

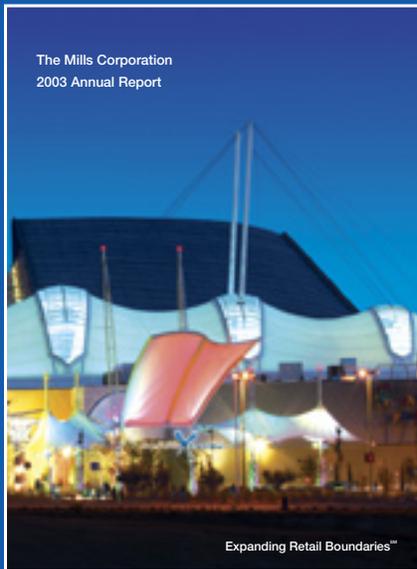
The Mills Corporation
2003 Annual Report



Expanding Retail BoundariesSM

The Mills' mission is to deliver superior shareholder value by creatively developing, acquiring, merchandising and managing a diversified portfolio of exceptional domestic and international retail and entertainment destinations.

About the Cover



Exterior photo of The Mills Corporation's *Madrid Xanadú*, the most spectacular shopping and leisure destination in Europe. Featuring Spain's first indoor ski resort (background), it marked the Company's first venture into Europe and will pave the way for future growth there.

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Funds From Operations

The Company uses various non-GAAP financial measures including funds from operations ("FFO") as useful supplemental measures of its operating performance. FFO, which is a non-GAAP measure, is a metric widely used in the real estate industry and should be considered by investors to be a supplemental measure to GAAP performance measures such as revenues, net income and earnings per share. FFO is not a measure of financial performance under GAAP and should not be considered a measure of liquidity, an alternative to net income or an indicator of any other performance measure determined in accordance with GAAP. For definitions and reconciliations of non-GAAP financial measures to GAAP financial measures, see page 29.

Highlights

The Mills Corporation (NYSE: MLS) is a self-managed real estate investment trust (REIT) that owns, develops, manages and markets a portfolio of retail and entertainment destinations. At the end of 2003, its portfolio included 26 properties totaling approximately 33.3 million square feet of gross leasable area.

In 2003 The Mills Corporation:

- Became the first U.S. REIT to develop and open a dominant retail and entertainment destination in Europe with the opening of Madrid Xanadú.
- Provided investors owning The Mills common stock with a one-year total return of 60.3 percent. Over three years, the combined total return was 235.1 percent.
- Acquired nine quality properties, adding 10.7 million square feet of gross leasable area to its portfolio.
- Boosted funds from operations per common share from \$3.12 in 2002 to \$3.58 in 2003 – a 14.7 percent increase.
- Opened St. Louis Mills and broke ground on Landmark Mills projects in Pittsburgh and Toronto.
- Increased the cash dividend rate per common share for the sixth consecutive year, up to \$2.26.
- Signed a developer's agreement with New Jersey to build Meadowlands Xanadu on the site of Continental Arena at the Meadowlands Sports Complex.

Through its strong performance and accomplishments in 2003, the Company has the potential for sustainable growth.

Financial Highlights

(In thousands, except per share and per square foot, and as noted)

| Year ended December 31, 2003 | 2003 | 2002 | % Change |
|---|-------------|-------------|-----------------|
| Income available to common shareholders | \$ 94,514 | \$ 59,920 | + 57.7 |
| Income per common share before discontinued operations (diluted) | 2.06 | 1.65 | + 24.8 |
| Income per common share (diluted) | 2.07 | 1.66 | + 24.7 |
| Funds From Operations (FFO) available to common stock and unit holders ¹ | 220,567 | 165,226 | + 33.5 |
| FFO per common share and unit (diluted) ¹ | 3.58 | 3.12 | + 14.7 |
| Dividend per common share as of year end | 2.26 | 2.19 | + 3.2 |
| Interest coverage ratio | 3.60 | 3.51 | + 2.6 |
| Mills' rental revenue ² | 702,749 | 474,507 | + 48.1 |
| Mills' total reported tenant sales (in billions) | 6.6 | 4.2 | + 57.1 |
| Mills' tenant reported in-line stores per square foot | 337 | 326 | + 3.4 |
| Mills' occupancy as of year end ³ | 94% | 94% | — |

⁽¹⁾ Mills LP FFO, which includes FFO allocable to partnership units not owned by us.

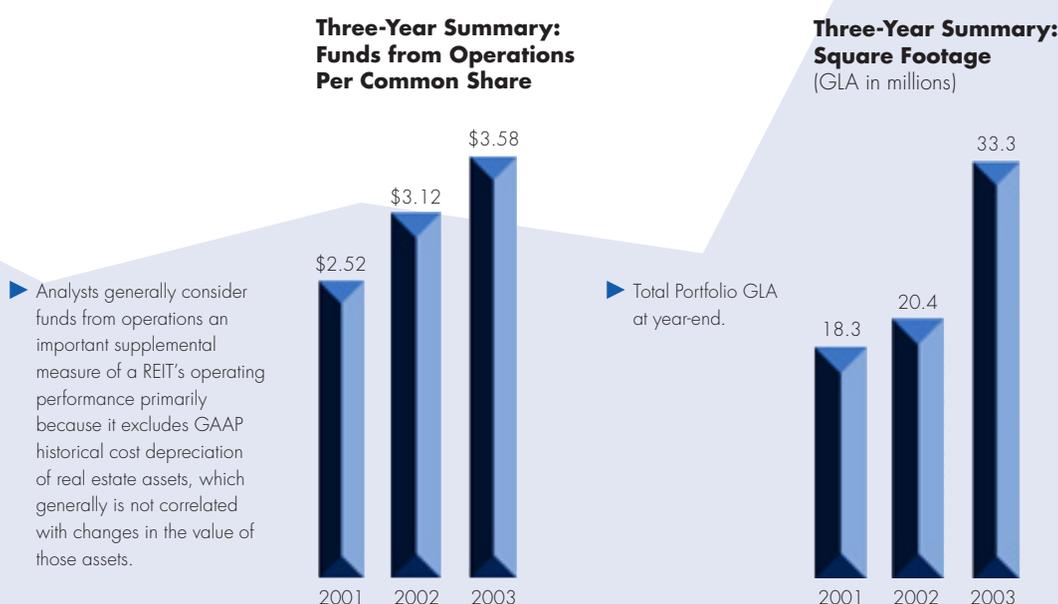
⁽²⁾ Includes operating joint ventures gross rental revenue.

⁽³⁾ Comparable properties.

Three Property Types

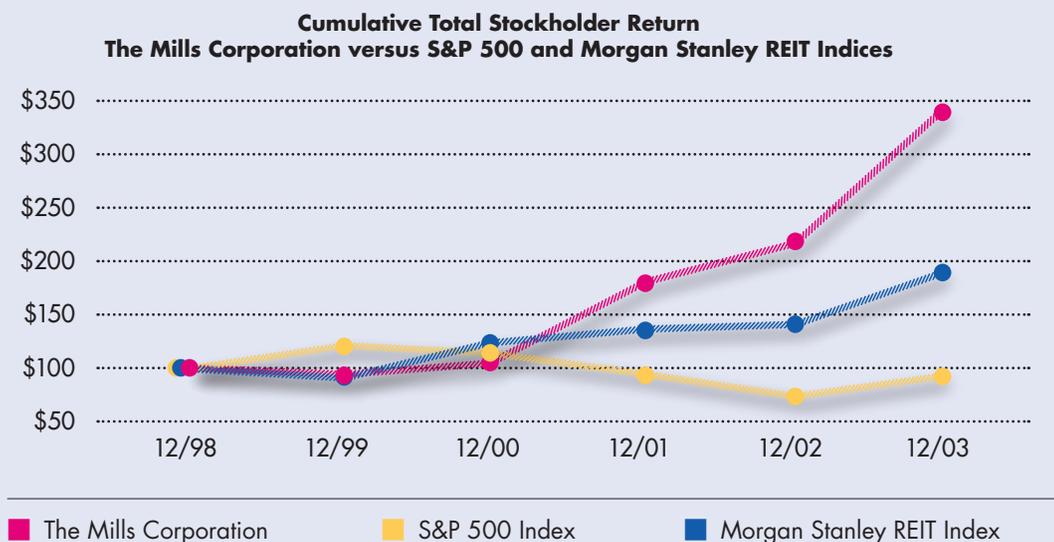
The Mills Corporation operates retail and entertainment destinations across three interrelated property types. By applying our development expertise, retailer relationships and innovation, we create distinctive destinations that engage consumers' imaginations, enable us to identify and capture new opportunities in new markets for our tenants, and provide the Company the potential for sustainable growth. Our property types include:

- **Landmark Mills.** Market-dominant retail and entertainment destinations in top North American markets, branded with the "Mills" name.
- **21st Century Retail and Entertainment.** Ground-up development of full-price retail and entertainment properties, as well as acquired, redeveloped and re-energized traditional centers.
- **International Retail and Entertainment.** The Mills is adapting its successful development formula to create extraordinary experiences and full-price retail and leisure offerings for consumers in select international markets.



Comparative Performance

The following performance graph compares the cumulative total stockholder return on our common stock with the cumulative return on the S&P 500 Index and the Morgan Stanley REIT Index for the five-year period commencing December 31, 1998 and ending December 31, 2003. The graph assumes an investment of \$100 in our common stock and each index on December 31, 1998, and reinvestment of all dividends.



Source: SNL Financial

Report to Shareholders

*2003 was an extraordinary year for The Mills.
Without question, it was our finest year to date
and an exciting sign of things to come.*

In last year's letter to you, I described our new growth strategy and explained why I believed that we were poised for breakout growth in 2003. This year, I'm happy to report that we not only achieved the remarkable accomplishments I anticipated a year ago, but through the rigorous execution of our growth plan we now are positioned to experience strong, sustained growth for years to come.

THE WORLD IS SHRINKING

Globalization is affecting every industry, and certainly the retail sector. Wal-Mart, Carrefour and IKEA already have been successful at expanding internationally on a large scale; other retailers will follow suit – crossing boundaries to do business in Europe or the U.S.

I'm writing this year's letter to you from the spectacular Madrid Xanadú, our first property in Europe. It's packed with families who are shopping, skiing, dancing, dining – in short, having a great time at a retail destination that offers activities and leisure choices like no other.



"This was a breakout year for The Mills Corporation. Our accomplishments – domestically and abroad – demonstrate that The Mills is expanding retail boundaries to meet 21st century consumer demands."

– Laurence C. Siegel, Chairman & CEO

Our success with Madrid Xanadú is a fitting symbol for The Mills Corporation's tremendous accomplishments in 2003 and its breakout potential for years to come.

From the moment we opened Madrid Xanadú in May 2003, it has been a smash hit. That's a testament to our foresight in recognizing the opportunities beyond our shores and the capability of The Mills management team in executing that vision.

As the only retail REIT in the U.S. to successfully develop and open a premier shopping and entertainment destination in Europe, we are uniquely positioned to capitalize on this fundamental shift. We are the only true global developer of large-scale retail destinations.

If truth be told, this project was right in our wheel house. After all, for years our team has been integrating exciting and unusual entertainment offerings with great retailers to create destinations that transform shopping from a transaction into an event. That's exactly what we did at Madrid Xanadú.

Our intentions are not just to build a project pipeline in Europe but a fully integrated real estate operation that can be a dominant player there.

As you may remember, in late 2002 we embarked on a strategy to grow our business in three key areas: International centers; 21st Century Retail centers; and Landmark Mills centers. This strategy makes good sense for us, for it allows us to leverage our expertise in new areas while we continue to develop our signature Mills-branded centers.

The success of Madrid Xanadú has earned us invaluable credibility throughout Europe. Local governments in the markets we've targeted are enthusiastically working with us, and we're fielding serious inquiries from locales outside our primary search areas. The success of El Corte Inglés – Spain's dominant department store – at Madrid Xanadú has resulted in the world's top department stores clamoring to get into our European projects. U.S. merchants that came with us to Madrid Xanadú have paved the way for others that will come to our next overseas projects, while European retailers that have experienced the innovative way we view the industry are eager to do business at our U.S. properties.

We will build on the success of Madrid Xanadú and plan to make major strides on other projects in Europe in 2004, 2005 and beyond.

Through the vision, strong leadership and hard work of our management team, the accomplishments and

growth achieved in 2003 extend far beyond our entry into Europe. I'd like to walk you through some of the key events that defined us in 2003 and our corporate strengths that position us so well for the future.

BREAKING THE MOLD

The 50 year-old model for traditional regional malls needs to be shaken up. The format is tired, the formula is out-dated and one mall looks pretty much like any other. At the same time, the industry is consolidating and becoming more institutionalized – today well more than half of the shopping centers in the U.S. are owned by public companies. That means malls will tend to become even blander if mall operators stick to the traditional model.

As with the globalization phenomenon, we are well-positioned to exploit the obsolete, monolithic state of the current regional mall environment. As part of our growth strategy, we've set out to acquire traditional malls that are already productive and to which we can add value by applying our development and leasing expertise.

Greg Neeb, our executive vice president and chief investment officer, spearheads the Company's acquisition activities. He played a crucial role in executing the second prong of our growth strategy, 21st Century Retail.

In 2003 alone, we closed on nine properties, increasing our portfolio by 10.7 million square feet of GLA – a gain of more than 50 percent just from acquisitions.

Most of these properties have significant expansion, redevelopment and re-tenanting opportunities. We expect to get substantial returns from these assets as we expand and redevelop them, and re-invent the model on which regional malls have been based.

A moment ago I said we would apply our expertise to these malls to add value to them. By that I mean that we look at operating properties through the eyes of a developer. Our development team, led by Jim Dausch, who has more than 30 years of development experience, drives an intense process to create ways a property could be expanded, redeveloped and renovated to

increase interest and boost traffic and sales. At the same time, with our extensive retail relationships and leasing expertise, we analyze how we could re-merchandise the center to better meet the needs of the consumers in that market and to energize the property.

Let me give you an example. One of our acquisitions in 2003 was Del Amo Fashion Center, a super-regional mall outside Los Angeles. At 2.1 million square feet, it is one of the largest shopping malls in the U.S. and it is in a very affluent area, the South Bay submarket. It's productive, but in our view it's under-performing. We could have sat on the property and enjoyed decent yields for years. But our vision for Del Amo is much more ambitious than that. We see it as one of the most dominant retail and entertainment venues in North America. How do we get it there? Our plans are to create a high-end fashion area with one or more high-end department stores... replace a vacant 403,000 square-foot wing with an outdoor lifestyle area with exciting new entertainment and dining options... and give the physical plant a dramatic renovation. The redevelopment designs I've seen are breathtaking, and when we are finished, I believe Del Amo will take its place among the elite centers in the country.

We are not confining ourselves to creating a global platform for retailers and transforming regional malls. We are making advances on large mixed-use projects in Chicago, San Francisco and the Meadowlands in northern New Jersey. In December 2003, we signed a developer's agreement to build Meadowlands Xanadu, the 4.76 million-square-foot sports, entertainment, retail, office and hotel complex that will be the culmination of The Mills' innovation and creativity. We plan to break ground in 2004.

A LEASING MACHINE

We are reaping the benefits of our efforts to re-tenant our Landmark Mills centers with more productive tenants. Jim Napoli, who joined us in the fall of 2002 as president of our operating division, has built an all-star team of in-line leasing professionals. He and Gregg Goodman, our anchor leasing leader, posted some very impressive numbers in 2003.

We added 146 new in-line tenants, totaling well over 400,000 square feet in our Mills centers. We also added eight new anchors with total space exceeding 275,000 square feet. In addition, seven new anchors began construction in 2003 and are scheduled to open in 2004 – including the Wannado children's city at Sawgrass Mills; a state-of-the-art AMC theater at Potomac Mills; and at Gurnee Mills, a 210,000 square-foot Sears Grand, one of the first locations for Sears' new concept.

A few other statistics that show the dynamic nature of our leasing accomplishments:

- Occupancy at comparable properties increased 70 basis points to 94.5 percent.



Above: In May we made a grand entrance into Europe when we opened *Madrid Xanadu*. When finished, it will be Europe's largest consumer destination at two million square feet. Shown above is the colorful Entertainment area of the center.

“We are creating added shareholder value because we are expanding our ability to increase earnings and cash flows by adding new properties each year.”

— Laurence C. Siegel, Chairman and CEO

- Comparable same-center tenant sales per square foot rose \$6 to \$332.
- Average combined in-line and anchor rent per square foot grew \$2.21 to \$20.81.
- Re-leasing spreads, excluding properties in the initial lease-up period, increased 52.9 percent to \$12.14 for our anchor stores. Remember, traditional mall owners don't own most of their anchor spaces, so you can see our unique upside potential relative to other retail REITs.

The Mills possesses a broad and growing portfolio of retailer relationships, and has tremendous opportunity to cross-pollinate our properties with an unparalleled mix of U.S. and international full-price, value, manufacturer outlet, category killer, department store and entertainment options.

THE FUEL FOR THE ENGINE

Ken Parent, our chief operating officer, has made great strides in strengthening our balance sheet and improving our access to capital. Our solid financial position provides us the means to pursue our growth strategy. We continue to maintain a conservative financial posture, which provides us with the flexibility to execute on our business plan and move quickly when attractive investment opportunities arise.

Our access to capital from a variety of sources is robust. Here are some noteworthy achievements that illustrate the confidence we've earned from capital providers: Last July we secured a \$500 million credit facility from a consortium of 21 financial institutions to replace an existing \$175 million credit facility. We also had four issuances of preferred stock or partnership units, which netted more than \$200 million, allowing us to place long-term, attractively priced equity to the benefit of our common holders. In addition, we completed our first successful sale of partial interests in existing, stabilized operating assets through the use of joint ventures in four properties. This allowed us to raise capital at the property level at very attractive pricing.

THE TALE OF THE TAPE

Funds from operations – a non-GAAP measure the REIT industry uses to gauge performance – per diluted common share increased from \$3.12 in 2002 to \$3.58 in 2003 – a 14.7 percent rise. That's one of the highest growth rates in FFO per share in the industry, and it's a tribute to the strength of our core properties.

Same-center net operating income growth in 2003 was 5.5 percent. Rental revenue increased 48.1 percent to \$703 million.

For the sixth consecutive year, we increased the cash dividend on our common stock – \$2.24 per share in 2003 versus \$2.18 per share in 2002. The one-year return on an investment in Mills common stock made on the first day of trading in 2003, with dividends re-invested, totaled 60.3 percent. For the three years ended December 31, 2003, our combined total return was 235.1 percent. Look at the chart on page 2 of this report to see how that matches up with the S&P 500 index and the Morgan Stanley REIT index.

NEW PRESIDENT

None of these accomplishments would have been possible without a strong management team. The Mills has a deep bench of seasoned professionals with decades of experience. I have named a few in this letter but there are many, many others who have made tremendous contributions to our success.

We strengthened our team in early 2004 with the addition of Mark Ettenger as president. A former managing director of Goldman, Sachs & Co., Mark has served as the lead banker – and often the architect – of many of the last decade's most complex real estate deals. Mark will be my partner in driving and managing the business as we continue to pursue our growth strategy. His impact is already being appreciated across the Company.

With Mark on board, I will be focused on expanding the Company's vision for the future, building strategic relationships and creating new retail concepts that continue The Mills' heritage as the leading innovator of retail and entertainment destinations.

IN CLOSING

We have positioned The Mills for breakout growth in 2004 and beyond. We have a clear vision of the industry and the assets in place to take full advantage of the changing retail landscape. We have remarkable development and re-development opportunities at home and abroad. Our retail assets are productive and top-notch, and we have built a broad and extensive portfolio of merchant relationships. Our balance sheet is solid and our financial performance in 2003 was strong. Above all, we have the very best people in the industry. The Mills vision and creativity as a retail and consumer innovator will lead the industry as we continue to expand retail boundaries.



Laurence C. Siegel
Chairman & Chief Executive Officer

The Mills: Financial Strength with Breakout Growth Potential

FINANCIAL STRENGTH

The Mills possesses tremendous financial strength through its strong balance sheet and access to capital. Its market capitalization, including debt and equity, totaled \$6.5 billion at the end of 2003, and is in the top 20% of all REITs.¹ Moreover, The Mills' average annual total return over five years was 27.9% – putting it in the top five of all real estate companies in *The Wall Street Journal 1000*.²

Access to capital is critical to any growth-oriented REIT. In 2003, The Mills obtained a \$500 million line of credit from a consortium of 21 lenders; raised \$223 million in four offerings of preferred stock or partnership units; and sold an equity share in its Great Mall of the Bay Area in Milpitas, California. The Company maintains a strong relationship with Kan Am, a large German operator of open- and closed-end mutual funds, which at the end of 2003 was invested in 11 Mills projects.

¹ Citigroup Smith Barney Equity Research.

² *The Wall Street Journal*, March 8, 2004, "Shareholder Scoreboard: Performance of 1,000 Major U.S. Companies Compared With Their Peers in 76 Industry Groups."

POISED FOR GROWTH

The Mills' financial strength is the fuel that fires its breakout growth potential. In 2002, the Company embarked on a strategy to grow, through acquisition, development and redevelopment, in three property types: Landmark Mills; 21st Century Retail and Entertainment centers; and International Retail and Entertainment centers.

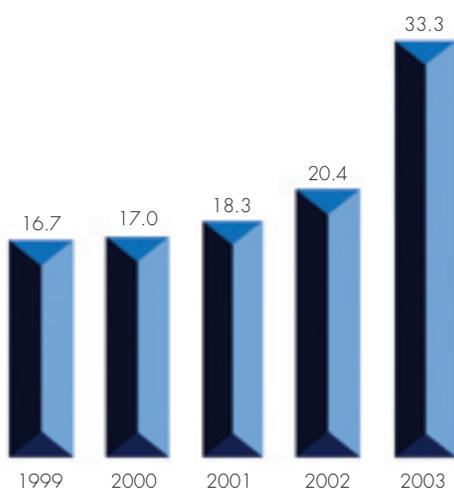
Today, The Mills has a unique opportunity to expand and redevelop its extensive portfolio of highly productive operating properties; it also has created an extensive pipeline of development projects around the world.

The Company believes that its premier operating properties have rich redevelopment potential. Plans are underway to transform Del Amo Fashion Center in Los Angeles into one of North America's most dominant retail destinations. Other opportunities include Sawgrass Mills, where the Company will undertake an expansion and renovation, and the redevelopment and remerchandising of the properties acquired from Cadillac-Fairview in January 2003.

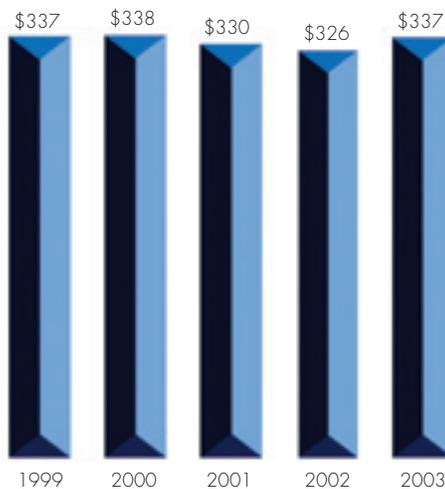
The Company's development pipeline includes some of the best locations in the nation. Atop the list of

Factors that influence the annual revenue of The Mills Corporation include gross leasable area, sales per square foot and average lease rates.

Gross Leasable Area (GLA)
(in millions of square feet)



Sales Per Square Foot



The Mills Corporation distinguishes itself with its financial strength, impressive growth potential and industry-altering creativity and innovation.

The Mills' 21st Century developments is Meadowlands Xanadu in Bergen County, New Jersey. The Mills signed a developer's agreement in December 2003 for the project, which will be the largest combination of sports, entertainment and retail in the United States. In Chicago, the Company is in late-stage negotiations to develop an exciting mixed-use project at 108 North State Street. On San Francisco's fabled waterfront, The Mills is finalizing plans to build a unique mixed-use project that will transform Piers 27-31.

Landmark Mills development projects include three that already are well under construction — in Cincinnati, Toronto and Pittsburgh — and many others that are being planned. Vaughan Mills, outside of Toronto, represents special growth potential. On schedule to open in fall 2004, this 1.1 million-square-foot center is the first indoor mall to be built in Canada in 13 years. The Company believes the success of this project will spur further Canadian developments for The Mills.

The Company has many exciting development opportunities in Europe. It is pursuing opportunities in Spain, Italy and Scotland and plans to have one or more projects in construction in 2004.

RETAIL INNOVATORS

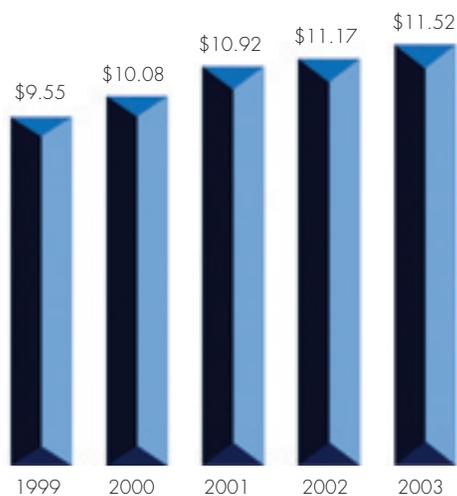
The Mills has demonstrated time and again that it is a distinctly innovative developer of retail venues. Recognizing that shopping is far more than a retail transaction — it is an experience — The Mills infuses its properties with a unique mix of retail, entertainment and dining options, making them destinations that draw customers by the millions. A sampling of the creative entertainment venues shoppers will find at various Mills properties includes NASCAR SpeedParks™, Medieval Times Dinner and Tournament®, Muvico Theaters, Apple Barn, Parque de Nieve indoor ski resort, St. Louis Blues' IceZone®, and many more.

Over the years, the Company's insights into retailing trends have resulted in The Mills incubating or providing dramatic growth platforms for retail concepts, such as Off 5th-Saks Fifth Avenue®, Bass Pro Shops Outdoor World®, Gibson Bluegrass Showcase®, Lucky Strike Lanes and many others.

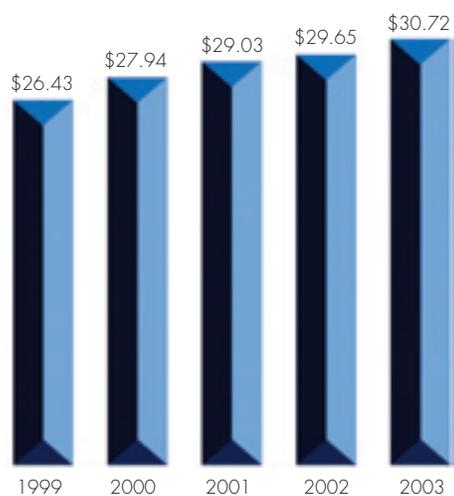
The Mills represents an opportunity to own a premier diversified real estate company with financial strength, breakout growth potential and industry-leading innovation.

More than 140 retailers opened in Mills properties for the first time in 2003, accounting for well over 400,000 square feet of in-line space.

Average Anchor Rental Rates
(per square foot)



Average In-line Rental Rates
(per square foot)





Europe: A New

The Year in Review

The Mills is expanding retail boundaries in every sense. With the immediate success of Madrid Xanadú, we became the first U.S. firm to develop a premier retail and entertainment destination in Europe. We see remarkable growth opportunities in Europe.



Opposite: Fashion area of Madrid Xanadú.

Above: El Corte Inglés, Spain's dominant department store, opened a 350,000 square-foot anchor with a hypermarket at Madrid Xanadú.

INTERNATIONAL

We made a spectacular entrance into Europe in May 2003 when we opened Madrid Xanadú. It is the first ground-up development of a premier retail and entertainment destination in Europe by any U.S.-based REIT. At two million square feet when fully built out, it will be Europe's largest and most comprehensive consumer destination.

Madrid Xanadú includes 220 retail, dining and leisure options. It features 15 anchor stores, including a 350,000 square-foot El Corte Inglés, Spain's largest department store. Leading apparel brands from around the world have come to Madrid Xanadú, including Forum, Mango, H&M, Nike, Tommy Hilfiger and all the concepts of forward-looking retailer Inditex. The centerpiece of Madrid Xanadú's many entertainment offerings is Parque de Nieve, Spain's first indoor ski resort.

Madrid Xanadú opened 97% leased, and more than 200,000 visitors were on hand for its grand opening. Madrid Xanadú's success has caught the attention of investors, retailers, government officials and local land owners throughout Europe, generating unique opportunities to expand in key overseas markets. The Mills is at the forefront in this critical growth market. We are pursuing projects in Seville, Valencia and Barcelona in Spain; Rome and Milan in Italy; and in Glasgow, Scotland. We anticipate making positive strides on several of these European projects in 2004.

Madrid Xanadú features 220 retail and leisure options from around the world, many of which are new to Spain or Madrid.

Growth Frontier

In 2003, we acquired nine productive centers, adding 10.7 million square feet of GLA to our portfolio. We believe our development expertise will enable us to unlock unexploited value from these assets.

ACQUISITIONS

Our strategy for acquisitions is to buy productive properties that hold significant expansion, redevelopment and merchandising opportunities. As one of the industry's most active developers, we see acquisitions through a developer's unique viewpoint. We identify untapped value that we can realize through creative redevelopment, expansion and re-tenanting. Each property then becomes an integral part of our overall expansion program that brings significant value to our property portfolio.

Cadillac-Fairview properties. In one transaction, we acquired 4.7 million square feet of GLA in five properties from Cadillac-Fairview: Galleria at White Plains (White Plains, New York), The Esplanade (New Orleans, Louisiana), Dover Mall and Dover Commons (Dover, Delaware), Northpark Mall (Jackson, Mississippi), and Broward Mall (Fort Lauderdale, Florida). In another transaction we acquired partial interests in two Atlanta area centers: Gwinnett Place and Town Center at Cobb.

These productive traditional regional malls hold untapped potential, including 110 acres of adjacent developable land we obtained. This will enable us to creatively redevelop, expand and re-tenant them with exciting retail, entertainment and dining venues – reinventing these traditional mall concepts into vibrant consumer destinations.

Del Amo Fashion Center. We bought this mall, located in Torrance, California (the South Bay sub-market of Los Angeles), in June 2003 for \$442 million. With 2.1 million square feet of GLA, it ranks among the largest malls in the United States.

Del Amo gives us entry into one of the largest and best retail markets in the country. More than 1.5 million people live within a 10-mile radius, and 20 percent of households within 10 miles have an average annual income exceeding \$100,000.

We plan to transform Del Amo Fashion Center into one of North America's truly dominant retail destinations. The property includes a vacant 403,000 square-foot wing that we intend to redevelop into an exciting lifestyle area with a cutting-edge theater, restaurants and other entertainment venues. We also plan to add one or more high-end fashion department stores and other fashion retailers to the center, as well as to renovate and update the entire property.

The Great Mall of the Bay Area (Milpitas, California). We purchased this property for \$265.5 million last August. It is the largest value-oriented retail and entertainment property in northern California, containing 1.3 million square feet of GLA. The Great Mall of the Bay Area has strong demographics: More than one million people, with a median household income of more than \$70,000, live within 10 miles of the property. Plans are underway to redevelop, re-merchandise and rename The Great Mall of the Bay Area and transform it into a Landmark Mills property with signature tenants.

Acquisitions and development resulted in a 63.2 percent increase in gross leasable area in 2003.



Opposite and Above: Del Amo Fashion Center, the largest of the nine shopping centers we acquired last year. More than 1.5 million people live within 10 miles of Del Amo Fashion Center.

Capitalizing on

*Del Amo Fashion Center,
Torrance, California*



Enormous Potential



EXIT

bloomingdale's

Major advances in 2003 on our projects in Chicago's Loop and on San Francisco's waterfront mean exciting new 21st Century Retail developments for our portfolio.

21ST CENTURY RETAIL AND ENTERTAINMENT

Chicago's 108 North State Street: In Chicago, where we were selected as master developer to redevelop 108 North State Street as a mixed-use project opposite Marshall Fields, we are targeting a major media company to locate a broadcast and office facility at the project, as well as a hotel operator. A prominent office developer has signed a letter of intent to construct at least 350,000 square feet of office space, and we expect to develop approximately 400,000 square feet of adjacent retail space. All of this will be built above a state-of-the-art, high-speed rail station that will link the Chicago transit system directly with O'Hare International and Midway airports. We are in the process of finalizing and documenting all of these deals, plus our development agreement with the City of Chicago, so that final approvals from the City can be obtained by the end of 2004 and construction can begin in 2005.

San Francisco—Piers 27-31. We currently are negotiating a developer's agreement with the Port Authority of San Francisco to convert Piers 27-31 into an attractive entertainment, dining, shopping and office center. We propose to convert the aging loading and storage docks, which run several hundred feet into San Francisco Bay, into tasteful retail spaces, offices and restaurants that reflect the character and nostalgic spirit of Old San Francisco. Our project partners include the YMCA, which intends to open a state-of-the-art facility there, and America One, a not-for-profit pleasure-boating educational organization.

The first phase of this project is planned to be ready within two years of gaining approvals from the City, which we expect by the end of 2004.

Opposite: Riverside Square, Hackensack, New Jersey. Acquired in 2002, this 627,000 square-foot property features Bloomingdale's, Saks and more than 60 high-end shops, including Tiffany's, Louis Vuitton and Coach. We are repositioning this already upscale shopping center to make it the premier high-end property in all of Bergen County.

Right: Artist's rendering of the 108 North State Street project in downtown Chicago showing the proposed CTA rail station.





Creating Exceptional

The Mills continues its rich heritage of developing Mills-branded centers in the best locations. St. Louis Mills, which opened in November 2003, combines exciting retail and entertainment brands.

LANDMARK MILLS

We continue to develop and refine the concept of our Landmark Mills shopping and entertainment destinations. St. Louis Mills, which opened in November 2003 and recently completed a successful holiday season, is the latest iteration of our unique brand of retail format.

St. Louis Mills is a 1.0 million-square-foot premier shopping, entertainment and leisure center. It features SportStreetSM, an area of interactive sports and entertainment experiences, including the St. Louis Blues' IceZone, an ESPN X Games Skate Park, a NASCAR SpeedPark and, in 2004, Lucky Strike Lanes.

St. Louis Mills also is home to the first-ever PBS KIDS BackyardSM, a kid-friendly learn-and-play center and the centerpiece of an area dominated by top children's retailers. The result of a pioneering marketing alliance

between The Mills Corporation and the prestigious Public Broadcasting Service, PBS KIDS Backyard will be rolled out to multiple Landmark Mills' children's areas. Children's retailers also benefit from our strategically placed "A Place to GrowTM" center, an artfully designed educational and soft-play area that is home to The Mills' Upsprouts Kids Club.

St. Louis Mills has proven to be a terrific location for retailers. It houses Missouri's first Off 5th-Saks Fifth Avenue Outlet. Other retailers new to the St. Louis area include Books-A-Million, Marshall's Megastore and Off Broadway Shoe Warehouse. Regal Cinemas, Bed Bath and Beyond, Burlington Coat Factory and Circuit City complete our anchor mix.

Opposite: St. Louis Mills, a 1.0 million-square-foot premier destination that combines exciting retail, entertainment and dining venues.

Right: PBS KIDS BackyardSM at St. Louis Mills provides a fun, educational environment for children and their families to spend time together. It forms the centerpiece of an area dominated by top children's retailers.



Consumer Experiences

Our pipeline of development and redevelopment projects should provide steady growth for years to come.

DEVELOPMENT PLANS

We entered 2004 poised to continue the significant growth we achieved in 2003. Our extensive development pipeline reaches to all three of our strategic property types.

More than 1.2 million people live within a 10-mile radius of the site of Vaughan Mills, the first enclosed mall to be built in Canada in 13 years.

LANDMARK MILLS

We continue to develop and refine our innovative Landmark Mills retail and entertainment destinations, and we see opportunities for a number of additional Mills centers in North America. We are pursuing them aggressively.

Cincinnati Mills. We acquired the underperforming Forest Fair Mall, a 1.5 million-square-foot property, and are transforming it into a successful Mills-branded property. All anchors remained in operation during the redevelopment process. When we grand re-open this center August 19, it will boast great new in-line fashion retailers, entertainment and dining options to complement its already strong anchors.

Vaughan Mills, Toronto. This 1.1 million-square-foot retail and entertainment destination, which will open in

late 2004, is located within 10 miles of more than 1.2 million people. Vaughan Mills is a 50/50 joint venture with Ivanhoe Cambridge, a prominent Canadian developer owned by the Caisse de Dépôt Group. This strong local partner, combined with our development expertise and unrivaled retail relationships, creates a great opportunity to expand to other strategic markets in Canada.

Pittsburgh Mills. Scheduled to open in 2005, Pittsburgh Mills will comprise 1.1 million square feet of enclosed shopping, dining and interactive entertainment, plus an outparcel retail development. Pittsburgh Mills is located on a 340-acre site approximately 15 miles northeast of downtown.

INTERNATIONAL RETAIL AND ENTERTAINMENT

Europe offers significant growth opportunities for us. The success of Madrid Xanadú has earned us valuable credibility among investors, local governments, land holders and retailers. While we explore attractive opportunities throughout Europe, we continue to focus on Spain, Italy and Scotland, where we are evaluating exciting projects in Seville, Valencia, Barcelona, Rome, Milan and Glasgow. We anticipate making positive strides on a number of these opportunities in 2004.

Opposite: Pittsburgh Mills, a 1.1 million-square-foot project with an adjacent power center, is scheduled to open in 2005.

The Industry's Premier



Development Pipeline

Meadowlands Xanadu will be a 4.76 million-square-foot sports, entertainment, office, hotel and retail destination located adjacent to Giants Stadium and minutes from New York City.

MEADOWLANDS XANADU

In December 2003, we signed an agreement with the New Jersey Sports and Exposition Authority for the redevelopment of the Continental Arena site and the construction of Meadowlands Xanadu. This agreement represents a giant step toward the opening in 2006 of the nation's premier sports, entertainment and retail destination.

Meadowlands Xanadu will be a 4.76 million-square-foot family-oriented complex whose integrated mix of sports, recreation, entertainment, office, hotel and retail space will complement the venues of the Meadowlands Sports Complex, which include Giants Stadium, Meadowlands Racetrack and Continental Arena. Some eight million sports and entertainment fans visit the sports

complex each year, demonstrating the lure of the current attractions and the opportunities that await Meadowlands Xanadu.

Many of the top consumer brands are lining up for the opportunity to partner with us to create exciting new concepts, and with good reason: The demographics of the region are compelling. More than 2.4 million people live within a seven-mile radius of Continental Arena, and the average annual household income exceeds \$104,000.

Meadowlands Xanadu will feature sponsored neighborhoods, including Sports, Kids/Education, Home/Life, Fashion, and Entertainment. Plans are for its many entertainment venues to include an indoor ski resort, an interactive children's city, the nation's largest cinema palace and much more.

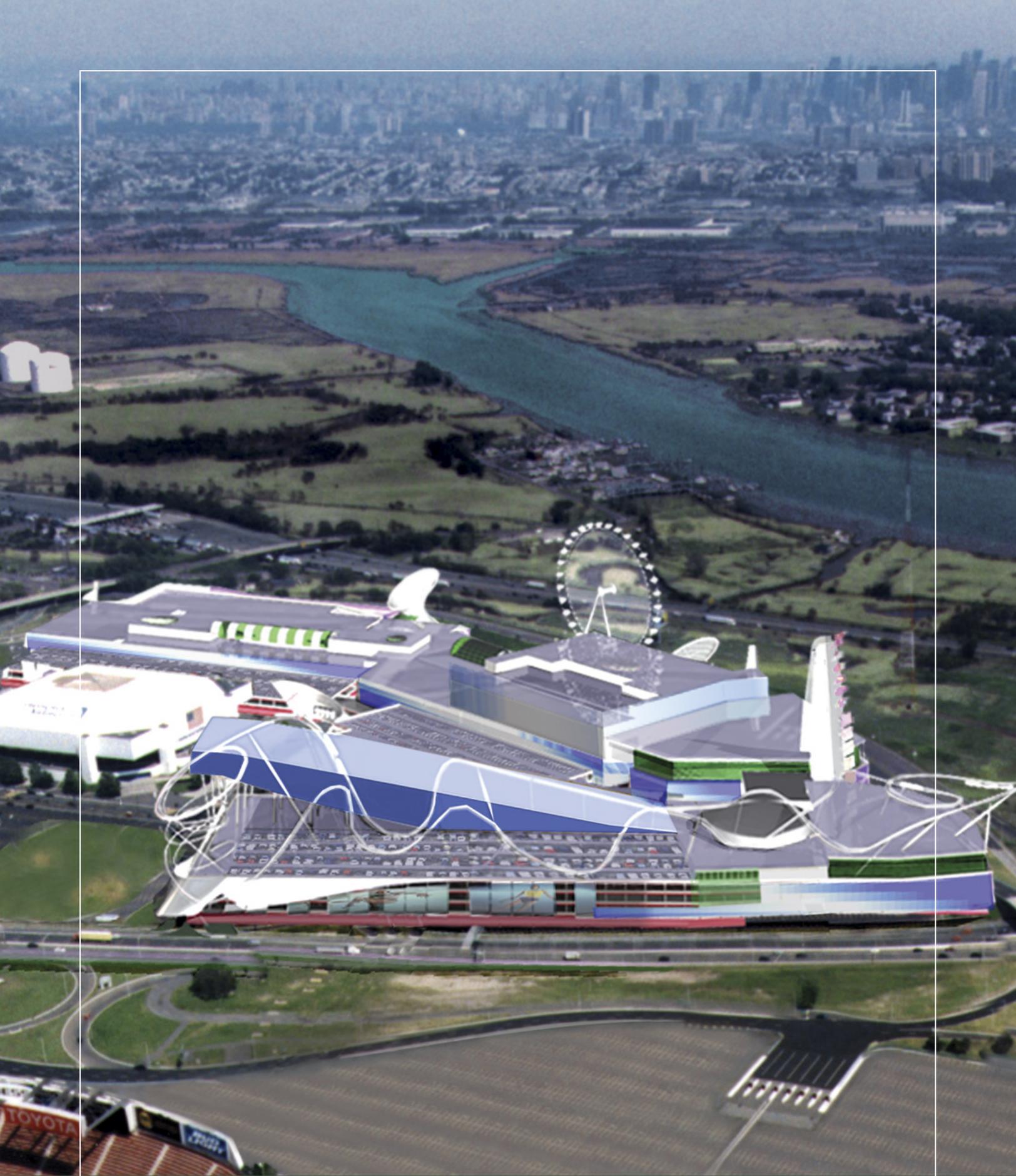
More than 6.4 million annual visitors travel more than 10 miles to the Meadowlands Sports Complex, site of Meadowlands Xanadu.

Opposite: Rendering showing location and concept of Meadowlands Xanadu, with Giants Stadium in foreground and Manhattan skyline in background.

Right: Rendering of Home/Life neighborhood, one of five themed areas in Meadowlands Xanadu.



Re-drawing The



Bounds of Possibility



Innovation That

OPERATIONAL EXCELLENCE

The Mills' premier leasing team has been instrumental in our successful efforts to re-tenant our centers and boost re-leasing spreads. We now are fully leveraging one of the industry's most extensive portfolio of retailer relationships. We signed 146 in-line retailers new to our properties, including Hollister, American Eagle, Justice, Abercrombie, Deb Shops, Weathervane, Hibbett Sports, Lucky Strike Lanes, Olympia Sports and Yard House Restaurant, adding well more than 400,000 square feet of GLA. Our team also opened 375,000 square feet more in-line space than in 2002 for comparable centers in our portfolio – a 68% jump. In addition, we opened eight new anchors and signed leases for eight more that will be open in 2004 for a combined 550,000 square feet.

2003 Leasing Facts

- Anchor re-leasing spreads increased 53 percent in 2003 over 2002 spreads.
- In-line sales per square foot increased from \$326 in 2002 to \$337 in 2003.
- In-line merchants opened 375,000 square feet more space at comparable centers in 2003 versus 2002.
- Eight new anchors signed leases in 2003, for a total of more than 275,000 square feet, to open in 2004.

Opposite: The Mills continues to pioneer new consumer concepts. Medieval Times, the nation's largest themed dining chain, chose Arundel Mills for its first location in an enclosed mall.

In 2003, we implemented a centralized marketing program to, among other things, create efficiencies and more consistently communicate our brand message. Benefits of our new centralized marketing program include more effective management of our local marketing programs; more in-depth consumer research; more effective property advertising strategies; new websites with data capture and email capability; and portfolio-wide or product-type seasonal, gift card, tourism and other marketing programs. We also made or expanded a number of valuable partnerships during 2003. Among them were Discover Card®, PBS KIDS®, Lego® and Coca-Cola®.

In addition, in January 2004 we further strengthened our already strong management team with the addition of Mark Ettenger, a former managing director of Goldman, Sachs & Co., as president. He brings to The Mills more than 20 years experience in the real estate industry and is responsible for the execution of The Mills' business strategy. His addition to the team allows Mr. Siegel to focus on long-term strategic planning. We expect Mr. Ettenger's thorough understanding of retail real estate assets to further enhance our operational excellence.

The Mills also hired several veteran real-estate professionals to assume leadership positions in development, information technology, legal and finance.

CONCLUSION

The Mills is not the same company it was even one year ago. We grew in 2003 from 20.4 million square feet of GLA to 33.3 million square feet. Our properties increased in number from 17 to 26, and rental revenue increased from \$474 million to more than \$702 million.

The next few years promise to be as exciting as 2003. Our strong financial condition, dramatic growth potential and position as the retail innovator place The Mills Corporation well above other REITs.

Produces Results

Assets at a Glance

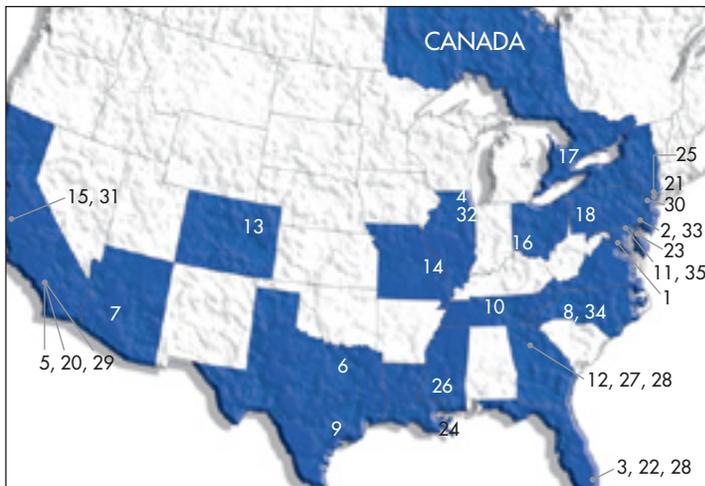
As of December 31, 2003

| Name | Market | Size Million Square Feet (GLA) | Number of Anchors | Opened/ Acquired | Joint Venture Partners |
|---|---------------------|---|----------------------|--|---|
| LANDMARK MILLS – OPERATING | | | | | |
| 1) Potomac Mills | Washington, D.C. | 1.5 | 18 | Phase I, 1985 Phase II, 1986 Phase III, 1993 | |
| 2) Franklin Mills | Philadelphia | 1.8 | 18 | 1989 | |
| 3) Sawgrass Mills and The Oasis | Ft. Lauderdale | 2.1 | 17 | Phase I, 1990 Phase II, 1995 The Oasis, 1999 | |
| 4) Gurnee Mills | Chicago | 1.6 | 15 | 1991 | |
| 5) Ontario Mills | Los Angeles | 1.5 | 23 | 1996 | Kan Am |
| 6) Grapevine Mills | Dallas/Ft. Worth | 1.6 | 21 | 1997 | Kan Am |
| 7) Arizona Mills | Phoenix | 1.2 | 17 | 1997 | The Taubman Company |
| 8) Concord Mills | Charlotte | 1.3 | 17 | 1999 | Kan Am |
| 9) Katy Mills | Houston | 1.2 | 14 | 1999 | Kan Am |
| 10) Opry Mills | Nashville | 1.1 | 16 | 2000 | |
| 11) Arundel Mills | Baltimore | 1.2 | 16 | 2000 | Kan Am |
| 12) Discover Mills | Atlanta | 1.1 | 11 | 2001 | Kan Am |
| 13) Colorado Mills | Denver | 1.1 | 10 | 2002 | Stevinson Associates, Kan Am |
| 14) St. Louis Mills | St. Louis | 1.0 | 9 | 2003 | Kan Am |
| 15) Great Mall of the Bay Area | Silicon Valley Area | 1.3 | 11 | 2003 | Kan Am |
| Name | Market | Size Million Square Feet (GLA) | Number of Anchors | Anticipated Opening | Joint Venture Partners |
| LANDMARK MILLS – UNDER DEVELOPMENT | | | | | |
| 16) Cincinnati Mills | Cincinnati | 1.5 | | 2004 | |
| 17) Vaughan Mills | Toronto | 1.1 | | 2004 | Ivanhoe Cambridge |
| 18) Pittsburgh Mills | Pittsburgh | 1.1 | | 2005 | Kan Am, Zamias Services, Inc. |
| Name | Market | Size Million Square Feet (GLA) | Number of Anchors | Opened | Joint Venture Partners |
| INTERNATIONAL | | | | | |
| 19) Madrid Xanadú | Madrid | 1.4 | 15 | 2003 | Parcelatoria De Gonzalo Chacon, S.A. |

| Name | Market | Size Million Square Feet (GLA) | Number of Anchors | Opened/ Acquired | Joint Venture Partners |
|--|-----------------------------|---|----------------------|---------------------|---------------------------|
| 21ST CENTURY – RETAIL AND ENTERTAINMENT OPERATING | | | | | |
| 20) The Block at Orange | Los Angeles | .7 | 10 | 1998 | Kan Am |
| 21) Riverside Square | Bergen County | .6 | 3 | 2002 | |
| 22) Broward Mall | Ft. Lauderdale | 1.0 | 4 | 2003 | |
| 23) Dover Mall | Dover | .9 | 5 | 2003 | |
| 24) The Esplanade | New Orleans | .9 | 3 | 2003 | |
| 25) Galleria at White Plains | White Plains | .9 | 3 | 2003 | |
| 26) Northpark Mall | Jackson | 1.0 | 4 | 2003 | |
| 27) Town Center at Cobb | Atlanta | 1.3 | 5 | 2003 | Simon Property Group |
| 28) Gwinnett Place | Atlanta | 1.3 | 5 | 2003 | Simon Property Group |
| 29) Del Amo Fashion Center | Los Angeles/ Southern CA | 2.1 | 11 | 2003 | |

| Name | Market | Size Million Square Feet (GLA) | Number of Anchors | Opened/ Acquired | Joint Venture Partners |
|--|-------------------------------|---|----------------------|---------------------|--|
| 21ST CENTURY – RETAIL AND ENTERTAINMENT UNDER DEVELOPMENT | | | | | |
| 30) Meadowlands Xanadu | New York City/ Northern NJ | 4.8 | | | Kan Am, Empire Ltd., Bennett S. Lazare, Esq., Mack-Cali Realty Group |
| 31) San Francisco Piers 27-31 | San Francisco | | | | |
| 32) 108 N. State Street | Chicago | | | | |

| Name | Market | Size Million Square Feet (GLA) | Number of Anchors | Opened/ Acquired | Joint Venture Partners |
|--------------------------------------|--------------|---|----------------------|---------------------|---------------------------|
| OTHER – OPERATING | | | | | |
| 33) Liberty Plaza | Philadelphia | .4 | 4 | 1994 | |
| 34) Concord Mills Marketplace | Charlotte | .2 | 2 | 2001 | |
| 35) Arundel Mills Marketplace | Baltimore | .1 | 3 | 2003 | Kan Am |



Selected Consolidated Financial Data

(In Thousands, Except Per Share Data)

| Years Ended December 31, | 2003 | 2002 | 2001 | 2000 | 1999 |
|--|------------------|------------------|------------------|------------------|------------------|
| Operating Data: | | | | | |
| Revenues: | | | | | |
| Minimum rent | \$213,683 | \$119,568 | \$100,642 | \$102,230 | \$104,407 |
| Percentage rent | 5,636 | 2,267 | 1,518 | 2,891 | 3,677 |
| Recoveries from tenants | 107,716 | 58,123 | 50,975 | 52,006 | 51,680 |
| Other property revenue | 27,769 | 15,748 | 15,211 | 10,314 | 8,778 |
| Management fee income from unconsolidated joint ventures | 11,784 | 10,925 | 10,436 | 8,445 | 4,891 |
| Other fee income from unconsolidated joint ventures | 4,542 | 8,856 | 8,097 | 8,637 | 8,647 |
| Total operating revenues | 371,130 | 215,487 | 186,879 | 184,523 | 182,080 |
| Expenses: | | | | | |
| Recoverable from tenants | 96,531 | 52,562 | 43,065 | 44,333 | 44,464 |
| Other operating | 12,724 | 6,281 | 5,684 | 5,362 | 6,184 |
| General and administrative | 24,666 | 17,736 | 17,352 | 15,691 | 12,416 |
| Depreciation and amortization | 89,691 | 48,405 | 36,675 | 37,779 | 34,164 |
| Total operating expenses | 223,612 | 124,984 | 102,776 | 103,165 | 97,228 |
| | 147,518 | 90,503 | 84,103 | 81,358 | 84,852 |
| Other Income and Expense: | | | | | |
| Equity in earnings of unconsolidated joint ventures | 27,735 | 30,509 | 12,398 | 16,224 | 12,287 |
| Interest income | 11,518 | 7,440 | 4,048 | 4,868 | 2,605 |
| Gain on sale of joint venture interests | 9,191 | — | 6,420 | 18,370 | — |
| Interest expense, net | (76,636) | (48,156) | (53,731) | (55,710) | (49,498) |
| Loss on extinguishment of debt | (550) | (1,260) | (16,624) | (3,147) | (2,762) |
| Other income (expense) | (1,605) | (653) | (2,307) | (4,210) | (1,643) |
| Foreign currency exchange gains, net | 38,639 | 11,582 | — | — | — |
| Income Before Minority Interest and Discontinued Operations | 155,810 | 89,965 | 34,307 | 57,753 | 45,841 |
| Minority interest, including Series D preferred unit distributions | (33,591) | (27,761) | (13,312) | (23,341) | (18,618) |
| Income Before Discontinued Operations | 122,219 | 62,204 | 20,995 | 34,412 | 27,223 |
| Discontinued operations, net of minority interest | 93 | 271 | 247 | 8 | — |
| Net Income | 122,312 | 62,475 | 21,242 | 34,420 | 27,223 |
| Series B, C and E Preferred Stock dividends | (27,798) | (2,555) | — | — | — |
| Income Available To Common Stockholders | \$ 94,514 | \$ 59,920 | \$ 21,242 | \$ 34,420 | \$ 27,223 |

Selected Consolidated Financial Data

(In Thousands, Except Per Share Data)

| Years Ended December 31, | 2003 | 2002 | 2001 | 2000 | 1999 |
|--|---------------|-------------|-------------|-------------|-------------|
| Earnings Per Common Share — Basic: | | | | | |
| Income from continuing operations | \$ 2.09 | \$ 1.67 | \$ 0.83 | \$ 1.48 | \$ 1.18 |
| Discontinued operations | .01 | 0.01 | 0.02 | — | — |
| Income per common share | \$ 2.10 | \$ 1.68 | \$ 0.85 | \$ 1.48 | \$ 1.18 |
| Earnings Per Common Share — Diluted: | | | | | |
| Income from continuing operations | \$ 2.06 | \$ 1.65 | \$ 0.82 | \$ 1.47 | \$ 1.17 |
| Discontinued operations | .01 | 0.01 | 0.02 | — | — |
| Income per common share | \$ 2.07 | \$ 1.66 | \$ 0.84 | \$ 1.47 | \$ 1.17 |
| Dividends Paid Per Common Share (Unaudited): | | | | | |
| Ordinary income | \$ 1.08 | \$ 0.75 | \$ — | \$ 0.51 | \$ 0.97 |
| Capital gains | .15 | 0.12 | — | — | 0.02 |
| Return of capital | 1.01 | 1.31 | 2.12 | 1.54 | 1.00 |
| Dividends paid per common share | \$ 2.24 | \$ 2.18 | \$ 2.12 | \$ 2.05 | \$ 1.99 |
| Other Data: | | | | | |
| Cash flows provided by (used in): | | | | | |
| Operating activities | \$ 177,049 | \$ 93,387 | \$ 90,388 | \$ 78,386 | \$ 77,069 |
| Investing activities | \$(1,111,681) | \$(573,078) | \$(146,362) | \$(78,042) | \$(95,775) |
| Financing activities | \$ 871,214 | \$ 549,510 | \$ 54,903 | \$ 7,068 | \$ 11,231 |
| Mills LP Funds from operations ⁽¹⁾ | \$ 249,036 | \$ 167,781 | \$ 104,721 | \$ 101,785 | \$ 92,314 |
| Mills LP Funds from operations available to common stock and unit holders ⁽¹⁾ | \$ 220,567 | \$ 165,226 | \$ 104,721 | \$ 101,785 | \$ 92,314 |
| Diluted weighted average common shares outstanding | 45,785 | 36,355 | 25,491 | 23,338 | 23,293 |
| Diluted weighted average common shares and units outstanding | 61,549 | 52,982 | 41,508 | 39,166 | 39,137 |
| Portfolio Data (Including Unconsolidated Joint Ventures): | | | | | |
| Total Portfolio GLA at end of period | 32,586 | 20,400 | 18,261 | 17,047 | 16,679 |
| Number of properties at end of period | 26 | 17 | 16 | 14 | 22 |
| Balance Sheet Data: | | | | | |
| Investment in real estate assets (before accumulated depreciation) | \$3,491,038 | \$2,287,246 | \$1,552,692 | \$1,358,645 | \$1,236,471 |
| Total assets | 3,294,633 | 2,149,085 | 1,325,234 | 1,125,691 | 1,039,467 |
| Mortgages, notes and loans payable | 2,119,314 | 1,236,726 | 967,268 | 908,936 | 877,273 |
| Minority interest | 129,347 | 132,261 | 57,090 | 32,385 | 40,978 |
| Stockholders' equity | 854,778 | 544,273 | 96,740 | 47,934 | 60,027 |

(1) We consider Funds From Operations ("FFO") to be a widely used financial measure among equity REITs that may provide a relevant basis for comparison among REITs. As defined by the National Association of Real Estate Investment Trusts ("NAREIT"), FFO is "net income (computed in accordance with GAAP), excluding gains or losses from sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures will be calculated to reflect funds from operations on the same basis". For management analysis purposes, we adjust NAREIT defined FFO to exclude the effects of foreign currency exchange rate fluctuations reflected in net income arising primarily through the re-measurement process of translating foreign investment and advance accounts for inclusion in our U.S. dollar denominated accounts. Although we believe this adjustment presents FFO on a more comparable basis to FFO presented by other REITs, it is important to realize that our FFO computation may be significantly different from that used by other REITs and, accordingly, may, in fact, not be comparable. We offer this measure to assist the users of our financial statements in analyzing our performance; however, this is not a measure of financial performance under GAAP and should not be considered a measure of liquidity, an alternative to net income or an indicator of any other performance measure determined in accordance with GAAP. Investors and potential investors in our securities should not rely on this measure as a substitute for any GAAP measure, including net income. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Funds From Operations" contained elsewhere herein.

FORWARD-LOOKING STATEMENTS

Statements in this annual report that are not historical are "forward-looking statements." These forward-looking statements are based on current expectations and are not guarantees of future performance. Forward-looking statements, which can be identified by the use of forward-looking terminology such as "may," "will," "expect," "anticipate," "estimate," "would be" or "continue" or the negative thereof or other variations thereon or comparable terminology, are subject to certain risks, trends and uncertainties that could cause actual results to differ materially from those projected. Among those risks, trends and uncertainties are the general economic climate; the supply and demand for retail properties; interest-rate levels; fluctuations in the exchange rates between the U.S. Dollar and foreign currencies in countries where the Company has investments; the availability to the Company of financing for its development projects; and other risks associated with the development, acquisition and operation of retail properties, including risks that the development of a project may not be completed on schedule, that the Company may not be able to lease available space to tenants at favorable rental rates, that tenants will not take occupancy or pay rent in accordance with their leases, or that development or operating costs may be greater than anticipated, as well as those risks described in our annual report on Form 10-K for the year ended December 31, 2003 filed with the Securities and Exchange Commission. The reader is directed to the Company's various filings with the Securities and Exchange Commission, including its annual report on Form 10-K and quarterly reports on Form 10-Q and reports on Form 8-K filed with the Securities and Exchange Commission for a discussion of such risks and uncertainties.

Although The Mills Corporation believes the expectations reflected in any forward-looking statements are based on reasonable assumptions, the Company can give no assurance that their expectations will be attained and it is possible that actual results may differ materially from those indicated by these forward-looking statements due to a variety of risks and uncertainties. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

OVERVIEW

Except as otherwise required by the context, references to "we," "us," "our," and the "Company" refer to The Mills Corporation and its subsidiaries, including The Mills Limited Partnership, and reference to the "Mills LP" refer to The Mills Limited Partnership, of which The Mills Corporation is the sole general partner. The following discussion should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this report and the Critical Accounting Policies outlined at the end of this section. This discussion contains forward-looking statements about our business. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual

results could differ materially because of factors discussed in "Risk Factors" contained elsewhere in this report.

We are a fully integrated, self-managed real estate investment trust ("REIT") which engages in the ownership, development, redevelopment, leasing, acquisition, expansion and management of a portfolio of 26 retail and entertainment-oriented centers comprised of 15 Mills Landmark Centers, ten 21st Century Retail and Entertainment Centers and one International Retail and Entertainment Center. Through a subsidiary, we provide development, management, leasing and financial services to entities owned by our unconsolidated joint ventures.

EXECUTIVE SUMMARY

We are engaged in the development, acquisition and operation of retail and entertainment real estate. Our primary source of revenue is tenant leases and so it is both the opportunity and challenge of our business to provide an environment where consumers are drawn to our properties providing tenants the opportunity to achieve success through high sales volumes. Properly defining the market area and its demographics, along with evaluating trends in where and how people shop, are key elements in identifying sites that can be successfully developed.

The results of our operating properties are impacted by the supply and demand for retail space, the strength or weakness of consumer demand and the financial health of retail tenants. Management reviews the Funds From Operations ("FFO") of each property. Additional key measures we use to evaluate the performance of our operating properties are tenant sales volumes and sales per square foot, average rents, re-leasing spreads and occupancy rates.

FFO is a supplemental measure of operating performance used by management. It is also a metric widely used in our industry. FFO is a non-GAAP measure and should be considered by investors to be a supplemental measure to GAAP performance measures such as revenues, net income and earnings per share.

Interest rates are a critical factor in all facets of our business. Consistent with the real estate industry, we finance our projects with considerable debt so fluctuations in interest rates could have a significant impact on our results of operations. We attempt to mitigate our exposure to interest rate fluctuations by using long-term fixed rate or hedged to maturity debt on our stabilized properties and by hedging a significant portion of our floating rate debt.

In acquiring a property we evaluate the property's historical tenant sales levels, average rents and re-leasing spreads. We also consider our ability to add value to the property by enhancing the tenant mix, adding dining and entertainment options and/or expansion and redevelopment opportunities. Our ability to finance the investment with debt and/or to bring in a joint venture partner is also considered.

In 2002, we articulated a three-prong strategy of expanding beyond our Mills Landmark Centers to also focus on 21st Century

Retail and Entertainment Centers and International Retail and Entertainment Centers. During 2003, our historical development pipeline produced St. Louis Mills; but we also acquired nine properties for a total purchase price of \$1.3 billion and opened our first international project near Madrid, Spain. We anticipate additional projects in foreign countries. For foreign investments, we evaluate additional factors such as the ability to partner with local developers and financiers; the stability of the local economy; costs associated with foreign taxes; currency hedging strategies; statutory requirements; and local customs.

OPERATING PORTFOLIO DATA

As noted above, we evaluate a number of factors for our operating properties. For our operating portfolio, which includes our unconsolidated joint ventures, all such 2003 factors were positive when compared to 2002:

- Occupancy at comparable properties rose 70 basis points to 94.5%;
- Comparable same center tenant sales per square foot rose \$6 to \$332;
- Average rent per square foot rose \$2.21 to \$20.81; and
- Re-leasing spreads, excluding properties in the initial lease up period, increased 52.9% to \$12.14 for our anchor stores and 5.7% to \$28.78 for our in-line retailers.

Comparisons are made for properties that we have owned and/or have been open for at least two years. Re-leasing spreads also exclude properties that are in an initial lease-up phase since there are no comparative prior rents.

The improvements in all of the key operating metrics reflect the strength of consumer spending despite the overall lackluster performance of the U.S. economy in 2003 and the results of our remerchandising efforts. Tenant sales per square foot in excess of \$300 are generally viewed in our industry as an indication of a well performing retail project. The re-leasing spreads for anchor tenants illustrate that when leases terminate we are able to re-lease the space to successful retailers at higher rents but even more importantly to tenants that may do much higher sales volumes thereby attracting more consumers to our projects and benefiting all of the retailers at the project.

RESULTS OF OPERATIONS

In evaluating our results of operations on a consolidated basis from year-to-year, it is important to isolate the impact of properties opened, acquired or sold during either period. Since for our consolidated portfolio, over 90% of the increase in each property related line item is related to the growth in the portfolio, our discussion will focus on the portion of the increase or decrease related to our properties that we have owned and/or that have been open for at least two years ("Comparable Operations"). The acquisitions and developments are discussed in the Liquidity and

Capital Resources portion of this discussion.

The line items shown in the following tables are the items we think are important in understanding our operations and which had significant changes from year-to-year.

Comparison of the Years ended December 31, 2003 and 2002

The following table reflects key items from our audited statements of income (in millions):

| | 2003 | 2002 | % Change |
|--|----------------|----------------|---------------|
| Revenues: | | | |
| Property revenue | \$354.8 | \$195.7 | 81.3% |
| Management and other fee income | 16.3 | 19.8 | (17.7)% |
| Total operating revenues | \$371.1 | \$215.5 | |
| Operating Expenses: | | | |
| Property operating expenses | \$109.2 | \$ 58.9 | 85.4% |
| General and administrative expenses | 24.7 | 17.7 | 39.5% |
| Depreciation and amortization | 89.7 | 48.4 | 85.3% |
| Total operating expenses | \$223.6 | \$125.0 | |
| Gain on sale of joint venture interests | \$ 9.2 | \$ — | NA |
| Interest income | \$ 11.5 | \$ 7.4 | 55.4% |
| Interest expense, net | \$ 76.6 | \$ 48.2 | 58.9% |
| Foreign currency exchange gains, net | \$ 38.6 | \$ 11.6 | 232.8% |

Income before minority interest and discontinued operations increased \$65.8 million or 73.1% in 2003 primarily due to properties acquired in late 2002 and during 2003, properties developed and placed in service in late 2002 and during 2003, foreign currency exchange gains and gains from sales of joint venture interests in some of our properties.

Property revenue – property revenue increased \$159.1 million or 81.3% from 2002 to 2003. Of the increase 7.2%, or \$11.4 million, was contributed by our Comparable Operations and is attributable to a \$9.2 million increase in minimum rent. Nearly half of the increase in minimum rent was contributed by Mainstreet, our push cart operation. Other increases in minimum rent were due to increased occupancy, higher rents and a full year of rents for tenants that moved into centers late in 2002.

Management and other fee income – management and other fee income decreased \$3.5 million or 17.7% from 2002 to 2003. While management fee income rose from our larger portfolio of unconsolidated joint ventures, development fees decreased \$3.2 million in 2003 when compared to 2002. Development, leasing and financing fees are related to the timing of specific transactions and tend to have higher variability between periods.

Property operating expenses – property operating expenses, which includes recoverable from tenants and other operating, increased \$50.3, or 85.4%, from 2002 to 2003. Of the increase 5.8%, or \$2.9 million, was related to our Comparable Operations.

Management's Discussion and Analysis of Financial Condition and Results of Operations

General and administrative expenses – general and administrative expenses increased \$7.0 million or 39.5% from 2002 to 2003. Of the increase, \$6.2 million is attributable to strengthening the corporate staff in terms of size, experience and knowledge base to better manage the larger portfolio and the growing complexities of property acquisitions, international operations and our multi-faceted development opportunities.

Depreciation and amortization – depreciation and amortization increased 85.3%, or \$41.3 million, of which \$38.4 million is attributable to recently acquired and opened centers.

Gain on sale of joint venture interests – during 2003, we conveyed partnership interests in four properties realizing an aggregate gain of \$9.2 million.

Interest income, net – interest income, net increased \$4.1 million or 55.4% from 2002 to 2003. The increase is primarily attributable to interest earned on advances to Madrid Xanadú made late in 2002.

Interest expense – interest expense increased \$28.4 million or 58.9% from 2002 to 2003. New properties contributed \$35.2 million of additional interest expense while another \$3.8 million was incurred on our line of credit, which was utilized to fund advances to unconsolidated joint ventures and for development expenditures. Partially offsetting these increases was an increase in capitalized interest.

Gain on foreign currency transactions – gain on foreign currency transactions increased \$27.0 million or 232.8% from 2002 to 2003. The benefit results primarily from the strength of the Euro against the U.S. dollar. These gains result from re-measuring our investment and advance balances which are denominated in local currencies into the U.S. dollar for reporting purposes.

Unconsolidated Joint Ventures

The following table reflects key items from the combined condensed results of operations of our unconsolidated joint ventures (in millions):

| | 2003 | 2002 | % Change |
|------------------------|---------|---------|----------|
| Operating revenues | \$347.9 | \$278.8 | 24.8% |
| Operating expenses | \$216.2 | \$176.4 | 22.6% |
| Interest expense | \$108.8 | \$82.5 | 31.9% |
| Other income (expense) | \$12.1 | \$22.3 | (45.7)% |
| Our equity in earnings | \$27.7 | \$30.5 | (9.2)% |

Net income decreased \$8.2 million or 18.1% due primarily to lower land sales and the consolidation of Opry Mills following its acquisition in mid-2002, partially offset by increased net income from joint ventures acquired in 2003 and assets developed and placed in service in late 2002 and during 2003.

Operating revenues – operating revenues increased \$69.1 million or 24.8% from 2002 to 2003. The increase is primarily

attributable to recently acquired and opened unconsolidated joint ventures.

Operating expenses – operating expenses increased \$39.8 million or 22.6% from 2002 to 2003. The increase is primarily attributable to recently acquired and opened unconsolidated joint ventures.

Interest expense – interest expense increased \$26.3 million or 31.9% from 2002 to 2003. Almost half of the increase is attributable to the recently acquired and opened unconsolidated joint ventures. The other half is attributable to two construction loans that were refinanced in late 2002 with higher fixed rate permanent mortgage loans.

Other income (expense) – other income (expense) decreased \$10.2 million or 45.7% from 2002 to 2003. Higher land sales in 2002 coupled with start up costs at our Madrid Xanadú Snow Dome venture in 2003 account for \$8.0 million or 78.4% of the decrease.

Our equity in earnings – our equity in earnings decreased \$2.8 million or 9.2% from 2002 to 2003. The decrease is primarily attributable to the changes described above.

Comparison of the Years ended December 31, 2002 and 2001

The following table reflects key items from our audited statements of income (in million):

| | 2002 | 2001 | % Change |
|--|----------------|----------------|----------------|
| Revenues: | | | |
| Property revenue | \$195.7 | \$168.4 | 16.2% |
| Management and other fee income | 19.8 | 18.5 | 7.0% |
| Total operating revenue | \$215.5 | \$186.9 | |
| Operating Expenses: | | | |
| Property operating expenses | \$58.9 | \$48.7 | 20.9% |
| General and administrative expenses | 17.7 | 17.4 | 1.7% |
| Depreciation and amortization | 48.4 | 36.7 | 31.9% |
| Total operating expenses | \$125.0 | \$102.8 | |
| Gain on sale of joint venture interests | \$— | \$6.4 | NA |
| Interest income | \$7.4 | \$4.0 | 85.0% |
| Interest expense, net | \$48.2 | \$53.7 | (10.2)% |
| Loss on extinguishments of debt | \$1.3 | \$16.6 | (92.2)% |
| Foreign currency exchange gains, net | \$11.6 | \$— | NA |

Income before minority interest and discontinued operations increased \$55.7 million or 162.2% due primarily to recently acquired and opened properties as well as foreign currency exchange gains.

Property revenue – property revenue increased \$27.3 million or 16.2% from 2001 to 2002. The increase is primarily attributable to recently acquired and opened properties.

Property operating expenses – property operating expenses increased \$10.2 million or 20.9% from 2001 to 2002. Our

recently opened and acquired properties accounted for almost all of the increase.

Depreciation and amortization – depreciation and amortization increased \$11.7 million or 31.9% due primarily to recently acquired and opened properties.

Gain on sale of joint venture interests – in 2001, we sold 40% of one of our retail ventures and realized a gain of \$6.4 million.

Interest income – interest income increased \$3.4 million or 85.0% from 2001 to 2002. The increase is attributable to interest earned on advances to certain of our unconsolidated joint ventures, excess cash balances prior to the May 2002 acquisition of additional joint venture interests and tax increment financing associated with one of our development projects.

Interest expense – interest expense decreased \$5.5 million or 10.2% from 2001 to 2002. The decrease is attributable primarily to an overall decline in interest rates and lower average outstanding balances on our line of credit in 2002. These savings were partially offset by increases related to recently acquired properties and a full year of dividends paid on the Series A Convertible Preferred Stock which are classified as interest expense.

Loss on extinguishments of debt – loss on extinguishments of debt decreased \$15.3 million or 92.2% as the costs incurred to refinance a construction at one property in 2002 were substantially less than the costs incurred to refinance mortgages at two other properties in 2001.

Foreign currency exchange gains, net – foreign currency exchange gains, net, amounting to \$11.6 million, resulted from re-measuring investment and advance balances, which arose in 2002 and are denominated in local currencies, into U.S. dollars for reporting purposes.

Unconsolidated Joint Ventures

The following table reflects key items from the combined condensed results of operations of our unconsolidated joint ventures (in millions):

| | 2002 | 2001 | % Change |
|------------------------|---------|---------|----------|
| Operating revenues | \$278.8 | \$272.2 | 2.4% |
| Operating expenses | \$176.4 | \$175.3 | .6% |
| Interest expense | \$ 82.5 | \$ 90.2 | (8.5)% |
| Other income (expense) | \$ 22.3 | \$ 14.6 | 52.7% |
| Our equity in earnings | \$ 30.5 | \$ 12.4 | 146.0% |

Net income increased \$20.5 million or 83.0% due to lower interest expense as a result of a decrease in LIBOR and the impact of recently opened centers. These increases were partially offset by the consolidation of certain properties following our acquisition of the remaining third party interests.

Interest expense – interest expense decreased \$7.7 million or 8.5% from 2001 to 2002. The decrease was attributable primarily to the decline in LIBOR and the consolidation of certain properties following our acquisition of the remaining third party interests.

Other income (expense) – other income (expense) increased \$7.7 million or 52.7% due primarily to higher tax incremental financing income at one center and higher land sale gains.

Our equity in earnings – our equity in earnings increased \$18.1 million or 146.0% from 2001 to 2002. The increase is primarily attributable to the changes described above as well as the impact of increasing our interests in five joint venture properties in 2002.

FUNDS FROM OPERATIONS (“FFO”)

FFO is a widely recognized metric in the real estate industry, in particular, REITs. Accounting for real estate assets using historical cost accounting under GAAP assumes that the value of such assets diminishes predictably over time. The National Association of Real Estate Investment Trusts (“NAREIT”) stated in its April 2002 White Paper on Funds from Operations “since real estate asset values have historically risen or fallen with market conditions, many industry investors have considered presentations of operating results for real estate companies that use historical cost accounting to be insufficient by themselves.” As a result the concept of FFO was created by NAREIT. As defined by NAREIT, FFO is “net income (computed in accordance with GAAP), excluding gains or losses from sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures will be calculated to reflect funds from operations on the same basis”.

For management analysis purposes, we adjust NAREIT defined FFO to exclude the effects of foreign currency exchange rate fluctuations reflected in net income arising primarily through the re-measurement process of translating foreign investment and advance accounts for inclusion in our U.S. dollar financial statements. Although we believe this adjustment presents FFO on a more comparable basis to FFO presented by other REITs, it is important to realize that our FFO computation may be significantly different from that used by other REITs and, accordingly, may, in fact, not be comparable.

Management uses FFO to measure operating performance of our business and as one of several criteria to determine performance based bonuses. We offer this measure to assist the users of our financial statements in analyzing our performance; however, this is not a measure of financial performance under GAAP and should not be considered a measure of liquidity, an alternative to net income or an indicator of any other performance measure determined in accordance with GAAP. Investors and potential investors in our securities should not rely on this measure as a substitute for any GAAP measure, including net income.

The following, in millions, reconciles net income, which is considered to be the most comparable GAAP measure to FFO. We urge the users of our financial statements, including investors and potential investors in our securities, to carefully review the following reconciliation.

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| Years Ended December 31, | 2003 | 2002 | 2001 |
|---|----------|----------|---------|
| Net income | \$ 122.3 | \$ 62.5 | \$ 21.2 |
| Add: | | | |
| Depreciation and amortization | 86.6 | 46.1 | 34.5 |
| Equity in depreciation and amortization | 55.4 | 42.9 | 35.5 |
| Deduct: | | | |
| Gain on sale of real estate joint venture interests | (9.2) | — | — |
| Foreign currency exchange gains, net | (38.6) | (11.6) | — |
| Equity in foreign currency exchange (losses) gains, net | (1.1) | — | — |
| Minority interest's share of the above adjustments | (24.1) | (24.6) | (27.2) |
| FFO | \$ 191.3 | \$ 115.3 | \$ 64.0 |

(1) Assuming all of the convertible units of Mills LP, the operating partnership, were converted to common shares, the minority interest in partnership earnings would not be deducted in calculating FFO. The following, in millions, reconciles FFO as shown above to Mills LP FFO.

| Years Ended December 31, | 2003 | 2002 | 2001 |
|---|----------|----------|----------|
| FFO as shown above | \$ 191.3 | \$ 115.3 | \$ 64.0 |
| Add minority interest reflected as equity in Mills LP | 57.7 | 52.5 | 40.7 |
| Mills LP FFO | 249.0 | 167.8 | 104.7 |
| Preferred unit distributions | (28.4) | (2.6) | — |
| Mills LP FFO available to common unit holders | \$ 220.6 | \$ 165.2 | \$ 104.7 |
| Units convertible on a one-for-one basis to common shares at period end | 13.5 | 16.2 | 16.8 |

LIQUIDITY AND CAPITAL RESOURCES

Our short-term liquidity is derived primarily from tenant leases that generate positive net cash flow from operations and distributions from our unconsolidated joint ventures. There are currently no significant restrictions on distributions from our joint ventures. Net cash provided by operating activities was \$177.0 million for the year ended December 31, 2003. Distributions from joint ventures' were \$64.6 million for the year ended December 31, 2003. We anticipate that the net cash provided by operating activities and distributions from joint ventures will continue to be available to fund annual debt service payments, recurring capital expenditures and distributions to stock and unit holders. Our \$500.0 million line of credit is available to fund our cash needs, primarily our development and capital expenditures. At December 31, 2003, \$262.4 million was available under our line of credit.

At December 31, 2003, our balance of cash and cash equivalents was \$15.8 million, excluding restricted cash of \$37.5 million which is used to pay operating and capital expenditures of operating properties that serve as collateral for secured loan facilities, and excluding our proportionate share of cash held by unconsolidated joint ventures. In addition, at December 31, 2003, our consolidated joint ventures had combined cash and cash equivalents totaling \$119.2 million, excluding the joint ventures' restricted cash balances of \$40.5 million.

Capital Transactions

During the past three years, we completed a number of capital transactions that improved our balance sheet and overall liquidity. These transactions included construction loans, debt refinancing, common and preferred stock and unit issuances, and joint venture partner equity. The impact on our liquidity and balance sheet are highlighted by the following key ratios which are computed including our proportionate share of unconsolidated joint venture operations and debt:

| Years Ended December 31, | 2003 | 2002 | 2001 |
|--|---------|---------|---------|
| Coverage Ratios: | | | |
| Interest coverage ratio | 3.6 | 3.5 | 2.5 |
| Fixed charge ratio | 2.6 | 2.7 | 2.5 |
| Leverage Ratio: | | | |
| Debt to market capitalization ratio | 50.3% | 49.5% | 55.0% |
| Debt Indicators: | | | |
| Weighted average maturity (in years) | 4.5 yrs | 5.9 yrs | 5.8 yrs |
| Weighted average interest rate | 5.6% | 6.5% | 6.8% |
| Fixed rate debt percentage | 59.0% | 82.8% | 83.4% |
| Fixed rate debt percentage, including swaps* | 80.3% | 96.7% | 83.4% |

* Includes swaps in place through December 31st of the year following the period presented

Financing Activities

Net cash provided by financing activities was \$871.2 million for the year ended December 31, 2003. In addition, during 2003 our unconsolidated joint ventures completed a number of financing transactions. The following sections provide greater detail of the debt and equity transactions that provided cash during 2003.

Debt Transactions

In December, The Block at Orange loan was refinanced with an interest-only \$135.0 million mortgage loan. The loan bears interest at LIBOR plus 1.32%. As of December 31, 2003, interest has been fixed at approximately 6.50% through May 2006. The loan has an original maturity in 2006 but we intend to exercise its option to extend the maturity date for three one-year terms.

In December, the Marketplace at Arundel construction loan was refinanced with a \$12.4 million mortgage loan. The new loan bears interest at 5.92% and is amortizing on a 30-year schedule with a balloon payment due in 2014.

In August, in connection with the acquisition of the Great Mall of the Bay Area, we obtained a \$175.0 million mortgage loan which bears interest at 4.08%. The loan is interest-only through maturity in 2008.

In June, we refinanced and increased our unsecured revolving line of credit from \$175.0 million to \$500.0 million. The line of credit matures in 2006 and bears interest at LIBOR plus 1.50% to 2.50% depending on certain performance measures. Funds are available subject to compliance with the performance measures and certain restrictive covenants, with which we were in compliance at December 31, 2003.

In June, in connection with the acquisition of Del Amo Fashion Center we obtained a mortgage loan of \$316.0 million. The loan bears interest at LIBOR plus 2.40%, matures in 2006 and has two one-year extension options. The loan was componentized into senior and junior notes. We purchased \$29.0 million of the junior notes effectively reducing the outstanding principal to \$287.0 million and the average interest rate to LIBOR plus 2.06%. Interest on a notional amount of \$190.0 million has been fixed through December 2004 at 4.07% due to an interest rate swap. Additionally, interest on a notional amount of \$100.0 million has been fixed from December 2004 to December 2005 at 5.87%.

In May, a construction loan with a total commitment of \$242.4 million (€193.0 million) that was obtained for Madrid Xanadú began funding. As of December 31, 2003, \$232.0 million was drawn on the loan. A portion of the loan was used to repay intercompany advances resulting in the realization of a substantial portion of our foreign currency exchange gain. The loan bears interest at EURIBOR plus 1.55%, matures in 2006 and has two one-year extension options. The loan is fully guaranteed by us. The guaranty may be reduced with the achievement of certain performance measures.

In May, we refinanced the Arundel Mills construction loan with a \$187.0 million mortgage loan. The loan bears interest at 4.61% through maturity in 2010 and is interest-only. We have a one-time right to borrow up to an additional \$40.0 million in mezzanine debt provided certain terms and conditions are satisfied. The pricing for the additional mezzanine debt will be subject to market conditions at the time of borrowing.

In May, we obtained a construction loan with a total commitment of \$162.0 million for St. Louis Mills. As of December 31, 2003, \$111.1 million was drawn on the loan. The loan bears interest at LIBOR plus 1.95%, matures in 2006 and has two one-year extension options. The loan is fully guaranteed by us. The guaranty may be reduced with the achievement of certain performance measures.

In May, we assumed two fixed rate loans in connection with the acquisition of 50% interests in Town Center at Cobb and Gwinnett Place. The loans had a combined outstanding balance of \$230.6 million at December 31, 2003, with one bearing interest at 7.54% and the other at 7.25%. The loans are cross-collateralized, amortizing on a 30-year schedule with balloon payments due in 2007.

In January, in connection with the Cadillac Fairview Portfolio acquisition, we obtained a \$320.0 million mortgage loan. The loan is secured by Dover Mall, Dover Commons, Galleria at White Plains, Northpark Mall and The Esplanade. It bears interest at LIBOR plus 2.10%, matures in 2006 and has two one-year extension options. Interest on a notional amount of \$245.0 million is fixed at 4.17% due to an interest rate swap through February 2005.

In January, we assumed a \$62.0 million mortgage loan secured by Broward Mall. The loan bears interest at 5.34%

through maturity in 2009. Principal payments of \$1.5 million are due in 2004 and 2005, with principal payments of \$2.0 million due in 2006, 2007 and 2008.

Equity Transactions

We have an effective shelf registration statement on Form S-3 on file with the SEC. Pursuant to the registration statement, as of December 31, 2003, we may issue up to an aggregate of approximately \$522.0 million of any combination of common stock and/or common stock warrants, preferred stock, or preferred stock represented by depositary shares.

In May, October and November, we sold an aggregate of 8,545,000 shares of 8.75% Series E Cumulative Redeemable Preferred stock in public offerings generating net proceeds of \$210.5 million.

In October and November, all of our Series A Convertible Redeemable Preferred Stock totaling \$75.0 million was converted into 3,153,368 shares of our common stock.

In March, we sold 400,000 units of Series D Cumulative Redeemable Preferred Units in a private placement to two individual investors generating net proceeds of \$10.0 million.

In January, we sold 100,000 shares of Series C Cumulative Redeemable Preferred Stock in a public offering generating net proceeds of \$2.5 million.

Investing Activities

In January 2004, we acquired Westland Mall near Miami, Florida for \$78.8 million.

Net cash used in investing activities during 2003 was \$1,111.7 million. Our unconsolidated joint ventures also invested in development costs and capital expenditures. The following sections provide greater detail of the acquisition and investing activities that used cash during 2003.

Acquisitions

In August, we acquired the Great Mall of the Bay Area located in Silicon Valley, CA for an aggregate purchase price of \$265.5 million. The mall contains 1.3 million square feet of GLA. In December, we conveyed an approximately 50% interest in this property to Kan Am Grund Kapitalanlagesellschaft mbH for \$47.2 million.

In June, we acquired the Del Amo Fashion Center located in the South Bay submarket of Los Angeles, CA for an aggregate purchase price of \$442.0 million. The center contains approximately 2.5 million square feet of GLA. We anticipate undertaking a major renovation and expansion of this project beginning in 2004.

In May, we acquired 50% interests in Town Center at Cobb and Gwinnett Place for \$62.5 million. The centers contain 2.6 million square feet of GLA. This transaction was related to the acquisition of the Cadillac Fairview Portfolio.

In January, we acquired five shopping centers from Cadillac Fairview for \$532.0 million. The five properties contain 4.6 million

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square feet of GLA (including 2.5 million square feet owned by anchor tenants). The Cadillac Fairview Portfolio is comprised of Broward Mall located in Ft. Lauderdale, FL, Dover Mall located in Dover, DE, The Esplanade located in New Orleans, LA, Galleria at White Plains located in White Plains, NY, and Northpark Mall located in Jackson, MS. We also acquired 110 acres of developable land adjacent to the centers for \$7.9 million.

Dispositions

In August, we conveyed to Kan Am an additional 6.375% partnership interest in each of the Arundel Mills, Concord Mills and Grapevine Mills projects for proceeds of \$28.1 million. The interests conveyed represent a portion of the interests we acquired from Simon Property Group in May 2002.

Projects Opened

We opened two projects during 2003, including our first international project, with an aggregate of 2.5 million square feet.

St. Louis Mills – St. Louis, MO: On November 13th, we opened the 1.1 million square foot center with 200 specialty and outlet retailers, including 12 anchor stores, casual dining and entertainment options. This \$199.0 million project was funded with equity from Kan Am and us and the \$162.0 million construction loan described above. Anchor tenants include Off 5th - Saks Fifth Avenue, Bed Bath & Beyond, Marshalls Mega Store, Burlington Coat Factory, Books-A-Million, and Circuit City. The entertainment offerings include Regal Cinemas, NASCAR SpeedPark and Ice ZONE, the practice home of the St. Louis Blues.

Madrid Xanadú – Madrid, Spain: On May 16th, we opened the 1.4 million square foot center with 15 anchors including El Cortes Ingles, Spain's premier department store, as well as 200 international retailers including Sweden's H&M, Italy's Benetton and Spain's Zara. The center also features the Snow Dome, a 17-story indoor ski and snow boarding slope. We have invested \$132.7 million in the project. The project was developed by two joint ventures between us and Parcelatoria De Gonzalo Chacon S.A. ("PGC"). We own 66.7% of the joint venture that owns the mall and 33.3% of the joint venture that owns the Snow Dome.

We are also party to an agreement with PGC that has certain put/call provisions relating to PGC's interest, that include, among other things, the right of PGC to require us to purchase its interest in the mall joint venture for \$44.0 million (€35.0 million), which price may be adjusted upward depending on the stabilized performance of the project.

Projects Under Construction

We currently have three projects under construction, which we expect will have an aggregate of approximately 3.7 million square feet of GLA upon completion. Estimated total development cost for these projects is \$534.0 million.

Cincinnati Mills – Cincinnati, OH: We are redeveloping the mall and anticipate a grand re-opening in August 2004. The estimated project cost is \$137.0 million, the majority of which

is being funded by a \$122.0 million construction loan obtained in February 2004. The loan matures in 2007 and bears interest at LIBOR plus 2.00%. Utilizing swaps, the interest rate is fixed at 4.42% on a notional amount of \$57.0 million through November 2004 and at 5.88% from December 2004 through October 2006.

Vaughan Mills – Toronto, Canada: We are developing this center jointly with Ivanhoe Cambridge, a shopping center developer based in Montreal, Canada. The estimated project cost is \$223.0 million (C\$289.0 million) the majority of which is being funded by a \$143.0 million (C\$190.0 million) construction loan obtained in March 2004. The construction loan was provided by an affiliate of Ivanhoe Cambridge. The loan bears interest at CDOR plus 2.25% and matures in 2006 with a one-year extension option. The loan is fully guaranteed by the co-owners on a several basis. We and Ivanhoe Cambridge each own an undivided 50% interest in the project as tenants in common. Each party has funded \$35.0 million, its share of the required equity, and will receive its proportionate share of all revenues from the project and be responsible to fund its proportionate share of all expenses. At any time after the fourth anniversary of the opening of the project, either co-owner may exercise a buy-sell provision.

Pittsburgh Mills – Pittsburgh, PA: We are building an estimated 1.1 million square foot center on 313 acres of land in Frazer, Pennsylvania. The project is being developed by a joint venture that includes Kan Am, AV Associates and us. We have a 37.5% capital contribution percentage and a 56.3% residual sharing interest in the joint venture. The estimated project cost of \$174.0 million is expected to be funded by capital contributions from Kan Am and us amounting to \$63.4 million, contribution of the land by AV Associates and construction financing. As of December 31, 2003, we had invested \$22.3 million and Kan Am had contributed \$25.0 million to the project. We anticipate closing a construction loan in the fourth quarter of 2004.

Projects Under Development

In addition to the three projects under construction, we are actively pursuing the development of other projects. These projects are at various stages of the due diligence process during which we determine site/demographic viability, negotiate tenant commitments and work through the third-party approval processes. Generally, we will not begin construction until we have completed our due diligence process and obtained pre-leasing commitments. While we currently believe these projects will ultimately be completed, we cannot assure you that they will actually be constructed or that they will have any particular level of operational success or ultimate value.

Meadowlands Xanadu – East Rutherford, NJ: In December, we executed a development agreement with the New Jersey Sports and Exhibition Authority ("NJSEA") pursuant to which we will redevelop the Continental Arena site. We with Kan Am also formed a joint venture with Mack-Cali Realty Corporation, a leading owner and manager of class A office properties located primarily in the Northeast US ("Mack-Cali"). Our joint venture has

also teamed with the New York Giants football organization. We are working with the NJSEA and other parties to finalize a ground lease for the site, are pursuing approvals and permits and plan to begin construction by the third quarter of 2004. Upon receiving approvals and permits, the joint venture is required to pay an initial deposit on the ground lease totaling \$160.0 million.

Upon completion, Meadowlands Xanadu will be a family entertainment and recreation complex with five themed zones, four office buildings and a 520-room conference hotel and exhibition facility totaling 4.8 million square feet. As of December 31, 2003, we had invested \$144.0 million, including capitalized interest, Kan Am had invested \$24.0 million and Mack-Cali had invested \$0.9 million. Approximately \$72.0 million of the amount we have invested is an advance. The Meadowlands Mills Limited Partnership gives Kan Am the right to require us to redeem its interest in the joint venture if a construction loan had not been obtained by June 30, 2005.

In conjunction with the formation of the Meadowlands Mills Limited Partnership, we acquired a mortgage interest in the 587-acre Empire Tract, which is adjacent to the Continental Arena site. In connection with the development agreement with NJSEA, we expect to convey the Empire Tract to the State of New Jersey.

We currently have four additional projects under development in which we had invested \$31.0 million as of December 31, 2003, excluding allocation of a portion of the Del Amo Fashion Center purchase price.

Del Amo Fashion Center – Los Angeles, CA: Our redevelopment plan includes the addition of new department store anchors, the introduction of tenants with higher price points than many of the property's current tenants and the demolition of the vacant wing formerly anchored by Montgomery Ward, which will be replaced by an open-air retail and entertainment wing. We anticipate selling a parcel of land to a residential developer who intends to build a multifamily building on the site.

108 North State Street – Chicago, IL: In June 2002, we were selected by the City of Chicago to negotiate the development of Block 37 (108 North State Street), a key city block opposite the Marshall Fields department store in downtown Chicago, as a mixed-use project including retail, office, residential, hotel and transportation uses. Negotiations for this project are ongoing.

San Francisco Piers 27-31 – San Francisco, CA: In April 2001, the San Francisco Port Commission awarded us the exclusive right to negotiate a long-term lease on Piers 27-31 on the San Francisco waterfront by which to develop a full-priced mixed-use retail, office, entertainment and recreation project. These negotiations are ongoing. Concurrently, entitlements at the state and local level are proceeding.

Sawgrass Mills – Ft. Lauderdale, FL: At Sawgrass Mills our redevelopment program will incorporate improved lighting, painting and directional signage. We also are planning the addition of an open-air wing.

In addition to the projects discussed above, we are conducting due diligence on several other proposed sites for future projects, including Cleveland, OH, Woodbridge, VA, Boston, MA,

Tampa, FL, and San Francisco, CA. We are also reviewing other potential international development opportunities. For example, in Spain, we are exploring follow-on opportunities for sites in and around Seville, Bilbao, Valencia and Barcelona. In addition, we are pursuing an opportunity in Glasgow, Scotland, and in Italy, our efforts are concentrated on several well-located sites in Milan, suburban Florence and Rome.

Strategic Relationships

Kan Am: We have a long-standing relationship with Kan Am and its affiliates. Kan Am currently manages over \$6.3 billion for approximately 21,000 German investors. Since 1994, Kan Am has invested over \$860.0 million of equity in our various projects. To date, Kan Am has always funded its agreed upon level of capital. As of December 31, 2003, Kan Am also owned 7.7% of the partnership units of Mills LP.

Ivanhoe Cambridge: We have a master agreement with Ivanhoe Cambridge, pursuant to which we have agreed to jointly acquire, develop, construct, own and operate Mills Landmark Centers in four provinces of Canada as well as one or more Block projects throughout Canada. This agreement extends through December 31, 2005.

Future Capital Requirements

We will need equity and debt capital to fund our development projects going forward. Access to capital is dependent upon many factors outside of our control. We believe that we will have the capital and access to additional capital resources sufficient to expand and develop our business and to complete the projects currently under development. If the necessary capital cannot be obtained, our immediate and long-term development plans could be curtailed.

Off Balance Sheet Arrangements

As of December 31, 2003, our material off-balance sheet commitments were as follows:

- We had unused capacity under our line of credit totaling \$262.4 million which is available to be used to fund acquisitions, developments, redevelopments and other working capital needs.
- We had provided letters of credit totaling \$16.2 million, of which \$10.0 million relates to Meadowlands Xanadu and \$5.6 million relates to Vaughan Mills. As of December 31, 2003, no amounts had been drawn on the letters.
- We had guaranteed \$610.8 million of our unconsolidated joint venture debt, which will be reduced as certain performance criteria are met. We generally guarantee our share of any construction loan and our joint venture partners' share of the construction loan until permanent financing is obtained.
- Kan Am has the right to require the Mills-Kan Am Pittsburgh Limited Partnership to redeem its interest if, among other things, the closing and initial funding of the construction loan

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and receipt of certain public financings have not occurred by June 30, 2005 or 12 months following the date Kan Am has fully contributed its required equity to the joint venture. The redemption obligation is guaranteed by us. As of December 31, 2003, Kan Am had contributed \$25.0 million of its estimated required equity of \$31.7 million.

- The Meadowlands Mills joint venture had guaranteed the return of Kan Am's capital contribution to the Meadowlands Mills joint venture totaling \$24.0 million, if a construction loan is not obtained by June 30, 2005. Beginning on the "Project Commencement Date", which is a date on which certain material contingencies have been satisfied, we will guarantee the return of Kan Am's capital contribution upon Kan Am's exercise of its redemption right, which may occur prior to securing the construction loan.
- We generally guarantee a 9% preferred return on Kan Am's equity balance in our unconsolidated joint ventures until permanent financing is obtained.

Contractual Obligations

The table below summarizes projected payments due under our contractual obligations, in millions, as of December 31, 2003:

| | Total | Less Than One Year | One to Three Years | Three to Five Years | Over Five Years |
|--|------------|-----------------------|-----------------------|------------------------|--------------------|
| Debt obligations | \$ 2,117.6 | \$ 37.6 | \$ 662.0 | \$ 926.0 | \$ 492.0 |
| Capital lease obligation | \$ 1.7 | \$ 1.2 | \$.5 | \$ — | \$ — |
| Operating lease obligations | \$ 9.1 | \$ 3.6 | \$ 5.5 | \$ — | \$ — |
| Capital expenditure commitments ⁽¹⁾ | \$ 51.2 | \$ 51.2 | \$ — | \$ — | \$ — |

(1) We expect a substantial portion of our capital expenditures to be financed by construction loans. In the first quarter of 2004 we obtained a construction loan which reduces capital expenditure commitments by \$15.0 million for the period less than one year.

The table below summarizes our proportionate share of projected payments due under the contractual obligations of our unconsolidated joint ventures, in millions, as of December 31, 2003:

| | Total | Less Than One Year | One to Three Years | Three to Five Years | Over Five Years |
|--|------------|-----------------------|-----------------------|------------------------|--------------------|
| Debt obligations ⁽¹⁾ | \$ 1,126.9 | \$ 53.7 | \$ 328.7 | \$ 390.0 | \$ 354.5 |
| Capital lease obligation | \$ 12.0 | \$ 3.5 | \$ 5.5 | \$ 3.0 | \$ — |
| Capital expenditure commitments ⁽²⁾ | \$ 50.3 | \$ 50.3 | \$ — | \$ — | \$ — |

(1) Amount guaranteed by us: \$ 610.8 \$ 169.0 \$ 423.8 \$ 3.0 \$ 15.0

(2) We expect a substantial portion of our capital expenditures to be financed by construction loans. In the first quarter of 2004 we obtained a construction loan which reduces capital expenditure commitments by \$18.0 million for the period less than one year.

CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are described in detail in Note 2 of the Notes to Financial Statements contained elsewhere in this report. The following briefly describes those accounting policies that we believe are most critical to understanding our business and the preceding discussion and analysis:

- Minimum rent from income producing properties is recognized on a straight-line basis over the terms of the respective leases and includes amortization of deferred revenue resulting from acquired leases. Percentage rent is recognized when tenants' sales have reached certain sales levels as specified in the underlying lease. Recoveries from tenants for real estate taxes and other operating expenses are recognized as revenue in the period the applicable costs are incurred.
- In order to maintain our status as a REIT, we are required to distribute 90% of our taxable income in any given year and meet certain asset and income tests in addition to other requirements. We monitor our business and transactions that may potentially impact our REIT status. If we fail to meet our REIT status, then we would be required to pay federal income taxes at regular corporate rates for a period of four additional years before we could reapply for REIT status.
- The cost of acquired income producing property represents the allocation of purchase price to such assets based on appraisals and other valuation methods used in accounting for the acquisition and includes, if material, an allocation to identifiable intangible assets such as above/below market leases and at market leases in place at date of acquisition

based on their fair values. External costs directly related to acquisition opportunities we are actively pursuing are capitalized. If we are successful in completing the acquisition, such costs are allocated to the acquired property as part of the purchase price. If not, such costs are expensed in the period it becomes likely the acquisition will not be completed.

- Income producing properties are individually evaluated for impairment when various conditions exist that may indicate that it is probable that the sum of expected undiscounted future cash flows from a property are less than its historical net cost basis. Upon determination that a permanent impairment has occurred, we record an impairment charge equal to the excess of historical cost basis over fair value. In addition, we write off costs related to predevelopment projects when we determine that we will no longer pursue the project.
- Equity in the income or loss of joint ventures is recorded on the equity method of accounting based on an estimate of each partner's economic ownership. Economic ownership is determined based on anticipated stabilized cash flows that would be distributed to each partner.
- The functional currency for entities operating or projects in development outside the United States is the currency of the country in which the entity or project is located. The financial statements of such entities are translated from the functional currency into U.S. dollars for inclusion in our financial statements. In addition, our foreign investment and related advances are denominated in the foreign entity's functional currency and re-measured to our functional currency of the U.S. dollar. We expect to settle these amounts in the foreseeable future through distributions from the foreign entity. Accordingly, gains or losses resulting from the re-measurement are included in the determination of net income.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the normal course of business, we and our joint ventures are exposed to the effect of interest rate changes. To limit this exposure, established risk management policies and procedures including the use of a variety of derivative financial instruments to manage, or hedge, interest rate risk are followed. Derivative instruments are not used for speculative purposes. Derivative instruments used for hedging must be effective in reducing the interest rate risk exposure. Changes in the hedging instrument's fair value related to the effective portion of the risk being hedged are included in accumulated other comprehensive income (loss).

Hedge effectiveness criteria also require that it be probable that the underlying transaction occurs. Hedges that meet these criteria are formally designated as cash flow hedges at the inception of the derivative contract. When the terms of an underlying transaction are modified, or when the underlying hedged item ceases to exist, the change in the fair value of the derivative instrument is marked to market with the change included in net income in each period until the derivative instrument matures. Additionally, any derivative instrument used for risk management that becomes ineffective is marked to market through earnings.

Depending on the underlying exposure, interest rate swaps, caps and floors, options, forwards or a combination thereof, may be used to manage interest rate risk. Interest rate swaps and collars are contractual agreements with third parties to exchange fixed and floating interest payments periodically without the exchange of the underlying principal amounts (notional amounts). In the unlikely event that a counterparty fails to meet the terms of an interest rate swap contract or collar agreement, the exposure is limited to the interest rate differential on the notional amount. We do not anticipate non-performance by any of our counterparties. Net interest differentials to be paid or received under a swap contract and/or collar agreement are accrued as interest expense as incurred or earned.

Interest rate hedges designated as cash flow hedges hedge the future cash outflows on debt. Interest rate swaps that convert variable payments to fixed payments, interest rate caps, floors, collars and forwards are cash flow hedges. The unrealized gains/losses in the fair value of these hedges are reported on the balance sheet and included in accounts payable and other liabilities or in investment in unconsolidated joint ventures (for joint venture hedges) with a corresponding adjustment to either accumulated other comprehensive income (loss) or earnings depending on the hedging relationship. If the hedging transaction is a cash flow hedge, then the offsetting gains/losses are reported in accumulated other comprehensive income to the extent of the effective portion of the risk being hedged. Changes in the hedging instrument's fair value related to the effective portion of the risk being hedged are included in accumulated other comprehensive income (loss). Changes in fair value representing (a) the ineffectiveness of the hedging relationship and (b) any other component of fair value not related to the risk being hedged are recorded as interest expense through earnings. Some derivative instruments are associated with the hedge of an anticipated transaction. Over time, the unrealized gains/losses held in accumulated other comprehensive income (loss) will be recognized in earnings consistent with when the hedged items are recognized in earnings.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following summarizes the interest rate swaps we and our joint ventures have currently entered into to hedge the variability of monthly cash outflows due to the variability in LIBOR. The swaps require us to receive LIBOR and pay a fixed rate. A summary

of the current and deferred start swap terms of the derivative instruments, a reconciliation of their fair values and adjustments to accumulated other comprehensive loss are as follows (dollars in thousands):

| | Wholly Owned | Joint Ventures |
|---|----------------------|----------------------|
| Hedge type | Cash Flow | Cash Flow |
| Description | Swap | Swap |
| Range of notional amounts | \$35,000 – \$245,000 | \$30,000 – \$129,701 |
| Range of interest rate | 1.67 – 4.14% | 1.29 – 5.35% |
| Range of deferred effective start dates | 12/1/04 – 12/15/04 | None |
| Range of maturity dates | 6/7/04 – 10/10/07 | 4/1/04 – 5/1/06 |
| Accumulated other comprehensive loss at December 31, 2002 | \$(10,445) | \$(15,152) |
| Change in fair value | (1,345) | 4,192 |
| Accumulated other comprehensive loss at December 31, 2003 | \$(11,790) | \$(10,960) |

The following disclosures of estimated fair value were determined by management, using available market information and appropriate valuation methodologies. Considerable judgment is necessary to interpret market data and develop estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts we could realize on disposition of the financial instruments. The use of different market assumptions and/or estimation methodologies could have a material effect on the estimated fair value amounts.

Disclosure about fair value of financial instruments is based on pertinent information available to management at December 31, 2003 and 2002. Although management is not aware of any

factors that would significantly affect the reasonable fair value amounts, such amounts have not been comprehensively revalued for purposes of these consolidated financial statements since December 31, 2003, and current estimates of fair value may differ significantly from the amounts presented herein.

The following table, in millions of dollars, presents principal cash flows and related weighted average interest rates by expected maturity dates, including the effect of interest rate swaps currently in effect, for our consolidated mortgages, notes and loans payable that may be sensitive to changes in interest rates as of December 31, 2003.

| | Fixed Rate | Average Interest Rate | Variable Rate | Average Interest Rate |
|---|------------|-----------------------|---------------|-----------------------|
| 2004 | \$ 12.7 | 7.70% | \$ 26.1 | 3.51% |
| 2005 | 13.7 | 7.43% | 30.4 | 4.27% |
| 2006 | 297.7 | 7.19% | 320.7 | 4.05% |
| 2007 | 309.9 | 6.33% | — | —% |
| 2008 | 9.1 | 7.25% | 607.0 | 3.92% |
| Thereafter | 492.0 | 7.30% | — | —% |
| Total | \$1,135.1 | 7.01% | \$984.2 | 3.96% |
| Estimated Fair Value at December 31, 2003 | \$1,210.4 | | \$984.2 | |

At December 31, 2002 the Company had fixed rate debt aggregating \$1,071.1 million with an estimated fair value of \$1,161.1 million and variable debt totaling \$165.6 million which approximated its fair value.

Foreign Currency Risk

We are exposed to foreign currency exchange risk related to our foreign joint venture investments and advance balances that are denominated in the foreign currency of the investment and

thus require re-measurement into the U.S. dollar. The exposure to foreign currency exchange risk related to translating the income and expenses of our equity investments is minimal due to the fact that most transactions occur in the functional currency of that entity. We currently have not hedged the foreign joint venture investments and advance balances. A 10% change in foreign currency exchange rates would have resulted in an approximate impact of \$17.7 million to income before minority interest for the year ended December 31, 2003.

Report of Independent Auditors

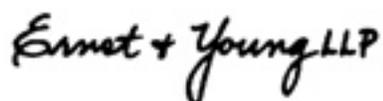
BOARD OF DIRECTORS THE MILLS CORPORATION

We have audited the accompanying consolidated balance sheets of The Mills Corporation as of December 31, 2003 and 2002 and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2003. These consolidated financial statements are the responsibility of the management of The Mills Corporation. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Mills Corporation as of December 31, 2003 and 2002, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States.

As discussed in the Notes to the Consolidated Financial Statements, in 2002 the Company changed its method of accounting for stock-based compensation plans, and in 2001 changed its method of accounting for certain derivative instruments.

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style font.

McLean, Virginia
February 16, 2004

Consolidated Balance Sheets

(In Thousands, Except Per Share Data)

| December 31, | 2003 | 2002 |
|---|---------------------|--------------------|
| Assets | | |
| Income producing property: | | |
| Land and land improvements | \$ 420,181 | \$ 246,273 |
| Building and improvements | 1,883,230 | 1,133,779 |
| Furniture, fixtures and equipment | 60,674 | 54,250 |
| Accumulated depreciation and amortization | (411,100) | (344,440) |
| Net income producing property | 1,952,985 | 1,089,862 |
| Land held for investment and/or sale | 12,039 | 11,531 |
| Construction in progress | 292,290 | 103,278 |
| Real estate assets held for disposition, net | — | 61,748 |
| Investment in unconsolidated joint ventures | 822,624 | 676,387 |
| Net real estate and development assets | 3,079,938 | 1,942,806 |
| Cash and cash equivalents | 15,777 | 79,195 |
| Restricted cash | 37,484 | 28,600 |
| Accounts receivable, net | 76,910 | 40,550 |
| Notes receivable | 25,675 | 23,650 |
| Deferred costs and other intangibles, net | 47,792 | 9,863 |
| Other assets | 11,057 | 24,421 |
| Total Assets | \$ 3,294,633 | \$2,149,085 |
| Liabilities and Stockholders' Equity | | |
| Mortgages, notes, and loans payable | \$ 2,119,314 | \$ 1,236,726 |
| Liabilities on real estate held for disposition | — | 55,620 |
| Accounts payable and other liabilities | 191,194 | 105,205 |
| | 2,310,508 | 1,397,551 |
| Minority interest | 129,347 | 132,261 |
| Series A Cumulative Convertible Preferred Stock, par value \$0.01, 750,000 shares authorized, issued and outstanding in 2002 | — | 75,000 |
| Series B Cumulative Redeemable Preferred Stock, par value \$0.01, 4,300,000 shares authorized, issued and outstanding in 2003 and 4,600,000 shares authorized and 4,300,000 shares issued and outstanding in 2002 | 107,500 | 107,500 |
| Series C Cumulative Redeemable Preferred Stock, par value \$0.01, 3,500,000 shares authorized, issued and outstanding in 2003 and 3,450,000 shares authorized and 3,400,000 shares issued and outstanding in 2002 | 87,500 | 85,000 |
| Series E Cumulative Redeemable Preferred Stock, par value \$0.01, 8,545,000 shares authorized, issued and outstanding in 2003 | 213,625 | — |
| Common stock, par value \$0.01, 100,000,000 shares authorized, 50,297,623 and 43,196,297 shares issued and outstanding in 2003 and 2002, respectively | 503 | 432 |
| Additional paid-in capital | 930,965 | 822,168 |
| Accumulated deficit | (461,719) | (450,898) |
| Accumulated other comprehensive loss | (14,772) | (14,353) |
| Deferred compensation | (8,824) | (5,576) |
| Total stockholders' equity | 854,778 | 544,273 |
| Total Liabilities and Stockholders' Equity | \$ 3,294,633 | \$2,149,085 |

See Accompanying Notes to Consolidated Financial Statements

Consolidated Statements of Income

(In Thousands, Except Per Share Data)

| Years Ended December 31, | 2003 | 2002 | 2001 |
|--|------------------|------------------|------------------|
| Revenues: | | | |
| Minimum rent | \$ 213,683 | \$ 119,568 | \$ 100,642 |
| Percentage rent | 5,636 | 2,267 | 1,518 |
| Recoveries from tenants | 107,716 | 58,123 | 50,975 |
| Other property revenue | 27,769 | 15,748 | 15,211 |
| Management fee income from unconsolidated joint ventures | 11,784 | 10,925 | 10,436 |
| Other fee income from unconsolidated joint ventures | 4,542 | 8,856 | 8,097 |
| Total operating revenues | 371,130 | 215,487 | 186,879 |
| Expenses: | | | |
| Recoverable from tenants | 96,531 | 52,562 | 43,065 |
| Other operating | 12,724 | 6,281 | 5,684 |
| General and administrative | 24,666 | 17,736 | 17,352 |
| Depreciation and amortization | 89,691 | 48,405 | 36,675 |
| Total operating expenses | 223,612 | 124,984 | 102,776 |
| | 147,518 | 90,503 | 84,103 |
| Other Income and Expense: | | | |
| Equity in earnings of unconsolidated joint ventures | 27,735 | 30,509 | 12,398 |
| Gain on sale of joint venture interests | 9,191 | — | 6,420 |
| Interest income | 11,518 | 7,440 | 4,048 |
| Interest expense, net | (76,636) | (48,156) | (53,731) |
| Loss on extinguishment of debt | (550) | (1,260) | (16,624) |
| Other income (expense) | (1,605) | (653) | (2,307) |
| Foreign currency exchange gains, net | 38,639 | 11,582 | — |
| Income before minority interest and discontinued operations | 155,810 | 89,965 | 34,307 |
| Minority interest, including Series D preferred unit distributions | (33,591) | (27,761) | (13,312) |
| Income from continuing operations | 122,219 | 62,204 | 20,995 |
| Discontinued operations, net of minority interest | 93 | 271 | 247 |
| Net income | 122,312 | 62,475 | 21,242 |
| Preferred stock dividends | (27,798) | (2,555) | — |
| Income available to common stockholders | \$ 94,514 | \$ 59,920 | \$ 21,242 |
| Earnings Per Common Share — Basic: | | | |
| Income from continuing operations | \$ 2.09 | \$ 1.67 | \$.83 |
| Discontinued operations | .01 | .01 | .02 |
| Income per common share | \$ 2.10 | \$ 1.68 | \$.85 |
| Earnings Per Common Share — Diluted: | | | |
| Income from continuing operations | \$ 2.06 | \$ 1.65 | \$.82 |
| Discontinued operations | .01 | .01 | .02 |
| Income per common share | \$ 2.07 | \$ 1.66 | \$.84 |
| Weighted Average Number of Common Shares Outstanding: | | | |
| Basic | 44,864 | 35,491 | 25,042 |
| Diluted | 45,785 | 36,355 | 25,491 |
| Dividends paid per common share | \$ 2.24 | \$ 2.18 | \$ 2.12 |

See Accompanying Notes to Consolidated Financial Statements

Consolidated Statements of Stockholders' Equity

| | Preferred Stock | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Compre- hensive Loss | Deferred Compen- sation | Total | Total Compre- hensive Income |
|---|-----------------|------------------------|------------------------|----------------------------------|------------------------|--|-------------------------------|-----------|---------------------------------------|
| Balances, December 31, 2000 | \$ — | 23,409 | \$234 | \$444,689 | \$(394,009) | \$ — | \$(2,980) | \$ 47,934 | |
| Cumulative effect of a change in accounting principle | — | — | — | — | — | (1,279) | — | (1,279) | \$ (1,279) |
| Restricted stock incentive program | — | 365 | 4 | 9,172 | — | — | (9,176) | — | — |
| Amortization of restricted stock incentive program | — | — | — | — | — | — | 4,983 | 4,983 | — |
| Units exchanged for common stock | — | 276 | 3 | 7,071 | — | — | — | 7,074 | — |
| Exercise of stock options | — | 438 | 4 | 8,308 | — | — | — | 8,312 | — |
| Sale of common stock, net of expenses | — | 4,025 | 40 | 90,744 | — | — | — | 90,784 | — |
| Repurchase and retirement of common stock | — | (50) | — | (1,102) | — | — | — | (1,102) | — |
| Change in fair value of cash flow hedges | — | — | — | — | — | (3,828) | — | (3,828) | (3,828) |
| Dividends declared | — | — | — | — | (51,872) | — | — | (51,872) | — |
| Adjustment to minority interest from increased ownership in Mills LP | — | — | — | (25,508) | — | — | — | (25,508) | — |
| Net income | — | — | — | — | 21,242 | — | — | 21,242 | 21,242 |
| Balances, December 31, 2001 | — | 28,463 | 285 | 533,374 | (424,639) | (5,107) | (7,173) | 96,740 | \$ 16,135 |
| Sale of series B preferred stock | 107,500 | — | — | (3,723) | — | — | — | 103,777 | \$ — |
| Sale of series C preferred stock | 85,000 | — | — | (3,175) | — | — | — | 81,825 | — |
| Restricted stock incentive program | — | 172 | 2 | 4,410 | — | — | (4,412) | — | — |
| Amortization of restricted stock incentive program | — | — | — | — | — | — | 6,009 | 6,009 | — |
| Units exchanged for common stock | — | 560 | 5 | 16,253 | — | — | — | 16,258 | — |
| Exercise of stock options | — | 683 | 7 | 13,823 | — | — | — | 13,830 | — |
| Sale of common stock, net of expenses | — | 13,318 | 133 | 364,263 | — | — | — | 364,396 | — |
| Change in fair value of cash flow hedges | — | — | — | — | — | (9,246) | — | (9,246) | (9,246) |
| Dividends declared, common stock | — | — | — | — | (86,179) | — | — | (86,179) | — |
| Dividends declared, Series B and Series C Preferred Stock | — | — | — | — | (2,555) | — | — | (2,555) | — |
| Adjustment to minority interest from increased ownership in Mills LP | — | — | — | (103,057) | — | — | — | (103,057) | — |
| Net income | — | — | — | — | 62,475 | — | — | 62,475 | 62,475 |
| Balances, December 31, 2002 | 192,500 | 43,196 | 432 | 822,168 | (450,898) | (14,353) | (5,576) | 544,273 | \$ 53,229 |
| Restricted stock incentive program, net | — | 298 | 3 | 9,411 | — | — | (9,414) | — | \$ — |
| Amortization of restricted stock incentive program | — | — | — | — | — | — | 6,166 | 6,166 | — |
| Exercise of stock options | — | 878 | 9 | 17,157 | — | — | — | 17,166 | — |
| Sale of Series C preferred stock | 2,500 | — | — | (248) | — | — | — | 2,252 | — |
| Sale of Series E preferred stock | 213,625 | — | — | (3,170) | — | — | — | 210,455 | — |
| Series A preferred converted to common stock | — | 3,153 | 31 | 74,969 | — | — | — | 75,000 | — |
| Units exchanged for common stock | — | 2,773 | 28 | 22,574 | — | — | — | 22,602 | — |
| Change in fair value of cash flow hedges | — | — | — | — | — | (419) | — | (419) | (419) |
| Dividends declared, common stock | — | — | — | — | (105,335) | — | — | (105,335) | — |
| Dividends declared, preferred stock | — | — | — | — | (27,798) | — | — | (27,798) | — |
| Adjustment to minority interest from increased ownership in Mills LP | — | — | — | (11,896) | — | — | — | (11,896) | — |
| Net income | — | — | — | — | 122,312 | — | — | 122,312 | 122,312 |
| Balances, December 31, 2003 | \$408,625 | 50,298 | \$503 | \$930,965 | \$(461,719) | \$(14,772) | \$(8,824) | \$854,778 | \$121,893 |

See Accompanying Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

(In Thousands)

| Years Ended December 31, | 2003 | 2002 | 2001 |
|---|-------------|-----------|-----------|
| Cash Flows From Operating Activities: | | | |
| Net Income | \$ 122,312 | \$ 62,475 | \$ 21,242 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Minority interest including Series D preferred unit distributions | 33,626 | 27,887 | 13,468 |
| Net accretion of note receivable | (578) | (335) | (548) |
| Depreciation and amortization | 89,691 | 48,405 | 36,675 |
| Depreciation from discontinued operations | 286 | 1,145 | 1,145 |
| Amortization of finance costs | 7,205 | 5,347 | 3,565 |
| Loss on extinguishment of debt | 550 | 1,260 | 16,624 |
| Abandoned project costs | 2,240 | 2,717 | 3,799 |
| Provision for losses on accounts receivable | 1,958 | 798 | 1,852 |
| Equity in earnings of unconsolidated joint ventures | (27,735) | (30,509) | (12,398) |
| Gain on land sales | (1,129) | (2,500) | (153) |
| Gain on sale of joint venture interests | (9,191) | — | (6,420) |
| Gain from foreign currency exchange, net | (38,639) | (11,582) | — |
| Amortization of restricted stock incentive program | 6,166 | 6,009 | 4,983 |
| Changes in assets and liabilities: | | | |
| Accounts receivable, net | (38,358) | (663) | (1,820) |
| Notes receivable | (4,280) | 1,897 | 4,298 |
| Other assets | (1,747) | (1,248) | 5,881 |
| Accounts payable and other liabilities | 34,672 | (17,716) | (1,805) |
| Net cash provided by operating activities | 177,049 | 93,387 | 90,388 |
| Cash Flows From Investing Activities: | | | |
| Investment in real estate and development assets | (175,217) | (277,122) | (168,053) |
| Distributions received from unconsolidated joint ventures | 64,575 | 42,224 | 28,134 |
| Proceeds from land sales | 2,811 | 5,000 | 350 |
| Proceeds from sale of joint venture interests | 75,300 | — | 9,549 |
| Acquisitions of income producing properties | (1,059,286) | (330,683) | — |
| Notes receivable | (830) | (9,778) | (8,687) |
| Deferred costs and other intangibles, net | (19,034) | (2,719) | (7,655) |
| Net cash used in investing activities | (1,111,681) | (573,078) | (146,362) |
| Cash Flows From Financing Activities: | | | |
| Proceeds from mortgages, notes and loans payable | 1,086,225 | 480,918 | 711,863 |
| Repayments of mortgages, notes and loans payable | (269,762) | (379,003) | (706,369) |
| Refinancing costs | (14,386) | (5,278) | (21,321) |
| Change in restricted cash | (8,884) | 533 | (10,569) |
| Proceeds from sale of common stock, net | — | 364,396 | 90,784 |
| Proceeds from sale of preferred stock and units, net | 222,662 | 185,602 | 69,343 |
| Repurchase of common stock, net | — | — | (1,102) |
| Dividends paid | (126,055) | (75,220) | (51,872) |
| Distributions to minority interests | (35,752) | (36,268) | (34,166) |
| Proceeds from exercise of stock options | 17,166 | 13,830 | 8,312 |
| Net cash provided by financing activities | 871,214 | 549,510 | 54,903 |
| Net (decrease) increase in cash and cash equivalents | (63,418) | 69,819 | (1,071) |
| Cash and cash equivalents, beginning of year | 79,195 | 9,376 | 10,447 |
| Cash and cash equivalents, end of year | \$ 15,777 | \$ 79,195 | \$ 9,376 |
| Supplemental Cash Flow Information: | | | |
| Cash paid for interest, net of amounts capitalized | \$ 99,388 | \$ 48,205 | \$ 54,529 |

Non-cash investing and financing information provided in Note 16.

See Accompanying Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

(Dollars In Thousands, Except Share, Unit and Per Share Data)

1. ORGANIZATION

The Mills Corporation (the "Company") is a fully integrated, self-managed Real Estate Investment Trust ("REIT") that provides development, redevelopment, leasing, financing, management and marketing services to its properties. The Company conducts all of its business and owns all of its properties through its Operating Partnership, The Mills Limited Partnership ("Mills LP"), and its various subsidiaries. The Company is the sole general partner of Mills LP and owned a 1% general partner interest and a 77.88% limited partner interest as of December 31, 2003. Mills LP owns 100% of MillsServices Corp. ("MSC"), a taxable REIT subsidiary. MSC provides development, management, leasing and financial services to all but two of the Company's real estate joint ventures and does not perform any services for entities in which the Company is not a significant investor. Through MSC, the Company owns Mills Enterprises, Inc. ("MEI"), an entity that holds investments in certain retail joint ventures.

As of December 31, 2003, the Company had an aggregate of 26 retail and entertainment-oriented centers comprised of 15 Mills Landmark Centers, ten 21st Century Retail and Entertainment Centers, and one International Retail and Entertainment Center. Of these (a) the Company wholly owned five Mills Landmark Centers and seven 21st Century Retail and Entertainment Centers, and (b) held equity interests in various joint ventures that own ten Mills Landmark Centers, three 21st Century Retail and Entertainment Centers and the one International Retail and Entertainment Center. In addition, as of December 31, 2003, the Company owned three community shopping centers, a portfolio of 19 single tenant properties and other related commercial development.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Joint ventures are accounted for under the equity method. The Company does not consider itself to be in control of an entity when major business decisions require the approval of at least one other partner. Significant intercompany transactions and balances are eliminated in consolidation.

Real Estate And Development Assets

Income producing property is stated at cost and includes all costs related to acquisition, development, leasing and construction, including tenant improvements, interest incurred during construction, costs of predevelopment and certain direct and indirect costs of development. Cost incurred during the predevelopment stage are capitalized once management has identified and secured a site, determined that the project is feasible and it is probable that management will be able to proceed. Land held for sale is carried at the lower of cost or fair value less costs to sell. Expenditures for ordinary maintenance and repairs are expensed to operations as they are incurred. Significant renovations and improvements, which improve or extend the useful life of the assets are capitalized.

Income producing properties are individually evaluated for impairment when various conditions exist that may indicate that it is probable that the sum of expected undiscounted future cash flows from a property are less than its historical net cost basis. Upon determination that a permanent impairment has occurred, the Company records an impairment charge equal to the excess of historical cost basis over fair value. In addition, the Company writes off costs related to predevelopment projects when it determines that it will no longer pursue the project and such amounts could be material.

The cost of acquired income producing property represents the allocation of purchase price to such assets based on appraisals and other valuation methods used in accounting for the acquisition and includes, if material, an allocation to identifiable intangible assets such as above/below market leases and at market leases in place at date of acquisition based on their fair values. External costs directly related to acquisition opportunities being actively pursuing by the Company are capitalized. If the Company is successful in completing the acquisition, such costs are allocated to the acquired property as part of the purchase price. If not, such costs are expensed in the period it becomes likely the acquisition will not be completed.

Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets, as follows:

| | |
|-----------------------------------|---------------|
| Building and improvements | 10 – 40 years |
| Land improvements | 20 years |
| Furniture, fixtures and equipment | 5 – 7 years |

Depreciation expense was \$70,028, \$38,831 and \$30,128 for the years ended December 31, 2003, 2002 and 2001, respectively.

Interest expense capitalized to real estate and development assets, including investments in unconsolidated joint ventures under development, was \$51,169, \$40,739 and \$25,670 for the years ended December 31, 2003, 2002 and 2001, respectively.

Cash And Cash Equivalents

Highly liquid investments with an original maturity of three months or less are considered to be cash equivalents.

Restricted Cash

Restricted cash is comprised primarily of funds on deposit in cash collateral accounts controlled by the lenders. Proceeds from certain transactions are held in such accounts to fund maintenance reserves, interest, taxes and debt payments for the property associated with the loan.

Accounts Receivable

Accounts receivable include amounts billed to tenants, deferred rent resulting from the straight-line recognition of rental income and accrued recoveries. Collectibility of these receivables is evaluated on a regular basis and the allowance for doubtful

accounts is adjusted accordingly. At December 31, 2003 and 2002, the allowance for doubtful accounts was \$3,315 and \$2,104, respectively.

Deferred Costs and Other Intangibles, Net

Deferred costs and other intangibles include loan fees, leasing charges and the value of leases in place when a property was acquired. Loan fees including related expenses are amortized on a straight-line basis that approximates the interest method over the terms of the related notes. Leasing charges, including origination charges, are amortized on a straight-line basis over the term of the related leases. The value of in-place leases is based on various valuation methods used in accounting for acquisitions and is amortized on a straight-line basis over the term of the related lease. Total amortization expense was \$26,868, \$14,921 and \$10,112 for the years ended December 31, 2003, 2002 and 2001, respectively. Total accumulated amortization is \$62,363 and \$54,259 at December 31, 2003 and 2002, respectively.

Revenue Recognition

The Company, as lessor, retains substantially all the risks and benefits of property ownership and accounts for its leases as operating leases. Minimum rent from income producing properties is recognized on a straight-line basis over the terms of the respective leases and includes amortization of deferred revenue resulting from acquired leases. Percentage rent is recognized when tenants' sales have reached certain sales levels as specified in the underlying lease. Recoveries from tenants for real estate taxes and other operating expenses are recognized as revenue in the period the applicable costs are incurred.

MSC has agreements to provide management, leasing, development and financing services to most of the Company's joint venture properties. For these services, MSC earns various fees. Management fees are a percentage of the monthly rental revenue received by the joint venture and recognized when such revenue is received by the property.

Leasing fees are recognized upon execution of the lease and represent an agreed-upon rate per square foot of space leased. Development fees are an agreed upon amount recognized ratably over the development period. Financial service fees are a stated percentage of the loan commitment obtained and recognized when the loan agreement is executed by the lender. Costs to provide leasing, development and financial services are capitalized as incurred and expensed as the associated fees are earned. Other fee income from unconsolidated joint ventures reflect leasing, development and financing fees, net of related recognized expenses, after the elimination of intercompany profit.

Other Property Revenue

Other property revenue includes rent from tenants with original leases of one year or less, temporary in-line space, kiosks and ATM space. It also includes lease termination fees and recoveries of previously uncollectible receivables.

Derivatives and Hedging

A variety of derivative financial instruments are used to manage, or hedge, the Company's exposure to the effect of changing interest rates. Derivative contracts are designated and qualify as cash flow hedges because, at inception, it is expected that the instrument will be effective in reducing interest rate exposure and that the underlying transaction will occur. Derivative instruments are not used for speculative purposes.

Derivative instruments are stated at fair value. Fair value is determined using various methods and assumptions based on market conditions and risks existing at each balance sheet date. In most cases, standard market conventions and techniques, such as discounted cash flow analysis, option pricing models, replacement cost and termination cost, are used to determine fair value. All methods of assessing fair value result in a general approximation of value, which may never be realized.

Changes in the fair value of derivative instruments are included in accounts payable and other liabilities and charged to accumulated other comprehensive loss. In the event the instrument is determined to be no longer effective, the item being hedged no longer exists or the terms of the underlying transaction are modified, the fair value adjustment is charged to earnings as interest expense. Unrealized gains or losses charged to accumulated other comprehensive income are eventually recognized in earnings as the underlying hedged item is recognized.

Income Taxes

The Company elected to be taxed as a REIT under Sections 856-860 of the Internal Revenue Code (the "Code"). As a REIT, taxable income distributed to stockholders is not subject to federal corporate income taxes. To maintain its REIT status, the Company is required to distribute at least 90% of its taxable income to its stockholders and is subject to various other requirements including meeting certain asset and income tests. Because the Company believes it will maintain its REIT status and distribute in excess of its taxable income, U.S. federal income taxes are not provided for REIT activities. Differences between net income available to common stockholders for financial reporting purposes and taxable income before dividend deductions relate primarily to real estate depreciation, recognition of gains and losses from asset transactions and foreign currency exchange gains and losses. The tax treatment of dividends paid per common share for the years ended December 31, 2003, 2002 and 2001 was as follows:

| Year Ended December 31, | 2003 | 2002 | 2001 |
|------------------------------------|--------|-------------|--------|
| | | (unaudited) | |
| Ordinary income per common share | \$1.08 | \$0.75 | \$ - |
| Capital gain per common share | .15 | 0.12 | - |
| Return of capital per common share | 1.01 | 1.31 | 2.12 |
| Dividends paid per common share | \$2.24 | \$2.18 | \$2.12 |

Notes to Consolidated Financial Statements

(Dollars In Thousands, Except Share, Unit and Per Share Data)

The Code does provide for a REIT to own stock in subsidiaries engaged in businesses which generate income that does not qualify for REIT treatment. The stock value of these businesses is subject to certain limitations and both the REIT and the taxable REIT subsidiaries are subject to strict rules governing ownership, operation and taxation. MSC and its subsidiaries have elected to be treated as taxable REIT subsidiaries.

MSC, a subchapter C corporation, is subject to federal and state income taxes at the prevailing tax rates. As of December 31, 2003, MSC has an estimated federal net operating loss carry forward of \$44,500. Deferred tax assets relating primarily to the loss carry forward have been offset in their entirety by a valuation allowance since there is no assurance MSC will generate taxable income in the future.

Foreign Operations

The functional currency for entities operating or projects in development outside the United States is the currency of the country in which the entity or project is located. The financial statements of such entities are translated from the functional currency into U.S. dollars for inclusion in the Company's financial statements. Assets and liabilities are translated at the exchange rate in effect on the balance sheet date and income statement accounts are translated using the average exchange rate for the period. Significant, non-recurring income or expense items are translated at the exchange rate in effect on the date of transaction. Gains or losses resulting from translation are accounted for as a component of other comprehensive income or loss. Transactions denominated in currencies other than the functional currency are re-measured into the functional currency prior to translation. Non-monetary asset and liability transactions of this nature are re-measured at historical exchange rates; monetary asset and liability transactions are re-measured at the exchange rate in effect on the balance sheet date; and income statement transactions are re-measured at the average exchange rate for the period being reported. Gains or losses resulting from re-measurement are included in the determination of the entity's net earnings.

The Company's foreign investment and related advances are denominated in the foreign entity's functional currency and re-measured to the Company's functional currency of the U.S. dollar. The Company expects to settle these amounts in the foreseeable future through distributions from the foreign entity. Accordingly, gains or losses resulting from the re-measurement are included in the determination of net income. Foreign currency exchange gains, net for the years ended December 31, 2003 and 2002 arose primarily as a result of this re-measurement.

As of December 31, 2003 and 2002, the Company had investments in unconsolidated foreign joint ventures of \$210,861 and \$207,193, respectively.

Segment Reporting

The Company considers each of its properties a separate operating segment that are aggregated and reported as a single

segment. Operating results for each property are reviewed by the chief operating decision maker in the determination of resource allocation and performance and for which discrete financial information is available. This single reportable segment represents over 90% of the Company's assets, revenues and income for each of the years presented. Future prospects for each property are similar and all have essentially the same economic characteristics with similar returns, occupancy and tenants and are sited near a metropolitan area with similar demographics and site characteristics.

Earnings Per Common Share

Basic earnings per common share is calculated by dividing income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per common share reflects the assumed conversion of stock issued pursuant to the Company's restricted stock program and stock option incentive program using the treasury stock method and the if-converted method for any of the Company's convertible preferred stock.

Tax Increment Financing

Tax increment financing is a common form of project infrastructure financing expected to be repaid through future tax assessments. In determining if such financing should be recorded, factors including whether the assessment is fixed or variable and the probability the Company will become obligated for such financing are considered.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the 2002 and 2001 consolidated financial statements have been reclassified to conform to the current year presentation.

3. NEW AND PENDING ACCOUNTING PRONOUNCEMENTS Standards Implemented and Transition Adjustment

Effective January 1, 2002, the Company adopted the fair value recognition provisions of SFAS No. 123 "Accounting for Stock-Based Compensation" as amended, on a prospective basis to all employee awards granted, modified or settled after the effective date. Prior to 2002, the Company accounted for its stock option plans under the recognition and measurement provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations. This adoption had an immaterial impact on 2002 results of operation.

Effective January 1, 2003, the Company adopted SFAS No. 145 "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." Upon adoption, the Company reclassified losses from extinguishment of debt realized in prior years from extraordinary items to other income and expense.

Effective July 1, 2003, the Company adopted the provisions of SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," which establishes standards for the classification and measurement of financial instruments that possess characteristics similar to both liability and equity instruments. SFAS No. 150 also addresses the classification of certain financial instruments that include an obligation to issue equity shares. The adoption of this pronouncement had no impact on the Company's financial condition or results of operations.

Effective October 1, 2003, the Company adopted the disclosure provisions of FASB Interpretation No. ("FIN") 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, including Direct Guarantees of Indebtedness of Others." Initial recognition and measurement provisions of FIN No. 45 were adopted on a prospective basis for guarantees issued after December 31, 2002. Under FIN 45, the fair value of a guarantee is recorded as a liability at its inception, with the offsetting entry recorded based on the circumstances in which the guarantee was issued. The adoption of this pronouncement did not have a material impact on the Company's financial condition or results of operations.

Pending Adoption of An Accounting Pronouncement

In January 2003, FASB issued FIN No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). The primary objectives of this interpretation are to provide guidance on the identification of entities for which control is achieved through means other than through voting rights ("variable interest entities") and how to determine when and which business enterprise (the "primary beneficiary") should consolidate the variable interest entity. This new model for consolidation applies to an entity in which (a) the equity investors, (if any) do not have a controlling financial interest; or (b) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. In addition, FIN 46 requires that the primary beneficiary, as well as all other enterprises with a significant variable interest in a variable interest entity, make additional disclosures. FIN 46 became effective immediately for all VIEs created after January 31, 2003 and required certain disclosures be made in financial statements issued after January 31, 2003. In December 2003, FASB issued FIN 46 (revised December 2003), "Consolidation of Variable Interest Entities" ("FIN 46-R") to address certain FIN 46 implementation issues. Because the Company did not become party to any VIEs created since January 31, 2003, it is not required to adopt FIN 46-R until March 31, 2004. Based on a preliminary review, the Company has identified certain joint venture entities created prior

to February 1, 2003, that may meet the criteria of a VIE and may require consolidation under FIN 46 and FIN 46-R effective March 31, 2004. Total assets of the potential VIEs were \$581,351 at December 31, 2003.

4. ACQUISITIONS AND DISPOSITIONS

Acquisitions

As summarized below, the Company acquired several operating properties during 2003 and 2002. The purchase price below does not include transaction costs.

| | Acquisition Date | Purchase Price |
|--|------------------|----------------|
| 100% Interest Acquired: | | |
| Great Mall of the Bay Area | August 2003 | \$265,500 |
| Del Amo Fashion Center | June 2003 | 442,000 |
| Cadillac Fairview Portfolio ⁽¹⁾ | January 2003 | 539,900 |
| Riverside Square | December 2002 | 86,500 |
| Cincinnati Mills | September 2002 | 68,800 |
| Partial Interests Acquired: | | |
| Cadillac Fairview Portfolio ⁽²⁾ | May 2003 | 62,500 |
| Opry Mills ⁽³⁾ | June 2002 | 30,900 |
| Simon Interests ⁽⁴⁾ | May 2002 | 124,500 |

(1) Includes Broward Mall, Dover Mall, The Esplanade, Galleria at White Plains and Northpark Mall as well as the acquisition of 110 acres of developable land adjacent to the properties for approximately \$7,900.

(2) Includes Gwinnett Place and Town Center at Cobb.

(3) The Company acquired the remaining interest in Opry Mills which is now consolidated as a wholly owned property.

(4) Includes Arizona Mills, Arundel Mills, Concord Mills, Grapevine Mills and Ontario Mills.

The acquired properties are included in the Company's results of operations from the respective date of acquisition. The following unaudited pro forma results of operations reflect these transactions as if each had occurred on January 1 of the year presented. In the Company's opinion, all significant adjustments necessary to reflect the effects of the acquisitions, the equity offerings, and use of the line of credit have been made.

| Years Ended December 31, | Pro Forma | |
|---|-------------|-----------|
| | 2003 | 2002 |
| | (Unaudited) | |
| Revenues | \$418,777 | \$379,567 |
| Net income | \$125,081 | \$95,817 |
| Income available to common shareholders | \$92,460 | \$71,596 |
| Income per common share — basic | \$2.05 | \$1.71 |
| Income per common share — diluted | \$2.00 | \$1.68 |

The following summarizes the assets and liabilities of properties acquired in 2003 and 2002 as of their respective dates of acquisition after the purchase price allocation. The Company has made preliminary allocations of purchase prices for the Great Mall of the Bay Area and the Del Amo Fashion Center which will

Notes to Consolidated Financial Statements

(Dollars In Thousands, Except Share, Unit and Per Share Data)

be completed upon receipt of cost segregation and other studies in 2004.

| | 2003 | 2002 |
|--|-------------|-----------|
| Net real estate and development assets | \$1,269,108 | \$457,042 |
| Accounts receivable and other assets | — | 2,692 |
| Cash and cash equivalents | — | 2,723 |
| Deferred costs and other intangibles, net | 71,435 | 38,472 |
| Mortgages, notes and loans payable assumed | (65,861) | (172,873) |
| Accounts payable and other liabilities | (20,394) | (17,373) |
| Net assets acquired | \$1,254,288 | \$310,683 |

Conveyance Of Joint Venture Interests

In December 2003, the Company conveyed a partnership interest of approximately 50% in the Great Mall of the Bay Area to Kan Am Grund Kapitalanlagesellschaft mbH ("Kan Am Grund") for \$47,200 and recognized a gain of \$729. Kan Am Grund is an affiliate of Kan Am, a German syndicator of real estate funds with whom the Company has had a long standing relationship. The Great Mall is included in the consolidated results of operations from its date of acquisition in August 2003 through the date of conveyance (December 23, 2003) and is subsequently accounted for on the equity method.

In August 2003, the Company conveyed an additional 6.375% partnership interest in each of the Arundel Mills, Concord Mills and Grapevine Mills projects to Kan Am for \$28,100 and recognized a gain of \$8,462.

In October 2001, the Company conveyed a 40% interest in one of its non-real estate investments for \$9,500 and recognized a gain of \$6,420.

Discontinued Operations

In March 2003, in a transaction related to the September 2002 acquisition of Cincinnati Mills, 27 of the Company's 46 single tenant properties subject to net leases and operating as CVS pharmacies ("Net Lease Properties") were exchanged for an aggregate sales price of \$58,700, net of transaction costs. No gain or loss was recognized in conjunction with the exchange. Revenues of the 27 Net Lease Properties amounted to \$1,405, \$5,554 and \$5,554 for the years ended December 31, 2003, 2002 and 2001. The results of operations and assets and liabilities related to the 27 Net Lease Properties are segregated in the accompanying financial statements as discontinued operations.

5. INVESTMENT IN UNCONSOLIDATED JOINT VENTURES

Certain operating properties, properties under development and retail concerns are owned through joint ventures. The Company is usually the general or managing partner in the real estate ventures. Equity in the income or loss of joint ventures is

recorded based on an estimate of each partner's economic ownership. Economic ownership is determined based on anticipated stabilized cash flows that would be distributed to each partner. Partner distributions are defined by the individual joint venture agreements. Generally, net ordinary cash flow is distributed to each partner first to pay preferences on unreturned capital balances, including cumulative unpaid preferences, and thereafter in accordance with specified residual sharing percentages. Cash flow from capital events, including refinancing and asset sales, is allotted first to partners in an amount equal to their unreturned capital account and thereafter in accordance with residual sharing percentages.

At December 31, 2003, the Company's residual sharing and capital contribution percentages in real estate ventures were as follows:

| Joint Venture | Residual Sharing Percentage | Capital Contribution Percentage |
|--|-----------------------------|---------------------------------|
| Mills Landmark Centers | | |
| Arizona Mills | 50.0% | 50.0% |
| Arundel Mills | 59.3% | 39.5% |
| Colorado Mills | 56.3% | 37.5% |
| Concord Mills | 59.3% | 39.5% |
| Discover Mills | 50.0% | — |
| Grapevine Mills | 59.3% | 39.5% |
| Great Mall of the Bay Area | 75.0% | 49.0% |
| Katy Mills | 62.5% | 25.0% |
| Ontario Mills | 68.8% | 43.8% |
| St. Louis Mills | 75.0% | 50.0% |
| 21st Century Retail and Entertainment Centers | | |
| The Block at Orange | 50.0% | — |
| Gwinnett Place | 50.0% | 50.0% |
| Town Center at Cobb | 50.0% | 50.0% |
| International Retail and Entertainment Center | | |
| Madrid Xanadu | 66.7% | 66.7% |
| Properties under Development | | |
| Meadowlands Xanadu ⁽¹⁾ | 53.3% | 31.0% |
| Pittsburgh Mills | 56.3% | 37.5% |
| Vaughan Mills | 50.0% | 50.0% |

(1) Percentages are subject to change based upon project scope and required contributions.

The Company is committed to providing additional equity to certain of its joint ventures under development pursuant to the relevant joint venture agreements. The Company guarantees certain joint venture partners' preference returns and the repayment of construction debt. Guarantees generally remain in effect until certain debt service coverage tests are met or a permanent loan is obtained, which generally occurs within two

to four years after a property's grand opening. The Company would only be liable under the guarantees if the construction loan proceeds are insufficient to fund preference payments, the project's construction is not completed or the construction loan is not refinanced at or before maturity. Certain of the Company's joint venture agreements also contain buy-sell provisions whereby certain partners can require the purchase or sale of ownership interests among certain partners.

As of December 31, 2003, preference returns to the joint venture partners were current and the Company had guaranteed repayment of \$610,827 of joint venture debt and joint venture letters of credit of \$5,551. The Company would be required to guarantee an additional \$77,242 if its joint ventures borrow up to the total construction loan commitments. The Company is also contingently liable for property taxes and assessments levied against Ontario Mills Limited Partnership by the City of Ontario Special Assessment District ("City"). The remaining aggregate amount of the special tax assessment is \$11,291 and will be collected through 2020 to fund debt service on bonds issued by the City.

The following summarizes certain significant joint venture agreement provisions and activities:

Madrid Xanadú

The Company is party to an agreement with Parcelatoria De Gonzalo Chacün S.A. ("PGC"), its Madrid Xanadú joint venture partner, that has certain put/call provisions that include, among other things, the right of PGC to require the Company to purchase PGC's interest in the joint ventures for a minimum price of \$43,950 (€35 million).

Vaughan Mills

The Company and Ivanhoe Cambridge each own an undivided 50% interest, as tenants in common, in Vaughan Mills, which is expected to open during 2004. At any time following the fourth anniversary of the opening of the project, either party may exercise a buy-sell provision pursuant to which the offering party can require that the other party either purchase for cash the offering party's entire interest in the project or sell to the offering party the interest of the other party.

Pittsburgh Mills

Pittsburgh Mills, which is expected to open in 2005, is being developed by Pittsburgh Mills Limited Partnership, a joint venture between Mills-Kan Am Pittsburgh Limited Partnership ("Mills-Kan Am Pittsburgh") and AV Associates Limited Partnership. Mills-Kan Am Pittsburgh, through which we will own our interest in the Pittsburgh Mills project, is a joint venture with Kan Am. For one to three years following the opening of the project, AV Associates may elect to convert a portion of its interest in the partnership to, at

the Company's option, cash or units of Mills LP. Commencing on the fifth anniversary of the project's opening, AV Associates may put, and the Company may call, all of AV Associates' remaining partnership interest for a purchase price based on the fair market value of the property and paid, at the Company's option, in cash or units in of Mills LP.

Kan Am also has the right to require Mills-Kan Am Pittsburgh to redeem Kan Am's interest if, among other things, the closing and initial funding of the construction loan and receipt of certain public financings have not occurred by June 30, 2005 or 12 months following the date Kan Am has fully contributed its required equity to the joint venture. The redemption obligation is guaranteed by the Company. As of December 31, 2003 Kan Am had contributed \$25,000 of its estimated required equity of \$31,700.

Meadowlands Xanadu

Meadowlands Xanadu will be developed on the site of the Continental Arena in New Jersey pursuant to an agreement with the New Jersey Sports and Exposition Authority ("NJSEA"). It will be developed through a joint venture between Meadowlands Mills Limited Partnership ("Meadowlands Mills") and affiliates of Mack-Cali Realty Corporation ("Mack-Cali"). Meadowlands Mills is obligated to contribute additional capital up to a maximum 40% of net project costs while Mack-Cali is obligated to contribute additional capital up to a maximum \$32,500. Commencing on the sixth anniversary of opening, the agreement provides that either party may put their interest in the partnership to the other for a price based on the fair value of the project at that time.

Meadowlands Mills is a partnership between the Company and Kan Am and has a mortgage interest in a 587-acre tract of land adjacent to the Continental Arena site (the "Empire Tract"). Meadowlands Mills has entered into agreements with Empire, Ltd., the current owner of the Empire Tract, and Bennett S. Lazare, Esq. whereby they may, under certain circumstances, receive a combined 20% limited partnership interest in Meadowlands Mills. In connection with the development agreement with NJSEA, the Company expects to convey the Empire Tract to the State of New Jersey.

As of December 31, 2003, the Company had invested approximately \$144,000 in Meadowlands Mills, of which approximately \$72,000 is an advance, and Kan Am had invested \$24,000. Kan Am has the right to require Meadowlands Mills to redeem its invested capital, plus any accrued construction period preferences, if a construction loan is not obtained by June 30, 2005.

Beginning on the "Project Commencement Date", a date on which certain material contingencies have been satisfied, the Company and Meadowlands Mills will also guarantee the return of Kan Am's capital contribution upon Kan Am's exercise of its redemption rights, which may occur prior to securing the construction loan.

Notes to Consolidated Financial Statements

(Dollars In Thousands, Except Share, Unit and Per Share Data)

Condensed combined financial statements of the Company's unconsolidated joint ventures follow:

CONDENSED COMBINED BALANCE SHEETS:

| December 31, | 2003 | 2002 |
|--|--------------------|--------------------|
| Assets: | | |
| Net income producing property | \$2,262,202 | \$1,543,764 |
| Land held for investment and/or sale | 34,773 | 33,899 |
| Construction in progress | 349,355 | 365,916 |
| Cash and cash equivalents | 119,187 | 89,073 |
| Restricted cash | 40,462 | 24,702 |
| Accounts receivable, net | 114,326 | 61,910 |
| Notes receivable | 25,893 | 27,947 |
| Deferred costs, net | 122,050 | 90,682 |
| Other | 134,809 | 72,232 |
| | \$3,203,057 | \$2,310,125 |
| Liabilities and Partners' Equity: | | |
| Debt | \$2,204,854 | \$1,402,740 |
| Other liabilities | 277,310 | 141,868 |
| Mills LP's accumulated equity ⁽¹⁾ | 537,385 | 388,914 |
| Joint venture partners' accumulated equity | 183,508 | 376,603 |
| | \$3,203,057 | \$2,310,125 |

(1) The carrying value of the Company's investment in unconsolidated joint ventures differs from Mills LP's accumulated equity noted above due primarily to basis differences. Basis differences result from the acquisition of partnership interests which are not reflected at the joint venture level; capitalized interest on the investment balance; and capitalized development and leasing costs recovered by Mills LP through fees earned during project development and construction. In addition, Company loans to the joint ventures are included in the carrying value of the investment but are classified as other liabilities above. Basis differences are amortized over 20 years.

COMBINED CONDENSED RESULTS OF OPERATIONS:

| Years Ended December 31, | 2003 | 2002 | 2001 |
|--------------------------------------|------------------|------------------|------------------|
| Revenues: | | | |
| Minimum rent | \$224,227 | \$181,775 | \$176,215 |
| Percentage rent | 3,653 | 3,176 | 4,343 |
| Recoveries from tenants | 89,658 | 71,983 | 71,359 |
| Other property revenue | 30,407 | 21,867 | 20,252 |
| Total operating revenues | 347,945 | 278,801 | 272,169 |
| Expenses: | | | |
| Recoverable from tenants | 80,472 | 65,324 | 63,453 |
| Other operating | 23,488 | 16,386 | 19,379 |
| Depreciation and amortization | 112,215 | 94,737 | 92,506 |
| Total operating expenses | 216,175 | 176,447 | 175,338 |
| | 131,770 | 102,354 | 96,831 |
| Other Income and Expense: | | | |
| Interest income | 1,791 | 3,073 | 4,047 |
| Interest expense | (108,797) | (82,536) | (90,219) |
| Loss on debt extinguishments | (1,783) | (35) | (527) |
| Other income (expense) | 12,103 | 22,324 | 14,590 |
| Foreign currency exchange gains, net | 1,901 | — | — |
| Net Income | \$ 36,985 | \$ 45,180 | \$ 24,722 |
| Equity In Earnings | \$ 27,735 | \$ 30,509 | \$ 12,398 |

Significant accounting policies used by the unconsolidated joint ventures are similar to those used by the Company.

During 2003 the Company increased its interests in unconsolidated joint ventures with the conveyance of a partnership interest of approximately 50% in the Great Mall of the Bay Area and its acquisition of a 50% interest in Gwinnett Place and Town Center at Cobb in connection with the Cadillac Fairview Portfolio acquisition. Also during 2003, the St. Louis Mills and Madrid Xanadú developments opened. Significant financing activities of the unconsolidated joint ventures follow:

- In August 2003, a \$175,000 mortgage loan that bears interest at 4.80% was obtained in conjunction with the acquisition of the Great Mall of the Bay Area. The mortgage matures in September 2008 and is interest-only through maturity.
- In May 2003, two fixed rate mortgages were assumed in conjunction with the acquisition of the Town Center at Cobb and Gwinnett Place. The loans have a combined outstanding balance of \$230,578 as of December 31, 2003, one bearing interest at 7.54% and the other at 7.25%. The loans are cross-collateralized and are amortizing on a 30 year schedule with a scheduled balloon repayment in April 2007.
- In May 2003, a construction loan with a commitment of \$162,000 was obtained in connection with the construction of St. Louis Mills. The loan bears interest at LIBOR plus 1.95%, matures in May 2006 and has two one-year extension options. As of December 31, 2003, \$111,080 had been drawn.
- In December 2002, a construction loan with a commitment of \$242,350 (€193.0 million) was obtained in conjunction with the construction of Madrid Xanadú. The loan bears interest at EURIBOR plus 1.55%, matures in May 2006 and has two one-year extension options. As of December 31, 2003, \$232,018 had been drawn.

Advances to unconsolidated joint ventures were \$114,851, \$127,603 and \$32,587 for the years ended December 31, 2003, 2002 and 2001, respectively. Interest income earned on such advances totaled \$8,187, \$4,276 and \$1,678 for the years ended December 31, 2003, 2002 and 2001, respectively.

6. MORTGAGES, NOTES AND LOANS PAYABLE

Mortgages, notes and loans payable, consist of the following:

| December 31, | 2003 | 2002 |
|--|--------------------|--------------------|
| Potomac Mills/Gurnee Mills mortgage — monthly principal and interest due based on a 30-year amortization with a balloon payment due March 2011; interest rate at 7.46% per annum. | \$ 346,520 | \$ 349,876 |
| Cadillac Fairview Portfolio mortgage — interest payable monthly with principal due February 2008 (including two one-year extension options); interest rate at LIBOR plus 2.10%. The LIBOR floor is 1.75% on a notional amount of \$75,000. An interest rate swap fixed the interest rate at 4.17% on the remaining \$245,000 through maturity. | 320,000 | — |
| Sawgrass Mills mortgage — monthly principal and interest due based on a 30-year amortization with a balloon payment due July 2006; interest rate at 7.18% per annum. | 293,351 | 296,268 |
| Del Amo Fashion Center mortgage — interest payable monthly with principal due August 2008 (including two one-year extension options); average interest rate at LIBOR plus 2.06%. The LIBOR floor is 1.75% on a notional amount of \$70,000. An interest rate swap locks LIBOR at 1.67% on a notional amount of \$190,000 through December 2004. A second interest rate swap locks LIBOR at 3.47% on a notional amount of \$100,000 from December 2004 through December 2005. | 287,000 | — |
| Mills LP line of credit — interest payable monthly; interest rate at LIBOR or EURIBOR plus 1.50% to 2.50%; expires June 2006 (2007 with one-year extension option). Total line \$500,000; \$262,350 available (net of \$10,650 letters of credit). | 227,000 | — |
| Opry Mills mortgage — interest payable monthly with principal due October 2007 (including two one-year extensions); interest rate at LIBOR plus 1.18%. An interest rate swap locks LIBOR at 4.14% on the balance through maturity fixing interest at 5.32%. Provided certain terms and conditions are met, an additional \$25,000 may be borrowed. | 175,000 | 175,000 |
| Franklin Mills/Liberty Plaza mortgage — monthly principal and interest due based on 30-year amortization with a balloon payment due May 2007; interest at a blended rate of 7.67% per annum. | 132,913 | 134,862 |
| Riverside Square mortgage — interest payable monthly through January 2005, principal and interest payments due subsequently based on a 30-year amortization with a balloon payment due January 2013; interest rate at 5.77% per annum. | 65,000 | 65,000 |
| Broward Mall mortgage — interest payable monthly with principal payments of \$1,500 due in March 2004 and 2005 and \$2,000 annually thereafter through March 2008 with a balloon payment due March 2009. Mortgage was assumed as part of the Cadillac Fairview Portfolio acquisition and adjusted to fair market value resulting in an effective interest rate of 5.34%. | 64,361 | — |
| Cincinnati Mills construction loan — interest payable monthly with principal due December 2006; interest rate at LIBOR plus 2.00%. An interest rate swap locks LIBOR at 2.42% through November 2004 and a second locks LIBOR at 3.88% from December 2004 through October 2006 on a notional amount of \$57,000. | 58,447 | 58,447 |
| Net Leased Properties mortgage — interest payable monthly with principal maturity dates ranging from October 2010 to January 2023; weighted average interest rate of 8.57% per annum. | 47,374 | 47,374 |
| Sawgrass Mills mezzanine loan — monthly interest and principal due based on a 30-year amortization with a balloon payment due in July 2006; interest rate at LIBOR plus 4.50%. An interest rate swap locks LIBOR at 2.16% through June 2004. | 36,112 | 36,499 |
| Mills LP term loan — interest payable monthly at LIBOR plus 2.25% with principal reduction of \$5,000 due June 2004, and the remainder due May 2005. An interest rate swap locks LIBOR at 2.17% through November 2004. Secured by Mills LP's equity in Franklin Mills. | 35,000 | 40,000 |
| Concord Mills Residual III mortgage — monthly interest payable with principal due January 2004; interest rate at LIBOR plus 2.25%. | 17,815 | 17,590 |
| Other notes and loans payable | 13,421 | 15,810 |
| | \$2,119,314 | \$1,236,726 |

Weighted average interest rate on the Company's debt was 5.59% and 6.75% at December 31, 2003 and 2002, respectively. Of the total outstanding debt, \$1,135,069 and \$1,071,079 was fixed rate at December 31, 2003 and 2002, respectively. The Company's line of credit is the only unsecured borrowing (\$227,000 at December 31, 2003). At December 31, 2003, the Company had total recourse debt of \$349,072.

Certain mortgages, notes and loans payable agreements contain restrictive covenants relating to the maintenance of specified financial performance ratios such as minimum net worth, debt service coverage ratio, loan to value and restriction on future dividend and distribution payments. As of December 31, 2003, the Company was in compliance with these covenants.

Notes to Consolidated Financial Statements

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Aggregate annual maturities at December 31, 2003 are as follows:

| | |
|------------|--------------------|
| 2004 | \$ 38,783 |
| 2005 | 44,136 |
| 2006 | 618,439 |
| 2007 | 309,882 |
| 2008 | 616,107 |
| Thereafter | 491,967 |
| | <u>\$2,119,314</u> |

In February 2004, the Cincinnati Mills construction loan was refinanced with a new construction loan which is fully guaranteed by the Company. The new loan has a total commitment of \$122,000, bears interest at LIBOR plus 2.00% and matures in February 2007.

In June 2003, the Company refinanced and increased its unsecured revolving line of credit from \$175,000 to \$500,000. The line is used to fund acquisitions, developments, redevelopments and working capital. Funds are available subject to certain performance measures and restrictive covenants. Subject to certain leverage tests, the line bears interest at 1.50% to 2.50% over LIBOR for U.S. dollar denominated borrowings and EURIBOR for euro denominated borrowings. At December 31, 2003, the interest rate was LIBOR plus 2.50%. The line is scheduled to expire in June 2006 and contains a one-year extension option.

During 2003, 2002 and 2001, the Company realized losses on debt extinguishments of \$550, \$1,260 and \$16,624, respectively.

7. FINANCIAL INSTRUMENTS—DERIVATIVES AND HEDGING

In the normal course of business, the Company and its joint ventures are exposed to the effect of interest rate changes. To limit this exposure, established risk management policies and procedures including the use of a variety of derivative financial instruments to manage, or hedge, interest rate risk are followed. Derivative instruments are not used for speculative purposes. Derivative instruments used for hedging must be effective in reducing the interest rate risk exposure. Changes in the hedging instrument's fair value related to the effective portion of the risk being hedged are included in accumulated other comprehensive income (loss). Hedge effectiveness criteria also require that it be probable that the underlying transaction occurs. Hedges that meet these criteria are formally designated as cash flow hedges at the inception of the derivative contract. When the terms of an underlying transaction are modified, or when the underlying hedged item ceases to exist, the change in the fair value of the derivative instrument is marked to market with the change included in net income in each period until the derivative instrument matures. Additionally, any derivative instrument used for risk management that becomes ineffective is marked to market through earnings.

Depending on the underlying exposure, interest rate swaps, caps and floors, options, forwards or a combination thereof, may be used to manage interest rate risk. Interest rate swaps and collars are contractual agreements with third parties to exchange fixed and floating interest payments periodically without the exchange of the underlying principal amounts (notional amounts). In the unlikely event that a counterparty fails to meet the terms of an interest rate swap contract or collar agreement, the exposure is limited to the interest rate differential on the notional amount. The Company does not anticipate non-performance by any of its counterparties. Net interest differentials to be paid or received under a swap contract and/or collar agreement are accrued as interest expense as incurred or earned.

Interest rate hedges designated as cash flow hedges hedge the future cash outflows on debt. Interest rate swaps that convert variable payments to fixed payments, interest rate caps, floors, collars and forwards are cash flow hedges. The unrealized gains/losses in the fair value of these hedges are reported on the balance sheet and included in accounts payable and other liabilities or in investment in unconsolidated joint ventures (for joint venture hedges) with a corresponding adjustment to either accumulated other comprehensive income (loss) or earnings depending on the hedging relationship. If the hedging transaction is a cash flow hedge, then the offsetting gains/losses are reported in accumulated other comprehensive income to the extent of the effective portion of the risk being hedged. Changes in the hedging instrument's fair value related to the effective portion of the risk being hedged are included in accumulated other comprehensive income (loss). Changes in fair value representing (1) the ineffectiveness of the hedging relationship and (2) any other component of fair value not related to the risk being hedged are recorded as interest expense through earnings. Some derivative instruments are associated with the hedge of an anticipated transaction. Over time, the unrealized gains/losses held in accumulated other comprehensive income (loss) will be recognized in earnings consistent with when the hedged items are recognized in earnings.

The following summarizes the interest rate swaps the Company and its joint ventures have currently entered into to hedge the variability of monthly cash outflows due to the variability in LIBOR. The swaps require the Company to receive LIBOR and pay a fixed rate. A summary of the current and deferred start swap terms of the derivative instruments, a reconciliation of their fair values and adjustments to accumulated other comprehensive loss are as follows:

| | Wholly Owned | Joint Venture |
|---|----------------------|----------------------|
| Hedge type | Cash Flow | Cash Flow |
| Description | Swap | Swap |
| Range of notional amounts | \$35,000 – \$245,000 | \$30,000 – \$129,701 |
| Range of interest rate | 1.67 – 4.14% | 1.29 – 5.35% |
| Range of deferred effective start dates | 12/1/04 – 12/15/04 | None |
| Range of maturity dates | 6/7/04 – 10/10/07 | 4/1/04 – 5/1/06 |
| Accumulated other comprehensive loss at December 31, 2002 | \$(10,445) | \$(15,152) |
| Change in fair value | (1,345) | 4,192 |
| Accumulated other comprehensive loss at December 31, 2003 | \$(11,790) | \$(10,960) |

Within the next twelve months, the Company expects to recognize interest expense of \$5,533 currently unrealized in accumulated other comprehensive loss while the joint ventures expect to recognize \$5,574, of which the Company's share is \$1,669.

Other comprehensive loss, including the Company's proportionate share of its joint venture balances, at December 31, 2003 and 2002 was \$14,772 and \$14,353, respectively. Comprehensive income for the years ended December 31, 2003, 2002 and 2001 was \$121,893, \$53,229 and \$16,135, respectively.

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosures of estimated fair value of financial instruments were determined by management, using available market information and appropriate valuation methodologies. Considerable judgment is necessary to interpret market data and develop estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize on disposition of the financial instruments. The use of different market assumptions and/or estimation methodologies could have a material effect on the estimated fair value amounts.

Cash equivalents, restricted cash, accounts and notes receivable, accounts payable and other liabilities are carried at amounts which reasonably approximate their fair values.

Fixed rate debt with an aggregate carrying value of \$1,135,069 and \$1,071,079 has an estimated aggregate fair value of \$1,210,352 and \$1,161,124 at December 31, 2003 and 2002, respectively. Estimated fair value of fixed rate debt is based on interest rates currently available to the Company for issuance of debt with similar terms, credit risk and remaining maturities. The estimated fair value of the Company's variable rate debt is estimated to be approximately equal to its carrying value of \$984,245 and \$165,647 at December 31, 2003 and 2002, respectively.

Disclosure about fair value of financial instruments is based on pertinent information available to management at December 31, 2003 and 2002. Although management is not aware of any

factors that would significantly affect the reasonable fair value amounts, such amounts have not been comprehensively revalued for purposes of these consolidated financial statements since December 31, 2003, and current estimates of fair value may differ significantly from the amounts presented herein.

9. LEASING ACTIVITIES

The Company has noncancellable leases with tenants with remaining terms ranging from one to 20 years and requiring monthly payments of specified minimum rent. A majority of the leases require reimbursement by the tenant of substantially all operating expenses of the properties. Future minimum rental commitments under these leases at December 31, 2003 are as follows:

| | |
|------------|------------------|
| 2004 | \$173,616 |
| 2005 | 154,782 |
| 2006 | 129,121 |
| 2007 | 112,295 |
| 2008 | 95,101 |
| Thereafter | 302,428 |
| | <u>\$967,343</u> |

The Company has a noncancellable operating lease with an affiliate of Kan Am for its corporate headquarters in Arlington, Virginia. The lease commenced in April 1996 for a term of ten years. Total rental expense was \$3,177, \$3,071 and \$2,675 for the years ended December 31, 2003, 2002 and 2001, respectively. Future minimum rental payments under this lease are \$3,578, \$3,699 and \$1,780 for the years ending December 31, 2004, 2005 and 2006, respectively. In 2004, the Company entered into an agreement to lease new headquarters space beginning in April 2006.

10. EMPLOYEE BENEFIT PLANS

The Company has a 401(K) defined contribution benefit plan that covers all employees who are age 21 or older and have completed at least 60 days of service. Contributions made by employees electing to participate in the plan under salary reduction agreements are recorded when paid into the plan or, alternatively, accrued if unpaid. Employer contributions are accrued and paid into the plan periodically. Employer contributions were \$1,548, \$1,550 and \$1,400 for the years ended December 31, 2003, 2002 and 2001, respectively.

11. SERIES A CUMULATIVE CONVERTIBLE PREFERRED STOCK

In 2001, the Company sold 750,000 shares of Series A Cumulative Convertible Preferred Stock ("Series A Preferred Stock") totaling \$75,000 in a private placement. The Series A Preferred Stock had an initial coupon of 10.5% with annual 50 basis point increase in each of the next two years, with significant additional increases after the third year. The Series A Preferred Stock was convertible into the Company's common stock at a

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strike price of \$25.00 per share. In October and November 2003, all of the Company's Series A Cumulative Convertible Preferred Stock, par value \$0.01 per share, were converted into a total of 3,153,368 shares of the Company's common stock. Series A Preferred Stock was also subject to redemption at the option of the holders based on the occurrence of specified events. Due to the redemption feature, dividends were accounted for as interest expense.

12. MINORITY INTEREST

Minority interest is comprised of Mills LP common and preferred unit holders after eliminating the Company's ownership units.

Common minority interest is increased and decreased, respectively, for income and distributions allocated to common units held by outside interests. Periodically, the Company raises additional equity through the issuance of common stock and contributes the proceeds to Mills LP for an equivalent number of common units. The Company records adjustments to minority interest and stockholders' equity to reflect the increased ownership in Mills LP. The minority interest was 21.12% and 27.32% at December 31, 2003 and 2002, respectively.

As of December 31, 2003 and 2002, respectively, there were 13,464,161 and 16,237,425 common units of Mills LP that were not held by the Company. These units are exchangeable,

at the Company's option, for either cash or shares of its common stock on a one-for-one basis in specified circumstances. This exchange right has not been considered in the computation of per share data, as it does not have a dilutive effect.

In March 2003, Mills LP sold 400,000 of 8.75% Series D Cumulative Redeemable Preferred Units ("Series D") in a private placement to two investors at a purchase price of \$25.00 per unit. The net proceeds, which totaled \$9,955 after expenses, were used to reduce borrowings under the Company's line of credit. Series D preferred units are exchangeable for the Company's Series D Cumulative Redeemable Preferred Stock on a one-for-one basis. Distributions on Series D preferred units are payable quarterly in arrears at 8.75% of the liquidation preference of \$25.00 per unit. Holders of Series D preferred stock, if any shares are outstanding, will have limited voting rights if dividends are not paid for six or more quarterly periods and in certain events. Series D preferred units are included in minority interest on the consolidated balance sheet at a value of \$25 per share plus accrued dividends, if any. Dividends paid or accrued are included in minority interest on the consolidated statement of income.

13. CAPITAL STOCK

At December 31, 2003 and 2002, the total number of shares authorized and outstanding was as follows:

| | December 31, 2003 | | December 31, 2002 | |
|---|-----------------------------|------------------------------|-----------------------------|------------------------------|
| | Number of Shares Authorized | Number of Shares Outstanding | Number of Shares Authorized | Number of Shares Outstanding |
| Common stock, \$0.01 par value | 100,000,000 | 50,297,623 | 100,000,000 | 43,196,297 |
| Non-voting common stock, \$0.01 par value | 50,000,000 | — | 50,000,000 | — |
| Preferred stock | | | | |
| Series A Cumulative Convertible, \$0.01 par value | 750,000 | — | 750,000 | 750,000 |
| Series B Cumulative Redeemable, \$0.01 par value | 4,300,000 | 4,300,000 | 4,600,000 | 4,300,000 |
| Series C Cumulative Redeemable, \$0.01 par value | 3,500,000 | 3,500,000 | 3,450,000 | 3,400,000 |
| Series D Cumulative Redeemable, \$0.01 par value | 400,000 | — | — | — |
| Series E Cumulative Redeemable, \$0.01 par value | 8,545,000 | 8,545,000 | — | — |
| Undesignated preferred stock | 2,505,000 | — | 11,200,000 | — |

Common Stock

During 2002, the Company sold 13,318,179 shares of common stock. Net proceeds of \$364,396 were used to reduce line of credit borrowings and to fund the 2003 Cadillac Fairview Portfolio acquisition and the purchase of certain joint venture interests.

Series B and C Cumulative Redeemable Preferred Stock

In October and December 2002, the Company sold a total of 4,300,000 shares of 9% Series B Cumulative Redeemable Preferred Stock ("Series B") and 3,400,000 of 9% Series C Cumulative Redeemable Preferred Stock ("Series C"), both with a par value of \$0.01 per share, for \$25.00 per share in an underwritten public offering. In January 2003, an additional

100,000 shares of Series C preferred stock was sold in a public offering at an initial price of \$25.23 per share. Net proceeds from the offerings aggregated \$187,854 and were contributed to Mills LP in exchange for preferred units which have economic terms substantially identical to the Series B and C preferred stock. Net proceeds from the Series B preferred stock sale were used to reduce borrowings under the Company's line of credit, to fund development efforts and as working capital. Net proceeds from the Series C preferred stock were used to fund the January 2003 Cadillac Fairview Portfolio acquisition. Dividends on the Series B and Series C preferred stock are payable quarterly at 9% of the liquidation preference of \$25.00 per share. Holders of the stock will have limited voting rights only if dividends are not paid for six or more quarterly periods.

Series E Cumulative Redeemable Preferred Stock

In May 2003, the Company sold a total of 6,440,000 shares of 8.75% Series E Cumulative Redeemable Preferred Stock, ("Series E") par value \$0.01 per share, for \$25.00 per share in an underwritten public offering. In October and November 2003, the Company sold an additional 2,105,000 shares of Series E preferred stock for \$26.24 per share in two public offerings. The aggregate net proceeds of \$210,455 were contributed to Mills LP in exchange for preferred units having economic terms substantially identical to the Series E preferred stock. The net proceeds were used to reduce the Company's line of credit and certain other indebtedness. Dividends on the Series E preferred stock are payable quarterly at 8.75% of the liquidation preference of \$25.00 per share. Holders of the Series E preferred stock will have limited voting rights if dividends are not paid for six or more quarterly periods and in certain other events.

Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per common share:

| Years Ended December 31, | 2003 | 2002 | 2001 |
|---|-----------|----------|----------|
| Net income | \$122,312 | \$62,475 | \$21,242 |
| Less: Preferred stock dividends | (27,798) | (2,555) | — |
| Adjustment to minority interest | (285) | (126) | (72) |
| Numerator for basic earnings per common share | 94,229 | 59,794 | 21,170 |
| Adjustment to minority interest | 496 | 457 | 146 |
| Numerator for diluted earnings per common share | \$ 94,725 | \$60,251 | \$21,316 |
| Denominator: | | | |
| Weighted average shares | 45,149 | 35,726 | 25,262 |
| Outstanding unvested restricted stock awards — weighted average shares | (285) | (235) | (220) |
| Denominator for basic earnings per share-adjusted weighted average shares | 44,864 | 35,491 | 25,042 |
| Effect of dilutive securities: | | | |
| Employee stock options and restricted stock awards | 921 | 864 | 449 |
| Denominator for diluted earnings per share-adjusted weighted average shares | 45,785 | 36,355 | 25,491 |
| Basic earnings per common share | \$ 2.10 | \$ 1.68 | \$ 0.85 |
| Diluted earnings per common share | \$ 2.07 | \$ 1.66 | \$ 0.84 |

Certain stock options are excluded from the computation of basic and diluted earnings per common share as their impact is anti-dilutive.

Stock Option Plans

Effective January 1, 2002, the Company adopted the fair value recognition provisions of SFAS No. 123 "Accounting for Stock-Based Compensation," on a prospective basis to all employee awards granted, modified or settled after the effective date. Because the Company's awards vest over periods ranging from three to ten years, the cost related to stock-based employee compensation is less than would have been recognized had the fair value method been applied to all outstanding and unvested awards in each period. The following presents the pro forma effect of this on net income available to common share holders.

| Years Ended December 31, | 2003 | 2002 | 2001 |
|---|-----------|----------|----------|
| Net income as reported | \$122,312 | \$62,475 | \$21,242 |
| Add: Stock-based employee compensation expense included in reported net income, net of minority interest | 7,883 | 3,604 | 2,680 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of minority interest | (8,164) | (4,065) | (3,466) |
| Pro forma net income | 122,031 | 62,014 | 20,456 |
| Deduct: Series B, C and E preferred stock dividends | (27,798) | (2,555) | — |
| Pro forma income available to common stockholders | \$ 94,233 | \$59,459 | \$20,456 |
| Earning per common share: | | | |
| Basic, as reported | \$ 2.10 | \$ 1.68 | \$ 0.85 |
| Basic — pro forma | \$ 2.09 | \$ 1.67 | \$ 0.81 |
| Diluted, as reported | \$ 2.07 | \$ 1.66 | \$ 0.84 |
| Diluted — pro forma | \$ 2.06 | \$ 1.64 | \$ 0.81 |

The Company has an Executive Equity Incentive Plan ("Plan") for the purpose of attracting and retaining directors, executive officers and other key personnel. Pursuant to the Plan, 4,500,000 shares of common stock have been reserved for issuance of stock options and restricted stock. Options and restricted stock are issued at a price not less than 100% of fair market value at the date of grant, options expire ten years from the date of grant and contain such other terms and conditions (including, without limitation, conditions to vesting) as may be determined by the Company's Executive Compensation Committee. In 1999, the Company adopted a broad based 1999 Stock Option Plan for the purpose of advancing the interests of the Company. Pursuant to the plan, 2,500,000 shares of common stock have been reserved for issuance of stock options and restricted stock. Options and restricted stock are issued at a price not less than 100% of fair market value at the date of grant, options expire ten years from the date of grant and contain such other terms and conditions (including, without limitation, conditions to vesting) as may be determined by the Company's Executive Compensation Committee.

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The following summarizes stock option activity and related information.

| Years Ended December 31, | 2003 | | 2002 | | 2001 | |
|--|---------|---------------------------------|---------|---------------------------------|---------|---------------------------------|
| | Options | Weighted Average Exercise Price | Options | Weighted Average Exercise Price | Options | Weighted Average Exercise Price |
| Outstanding-beginning of year | 2,747 | \$ 20.90 | 3,496 | \$ 20.79 | 4,756 | \$ 21.61 |
| Granted | 3 | 34.05 | 2 | 26.14 | 93 | 19.60 |
| Exercised | (878) | 19.85 | (683) | 20.43 | (438) | 18.93 |
| Forfeited and expired | (78) | 18.43 | (68) | 18.15 | (37) | 20.63 |
| Restricted Stock Grants — Tender Offer | — | — | — | — | (878) | 25.04 |
| Outstanding — end of year | 1,794 | \$ 21.53 | 2,747 | \$ 20.90 | 3,496 | \$ 20.79 |
| Exercisable at end of year | 1,573 | \$ 22.05 | 2,015 | \$ 21.66 | 2,032 | \$ 21.62 |
| Weighted average fair value of options per share granted during the year | | \$ 0.81 | | \$ 0.58 | | \$ 1.67 |

Exercise prices of options outstanding at December 31, 2003 ranged from \$17.31 to \$34.05. The weighted average remaining contractual life of options outstanding at December 31, 2003 was 3.9 years.

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

| Years Ended December 31, | 2003 | 2002 | 2001 |
|--------------------------|-------|-------|-------|
| Risk-free interest rate | 5.2% | 5.3% | 4.6% |
| Dividend Yield | 8.9% | 9.2% | 9.7% |
| Volatility factor | 12.7% | 10.8% | 25.8% |
| Life (years) | 4.4 | 5.4 | 3.1 |

The Black Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. For purposes of pro forma disclosures and subsequent to January 1, 2002, for recording the fair value, the estimated fair value of the options granted is amortized to expense over the options' vesting period.

Restricted Stock Grants

Pursuant to both the Plan and the 1999 Stock Option Plan, the Company grants restricted stock to its directors, officers and other key employees. Compensation expense related to these grants is amortized on a straight-line basis over the vesting period. Vesting periods for restricted stock are determined by the Company's Executive Compensation Committee. As of December 31, 2003, the Company had grants of 560,460 shares of non-vested

restricted stock outstanding pursuant to such plans, which shares vest 183,235 in 2004, 209,182 in 2005, 112,543 in 2006 and 55,500 in 2007.

The number and weighted average market value per share of restricted shares granted during each year is as follows:

| | 2003 | 2002 | 2001 |
|--|----------|----------|----------|
| Restricted shares granted during year | 231,090 | 273,163 | 338,727 |
| Weighted average market value per share of restricted shares granted during year | \$ 32.62 | \$ 27.85 | \$ 19.93 |

An additional 34,310 shares of stock would be issued and would vest only upon a change in control of the Company.

14. COMMITMENTS AND CONTINGENCIES

The Company is subject to the risks inherent in the ownership and operation of commercial real estate. These risks include, among others, those normally associated with changes in the general economic climate, trends in the retail industry, including creditworthiness of retailers, competition for retailers, changes in tax laws, interest rate levels, the availability of financing and potential liability under environmental and other laws.

The Company currently is neither subject to any material litigation nor, to management's knowledge, is any material litigation currently threatened against the Company, other than routine litigation and administrative proceedings arising in the ordinary course of business.

15. TRANSACTIONS WITH AFFILIATES

In 2003, the Company advanced \$5,651 to PGC. The five year note bears interest at 9% and is secured by distributions from the Madrid Xanadú partnership to PGC.

MSC provides development and leasing, financing and management services to the unconsolidated joint ventures. Fees recorded during 2003, 2002 and 2001 were \$16,134, \$19,579 and \$18,318, respectively.

16. NON-CASH INVESTING AND FINANCING INFORMATION

The assets and liabilities of properties acquired are as follows:

| | 2003 | 2002 |
|---|-------------|-----------|
| Net real estate and development assets | \$1,269,108 | \$457,042 |
| Account receivable and other current assets | (20,000) | 22,692 |
| Cash | — | 2,723 |
| Deferred costs and other intangibles, net | 71,435 | 38,472 |
| Mortgages, notes and loans payable assumed | (240,861) | (172,873) |
| Accounts payable and other liabilities | (20,396) | (17,373) |
| Cash used in the acquisition of income producing property | \$1,059,286 | \$330,683 |

During 2003, 2,773,206 common units of Mills LP were exchanged on a one-for-one basis for shares of Company common stock.

17. SUBSEQUENT EVENT

In January 2004, the Company acquired Westland Mall near Miami, Florida for \$78,750, excluding transaction costs.

18. UNAUDITED QUARTERLY RESULTS OF OPERATIONS

The following is a summary of results of operations for each of the fiscal quarters during 2003 and 2002.

| 2003 | Three Months Ended | | | |
|---|--------------------|------------|--------------|-------------|
| | March 31 | June 30 | September 30 | December 31 |
| Total operating revenues and interest income | \$74,153 | \$84,256 | \$100,851 | \$123,388 |
| Income before minority interest and discontinued operations | 26,670 | 48,669 | 31,848 | 48,623 |
| Net income | 20,681 | 37,176 | 25,439 | 39,016 |
| Earnings Per Common Share — Basic: | | | | |
| Income from continuing operations | \$ 0.38 | \$ 0.70 | \$ 0.40 | \$ 0.63 |
| Discontinued operations | — | — | — | — |
| Net income per share | \$ 0.38 | \$ 0.70 | \$ 0.40 | \$ 0.63 |
| Earnings Per Common Share — Diluted: | | | | |
| Income from continuing operations | \$ 0.37 | \$ 0.69 | \$ 0.39 | \$ 0.62 |
| Discontinued operations | — | — | — | — |
| Net income per share | \$ 0.37 | \$ 0.69 | \$ 0.39 | \$ 0.62 |
| Basic common shares | 43,173,218 | 43,562,114 | 44,094,565 | 48,220,990 |
| Diluted common shares | 43,924,276 | 44,441,040 | 45,051,574 | 49,318,036 |
| <hr/> | | | | |
| 2002 | Three Months Ended | | | |
| | March 31 | June 30 | September 30 | December 31 |
| Total operating revenues and interest income | \$46,830 | \$48,397 | \$ 57,013 | \$ 70,687 |
| Income before minority interest and discontinued operations | 15,501 | 23,416 | 18,160 | 32,888 |
| Net income | 9,897 | 15,847 | 12,797 | 23,934 |
| Earnings Per Common Share — Basic: | | | | |
| Income from continuing operations | \$ 0.34 | \$ 0.46 | \$ 0.33 | \$ 0.55 |
| Discontinued operations | — | — | — | — |
| Net income per share | \$ 0.34 | \$ 0.46 | \$ 0.33 | \$ 0.55 |
| Earnings Per Common Share — Diluted: | | | | |
| Income from continuing operations | \$ 0.33 | \$ 0.45 | \$ 0.33 | \$ 0.54 |
| Discontinued operations | — | — | — | — |
| Net income per share | \$ 0.33 | \$ 0.45 | \$ 0.33 | \$ 0.54 |
| Basic common shares | 28,991,840 | 34,955,438 | 38,425,345 | 39,256,574 |
| Diluted common shares | 29,853,384 | 35,822,766 | 39,277,696 | 40,132,145 |

Directors and Executive Management

Board of Directors

Laurence C. Siegel

Chairman of the Board
Chief Executive Officer – The Mills Corporation
term expires June 2005

Charles R. Black, Jr.

President and Chief Executive Officer –
Black, Kelly, Scruggs & Healey
term expires June 2006

Dietrich von Boetticher

Vice Chairman of the Board
Partner – von Boetticher, Hasse, Lohmann
term expires June 2006

James C. Braithwaite

President – Kan Am Realty, Inc.
*term expires June 2004**

S. Joseph Bruno

Executive Director – Building Hope
term expires June 2006

James F. Dausch

President, Development Division – The Mills Corporation
term expires June 2004

The Honorable Joseph B. Gildenhorn

Founding Officer – JBG Companies
*term expires June 2004**

John M. Ingram

Vice Chairman of the Board
Principal – Ingram Realty Advisors
term expires June 2006

Harry H. Nick

Director – Phillips Development Corporation
*term expires June 2004**

Franz von Perfall

President – Kan Am International, GmbH
term expires June 2005

Robert P. Pincus

Chairman, Milestone Merchant Partners
*term expires June 2004**

Cristina L. Rose

Chairman – Rose & Kindel
term expires June 2005

Executive Officers

Laurence C. Siegel

Chairman and
Chief Executive Officer

Mark Ettenger

President

James F. Dausch

President, Development Division

Terence P. Fitzgerald

Executive Vice President,
Domestic Development

Thomas E. Frost

Executive Vice President,
General Counsel and Secretary

Gregg M. Goodman

Executive Vice President, Anchor Leasing

Steven J. Jacobsen

Executive Vice President,
Development

Nicholas McDonough

Executive Vice President,
Asset Management

Mary Jane Morrow

Executive Vice President,
Chief Financial Officer

James A. Napoli

President, Operating Division

D. Gregory Neeb

Executive Vice President,
Chief Investment Officer

Kenneth R. Parent

Chief Operating Officer

Edward B. Vinson

Executive Vice President,
International Development

James P. Whitcome

Executive Vice President,
Capital Services

* Nominees for re-election at the 2004 Annual Shareholders Meeting

Corporate Information

Common Stock

The Mills Corporation common stock is traded on the New York Stock Exchange under the symbol "MLS."

The Mills Corporation Stock Price and Dividend

| 2003 | High | Low | Dividend (Per Share) |
|----------------|---------|---------|-------------------------|
| First Quarter | \$31.59 | \$27.55 | \$.5475 |
| Second Quarter | \$34.15 | \$31.31 | \$.5650 |
| Third Quarter | \$39.35 | \$33.77 | \$.5650 |
| Fourth Quarter | \$44.00 | \$39.58 | \$.5650 |
| 2002 | High | Low | Dividend (Per Share) |
| First Quarter | \$28.46 | \$26.00 | \$.5325 |
| Second Quarter | \$31.00 | \$26.87 | \$.5475 |
| Third Quarter | \$30.47 | \$25.25 | \$.5475 |
| Fourth Quarter | \$29.90 | \$26.80 | \$.5475 |

Corporate Information

Persons interested in financial or general information about The Mills Corporation should contact: Investor Relations (877) 396-0206.

News releases issued by The Mills Corporation are available on the Internet at www.themills.com. You may also obtain news from the Business Wire website at www.BusinessWire.com. Search for The Mills Corporation or our ticker symbol, MLS.

Corporate Headquarters

The Mills Corporation
1300 Wilson Boulevard
Arlington, Virginia 22209
Tel: (703) 526-5000
Fax: (703) 526-5111
Website: www.themills.com

Memberships

International Council of Shopping Centers
National Association of Real Estate Investment Trusts, Inc.
Urban Land Institute

Transfer Agent

EquiServe Trust, N.A.
P.O. Box 43069
Providence, Rhode Island 02940-3069
(800) 446-2617
Outside the US (781) 575-2000
Hearing Impaired (800) 952-9245
www.equiserve.com

Securities Counsel

Hogan & Hartson, L.L.P.
555 13th Street, NW
Washington, DC 20004

SEC Form 10-K

Additional copies of this Annual Report and the Form 10-K are available from the Company or through *The Wall Street Journal* Annual Reports Service at (800) 654-2582. You must give the ticker symbol when ordering. Also, you can visit The Mills Corporation website to obtain these documents at: www.themills.com/investors

Independent Auditors

Ernst & Young LLP
8484 Westpark Drive
McLean, VA 22102

Dividend Reinvestment and Share Purchase Plan

Shareholders may automatically reinvest their dividends in additional common stock of The Mills Corporation through the Dividend Reinvestment Plan that also provides for purchase by voluntary cash contributions. The Company pays for costs and commissions associated with the plan. For additional information, please contact:

The Mills Corporation Dividend Reinvestment Plan

EquiServe Trust, N.A.
P.O. Box 43069
Providence, Rhode Island 02940-3069
(800) 446-2617
Outside the US (781) 575-2000
Hearing Impaired (800) 952-9245
www.equiserve.com

Annual Meeting

The Company's Annual Meeting of Shareholders will be held at 10:00 am (Eastern Time) on June 10, 2004 at The Key Bridge Marriott, 1401 Lee Highway, Arlington, Virginia.

Equal Opportunity Employer

The Mills Corporation is an equal opportunity employer. We believe that the talents of dedicated and diverse employees represent our most important resource, and we realize that this philosophy is essential to our continued growth and development.

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