Credit Facility and for the early redemption of senior unsecured notes in June 2017 as discussed below.

During the six months ended June 30, 2017, the Operating Partnership redeemed at par \$600.0 million of senior unsecured notes with a fixed interest rate of 2.15% and completed the early redemption of a series of senior unsecured notes comprising \$1.25 billion with a fixed interest rate of 5.65%. We recorded a \$128.6 million loss on extinguishment of debt in the second quarter of 2017 as a result of the early redemption.

**Mortgage Debt**

Total mortgage indebtedness was \$6.7 billion and \$6.5 billion at June 30, 2017 and December 31, 2016, respectively.

On April 21, 2017, as discussed in Note 5, through our European investee, we acquired Rosada Designer Outlet in Roosendaal, Netherlands, subject to an existing Euribor-based variable rate mortgage loan of \$40.1 million (U.S. dollar equivalent).

**Covenants**

Our unsecured debt agreements contain financial and other non-financial covenants. If we were to fail to comply with these covenants, after the expiration of the applicable cure periods, the debt maturity could be accelerated or other remedies could be sought by the lender, including adjustments to the applicable interest rate. As of June 30, 2017, we were in compliance with all covenants of our unsecured debt.

At June 30, 2017, we or our subsidiaries were the borrowers under 46 non recourse mortgage notes secured by mortgages on 49 properties, including two separate pools of cross defaulted and cross collateralized mortgages encumbering a total of five properties. Under these cross default provisions, a default under any mortgage included in the cross defaulted pool may constitute a default under all mortgages within that pool and may lead to acceleration of the indebtedness due on each property within the pool. Certain of our secured debt instruments contain financial and other non financial covenants which are specific to the properties that serve as collateral for that debt. If the applicable borrower under these non-recourse mortgage notes were to fail to comply with these covenants, the lender could accelerate the debt and enforce its rights against their collateral. At June 30, 2017, the applicable borrowers under these non recourse mortgage notes were in compliance with all covenants where non compliance could individually, or giving effect to applicable cross default provisions in the aggregate, have a material adverse effect on our financial condition, liquidity or results of operations.

**Summary of Financing**

Our consolidated debt, adjusted to reflect outstanding derivative instruments, and the effective weighted average interest rates as of June 30, 2017 and December 31, 2016, consisted of the following (dollars in thousands):

|                               | Adjusted Balance<br>as of      | Effective<br>Weighted<br>Average<br>Interest Rate(1) | Adjusted<br>Balance as of          | Effective<br>Weighted<br>Average<br>Interest Rate(1) |
|-------------------------------|--------------------------------|------------------------------------------------------|------------------------------------|------------------------------------------------------|
| Debt Subject to<br>Fixed Rate | June 30, 2017<br>\$ 21,745,360 | 3.35%                                                | December 31, 2016<br>\$ 22,083,330 | 3.46%                                                |

|               |               |       |               |       |
|---------------|---------------|-------|---------------|-------|
| Variable Rate | 1,677,325     | 2.08% | 893,774       | 1.76% |
|               | \$ 23,422,685 | 3.26% | \$ 22,977,104 | 3.39% |

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(1) Excludes the impact of net discounts and debt issuance costs.

Contractual Obligations

There have been no material changes to our outstanding capital expenditure and lease commitments previously disclosed in the combined 2016 Annual Reports on Form 10 K of Simon and the Operating Partnership.

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In regards to long term debt arrangements, the following table summarizes the material aspects of these future obligations on our consolidated indebtedness as of June 30, 2017, for the remainder of 2017 and subsequent years thereafter (dollars in thousands), assuming the obligations remain outstanding through initial maturities, including applicable exercise of available extension options:

|                       | 2017         | 2018 - 2019  | 2020 - 2021  | After 2021    | Total         |
|-----------------------|--------------|--------------|--------------|---------------|---------------|
| Long Term Debt (1)    | \$ 1,595,170 | \$ 1,535,448 | \$ 5,147,615 | \$ 15,280,923 | \$ 23,559,156 |
| Interest Payments (2) | 376,735      | 1,432,849    | 1,266,114    | 3,425,596     | 6,501,294     |

(1) Represents principal maturities only and, therefore, excludes net discounts and debt issuance costs.

(2) Variable rate interest payments are estimated based on the LIBOR rate at June 30, 2017.

#### Off Balance Sheet Arrangements

Our off balance sheet arrangements consist primarily of our investments in joint ventures which are common in the real estate industry and are described in Note 5 of the condensed notes to our consolidated financial statements. Our joint ventures typically fund their cash needs through secured debt financings obtained by and in the name of the joint venture entity. The joint venture debt is secured by a first mortgage, is without recourse to the joint venture partners, and does not represent a liability of the partners, except to the extent the partners or their affiliates expressly guarantee the joint venture debt. As of June 30, 2017, the Operating Partnership guaranteed joint venture related mortgage indebtedness of \$219.2 million (of which we have a right of recovery from our joint venture partners of \$10.8 million). Mortgages guaranteed by the Operating Partnership are secured by the property of the applicable joint venture which could be sold in order to satisfy the outstanding obligation and which has an estimated fair value in excess of the guaranteed amount. We may elect to fund cash needs of a joint venture through equity contributions (generally on a basis proportionate to our ownership interests), advances or partner loans, although such fundings are not typically required contractually or otherwise.

#### Acquisitions and Dispositions

Buy sell, marketing rights, and other exit mechanisms are common in real estate partnership agreements. Most of our partners are institutional investors who have a history of direct investment in retail real estate. We and our partners in our joint venture properties may initiate these provisions (subject to any applicable lock up or similar restrictions). If we determine it is in our stockholders' best interests for us to purchase the joint venture interest and we believe we have adequate liquidity to execute the purchase without hindering our cash flows, then we may initiate these provisions or elect to buy our partner's interest. If we decide to sell any of our joint venture interests, we expect to use the net proceeds to reduce outstanding indebtedness or to reinvest in development, redevelopment, or expansion opportunities.

**Acquisitions.** In February 2016, we and our partner, through our European investee, acquired a noncontrolling 75.0% ownership interest in an outlet center in Ochtrup, Germany for cash consideration of approximately \$38.3 million. On July 25, 2016, this European investee also acquired the remaining 33% interest in two Italian outlet centers in Naples and Venice as well as the remaining interests in related expansion projects and working capital for cash consideration of approximately €145.5 million. This resulted in the consolidation of these two properties on the acquisition date, requiring a remeasurement of our previously held equity interest to fair value and the recognition of a non-cash gain of \$29.3 million in earnings during the third quarter of 2016.

On April 21, 2017, this European investee acquired a 100% interest in an outlet center in Roosendaal, Netherlands for cash consideration of \$69.8 million and the assumption of existing mortgage debt of \$40.1 million. In May, the assumed loan was refinanced with a \$69.0 million 1.85% variable rate mortgage due in 2024, after available extension

options.

On April 14, 2016, we and our joint venture partner completed the acquisition of The Shops at Crystals, a 262,000 square foot luxury shopping center on the Las Vegas Strip, for \$1.1 billion. The transaction was funded with a combination of cash on hand, cash from our partner, and a \$550.0 million 3.74% fixed-rate mortgage financing that will mature on July 1, 2026. We have a 50% noncontrolling interest in this joint venture and manage the day-to-day operations.

**Dispositions.** We continue to pursue the disposition of properties that no longer meet our strategic criteria or that are not a primary retail venue within their trade area.

As discussed in Note 5, during the six months ended June 30, 2017, Klépierre disposed of its interests in certain shopping centers resulting in a gain of which our share was \$5.0 million.

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During 2016, we disposed of our interests in two unconsolidated multi-family residential investments and a consolidated retail property. Our share of the gross proceeds from these transactions was \$72.4 million. The gain on the consolidated retail property was \$10.6 million. The aggregate gain of \$36.9 million from the sale of the two unconsolidated multi-family residential investments is included in other income and resulted in an additional \$7.2 million in taxes included in income and other tax benefit (expense).

### Joint Venture Formation Activity

On September 15, 2016, we and our partners, through two separate joint ventures, acquired certain assets and liabilities of Aéropostale, a retailer of apparel and accessories, out of bankruptcy. Our noncontrolling interest in the retail operations venture and in the licensing venture is 49.05% and 28.45%, respectively. Our aggregate initial investment in these ventures was \$33.1 million, which includes our share of working capital funded into the retail business.

### Development Activity

We routinely incur costs related to construction for significant redevelopment and expansion projects at our properties. Redevelopment and expansion projects, including the addition of anchors, big box tenants, and restaurants, are underway at 25 properties in the United States and Canada.

Our share of the costs of all new development, redevelopment and expansion projects currently under construction is approximately \$1.3 billion. We expect to fund these capital projects with cash flows from operations. We seek a stabilized return on invested capital in the range of 7 - 10% for all of our new development, expansion and redevelopment projects.

### New Domestic Developments, Redevelopments and Expansions.

On June 29, 2017, we and our partner opened Norfolk Premium Outlets, a 332,000 square foot center in Norfolk, Virginia. We own a 65% noncontrolling interest in this project. Our share of the cost of this project is \$70.9 million.

During the second quarter of 2017, construction began on Denver Premium Outlets, a 328,000 square foot project in Thornton (Denver), Colorado, projected to open in September 2018. We own a 100% interest in this project. The estimated cost of this project is \$120.6 million.

In addition, construction continues on The Shops at Clearfork, a 545,000 square foot project located in Fort Worth, Texas, which is scheduled to open in September 2017. We own a 45% noncontrolling interest in this project. Our estimated share of the cost of this project is \$114.7 million.

**International Development Activity.** We typically reinvest net cash flow from our international joint ventures to fund future international development activity. We believe this strategy mitigates some of the risk of our initial investment and our exposure to changes in foreign currencies. We have also funded most of our foreign investments with local currency denominated borrowings that act as a natural hedge against fluctuations in exchange rates. Our consolidated net income exposure to changes in the volatility of the Euro, Yen, Won, and other foreign currencies is not material. We expect our share of international development costs for 2017 will be approximately \$241 million, primarily funded through reinvested joint venture cash flow and construction loans.

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The following table describes these new development and expansion projects as well as our share of the estimated total cost as of June 30, 2017 (in millions):

| Property                                                   | Location                   | Gross Leasable Area (sqft) | Our Ownership Percentage | Our Share of Projected Net Cost (in Local Currency) | Our Share of Projected Net Cost (in USD) | Opening Date       |
|------------------------------------------------------------|----------------------------|----------------------------|--------------------------|-----------------------------------------------------|------------------------------------------|--------------------|
| New Development Projects:                                  |                            |                            |                          |                                                     |                                          |                    |
| Genting Highlands Premium Outlets                          | Kuala Lumpur, Malaysia     | 278,000                    | 50%                      | MYR 120.7                                           | \$ 28.1                                  | Opened Jun. - 2017 |
| Siheung Premium Outlets                                    | Siheung, Korea             | 444,400                    | 50%                      | KRW 123,695                                         | \$ 108.1                                 | Opened Apr. -2017  |
| Provence Designer Outlet                                   | Miramas, France            | 269,000                    | 90%                      | EUR 104.1                                           | \$ 118.9                                 | Opened Apr. - 2017 |
| Premium Outlet Collection – Edmonton International Airport | Edmonton (Alberta), Canada | 428,000                    | 50%                      | CAD 108.2                                           | \$ 183.3                                 | May - 2018         |
| Expansions: Roermond Designer Outlet Phase 4               | Roermond, Netherlands      | 125,000                    | 42%                      | EUR 29.0                                            | \$ 33.1                                  | Opened Apr. - 2017 |
| Toronto Premium Outlets Phase 2                            | Toronto (Ontario), Canada  | 145,000                    | 50%                      | CAD 57.9                                            | \$ 44.6                                  | Nov. - 2018        |

## Dividends, Distributions and Stock Repurchase Program

Simon paid a common stock dividend of \$1.75 per share in the second quarter of 2017 and \$3.50 per share for the six months ended June 30, 2017. The Operating Partnership paid distributions per unit for the same amounts. In 2016, Simon paid dividends of \$1.60 and \$3.20 per share for the three and six month periods ended June 30, 2016, respectively. The Operating Partnership paid distributions per unit for the same amounts. Simon's Board of Directors declared a quarterly cash dividend for the third quarter of 2017 of \$1.80 per share of common stock payable on August 31, 2017 to stockholders of record on August 17, 2017. The distribution rate on units is equal to the dividend rate on common stock. In order to maintain its status as a REIT, Simon must pay a minimum amount of dividends. Simon's future dividends and the Operating Partnership's future distributions will be determined by Simon's Board of Directors, in its sole discretion, based on actual and projected financial condition, liquidity and results of operations,

cash available for dividends and limited partner distributions, cash reserves as deemed necessary for capital and operating expenditures, financing covenants, if any, and the amount required to maintain Simon's status as a REIT.

On February 13, 2017, Simon's Board of Directors authorized a two-year extension of the previously authorized \$2.0 billion common stock repurchase plan through March 31, 2019. Simon may repurchase the shares in the open market or in privately negotiated transactions as market conditions warrant. During the six months ended June 30, 2017, Simon repurchased 2,399,051 shares at an average price of \$165.14 per share of its common stock as part of this program. As Simon repurchases shares under this program, the Operating Partnership repurchases an equal number of units from Simon.

#### Forward Looking Statements

Certain statements made in this section or elsewhere in this Quarterly Report on Form 10-Q may be deemed "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Although we believe the expectations reflected in any forward-looking statements are based on reasonable assumptions, we can give no assurance that our expectations will be attained, and it is possible that our actual results may differ materially from those indicated by these forward-looking statements due to a variety of risks, uncertainties and other factors. Such factors include, but are not limited to: changes in economic and market conditions that adversely affect the general retail environment; the potential loss of anchor stores or major tenants; the inability to collect rent due to the bankruptcy or insolvency of tenants or otherwise; decreases in market rental rates; the intensely competitive market environment in the retail industry; the inability to lease newly developed properties and renew leases and relet space at existing properties on favorable terms; risks related to international activities, including, without limitation, the impact of the United Kingdom's vote to leave the European Union; changes to applicable laws or regulations or the interpretation thereof; risks associated with the acquisition, development, redevelopment, expansion, leasing and management of properties; general risks related

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to real estate investments, including the illiquidity of real estate investments; the impact of our substantial indebtedness on our future operations; any disruption in the financial markets that adversely affects our ability to access capital for growth and satisfy our ongoing debt service requirements; any change in our credit rating; changes in market rates of interest and foreign exchange rates for foreign currencies; changes in the value of our investments in foreign entities; our ability to hedge interest rate and currency risk; our continued ability to maintain our status as a REIT; changes in tax laws or regulations that result in adverse tax consequences; risks relating to our joint venture properties; environmental liabilities; changes in insurance costs, the availability of comprehensive insurance coverage; security breaches that could compromise our information technology or infrastructure; natural disasters; the potential for terrorist activities; and the loss of key management personnel. We discussed these and other risks and uncertainties under the heading "Risk Factors" in the combined 2016 Annual Report on Form 10-K of Simon and the Operating Partnership. We may update that discussion in subsequent other periodic reports, but, except as required by law, we undertake no duty or obligation to update or revise these forward-looking statements, whether as a result of new information, future developments, or otherwise.

### Non GAAP Financial Measures

Industry practice is to evaluate real estate properties in part based on performance measures such as FFO, diluted FFO per share, NOI, Portfolio NOI and comparable property NOI. We believe that these non GAAP measures are helpful to investors because they are widely recognized measures of the performance of REITs and provide a relevant basis for comparison among REITs. We also use these measures internally to measure the operating performance of our portfolio.

We determine FFO based on the definition set forth by the National Association of Real Estate Investment Trusts, or NAREIT, as consolidated net income computed in accordance with GAAP:

- excluding real estate related depreciation and amortization,
  - excluding gains and losses from extraordinary items and cumulative effects of accounting changes,
- excluding gains and losses from the sales or disposals of previously depreciated retail operating properties,
- excluding impairment charges of depreciable real estate,
- plus the allocable portion of FFO of unconsolidated entities accounted for under the equity method of accounting based upon economic ownership interest, and
- all determined on a consistent basis in accordance with GAAP.

We have adopted NAREIT's clarification of the definition of FFO that requires us to include the effects of nonrecurring items not classified as extraordinary, cumulative effect of accounting changes, or a gain or loss resulting from the sale of, or any impairment charges related to, previously depreciated retail operating properties.

We include in FFO gains and losses realized from the sale of land, outlot buildings, marketable and non marketable securities, and investment holdings of non retail real estate. We also include in FFO the impact of foreign currency exchange gains and losses, legal expenses, transaction expenses and other items required by GAAP.

You should understand that our computations of these non GAAP measures might not be comparable to similar measures reported by other REITs and that these non GAAP measures:

- do not represent cash flow from operations as defined by GAAP,
- should not be considered as alternatives to consolidated net income determined in accordance with GAAP as a measure of operating performance, and
- are not alternatives to cash flows as a measure of liquidity.



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The following schedule reconciles total FFO to consolidated net income and, for Simon, diluted net income per share to diluted FFO per share.

|                                                                                                                                                                                                                                               | For the Three Months<br>Ended<br>June 30,<br>2017 |         |         |         | For the Six Months Ended<br>June 30,<br>2017 |           |          |           |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|---------|---------|---------|----------------------------------------------|-----------|----------|-----------|
|                                                                                                                                                                                                                                               | 2016                                              |         | 2016    |         | 2016                                         |           | 2016     |           |
|                                                                                                                                                                                                                                               | (in thousands)                                    |         |         |         |                                              |           |          |           |
| Funds from Operations (A)                                                                                                                                                                                                                     | \$                                                | 884,743 | \$      | 952,871 | \$                                           | 1,869,755 | \$       | 1,904,703 |
| Change in FFO from prior period                                                                                                                                                                                                               | (7.1)                                             | %       | (0.3)   | %       | (1.8)                                        | %         | 6.6      | %         |
| Consolidated Net Income                                                                                                                                                                                                                       | \$                                                | 441,373 | \$      | 527,325 | \$                                           | 992,448   | \$       | 1,091,164 |
| Adjustments to Arrive at FFO:                                                                                                                                                                                                                 |                                                   |         |         |         |                                              |           |          |           |
| Depreciation and amortization from consolidated properties                                                                                                                                                                                    | 318,585                                           |         | 300,179 |         | 626,273                                      |           | 597,376  |           |
| Our share of depreciation and amortization from unconsolidated entities, including Klépierre and HBS                                                                                                                                          | 135,476                                           |         | 134,893 |         | 266,694                                      |           | 253,135  |           |
| Gain upon acquisition of controlling interests and sale or disposal of assets and interests in unconsolidated entities, net                                                                                                                   | (4,989)                                           |         | (4,209) |         | (4,989)                                      |           | (26,897) |           |
| Net (income) loss attributable to noncontrolling interest holders in properties                                                                                                                                                               | (74)                                              |         | (565)   |         | 170                                          |           | (1,294)  |           |
| Noncontrolling interests portion of depreciation and amortization                                                                                                                                                                             | (4,315)                                           |         | (3,439) |         | (8,215)                                      |           | (6,155)  |           |
| Preferred distributions and dividends                                                                                                                                                                                                         | (1,313)                                           |         | (1,313) |         | (2,626)                                      |           | (2,626)  |           |
| FFO of the Operating Partnership (A)                                                                                                                                                                                                          | \$                                                | 884,743 | \$      | 952,871 | \$                                           | 1,869,755 | \$       | 1,904,703 |
| FFO allocable to limited partners                                                                                                                                                                                                             | 116,599                                           |         | 127,386 |         | 246,028                                      |           | 264,285  |           |
| Dilutive FFO allocable to common stockholders (A)                                                                                                                                                                                             | \$                                                | 768,144 | \$      | 825,485 | \$                                           | 1,623,727 | \$       | 1,640,418 |
| Diluted net income per share to diluted FFO per share reconciliation:                                                                                                                                                                         |                                                   |         |         |         |                                              |           |          |           |
| Diluted net income per share                                                                                                                                                                                                                  | \$                                                | 1.23    | \$      | 1.45    | \$                                           | 2.75      | \$       | 3.01      |
| Depreciation and amortization from consolidated properties and our share of depreciation and amortization from unconsolidated entities, including Klépierre and HBS, net of noncontrolling interests portion of depreciation and amortization | 1.25                                              |         | 1.19    |         | 2.46                                         |           | 2.33     |           |
| Gain upon acquisition of controlling interests and sale or disposal of assets and interests in unconsolidated entities, net                                                                                                                   | (0.01)                                            |         | (0.01)  |         | (0.01)                                       |           | (0.07)   |           |
| Diluted FFO per share (A)                                                                                                                                                                                                                     | \$                                                | 2.47    | \$      | 2.63    | \$                                           | 5.20      | \$       | 5.27      |
| Basic and Diluted weighted average shares outstanding                                                                                                                                                                                         | 311,579                                           |         | 313,399 |         | 312,191                                      |           | 311,408  |           |
| Weighted average limited partnership units outstanding                                                                                                                                                                                        | 47,287                                            |         | 48,363  |         | 47,304                                       |           | 50,170   |           |
| Basic and Diluted weighted average shares and units outstanding                                                                                                                                                                               | 358,866                                           |         | 361,762 |         | 359,495                                      |           | 361,578  |           |

- (A) Includes a loss on extinguishment of debt of \$128.6 million for the three and six months ended June 30, 2017. Includes Diluted FFO per share/unit related to a loss on extinguishment of debt of \$0.36 for the three and six months ended June 30, 2017. Includes Diluted FFO allocable to common stockholders of \$111.7 million for the three and six months ended June 30, 2017.

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The following schedule reconciles consolidated net income to NOI and sets forth the computations of Portfolio NOI and Comparable NOI.

|                                                                                                                                   | For the Three Months Ended<br>June 30, |              | For the Six Months Ended<br>June 30, |              |
|-----------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|--------------|--------------------------------------|--------------|
|                                                                                                                                   | 2017                                   | 2016         | 2017                                 | 2016         |
|                                                                                                                                   | (in thousands)                         |              | (in thousands)                       |              |
| Reconciliation of NOI of consolidated entities:                                                                                   |                                        |              |                                      |              |
| Consolidated Net Income                                                                                                           | \$ 441,373                             | \$ 527,325   | \$ 992,448                           | \$ 1,091,164 |
| Income and other taxes                                                                                                            | 5,990                                  | 7,115        | 2,470                                | 22,301       |
| Interest expense                                                                                                                  | 207,174                                | 213,995      | 405,373                              | 433,185      |
| Income from unconsolidated entities                                                                                               | (92,017)                               | (84,990)     | (161,101)                            | (175,616)    |
| Loss on extinguishment of debt                                                                                                    | 128,618                                | —            | 128,618                              | —            |
| Gain upon acquisition of controlling interests<br>and sale or disposal of assets and interests in<br>unconsolidated entities, net | (4,989)                                | (4,209)      | (4,989)                              | (26,897)     |
| Operating Income                                                                                                                  | 686,149                                | 659,236      | 1,362,819                            | 1,344,137    |
| Depreciation and amortization                                                                                                     | 322,396                                | 303,585      | 633,228                              | 604,199      |
| NOI of consolidated entities                                                                                                      | \$ 1,008,545                           | \$ 962,821   | \$ 1,996,047                         | \$ 1,948,336 |
| Reconciliation of NOI of unconsolidated<br>entities:                                                                              |                                        |              |                                      |              |
| Net Income                                                                                                                        | \$ 204,051                             | \$ 200,938   | \$ 401,794                           | \$ 455,649   |
| Interest expense                                                                                                                  | 146,440                                | 151,022      | 288,647                              | 294,781      |
| Gain on sale or disposal of assets and interests<br>in unconsolidated entities                                                    | —                                      | (6,049)      | —                                    | (60,522)     |
| Operating Income                                                                                                                  | 350,491                                | 345,911      | 690,441                              | 689,908      |
| Depreciation and amortization                                                                                                     | 159,748                                | 149,721      | 313,202                              | 281,200      |
| NOI of unconsolidated entities                                                                                                    | \$ 510,239                             | \$ 495,632   | \$ 1,003,643                         | \$ 971,108   |
| Add: Our share of NOI from Klépierre, HBS,<br>and other corporate investments                                                     | 67,201                                 | 62,219       | 108,947                              | 116,930      |
| Total NOI                                                                                                                         | \$ 1,585,985                           | \$ 1,520,672 | \$ 3,108,637                         | \$ 3,036,374 |
| Less: Corporate and Other NOI Sources (1)                                                                                         | 39,733                                 | 47,616       | 47,624                               | 128,912      |
| Portfolio NOI                                                                                                                     | \$ 1,546,252                           | \$ 1,473,056 | \$ 3,061,013                         | \$ 2,907,462 |
| Portfolio NOI Growth                                                                                                              | 5.0                                    | %            | 5.3                                  | %            |
| Less: Our share of NOI from Klépierre and<br>HBS                                                                                  | 66,856                                 | 62,219       | 125,223                              | 116,930      |
| Less: International Properties (2)                                                                                                | 107,045                                | 99,337       | 208,396                              | 190,059      |
| Less: NOI from New Development,<br>Redevelopment, Expansion and Acquisitions<br>(3)                                               | 19,800                                 | 15,723       | 53,346                               | 31,942       |
| Comparable Property NOI (4)                                                                                                       | \$ 1,352,551                           | \$ 1,295,777 | \$ 2,674,048                         | \$ 2,568,531 |
| Comparable Property NOI Growth                                                                                                    | 4.4                                    | %            | 4.1                                  | %            |

(1) Includes income components excluded from Portfolio NOI and Comparable NOI (domestic lease termination income, interest income, land sale gains, straight line rent, above/below market lease adjustments), gains on sale of marketable securities, Simon management company operations, and our TMLP interests and other assets.

(2) Includes International Premium Outlets and International Designer Outlets.

(3)

Includes total property NOI for properties undergoing redevelopment as well as incremental NOI for expansion properties not yet included in comparable properties.

- (4) Includes Malls, Premium Outlets, The Mills and Lifestyle Centers opened and operating as comparable for the period.

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### Item 3. Qualitative and Quantitative Disclosures About Market Risk

**Sensitivity Analysis.** We disclosed a qualitative and quantitative analysis regarding market risk in Management's Discussion and Analysis of Financial Condition and Results of Operations included in the combined 2016 Annual Report on Form 10 K of Simon and the Operating Partnership. There have been no material changes in the assumptions used or results obtained regarding market risk since December 31, 2016.

### Item 4. Controls and Procedures

#### Simon

**Evaluation of Disclosure Controls and Procedures.** Simon maintains disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) that are designed to provide reasonable assurance that information required to be disclosed in the reports that Simon files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's, or the SEC's, rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. Because of inherent limitations, disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of disclosure controls and procedures are met.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of Simon's disclosure controls and procedures as of June 30, 2017. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2017, Simon's disclosure controls and procedures were effective at a reasonable assurance level.

**Changes in Internal Control Over Financial Reporting.** There have not been any changes in Simon's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, Simon's internal control over financial reporting.

#### The Operating Partnership

**Evaluation of Disclosure Controls and Procedures.** The Operating Partnership maintains disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) that are designed to provide reasonable assurance that information required to be disclosed in the reports that the Operating Partnership files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. Because of inherent limitations, disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of disclosure controls and procedures are met.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Operating Partnership's disclosure controls and procedures as of June 30, 2017. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2017, the Operating Partnership's disclosure controls and procedures were effective at a reasonable assurance level.

**Changes in Internal Control Over Financial Reporting.** There have not been any changes in the Operating Partnership's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that

occurred during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, the Operating Partnership's internal control over financial reporting.

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## Part II — Other Information

## Item 1. Legal Proceedings

We are involved from time to time in various legal and regulatory proceedings that arise in the ordinary course of our business, including, but not limited to, commercial disputes, environmental matters, and litigation in connection with transactions such as acquisitions and divestitures. We believe that our current proceedings will not have a material adverse effect on our financial condition, liquidity or results of operations. We record a liability when a loss is considered probable, and the amount can be reasonably estimated.

## Item 1A. Risk Factors

Through the period covered by this report, there were no material changes to the Risk Factors disclosed under Item 1A. Risk Factors in Part I of the combined 2016 Annual Report on Form 10-K of Simon and the Operating Partnership.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## Simon

## Unregistered Sales of Equity Securities

During the quarter ended June 30, 2017, we issued 106,349 shares of common stock to limited partners of the Operating Partnership in exchange for an equal number of units pursuant to the partnership agreement of the Operating Partnership, as follows:

- 191 shares on April 6, 2017
- 105,871 shares on April 4, 2017, and
- 287 shares on April 3, 2017

In each case, the issuance of shares of common stock was exempt from registration pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended.

## Issuer Purchases of Equity Securities

| Period                       | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced programs | Approximate value of shares that may yet be purchased under programs (2) |
|------------------------------|----------------------------------|------------------------------|-------------------------------------------------------------------------|--------------------------------------------------------------------------|
| April 1, 2017-April 30, 2017 | 14,506 (1)                       | \$ 172.03                    | —                                                                       | \$ 1,250,036,239                                                         |
| May 1, 2017-May 31, 2017     | 1,398,408 (1)                    | \$ 160.46                    | 1,398,359                                                               | \$ 1,025,650,432                                                         |
| June 1, 2017-June 30, 2017   | 130,000                          | \$ 154.56                    | 130,000                                                                 | \$ 1,005,557,111                                                         |
|                              | 1,542,914                        | \$ 160.08                    | 1,528,359                                                               |                                                                          |

- (1) Includes shares withheld by us and transferred to treasury shares in connection with employee payroll tax withholding upon the vesting of certain restricted stock awards. Includes 14,506 shares for the period April 1, 2017 – April 30, 2017, and 49 shares for the period May 1, 2017 – May 30, 2017, respectively.

- (2) On February 13, 2017, Simon's Board of Directors authorized a two-year extension of the previously authorized \$2.0 billion common stock repurchase plan through March 31, 2019. Simon may repurchase the shares in the open market or in privately negotiated transactions as market conditions warrant.

The Operating Partnership

#### Unregistered Sales of Equity Securities

There were no unregistered sales of equity securities made by the Operating Partnership during the quarter ended June 30, 2017.

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Issuer Purchases of Equity Securities

There were no purchases of equity securities made by the Operating Partnership during the quarter ended June 30, 2017.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

During the quarter covered by this report, the Audit Committee of Simon's Board of Directors approved certain audit, audit related, and non audit tax compliance and tax consulting services to be provided by Ernst & Young LLP, our independent registered public accounting firm. This disclosure is made pursuant to Section 10A(i)(2) of the Exchange Act as added by Section 202 of the Sarbanes Oxley Act of 2002.

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Item 6. Exhibits

Exhibit

| Number  | Exhibit Descriptions                                                                                                                                                                                            |
|---------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1    | Simon Property Group, Inc. — Certification by the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.       |
| 31.2    | Simon Property Group, Inc. — Certification by the Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.       |
| 31.3    | Simon Property Group, L.P. — Certification by the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.       |
| 31.4    | Simon Property Group, L.P. — Certification by the Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.       |
| 32.1    | Simon Property Group, Inc. — Certification by the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2    | Simon Property Group, L.P. — Certification by the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document                                                                                                                                                                                          |
| 101.SCH | XBRL Taxonomy Extension Schema Document                                                                                                                                                                         |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document                                                                                                                                                           |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document                                                                                                                                                                 |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document                                                                                                                                                          |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document                                                                                                                                                            |

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SIMON PROPERTY GROUP, INC.

/s/ Andrew Juster  
Andrew Juster  
Executive Vice President and  
Chief Financial Officer  
Date: August 4, 2017

SIMON PROPERTY GROUP, L.P.

/s/ Andrew Juster  
Andrew Juster  
Executive Vice President and Chief Financial Officer of  
Simon Property Group, Inc., General Partner  
Date: August 4, 2017