AMERICAN
AXLE &
MANUFACTURING

Leading Through Technology And Value

2001 ANNUAL REPORT

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.

Quality Policy

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

CONTENTS

Delivering power and value

to vehicles around the world is the focus of American Axle & Manufacturing. We manufacture, engineer, design and validate driveline systems and related components and modules, chassis systems and forged products for manufacturers of trucks, buses, sport utility vehicles and passenger cars across the globe. Our advanced technology and impeccable, on-time delivery make us the 12th largest Tier 1 automotive supplier in North America and 21st in global OEM automotive parts sales in 2001.

MOTOR TREND
2002 SUV of the Year

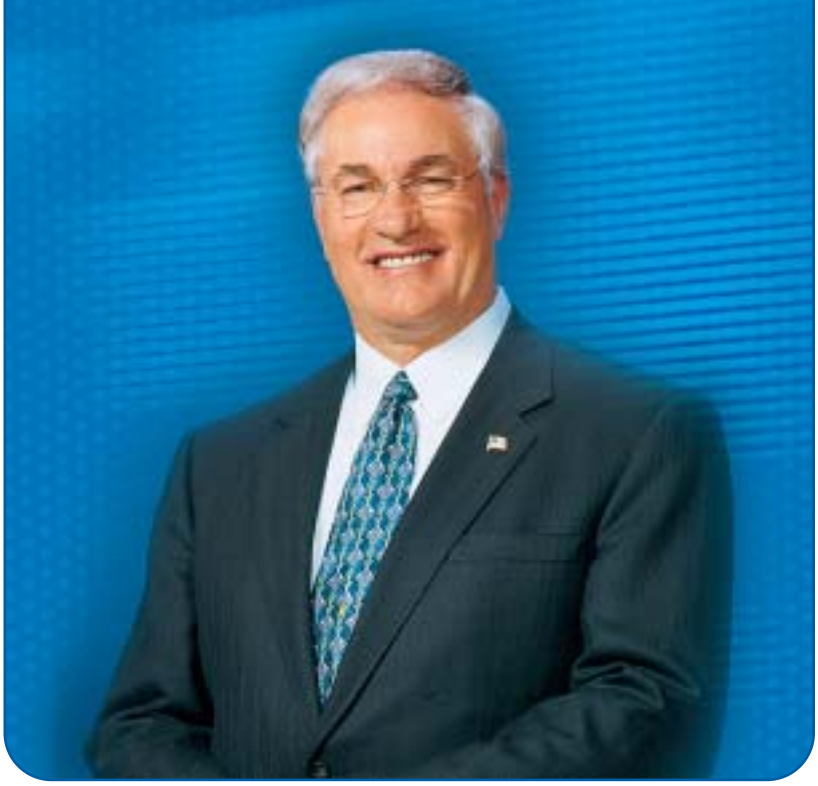
Innovative AAM products, such as our "breakthrough" IOP front axle module, are featured on the GMC Envoy, Motor Trend's 2002 SUV of the Year.

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.

AAM Financial Recognitions—2001

- **2001 Shareholder Value Award** from *Automotive News* and PricewaterhouseCoopers.
- ***Forbes* "Platinum 400"** listing as one of the best big companies in America.
- **11th highest** stock price return of NYSE listed companies.



Richard E. Dauch
Co-Founder, Chairman of the Board & CEO

Chairman's Letter

I am extremely pleased to report on another very successful year for AAM, our third as a public company. Starting with the sound of the opening bell on the New York Stock Exchange (NYSE) on January 29, 1999 and continuing through 2001, AAM has exceeded the earnings expectations of investors and analysts for 12 straight quarters. Our strong performance for 2001 includes:

- Sales of $3.1 billion, an increase of $38 million over 2000.
- Earnings per share that exceeded analysts' expectations in all four quarters.
- Positive free-standing cash flow achieved in the third and fourth quarters.
- Return on invested capital of 11.9 percent, which places us in the top of our peer group for 2001.
- Stockholder total return on investment of over 169 percent—ranking AAM 11th highest of all companies listed on the NYSE.

My belief in the long-term prospects and value of this company has never been stronger. And, as AAM continues to mature, I believe its value will be appropriately recognized by the investment community.

Making gains despite difficult economic times

AAM's success is due in part to our ability to manage proactively in a changing marketplace. Applying a forward-thinking strategy, we aligned and adjusted our workforce to support our customers' needs. By focusing on increasing productivity while keeping tight reins on costs, we were able to demonstrate competitive leadership and deliver 2001 financial results that exceeded expectations.

Front row (left to right): Patrick S. Lancaster, Group VP, Chief Administrative Officer & Secretary; Yogendra N. Rahangdale, Group VP & Chief Technical Officer. Back row: Joel D. Robinson, President & Chief Operating Officer; Robin J. Adams, Executive VP-Finance & Chief Financial Officer.

Achieving major milestones for 2001

This past year brought the final stages of American Axle & Manufacturing's transformation into a premier Tier I supplier of sophisticated driveline systems, modules and components serving more than 75 customers on five continents. We completed seven years of major investments to rebuild our facilities, refresh our product lines and prepare our workforce for the industry's globalization and consolidation. As we did so, we put the days of heavy capital spending behind us and, as promised, our freestanding cash flow ships passed in the night—from negative to positive beginning with the third quarter and continuing with the fourth quarter of 2001.

In June, General Motors selected AAM as the driveline systems and module supplier and Tier I systems integrator for the program that will replace the largest vehicle platform in the world. This multi-billion-dollar, life-of-program contract provides a rock-solid base of top line revenue for the next decade or more—a significant advantage for AAM.

Our highly successful follow-on stock offering in mid-August resulted in 65 new institutional stockholders along with existing investors purchasing 7.5 million shares of AAM stock. The net proceeds to the company for the 3 million shares issued by the company were used to reduce our debt levels. Our debt to capital ratio was reduced from 68 percent at December 31, 2000 to 62 percent at December 31, 2001. As a result of the offering, active trading of AXL shares increased by more than seven times.

Automotive News and PricewaterhouseCoopers named AAM as the recipient of the 2001 Shareholder Value Award for having the highest total stockholder return of any global parts supplier. AAM's stock performance increased more than 169 percent for the 2001 year. AAM was also selected by *Forbes* magazine for inclusion in the "Platinum 400" listing as one of the best big companies in America in terms of outstanding profitability and growth.

Leading through technology and value

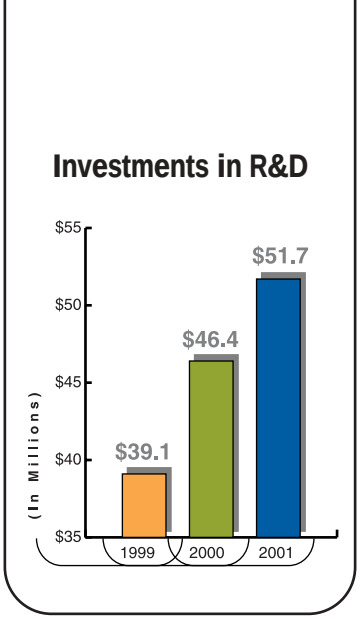
AAM's technological innovation is a major differentiator in today's automotive market and a key that continues to open doors to new business. Technologically sophisticated products and enhancements enable us to offer the added value so highly sought by Original Equipment Manufacturers (OEMs) and consumers—value that increases content per vehicle and margin growth.

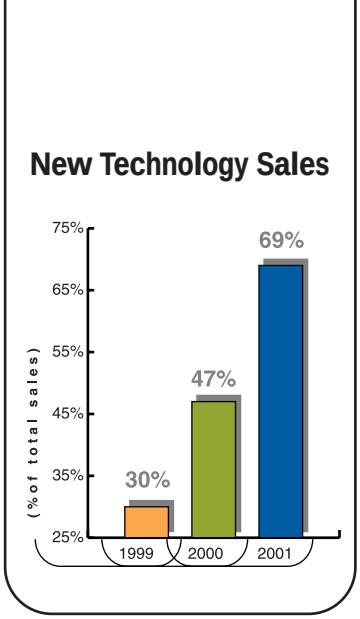
I firmly believe our ability to deliver fresh, innovative products is vital to securing new business for AAM. Regardless of market and economic conditions, we expect to increase future R&D investment by 10 percent per year over the next few years.

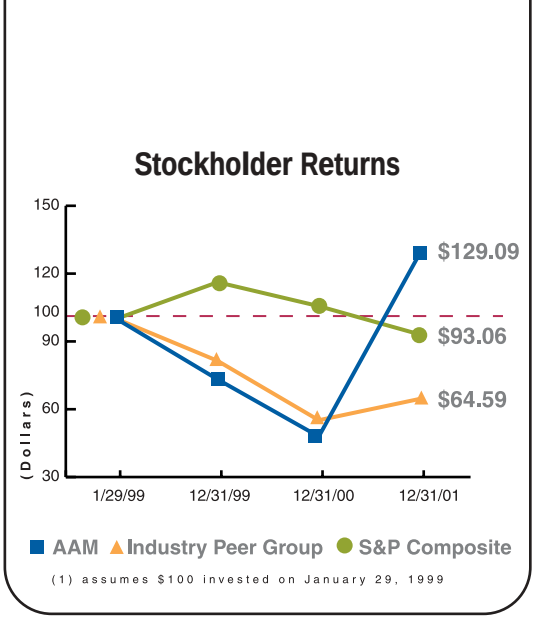
The Stabilizer Bar Development Center at the Detroit Forge ensures rapid prototyping and eliminates costly, non-value-added processes.

Thanks to associates' efficiency efforts, Three Rivers expanded its product line from driveshafts (shown here) to include axles.

AAM announces plans to build its world headquarters in Detroit Michigan. From left: Gil Hill, former president of the Detroit City Council; John Engler, governor of Michigan; Dick Dauch; and Dennis Archer, former City of Detroit mayor.







I find it very reassuring that our product portfolio is based on outstanding, state-of-the-art technology. Approximately 69% percent of AAM's 2001 sales are from new higher-value-added technology products introduced since mid-1998. AAM products are featured on award-winning vehicles such as the Chevrolet Silverado (*Motor Trend*'s 2001 Truck of the Year), Chevrolet Avalanche (*Motor Trend*'s 2002 Truck of the Year) and GMC Envoy (*Motor Trend*'s 2002 SUV of the Year), and will soon be introduced on the all-new 2003 heavy duty Dodge Ram truck.

We will continue to apply advanced technology throughout our products, processes and systems—especially in the areas of reducing mass and noise, vibration and harshness (NVH), while enhancing product durability. Product development will address consumer and industrial trends now reshaping the automotive market—including increased demand for light trucks and sport utility vehicles, emerging front-wheel-drive/all-wheel-drive and crossover vehicle segments and increased OEM outsourcing.

Our I-Ride™ chassis modules, for example, are designed to improve ride and handling while offering OEMs assembly line efficiencies and reduced capital expenditures. AAM engineers have retrofitted five current, on-the-road vehicles with our driveline modules and tested them under real-world conditions. I-Ride™ modules are perfectly suited for sport utility and passenger car-based crossover vehicles.

Strong customer confidence brings new business

Over the past three years, AAM has added over $1 billion in business for new or successor programs—a strong indicator of customer confidence in the value of AAM's products and services. We are actively quoting additional business opportunities that feature our newly developed and highly engineered systems, modules, components and forgings.

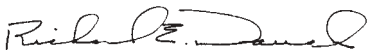
In addition, we have diversified our customer portfolio significantly over the past seven years, increasing sales to non-GM customers from 3 percent in 1994 to 13 percent in 2001. This number is expected to be over 24 percent by 2004—all while growing business with General Motors.

Forward thinking—2002 and beyond

AAM will continue to engage the same forward-thinking strategies that have made us a leader in our industry segment. We will continue to focus on achieving return on invested capital at levels exceeding our peer group, and generating positive free cash flow, as our capital expenditures significantly decline. With 14 major launch programs, 2002 will be the largest launch year in our history.

As you read this annual report, I hope you will begin to understand why I believe AAM's best days are ahead of us. We believe we offer significant potential in terms of stock price appreciation as we continue to deliver strong financial performance. We have an established world presence, an expanding customer base, an exciting new technology product portfolio, reduced capital expenditures, positive free-standing cash flow, a healthy volume of booked business and strong prospects for additional new business.

I also hope you will share in my ever-increasing passion for American Axle & Manufacturing and my sincere enthusiasm for profitable growth opportunities.



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

Technology Leadership

Around The World

2002 Chevrolet Trailblazer
J.D. Power and Associates
"Most Appealing Midsize SUV"

Ongoing technology initiatives and geographic accessibility are a winning combination in helping AAM distinguish itself as a premier, global supplier of driveline systems, modules, components and forged products for the world's largest OEMs.

New concepts for value-added products and enhancements come to life at our Technical Center in Rochester Hills, Michigan. Once developed, engineered, prototyped, tested and validated, the designs make their way to AAM's state-of-the-art manufacturing facilities where they are forged, machine-finished and assembled into products. With 23 locations strategically situated near core automotive manufacturing regions, we are well positioned to meet our customers' requirements for world-class quality, on-time delivery, reliable local supply and support, and globally competitive pricing.

It is no coincidence that, as AAM's performance and technological expertise continue to win new customers and new business, our high value-added products are appearing on an increasing number of award-winning vehicles.

AAM's new, value-added, world-class quality products are featured on leading vehicles

MOTOR TREND
2001 Truck of the Year
Chevrolet Silverado HD

2003 Hummer H2

Albion Automotive provides European markets with driveline and chassis systems, crankshafts and components for vehicles ranging from passenger car to heavy commercial.

AAM do Brasil launched new sales with customers like Bosch, Scania and Teksid while also providing components to AAM facilities.

Photo by Jim Frenak

Advanced R&D techniques developed at AAM's metallurgical and metalforming labs result in smaller, more durable gears and greater packaging flexibility for OEMs.

The 2003 DaimlerChrysler heavy duty Dodge Ram 4X4 full-size pick-up trucks will feature AAM front and rear axle systems including driveshafts.

AAM's 11.5-inch "world" axle is manufactured in Scotland, Mexico and the U.S. for several major OEMs.

2002 Cadillac Escalade

2001 Mercedes-Benz Six-Ton Sprinter Van

Technology

Customer-driven, Forward-thinking

Jim Downs, Executive Engineer, (left) and Ron Schoenbach, Director, Advanced Engineering, inspect one of AAM's industry-leading modules, designed for greater efficiency and improved ride and handling.

Customer-driven. In a fast-paced industry where a manufacturer is only as good as its next new product, we know that the more solutions we develop to improve vehicle performance and design flexibility, the better equipped we are to attract new and existing customers.

Forward-thinking. AAM associates are continually and proactively seeking creative solutions that result in added value—whether that means enhancing product design to improve vehicle marketability, creating new solutions to prepare for trends on the horizon, or perfecting forging and machining techniques to lower costs for customers.

Technology-focused. At AAM, innovation is fueled by a healthy commitment to research and development; state-of-the-art equipment, processes, systems and facilities; and associates proficient in mathematics, computer sciences and the engineering arts.

In 2001, AAM's technology focus included the following:

Systems and Modules—AAM's complete driveline systems and front and rear independent drive modules enable us to stay ahead of the market. Our modules consist of pre-assembled components that can be placed into a vehicle as one integral unit, often with just a few bolts. AAM driveline systems and modules provide automakers with significant benefits, ranging from material cost savings and weight reduction to greater system flexibility, more productive assembly and overall plant efficiency.

We developed and produced the advanced design I-Ride™ chassis suspension modules for five current-model, on-the-road vehicles. The I-Ride™ product line consists of:

- Front and rear suspension modules for mid-size SUVs
- Rear suspension modules for full-size SUVs
- Front-wheel-drive/all-wheel-drive modules for passenger and crossover vehicles

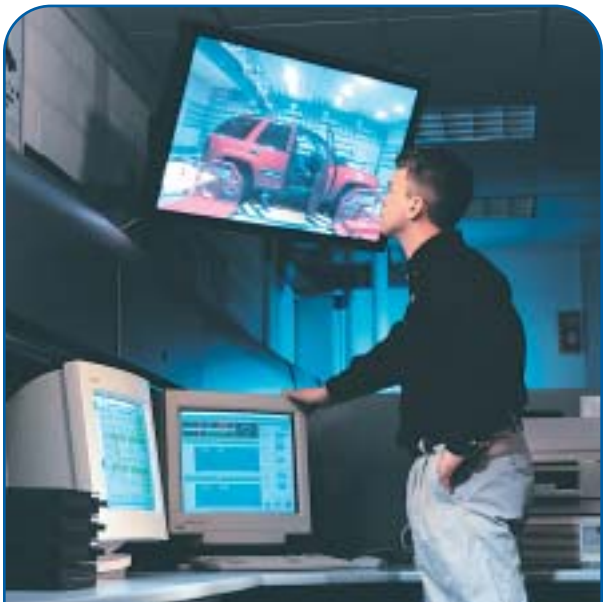
Innovative product design—AAM continually and creatively combines product, process and systems technology to meet customer requirements. One example is our integrated oil pan (IOP) front axle module which incorporates advanced electronics and is produced using state-of-the-art manufacturing processes. In response to an OEM challenge to engineer a front axle to accommodate lower engine placement, we designed a front axle that integrates the vehicle's oil pan. The result is a module that helps reduce part complexity, shortens assembly time, optimizes NVH performance, and when paired with AAM's electronic disconnect, helps improve fuel economy.

Noise, vibration and harshness improvements—The lower a vehicle's NVH, the quieter and smoother the ride. Using computer-aided tools and dynamometers, AAM engineers perform critical NVH simulations and confirm predictions on AAM component and system designs. The process extends to the plant floor, where parts such as gear sets are processed and tested to ensure that proper harmonics and tight tolerances are maintained through machining and final assembly. The goal from start to finish: zero perceptible NVH.

Advanced technologies—AAM continues to develop advanced technology products, including the following:

- **TracRite™ GT limited-slip differentials** deliver enhanced handling and traction. The 2003 heavy duty Dodge Ram is the first application utilizing AAM's TracRite™ GT.
- The **SmartBar™ stabilizer system** utilizes specially designed stabilizer bars, high-tech electronic circuitry and integrates AAM's proven electronic disconnect actuator to attain maximum performance on varying road conditions. The system is stabilized for on-road handling while a vehicle's performance can be enhanced with full vertical wheel travel to handle rough terrain.

By the end of 2002, **75 percent** of our sales will feature new higher-value-added technology products introduced by AAM since mid-1998.



Dr. Glen Steyer, Director, NVH/Product Development, heads the NVH Lab, where vehicle noise, vibration and harshness are evaluated at AAM's state-of-the-art Technical Center.

AAM technical and development centers

AAM's technical and development centers provide the world-class resources that allow our cross-functional teams to move programs from concept to working prototype in timeframes designed to beat customer expectations.

Our Technical Center and Module Development Center in Rochester Hills, Michigan are located near the North American technical centers of several major OEMs. This state-of-the-art resource supports active AAM research programs in a variety of disciplines and also provides vehicle design validation services to customers. It is one of the industry's best-equipped facilities for the design, engineering, validation, testing and prototyping of driveline components, systems and modules. The center includes structural testing, NVH and metallurgical laboratories and an extensive array of equipment, including several dynamometers that accommodate a wide range of vehicle components and systems.

AAM also has engineering development centers at the following locations:

- Detroit Forge: Stabilizer Bar Development Center
- Detroit Gear & Axle: Axle Development Center
- Buffalo Gear, Axle & Linkage: Axle Development Center
- Three Rivers Driveline: Driveshaft Development Center
- AAM do Brasil: Axle Design Office
- Albion Automotive: Axle Development Center

To ensure superior performance, NVH engineer Kevin Jenski tests a complete driveline system in AAM's driveline dynamometer.

AAM Advantage

Driveline System Performance

Key Technological Advancements

TracRite™ differentials—
superior reliability, performance, handling and traction

PowerLite™ aluminum axles—
smaller, lighter, stronger, quieter

PowerDense™ gear sets—
reduced weight and mass with greater torque capacity

SmartBar™ stabilizer system—
improved on-road, high-speed handling; maximum off-road traction and ground clearance

IOP front axle module—
contributes to lower vehicle height, translating into improved road visibility for the driver

NVH improvements—
smooth, quiet ride integrated anonymously into the vehicle systems

On the road or off, vehicles with AAM driveline systems and components deliver the finest performance advanced technology can provide.

AAM produces components and systems that deliver the power that puts trucks, SUVs, commercial vehicles and passenger cars in motion. AAM driveline systems and products contribute many of the key selling features OEMs promote to their prospective customers —a smooth, quiet ride; superior performance and handling; durability; and reliability. We continually create, enhance and refine our products, with one goal in mind—product-differentiating performance that exceeds OEM and driver expectations. That's the AAM advantage.


Front axles • Rear axles • Independent rear-drive
suspension (IRDS) modules • Independent four-wheel-drive
axles • I-Ride™ chassis suspension modules • Crankshafts
TracRite™ differentials • Driveline systems • Driveshafts
Forged components • PowerDense™ gear sets
Roll-control systems • Steering linkage assemblies
Steering and suspension components • U-joints • Axle shafts
Pinions • Ring gears • Side gears • Converter lugs • Transmission
shafts • Connecting rods • Wheel spindles • Stabilizer bars
Hitchballs • PowerDense™ gears • SmartBar™ • Front axles
Rear axles • Independent rear-drive suspension (IRDS)
modules • Independent four-wheel-drive axles • I-Ride™ chassis
suspension modules • TracRite™ differentials • Crankshafts
Forged components
Steering
suspension components
gears
Wheel
gear sets

Front axles for the GMC Envoy, Oldsmobile Bravada and Chevrolet Trailblazer roll off the assembly line at Detroit Gear & Axle.

Manufacturing

Turning Innovation Into Value-added Products

MOTOR TREND

AAM driveline, steering and stabilizer components are featured on the Chevrolet Avalanche,* Motor Trend's *2002 Truck of the Year.

AAM has designed, forged, machined, tested and assembled millions of products for vehicles driven around the world. Our well-trained and dedicated associates have elevated manufacturing to an art—flawlessly launching complex, high-volume product programs on or ahead of schedule.

Our commitment to R&D extends to the plant floor where advanced manufacturing techniques are used to execute product designs with precision. New technologies add product value and provide savings over previous processes.

Driveline operations

2001 highlights

We developed three distinct axles for the 2003 heavy duty Dodge Ram at Guanajuato Gear & Axle, with components from Buffalo Gear, Axle & Linkage and Detroit Gear & Axle. AAM will also produce driveshafts for these vehicles. These products will launch in mid-2002.

AAM facilities joined forces to begin production of IOP front axles, rear axles, driveshafts and roll-control systems for mid-size SUVs, including the GMC Envoy, Chevrolet Trailblazer and Oldsmobile Bravada.

Albion Automotive's contract to supply crankshafts to the MG Rover Group, the U.K.'s remaining high-volume, independent car company, was extended through 2007.

AAM do Brasil utilized their facilities to manufacture select products to support axle production at other AAM sites. This South American facility also provides a variety of machined components for many new customers.

In 2001, Buffalo Gear, Axle & Linkage used state-of-the-art designs, tooling, equipment and technology to produce rear axles for General Motors mid-size SUVs.

To enhance AAM's global reach and to serve the South American market, a South American Business Office was established in São Paulo, Brazil.

We were selected as the driveline systems and module supplier and Tier I systems integrator for a major future General Motors light truck and SUV program.

AAM will supply rear axles and rear driveshafts for a new retro-style General Motors niche vehicle.

We will supply all-wheel-drive front and rear axle systems and front and rear driveshafts for the new Hummer H2 light-duty sport utility truck.

Manufacturing productivity update

In the past year, AAM manufacturing processes and systems yielded significant productivity improvements. Cost improvements resulted from activities and programs such as PIP (Productivity Improvement Program), our lean manufacturing initiative—the AAM Manufacturing System, Shainin problem-solving quality techniques, Six Sigma practices, material cost savings initiatives and SCALE (Supplier Customer Alliance Leads to Excellence).

Productivity programs in 2001 included the following:

- In more than 200 AAM Manufacturing System workshops, 2,200 associates were introduced to techniques that resulted in significant improvements in Overall Equipment Effectiveness (OEE) and First Time Quality (FTQ).
- Detroit Gear & Axle launched the first phase of a model plant that took lean manufacturing principles and technology improvements to the next level.
- Proactive procurement techniques, such as online bidding, helped AAM achieve lower material costs.

New cellular workstation arrangements that streamline production enabled Guanajuato Gear & Axle to lead the way in employing AAM lean manufacturing initiatives.

Innovations in crankshaft design at Albion Automotive yielded higher production rates, lower tooling costs and extended customer contracts.

AAM utilizes quick-die-change processes throughout our forging operations.

Net-shaped transmission gears are machined with the latest technology, faster and with less waste at AAM's Cheektowaga facility.

Forging operations

AAM's expertise in metallurgical engineering and metal forming technology has made us a leader in manufacturing near-net and net-shaped forgings. Techniques such as advanced gear cutting and CNC milling enable us to produce gears with reduced mass that are superior in durability and warranty performance. Mass reduction also gives OEM engineers and product planners greater flexibility in vehicle design and packaging.

2001 Highlights

In 2001, Tonawanda Forge and Cheektowaga facilities received the "Supplier of the Year Award" from ZF Industries for achievements in quality and delivery. These AAM plants manufacture net-shaped gears for vehicles produced in Alabama and Europe.

Colfor Manufacturing and MSP Industries began full production of components for a variety of customers, including a manufacturer of tapered bearings for DaimlerChrysler and General Motors vehicles.

Our Tonawanda Forge and Cheektowaga facilities began final preparations during 2001 for the 2002 production launch of net-shaped automatic transmission differential gears—an AAM first—for Ford Motor Company.

A new 314 upset cell at the Detroit Forge combines the making of splines and flanges into a single process in the production of full-float truck axles.

New forging processes in 2001

Tonawanda Forge implemented new net-shaped differential pinion and side gear technology to forge net-shaped differential gears. The process requires less material and produces gears with no flash on the perimeter and a recessed center, resulting in less machining and production time.

The Detroit Forge implemented free flow eyeform technology, a process implemented in a roll-control system assembly cell. The free flow eyeform pierces the eye in the automated bender, essentially combining two processes into one.

Guanajuato Forge began developing a friction welding process in the production of full float axle shafts for a DaimlerChrysler program. The new three-piece process delivers cost savings in terms of reduced machining and capital investment.

Colfor Manufacturing implemented a new process that reduces the steps required to manufacture slip yokes. The process creates a one-piece forged yoke with a net-formed spline that is stronger and more durable than splines produced with traditional methods.

AAM's newest forge opened at the Guanajuato complex in late 2001. Effective program management led to a flawless launch for products featured on the 2003 heavy duty Dodge Ram driveline program.

The People Who Make

Well trained, well educated, dedicated, productive, competitive, caring. Whether spearheading a new program on the plant floor or collecting toys for needy children in the community, the men and women of AAM continually use their time and energy to make good things happen.

Community and charitable activities

AAM supports non-profit educational, health, civic and cultural organizations in communities where our associates work and live. In addition to corporate monetary contributions, AAM coordinates volunteer opportunities for organizations including: the American Heart Association, Girl Scouts and Boy Scouts, the YMCA, Boys & Girls Clubs of America and Toys for Tots. AAM's workforce contributes to the United Way and its affiliated agencies.

AAM associates are active participants in their local communities in events such as Habitat for Humanity and 4H projects in Three Rivers; the *Annual Thanksgiving Day Parade* and *Clean Sweep* in Detroit; and *Brush Up Buffalo* in Western New York.

Throughout AAM, associates expressed their concern for the victims of September 11 by coordinating blood drives and collecting monetary donations to aid survivors and their families.

Education

Always an AAM priority, our educational support includes:

- The continuing education of AAM associates through on-site skill-set development programs.
- Education-based contributions to the United Negro College Fund, the Detroit Area Pre-College Engineering Program (DAPCEP) and public school districts near AAM facilities.
- Outreach programs, such as School-to-Work, in which AAM associates partner with local high school students and teachers to provide insight into manufacturing skills and careers.

Environment

By early 2002, all AAM facilities in the U.S. are scheduled to be ISO 14001-certified, meeting the global

"AAM associates care about their communities,

It Happen

standard for an effective environmental management system. Non-U.S. facilities are scheduled for certification later this year. Internally, AAM introduces environmentally-friendly products and processes as they become available. A new coating in the cold extrusion process reduces pollution, improves lubrication and eliminates large tanks on the plant floor, freeing up space for additional manufacturing programs. Outside, AAM has beautified a number of its manufacturing sites with greenbelts. In addition, AAM will be revitalizing a former brownfield site when it builds its new world headquarters in Detroit.

Information technology

AAM has been recognized by *Information Week* as one of the Top 30 companies in the use of Information Technology and one of the Top 5 companies leveraging electronic collaboration throughout the supply chain. In 2001, we continued to apply existing information technologies and build new online e-business systems to reduce waste, facilitate problem solving and deliver world-class technology:

- Our new super portal, "*aam.com*," facilitates communication and collaboration company-wide as well as with suppliers and customers.
- Advanced computer technology and network architecture enable us to relay our engineering model and related information to customers and suppliers in real time, and share our lean manufacturing philosophy throughout our supply chain.
- Our efforts toward a "paperless" organization led to the introduction of a new PeopleSoft® human resources system that drives self-services and fosters clear, effective, timely communication throughout AAM.
- Our SMARTrace™ computer tracking system captures and monitors component build information at each point in the manufacturing process to maintain tighter inventory control.
- Through real-time computing, Factory Information System technology helps us monitor production and first-time quality and ensure delivery of the right product in the right quantity to the right customer at the right time.

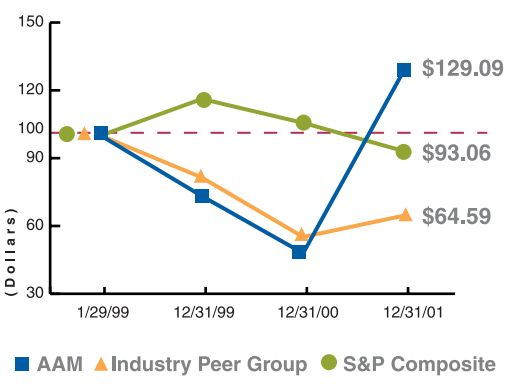
their peers, their customers and society."

–Richard E. Dauch

To Our Stockholders

American Axle & Manufacturing's management team is focused on delivering stockholder value. Since we became publicly traded on January 29, 1999 we have worked hard to increase the level of interest in our company on Wall Street. Our Wall Street research coverage has grown from five analysts covering AAM in early 1999 to **twelve** analysts covering the company currently.

Senior management of AAM meets with research analysts, existing investors and potential investors several times throughout the year. The company also participates in major industry investor conferences. We host tours of our manufacturing facilities and technical center. We web-cast our quarterly earnings calls and continue to improve the investor portion of our web-site. We take a proactive approach to communicating to our investors. When there was an apparent information void in the investment community shortly after the September 11TH tragedy, we hosted an investor conference call, which provided an update on the company's status and stability plus a positive near-term business outlook. We also differentiated ourselves by issuing a **"positive earnings warning"** in connection with our second quarter 2001 earnings results as compared to the many negative warnings issued by our peers.



AXL LISTED NYSE

AAM stockholder return has outperformed its peers and industry averages since we went public on January 29, 1999. For the year ended December 31, 2001, AAM had a return to investors of over **169** percent versus a peer group return of 17 percent. AAM's return ranked **#11** for **New York Stock Exchange** listed companies for the year 2001. Since AAM became publicly traded, AAM had a stockholder return of positive 29 percent versus a peer group return of negative 35 percent.

Automotive News and ***PricewaterhouseCoopers*** recognized this superior performance with their **2001 Shareholder Value Award** in the suppliers category for performance over a one-year period. AAM outperformed the 34 global companies evaluated in this category.

AAM was acknowledged as a leading company in terms of outstanding profitability and growth when it was included in the **"Platinum 400"** by ***Forbes*** magazine in its January 7, 2002 issue.

On August 15, 2001, AAM completed a follow-on offering of 3 million shares of common stock by AAM and 4.5 million shares of common stock by Blackstone Capital Partners at a price of $20.50 per share, before underwriting discounts and commissions. The net proceeds to the company, approximating $58 million, were used to reduce debt levels. The primary purpose for this offering, however, was to increase the company's stock float. As a result of this offering, the amount of AXL stock available in the public market doubled and the average daily trading volume of AXL stock increased by more than seven times. We also were pleased to add more than 65 new institutional investors as a result of the offering.

AAM's management owns a substantial portion of AXL stock and is "at-risk" through compensation tied to items such as free cash flow, return on invested capital and earnings performance that we feel align management's interests with those of our investors. Notwithstanding our performance to date, we believe there is significant upside in the value of AAM.


SHORT JAN --> < SHORT MAR > < SHORT JUN >
LIBOR ALL OR NONE
FEB ---> JAN
EOF EOH EOH EOH EOM
P37 P32 P35 P37

Financials

Management's Discussion and Analysis

OVERVIEW

We are a premier Tier I supplier to the automotive industry and a worldwide leader in the manufacture, engineering, design and validation of driveline systems and related components and modules for light trucks, sport utility vehicles ("SUVs") and passenger cars. Driveline systems include 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, modules, driveshafts, chassis and steering 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 manufactured in North America, supplying substantially all of GM's rear axle and front four-wheel drive/all-wheel drive ("4WD/AWD") axle requirements for these vehicle platforms in 2001. As a result of our Component Supply Agreement ("CSA") and 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 87% of our total sales in 2001, 85% in 2000 and 86% in 1999.

We sell most of our products under long-term contracts with prices established at the time the contracts were entered into. 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 or their respective derivatives, which typically run 6 to 12 years, and require us to remain competitive with respect to technology, design and quality. We will compete for future GM business upon the termination of the LPCs or the CSA.

We also supply driveline systems and other related components to DaimlerChrysler, Ford Motor Company, Nissan, Renault, Visteon Automotive, Delphi Automotive, PACCAR and other OEMs and Tier I supplier companies. Our sales to customers other than GM were $404.6 million in 2001 as compared to $475.4 million in 2000, principally as a result of lower demand for passenger car and commercial vehicle products in North America and Europe. However, we expect our sales to customers other than GM to grow significantly in the next two years as we launch several new driveline system products for DaimlerChrysler and other OEMs and Tier I supplier companies. The most significant of these new product programs is our launch of the heavy duty Dodge Ram 4x4 full-size pick-up trucks ("Dodge Ram program") in the second half of 2002. As a result of the Dodge Ram program, we expect our sales to DaimlerChrysler to exceed 10% of our total sales in 2003, as compared to less than 1% in 2001 and all previous years.

INDUSTRY AND COMPETITION

The worldwide automotive industry is highly competitive. Customers are constantly pressuring suppliers to optimize and improve technology, quality, product cost, durability, reliability and overall customer service. 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, 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 we are 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

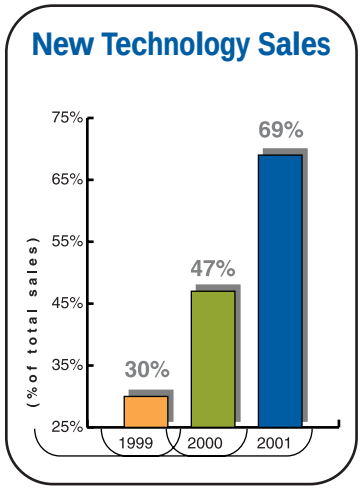
Module with Electronic Disconnect are two current examples of high value-added technology products that have resulted from our commitment to research and development and that seek to improve the performance and design flexibility of our customers' products.

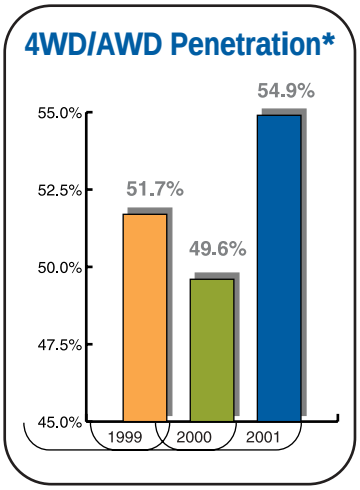
In 2001, we generated approximately $2.15 billion of our sales, or approximately 69% of our total sales, from new axle and related driveline system components introduced by us since July 1998. Our strong performance in major new product introductions will continue in 2002 as we launch several new high-volume 4WD/AWD driveline products to support the Dodge Ram program, GM's new extended versions of its mid-sized SUVs (Chevrolet Trailblazer and GMC Envoy), GM's new full-size vans, the Hummer "H2" sport-utility truck ("SUT") and the Chevrolet SSR. In 2003, we will launch new 4WD/AWD driveline products to support GM's new mid-sized pick-up trucks, which will replace the current Chevrolet S-10 and GMC Sonoma models.

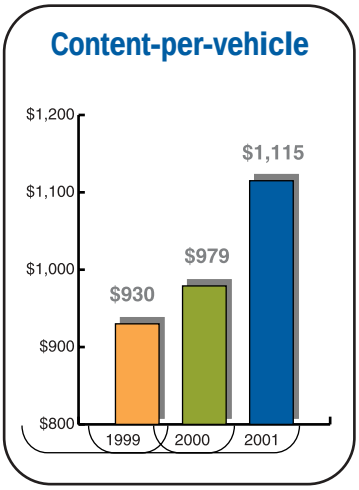
Over the past three years, our content-per-vehicle has increased nearly 30% from $870 in 1998 to $1,115 in 2001. This was primarily as a result of our efforts in new product development and the industry trend toward higher 4WD/AWD penetration. We benefit from increased 4WD/AWD penetration because we are able to sell two axles on a 4WD/AWD vehicle versus one on a traditional light truck or SUV. The increase in our content-per-vehicle is important because it has enabled us to increase our sales at a rate in excess of changes in industry production rates. Despite a 10% decline in North American ("N.A.") light vehicle builds and a 4% decline in GM's light truck production in 2001 as compared to 2000, our sales increased 1% in 2001. We believe that this performance is evidence of our ability to bring the right products, systems and technologies to market at a competitive cost for our customers.

RESULTS OF OPERATIONS

Net sales. Net sales increased 1% in 2001 to $3.107 billion as compared to $3.069 billion in 2000 and $2.953 billion in 1999. Our increase in 2001 sales of 1% as compared to 2000 compares to an estimated 10% reduction in N.A. light vehicle production for the year and a 4% decrease in GM light truck production. Our increase in 2000 sales of 4% compares to an increase in N.A. light vehicle production of just under 1% and a 1% decrease in GM light truck production.

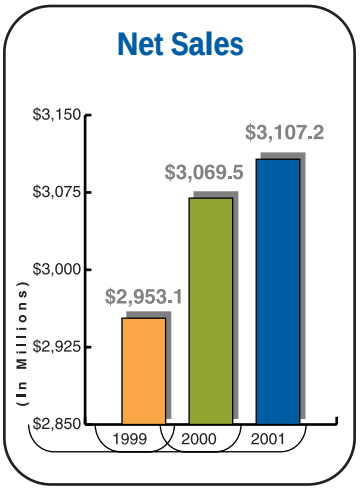






These charts illustrate how we have benefited from two key trends favorably impacting our business. Sales generated from new axle and related driveline system components introduced by us since July 1998 now represent approximately 69% of our total sales. 4WD/AWD penetration has increased to 55% and is expected to increase further to greater than 60% in 2003. As a result of contributions from these new higher value-added technology products and increasing 4WD/AWD product penetration, content-per-vehicle has increased nearly 30% over the past three years from $870 in 1998 to in excess of $1,100 in 2001.

** 4WD/AWD penetration is equal to the total number of front axles we produce divided by the total number of rear axles we produce for the vehicle programs on which we sell product.*



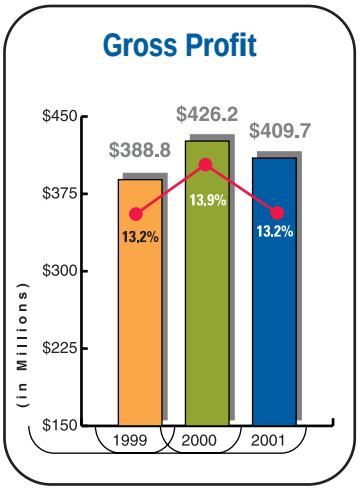
The primary driver of our increased sales in 2001 and 2000 is our higher content-per-vehicle, which increased from $930 in 1999 to $979 in 2000 and $1,115 in 2001. This increase was primarily a result of increased sales of higher value-added technology products to GM, particularly our new 11.5" rear axle system used in GM's heavy-duty pick-up trucks and our new IOP Front Axle Module featured on GM's new mid-sized SUVs. Our content-per-vehicle also increased in 2001 because of higher 4WD/AWD penetration in the products we ship to GM.

In 2001, sales gains related to our increased content-per-vehicle discussed above were partly offset by reductions in shipments to customers other than GM affected by lower demand for passenger cars and commercial vehicles in North America and Europe.

In 2000, our 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.

Gross Profit. Gross profit was $409.7 million in 2001 as compared to $426.2 million in 2000 and $388.8 million in 1999. Gross margin was 13.2% in 2001 as compared to 13.9% in 2000 and 13.2% in 1999. The decreases in gross profit and gross margin in 2001 were partly due to lost contribution margin resulting from lower production volumes. In addition, depreciation and amortization expense increased $18.7 million in 2001. This increase in depreciation and amortization, which principally reflects the cost of investments we have made to support our long-term production requirements, negatively impacted gross profit and gross margin in 2001.

Gross profit and gross margin were also negatively impacted in 2001 by an $11.7 million fourth quarter charge related to the consolidation of our operations located in the United Kingdom. This charge included a $10.0 million accrual of severance obligations payable to approximately 350 associates pursuant to FASB Statement No. 112, *"Employers' Accounting for Postemployment Benefits."* This charge also included $1.5 million of costs that will be incurred to cancel contracts for services no longer needed and a $0.2 million write off of fixed assets made permanently idle as a result of a facility shut-down. Excluding the impact of this $11.7 million charge, gross profit would have been $421.4 million and gross margin would have been 13.6% in 2001.



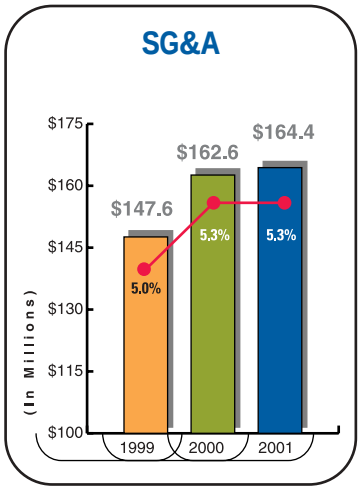
● % of sales

The increases in gross profit and gross margin in 2000 were primarily due to the increased sales of higher value-added technology products to GM and the successful start-up of production in our new Silao, Mexico ("Guanajuato Gear & Axle") and Cheektowaga, New York, ("Cheektowaga") manufacturing facilities.

Selling, General and Administrative Expenses ("SG&A"). Selling, general and administrative expenses, or "SG&A" (including research and development), amounted to $164.4 million in 2001 as compared to $162.6 million in 2000 and $147.6 million in 1999. Research and development spending ("R&D") increased approximately 11% to $51.7 million in 2001 as compared to $46.4 million in 2000 and $39.1 million in 1999. However, this increase in R&D was partly offset by cost reductions in other areas, including the impact of lower profit-sharing accruals in 2001.

The increase in spending related to SG&A in 2000 as compared to 1999 was primarily due to increased R&D, the addition of Colfor, MSP and our joint venture in Brazil, and increased profit-sharing accruals resulting from increased profitability.

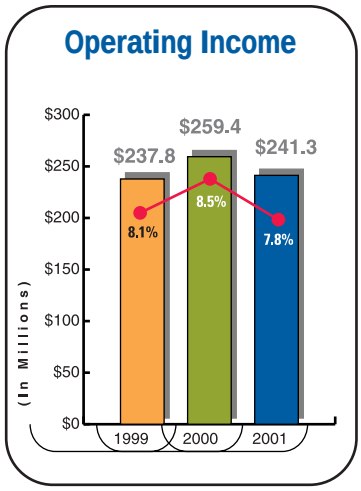
We continue to aggressively pursue development of new product, process and systems technologies in our R&D activities, particularly in the areas of mass and weight reduction; noise, vibration and harshness ("NVH") improvements; durability; and new product offerings such as integrated driveline systems and modules. In addition to the Smart-Bar™ and the IOP Front Axle Module, our increased commitment to R&D has resulted in our development of the PowerLite™ aluminum rear-axle system, TracRite™ traction-enhancing locking



● % of sales

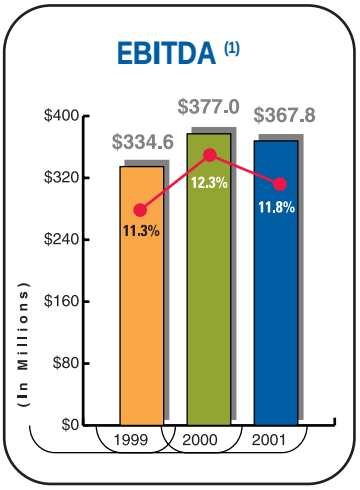
differentials (including a brand-new electronically controlled TracRite™ EL model) and our Gen II and Gen III universal joints, all of which have been instrumental in new product program wins for us. We have also developed, installed and tested independent front and rear drive chassis suspension modules ("IFDA" and "IRDA") and we are currently developing electronic wheel-speed sensors for traction and stability control for potential future SUV and passenger car applications.

Operating Income. Operating income was $241.3 million in 2001 as compared to $259.4 million in 2000 and $237.8 million in 1999. Operating margin was 7.8% in 2001, 8.5% in 2000 and 8.1% in 1999. The decreases in operating income and operating margin in 2001 were primarily due to the factors discussed above relating to the decreases in gross profit and gross margin and the increase in SG&A expenses.



The increases in operating income and operating margin in 2000 were primarily due to the factors discussed above relating to the increases in gross profit and gross margin, 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] EBITDA was $367.8 million in 2001 as compared to $377.0 million in 2000 and $334.6 million in 1999. EBITDA margin was 11.8% in 2001, 12.3% in 2000 and 11.3% in 1999. The decreases in EBITDA and EBITDA margin in 2001 were due primarily to the factors discussed above relating to the decreases in gross profit and gross margin and the increase in SG&A expenses.



(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.

The increases in EBITDA and EBITDA margin in 2000 were due primarily to the factors discussed above relating to the increases in gross profit and gross margin, partially offset by increased R&D and other SG&A costs. EBITDA and EBITDA margin also increased in 2000 as a result of other operating cost reductions.

Net Interest Expense. Net interest expense was $59.4 million in 2001, $58.8 million in 2000 and $54.6 million in 1999. The increase in net interest expense in 2001 was due primarily to a higher average amount of net debt outstanding, partially offset by lower average interest rates in effect in 2001. The increase in net interest expense in 2000 was due primarily to higher average amounts of net debt outstanding and higher average interest rates in effect in 2000, offset by a higher amount of interest capitalized on construction in progress.

Other Income (Expense), Net. We recognized $1.0 million of other expense in 2001 as compared to other income of $2.8 million in 2000 and $0.2 million in 1999. These amounts related principally to foreign exchange gains and losses. 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 $66.0 million in 2001, $74.2 million in 2000, and $67.8 million in 1999. Our effective tax rate was 36.5% in 2001 and 2000 and 37.0% in 1999.

Net Income and Earnings Per Share. Net income was $114.9 million in 2001 as compared to $129.2 million in 2000 and $115.6 million in 1999. Diluted earnings per share was $2.36 per share in 2001 as compared to $2.60 per share in 2000 and $2.34 per share 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 principally 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 2002.

Operating Activities. Net cash provided by operating activities was $232.8 million in 2001, $252.2 million in 2000 and $310.3 million in 1999. After adjusting our earnings for the impact of deferred income taxes, depreciation and amortization, and pensions and other postretirement benefits, we generated $8.6 million of additional operating cash flow in 2001 as compared to 2000 and $25.8 million of additional operating cash flow in 2000 as compared to 1999.

A change in payment terms with GM effective March 1, 2001 from net 20 days to net 25th proximo adversely impacted our operating cash flow by approximately $90 million in the first quarter of 2001. This final change in payment terms with GM was effective for products shipped to GM beginning on March 1, 2001 and completes a three-year transition from the next-day payment terms in effect prior to March 1, 1999. Similar changes in payment terms with GM adversely impacted operating cash flow by approximately $80 million in the first quarter of 2000 and $70 million in the first quarter of 1999. Operating cash flow was favorably impacted in 2001 as compared to 2000 by increased accounts receivable collections related to customer tooling and reduced inventories.

Inventories at year-end 2001 and year-end 2000 reflected increases as compared to 1999 levels that were necessary to support customer banking requirements related to new product launches. At year-end 2001, inventories also reflect the impact of our strategy to manage daily production volumes and avoid premium operating costs in advance of unusually high customer demand for certain products in the first quarter of 2002. Repair parts inventories have also increased in 2001 and 2000 as compared to 1999 levels as we took delivery of a significant amount of new machinery and equipment and sourced our initial stocks of related maintenance material.

In addition, our increased funding of supplier payments and other accrued expenses resulted in approximately $136.6 million less operating cash flow in 2001 on a year-over-year basis. The primary driver of this increased funding requirement in 2001 was a significant reduction in capital spending in the second half of 2001 as compared to the much higher rates of spending we incurred beginning in the second half of 1999 and running through the second quarter of 2001.

Our accruals at year-end 2001 include $9.7 million for the unpaid severance benefit obligations related to the consolidation of our operations located in the United Kingdom, all of which we expect to fund in 2002. Although we may pursue legal remedies or other indemnities to mitigate the financial impact of these severance obligations, we have accrued our best estimate of the lump-sum benefits that will ultimately be paid to eligible associates upon termination of employment.

Operating cash flow in 2000 was adversely impacted by increased working capital requirements due to the start-up of production in Guanajuato Gear & Axle and Cheektowaga. Operating cash flow in 2000 was also negatively 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.

Investing Activities. Capital expenditures were $375.5 million in 2001, $381.0 million in 2000 and $301.7 million in 1999. We significantly reduced the rate of capital spending in the second half of 2001 and expect to limit our capital expenditures to between $250 million and $275 million in 2002. Our largest capital projects in 2001 and 2002 include our investment to support the Dodge Ram program and GM's launch of its mid-sized SUVs (including the new extended versions to be launched in 2002), as well as expenditures required to support the 2003 launch of GM's new mid-sized pick-up trucks (including the Chevrolet S-10 and GMC Sonoma replacements) and the H2 SUT. Capital spending in 2001 and 2002 also includes the construction of a forging facility adjacent to Guanajuato Gear & Axle and other strategic investments designed to support new manufacturing processes, systems and technologies, and to improve product designs and achieve operating cost reductions.

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 heavy-duty pick-up trucks and full-size luxury SUVs (the GMC Yukon Denali and the Cadillac Escalade).

Our investing activities in 1999 included approximately $239 million of outlays related to the Colfor and MSP acquisitions and our investment in the joint venture in Brazil.

Although we have invested a significant amount of capital over the past several years to support our long-term production requirements, we believe these investments support our goal of improving our financial performance over the long-term. Our after-tax return on invested capital, or "ROIC", was nearly 12% in 2001 and in excess of 16% in each of the two previous years. We believe our ROIC performance is at the top end of the range for our industry. Our ROIC was lower in 2001 because of an increase in our working capital requirements primarily attributable to the March 2001 change in GM payment terms, an increase in the fixed capital we have in place in advance of future product program launches, and the impact of the estimated 10% reduction in N.A. light vehicle production in 2001 as compared to 2000.

Financing Activities. Net cash provided by financing activities was $120.2 million in 2001, $24.1 million in 2000 and $179.5 million in 1999. Total long-term debt increased in 2001 by $61.1 million to $878.2 million at year-end, principally as a result of increasing our net borrowings under our primary bank credit facilities to fund capital spending requirements.

In August 2001, we raised $57.7 million in a public offering of 7.5 million shares of our common stock through which we issued 3.0 million treasury shares and Blackstone Capital Partners II Merchant Banking Fund L.P. and certain of its affiliates (collectively, "Blackstone") sold 4.5 million shares. The number of our shares that are publicly traded approximately doubled upon consummation of this offering and we used the proceeds from the sale of our shares to repay a portion of our outstanding debt. Prior to this offering, Blackstone's beneficial ownership of our common stock was approximately 55.2%. After the offering, Blackstone's beneficial ownership of our common stock was approximately 43.2%. Consistent with our Registration Statement

Return on Invested Capital ("ROIC")

The following table summarizes the calculation of ROIC in 2001, 2000 and 1999:

	Year Ended December 31,		
	2001	**2000**	**1999**
		(In millions)	
Net income	**$ 114.9**	$ 129.2	$ 115.6
Add: After-tax net interest expense	**37.7**	37.3	34.4
After-tax return	**152.6**	166.5	150.0
Net debt at year-end [1]	**865.9**	781.9	634.7
Stockholders' equity at year-end	**534.7**	372.0	263.7
Invested capital at year-end	**1,400.6**	1,153.9	898.4
Invested capital at beginning of year	**1,153.9**	898.4	729.3
Average invested capital	**1,277.3**	1,026.2	813.9
ROIC [2]	**11.9%**	16.2%	18.4%

(1) net debt is equal to total debt less cash and equivalents
(2) other companies may calculate ROIC differently

disclosures related to the offering, we have assumed the exercise of approximately 4.0 million deep-in-the-money options to purchase common shares that were granted prior to our IPO and that were exercisable at the time of the offering in the determination of Blackstone's beneficial ownership percentages disclosed in the preceding sentences.

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

In 1999, our financing activities included several significant events. In February 1999, we raised approximately $107.7 million of net proceeds in our initial public offering and issued 7 million shares of common stock. Our initial public offering was followed in March 1999 by our issuance of $300 million of 9.75% senior subordinated notes due 2009, a transaction in which we raised net proceeds of approximately $288.7 million. Also in 1999, we closed sale-leaseback transactions involving $187.0 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. 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. Other significant sources of our debt capitalization include our senior subordinated notes, capital lease obligations and uncommitted bank credit lines.

The Bank Credit Facilities, which were last amended in August 2000, consist of the following:

- 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
- Senior Secured Term Loan Facility (the "Term Loan") providing for term loans in an aggregate principal amount of $373.0 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 $175.0 million will be due.

In 2001, we secured the use of uncommitted bank credit lines totaling $40 million. At December 31, 2001, $7 million was outstanding under such Money Market Lines.

With respect to the Bank Credit Facilities, $373.0 million was outstanding under the Term Loan and $25.0 million was outstanding under the Revolver at year-end 2001. At year-end 2001, we had additional borrowing capacity of $353.8 million under the Bank Credit Facilities, all of which was available under the Revolver. Additionally at year-end 2001, $138.0 million was outstanding and an additional $15.0 million was available to us under the Receivables Facility.

The weighted average interest rate of our long-term debt outstanding as of year-end 2001 was approximately 6.0% as compared to approximately 9.0% at December 31, 2000.

Our off-balance sheet financing relates principally to operating leases for certain facilities and manufacturing machinery and equipment. These operating leases are fully disclosed in Note 2 to our financial statements. Pursuant to these operating leases, most of which were initiated prior to year-end 1999, we have the opportunity to purchase underlying machinery and equipment at specified buy-out dates. We plan to exercise our purchase option for approximately $45 million of such lease buy-outs in 2002. Remaining lease renewal or repurchase options are approximately $3 million in 2003 and $106 million in 2006. We will continue to evaluate lease financing alternatives in the future.

MARKET RISK

Our business and financial results are affected by fluctuations in world financial markets, including interest rates and currency exchange rates. Our hedging policy has been developed to manage these risks to an acceptable level based on management's judgment of the appropriate trade-off between risk, opportunity and cost. We do not hold 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. We had only a nominal amount of currency hedges in effect during 2001 and, at December 31, 2001, we did not have any currency hedges in place. 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 our 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 16.6% of our weighted average interest rate at December 31, 2001) on our long-term debt outstanding at year-end 2001 would be approximately $5.3 million.

At year-end 2001, we have hedged a portion of our interest rate risk by entering into interest rate swaps with a notional amount of approximately $45.5 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%. We have designated the interest rate swaps as effective cash flow 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. We adopted FASB Statement No. 133, *"Accounting for Derivative Instruments and Hedging Activities,"* as amended, on January 1, 2001. FASB Statement No. 133 requires us to recognize all derivatives on the balance sheet at fair value. If a derivative qualifies under FASB Statement No.133 as a hedge, depending on the nature of the hedge, changes in the fair value of the derivative are either offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value, and changes in the fair value of derivatives that do not qualify as hedges, are immediately recognized in earnings.

The cumulative effect of adopting FASB Statement No. 133 was to decrease stockholders' equity by $0.8 million, net of tax. The effect on net income in 2001 was not significant, primarily because the hedges in place as of January 1, 2001 qualified for hedge accounting treatment and were highly effective.

CYCLICALITY AND 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. Because rates of inflation in countries where we have significant operations have been moderate during the periods presented, we believe that inflation has not had a significant impact on our operations. 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 our 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 financial condition, results of operations or cash flows.

GM has agreed to indemnify and hold us harmless from certain environmental issues identified as potential areas of environmental concern at March 1, 1994. GM has also agreed to indemnify us, 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.

EFFECT OF NEW ACCOUNTING STANDARDS

Effective January 1, 2002, we will adopt FASB Statement No. 142, *"Goodwill and Other Intangible Assets."* Under FASB Statement No. 142, we will no longer amortize goodwill. Instead, we will periodically evaluate goodwill and any other acquired intangible assets for impairment. We are in the process of determining the impact of adopting FASB Statement No. 142 and whether it will have a material effect on our results of operations or financial position. Goodwill amortization amounted to $4.0 million for the year-ended 2001.

Effective January 1, 2002, we will adopt FASB Statement No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets."* FASB Statement No. 144 supersedes FASB Statement No. 121 as well as certain provisions of APB 30. The main objective of FASB Statement No. 144 is to clarify certain provisions of FASB Statement No. 121 relating to impairment of long-lived assets. FASB Statement No. 144 also includes more stringent requirements for classifying assets available for disposal and expands the scope of activities that will require discontinued operations reporting. We are in the process of determining the impact of adopting FASB Statement No. 144 and whether it will have a material effect on our results of operations or financial position.

SIGNIFICANT ACCOUNTING POLICIES

Our significant accounting policies are more fully described in Note 1 to our financial statements. 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. By their nature, these estimates are subject to an inherent degree of uncertainty and actual results could differ from our estimates.

Our significant accounting policies include:

Estimated useful lives for depreciation. At December 31, 2001, over 80% of our capitalized investment in property, plant and equipment, or nearly $1.4 billion, is related to productive machinery and equipment used in support of our manufacturing operations. The selection of appropriate useful life estimates for such machinery and equipment is a critical element of our ability to properly match the cost of such assets with the operating profits and cash flow generated by their use. We currently depreciate productive machinery and equipment on the straight-line method using composite useful life estimates up to 15 years. While we believe that the useful life estimates currently being used for depreciation purposes reasonably approximate the period of time we will use such assets in operations, unforeseen changes in product design and technology standards or cost, quality and delivery requirements may result in actual useful lives that differ materially from the current estimates.

Valuation of indirect inventories. As part of our strategy to control our investment in working capital and manage the risk of excess and obsolete stocks, we generally do not maintain large balances of productive raw materials, work-in-process or finished goods inventories. Instead, we utilize lean manufacturing techniques and coordinate our daily production activities to meet our daily customer delivery requirements. The ability to address plant maintenance issues on a real-time basis is a critical element of our ability to pursue such an operational strategy. Our machinery and equipment may run for long periods of time without disruption and suddenly fail to operate as intended. In addition, certain repair parts required to address such maintenance requirements may be difficult or cost prohibitive to source on a real time basis.

To facilitate our continuous preventive maintenance strategies and to protect against costly disruptions in operations due to machine downtime, we carry a significant investment in inherently slow-moving machine repair parts and other maintenance materials and supplies. At December 31, 2001, such indirect inventories comprise approximately 25% of our total gross inventories. For inventory valuation purposes, we evaluate our usage of such slow-moving inventory on a quarterly basis by part number and adjust our inventory valuation allowances as necessary to recognize as an asset only those quantities that we can reasonably estimate will be used. While we believe that we have made an appropriate valuation of such inventory for accounting purposes, unforeseen changes in inventory usage requirements, manufacturing processes, maintenance and repair

techniques, or inventory control may result in actual usage of such inventories that differ materially from current estimates.

Accounts receivable allowances. The scope of our relationship with GM is inherently complex and, from time to time, we identify differences in our valuation of receivables due from GM. Differences in the quantity of parts processed as receipts by GM and the quantity of parts shipped by AAM is one major type of such difference. Other differences arise in the application of commercial agreements addressing the valuation of nonroutine pricing adjustments or cost recoveries related to such items as significant variations in production volumes, engineering changes and the impact of foreign exchange and metal market price movements. By their nature, some of the commercial issues require bilateral discussion or negotiation to resolve. It is not unusual for some of these differences to be outstanding for several months before both parties agree on the valuation of an item and settle the receivable.

From a financial reporting perspective, we track the aging of uncollected billings and adjust our allowances based on our evaluation of the probability of collection. If we are uncertain as to whether we will be successful collecting a balance we determine in accordance with our understanding of a commercial agreement, we generally do not recognize the revenue or cost recovery until such time that the uncertainty is removed. While we believe that we have made an appropriate valuation of our accounts receivable due from GM and other customers for accounting purposes, unforeseen changes in our ability to enforce commercial agreements, collect aged receivables, or maintain effective controls and procedures relating to the proper cut-off of shipping and invoicing activities may result in actual collections that differ materially from current estimates.

FORWARD-LOOKING INFORMATION

Certain statements in this MD&A and elsewhere in this Annual Report are forward-looking in nature and relate to trends and events that may affect our 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 our 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, but not limited to, the following:

- adverse changes in the economic conditions or political stability of our principal markets (particularly North America, Mexico, Europe and South America);
- reduced demand for our customers' products (particularly GM's light trucks and SUVs);
- reduced purchases of our products by GM and other customers;
- our ability and our customers' ability to successfully launch new product programs;
- our ability to respond to changes in technology or increased competition;
- supply shortages or price fluctuations in raw materials, utilities or other operating supplies;
- our customers' ability to maintain satisfactory labor relations and avoid work stoppages;
- our ability to attract and retain key associates;
- our ability to maintain satisfactory labor relations;
- risks of noncompliance with environmental regulations;
- liabilities arising from legal proceedings to which we are or may become a party or claims against us or our products;
- availability of financing for working capital, capital expenditures, R&D, or other general corporate purposes;
- adverse changes in laws or government regulations affecting our products or our customers' products (including the Corporate Average Fuel Economy regulations); and
- other unanticipated events and conditions that hinder our ability to compete.

It is not possible to foresee or identify all such factors and we make 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.

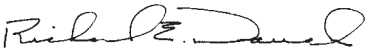
MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

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 financial statements were prepared in conformity with generally accepted accounting principles and include amounts based on our best estimates and judgments.

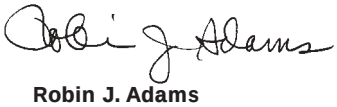
We are also responsible for maintaining a comprehensive system of internal control. Our system of internal control is designed to provide reasonable assurance that we can rely upon our accounting systems and the underlying books and records to prepare financial information presented in accordance with 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 comprised 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 Stockholders 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 of the Board
& Chief Executive Officer
January 23, 2002



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

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, 2001 and 2000, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2001. 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, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP
Detroit, Michigan
January 23, 2002

Consolidated Statements of Income

American Axle & Manufacturing Holdings, Inc.

	Year Ended December 31,		
	2001	2000	1999
	(In millions, except per share data)		
Net sales	**$ 3,107.2**	$ 3,069.5	$ 2,953.1
Cost of goods sold	**2,697.5**	2,643.3	2,564.3
Gross profit	**409.7**	426.2	388.8
Selling, general and administrative expenses	**164.4**	162.6	147.6
Goodwill amortization	**4.0**	4.2	3.4
Operating income	**241.3**	259.4	237.8
Net interest expense	**(59.4)**	(58.8)	(54.6)
Other income (expense), net	**(1.0)**	2.8	0.2
Income before income taxes	**180.9**	203.4	183.4
Income taxes	**66.0**	74.2	67.8
Net income	**$ 114.9**	$ 129.2	$ 115.6
Basic earnings per share	**$ 2.55**	$ 2.79	$ 2.87
Diluted earnings per share	**$ 2.36**	$ 2.60	$ 2.34

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS
AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.

	December 31, 2001	2000
	(In millions, except per share data)	
ASSETS		
Current assets:		
Cash and equivalents	**$ 12.3**	$ 35.2
Accounts receivable, net of allowance of $12.7 in 2001 and $12.0 in 2000	**270.7**	247.3
Inventories	**158.0**	160.4
Prepaid expenses and other	**17.3**	43.1
Deferred income taxes	**19.7**	14.6
Total current assets	**478.0**	500.6
Property, plant and equipment, net	**1,448.7**	1,200.1
Deferred income taxes	**19.4**	16.1
Goodwill	**150.2**	154.3
Other assets and deferred charges	**64.6**	31.4
Total assets	**$ 2,160.9**	$ 1,902.5
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	**$ 304.0**	$ 341.3
Accrued compensation and benefits	**110.6**	120.2
Other accrued expenses	**62.4**	48.8
Total current liabilities	**477.0**	510.3
Long-term debt	**878.2**	817.1
Deferred income taxes	**36.7**	-
Postretirement benefits and other long-term liabilities	**234.3**	203.1
Total liabilities	**1,626.2**	1,530.5
Stockholders' equity:		
Preferred stock, par value $0.01 per share; 10.0 million shares authorized; no shares outstanding in 2001 or 2000	**-**	-
Common stock, par value $0.01 per share; 150.0 million shares authorized; 47.2 million and 46.8 million shares issued in 2001 and 2000, respectively	**0.5**	0.5
Series common stock, par value $0.01 per share; 40.0 million shares authorized; no shares outstanding in 2001 or 2000	**-**	-
Paid-in capital	**242.2**	202.1
Retained earnings	**308.2**	193.3
Treasury stock at cost; 0.1 million shares in 2001 and 3.1 million shares in 2000	**(0.7)**	(21.3)
Accumulated other comprehensive loss, net of tax:		
Minimum pension liability adjustment	**(9.9)**	-
Foreign currency translation adjustments	**(3.9)**	(2.6)
Unrecognized loss on derivatives	**(1.7)**	-
Total stockholders' equity	**534.7**	372.0
Total liabilities and stockholders' equity	**$ 2,160.9**	$ 1,902.5

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.

	Year Ended December 31,		
	2001	2000	1999
		(In millions)	
Operating activities:			
Net income	**$ 114.9**	$ 129.2	$ 115.6
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**126.6**	107.9	89.5
Deferred income taxes	**40.2**	30.5	9.8
Pensions and other postretirement benefits, net of contributions	**11.2**	16.7	43.6
Loss on disposal of equipment	**5.2**	4.8	4.3
Changes in operating assets and liabilities:			
Accounts receivable	**(25.0)**	(59.5)	(46.6)
Inventories	**1.2**	(28.8)	12.7
Accounts payable and accrued expenses	**(44.3)**	92.3	73.7
Other assets and liabilities	**2.8**	(40.9)	7.7
Net cash provided by operating activities	**232.8**	252.2	310.3
Investing activities:			
Purchases of property, plant and equipment	**(375.5)**	(381.0)	(301.7)
Acquisitions, net of cash acquired	**-**	-	(239.4)
Proceeds from sale-leaseback of equipment	**-**	-	187.0
Net cash used in investing activities	**(375.5)**	(381.0)	(354.1)
Financing activities:			
Issuance of 9.75% Senior Subordinated Notes Due 2009	**-**	-	288.7
Net borrowings (payments) of long-term debt	**61.6**	45.7	(206.7)
Debt issuance costs	**(0.1)**	(1.4)	(10.3)
Issuance of common stock, net	**57.7**	-	107.7
Employee stock option exercises	**1.0**	1.1	0.1
Purchase of treasury stock	**-**	(21.3)	-
Net cash provided by financing activities	**120.2**	24.1	179.5
Effect of exchange rate changes on cash	**(0.4)**	(0.3)	-
Net increase (decrease) in cash and equivalents	**(22.9)**	(105.0)	135.7
Cash and equivalents at beginning of year	**35.2**	140.2	4.5
Cash and equivalents at end of year	**$ 12.3**	$ 35.2	$ 140.2

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.

	Common Stock Shares Outstanding	Common Stock Par Value	Paid-in Capital	Retained Earnings (Accumulated Deficit)	Treasury Stock	Accumulated Other Comprehensive Loss	Comprehensive Income
			(In millions, except per share data)				
Balance at January 1, 1999	32.5	$ -	$ 92.5	$ (51.5)	$ -	$ (0.6)	
Net income				115.6			$ 115.6
Foreign currency translation, net						(0.1)	(0.1)
Comprehensive income							$ 115.5
Issuance of common stock	7.0	0.4	107.3				
Exercise of stock options	6.9	0.1					
Balance at December 31, 1999	46.4	0.5	199.8	64.1	-	(0.7)	
Net income				129.2			$ 129.2
Foreign currency translation, net						(1.9)	(1.9)
Comprehensive income							$ 127.3
Exercise of stock options, including tax benefit	0.4		2.3				
Purchase of treasury stock	(3.1)				(21.3)		
Balance at December 31, 2000	43.7	$ 0.5	$ 202.1	$ 193.3	$ (21.3)	$ (2.6)	
Net income				**114.9**			**$ 114.9**
Cumulative effect of adopting FASB Statement No. 133, net						**(0.8)**	**(0.8)**
Unrecognized loss on derivatives, net						**(0.9)**	**(0.9)**
Foreign currency translation, net						**(1.3)**	**(1.3)**
Minimum pension liability adjustment, net						**(9.9)**	**(9.9)**
Comprehensive income							**$ 102.0**
Issuance of common stock	**3.0**		**37.1**		**20.6**		
Exercise of stock options, including tax benefit	**0.4**		**3.0**				
Balance at December 31, 2001	**47.1**	**$ 0.5**	**$ 242.2**	**$ 308.2**	**$ (0.7)**	**$ (15.5)**	

See accompanying 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 and related components and modules for light 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, modules, 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 in connection with our initial public offering, 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 the effects of all intercompany transactions, balances and profits in our consolidation.

Revenue Recognition. We recognize revenue when products are shipped to our customers and title transfers under standard commercial terms.

Research and Development Costs. We expense research and development costs ("R&D") as incurred. R&D costs were $51.7 million, $46.4 million and $39.1 million in 2001, 2000 and 1999, 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.

Customer Tooling. Reimbursable costs we incur for customer tooling are classified as accounts receivable. When we estimate the cost of such customer tooling to exceed customer reimbursement, we record a provision for such loss as a component of our allowance for doubtful accounts.

Inventories. We state our inventories at the lower of cost or market. The cost of our U.S. inventories is determined principally using the last-in, first-out method (LIFO). The cost of foreign inventories and all of our indirect inventories is determined principally using the first-in, first-out method (FIFO). We classify indirect inventories, which include perishable tooling, repair parts and other materials consumed in the manufacturing process but not incorporated into our finished products, as raw materials. When we determine that our gross inventories exceed usage requirements, or if inventories become obsolete or otherwise not saleable, we record a provision for such loss as a component of our inventory accounts. This policy predominantly affects our accounting for indirect inventories.

Inventories consist of the following:

	2001	2000
	(In millions)	
Raw materials and work-in-process	**$ 166.1**	$ 165.5
Finished goods	**25.7**	31.3
Gross inventories	**191.8**	196.8
LIFO reserve	**(9.3)**	(9.1)
Other inventory valuation reserves	**(24.5)**	(27.3)
Net inventories	**$ 158.0**	$ 160.4

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

	2001	2000	Estimated Useful Lives
	(In millions)		*(Years)*
Land	**$ 17.3**	$ 15.2	-
Land improvements	**11.5**	8.7	10-15
Buildings and building improvements	**235.8**	201.1	15-40
Machinery and equipment	**1,372.4**	1,101.9	3-15
Construction in progress	**282.7**	236.9	-
	1,919.7	1,563.8	
Accumulated depreciation	**(471.0)**	(363.7)	
Property, plant and equipment, net	**$ 1,448.7**	$1,200.1	

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 averaged approximately 13 years in 2001 and 2000. Depreciation amounted to $118.2 million, $100.6 million and $85.5 million in 2001, 2000 and 1999, respectively.

Acquisitions. Effective July 1, 2001, we adopted FASB Statement No. 141, *"Business Combinations."* FASB Statement

No. 141 requires that we use the purchase method of accounting for all future business combinations. FASB Statement No. 141 also requires that we recognize certain intangible assets acquired in business combinations as assets apart from goodwill. Our adoption of FASB Statement No. 141 did not impact our financial position or results of operations in 2001.

In 1999, we acquired 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. We accounted for these acquisitions using the purchase method of accounting.

Goodwill. We record goodwill when the purchase price of acquired businesses exceeds the value of their identifiable net tangible and intangible assets acquired. Through December 31, 2001, we amortized goodwill on the straight-line method over periods up to 40 years. We amortized $4.0 million of goodwill in 2001. Accumulated goodwill amortization was $11.7 million at December 31, 2001 and $7.7 million at December 31, 2000.

Effective January 1, 2002, we will adopt FASB Statement No. 142, *"Goodwill and Other Intangible Assets."* Under FASB Statement No. 142, we will no longer amortize goodwill. Instead, we will periodically evaluate goodwill and any other acquired intangible assets for impairment. We are in the process of determining the impact of adopting FASB Statement No. 142 and whether it will have a material effect on our results of operations or financial position.

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.

Effective January 1, 2002, we will adopt FASB Statement No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets."* FASB Statement No. 144 supersedes FASB Statement No. 121 as well as certain provisions of APB 30. The main objective of FASB Statement No. 144 is to further clarify certain provisions of FASB Statement No. 121 relating to impairment of long-lived assets. FASB Statement No. 144 also includes more stringent requirements for classifying assets available for disposal and expands the scope of activities that will require discontinued operations reporting. We are in the process of determining the impact of adopting FASB Statement No. 144 and whether it will have a material effect on our results of operations or financial position.

Stock-Based Compensation. As allowed under FASB Statement No. 123, *"Accounting for Stock-Based Compensation,"* we account for employee stock options in accordance with APB No. 25, *"Accounting for Stock Issued to Employees,"* 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.

Derivatives. We adopted FASB Statement No. 133, *"Accounting for Derivative Instruments and Hedging Activities,"* as amended, on January 1, 2001. FASB Statement No. 133 requires us to recognize all derivatives on the balance sheet at fair value. If a derivative qualifies under FASB Statement No.133 as a hedge, depending on the nature of the hedge, changes in the fair value of the derivative are either offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value, and changes in the fair value of derivatives that do not qualify as hedges, are immediately recognized in earnings.

The cumulative effect of adopting FASB Statement No. 133 was to decrease stockholders' equity by $0.8 million, net of tax. The effect on net income in 2001 was not significant, primarily because the hedges in place as of January 1, 2001 qualified for hedge accounting treatment and were highly effective.

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 1999 and 2000 amounts to conform to the presentation of our 2001 financial statements.

2. LONG TERM DEBT AND LEASE OBLIGATIONS

Long-term debt consists of the following:

	2001	2000
	(In millions)	
Bank Credit Facilities:		
Revolver	**$ 25.0**	$ -
Term Loan	**373.0**	374.0
Total Bank Credit Facilities	**398.0**	374.0
Receivables Facility	**138.0**	120.0
9.75% Notes, net of discount	**298.3**	298.1
Capital lease obligations	**10.8**	17.4
Other debt agreements	**33.1**	7.6
Long-term debt	**$ 878.2**	$ 817.1

Bank Credit Facilities. At December 31, 2001, our Senior Secured Bank Credit Facilities (the "Bank Credit Facilities") consist of a $378.8 million Revolving Credit Facility ("Revolver") due October 2004 and a $373.0 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, 2001, $353.8 million was available for future borrowings under the Revolver.

At December 31, 2001, the weighted average rate of interest on the balances outstanding under the Bank Credit Facilities was 3.9%.

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. 140, *"Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,"* 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, 2001, $138.0 million was outstanding and an additional $15.0 million was available to us under the Receivables Facility.

The weighted-average interest rate on our borrowings under the Receivables Facility at December 31, 2001 was 3.4%.

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%.

Leases. We lease certain facilities, machinery and equipment under capital leases expiring at various dates. Approximately $33.9 million and $34.9 million of such gross asset cost is included in property, plant and equipment at December 31, 2001 and 2000, respectively. The weighted-average interest rate on these capital lease obligations at December 31, 2001 was 6.3%.

We also lease certain facilities, machinery and equipment under operating leases expiring at various dates. All of the leases contain renewal and/or purchase options. Future minimum payments under noncancelable operating leases are as follows: $85.1 million in 2002; $29.5 million in 2003; $26.5 million in 2004; $28.6 million in 2005; $29.4 million in 2006; and $96.7 million thereafter. Our total expense relating to such operating leases was $48.5 million, $45.1 million and $32.6 million in 2001, 2000 and 1999, respectively.

Other Debt Agreements. We utilize local currency credit facilities to finance the operations of certain foreign subsidiaries. These revolving credit facilities, which are generally secured by the assets of the local subsidiaries, expire at various dates through March 2006. At December 31, 2001, $25.4 million was outstanding and an additional $2.8 million was available to us under these facilities.

In 2001, we secured the use of uncommitted bank credit lines totaling $40 million. At December 31, 2001, $7 million was

outstanding under such Money Market Lines bearing interest at an average rate of 3.3%.

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.

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

2002	$ 11.8
2003	142.1
2004	58.5
2005	175.0
2006	189.7
Thereafter	301.1
Total	$ 878.2

We have sufficient availability to refinance current maturities of long-term debt through the Bank Credit Facilities, the Receivables Facility and the Money Market Lines and have, therefore, classified such obligations as long-term debt at December 31, 2001.

Net Interest Expense. The following table summarizes supplemental information regarding net interest expense:

	2001	2000	1999
		(In millions)	
Gross interest expense	**$73.5**	$77.6	$70.2
Capitalized interest	**(13.2)**	(11.9)	(8.5)
Interest income	**(0.9)**	(6.9)	(7.1)
Net interest expense	**$59.4**	$58.8	$54.6
Interest paid	**$70.5**	$71.6	$55.8

3. 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. We had only a nominal amount of currency hedges in effect during 2001 and, at December 31, 2001, we did not have any currency hedges in place.

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, 2001, we have hedged a portion of our interest rate risk by entering into interest rate swaps with a notional amount of approximately $45.5 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%. We have designated the interest rate swaps as effective cash flow 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.

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, the Receivables Facility, the Money Market Lines and other foreign debt approximate their fair value due to the frequent resetting of the interest rates. We have estimated the fair value of the 9.75% Notes at December 31, 2001, using available market information, to be approximately $312.0 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.

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 87%, 85% and 86% of our total net sales in 2001, 2000 and 1999, respectively. Accounts receivable due from GM were approximately $230 million at year-end 2001 and approximately $200 million at year-end 2000.

4. 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 our benefit plans were made as of September 30, 2001 and September 30, 2000. 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	
	2001	2000	2001	2000
		(In millions)		
Change in benefit obligation:				
Benefit obligation at beginning of year	**$ 196.4**	$ 156.8	**$ 115.5**	$ 90.1
Service cost	**21.0**	20.2	**17.5**	18.4
Interest cost	**16.4**	14.0	**10.6**	8.5
Plan amendments	**0.1**	17.3	-	-
Actuarial (gain) loss	**17.3**	(6.6)	**27.6**	(0.6)
Participant contributions	**2.0**	1.7	**-**	-
Adjustment due to measurement date change	**-**	(1.1)	**-**	-
Benefit payments	**(3.0)**	(3.1)	**(0.8)**	(0.9)
Currency fluctuations	**(0.9)**	(2.8)	**-**	-
Net change	**52.9**	39.6	**54.9**	25.4
Benefit obligation at end of year	**249.3**	196.4	**170.4**	115.5
Change in plan assets:				
Fair value of plan assets at beginning of year	**200.5**	161.8	**-**	-
Actual return on plan assets	**(33.9)**	13.5	**-**	-
Employer contributions	**35.5**	30.5	**0.8**	0.9
Participant contributions	**1.9**	1.6	**-**	-
Adjustment due to measurement date change	**-**	(0.8)	**-**	-
Benefit payments	**(3.0)**	(3.1)	**(0.8)**	(0.9)
Currency fluctuations	**(1.2)**	(3.0)	**-**	-
Net change	**(0.7)**	38.7	**-**	-
Fair value of plan assets at end of year	**199.8**	200.5	**-**	-
Funded status — U.S. plans at September 30	**(35.0)**	-	**(170.4)**	(115.5)
Funded status — foreign plan at September 30	**(14.5)**	4.1	**-**	-
Unrecognized actuarial (gain) loss	**23.8**	(47.3)	**(2.6)**	(31.5)
Unrecognized prior service cost	**18.7**	20.3	**-**	0.1
Fourth quarter contribution	**0.4**	0.3	**0.2**	0.2
Net liability at December 31	**$ (6.6)**	$ (22.6)	**$ (172.8)**	$ (146.7)

Amounts recognized in our balance sheet are as follows:

	Pension Benefits		Other Benefits	
	2001	2000	2001	2000
	(In millions)			
Prepaid benefit cost	**$ 0.8**	$ -	**$ -**	$ -
Accrued benefit liability	**(39.8)**	(22.8)	**(172.8)**	(146.7)
Intangible asset	**17.7**	0.2	**-**	-
Minimum pension liability adjustment	**14.7**	-	-	-
Net liability at December 31	**$ (6.6)**	$ (22.6)	**$ (172.8)**	$ (146.7)

	Pension Benefits			Other Benefits		
	2001	2000	1999	2001	2000	1999
			(In millions)			
Components of net periodic benefit costs:						
Service cost	**$ 21.0**	$ 20.2	$ 21.7	**$ 17.5**	$ 18.4	$ 21.7
Interest cost	**16.4**	14.0	10.9	**10.6**	8.5	7.2
Expected asset return	**(17.7)**	(13.8)	(12.4)	**N/A**	N/A	N/A
Amortized gain	**(1.7)**	(1.5)	(0.2)	**(1.2)**	(1.4)	(0.4)
Amortized prior service cost	**1.7**	1.6	0.5	-	-	-
Net benefit cost	**$ 19.7**	$ 20.5	$ 20.5	**$ 26.9**	$ 25.5	$ 28.5

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

	Pension Benefits						Other Benefits		
	2001		2000		1999		2001	2000	1999
	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign			
Discount rate	**7.50%**	**6.00%**	8.00%	6.00%	7.75%	6.00%	**7.50%**	8.00%	7.85%
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%**	**3.50%**	4.25%	4.00%	4.25%	4.00%	**4.25%**	4.25%	4.25%

For measurement purposes, an 8.0% annual increase in the per-capita cost of covered health care benefits was assumed for 2002. The rate was assumed to decrease gradually to 5.0% for 2008 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 in 2001 and the postretirement obligation by $7.0 million and $36.9 million, respectively. A one-percentage-point decrease in the assumed health care cost trend rate would have decreased total service and interest cost in 2001 and the postretirement obligation by $5.2 million and $28.1 million, respectively.

Severance Obligations. Pursuant to FASB Statement No. 112, *"Employers' Accounting for Postemployment Benefits,"* and in connection with the consolidation of our operations located in the United Kingdom, we have accrued severance benefits payable to approximately 350 associates in 2001. We expensed a total of $10.0 million for such severance benefits in 2001, of which approximately $9.7 million is unpaid and accrued at December 31, 2001. We expect to fund all severance obligations associated with this plan of consolidation by December 31, 2002. Although we may pursue legal remedies or other indemnities to mitigate the financial impact of these severance obligations, we have accrued our best estimate of the lump-sum benefits that will ultimately be paid to eligible associates upon termination of employment.

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 $2.0 million, $2.6 million and $1.6 million in 2001, 2000 and 1999, 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 participants elect to defer

in this plan. Our funded portion of the plan amounted to approximately $2.2 million of the $4.8 million liability at December 31, 2001 and approximately $1.4 million of the $2.6 million liability at December 31, 2000.

5. STOCK OPTIONS

At December 31, 2001, we have stock options outstanding under three stock compensation plans approved by our stockholders. Under two of these plans, one of which was amended by our stockholders in 2001, a total of 14.1 million options have been 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. The exercise price of the options, rights or other awards issued under these plans will not be less than the fair market value of our common stock on the date of grant. We have granted a total of 8.6 million options under these stock compensation plans at December 31, 2001, 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, 2001, 0.3 million of these options have been exercised.

At December 31, 2001, there are also 1.5 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 $0.20. A total of 0.3 million options granted under this plan have been exercised prior to December 31, 2001.

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, 1999	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 granted	**1.6**	**8.94**
Options exercised	**(0.4)**	**2.42**
Options lapsed or canceled	**(0.1)**	**6.09**
Outstanding at December 31, 2001	**9.9**	**$ 6.54**

Options outstanding at December 31, 2001 have a weighted-average remaining contractual life of approximately 8 years. The following is a summary of the range of exercise prices for stock options that are outstanding and exercisable at December 31, 2001:

Range of Exercise Prices	Outstanding Stock Options	Weighted Average Exercise Price	Number of Stock Options Exercisable	Weighted Average Exercise Price
	(In millions, except per share data)			
$ 0.01 - $ 0.25	1.5	$ 0.20	1.5	$ 0.20
$ 4.26	4.8	4.26	3.1	4.26
$ 8.85	1.5	8.85	-	-
$ 9.00 - $ 13.13	0.3	12.39	0.1	12.62
$ 15.00 - $ 18.40	1.8	15.34	0.8	15.34
	9.9	$ 6.54	5.5	$ 4.77

We account for employee stock options in accordance with APB 25. 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:

	2001	2000	1999
		(In millions, except per share data)	
Net income as reported	**$ 114.9**	$ 129.2	$ 115.6
Pro forma	**$ 109.9**	$ 126.2	$ 114.5
Basic earnings per share as reported	**$ 2.55**	$ 2.79	$ 2.87
Pro forma	**$ 2.44**	$ 2.73	$ 2.84
Diluted earnings per share as reported	**$ 2.36**	$ 2.60	$ 2.34
Pro forma	**$ 2.28**	$ 2.57	$ 2.30

The fair value of each option was estimated on the date of grant using an option-pricing model with the following assumptions:

	2001	2000	1999
Assumptions:			
Expected volatility	**52.10%**	39.70%	38.60%
Risk-free interest rate	**4.91%**	5.64%	4.74%
Dividend yield	**None**	None	None
Expected life of option	**7 years**	7 years	7 years
Weighted average grant-date fair value	**$ 5.29**	$ 7.89	$ 6.95

6. INCOME TAXES

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

	2001	2000	1999
		(In millions)	
Current:			
Federal	**$ 24.9**	$ 29.6	$ 47.7
Michigan single business tax	**4.7**	5.5	7.2
Other state and local	**(3.8)**	(3.2)	(0.5)
Foreign	**-**	0.7	-
Total current	**25.8**	32.6	54.4
Deferred:			
Federal	**38.4**	34.5	11.1
Michigan single business tax	**(1.3)**	1.5	2.9
Other state and local	**3.2**	1.1	1.8
Foreign	**(0.1)**	4.5	(2.4)
Total deferred	**40.2**	41.6	13.4
Total income taxes	**$ 66.0**	$ 74.2	$ 67.8

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

	2001	2000	1999
Federal statutory	**35.0%**	35.0%	35.0%
Foreign income taxes	**4.2**	1.2	0.9
State and local	**0.5**	1.6	4.5
Federal credits and other	**(3.2)**	(1.3)	(3.4)
Effective income tax rate	**36.5%**	36.5%	37.0%

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

	2001	2000
	(In millions)	
Current deferred tax assets:		
Employee benefits	**$ 12.4**	$ 8.5
Accounts receivable	**4.2**	1.4
Inventory and other	**3.1**	4.7
Total current deferred tax assets	**$ 19.7**	$ 14.6
Noncurrent deferred tax assets:		
Employee benefits	**$ 62.2**	$ 53.9
NOL carryforwards	**20.5**	21.2
Tax credit carryforwards	**20.0**	3.7
Fixed assets	**15.3**	17.8
Prepaid taxes	**11.7**	14.2
Goodwill	**1.2**	1.7
Other	**6.3**	4.7
Valuation allowance	**(31.0)**	(28.7)
Noncurrent deferred tax assets, net	**106.2**	88.5
Noncurrent deferred tax liabilities:		
Fixed assets	**(123.5)**	(72.4)
Net noncurrent deferred tax (liability) asset	**$ (17.3)**	$ 16.1

Noncurrent deferred tax assets and liabilities recognized in our balance sheet are as follows:

	2001	2000
	(In millions)	
U.S. Federal deferred tax liability, net	**$ (36.7)**	$ -
Other foreign deferred tax asset, net	**19.4**	-
U.S. Federal and foreign deferred tax asset, net	**-**	16.1
Net noncurrent deferred tax (liability) asset	**$ (17.3)**	$ 16.1

The deferred income tax assets and liabilities summarized above reflect the impact of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the basis of such assets and liabilities as measured by tax laws. At year-end 2001, our net noncurrent foreign deferred tax asset is primarily attributable to $118.7 million of available foreign net operating loss ("NOL") and capital allowance carryforwards that do not expire. At year-end 2001, our net U.S. Federal deferred tax liability, which is principally attributable to the impact of accelerated tax depreciation, also includes the impact of $13.8 million of U.S. federal R&D tax credit carryforwards that expire between 2018 and 2020.

Our valuation allowance represents the amount of deferred tax assets that we believe are not likely to be realized. We considered our prior operating results and future plans, as well as the utilization period of other temporary differences, in determining the amount of our valuation allowance.

Payments for federal, state, local and foreign income taxes were $31.7 million, $43.9 million and $48.8 million in 2001, 2000 and 1999, respectively.

7. EARNINGS PER SHARE

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

	2001	2000	1999
		(In millions, except per share data)	
Numerator:			
Net income	**$ 114.9**	$ 129.2	$ 115.6
Denominators:			
Basic shares outstanding –			
Weighted-average shares outstanding	**45.1**	46.3	40.3
Effect of dilutive securities:			
Dilutive stock options	**3.6**	3.4	9.2
Diluted shares outstanding –			
Adjusted weighted-average shares after assumed conversions	**48.7**	49.7	49.5
Basic earnings per share	**$ 2.55**	$ 2.79	$ 2.87
Diluted earnings per share	**$ 2.36**	$ 2.60	$ 2.34

8. COMMITMENTS AND CONTINGENCIES

Obligated purchase commitments for capital expenditures were approximately $95.6 million at December 31, 2001 as compared to $210.2 million at December 31, 2000.

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.

9. RELATED PARTY TRANSACTIONS

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, which was amended in 2001, pursuant to which Blackstone provides certain advisory and consulting services to us. We incurred costs of $4.0 million, $4.6 million and $4.0 million for such services provided by Blackstone in 2001, 2000 and 1999, respectively.

In December 2000, AAM's Co-Founder, Chairman of the Board & Chief Executive Officer, 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 Mr. Dauch, at current market prices, at a total cost of approximately $21.3 million. Mr. 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.

10. SEGMENT AND GEOGRAPHIC INFORMATION

We operate in one reportable segment: the manufacture, engineering, validation and design of driveline systems and related components and modules for light trucks, 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.

	2001	2000	1999
		(In millions)	
Net sales:			
United States	**$ 2,305.9**	$ 2,291.3	$ 2,280.9
Canada	**376.1**	372.6	405.9
Mexico and South America	**299.1**	266.1	139.8
Europe and Other	**126.1**	139.5	126.5
Total net sales	**$ 3,107.2**	$ 3,069.5	$ 2,953.1
Long-lived assets:			
United States	**$ 1,308.0**	$ 1,156.5	$ 947.0
Other	**355.5**	229.3	170.1
Total long-lived assets	**$ 1,663.5**	$ 1,385.8	$ 1,117.1

11. 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)			
2001:					
Net Sales	**$ 761.1**	**$ 811.0**	**$ 743.5**	**$ 791.6**	**$ 3,107.2**
Gross Profit	**95.9**	**114.1**	**95.7**	**104.0**	**409.7**
Net income	**24.0**	**34.0**	**25.5**	**31.4**	**114.9**
Diluted earnings per share	**$ 0.51**	**$ 0.72**	**$ 0.51**	**$ 0.62**	**$ 2.36**
Market price [1]					
High	**$ 11.55**	**$ 17.00**	**$ 22.25**	**$ 21.79**	**$ 22.25**
Low	**$ 7.75**	**$ 8.85**	**$ 10.03**	**$ 12.06**	**$ 7.75**
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 [2]	0.80	0.80	0.48	0.51	2.60
Market price [1]					
High	$ 17.00	$ 16.88	$ 16.00	$ 12.56	$ 17.00
Low	$ 12.00	$ 14.19	$ 10.75	$ 5.94	$ 5.94

(1) Prices are the quarterly high and low closing sales prices for our common stock as reported by the New York Stock Exchange. We had approximately 482 stockholders of record as of February 15, 2002.

(2) Full year diluted earnings per share will not necessarily agree to the sum of the four quarters because each quarter is a separate calculation.

Board of Directors

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

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

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

Forest J. Farmer[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 March 1, 2002

Officers and Stockholders' Information

OFFICERS

Richard E. Dauch *
Co-Founder, Chairman of the Board & 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

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

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

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

Richard F. Dauch **
Vice President – Sales & Marketing

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

David J. Demos **
Vice President; President & Chief Operating Officer, Colfor Manufacturing, Inc

Robert A. Krause *
Vice President & Treasurer

Roy H. Langenbach **
Vice President – Procurement

Allan R. Monich **
Vice President – Manufacturing-Forging Division

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.**

Officers information as of March 1, 2002

STOCKHOLDERS' INFORMATION

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

FORM 10-K ANNUAL REPORT
AAM's Form 10-K annual report for 2001, 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

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

ANNUAL MEETING OF STOCKHOLDERS
The 2002 Annual Meeting of Stockholders will be held on Thursday, May 16, 2002, at 2:00 p.m. at the Corporate Townhall Room
AAM World Headquarters complex
1840 Holbrook Avenue
Detroit Michigan

EQUITY SECURITIES
American Axle & Manufacturing Holdings, Inc.
Common Stock Transfer Agent
EquiServe Trust Company, N.A.
150 Royall St.
Caton, MA 02021

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(Inside the United States)
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Internet: http://www.equiserve.com

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Seven Year Financial Summary

American Axle & Manufacturing Holdings, Inc.

	Year Ended December 31,						
	2001	2000	1999	1998[a]	1997	1996	1995
	(In millions, except per share data)						
Statement of income data:							
Net sales	**$ 3,107.2**	$ 3,069.5	$ 2,953.1	$ 2,040.6	$ 2,147.5	$ 2,022.3	$ 1,968.1
Gross profit	**409.7**	426.2	388.8	156.4	216.0	172.0	179.5
Selling, general and administrative expenses	**164.4**	162.6	147.6	106.4	104.0	83.1	70.6
Operating income	**241.3**	259.4	237.8	49.9	112.0	88.9	108.9
Net interest (expense) income	**(59.4)**	(58.8)	(54.6)	(44.3)	(1.8)	9.4	9.1
Net income	**114.9**	129.2	115.6	3.5	55.3	61.7	70.6
Diluted earnings per share	**$ 2.36**	$ 2.60	$ 2.34	$ 0.08	$ 0.43	$ 0.43	$ 0.50
Diluted shares outstanding[b]	**48.7**	49.7	49.5	43.2	126.5	142.5	142.5
Balance sheet data:							
Cash and equivalents	**$ 12.3**	$ 35.2	$ 140.2	$ 4.5	$ 17.3	$ 126.0	$ 170.3
Total assets	**2,160.9**	1,902.5	1,673.2	1,223.9	1,016.7	771.2	737.0
Total long-term debt	**878.2**	817.1	774.9	693.4	507.0	2.4	1.0
Preferred stock	**-**	-	-	-	-	200.0	200.0
Stockholders' equity	**534.7**	372.0	263.7	40.4	37.2	250.2	168.6
Other data:							
EBITDA[c]	**$ 367.8**	$ 377.0	$ 334.6	$ 119.2	$ 152.8	$ 134.7	$ 144.8
Depreciation and amortization	**126.6**	107.9	89.5	68.8	50.2	36.1	25.2
Capital expenditures	**375.5**	381.0	301.7	210.0	282.6	162.3	147.1
Net cash provided by operating activities	**232.8**	252.2	310.3	81.4	200.8	65.7	196.9
Invested capital[d]	**1,400.6**	1,153.9	898.4	729.3	526.9	326.6	199.3

(a) The following table sets forth the estimated adverse impact on our 1998 operating results related to the GM work stoppage which occurred 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 [c]	*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) 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.

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

AMERICAN AXLE & MANUFACTURING

NORTH AMERICA

Michigan

Detroit Forge

Detroit Gear & Axle

Global Procurement Center

MSP Industries

Technical Center

Three Rivers Driveline

New York

Buffalo Gear, Axle & Linkage

Cheektowaga Machining

Tonawanda Forge

Ohio

Colfor Manufacturing

EUROPE

United Kingdom

Albion Automotive

Glasgow, Scotland

Lancashire, England

Germany

European Business Office

LATIN AMERICA

Mexico

Guanajuato Gear & Axle

Guanajuato Forge

SOUTH AMERICA

Brazil

AAM do Brasil

South American Business Office

ASIA

Japan

Asia Pacific Office

Leading Through Technology And Value