

## 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 36 community and neighborhood shopping center and office properties totaling approximately 6.6 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

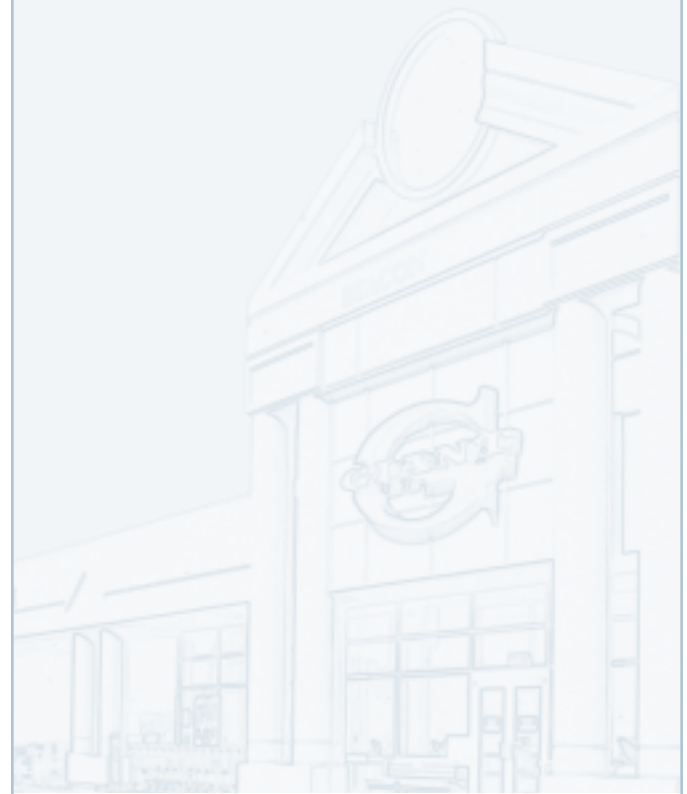
Saul Centers, Inc. offers a dividend reinvestment plan which enables its shareholders to automatically invest some of or all dividends in additional shares. The plan provides shareholders with a convenient and cost-free way to increase their investment in Saul Centers. Shares purchased under the dividend 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

## Second Quarter Report to shareholders



# Saul Centers

## Message to our Shareholders

Total revenues for the quarter ended June 30, 2003 increased 1.9% to \$23,226,000 compared to \$22,793,000 for the 2002 quarter. The Company reported net income of \$3,996,000 or \$.26/share for the 2003 quarter, a per share decrease of 15% compared to net income of \$4,482,000 or \$0.30/share for the 2002 quarter (basic & diluted).

For the six month period ending June 30, 2003, total revenues increased 2.4% to \$47,096,000 compared to \$45,984,000 for the 2002 period. The Company reported net income of \$8,515,000 or \$.55/share for the 2003 period, a per share decrease of 25% compared to net income of \$10,817,000 or \$0.73/share for the 2002 period (basic & diluted). In the 2002 period, the Company recognized a gain on property sold of \$1,426,000 when it was awarded a final settlement for the condemnation and purchase of the Company's Park Road property by the District of Columbia.

Overall same property net operating income for the total portfolio decreased 1.9% for the 2003 second quarter and 2.1% for the 2003 six month period compared to the same periods 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 increased 3.0% for the 2003 second quarter and decreased 1.9% for the 2003 six month period. The decrease in same center net operating income in the shopping center portfolio for the six month period was primarily attributable to decreased tenant termination fees and increased current year snow removal expenses. Same center net operating income in the office portfolio decreased 11.0% for the 2003 second quarter and 2.4% for the 2003 six month period compared to the same periods in 2002 primarily due to the expiration of a major tenant lease at 601 Pennsylvania Avenue and the down time required to prepare the space for occupancy for new tenants' use.

As of June 30, 2003, 93.6% of the portfolio was leased, compared to 94.2% a year earlier. This decrease in leasing percentage is primarily due to 25,000 square feet of space remaining to lease at 601 Pennsylvania Avenue after the expiration of a major tenant lease.

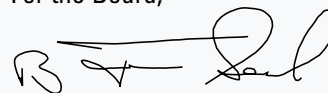
Funds From Operations (FFO), a widely accepted non-GAAP financial measure of operating performance for real estate investment trusts, decreased 3.6% to \$10,301,000 in the 2003 second quarter compared to \$10,681,000 for the same quarter in 2002. On a fully diluted per share basis, FFO was \$0.50 per share for the 2003 quarter, a 7.0% decrease from \$0.53 per share for the same quarter last year. For the six month period ending June 30, 2003, FFO decreased 3.9% to \$20,882,000 compared to \$21,729,000 for the 2002 period. On a fully diluted per share basis, FFO was \$1.01 per share for the 2003 six month period, a 7.2% decrease from \$1.09 per share for the same period last year. The decrease in the six month FFO was primarily attributable to two items:

- 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
- A decrease in lease termination fees.

FFO is defined as net income plus minority interests, extraordinary items, and real estate depreciation and amortization, excluding gains or losses from property sales.

In July, the Company acquired Old Forte Village, a 161,000 square foot neighborhood retail center located near the entrance to the Tantallon community at the intersection of Indian Head Highway and East Swan Creed Road in Fort Washington, Maryland. The property is approximately 5 miles south of the Washington Beltway, I-495. The center is anchored by a newly constructed 58,000 square foot Safeway which opened in March 2003. The balance of the center consists of approximately 48,000 square feet of in-line shop space, constructed primarily in the early 1980's, 16,000 square feet of pad site buildings and the currently vacant 39,000 square foot former Safeway store. The Company plans to redevelop a portion of the property where the former 39,000 square foot Safeway had been previously operating.

For the Board,



B. Francis Saul II  
Chairman of the Board

# Consolidated Statements of Operations

(Unaudited)

For the Three Months  
Ended June 30,  
2003                      2002

For the Six Months  
Ended June 30,  
2003                      2002

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

## Revenue

Base rent	\$ 18,931	\$ 18,995	\$ 37,982	\$ 37,348
Expense recoveries	3,365	3,005	7,170	6,110
Percentage rent	215	225	664	774
Other	715	568	1,280	1,752
Total revenue	<u>23,226</u>	<u>22,793</u>	<u>47,096</u>	<u>45,984</u>

## Operating expenses

Property operating expenses	2,579	2,365	5,608	4,724
Provision for credit losses	56	116	92	271
Real estate taxes	2,130	1,972	4,261	3,970
Interest expense	6,466	6,163	12,960	12,422
Amortization of deferred debt expense	199	161	397	324
Depreciation and amortization	4,285	4,182	8,327	8,304
General and administrative	1,495	1,335	2,896	2,544
Total operating expenses	<u>17,210</u>	<u>16,294</u>	<u>34,541</u>	<u>32,559</u>

## Operating income

Non-operating item				
Gain on sale of property	--	--	--	1,426

## Income before minority interests

Total	<u>6,016</u>	<u>6,499</u>	<u>12,555</u>	<u>14,851</u>
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## Minority interests

Minority share of income	(1,503)	(1,844)	(3,151)	(3,861)
Distributions in excess of earnings	(517)	(173)	(889)	(173)
Total minority interests	<u>(2,020)</u>	<u>(2,017)</u>	<u>(4,040)</u>	<u>(4,034)</u>

## Net income

Total	<u>\$ 3,996</u>	<u>\$ 4,482</u>	<u>\$ 8,515</u>	<u>\$ 10,817</u>
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## Per share (basic and fully diluted)

Net income (a)	<u>\$ 0.26</u>	<u>\$ 0.30</u>	<u>\$ 0.55</u>	<u>\$ 0.73</u>
Funds from operations (b)	<u>\$ 0.50</u>	<u>\$ 0.53</u>	<u>\$ 1.01</u>	<u>\$ 1.09</u>

(a) Based upon fully diluted weighted average common shares outstanding of 15,545,891 and 14,814,752 for the three months and 15,442,378 and 14,739,360 for the six months ended June 30, 2003 and 2002, respectively.

(b) Assumes operating partnership units, combined with fully diluted weighted average common shares outstanding, for a total of 20,726,828 and 19,986,993 shares for the three months and 20,621,660 and 19,911,601 shares for the six months ended June 30, 2003 and 2002, respectively.

# Consolidated Balance Sheets

<i>(Dollars in thousands)</i>	<b>June 30, 2003</b>	<b>December 31, 2002</b>
	<i>(Unaudited)</i>	
<b>Assets</b>		
Real estate investments		
Land	\$ 90,469	\$ 90,469
Buildings and equipment	410,143	405,153
Construction in progress	<u>15,717</u>	<u>8,292</u>
	516,329	503,914
Accumulated depreciation	<u>(157,317)</u>	<u>(150,286)</u>
	359,012	353,628
Cash and cash equivalents	645	1,309
Accounts receivable and accrued income, net	10,122	12,505
Prepaid expenses	16,501	15,712
Deferred debt costs, net	4,275	4,125
Other assets	<u>4,362</u>	<u>1,408</u>
Total assets	<u>\$ 394,917</u>	<u>\$ 388,687</u>
<b>Liabilities</b>		
Notes payable	\$ 380,003	\$ 380,743
Accounts payable, accrued expenses and other liabilities	19,328	16,727
Deferred income	<u>3,692</u>	<u>4,484</u>
Total liabilities	<u>403,023</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, 15,593,275 and 15,196,582 shares issued and outstanding, respectively	156	152
Additional paid-in capital	87,877	79,131
Accumulated deficit	<u>(96,139)</u>	<u>(92,550)</u>
Total stockholders' equity (deficit)	<u>(8,106)</u>	<u>(13,267)</u>
<b>Total liabilities and stockholders' equity (deficit)</b>	<u>\$ 394,917</u>	<u>\$ 388,687</u>