The Pantry, Inc.

competitively positioned

enhanced selection

operational excellence

improved efficiency

intelligent information

strong brands

Focused on Action

prudent investments

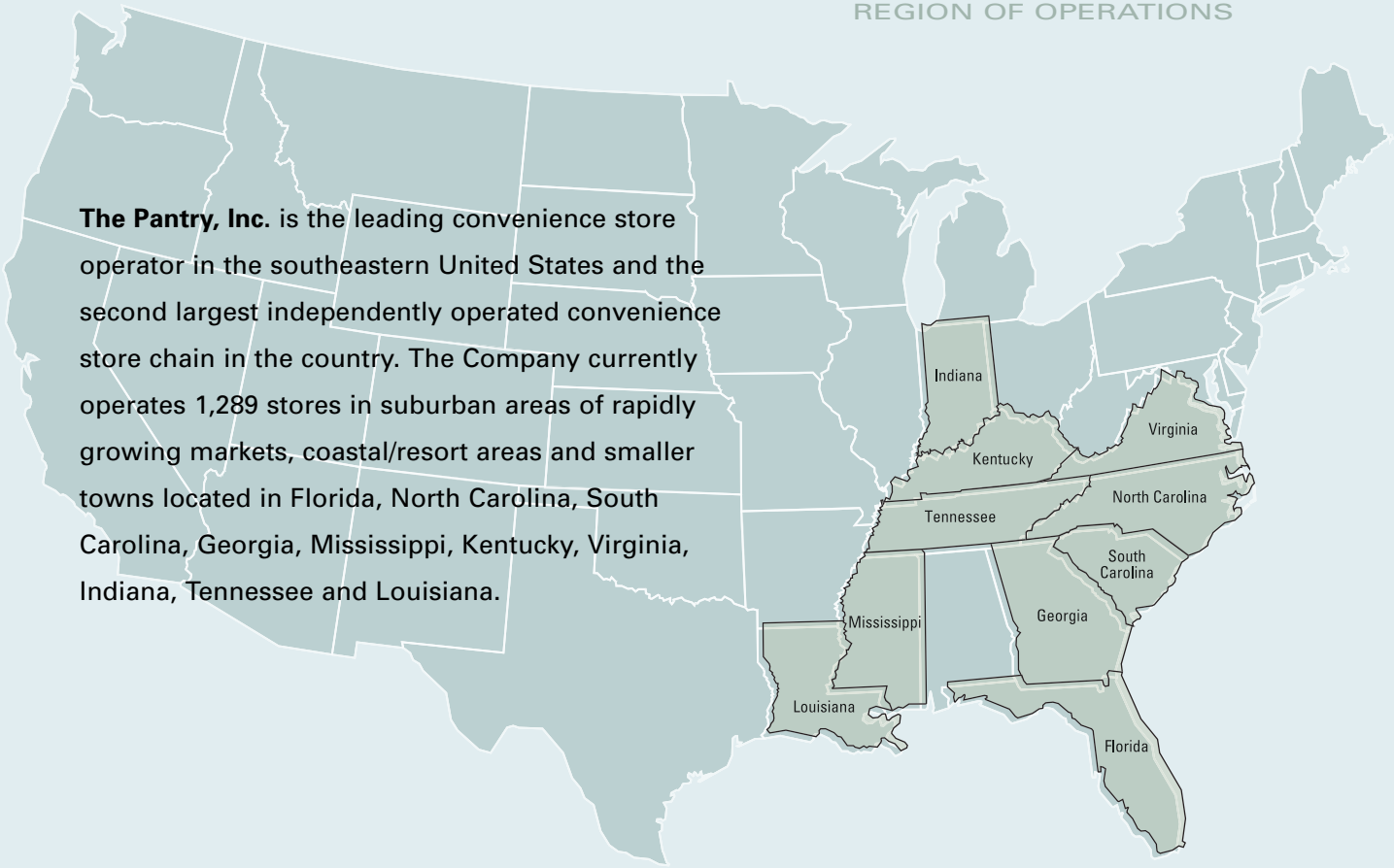
advanced technologies

unmatched convenience

superior service

2002 Annual Report

REGION OF OPERATIONS



The Pantry, Inc. is the leading convenience store operator in the southeastern United States and the second largest independently operated convenience store chain in the country. The Company currently operates 1,289 stores in suburban areas of rapidly growing markets, coastal/resort areas and smaller towns located in Florida, North Carolina, South Carolina, Georgia, Mississippi, Kentucky, Virginia, Indiana, Tennessee and Louisiana.

FINANCIAL HIGHLIGHTS

(dollars in thousands, except for per share information)

Fiscal Year	2002	2001	2000
Total revenues	$2,494,064	$2,643,044	$2,431,184
Gross profit	475,402	487,643	468,364
Depreciation and amortization	54,251	63,545	56,062
Income from operations	53,852	55,193	75,186
Interest expense	51,646	58,731	52,329
Net income (loss)	1,804	(2,656)	13,996
Earnings (loss) per share:			
Basic	$ 0.10	$ (0.15)	$ 0.77
Diluted	0.10	(0.15)	0.74
Comparable store sales growth:			
Merchandise	3.4%	(0.2)%	7.5%
Gasoline gallons	1.5%	(3.8)%	(2.4)%
Average sales per store:			
Merchandise sales	$ 765.2	$ 731.0	$ 713.8
Gasoline gallons (in thousands)	924.2	890.4	856.9
EBITDA	108,103	123,509	131,248
Store count, end of year	1,289	1,324	1,313

Our Brands

Big K
Depot Food Stores
ETNA
Express Stop
Fast Lane
Food Chief
Handy Way
Kangaroo
Lil' Champ
Market Express
Mini Mart
On The Way
Quick Stop
Smokers Express
Sprint
The Pantry
Wicker Mart
Zip Mart

LETTER TO SHAREHOLDERS

Dear Shareholder,

In fiscal 2002, The Pantry continued to take the necessary actions to effectively strengthen its business and further enhance its position as a leading operator of convenience stores in the southeastern United States.

During the year, we remained "Focused on Action," a strategy that has allowed us to make important strides throughout our business as well as our ongoing efforts to achieve operational excellence. In fiscal 2002, we acted decisively, taking steps to enhance the performance of our stores, to more effectively manage our gasoline operations and to further strengthen the processes and systems that support our vast store network. Importantly, we achieved progress in each of these areas while continuing to effectively manage our costs. We have only just begun to realize the benefits of the many actions taken over the past year and expect to achieve even greater efficiencies and progress in the year ahead.

In fiscal 2002, we acted decisively, taking steps to enhance the performance of our stores, to more effectively manage our gasoline operations and to further strengthen the processes and systems that support our vast store network.

Financial Performance

While year-over-year revenue was lower, in large part due to a 13.8 percent decline in the average retail price of gasoline and a reduction in store count, our focus on action allowed us to generate positive results on several fronts.

Despite a challenging retail environment, we reported an increase of 3.4 percent in comparable store merchandise revenues and a 1.5 percent increase in comparable store gasoline volume. In addition, during the year we paid down our debt by $40 million, ending the year with $42.2 million in cash and no outstanding borrowings under our revolving credit facility.

Total revenues for fiscal 2002 were $2.5 billion versus $2.6 billion in the previous year. Earnings rose to $1.8 million, or $0.10 per share, compared to fiscal 2001 net loss of $2.7 million, or $(0.15) per share. Adjusted earnings for fiscal 2002 were $2.4 million, or $0.13 per share, compared to adjusted earnings of $10.2 million, or $0.56 per share, in fiscal 2001. Fiscal 2002 EBITDA was $108.1 million compared to $123.5 million in fiscal 2001. The decline in adjusted earnings and EBITDA was almost entirely due to a two-cent decline in gasoline margin per gallon and the corresponding decline in gasoline gross profit of $20.8 million.

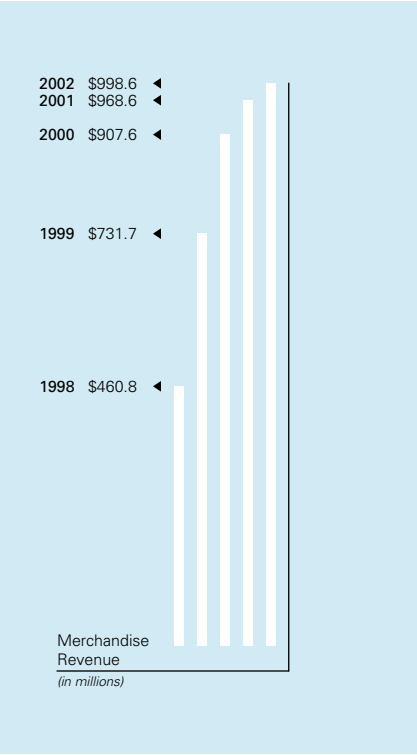
Focused on Action

Throughout the year, we continued to take actions that allowed us to build upon the strengths of our core business, focusing our time and resources on enhancing our network of 1,289 stores. These actions touched nearly every aspect of our operations from the way we fill our stores and pumps to the products with which we do it.

In our stores, we implemented a comprehensive reset program, repositioning our merchandise offering through planned promotional activities, changes in in-store placement and assortment and enhanced advertising of key destination categories—all measures aimed at providing greater value and convenience to our customers while also enhancing sales and gross profits. The success of this program, which has been rolled out in approximately 700 stores to date, is evident in the increases reported in our comparable store merchandise revenue and merchandise gross profits during the year.

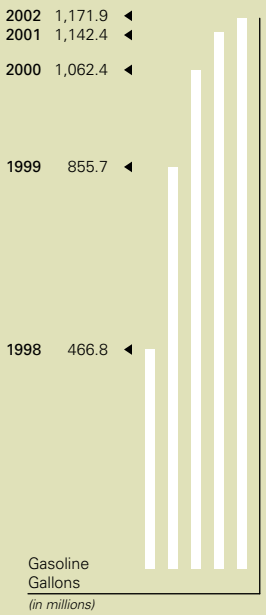
In fiscal 2003, we will continue to strive for operational excellence in order to better serve our customers and strengthen our position as a leading convenience store operator.

We also took substantive actions to strengthen our gasoline operations, where our focus has been on remaining intelligently competitive. We continued to leverage our proprietary technologies and the knowledge and experience of our staff to effectively enhance our competitive position in all markets. This included actions to better monitor and adjust our pricing in line with changing market conditions as well as reassessments of our branding strategies to best reflect consumer preferences for various branded and unbranded gasoline products on a market-by-market basis. These actions have strengthened our ability to more effectively strike a balance between gasoline volume and gross profit, even in light of ongoing volatility in the wholesale price of gasoline.



Focused on Efficiency

Achieving greater efficiencies is also an integral part of our efforts to strengthen our operations as well as our overall results. Therefore, in addition to continuing to realize the benefits of our restructuring initiatives, which were implemented in fiscal 2001, we took further actions throughout the year to more effectively manage our costs while continuing to make strategic investments in our business.



During the year, we closely assessed the performance of each and every store we operate in order to ensure optimal performance across the network. In doing so, we identified and closed 38 underperforming locations. This process not only allowed us to save on overhead and administrative costs, it also enabled us to more effectively allocate our resources. Importantly, in fiscal 2002, we directed our funds to further upgrading our existing locations, including technology enhancements that will allow us to better monitor inventory levels, sales and margins. These actions included enhancements to our gasoline management systems, the adoption of in-store scanners in approximately 25 percent of our locations as well as the development and rollout of a store-based computer-training program for employees.

Further, we leveraged our relationships with suppliers, including those that provide us with merchandise and gasoline, as well as service vendors to reach more favorable pricing agreements. Taken together, these actions will not only allow us to strengthen the bottom line, they will enable us to continue to enhance our long-term competitive position.

Focused on the Future

We are optimistic about our business and our prospects as we enter a new year. While we expect ongoing economic and geopolitical uncertainties to continue, we believe that the actions we have taken over the past year will yield positive results.

In fiscal 2003, we will continue to strive for operational excellence in order to better serve our customers and strengthen our position as a leading convenience store operator. We remain committed to being intelligently competitive in our gasoline operations and to further enhancing our in-store performance, which we expect will drive increased traffic to our pumps and our stores.

By remaining "Focused on Action," we are confident that we are well positioned to provide greater value to our customers, employees and shareholders alike. We thank all of you for your ongoing support and look forward to the year ahead.

Sincerely,

Peter J. Sodini *President and Chief Executive Officer*

The Pantry's ability to maintain our leadership position year after year is the result of our efforts to ensure our customers have access to the best selection of products and services at the very best prices.

Convenience

Brands

Value

Selection

Taking Action

The Pantry continues to take the necessary actions to provide value and convenience through everything we do. This includes offering customers a vast assortment of merchandise and in-store services as well as a broad selection of premium branded and unbranded gasoline products. Our focus, however, is not simply on giving customers access to the products and services they want, but also ensuring they get them at the most competitive prices. It is this commitment that remains the cornerstone of our business and continues to enhance our position as the leading convenience store operator in the southeastern United States.

Enhancing Our Selection

Being the destination of choice for our customers requires that we continually assess and adjust the products and services we offer in line with their ever-changing needs. Throughout fiscal 2002, we did just that. We took substantive actions to further enhance our in-store merchandise offering as well as our pricing in order to attract more customers and, in turn, strengthen our results.

Convenience

The Pantry's ongoing commitment to providing convenience to our customers remains the cornerstone of our strategy and our ongoing success.

Selection

Our extensive selection of merchandise and ancillary services continues to drive traffic to our vast store network throughout the Southeast.

Brands

The Pantry offers customers the broadest range of brand name snack foods, soft drinks and fresh food products.

Value

We continue to strive to bring value to our customers by providing them with high-quality products at the most competitive prices.

In doing so, we implemented a comprehensive store-repositioning program. This effort included a broad range of actions touching nearly every aspect of our in-store operations including the products we offer as well as our approach to selling them. We took the necessary steps to enhance our merchandise mix, which already includes a wide selection of brand name and private label goods such as snack foods, soft drinks, beer and cigarettes, and reformatted our merchandising placement to give greater prominence to high-demand products and high-margin impulse purchases.

We also focused on strengthening our competitive position by instituting a number of planned promotional activities—many of which were supported by our suppliers—and enhancing advertising of key destination categories. By the end of fiscal 2002, we completed this process in some 700 of our stores and expect to finish assessing and resetting the remainder of our locations by April 2003.

In our efforts to enhance our merchandise offering, we also expanded our fresh food selection and other in-store services. We continued to upgrade and add quick service restaurants and fresh food programs in a number of selected markets. This included strengthening our offering of core fast food categories such as coffee, fountain and frozen drinks, fresh sandwiches and our grilling stations. Today, we offer customers approximately 20 proprietary and national brands including favorites such as Subway, Hardee's, Aunt M's, Krystals and Church's.

Further, we continued to grow our selection of ancillary products and services, bringing even higher levels of convenience to Pantry shoppers. Throughout our locations, we offered

customers greater access to ATMs, money orders, lottery tickets as well as a broad range of pre-paid solutions including phone cards and cellular services and accessories. Taken together, these enhancements have strengthened our ability to offer customers the best selection of products and services at the most competitive prices.

Becoming More Competitive

Throughout fiscal 2002, we also remained focused on strengthening our competitive position in our gasoline operations. And, while we could not exercise control over factors such as ongoing volatility in the wholesale price of gasoline, which greatly impacted our performance, we took decisive actions to more effectively manage those aspects of our operations over which we do have control.

Our strategy in this segment is to be intelligently competitive. This means leveraging our resources including our technologies and collective experience to effectively strike a balance between the volume of gasoline we sell and the prices at which we do it. Critical to this process is understanding the needs and preferences of our customers, ensuring we offer the right selection of competitively priced branded or unbranded gasoline products for each location as well as our ability to effectively monitor the markets in which we operate—right down to knowing even our smallest competitors and how they work.

Competitive

By remaining intelligently competitive, we are able to offer customers the right selection of gasoline products at the right prices throughout all key markets.

Technology

Installing and maintaining state-of-the-art technology at our pumps ensures our customers an easy and convenient fueling experience that keeps them coming back.

Partnerships

Through our strong relationships with high-quality partners, we are better positioned to offer our customers a broad range of premium brands and products.

Programs

In addition to accepting major commercial and petroleum company credit cards, The Pantry's Rapid Fuel Card program provides yet another easy and convenient form of payment for our loyal customers.

During the year, we took a number of important steps to enhance our performance in all of these respects. Together with outside consultants, we began a comprehensive review of the logistics of our gasoline operations as well as our branding strategies in key markets.

Our aim was to optimize our performance and strengthen our bottom line. We did this by working to better rationalize our gasoline offering according to consumer preferences, consolidating the brands we provide, expanding our proprietary Kangaroo brand into appropriate locations and leveraging the size and strength of our network to renegotiate our contracts with suppliers and partners.

Further, we continued to monitor market conditions and the actions of our competitors to continue to drive traffic to our locations. In fiscal 2002, we kept a close eye on pricing—ours as well as that of the competition. This information, which was gathered on a daily basis, was then used to assess our market position and make necessary pricing adjustments at each and every location.

While challenging market conditions persist, we continue our commitment to being intelligently competitive and to taking the necessary steps to more effectively and efficiently meet the needs of our customers.

Partnerships

Programs

Technology

Competitive

With gasoline sales serving as the single greatest driver of traffic to our stores, we maintain a sharp focus on meeting the needs of our customers throughout our fueling locations.

Pursuing Operational Excellence

Our efforts to continue to better serve our customers and enhance our leadership position throughout the Southeast go hand in hand with our commitment to achieving operational excellence. Throughout fiscal 2002, our strategy was to strengthen our existing operations—both at our stores and pumps as well as at the corporate level. This entailed assessing every aspect of our operations including the performance of each of our locations, the effectiveness of the systems and the technologies we use and our overall efficiency in terms of managing our costs.

In evaluating the profitability of each of our stores, we closed 38 underperforming locations in fiscal 2002. This allowed us to eliminate the costs associated with maintaining these stores and enabled us to direct our resources and efforts towards enhancing our operations and results in those locations where we are seeing solid results.

In upgrading our existing locations, we focused on making additional technology enhancements in order to strengthen our efficiency on several fronts. In our gasoline operations, we continued to fine tune our in-ground gasoline inventory management system, which we developed and rolled out during fiscal 2000 and fiscal 2001, to more effectively monitor and reduce our inventory levels and achieve significant working capital benefits.

Achieving the highest levels of efficiency throughout our business enables us to better serve our customers and continue to enhance our results.

Efficiency

The Pantry's efforts to achieve operational excellence are evidenced in our ongoing efforts to strengthen every aspect of our business.

Excellence

Similarly, in our stores, we continued to add technology systems to enhance our performance. During the year, we developed an in-store computer-based training program for our associates, which we expect will increase productivity and efficiency. Further, we rolled out new scanning systems to approximately 25 percent of our locations. We believe this will allow us to better control inventory levels and pricing and ultimately strengthen our ability to increase sales and margins.

While we believe that making ongoing investments in our operations is critical to our ability to achieve operation excellence, we are also focused on ensuring we are doing everything we can to reduce and manage our costs when and where possible. In addition to continuing to realize the benefits of our restructuring efforts in fiscal 2001, which included the elimination of duplicative administrative functions and the closure of our Florida support center, we also continued to take steps to further reduce costs associated with labor and other variable store expenses.

Importantly, we reassessed our relationships with suppliers and eliminated a number of lesser ones in favor of those partners—in gasoline and merchandising—with whom we believe we have more beneficial relationships. Further, by reducing the number of suppliers with whom we work, we were able to strike more favorable purchasing and marketing agreements. We applied this same principle to maintenance and other service providers to achieve even further savings.

These actions have significantly advanced our goal of achieving operational excellence and we remain dedicated to continuing to take the necessary steps to further strengthen our performance and results as we go forward.

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CORPORATE DIRECTORY

Directors

Peter J. Sodini
President and Chief Executive Officer

Todd W. Halloran
Principal
Freeman Spogli & Co.

Jon D. Ralph[2]
Principal
Freeman Spogli & Co.

Charles P. Rullman[2]
Principal
Freeman Spogli & Co.

Byron E. Allumbaugh[1]
Consultant

Peter M. Starrett
Consultant

Thomas M. Murnane
Consultant

William M. Webster III[1]
Private Investor

Hubert E. Yarborough III[1]
The Yarborough Group of South Carolina LLC

Board Committees:
(1) Audit Committee
(2) Compensation Committee

Financial Information

Forms 10-K and 10-Q are available without charge.
Direct requests to:

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Fax: 919-774-3329

Internet

Additional information on The Pantry, Inc. is available on the World Wide Web at: www.thepantry.com

Executive Officers

Peter J. Sodini
President and Chief Executive Officer

Steven J. Ferreira
Senior Vice President, Administration and Strategic Planning

Daniel J. Kelly
Vice President, Chief Financial Officer and Corporate Secretary

Joseph A. Krol
Vice President, Operations

David M. Zaborski
Vice President, Marketing

Gregory J. Tornberg
Vice President, Gasoline Marketing

Executive Office

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Transfer Agent

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Equity Services
Charlotte, North Carolina

Independent Accountants

Deloitte & Touche LLP
Raleigh, North Carolina

Annual Meeting

The annual meeting of stockholders will be held on Tuesday, March 25, 2003 at 10:00 AM Eastern Standard Time at the Sheraton Imperial Hotel, 4700 Emperor Boulevard, I-40 at Exit 282 (Page Road), Durham, North Carolina 27730 (approximately 3 miles from RDU airport).

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