AMERICAN AXLE & MANUFACTURING

2000 Annual Report

THE AAM ADVANTAGE

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2000 Annual Report

The Foundation Of AAM

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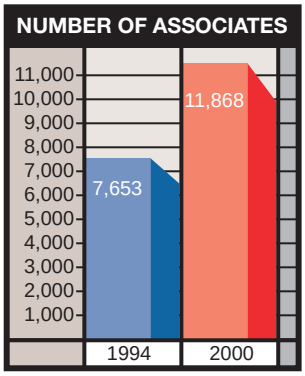
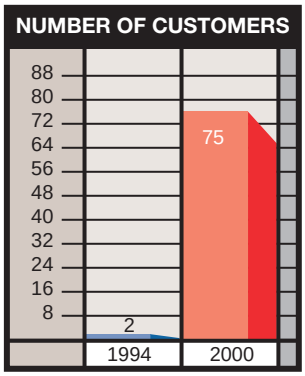
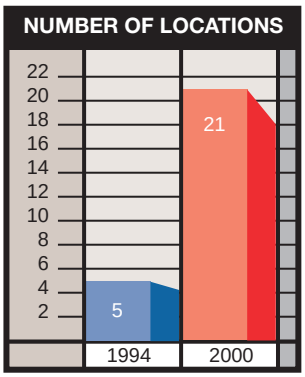
GROWTH AT A GLANCE







Quality Policy

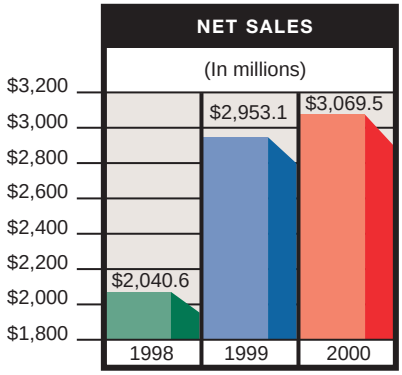
American Axle & Manufacturing's policy is to provide products and services which totally satisfy the requirements as defined by the customer.

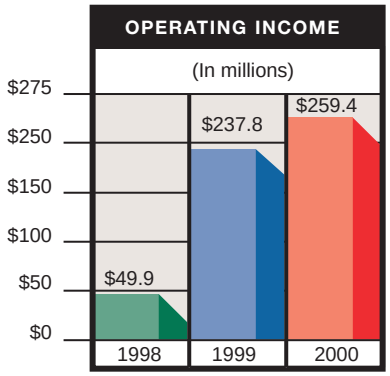
Mission Statement

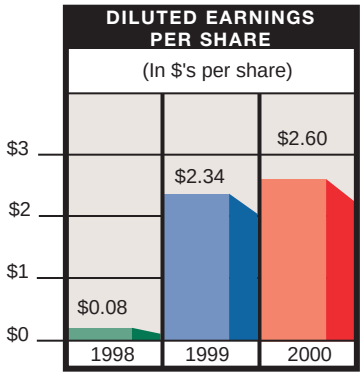
American Axle & Manufacturing and its associates are committed to meeting customer requirements through measurable quality improvements, cost reduction, and on-time delivery of products and services, while achieving profitable growth and increasing shareholder value.

Strategic Initiatives

1. Be globally competitive in measurable quality.
2. Meet customer delivery schedules on time, every time.
3. Be globally competitive on cost.
4. Be the leader in product, process and systems technology.
5. Continually upgrade the skills and knowledge of our associates.
6. Diversify, profitably grow and become global.
7. Achieve adequate financial returns.







The Chairman's Message to Shareholders

The year 2000 was marked by strong operational and financial performance at American Axle & Manufacturing. In our second year as a public company, we continued to exceed financial expectations – demonstrating what makes AAM different, in measurable ways: solid revenue growth, record earnings, and major improvements in profit margins.

Year-end 2000 financial figures show:

- Sales of $3.07 billion, an increase of 4 percent over 1999.
- Earnings per share of $2.60, an increase of 11 percent over 1999.
- Gross profit of $426.2 million, an increase of 10 percent over 1999.
- Net debt to capital ratio of 68 percent versus 71 percent at year-end 1999.
- After-tax returns on invested capital of 16.2 percent.

Increased margins and strong earnings flowed from new, innovative products and were enhanced by continuing productivity improvements achieved by AAM's nearly 12,000 men and women. Our solid return on invested capital is the measurable benefit of the world-class tooling, equipment and technology we have brought into our 17 global manufacturing facilities.

In a year when industry experts were concerned about the financial viability of several automotive suppliers, we differentiated ourselves, and improved our financial position, with debt-rating upgrades to BB by Standard & Poor's and to Ba2 by Moody's. These upgrades, along with increasing margins and earnings, provide an even stronger foundation and an optimistic long-term outlook for the company.

Gearing up to perform

Like our high–performing chassis systems, driveline systems and forged products, AAM smoothly maneuvered through terrain that threatened to derail other automotive suppliers in 2000. Our ability to ***deliver power*** saw us perform well in a year when the market was tough on automotive suppliers — with softening volumes, continued demands from our OEM customers for product-mix changes, a weakened Euro-Dollar relationship, and a more cost-competitive market.

To what do we owe this resilience?

AAM's unique strengths differentiated us from other automotive suppliers, and helped insulate us from many of the effects of market variations. These strengths include excellence in design, engineering, and manufacturing; world-class technology; a leanness that provides flexibility and speed to market; strong performance in quality, delivery and warranty; an international workforce of knowledgeable, well-educated, motivated, empowered men and women; and a sensitivity to the environment and the communities in which we have the privilege to conduct business.

Front row (left to right): Robin J. Adams, EVP-Finance & CFO; B. G. Mathis, Retired Former EVP-Administration & CAO; Joel D. Robinson, President & COO. Back row: Patrick S. Lancaster, Group VP, CAO & Secretary; Yogendra N. Rahangdale, Group VP & Chief Technical Officer.

"Twin Towers" reach new heights

AAM's innovations — and the speed with which we produce new designs and prototypes — earned us new business. Products introduced to the market within the last two and a half years accounted for 47 percent of our $3.1 billion in sales in 2000. This percentage is expected to increase to two-thirds of AAM's sales in the year 2001.

New, high-technology product developments include driveline systems and modules currently being tested on customer vehicles, and electronically controlled and enhanced products such as brand-new differentials, new SmartBar™ electronic roll-control systems, and vehicle stability enhancement systems — all of which can provide customer vehicles with improved handling and a smoother, quieter ride.

AAM values the integration of engineering and manufacturing, what we refer to as our "Twin Towers." We add innovation and creativity at every stage in the process of getting our product to the customer — from concept development, design, testing, and validation, to manufacturing, delivery and logistics. This ***full-service*** approach helps us achieve world-class quality, continuously improve productivity and maximize our profitability. We consider this an important AAM Advantage.

Quality, delivery that's well-warranted

Since AAM was formed, we have improved product quality by 99 percent! We have flawlessly delivered 25 million driveline systems and reduced customer warranty costs by more than 60 percent.

This advantage was recognized in August 2000 by ***Automotive Industries*** magazine, as we were named "Best of the Best" in Transmissions and Drivetrain Systems. The nominations came from our customers, who have experienced our full-service support firsthand.

Selective and profitable growth

AAM's new, state-of-the-art driveline facility, the Guanajuato Gear & Axle (GGA) Plant in Silao, Mexico, launched its first product in February 2000 — ***five months earlier*** than scheduled in order to meet our customer's increased demand.

The GGA operations also prepared to launch the new 11½-inch driveline system for DaimlerChrysler's model-year-2003 Dodge Ram full-size pick-up truck — a major, large-volume program. Demand for that product has increased from the originally sourced levels, allowing us to continue our growth in Mexico while adding business for our new, expanding driveline facility in Three Rivers, Michigan.

In August 2000, we announced the upcoming construction of a new plant in Silao, Mexico, to provide value-added forged products for GGA and other customers. This will be AAM's 10th forge facility, an increase from two when the company began operations in 1994.

Richard E. Dauch, Co-Founder, Chairman & Chief Executive Officer

AAM made other significant strides in organic growth, utilizing our internal resources to improve productivity, throughput, efficiency, and profitability. For instance:

- The advanced technology of our forging subsidiaries, Colfor Manufacturing in Ohio and MSP Industries in Michigan, helped us earn $60 million of new forging and machining business.
- Our AAM do Brasil joint venture contributed to customer diversification by adding 11 new customers.
- Our UK-based Albion Automotive subsidiary launched a new, innovative 11½-inch rear driveline system on the model-year-2001 six-ton Mercedes transporter van for the European market — business earned thanks to the joint efforts of Albion's skilled associates, and our engineering and sales staffs in Ulm, Germany; Glasgow, Scotland; Lancashire, England and Rochester Hills, Michigan.

Where it made good business sense, we consolidated our international resources. For example, in 2000 we assumed full, worldwide responsibility for all direct material purchasing from General Motors. General Motors had performed this function for us since we began operations in March 1994.

We also centralized steel purchasing for our forge operations and implemented a revised sourcing strategy, which includes a team of incumbent and new suppliers at a projected annual savings of millions of dollars. Similar plans are underway to centralize the purchase of other driveline components such as castings, seals, bearings, brakes and stampings.

The people advantage

Since AAM was formed in 1994, the company has experienced more than 120 million uninterrupted man hours in labor-management harmony. This is a critical benefit of AAM's trust-based relationships with our associates and unions.

There are other benefits. Associates' commitment and the cooperation of our unions helped us open our new gear-machining operation in Cheektowaga, New York. They also helped us add, then expand, driveline operations at our facility in Three Rivers, Michigan, where driveshafts were previously the only major product line.

Our first responsibility is associates' safety, and we made improvements in the amount and severity of safety-related incidences in 2000, while also significantly reducing costs.

AAM associates have demonstrated their commitment to the company, and the company demonstrates its commitment to associates by investing in training, education and development programs to help them expand their knowledge and skill sets. The returns come in the form of new ideas, innovations, teamwork and increased profitability. These associate contributions are enhanced by productivity-improvement processes such as our lean manufacturing system, the AAM Manufacturing System.

We expect these contributions to continue to improve our bottom line. This expectation was a key emphasis in 13 new collective bargaining agreements negotiated with our unions in 2000. These agreements, in effect through at least 2004, share a joint labor-management emphasis on cost competitiveness, operational flexibility, and associate involvement in continuous improvement.

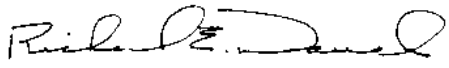
With nearly 12,000 men and women focused squarely on our business issues, we continue to see measurable improvements such as AAM's year 2000 earnings per share increase of 11 percent.

I am grateful to AAM's stockholders, suppliers, and all associates for their support in 2000. In particular, I sincerely thank one of AAM's key leaders and board members, B.G. (Bob) Mathis, for his excellent guidance and direction. Bob retired from AAM in December 2000 and remains on our board of directors. We wish him and his family the very best.

Forward thinking

In year 2000, AAM continued to meet the highest standards of excellence. ***Forward-thinking*** to year 2001 and beyond, we see increased challenges in the automotive supplier industry. We anticipate significant volume and product-mix changes, and the shifting of responsibility down the supply chain. AAM will be proactive, leveraging our unique strengths to seize the opportunities these challenges create.

It's our culture. It's our attitude. It's our commitment. We call it the ***AAM Advantage***.



Richard E. Dauch
Co-Founder, Chairman & CEO

A Message from the President

In year 2000, AAM ***delivered power*** to customers and stockholders through increased operating efficiencies, flexibility, quality and productivity improvements.

We further enhanced our strengths: manufacturing and engineering expertise; advanced product, process and systems technology; continuous improvements in quality, delivery and warranty; and a well-educated, motivated workforce. Then we aligned and mobilized those strengths to increase the company's overall effectiveness.

The result was reduced hours of labor required to create each dollar of sales — one of the main drivers of our record gross margin increases and earnings growth.

Productivity improvements were the focus of many initiatives and activities, including the increased use of our AAM Manufacturing System, a lean manufacturing system that reduces waste. We also utilized information technology to reduce cost and improve the speed with which our associates, customers, and suppliers communicate and transfer data among themselves.

We enhanced our manufacturing capabilities by installing additional world-class tooling, equipment and machinery, and utilizing new factory information systems and other advanced technologies. This modernization and our unique program management system prepared AAM for the start-up of several product programs and capacity increases, including the driveline systems to be produced in Buffalo, New York, and Detroit, Michigan, in early 2001, for GM's all-new, mid-size SUV. It also helped us launch major new value-added operations in 2000: a driveline systems operation in Three Rivers, Michigan; a previously outsourced gear machining operation in Cheektowaga, New York; and our Guanajuato Gear & Axle driveline operations in Mexico.

The capabilities of our subsidiaries helped AAM add business and improve efficiencies, as well. For instance, the advanced product technology of our forging subsidiaries, Colfor Manufacturing and MSP Industries, helped us earn $60 million in new forging business in year 2000. Also, their expertise in such areas as quick die changes and warm forging techniques helped us improve productivity throughout our Forging Division.

In today's marketplace, there is a strong ***need for speed.*** Our ability to perform quickly is the differentiator that allowed us to meet GM's requirement to accelerate the launch of our Guanajuato Gear & Axle facility by five months in year 2000. It also allowed us to beat DaimlerChrysler's deadline to produce new axle prototypes — producing them in 53 days, two days before the 55-day deadline!

The results? Customer satisfaction and new business — bedrocks for ***future*** AAM growth and profitability.

Joel D. Robinson
President & Chief Operating Officer

Manufacturing and Engineering Excellence

American Axle & Manufacturing achieved new levels of manufacturing and engineering excellence in year 2000. Our advanced technology and sophisticated program management tools guided us as we launched several new product programs and facilities on time or ahead of schedule, and as we made final preparations for 2001 launches.

For instance, our Buffalo and Detroit complexes prepared to begin production of new front and rear axles for General Motors' all-new mid-size SUV. The launch will take place in 2001, utilizing state-of-the-art designs, tooling, equipment, and technology. We are proud of this business, which includes the largest new product program for the Buffalo facility in more than 25 years.

In June, we began net-shaped-gear machining operations in our new facility in Cheektowaga, New York — insourcing a value-added function that had previously been performed at a greater cost by outside suppliers.

Guanajuato manufacturing — the benchmark

Associates in our world-class Guanajuato Gear & Axle (GGA) Plant in Silao, Mexico not only met customer expectations in timing, quality, and delivery, they exceeded them. When the customer asked us to move up our launch of the 8.6-inch multi-link rear axle, we responded by producing in February ***— five months ahead of schedule.***

The technology, tooling and assembly lines at GGA are the best the world has to offer. The plant's equipment came from as far away as Germany, Switzerland, and Japan — and as near as Mexico and the United States. The lines incorporate flexible cellular manufacturing, the latest in Factory Information Systems, and other features that lead to high precision, high productivity, world-class quality and strong overall customer satisfaction.

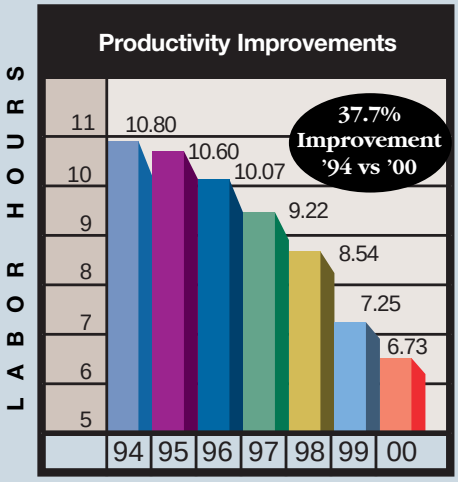
We are also preparing to replicate GGA's excellence at our new Guanajuato Forge Plant, now under construction adjacent

to GGA. By forging our own driveline components with world-class equipment, processes and technologies, AAM will improve productivity at our Mexico operations.

Three Rivers — resourceful use of capacity

Due south from Kalamazoo, Michigan, at the juncture of the St. Joseph, Rocky, and Portage Rivers, is AAM's Three Rivers Plant. Prior to 2000, this high-performing plant had only one primary product line: driveshafts.

To broaden that plant's product lineup and become more competitive overall, AAM invested in a new operation and new machinery to produce 11½-inch rear axles. Management teamed with union leadership, as well as community and government leaders, to craft a new progressive collective bargaining agreement and appropriate governmental incentives. All parties came to the table and AAM achieved the overall financial returns required to justify the investment while adding jobs in western Michigan.



AAM has steadily improved manufacturing productivity over time, as measured in total labor hours for every $1,000 in sales.

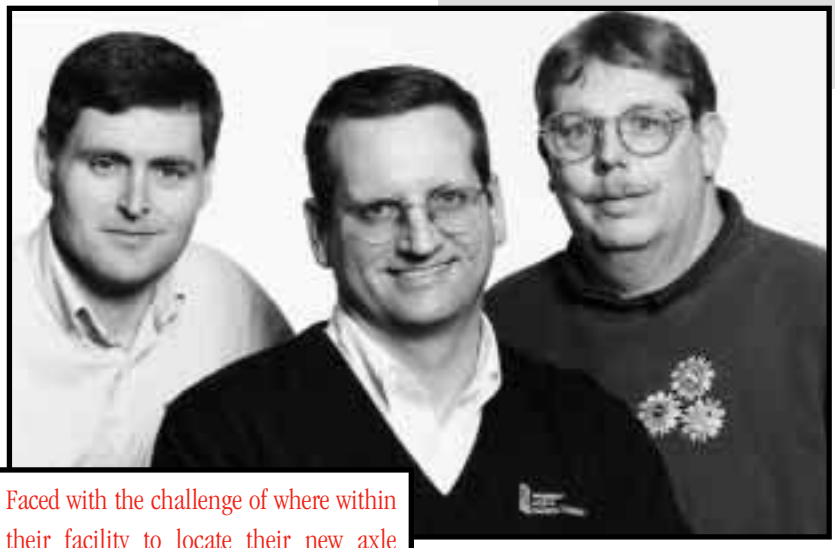
**This chart includes Detroit Gear & Axle, Detroit Forge, Three Rivers, Buffalo and Tonawanda operations.*

Meeting the need for speed

Before manufacturing a product, we design it. We validate it. And we test it. Our responsive concept-to-market capabilities, including rapid prototyping, allow us to continuously improve our productivity. At the same time, we are able to strategically position ourselves during these early stages of a product's development to achieve productivity successes later, on the manufacturing floor.

"We wanted to add another product line, but we also needed to minimize the investment. One of the ways we did it was reorganizing our workflows to create open capacity."

— Steve DeKilder,
President, UAW Local 2093
Three Rivers Plant



Faced with the challenge of where within their facility to locate their new axle operation, associates in Three Rivers, Michigan, introduced efficiencies to reduce floor space required for their driveshaft operations. Not only did they free up space for the new operation, they reduced the in-plant associate travel and motion required for driveshaft operations.

Our manufacturing and engineering performance is world class in terms of speed, productivity and flexibility, and this allows us to introduce new products and win new customers. Then, our productivity performance helps us satisfy those customers.

We track precisely how much time and money it takes to manufacture the products we sell, and we're continuously improving. For instance, AAM has steadily improved productivity, as measured in "hours of labor per $1,000 in sales," since the company began operations in 1994. Our 6.73 hours of labor for every $1,000 in sales in 2000 represents a productivity improvement of over 7 percent since 1999, and an overall improvement of more than 37 percent since the company was formed in 1994.

AAM strives to maintain high productivity and, at the same time, leanness and flexibility that allow us to turn on a dime, refocusing our efforts as needed.

The mission is straightforward: be quick on our feet, and be nimble — ready to change direction if the customer or market demands it.

It's an opportunity and an art. It's an ***AAM Advantage***.

AAM Manufacturing System

At AAM, we tap into the creativity and experience of our associates by involving them in our ongoing lean manufacturing process, the AAM Manufacturing System.

Through this lean manufacturing system, AAM associates in all locations meet regularly in cross-functional team workshops to eliminate waste in their daily activities. Their goals are maximum productivity and reduced costs. Increased inventory turns, improved first-time quality, and reduced costs are the main benefits resulting from the AAM Manufacturing System. Other advantages include increased efficiencies in change-over times, work sequences, processes, and transportation.

The numbers speak

AAM's management and the leaders of our UAW and IAM locals jointly introduced the AAM Manufacturing System in 1999, and it is utilized today at every location. While each facility focuses on its own specific challenges, all AAM workshops utilize the same fundamental techniques to develop solutions.

The AAM Manufacturing System is dynamic and flexible, and it integrates "best practices" from inside and outside the company. The cost savings and capital avoidance opportunities created by the system contributed heavily to our year 2000 after–tax return on invested capital of 16.2 percent and our gross margin improvements of 10 percent.

In just one of the many AAM Manufacturing System's year 2000 successes, Tonawanda Forge associates used the system's tools and methods to reduce set-up times on two of the plant's shear presses. After an intense study, the associates identified several solutions. They eliminated unnecessary movement for associates and provided greater access to tools by relocating equipment controls and redesigning the shear presses.

The results? A 67 percent reduction in set-up time, with an annual savings of $250,000 in set-up costs, and more than $70,000 in reduced inventory costs each year.

Associates at the Buffalo complex teamed up to relocate a linkage operation and to free up space for the new GM mid-size SUV program.

"Intensive hands-on training has prepared us to use the latest lean manufacturing techniques to create productivity improvements throughout the organization."

— Sherri Ford-Jacobs, Productivity Manager, Plant 1, Detroit Gear & Axle, and Lead Manager in the AAM Manufacturing System

"The AAM Manufacturing System's lead managers have mastered the techniques of lean manufacturing and continuous improvement. They are highly qualified to drive the system throughout the organization."

— Kim Forshee, Manager, AAM Manufacturing System

Implementation of the AAM Manufacturing System is led by well-educated, skilled associates at every location. These lead managers are certified through a series of written tests and self-study projects, and they lead many of the AAM Manufacturing System workshops at their locations.

In the process of relocating the linkage assembly and related equipment, the team also reduced the total floor space required for that operation by 17 percent. They reduced part travel distance by 35 percent and material handling costs by 25 percent. And they improved productivity in linkage assembly by 15 percent.

The AAM Manufacturing System has also contributed to other types of improvements in our manufacturing operations. For instance, the Tonawanda Forge Plant recently used the AAM Manufacturing System to reduce the time and dollars required to complete its validation process for steel by about 90 percent.

At AAM, we realize that to solve problems effectively, we must fully involve the true experts — the men and women who manufacture our products. They are the ones who can identify how to eliminate waste and continuously improve our operations. The AAM Manufacturing System is built upon this principle, ***fully utilizing our number one asset — our people.***

Technology Leadership in Product, Process and Systems

When most people think of technology, they think of new, exciting products developed by R&D engineers. At AAM, we are experts in this type of technology. But we also emphasize and utilize technology in two other critical areas: process and systems technology.

We're ready with innovations like our brand-new electronically controlled TracRite™ EL differential, SmartBar™ electronic roll-control systems, and vehicle stability enhancement systems, which make use of the latest electronic technology.

By putting equal emphasis on all three disciplines — product, process and systems — we maximize the value of our technology and its ability to bring measurable advantages to our customers and stockholders.

Product innovations that mean business

AAM engineers conduct innovative product research, design, validation, testing and prototype development at our world-class Technical Center in Rochester Hills, Michigan. Their activities translate into innovative products and new business with new customers.

- Our Integrated Oil Pan (IOP) axle with electronic disconnect helped us obtain the front-axle business for GM's all-new mid-sized SUV.
- Our PowerLite™ aluminum rear-axle system helped us land front- and rear-axle business for GM and Isuzu's future mid-sized pick-up truck.
- Our two-piece friction-welded axle shafts, TracRite™ traction-enhancing differentials, and whisper-quiet hypoid gear technology helped us earn the DaimlerChrysler Series 2500 and 3500 Dodge Ram business.

Just as the products we began working on several years ago were key in landing today's new business, today's technology investments are helping to build our future.

Tomorrow's driveline world will be modular! As OEMs require suppliers to provide more complete assemblies, we are ready with independent front and rear driveline modules for full-size and mid-size SUVs and front-wheel-drive crossover, or hybrid, vehicles. We continue to explore new module concepts, designs and applications that utilize proprietary and patented steering and suspension geometry and advanced, lightweight materials.

Our modules provide improved ride, handling, and stability on customer vehicles that have been driven and tested for performance. They can also provide the OEMs with assembly flexibility.

Process technology brings the product to life

Developing new innovative products is only part of the job at AAM. Another equally critical part of the job is ensuring our products can be manufactured smoothly, efficiently and effectively. That's where process technology comes in.

AAM's Guanajuato Forge facility, now under construction, will incorporate six leading-edge forging processes.

For instance, we will use a new, environmentally friendly process to replace the more costly alternative of phosphating, prior to extruding axle shafts. The result is a simpler, more efficient, less costly, and more environmentally friendly process.

The value of integration between product and process

AAM places a high value on integration between the two disciplines of product engineering and manufacturing — the functions we refer to as our "Twin Towers."

AAM's manufacturing and process engineers are active members of our product design teams. This allows us to start developing required processes and innovations at the design stage, to ensure smooth, efficient manufacturing later on. At the same time, expert product engineers work directly with associates in our factories on a day-to-day basis.

Daily interaction focuses product engineering teams on plant-floor issues and involves the manufacturing and process engineers in product design challenges. This integration allows AAM to continuously improve quality, reduce customer warranty costs, minimize inventory, increase productivity, and lower our costs.

Efficient systems improve productivity

Technological advances help AAM improve productivity and cost performance, not only in engineering and manufacturing, but also in other areas that support our Twin Towers.

Like most companies, we utilize the internet and our intranet to work together and communicate more quickly and for less cost. For us, e-business translates directly into what we call "e-operations."

"Our new IOP assembly line uses the latest in automation and ergonomic advances. It's exciting to see world-class process technology at work with state-of-the-art product and systems technology."

— Terri Kemp, Manager, Program Management-Domestic and former Plant 8 Area Manager, Detroit Gear & Axle Plant

The processes designed into Detroit Gear & Axle's new IOP axle assembly line help AAM achieve the goals of zero customer discrepancies while achieving maximum productivity. The line utilizes the latest in process technology: on-screen job instructions, automatic backlash-set and gaging, state-of-the-art pattern reading, and the capability to gage subassemblies as they are joined.

Effective electronic applications are those that provide measurable, supportable answers to the question: ***"How does this help us build, sell or source our products faster, for less cost?"***

We unveiled our first interactive business portal in August 2000, along with a redesigned, more comprehensive website: **www.aam.com**. This portal is being used now to communicate directly with customers, suppliers, associates, potential associates and our stockholders quickly and effectively — to add value, reduce cost, and improve communication.

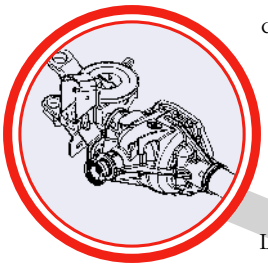
One example is our electronic transfer of math-data-based information to and from our customers as we work on product designs. Another example is the availability of our supplier performance ratings and related information on the internet. This allows for instantaneous interaction between AAM and our suppliers, speeding up communications.

In fall 2000, we were the highest-rated automotive tier-one supplier in *InformationWeek's* list of the 500 companies leading the world in information technology.

While we leverage world-class technology in product, process and systems, the true AAM Advantage lies in our success at balancing our expertise in all three areas to achieve the ultimate goal of customer and stockholder satisfaction.

Concept to Prototype in 53 Days: the AAM-Dodge Ram Story

At AAM, we meet and exceed customer requirements, no matter how tough, no matter how ambitious. When a major automaker set a 55-day deadline for us to produce axle prototypes for its next-generation full-size pick-up truck program, we eagerly and enthusiastically took on the challenge.



To meet the required delivery dates for product designs, CAD models, and prototypes, we tapped immediately into the innovative spirit of our experts in engineering, manufacturing, program management, sales, purchasing and quality, as well as key material and equipment suppliers.

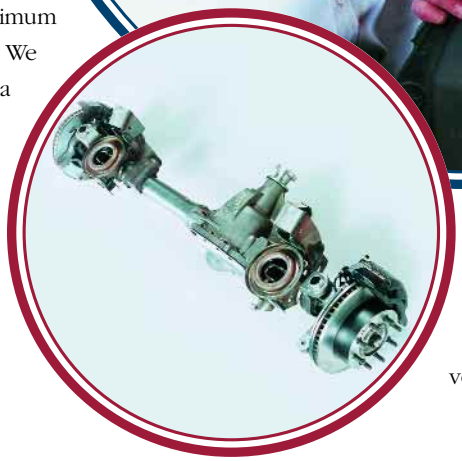
Led by product engineers, this cross-functional core team of more than 20 men and women began meeting daily to define tasks and identify how we would meet the deadline.

The product program included four axles — fronts and rears — that were brand-new to AAM, along with four new castings and more than 20 new forgings.

The critical planning process was led by program management experts utilizing world-class tools, software, and information technology. Working backward from Day 53, AAM conducted a detailed analysis of inventory, developed a comprehensive schedule, and identified and consulted with key suppliers.

AAM's streamlined approach made maximum use of automation and electronic tools. We sent and received solid-model math data over the internet to shorten product-design and prototype-tooling lead times. We linked our scheduling system with detailed bills of material, where each part number was listed and tracked closely. And we utilized advanced engineering, simultaneous engineering, rapid prototyping and strong program management.

Most importantly, our dedicated, skilled associates understood their roles; were committed to up-front, frequent, and direct communication; and followed the "AAM Rule" displayed in a gold frame on the conference table in the office of Co-Founder, Chairman & CEO Richard E. Dauch: ***"The one who says it cannot be done should never interrupt the one who is doing it."***



In the spirit of that leadership, AAM's prototypes not only met the deadline, but arrived ***two days ahead of schedule.*** We were also asked to install the axles in the first available vehicles, and we proudly did so.

The end result? We earned DaimlerChrysler's new 2500 and 3500 Series Dodge Ram business, our first major program for a new customer since we began operations in 1994.

The commitment continues

After we were awarded the new business, the AAM team developed an innovative proposal to eliminate the need for one of the four axles by commonizing the axle designs. This solution reduced part numbers and saved substantial cost for the customer.

AAM is able to meet and exceed our customers' needs under the tightest deadlines and to the toughest specifications. This commitment is a major differentiator and another AAM Advantage.

Innovations for the new millennium

SmartBar™

The SmartBar™ is a new roll-control system that improves ride and handling by providing a cost-effective method to eliminate the compromise between on-road performance and off-road traction in light trucks and sport utility vehicles (SUVs). The design of the SmartBar™ utilizes several patented and patent-pending technologies. It provides a vehicle with stabilizer-bar-based anti-roll when needed, and also is able to disconnect, or "de-latch," the bar when improved traction or improved ride is needed.

Integrated Oil Pan (IOP) Axle

AAM's Integrated Oil Pan (IOP) front axle with electronic disconnect incorporates innovative features that yield significant improvements in vehicle performance, ease of manufacturing, and overall driveline durability.

Designed specifically for four-wheel-drive SUVs with an eye toward improved packaging, the IOP's right front halfshaft passes through the oil pan. This allows for better ground clearance and a lower center of gravity. Additional advantages include reduced mass and improved serviceability as well as improvements in operating temperature, electrical interface and durability.

Gen II & Gen III Universal Joints

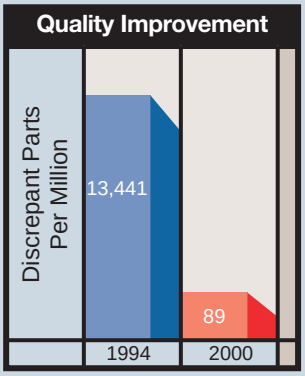
AAM developed the Gen II and Gen III universal joints which incorporate state-of-the-art full bottom thrust washers between the bearing cup and spider. In independent lab tests, our current high-volume Gen II universal joint has performed 46 percent better than the competition.

Both the Gen II and Gen III universal joints are suited for use in rear-wheel and all-wheel-drive pick-up, SUV and van applications that use propeller shafts to transmit torque from the transmission to the drive axles. The Gen III universal joint is specifically designed for use in the extremely harsh environments characteristic to off-road driving.

World-Class Quality, Delivery and Warranty Performance

We at AAM have been committed to quality from Day One. The very first of our ***Seven Strategic Initiatives*** states our commitment to "be globally competitive in measurable quality."

AAM's quality practices are driven by total quality management, ISO/QS 9000 registrations, statistical process controls, and Advanced Product Quality Plans. We also utilize our own program that incorporates Shainin and "Six-Sigma" practices and techniques to measure quality variances and identify their root causes.



We have improved the quality of AAM products 99 percent since March 1, 1994 - as measured by our customers.

The winning score is zero

How do we know if our quality is improving? We keep score. Our year 2000 quality performance improved 33 percent over 1999, as measured by our customers. Since 1994, our performance has improved 99 percent.

AAM targets five quality measurables known as The Five Quality Zeros. In addition to parts per million, we have a goal of zero for returned sales, problem reports and resolutions, controlled shipping and cost recoveries. Is this attainable? Yes. The associates in Detroit Gear & Axle's Plant 8 achieved each of AAM's zeros in five months of 2000, and by doing so, set the current company benchmark. Several other AAM plants achieve The Five Quality Zeros on a regular basis.

The right stuff

AAM's plants have been modernized with new, state-of-the-art machinery and equipment, and we evaluate these investments against a strict set of specifications. Our machine suppliers are challenged to provide us with flexible equipment designed to run at high quality levels with very little variance. Then we require on-site training and support for our associate operators, globally — all with one mission in mind: get our customers their products on time and to their specifications.

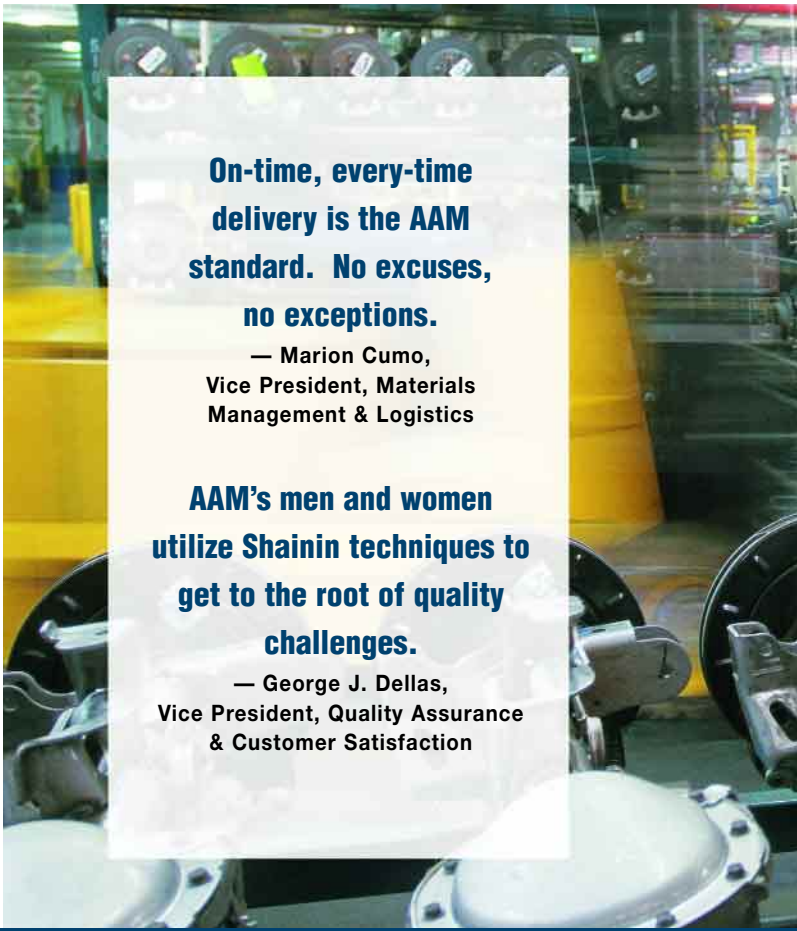
AAM's world-class machinery and equipment are operated by highly trained associates who average 50 or more hours of education, training and skill-set development per year. And our team culture empowers them to add real value by applying their knowledge and skills through the AAM Manufacturing System workshops and other team activities.

To continuously improve quality, associates seek the root cause of quality discrepancies using Shainin techniques. Our mantra: Improve quality, eliminate scrap, reduce costs. We use the Shainin step-by-step approach to define quality challenges, then identify, measure and control the factors that cause them. In one recent instance, our initiatives boosted first-time quality on Detroit Gear & Axle's main axle assembly line to a world-class 99 percent.

On time, every time, 25 million times

We deliver around the globe. On an average production day, AAM fills nearly 300 semi-trailers with finished products for shipments via truck and another 13 boxcars for shipment by rail.

Since March 1, 1994, we have met our customers' requirements in delivering more than 25 million driveline systems with zero product recalls.



On-time, every-time delivery is the AAM standard. No excuses, no exceptions.

— Marion Cumo, Vice President, Materials Management & Logistics

AAM's men and women utilize Shainin techniques to get to the root of quality challenges.

— George J. Dellas, Vice President, Quality Assurance & Customer Satisfaction

Detroit Gear & Axle's Plant 2 has made dramatic improvements in quality and delivery — achieving world-class performance throughout 2000.

"We don't give ourselves a break when it comes to quality or delivery. Just one discrepancy out of a million is too many to meet our standards. And when it comes to delivering the product, we've never missed a delivery — not even one."

— Ron Tucker,
Utility Inspector,
Detroit Gear & Axle Plant 2

AAM continues to increase efficiencies in the flow of product to and from our facilities. For instance, we built a new access road to the Detroit Forge Plant, allowing for more timely delivery of material, reduced raw-material inventory levels and increased delivery speed.

AAM uses advanced materials management to make sure that material moves through the manufacturing process not only at the right time, but also in the optimal quantities. Most of our containers are reusable and cardboard-free, eliminating the need for associates to move and discard packaging material.

Well-warranted success

Quality is a function of process. Warranty is a function of design. Our customers' improved warranty costs are testimony to AAM's well-designed products, processes and systems.

From 1996 through 2000, our customers experienced warranty cost reduction of more than 60 percent on AAM's products — a savings to them of $84 million.

From now through 2003, we project that our customers' warranty costs will be reduced an additional $108 million. Is it mandated? No. Is it contractual? No. It is the natural result of our ongoing quality improvement process.

OEMs are seeking the benefits of AAM's quality advantage as our anticipated warranty cost reductions open the door to new business quotes. In fact, our warranty performance helped us land much of the new business we have earned over the last 18 months.

We are proud of our progress — and so are our customers. In August 2000, ***Automotive Industries*** magazine recognized AAM's quality, delivery, service, price and innovation in driveline systems by awarding us with its prestigious ***"Best of the Best"*** award. And who were the judges? Our customers.

Profitable, Selective Global Growth

American Axle & Manufacturing is achieving selective and profitable growth through a dual-path strategy that focuses on both internal and external expansion.

On the internal side, we continue to earn new business, expand existing business, and insource value-added operations that we can perform more efficiently and effectively than outside suppliers.

On the external side, we have grown through strategic acquisitions and joint ventures that have expanded our product portfolio, customer base, technological capabilities, and geographic reach. Year 2000 saw measurable improvements in overall productivity and cost as we began tapping into the benefits identified when we acquired the UK-based driveline manufacturer Albion Automotive in October 1998 and the US-based forging companies Colfor Manufacturing and MSP Industries in April 1999; and when we formed AAM do Brasil, a majority-owned joint venture with a leading Brazilian OEM supplier, in October 1999.

New business was the impetus for much of AAM's growth and activity in year 2000.

AAM's new world-class driveline facility, the Guanajuato Gear & Axle (GGA) Plant in Silao, Mexico began production of its first products — the 8.6-inch multi-link rear axle and 11½-inch rear axle – and has shipped a combined total of 130,000 axles to General Motor's Silao operations, while continuing preparations to launch our new 11½-inch driveline system for DaimlerChrysler's model-year-2003 Dodge Ram full-size pick-up truck.

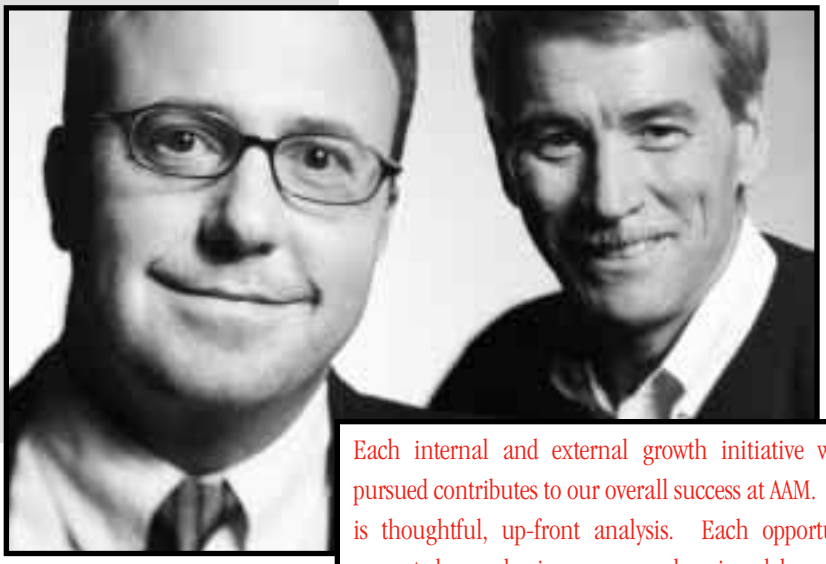
Demand for the 11½-inch driveline system has increased twice in the last 15 months. With the first increase, we doubled the size of our facility in Mexico. The second increase allowed us to not only continue our growth in Mexico but also to add more business in the United States. Our new driveline operation in Three Rivers, Michigan, is now preparing to launch.

Year 2000 saw our UK-based driveline subsidiary, Albion Automotive, launch the 11½-inch rear driveline system for the European model-year-2001 six-ton Mercedes transporter van.

Smart sourcing helped AAM achieve internal growth in 2000. Rather than ride the ebb and flow of the industry, AAM analyzes "make or buy" decisions on a case-by-case basis.

"We built a plant in Mexico because our customer needed us there. The demand for the products we make there has spilled over to our new axle operation in Three Rivers, Michigan — and we think that's great."

— Curt Howell, Executive Director, DaimlerChrysler & Ford Programs, and former Managing Director, Guanajuato Gear & Axle Plant



Each internal and external growth initiative we have pursued contributes to our overall success at AAM. The key is thoughtful, up-front analysis. Each opportunity is presented as a business case and reviewed based on its potential to strengthen AAM's position as the premier global tier-one supplier of driveline systems, chassis systems and forged products.

For instance, a thorough analysis provided justification for us to begin a new net-shaped-gear machining operation in Cheektowaga, New York — an operation previously performed at a greater cost by outside suppliers.

We also insourced the glass-beading of die surfaces in Tonawanda, New York, and several other value-added processes in AAM's 17 manufacturing facilities.

The proof of success is in the numbers. For instance, the cost avoidance achieved with the insourced glass-beading in Tonawanda, in year 2000 alone, was three times the initial, one-time-only investment.

Experiencing the synergies of external growth

Significant progress was made in 2000 to integrate our acquisitions — adding value and building upon AAM's strengths.

For instance, we centralized steel buying for our forge operations and strategically resourced the work to a team of incumbent and new suppliers at an annual savings of several million dollars. Similar plans are underway to centralize and consolidate the purchase of other driveline components such as castings, seals, bearings, brakes and stampings.

Through united sales efforts and the development of effective work flows, AAM earned new wheel-hub business with Timken. MSP Industries will supply forgings to Colfor Manufacturing where they will be machined, broached, induction-hardened and assembled, then shipped to the customer. The arrangement utilizes the strengths of both forging subsidiaries.

The advanced forging-process technologies and expertise of associates at Colfor and MSP are being utilized in AAM's other forging operations to improve quality and increase productivity. For instance, MSP's flashless closed-die forging techniques are being adopted within AAM's other locations to reduce scrap and save costs. And Colfor's industry-recognized quick-die-changing methodology is being taught and replicated throughout the company. This methodology, resulting in die-changing times as low as 10 minutes, will continue to help AAM increase throughput and productivity.

In addition to these activities, AAM announced one brick-and-mortar expansion in the year 2000: a new forge plant in Guanajuato, Mexico. The new facility, now being built next to the Guanajuato Gear & Axle Plant, will allow us to provide value-added forged components for our driveline operations in Mexico.

"Our growth strategy is flexible. It's not defined by geography so much as our goals to meet customer imperatives, expand our product technology and diversify our customer base."

— Pierre LaFoille, Director, Worldwide/Commercial Programs, Sales

As we forward think, we are focused on increasing the balance in our customer base, further expanding our product portfolio, and enhancing our technological capabilities while expanding our geographic presence —setting the stage to continue our solid growth.

People are our Number One Asset

American Axle & Manufacturing has one asset with more potential for appreciation than any other: our nearly 12,000 people. It is through their ingenuity and teamwork that the company becomes stronger.

For the best results, we rely on cross-functional teams to conduct much of our business — whether the business is designing a new product, establishing program timing for a launch, or identifying and implementing improvements in manufacturing productivity. ***And the effects are measurable.***

For instance, our AAM Manufacturing System workshops use this team approach and, in year 2000, the system helped us increase our gross profit to $426.2 million, an increase of 10 percent over 1999.

When preparing designs and prototypes for potential new business, a team approach allows us to meet tight deadlines. The results? New business like DaimlerChrysler's 2500 and 3500 Series Dodge Ram.

To ensure that each member of our team is skilled and knowledgeable in every area, we invest in continuous value-added training, education and skill-set development programs.

The programs are customized to the needs of each department, facility, and individual — with the ultimate goal of improving AAM's competitiveness. And topics cover a wide range, including program management, new equipment usage, supervisor leadership training, and the lean manufacturing techniques associated with the AAM Manufacturing System.

Relationship focus

While AAM invests in our associates, we also foster positive relationships with other stakeholders — including union, government and community leaders.

When we were exploring opportunities to reduce the cost of net-shaped-gear machining in Western New York, our positive labor/management relationships paved the way for a new progressive agreement with the United Auto Workers (UAW) and its Local 846. This agreement, along with support from local, county and state government officials, provided governmental incentives that made it viable for us to create our own machining operation in Cheektowaga, New York.

Similarly in Three Rivers, Michigan, a new collective bargaining agreement with the UAW and its Local 2093, and support from government and community leaders, allowed us to expand operations to produce axles within the existing plant.

The mutual support fostered by these relationships leads to smart business growth that benefits all parties.

For instance, the result of the Cheektowaga sourcing is increased productivity and reduced cost, and the result of the Three Rivers expansion is additional jobs and new business for a plant with high performance potential.

Continued workforce harmony

Thirteen new collective bargaining agreements, in effect through at least 2004, have set the stage for continued workforce harmony and focused business growth. Our agreements endorse the use of the AAM Manufacturing System and contain specific language that focuses the workforce on cost-competitiveness and operational flexibility.

We have also structured new five-year collective bargaining agreements at our forging subsidiaries, providing a competitive cost structure with flexibility to manage and grow the business. A new, modern operating agreement has also been established at our Albion Automotive driveline subsidiary in the United Kingdom. Previously, there had been separate agreements at each of the subsidiary's three facilities. The new, uniform agreement provides for cost competitiveness, flexibility and growth opportunities.

Investments in our community

Giving back to the communities in which we do business is a strong part of AAM's culture.

We are committed to helping tomorrow's leaders — today's youth — learn about manufacturing career opportunities and obtain the education they need to reach their career goals.

For instance, a recent AAM event with a group of students from Detroit's Breithaupt Career & Technical Center allowed them to experience the value of technology in a manufacturing environment. The students each built a robot on site at AAM. The event culminated in a "Robot-A-Thon" shoot-out. Although only one student took home the prize, all participants — students and AAM staff — were winners.

In addition to developing and sponsoring events like this, we provide ongoing assistance to the United Way, Boys & Girls Clubs, Boy Scouts, Girl Scouts, and other charitable organizations — support that helps us educate our future leaders.

"We are participating in training on new set-up techniques in our department, using our equipment. As our department uses what we've learned, we are improving first-time quality and completing set-ups in half the time."

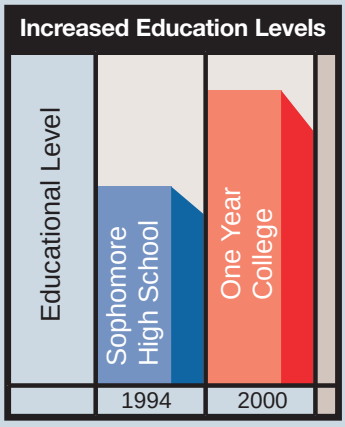
— Dan Secor, second-shift Area Manager, Stabilizer Department, Detroit Forge Plant

A skill-set-enhancement series in the Detroit Forge Plant stabilizer department helps associates learn how to reduce set-up time for equipment testing by up to two hours. The cost savings resulting from this program, and the hundreds of other programs like it, multiply quickly as new knowledge spreads throughout AAM.

People: the heart of the AAM Advantage

At AAM, we value our relationships with associates, neighbors, and communities, and we consider all investments in these relationships as direct investments in our future.

The strength of our people is the most essential AAM Advantage. The AAM men and women breathe life into our business decisions and activities — ultimately delivering returns that are measurable, profitable, and extremely powerful.



Since March 1, 1994, the average educational level of AAM associates has increased.

Respecting the Environment

American Axle & Manufacturing considers the environmental impact of our operations and takes appropriate actions to integrate sound, beneficial environmental practices into all of our business decisions.

ISO 14001 certification

AAM has a comprehensive environmental management strategy, and we apply that strategy to our business decision-making. The strategy, and the system and infrastructure we have in place to support it, has positioned AAM to earn ISO 14001 certification well before the deadlines established by our customers. ISO 14001 is an environmental management system, similar to the QS9000 quality management system, designed to optimize the impact of manufacturing operations on the environment. To become ISO 14001 certified, a site must show that it has an effective environmental management system. Our Three Rivers facility in Michigan received its certification in 2000. Our other U.S.-based facilities will be ISO 14001 certified by the end of 2001. Our Brazil, Mexico and UK facilities will be certified by the end of 2002.

Water and fluid treatment

Since AAM began operations in 1994, we have converted from solvent-based to water-based paint to substantially reduce the amount of volatile organic compounds (VOCs) emitted from our axle-painting process. This is one example of how we integrate sound environmental practices into our manufacturing operations.

Water plays a critical role in our manufacturing processes, and recycling that water is important to us. Our water treatment facilities strip out the coolants, metal shavings, tramp oils, soaps and lubricants and forward the cleaned water to locally managed water treatment plants. At our Guanajuato Gear & Axle Plant in Mexico, we use the cleaned and treated water for irrigation of our entire site. This helps conserve natural resources in a region where water is in short supply.

Dry-cut technology

As we modernize our operations, we have begun using the latest dry-cut technology to manufacture our gears. Dry cutting greatly reduces the mist created through traditional wet-cut operations. Currently, AAM is using the dry-cut method in Detroit and Mexico, and we are expanding that usage to other plants.

We fully realize that what we do today will impact the world in which our grandchildren and great grandchildren will live. This is why we are always sensitive to the environmental effects of our decisions on our environment, our community and our neighbors.

MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

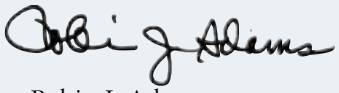
We are responsible for the preparation of the accompanying consolidated financial statements of American Axle & Manufacturing Holdings, Inc. ("AAM"), as well as their integrity and objectivity. The accompanying financial statements were prepared in conformity with generally accepted accounting principles and include amounts based on our best estimates and judgments.

We are also responsible for maintaining a comprehensive system of internal control. Our system of internal control is designed to provide reasonable assurance that we can rely upon our accounting systems and the underlying books and records to prepare financial information presented in accordance with generally accepted accounting principles and that our associates follow established policies and procedures. We continually review our system of internal control for effectiveness. We consider the recommendations of our internal auditors and independent auditors concerning internal control and take the necessary actions that are cost-effective in the circumstances.

The Audit Committee of our Board of Directors is composed entirely of directors who are not AAM associates and is responsible for assuring that we fulfilled our responsibilities in the preparation of the accompanying financial statements. The Audit Committee meets regularly with our internal auditors, the independent auditors, and AAM management to review their activities and ensure that each is properly discharging its responsibilities and to assess the effectiveness of internal control. The Audit Committee reviews the scope of audits and the accounting principles applied in our financial reporting. The Audit Committee selects the independent auditors annually in advance of the Annual Meeting of Shareholders and submits its selection for ratification at the meeting. Deloitte & Touche LLP has been engaged as independent auditors to audit the accompanying financial statements and to issue their report thereon, which appears on this page.

To ensure complete independence, our internal auditors and Deloitte & Touche LLP, have full and free access to meet with the Audit Committee, without AAM management present, to discuss the results of their audits, the adequacy of internal control, and the quality of our financial reporting.

Richard E. Dauch
Co-Founder, Chairman
& Chief Executive Officer



Robin J. Adams
Executive Vice President – Finance
& Chief Financial Officer

January 30, 2001

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of American Axle & Manufacturing Holdings, Inc.:

We have audited the accompanying consolidated balance sheets of American Axle & Manufacturing Holdings, Inc. and its subsidiaries (the "Company") as of December 31, 2000 and 1999, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

Detroit, Michigan
January 30, 2001

Management's Discussion and Analysis

OVERVIEW

We are a Tier I supplier to the automotive industry and a worldwide leader in the manufacture, engineering, validation and design of driveline systems for trucks, sport utility vehicles ("SUVs") and passenger cars. A driveline system includes all of the components that transfer power from the transmission and deliver it to the drive wheels. Driveline and related products produced by us include axles, driveshafts, chassis components, driving heads, crankshafts, transmission parts and forged products.

We are the principal supplier of driveline components to General Motors Corporation ("GM") for its light trucks, SUVs and rear-wheel drive ("RWD") passenger cars. As a result of our Lifetime Program Contracts with GM ("LPCs"), we are the sole-source supplier to GM for certain axles and other driveline products for the life of each GM vehicle program covered by an LPC. Sales to GM were approximately 84.5%, 85.9% and 93.4% of our total sales in 2000, 1999 and 1998, respectively.

We sell most of our products under long-term contracts at fixed prices. Some of our contracts require us to reduce our prices in subsequent years and all of our contracts allow us to negotiate price increases for engineering changes. Substantially all of our sales to GM are made pursuant to the LPCs. The LPCs have terms equal to the lives of the relevant vehicle programs, which typically run 6 to 12 years, and require us to remain competitive with respect to technology, delivery and quality. We will compete for future GM business upon the termination of the LPCs.

We also supply driveline components to DaimlerChrysler, Ford Motor Company, Nissan, Renault, Visteon Automotive, Delphi Automotive, PACCAR and other original equipment manufacturers ("OEMs") and Tier I supplier companies. Our sales to customers other than GM increased 14% to $475.4 million in 2000 as compared to $416.6 million in 1999. In addition, our sales to customers other than GM have more than tripled in comparison to 1998, when such sales were only $134.1 million, partly as a result of our acquisitions and also due to demand for our newer technology-based products. We expect our sales to customers other than GM to lead our growth over the next several years as we launch additional new driveline system product programs with DaimlerChrysler and other OEM customers.

INDUSTRY AND COMPETITION

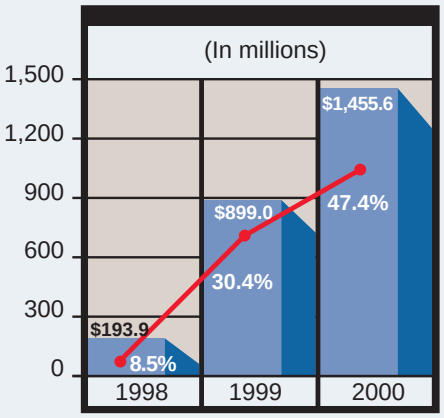
The worldwide automotive industry is highly competitive. Customers are constantly pressuring suppliers to optimize and improve product cost, technology, quality, and delivery. The driveline systems segment of the industry in which we compete reflects these pressures. A prevailing trend in the industry is that OEMs are shifting research and development ("R&D"), design and validation responsibility to their suppliers. The OEMs have also been reducing the number of their suppliers, preferring stronger relationships with fewer suppliers capable of providing complete systems and modules to their increasingly global operations. As a result, the number of Tier I suppliers is being reduced. We expect these trends to continue, eventually resulting in a smaller number of dominant, worldwide suppliers.

We believe AAM is well positioned to compete in the worldwide automotive industry as these trends further impact our business. We will continue to leverage our excellence in manufacturing, product engineering and design to further diversify, strengthen and globalize our OEM customer base. We will also continue to invest in the development of new product, process and systems technologies to improve productive efficiency and flexibility in our operations and continue to deliver innovative new products, modules and integrated driveline systems to our customers. Our new Smart-Bar™ stabilizer bar-based

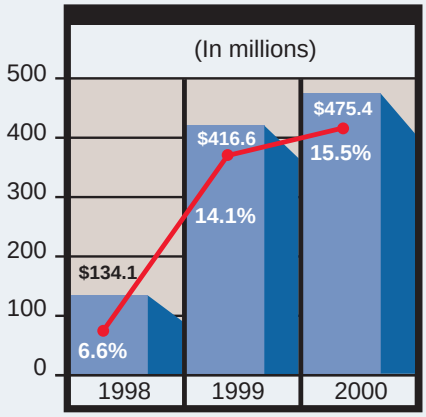
active roll-control system and the Integrated Oil Pan (IOP) Front Axle with Electronic Disconnect are two current examples of high value-added technology products that have resulted from our commitment to R&D and seek to improve the performance and packaging of our customers' products.

In the year 2000, we generated nearly $1.5 billion, or approximately 47% of our total sales, from new axle and related driveline system components introduced by us in the North American light vehicle market in the last two and half years. Our strong performance in major new product introductions will continue in 2001 as we launch high-volume four-wheel drive axle programs to support GM's new mid-sized SUVs (such as the Chevrolet Trailblazer and GMC Envoy) and again in 2002 when we launch the new driveline system for the Dodge Ram 2500 and 3500 series full-size pick-up trucks and GM's new mid-sized pick-up trucks (such as the Chevrolet S-10). We believe that this performance is strong evidence of our ability to bring the right products, systems and technologies to market at a competitive cost for our customers. Just as importantly, we improved gross profit and operating income margins by nearly 10% in the year 2000 as compared to 1999 at the same time we launched such a large number of new products. We believe this is an indication of our ability to make sound investment and operating decisions that should help us toward our goal of steadily improving our financial performance over the long term.

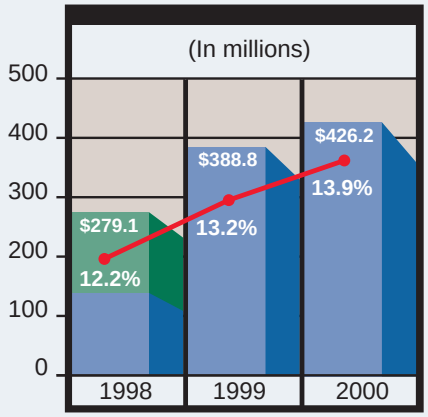
Sales from Major New Product Programs



Sales to Customers Other than GM



Gross Profit



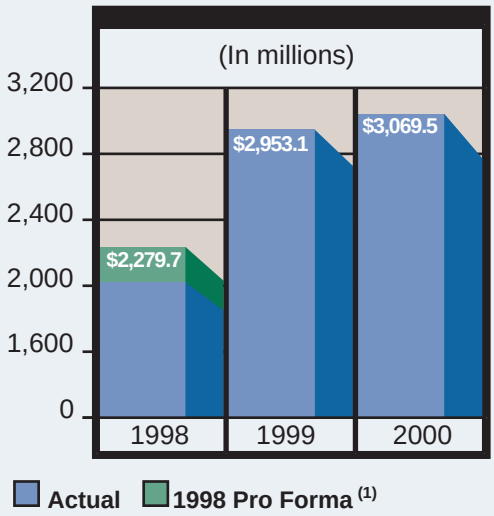
Actual
1998 Pro Forma (1)
% of Sales

These charts illustrate the results of three of our key operating initiatives. Sales to new customers have nearly tripled in 2000 as compared to 1998. Sales generated from major new axle and related driveline system programs introduced in the North American light vehicle market after July 1, 1998 now represent approximately 47% of our total sales. As a result of contributions from these new customer relationships and our new technology-based products, together with a continued focus on productivity improvements in manufacturing facilities, gross profit has increased to $426.2 million in year 2000, or 13.9% of sales, as compared to $279.1 million in 1998, or 12.2% of sales.

(1) adjusted to add back the sales and gross profit estimated to have been lost as a result of the 1998 GM work stoppage and the temporary payment reductions; see "Management's Discussion and Analysis — Results of Operations" for further detail.

RESULTS OF OPERATIONS

Net Sales



(1) adjusted to add back the sales estimated to have been lost as a result of the 1998 GM work stoppage and the temporary payment reductions discussed below

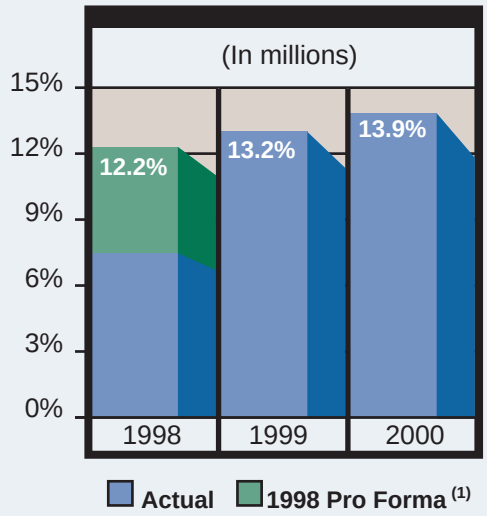
Net sales increased approximately 4% in 2000 to $3.069 billion as compared to $2.953 billion in 1999. This is in comparison to an increase in North American light vehicle production of just under 1%. Our sales increase was primarily due to strong demand for our products and increased sales related to GM's new full-size truck and SUV programs (GMT-800 series), on which we receive a higher average dollar content per vehicle than their predecessors (GMT-400 series). For the year 2000, our average content per vehicle (as measured for our products supporting GM's North American light truck platforms) increased approximately 5% to $979 per unit as compared to $930 in 1999 and $870 in 1998.

Year 2000 sales increased because we had a full year of shipments from Colfor Manufacturing, Inc. ("Colfor") and MSP Industries Corporation ("MSP"), both of which we acquired on April 1, 1999, and our joint venture in Brazil, which we acquired in the fourth quarter of 1999. Excluding the impact of businesses acquired in 1999, year 2000 sales increased approximately 2.4% as compared to 1999. Year 2000 sales also benefited from the launch of our new 11.5" rear axle produced in our new Silao, Mexico manufacturing facility ("Guanajuato Gear & Axle").

In addition to the impact of adding Colfor, MSP and our October 1998 acquisition, Albion Automotive (Holdings) Limited ("Albion"), a significant factor underlying the increase in 1999 sales as compared to 1998 was the impact of the GM work stoppage that occurred in June and July of 1998 and resulted in the shutdown of nearly all of GM's North American production facilities. This work stoppage impacted our operations in June and July 1998 and also resulted in related start-up inefficiencies in our operations in August 1998. We estimate that sales lost in 1998 as a result of the GM work stoppage were approximately $188 million and that operating income was adversely impacted by approximately $71.2 million.

Sales were also adversely affected in 1998 due to the temporary reduction of certain payments made by GM to us as part of our commercial arrangements from October 1, 1997 through December 31, 1998 ("temporary payment reductions"). The temporary payment reductions were approximately $51.5 million in 1998.

Gross Profit

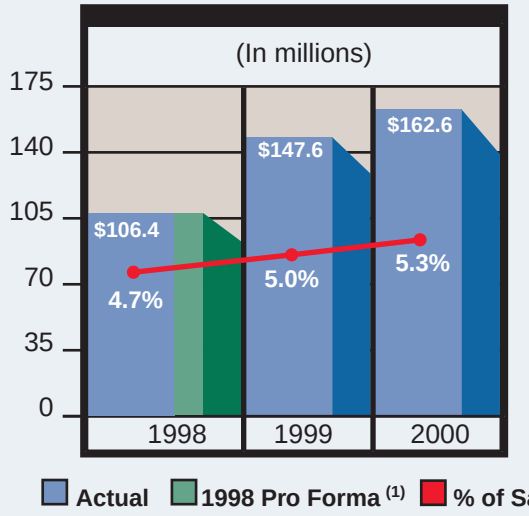


(1) adjusted to add back the sales and gross profit estimated to have been lost as a result of the 1998 GM work stoppage and the temporary payment reductions

Gross profit increased approximately 10% in 2000 to $426.2 million as compared to $388.8 million in 1999 and $156.4 million in 1998. Gross margin increased to 13.9% in 2000 as compared to 13.2% in 1999 and 7.7% in 1998.

The increases in gross profit and gross margin in 2000 were primarily due to the increased sales of higher value-added technology products and the successful start-up of production in our new Guanajuato Gear & Axle and Cheektowaga, New York ("Cheektowaga") manufacturing facilities. The increases in gross profit and gross margin in 1999 were primarily due to the impact of higher production volumes, productivity improvements and increased sales of next generation products that carry higher average selling prices. Gross profit and gross margin in 1999 also increased as a result of the impact of the 1998 GM work stoppage and the temporary payment reductions discussed above. We estimate that gross profit was adversely affected in 1998 due to the impact of the 1998 GM work stoppage and the temporary payment reductions by approximately $71.2 million and $51.5 million, respectively.

Selling, General and Administrative Expenses ("SG&A")



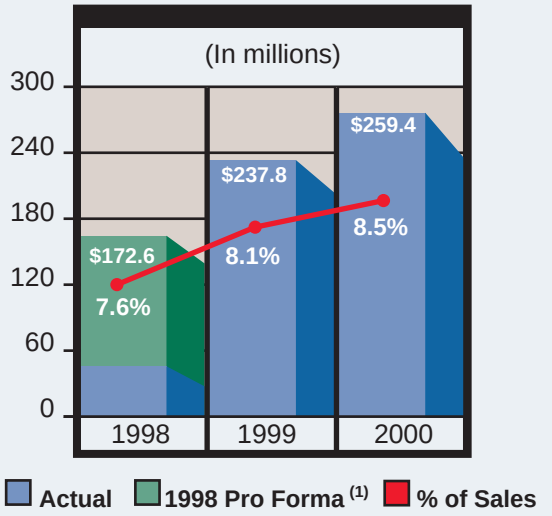
(1) adjusted to add back the sales estimated to have been lost as a result of the 1998 GM work stoppage and the temporary payment reductions

SG&A (including research and development) increased 10% in 2000 to $162.6 million as compared to $147.6 million in 1999 and $106.4 million in 1998. The increase in SG&A spending in 2000 as compared to 1999 was primarily due to our investment in R&D, the addition of Colfor, MSP and our joint venture in Brazil, and increased profit-sharing accruals resulting from increased profitability. The increase in SG&A spending in 1999 as compared to 1998 was primarily due to increased R&D spending and the addition of Albion, Colfor, MSP and our joint venture in Brazil. SG&A also increased in 1999 due to the adverse impact of the 1998 GM work stoppage on our profit-sharing program in 1998.

Research and development expenses increased $7.3 million in 2000 to $46.4 million as compared to $39.1 million in 1999 and $29.5 million in 1998. The significant increase in our R&D spending in 2000 and 1999 as compared to 1998 was primarily due to the increased costs of supporting our new customers and several high-volume new product programs under development during these periods. R&D expenses in 1999 also increased as a result of the addition of Albion, Colfor and MSP.

We continue to aggressively pursue development of new product, process and systems technologies in our R&D activities, particularly in the areas of mass reduction; noise, vibration and harshness improvements; durability; and new product offerings such as integrated driveline systems and modules. In addition to the Smart-Bar™ active roll-control system and IOP front axle discussed above, our increased commitment to R&D has resulted in our development of the PowerLite™ aluminum rear-axle system, TracRite™ traction-enhancing locking differentials (including a brand-new electronically controlled TracRite™ EL model) and our Gen II and Gen III universal joints, all of which have been instrumental in new product program wins for AAM.

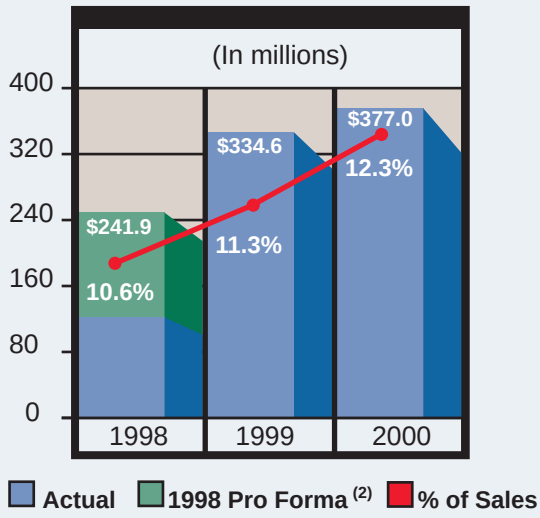
Operating Income



(1) adjusted to add back the sales and operating income estimated to have been lost as a result of the 1998 GM work stoppage and the temporary payment reductions

Operating income increased 9% in 2000 to $259.4 million as compared to $237.8 million in 1999 and $49.9 million in 1998. Operating margin increased to 8.5% in 2000 as compared to 8.1% in 1999 and 2.5% in 1998. The increases in operating income and operating margin in 2000 and 1999 were primarily due to the factors discussed above relating to gross profit, partially offset by increased R&D and other SG&A costs and higher goodwill amortization related to the Albion, Colfor and MSP acquisitions.

EBITDA (1)



(1) EBITDA represents income from continuing operations before interest expense, income taxes, depreciation and amortization. EBITDA should not be construed as income from operations, net income or cash flow from operating activities as determined by generally accepted accounting principles. Other companies may calculate EBITDA differently.

(2) adjusted to add back the sales and operating income estimated to have been lost as a result of the 1998 GM work stoppage and the temporary payment reductions

EBITDA increased 13% in 2000 to $377.0 million as compared to $334.6 million in 1999 and $119.2 million in 1998. EBITDA margins increased in 2000 to 12.3% of sales as compared to 11.3% in 1999 and 5.8% in 1998. The increases in EBITDA and EBITDA margins were primarily due to the factors discussed above relating to operating income. EBITDA also increased in 2000 and 1999 due to increases in depreciation and amortization, principally related to higher levels of capital expenditures necessary to support our new customers and new product programs.

Net Interest Expense. Net interest expense was $58.8 million in 2000, $54.6 million in 1999 and $44.3 million in 1998. The increase in net interest expense was primarily due to higher average amounts of net debt outstanding and higher average interest rates, offset by a higher amount of interest capitalized on construction in progress.

Other Income. Other income was $2.8 million in 2000 and $0.2 million in 1999 and related principally to foreign-exchange gains. Other income in 2000 also included a one-time benefit associated with stock sold in connection with the demutualization of our life-insurance provider.

Income Tax Expense. Income tax expense was $74.2 million in 2000, $67.8 million in 1999, and $2.1 million in 1998. Our effective tax rate was 36.5% in 2000 as compared to 37.0% in 1999 and 1998. The decrease in our effective income tax rate in 2000 reflects a reduction of state taxes related to investment tax credits and the net favorable resolution of various other federal and state tax audit issues.

Net Income and Earnings Per Share. Diluted earnings per share increased to $2.60 per share in 2000 as compared to $2.34 in 1999 and $0.08 in 1998. After adjusting for the impact of the GM work stoppage and temporary payment reductions in 1998, year-over-year earnings growth was 11% in 2000 and 43% in 1999 as compared to year-over-year sales growth of 4% in 2000 and 30% in 1999.

LIQUIDITY AND CAPITAL RESOURCES

Our primary liquidity needs are to fund capital expenditures and debt service and to support working capital requirements in our expanding operations. We rely primarily upon operating cash flow and borrowings under our primary credit facilities to meet these needs. We believe that cash flow available from these sources will be sufficient to meet our projected capital expenditures, debt service obligations and working capital requirements in 2001.

Operating Activities. Net cash provided by operating activities was $252.2 million in 2000 as compared to $310.3 million in 1999. A change in payment terms with GM on March 1, 2000 from net 10 days to net 20 days adversely impacted our 2000 operating cash flow by approximately $80 million in the first quarter of 2000. A final increase in payment terms with GM to net 25th proximo will be effective for products shipped to GM beginning on March 1, 2001 and will complete a three-year transition from the next-day payment terms in effect prior to March 1, 1999.

Operating cash flow in 2000 was also adversely impacted as compared to 1999 by our increased working capital requirements due to the start-up of production in Guanajuato Gear & Axle and Cheektowaga. In addition to the impact of Guanajuato Gear & Axle and Cheektowaga, inventories on hand at year-end 2000 reflect increases as compared to year-end 1999 necessary to support customer banking requirements. Repair parts inventories also increased in 2000 as we took delivery of a significant amount of new machinery and equipment.

Operating cash flow in 2000 was also impacted in comparison to prior years by the one-time lump-sum payments we made to certain associates in connection with several new long-term collective bargaining agreements we negotiated with our unions. We also funded contributions to our various hourly and salaried pension plans of $30.5 million in 2000, well in excess of similar contributions made in 1999 and 1998.

Offsetting the above described uses of cash, accounts payable at year-end 2000 were much higher than at year-end 1999. This increase in accounts payable was due primarily to our heavy capital spending in the fourth quarter of 2000.

Investing Activities. Capital expenditures were $381.0 million in 2000 as compared to $301.7 in 1999. We expect capital expenditures to increase further in 2001 to nearly $400 million before a substantial reduction in spending in 2002 as we complete our launch of several significant new long-term product programs and increase our productive capacity to support these new programs, while at the same time continuing to aggressively pursue cost reductions in existing operations.

Our largest capital projects in 2000 were related to the construction and subsequent expansion of Guanajuato Gear & Axle, which started operations in the first quarter of 2000, and the launch of several new long-term product programs in 2000 and early 2001, including GM's mid-sized SUVs and GM's heavy-duty pick-up trucks and full-size luxury sport-utility vehicles (the GMC Yukon Denali and the Cadillac Escalade).

Our largest capital projects in 2001 will include additional investment to support the 2001 launch of GM's mid-sized SUVs as well as expenditures required to support the 2003 model year launch of the GM MST Program (mid-sized pick-up trucks, including the Chevrolet S-10 and GMC Sonoma) and the Dodge Ram 2500 and 3500 series of full-size pick-up trucks. Capital spending in 2001 will also include the construction of a forging facility adjacent to Guanajuato Gear & Axle.

Our investing activities in 1999 and 1998 included approximately $281 million of outlays related to the Albion, Colfor and MSP acquisitions and our investment in the joint venture in Brazil.

We have invested a significant amount of capital for major new product programs over the past few years and we believe these investments provide an adequate financial return. After adjusting for the impact of the GM work stoppage and temporary payment reductions in 1998, our after-tax return on invested capital ("ROIC") has been in excess of 16% for each of the most recent three years, which we believe puts us at the top end of the range for our industry.

	Year Ended December 31,			
	2000	**1999**	**1998PF[1]**	**1998**
			(In millions)	
Net income	**$ 129.2**	$ 115.6	$ 80.8	$ 3.5
Add: After-tax net interest expense	**37.3**	34.4	27.9	27.9
After-tax return	**166.5**	150.0	108.7	31.4
Net debt at year-end[2]	**781.9**	634.7	688.9	688.9
Stockholders' equity at year-end	**372.0**	263.7	117.7	40.4
Invested capital at year-end	**1,153.9**	898.4	806.6	729.3
Invested capital at beginning of year	**898.4**	729.3	526.9	526.9
Average invested capital	**1,026.2**	813.9	666.8	628.1
ROIC[3]	**16.2%**	18.4%	16.3%	5.0%

(1) adjusted to add back net income estimated to have been lost as a result of the 1998 GM work stoppage and temporary payment reductions
(2) net debt is equal to total debt less cash and equivalents
(3) other companies may calculate ROIC differently

Financing Activities. Net cash provided by financing activities was $24.1 million in 2000 as compared to $179.5 million in 1999. Total long-term debt increased by approximately $42.2 million to $817.1 million at December 31, 2000 as compared to December 31,1999, principally as a result of increasing our borrowings under the Receivables Facility by $50.0 million and making our scheduled debt repayments. In addition, we raised approximately $1.1 million through the exercise of employee stock options in 2000.

In December 2000, AAM's Co-Founder, Chairman & CEO Richard E. Dauch agreed to extend his employment relationship with AAM by two years until December 31, 2006. In connection with this extension, we repurchased approximately 3.1 million shares of common stock from Dauch, at current market prices, at a total cost of approximately $21.3 million. Dauch used the proceeds from the sale to pay off a personal loan incurred to pay taxes in connection with an earlier investment in AAM. We agreed to repurchase these shares because of

the favorable economic impact of this transaction and in consideration of the extension of Dauch's employment agreement. These shares will be held in Treasury and will be available to be reissued as our associates exercise stock options, or for other purposes.

In 1999, our financing activities included several significant nonrecurring events. In February 1999, we raised approximately $107.7 million of net proceeds in our initial public offering ("IPO") and issued 7 million shares of common stock. The IPO was followed in March 1999 by our issuance of $300 million of 9.75% Senior Subordinated Notes Due 2009 (the "9.75% Notes"), a transaction in which we raised net proceeds of approximately $288.7 million. Also in 1999, we closed sale-leaseback transactions involving $187 million of existing machinery and equipment.

Debt Capitalization and Availability. Our primary credit facilities consist of our Senior Secured Bank Credit Facilities (the "Bank Credit Facilities"), which are described in further detail below, and our receivables financing facility (the "Receivables Facility"), which provides up to $153.0 million of revolving financing commitments through October 2003. Other significant sources of our debt capitalization include the 9.75% Notes and capital lease obligations.

The Bank Credit Facilities, as amended in August 2000, consist of the following:

- a Senior Secured Revolving Credit Facility (the "Revolver") providing for revolving loans and the issuance of letters of credit in an aggregate principal and stated amount not to exceed $378.8 million available through October 2004; and
- a Senior Secured Term Loan Facility (the "Term Loan") providing for term loans in an aggregate principal amount of $374.0 million. We will make semi-annual principal payments in varying amounts on the Term Loan through April 2006, at which time the remaining balance of $175 million will be due.

Pursuant to the August 2000 amendment of the Bank Credit Facilities, $106.7 million of availability under a preexisting delayed-draw term loan facility (the "Tranche A Term Loan") was either rolled over to the Revolving Credit Facility or extinguished. In addition to the rollover, participants in the Bank Credit Facilities were also permitted to increase their commitment to the Revolver. Additionally, certain financial covenants and other key terms were amended to reflect our improved corporate credit ratings and to increase our flexibility to support new business growth initiatives and our ongoing operations and customer relationships outside the United States.

With respect to the Bank Credit Facilities, $374.0 million of borrowings was outstanding under the Term Loan and $378.8 million was available for future borrowings under the Revolver at year-end 2000. Additionally at year-end 2000, $120.0 million was outstanding and an additional $6.6 million was available to us under the Receivables Facility.

The weighted-average interest rate of our long-term debt outstanding as of year-end 2000 was approximately 9.0% as compared to approximately 8.6% at December 31, 1999.

Credit Ratings Upgrade. On May 22, 2000, Standard & Poor's raised our corporate credit and bank loan ratings to double 'B' ("BB") from double 'B'-minus ("BB-"). Our subordinated debt rating was raised to single 'B'-plus ("B+") from single 'B' ("B"). On August 7, 2000, Moody's Investors Service upgraded the ratings of our senior debt to Ba2 from Ba3. Moody's also upgraded our subordinated debt rating to B1 from B2.

MARKET RISK

In the normal course of business, we are exposed to market risk, principally associated with changes in foreign currency exchange rates and interest rates. To manage a portion of these inherent risks, we purchase certain types of derivative financial instruments from time to time, based on management's judgment of the trade-off between risk, opportunity and cost. We do not hold or issue derivative financial instruments for trading or speculative purposes.

Currency Exchange Risk. Because most of our business is denominated in U.S. dollars, we do not currently have significant exposures relating to currency exchange risks and have only a nominal amount of currency hedges in place on the purchase of machinery and equipment at year-end 2000. Future business operations and opportunities, including the expansion of our business outside North America, may expose us to the risk that cash flows resulting from these activities may be adversely affected by changes in currency exchange rates. If and when appropriate, we intend to manage these risks by utilizing local currency funding of these expansions and various types of foreign exchange forward contracts.

Interest Rate Risk. We are exposed to variable interest rates on the Bank Credit Facilities, the Receivables Facility and a portion of our sale-leaseback financing. The pre-tax earnings and cash flow impact of a one-percentage-point increase in interest rates (approximately 11% of our weighted average interest rate at December 31, 2000) on our long-term debt outstanding at year-end 2000 would be approximately $4.6 million. At year-end 2000, we have hedged a portion of our interest rate risk by entering into interest rate swaps with a notional amount of approximately $54.3 million. These interest rate swaps convert variable financing based on 3-month LIBOR rates into fixed U.S. dollar rates varying from 6.88% to 6.96%.

Adoption of FASB Statement No. 133. FASB Statement No. 133, is effective for us on January 1, 2001. FASB Statement No. 133 establishes standards for the recognition and measurement of derivatives and hedging activities. We do not presently expect the adoption of these new accounting standards to have a material impact on our operating results or financial condition because of the limited extent to which we engage in the types of activities affected by the standard. However, we have established procedures under which we will monitor our future Treasury, Procurement and other various operating activities for transactions and agreements covered by this standard and we are prepared to account for the impact of any such transactions and agreements in conformity with the new standards in future periods if and when applicable.

With respect to the derivative instruments executed as of the adoption date of January 1, 2001, we expect to record an initial unrealized mark-to-market loss on the interest rate swaps described above of approximately $1.3 million. The fair value of our currency forward contracts outstanding at January 1, 2001 approximates break-even.

DIRECT MATERIAL PURCHASING TRANSITION

Through December 31, 1999, we acquired certain materials for use in the manufacture of our products through GM's purchasing network. As a result of our commercial arrangements with GM, we were precluded from directly negotiating lower purchase costs for such materials from suppliers. However, we were also protected from increases in the costs of such materials while this purchasing arrangement was in effect. If the prices of such materials exceeded prices jointly established with GM, GM increased the aggregate amount paid to us for our products. If the prices of such materials were less than prices jointly established with GM, GM reduced the aggregate amount paid to us for our products.

Effective January 1, 2000, we assumed full responsibility for our entire purchasing function. As a result, while the prices at which we sell our products to GM continue to be effective as established in the LPCs, we no longer have a contractual right to pass on future increases or decreases in the material cost component of our products sold to GM, except for certain ferrous metals and certain foreign exchange exposures relating to sourcing decisions directed by GM. We believe that we can better control our material costs by establishing direct relationships with our key suppliers and by focusing on our unique requirements. In fact, we accelerated the transition to our fully independent purchasing function by approximately two years because of our confidence in our ability to achieve positive results by controlling the direct material purchasing function ourselves.

SEASONALITY

Our operations are cyclical because they are directly related to worldwide automotive production, which is itself cyclical and dependent on general economic conditions and other factors. Our business is also moderately seasonal as our major OEM customers historically have a two-week shutdown of operations in July and an approximate one-week shutdown in December. In addition, our OEM customers have historically incurred lower production rates in the third quarter as model changes enter production. Accordingly, our third quarter and fourth quarter results may reflect these trends.

EFFECTS OF INFLATION

Inflation generally affects us by increasing the cost of labor, equipment, utilities and raw materials. We believe that the relatively moderate rate of inflation over the past few years has not had a significant impact on our operations because we have offset the increases by realizing improvements in operating efficiency. In order to protect against the future impact of inflation, we will continue to aggressively pursue productivity improvements in our operations, principally through the increased use of the AAM Manufacturing System, a lean manufacturing system designed to reduce waste. We also plan to continue to emphasize favorable supply agreements in our direct material purchasing function, including joint efforts with key suppliers to identify and share in cost reductions, the use of long-term supply agreements when appropriate, and the further development of AAM's e-commerce initiatives.

LITIGATION AND ENVIRONMENTAL REGULATIONS

We are involved in various legal proceedings incidental to our business. Although the outcome of these matters cannot be predicted with certainty, we do not believe that any of these matters, individually or in the aggregate, will have a material effect on our consolidated financial condition, operating results or cash flows.

GM has agreed to indemnify and hold AAM harmless from certain environmental issues identified as potential areas of environmental concern at March 1, 1994. GM has also agreed to indemnify AAM, under certain circumstances, for up to 10 years from such date with respect to certain pre-closing environmental conditions. Based on our assessment of costs associated with our environmental responsibilities, including recurring administrative costs, capital expenditures and other compliance costs, we do not expect such costs to have a material effect on our financial condition, results of operations, cash flows or competitive position in the foreseeable future.

FORWARD-LOOKING INFORMATION

Certain statements in this Management's Discussion and Analysis and elsewhere in this Annual Report are forward-looking in nature and relate to trends and events that may affect the Company's future financial position and operating results. Such statements are made pursuant to the safe harbor provisions of the *Private Securities Litigation Reform Act of 1995*. The terms "will," "expect," "anticipate," "intend," "project" and similar words or expressions are intended to identify forward-looking statements. These statements speak only as of the date of this Annual Report. The statements are based on current expectations, are inherently uncertain, are subject to risks, and should be viewed with caution. Actual results and experience may differ materially from the forward-looking statements as a result of many factors, including reduced sales by our customers, changes in economic conditions in the markets served by us, increasing competition, fluctuations in raw materials and energy prices, and other unanticipated events and conditions. It is not possible to foresee or identify all such factors. The Company makes no commitment to update any forward-looking statement or to disclose any facts, events, or circumstances after the date hereof that may affect the accuracy of any forward-looking statement.

Consolidated Statements of Income

	Year Ended December 31,		
	2000	1999	1998
	(In millions, except per share data)		
Net sales	**$3,069.5**	$ 2,953.1	$ 2,040.6
Cost of goods sold	**2,643.3**	2,564.3	1,884.2
Gross profit	**426.2**	388.8	156.4
Selling, general and administrative expenses	**162.6**	147.6	106.4
Goodwill amortization	**4.2**	3.4	0.1
Operating income	**259.4**	237.8	49.9
Net interest expense	**(58.8)**	(54.6)	(44.3)
Other income, net	**2.8**	0.2	-
Income before income taxes	**203.4**	183.4	5.6
Income taxes	**74.2**	67.8	2.1
Net income	$ **129.2**	$ 115.6	$ 3.5
Basic earnings per share	$ **2.79**	$ 2.87	$ 0.11
Diluted earnings per share	$ **2.60**	$ 2.34	$ 0.08

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

	December 31, 2000	1999
	(In millions, except per share data)	
ASSETS		
Current assets:		
Cash and equivalents	**$ 35.2**	$ 140.2
Accounts receivable, net of allowance of $8.6 in 2000 and $8.0 in 1999	**247.3**	190.1
Inventories	**160.4**	133.3
Prepaid expenses and other	**43.1**	22.3
Deferred income taxes	**14.6**	19.7
Total current assets	**500.6**	505.6
Property, plant and equipment, net	**1,200.1**	929.0
Deferred income taxes	**16.1**	50.5
Goodwill and other assets	**185.7**	188.1
Total assets	**$1,902.5**	$ 1,673.2
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	**$ 341.3**	$ 269.1
Accrued compensation and benefits	**120.2**	129.7
Other accrued expenses	**48.8**	44.0
Total current liabilities	**510.3**	442.8
Long-term debt	**817.1**	774.9
Postretirement benefits and other long-term liabilities	**203.1**	191.8
Total liabilities	**1,530.5**	1,409.5
Stockholders' equity:		
Preferred stock, par value $0.01 per share; 10.0 million shares authorized; no shares outstanding in 2000 or 1999	-	-
Common stock, par value $0.01 per share; 150.0 million shares authorized; 46.8 million and 46.4 million shares issued in 2000 and 1999, respectively	**0.5**	0.5
Series common stock, par value $0.01 per share; 40.0 million shares authorized; no shares outstanding in 2000 or 1999	-	-
Paid-in capital	**202.1**	199.8
Retained earnings	**193.3**	64.1
Treasury stock at cost; 3.1 million shares in 2000	**(21.3)**	-
Cumulative translation adjustment	**(2.6)**	(0.7)
Total stockholders' equity	**372.0**	263.7
Total liabilities and stockholders' equity	**$1,902.5**	$ 1,673.2

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	Year Ended December 31,		
	2000	1999	1998
		(In millions)	
Operating activities:			
Net income	**$ 129.2**	$ 115.6	$ 3.5
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**107.9**	89.5	68.8
Deferred income taxes	**30.5**	9.8	2.6
Pensions and other postretirement benefits, net of contributions	**16.7**	43.6	20.1
Loss on disposal of equipment	**4.8**	4.3	0.3
Changes in operating assets and liabilities:			
Accounts receivable	**(59.5)**	(46.6)	60.5
Inventories	**(28.8)**	12.7	(27.0)
Accounts payable and accrued expenses	**92.3**	73.7	(36.1)
Other assets and liabilities	**(40.9)**	7.7	(11.3)
Net cash provided by operating activities	**252.2**	310.3	81.4
Investing activities:			
Purchases of property, plant and equipment, net	**(381.0)**	(301.7)	(210.0)
Acquisitions, net of cash acquired	**-**	(239.4)	(41.5)
Proceeds from sale-leaseback of equipment	**-**	187.0	-
Net cash used in investing activities	**(381.0)**	(354.1)	(251.5)
Financing activities:			
Issuance of 9.75% Senior Subordinated Notes Due 2009	**-**	288.7	-
Net borrowings (payments) of long-term debt	**45.7**	(206.7)	157.1
Debt issuance costs	**(1.4)**	(10.3)	(0.1)
Issuance of common stock, net	**-**	107.7	-
Employee stock option exercises	**1.1**	0.1	0.3
Purchase of treasury stock	**(21.3)**	-	-
Net cash provided by financing activities	**24.1**	179.5	157.3
Effect of exchange rate changes on cash	**(0.3)**	-	-
Net increase (decrease) in cash and equivalents	**(105.0)**	135.7	(12.8)
Cash and equivalents at beginning of year	**140.2**	4.5	17.3
Cash and equivalents at end of year	**$ 35.2**	$ 140.2	$ 4.5

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

	Common Stock	Paid-in Capital	Retained Earnings (Accumulated Deficit)	Treasury Stock	Cumulative Translation Adjustment	Comprehensive Income
			(In millions)			
Balance at January 1, 1998	$ -	$ 92.2	$ (55.0)	$ -	$ -	
Net income			3.5			$ 3.5
Foreign currency translation					(0.6)	(0.6)
Comprehensive income						$ 2.9
Exercise of stock options	-	0.3				
Balance at December 31, 1998	-	92.5	(51.5)	-	(0.6)	
Net income			115.6			$ 115.6
Foreign currency translation					(0.1)	(0.1)
Comprehensive income						$ 115.5
Issuance of common stock	0.4	107.3				
Exercise of stock options	0.1					
Balance at December 31, 1999	0.5	199.8	64.1	-	(0.7)	
Net income			**129.2**			**$129.2**
Foreign currency translation					**(1.9)**	**(1.9)**
Comprehensive income						**$127.3**
Exercise of stock options, including tax benefit	**-**	**2.3**				
Purchase of treasury stock				**(21.3)**		
Balance at December 31, 2000	**$ 0.5**	**$202.1**	**$193.3**	**$(21.3)**	**$ (2.6)**	

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization. American Axle & Manufacturing Holdings, Inc. ("Holdings") and its subsidiaries (collectively, "we," "us," "AAM" or "the Company"), is a Tier I supplier to the automotive industry and a worldwide leader in the manufacture, engineering, validation and design of driveline systems for trucks, sport utility vehicles ("SUVs") and passenger cars. The driveline system includes all the components that transfer power from the transmission and deliver it to the drive wheels. Driveline and related products produced by us include axles, driveshafts, chassis components, driving heads, crankshafts, transmission parts and forged products. In addition to our 14 locations in the United States (in Michigan, New York and Ohio), the Company also has offices and facilities in Brazil, England, Germany, Japan, Mexico and Scotland.

Holdings is the survivor of a migratory merger with American Axle & Manufacturing of Michigan, Inc. ("AAMM") and has no significant assets other than its 100% ownership of American Axle & Manufacturing, Inc. ("AAM Inc.") and its subsidiaries. Pursuant to this merger, which was effected in January 1999, each share of AAMM's common stock was converted into 3,945 shares of Holdings' common stock. All share and per share amounts have been adjusted to reflect this conversion. Holdings has no other subsidiaries other than AAM Inc.

Principles of Consolidation. We include the accounts of Holdings and its subsidiaries in our consolidated financial statements. We eliminate all intercompany transactions, balances and profits in our consolidation.

Revenue Recognition. We recognize revenue when products are shipped to our customers.

Research and Development Costs. We expense research and development costs ("R&D") as incurred. R&D costs were $46.4 million, $39.1 million and $29.5 million in 2000, 1999 and 1998, respectively.

Cash and Equivalents. Cash and equivalents include all of our cash balances and highly liquid investments with a maturity of 90 days or less at time of purchase.

Tooling. Costs we incur for customer tooling for which we will be reimbursed are classified as accounts receivable. When we estimate the cost of these projects to exceed customer reimbursement, we record a provision for such loss as a component of our allowance for doubtful accounts.

Inventories. We state inventories at the lower of cost or market. Cost is determined principally using the last-in, first-out method (LIFO). We classify perishable tooling, repair parts and other materials consumed in the manufacturing process but not incorporated into our finished products as raw materials.

Inventories consist of the following:

December 31,	2000	1999
	(In millions)	
Raw materials, work-in-process and repair parts	**$138.2**	$ 118.5
Finished goods	**31.3**	22.6
Gross inventories	**169.5**	141.1
LIFO reserve	**(9.1)**	(7.8)
Total inventories	**$160.4**	$ 133.3

Property, Plant and Equipment. Property, plant and equipment consists of the following:

December 31,	2000	1999
	(In millions)	
Land and land improvements	**$ 23.9**	$ 23.1
Buildings and building improvements	**201.1**	125.7
Machinery and equipment	**1,101.9**	833.7
Construction in progress	**236.9**	227.1
	1,563.8	1,209.6
Accumulated depreciation	**(363.7)**	(280.6)
Property, plant and equipment, net	**$1,200.1**	$ 929.0

We state property, plant and equipment at cost. Construction in progress includes costs incurred for the construction of buildings and building improvements, and machinery and equipment in process. We record depreciation on the straight-line method over the estimated useful lives of depreciable assets, which range from 3 to 40 years and averaged approximately 13 years in 2000. Depreciation amounted to $100.6 million, $85.5 million and $67.3 million in 2000, 1999 and 1998, respectively.

Goodwill. We record goodwill when the purchase price of acquired businesses exceeds the value of their identifiable net tangible and intangible assets acquired. We amortize goodwill on the straight-line method over periods up to 40 years. Accumulated amortization was $7.7 million at December 31, 2000 and $3.5 million at December 31, 1999.

Impairment of Long-Lived Assets. We periodically review the realization of our long-lived assets, including goodwill, based on an evaluation of remaining useful lives and the current and expected future profitability and cash flows related to such assets.

Stock-Based Compensation. We account for employee stock options in accordance with APB No. 25 and related interpretations. We measure compensation cost as the excess, if any, of the market price of our common stock at the date of grant over the amount our associates must pay to acquire the stock.

Currency Translation. We translate the assets and liabilities of our foreign subsidiaries to U.S. dollars at end-of-period exchange rates. We translate the income statement elements of our foreign subsidiaries to U.S. dollars at average-period exchange rates. We report the effect of translation for our foreign subsidiaries that use the local currency as their functional currency as a separate component of stockholders' equity. Gains and losses resulting from the remeasurement of assets and liabilities of our foreign subsidiary that uses the U.S. dollar as its functional currency are reported in current period income. We also report any gains and losses arising from transactions denominated in a currency other than our functional currency in current period income.

Use of Estimates. In order to prepare financial statements in conformity with generally accepted accounting principles, we are required to make estimates and assumptions that affect the reported amounts and disclosures in our financial statements. Actual results could differ from those estimates.

Reclassifications. We have reclassified certain 1998 and 1999 amounts to conform to the presentation of our 2000 financial statements.

2. ACQUISITIONS

In 1999, we purchased two domestic automotive forging companies, Colfor Manufacturing Inc. ("Colfor") and MSP Industries Corporation ("MSP"), and a majority interest in a joint venture in Brazil which machines forging and driveline components for automotive OEMs for aggregate cash purchase consideration of approximately $239 million.

In 1998, we acquired Albion Automotive (Holdings) Limited ("Albion") for a cash purchase price of approximately $42 million plus $30 million of assumed debt and capital lease obligations.

3. LONG-TERM DEBT AND LEASE OBLIGATIONS

Long-term debt consists of the following:

December 31,	2000	1999
	(In millions)	
Bank Credit Facilities:		
Revolver	$ -	$ -
Term Loan	**374.0**	375.0
Total Bank Credit Facilities	**374.0**	375.0
Receivables Facility	**120.0**	70.0
9.75% Notes, net of discount	**298.1**	297.9
Capital lease obligations	**17.4**	25.7
Other	**7.6**	6.3
Long-term debt	**$ 817.1**	$ 774.9

Bank Credit Facilities. At December 31, 2000, the Senior Secured Bank Credit Facilities ("Bank Credit Facilities") consist of a $378.8 million Revolving Credit Facility due October 2004 ("Revolver") and a $374.0 million Senior Secured Term Loan Facility ("Term Loan") due in semi-annual installments of varying amounts through April 2006.

Borrowings under the Bank Credit Facilities are secured by the capital stock of our significant subsidiaries and all of our assets except for those securing the Receivables Facility and other permitted bank, equipment and lease financings. Borrowings under the Bank Credit Facilities bear interest at rates based on LIBOR or an alternate base rate, plus an applicable margin. At December 31, 2000, $378.8 million was available for future borrowings under the Revolver.

At December 31, 2000, the weighted average rate of interest on the balances outstanding under the Bank Credit Facilities was 8.6%.

Receivables Facility. We have established a receivables financing facility (the "Receivables Facility") through AAM Receivables Corp. ("Receivables Corp."), a wholly-owned, bankruptcy-remote subsidiary of AAM Inc. Pursuant to the Receivables Facility, AAM Inc. agreed to sell certain trade receivables from time to time to Receivables Corp., which, in turn, transferred all of such receivables to a trust that issued variable funding certificates representing undivided interests in the receivables pool. Under the variable funding certificates, a bank group provided us a revolving financing commitment of up to $153.0 million through October 2003, subject to the terms and conditions of the Receivables Facility. The receivables held by the trust are not available to our general creditors. In accordance with FASB Statement No. 125, we have accounted for the Receivables Facility as if it were a secured borrowing.

The Receivables Facility bears interest at rates based on LIBOR or an alternate base rate, plus an applicable margin. Availability under the Receivables Facility depends on the amount of receivables generated by AAM Inc., the rate of collection on those receivables and certain other characteristics of those receivables that affect their eligibility. At December 31, 2000, $120.0 million was outstanding and an additional $6.6 million was available to us under the Receivables Facility.

The weighted-average interest rate on our borrowings under the Receivables Facility at December 31, 2000 was 8.1%.

9.75% Notes. In March 1999, AAM Inc. issued $300 million of 9.75% Senior Subordinated Notes Due 2009 (the "9.75% Notes"). Our net proceeds from the issuance of the 9.75% Notes was approximately $288.7 million after deduction of discounts to the initial purchasers, and other fees and expenses.

The 9.75% Notes are unsecured senior subordinated obligations of AAM Inc. and are fully and unconditionally guaranteed by Holdings. Prior to the maturity date of March 1, 2009, we may redeem the 9.75% Notes beginning on March 1, 2004 at stated redemption prices beginning at 104.875% at March 1, 2004 and decreasing to 100% on March 1, 2007 and thereafter. In addition, we may also redeem up to $105 million of the 9.75% Notes using the proceeds of certain equity offerings through March 1, 2002 at a redemption price of 109.75%.

Including amortization of the original issue discount, the 9.75% Notes bear interest at 9.875%.

Debt Covenants. The Bank Credit Facilities and the 9.75% Notes contain various operating covenants which, among other things, impose limitations on our ability to declare or pay dividends or distributions on capital stock, redeem or repurchase capital stock, incur liens, incur indebtedness, or merge, make acquisitions or sell assets. We are also required to comply with financial covenants relating to interest coverage, leverage, retained earnings and capital expenditures. At our option, we may prepay borrowings under the Bank Credit Facilities at any time without penalty, other than breakage costs. We are also subject to mandatory prepayment terms under the Bank Credit Facilities under certain conditions.

Leases. We lease certain facilities, machinery and equipment under capital leases expiring at various dates. Approximately $34.9 million and $37.7 million of such gross asset cost is included in property, plant and equipment at December 31, 2000 and 1999, respectively. The weighted-average interest rate on these capital lease obligations was 7.0% at December 31, 2000.

In 1999, we closed two sale-leaseback transactions involving approximately $187 million of existing machinery and equipment. These transactions were financed under operating leases with terms between 10 and 12 years. We are amortizing a gain on the sale of machinery and equipment of approximately $4 million over the respective lease terms.

We also lease certain other facilities, machinery and equipment under operating leases expiring at various dates. All of the leases contain renewal and/or purchase options. Our expense for operating leases was $45.1 million, $32.6 million and $14.0 million for the years ended December 31, 2000, 1999 and 1998, respectively. Future minimum payments under noncancelable operating leases are as follows: $42.6 million in 2001, $64.8 million in 2002, $26.9 million in 2003, $26.3 million in 2004, $28.5 million in 2005 and $120.6 million thereafter.

Debt Maturities. Aggregate maturities of long-term debt are as follows (in millions):

2001	$ 14.0
2002	6.4
2003	124.2
2004	21.2
2005	175.0
Thereafter	476.3
Total	$ 817.1

We have sufficient availability to refinance current maturities of long-term debt through the Bank Credit Facilities and the Receivables Facility and have, therefore, classified such obligations as long-term debt at December 31, 2000.

Gross interest expense was $77.6 million, $70.2 million and $48.6 million in 2000, 1999 and 1998, respectively. We paid interest of $71.6 million, $55.8 million and $50.2 million in 2000, 1999 and 1998, respectively. We capitalized interest of $11.9 million, $8.5 million and $3.8 million in 2000, 1999 and 1998, respectively.

Interest income was $6.8 million, $7.1 million and $0.5 million in 2000, 1999 and 1998, respectively.

4. DERIVATIVES AND RISK MANAGEMENT

Derivative Financial Instruments. In the normal course of business, we are exposed to market risk, principally associated with changes in foreign currency exchange rates and interest rates. To manage a portion of these inherent risks, we purchase certain types of derivative financial instruments, from time to time, based on management's judgment of the trade-off between risk, opportunity and cost. We do not hold or issue derivative financial instruments for trading or speculative purposes.

Currency Forward Contracts. Because most of our business is denominated in U.S. dollars, we do not currently have significant exposures relating to currency exchange risks. At December 31, 2000, we have currency hedges in place on the purchase of machinery and equipment with a notional amount of $5.4 million.

Interest Rate Swaps. We are exposed to variable interest rates on the Bank Credit Facilities, the Receivables Facility and a portion of our sale-leaseback financing. At December 31, 2000, we have hedged a portion of our interest rate risk by entering into interest rate swaps with a notional amount of approximately $54.3 million. These interest rate swaps convert variable financing based on 3-month LIBOR rates into fixed U.S. dollar rates varying from 6.88% to 6.96%.

In connection with the Term Loan, we entered into a $112.5 million rate collar transaction in 1997 to pay a floating rate of interest based on 3-month LIBOR with a cap rate of 6.5% and a floor rate of 5.5%. The rate collar transaction terminated at December 31, 2000.

We have designated the rate collar transaction and the interest rate swap agreements as effective hedges of the related debt and lease obligations and, accordingly, we have reflected the net cost of such agreements as an adjustment to interest expense over the lives of the debt and lease agreements.

Adoption of FASB Statement No. 133. FASB Statement No. 133 is effective for us on January 1, 2001. FASB Statement No. 133 establishes standards for the recognition and measurement of derivatives and hedging activities. We do not presently expect the adoption of these new accounting standards to have a material impact on our operating results or financial condition because of the limited extent to which we engage in the types of activities affected by the standard.

With respect to the derivative instruments executed as of the adoption date of January 1, 2001, we expect to record an initial unrealized mark-to-market loss on the interest rate swaps described above of approximately $1.3 million. The fair value of our currency forward contracts outstanding at January 1, 2001 approximates break-even.

At December 31, 1999, the interest rate swaps and collars had notional values of $175 million and unrealized losses of approximately $0.1 million.

Fair Value of Financial Instruments. The carrying value of our cash and equivalents, accounts receivable, accounts payable and accrued liabilities approximates their fair values due to the short-term maturities of these assets and liabilities. The carrying value of our borrowings under the Bank Credit Facilities and the Receivables Facility approximate their fair value due to the frequent resetting of the interest rate. We have estimated the fair value of the 9.75% Notes at December 31, 2000, using available market information, to be approximately $253.5 million.

Concentrations of Credit Risk. In the normal course of business, we provide credit to customers in the automotive industry. We periodically evaluate the credit worthiness of our customers and we maintain reserves for potential credit losses, which, when realized, have been within the range of our allowance for doubtful accounts. When appropriate, we also diversify the concentration of invested cash among different financial institutions and we monitor the selection of counterparties to other financial instruments to avoid unnecessary concentrations of credit risk.

5. EMPLOYEE BENEFIT PLANS

Pension and Other Postretirement Benefits. We sponsor various qualified and non-qualified defined benefit pension plans for our eligible associates. We also maintain hourly and salaried benefit plans that provide postretirement medical, dental, vision and life benefits to our eligible retirees and their dependents in the United States. We provide benefits under collective bargaining agreements to a majority of our hourly associates.

Actuarial valuations of the U.S. benefit plans were made at September 30, 2000 and 1999, respectively. Actuarial valuations of the foreign benefit plan were made at September 30, 2000 and December 31, 1999, respectively.

The following table summarizes the changes in benefit obligations and plan assets and reconciles the funded status of the benefit plans to the net benefit plan liability:

	Pension Benefits		Other Benefits	
	2000	1999	2000	1999
		(In millions)		
Change in benefit obligation:				
Benefit obligation at beginning of year	**$ 156.8**	$ 148.6	**$ 90.1**	$ 79.5
Service costs	**20.2**	21.7	**18.4**	21.7
Interest cost	**14.0**	10.9	**8.5**	7.2
Plan amendments	**17.3**	-	**-**	-
Actuarial gain	**(6.6)**	(22.7)	**(0.6)**	(17.2)
Participant contributions	**1.7**	1.7	**-**	-
Adjustment due to measurement date change	**(1.1)**	-	**-**	-
Benefit payments	**(3.1)**	(2.4)	**(0.9)**	(1.1)
Currency fluctuations	**(2.8)**	(1.0)	**-**	-
Net change	**39.6**	8.2	**25.4**	10.6
Benefit obligation at end of year	**196.4**	156.8	**115.5**	90.1
Change in plan assets:				
Fair value of plan assets at beginning of year	**161.8**	143.6	**-**	-
Actual return on plan assets	**13.5**	18.4	**-**	-
Employer contributions	**30.5**	1.5	**0.9**	1.1
Participant contributions	**1.6**	1.7	**-**	-
Adjustment due to measurement date change	**(0.8)**	-	**-**	-
Benefit payments	**(3.1)**	(2.4)	**(0.9)**	(1.1)
Currency fluctuations	**(3.0)**	(1.0)	**-**	-
Net change	**38.7**	18.2	**-**	-
Fair value of plan assets at end of year	**200.5**	161.8	**-**	-
Funded status — U.S. plans at September 30	**-**	1.7	**(115.5)**	(90.1)
Funded status — foreign plan at September 30, 2000 and December 31, 1999	**4.1**	3.3	**-**	-
Unrecognized actuarial gain	**(47.3)**	(42.6)	**(31.5)**	(31.3)
Unrecognized prior service cost	**20.3**	4.6	**0.1**	0.1
Fourth quarter contribution	**0.3**	3.0	**0.2**	0.3
Net liability at December 31	**$ (22.6)**	$ (30.0)	**$(146.7)**	$ (121.0)

The principal weighted average assumptions used in the valuation of the U.S. and foreign plans were as follows:

	Pension Benefits						Other Benefits		
	2000		1999		1998		2000	1999	1998
	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign			
Discount rate	**8.00%**	**6.00%**	7.75%	6.00%	6.75%	5.50%	**8.00%**	7.85%	7.15%
Expected return on plan assets	**9.25%**	**8.00%**	9.25%	8.00%	9.25%	8.00%	**N/A**	N/A	N/A
Rate of compensation increase	**4.25%**	**4.00%**	4.25%	4.00%	4.00%	3.50%	**4.25%**	4.25%	4.00%

	Pension Benefits			Other Benefits		
	2000	1999	1998	2000	1999	1998
			(In millions)			
Components of net periodic benefit costs:						
Service cost	**$ 20.2**	$ 21.7	$ 17.2	**$ 18.4**	$ 21.7	$ 18.9
Interest cost	**14.0**	10.9	7.6	**8.5**	7.2	5.4
Expected asset return	**(13.8)**	(12.4)	(9.0)	**N/A**	N/A	N/A
Amortized gain	**(1.5)**	(0.2)	(1.6)	**(1.4)**	(0.4)	(1.3)
Amortized prior service cost	**1.6**	0.5	0.5	-	-	-
Net benefit cost	**$ 20.5**	$ 20.5	$ 14.7	**$ 25.5**	$ 28.5	$ 23.0

For measurement purposes, a 6.1% annual increase in the per-capita cost of covered health care benefits was assumed for 2000. The rate was assumed to decrease gradually to 5% for 2002 and remain at that level thereafter. Health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point increase in the assumed health care cost trend rate would have increased total service and interest cost and the postretirement obligation by $6.4 million and $25.4 million, respectively. A one-percentage-point decrease in the assumed health care cost trend rate would have decreased total service and interest cost and the postretirement obligation by $4.8 million and $19.3 million, respectively.

Voluntary Savings Plans. Most of our U.S. associates are eligible to participate in a voluntary savings plan. Our maximum match under these plans is 50% of the first 6% of salaried associate contributions. Matching contributions amounted to $2.6 million, $1.6 million and $1.5 million for the years ended December 31, 2000, 1999 and 1998, respectively.

Deferred Compensation Plan. Certain U.S. associates are eligible to participate in a non-qualified deferred compensation plan. We fund a portion of the amounts elected to be deferred by the participants in this plan. Our funded portion of the plan amounted to approximately $1.4 million of the $2.6 million liability at December 31, 2000.

6. STOCK OPTIONS

In 1997 and in 1999, we established two stock option plans and an incentive stock plan (the "stock compensation plans") under which a total of 9.5 million shares of common stock are authorized for issuance to our directors, officers and certain other associates in the form of options, stock appreciation rights or other awards that are based on the value of our common stock. Under these stock compensation

plans, the exercise price of the options, rights or other awards will not be less than the fair market value of our common stock on the date of grant. We have granted a total of 7.5 million options under these stock compensation plans at December 31, 2000, which become exercisable based upon duration of employment. The vesting of some of these options can be accelerated subject to the satisfaction of certain performance criteria each year. At December 31, 2000, 0.4 million of these options have been exercised.

At December 31, 2000, there are also 1.7 million options held by several of our officers that were granted in 1997 as a replacement for an incentive compensation plan established in 1994. These options were immediately vested and are exercisable at a weighted-average exercise price per share of approximately $0.18. A total of 0.1 million options granted under this plan have been exercised prior to December 31, 2000.

The following table summarizes activity relating to our stock options:

	Number of Shares	Weighted-Average Exercise Price
	(In millions, except per share data)	
Outstanding at January 1, 1998	14.5	$ 1.71
Options granted	-	-
Options exercised	(0.1)	4.26
Options lapsed or canceled	(0.1)	4.26
Outstanding at December 31, 1998	14.3	$ 1.68
Options granted	0.6	15.38
Options exercised	(6.9)	0.02
Options lapsed or canceled	(0.2)	6.34
Outstanding at December 31, 1999	7.8	$ 4.07
Options granted	**1.5**	**14.85**
Options exercised	**(0.4)**	**2.93**
Options lapsed or canceled	**(0.1)**	**7.66**
Outstanding at December 31, 2000	**8.8**	**$ 5.90**
Options exercisable at December 31, 1998	9.4	$ 0.31
Options exercisable at December 31, 1999	3.9	$ 2.42
Options exercisable at December 31, 2000	**4.7**	**$ 3.29**

Options outstanding at December 31, 2000 have a weighted-average remaining contractual life of approximately 9 years. Of the options outstanding at December 31, 2000, 1.7 million options have exercise prices of $0.25 per share or less. The remaining 7.1 million shares have a weighted average exercise price of $7.29 per share, with a range of $4.26 to $15.56.

Had we determined compensation cost based upon the fair value of the options at the grant date consistent with the method specified by FASB Statement No. 123, our net income and earnings per share would have been adjusted to the pro forma amounts indicated below:

	2000	1999	1998
		(In millions, except per share data)	
Net income as reported	**$ 129.2**	$ 115.6	$ 3.5
Pro forma	**$ 126.2**	$ 114.5	$ 2.8
Basic earnings per share as reported	**$ 2.79**	$ 2.87	$ 0.11
Pro forma	**$ 2.73**	$ 2.84	$ 0.09
Diluted earnings per share as reported	**$ 2.60**	$ 2.34	$ 0.08
Pro forma	**$ 2.57**	$ 2.30	$ 0.06

For options granted prior to our IPO in January 1999, we determined the fair value of each option using the minimum value method and an assumed interest rate of 6.13%. For options granted after the IPO, the fair value of each option was estimated on the date of grant using an option-pricing model with the following assumptions:

	2000	1999
Assumptions:		
Expected volatility	**39.7%**	38.6%
Risk-free interest rate	**5.64%**	4.74%
Dividend yield	**none**	none
Expected life of option	**7 years**	7 years
Weighted average grant-date fair value	**$ 7.89**	$ 6.95

7. INCOME TAXES

The following is a summary of the components of the provision for income taxes:

	2000	1999	1998
		(In millions)	
Current:			
Federal	**$ 29.6**	$ 47.7	$ -
Michigan single business tax	**5.5**	7.2	0.4
Other state and local	**(3.2)**	(0.5)	(0.9)
Foreign	**0.7**	-	-
Total current	**32.6**	54.4	(0.5)
Deferred:			
Federal	**34.5**	11.1	3.6
Michigan single business tax	**1.5**	2.9	1.2
Other state and local	**1.1**	1.8	(0.4)
Foreign	**4.5**	(2.4)	(1.8)
Total deferred	**41.6**	13.4	2.6
Total income taxes	**$ 74.2**	$ 67.8	$ 2.1

The following is a reconciliation of the provision for income taxes to the expected amounts using the statutory rate:

	2000	1999	1998
Federal statutory	**35.0%**	35.0%	35.0%
State and local	**1.6**	4.5	5.7
Federal credits and other	**-**	(2.5)	(7.3)
Foreign rate difference	**(0.1)**	-	3.6
Effective income tax rate	**36.5%**	37.0%	37.0%

The following is a summary of the significant components of our deferred tax assets and liabilities:

	2000	1999
	(In millions)	
Current deferred tax assets:		
Employee benefits	**$ 8.5**	$ 11.0
Inventory	**0.6**	2.6
Other	**5.5**	6.1
Total current deferred tax assets	**$ 14.6**	$ 19.7
Noncurrent deferred tax assets:		
Employee benefits	**$ 53.9**	$ 53.6
NOL carryforwards	**21.2**	26.4
Fixed assets	**17.8**	18.3
Prepaid taxes	**14.2**	24.1
Tax credit carryforwards	**3.7**	6.4
Goodwill	**1.7**	1.8
Other	**4.7**	6.3
Valuation allowance	**(28.7)**	(33.4)
Total noncurrent deferred tax assets	**88.5**	103.5
Deferred tax liabilities — noncurrent:		
Fixed assets	**72.4**	53.0
Net noncurrent deferred tax assets	**$ 16.1**	$ 50.5

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes and the impact of available net operating loss ("NOL") and tax credit carryforwards.

At December 31, 2000, we had unused NOLs for foreign tax purposes of approximately $129.9 million, including capital allowance carryforwards. None of these carryforwards expire. We also have $3.7 million of federal R&D tax credits. These tax credit carryforwards expire between 2018 and 2019.

We established a valuation allowance of $45.5 million in 1998, which was subsequently reduced to $33.4 million in 1999 and $28.7 million in 2000. We reduced the valuation allowance due to changes in our assessment of the uncertainty of realizing the full benefit of the foreign NOL and capital allowance carryforwards. We considered prior operating results and future plans, as well as the utilization period of other temporary differences, in determining the amount of the valuation allowance.

Income tax payments, including federal, state, local and foreign were $43.9 million, $48.8 million and $9.3 million in 2000, 1999 and 1998, respectively.

8. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

	2000	1999	1998
		(In millions, except per share data)	
Numerator:			
Net income	**$ 129.2**	$ 115.6	$ 3.5
Denominators:			
Basic shares outstanding — weighted-average shares outstanding	**46.3**	40.3	32.4
Effect of dilutive securities: Dilutive stock options	**3.4**	9.2	10.8
Diluted shares outstanding — adjusted weighted-average shares after assumed conversions	**49.7**	49.5	43.2
Basic earnings per share	**$ 2.79**	$ 2.87	$ 0.11
Diluted earnings per share	**$ 2.60**	$ 2.34	$ 0.08

9. COMMITMENTS AND CONTINGENCIES

At December 31, 2000, obligated purchase commitments for capital expenditures were approximately $210.2 million.

We are involved in various legal proceedings incidental to our business. Although the outcome of these matters cannot be predicted with certainty, we do not believe that any of these matters, individually or in the aggregate, will have a material effect on our consolidated financial condition, operating results or cash flows.

10. RELATED PARTY TRANSACTIONS

In December 2000, AAM's Co-Founder, Chairman & CEO Richard E. Dauch agreed to extend his employment relationship with AAM by two years until December 31, 2006. In connection with this extension, we repurchased approximately 3.1 million shares of common stock from Dauch, at current market prices, at a total cost of approximately $21.3 million. Dauch used the proceeds from the sale to pay off a personal loan incurred to pay taxes in connection with an earlier investment in AAM.

In connection with a leveraged recapitalization transaction in 1997 through which Blackstone Capital Partners II Merchant Banking Fund L.P. and certain of its affiliates (collectively "Blackstone") acquired a majority ownership interest, we entered into an agreement pursuant to which Blackstone provides certain advisory and consulting services to us. We incurred costs of $4.6 million, $4.0 million and $2.4 million for such services provided by Blackstone in 2000, 1999 and 1998, respectively.

11. SEGMENT AND GEOGRAPHIC INFORMATION

We operate in one reportable segment: the manufacture, engineering, validation and design of driveline systems for trucks, sport utility vehicles ("SUVs") and passenger cars. Financial information relating to our operations by geographic area is presented in the following table. Net sales are attributed to countries based upon location of customer. Long-lived assets exclude deferred income taxes.

	2000	1999	1998
		(In millions)	
Net sales:			
United States	**$2,296.2**	$ 2,285.2	$ 1,619.1
Canada	**372.6**	405.9	264.2
Mexico and South America	**283.6**	140.4	127.5
Europe and Other	**139.5**	126.5	29.8
Inter-geographic revenues	**(22.4)**	(4.9)	-
Total net sales	**$3,069.5**	$ 2,953.1	$ 2,040.6
Long-lived assets:			
United States	**$1,156.5**	$ 947.0	$ 787.0
Other	**229.3**	170.1	83.0
Total long-lived assets	**$1,385.8**	$ 1,117.1	$ 870.0

With the exception of sales to General Motors Corporation ("GM"), no single customer accounted for more than 10% of our consolidated net sales in any year presented. Sales to GM were approximately 84.5%, 85.9% and 93.4% of our total net sales in 2000, 1999 and 1998, respectively.

12. UNAUDITED QUARTERLY FINANCIAL DATA AND MARKET FOR THE COMPANY'S COMMON STOCK

Quarter Ended	March 31	June 30	September 30	December 31	Full Year
			(In millions, except per share data)		
2000					
Net sales	**$ 835.9**	**$ 819.7**	**$ 675.5**	**$ 738.4**	**$3,069.5**
Gross profit	**119.7**	**120.1**	**89.1**	**97.3**	**426.2**
Net income	**40.1**	**40.0**	**24.2**	**24.9**	**129.2**
Diluted earnings per share (1)	**0.80**	**0.80**	**0.48**	**0.51**	**2.60**
Market price (2)					
High	**$ 17.13**	**$ 16.94**	**$ 16.13**	**$ 12.63**	**$ 17.13**
Low	**$ 11.50**	**$ 14.13**	**$ 10.25**	**$ 5.75**	**$ 5.75**
1999					
Net sales	$ 697.7	$ 800.8	$ 718.8	$ 735.8	$ 2,953.1
Gross profit	92.1	108.4	89.4	98.9	388.8
Net income	29.0	33.7	25.4	27.5	115.6
Diluted earnings per share (1)	0.61	0.67	0.50	0.56	2.34
Market price (2)					
High	$ 16.69	$ 16.31	$ 16.94	$ 15.00	$ 16.94
Low	$ 11.69	$ 12.00	$ 14.00	$ 11.94	$ 11.69

(1) Full year diluted earnings per share will not necessarily agree to the sum of the four quarters because each quarter is a separate calculation.
(2) Prices are based on the composite tape of the New York Stock Exchange. We had approximately 475 stockholders of record at February 7, 2001.

Board of Directors

Richard E. Dauch[3]
Co-Founder, Chairman & Chief Executive Officer
American Axle & Manufacturing Holdings, Inc.

Richard C. Lappin[1]
Senior Managing Director
The Blackstone Group

Bret D. Pearlman[2]
Managing Director
The Blackstone Group

Forest J. Farmer, Sr.[1]
Chairman, Chief Executive Officer & President
Farmer Group

B.G. Mathis[2]
Retired Former Executive Vice President – Administration & Chief Administrative Officer
American Axle & Manufacturing Holdings, Inc.

John P. Reilly[3]
Retired Former Chairman, President & Chief Executive Officer
Scott Technologies, Inc.

Robert L. Friedman[2]
Senior Managing Director
The Blackstone Group

Larry W. McCurdy[3]
Retired Former Chairman, President & Chief Executive Officer
Echlin, Inc.

Thomas K. Walker[1]
Chairman & Chief Executive Officer
Lackawanna Acquisition Corporation

(1) Class I Director
(2) Class II Director
(3) Class III Director

Board of Directors information as of February 9, 2001

Officers and Stockholders' Information

OFFICERS

Richard E. Dauch *
Co-Founder, Chairman & Chief Executive Officer

Joel D. Robinson *
President & Chief Operating Officer

Robin J. Adams *
Executive Vice President – Finance & Chief Financial Officer

Patrick S. Lancaster *
Group Vice President, Chief Administrative Officer & Secretary

Yogen N. Rahangdale *
Group Vice President & Chief Technical Officer

Ronald J. Allman **
Vice President – Manufacturing, Forging Division

Marion A. Cumo **
Vice President – Materials Management & Logistics

David C. Dauch **
Vice President – Manufacturing, Driveline Division

Richard F. Dauch **
Vice President – Sales

George J. Dellas **
Vice President – Quality Assurance & Customer Satisfaction

David J. Demos **
Vice President – Strategic Planning & Business Development

Robert A. Krause *
Vice President & Treasurer

Roy H. Langenbach **
Vice President – Procurement

Allan R. Monich **
Vice President – Human Resources

Daniel V. Sagady **
Vice President – Engineering & Product Development

Alan L. Shaffer **
Vice President – Manufacturing Services

* *Executive Officer of American Axle & Manufacturing Holdings, Inc. and American Axle & Manufacturing, Inc.*
** *Executive Officer of American Axle & Manufacturing, Inc.*

STOCKHOLDERS' INFORMATION

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.
1840 Holbrook Avenue
Detroit, Michigan 48212-3488
Telephone: (313) 974-2000
Internet: http://www.aam.com

CORPORATE NEWS RELEASES
Corporate news releases are available on AAM's home page on the internet at:
http://www.aam.com

EQUITY SECURITIES
American Axle & Manufacturing Holdings, Inc.
Common Stock Transfer Agent
EquiServe Trust Co.
P.O. Box 2500
Jersey City, New Jersey 07303-2500

Telephone: (800) 446-2617
(Inside the United States)
Telephone: (201) 324-0498
(Outside the United States)
Telephone: (201) 222-4955
(TDD/TTY for hearing impaired)
Internet: http://www.equiserve.com

FORM 10-K ANNUAL REPORT
AAM's Form 10-K annual report for 2000, filed with the Securities and Exchange Commission, is available on request from:
American Axle & Manufacturing Holdings, Inc.
Investor Relations
1840 Holbrook Avenue
Detroit, MI 48212-3488
Telephone: (313) 974-2073

ANNUAL MEETING OF STOCKHOLDERS
The 2001 Annual Meeting of Stockholders will be held on Wednesday, May 2, 2001, at 2:30 p.m. at the Michigan State University Management Education Center, 811 W. Square Lake Road, Troy, Michigan

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Six-Year Financial Summary

	Year Ended December 31,					
	2000	1999	1998[a]	1997	1996	1995
			(In millions, except per share data)			
Statement of income data:						
Net sales	**$3,069.5**	$ 2,953.1	$ 2,040.6	$ 2,147.5	$ 2,022.3	$ 1,968.1
Gross profit	**426.2**	388.8	156.4	216.0	172.0	179.5
Selling, general and administrative expenses	**162.6**	147.6	106.4	104.0	83.1	70.6
Operating income	**259.4**	237.8	49.9	112.0	88.9	108.9
Net interest (expense) income	**(58.8)**	(54.6)	(44.3)	(1.8)	9.4	9.1
Net income	**129.2**	115.6	3.5	55.3	61.7	70.6
Diluted earnings per share	**$ 2.60**	$ 2.34	$ 0.08	$ 0.43	$ 0.43	$ 0.50
Diluted shares outstanding[b]	**49.7**	49.5	43.2	126.5	142.5	142.5
Balance sheet data:						
Cash and equivalents	**$ 35.2**	$ 140.2	$ 4.5	$ 17.3	$ 126.0	$ 170.3
Total assets	**1,902.5**	1,673.2	1,223.9	1,016.7	771.2	737.0
Total long-term debt	**817.1**	774.9	693.4	507.0	2.4	1.0
Preferred stock	**-**	-	-	-	200.0	200.0
Stockholders' equity	**372.0**	263.7	40.4	37.2	250.2	168.6
Invested capital[c]	**1,153.9**	898.4	729.3	526.9	326.6	199.3
Other data:						
Net cash provided by operating activities	**$ 252.2**	$ 310.3	$ 81.4	$ 200.8	$ 65.7	$ 196.9
EBITDA[d]	**377.0**	334.6	119.2	152.8	134.7	144.8
Depreciation and amortization	**107.9**	89.5	68.8	50.2	36.1	25.2
Capital expenditures	**381.0**	301.7	210.0	282.6	162.3	147.1

(a) The following table sets forth the estimated adverse impact on our 1998 operating results related to the GM work stoppage which occured in June and July of 1998 and the temporary reduction of certain payments made by GM to us as part of the commercial arrangements between us.

	As Reported 1998	*GM Work Stoppage*	*Temporary Payment Reductions*	*As Adjusted 1998*
Net sales	*$ 2,040.6*	*$ 187.6*	*$ 51.5*	*$ 2,279.7*
Gross profit	*156.4*	*71.2*	*51.5*	*279.1*
Operating income	*49.9*	*71.2*	*51.5*	*172.6*
EBITDA (d)	*119.2*	*71.2*	*51.5*	*241.9*

(b) Pursuant to a migratory merger effected in January 1999 and undertaken in connection with the IPO, each share of American Axle & Manufacturing of Michigan, Inc.'s common stock was converted into 3,945 shares of American Axle & Manufacturing Holdings, Inc. common stock. All share and per share amounts have been adjusted to reflect this conversion.

(c) Invested capital represents the sum of total debt and stockholders' equity (including preferred stock) less cash and equivalents.

(d) EBITDA represents income from continuing operations before interest expense, income taxes, depreciation and amortization. EBITDA should not be construed as income from operations, net income or cash flow from operating activities as determined by generally accepted accounting principles. Other companies may calculate EBITDA differently.

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Detroit Gear & Axle

Global Procurement Ctr.

MSP Industries

Prototype Center

Technical Center

Three Rivers Driveline

New York

Buffalo Gear, Axle & Linkage

Cheektowaga Machining

Tonawanda Forge

Ohio

Colfor Manufacturing

EUROPE

Albion Automotive

Glasgow, Scotland

Lancashire, England

European Business Office

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LATIN AMERICA

Guanajuato Gear & Axle

Silao, Mexico

SOUTH AMERICA

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Curitiba, Brazil

ASIA

Asia Pacific Office

Tokyo, Japan

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