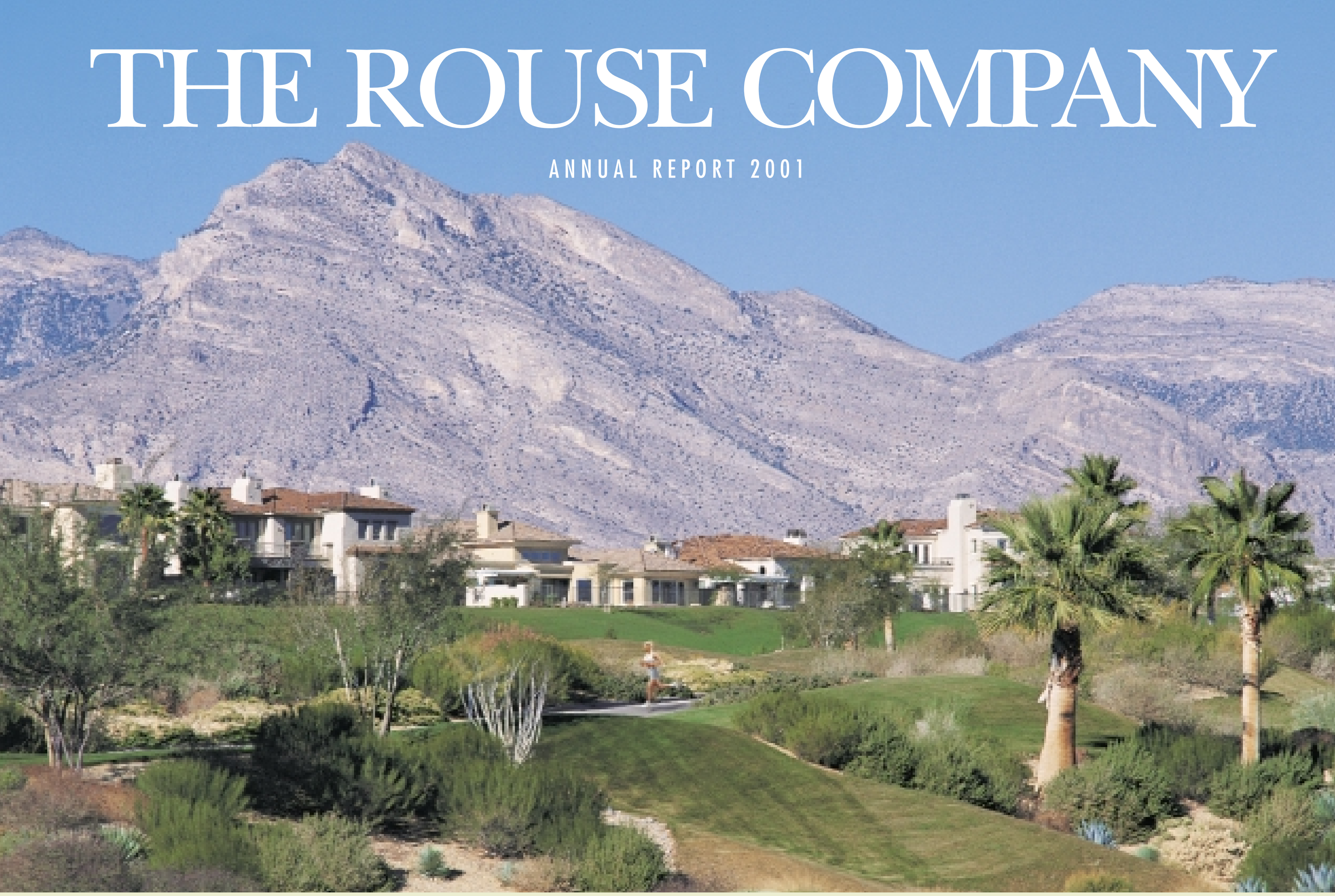
THE ROUSE COMPANY

ANNUAL REPORT 2001



Summerlin, Nevada ▲ | ▼ *Columbia, Maryland*

The Planned Communities of Columbia, Maryland and Summerlin, Nevada

The photographs on the front cover show representative residential areas of the Company's two highly successful planned communities. Columbia, Maryland (35 years since its opening to the public) and Summerlin, Nevada (celebrating its 12th year since opening) are nationally and internationally recognized as the premier examples of large-scale, master-planned community development. Both have been creative and innovative in design, in planning, in construction and in financing. We are proud of what has been accomplished by the Company's two community development subsidiaries, The Howard Research and Development Corporation (HRD) and The Howard Hughes Corporation (THHC), and pleased, too, that HRD and THHC have each contributed more than $100 million of Net Operating Income to the Company over the past four years. Pages 8 through 11 show and describe some of the achievements of Columbia and Summerlin.

Highlights

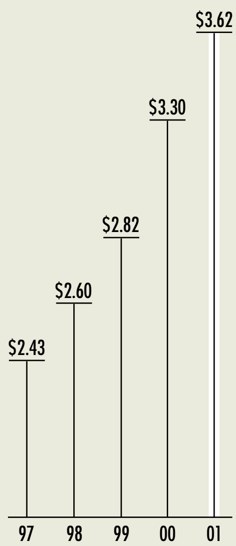
	2001	2000
OPERATING RESULTS		
Total Segment Revenues (note 1)	**$ 1,058,775,000**	$ 1,062,875,000
Funds From Operations (note 2)	**$ 274,469,000**	$ 252,578,000
Net Earnings	**$ 110,706,000**	$ 170,485,000
FINANCIAL POSITION		
Total Segment Assets (note 1)	**$ 5,242,757,000**	$ 5,025,251,000
Debt and Capital Leases (note 1)	**$ 3,937,850,000**	$ 3,779,715,000
Shareholders' Equity	**$ 655,360,000**	$ 630,468,000
PER SHARE DATA		
Earnings Per Share—Diluted	**$ 1.40**	$ 2.24
Funds From Operations Per Share—Diluted	**$ 3.62**	$ 3.30
Dividends Per Share:		
Common stock	**$ 1.42**	$ 1.32
Preferred stock	**$ 3.00**	$ 3.00
OTHER SELECTED DATA		
Weighted Average Common Shares Outstanding		
Used in Diluted Per Share Calculations:		
Earnings Per Share	**69,694,000**	72,064,000
Funds From Operations Per Share	**76,699,000**	77,374,000
Number of Employees	**3,396**	3,749

Note 1—The Company's proportionate share of assets, debt, capital leases and revenues of certain unconsolidated real estate ventures accounted for using the equity method of accounting are included in these amounts. Revenues also include the Company's share of FFO of other unconsolidated real estate ventures in which it holds a minority interest. Amounts for 2000 also include unconsolidated real estate ventures in which the Company held a majority of the financial interest, but did not own a majority voting interest. See note 2 of the notes to the consolidated financial statements for a description of these ventures.

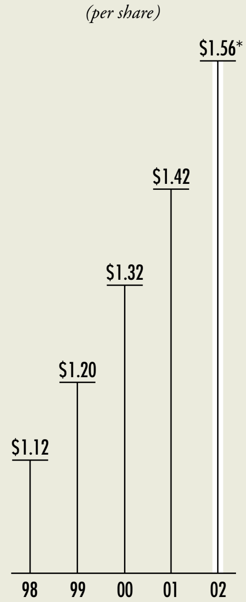
Note 2—The Company defines Funds From Operations (FFO) as net earnings (computed in accordance with accounting principles generally accepted in the United States of America), excluding cumulative effects of changes in accounting principles, extraordinary items, gains (losses) on operating properties, real estate depreciation and amortization and deferred and certain current income taxes. FFO also includes the Company's share of FFO of unconsolidated real estate ventures. The Company's definition of FFO differs from the definition adopted by The National Association of Real Estate Investment Trusts because it excludes deferred and certain current income taxes and may differ from those used by other REITs. FFO is not a measure of operating results or cash flows from operating activities as defined by accounting principles generally accepted in the United States of America. Additionally, FFO is not necessarily indicative of cash available to fund cash needs and should not be considered as an alternative to cash flows as a measure of liquidity.

Letter to Shareholders

Total Funds
From Operations
(per share diluted)



Common Stock Dividend
(per share)



** rate approved by Board of Directors on February 21, 2002*

A year ago, the Company's estimates for 2001 assumed a flat-to-slowing economy, and internal projections were, therefore, somewhat cautious. After one of the longest economic expansions in United States history, a recession did begin this past Spring. What no one could have anticipated were the tragic events of September 11th and their aftermath. The year evolved into one of the most trying imaginable for this country, the economy and American business.

In this context, it is gratifying to report that the Company produced record results. Funds From Operations for 2001 were $274 million, 9% ahead of the $253 million reported in 2000, and were $3.62 per share, 10% ahead of $3.30 per share a year ago.

Net Earnings were $111 million ($1.40 per share) compared to $170 million ($2.24 per share) last year, with the difference primarily related to gains on asset transfers in 2000 and to higher provisions for deferred taxes in 2001.

In addition to the strong operating results, the Company announced a major acquisition just after year-end. Following this letter is a special section summarizing the agreement to purchase interests in eight high-quality regional retail centers from Rodamco North America, N.V. (Rodamco) for $1.45 billion.

In recognition of the excellent results for 2001 and the prospects for 2002 and the future, the Board of Directors on February 21, 2002, approved an increase in the quarterly common stock cash dividend to $.39 per share, or an annual rate of $1.56 per share, 10% above the $1.42 per share paid in 2001. Since the dividend program was initiated in 1978, the distribution amount has grown at a compound annual rate of 14% per year.

RETAIL CENTERS — GOOD GROWTH IN DIFFICULT ENVIRONMENT

The recession and the aftereffects of September 11th impacted sales, income and traffic at shopping centers across the United States, and the results for most retailers ranged from flat to poor. Particularly hard hit were urban specialty marketplaces, where tourism represents a significant component of normal business. It was, therefore, reassuring to see total Net Operating Income from our retail portfolio increase by 2% to $358 million for 2001, and especially impressive to see comparable center Net Operating Income up 3% in the fourth quarter and 5% for the whole year.

As might be expected, retail sales of merchants in comparable properties (excluding acquisitions, expansions, new projects, etc.) declined slightly (less than 3%) for the year, while the average sales per square foot of comparable centers ended the year at $421. Retail occupancy levels, always among the highest in the industry, held up very well, ending the year at 95% (compared to 96% at December 31, 2000). Average occupancy for the full year was virtually unchanged at 93%. Re-leasing experience was also good, with new first-year rents averaging over $40 per square foot. The high quality of the Company's retail properties produced good results in 2001—generating strong growth in a very difficult economic environment.

Looking ahead to 2002, there is growing sentiment that the recession will end by midyear. Company management has not incorporated that optimism into 2002 estimates, but even in the absence of a major economic rebound, occupancy levels should not vary significantly from 2001. Some retailers have cut back on expansion plans, but there is still substantial demand for locations in the Company's retail centers. In addition, operating margins should continue to improve, and higher rents have been achieved on space re-leased for 2002. Net Operating Income from retail centers for 2002 will also be enhanced by the Fall openings of both the Village of Merrick Park in Coral Gables, Florida and the first phase of Fashion Show in Las Vegas, Nevada (see pages 12 to 15).

OFFICE AND OTHER PROPERTIES — SOLID PERFORMANCE

The Company's portfolio of office and other properties also produced good results in 2001. Net Operating Income was $126 million, down from $138 million in 2000. This decline was due to the late 2000 transfer into a joint venture of 37 office/industrial buildings in Las Vegas. Comparable property Net Operating Income for the office and other properties portfolio was ahead 2% for the year. There was some softness in the fourth quarter which was reflected in occupancy levels. Average occupancy for 2001 was basically the same as in 2000—in the mid-93% range—but, at year-end, occupancy levels were slightly above 92% compared to 95% at December 31, 2000.

The Company's portfolio of office and other properties is largely concentrated in two markets—Baltimore / Washington and Las Vegas /Summerlin. Both of these markets are more active than many others in the United States that have absorbed substantial high-tech / Internet / dot.com cutbacks. Although it is unlikely that the Company's portfolio will show much growth in Net Operating Income in 2002, it is well positioned to achieve levels near those of 2001.

Construction is on schedule for the September 27, 2002 opening of the Village of Merrick Park.

Hughes Center, the premier Class A office address in Las Vegas.

COMMUNITY DEVELOPMENT— OUTSTANDING SUCCESS

Once again, land sales activities, primarily in Columbia, Maryland and Summerlin, Nevada, produced record results, with Net Operating Income totaling $75 million, a 12% increase over 2000's total.

Both communities are recognized in their markets as the dominant, premier locations for both business and residential development. However, in the fourth quarter, tourism declined and affected consumer sentiment in Las Vegas. At the same time, the pace of office absorption slowed in the Baltimore/Washington area. Visitor traffic is now back to near normal levels in Las Vegas and prospects for businesses serving the government and military in the Washington area have improved office absorption prospects. Both projects have exciting new areas opening up for development and sale. While the Company has carefully evaluated the commitment of resources and capital to land development, demand for land has continued to be strong. This means that much of the first half of 2002 will be devoted to readying land for sales that will occur largely in the second half of the year.

Because of the great successes of both Columbia and Summerlin over a combined 50 years, we have devoted a section of this report (see page 8 to 11) to updating the status and prospects of each community.

COLUMBIA VILLAGE CENTERS — NEW MANAGEMENT

In early February of 2002, the Company announced an agreement that will result in the sale of its interests in 12 Columbia community and village center retail properties to an affiliate of Kimco Realty Corporation. The sale is expected to close this Spring.

The Company developed this 1.2 million square feet of space over the past 35 years and is proud of what has been accomplished. Nonetheless, with no new village center opportunities available in Columbia, and with the Company focusing on large-scale regional retail centers and master-planned community development projects, this is an appropriate time for a transition to an operator, such as Kimco Realty Corporation, which specializes in managing community retail centers.

PROSPECTS FOR 2002 — PLATFORM FOR THE FUTURE

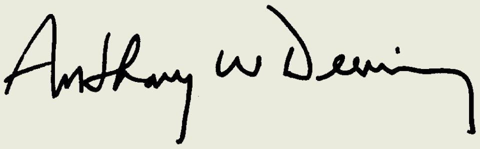
Operating results for 2001 were excellent, and prospects for 2002 are very strong. Internal growth from the operating portfolio, the openings of the Village of Merrick Park and the first phase of the Fashion Show (see pages 12 to 15) and the acquisition of interests in eight premier retail centers from Rodamco should produce substantial additional retail Net Operating Income in 2002.

Results for 2002 are expected to be much stronger in the second half of the year. The sale of the Company's common stock to fund a portion of the Rodamco acquisition occurred early in the year, yet the closing of the purchase is not scheduled until Spring. In the interim—for the first, and part of the second, quarter—the stock sale will be dilutive to Funds From Operations on a per share basis. Once the acquisition is completed, it should be accretive, benefiting Funds From Operations per share in the second half of 2002 and thereafter.

With the openings of the Village of Merrick Park and the first phase of Fashion Show this Fall, fourth quarter Funds From Operations will get a further boost.

Finally, land sales earnings are likely to come predominantly in the second half of the year as land development makes new acreage available for sale in 2002 and the future.

The Company has provided guidance to investors and investment analysts that the expected range of Funds From Operations for 2002 is \$3.85 to \$3.95 per share. And, while that will be an excellent result if achieved, it should be the platform for even stronger results for 2003 and the future.



ANTHONY W. DEERING
Chairman of the Board
and Chief Executive Officer

Tony Deering at the site of the new residential community of Stone Lake on Columbia's eastern border.


Water Tower Place

ACQUISITION OF RODAMCO NORTH AMERICA, N.V.

On January 13, 2002, The Rouse Company and two other companies announced the signing of an agreement to acquire the assets of Rodamco North America, N.V. The Company's share of the purchase price is $1.45 billion, primarily for interests in eight premier regional retail centers that have average sales per square foot of $460. The other two companies also acquired interests in a number of other retail centers, and the three companies collectively will own the remainder of Rodamco's assets. The eight centers in which the Company will acquire interests are listed on the chart below.

Including closing costs and other expenses, the Company's total investment will be approximately $1.555 billion, including $675 million of assumed property debt and a small amount of perpetual preferred stock. Of the $880 million required to close the transaction, $457 million has already been raised through a sale of common stock in mid-January 2002. The remaining $423 million will come from a variety of sources, which may include sales of non-core assets, project debt, corporate debt and/or joint venture equity sales at the project level.

The price is payable to Rodamco in euros at the closing of the transaction. Shortly after the agreement was signed, the Company "hedged," and thus eliminated, its exposure to upward euro fluctuations. A maximum exchange rate of $.8819 per euro was locked in—better than the acquisition pro forma assumption of $.90. Should the euro decline further in price prior to the closing of the transaction, the Company would purchase the necessary euros at the less expensive exchange rate.

The eight retail centers being acquired are very complementary to the Company's portfolio and the related strategy of focusing on dominant projects in major markets. All eight are "A" properties under the Company's stringent ranking criteria, and their inclusion makes the total portfolio among the best in the industry. Management believes, and past results have ratified, that high-quality retail properties offer the best returns over the long term.

PROPERTIES TO BE ACQUIRED BY THE ROUSE COMPANY

Property	*% Ownership*[1]	*Total Center*[2]	*Mall Stores*[2]	*Anchor Tenants*
Collin Creek[3] Plano, TX	100%	1,121	331	Dillard's, Foley's, JCPenney, Mervyn's, Sears
Lakeside Mall Sterling Heights, MI	100%	1,477	516	Marshall Field's, Marshall Field's Men & Home, JCPenney, Lord & Taylor, Sears
North Star Mall[3] San Antonio, TX	100%	1,251	435	Dillard's, Foley's, Macy's, Mervyn's, Saks Fifth Avenue
Oakbrook Center Oakbrook, IL	50%	2,267	842	Lord & Taylor, Marshall Field's, Neiman Marcus, Nordstrom, Saks Fifth Avenue, Sears
Perimeter Mall[3] Atlanta, GA	100%	1,281	502	Macy's, Nordstrom, Rich's, Rich's Furniture Store
The Streets at Southpoint Durham, NC	100%	1,320	590	Belk, Hecht's, JCPenney, Nordstrom, Sears
Water Tower Place Chicago, IL	55%	820	310	Lord & Taylor, Marshall Field's
Willowbrook[3] Wayne, NJ	100%	1,528	500	Lord & Taylor, Macy's, Sears, Bloomingdale's
Total		**11,065**	**4,026**	

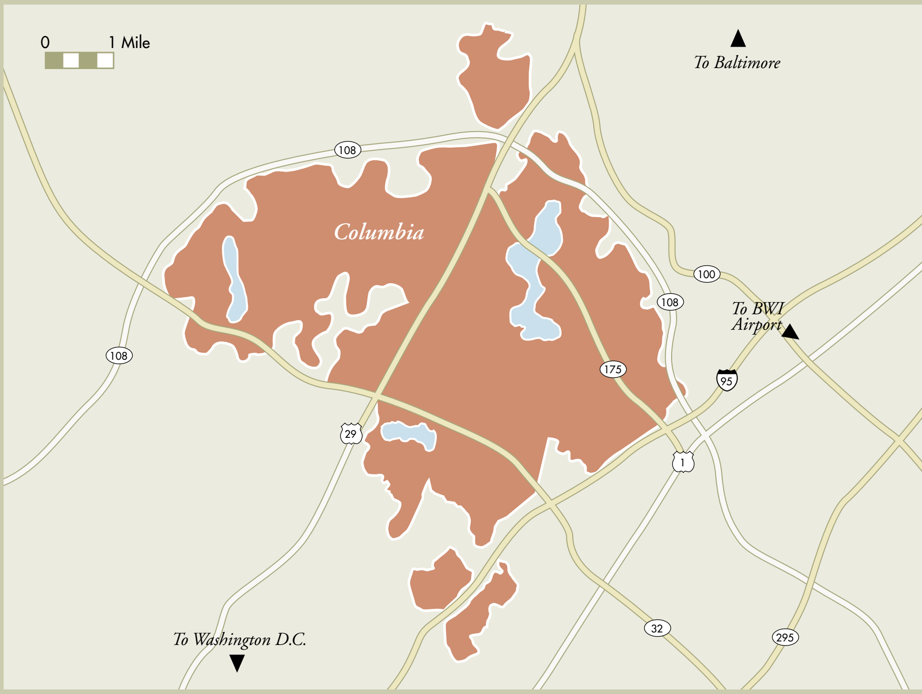
(1) Effective ownership after acquisition closing includes certain minority interests. (2) Square feet (000's). (3) Property is an existing joint venture with Rodamco.


PARK SQUARE

Columbia, Maryland

Columbia is the "downtown" of the rapidly growing 19-mile long corridor separating the perimeter beltways of Baltimore, Maryland and Washington, D.C. Columbia will celebrate the 35th anniversary of its first residents this coming June. Today, Columbia's population is 95,000, residing in 33,500 apartments, condominiums and single family houses. There are 3,300 businesses occupying more than 26 million square feet of space and employing 75,000 people. At the same time, more than 5,300 acres (over 35% of Columbia's land area) have been set aside as permanent open space. In addition, residents have access to exceptional public schools, excellent health care and services, and a wide array of religious, cultural, entertainment, shopping and recreational facilities and programs.

The remaining saleable land inventory in the Columbia area totals 1,700 fully entitled acres, comprised of residential and commercial land in Columbia, plus the new communities of Emerson on Columbia's southeastern border and Fairwood to the south in Prince George's County. Columbia's extraordinary success and strategic location combine to offer the opportunity for the sale of these scarce assets to provide substantial Net Operating Income and cash proceeds for the foreseeable future.

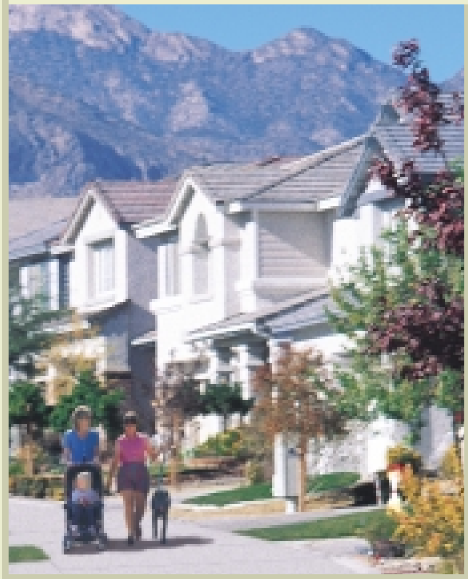


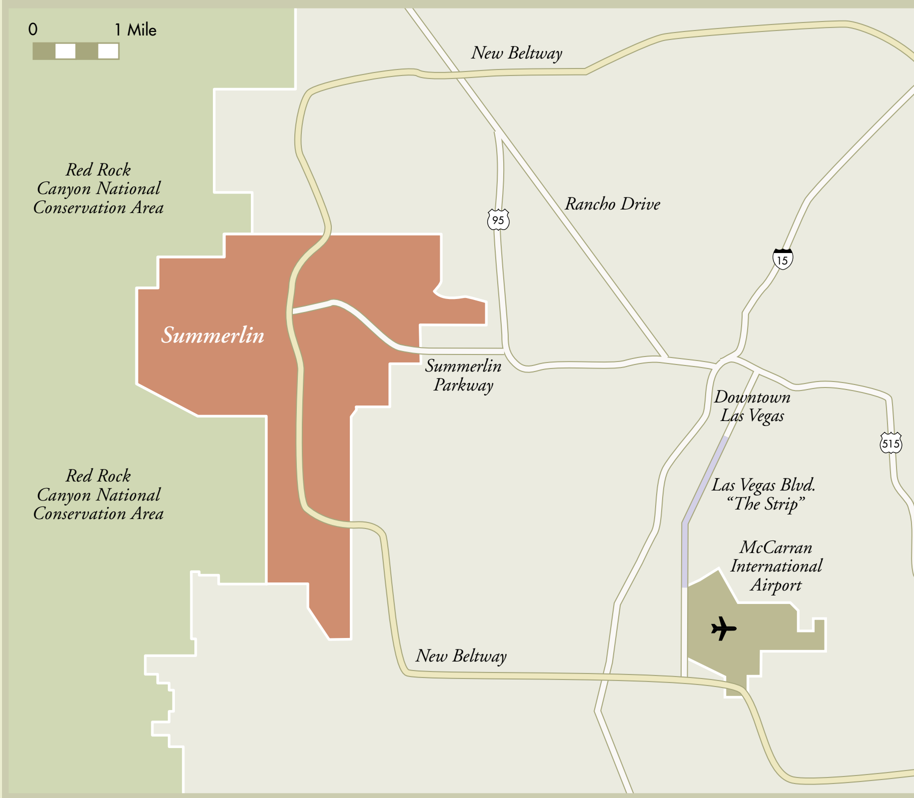
Summerlin, Nevada

Summerlin has clearly benefited from its location on the western edge of Las Vegas, America's fastest growing metropolitan area during the '90s. Summerlin's first residents arrived in 1989, and already it boasts a population of more than 60,000. In nine of the past ten years, Summerlin was the best selling master-planned community in the United States.

There are now 14,000 jobs in Summerlin. Prospects are excellent that the employment base will grow significantly in the years to come, especially since a portion of Las Vegas' perimeter beltway has now opened, with seven interchanges serving the community. Driving time to McCarran Airport and Las Vegas Boulevard (the "Strip") has been reduced to approximately 20 minutes, providing Summerlin even greater appeal and convenience for prospective residents and newly arriving businesses.

Work is also underway on Summerlin Town Center, which will include high density office and commercial uses. Four department stores (Macy's, Dillard's, Lord & Taylor and Robinsons-May) are committed to a new regional retail center for the community planned for 2005. Summerlin enjoys a 15% share of the new residential market in the Las Vegas Valley, and with more than 7,000 entitled, saleable acres remaining, it should continue to strengthen its position in the fastest growing market in the United States.






TEREX
600S

Commercial Development

For almost ten years now, the Company has been following a strategy designed to concentrate the retail portfolio on premier properties—retail centers with multiple anchor department stores, located in affluent major metropolitan markets and with high sales and occupancy levels. Many of the centers owned in the early 90s did not fit this profile, and they have either been expanded and renovated or have been disposed of, transferred or sold.

The portfolio has also been strengthened through the acquisition of partners' interests in some centers or through the purchase of high quality properties, as in the TrizecHahn acquisition in 1998 and the Rodamco acquisition explained on page 7 and scheduled to be completed later this year.

Another avenue in building a powerful portfolio is to develop premier properties. The Company's current development pipeline includes a number of high quality centers that will be opening in the next few years.

The Shops at La Cantera

SAN ANTONIO, TEXAS

Located within a 1,700 acre master-planned project northwest of San Antonio, The Shops at La Cantera will have the market's first Neiman Marcus and Nordstrom stores. Dillard's and Foley's will also join the open air center which will include 360,000 square feet of small stores and restaurants. Construction is scheduled to begin later in 2002 for a fall 2004 opening.

Bridgewater Commons

BRIDGEWATER, NEW JERSEY

The announcement of the closing of a department store can be a negative for a regional center, but not at a premier property like Bridgewater Commons. Federated Department Stores closed its Stern's division, but will replace Bridgewater Commons' Stern's store with a Bloomingdale's, which opens in April 2002. In addition, 90,000 square feet of Bloomingdale's Home and up to 100,000 square feet of small stores will be added to this highly successful center.

Summerlin Center

SUMMERLIN, NEVADA

Located within Summerlin Town Center, the expected commercial and retail hub of the Company's master-planned community, this project has commitments for Robinsons-May, Lord & Taylor, Macy's and Dillard's department stores and, it will also include 350,000 square feet of small shops. Summerlin Center will likely begin construction in 2003, after completion of most of the work at Fashion Show. Opening will be in 2005.

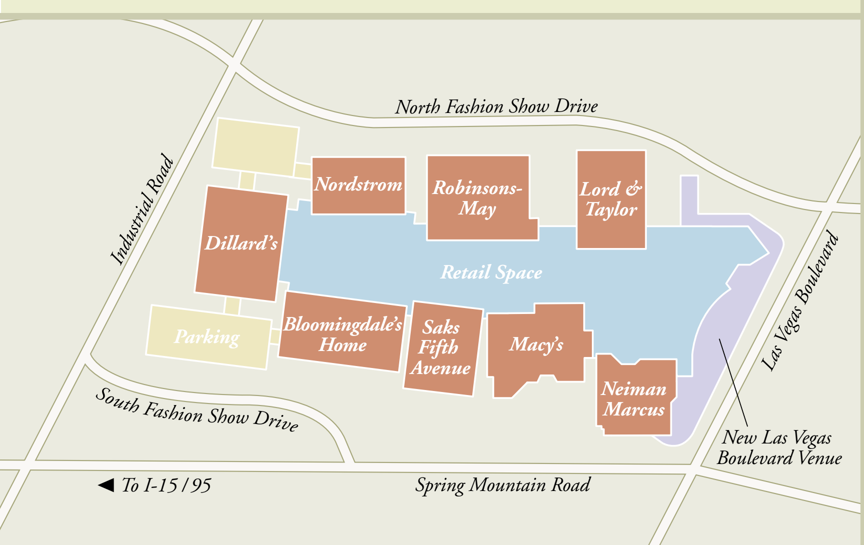
Fashion Show

LAS VEGAS, NEVADA

The construction of Fashion Show is one of the most complex projects ever undertaken by the Company. A five department store center with 840,000 square feet of retail space will become an eight department store center with 1.8 million square feet of space. Existing Neiman Marcus, Dillard's, Macy's, Saks Fifth Avenue and Robinsons-May stores will relocate and/or expand, and Bloomingdale's Home, Nordstrom and Lord & Taylor will be added.

Small store space will increase by 211,000 square feet and structured parking will be increased—all while the existing center remains open to shoppers.

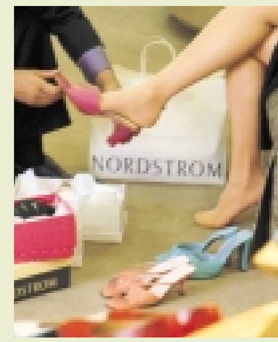
The location on the world famous "Strip" will be reinforced by a 200-foot tall cloud canopy above the new entrance and, combined with multimedia fashion events, will make Fashion Show the new must-see attraction in Las Vegas. The first phase of this project, with seven department stores and 175,000 square feet of small stores (now 70% committed) will open this fall.



Village of Merrick Park

CORAL GABLES, FLORIDA

Coral Gables has long been synonymous with quality and elegance, and the Village of Merrick Park will build upon and reinforce that image. With new Neiman Marcus and Nordstrom stores, 435,000 square feet of fine shops and destination restaurants, 110,000 square feet of office space and 120 premium residential units, the Village of Merrick Park will become "the" prestigious address in southeast Florida's premier community.



Construction of the retail space is currently on or ahead of schedule, and 60% of this space is already committed to a line up of very high quality merchants. The September 27, 2002 opening of the project's retail component, including Neiman Marcus and Nordstrom, should represent a stunning addition to the community and to the Company's portfolio. The initial office tenants should begin moving in this summer, with the residential units following in the Summer of 2003.

United States Department of Labor Award

On October 15, 2001, the Company was honored by the United States Department of Labor as the recipient of 2001's prestigious Secretary's Opportunity Award. The Award was presented by the Secretary of Labor, The Honorable Elaine L. Chao.

The Secretary's Award annually honors the one company in the United States that demonstrates exemplary leadership in creating equal opportunity programs for all employees, including minorities, women, veterans and the disabled.

Management's Statement on Responsibilities for Accounting, Auditing and Financial Reporting

The financial statements and other information included in the financial review section of this annual report to shareholders have been prepared by management. Financial information presented elsewhere in this report is consistent with the data presented in the financial review section.

The consolidated financial statements have been prepared using accounting principles generally accepted in the United States of America considered appropriate in the circumstances. Preparation of the financial statements and other financial information requires the use of estimation and judgment. We have made these estimates and judgments based on extensive experience and substantive understanding of relevant events and transactions. The primary objective of financial reporting is to provide users of financial statements with sufficient, relevant information to enable them to evaluate our financial position and results of operations.

In fulfilling our responsibility for the reliability and integrity of financial information, we have established and maintain a system of internal control. We believe that this system provides reasonable assurance regarding achievement of our objectives with respect to the reliability of financial reporting, the effectiveness and efficiency of operations and compliance with applicable laws and regulations. This system is supported by our business ethics policy and is regularly tested by internal auditors. The independent auditors also consider the system of internal control to the extent necessary to determine the nature, timing and extent of their audit procedures.

The Audit Committee of the Board of Directors is composed of directors who are neither officers nor employees of the Company. The Committee meets periodically with management, our internal auditors and the independent auditors to review the work and conclusions of each. The internal auditors and the independent auditors have full and free access to the Audit Committee and meet with it, with and without management present, to discuss accounting, auditing and financial reporting matters. The Audit Committee recommends, and the Board of Directors appoints, the independent auditors.

The financial review section of this annual report to shareholders contains the following sections:

Independent Auditors' Report

The Board of Directors and Shareholders
The Rouse Company:

We have audited the accompanying consolidated balance sheets of The Rouse Company and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 aforementioned consolidated financial statements present fairly, in all material respects, the financial position of The Rouse Company and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Baltimore, Maryland
February 22, 2002

The Rouse Company and Subsidiaries
Consolidated Balance Sheets

December 31, 2001 and 2000 (in thousands, except common share data)	*2001*	*2000*
Assets		
Property:		
Operating properties:		
Property and deferred costs of projects	$ 4,427,468	$ 3,779,193
Less accumulated depreciation and amortization	853,087	608,061
	3,574,381	3,171,132
Properties in development	217,906	115,243
Properties held for sale	—	4,548
Investment land and land held for development and sale	284,291	—
Total property	4,076,578	3,290,923
Investments in and advances to unconsolidated real estate ventures	269,573	541,845
Prepaid expenses, receivables under finance leases and other assets	392,259	260,615
Accounts and notes receivable	87,753	44,567
Investments in marketable securities	22,157	22,846
Cash and cash equivalents	32,123	14,742
Total assets	$ 4,880,443	$ 4,175,538
Liabilities		
Debt:		
Property debt not carrying a Parent Company guarantee of repayment	$ 2,709,699	$ 2,264,799
Parent Company debt and debt carrying a Parent Company guarantee of repayment:		
Property debt	69,389	98,531
Other debt	709,732	682,439
	779,121	780,970
Total debt	3,488,820	3,045,769
Accounts payable, accrued expenses and other liabilities	599,298	362,336
Company-obligated mandatorily redeemable preferred securities of a trust holding solely Parent Company subordinated debt securities	136,965	136,965
Commitments and contingencies		
Shareholders' equity		
Series B Convertible Preferred stock with a liquidation preference of $202,500	41	41
Common stock of 1¢ par value per share; 250,000,000 shares authorized; issued 69,354,169 shares in 2001 and 67,880,405 shares in 2000	694	679
Additional paid-in capital	763,351	735,669
Accumulated deficit	(102,425)	(103,015)
Accumulated other comprehensive income (loss)	(6,301)	(2,906)
Total shareholders' equity	655,360	630,468
Total liabilities and shareholders' equity	$ 4,880,443	$ 4,175,538

The accompanying notes are an integral part of these statements.

The Rouse Company and Subsidiaries
Consolidated Statements of Operations and Comprehensive Income

Years ended December 31, 2001, 2000 and 1999 (in thousands, except per share data)	*2001*	*2000*	*1999*
Revenues	$966,337	$633,384	$635,878
Operating expenses, exclusive of provision for bad debts, depreciation and amortization	494,752	293,686	291,855
Interest expense	228,765	236,744	233,866
Provision for bad debts	8,992	6,683	7,972
Depreciation and amortization	125,504	90,307	94,532
Other provisions and losses, net	—	131	8,607
Earnings (loss) before income taxes, equity in earnings of unconsolidated real estate ventures, net gains (losses) on operating properties, extraordinary items and cumulative effect of change in accounting principle	108,324	5,833	(954)
Income tax provision — primarily deferred in 2001	(28,885)	(254)	(214)
Equity in earnings of unconsolidated real estate ventures	32,806	129,556	101,171
Earnings before net gains (losses) on operating properties, extraordinary items and cumulative effect of change in accounting principle	112,245	135,135	100,003
Net gains (losses) on operating properties	(432)	33,150	41,173
Earnings before extraordinary items and cumulative effect of change in accounting principle	111,813	168,285	141,176
Extraordinary gains (losses), net	(696)	2,200	(5,879)
Cumulative effect at January 1, 2001 of change in accounting for derivative instruments and hedging activities	(411)	—	—
Net earnings	110,706	170,485	135,297
Other items of comprehensive income (loss):			
Minimum pension liability adjustment	(9)	(2,435)	1,355
Unrealized loss on derivatives designated as cash flow hedges	(3,386)	—	—
Comprehensive income	$107,311	$168,050	$136,652
Net earnings applicable to common shareholders	$ 98,556	$158,335	$123,147
Earnings per share of common stock			
Basic:			
Earnings before extraordinary items and cumulative effect of change in accounting principle	$ 1.44	$ 2.24	$ 1.79
Extraordinary items	(.01)	.03	(.08)
Cumulative effect of change in accounting principle	(.01)	—	—
Total	$ 1.42	$ 2.27	$ 1.71
Diluted:			
Earnings before extraordinary items and cumulative effect of change in accounting principle	$ 1.42	$ 2.21	$ 1.77
Extraordinary items	(.01)	.03	(.08)
Cumulative effect of change in accounting principle	(.01)	—	—
Total	$ 1.40	$ 2.24	$ 1.69

The accompanying notes are an integral part of these statements.

The Rouse Company and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity

Years ended December 31, 2001, 2000 and 1999 (in thousands, except per share data)

	Series B Preferred stock	*Common stock*	*Additional paid-in capital*	*Accumulated deficit*	*Accumulated other comprehensive income (loss)*	*Total*
Balance at December 31, 1998	$ 41	$ 723	$836,508	$ (206,520)	$ (1,826)	$ 628,926
Net earnings	—	—	—	135,297	—	135,297
Other comprehensive income (loss)	—	—	—	—	1,355	1,355
Dividends declared:						
Common stock — $1.20 per share	—	—	—	(86,601)	—	(86,601)
Preferred stock — $3.00 per share	—	—	—	(12,150)	—	(12,150)
Purchases of common stock	—	(29)	(66,491)	—	—	(66,520)
Conversion of convertible subordinated debentures	—	—	30	—	—	30
Common stock issued pursuant to Contingent Stock Agreement	—	13	34,478	—	—	34,491
Proceeds from exercise of stock options	—	—	32	—	—	32
Lapse of restrictions on common stock awards	—	—	3,720	—	—	3,720
Balance at December 31, 1999	41	707	808,277	(169,974)	(471)	638,580
Net earnings	—	—	—	170,485	—	170,485
Other comprehensive income (loss)	—	—	—	—	(2,435)	(2,435)
Dividends declared:						
Common stock — $1.32 per share	—	—	—	(91,376)	—	(91,376)
Preferred stock — $3.00 per share	—	—	—	(12,150)	—	(12,150)
Purchases of common stock	—	(51)	(126,264)	—	—	(126,315)
Common stock issued pursuant to Contingent Stock Agreement	—	18	42,612	—	—	42,630
Proceeds from exercise of stock options	—	5	8,056	—	—	8,061
Lapse of restrictions on common stock awards	—	—	2,988	—	—	2,988
Balance at December 31, 2000	41	679	735,669	(103,015)	(2,906)	630,468
Net earnings	—	—	—	110,706	—	110,706
Other comprehensive income (loss)	—	—	—	—	(3,395)	(3,395)
Dividends declared:						
Common stock — $1.42 per share	—	—	—	(97,966)	—	(97,966)
Preferred stock — $3.00 per share	—	—	—	(12,150)	—	(12,150)
Purchases of common stock	—	(11)	(28,188)	—	—	(28,199)
Common stock issued pursuant to Contingent Stock Agreement	—	16	40,804	—	—	40,820
Proceeds from exercise of stock options	—	9	8,863	—	—	8,872
Common stock issued in acquisition of voting interests in majority financial interest ventures	—	1	3,499	—	—	3,500
Lapse of restrictions on common stock awards	—	—	2,704	—	—	2,704
Balance at December 31, 2001	$ 41	$ 694	$ 763,351	$ (102,425)	$ (6,301)	$ 655,360

The accompanying notes are an integral part of these statements.

The Rouse Company and Subsidiaries
Consolidated Statements of Cash Flows

Years ended December 31, 2001, 2000 and 1999 (in thousands)	*2001*	*2000*	*1999*
Cash flows from operating activities			
Rents and other revenues received	$ 743,394	$ 619,552	$ 616,741
Proceeds from land sales and notes receivable from land sales	193,064	14,553	24,754
Interest received	6,711	6,686	8,549
Operating expenditures	(367,113)	(282,582)	(312,507)
Land development expenditures	(99,407)	—	—
Interest paid	(213,781)	(233,714)	(230,495)
Dividends, interest and other operating distributions from unconsolidated real estate ventures	28,410	128,421	85,487
Net cash provided by operating activities	291,278	252,916	192,529
Cash flows from investing activities			
Expenditures for properties in development	(146,103)	(165,298)	(188,497)
Expenditures for property acquisitions	—	(22,245)	—
Expenditures for improvements to existing properties	(37,997)	(44,352)	(41,327)
Proceeds from sales of operating properties and formations of unconsolidated real estate ventures	4,594	221,864	255,218
Payments received on loans (advances made) to unconsolidated majority financial interest ventures, net	—	24,410	(49,304)
Expenditures for investments in other unconsolidated real estate ventures	(45,955)	(10,704)	(5,924)
Other distributions from other unconsolidated real estate ventures	109,329	—	67,500
Other	13	4,374	(4,278)
Net cash provided (used) by investing activities	(116,119)	8,049	33,388
Cash flows from financing activities			
Proceeds from issuance of property debt	259,401	155,863	248,782
Repayments of property debt:			
Scheduled principal payments	(58,681)	(55,467)	(49,599)
Other payments	(234,381)	(186,679)	(140,103)
Proceeds from issuance of other debt	28,000	54,750	200,000
Repayments of other debt	(37,872)	(15,811)	(316,948)
Proceeds from exercise of stock options	8,872	8,061	32
Purchases of common stock	(28,199)	(126,315)	(66,520)
Dividends paid	(110,116)	(103,526)	(98,751)
Other	15,198	(4,589)	(14,282)
Net cash used by financing activities	(157,778)	(273,713)	(237,389)
Net increase (decrease) in cash and cash equivalents	17,381	(12,748)	(11,472)
Cash and cash equivalents at beginning of year	14,742	27,490	38,962
Cash and cash equivalents at end of year	$ 32,123	$ 14,742	$ 27,490

The accompanying notes are an integral part of these statements.

	2001	2000	1999
Reconciliation of Net Earnings to Net Cash Provided by Operating Activities			
Net earnings	$ 110,706	$ 170,485	$ 135,297
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	125,504	90,307	94,532
Undistributed earnings of unconsolidated real estate ventures	(4,396)	(36,457)	(44,480)
Net losses (gains) on operating properties	432	(33,150)	(41,173)
Extraordinary items	696	(2,200)	5,879
Cumulative effect of change in accounting principle	411	—	—
Participation expense pursuant to Contingent Stock Agreement	32,904	35,322	30,180
Debt assumed by purchasers of land	(24,634)	—	—
Land development expenditures in excess of cost of land sales	(12,025)	—	—
Deferred income taxes	25,402	—	—
Provision for bad debts	8,992	6,683	7,972
Decrease (increase) in:			
Accounts and notes receivable	11,213	10,392	1,071
Other assets	3,133	(1,688)	(6,556)
Increase (decrease) in accounts payable, accrued expenses and other liabilities	15,399	(59)	(192)
Other, net	(2,459)	13,281	9,999
Net cash provided by operating activities	$ 291,278	$ 252,916	$ 192,529

Schedule of Noncash Investing and Financing Activities			
Common stock issued pursuant to Contingent Stock Agreement	$ 40,820	$ 42,630	$ 34,491
Capital lease obligations incurred	3,359	4,189	3,196
Lapse of restrictions on common stock awards	2,704	2,988	3,720
Debt assumed by purchasers of land	24,634	—	—
Common stock issued in acquisition of voting interests in majority financial interest ventures	3,500	—	—
Debt and other liabilities assumed in acquisition of majority financial interest ventures	547,531	—	—
Property and other assets obtained in acquisition of majority financial interest ventures	884,572	—	—
Debt assumed or issued in acquisitions of assets	105,195	23,823	—
Property and other assets contributed to unconsolidated real estate ventures	—	184,926	825,673
Debt and other liabilities related to property and other assets contributed to unconsolidated real estate ventures	—	76,577	423,387
Debt repaid on formation of an unconsolidated real estate venture	—	—	271,233
Debt assumed by purchaser of a property	—	—	40,000
Common stock issued on conversion of convertible subordinated debentures	—	—	30

(1) Summary of significant accounting policies

(a) Basis of presentation

The consolidated financial statements include the accounts of The Rouse Company, our subsidiaries and partnerships ("we," "Rouse" or "us") in which we have a majority voting interest and control. We account for investments in other ventures using the equity or cost methods as appropriate in the circumstances. Significant intercompany balances and transactions are eliminated in consolidation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and revenues and expenses recognized during the reporting period. Significant estimates are inherent in the preparation of our financial statements in a number of areas, including evaluation of impairment of long-lived assets (including operating properties and properties held for development or sale), evaluation of collectibility of accounts and notes receivable and the cost and completion percentages for land sales. Actual results could differ from those and other estimates.

Certain amounts for prior years have been reclassified to conform to the presentation methods used for 2001.

(b) Description of business

Through our subsidiaries and affiliates, we acquire, develop and manage income-producing properties located throughout the United States and develop and sell land for residential, commercial and other uses. The income-producing properties consist of retail centers, office and industrial buildings and mixed-use and other properties. The retail centers are primarily regional shopping centers in suburban market areas, but also include specialty marketplaces in certain downtown areas and several community retail centers, primarily in Columbia, Maryland. The office and industrial properties are located primarily in the Columbia, Baltimore and Las Vegas market areas or are components of large-scale mixed-use properties (which include retail, parking and other uses) located in other urban markets. Land development and sales operations are predominantly related to large-scale, long-term community development projects in and around Columbia and Summerlin, Nevada.

(c) Property

Properties to be developed or held and used in operations are carried at cost reduced for impairment losses, where appropriate. Acquisition, development and construction costs of properties in development are capitalized including, where applicable, salaries and related costs, real estate taxes, interest and preconstruction costs. The preconstruction stage of development of an operating property (or an expansion of an existing property) includes efforts and related costs to secure land control and zoning, evaluate feasibility and complete other initial tasks which are essential to development. Provisions are made for potentially unsuccessful preconstruction efforts by charges to operations. Development and construction costs and costs of significant improvements, replacements and renovations at operating properties are capitalized, while costs of maintenance and repairs are expensed as incurred.

Direct costs associated with financing and leasing of operating properties are capitalized as deferred costs and amortized using the interest or straight-line methods, as appropriate, over the periods benefited by the expenditures.

Depreciation of operating properties is computed using the straight-line method. The annual rate of depreciation for most of the retail centers is based on a 55-year composite life and a salvage value of approximately 10%. The other retail centers, all office buildings and other properties are generally depreciated using composite lives of 40 years.

If events or circumstances indicate that the carrying value of an operating property to be held and used may be impaired, a recoverability analysis is performed based on estimated undiscounted future cash flows to be generated from the property. If the analysis indicates that the carrying value is not recoverable from future cash flows, the property is written down to estimated fair value and an impairment loss is recognized. Fair values are determined based on estimated future cash flows using appropriate discount and capitalization rates.

Properties held for sale are carried at the lower of their carrying values (i.e., cost less accumulated depreciation and any impairment loss recognized, where applicable) or estimated fair values less costs to sell. The net carrying values of operating properties are classified as properties held for sale when the properties are actively marketed and other criteria relating to the plan of sale are met. Depreciation of these properties is discontinued at that time, but operating revenues, interest and other operating expenses continue to be recognized until the date of sale. If active marketing ceases, the properties are reclassified as operating, depreciation is resumed and deferred selling costs, if any, are charged to earnings. Generally, revenues and expenses related to property interests acquired with the intention to resell are not recognized.

(d) Sales of property

Gains from sales of operating properties and revenues from land sales are recognized using the full accrual method provided that various criteria relating to the terms of the transactions and any subsequent involvement by us with the properties sold are met. Gains or revenues relating to transactions that do not meet the established criteria are deferred and recognized when the criteria are met or using the installment or cost recovery methods, as appropriate in the circumstances. For land sale transactions under the terms of which we are required to perform additional services and incur significant costs after title has passed, revenues and cost of sales are recognized on a percentage of completion basis.

Cost of land sales is generally determined as a specified percentage of land sales revenues recognized for each land development project. The cost percentages used are based on actual costs incurred and estimates of development costs and sales revenues to completion of each project. These estimates are revised periodically for changes in estimates or development plans. Significant changes in these estimates or development plans, whether due to changes in market conditions or other factors, could result in changes to the cost ratio for a specific project. The specific identification method is used to determine cost of sales of certain parcels of land.

(e) Leases

Leases which transfer substantially all the risks and benefits of ownership to tenants are considered finance leases and the present values of the minimum lease payments and the estimated residual values of the leased properties, if any, are accounted for as receivables. Leases which transfer substantially all the risks and benefits of ownership to us are considered capital leases and the present values of the minimum lease payments are accounted for as assets and liabilities.

In general, minimum rent revenues are recognized when due from tenants; however, estimated collectible minimum rent revenues under leases which provide for varying rents over their terms are averaged over the terms of the leases. Rents based on tenant sales are recognized when tenant sales exceed the contractual threshold.

(f) Income taxes

We elected to be taxed as a real estate investment trust ("REIT") pursuant to the Internal Revenue Code of 1986, as amended, effective January 1, 1998. In general, a corporation that distributes at least 90% of its REIT taxable income to shareholders in any taxable year and complies with certain other requirements (relating primarily to the nature of its assets and the sources of its revenues) is not subject to Federal income taxation to the extent of the income which it distributes. We believe that we met the qualifications for REIT status as of December 31, 2001 and intend to meet the qualifications in the future and to distribute at least 90% of our REIT taxable income (determined after taking into account any net operating loss deduction) to shareholders in 2002 and subsequent years. As discussed in notes 2 and 9, we acquired all of the voting stock of the majority financial interest ventures owned by The Rouse Company Incentive Compensation Statutory Trust ("Trust") in 2001. We and these subsidiaries made a joint election to treat the subsidiaries as taxable REIT subsidiaries ("TRS"), which were subject to Federal and state income taxes beginning on the date of acquisition. Except with respect to the TRS, we do not believe that we will be liable for significant income taxes at the Federal level or in most of the states in which we operate in 2002 and future years.

Deferred income taxes relate primarily to the TRS and are accounted for using the asset and liability method. Under this method, deferred income taxes are recognized for temporary differences between the financial reporting bases of assets and liabilities of the TRS and their respective tax bases and for their operating loss and tax credit carryforwards based on enacted tax rates expected to be in effect when such amounts are realized or settled. However, deferred tax assets are recognized only to the extent that it is more likely than not that they will be realized based on consideration of available evidence, including tax planning strategies and other factors.

(g) Investments in marketable securities and cash and cash equivalents

Our investment policy defines authorized investments and establishes various limitations on the maturities, credit quality and amounts of investments held. Authorized investments include U.S. government and agency obligations, certificates of deposit, bankers acceptances, repurchase agreements, commercial paper, money market mutual funds and corporate debt and equity securities.

Investments with maturities at dates of purchase in excess of three months are classified as marketable securities and carried at amortized cost as it is our intention to hold these investments until maturity. Short-term investments with maturities at dates of purchase of three months or less are classified as cash equivalents, except that any such investments purchased with the proceeds of loans which may be expended only for specified purposes are classified as investments in marketable securities. Investments in marketable equity securities are classified as trading securities and are carried at market value with changes in values recognized in earnings.

(h) Derivative financial instruments

Our use of derivative financial instruments is designed to reduce risk associated with movements in interest rates. We may choose to reduce cash flow and earnings volatility associated with interest rate risk exposure on variable rate borrowings and/or forecasted fixed rate borrowings. In some instances, lenders may require us to do so. In order to limit interest rate risk on variable rate borrowings, we may enter into interest rate swaps or interest rate caps to hedge specific risks. In order to limit interest rate risk on forecasted borrowings, we may enter into forward-rate agreements, forward starting swaps, interest rate locks and interest rate collars. We may also use derivative financial instruments to reduce risk associated with movements in currency exchange rates if and when we are exposed to such risk. We do not use derivative financial instruments for speculative purposes.

Under interest rate cap agreements, we make initial premium payments to the counterparties in exchange for the right to receive payments from them if interest rates exceed specified levels during the agreement period. Under interest rate swap agreements, we and the counterparties agree to exchange the difference between fixed rate and variable rate interest amounts calculated by reference to specified notional principal amounts during the agreement period. Notional principal amounts are used to express the volume of these transactions, but the cash requirements and amounts subject to credit risk are substantially less.

Parties to interest rate exchange agreements are subject to market risk for changes in interest rates and risk of credit loss in the event of nonperformance by the counterparty. We do not require any collateral under these agreements but deal only with highly rated financial institution counterparties (which, in certain cases, are also the lenders on the related debt) and do not expect that any counterparties will fail to meet their obligations.

Prior to 2001, derivative financial instruments were designated as hedges and, accordingly, changes in their fair values were not recognized in the financial statements provided that defined correlation and effectiveness criteria were met at inception and thereafter. Instruments that ceased to qualify for hedge accounting were marked-to-market with gains and losses recognized in income. Premiums paid on interest rate cap agreements were amortized to interest expense over the terms of the agreements and payments receivable from the counterparties were accrued as reductions of interest expense. Amounts receivable or payable under swap agreements were accounted for as adjustments to interest expense on the related debt. Effective January 1, 2001, we adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Financial Instruments and Hedging Activities" ("Statement 133"), as amended, which requires, among other things, that all derivative instruments be measured at fair value and recognized as assets or liabilities in the balance sheet. Derivative instruments held by us at January 1, 2001 consisted solely of interest rate cap agreements designated as hedges of interest rates on specific loans. The cumulative effect at January 1, 2001 of the change in accounting for derivative financial instruments and hedging activities was to increase liabilities and reduce net earnings by approximately $0.4 million. The effect of the change on net earnings for 2001 was not material and the effect of the change on other comprehensive income (loss) was a loss of approximately $3.4 million. Ongoing application of Statement 133 will affect net earnings, other comprehensive income (loss) and assets and liabilities reported in the financial statements; however, because of the unpredictability of changes in the fair values of derivative instruments, it is not possible to estimate the timing, amount or direction of these changes.

(i) Other information about financial instruments

Fair values of financial instruments approximate their carrying values in the financial statements except for debt, for which fair value information is provided in note 6.

(j) Earnings per share of common stock

Basic earnings per share ("EPS") is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding. Diluted EPS is computed after adjusting the numerator and denominator of the basic EPS computation for the effects of all dilutive potential common shares during the period. The dilutive effects of convertible securities are computed using the "if-converted" method and the dilutive effects of options, warrants and their equivalents (including fixed awards and nonvested stock issued under stock-based compensation plans) are computed using the "treasury stock" method.

(k) Stock-based compensation

We apply the intrinsic value-based method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations to account for stock-based, employee compensation plans. Under this method, compensation cost is recognized for awards of shares of common stock or stock options to our directors, officers and employees only if the quoted market price of the stock at the grant date (or other measurement date, if later) is greater than the amount the grantee must pay to acquire the stock. Information concerning the pro forma effects on net earnings and earnings per share of common stock of using an optional fair value-based method, rather than the intrinsic value-based method, to account for stock-based compensation plans is provided in note 13.

(2) Unconsolidated real estate ventures

Investments in and advances to unconsolidated real estate ventures at December 31, 2001 and 2000 are summarized, based on the level of our financial interest, as follows (in thousands):

	2001	*2000*
Majority financial interest ventures	$ —	$ 333,541
Other unconsolidated real estate ventures	269,573	208,304
Total	$ 269,573	$ 541,845

The equity in earnings of unconsolidated real estate ventures is summarized, based on the level of our financial interest, as follows (in thousands):

	2001	*2000*	*1999*
Majority financial interest ventures	$ —	$ 88,148	$ 62,824
Other unconsolidated real estate ventures	32,806	41,408	38,347
Total	$ 32,806	$ 129,556	$ 101,171

(a) Majority financial interest ventures

Relying on the REIT Modernization Act (as more fully discussed in note 9), we negotiated an agreement to acquire the voting stock of the ventures owned by The Rouse Company Incentive Compensation Statutory Trust ("Trust"), an entity which is neither owned nor controlled by us. On January 2, 2001, we exchanged 137,928 shares of common stock for the Trust's shares of voting common stock in the ventures. The voting shares acquired by us constituted all of the Trust's interests in the ventures. The fair value of the consideration exchanged was approximately $3.5 million. As a result of this transaction, we own 100% of the voting common stock of the ventures and, accordingly, the ventures are consolidated in our financial statements from the date of the acquisition.

The majority financial interest ventures were initiated on December 31, 1997, when certain wholly owned subsidiaries issued 91% of their voting common stock to the Trust. These sales were made at fair value and were part of our plan to meet the qualifications for REIT status. We retained the remaining voting stock of the ventures and held shares of nonvoting common and/or preferred stock and, in certain cases, mortgage loans receivable from the ventures which, taken together, comprised substantially all (at least 98%) of the financial interest in them. As a result of our disposition of the majority voting interest in the ventures, we began accounting for our investment in them using the equity method effective December 31, 1997. Due to our continuing financial interest in the ventures, we recognized no gain on the sales of stock for financial reporting purposes. The assets of the ventures consisted primarily of land to be developed and sold as part of community development projects in and around Columbia and Summerlin, other investment land, primarily in Nevada, certain office and retail properties, primarily in Columbia, investments in properties owned jointly with us and contracts to manage various operating properties.

The combined balance sheet of these ventures at December 31, 2000 is summarized as follows (in thousands):

Assets:	
Operating properties, net	$ 337,005
Properties in development	23,582
Investment land and land held for development and sale	250,510
Investments in and advances to unconsolidated real estate ventures	106,892
Prepaid expenses, receivables under finance leases and other assets	95,803
Accounts and notes receivable	64,269
Cash and cash equivalents	15
Total	$ 878,076
Liabilities and shareholders' deficit:	
Loans and advances from Rouse	$ 450,710
Mortgages payable and other long-term debt	326,290
Other liabilities	101,887
Redeemable Series A Preferred stock	50,000
Shareholders' deficit	(50,811)
Total	$ 878,076

The combined statements of operations of these ventures are summarized as follows (in thousands):

	2000	*1999*
Revenues, excluding interest on loans to Rouse	$ 312,056	$ 278,437
Interest income on loans to Rouse	—	2,647
Operating expenses	(159,691)	(160,497)
Interest expense, excluding interest on borrowings from Rouse	(10,470)	(7,504)
Interest expense on borrowings from Rouse	(52,449)	(57,535)
Depreciation and amortization	(15,804)	(11,957)
Equity in earnings (loss) of unconsolidated real estate ventures	3,736	(1,905)
Net gains on operating properties	—	2,635
Income taxes, primarily deferred	(28,150)	(19,693)
Extraordinary losses, net	(13,349)	—
Net earnings	$ 35,879	$ 24,628

In December 2000, one of the ventures partially repaid a loan from us prior to its scheduled maturity. We charged the venture a prepayment penalty of $22.1 million and this amount, less related deferred income tax benefits of $8.8 million, is classified as an extraordinary loss in the combined statement of operations of the ventures. The effect of the transaction was eliminated in our equity in earnings of majority financial interest ventures.

Our share of the net earnings of these ventures is summarized as follows (in thousands):

	2000	*1999*
Share of net earnings based on ownership interest	$ 35,520	$ 24,382
Participation by others in our share of earnings	(35,322)	(28,796)
Interest on loans and advances, net	52,449	54,888
Prepayment penalty on loan from Rouse	22,082	—
Eliminations and other, net	13,419	12,350
Equity in earnings of majority financial interest ventures	$ 88,148	$ 62,824

(b) Other unconsolidated real estate ventures

We own interests in other unconsolidated real estate ventures that own and/or develop properties. We use these ventures to limit our risk associated with individual properties and to reduce our capital requirements. These ventures are accounted for using the equity or cost method, as appropriate. At December 31, 2001 and 2000, these ventures were primarily partnerships and corporations which own retail centers. Most of these properties are managed by our affiliates. Certain agreements relating to these properties provide for preference returns to us when operating results or sale or refinancing proceeds exceed specified levels. These ventures also include joint ventures formed in connection with the contribution of our ownership interests in two development projects.

The December 31, 2001 and 2000 condensed, combined balance sheets of these ventures accounted for using the equity method and their condensed, combined statements of operations are summarized as follows (in thousands):

	2001	*2000*
Total assets, primarily property	$ 1,805,957	$ 1,736,944
Liabilities, primarily long-term debt	$ 1,496,798	$ 1,242,451
Venturers' equity	309,159	494,493
Total liabilities and venturers' equity	$ 1,805,957	$ 1,736,944

	2001	*2000*	*1999*
Revenues	$ 322,646	$ 333,999	$ 365,518
Operating and interest expenses	223,935	233,192	247,442
Depreciation and amortization	36,353	35,218	45,982
Net gains on operating properties	—	—	33,121
Extraordinary loss	556	—	—
Cumulative effect of change in accounting principle	292	—	—
Net earnings	$ 61,510	$ 65,589	$ 105,215

Distributions of financing proceeds from several of these ventures have exceeded our investments in them, and at December 31, 2001, these amounts aggregated $89.7 million and are included in other liabilities.

(3) Property

Operating properties and deferred costs of projects at December 31, 2001 and 2000 are summarized as follows (in thousands):

	2001	*2000*
Buildings and improvements	$ 3,874,451	$ 3,289,658
Land	408,122	371,537
Deferred costs	123,917	102,494
Furniture and equipment	20,978	15,504
Total	$ 4,427,468	$ 3,779,193

Depreciation expense for 2001, 2000 and 1999 was $111.5 million, $81.6 million and $83.0 million, respectively. Amortization expense for 2001, 2000 and 1999 was $14.0 million, $8.7 million and $11.5 million, respectively.

Properties in development include construction and development in progress and preconstruction costs. Construction and development in progress includes land and land improvements of $67.9 million and $40.2 million at December 31, 2001 and 2000, respectively.

An office property that was held for sale at December 31, 2000 was sold in April 2001. Revenues from this property were $0.5 million in both 2000 and 1999, and operating income from this property was $0.4 million in 2000 and $0.3 million in 1999. Revenues and operating income for 2001 were insignificant.

In January 2001, we ceased actively marketing certain properties which had been classified as held for sale during 2000. Accordingly, these properties, with a net carrying value of $170.2 million, were reclassified to operating properties at December 31, 2000. No properties were classified as held for sale at December 31, 2001.

Investment land and land held for development and sale was obtained in the acquisition of the majority financial interest ventures discussed in note 2 and, at December 31, 2001, is summarized as follows (in thousands):

Land under development	$171,460
Finished land	62,707
Raw land	50,124
Total	$284,291

(4) Accounts and notes receivable

Accounts and notes receivable at December 31, 2001 and 2000 are summarized as follows (in thousands):

	2001	*2000*
Accounts receivable, primarily accrued rents and income under tenant leases	$ 70,522	$64,008
Notes receivable from sales of properties	3,294	3,167
Notes receivable from sales of land	41,143	—
	114,959	67,175
Less allowance for doubtful receivables	27,206	22,608
Total	$ 87,753	$44,567

Accounts and notes receivable due after one year were $7.5 million and $2.5 million at December 31, 2001 and 2000, respectively.

Credit risk with respect to receivables from tenants is not highly concentrated due to the large number of tenants and the geographic diversification of our operating properties. We perform credit evaluations of prospective new tenants and require security deposits or bank letters of credit in certain circumstances. Tenants' compliance with the terms of their leases is monitored closely, and the allowance for doubtful receivables is established based on analyses of the risk of loss on specific tenant accounts, historical trends and other relevant information. Notes receivable from sales of land are primarily due from builders at the community development project in Summerlin. We perform credit evaluations of the builders and generally require substantial down payments (at least 20%) on all land sales that we finance. These notes and notes from sales of operating properties are generally secured by first liens on the related properties.

(5) Pension, postretirement and deferred compensation plans

We have a defined benefit pension plan ("funded plan") covering substantially all employees and separate, nonqualified unfunded retirement plans ("unfunded plans") covering directors and participants in the funded plan whose defined benefits exceed the plan's limits. Benefits under the pension plans are based on the participants' years of service and compensation. We also have a retiree benefits plan that provides postretirement medical and life insurance benefits to full-time employees who meet minimum age and service requirements. We pay a portion of the cost of participants' life insurance coverage and make contributions to the cost of participants' medical insurance coverage based on years of service, subject to a maximum annual contribution.

Information relating to the obligations, assets and funded status of the plans at December 31, 2001 and 2000 and for the years then ended is summarized as follows (dollars in thousands):

	Pension Plans				*Postretirement Plan*	
	Funded		*Unfunded*			
	2001	*2000*	*2001*	*2000*	*2001*	*2000*
Change in benefit obligations:						
Benefit obligations at beginning of year	$ 55,480	$ 41,433	$ 19,857	$ 11,886	$ 18,471	$ 14,895
Service cost	3,981	3,568	909	851	451	484
Interest cost	4,230	3,631	1,489	1,314	1,553	1,312
Plan amendment	67	2,283	(126)	4,293	—	—
Actuarial loss	7,419	8,856	701	1,768	3,666	2,718
Benefits paid	(6,969)	(4,291)	(1,063)	(255)	(590)	(938)
Benefit obligations at end of year	64,208	55,480	21,767	19,857	23,551	18,471
Change in plan assets:						
Fair value of plan assets at beginning of year	57,501	59,532	—	—	—	—
Actual return on plan assets	(2,492)	(1,217)	—	—	—	—
Employer contribution	9,768	3,477	1,063	255	590	938
Benefits paid	(6,969)	(4,291)	(1,063)	(255)	(590)	(938)
Fair value of plan assets at end of year	57,808	57,501	—	—	—	—
Funded status	(6,400)	2,021	(21,767)	(19,857)	(23,551)	(18,471)
Unrecognized net actuarial loss	30,176	17,051	4,574	4,177	4,460	909
Unamortized prior service cost	4,128	4,790	5,490	6,441	—	—
Unrecognized transition obligation	267	332	—	136	3,665	3,998
Net amount recognized	$ 28,171	$ 24,194	$(11,703)	$ (9,103)	$ (15,426)	$ (13,564)
Amounts recognized in the balance sheets consist of:						
Prepaid benefit cost	$ 28,171	$ 24,194	$ —	$ —	$ —	$ —
Accrued benefit liability	—	—	(20,108)	(18,586)	(15,426)	(13,564)
Intangible asset	—	—	5,490	6,577	—	—
Accumulated other comprehensive income items	—	—	2,915	2,906	—	—
Net amount recognized	$ 28,171	$ 24,194	$(11,703)	$ (9,103)	$ (15,426)	$ (13,564)
Weighted-average assumptions as of December 31:						
Discount rate	7.25%	7.50%	7.25%	7.50%	7.25%	7.50%
Lump sum rate	6.50	6.75	6.50	6.75	—	—
Expected rate of return on plan assets	8.00	8.00	—	—	—	—
Rate of compensation increase	4.50	4.50	4.50	4.50	4.50	4.50

The assets of the funded plan consist primarily of fixed income and marketable equity securities. The amendment to the pension plans in 2000 changed the compensation base on which pension benefits are calculated.

The net pension cost includes the following components (in thousands):

	2001	*2000*	*1999*
Service cost	$ 4,890	$ 4,419	$ 4,593
Interest cost on projected benefit obligations	5,719	4,945	4,805
Expected return on funded plan assets	(4,622)	(4,737)	(4,049)
Prior service cost recognized	1,554	1,587	1,410
Net actuarial loss recognized	1,712	237	1,408
Amortization of transition obligation	201	201	201
Net pension cost before special events	9,454	6,652	8,368
Settlement loss	—	—	1,691
Special termination loss	—	—	5,078
Net pension cost	$ 9,454	$ 6,652	$ 15,137

The settlement and special termination losses in 1999 relate to the organizational changes and early retirement program discussed in note 10.

The net postretirement benefit cost includes the following components (in thousands):

	2001	*2000*	*1999*
Service cost	$ 451	$ 484	$ 666
Interest cost on accumulated benefit obligations	1,553	1,312	1,086
Net loss recognized	115	—	—
Amortization of transition obligation	333	333	333
Net postretirement benefit cost	$ 2,452	$ 2,129	$ 2,085

Assumed health care cost trend rates have an effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects (in thousands):

	1% Increase	*1% Decrease*
Effect on total of service and interest cost components	$ 92	$ 78
Effect on postretirement benefit obligation	$ 1,097	$ 940

In 2000 and 1999, employees of the majority financial interest ventures participated in the pension and postretirement plans. These ventures reimbursed us $2.1 million and $3.9 million for 2000 and 1999, respectively, for their share of the annual benefit cost of the plans.

We also have a deferred compensation program which permits directors and certain of our management employees to defer portions of their compensation on a pretax basis. Compensation expense related to this program was insignificant in 2001, 2000 and 1999.

(6) Debt

Debt is classified as follows:

(a) "Property debt not carrying a Parent Company guarantee of repayment" which is subsidiary company debt having no express written obligation which would require us to repay the principal amount of such debt during the full term of the loan ("nonrecourse loans"); and

(b) "Parent Company debt and debt carrying a Parent Company guarantee of repayment" which is our debt and subsidiary company debt with our express written obligation to repay the principal amount of such debt during the full term of the loan ("Company and recourse loans").

With respect to nonrecourse loans, we have in the past and may in the future, under some circumstances, support those subsidiary companies whose annual expenditures, including debt service, exceed their operating revenues. At December 31, 2001 and 2000, nonrecourse loans include $134.8 million and $162.8 million, respectively, of subsidiary companies' mortgages and bonds which are subject to agreements with lenders requiring us to provide support for operating and debt service costs, where necessary, for defined periods or until specified conditions relating to the operating results of the related properties are met.

Debt at December 31, 2001 and 2000 is summarized as follows (in thousands):

	2001	*2000*
Mortgages and bonds	$ 2,717,898	$ 2,281,299
Medium-term notes	51,500	81,500
Credit facility borrowings	222,000	198,000
Other loans	497,422	484,970
Total	$ 3,488,820	$ 3,045,769

Mortgages and bonds are secured by deeds of trust or mortgages on properties and general assignments of rents. This debt matures at various dates through 2021 and, at December 31, 2001, bears interest at a weighted-average effective rate of 7.5%. At December 31, 2001 and 2000, approximately $84.0 million and $84.5 million, respectively, of this debt provided for payments of additional interest based on operating results of the related properties in excess of stated levels.

We have issued unsecured, medium-term notes to the public. The notes bear interest at fixed interest rates. The notes outstanding at December 31, 2001 mature at various dates from 2002 to 2015, bear interest at a weighted-average effective rate of 8.33% and have a weighted-average maturity of 3.8 years.

We have a credit facility with a group of lenders that provides for unsecured borrowings of up to $375 million. Advances under the facility bear interest at a variable rate of LIBOR plus 1% (2.9% at December 31, 2001). The facility is available to December 2003, subject to a one-year renewal option.

Other loans include $114.2 million of 8.5% unsecured notes due in 2003, $200 million of 8% Notes due in 2009, various property acquisition loans and certain other borrowings. These loans include aggregate unsecured borrowings of $490.1 million and $460.8 million at December 31, 2001 and 2000, respectively, and at December 31, 2001, bear interest at a weighted-average effective rate of 8.0%.

At December 31, 2001, approximately $1.2 billion of the total debt was payable to one lender.

The agreements relating to various loans impose limitations on us. The most restrictive of these limit the levels and types of debt we and our affiliates may incur and require us and our affiliates to maintain specified minimum levels of debt service coverage and net worth. The agreements also impose restrictions on our dividend payout ratio and on sale, lease and certain other transactions, subject to various exclusions and limitations. These restrictions have not limited our normal business activities.

The annual maturities of debt at December 31, 2001 are summarized as follows (in thousands):

	Nonrecourse Loans	*Company and Recourse Loans*	*Total*
2002	$ 199,005	$ 14,927	$ 213,932
2003	250,856	360,698	611,554
2004	341,350	33,972	375,322
2005	262,656	95,687	358,343
2006	406,466	1,171	407,637
Subsequent to 2006	1,249,366	272,666	1,522,032
Total	$ 2,709,699	$ 779,121	$ 3,488,820

The annual maturities reflect the terms of existing loan agreements except where refinancing commitments from outside lenders have been obtained. In these instances, maturities are determined based on the terms of the refinancing commitments.

At December 31, 2001, we had interest rate cap agreements designated as cash flow hedges which effectively limit the interest rate on $36.0 million of variable rate LIBOR debt maturing in 2002 to 9.0%, $55.0 million of variable rate LIBOR debt maturing in 2004 to 9.5% and $4.8 million of variable rate LIBOR debt maturing in 2010 to 8.7%. At December 31, 2001, we also had interest rate swap agreements designated as cash flow hedges of interest payments on $300 million of variable rate debt through May 2002 and an additional $26.3 million of variable rate debt through December 2006. The interest rate swap agreements effectively fix the interest rate on the $300 million debt and the $26.3 million debt at 5.6% and 6.8%, respectively. In accordance with Statement 133, the unrealized loss on derivatives designated as cash flow hedges of $3.4 million for 2001 has been recognized as an item of other comprehensive income (loss). We expect $3.1 million of this amount to be recognized in net earnings before May 2002 and the remainder before December 2006. Interest rate exchange agreements did not have a material effect on the weighted-average effective interest rates on debt at December 31, 2001, 2000 and 1999 or interest expense for 2001, 2000 and 1999.

Total interest costs were $265.4 million in 2001, $256.4 million in 2000 and $253.6 million in 1999, of which $36.6 million, $19.7 million and $19.7 million were capitalized, respectively.

We recognized extraordinary losses of $0.7 million in 2001 and $5.9 million in 1999 related to the extinguishment of debt prior to scheduled maturity. In 2000, we recognized a net extraordinary gain of $2.2 million related to the substantial modification of terms of certain property debt and to the extinguishment of debt prior to scheduled maturity. The sources of funds used to pay the debt and fund the prepayment penalties, where applicable, were refinancings of properties and the 8% Notes issued in 1999.

The estimated fair value of debt is determined based on quoted market prices for publicly-traded debt and on the discounted estimated future cash payments to be made for other debt. The discount rates used approximate current market rates for loans or groups of loans with similar maturities and credit quality. The estimated future payments include scheduled principal and interest payments and lenders' participations in operating results, where applicable.

The carrying amount and estimated fair value of our debt at December 31, 2001 and 2000 are summarized as follows (in thousands):

	2001		*2000*	
	Carrying Amount	*Estimated Fair Value*	*Carrying Amount*	*Estimated Fair Value*
Fixed rate debt	$ 2,874,985	$ 2,930,729	$ 2,425,583	$ 2,436,623
Variable rate debt	613,835	613,835	620,186	620,186
Total	$ 3,488,820	$ 3,544,564	$ 3,045,769	$ 3,056,809

Fair value estimates are made at a specific point in time, are subjective in nature and involve uncertainties and matters of significant judgment. Settlement of our debt obligations at fair value may not be possible and may not be a prudent management decision.

(7) Company-obligated mandatorily redeemable preferred securities

The redeemable preferred securities consist of 5,500,000 Cumulative Quarterly Income Preferred Securities (preferred securities), with a liquidation amount of $25 per security, which were issued in November 1995 by a statutory business trust. The trust used the proceeds of the preferred securities and other assets to purchase at par $141.8 million of our junior subordinated debentures ("debentures") due in November 2025, which are the sole assets of the trust.

Payments to be made by the trust on the preferred securities are dependent on payments that we have undertaken to make, particularly the payments to be made by us on the debentures. Our compliance with our undertakings, taken together, would have the effect of providing a full, irrevocable and unconditional guarantee of the trust's obligations under the preferred securities.

Distributions on the preferred securities are payable from interest payments received on the debentures and are due quarterly at an annual rate of 9.25% of the liquidation amount, subject to deferral for up to five years under certain conditions. Distributions payable are included in operating expenses. Redemptions of the preferred securities are payable at the liquidation amount from redemption payments received on the debentures.

We may redeem the debentures at par at any time, but redemptions at or prior to maturity are payable only from the proceeds of issuance of our capital stock or of securities substantially comparable in economic effect to the preferred securities. During 1998, we repurchased 21,400 of the preferred securities for approximately $0.6 million.

(8) Segment information

We have five reportable segments: retail centers, office and other properties, community development (formerly land sales operations), commercial development (formerly development) and corporate. In addition to the retail components of mixed-use projects, the retail centers segment includes the operation and management of other retail centers, including regional shopping centers, downtown specialty marketplaces and community retail centers. The office and other properties segment includes the operation and management of office and industrial properties and the nonretail components of the mixed-use projects. The community development segment includes the development and sale of land, primarily in large-scale, long-term community development projects in and around Columbia and Summerlin. The commercial development segment includes the evaluation of all potential new projects (including expansions of existing properties) and acquisition opportunities and the management of them through the development or acquisition process. The corporate segment is responsible for cash and investment management and certain other general and support functions. Our reportable segments offer different products or services and are managed separately because each requires different operating strategies or management expertise.

Effective January 1, 2001, we changed the operating measure used to assess operating results for the reportable segments to Net Operating Income ("NOI"). We define NOI as net earnings (computed in accordance with accounting principles generally accepted in the United States of America), excluding cumulative effects of changes in accounting principles, extraordinary items, net gains (losses) on operating properties, depreciation and amortization, deferred income taxes and interest and other financing expenses. Other financing expenses include distributions on Company-obligated mandatorily redeemable preferred securities and certain preference returns to partners, net of interest income earned on corporate investments. Additionally, equity in earnings of unconsolidated real estate ventures and minority interests are adjusted to reflect NOI on the same basis. Segment results for prior periods have been restated to conform to this presentation.

The accounting policies of the segments are the same as those described in note 1, except that:

- real estate ventures in which we have joint interest and control and certain other minority interest ventures ("proportionate share ventures") are accounted for using the proportionate share method rather than the equity method;
- our share of NOI less interest expense of other unconsolidated minority interest ventures ("other ventures") is included in revenues;
- the majority financial interest ventures were accounted for on a consolidated basis rather than using the equity method in 2000 and 1999.

Operating results for the segments are summarized as follows (in thousands):

	Retail Centers	Office and Other Properties	Community Development	Commercial Development	Corporate	Total
2001						
Revenues	$ 636,737	$ 203,716	$ 218,322	$ —	$ —	$ 1,058,775
Operating expenses*	278,490	77,492	143,336	7,148	13,171	519,637
NOI	$ 358,247	$ 126,224	$ 74,986	$ (7,148)	$ (13,171)	$ 539,138
2000						
Revenues	$ 631,185	$ 216,231	$ 215,459	$ —	$ —	$ 1,062,875
Operating expenses*	281,072	78,579	148,679	7,701	9,365	525,396
NOI	$ 350,113	$ 137,652	$ 66,780	$ (7,701)	$ (9,365)	$ 537,479
1999						
Revenues	$ 627,070	$ 205,422	$ 197,159	$ —	$ —	$ 1,029,651
Operating expenses*	284,339	75,457	146,097	3,707	20,389	529,989
NOI	$ 342,731	$ 129,965	$ 51,062	$ (3,707)	$ (20,389)	$ 499,662

**Operating expenses include provisions for bad debts, certain current income taxes and other provisions and losses, net and exclude distributions on the mandatorily redeemable preferred securities, depreciation and amortization.*

Reconciliations of the total revenues and expenses reported above to the related amounts in the consolidated financial statements and of NOI reported above to earnings before net gains (losses) on operating properties, extraordinary items and cumulative effect of change in accounting principle in the consolidated financial statements are summarized as follows (in thousands):

	2001	*2000*	*1999*
Revenues:			
Total reported above	$1,058,775	$ 1,062,875	$ 1,029,651
Corporate interest income	849	948	1,676
Revenues of majority financial interest ventures, excluding interest on advances to Rouse	—	(312,056)	(278,437)
Share of revenues of proportionate share ventures	(88,170)	(110,126)	(108,474)
Our share of NOI less interest expense of other ventures	(9,145)	(8,531)	(8,538)
Other	4,028	274	—
Total in consolidated financial statements	$ 966,337	$ 633,384	$ 635,878
Operating expenses, exclusive of provision for bad debts, depreciation and amortization:			
Total reported above	$ 519,637	$ 525,396	$ 529,989
Distributions on Company-obligated mandatorily redeemable preferred securities	12,862	12,694	12,837
Operating expenses of majority financial interest ventures	—	(159,691)	(160,497)
Share of operating expenses of proportionate share ventures	(30,048)	(39,788)	(43,038)
Provision for bad debts	(8,992)	(6,683)	(7,972)
Other provisions and losses, net	—	(131)	(8,607)
Certain current income taxes	(3,100)	(254)	(214)
Participation by others in our share of earnings of majority financial interest ventures	—	(35,322)	(28,796)
Other	4,393	(2,535)	(1,847)
Total in consolidated financial statements	$ 494,752	$ 293,686	$ 291,855
Operating results:			
NOI reported above	$ 539,138	$ 537,479	$ 499,662
Interest expense	(228,765)	(236,744)	(233,866)
Interest expense of majority financial interest ventures, excluding interest on borrowings from Rouse	—	(10,470)	(7,504)
Share of interest expense of proportionate share ventures	(23,891)	(25,941)	(23,699)
Corporate interest income	849	948	1,676
Distributions on Company-obligated mandatorily redeemable preferred securities	(12,862)	(12,694)	(12,837)
Depreciation and amortization	(125,504)	(90,307)	(94,532)
Deferred income tax provision, certain current income taxes and other	(26,150)	—	—
Depreciation and amortization, gains (losses) on operating properties and deferred income taxes of unconsolidated real estate ventures, net	(10,570)	(27,136)	(28,897)
Earnings before net gains (losses) on operating properties, extraordinary items and cumulative effect of change in accounting principle in consolidated financial statements	$ 112,245	$ 135,135	$ 100,003

The assets by segment at December 31, 2001, 2000 and 1999 are summarized as follows (in thousands):

	2001	*2000*	*1999*
Retail centers	$ 3,457,956	$ 3,372,114	$ 3,286,590
Office and other properties	1,053,840	1,086,187	1,214,125
Community development	472,226	374,668	436,863
Commercial development	134,503	72,673	33,371
Corporate	124,232	119,609	113,311
Total	$ 5,242,757	$ 5,025,251	$ 5,084,260

Total segment assets exceeds total assets reported in the financial statements primarily because of the inclusion of our share of the assets of the proportionate share ventures and, in 2000 and 1999, the consolidation of the majority financial interest ventures.

Additions to long-lived assets of the segments are summarized as follows (in thousands):

	2001	*2000*	*1999*
Retail centers:			
Expansions and renovations	$ 126,171	$ 143,874	$ 200,886
Improvements for tenants and other	35,552	23,893	23,682
Acquisitions	—	13,569	—
	161,723	181,336	224,568
Office and other properties:			
Improvements for tenants and other	13,140	15,962	17,931
Acquisitions	—	8,676	—
	13,140	24,638	17,931
Community development - land development expenditures	116,753	95,156	73,240
Commercial development - costs of new projects	77,025	81,614	71,890
Total	$ 368,641	$ 382,744	$ 387,629

Approximately $70.6 million, $149.2 million and $171.5 million of the additions in 2001, 2000 and 1999, respectively, relate to property owned by unconsolidated real estate ventures.

(9) Income taxes

The REIT Modernization Act ("RMA") was included in the Tax Relief Extension Act of 1999 ("Act"), which was enacted into law on December 17, 1999. RMA includes numerous amendments to the provisions governing the qualification and taxation of REITs, and these amendments were effective January 1, 2001. One of the principal provisions included in the Act provides for the creation of taxable REIT subsidiaries ("TRS"). TRS are corporations that are permitted to engage in nonqualifying REIT activities. A REIT is permitted to own up to 100% of the voting stock in a TRS. Previously, a REIT could not own more than 10% of the voting stock of a corporation conducting nonqualifying activities. Relying on this legislation, in January 2001, we acquired all of the voting stock of the majority financial interest ventures owned by The Rouse Company Incentive Compensation Statutory Trust. Information related to the acquisition is included in note 2. We and these subsidiaries made a joint election to treat the subsidiaries as TRS for Federal and certain state income tax purposes beginning January 2, 2001.

As a REIT, we generally will not be subject to corporate level Federal income tax on taxable income we distribute currently to our stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to Federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not be able to qualify as a REIT for four subsequent taxable years. Even if we qualify for taxation as a REIT, we may be subject to certain state and local taxes on our income and property and to Federal income and excise taxes on our undistributed taxable income. In addition, taxable income of a TRS is subject to Federal, state and local income taxes.

In connection with our election to be taxed as a REIT, we have also elected to be subject to the "built-in gain" rules on the assets of our Qualified REIT Subsidiaries ("QRS"). Under these rules, taxes will be payable at the time and to the extent that the net unrealized gains on our assets at the date of conversion to REIT status are recognized in taxable dispositions of such assets in the ten-year period following conversion. Such net unrealized gains were approximately $2.5 billion. We believe that we will not be required to make significant payments of taxes on built-in gains throughout the ten-year period due to the availability of our net operating loss carry-forward to offset built-in gains which might be recognized and the potential for us to make nontaxable dispositions, if necessary. It may be necessary to recognize a liability for such taxes in the future if our plans and intentions with respect to QRS asset dispositions, or the related tax laws, change.

At December 31, 2001, the income tax bases of our assets and liabilities were approximately $4.4 billion and $4.6 billion, respectively. The QRS net operating loss carryforward at December 31, 2001 for Federal income tax purposes aggregated approximately $219 million and will expire from 2005 to 2011. The TRS net operating losses carried forward from December 31, 2001 for Federal income tax purposes aggregated approximately $65 million and will begin to expire in 2007. A valuation allowance of $6.1 million has been established for the income tax benefit of certain loss carryforwards of the TRS.

Income tax expense for the year ended December 31, 2001 attributable to continuing operations is reconciled to the amount computed by applying the Federal corporate tax rate as follows (in thousands):

Tax at statutory rate on earnings before income taxes, net gains (losses) on operating properties, extraordinary items and cumulative effect of change in accounting principle	$ 49,396
Increase in valuation allowance	1,613
State income taxes, net of Federal income tax benefit	1,807
Tax at statutory rate on earnings of QRS and other	(23,931)
Income tax expense	$ 28,885

Deferred income taxes at December 31, 2001 related primarily to differences in property bases (particularly land assets) and net operating loss carryforwards and were not material.

(10) Other provisions and losses, net

Other provisions and losses, net, for 1999 related primarily to our consolidation of the management and administration of our Retail Operations and Office and Mixed-Use Operations divisions into a single Property Operations Division and the integration of certain operating, administrative and support functions of the Hughes Division into other divisions. The costs relating to these organizational changes, primarily severance and other benefits to terminated employees, aggregated approximately $6.6 million. Also, in October 1999, we adopted a voluntary early retirement program in which employees who met certain criteria were eligible to participate. We recorded a provision of approximately $2.5 million for costs associated with this program for employees who accepted early retirement prior to December 31, 1999.

(11) Net gains (losses) on operating properties

The net losses on operating properties in 2001 consisted primarily of an additional impairment provision we recorded on our investment in a retail center (Randhurst) that we and the other venturer intend to dispose ($0.4 million).

The net gains on operating properties in 2000 related primarily to the transfer to a joint venture (in which we maintain a minority interest) of our ownership interest in a retail center (North Star) ($37.1 million). We deferred recognition of gains of approximately $25 million on this transaction and approximately $15 million in connection with an unrelated transaction due to our continuing involvement with the ventures. This gain was partially offset by an impairment provision recorded by us on our investment in a retail center (Randhurst) that we and the other venturer intend to dispose ($6.9 million).

The net gains on operating properties in 1999 consisted primarily of a gain on the sale of a retail center (Santa Monica Place) ($61.9 million) and a gain on the sale of an other property (Lucky's Center) ($6.4 million), partially offset by impairment losses on two retail centers (Tampa Bay Center and The Grand Avenue) ($28.1 million). In 1999, we changed our plans and intentions as to the manner in which these retail centers would be operated in the future and revised estimates of the most likely holding periods. As a result, we evaluated the recoverability of the carrying amounts of the centers, determined that the carrying amounts of the centers were not recoverable from future cash flows and recognized impairment losses.

(12) Preferred stock

We have authorized 50,000,000 shares of Preferred stock of 1¢ par value per share of which (a) 4,505,168 shares have been classified as Series A Convertible Preferred; (b) 4,600,000 shares have been classified as Series B Convertible Preferred; (c) 10,000,000 shares have been classified as Increasing Rate Cumulative Preferred; and (d) 37,362 shares have been classified as 10.25% Junior Preferred, Series 1996.

The shares of Series B Convertible Preferred stock have a liquidation preference of $50 per share and earn dividends at an annual rate of 6% of the liquidation preference. At the option of the holders, each share of the Series B Convertible Preferred stock is convertible into shares of our common stock at a conversion rate of approximately 1.311 shares of common stock for each share of Preferred stock, subject to adjustment in certain circumstances. In addition, the shares of Preferred stock are redeemable for shares of common stock at our option, subject to certain conditions. There were 4,050,000 shares of Preferred stock issued and outstanding at December 31, 2001 and 2000.

Shares of the Increasing Rate Cumulative Preferred stock are issuable only to former Hughes owners or their successors pursuant to the Contingent Stock Agreement described in note 13. These shares are issuable only in limited circumstances and no shares have been issued. There were no shares of the Series A Convertible Preferred stock or 10.25% Junior Preferred stock, Series 1996, outstanding at December 31, 2001 and 2000.

(13) Common stock

At December 31, 2001, shares of authorized and unissued common stock are reserved as follows: (a) 12,229,288 shares for issuance under the Contingent Stock Agreement discussed below; (b) 17,173,254 shares for issuance under our stock option and stock bonus plans; (c) 5,309,955 shares for conversion of the Series B Convertible Preferred stock; and (d) 1,400,000 shares for conversion of convertible property debt.

In connection with the acquisition of The Hughes Corporation ("Hughes") in 1996, we entered into a Contingent Stock Agreement ("Agreement") for the benefit of the former Hughes owners or their successors ("beneficiaries"). Under terms of the Agreement, additional shares of common stock (or in certain circumstances, Increasing Rate Cumulative Preferred stock) are issuable to the beneficiaries based on the appraised values of four defined groups of acquired assets at specified "termination dates" from 2000 to 2009 and/or cash flows generated from the development and/or sale of those assets prior to the termination dates ("earnout periods"). The distributions of additional shares, based on cash flows, are payable semiannually as of June 30 and December 31. At December 31, 2001, approximately 221,000 shares ($6.5 million) were issuable to the beneficiaries, representing their share of cash flows.

The Agreement is, in substance, an arrangement under which we and the beneficiaries will share in cash flows from development and/or sale of the defined assets during their respective earnout periods, and we will issue additional shares of common stock to the beneficiaries based on the value, if any, of the defined asset groups at the termination dates. We account for the beneficiaries' shares of earnings from the assets subject to the agreement as an operating expense. In 2000 and 1999, substantially all of the remaining assets in the four defined asset groups were owned by the majority financial interest ventures. However, we retained full responsibility for our obligations under the Agreement and, accordingly, we accounted for the beneficiaries' share of earnings from the assets as a reduction of our equity in the earnings of the related ventures. We will account for any distributions to the beneficiaries as of the termination dates as additional investments in the related assets (i.e., contingent consideration). At the time of acquisition of Hughes, we reserved 20,000,000 shares of common stock for possible issuance under the Agreement. The number of shares reserved was determined based on estimates in accordance with the provisions of the Agreement. The actual number of shares issuable will be determined only from events occurring over the term of the Agreement and could differ significantly from the number of shares reserved.

In 1999, our Board of Directors authorized the repurchase of common shares for up to $250 million, subject to certain pricing restrictions. During 2000 and 1999, we repurchased approximately 2.8 million and 1.6 million shares, respectively, for $66 million and $35 million, respectively. The average per share repurchase price was $23.57 in 2000 and $21.88 in 1999. No shares were repurchased under this program in 2001. Other common stock repurchased in 2001, 2000 and 1999 was subsequently issued pursuant to the Contingent Stock Agreement.

Under our stock option plans, options to purchase shares of common stock and stock appreciation rights may be awarded to our directors, officers and employees. Stock options are generally granted with an exercise price equal to the market price of the common stock on the date of grant, typically vest over a three- to five-year period, subject to certain conditions, and have a maximum term of ten years. We have not granted any stock appreciation rights. Changes in options outstanding under the plans are summarized as follows:

	2001		*2000*		*1999*	
	Shares	*Weighted-average Exercise Price*	*Shares*	*Weighted-average Exercise Price*	*Shares*	*Weighted-average Exercise Price*
Balance at beginning of year	7,841,881	$ 24.78	6,263,228	$ 25.54	5,434,214	$ 25.91
Options granted	2,370,888	25.97	2,576,499	22.00	1,125,641	22.90
Options exercised	(1,296,434)	21.64	(758,904)	20.67	(128,232)	16.89
Options expired or cancelled	(103,250)	23.15	(238,942)	27.76	(168,395)	26.38
Balance at end of year	8,813,085	$ 25.58	7,841,881	$ 24.78	6,263,228	$ 25.54

Information about stock options outstanding at December 31, 2001 is summarized as follows:

	Options Outstanding			*Options Exercisable*	
Range of Exercise Prices	*Shares*	*Weighted-average Remaining Life (Years)*	*Weighted-average Exercise Price*	*Shares*	*Weighted-average Exercise Price*
$13.50 to $19.88	503,526	3.1	$ 19.03	503,526	$ 19.03
$20.94 to $31.38	7,972,361	7.1	25.69	3,113,265	28.02
$31.50 to $32.88	337,198	6.1	32.71	111,920	32.60
	8,813,085	6.8	$ 25.58	3,728,711	$ 26.95

At December 31, 2000 and 1999, options to purchase 2,934,907 and 2,982,732 shares, respectively, were exercisable at per share weighted-average prices of $25.18 and $23.77, respectively.

The per share weighted-average estimated fair values of options granted during 2001, 2000 and 1999 were $3.41, $3.46 and $3.15, respectively. These fair values were estimated on the dates of each grant using the Black-Scholes option-pricing model with the following assumptions:

	2001	*2000*	*1999*
Risk-free interest rate	5.1%	6.6%	5.4%
Dividend yield	5.5	5.5	5.5
Volatility factor	20.0	20.0	20.0
Expected life in years	6.4	6.6	6.7

The option prices were greater than or equal to the market prices at the date of grant for all of the options granted in 2001, 2000 and 1999 and, accordingly, no compensation cost has been recognized for stock options granted to our directors, officers and employees. Expense recognized for stock options granted to employees of of our unconsolidated ventures was insignificant.

If we had applied a fair value-based method to recognize compensation cost for stock options, net earnings and earnings per share of common stock would have been adjusted as indicated below (in thousands, except per share data):

	2001	*2000*	*1999*
Net earnings:			
As reported	$110,706	$170,485	$135,297
Pro forma	100,928	163,108	129,763
Earnings per share of common stock:			
Basic:			
As reported	1.42	2.27	1.71
Pro forma	1.28	2.17	1.63
Diluted:			
As reported	1.40	2.24	1.69
Pro forma	1.28	2.14	1.62

Under our stock bonus plans, shares of common stock may be awarded to our officers and employees. Shares awarded under the plans are typically subject to forfeiture restrictions which lapse at defined annual rates. Awards granted in 2001 and 2000 aggregated 266,850 and 89,700 shares, respectively, with a weighted-average market value per share of $24.84 and $21.62, respectively. No awards were granted in 1999. In connection with certain stock bonus plan awards, we make loans to the recipients for the payment of related income taxes, which loans are forgiven subject to the recipients' continued employment. The total loans outstanding at December 31, 2001, 2000 and 1999 were $0.5 million, $1.3 million and $2.5 million, respectively. We recognize amortization of the fair value of the stock awarded and any forgiven loans as compensation costs on a straight-line basis over the terms of the awards. Such costs amounted to $3.2 million in 2001, $3.9 million in 2000 and $5.1 million in 1999.

The tax status of dividends per share of common stock was as follows:

	2001	*2000*	*1999*
Ordinary income	$ 1.27	$ 1.32	$ 1.20
Return of capital	0.15	—	—
Total	$ 1.42	$ 1.32	$ 1.20

(14) Earnings per share

Information relating to the calculations of earnings per share ("EPS") of common stock is summarized as follows (in thousands):

	2001		2000		1999	
	Basic	*Diluted*	*Basic*	*Diluted*	*Basic*	*Diluted*
Earnings before extraordinary items and cumulative effect of change in accounting principle	$ 111,813	$ 111,813	$ 168,285	$ 168,285	$ 141,176	$ 141,176
Dividends on unvested common stock awards and other	(679)	(502)	(437)	(321)	(466)	(909)
Dividends on Preferred stock	(12,150)	(12,150)	(12,150)	(12,150)	(12,150)	(12,150)
Interest on convertible property debt	—	—	—	3,076	—	—
Interest on convertible subordinated debentures	—	—	—	—	—	3,222
Adjusted earnings before extraordinary items and cumulative effect of change in accounting principle used in EPS computation	$ 98,984	$ 99,161	$ 155,698	$ 158,890	$ 128,560	$ 131,339
Weighted-average shares outstanding	68,637	68,637	69,475	69,475	71,705	71,705
Dilutive securities:						
Options, warrants and unvested common stock awards	—	1,057	—	659	—	563
Convertible property debt	—	—	—	1,930	—	—
Convertible subordinated debentures	—	—	—	—	—	1,931
Adjusted weighted-average shares used in EPS computation	68,637	69,694	69,475	72,064	71,705	74,199

Effects of potentially dilutive securities are presented only in periods in which they are dilutive.

(15) Leases

We, as lessee, have entered into operating leases, primarily for land at operating properties, expiring at various dates through 2076. Rents under such leases aggregated $9.1 million in 2001, $10.8 million in 2000 and $10.5 million in 1999, including contingent rents, based on the operating performance of the related properties, of $2.5 million, $3.8 million and $4.5 million, respectively. In addition, we are responsible for real estate taxes, insurance and maintenance expenses. Minimum rent payments due under operating leases in effect at December 31, 2001 are summarized as follows (in thousands):

2002	$ 6,174
2003	6,260
2004	6,316
2005	6,345
2006	6,345
Subsequent to 2006	260,658
Total	$ 292,098

We lease space in our operating properties to tenants primarily under operating leases. In addition to minimum rents, the majority of the retail center leases provide for percentage rents when the tenants' sales volumes exceed stated amounts, and the majority of the retail center and office leases provide for other rents which reimburse us for certain of our operating expenses. Rents from tenants are summarized as follows (in thousands):

	2001	*2000*	*1999*
Minimum rents	$ 462,089	$ 403,088	$ 398,520
Percentage rents	10,099	10,895	10,970
Other rents	213,252	183,903	186,240
Total	$ 685,440	$ 597,886	$ 595,730

Minimum rents to be received from tenants under operating leases in effect at December 31, 2001 are summarized as follows (in thousands):

2002	$ 410,352
2003	363,131
2004	316,998
2005	271,232
2006	220,659
Subsequent to 2006	604,850
Total	$ 2,187,222

Rents under finance leases aggregated $8.7 million in 2001, $7.8 million in 2000 and $8.5 million in 1999. The net investment in finance leases at December 31, 2001 and 2000 is summarized as follows (in thousands):

	2001	*2000*
Total minimum rent payments to be received over lease terms	$111,848	$120,442
Estimated residual values of leased properties	788	788
Unearned income	(44,452)	(50,238)
Net investment in finance leases	$ 68,184	$ 70,992

Minimum rent payments to be received from tenants under finance leases in effect at December 31, 2001 are summarized as follows (in thousands):

2002	$ 8,735
2003	8,735
2004	8,931
2005	8,970
2006	8,472
Subsequent to 2006	68,005
Total	$ 111,848

(16) Other commitments and contingencies

At December 31, 2001, we had other commitments and contingencies (that are not reflected on the consolidated balance sheet) as follows (in millions):

Guarantee of debt of unconsolidated real estate ventures:	
Village of Merrick Park	$ 54.1
Fashion Show	34.4
Hughes Airport-Cheynne Centers	28.8
Guarantee of interest swap agreements of unconsolidated real estate ventures:	
Village of Merrick Park	0.3
Fashion Show	0.6
Construction contracts for properties in development:	
Consolidated subsidiaries, primarily Fashion Show	69.8
Our share of unconsolidated real estate ventures, primarily Village of Merrick Park	28.2
Our share of long-term lease obligations of unconsolidated ventures:	
Ground leases of unconsolidated real estate ventures	60.0
Capital lease of MerchantWired	6.6
Bank letters of credit	12.4
	$295.2

We have guaranteed the repayment of a construction loan of the unconsolidated real estate venture that is developing the Village of Merrick Park. The maximum amount that may be borrowed under the loan is $200 million. The amount of the guarantee may be reduced to a minimum of 20% upon the achievement of certain lender requirements. Additionally, venture partners have provided guarantees to us for their share (60%) of the construction loan. We have also guaranteed an obligation of the venture under an interest rate swap agreement.

During 2001, we leased land and improvements at Fashion Show to an entity that is developing a portion of the expansion of the retail center. In connection with this lease, we have guaranteed the repayment of construction loan borrowings by the lessee. The maximum amount that may be borrowed under the loan is $111 million. The guarantee may be partially reduced upon the achievement of certain lender requirements. We have also guaranteed an obligation of the lessee arising from an interest rate swap agreement. An affiliate of Rodamco North America N.V. ("Rodamco") owns a 99% interest in the lessee and we expect to acquire this interest in the proposed acquisition of the assets of Rodamco described in note 17. A subsidiary of The Rouse Company Incentive Compensation Statutory Trust owns the controlling interest in the lessee.

At December 31, 2001, we had a shelf registration statement for the future sale of up to an aggregate of $1.9 billion (based on the public offering price) of common stock, Preferred stock and debt securities. Securities may be issued pursuant to this registration statement in amounts and on terms to be determined at the time of offering. In January and February 2002, we issued additional shares of common stock under this registration statement (see note 17).

We and certain of our subsidiaries are defendants in various litigation matters arising in the ordinary course of business, some of which involve claims for damages that are substantial in amount. Some of these litigation matters are covered by insurance. In our opinion, adequate provision has been made for losses with respect to litigation matters, where appropriate, and the ultimate resolution of such litigation matters is not likely to have a material effect on our consolidated financial position. Due to our fluctuating net earnings, it is not possible to predict whether the resolution of these matters is likely to have a material effect on our net earnings and it is, therefore, possible that the resolution of these matters could have such an effect in any future quarter or year.

(17) Subsequent events

In January 2002, we, Simon Property Group, Inc. and Westfield America Trust announced that affiliates of each (collectively, the "purchasers") entered into a Purchase Agreement with Rodamco North America N.V. ("Rodamco") to purchase substantially all of the assets of Rodamco for an aggregate purchase price of approximately 2.48 billion euros (approximately $2.21 billion based on exchange rates then in effect) in cash, subject to adjustment, and the assumption of substantially all of Rodamco's liabilities, including approximately $2.18 billion of U.S. dollar denominated property debt and subsidiary perpetual preferred stock. Additional obligations to be borne by the purchasers and/or their parents include repayment of Rodamco corporate debt and payment of transaction expenses aggregating approximately $1.2 billion. The purchase price will be reduced by any amounts paid by Rodamco to its shareholders prior to closing. If the closing occurs after May 15, 2002, the purchase price will increase by an amount equal to the product of 622,642 euros and the number of days from May 1, 2002 until the closing.

In connection with the Purchase Agreement, affiliates of the purchasers entered into a Joint Purchase Agreement that specifies the properties that each will acquire and sets forth the basis upon which the portion of the aggregate purchase price to be paid to Rodamco by each purchaser will be determined. Our share of the purchase price is expected to be approximately 601 million euros (approximately $536 million based on exchange rates in effect at the date of the Purchase Agreement). We also expect to repay a portion of Rodamco corporate debt and transaction costs aggregating approximately $321 million and to assume approximately $675 million of U.S. dollar denominated property debt and subsidiary perpetual preferred stock. We received a commitment from Banc of America Securities LLC and Banc of America Mortgage Capital Corporation for up to an $870 million bridge facility with an initial maturity of six months from the closing of the acquisition to provide interim financing for a portion of the purchase price and related costs. Availability under the bridge facility was reduced to $450 million as a result of the issuance of common stock in January and February 2002. We have the right to extend the commitment for an additional twelve months at reduced levels.

There are significant risks associated with our proposed acquisition of assets from Rodamco. Our obligation to consummate the proposed acquisition is not subject to a financing condition. While we believe we have significant liquidity to close the transaction, our plans include using the proceeds from the sales of certain properties and assets to be acquired jointly with the other purchasers to repay any borrowings we may make under the bridge facility. We cannot assure that these assets will be sold on the anticipated time schedule or at the prices we expect. We are jointly and severally liable with the other purchasers under the Purchase Agreement such that if the other purchasers fail to perform, Rodamco could look to us for the entire amount of its damages (although we would have claims against the other purchasers under cross indemnities). We cannot assure that we will be able to consummate the acquisition if the other purchasers fail to perform. In addition, there are several conditions to closing the acquisition, including approval of the acquisition by the shareholders of Rodamco. We currently expect that a vote by the shareholders of Rodamco will occur on March 25, 2002; however, there is ongoing legal action in the Netherlands and we cannot assure that the vote will occur on that date. It is possible that other legal challenges could occur. We cannot assure that the shareholders of Rodamco will approve the transaction if and when they do vote. Accordingly, we cannot assure that the transaction will occur.

In January and February of 2002, we issued 16.675 million shares of common stock for aggregate gross proceeds of $456.9 million ($27.40 per share) under our effective shelf registration statement. We plan to use the proceeds of the stock issuance to fund a portion of the purchase price of the proposed acquisition of the assets of Rodamco described above.

(18) New financial accounting standards not yet adopted

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 changes the accounting for goodwill and intangible assets with indefinite useful lives from an amortization approach to an impairment-only approach. The adoption of SFAS No. 142 on January 1, 2002 will not have an effect on our financial statements.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and APB Opinion No. 30, "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." The Statement does not change the fundamental provisions of SFAS No. 121; however, it resolves various implementation issues of SFAS No. 121 and establishes a single accounting model for long-lived assets to be disposed of by sale. It retains the requirement of APB Opinion No. 30 to report separately discontinued operations, but it extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment or in distribution to owners) or is classified as held for sale. We do not believe that adoption of SFAS No. 144 in 2002 will have a material effect on our financial statements.

Five Year Comparison of Selected Financial Data

Years ended December 31, (in thousands, except per share data)	*2001*	*2000*	*1999*	*1998*	*1997*
Operating results data:					
Revenues from continuing operations	$ 966,337	$ 633,384	$ 635,878	$ 613,801	$ 916,771
Earnings from continuing operations	111,813	168,285	141,176	105,176	189,892
Basic earnings from continuing operations applicable to common shareholders per share of common stock	1.44	2.24	1.79	1.36	2.70
Diluted earnings from continuing operations applicable to common shareholders per share of common stock	1.42	2.21	1.77	1.34	2.59
Balance sheet data:					
Total assets	4,880,443	4,175,538	4,233,101	5,033,331	3,483,650
Debt and capital leases	3,501,398	3,058,038	3,155,312	3,943,902	2,586,260
Shareholders' equity	655,360	630,468	638,580	628,926	465,515
Shareholders' equity per share of common stock (note)	8.78	8.61	8.40	8.11	6.45
Other selected data:					
Net cash provided (used) by:					
Operating activities	291,278	252,916	192,529	259,298	182,989
Investing activities	(116,119)	8,049	33,388	(1,018,273)	(326,051)
Financing activities	(157,778)	(273,713)	(237,389)	720,611	180,878
Dividends per share of common stock	1.42	1.32	1.20	1.12	1.00
Dividends per share of convertible Preferred stock	3.00	3.00	3.00	3.00	2.65
Market price per share of common stock at year end	29.29	25.50	21.25	27.50	32.75
Market price per share of convertible Preferred stock at year end	43.50	36.63	32.63	43.38	50.50
Weighted-average common shares outstanding (basic)	68,637	69,475	71,705	67,874	66,201
Weighted-average common shares outstanding (diluted)	69,694	72,064	74,199	68,859	76,005

Note—Shareholders' equity per share of common stock assumes conversion of the Series B Convertible Preferred stock issued in 1997.

Interim Financial Information (Unaudited)

Interim consolidated results of operations are summarized as follows (in thousands, except per share data):

	Quarter ended							
	December 31, 2001	*September 30, 2001*	*June 30, 2001*	*March 31, 2001*	*December 31, 2000*	*September 30, 2000*	*June 30, 2000*	*March 31, 2000*
Revenues	$ 238,893	$ 228,443	$ 247,377	$ 251,624	$166,485	$ 163,144	$ 150,719	$ 153,036
Operating income	24,528	29,236	26,409	32,072	30,715	32,628	35,733	36,059
Earnings before extraordinary items and cumulative effect of change in accounting principle	24,270	29,301	26,571	31,671	32,228	70,180	34,509	31,368
Net earnings	24,270	29,249	25,927	31,260	31,230	74,100	33,787	31,368
Earnings per common share								
Basic:								
Earnings before extraordinary items and cumulative effect of change in accounting principle	$ .31	$ .38	$ .34	$ .42	$ .42	$ .96	$ .45	$ .40
Extraordinary gains (losses)	—	—	(.01)	—	(.01)	.06	(.01)	—
Cumulative effect of change in accounting principle	—	—	—	(.01)	—	—	—	—
Total	$ .31	$ .38	$ .33	$ .41	$ .41	$ 1.02	$ .44	$ .40
Diluted:								
Earnings before extraordinary items and cumulative effect of change in accounting principle	$ .30	$ .37	$ .34	$ .41	$ .42	$ .91	$ .45	$ .40
Extraordinary gains (losses)	—	—	(.01)	—	(.01)	.05	(.01)	—
Cumulative effect of change in accounting principle	—	—	—	(.01)	—	—	—	—
Total	$ .30	$ .37	$ .33	$ .40	$ .41	$ .96	$ .44	$ .40

Note—Extraordinary gains (losses) relate to early extinguishments and substantial modification of terms of debt. Net earnings for the third quarter of 2000 includes a gain on the disposition of substantially all of our interest in a retail center (North Star) of $37,082,000 ($0.53 per share basic, $0.51 per share diluted).

Price of Common Stock and Dividends

Our common stock is traded on the New York Stock Exchange. The prices and dividends per share were as follows:

	Quarter ended							
	December 31, 2001	*September 30, 2001*	*June 30, 2001*	*March 31, 2001*	*December 31, 2000*	*September 30, 2000*	*June 30, 2000*	*March 31, 2000*
High	$30.16	$ 29.35	$29.00	$ 28.00	$26.56	$ 27.13	$25.69	$22.94
Low	23.82	24.00	25.14	24.53	24.19	23.63	20.88	20.31
Dividends	.355	.355	.355	.355	.33	.33	.33	.33

Number of Holders of Common Stock

The number of holders of record of our common stock as of March 15, 2002 was 2,391.

General

Through our subsidiaries and affiliates, we acquire, develop and manage a diversified portfolio of retail centers, office and industrial buildings and mixed-use and other properties located throughout the United States. We also develop and sell land for residential, commercial and other uses, primarily in and around Columbia, Maryland and Summerlin, Nevada.

Our primary business strategies include owning and operating (1) premier properties—shopping centers and large-scale mixed-use projects in major markets across the United States and (2) geographically concentrated office and industrial buildings, principally complementing community development activities. In order to execute these strategies, we evaluate opportunities to develop or acquire properties and to expand and/or renovate properties in our portfolio. We plan to continue making substantial investments to expand and/or renovate, acquire and develop properties as follows:

- We anticipate that we will acquire interests in eight high-quality operating properties and other assets in the second quarter of 2002 from Rodamco North America N.V. ("Rodamco").
- We are an investor in a joint venture that is developing the Village of Merrick Park, a large-scale mixed-use project in Coral Gables, Florida, that is expected to open in September 2002.
- We and a lessee are currently expanding and redeveloping Fashion Show, a retail center on "the strip" in Las Vegas, Nevada, and expect to complete the first phase of this project in October 2002.

We also assess whether particular properties are meeting or have the potential to meet our investment criteria. We have disposed of interests or transferred majority interests in more than 30 retail centers and numerous other properties since 1993 (sometimes using tax-deferred exchanges) and may dispose of selected properties that are not meeting or are not considered to have the potential to continue to meet our investment criteria. We may also dispose of interests in properties for other reasons. In September 1999, we announced that we would pursue a strategy to sell interests in certain office and industrial properties and land parcels and use the proceeds to repay debt, fund development costs and repurchase (subject to certain price restrictions) up to $250 million of our common stock. In January 2000, we completed disposition and transaction structuring plans and began marketing interests in the identified properties in the Baltimore-Washington corridor and Las Vegas. In 2000, we sold several of the properties in the Baltimore-Washington corridor and contributed our ownership interests in industrial properties in two Las Vegas business parks to a real estate venture in exchange for a cash distribution and a minority interest in the venture. We used some of the cash proceeds from these and other transactions to repurchase approximately $66 million (2.8 million shares) of our common stock. Since 1999, we have repurchased approximately $101 million (4.4 million shares) of our common stock. In January 2001, we decided to pursue other strategies to obtain liquidity and ceased actively marketing substantially all of the remaining buildings in the Baltimore-Washington corridor. However, we may dispose of these properties if circumstances change or if specific opportunities arise. Disposition decisions and related transactions may cause us to recognize gains or losses that could have material effects on reported net earnings in future quarters or fiscal years, and, taken together with the use of sales proceeds, may have a material effect on our overall consolidated financial position.

We also develop and manage large-scale land development projects, including the communities of Columbia and Emerson in Howard County, Maryland and Summerlin, Nevada. To leverage our experience and provide further growth opportunities, we seek opportunities to acquire new and/or existing land development projects. Net cash flows from community development operations provide an additional source of funding for our other activities.

Portfolio changes

We believe that space in high-quality, dominant retail centers in densely populated, affluent areas will continue to be in demand by retailers and that these retail centers are better able to withstand difficult conditions in the overall economy, specifically in the real estate and retail industries. We also believe that space in class-A office projects in growing metropolitan areas will continue to be in demand. In 2001, 2000 and 1999, we completed an acquisition, numerous expansion projects, the development of new operating properties and several sale/transfer transactions (including contributions of interests in properties to unconsolidated real estate ventures) designed to upgrade the overall quality of the property portfolio or to provide liquidity for development costs, repurchases of common stock and other uses.

The 2001, 2000 and 1999 acquisition, sale/transfer and development activity is summarized as follows:

Acquisitions

In August 2000, we acquired a 65% interest in Westdale Mall, a retail center, increasing our ownership interest to 85%.

Sale/transfer

Retail Centers	*Disposition Date*
Bridgewater Commons(1)	February 1999
Park Meadows (1)	February 1999
Towson Town Center (1)	February 1999
Santa Monica Place	October 1999
North Star (2)	July 2000
Midtown Square	October 2000
The Grand Avenue	November 2000

Office and Other Properties	*Disposition Date*
Lucky's Center	June 1999
Hunt Valley Business Center (1 building)	June 2000
Midtown Office	October 2000
Owen Brown I & II	November 2000
Hughes Airport Center (34 buildings) (2)	December 2000
Hughes Cheyenne Center (3 buildings) (2)	December 2000
Hunt Valley Business Center (2 buildings)	December 2000
Hunt Valley Business Center (1 building)	April 2001

Notes:

(1) We contributed our interests to a joint venture in which we obtained a 35% ownership interest.

(2) We contributed our interests to ventures in which we obtained minor interests.

Development projects

Retail Centers	*Date Opened*
Oakwood Center Expansion	March 1999
The Mall in Columbia Expansion – Phase II	September 1999
Exton Square Expansion – Phase I	November 1999
Moorestown Mall Expansion – Phase I	November 1999
Moorestown Mall Expansion – Phase II	March 2000
Pioneer Place Expansion	March 2000
Exton Square Expansion – Phase II	May 2000
Perimeter Mall Expansion	July 2000
Oviedo Marketplace Expansion	October 2000
The Mall in Columbia Expansion – Phase III	May 2001
Centerpointe Plaza (Summerlin Village Center)	September 2001

Office and Other Properties	*Date Opened*
Park Square, Columbia Office	January 1999
Hughes Airport Center (1 building)	May 1999
Summerlin Commercial (3 buildings)	September 1999
Hughes Center (1 building)	October 1999
Summerlin Town Center (1 building)	January 2001
Summerlin Town Center (1 building)	February 2001

Operating results

The following discussion and analysis of operating results covers each of our five business segments as management believes that a segment analysis provides the most effective means of understanding the business. It also provides information about other elements of the consolidated statement of operations that are not included in the segment results. You should refer to the consolidated statements of operations, note 8 to the consolidated financial statements and the Five Year Summary of Net Operating Income ("NOI") and Net Earnings on page 66 when reading this discussion and analysis. As discussed in note 8, segment operating data are reported using the accounting policies used for internal reporting to management, which differ in certain respects from those used for reporting under accounting policies generally accepted in the United States of America. The differences affect only the reported revenues and expenses of the segments and have no effect on our reported net earnings or NOI. Revenues and operating expenses reported for the segments are reconciled to the related amounts reported in the consolidated statements of operations in note 8.

Comparisons of NOI and net earnings from one year to another are affected significantly by the property acquisition, sale/transfer and development activity summarized above. As discussed in more detail below, other factors that have contributed to our operating results in 2001, 2000 and 1999 include the following:

- maintenance of high occupancy levels in retail and office properties;
- higher rents on re-leased space;
- strong demand for land in Columbia and Summerlin;
- refinancings of project-related debt at lower interest rates;
- a decline in average interest rates on variable rate debt;
- repayments of debt;
- cost reduction measures.

Impact of the terrorist attacks of September 11, 2001: We were largely spared direct losses caused by the terrorist attacks of September 11, 2001. Operations were disrupted only at South Street Seaport, a retail center in lower Manhattan that we own and operate. The center was closed for a week following the attacks for use as a staging and rest area for rescue workers. It did not sustain significant physical damage. Customer traffic, tenant sales and rents at South Street Seaport are generally affected by the level of pedestrian and other traffic and other commercial activity in lower Manhattan. While we expect a significant recovery of traffic and commercial activity in lower Manhattan, we are uncertain as to its timing and scope. Accordingly, it is difficult to predict with certainty when, if ever, customer traffic, tenant sales and rents will return to historical levels. Customer traffic at our other retail centers was lighter than usual for several days after the attacks but has generally returned to normal levels at our suburban properties. Traffic at our urban specialty marketplaces is more dependent on tourism and continues to be lighter than usual. Las Vegas, where we have a substantial concentration of assets, experienced a significant decline in visitor activity in the weeks immediately following the attacks. Recent data indicate a substantial recovery of visitor activity with the exception of international visitors. There can be no assurance that visitor activity in Las Vegas or at our urban specialty marketplaces will return to levels experienced before the attacks.

Business Segment Information

Operating Properties: We report the results of our operating properties in two segments: (1) retail centers and (2) office and other properties. Our tenant leases provide the foundation for the performance of our operating properties. In addition to minimum rents, the majority of retail and office tenant leases provide for other rents which reimburse us for certain operating expenses. Substantially all of our retail leases also provide for additional rent (percentage rent) based on tenant sales in excess of stated levels. As leases expire, space is re-leased, minimum rents are generally adjusted to market rates, expense reimbursement provisions are updated and new percentage rent levels are established for retail leases.

Some portions of our discussion and analysis focus on "comparable" properties. In general, comparable properties exclude those that have been acquired or disposed of, newly developed or undergone significant expansion in either of the two years being compared.

Retail Centers: Operating results of retail centers are summarized as follows (in millions):

	2001	*2000*	*1999*
Revenues	$ 636.7	$ 631.2	$ 627.0
Operating expenses, exclusive of depreciation and amortization	278.5	281.1	284.3
NOI	$ 358.2	$ 350.1	$ 342.7

Revenues increased $5.5 million in 2001 and $4.2 million in 2000. The increase in 2001 was attributable primarily to properties opened or expanded in 2001 and 2000 (approximately $16.7 million), the acquisition of an additional interest in a retail center in 2000 (approximately $4.5 million), higher rents on re-leased space and higher lease termination income (approximately $5.6 million) at comparable properties. These increases were partially offset by dispositions of interests in properties in 2000 (approximately $17.0 million) and lower average occupancy levels at comparable properties (93.0% in 2001 as compared to 94.4% in 2000). Revenues also declined by approximately $2.1 million at South Street Seaport in lower Manhattan where customer traffic, tenant sales and rents declined significantly in the aftermath of the terrorist attacks of September 11, 2001. The increase in 2000 was attributable primarily to properties opened or expanded in 2000 and 1999 (approximately $19.0 million), the acquisition in 2000 (approximately $3.5 million) and higher rents on re-leased space. These increases were partially offset by dispositions of interests in properties in 2000 and 1999 (approximately $27.8 million) and slightly lower average occupancy levels at comparable properties (94.0% in 2000 as compared to 94.3% in 1999).

Total operating expenses (exclusive of depreciation and amortization) decreased $2.6 million in 2001 and $3.2 million in 2000. The decrease in 2001 was attributable primarily to dispositions of interests in properties in 2000 (approximately $10.8 million). The decrease was partially offset by properties opened or expanded in 2001 and 2000 (approximately $4.6 million) and the acquisition of an additional interest in a retail center in 2000 (approximately $3.1 million). The decrease in 2000 was attributable primarily to dispositions of interests in properties in 2000 and 1999 (approximately $12.7 million). The decrease was partially offset by properties opened or expanded (approximately $4.5 million) and acquired (approximately $1.4 million) in 2000 and 1999.

We believe that the outlook is for continued growth in NOI from retail centers in 2002, as we should benefit from the properties to be acquired from Rodamco, properties expanded in 2001 and the operations of the Village of Merrick Park and the first phase of the Fashion Show expansion, expected to open in September and October 2002, respectively.

Office and Other Properties: Operating results of office and other properties are summarized as follows (in millions):

	2001	*2000*	*1999*
Revenues	$ 203.7	$ 216.2	$ 205.4
Operating expenses, exclusive of depreciation and amortization	77.5	78.5	75.4
NOI	$ 126.2	$ 137.7	$ 130.0

Revenues decreased $12.5 million in 2001 and increased $10.8 million in 2000. The decrease in 2001 was attributable primarily to dispositions of interests in properties in 2000 (approximately $21.4 million) and was partially offset by higher rents on re-leased space. The increase in 2000 was attributable primarily to new properties opened in 2000 and 1999 (approximately $3.7 million) and higher rents on re-leased space. These increases were partially offset by dispositions of properties in 2000 and 1999 (approximately $1.0 million).

Total operating expenses (exclusive of depreciation and amortization) decreased $1.0 million in 2001 and increased $3.1 million in 2000. The decrease in 2001 is attributable to dispositions of interests in properties in 2000 (approximately $4.6 million). The decrease was partially offset by higher general and administrative expenses. The increase in 2000 was attributable primarily to new properties opened in 2000 and 1999 (approximately $1.4 million). The increase was partially offset by dispositions of properties in 2000 and 1999 (approximately $0.2 million).

We expect NOI from our office and other properties segment in 2002 to exceed the 2001 results, as we should benefit from the properties to be acquired from Rodamco.

Community Development: Community development relates primarily to the communities of Columbia and Emerson, in Howard County, Maryland and Summerlin, Nevada. Generally, revenues and operating income from land sales are affected by such factors as the availability to purchasers of construction and permanent mortgage financing at acceptable interest rates, consumer and business confidence, availability of saleable land for particular uses and our decisions to sell, develop or retain land. In 2000, we began to accelerate our land development and sales activities, particularly in Summerlin, in order to meet high demand for land for residential and other uses.

Operating results of community development are summarized as follows (in millions):

	2001	2000	1999
Nevada Operations:			
Revenues:			
Summerlin	$ 148.7	$ 114.4	$ 111.3
Other	5.6	17.3	21.8
Operating costs and expenses:			
Summerlin	108.8	95.5	90.5
Other	4.7	15.7	19.0
NOI	$ 40.8	$ 20.5	$ 23.6
Columbia and Other:			
Revenues	$ 64.0	$ 83.8	$ 64.1
Operating costs and expenses	29.8	37.5	36.6
NOI	$ 34.2	$ 46.3	$ 27.5
Total:			
Revenues	$ 218.3	$ 215.5	$ 197.2
Operating costs and expenses	143.3	148.7	146.1
NOI	$ 75.0	$ 66.8	$ 51.1

Revenues and NOI from land sales in Summerlin increased $34.3 million and $21.0 million, respectively, in 2001. These increases were attributable primarily to higher levels of land sold for residential purposes. The increase in operating margins in 2001 was due primarily to the effects of favorable pricing resulting from higher demand. The decreases in revenues and NOI relating to other Nevada land holdings in 2001 and 2000 were attributable to lower levels of land sales at master planned business parks.

Revenues and NOI from Columbia and other land sales decreased $19.8 million and $12.1 million, respectively, in 2001 and increased $19.7 million and $18.8 million, respectively, in 2000. The decreases in 2001 were attributable primarily to the effects of a sale of land in New Jersey in 2000 ($14.0 million in revenues and $7.5 million in NOI). We have no additional saleable land at the New Jersey site. The remaining decreases in revenues and NOI for 2001 were attributable primarily to lower levels of sales for commercial uses in Columbia. Operating costs and expenses as a percentage of sales increased in 2001 due to an increase in current income taxes, partially offset by higher profit margins on land sales resulting from favorable pricing. The increases in revenues and NOI in 2000 were attributable primarily to the sale of land in New Jersey described above, higher levels of sales for commercial uses at higher profit margins in Columbia and lower general and administrative expenses.

We expect that results of community development should remain strong in 2002, assuming continued favorable market conditions in the Las Vegas and Howard County regions.

Commercial Development: Commercial development expenses were $7.1 million in 2001, $7.7 million in 2000 and $3.7 million in 1999. These costs consist primarily of preconstruction expenses and new business costs.

Preconstruction expenses relate to retail and office and other property development opportunities which may not go forward to completion. Preconstruction expenses were $3.1 million in 2001, $4.7 million in 2000 and $1.9 million in 1999. The higher levels of expenses in 2001 and 2000 were primarily attributable to higher costs for new retail projects which are not likely to go forward to completion. New business costs relate primarily to the initial evaluation of potential acquisition and development projects. These costs were $4.0 million in 2001, $3.0 million in 2000 and $1.8 million in 1999. The higher levels of new business costs in 2001 and 2000 were attributable to our focus on acquisition opportunities.

Corporate: Corporate operating expenses consist primarily of general and administrative costs and our equity in the loss of MerchantWired, an unconsolidated joint venture with other real estate companies to provide broadband telecommunication services to tenants. We invested in MerchantWired and began recognizing our share of its operating results in the third quarter of 2000.

Corporate operating expenses were $13.2 million in 2001, $9.4 million in 2000 and $20.4 million in 1999. The increase in 2001 was attributable primarily to our equity in losses of MerchantWired and costs incurred in evaluating various corporate structure and tax planning strategies. The high level of corporate expenses in 1999 was attributable primarily to costs incurred in connection with organizational changes and early retirement programs. In 1999, we announced and initiated the consolidation of the management and administration of our Retail Operations and Office and Mixed-Use divisions into a single Property Operations Division and the integration of certain operating, administrative and support functions of the Hughes Division into other divisions. The costs relating to these organizational changes, primarily severance and other benefits to terminated employees, aggregated approximately $7.4 million. Also, we adopted early retirement programs in which employees who met certain criteria were eligible to participate. We recognized expenses of approximately $4.0 million for costs associated with this program for employees who accepted early retirement prior to December 31, 1999. There were no similar costs in 2001 or 2000.

Other Operating Information

As discussed in note 2 to the consolidated financial statements, in January 2001, we acquired all of the shares of voting stock (91%) of the majority financial interest ventures that we did not own. As a result of this transaction, we consolidated these ventures in our financial statements in 2001. In 2000 and 1999, we accounted for our interests in them using the equity method. This change does not affect comparisons of the operating results of our business segments because, as discussed in note 8 to the consolidated financial statements, we have consolidated the ventures for segment reporting purposes each year. As discussed below, the change affects comparisons of certain other elements of our operating results significantly.

Interest: Interest expense was $228.8 million in 2001, $236.7 million in 2000 and $233.9 million in 1999. The decrease in 2001 was attributable primarily to lower average interest rates on both variable rate debt and debt that was refinanced in 2001 and 2000. This decrease was partially offset by interest expense of the acquired majority financial interest ventures. The increase in 2000 was attributable to interest on borrowings related to several property expansions. Capitalized interest increased $16.9 million in 2001, primarily on qualifying investments in community development projects of the acquired majority financial interest ventures.

Depreciation and Amortization: Depreciation and amortization expense increased $35.2 million in 2001 and decreased $4.2 million in 2000. These changes were attributable primarily to the consolidation of the majority financial interest ventures in 2001 and to the net effect of the changes in our portfolio of properties referred to above, including the effect (approximately $9.1 million) of classifying a number of office and other properties as held for sale in 2000.

Income Taxes: As discussed in notes 2 and 9 to the consolidated financial statements, in January 2001, we acquired all of the voting stock of the majority financial interest ventures owned by The Rouse Company Incentive Compensation Statutory Trust. On January 2, 2001, we and these subsidiaries made a joint election to treat the subsidiaries as taxable REIT subsidiaries ("TRS") for Federal and certain state income tax purposes. With respect to the TRS, we are liable for income taxes at the Federal and state levels, and the current and deferred income tax provisions for 2001 relate primarily to the earnings of TRS.

Equity in Earnings of Unconsolidated Real Estate Ventures: For segment reporting purposes and in this analysis, our share of the NOI of unconsolidated real estate ventures is included in the operating results of retail centers, office and other properties and community development. Equity in earnings of the unconsolidated real estate ventures decreased $96.8 million in 2001 and increased $28.4 million in 2000. The decrease in 2001 is due primarily to the consolidation of the majority financial interest ventures. The decrease also reflects the effects of a disposition of a substantial portion of our interest in a retail center (North Star) in 2000. The increase in 2000 is due primarily to higher earnings of the majority financial interest ventures. The increase in the ventures' earnings was due primarily to increased earnings from community development operations.

Net Gains (Losses) on Operating Properties: Net gains (losses) on operating properties were $(0.4) million in 2001, $33.2 million in 2000 and $41.2 million in 1999.

The net losses on operating properties in 2001 consisted primarily of an additional impairment provision recorded on an investment in a retail center (Randhurst) that we and the other venturer intend to dispose ($0.4 million).

The net gains on operating properties in 2000 consisted primarily of a gain on the disposition of an interest in a retail center (North Star) ($37.1 million), partially offset by an impairment provision recorded on an investment in a retail center (Randhurst) that we and the other venturer intend to dispose ($6.9 million).

The net gains on operating properties in 1999 consisted primarily of a gain on the sale of a retail center (Santa Monica Place) ($61.9 million) and a gain on the sale of an other property (Lucky's Center) ($6.4 million), partially offset by impairment losses on two retail centers (Tampa Bay Center and The Grand Avenue) ($28.1 million). In 1999, we changed our plans and intentions as to the manner in which these retail centers would be operated in the future and revised estimates of the most likely holding periods. As a result, we evaluated the recoverability of the carrying amounts of the centers, determined that the carrying amounts were not recoverable from future cash flows and recognized impairment losses.

Extraordinary Gains (Losses), Net: The extraordinary losses resulting from extinguishments of debt prior to scheduled maturity were $0.7 million in 2001 and $5.9 million in 1999. The net extraordinary gains resulting from extinguishments or substantial modification of terms of debt were $2.2 million in 2000.

Net Earnings: We had net earnings of $110.7 million in 2001, $170.5 million in 2000 and $135.3 million in 1999. Net earnings for each year were affected by unusual and/or nonrecurring items discussed above in the corporate segment, net gains (losses) on operating properties and extraordinary gains and losses.

Financial condition, liquidity and capital resources

We believe that our liquidity and capital resources are adequate for near-term and longer-term requirements. We had cash and cash equivalents and investments in marketable securities totaling $54.3 million and $37.6 million at December 31, 2001 and 2000, respectively. Net cash provided by operating activities was $291.3 million, $252.9 million and $192.5 million in 2001, 2000 and 1999, respectively. The changes in net cash provided by operating activities were due primarily to the factors discussed above in the analysis of operating results. The level of net cash provided by operating activities is also affected by the timing of receipt of rents and other revenues, including proceeds of land sales and the payment of operating and interest expenses and land development costs. The level of cash provided by operating distributions from unconsolidated real estate ventures is affected by the timing of receipt of their revenues (including land sales revenues in 2000 and 1999), payment of operating and interest expenses and other sources and uses of cash.

We rely primarily on fixed-rate, nonrecourse loans from private institutional lenders to finance our operating properties. We have also made use of the public equity and debt markets to meet our capital needs, principally to repay or refinance corporate and project-related debt and to provide funds for project development and acquisition costs and other corporate purposes. We have a credit facility with a group of lenders that provides for unsecured borrowings of up to $375 million. The facility is available until December 2003 and is subject to a one-year renewal option. We are continually evaluating sources of capital and believe that there are satisfactory sources available for all requirements. Selective dispositions of properties and interests in properties are expected to provide capital resources in 2002 and may also provide them in subsequent years.

Most of our debt consists of mortgages collateralized by operating properties. Scheduled principal payments on property debt were $58.7 million, $55.5 million and $49.6 million in 2001, 2000 and 1999, respectively.

Our contractual cash obligations and construction cost commitments are summarized as follows at December 31, 2001 (in millions):

	2002	*2003*	*2004*	*2005*	*2006*	*After 2006*
Debt:						
Scheduled principal payments (through 2006)	$ 75	$ 78	$ 77	$ 75	$ 72	$ —
Balloon payments and scheduled principal payments after 2006	139	534	298	283	336	1,522
Total debt	214	612	375	358	408	1,522
Capital lease obligations	3	3	2	1	1	3
Operating leases	6	6	6	6	6	261
Construction commitments	65	4	1	—	—	—
Total	$ 288	$ 625	$ 384	$ 365	$ 415	$ 1,786

The balloon payments due in 2002 consist of a $95 million mortgage loan on an expanded retail center, a $41 million mortgage on a retail center and $3 million of medium-term notes. We expect to repay the mortgages and the medium-term notes with proceeds from property refinancings, credit facility borrowings or other available corporate funds. The balloon payments due in 2003 consist of $222 million of borrowings under the credit facility, $114 million of 8% Notes and $198 million of mortgages on three retail centers and two office buildings. We expect to repay the borrowings under the credit facility and the 8% Notes with proceeds from the issuance of corporate debt. We also have an option to extend the credit facility. We expect to repay the mortgages with proceeds from property refinancings.

We expect to spend more than $225 million (including the construction commitments set forth above) for new developments, expansions and improvements to existing properties in 2002. A substantial portion of these expenditures relates to new retail properties and retail center expansions, and it is expected that most of these costs will be financed by debt, including borrowings under existing property-specific construction loans and/or our credit facility. In addition, we are an investor in several unconsolidated joint ventures that are developing certain projects, with the other venturers funding a portion of development costs. We expect to invest approximately $55 million in these joint ventures in 2002.

Expenditures for properties in development and improvements to existing properties were $184.1 million, $209.7 million and $229.8 million in 2001, 2000 and 1999, respectively. These expenditures related primarily to project development activity, primarily retail property expansions and development of new office and industrial properties in Las Vegas. A substantial portion of the costs of properties in development was financed with construction or similar loans and/or credit facility borrowings. In some cases, long-term fixed rate debt financing is arranged before completion of construction. Improvements to existing properties consist primarily of costs of renovation and remerchandising programs and other tenant improvement costs.

Expenditures for investments in other unconsolidated real estate ventures were approximately $46 million in 2001 and consisted primarily of investments in unconsolidated ventures developing the Village of Merrick Park, Kendall Town Center and a community development project.

Cash expenditures for acquisitions of interests in properties were $22.2 million in 2000. The acquisitions in 2000 consisted primarily of commercial sites adjacent to the Village of Merrick Park and department store sites at existing properties.

In addition to our unrestricted cash and cash equivalents and investments in marketable securities, we have other sources of capital. Availability under our credit facility was $153 million at December 31, 2001. This credit facility can be used for various purposes, including land and project development costs, property acquisitions, liquidity and other corporate needs. Also, we have an effective shelf registration statement for the sale of up to an aggregate of approximately $2.25 billion (based on the public offering price) of common stock, Preferred stock and debt securities. At December 31, 2001, we had issued approximately $358 million of common stock and debt securities under the shelf registration statement. In January and February of 2002, we issued 16.675 million shares of common stock for aggregate gross proceeds of $456.9 million ($27.40 per share) under the shelf registration statement. We plan to use these proceeds to fund a portion of the purchase price of the proposed acquisition of the assets of Rodamco described below. As a result, we had approximately $1.4 billion of availability under the shelf registration statement at February 28, 2002.

Proceeds from sales of operating properties and formations of unconsolidated real estate ventures were $4.6 million in 2001, $221.9 million in 2000 and $255.2 million in 1999. Proceeds from these transactions in 2001 consisted primarily of proceeds from the sale of an office building. Proceeds from these transactions in 2000 consisted primarily of cash distributions from ventures to which we contributed ownership interests in a retail center (North Star), industrial buildings in two business parks (Hughes Airport Center and Hughes Cheyenne Center) and a property under development (Village of Merrick Park). We also received minority interests in the ventures. Proceeds from these transactions in 1999 consisted primarily of cash received from the sales of two retail centers (Santa Monica Place and Valley Fair).

At December 31, 2001, we were not holding any properties for sale, but we may sell interests in operating properties as opportunities arise. We also consider certain investment and other land assets as significant sources of cash flows and may decide to accelerate sales in order to provide cash for other purposes, including the funding of development activities.

Net proceeds of property debt, excluding scheduled principal repayments, were $25.0 million in 2001 and $108.7 million in 1999. The net proceeds in 2001 consisted primarily of proceeds from the issuance of Special Improvement District bonds used to fund community development costs in Summerlin. The net proceeds in 1999 consisted primarily of borrowings on construction loans and mortgages on properties in development. We also received distributions of financing proceeds from unconsolidated real estate ventures of $109.3 million in 2001 and $67.5 million in 1999. Excluding scheduled principal payments, net repayments of property debt were $30.8 million in 2000 and consisted primarily of repayments associated with the sales of the properties securing the debt and repayments associated with the substantial modification of terms of certain loans. These repayments were partially offset by borrowings on construction loans on retail properties in development.

Net repayments of other debt were $9.9 million in 2001 and $116.9 million in 1999. The net repayments in 1999 consisted primarily of the repayment of the convertible subordinated debentures and outstanding bridge loan borrowings, partially offset by the issuance of the 8% Notes. Net proceeds from the issuance of other debt were $38.9 million in 2000.

Our Board of Directors has authorized the repurchase, subject to certain pricing restrictions, of up to $250 million of common stock. As of December 31, 2001, we had repurchased approximately 4.4 million shares under this program for approximately $101 million, including purchases of approximately 2.8 million shares for approximately $66 million in 2000. We did not repurchase shares under this program in 2001. The average per share repurchase price was $23.57 in 2000 and $21.88 in 1999. Other common stock purchased in 2001, 2000 and 1999 was subsequently issued pursuant to the Contingent Stock Agreement.

The agreements relating to various loans impose limitations on us. The most restrictive of these limit the levels and types of debt we may incur and require us to maintain specified minimum levels of debt service coverage and net worth. The agreements also impose restrictions on our dividend payout ratio and on sale, lease and certain other transactions, subject to various exclusions and limitations. These restrictions have not limited our normal business activities and are not expected to do so in the foreseeable future.

Unconsolidated ventures

We have interests in unconsolidated real estate ventures that own and/or develop properties. We use these ventures to limit our risk associated with individual properties and to reduce capital requirements. We may also contribute our interests in properties to unconsolidated ventures for cash distributions and interests in the ventures to provide liquidity as an alternative to property sales. These ventures are accounted for using the equity or cost methods as appropriate. Summarized financial statements for these ventures accounted for using the equity method and information about our investments in them is included in note 2 to the consolidated financial statements. In general, these ventures own retail centers managed by us for a fee and are controlled jointly by our venture partners and us.

At December 31, 2001, we had other commitments and contingencies related to unconsolidated ventures. These commitments and contingencies are detailed as follows (in millions):

Guarantee of debt:	
Village of Merrick Park	$ 54.1
Fashion Show	34.4
Hughes Airport-Cheyenne Centers	28.8
Guarantee of interest rate swap agreements:	
Village of Merrick Park	0.3
Fashion Show	0.6
Long-term ground lease obligations	60.0
Capital lease of MerchantWired	6.6
	$184.8

We have guaranteed the repayment of the construction loan of the venture developing the Village of Merrick Park. The maximum amount that may be borrowed under the loan is $200 million. Our partners in the venture have provided guarantees to us for their share (60%) of the construction loan. We and our partners have also guaranteed obligations of the venture under a related interest rate swap agreement.

During 2001, we leased land and improvements at Fashion Show to an entity that is developing part of the expansion of the center. In connection with this lease, we have guaranteed the repayment of construction loan borrowings of the lessee. The maximum amount that may be borrowed under the loan is $111 million. We have also guaranteed obligations of the lessee under a related interest rate swap agreement. An affiliate of Rodamco owns a 99% interest in the lessee and we expect to acquire this interest in the proposed acquisition of the assets of Rodamco described below. A subsidiary of The Rouse Company Incentive Compensation Statutory Trust owns the controlling interest in the lessee.

Market risk information

The market risk associated with financial instruments and derivative financial and commodity instruments is the risk of loss from adverse changes in market prices or rates. Our market risk arises primarily from interest rate risk relating to variable rate borrowings used to maintain liquidity (e.g., credit facility advances) or finance project development costs (e.g., construction loan advances). Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows. In order to achieve this objective, we rely primarily on long-term, fixed-rate nonrecourse loans from institutional lenders to finance our operating properties. We also use interest rate exchange agreements, including interest rate swaps and caps, to mitigate our interest rate risk on variable rate debt. The fair value of these and other derivative financial instruments is a liability of approximately $3.0 million at December 31, 2001. We do not enter into interest rate exchange agreements for speculative purposes.

Our interest rate risk is monitored closely by management. The table below presents the annual maturities, weighted-average interest rates on outstanding debt at the end of each year and fair values required to evaluate our expected cash flows under debt agreements and our sensitivity to interest rate changes at December 31, 2001. Information relating to debt maturities is based on expected maturity dates and is summarized as follows (dollars in millions):

	2002	*2003*	*2004*	*2005*	*2006*	*Thereafter*	*Total*	*Fair Value*
Fixed rate debt	$ 105	$317	$310	$241	$388	$1,514	$2,875	$2,931
Average interest rate	7.8%	7.7%	7.7%	7.6%	7.6%	7.6%	7.6%	
Variable rate LIBOR debt	$ 109	$295	$ 65	$117	$ 20	$ 8	$ 614	$ 614
Average interest rate	4.9%	5.3%	4.9%	5.4%	4.2%	4.2%	5.2%	

At December 31, 2001, approximately $42.1 million of our variable rate LIBOR debt related to borrowings under construction loans that we expect to repay with proceeds of long-term, fixed-rate debt in 2002 and 2003 when we expect to complete construction of the related projects. At December 31, 2001, we had interest rate cap agreements which effectively limit the interest rate on $36.0 million of the variable rate LIBOR debt maturing in 2002 to 9.0%, the interest rate on $55.0 million of the variable rate LIBOR debt maturing in 2004 to 9.5% and the interest rate on $4.8 million of the variable rate LIBOR debt maturing in 2010 to 8.7%. At December 31, 2001, we also had interest rate swap agreements which effectively fix the interest rate on $300 million of the variable rate LIBOR debt at 5.6% through May 2002 and on $26.3 million of the variable rate LIBOR debt at 6.8% through December 2006.

As the table incorporates only those exposures that exist as of December 31, 2001, it does not consider exposures or positions which could arise after that date. As a result, our ultimate realized gain or loss with respect to interest rate fluctuations will depend on the exposures that arise after December 31, 2001, our hedging strategies during that period and interest rates.

2002 developments

In January 2002, we, Simon Property Group, Inc. and Westfield America Trust announced that affiliates of each (collectively, the "purchasers") entered into a Purchase Agreement with Rodamco to purchase substantially all of the assets of Rodamco for an aggregate purchase price of approximately 2.48 billion euros (approximately $2.21 billion based on exchange rates then in effect) in cash, subject to adjustment, and the assumption of substantially all of Rodamco's liabilities, including approximately $2.18 billion of U.S. dollar denominated property debt and subsidiary perpetual preferred stock. Additional obligations to be borne by the purchasers and/or their parents include repayment of Rodamco corporate debt and payment of transaction expenses aggregating approximately $1.2 billion. The purchase price will be reduced by any amounts paid by Rodamco to its shareholders prior to closing. If the closing occurs after May 15, 2002, the purchase price will increase by an amount equal to the product of 622,642 euros and the number of days from May 1, 2002 until the closing.

In connection with the Purchase Agreement, affiliates of the purchasers entered into a Joint Purchase Agreement that specifies the properties each will acquire and sets forth the basis upon which the portion of the aggregate purchase price to be paid to Rodamco by each purchaser will be determined. Our share of the purchase price is expected to be approximately 601 million euros (approximately $536 million based on exchange rates in effect at the date of the Purchase Agreement). We also expect to repay a portion of Rodamco's corporate debt and transaction costs aggregating approximately $321 million and to assume approximately $675 million of U.S. dollar denominated property debt and subsidiary perpetual preferred stock.

In the proposed acquisition, we will acquire, directly or indirectly, interests in the following operating properties:

Property	*Interest to be acquired*	*Location*
Collin Creek (1)	70%	Plano, TX
Lakeside Mall	100%	Sterling Heights, MI
North Star (1)	96%	San Antonio, TX
Oakbrook Center (2)	47%	Oakbrook, IL
Perimeter Mall (1)	50%	Atlanta, GA
The Streets at South Point	100%	Durham, NC
Water Tower Place (2)	52%	Chicago, IL
Willowbrook (1)	62%	Wayne, NJ

Notes:

(1) As a result of the proposed acquisition, we will own 100% interests in these properties.

(2) Property also contains significant office space.

The purchasers will jointly own the remaining assets to be acquired from Rodamco. We will own an interest of approximately 27.3% in these assets, most of which are intended to be sold. These assets include interests in a property/investment management company (RoProperty Services BV) and a New York office building (745 Fifth Avenue) and investments in real estate operating companies (South Square Mall, River Ridge, the Plaza at Saw Mill Place, Tishman Investments, Westin New York and Kravco). Rodamco may sell some of these assets prior to the closing of the acquisition, and the proceeds from any sales will reduce the purchase price. RoProperty Services BV and 745 Fifth Avenue are currently under contracts for sale. In both cases, sale is subject to a number of conditions, and if the sales are completed, it is uncertain if they will occur before the purchase of the Rodamco assets. The purchasers intend to operate and develop another Rodamco property management business, Urban Retail Properties Co., with a view toward capitalizing on its current market position and the skills and talents of its existing employees.

Also in connection with the Rodamco transaction, we agreed to sell our interest in Franklin Park, a regional retail center in Toledo, Ohio, to an affiliate of Westfield America Trust for $20.6 million. We expect this transaction to close when the purchase of assets from Rodamco closes.

As discussed above, the cash portion of the purchase price is payable in euros. In January 2002, we acquired options to purchase 601 million euros at a weighted-average per euro price of $0.8819. These transactions were executed to reduce our risk to movements in currency exchange rates. The contracts expire in May 2002 and had an aggregate cost of $11.3 million. We will carry the contracts at fair value in our balance sheet and record changes in their fair values in operations. If the value of the euro does not exceed the strike prices in the contracts, the contracts will have no value at their maturities.

We expect to fund the acquisition of the assets of Rodamco as follows (in millions):

Sales of common stock completed in January/February 2002	$ 457
Sale of certain "noncore" assets acquired from Rodamco	135
Sale of interests in Columbia community retail centers (see below)	60
Sale of interest in Franklin Park	20
Other sources, including proceeds from possible issuance of debt and/or possible dispositions of interests in operating properties	185
	$ 857

In January 2002, we obtained a commitment from Banc of America Securities, LLC and Banc of America Mortgage Capital Corporation for up to an $870 million bridge facility with an initial maturity of six months from the closing of the acquisition to provide interim financing for a portion of the purchase price and related costs. Availability under the bridge facility was reduced to $450 million as a result of the issuance of common stock in January and February 2002. We have the right to extend the commitment for an additional twelve months at reduced levels. We believe we will have sufficient liquidity to close the acquisition and repay amounts borrowed under the bridge facility before its extended maturity.

There are significant risks associated with our proposed acquisition of assets from Rodamco. Our obligation to consummate the proposed acquisition is not subject to a financing condition. While we believe we have significant liquidity to close the transaction, our plans include using the proceeds from the sales of certain properties and assets to be acquired jointly with the other purchasers to repay any borrowings we may make under the bridge facility. We cannot assure that these assets will be sold on the anticipated time schedule or at the prices we expect. We are jointly and severally liable with the other purchasers under the Purchase Agreement such that if the other purchasers fail to perform, Rodamco could look to us for its damages (although we would have claims against the other purchasers under cross indemnities). We cannot assure that we will be able to consummate the acquisition if the other purchasers fail to perform. In addition, there are several conditions to closing the acquisition, including approval of the acquisition by the shareholders of Rodamco. We currently expect that a vote by the shareholders of Rodamco will occur on March 25, 2002; however, there is ongoing legal action in the Netherlands and we cannot assure that the vote will occur on that date. It is possible that other legal challenges could occur. We cannot assure that the shareholders of Rodamco will approve the transaction if and when they do vote. Accordingly, we cannot assure that the transaction will occur. For more information on these and other risks associated with the proposed acquisition, please refer to Exhibit 99.2 to our Annual Report on Form 10-K for the year ended December 31, 2001.

In March 2002, we agreed to sell our interests in 12 community retail centers in Columbia for net proceeds of approximately $100 million. We expect to record a gain on this transaction. We also agreed to repay $34.2 million of debt secured by these properties and expect to incur losses on the early extinguishment of this debt of approximately $5.1 million, including prepayment penalties of $4.6 million. We expect this transaction to close in April 2002.

Critical accounting policies

Critical accounting policies are those that are both important to the presentation of our financial condition and results of operations and require management's most difficult, complex or subjective judgments. Our critical accounting policies are those applicable to the evaluation of the collectibility of accounts and notes receivable, the evaluation of impairment of long-lived assets and profit recognition on land sales.

Collectibility of accounts and notes receivable: The allowance for doubtful accounts and notes receivable is established based on quarterly analysis of the risk of loss on specific accounts. The analysis places particular emphasis on past-due accounts and considers information such as the nature and age of the receivables, the payment history of the tenants or other debtors, the financial condition of the tenants and management's assessment of their ability to meet their lease obligations, the basis for any disputes and the status of related negotiations, among other things. Our estimate of the required allowance is subject to revision as these factors change and is sensitive to the effects of economic and market conditions on tenants, particularly those at retail centers.

Impairment of long-lived assets: If events or changes in circumstances indicate that the carrying values of operating properties, properties in development or land held for development and sale may be impaired, a recovery analysis is performed based on the estimated undiscounted future cash flows to be generated from the property. If the analysis indicates that the carrying value of the tested asset is not recoverable from future cash flows, the property is written down to estimated fair value and an impairment loss is recognized. Fair values are determined based on estimated future cash flows using appropriate discount and capitalization rates. The estimated cash flows used for the impairment analyses and to determine estimated fair value are based on our plans for the tested asset and our views of market and economic conditions. The estimates consider matters such as current and historical rental rates, occupancies for the tested property and comparable properties and recent sales data for comparable properties. Changes in estimated future cash flows due to changes in our plans or views of market and economic conditions could result in recognition of impairment losses which, under the applicable accounting guidance, could be substantial.

Properties held for sale, including land held for sale, are carried at the lower of their carrying values (i.e., cost less accumulated depreciation and any impairment loss recognized, where applicable) or estimated fair values less costs to sell. Accordingly, decisions by us to sell certain operating properties, properties in development or land held for development and sale will result in impairment losses if carrying values of the specific properties exceed their estimated fair values less costs to sell. The estimates of fair value consider matters such as recent sales data for comparable properties and, where applicable, contracts or the results of negotiations with prospective purchasers. These estimates are subject to revision as market conditions and our assessment of them change.

Profit recognition on land sales: Cost of land sales is determined as a specified percentage of land sales revenues recognized for each development project. These cost percentages are based on estimates of development costs and sales revenues to completion of each project and are reviewed regularly and revised periodically for changes in estimates or development plans. Significant changes in these estimates or development plans, whether due to changes in market conditions or other factors, could result in changes to the cost ratio used for a specific project.

New accounting standards not yet adopted

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 changes the accounting for goodwill and intangible assets with indefinite useful lives from an amortization approach to an impairment-only approach. The adoption of SFAS No. 142 on January 1, 2002 will not have an effect on our financial statements.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and APB Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." The Statement does not change the fundamental provisions of SFAS No. 121; however, it resolves various implementation issues of SFAS No. 121 and establishes a single accounting model for long-lived assets to be disposed of by sale. It retains the requirement of APB Opinion No. 30 to report separately discontinued operations, but it extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in distribution to owners) or is classified as held for sale. We do not believe that adoption of SFAS No. 144 in 2002 will have a material effect on our financial statements.

Impact of inflation

The major portion of our operating properties, our retail centers, are substantially protected from declines in the purchasing power of the dollar. Retail leases generally provide for minimum rents plus percentage rents based on sales over a minimum base. In many cases, increases in tenant sales (whether due to increased unit sales or increased prices from demand or general inflation) will result in increased rental revenue. A substantial portion of the tenant leases (retail and office) also provide for other rents which reimburse us for certain operating expenses; consequently, increases in these costs do not have a significant impact on our operating results. We have a significant amount of fixed rate debt which, in a period of inflation, will result in a holding gain since debt will be paid off with dollars having less purchasing power.

Information relating to forward-looking statements

This Annual Report to Shareholders includes forward-looking statements which reflect our current views with respect to future events and financial performance. These forward-looking statements are subject to certain risks and uncertainties, including those identified below which could cause actual results to differ materially from historical results or those anticipated. The words "believe", "expect", "anticipate" and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The following are among the factors that could cause actual results to differ materially from historical results or those anticipated: (1) real estate investment trust risks; (2) real estate development and investment risks; (3) liquidity of real estate investments; (4) dependence on rental income from real property; (5) effect of uninsured loss; (6) lack of geographical diversification; (7) possible environmental liabilities; (8) difficulties of compliance with Americans with Disabilities Act; (9) competition; (10) changes in the economic climate; (11) changes in tax laws or regulations; (12) cost and adequacy of insurance; and (13) risks associated with the planned acquisition of assets from Rodamco. For a more detailed discussion of these and other factors, see Exhibit 99.2 of our Form 10-K for the fiscal year ended December 31, 2001.

The Rouse Company and Subsidiaries
Five Year Summary of Net Operating Income and Net Earnings

Years ended December 31, (in thousands)	*2001*	*2000*	*1999*	*1998*	*1997*
Revenues:					
Retail centers:					
Minimum and percentage rents	$ 367,756	$ 369,253	$ 363,233	$336,531	$295,020
Other rents and other revenues	268,981	261,932	263,837	250,279	232,149
	636,737	631,185	627,070	586,810	527,169
Office and other properties:					
Minimum and percentage rents	157,831	167,033	159,158	115,836	109,938
Other rents and other revenues	45,885	49,198	46,264	46,702	57,926
	203,716	216,231	205,422	162,538	167,864
Community development	218,322	215,459	197,159	198,786	204,394
	1,058,775	1,062,875	1,029,651	948,134	899,427
Operating expenses, exclusive of depreciation and amortization:					
Retail centers	278,490	281,072	284,339	275,256	262,749
Office and other properties	77,492	78,579	75,457	65,022	73,980
Community development	143,336	148,679	146,097	150,749	155,199
Commercial development	7,148	7,701	3,707	7,383	4,747
Corporate	13,171	9,365	20,389	14,759	8,105
	519,637	525,396	529,989	513,169	504,780
Net operating income by segment:					
Retail centers	358,247	350,113	342,731	311,554	264,420
Office and other properties	126,224	137,652	129,965	97,516	93,884
Community development	74,986	66,780	51,062	48,037	49,195
Commercial development	(7,148)	(7,701)	(3,707)	(7,383)	(4,747)
Corporate	(13,171)	(9,365)	(20,389)	(14,759)	(8,105)
Net Operating Income (note 1)	$ 539,138	$ 537,479	$ 499,662	$434,965	$394,647

Years ended December 31, (in thousands)	*2001*	*2000*	*1999*	*1998*	*1997*
Reconciliation to net earnings:					
Net operating income (1)	$ 539,138	$ 537,479	$499,662	$434,965	$394,647
Interest and other financing expenses (2)	264,669	284,901	276,230	236,738	216,311
Depreciation and amortization	(125,504)	(90,307)	(94,532)	(77,660)	(77,685)
Deferred income taxes applicable to operations	(25,402)	—	—	—	124,203
Certain current income taxes	(748)	—	—	—	(4,929)
Net gains (losses) on operating properties	(432)	33,150	41,173	(6,109)	(22,426)
Depreciation and amortization, gains on operating properties and deferred income taxes of unconsolidated real estate ventures, net	(10,570)	(27,136)	(28,897)	(9,282)	(7,607)
Extraordinary gains (losses), net	(696)	2,200	(5,879)	4,355	(21,342)
Cumulative effect at January 1, 2001 of change in accounting for derivative instruments and hedging activities	(411)	—	—	—	—
Cumulative effect at January 1, 1998 of change in accounting for participating mortgages	—	—	—	(4,629)	—
Cumulative effect at October 1, 1997 of change in accounting for business process reengineering costs	—	—	—	—	(1,214)
Net earnings	$ 110,706	$ 170,485	$135,297	$104,902	$167,336

Notes:

(1) Operating and Net Operating Income ("NOI") data included in this five-year summary are presented by segment. Consistent with the requirements of Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," segment data are reported using the performance measure and accounting policies used for internal reporting to management. The performance measure is Net Operating Income. We define NOI as net earnings, excluding cumulative effects of changes in accounting principles, extraordinary items, net gains (losses) on operating properties and other, deferred income taxes, real estate depreciation and amortization and interest and other financing expenses. Other financing expenses are defined in note 2. The accounting policies of the segments are the same as those of the Company, except that the majority financial interest ventures were accounted for on a consolidated basis rather than using the equity method; real estate ventures in which we have joint interest and control and certain other minority interest ventures are accounted for using the proportionate share method rather than the equity method and our share of NOI less interest expense of other unconsolidated minority interest ventures is included in revenues. These differences affect the reported revenues and operating and interest expenses of the segments and have no effect on our reported net earnings or NOI.

(2) Interest and other financing expenses include distributions on Company-obligated mandatorily redeemable preferred securities and return preferences on certain joint ventures, net of interest income earned on corporate investments, and are determined using the segment accounting policies discussed in note 1.

(3) NOI is not a measure of operating results or cash flows from operating activities as defined by accounting principles generally accepted in the United States of America. Additionally, NOI is not indicative of cash available to fund cash needs, including the payment of dividends, and should not be considered as an alternative to cash flows as a measure of liquidity.

Anthony W. Deering, *Chairman of the Board and Chief Executive Officer*

Douglas A. McGregor, *Vice Chairman and Chief Operating Officer*

Jeffrey H. Donahue, *Executive Vice President and Chief Financial Officer*

Jerome D. Smalley, *Executive Vice President and Director, Development*

Finance Division

Patricia Herald Dayton, *Vice President and Treasurer*

Andrew B. Bolton, III, *Vice President*

Anthony Mifsud, *Vice President*

James S. Baker, *Treasury Manager*

David L. Tripp, *Vice President and Director, Investor Relations and Corporate Communications*

Robert E. Rubenkonig, Jr., *Communications Director*

Nathan S. Tyrrell, *Manager, Investor Relations*

Elizabeth A. Hullinger, *Vice President and Director, Taxes*

Martin P. Lutsky, *Director, Property Taxes*

Julie M. Yungmann, *Assistant Director, Taxes*

Joseph H. Schnitzer, *Associate Director, Property Taxes*

Robert A. Edwards, *Vice President and Chief Information Officer*

Patricia J. Scarff, *Director, Business Systems Management*

Michael S. Biemer, *Director, Business Systems Analysis*

Janet F. Delaney, *Director, Business Systems Analysis*

Winston L. Smith, *Director, Business Systems Administration*

Legal Division

Gordon H. Glenn, *Vice President, General Counsel and Secretary*

Richard E. Galen, *Vice President and Deputy General Counsel*

Kathleen E. Barry, *Vice President and Associate General Counsel*

James D. Lano, *Vice President and Associate General Counsel*

Jeffrey C. Palkovitz, *Vice President and Associate General Counsel*

Donna M. Sills, *Vice President and Associate General Counsel*

John W. Steele, III, *Vice President and Associate General Counsel*

M. Lucinda Motsko, *Associate General Counsel*

Nancy E. Everett, *Senior Assistant General Counsel*

E. Bernard Justis, *Senior Assistant General Counsel*

Arianne H. Monroe, *Senior Assistant General Counsel*

Daniel P. Kelliher, *Senior Attorney*

Gabrielle Koeppel, *Senior Attorney*

Cynthia L. Stewart, *Senior Attorney*

Dodie L. Stewart, *Manager, Legal Operations and Administration*

Controllers Division

Melanie M. Lundquist, *Vice President and Corporate Controller*

Holly G. Edington, *Vice President and Division Controller, Property Operations*

Frederick A. Fochtman, *Division Controller, Commercial Development*

Jack R. Greenberg, *Vice President and Director, Internal Audit and Management Services*

Monty C. Leonard, *Vice President and Division Controller, Community Development*

Gary M. Rivers, *Vice President and Director, Corporate Accounting*

Cynthia N. Bond, *Director, Operations Auditing*

Jeanette L. Daymude, *Assistant Division Controller, Property Operations*

Timothy J. Lordan, *Director, Planning and Internal Reporting*

Randall A. Shields, *Director, Financial Services*

Gregory J. Thor, *Director, Financial Accounting and Reporting*

Derward A. Brooks, Jr., *Director, Utilities Management*

Patricia A. Campanile, *Accounting Director*

Robert E. Carroll, *Director, Land Development and Operations Accounting*

Matthew D. Dowling, *Director, Joint Venture Accounting and Reporting*

Sally S. Hebner, *Director, Development and Capital Accounting*

Michael D. Finch, *Accounting Director*

Shelly L. Lara, *Director, Land Development and Operations Accounting*

Stephen M. Levin, *Accounting Director*

Deborah L. Mathews, *Accounting Director*

Craig A. Mellendick, *Director, Consolidated Accounting and Reporting*

Lisa M. Schenk, *Director, Information Systems Audit*

Michelle M. Shaver, *Accounting Director*

M. Ellen Wickham, *Director, Financial Analysis*

Jon J. Yoder, *Director, New Business Accounting*

Human Resources and Administrative Services Division

Kathleen M. Hart, *Vice President and Director, Human Resources and Administrative Services*

Debbie H. White, *Associate Director, Human Resources*

Pamela F. Feldman, *Director, Employment Services*

New Business

Robert Minutoli, *Senior Vice President*

B. Owen Williams, *Vice President and Director, Acquisitions*

Retail Leasing

Robert D. Riedy, *Senior Vice President and Director, Retail Leasing*

Thomas M. Fitzpatrick, *Vice President and Assistant Director, Retail Leasing*

R. Edwards Taylor, *Vice President and Assistant Director, Retail Leasing*

Clarke B. Aburn, *Vice President, National Leasing Director, New Business*

Philip A.V. Genovese, *Vice President, Area Leasing Director*

William Y. Hecht, *Vice President, National Leasing Director*

National Leasing Managers

Michael L. Bench

Nick P. Dialynas

W. Wallace Lanahan, III, *Vice President*

Mary E. McFeeley

Kimberle S. Menz, *Vice President*

Mark W. Polivka, *Vice President*

Charles N. Quisenberry

Catherine S. Redden

Account Managers

Gale M. Burton

Frances R. Connelly

Jill D. Creps

R. Shereen Fuqua

Michael T. Mitcham

Robert H. O'Brien

Robert L. Quarles, Jr.

Marilyn K. Talabis

Marlene F. Weinberg, *Vice President*

Senior Area Leasing Managers

Steven L. Balazs

Andrew J. A. Chriss

Michael L. Podracky, *Vice President*

Area Leasing Managers

Michael A. Khouri

Eric E. Litz

Thomas Rindos

Paul J. Schiffer

Jeffrey G. Sneddon

Property Operations

Duke S. Kassolis, *Senior Vice President and Director, Property Operations*

John G. McLaughlin, *Vice President and Associate Director, Property Operations*

Jody L. Clark, *Vice President and Associate Director, Property Operations*

Janice A. Fuchs, *Vice President and Associate Director, Property Operations*

Karen C. Weir, *Vice President and Director, Retail Marketing*

Group Directors

J. Patrick Done, *Vice President*

F. Scott Ball, *Vice President*

Paul C. Fickinger, *Vice President*

Mary Catherine Bryant, *Vice President*

Senior Asset Managers

Wayne A. Christmann, *Columbia Office and Retail*

Brian G. Lade, *Oakwood Center, Riverwalk*

Raul D. Tercilla, Jr., *Bayside Marketplace, RPMI, Town and Country Center, RPMI*

Edward J. Vasconcellos, Jr., *Cherry Hill Mall, Moorestown Mall*

General Managers of Subsidiary Corporations or Affiliates

John A. Badagliacco, *Arizona Center*

Amy S. Bellisano, *Woodbridge Center*

Charles A. Breidenbach, *Willowbrook, RPMI*

Ronald D. Buhidar, *Collin Creek*

Charles P. Crerand, *Owings Mills*

Kevin M. Davies, *Hulen Mall, RPMI*

Dennis E. Deehan, *Echelon Mall*

Deanne D. Desjardin, *Highland Mall, RPMI*

Mark S. Dunbar, *Southland Center, RPMI*

James M. Easley, *Staten Island Mall*

Ann M. Esposito, *The ExecuCentre*

Martin D. Fortes, *Perimeter Mall, RPMI*

Scott A. Freshwater, *Fashion Show*

Brian K. Gardiner, *Mondawmin/Metro Plaza*

Francis X. Gildea, *Plymouth Meeting*

Karen M. Geary, *The Mall in Columbia*

Linda B. Hardin, *Augusta Mall*

Paul G. Harnett, *South Street Seaport*

Larry K. Howard, *The Gallery at Market East*

Scott M. Howe, *Mall St. Matthews*

Michael Kelleher, *Faneuil Hall Marketplace*

John E. Kiddy, *The Jacksonville Landing*

Luanne E. Lenberg, *Governor's Square, RPMI*

Clinton L. Lewis, III, *Village of Merrick Park, RPMI*

Michael J. McCue, *Westdale, RPMI*

Jill M. Noack, *Ridgedale Center, RPMI*

Timothy P. Radigan, *Beachwood Place*

Allyson Reed, *Pioneer Place*

Polly L. Richman, *Exton Square*

Christopher S. Schardt, *Towson Town Center*

Pamela J. Schenck, *Park Meadows*

Michelle J. Schiffer, *Village of Cross Keys*

Bryan K. Touchstone, *Fashion Place*

Scot D. Vallee, *Franklin Park, RPMI*

Janell K. Vaughan, *Bridgewater Commons*

Patrick J. Walsh, *White Marsh*

Nancy W. Wieland, *Paramus Park*

Craig S. White, *Harborplace and The Gallery*

Andrew C. Tilmont, *Director, Operations Administration*

Eric C. Buckner, *Associate Director, Operations Administration*

Steven A. Crumrine, *Director, Corporate Security and Safety*

Kurt R. Ivey, *Director, Partnership Marketing*

Cathy A. Case, *Director, Retail Marketing Operations*

Katherine M. Standon, *Director, National Advertising and Events*

Margaret M. Calvert, *Regional Manager, Retail Marketing*

Susan E. Houck, *Regional Manager, Retail Marketing*

Erin M. McCarthy, *Regional Manager, Retail Marketing*

David L. Shapiro, *Senior Area Leasing Manager*

Joseph Eugenio, Sr., *Director, Maintenance Services*

Community Development

Alton J. Scavo, *Senior Vice President, Director, Community Development and General Manager of Columbia*

David E. Forester, *Vice President and Senior Development Director*

Edward A. Ely, *Vice President and Director, Business Land Sales and Marketing*

Joseph H. Necker, Jr., *Vice President and Director, Engineering*

Robert A. Jenkins, *Vice President and Director, Construction*

George H. Hayne, III, *Senior Project Manager*

Albert E. Edwards, *Development Director and Director, Environmental Compliance*

Dennis W. Miller, *Development Director*

Alvis H. Hagelis, *Vice President and Director, Planning and Design, HRD*

D. Dennis Dunn, *Senior Design Manager*

James J. Leonard, *Senior Design Manager*

Commercial and Office Development

Ruben A. Roca, *Vice President and Director, Retail Strategies*

Laurence A. Brocato, *Vice President and Associate Division Director, Commercial Development*

Michael J. Bryant, *Vice President and Associate Division Director, Commercial Development*

John R. Ragland, *Vice President and Associate Division Director, Commercial Development*

Warren W. Wilson, *Vice President and Director, New Business*

John A. Pattillo, Jr., *Vice President and Director, Construction*

Robert M. Byrne, *Vice President, Senior Development Director*

Rita G. Brandin, *Vice President, Senior Development Director*

Christopher B. Carlaw, *Vice President, Senior Development Director*

Gregory E. Zimmerman, *Vice President, Development Director*

Sharon E. Bair, *Development Director*

Charles W. Blenkhorn II, *Development Director*

Ann E. Walters-Pope, *Development Director*

H. Kimberly Potember, *Development Director*

Roy D. Vice, *Development Director*

Stephen E. Popisil, *Director, Creative Content*

Mark G. Thompson, *Assistant Director, Research*

Ardis S. Bond, *Senior Manager, Research*

Peter V. Mathieson, *Manager, Research*

Stanley C. Burgess, *Associate Director, Design*

Thomas S. Brudzinski, *Associate Director, Design*

C. Lawrence Whitman, *Associate Director, Design*

Robin A. Genovese, *Director, Tenant Services*

Frank W. Ziegler, *Development Manager*

James B. Brickell, *Senior Project Manager*

William R. Byrd, *Senior Project Manager*

Charles D. Coleman, *Senior Project Manager*

Gregory A. Goins, *Senior Project Manager*

Clarence G. Jackson, Jr., *Senior Project Manager*

William T. Rowe, *Senior Project Manager*

Sandra M. Sadler, *Director, Capital Management*

Gustavo E. Arango, *Project Manager*

George H. Fambro, *Project Manager*

Paul L. Janyska, *Project Manager*

Frank M. Noto, *Director, Landscaping*

Thomas H. Francis, *Tenant Project Manager*

Elizabeth B. Angelella, *Tenant Project Manager*

Jill Callahan, *Tenant Project Manager*

Lydia C. Cockey, *Tenant Project Manager*

Dennis Gavelek, *Tenant Project Manager*

Harvey Harrigan, *Manager, Project Management*

The Howard Hughes Corporation (THHC)

Daniel C. Van Epp, *President, THHC; Senior Vice President of The Rouse Company, West Coast Community Development*

W. Stewart Gibbons, *Executive Vice President, Summerlin, THHC, Vice President of The Rouse Company*

Kevin T. Orrock, *Executive Vice President and Treasurer, THHC, Vice President of The Rouse Company*

John T. Potts, *Senior Vice President, THHC*

Frank R. Beck, *Senior Vice President, THHC*

Venetta F. Appleyard, *Vice President, Financial Services and Assistant Treasurer, THHC*

John F. Cahlan, *Vice President and Associate General Counsel, THHC*

Judy S. Cebulko, *Vice President, Property Management, THHC*

Peggy L. Chandler, *Vice President, Land Sales, THHC*

Jeffery S. Geen, *Vice President and Associate General Counsel, THHC*

Gregory J. Tobias, *Assistant General Counsel, THHC*

Charles A. Kubat, *Vice President, Planning and Design, THHC*

Thomas G. Warden, *Vice President, Community Relations, THHC*

James R. Harris, *Area Leasing Manager, Commercial Leasing, THHC*

RPMI—Rouse Property Management, Inc.

HRD—The Howard Research and Development Corporation

THHC—The Howard Hughes Corporation

Projects of The Rouse Company

Consolidated Retail Centers (note 1)	Date of Opening or Acquisition	Department Stores/Anchor Tenants	Retail Square Footage Total Center	Retail Square Footage Mall Only
Augusta Mall, Augusta, GA	8/78	Rich's; Macy's (a); JCPenney; Sears; Dillard's	1,080,000	331,000
The Shops at Arizona Center, Phoenix, AZ	11/90	—	230,000	230,000
Bayside Marketplace, Miami, FL	4/87	—	227,000	227,000
Beachwood Place, Cleveland, OH	8/78	Saks Fifth Avenue; Dillard's; Nordstrom	914,000	350,000
Cherry Hill Mall, Cherry Hill, NJ	10/61	Strawbridge's; Macy's; JCPenney	1,283,000	534,000
The Mall in Columbia, Columbia, MD	8/71	Nordstrom; Hecht's; JCPenney; Sears; Lord & Taylor; L.L. Bean	1,317,000	505,000
Echelon Mall, Voorhees, NJ	9/70	Strawbridge's; JCPenney; Boscov's	998,000	429,000
Exton Square, Exton, PA	3/73	Strawbridge's; Boscov's; Sears; JCPenney	995,000	382,000
Faneuil Hall Marketplace, Boston, MA	8/76	—	208,000	208,000
Fashion Place, Salt Lake City, UT	10/98	Dillard's; Nordstrom; Sears	886,000	320,000
Fashion Show, Las Vegas, NV	6/96	Neiman Marcus; Saks Fifth Avenue; Macy's; Dillard's; Robinsons-May	773,000	213,000
The Gallery at Harborplace, Baltimore, MD	9/87	—	139,000	139,000
The Gallery at Market East, Philadelphia, PA	8/77	Strawbridge's; JCPenney (a); Kmart	1,009,000	193,000
Governor's Square, Tallahassee, FL	8/79	Burdines; Dillard's; Sears; JCPenney	1,043,000	339,000
Harborplace, Baltimore, MD	7/80	—	143,000	143,000
Hulen Mall, Ft. Worth, TX	8/77	Foley's; Dillard's; Sears (opens 3/02)	938,000	327,000
The Jacksonville Landing, Jacksonville, FL	6/87	—	125,000	125,000
Mall St. Matthews, Louisville, KY	3/62	Dillard's (two stores); JCPenney; Lord & Taylor	1,110,000	361,000
Mondawmin Mall / Metro Plaza, Baltimore, MD	1/78; 12/82	—	442,000	442,000
Moorestown Mall, Moorestown, NJ	12/97	Strawbridge's; Boscov's; Sears; Lord & Taylor	1,033,000	339,000
Oakwood Center, Gretna, LA	10/82	Sears; Dillard's; JCPenney; Mervyn's California	957,000	359,000
Oviedo Marketplace, Orlando, FL	3/98	Dillard's; Regal Cinema; Burdines; Sears	955,000	335,000
Owings Mills, Baltimore, MD	7/86	Macy's; Hecht's; JCPenney; Lord & Taylor (a); General Cinema 17	1,089,000	410,000
Paramus Park, Paramus, NJ	3/74	Macy's; Sears	779,000	312,000
Pioneer Place, Portland OR	3/90	Saks Fifth Avenue	374,000	314,000
Plymouth Meeting, Plymouth Meeting, PA	2/66	Strawbridge's; Boscov's; General Cinema 12	822,000	365,000
Riverwalk, New Orleans, LA	8/86	—	197,000	197,000
South Street Seaport, New York, NY	7/83	—	261,000	261,000

Consolidated Retail Centers (note 1) *(continued)*	Date of Opening or Acquisition	Department Stores/Anchor Tenants	Retail Square Footage Total Center	Mall Only
Village of Cross Keys, Baltimore, MD	9/65	—	81,000	81,000
Westdale Mall, Cedar Rapids, IA	10/98	JCPenney; Von Maur; Younkers	788,000	383,000
Westlake Center, Seattle, WA	10/88	—	111,000	111,000
White Marsh, Baltimore, MD	8/81	Macy's; JCPenney; Hecht's; Sears; Lord & Taylor	1,156,000	367,000
Woodbridge Center, Woodbridge, NJ	3/71	Lord & Taylor; Sears; Macy's; Fortunoff; JCPenney	1,546,000	560,000
Village Centers in Columbia, MD (12)	—	—	1,223,000	1,223,000
		Total Consolidated Centers in Operation	25,232,000	11,415,000

Proportionate Share Retail Centers (note 2)				
Bridgewater Commons, Bridgewater, NJ	12/98	Lord & Taylor; Macy's; Bloomingdale's (opens 4/02)	888,000	385,000
Collin Creek, Plano, TX	9/95	Dillard's; Foley's; JCPenney; Sears; Mervyn's California	1,121,000	331,000
Franklin Park, Toledo, OH	7/71	Marshall Field's; JCPenney; Jacobson's; Dillard's; JCPenney Home Store	1,109,000	323,000
Highland Mall, Austin, TX	8/71	Dillard's (two stores); Foley's; JCPenney;	1,086,000	368,000
Park Meadows, Littleton, CO	7/98	Dillard's; Foley's; Lord & Taylor; Nordstrom; JCPenney; Galyan's	1,561,000	610,000
Perimeter Mall, Atlanta, GA	8/71	Rich's; Macy's; Nordstrom	1,281,000	502,000
Towson Town Center, Baltimore, MD	10/98	Hecht's; Nordstrom	968,000	538,000
Willowbrook, Wayne, NJ	9/69	Lord & Taylor; Macy's; Bloomingdales (opens 4/02); Sears	1,528,000	500,000
Village Centers in Summerlin, NV (3)	—	—	384,000	384,000
		Total Proportionate Share Centers in Operation	9,926,000	3,941,000

Other/Managed Retail Centers				
Randhurst, Mt. Prospect, IL	7/81	Carson Pirie Scott; Costco (Fall '02); Kohl's	1,144,000	681,000
Ridgedale Center, Minneapolis, MN	1/89	Marshall Field's Women's; JCPenney; Sears; Marshall Field's Men & Home	1,036,000	343,000
Southland Center, Taylor, MI	1/89	Marshall Field's; Mervyn's California; JCPenney	905,000	322,000
Staten Island Mall, Staten Island, NY	11/80	Sears; Macy's; JCPenney	1,229,000	622,000
Town & Country Center, Miami, FL	2/88	Sears; Marshall's	598,000	345,000
		Total Other/Managed Centers in Operation	4,912,000	2,313,000
		Total Retail Centers in Operation	40,070,000	17,669,000

Department Store Notes:
(a) Department store closing announced subsequent to December 31, 2001.

Office and Other Properties in Operation

Consolidated Office and Other Properties (note 1)	Location	Square Feet
Arizona Center	Phoenix, AZ	
Garden Office Pavilion		32,000
One Arizona Center Office Tower		327,000
Two Arizona Center Office Tower		453,000
The Gallery at Harborplace	Baltimore, MD	
Office Tower		265,000
Renaissance Hotel		622 rooms
Pioneer Place	Portland, OR	
Office Tower		287,000
The Village of Cross Keys	Baltimore, MD	
Village Square Offices		69,000
Quadrangle Offices		109,000
Westlake Center	Seattle, WA	
Office Tower		342,000
Columbia Office (12 buildings)	Columbia, MD	1,136,000
Columbia Industrial (6 buildings)	Columbia, MD	306,000
Hughes Center (15 buildings)	Las Vegas, NV	1,179,000
Summerlin Commercial (26 buildings)	Summerlin, NV	996,000
Owings Mills Town Center (4 buildings)	Baltimore, MD	732,000
Inglewood Business Center (7 buildings)	Prince George's County, MD	538,000
Hunt Valley Business Center (20 buildings)	Baltimore, MD	1,484,000
Rutherford Business Center (20 buildings)	Baltimore, MD	783,000
Other Office Projects (5 buildings)	Various	305,000
	Total Consolidated Office and Other Properties	9,343,000

Note 1—Includes projects wholly owned by subsidiaries of the Company and projects in which the Company has a majority interest and control.
Note 2—Includes projects owned by joint ventures or partnerships in which the Company's interest is at least 30%.

Projects Under Construction or in Development	Department Stores/Anchor Tenants	Project Square Footage Total	Tenant Space
Village of Merrick Park, Coral Gables, FL	Neiman Marcus; Nordstrom	795,000	435,000
	Office	110,000	110,000
Fashion Show, Las Vegas, NV	Neiman Marcus; Nordstrom; Saks Fifth Avenue; Macy's; Robinsons-May; Lord & Taylor; Dillard's; Bloomingdale's Home	1,000,000	290,000
The Shops at La Cantera, San Antonio, TX	Neiman Marcus; Nordstrom; Dillard's; Foley's	1,300,000	400,000
Bridgewater Commons Expansion, Bridgewater, NJ	Bloomingdale's; Bloomingdale's Home	190,000	100,000
Kendall Town Center, Miami, FL	Dillard's; Sears	1,200,000	350,000
Summerlin Center, Summerlin, NV	Robinsons-May; Lord & Taylor; Dillard's; Macy's	1,050,000	350,000
Fashion Place Expansion, Salt Lake City, UT	Nordstrom; Dillard's; Meier & Frank	525,000	130,000
The Crossing Business Center, Summerlin, NV	Office/Industrial	55,000	55,000
Corporate Pointe, Summerlin, NV	Office/Industrial	110,000	110,000
Canyon Pointe, Summerlin, NV	Community Center	153,000	153,000
	Total Projects Under Construction or in Development	6,488,000	2,483,000

Directors Emeriti

George M. Brady
Former Chairman of The National Corporation for Housing Partnerships

Mathias J. DeVito
Chairman Emeritus of the Board of Directors of the Company

Albert Keidel, Jr.
Retired Senior Vice President of the Company

Samuel E. Neel
President of the Neel Foundation; Retired attorney at law

Thomas Schweizer
Real estate investor

Annual Meeting

The Annual Meeting of Shareholders of The Rouse Company will be held on Thursday, May 9, 2002 at 11:00 a.m. at the Company's headquarters in Columbia, Maryland.

Annual Report Form 10-K

Readers who wish a copy of Form 10-K as filed with the Securities and Exchange Commission should contact the Director of Investor Relations, The Rouse Company, Columbia, Maryland 21044, or use the corporate web site to link to EDGAR filings with the Securities and Exchange Commission.

Dividend Reinvestment

Shareholders of record who wish information on The Rouse Company Dividend Reinvestment and Stock Purchase Plan should write to:
The Bank of New York
Dividend Reinvestment
P.O. Box 1958
Newark, New Jersey 07101-1958

Registrar and Transfer Agent

The Bank of New York
Shareholder Relations Department
P.O. Box 11258 Church Street Station
New York, NY 10286
1-800-524-4458
e-mail: shareholder-svcs@bankofny.com

Counsel

Piper Marbury Rudnick & Wolfe L.L.P.
Baltimore, Maryland 21209

Independent Auditor

KPMG LLP
Baltimore, Maryland 21202

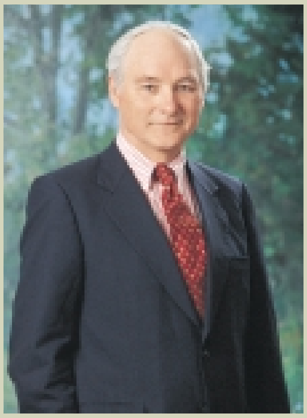
Corporate Headquarters

The Rouse Company
Columbia, Maryland 21044
410/992-6000

Web Site

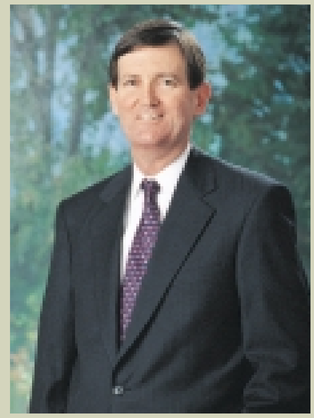
http://www.therousecompany.com

The Rouse Company's Board of Directors

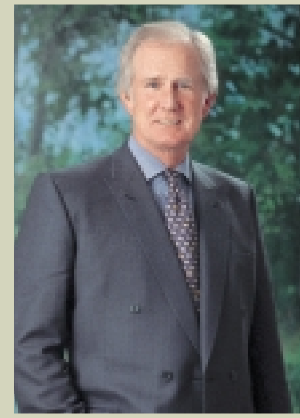


DAVID H. BENSON, (a)
Senior Advisor to Fleming Family & Partners and Chairman, Charter European Trust plc

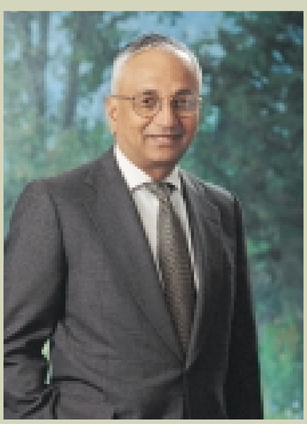
JEREMIAH E. CASEY, (b,c)
Former Chief Executive, USA, Allied Irish Banks plc and Former Chairman of the Board of Allfirst Financial Inc.



PLATT W. DAVIS, III, (a)
Partner, Vinson & Elkins, L.L.P.

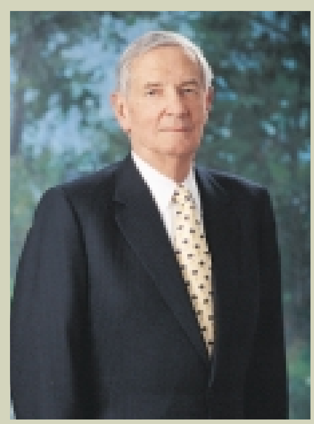


ANTHONY W. DEERING, (b)
Chairman of the Board of Directors and Chief Executive Officer of the Company



ROHIT M. DESAI, (b,c)
Chairman of the Board and President of Desai Capital Management, Incorporated

JUANITA T. JAMES, (b,c)
Vice President and General Manager of Pitney Bowes Professional Services, Inc.



THOMAS J. MCHUGH, (b,c)
Chairman of the Board and Chief Executive Officer of McHugh Associates, Inc.

HANNE M. MERRIMAN, (a)
Retail Business Consultant, Hanne Merriman Associates

ROGER W. SCHIPKE, (a)
Private investor; a director of The Brunswick Corporation and Legg Mason, Inc.

JOHN G. SCHREIBER
President of Centaur Capital Partners, Inc.

MARK R. TERCEK, (a)
Managing Director and Global Co-Head of Equity Capital Markets of Goldman, Sachs & Co.

GERARD J. M. VLAK, (a)
Former member Executive Board Rabobank Nederland; Former General Manager North America Amsterdam-Rotterdam Bank,

(a) Audit Committee (b) Executive Committee (c) Personnel Committee

THE ROUSE COMPANY

COLUMBIA, MARYLAND 21044