

## 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 39 community and neighborhood shopping center and office properties totaling approximately 7.0 million square feet of leasable area. Over 83% 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.*

# 2004

## First Quarter Report to shareholders



# Saul Centers

## MESSAGE to our Shareholders

The 2004 first quarter was noteworthy as Saul Centers, Inc. reported increased operating income from its core portfolio of grocery-anchored shopping centers, based primarily in the metropolitan Washington DC/Baltimore area, while supplementing that growth with operating income from its recently developed and acquired properties. Total revenues for the quarter ended March 31, 2004 increased 10.4% to \$26,341,000 compared to \$23,870,000 for the 2003 quarter. The Company reported net income available to common stockholders (after deducting preferred stock dividends) of \$4,305,000 or \$.27 per share for the 2004 quarter, a per share decrease of 6.9%, compared to \$4,519,000 or \$0.29 per share for the 2003 quarter (basic & diluted).

First Quarter 2004 property operating income increased by 12.4% due in part from the 2003 acquisition of Olde Forte Village and development of Broadlands Village shopping centers, 2004 acquisitions described later and a 5.0% same property operating income increase for the total portfolio. The same property comparisons exclude the results of operations of development and acquisition properties not in operation for each of the reported quarters. Operating income is calculated as total revenue less property operating expenses, provision for credit losses and real estate taxes. Same center operating income in the shopping center portfolio increased 4.9% for the 2004 first quarter. Same property operating income in the office portfolio grew 5.3% for the 2004 quarter.

As of March 31, 2004, 94.2% of the portfolio was leased, compared to 93.0% a year earlier. The comparative increase in the 2004 leasing percentage is largely attributable to the leasing of approximately 75,000 square feet of space at 601 Pennsylvania Avenue, which was vacant at the end of the 2003 quarter, following the expiration of a major lease.

Funds From Operations (FFO) available to common shareholders (after deducting preferred stock dividends), increased 3.6% to \$10,967,000 in the 2004 first quarter compared to \$10,581,000 for the same quarter in 2003. While FFO available to common shareholders increased by only \$386,000, the 2004 results include payment of \$2,000,000 in preferred dividends relating to the November 2003 offering. Property operating income from retail acquisitions and development, reduced interest expense, and successful leasing efforts which contributed to same center operating income growth have exceeded the effect of these preferred dividend payments. On a fully diluted per share basis, FFO available to common shareholders was \$0.52 per share for both of the 2004 and 2003 quarters. FFO,

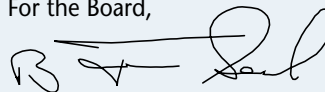
a widely accepted non-GAAP financial measure of operating performance for real estate investment trusts, is defined as net income, plus minority interests, extraordinary items and real estate depreciation and amortization, excluding gains and losses from property sales.

During early 2004, the Company acquired a development land parcel and four grocery anchored shopping centers. In January 2004, the Company purchased 3.4 acres of undeveloped land adjacent to its 109,000 square foot Kentlands Square shopping center in Gaithersburg, Maryland. The Company has commenced construction of a 41,300 square foot retail/office property comprised of 24,400 square feet of in-line retail space and 16,900 square feet of professional office suites. Substantial completion is scheduled for the fall of 2004. In February, 2004, the Company acquired Boca Valley Plaza in Boca Raton, Florida. Boca Valley Plaza is a 121,000 square foot neighborhood shopping center on U.S. Highway 1 in South Florida. The center is anchored by a 42,000 square foot Publix supermarket. Also in February 2004, the Company completed the acquisition of the 130,000 square foot Safeway-anchored Countryside shopping center, its fourth neighborhood shopping center investment in Loudoun County, Virginia.

In March 2004, the Company completed the acquisition of the 79,000 square foot Cruse MarketPlace, located in Forsyth County, a rapidly growing suburb of Atlanta, Georgia. Cruse MarketPlace is 96% leased and is anchored by a 44,000 square foot Publix supermarket, the second Publix store in the Company's portfolio. The Company added another Safeway anchored shopping center with the April 2004 acquisition of Briggs Chaney Plaza in Silver Spring, Maryland. Briggs Chaney Plaza is a 197,000 square foot neighborhood shopping center on Route 29 in Montgomery County, Maryland, the state's most populous and affluent county.

We are confident in the prospects for cash flow stability in our portfolio, and remain committed to evaluating new acquisition and development opportunities to enhance our portfolio.

For the Board,



B. Francis Saul II  
Chairman of the Board  
May 28, 2004

# Consolidated Statements of Operations

(Unaudited)

**For the Three Months  
Ended March 31,**

**2004 2003**

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

## Revenue

Base rent	\$ 21,276	\$ 19,051
Expense recoveries	3,894	3,805
Percentage rent	444	449
Other	727	565
Total revenue	<u>26,341</u>	<u>23,870</u>

## Operating expenses

Property operating expenses	2,892	3,029
Provision for credit losses	69	36
Real estate taxes	2,391	2,131
Interest expense	6,049	6,494
Amortization of deferred debt expense	217	198
Depreciation and amortization	4,638	4,042
General and administrative	1,756	1,401
Total operating expenses	<u>18,012</u>	<u>17,331</u>

## Income before minority interests

8,329 6,539

## Minority interests

Minority share of income	(1,557)	(1,648)
Distributions in excess of earnings	(467)	(372)
Total minority interests	<u>(2,024)</u>	<u>(2,020)</u>

## Net income

Preferred dividends	(2,000)	--
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## Net income available to common shareholders

\$ 4,305 \$ 4,519

## Per share (basic and fully diluted)

Net income (a)	\$ 0.27	\$ 0.29
Funds from operations (b)	\$ 0.52	\$ 0.52

*(a) Based upon fully diluted weighted average common shares outstanding of 15,974,436 and 15,338,829 for the three months ended March 31, 2004 and 2003, respectively.*

*(b) Assumes conversion of operating partnership units, combined with fully diluted weighted average common shares outstanding, for a total of 21,164,178 and 20,516,455 shares for the three months ended March 31, 2004 and 2003, respectively.*

# Consolidated Balance Sheets

<i>(Dollars in thousands)</i>	<b>March 31, 2004</b>	<b>December 31, 2003</b>
	(Unaudited)	
<b>Assets</b>		
Real estate investments		
Land	\$ 99,411	\$ 82,256
Buildings and equipment	479,843	436,487
Construction in progress	<u>38,461</u>	<u>33,372</u>
	617,715	552,115
Accumulated depreciation	<u>(168,705)</u>	<u>(164,823)</u>
	449,010	387,292
Cash and cash equivalents	6,100	45,244
Accounts receivable and accrued income, net	15,570	14,642
Prepaid expenses, net	21,031	18,977
Deferred debt costs, net	4,498	4,224
Other assets	<u>3,350</u>	<u>1,237</u>
Total assets	<u>\$ 499,559</u>	<u>\$ 471,616</u>
<b>Liabilities</b>		
Notes payable	\$ 379,269	\$ 357,248
Dividends and distributions payable	10,260	9,454
Accounts payable, accrued expenses and other liabilities	11,221	7,793
Deferred income	<u>4,579</u>	<u>4,478</u>
Total liabilities	<u>405,329</u>	<u>378,973</u>
<b>Stockholders' equity</b>		
Series A Cumulative Redeemable Preferred stock, par value \$0.01 per share, 1,000,000 shares authorized and 40,000 shares issued and outstanding	100,000	100,000
Common stock, \$0.01 par value, 30,000,000 shares authorized, 15,989,468 and 15,861,234 shares issued and outstanding, respectively	160	159
Additional paid-in capital	94,986	91,469
Accumulated deficit	<u>(100,916)</u>	<u>(98,985)</u>
Total stockholders' equity	<u>94,230</u>	<u>92,643</u>
<b>Total liabilities and stockholders' equity</b>	<u>\$ 499,559</u>	<u>\$ 471,616</u>