

## Corporate Profile

Saul Centers, Inc. is a self-managed, self-administered equity real estate investment trust headquartered in Bethesda, Maryland. Saul Centers currently operates and manages a real estate portfolio of 34 community and neighborhood shopping center and office properties totaling approximately 6.3 million square feet of leasable area. Over 80% of our cash flow is generated from properties in the metropolitan Washington, D.C./ Baltimore area.

### DIRECTORS

B. Francis Saul II  
B. Francis Saul III  
Philip D. Caraci  
The Honorable  
John E. Chapoton  
Gilbert M. Grosvenor  
Philip C. Jackson, Jr.  
David B. Kay  
General Paul X. Kelley  
Charles R. Longworth  
Patrick F. Noonan  
The Honorable  
James W. Symington  
John R. Whitmore

### WEB SITE

[www.saulcenters.com](http://www.saulcenters.com)

### HEADQUARTERS

7501 Wisconsin Ave.  
Suite 1500  
Bethesda, MD 20814-6522  
Phone: (301) 986-6200

### EXCHANGE LISTING

New York Stock Exchange  
Symbol: BFS

### DIVIDEND REINVESTMENT PLAN

Saul Centers, Inc. offers a dividend reinvestment plan which enables its shareholders to automatically invest some of or all dividends in additional shares. The plan provides shareholders with a convenient and cost-free way to increase their investment in Saul Centers. Shares purchased under the dividend reinvestment plan are issued at a 3% discount from the closing price of the stock on the dividend payment date. The Plan's prospectus is available for review in the Shareholders Information section of the Company's web site.

To receive more information please call our shareholder relations representative at (301) 986-6016.

*Certain matters discussed within this report are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and as such may involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements of Saul Centers to be different from any future results, performance or achievements expressed or implied by such forward-looking statements. Although Saul Centers believes the expectations reflected in such forward-looking statements are based upon reasonable assumptions, it can give no assurance that its expectations will be attained. These risks are detailed from time to time in the Company's filings with the Securities and Exchange Commission.*

# 2003

## First Quarter Report to shareholders



**Saul Centers**

## Message to our Shareholders

Total revenues for the quarter ended March 31, 2003 increased 2.9% to \$23,870,000 compared to \$23,191,000 for the 2002 quarter. Operating income before gain on property sold and minority interests decreased 5.6% to \$6,539,000 compared to \$6,926,000 for the comparable 2002 quarter. The Company reported net income of \$4,519,000 or \$.29/share for the 2003 quarter, a per share decrease of 32% compared to net income of \$6,335,000 or \$0.43/share for the 2002 quarter (basic & diluted). In the 2002 quarter, the Company recognized a gain on property sold of \$1,426,000 when it received final proceeds from the District of Columbia's condemnation and purchase of the Company's Park Road property.

Overall same property net operating income for the total portfolio decreased 2.3% for the 2003 first quarter compared to the same period in 2002. The same property comparisons exclude the Ashburn Village Phase IV development, placed in service during the summer of 2002, as well as Kentlands Square, which was acquired in September 2002. Net operating income is calculated as total revenue less property operating expenses, provision for credit losses and real estate taxes. Same center net operating income in the shopping center portfolio decreased 6.5% for the quarter. The decrease was primarily attributable to increased current year snow removal expenses and decreased tenant termination fees. Same center net operating income in the office portfolio grew 7.3% for the 2003 first quarter primarily due to the Company's Washington Square property, now in its second year of operations.

Funds From Operations (FFO), a widely accepted non-GAAP financial measure of operating performance for real estate investment trusts, decreased 4.2% to \$10,581,000 in the 2003 first quarter compared to \$11,048,000 for the same quarter in 2002. On a fully diluted per share basis, FFO was \$0.52 per share for

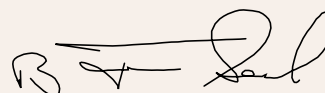
the 2003 quarter, a 7.4% decrease from \$0.56 per share for the same quarter last year. The decrease was primarily attributable to three items:

- A decrease in lease termination fees,
- A decrease in net operating income at the Company's 601 Pennsylvania Avenue office building due to the expiration of a major tenant lease, and
- An increase in snow removal expenses, net of tenant recoveries.

FFO is presented on a fully converted basis and is defined as net income before minority interests, extraordinary items, gains and losses on property sales and real estate depreciation and amortization.

During the quarter, the Company completed two significant financings. The Company executed a \$15,000,000 loan to finance the construction of Broadlands Village shopping center, a new Safeway-anchored, neighborhood shopping center totaling 112,000 square feet of retail space, located near Dulles Airport in Loudoun County, Virginia. The Company has commenced construction and 68% of the total space is pre-leased. Tenants expect to commence operations in late summer of 2003. Also, we replaced a \$42,000,000 construction loan used to finance the building of Washington Square at Old Town with a \$42,500,000 permanent mortgage. The new permanent financing, closed in January 2003, matures in 15 years and has a 6.01% interest rate. Over 88% of the Company's debt is now long-term fixed rate debt having an average maturity of approximately 10 years.

For the Board,



B. Francis Saul II

Chairman of the Board

May 15, 2003

# Consolidated Statements of Operations

(Unaudited)

For the Three Months  
Ended March 31,

**2003**                      **2002**

*(Dollars in thousands, except per share amounts)*

## Revenue

Base rent	\$ 19,051	\$ 18,353
Expense recoveries	3,805	3,105
Percentage rent	449	549
Other	<u>565</u>	<u>1,184</u>
Total revenue	<u>23,870</u>	<u>23,191</u>

## Operating expenses

Property operating expenses	3,029	2,359
Provision for credit losses	36	155
Real estate taxes	2,131	1,998
Interest expense	6,494	6,259
Amortization of deferred debt expense	198	163
Depreciation and amortization	4,042	4,122
General and administrative	<u>1,401</u>	<u>1,209</u>
Total operating expenses	<u>17,331</u>	<u>16,265</u>

## Operating income

Non-operating item		
Gain on sale of property	<u>--</u>	<u>1,426</u>

## Income before minority interests

	<u>6,539</u>	<u>8,352</u>
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## Minority interests

Minority share of income	(1,648)	(2,017)
Distributions in excess of earnings	<u>(372)</u>	<u>--</u>
Total minority interests	<u>(2,020)</u>	<u>(2,017)</u>

## Net income

	<u>\$ 4,519</u>	<u>\$ 6,335</u>
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## Per share (basic and fully diluted)

Net income (a)	<u>\$ 0.29</u>	<u>\$ 0.43</u>
Funds from operations (b)	<u>\$ 0.52</u>	<u>\$ 0.56</u>

(a) Based upon fully diluted weighted average common shares outstanding of 15,339,000 and 14,663,000 for the three months ended March 31, 2003 and 2002, respectively.

(b) Assumes conversion of operating partnership units, combined with fully diluted weighted average common shares outstanding, for a total of 20,516,000 and 19,835,000 shares for the three months ended March 31, 2003 and 2002, respectively.

## Consolidated Balance Sheets

*(Dollars in thousands)*

	<b>March 31, 2003</b>	<b>December 31, 2002</b>
	(Unaudited)	
<b>Assets</b>		
Real estate investments		
Land	\$ 90,469	\$ 90,469
Buildings and equipment	408,628	405,153
Construction in progress	<u>10,985</u>	<u>8,292</u>
	510,082	503,914
Accumulated depreciation	<u>(153,622)</u>	<u>(150,286)</u>
	356,460	353,628
Cash and cash equivalents	1,962	1,309
Accounts receivable and accrued income, net	10,682	12,505
Prepaid expenses	15,238	15,712
Deferred debt costs, net	4,467	4,125
Other assets	<u>3,259</u>	<u>1,408</u>
Total assets	<u>\$ 392,068</u>	<u>\$ 388,687</u>
<b>Liabilities</b>		
Notes payable	\$ 379,868	\$ 380,743
Accounts payable, accrued expenses and other liabilities	18,290	16,727
Deferred income	<u>3,984</u>	<u>4,484</u>
Total liabilities	<u>402,142</u>	<u>401,954</u>
<b>Minority interests</b>		
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<b>Stockholders' equity (deficit)</b>		
Common stock, \$0.01 par value, 30,000,000 shares authorized, 15,415,651 and 15,196,582 shares issued and outstanding, respectively	154	152
Additional paid-in capital	83,826	79,131
Accumulated deficit	<u>(94,054)</u>	<u>(92,550)</u>
Total stockholders' equity (deficit)	<u>(10,074)</u>	<u>(13,267)</u>
<b>Total liabilities and stockholders' equity (deficit)</b>	<u>\$ 392,068</u>	<u>\$ 388,687</u>