2022 ANNUAL REPORT

ASSOCIATED WHOLESALE GROCERS, INC.

ASSOCIATED WHOLESALE GROCERS

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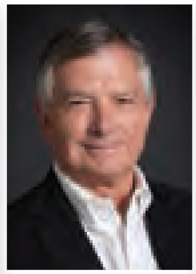

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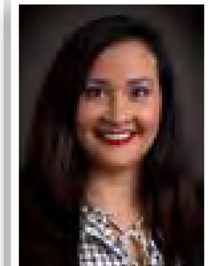

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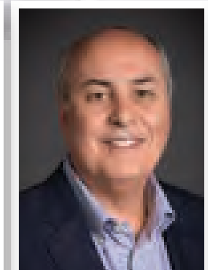

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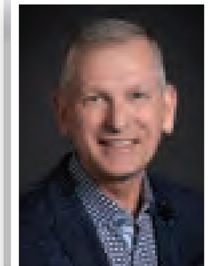

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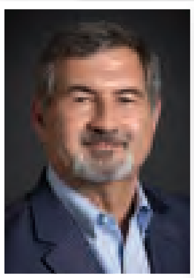

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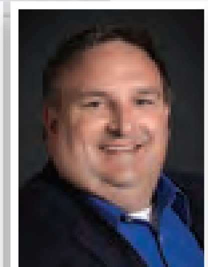
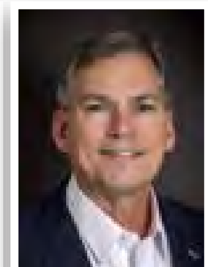
Sweetwater, TX

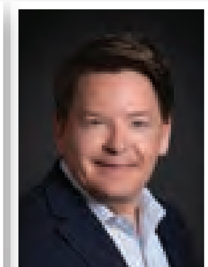
Alan McKeever
McKeever Enterprises, Inc.
Independence, MO



James Neumann
Valu Discount, Inc.
Mt. Washington, KY

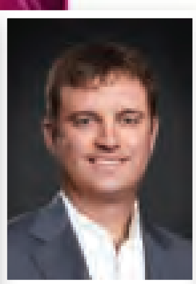


Jimmy Nichols
Houchens Food Group, Inc.
Bowling Green, KY



Pat Raybould
B & R Stores, Inc.
Lincoln, NE

Jeff Reasor
Reasor's by Brookshire Grocery Co.
Tahlequah, OK



Donny Rouse
Rouse's Enterprises, L.L.C.
Thibodaux, LA

Randy Stepherson
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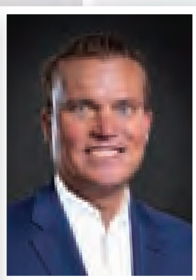
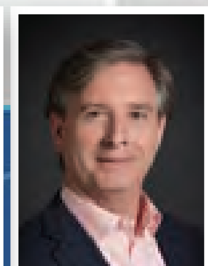
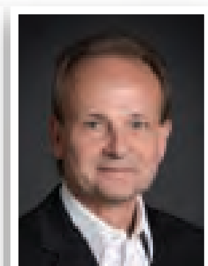


Jeff Strack
Indiana Grocery Group, LLC
Highland, IN



Erick Taylor
RPCS, Inc.
Rogersville, MO

Dale Trahan
Dale L. Trahan Enterprises, Inc.
Rayne, LA



James Zyrowski
Ben's Supercenter, Inc.
Brown City, MI

DEAR SHAREHOLDERS

March 21, 2023

Dear Shareholders,

Your Board of Directors and management are pleased to present the audited results for fiscal 2022. Consolidated sales reached $12.3 billion, up 13.65% on a comparable basis. Total year-end patronage, after retainage, was $273 million, or 2.72% of qualifying sales. Total distribution, including patronage, allowances, and interest back to members, was $543.6 million, decreasing 5.04% due primarily to reduced off-invoice allowances from vendor promotions. In addition, the trading value of AWG stock increased to $1,550 per share, an increase of 7.6%. Net sales for the cooperative were $10.7 billion, up 10.08% from the prior year. Member investment and equity increased to $658.7 million, an all-time high, reflecting the continued strengthening of AWG's balance sheet.

We achieved these remarkable results through same-store sales increases to member stores, new member growth, and overcoming expense escalations. We invested $6.41 million in temporary fuel surcharge relief, which will now become permanent in 2023, and significant investments in supply chain infrastructure, technology platform upgrades, and continuing implementation of the ambitious Convergence project to reduce cost-of-goods to your stores. We counteracted declining off-invoice vendor allowances by investing $41.2 million incrementally in cooperative-funded product price reductions of national and store brands. Those investments (48 basis points) were primarily funded by inventory gains and member retail sales growth that outpaced peer retailers, effectively reducing our expense rates. We work to strike the right balance of capital investments for improvements and sustainable growth, maintaining the low cost of goods you need to compete daily and delivering a predictable patronage return.

In 2022, we finished a full year of Convergence and opened two new warehouses. Convergence members participated in 15 categories and 5,298 resets, representing $1.7 billion in wholesale sales and over $4.2 million in potential member profits. The Upper Midwest Division is now fully open in Minnesota. In 2023, we plan to migrate over 80 member stores and many new members to this Division, saving them millions in freight costs. We also opened the All-In-One Automated Distribution Hub in Hernando, MS, which will transition to complete supply operations in 2023. With these fantastic facilities online and anticipated new members in the pipeline, we plan continuing growth, further benefitting all members. AWG is leading the industry with sales gains, innovation, and a durable supply chain well-prepared for the future.

While 2022 was an excellent year, more work is necessary to fulfill our expectations regarding the availability of products and a more competitive cost of goods from our suppliers. Join us in aggregating the collective strength of $24 billion in retail sales and requiring transparency and fairness in pricing, promotions, and product supply as we continue Convergence initiatives that will allow us to achieve more – together.

We are very thankful for the extraordinary efforts of our teammates, our board's leadership, your unyielding support, and our relationships with vendor partners. You have our commitment to continuous improvements for you.

Sincerely,

Barry Queen
Chairman of the Board

David Smith
President & CEO

AWG'S ALL-IN-ONE DISTRIBUTION HUB

AWG's All-In-One Distribution Hub (AIO) in Hernando, MS, is the first of its kind in the U.S. and only the third such facility in the world! This technological marvel will replace the facilities in Southaven and Memphis while also housing an expanded variety of items from within our network and other new products that will be added. It will provide Mid-South Division members with a full assortment of product categories and service the entire membership and non-members with health and beauty, seasonal, specialty food, cigarettes, tobacco, and a new extended variety of ambient and fresh/frozen items.

The facility is massive in scale, occupying 124 acres, almost one million square feet of floor space, and over 80 feet tall throughout. It accommodates all product temperature zones and is expandable for future growth. It also has unique features, including a state-of-the-art non-ammonia refrigeration system, ten pressurized banana rooms, docks on both sides of the building to ensure end-to-end temperature control (promoting food safety compliance), and five high-capacity generators to ensure uninterrupted operations.

Due to the project's size, hardware and system availability difficulties, and our desire to deliver benefits as quickly as possible, we have opened the facility in phases. The ambient side of the facility is open, delivering dry products to members and providing case goods for VMC customers. In April, individual unit selection processing will transition to the facility, and in Q3 2023, fresh and frozen items will begin shipping along with cigarettes and tobacco. The project's final phase will include shipping an extended variety of products, which will be added to alleviate the need for member stores to purchase products from specialty distributors.

The facility will provide immediate and long-term sustainable benefits to the membership. By substituting technology investments for precious human capital, it will reduce operating costs, and provide a more reliable source of supply, all while significantly improving the product assortment available to member stores. While numerous benefits are associated with the AIO and its technology, none will be more apparent than pallets arriving at member stores. They are stacked better, resulting in less damage and fewer errors. Similar products are segregated together for easier and more efficient handling at the store, and fewer totes and pallets will be needed. As a result, unloading time at stores will be reduced, fewer returnable assets will be handled, less time will be spent addressing credits, and out of stocks will be dramatically reduced. All of this adds up to savings for our members.

UPPER MIDWEST DIVISION

The Upper Midwest Division comprises two facilities in St. Cloud, MN. The first is a 300,000-square-foot dry facility, which opened in Q1 2022. The second is a state-of-the-art, newly constructed 330,000-square-foot fresh/frozen facility that commenced operations in Q3 2022. Construction of the new facility was miraculously completed in less than 12 months, during a severe winter, amid the COVID-19 pandemic and unprecedented supply chain challenges. The unique configuration of this Division was designed to allow AWG to move into the market expeditiously, offering savings to its first member while also allowing the site to be prepared for future expansion and ambient automation.

The location was chosen to allow existing members in the region to relocate to this facility, dramatically reducing freight expenses and improving profitability. The migration of existing members from the Great Lakes and Nebraska divisions will commence in Q1 2023, utilizing more of the building's available capacity and saving those members millions annually in freight costs. The new facility is also strategically located to allow future business development opportunities in this independent rich region of the country. These new members will start to join AWG very soon!

The new warehouse has seven modern banana rooms, a full generator backup, 40-foot clear ceiling heights, and an efficient operational design. The physical site was designed to allow for future ambient and frozen automation and the addition of a new division office.

Simply put, the top strategic investment commitment for AWG is in technology. To fulfill our mission of "providing member-retailers all the products, tools, and services they need to compete favorably in all markets served, at the lowest possible cost," we must operate more reliably, more efficiently, and more effectively and achieve the scale necessary to obtain the best available cost from our supply partners. To meet these objectives, we must leverage technology and Convergence, which is the alignment of AWG, our member stores, and our supply partners to achieve more.

AWG's new Mid-South Division, powered by the AIO Distribution Hub in Hernando, is our first demonstration of a wall-to-wall automated warehouse designed to future-proof against operational and labor challenges and provide members with access to more products without added costs typically associated with more SKUs. AWG's technology will be expanded throughout AWG's supply network. Some instances will be retrofitting existing operations, and others will be new construction projects for expansion or replacements, but all will share the same common technology platform. We have reservations for four automation projects over the next few years and will continue accelerating this transformation based on member store needs and capital access.

The AWG Partner Gateway (APG) is off and running and provides the benefits of next-generation category management capabilities to member stores to compete with the nation's most sophisticated merchant organizations. Market-leading retailers have come to rely on cross-solution data integration to provide real-time insight to aid decision-making and identify new growth opportunities. These analytics and insights are now more readily available via APG's integrated data and analytical tools.

This highly integrated technology platform uses a collaborative workflow model, where data and process integration allow more targeted, effective decision-making for AWG teammates working on your behalf and for our vendor partners that need data and analytics to plan and promote their respective businesses. The integrated use of supply chain, market, point of sale, and shopper data (where applicable) generates market-leading sales growth and profitability.

AWG leverages our extensive supply chain data, market data intelligence from other retailers' sales, and insights from member store data to tailor assortments and ensure that our member stores have the right variety for their market, new items are introduced to member shelves quickly, and every member and group are maximizing their respective ability to identify and attract the most trade dollars available. While market supply remains constrained in several areas, market share data enables category managers to ensure AWG members get their fair share of available supply and maintain their item-level market share. This tool is potent, as data carries more weight than words or gut instincts.

APG also provides the negotiating and forecasting tools to collaborate with our vendor partners seamlessly. Highly tuned forecasting algorithms predict sales demand and aggregate purchasing negotiation power across our cooperative supply chain. Access to the correct data and knowledge ensures the development of clear action plans. It also provides the measurement capabilities necessary to ensure results are achieved, or adjustments are made across the entire supply chain.

AWG has enhanced promotional planning and marketing execution, successfully launching a new Advertising and Innovative Marketing (AIM) solution powered by the iPro platform. The new ad execution process enhances promotional event analysis to improve overall event planning, negotiating position, and sales results. The ad execution business process is streamlined with enhanced vendor deal integration and product ordering to support ad plan- and event-based volume increases.

Convergence made significant strides in 2022, both in terms of assortment optimization and successful resets. As assortment optimization tools and processes mature, integrating market-based data and point-of-sale data will improve category reset performance at the store level. Developing member-equity-level and store-specific insights on the performance of each new or refined product mix will help members achieve the optimal product mix for their consumers while driving both volume and margin.

AWG's Convergence Initiatives focus on three key areas:

1. Improving AWG Brands' positioning.
2. Optimization of total Vendor Partner Trade Funds and their investment across the co-op and member retailers.
3. Investments in integrated technology solutions and analytics to continue optimizing category management processes.

AWG will continue to focus on technology to reduce the store-level labor associated with daily and weekly replenishment-ordering activities. Point of sale data will be crucial to this effort. AWG will continue to use technology to drive new efficiencies in category management, warehouse and distribution, supply chain, and retail members' execution, ensuring sustainability and growth for our members' futures.

CATEGORY INITIATIVES

Winning at the shelf means having the right product in the position, at the right price, and driving sales exceeding peer retailers' performance. AWG's Category Initiatives are designed to do just that. In 2022, fifteen initiatives across the center store and VMC demonstrated the success of Assortment Optimization outlined in the Convergence project.

These Category Initiatives aimed to improve shelf performance and reduce the long-term cost of goods in underperforming categories. The year-long schedule was built based on seasonality, vendor innovation, and operational factors. AWG and VMC merchandising and category management teams worked with vendor partners in categories like coffee, laundry, charcoal, haircare, and cough and cold. Category managers undertook an extensive review of the product assortment to identify and remove non-productive SKUs with the help of warehouse data. Vendor insights and syndicated data from Nielsen and IRI allowed them to further enhance and design optimal assortment and shelf sets, resulting in a win-win for both the member retailer and the consumer.

Planograms were updated to focus on how consumers shop the category and to be innovative – helping member retailers stay on trend and take advantage of changing consumer interests. Category Initiatives also continued integrating AWG Brands into the most optimal shelf placement for value-seeking consumers. As member retailers focused on delivering the value proposition to consumers, offering AWG Brands items accurately placed within their stores for a visible value perception in all store formats. AWG's shelf merchandising program enabled member retailers to sign up for the Category Initiatives and have the work completed in their stores, saving them time and labor costs.

Focused on assortment profitability for member retailers, these category initiatives covered $1.7 billion in topline sales while showing margin improvement across the categories. Redeveloped planning, implementation, and measurement-gathering processes were also implemented in 2022, creating more transparency. Assortment work in 2022 included 18 category reviews and 135 category refreshes. New items were cycled in, and discontinued products were cycled out. Overall, AWG's merchandising partnerships with One Source and Category Initiative set teams enabled almost 5,300 resets to be completed!

"We have a few sets under our belt and are seeing positive results in movement and section profitability. The process has become more flexible for local and regional items. **Our completed sets look better and we are seeing more products, more profitably.** That's savings for all members."

Assortment Optimization as a component of the Convergence project is working. The cross-functional efforts among category management, corporate merchandising, the AWG Divisional teams, and vendor partners succeeded in driving incremental sales and margin for member retailers by developing profitable, innovative shelf sets with a consistent execution strategy.

AWG BRANDS

Helping member retailers reach and serve diverse consumers requires AWG to provide a diversified AWG Brands strategy. Over the past few years, the Convergence work related to AWG Brands has helped re-define how Always Save®, Best Choice®, Clearly by Best Choice™ and Best Choice® Superior Selections® are positioned to attract and engage consumers, despite how these consumers approach product attributes, quality, and value. With over 4,000 items across all store departments and growing, AWG Brands gives member retailers assortment breadth to increase store profitability and build consumer loyalty. Marketing programs ranging from in-store supplemental ads to digital coupons extend this value proposition messaging. Our program is designed to be turnkey and to support member retailers in brand extension. Record sales of more than $1.6 billion in wholesale dollars and over $2.4 billion at retail in 2022 underscore the importance and impact of AWG Brands.

REDESIGNS TO BUILD RELATIONSHIPS

Building consumer trust was a driving force behind redesigning Best Choice® and Clearly by Best Choice™ products in 2022. Given the brand repositioning, the redesign aims to optimize impact in-store and build more recognizable brands known for their quality and value. All Best Choice® center store foods, vitamins, supplements, and over-the-counter medicine products are getting a “facelift.” Center store food items will have a similar brand look across all categories. Over-the-counter medicines and Best Choice® vitamins and supplements will have their own distinctive look. Clearly by Best Choice™’s new design better communicates the “free from” nature of its products. Improved messaging on primary display panels supports the “better-for-you” customer’s desire to understand more about the products they choose for their lifestyle.

INFLATION MITIGATION & VALUE PROPOSITION

One thing that did not change in 2022 was the AWG Brands team’s focus on providing value to member retailers. Despite rising costs, the AWG Brands and category management teams worked diligently with supplier partners to mitigate cost increases wherever possible, resulting in almost $6 million in savings for member retailers. Product assortment work in Convergence Category Initiatives also helped ensure that desirable, sought-after products were shelved in the best possible places in planograms. Subsequently, AWG Brands continued to invest in its product lines through the Always Save® Hold Down and Best Choice® Key Value Items lists, fresh seasonal and web blast promotions, and event promotions across the center store and VMC. Plus, since all AWG Brands items offer value at their core, complete brand lists were included in the Value Proposition Toolbox to help member retailers drive the value message home to consumers.

NEW ITEMS

AWG Brands developed 130 new items in 2022. AWG Brands launched Best Choice® sausages, fish fillets, and hummus in the fresh food category. Best Choice® Superior Selections® introduced new shrimp items. In the center store, Best Choice®’s new introductions included snack items like kettle chips, cookies, crackers, pretzels, frozen cobblers, and over-the-counter medicines. Also, in the center store, Always Save® extended its snacking line with new pretzels and its breakfast offerings with

toaster pastries. The Clearly by Best Choice™ brand added new pickles, dressings, baking items, seasonings, instant oatmeal, and canned tomatoes. We're also proud to report that five AWG Brands items were recognized by Store Brands Editors' Picks or PLMA Salute to Excellence Awards for Best New Items of 2022.

GUARANTEEING 100% SATISFACTION

As always, quality assurance remained a priority for all AWG Brands products. In 2022, 3,093 quality control audits were performed with a 93.6% pass rate. The 100% guarantee promised by all AWG Brands items also remained relevant. The AWG Brands customer service team responded to feedback from 2,955 consumers via the website, email, and phone – down by 1,000 over the previous year.

SIMPLE PROGRAM, BIG IMPACT

Finally, the Best Choice® Family of Brands Save-A-Label™ program is a simple program with a big impact. The community-giving program donates to schools and nonprofits while encouraging consumers to support member retailers. In 2022, an emphasis was placed on email communication with participating organizations. The goal was to inform participants of exciting recipes and specific products to drive more business to their local member retailers, thus increasing sales. The program converted the sale of more than 1.2 million cases of Best Choice® Family of Brands products into funding for nonprofit organizations. More than 1,600 groups participated in 2022, and the program contributed $138,250 to these organizations.

> AWG Brands are important to my business. Everyone wants to try and get a 'piece' of the grocery business. Dollar General and Family Dollars are opening in small towns all across America trying to get that 'piece.' By utilizing AWG Brands, the Always Save® and Best Choice® labels allow me to compete. I highly recommend carrying all the items offered under these labels. The Best Choice® brand is better than most national brands and is a superior product to most.
>
> - Chris West, West's Country Mart - Abilene, KS

The AWG produce team achieved record sales in 2022. Unfortunately, much of the dollar growth is driven by inflation and unprecedented costs for some western vegetable products. Unit sales were down slightly but trended much better than the industry average.

"The year ended the way it started, with inflation taking the headlines," said Jonna Parker, Team Lead, Fresh at IRI. "According to the December IRI primary shopper survey, 93% believe groceries cost somewhat or a lot more than last year, and 97% are somewhat or very concerned about it — particularly lower-income households. Consumers notice higher prices for all areas of the store, but especially called out fresh areas, such as eggs, milk, produce, meat, and poultry. Whether these are perceptions or reality, consumers will adjust shopping behaviors based on their beliefs, making the market even more unpredictable."

The survey found that inflationary pressure on income is real: 43% of consumers say their financial situation is worse than last year. Additionally, 31% expect it to worsen a year from now versus 27% who believe it will be better.

This has prompted 82% of consumers to consider various money-saving measures when buying groceries. Those measures include buying what's on sale (53%), cutting back on non-essentials (45%), looking for coupons (35%), and switching to store-brand items (31%).

The December IRI survey also noted a sharp uptick in the estimated share of meals prepared at home. The percentage of home-prepared meals rose in September and jumped from 78.9% in November to 81.5% in December.

Throughout the year, the produce team provided members additional sales opportunities via Power Buys and weekly web blasts in categories like potatoes, onions, floral, grapes, and berries. Our new inbound QC receiving platform iFoodDS was fully implemented in late 2022 and showed great benefits.

BERRIES DOMINATED THE TOP 10 FRESH FRUIT SELLERS LIST FOR 2022

FRESH FRUIT SALES

Berries dominated the top 10 fresh fruit sellers list for 2022. Sales were nearly double those of the number two seller, apples. Both saw growth in terms of dollars and pounds at a time when inflation has seen sales dollars increase while sales volume has gone down. Volume sales were down for the year for many top 10 sellers, except for berries and grapes.

FRESH PRODUCE ABSOLUTE DOLLAR GAINS

Nationally in 2022, fresh fruit added $2 billion in sales versus 2021, and fresh vegetables added $1.4 billion. The top 10 commodities gaining the most in absolute dollars were a mix of fruit and vegetables, led by potatoes and berries. Inflation accounted for a substantial portion of these gains, but strong demand and, thus, volume gains were notable in berries, onions, grapes, and cucumbers.

Inflation has reached the highest level in decades, impacting retail and restaurant prices. Inflationary factors affect produce and transportation costs and have led to labor issues, supply shortages, port delays, and more—each substantially impacting the cost of goods.

In 2023, the AWG produce team will be focused on driving units and growth in key categories like citrus, potatoes, and mushrooms and on finding other opportunities to create value for our members. Quality and freshness, emphasizing the cost of goods, will continue to guide the procurement team's decision-making.

MEAT & SEAFOOD

RECORD SETTING

$2.6 BILLION IN **MEAT SALES**

MEAT

The AWG meat team saw another year of record-setting wholesale sales that reached $2.6 billion. That effort was backed by a commitment to ensure competitive pricing, strong programs, robust promotional offers, improved supply, and sustainable quality standards for member retailers.

Quality matters to shoppers, and they are willing to spend more in the meat department, as evidenced by the continued growth of higher-tier meat programs like Choice and Certified Angus Beef. Lower prices on crab, lobster, and premium seafood present an opportunity for retailers to keep these items in stock and to promote and merchandise them to drive high-dollar sales.

Value matters to shoppers as well. AWG continues to focus on letting members help customers stretch their budgets. In 2022, AWG offered more than $50 million in meat department promotional sales opportunities. From beef ribeyes to pork shoulder blades to bacon, from sausage to shrimp, to salmon, our vendor partners were challenged to bring their best offers to AWG, and they did. You can count on AWG to continue this effort in 2023. If you are not receiving information about promotional opportunities to incorporate into your ads and displays, please get in touch with your AWG representative.

AWG has a strong AWG Brands program across meat and seafood, including sausage, chicken, bacon, shrimp, fish filets, and more, providing excellent products and competitive pricing in categories that matter. This past year saw the launch of several new meat items, and new products will continue to be developed in 2023.

Retail labor in the meat department continues to be a challenge. The industry is addressing this issue first by expanding the assortment of case-ready offerings. AWG has an extensive case-ready portfolio to support member needs and reduce labor in-store. Second, training and education are being broadened to attract and retain department staff. These efforts allow members to move staff out of the back room and into customer service roles, leading to increased sales, lower shrinkage, and reduced out-of-stock.

The meat department's 2023 initiatives will focus on the evolving shopper and category trends while providing members with case-ready, value-added promotional opportunities, private label programs, and seafood expansion. Using data and expertise, the AWG meat team will continue to develop strategies that drive market share growth and help member retailers win in the meat and seafood department.

DELI/BAKERY/FOOD SERVICE

2022: AWG MEMBERS OUTPACE INDUSTRY IN UNIT GROWTH

High inflation, continued supply chain challenges, and fluctuating restaurant engagement resulted in another year of record food and beverage sales -- $753 billion in 2022. Unit sales, however, while still outpacing 2019 numbers, were down for the second year in a row. All food and beverage departments, except for seafood and alcohol, saw sales growth in 2022, but that growth came at the expense of unit volume.

As inflation rose 7.1% through November 2022, the total food and beverage price per unit increased by 13.5%. Deli saw a per unit price increase of 11.2% in 2022, following a rise of 4.4% in 2021. In the bakery, it was 25.2% this past year versus 6.2% the year prior. Compared to December 2019, prices across all foods and beverages were up 27.5%.

AWG Deli/Bakery/Food Service outpaced the industry posting growth of 1.5% in total units. Industry-wide, the deli declined by 2% in 2022, whereas AWG deli grew by 1.56%. Bakery saw an industry decline of 1.6%, while AWG bakery showed 1.33% growth.

2022: FOCUSING ON SUPPLY, ORGANIC GROWTH & TARGETED VALUE GROWTH STRATEGIES

Ensuring product supply was a primary focus in 2022. Shorts, allocations, SKU consolidation, price increases, and discontinued products affected the marketplace.

For much of the year, manufacturers struggled to communicate their challenges. AWG took a proactive approach to sourcing and maintaining supply with manufacturers' core products.

In a year of allocations and supply challenges, AWG continued to drive new sales and growth with new initiatives. Some of those initiatives included:

1. Value Proposition deals and merchandising strategies to help offset high inflation. This program included the chicken dark meat initiative.
2. Development of Reser's Meal Kits – a joint development with Reser's to help members quickly get into prepared foods with minimal labor and no kitchen equipment.
3. The introduction of grab 'n go pre-sliced deli meat (Cargill).
4. The launch of Best Choice® iced cookies.
5. The development of Best Choice® hummus.

LOOKING AHEAD TO 2023

In the deli, bakery, and food service section, the return to convenience, variety, and exploration will continue to drive growth in the face of inflation. In 2023, the following categories are expected to top the growth chart: chicken, grab 'n go pre-sliced deli meat, prepared foods, deli prepared meats, deli salads, and deli sandwiches. Accordingly, AWG will continue to promote these categories.

AWG remains excited about 2023 and its core strategies and has developed the following objectives for the bakery and deli:

- Improve quality and variety while keeping costs neutral.

- Evaluate menu offerings and consolidate competing SKUs (as part of Convergence).
- Identify gaps and pursue opportunities.
- Lead with managed partners and do a better job of explaining benefits.

Inflation is likely to continue through the first quarter, so there will be a continued focus on consumer purchase behaviors. Consumers are expected to buy fewer units and volume per trip but to make more trips than the prior year.

Additionally, AWG's strategy will focus on three key areas:

1. EXPAND FOODSERVICE & PREPARED FOODS

Foodservice and prepared foods were only one of the four areas to achieve dollar volume and unit gains in 2022. Entrees, soups, chili, pizza, and combination meals drove unit growth. Deli-prepared sales have increased by over $10 billion over the last five years. AWG's goal in 2023 is to continue expanding Prepared Foods and Foodservice by working with existing and new vendors.

The deli/bakery/food service team will accomplish this:

- Through continued growth and penetration of newly developed Reser's Meals Kits with additional line extensions.
- With a reset and relaunch of the PFS/Pro
- Food Systems Portfolio with AWG members.
- By developing and launching an InnovAsian program.
- Partnering with new manufacturers on fully prepared entrees, sides, and meals.

These will help drive sales and offer great tasting, chef-crafted foods while saving the consumer time and labor.

2. EXPAND AWG BRANDS

Inflation pressures are expected to result in the continued growth of private-label brands.

So, AWG will continue to expand its bakery and deli AWG Brands offerings by implementing these strategies:

- Continued penetration and market share growth of Best Choice® iced cookies.
- Launch Best Choice® hummus.
- Develop a Take 'n Bake pizza program.
- Develop and launch additional cookie, brownie, and bar programs.

3. BUILD UPON DELI GROWTH STRATEGIES

- Continue to promote fresh deli chicken and chicken dark meat initiatives.
- Work with manufacturers to create additional options for grab 'n go deli meat and cheese, which saw increased demand at the onset of the pandemic.
- Charcuterie: as deli entertaining continues to see strong growth from 2021 and 2022, specialty cheese options are being developed in-house to reduce costs to members.

The AWG Deli/Bakery/Food Service team is eager to partner with retailers in 2023 to continue driving best-in-class food and guest experiences in the deli, bakery, food service, and prepared foods areas.

LOU FOX AWARD

Kevin Ladd

Food Giant Supermarkets, Inc.

Kevin Ladd, President and CEO of Food Giant Supermarkets, grew up in a small rural area near Zalma, MO. He was surrounded by many family members, grandparents, aunts, uncles, and cousins in that small area. The focal point of their community was the small country store that carried groceries, kerosene, livestock feed, and more. The store was about 100 yards from his childhood home and was owned and operated by his grandparents. When coupling those early years and the nearly 42 years of service with Food Giant and Houchens Industries, it's apparent that most of Kevin's life has been tied to the grocery business in some form or fashion.

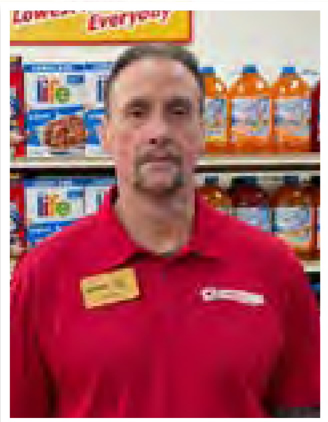
Kevin attended school in the Zalma R5 district and played basketball at every available level through graduation. He has always loved sports and competition and felt they were valuable for teaching teamwork and other life lessons. As a result of his school being only financially able to provide one sport for boys and one sport for girls, he has always had a soft spot for smaller schools and their students regarding the challenges they face academically and with sports programs. After graduating from Southeast Missouri State University in December 1981 with an associate degree in computer science. He started working part-time in Commercial Accounting Systems, the accounting arm of Food Giant, when Ken Storey owned it.

Throughout the years, Kevin felt extremely fortunate to have supported Sikeston public schools in Sikeston, MO, with donations to help fund technology for the district. Cape Girardeau Central High School has also been provided with funds to upgrade its concession facilities. Kevin has supported many other area schools over the years with contributions earmarked for academics and athletic programs and has heavily invested in supporting and sponsoring community summer programs in several surrounding areas. For 23 years, Kevin has organized a golf tournament that annually raised thousands of dollars to help local children in various ways.

Over the years, substantial donations have been provided to organizations like the YMCA of Sikeston, Kenny Rogers Children's Center, local school athletic and booster club programs, Missouri Delta Hospital, Community Counseling Center, Tennessee Grocers scholarships, and much more.

Kevin is also delighted to have been able to help Special Olympics, Girl Scouts of America, St. Jude Children's Research Hospital, and Food Giant employees who have fallen victim to tornado disasters.

Kevin, his wife Theresa, and two successful children, Megan and Ryan, are fortunate to be able to help many worthwhile organizations both personally and through their businesses.



STORE MANAGER OF THE YEAR

AL COLE

CASH SAVER #245, B&R STORES, INC.

From the day B&R took ownership of the Cash Saver in Des Moines, IA, it was apparent that Al Cole had the support of his store team. Al is genuinely kind, appreciates his associates' efforts, and, most importantly, lets them know he appreciates them. Whether you're a newcomer or veteran, Al's staff primarily appreciates him because he holds people accountable and truly coaches them. His listening skills and engagement with the team encourage them to become great associates.

Al is receptive to constructive critique, openly acknowledges it, and enjoys opportunities to grow and learn new things. Most people shy away from change, but Al embraces it and flourishes.

Over the last year, Al was presented with several challenges. Most notably, he led a project for a subleased area of Santa Fe Bakery, a panaderia that produces authentic, made-scratch Hispanic pastries of the highest quality. This effort was instrumental in realizing merchandising opportunities that appealed to Latino customers throughout the store. Al's store now boasts the largest Hispanic customer base in the entire B&R group and has driven his store's sales growth above 16%.

Al's greatest strength is his humility. He is a servant leader and is keenly aware that we're all on a journey together!

2022 EXCELLENCE IN MERCHANDISING AWARD WINNERS

AWG BRANDS
Country Mart #2903
HOLLISTER, MO | RPCS, INC. | SPRINGFIELD

PRODUCE
City Market #4221
BURLESON, TX | CRANDALL CITY MARKET, INC. | OKLAHOMA CITY

BAKERY
Uptown Grocery Co. #4929
OKLAHOMA CITY, OK | PRUETT'S FOOD, INC. | OKLAHOMA CITY

FOOD SERVICE
Henderson's IGA #9213
VALENTINE, NE | COUNTY FAIR, INC. | NEBRASKA

FLORAL
Corner Market #6077
HATTIESBURG, MS | ROBERTS COMPANY, INC. | GULF COAST

SEAFOOD
Strack & Van Til #1967
HIGHLAND, IN | INDIANA GROCERY GROUP, LLC | GREAT LAKES

CENTER STORE
Edwards Food Giant #3443
BRINKLEY, AR | GES, INC. | MID-SOUTH

MEAT
Ralph's Market #6830
GONZALES, LA | TROSCLAIR & TROSCLAIR, INC. | GULF COAST

MERCHANDISING EVENT
B&G Fresh Market #6596
CHALMETTE, LA | B&G FRESH MARKET L.L.C. | GULF COAST

OMNICHANNEL
Reisbeck's #5408
ST. CLAIRSVILLE, OH | RIESBECK FOOD MARKETS INC | NASHVILLE

VMC
Crest Fresh Market #4310
OKLAHOMA CITY, OK | CREST DISCOUNT FOODS, INC.
OKLAHOMA CITY

SCAN ME

FOLLOW THIS LINK TO VIEW ALL 2022 AWARD WINNERS

2022 FINANCIAL PERFORMANCE

PATRONAGE DOLLARS

- 2022: $272.5 MILLION
- 2021: $247.0 MILLION
- 2020: $248.7 MILLION
- 2019: $213.8 MILLION
- 2018: $210.5 MILLION

NET SALES

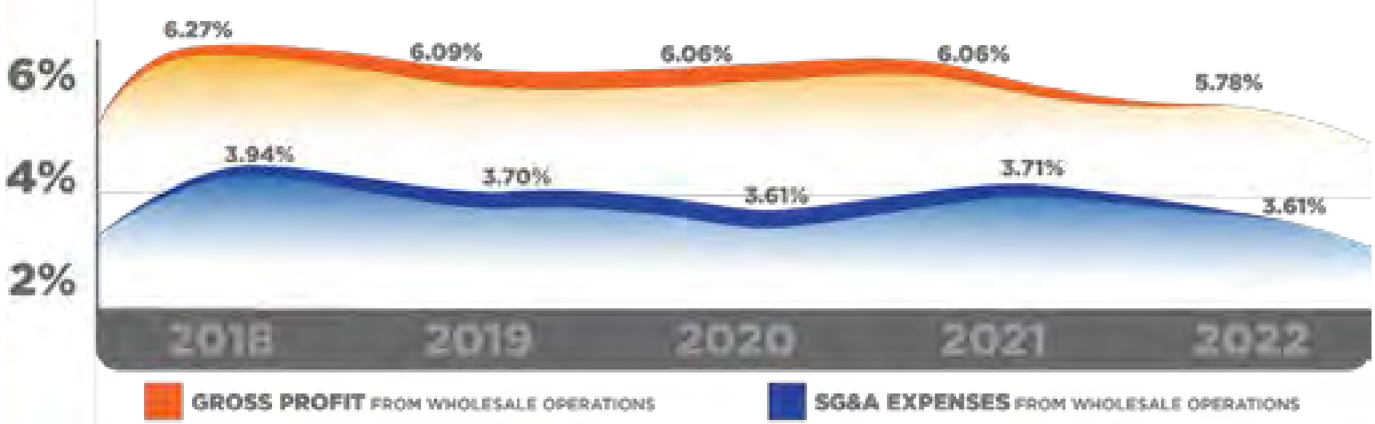
CONSOLIDATED NET SALES

- 2022: $12.3 BILLION
- 2021: $10.8 BILLION
- 2020: $10.6 BILLION
- 2019: $9.4 BILLION
- 2018: $9.4 BILLION

2022 NEW BUSINESS

273 NEW MEMBER STORES

$587 MILLION PURCHASES



ASSOCIATED WHOLESALE GROCERS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2022 and December 25, 2021
(dollars in thousands)

ASSETS	2022	2021
Current Assets:		
Cash and cash equivalents	$ 220,500	$ 185,797
Receivables, net of allowance for doubtful accounts of $4,561 in 2022 and $5,280 in 2021	362,447	361,746
Notes receivable from members, current maturities, net of allowance for doubtful accounts of $0 in 2022 and $0 in 2021	8,856	15,948
Inventories	528,567	541,756
Prepaid and other current assets	66,196	55,811
Total current assets	1,186,566	1,161,058
Notes receivable from members, maturing after one year, net of allowance for doubtful accounts of $2,040 in 2022 and $3,051 in 2021	64,735	81,622
Property and equipment, net (note 6)	759,741	627,981
Operating lease right-of-use assets (note 4)	189,983	—
Deferred income taxes (note 10)	12,611	13,306
Prepaid and other assets	71,009	59,919
Total assets	$ 2,284,645	$ 1,943,886
LIABILITIES AND EQUITY		
Current Liabilities:		
Long-term debt maturing within one year (note 7)	$ 6,667	$ 6,667
Accounts payable	820,567	762,419
Operating lease obligations (note 4)	35,743	—
Financing lease obligations (note 4)	862	—
Cash portion of current year patronage	163,262	147,899
Member deposits	41,239	38,192
Accrued expenses and other current liabilities	148,664	125,764
Total current liabilities	1,217,004	1,080,941
Long-term debt maturing after one year (note 7)	246,517	231,603
Long-term operating lease obligations (note 4)	157,171	—
Long-term financing lease obligations (note 4)	855	—
Deferred income and other liabilities	49,861	59,469
Total liabilities	1,671,408	1,372,013
Commitments and contingent liabilities (note 12)		
Equity:		
Common stock, $100 par value:		
Class A, voting; 35,000 shares authorized; 17,055 and 16,965 shares issued at 2022 and 2021	1,705	1,697
Class B, nonvoting; 150,000 shares authorized; 54,369 and 59,141 shares issued at 2022 and 2021	5,437	5,914
Additional paid-in capital (note 9)	22,748	23,445
Retained earnings	615,592	585,126
Accumulated other comprehensive loss (notes 9 and 11)	(32,245)	(44,309)
Total equity	613,237	571,873
Total liabilities and equity	$ 2,284,645	$ 1,943,886

See accompanying notes to these consolidated financial statements.

ASSOCIATED WHOLESALE GROCERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
Fiscal years ended December 31, 2022, December 25, 2021, and December 26, 2020
(dollars in thousands)

	2022	2021	2020
Net sales	$ 12,288,512	$ 10,812,782	$ 10,634,379
Cost of goods sold	11,575,662	10,153,252	9,976,626
Gross profit	712,850	659,530	657,753
General and administrative expenses	451,835	413,099	358,735
Operating income	261,015	246,431	299,018
Other income (expenses):			
Interest income (note 1)	3,102	4,686	6,083
Interest expense (note 7)	(7,750)	(234)	(3,187)
Other, net	20,445	14,048	1,275
Income before income taxes	276,812	264,931	303,189
Income taxes (note 10)	2,271	5,189	18,795
Net income	274,541	259,742	284,394
Other comprehensive income/(loss)			
Change in funded status of pension plan, net of taxes (note 9)	5,552	12,084	(10,738)
Change in fair value of interest swap, net of taxes (note 9)	6,512	(124)	—
Comprehensive income	$ 286,605	$ 271,702	$ 273,656

See accompanying notes to these consolidated financial statements.

ASSOCIATED WHOLESALE GROCERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
Fiscal years ended December 31, 2022 and December 25, 2021
(dollars in thousands)

	2022	2021
Allocated		
Balances at beginning of year	$ 428,060	$ 409,401
Patronage certificates (note 8):		
Issued	108,842	98,795
Redeemed	(72,514)	(79,808)
Class B certificates:		
Issued	—	—
Redeemed	(3,693)	(328)
Balances at end of year	$ 460,695	$ 428,060
Unallocated		
Balances at beginning of year	$ 157,066	$ 145,995
Net income	274,541	259,742
Patronage certificates	(108,842)	(98,795)
Less cash portion of current year patronage	(163,262)	(147,899)
Redemption and retirement of common stock	(4,606)	(1,977)
Balances at end of year	$ 154,897	$ 157,066
Total retained earnings	$ 615,592	$ 585,126

See accompanying notes to these consolidated financial statements.

ASSOCIATED WHOLESALE GROCERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Fiscal years ended December 31, 2022, December 25, 2021, and December 26, 2020
(dollars in thousands)

	2022	2021	2020
Cash flows from operating activities:			
Net income	$ 274,541	$ 259,742	$ 284,394
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	48,206	42,257	43,270
Impairment of assets and liabilities	2,782	4,938	4,312
Operating lease right-of-use assets amortization	37,525	—	—
Gain on deconsolidation of VIE	—	—	(35,575)
Deferred income taxes	695	7,715	17,073
Gain on disposition of property and equipment	(37,121)	(12,467)	(328)
Changes in assets and liabilities, net of effects of acquisitions:			
Receivables	(701)	(15,832)	(43,927)
Inventories	13,189	39,200	(93,053)
Operating lease obligations	(36,150)	—	—
Prepaid and other assets	(20,597)	(31,142)	(11,016)
Accounts payable, accrued expenses and other liabilities	83,502	31,421	153,295
Net cash provided by operating activities	365,871	325,832	318,445
Cash flows from investing activities:			
Loans to members	(9,308)	(12,761)	(21,205)
Repayment of loans by members	33,287	34,754	37,350
Purchase of property and equipment	(215,478)	(198,154)	(166,244)
Proceeds from sale of property and equipment	73,352	46,241	24,352
Acquisition of assets, net of cash acquired (note 4)	—	—	(3,357)
Net cash used in investing activities	(118,147)	(129,920)	(129,104)
Cash flows from financing activities:			
Year-end patronage distributions	(147,899)	(157,580)	(127,760)
Redemption of prior year's patronage refund certificates	(76,206)	(80,136)	(74,910)
Issuance of common stock	1,503	6,839	3,387
Redemption and retirement of common stock	(7,274)	(9,040)	(4,206)
Cash adjustment for deconsolidation of VIE	—	—	(2,746)
Finance lease	(859)	—	—
Borrowings (repayments) under term loan	(8,333)	100,000	—
Net borrowings (repayments) under term loan	23,000	(40,200)	26,150
Net (repayments) proceeds of member deposits	3,047	(3,865)	11,651
Net cash used in financing activities	(213,021)	(183,982)	(168,434)
Net increase in cash and cash equivalents	34,703	11,930	20,907
Cash and cash equivalents at beginning of year	185,797	173,867	152,960
Cash and cash equivalents at end of year	$ 220,500	$ 185,797	$ 173,867
Supplemental noncash disclosures of financing activities:			
Patronage payables	$ 163,262	$ 147,899	$ 157,580
Supplemental cash flow statement information:			
Cash paid for interest, net of amount capitalized	$ 6,061	$ 134	$ 3,928
Cash paid for income taxes	$ 9,032	$ 10,522	$ 5,637

See accompanying notes to these consolidated financial statements.

(1) Summary of Significant Accounting Policies

General

Associated Wholesale Grocers, Inc. predominately operates on a cooperative basis (see Patronage) procuring grocery merchandise for distribution to its retailer/shareholders ("Members") throughout the mid-western, southwestern, and southeastern United States. Non-Cooperative businesses include nonfood distribution centers, sales to non-member retail customers, and corporate owned retail supermarkets that operate under the Price Chopper banner. The cooperative represents approximately 88% of total net sales. "AWG" and "Company" refer to Associated Wholesale Grocers, Inc. and its subsidiaries.

Principles of Consolidation and Use of Estimates

The consolidated financial statements include the accounts of AWG and its subsidiaries. Intercompany transactions have been eliminated. The financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America. In preparing financial statements, management makes informed judgments and estimates that affect the reported amounts of assets and liabilities as of the date of the statements and affects the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates. The Company's fiscal year consists of 52 or 53 weeks, ending on the last Saturday in December. Fiscal 2022 included 53 weeks of operations. Fiscal 2021 and 2020 included 52 weeks of operations. All references to years in these notes to consolidated financial statements represent fiscal years unless otherwise noted.

Variable Interest Entity

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 810, "Consolidations" ("ASC 810"), the Company consolidates any variable interest entity ("VIE") in which the Company has a controlling financial interest and, therefore, is the VIE's primary beneficiary. ASC 810 states that a controlling financial interest in an entity is present when an enterprise has the power to direct the activities of a VIE that most significantly affect the VIE's economic performance and the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. The Company has determined that HAC, Inc. Employee Stock Ownership Plan and Trust ("ESOP") is a VIE pursuant to certain financing provided by the Company in the sales of its retail grocery operation. For the fiscal year ended December 28, 2019, the Company concluded it was the primary beneficiary of HAC, Inc. ("HAC") and has included HAC, Inc. ("HAC") in the Company's consolidated financial statements for the fiscal year ended December 28, 2019. Effective December 29, 2019, the Company concluded it was no longer deemed to be the primary beneficiary of HAC as it no longer met the power criterion. Prior to December 29, 2019, the Company determined that it met the power criteria with regard to HAC by virtue of the financing relationship between AWG and HAC, which HAC did not have the practical ability to refinance the financing provided by the Company with a third party on commercially viable terms. However, as a result of HAC's improved financial condition during 2020, HAC was able to demonstrate the capacity to obtain third party financing at market terms, demonstrating that HAC was no longer reliant on the Company for future financing. Therefore, the Company deconsolidated HAC as of December 29, 2019, and the consolidated financial statements for the fiscal years ended December 31, 2022, December 25, 2021, and December 26, 2020 no longer reflect the consolidation of HAC. The Company recorded a gain on deconsolidation of $35.6 million which is recorded in general and administrative expenses for the fiscal year ended December 26, 2020. In addition, the Company recorded a deferred tax expense related to the deconsolidation of $16.5 million which is recorded in income taxes for the fiscal year ended December 26, 2020.

Business and Credit Concentrations

The vast majority of the Company's sales are to Members located in Missouri, Oklahoma, Arkansas, Louisiana, Illinois, Kansas, Mississippi, Tennessee, Nebraska, Indiana, Kentucky, and Alabama. No single customer accounted for more than 10% of sales in any year presented. Inventory and equipment financing is available to qualified retailers for acquisitions/expansion, improvements and opening inventory purchases. Loans to Members are generally collateralized by the Member's inventory, property and equipment, and the Member's AWG equity. The Company's lending rate is generally one percent over the prime rate with borrowing terms up to 7 years. For the fiscal years 2022, 2021, and 2020, the Company earned interest income on loans of $5.0 million, $3.8 million, and $5.2 million, respectively. Interest is recorded when earned.

Accounts receivable primarily consist of trade receivables from Members and are stated at the amount the Company expects to collect, net of allowance. Trade receivables are generally secured by patronage certificates (see note 5).

(dollars in thousands unless otherwise indicated)

(1) Summary of Significant Accounting Policies (continued)

The Company establishes an allowance for doubtful accounts based on collectability, which reflects management's best estimate of probable losses determined principally on the basis of historical experience, financial analysis of the retail customer and loan guarantors, and evaluation of the loan collateral.

Changes in accounts receivable allowance for doubtful accounts are as follows:

	2022	2021
Beginning balance	$ 5,280	$ 5,343
Provision for doubtful accounts	(333)	(23)
Write-offs / Recoveries	(386)	(40)
Ending balance	$ 4,561	$ 5,280

Changes in notes receivable allowance for doubtful accounts are as follows:

	2022	2021
Beginning balance	$ 3,051	$ 2,716
Provision for doubtful accounts	(1,011)	335
Write-offs / Recoveries	—	—
Ending balance	$ 2,040	$ 3,051

Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Proceeds due from credit and debit card transactions with settlement terms of less than five days are also included. The Company maintains cash balances at major financial institutions. At times such cash balances may be in excess of the Federal Deposit Insurance Corporation coverage limit. Management believes the financial institutions are financially sound and risk of loss is minimal. The Company does not fund its disbursement accounts for checks it has written until the checks are presented to the bank for payment. The amount of outstanding checks is recorded in accounts payable. The change in outstanding checks is included in the change in accounts payable, accrued expenses, and other liabilities on the consolidated statements of cash flows.

Inventories

Merchandise is valued at the lower of cost or market. Cost for 82% and 80% of inventories in 2022 and 2021, respectively, is determined using the last-in, first-out (LIFO) method. Cost for perishables, general merchandise, health care and retail store inventories is determined using the first-in, first-out (FIFO) method. Had all products been valued at FIFO, inventories would have increased by $253.6 million at December 31, 2022 and $175.6 million at December 25, 2021.

Property and Equipment

Property and equipment are stated at cost. Expenditures for improvements, which significantly increase property lives, are capitalized. Interest costs incurred during the construction of facilities are included in the cost of such properties. Depreciation and amortization are calculated using the straight-line method over the assets estimated useful lives, which range from 15 to 50 years for buildings, 3 to 10 years for equipment, and 3 to 5 years for vehicles. Leasehold improvements are amortized over the shorter of the respective lease terms or life of the asset.

Patronage

Income from cooperative operations, less a nominal amount authorized by the Board of Directors to be retained, is returned to the Members in the form of year-end patronage. At each year end, a percentage of net income to be distributed is paid in cash with the remainder paid in the form of patronage certificates (see notes 5 and 8). Such amounts are apportioned to the Members based on qualifying warehouse purchases. Patronage source income derived from an extraordinary event of significant magnitude may be distributed to Members separately based on the quantity of the business done proportionately with a Member, which may span multiple years or a combination of years, as provided in the bylaws, as needed.

(1) Summary of Significant Accounting Policies (continued)

Sales and Cost of Goods Sold

The Company recognizes revenues when the performance obligation is satisfied, which is the point at which control of the promised goods or services are transferred to its customers, in an amount that reflects the consideration the Company expects to be entitled to receive in exchange for those goods or services. Control transfers to customers at a point-in-time when goods have been delivered, as that is generally when legal title, physical possession and risks and rewards of goods/services transfers to the customer. The timing of satisfaction of the performance obligation is not subject to significant judgment. Amounts billed and due from customers are short term in nature and are classified as receivables since payments are unconditional and only the passage of time is required before payments are due. Customer credits and returns are included as a reduction of revenue traditionally within 10 days of the initial transfer of goods. Promotional allowances related to selling products to customers are recorded as a reduction in sales. Any volume rebates paid in advance of purchases is reported as a prepaid asset. Fees and upfront monies received from vendors are recorded as a reduction of the cost of goods sold in the period in which they are earned, based on contractual commitments to achieve certain milestones in purchases or prorated over the duration of the agreement. Sales tax collected from customers is not included in revenue.

Shipping and Handling Costs

Shipping and handling costs incurred to deliver products to our customers are included as a component of general and administrative expenses in the consolidated statements of operations and comprehensive income. Shipping and handling costs for the fiscal years 2022, 2021, and 2020 were $293.8 million, $236.7 million, and $217.0 million, respectively.

Advertising Expense

Advertising costs are expensed as incurred and are included as a component of general and administrative expenses in the consolidated statements of operations and comprehensive income. Advertising expenses for the fiscal years 2022, 2021, and 2020 were $0.5 million, $0.5 million, and $0.8 million, respectively.

Self-Insurance

In states which have approved the Company as a qualified self-insurer, the Company covers the worker's compensation claims utilizing a combination of self-insurance and excess worker's compensation insurance ($0.8 million retention), subject to the policy limitations, if any. The Company uses actuarial estimates to record the liability for future periods. If the number of claims or the costs associated with the claims were to increase significantly over the estimates, additional charges to earnings could be necessary to cover required payments.

Income Taxes

AWG files a consolidated federal income tax return. Deferred income taxes are accounted for under the asset and liability method. Patronage distributions from cooperative operations are deductible for income tax purposes. Deferred income taxes result primarily from differences in financial reporting basis for net receivables, depreciation, insurance, pension, and employee benefits. The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. During 2022, 2021, and 2020, the Company did not recognize any significant interest or penalties.

Recently Issued Authoritative Accounting Standards

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, "*Leases*" ("ASU 2016-02"), creating a new topic, FASB ASC Topic 842, *"Leases"* ("Topic 842"), which supersedes lease requirements in FASB ASC Topic 840, *"Leases."* The new standard requires a lessee to recognize a liability related to future lease payments and a right-of-use asset representing its right to use of the underlying asset for the lease term on the consolidated balance sheets.

(1) Summary of Significant Accounting Policies (continued)

The Company adopted Topic 842 as of December 26th, 2021 by recognizing and measuring leases at the adoption date with a cumulative effect of initially applying the guidance recognized at the date of initial application and, as a result, did not restate prior periods presented in the consolidated financial statements. The Company elected certain practical expedients permitted under the transitional guidance, including retaining historical lease classifications, evaluating whether any expired contracts are or contain leases, and not applying hindsight in determining the lease term. Additionally, the Company elected to use the risk-free rate to determine the present value of lease payments over the lease term when the rate is not implicit to the lease. Lastly, the Company elected the short-term lease exception for all classes of assets, and therefore does not apply the recognition requirements for leases of 12 months or less.

The Company's adoption of Topic 842 resulted in the recognition of approximately $208.35 million operating right-of-use assets and $211.4 operating lease obligations as of December 26th, 2021, in addition to the recognition of a finance lease obligation of $2.58 million. The finance lease asset of $2.58 million is included as a component of Property and Equipment, net on the consolidated balance sheet. See Note 4 ("Leases") for further discussion.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which, in an effort to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments, replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance receivables and any other financial assets not excluded from the scope that have the contractual right to receive cash. The provisions of the new guidance will be effective as of the beginning of our 2023 fiscal year. We are currently evaluating the impact of the new guidance on our financial statements.

(2) Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities recorded at fair value are categorized using defined hierarchical levels directly related to the amount of subjectivity associated with the inputs to fair value measurements as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable;

Level 3 - Unobservable inputs in which little or no market activity exists, requiring an entity to develop its own assumptions about the assumptions that market participants would use in valuation.

For certain of the Company's financial instruments, including cash and cash equivalents, accounts and short term notes receivables and accounts payable, the fair values approximate book values due to their short term maturities.

Since there is no market for long term notes receivables, it is impractical to assess whether the carrying amounts, which are reported on the consolidated balance sheets for these items, approximate fair value.

Property and equipment and intangible assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Recoverability of assets held and used is assessed based on the undiscounted future cash flows. Assets to be disposed of are presented at the lower of cost or fair value less costs of disposal. During the fiscal years ended December 31, 2022, December 25, 2021, and December 26, 2020, the Company recorded (in millions) $1.2, $4.9, and $4.3, respectively, for impairment charges on real/personal property and ongoing lease obligations, which were measured at fair value using Level 3 inputs. The impairment charges are a component of the general and administrative expenses in the consolidated statements of operations.

The carrying amounts of the Company's long-term debt reported on the consolidated balance sheets approximate fair value since their interest rates are periodically adjusted to reflect market conditions.

(3) Acquisitions, Divestitures and Certain Transactions with Members

In May 2020, Midwest Real Estate Holdings, LLC, a wholly owned subsidiary of the Company, purchased real estate located in Missouri, Arkansas and Tennessee from Town & Country Grocers of Fredericktown, Missouri, Inc. The aggregate cash purchase price for the real estate was $3.4 million. Simultaneously, $2.5 million of that real estate was sold to another AWG member.

In July 2021, the Company announced an expansion into Minnesota. A 320,000 square foot ambient warehouse was leased in St. Cloud, Minnesota to service retailers in North Dakota, South Dakota, Minnesota, Iowa, and Wisconsin which began in January 2022. In September 2021, Midwest Real Estate Holdings, LLC, a wholly owned subsidiary of the Company purchased land located in St. Cloud, Minnesota near the site of the ambient warehouse, for the purpose of constructing a 330,000 square foot fresh and frozen warehouse. The aggregate cash purchase price for the land was $4.2 million. In September 2022, construction on the fresh/frozen warehouse was completed and it opened for business.

In November 2021, AWG Acquisition, LLC, a wholly owned subsidiary of the Company, sold the real estate housing the Valu Merchandisers Company's general merchandise operations to an unrelated buyer. The aggregate cash sales price for the real estate was $19.8 million. AWG Acquisition, LLC subsequently leased the property from the buyer under a short term lease pending completion of the Hernando facility. Termination of the lease is anticipated to occur in conjunction with the transition of operations over to the Hernando facility in 2023.

In December 2021, New Age Logistics, Inc., a wholly owned subsidiary of the Company, sold the real estate housing the Southaven grocery warehouse operations, as well as an adjacent warehouse located at 8500 Aaron Lane in Southaven, Mississippi to an unrelated buyer. The aggregate cash sales price for the real estate was $61.5 million. New Age Logistics, Inc. subsequently leased the property from the buyer under a short term lease pending completion of the Hernando facility. Termination of the lease is anticipated to occur in conjunction with the transition of operations over to the Hernando facility in 2023.

(4) Leases

Lessee Accounting

As discussed above, the Company adopted ASC 842 on December 26th, 2021. The Company determines whether a contract is or contains a lease at inception of the contract. Subsequently, the Company assesses whether the lease is an operating or financing lease. Consistent with other long-lived assets or asset groups that are held and used, the Company tests for impairment of its right-of-use assets when impairment indicators are present.

The Company's lease portfolio contains all operating leases with the exception of one finance lease. The portfolio relates to leases of land and building. Most leases include one or more options to renew, with renewal terms that can extend the lease term from one to five years or more. The exercise of lease renewal options is at the Company's sole discretion. Where the Company is a lessee in a contract that includes an option to extend or terminate the lease, the Company includes the extension period or excludes the period covered by the termination option in its lease term in determining the right-of-use asset and lease liability, if it is reasonably certain that the Company would exercise the option. Certain lease agreements include rental payments which are adjusted periodically for factors such as inflation. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Balance sheet information related to the operating leases as of December 31, 2022 consisted of the following (in millions):

	2022
Assets	
Operating lease right-of-use assets	$ 189,983
Liabilities	
Current operating lease obligations	35,743
Long-term operating lease obligations	157,171
Total operating lease liabilities	$ 192,914

(4) Leases (continued)

Balance sheet information related to the finance leases as of December 31, 2022 consisted of the following (in millions):

		2022
Assets		
Property and equipment, net	$	1,717
Liabilities		
Current financing lease obligations		862
Long-term financing lease obligations		855
Total operating lease liabilities	$	1,717

Lease costs are included in general and administrative expense and interest expense for leases depending on the use of the underlying asset. Total lease expense (inclusive of lease expense for leases not included on our consolidated balance sheet based on our accounting policy election to exclude leases with a term of 12 months or less), was $43.4 million for the year ended December 31, 2022, of which $1.8 million was related to short term leases.

The Company's lease costs and activity during the year ended December 31, 2022 were as follows:

		2022
Lease Costs		
Operating lease costs	$	40,755
Amortization of finance lease assets		867
Interest on finance lease obligations		17
Short term lease costs		1,790
Lease costs	$	43,429
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows- operating leases	$	47,472
Operating cash flows – finance leases		1
Financing cash flows – finance leases		875
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$	28,803

Future remaining minimum operating lease payments through maturity of the right-of-use assets and liabilities expected as of December 31, 2022 is estimated as follows (in millions): 2023 - $38.7; 2024 – $32.0; 2025 - $28.8; 2026 - $25.5; 2027 - $18.5; thereafter - $65.5. The present value discount for remaining lease payments is $16.1 million for a total present value of operating lease liabilities of $192.9 million.

Future remaining minimum finance lease payments through maturity of the right-of-use assets and liabilities expected as of December 31, 2022 is estimated as follows (in millions): 2023 - $0.9 and 2024- $0.9. The present value discount for remaining lease payments is $0.1 million for a total present value of finance liabilities of $1.7 million.

The weighted average remaining lease terms for operating and financing leases in years at December 31, 2022 were 8.97 and 2.10, respectively. The weighted average discount rate for operating and financing leases at December 31, 2022 were 2.08% and 0.98%, respectively.

In connection with the sale-leaseback transactions described in Note 3, the Company entered into lease agreements for each of the properties for a period not to exceed 3 years. The annual rent payments for the properties is approximately $4.0 million and includes 2% annual rent increases over the initial lease terms. All of the properties qualified for sale leaseback and operating lease accounting, and the Company recorded total gains of $48.4 million, which is included as a component of general and administrative expenses. The Company also recorded operating lease right-of-use assets and corresponding lease liabilities of $7.9 million.

(4) Leases (continued)

Lessor Accounting

The Company leases or subleases certain real estate to Members and retailer customers as a stable source of long-term revenue. The Company's agreements for rental real estate contain an operating lease component under ASC 842 because the Company, as the lessor, retains substantial exposure to changes in the underlying asset's value, unlike a sale or secured lending arrangement. Therefore, the Company maintains the underlying asset, and recognizes income associated with providing the lessee the right to control the use of the asset ratably over the lease term. At this time, most lessor agreements contain five-year terms with renewal options to extend and early termination options based on established terms specific to the individual agreement. Rental income for the year ended December 31, 2022 was $35.56 million and is included in general and administrative expenses in the Company's consolidated statement of operations. Future minimum operating lease payments receivable as of December 31, 2022 are estimated as follows (in millions): 2023 - $33.2; 2024 – $30.1; 2025 - $26.6; 2026 - $23.3; 2027 - $17.7, thereafter - $73.8 for total undiscounted cash flows of $204.7 million.

(5) Patronage Refunds and Deposits

Patronage Refund Certificates are issued to Members as part of annual distributions of net income from cooperative operations.

Member deposits represent interest-bearing accounts that may be required to collateralize weekly purchases of products. Interest expense incurred on member deposits and member savings in 2022, 2021, and 2020 were $1.0, $0.2, and $0.5 million, respectively. Since there is no market for Patronage Refund Certificates and Member Deposits, it is impractical to assess whether the carrying amounts, which are reported on the consolidated balance sheets for these items, approximate fair value.

(6) Property and Equipment

Property and equipment are summarized as follows:

	2022	2021
Land	$ 37,563	$ 64,978
Buildings and leasehold improvements	587,515	431,305
Equipment	517,731	363,534
Construction in progress and other	94,578	226,096
	$ 1,237,387	$ 1,085,913
Less accumulated depreciation	(477,646)	(457,932)
Property and equipment, net	$ 759,741	$ 627,981

Depreciation expense incurred in 2022, 2021, and 2020 was (in millions) $48.0, $42.1, and $43.1, respectively. In 2022, 2021, and 2020, the Company capitalized an aggregate total of (in millions) $8.4, $3.9, and $0.7, respectively, of capitalized construction period interest.

(7) Long-term Debt

In December 2019, the Company entered into two five-year credit agreements with a maturity date of December 20, 2024 with two one year optional renewal periods, which provided a $300 million revolving credit facility with an incremental increase to $350 million on October 15, 2020 and subsequently to $425 million on April 1, 2021. The credit agreements also include a $72.1 million tax-exempt bond facility. Total borrowings and outstanding letters of credit, including the $72.1 million tax-exempt bond loan, were $161.8 million and $154.3 million at December 31, 2022 and December 25, 2021, respectively. Variable interest rates are based on the London Interbank Borrowing Rate (LIBOR) and the Secured Overnight Financing Rate (SOFR); and ranged from 0.679% to 5.22% during 2022 and 0.67% to 0.90% during 2021. Daily borrowings averaged $61.0 million and $139.2 million in 2022 and 2021, respectively, and overall annual borrowings and repayments were approximately $5.3 billion and $7.2 billion in 2022 and 2021, respectively. The Company had an additional $320.5 million and $342.8 million available for borrowing under the revolving credit facility agreements at December 31, 2022 and December 25, 2021, respectively.

(7) Long-term Debt (continued)

In November 2021, the Company entered into an agreement for a $100 million term loan with a maturity date of November 18, 2028 with the option to request one five year extension. The loan is amortized over 15 years with principal repayment installments paid quarterly through September 30, 2028. A balloon payment totaling $53.3 million is due at the end of 7 years. Variable rate interest payments are made monthly based on the 1-month Bloomberg Short Term Bank Yield Index (BSBY), ranging from 0.91% to 5.22% for the 2022 interest period and 0.91% for the 2021 interest period.

The Company's revolving credit facility and term loan agreements contain certain financial covenants related to cash flow leverage and minimum tangible net worth. The Company is in compliance with all covenants as of December 31, 2022 and December 25, 2021.

The annual maturities of long term debt for the next five fiscal years and thereafter is as follows (in millions): 2023 - $6.7, 2024 - $168.5, 2025 - $6.7, 2026 - $6.7, 2027 - $6.7, and $58.3 thereafter.

(8) Allocated Earnings

At December 31, 2022 and December 25, 2021, $108.8 million and $98.8 million of the current year non-maturing patronage has been allocated within retained earnings. The pertinent provision of these patronage certificates are as follows: (a) the certificates are not transferrable; (b) AWG has the right to offset, but the certificate holder does not; (c) no interest is accrued on outstanding certificates; (d) the certificates have no stated maturity date, and (e) the certificates are subordinate to the claims of all creditors of AWG.

In July 2005, the Board of Directors created another form of patronage certificate ("Class B Certificates") for Members who are delinquent with their obligations owed to the Company. The Class B Certificates are non-interest bearing and have no maturity date. These certificates are only redeemed upon the dissolution of the Company and the redemption of all other patronage certificates. The Board of Directors may in its sole and absolute discretion cause a Class B Certificate to be converted into a Patronage Refund Certificate if a member was deemed as delinquent ceases to be deemed as a delinquent Member. The Class B Certificates are included in retained earnings and amounted to $0.2 million and $3.8 million as of December 31, 2022 and December 25, 2021, respectively.

(9) Equity

All Members of the cooperative are required to hold 15 shares of Class A Common Stock. The bylaws of AWG contain restrictions concerning the transfer of common stock, which serves as collateral to secure Members' indebtedness. Each Member holding Class A Common Stock is entitled to one vote in shareholder matters. On February 9, 2021, the Board of Directors of the Company declared a 3-for-1 stock dividend effective March 23, 2021 for shareholders of record. Every shareholder of A and B stock received additional shares in the form of B stock. All issuances and redemptions since March 21, 2022 have been made at $1,440 per share. Issuances and redemptions between March 23, 2021 and March 20, 2022 were made at $1,200 per share. Issuances and redemptions between March 25, 2020 and March 22, 2021 were made at $2,400 per share.

The following table describes the number of authorized and outstanding shares of AWG Class A and Class B stock at December 31, 2022 and December 25, 2021:

		OUTSTANDING AT	
CLASS	AUTHORIZED	2022	2021
Class A Stock, $100 par value	35,000	17,055	16,965
Class B Stock, $100 par value	150,000	54,369	59,141

(dollars in thousands unless otherwise indicated)

(9) Equity (continued)

The changes in common stock for the fiscal years ended December 31, 2022 and December 25, 2021 were as follows:

	Class A	Class B	Total Common Stock	Members
Balances at December 26, 2020				
Shares	16,710	9,654	26,364	1,115
Dollar Value	$ 1,671	$ 965	$ 2,636	
Issued				
Shares	1,275	50,374	51,649	85
Dollar Value	$ 128	$ 5,037	$ 5,165	
Redeemed				
Shares	(1,020)	(887)	(1,907)	(68)
Dollar Value	$ (102)	$ (88)	$ (190)	
Balances at December 25, 2021				
Shares	16,965	59,141	76,106	1,132
Dollar Value	$ 1,697	$ 5,914	$ 7,611	
Issued				
Shares	1,095	23	1,118	73
Dollar Value	$ 109	$ 3	$ 112	
Redeemed				
Shares	(1,005)	(4,795)	(5,800)	(67)
Dollar Value	$ (101)	$ (480)	$ (581)	
Balances at December 31, 2022				
Shares	17,055	54,369	71,424	1,138
Dollar Value	$ 1,705	$ 5,437	7,142	

Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive loss attributable to the Company for the fiscal years ended December 31, 2022 and December 25, 2021 were as follows:

	2022	2021
Balances, beginning of year	$ (44,309)	$ (56,269)
Change in funded status of pension plan, net of $2,047 in tax in 2022 and $4,311 in tax in 2021	5,552	12,084
Change in fair value of interest swap, net of $2,362 in tax in 2022 and $0 in tax in 2021	6,512	(124)
Balances, end of year	$ (32,245)	$ (44,309)

Additional Paid in Capital

Changes in additional paid in capital attributable to the Company for the fiscal years ended December 31, 2022 and December 25, 2021 were as follows:

	2022	2021
Balances, beginning of year	$ 23,445	$ 28,645
Stock purchase or redemption surplus value paid in/(out)	(697)	(5,200)
Balances, end of year	$ 22,748	$ 23,445

(dollars in thousands unless otherwise indicated)

(10) Income Taxes

The significant components of income tax expense are summarized as follows:

	2022	2021	2020
Federal:			
Current	$ 4,279	$ 1,436	$ (2,383)
Deferred	(2,427)	2,360	16,657
Total Federal	$ 1,852	$ 3,796	$ 14,274
State:			
Current	$ 1,706	$ 349	$ 377
Deferred	(1,287)	1,044	4,144
Total State	419	1,393	4,521
Total income tax	$ 2,271	$ 5,189	$ 18,795

The effects of temporary differences and other items that give rise to deferred income tax assets and liabilities are presented below:

Deferred income tax assets:	2022	2021
Pension	$ —	$ 3,873
Insurance	5,524	5,220
Compensation	6,473	5,468
Accounts receivable	1,617	2,053
Inventories	1,948	2,292
State credit carryover	4,811	4,621
Lease obligations	49,037	—
Federal and state net operating loss carryover	3,211	—
Other	1,331	2,010
Deferred income tax assets	73,952	25,537
Valuation allowance	(3,780)	(3,835)
Total deferred income tax assets	$ 70,172	$ 21,702
Deferred income tax liabilities:		
Pension	$ 296	$ —
Property and equipment	4,415	6,353
Prepaid expenses	2,189	2,043
Interest rate swap	2,362	—
Operating lease right-of-use assets	48,299	—
Total deferred income tax liabilities	$ 57,561	$ 8,396
Net deferred income tax assets	$ 12,611	$ 13,306

The Company or one of its subsidiaries files income tax returns in the U.S. Federal jurisdiction, and various states and municipalities.

As of December 31, 2022 and December 25, 2021, respectively, a High Performance Incentive Program ("HPIP") valuation allowance of $3.8 million and $3.8 million was required to reduce deferred income tax assets to a level, which more likely than not, will be realized as future benefits.

(dollars in thousands unless otherwise indicated)

(11) Employee Benefit Plans

Substantially all employees of the Company are covered by various contributory and non-contributory pension or profit sharing plans. Union employees participate in multi-employer retirement plans under collective bargaining agreements, unless the collective bargaining agreement provides for participation in plans sponsored by the Company. The Company sponsors a defined benefit pension plan, both qualified and non-qualified ("the DB Plan") and several defined contribution pension plans. The DB Plan covers 693 and 821 participants for the fiscal years ended December 31, 2022 and December 25, 2021, respectively, which is comprised mainly of non-union warehouse, clerical and managerial employees. Beginning November 1, 2012, the Company's DB Plan was closed to new employees and replaced with an enhanced contribution to the existing defined contribution plan. At present, the Company continues to accrue service costs for eligible participants of the DB Plan. The Company does not provide health care, life insurance, or disability plans to former or inactive employees after retirement under post-employment benefit plans.

The benefit obligation (which is the projected benefit obligation "PBO"), fair value of plan assets, and funded status of the Company's DB Plan is as follows:

Change in benefit obligation (PBO)	2022	2021
Benefit obligation at beginning of year	$ 208,081	$ 227,686
Service cost	10,166	10,916
Interest cost	5,412	5,508
Benefits paid	(59,863)	(56,370)
Actuarial (gain)/loss	(13,201)	20,341
Benefit obligation at end of year	$ 150,595	$ 208,081
Change in plan assets		
Fair value of plan assets at beginning of year	$ 195,320	$ 174,856
Actual return (loss) on plan assets	(25,562)	20,421
Employer contributions	43,965	56,413
Benefits paid	(59,863)	(56,370)
Fair value of plan assets at end of year	$ 153,860	$ 195,320
Funded status, end of year	$ 3,265	$ (12,761)

The actuarial gains included in the pension benefit obligation for 2022 are primarily due to higher interest rate assumptions utilized in measuring plan obligations than 2021, also, changes in mortality assumptions were used in measuring plan obligations in 2021.

Benefit calculations for the Company's sponsored DB Plan for primarily non-union eligible participants are generally based on years of service and the participant's highest compensation during five consecutive years during the last ten years of employment. The Company's accumulated benefit obligation for the DB Plan was $130,355 and $180,449 at December 31, 2022 and December 25, 2021, respectively.

Accumulated benefit obligations in excess of plan assets:

	Restated Retirement Plan		Supplemental Executive Retirement Plan	
	2022	2021	2022	2021
Accumulated benefit obligation	$ —	$ —	$ 27,135	$ 30,455
Fair value of plan assets	$ —	$ —	$ —	$ —

(dollars in thousands unless otherwise indicated)

(11) Employee Benefit Plans (continued)

Projected benefit obligations in excess of plan assets:

	Restated Retirement Plan		Supplemental Executive Retirement Plan	
	2022	2021	2022	2021
Projected benefit obligation	$ 118,084	$ 170,391	$ 32,512	$ 37,690
Fair value of plan assets	$ 153,860	$ 195,320	$ —	$ —

The amounts recognized for the DB Plan in the Company's accumulated other comprehensive loss consisted of the following:

	2022	2021
Total recognized in AOCL, before tax	$ (52,347)	$ (59,946)
Total recognized in AOCL, net of tax	$ (38,632)	$ (44,185)

Fiscal Year	DB Plan Benefits
2023	$ 13,636
2024	22,687
2025	20,559
2026	19,043
2027	19,235
Years 2028-2032	79,593

Net periodic benefit expense for the DB Plan is reflected in the general and administrative expense section of the Consolidated Statements of Operations and Comprehensive Income and consisted of the following:

	2022	2021	2020
Service cost – benefits earned during the period	$ 10,166	$ 10,916	$ 10,561
Interest cost on projected benefit obligations	5,412	5,508	6,712
Expected return on plan assets	(11,459)	(11,130)	(10,871)
Amortization of net actuarial loss	9,576	11,493	9,122
Settlement loss	21,843	15,952	7,244
Net periodic benefit expense	$ 35,538	$ 32,739	$ 22,768

Weighted average assumptions used for the DB Plan are as follows:

	2022	2021	2020
Weighted average assumptions used to determine benefit obligations:			
Discount rate	5.40%	2.85%	2.55%
Rate of compensation increase	2.61%	2.59%	2.57%
Weighted average assumptions used to determine net periodic benefit cost:			
Discount rate	2.85%	2.55%	3.45%
Rate of compensation increase	2.50%, 3.00%	2.50%, 3.00%	2.50%, 3.00%
Expected return on plan assets	6.00%	6.00%	6.75%

(dollars in thousands unless otherwise indicated)

(11) Employee Benefit Plans (continued)

The fair value of the Company's DB Plan assets at the end of the 2022 calendar year, by asset category, are as follows:

Asset Category	2022 Total	Level 1	Level 2	Level 3
Equity Securities	$ 95,671	$ 95,671	$ —	$ —
Fixed Income				
U.S. Government Securities	15,048	11,179	3,869	—
Corporate or Agency Securities	40,852	—	40,852	—
Limited Partnerships	2,289	—	—	2,289
Totals	$ 153,860	$ 106,850	$ 44,721	$ 2,289

The fair value of the Company's DB Plan assets at the end of the 2021 calendar year, by asset category, are as follows:

Asset Category	2021 Total	Level 1	Level 2	Level 3
Equity Securities	$ 126,176	$ 126,176	$ —	$ —
Fixed Income				
U.S. Government Securities	15,397	9,373	6,024	—
Corporate or Agency Securities	51,336	—	51,336	—
Limited Partnerships	2,411	—	—	2,411
Totals	$ 195,320	$ 135,549	$ 57,360	$ 2,411

The following is a description of the valuation methodologies used for assets measured at fair value at December 31, 2022 and December 25, 2021:

Equity Securities, Money Market Funds, and Mutual Funds are valued at the closing price reported on the active market on which the individual securities are traded.

U.S. Government Securities traded on a highly liquid secondary market are stated at the last reported sales price on the day of valuation. To the extent these securities are actively traded and valuation adjustments are not applied, they are classified within Level 1.

Corporate or Agency Securities are determined through evaluated bid prices based on recent trading activity and other relevant information, including market interest rate curves and reference credit spreads, and estimated prepayment rates, where applicable, are used for valuation purposes provided by third-party pricing services where quoted market values are not available.

Limited Partnerships that are hedge funds are valued based on estimates for the fair value of investment funds held by the partnership that have calculated net asset value per share as a practical expedient in accordance with the specialized accounting guidance for investment companies. Another limited partnership is valued based on the contributions paid into the fund through year end, which approximates fair value. The majority of Limited Partnerships held as investments are subject to redemption restrictions of a quarterly frequency with 95 day notice periods and a minimum investment period of one year.

The following table presents purchases and other adjustments of financial assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the fiscal year ended December 31, 2022 and December 25, 2021 is as follows:

	2022	2021
Transfers	$ —	$ —
Purchases & Issues	$ 2,658	$ 4,988

(11) Employee Benefit Plans (continued)

The Company's investment policy reflects the nature of the DB Plan's funding obligations. The assets are invested to provide the opportunity for both income and growth of principal. This objective is pursued as a goal designed to provide required benefits for participants without undue risk. It is expected that this objective can be achieved through a well-diversified asset portfolio. Investment managers are directed to maintain equity portfolios at a risk level approximately equivalent to that of the specific benchmark established for the portfolio. The expected rate of return on DB Plan assets was determined based on expectations of future returns for the DB Plan's investments based on the target asset allocation of the DB Plan's investments.

The Company expects to contribute approximately $5.2 million to the DB Plan during 2023. The Company also makes contributions to its defined contribution plans. The total expense for these plans amounted to (in millions) $14.6, $15.5, and $14.8 in 2022, 2021, and 2020, respectively.

The 2005 Non-Qualified Deferred Compensation Plan is available for officers of the Company to elect, by the required deadlines in the preceding year, to have a designated portion of their wages set aside for their own personal tax planning purposes, in a trust held by Bank of America. At the time of election, the date for future distribution of wages to the participant is established, according to allowable parameters within the plan documents. The asset is reported as a noncurrent asset with the offsetting liability as a noncurrent liability on the consolidated balance sheets and were $13.7 million and $14.5 million for December 31, 2022 and December 25, 2021, respectively.

The fair value of the Company's Deferred Compensation plan assets at the end of 2022 and 2021 calendar year, by asset category are as follows:

Asset Category	2022 Total	Level 1	Level 2	Level 3
Money Market Funds	$ 2,454	$ 2,454	$ —	$ —
Common Stocks	2,916	2,916	—	—
Mutual Funds	8,324	8,324	—	—
Totals	$ 13,694	$ 13,694	$ —	$ —

Asset Category	2021 Total	Level 1	Level 2	Level 3
Money Market Funds	$ 2,069	$ 2,069	$ —	$ —
Common Stocks	3,841	3,841	—	—
Mutual Funds	8,566	8,566	—	—
Totals	$ 14,476	$ 14,476	$ —	$ —

(12) Commitments and Contingent Liabilities

The Company is a guarantor of loans issued to members in the amount of $15.0 and $15.0 million for December 31, 2022 and December 25, 2021, respectively.

In December 2015, the Company entered into a limited guaranty with Bank of America on behalf of HAC, Inc. Amended in 2017, this limited guaranty allows HAC, Inc. to issue standby letters of credit in amounts up to $15.0 million without requiring HAC to maintain a cash collateral account with Bank of America. The Company is able to revoke the limited guaranty at any time in respect to future transactions. The Company will, however, be at risk for existing indebtedness at the time of revocation.

In April 2018 and March 2019 the Company entered into limited guaranties with Great Southern Bank on behalf of one of its Members. These guaranties of payment were limited to $5 million and $0.9 million, respectively, of outstanding debt of the Member with Great Southern Bank. Amended in June 2020, these guaranties were combined into one guaranty limited to $1.25 million of outstanding debt of the Member with Great Southern Bank. This guaranty ended in August 2021.

In October 2019, the Company entered into a limited guaranty with UMB Bank, N.A. on behalf of one of its Members. This guaranty of payment was limited to $1.9 million of outstanding debt of the Member with UMB Bank, N.A. This guarantee ended in September 2020.

(dollars in thousands unless otherwise indicated)

(12) Commitments and Contingent Liabilities (continued)

In September 2020, the Company entered into a limited guaranty with Central Bank of the Ozarks on behalf of one of its Members. This guaranty of payment was limited to $1.22 million of outstanding debt of the Member with Central Bank of the Ozarks. This guaranty ended in October 2021.

The Company has entered into surety bond agreements with government entities which bind the Company to repay the government entity if the Company is unable to successfully perform on its contractual obligations to the government entity. As of December 31, 2022 and December 25, 2021, the Company had $10.0 million and $9.7 million, respectively, of outstanding surety bonds.

The Company is involved in various claims and litigation arising in the normal course of business. In the opinion of management, the ultimate resolution of these actions will not have a material adverse effect on the Company's consolidated financial statements.

(13) Multi-employer Plans

The Company contributes to a single multi-employer defined benefit pension plan under the terms of the collective-bargaining agreements that cover its union-represented employees. The risks of participating in a multi-employer plan are different from single-employer plans in the following aspects:

a. Assets contributed to the multi-employer plan by one employer are used to provide benefits to employees of other participating employers.

b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan are borne by the remaining participating employers.

c. If the Company chooses to stop participating in its multi-employer plan, then it is required to pay that plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Company's participation in this plan for the fiscal year ended December 31, 2022 is outlined in the table below. The "EIN and Pension Plan Number" column provides the Employee Identification Number ("EIN") and the three-digit plan number. Unless otherwise noted, the most recent Pension Protection Act ("PPA") zone status available in 2022 and 2021 is for the plan's fiscal year end at December 31, 2022 and December 25, 2021, respectively. The zone status is based on information that the Company received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are more than 65, but less than 80 percent funded and plans in the green zone are at least 80 percent funded. Based on its projection insolvency, the plan has been deemed to be in "critical and declining" status for 2022 and 2021. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or rehabilitation plan ("RP") is either pending or has been implemented. The last column lists the expiration date of the collective-bargaining agreements to which the plan is subject. Finally, there have been no significant changes that affect the comparability of 2022, 2021 and 2020 contributions.

Pension Fund	EIN and Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Implemented	Company Contributions			Surcharge Imposed	Expiration Date Of Collective-Bargaining Agreements
		2022	2021		2022	2021	2020		
Central States, Southeast and Southwest Areas Pension Fund	36-6044243 Plan 001	Red	Red	Yes	$14,653	$14,845	$15,135	No	April 1, 2028

The Company was not listed in the plan's Form 5500 as providing more than 5% of the total contributions for the plan years ending in 2021 and 2020. At the date the Company's consolidated financial statements were issued, the plan's Form 5500 was not available for the plan year ending in 2022.

(14) Derivative Contracts

With the commencement of automated warehouse project, aptly named The All-In-One Project, the Company has become exposed to certain financial and market risks. The Company has currency exchange rate risk exposure associated with transactions related to purchases of services and equipment denominated in the foreign currency, Euro. The Company's financial risk management activities may at times involve the use of derivative financial instruments to hedge the impact of market price risk exposures.

The Company utilizes short term foreign currency forward derivative contracts as part of a program designed to mitigate the currency exchange rate risk exposure on transactions with a foreign vendor. Although contracts pursuant to this program will serve as an economic hedge of the cash flow of our currency exchange risk exposure, they are not formally designated as hedge contracts or qualify for hedge accounting treatment. Accordingly, any change in the fair value of these derivative instruments during a period will be included in the determination of earnings for that period. The fair values of foreign currency derivative instruments are based on quoted market values (a Level 2 fair value measurement). The foreign currency derivative outstanding was immaterial as of December 25, 2021 and was no longer outstanding as of December 31, 2022. In association with the foreign currency derivative program, the Company recognized immaterial net gains as of December 25, 2021 and recognized a $1.9M net loss as of December 31, 2022. These net losses are reflected in Other, net.

The Company also entered into an interest rate swap effective November 2021 to coincide with the entrance into a $100 million term borrowing related to the construction of the automated warehouse. This cash flow hedge has a $75 million notional amount with fixed and variable rate components and a term of twelve years. The cash flow hedge met the requirements of ASC 815-20-25-131D, therefore the effectiveness was assessed by applying the simplified hedge accounting approach. Accordingly, any change in the fair value of this derivative instrument during a period will be included in the determination of AOCI for that period. The fair value of the cash flow derivative instrument is based on quoted market values (a Level 2 fair value measurement). As of December 25, 2021, the Company was in an immaterial payor position. As of December 31, 2022, the Company was in a payee fair value position of approximately $8.7 million. Ongoing assessment of hedge effectiveness will be performed by evaluating the hedge against the stated fair value of guidance.

(15) Antitrust Settlement

In 2018, the Company filed a lawsuit against a group of suppliers of commodity goods and related affiliates for antitrust and unlawful price fixing activities. The Company entered into a confidential settlement agreement with several defendants pursuant to which the Company received proceeds in 2020. The Company then distributed these proceeds as a special cash patronage dividend, separate from the 2020 distribution that was allocated among the impacted members.

(16) Subsequent Events

Subsequent events have been evaluated through March 2, 2023, which is the date the consolidated financial statements were available to be issued. Other than events noted below, there were no other material events requiring recognition or disclosure.

The American Rescue Plan Act of 2021 established the Special Financial Assistance (SFA) Program for Financially Troubled Multiemployer Plans. The Central States Pension Fund (Central States) filed its initial application for SFA funds on April 28, 2022 and, based on rule changes, filed its revised application on August 12, 2022. The Pension Benefit Guaranty Corporation (PBGC) approved Central States' application on December 8, 2022 in the total amount of $35.8B and Central States received the funds on January 12, 2023. This funding enables Central States to pay all required benefits through 2051 and Central States indicates it will regain full funding over time. To ensure that SFA funds do not subsidize and incentivize employer withdrawals, the Act allows only phased-in recognition of the SFA funds for purposes of calculating withdrawal liability. Central States currently estimates that SFA funds will be fully recognized over a 15-20 year period.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Associated Wholesale Grocers, Inc.

Opinion
We have audited the consolidated financial statements of Associated Wholesale Grocers, Inc. (a Kansas corporation) and subsidiaries (the "Company"), which comprise the consolidated balance sheets and consolidated statements of retained earnings as of December 31, 2022 and December 25, 2021, and the related consolidated statements of operations and comprehensive income and cash flows for each of the three years in the period ended December 31, 2022, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and December 25, 2021, and the results of its operations and its cash flows for the three years in the period ended December 31, 2022, in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion
We conducted our audits of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of matter
As discussed in Note 4 to the consolidated financial statements, the Company has adopted new accounting guidance as of December 26, 2021, related to the accounting for Leases. Our opinion is not modified with respect to this matter.

Responsibilities of management for the financial statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

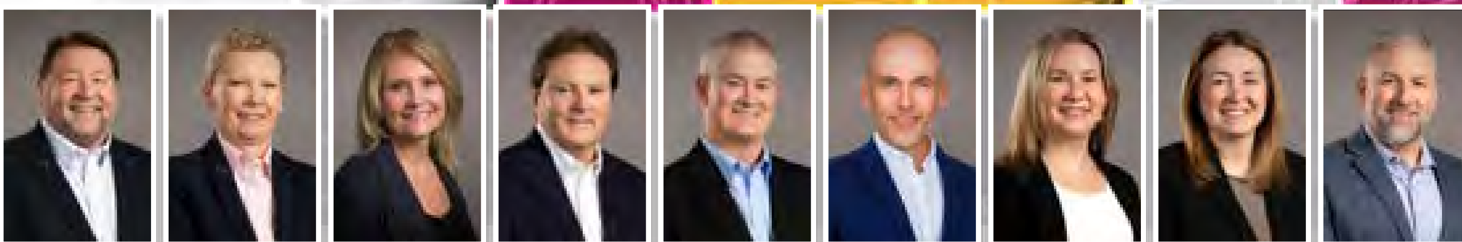
- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Grant Thornton LLP

Kansas City, Missouri
March 2, 2023

2023 AWG OFFICERS



Tye Anthony
Sr. Vice President,
Merchandising

Stephanie Becker
General Counsel &
Chief Legal Officer

Stacy Bowen
Vice President,
Sales, Support & Solutions

Emile Breaux
Sr. Vice President,
Chief Sales & Support
Officer

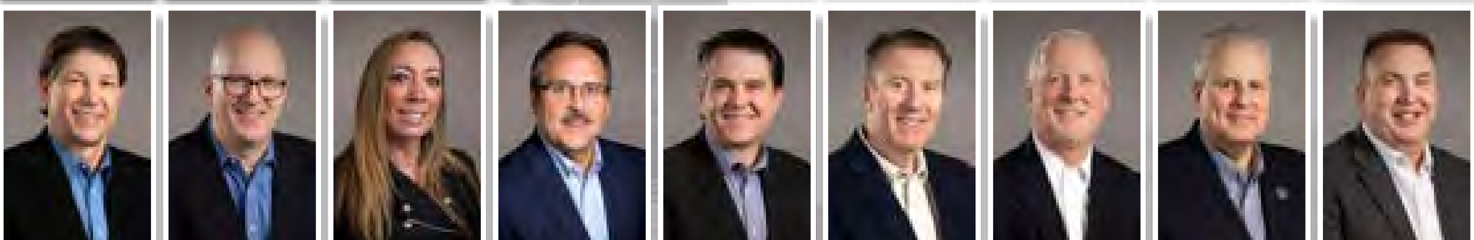
David Carl
Sr. Vice President,
Finance & Treasurer

Noal Chidester
Vice President,
Distribution (AIO)

Heather DeLuca
Vice President,
Meat

Heather DeSoto
Vice President,
Sales, VMC

Scott Evans
Vice President,
Division Manager
Kansas City



Jim Fitterer
Vice President,
Center Store
Category Management

Dan Funk
President Elect

Katie Graham
Vice President,
Merchandising, VMC

Robert Henry
Sr. Vice President,
Chief Administrative
Officer

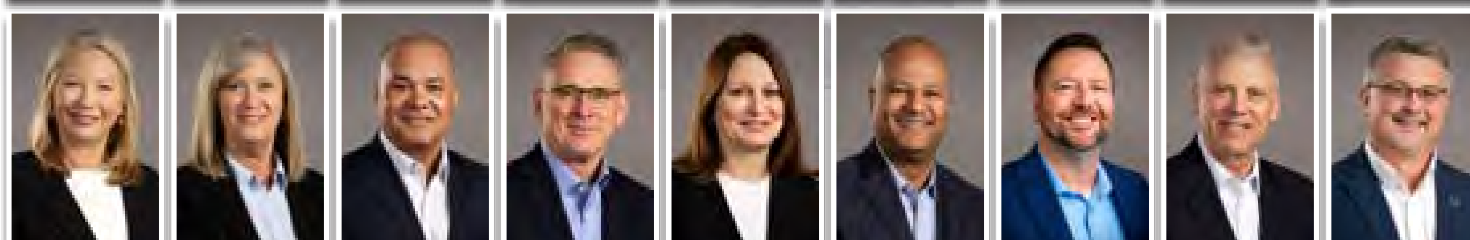
Aaron Holland
Vice President,
Information Technology

Richard Kearns
Executive Vice President,
Distribution & Logistics

Dan Koch
Group Vice President
of Perishables

Gary Koch
Chief Financial Officer

Danny Lane
Sr. Vice President,
Regional Manager



Jennifer Leetz
Vice President,
Corporate Controller

Sheila Lenson
Vice President,
Tax & Internal Audit

Sonny Leon
Vice President,
Member Services
Great Lakes

Charlie Lynn
Vice President,
Division Manager
Springfield

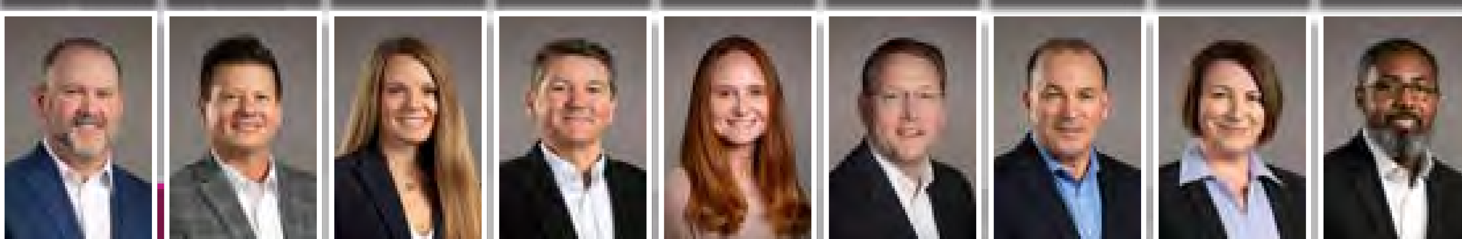
Anna Mancini
Vice President,
Frozen and Dairy &
Category Execution

Troy Marshall
Sr. Vice President,
Regional Manager

Chris McLaughlin
Vice President,
Corporate Distribution

Mark Merrill
Vice President,
Division Manager
Nashville

Bob Miklos
Vice President,
Division Manager
Nebraska



Bruce Milroy
Vice President,
Human Resources
Operations

Tony Mitchell
Vice President,
Produce

Shelly Moore
Sr. Vice President,
Chief Information Officer

Terry Moore
Vice President,
Real Estate

Paula Nepote
Vice President,
Human Resources

Greg Oldright
Vice President,
Division Manager, VMC

Bob Pessel
Vice President,
Pharmacy, VMC

Tarsha Rafferty
Vice President,
Corporate Distribution
& Services

Patrick Reeves
Chief Human Resources
Officer

Brian Rehagen
Vice President,
Member Services
Springfield

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Division Manager
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Mike Schumacher
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Vice President,
Special Projects

David Smith
President &
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Louis Stinebaugh
Vice President,
Division Manager
Oklahoma City

James Vaughan
Sr. Vice President,
Regional Manager

ASSOCIATED WHOLESALE GROCERS

RETAILER FOCUSED

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