



2005 Annual Report

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AXL

A m e r i c a n A x l e & M a n u f a c t u r i n g



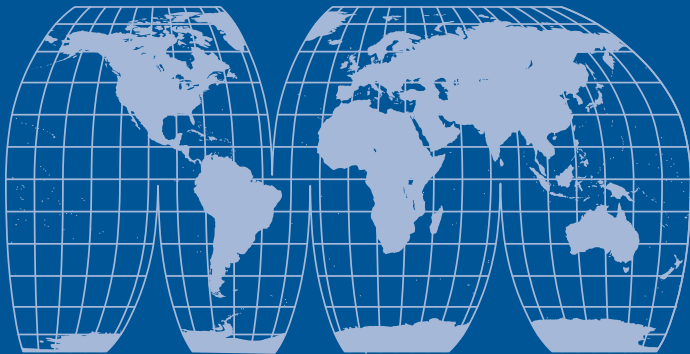
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2005

Annual Report



PROFILE

American Axle & Manufacturing (AAM) is a premier, Tier One, world leader in the design, engineering, testing, validation and manufacturing of driveline and drivetrain systems and related powertrain components and modules, chassis systems and metal formed products for light trucks, sport utility vehicles, passenger cars and crossover vehicles. In addition to its locations in the United States (Michigan, New York and Ohio), AAM also has offices or facilities in Brazil, China, Germany, India, Japan, Mexico, South Korea and the United Kingdom.

*"Winners provide innovations, new technologies
and the ability to lead change."*

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

Financial Summary

	2005	2004
	(In millions, except per share data)	
Statement of income data		
Net sales	\$3,387.3	\$ 3,599.6
Gross profit	304.7	474.5
Operating income	105.1	284.8
Net income	56.0	159.5
Diluted earnings per share	\$ 1.10	\$ 2.98
Balance sheet data		
Cash and cash equivalents	\$ 3.7	\$ 14.4
Total assets	2,666.6	2,538.8
Total long-term debt	489.2	448.0
Stockholders' equity	994.8	955.5
Statement of cash flows data		
Cash provided by operating activities	\$ 280.4	\$ 453.2
Capital expenditures	305.7	240.2
Dividends paid	30.4	23.0
Free cash flow*	(55.7)	190.0

* Included on this page and/or the Chairman's letter on page 2, are references to free cash flow and net debt to capital. This information should not be viewed as a substitute for financial measures determined in accordance with accounting principles generally accepted in the United States of America (GAAP). For an explanation and reconciliation of these non-GAAP measures, see "Supplemental Financial Data" on page 27 in Management's Discussion and Analysis.

CHAIRMAN'S LETTER

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In 2005, as in every year of our existence, American Axle & Manufacturing delivered positive operational and financial results. We continue to be profitable and deliver long-term value for our customers and stockholders.

Driving our progress and achievements are these AAM strengths:

- An experienced, automotive-focused senior management team.
- An experienced and committed workforce.
- A high-technology-based product portfolio.
- World-class, globally competitive quality, warranty and delivery performance.
- Continued capital investments that support our new and incremental business backlog of approximately \$1.4 billion for programs launching through 2012.
- Our ongoing focus on fulfilling our long-term strategic objectives.

AAM ACHIEVED STEADY, PROFITABLE FINANCIAL PERFORMANCE

In 2005, AAM reported profitable results with net earnings of \$56 million. It was the 12th consecutive year in which AAM has been profitable. Other financial results for 2005 included:

- Net sales of \$3.4 billion.
- Diluted earnings per share of \$1.10.
- Net debt to capital ratio of 32.8%.

In 2005, AAM also made strategic capital investments to support significant vehicle programs that will launch over the next several years. This will enhance our business by expanding AAM's global manufacturing footprint, customer base and global supplier sourcing initiatives.

In financial and other matters, AAM adheres to a strict code of ethics and integrity. We are in compliance with Section 404 of the Sarbanes-Oxley Act of 2002 relating to AAM's internal controls. We have received a report attesting to our Section 404 compliance from our Independent Registered Public Accounting firm.

IT WAS A YEAR OF CHALLENGE AND CHANGE FOR THE DOMESTIC AUTOMOTIVE INDUSTRY

A myriad of factors emerged in 2005 that caused a major structural change in the domestic automotive industry. Competition between U.S. domestic OEMs and offshore transplant OEMs intensified. U.S. domestic vehicle production levels and market share for General Motors (GM) and Ford Motor Company (Ford) declined, which resulted in industry capacity under-utilization and significantly pressured their supply base. Worldwide market conditions have resulted in higher steel and other metallic material prices. Higher energy and fuel costs exacerbated the cost issue. A product mix change in the market occurred, which softened the demand for body-on-frame, SUV-

type vehicles. As a result, market demand for crossover vehicles, smaller passenger cars and hybrid vehicles increased.

These factors have changed the way OEMs and automotive suppliers conduct business. The changes are major, structural and occurring at an intense pace. In 2005, several key automotive suppliers joined the dozens of other automotive suppliers that have filed for Chapter 11 bankruptcy protection since 2003!

WE ARE ON COURSE AND MAKING SIGNIFICANT PROGRESS

For AAM, the unprecedented yet necessary structural transformation occurring in the automotive industry presents the opportunity for "Leading Change—Now!" We are doing what it takes to turn adversity into opportunity at AAM.

Our progress in 2005 was distinguished by:

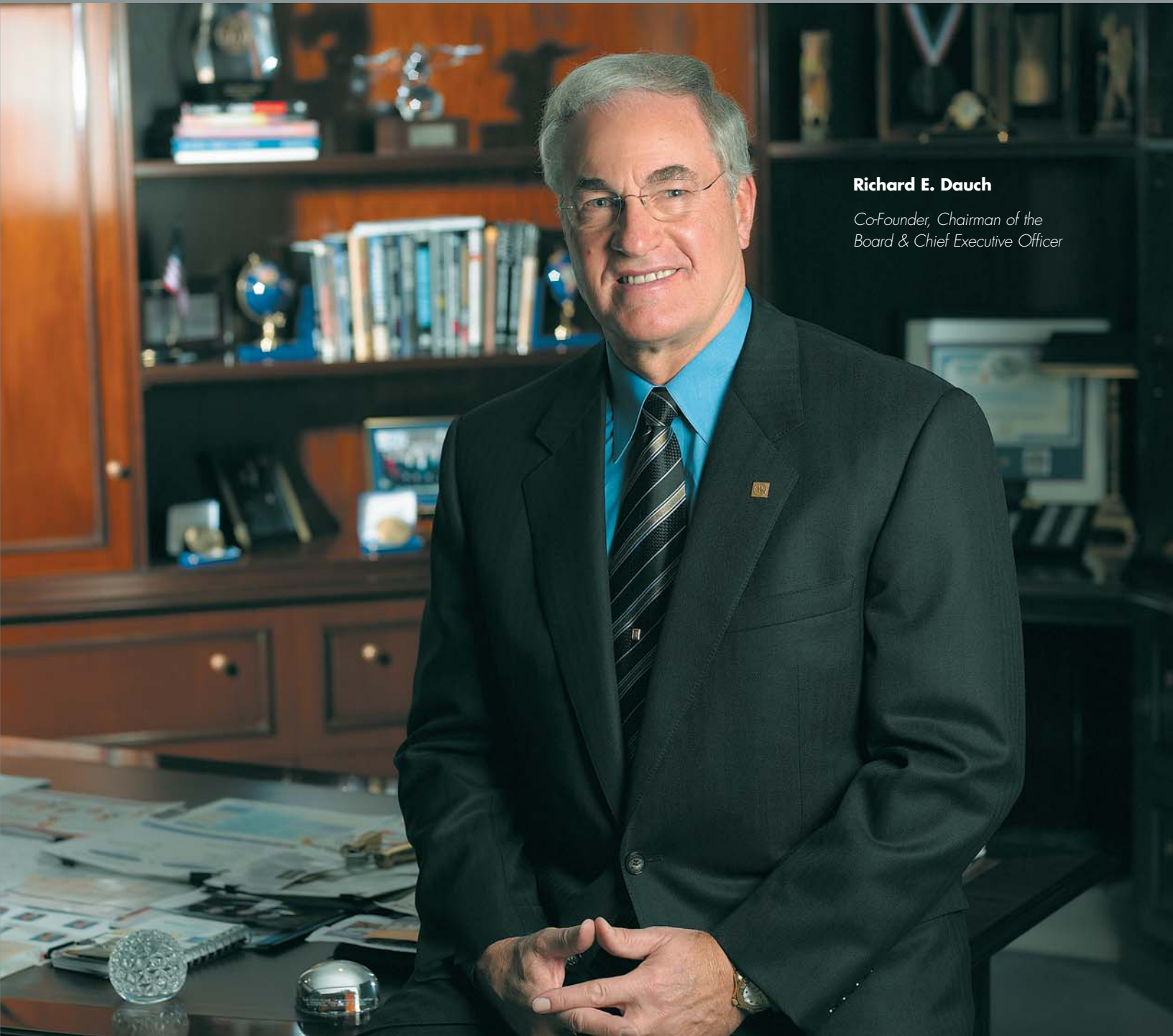
- Growing our new and incremental business backlog to approximately \$1.4 billion for programs launching through 2012.
- Securing nearly 80 percent of our current book of business through approximately 2014.
- Earning new business for our newest product technology for the growing all-wheel-drive (AWD) passenger car/crossover vehicle markets.
- Entering the drivetrain market with a purchase order to produce transfer cases for a future vehicle program.
- Further diversifying our customer base as sales to customers other than GM increased to \$754 million, representing 22 percent of total sales.
- Significantly expanding our served markets as we expand our product portfolio, customer base and geographic locations.
- Successfully negotiating favorable steel and metallic supply agreements with our global supply base. This will ensure our continuity of supply for these products at globally competitive prices.

WE ARE ACCELERATING OUR INTERNATIONAL EXPANSION

In 2005, we solidified plans to increase our participation in the fastest growing automotive market in the world—Asia, and specifically China. We decided to establish our first Asian regional manufacturing base in Changshu, China. This future facility will launch with Asia-based customers. It will eventually support several global vehicle programs for GM.

We are focusing on potential business opportunities and strategic growth in Pune, India. Engineers, information technology systems specialists and other associates have been added at our business office in India to handle the increased need for purchasing, supplier quality and development, information technology and engineering services.

LEADING CHANGE — NOW!



Richard E. Dauch

*Co-Founder, Chairman of the
Board & Chief Executive Officer*

WE CONTINUE TO
EXPAND AND BALANCE
OUR PRODUCT OFFERINGS

2007 Chevrolet Tahoe



2006 Dodge Ram MegaCab



2006 Ssangyong Kyron



We have also taken steps to become a high quality, low-cost driveline system supplier in Europe. In 2005, we targeted Central/Eastern Europe for an all-new regional AAM manufacturing facility. This plant will support secured new business for a European OEM as well as GM. This move centralizes our manufacturing engineering, product development, purchasing, strategic planning and will establish a new technical center in Europe.

In South America, we completed the expansion of a new manufacturing facility in Araucária, Brazil. We also earned new business that will double the current AAM do Brasil revenues by 2008.

AAM de Mexico completed its fifth expansion with the addition of Guanajuato Gear & Axle South. This newly constructed facility has successfully launched driveshaft products for the Chrysler Group.

Our international growth was balanced domestically by expansions at our Three Rivers, Michigan facility and our Colfor Manufacturing operations in Minerva, Ohio. Investments at our Detroit Gear & Axle, Detroit Forge and Three Rivers Driveline facilities were made to support GM's new full-size SUV and pickup truck program.

**WE CONTINUE TO IMPLEMENT
PRODUCT, PROCESS AND SYSTEMS
TECHNOLOGY INITIATIVES**

Product development and engineering initiatives continue to accelerate in the driveline, drivetrain and powertrain arenas as we satisfy requirements for existing business and future AAM opportunities.

All-wheel-drive products take center stage—AAM continues to successfully develop and validate new products targeted for growth segments of the global driveline market, especially AWD and rear-wheel-drive (RWD) driveline systems for passenger cars and crossover vehicles.

AAM's new and incremental business backlog now includes awards for power transfer units (PTUs), multi-piece driveshafts and independent rear drive axles (IRDAs). These new products support two passenger car and five crossover vehicle programs that represent future annual sales of over \$600 million.

Electronics integration reaches a new high

—We continue to focus on the integration of electronics into the AAM product portfolio. In 1994, just five percent of our products featured electronics. Today, more than 70 percent of AAM driveline products have been electronically enhanced! AAM's SmartBar™ electronic roll control system, in conjunction with AAM's front and rear TracRite® electronic locking differentials, are featured on the Chrysler Group's Dodge Ram Power Wagon. In 2005, we earned new business to integrate AAM's SmartBar™ into the 2007 Jeep® Wrangler Rubicon. We are also quoting additional opportunities for this technology.

Other areas of product development

—We are also expanding our transfer case portfolio, developing constant velocity joints for halfshafts and driveshafts and adding to our lineup of traction-enhancing differentials.

AN IMPRESSIVE NEW BUSINESS BACKLOG SUPPORTS PROFITABLE GROWTH

New AAM products for new customers in new markets have contributed to the growth in AAM's new and incremental business backlog. In addition to our program awards for AVD passenger car/crossover vehicle components, our new and incremental business backlog includes:

- Approximately \$200 million of new business supporting product programs outside of North America.
- Over \$150 million of business with Asian OEMs and their affiliated Tier One suppliers. This includes AAM's first opportunity to provide front and rear axle modules to an Asian OEM for a major North American product platform.
- Our first award to supply transfer cases for a future vehicle program.
- Strategic Metal Formed Product Division awards with new customers, including U.S. transplants.
- Our first TracRite® center differential program for a European AVD passenger car program.

2005 WAS A YEAR OF MAJOR PROGRAM LAUNCHES

AAM's proven program management capabilities have delivered excellent performance for 13 major launches in 2005 including the following:

- The massive, 14-month GMT 900 program launch, which began in December 2005. This program includes AAM driveline products supporting GM's 2007 full-size SUV and pickup truck platform. With 15 derivatives, the GMT 900 is the largest vehicle platform in the world and AAM's largest program to date.
- IRDAs for Ssangyong Motor Company in South Korea.
- Driveline products for the HUMMER H3 program—a truly global launch involving eight AAM plants in three countries.
- New products supporting additional Dodge Ram derivatives, including the Dodge Ram Power Wagon and MegaCab.
- Precision transmission components for a new GM six-speed RWD automatic transmission.

THE RIGHT TEAM FOR LEADING CHANGE—NOW!

From our executive management team to our associates around the world, AAM has the talent, experience and commitment to play a leading role in shaping the changes that will help determine the future of the automotive industry.

AAM's succession progression strategy continues to work effectively. We made a number of executive appointments in 2005 that will provide the leadership to guide the company to its next level. Yogendra N. Rahangdale, former AAM Executive Vice President, Operations & Planning, has been promoted to President and Chief Operating Officer. Richard F. (Rick) Dauch has been promoted from President of AAM's Metal Formed Products Division to Executive Vice President – Worldwide Manufacturing. Former Vice President & Treasurer Michael K. Simonte has been promoted to Vice President – Finance & Chief Financial Officer. Michael C. Flynn has been promoted to Vice President – Procurement from Executive Director, Sales for General Motors/Delphi and Patrick J. Spohn has been promoted to Vice President & Controller from Corporate Controller.

I would like to thank Joel D. Robinson, Vice Chairman, for his leadership and strong contribution to this company since joining AAM in 1994. I congratulate Joel on his well-deserved retirement. I am also grateful to Thomas L. Martin for his service as AAM's Chief Financial Officer from 2004–2005.

I welcome Larry K. Switzer and William P. Miller II to AAM's Board of Directors. Both are independent board members and also serve as financial experts on the board's Audit Committee.

In addition, I am pleased to report that, at the request of the AAM Board of Directors, I have extended my commitment to serve as Chief Executive Officer. I will continue to lead AAM through December 31, 2009.

OUTLOOK: CHALLENGING BUT OPTIMISTIC

We anticipate a most difficult operating environment in 2006. This is because of softening U.S. vehicle sales, complex U.S. domestic labor/management issues and a continued mix shift in the market. In view of this challenging and dynamic market, we expect a solid financial performance, business growth with selective global expansion and customer diversification based on our ability to:

- Execute our strategic initiatives.
- Leverage our unique strengths, which include superior products; world-class quality, warranty and delivery performance; strong, disciplined program management and launch readiness; and experienced senior management.
- Remain focused on our core competencies.
- Work cooperatively with all of our stakeholders—customers, associates, stockholders, unions, suppliers, state and local governments and the communities in which we reside.

To our stockholders, I extend my deep appreciation for your continued support. We are working proactively to continue to grow profitably and enhance stockholder value over the long term.

I continue to be inspired by the experience, discipline, motivation, ingenuity, dedication and teamwork of the men and women of AAM. As we move forward, I have every confidence in the strength of our operations, our product portfolio, our organization and the future of our company as the U.S. domestic automotive industry transforms itself structurally and successfully.



Richard E. Dauch

Co-Founder, Chairman of the Board & Chief Executive Officer

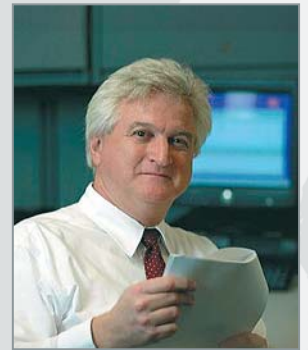
GLOBAL COMPETITION IS THE DEFINING ISSUE FOR THE AUTOMOTIVE INDUSTRY TODAY. AT AAM WE KNOW WHERE THE MARKET IS GOING AND GROWING, AND WE KNOW HOW TO GET THERE. WE ARE EXPANDING OUR GLOBAL FOOTPRINT TO ALIGN WITH KEY CUSTOMERS AND SUPPORT NEW BUSINESS OUTSIDE OF NORTH AMERICA. IN 2005, A NUMBER OF MAJOR, LOGICAL "NEXT STEPS" IN OUR STRATEGY LANDED US IN SOME OF THE WORLD'S FASTEST DEVELOPING AUTOMOTIVE MARKETS.



(Top left)
Curt Howell, General Manager, Asia, and William Smith, Launch Manager, finalize plans to begin production at AAM's Changshu, China facility in late 2006.



(Top middle)
Richard F. Dauch, Executive Vice President – Worldwide Manufacturing, with Kim Forshee, Launch Manager for AAM's future manufacturing plant in Central/Eastern Europe.



(Top Right)
AAM's growth in India continues under the direction of Michael Carlo, Chief Executive, India Business Office.



(Bottom left)
AAM do Brasil – Silvia Gomes, Information Technology Manager; Jose Luis Martin, President & Chief Operating Officer; Jair Kriger, Manufacturing Manager; Claudia Baptista, Executive Secretary.



(Bottom right)
Francis Leo, General Manager – India & Special Projects.

SECURING A PRESENCE IN WORLD MARKETS

AAM EXPANDS TO SERVE ASIAN CUSTOMERS

AAM plans manufacturing in China—With excellent access to major Asian vehicle manufacturers, AAM's all-new, state-of-the-art facility in Changshu, China is scheduled to begin producing AAM's independent rear drive axles (IRDAs) in late 2006 for a major OEM. Production of AAM's Integrated Oil Pan (IOP) front axles and all-wheel-drive (AWD) systems for the passenger car/crossover vehicle market will follow the IRDA launch. The world-class facility will occupy approximately 30 acres in this key port city located 130 miles northwest of Shanghai.

Indian office continues to expand—Growth continues at our business office in Pune, India, where AAM engineers support our 24-hour-a-day global engineering capabilities. The office also assists with information technology (IT) services and sourcing of raw materials and related commodities.

AAM GROWS MANUFACTURING AND TECHNOLOGY IN EUROPE

Europe hosts new AAM facility—Central/Eastern Europe is the region targeted for AAM's new European manufacturing facility. The future plant is scheduled to begin producing highly engineered AAM driveline systems and components, including TracRite® differentials, in early 2007.

European Technical Center—The relocation of AAM's European Headquarters in Germany from Ulm to Bad Homburg in October 2005, will include a new technical center to serve our customers across the continent. AAM has driven excellence into every area of this robust facility, which includes technical, engineering, purchasing and sales services. With on-site product design and development capabilities and future testing capabilities, this technical center demonstrates AAM's commitment to the European automotive market and our ability to meet the exacting market demands of the region.

FACILITY EXPANSIONS SUPPORT NEW BUSINESS

AAM do Brasil—AAM completed construction in 2005 of a new 264,000-square-foot manufacturing facility in Araucária, Brazil. Currently a precision machining operation for driveline components with approximately \$40 million in annual revenues, AAM do Brasil is expected to double its annual sales in the next three to five years. Its capabilities are quickly expanding to support future transfer case and driveline business as well as products for the AWD passenger car and crossover vehicle market.

Rochester Hills, Michigan Technical Center—The Technical Center continues to add advanced equipment to support AAM's technology initiatives. Preparations are currently underway to install new equipment in 2006 and 2007 that will support testing of power transfer units (PTUs), transfer cases, AWD systems and constant velocity (CV) joints and halfshafts.



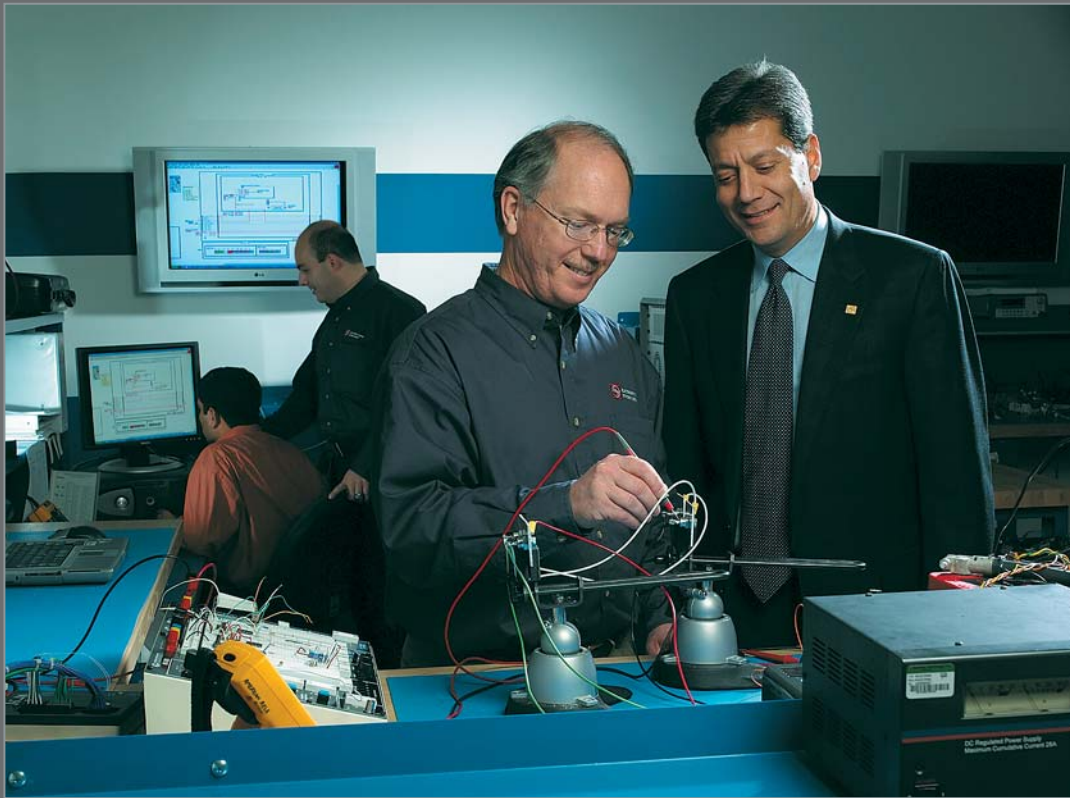
ASIA

Technical and engineering support added

The new AAM business offices that opened in 2005 in Shanghai, China and Seoul, South Korea provide engineering, sales and customer support for their respective regions. The technical office in Seoul, South Korea provides development and testing for vehicle and driveline systems.

(Top right)

AAM associates Yugang Cui, Senior Product Engineer; May Cheong, Senior Analyst-Cost Estimating; and Rennie Young, Manager-Procurement, Asia/Pacific discuss AAM's Asia expansion plans.



THE TIMES ARE CHANGING—FOR THE GLOBAL AUTOMOTIVE MARKET AND FOR AAM. AS AN INNOVATOR AND LEADER IN DRIVELINE COMPONENTS AND SYSTEMS, WE ARE SEIZING THE OPPORTUNITY TO LEAD CHANGE, STARTING WITH NEW, ADVANCED PRODUCT TECHNOLOGY FOR TODAY'S GROWING AND EMERGING AUTOMOTIVE MARKETS.

LEADING CHANGE WITH PRODUCT PORTFOLIO EXPANSION AND INNOVATION



(Above)

From top to bottom:
8.6" Independent Rear Drive Axle, Single Speed AWD Transfer Case and Three-Axis Power Transfer Unit.

(Top left)

Andy Pinkos, Director, Electronic Control Systems Group, and Abdallah Shanti, Vice President, Information Technology, Electronic Product Integration & Chief Information Officer, in AAM's Electronics Lab.

(Bottom left)

Annette Good, Manager, Materials Engineering, with Richard Leslie, Materials Engineer in AAM's world-class Metallurgy Lab.

(Bottom right)

John J. Bellanti, Vice President – Engineering & Chief Technology Officer at AAM's Technical Center in Rochester Hills, Michigan.

EXPANDING AND DIVERSIFYING OUR WAY INTO THE PASSENGER CAR, CROSSOVER AND AWD MARKETS

AAM anticipated the increase in consumer demand for passenger cars, crossover vehicles and all-wheel-drive (AWD) vehicles. We have spent the past several years developing the technology to supply these growing market segments with our advanced driveline and drivetrain systems and components, including:

- Power transfer units
- Independent rear drive axles
- Electronic center differentials
- Constant velocity joints for halfshafts and driveshafts
- Multi-piece driveshafts

In 2005, these products enabled AAM to earn new business. As a result, we will soon be producing components for a number of AWD passenger car and crossover vehicle programs for several major international OEMs.

We are also expanding the scope of AAM's participation in the four-wheel-drive (4WD) and AWD truck and SUV market through the development of a portfolio of transfer case products.

ENHANCING OUR PROVEN CORE TECHNOLOGY TO MEET GROWING OEM EXPECTATIONS

AAM is at the forefront of current and future driveline advancements. Our quest for lighter, quieter, more precise product performance and better manufacturability drives the ongoing electronic enhancement of our core technologies to keep us abreast of OEM requirements and consumer preferences. Electronic integration of AAM products ranges from the incorporation of sophisticated sensors to complete electronics module integration.

BUILDING A CORE COMPETENCY IN ELECTRONICS

In 2005, we picked up the pace in electronic integration of our driveline products. With the completion of a new state-of-the-art Electronics Lab at AAM's Technical Center in Rochester Hills, Michigan, our growing Electronic Control Systems Group has the dedicated space and advanced equipment to keep new designs, enhancements and prototypes on a fast track.

As more OEMs introduce new hybrid vehicles to meet fuel efficiency demands and emissions requirements, AAM is accelerating its engineering efforts in hybrid electric vehicle driveline architectures.



Metal Formed Products

Our metal-formed products attract international customers

New business for AAM's Metal Formed Products Division in 2005 extended our customer base to include Asian Tier One suppliers and European OEMs, in addition to our domestic OEM and other customers. Our metal-formed and machined components will appear on several high-volume passenger car and light truck platforms.

Transmission components are a major new addition to our existing portfolio, which also includes raw, machined and closed die flashless forgings; finished machined wheel-end spindles and hubs; axle shafts; and Class V-VIII truck driveline components.

WE ARE LAUNCH READY,



PRODUCTION ROLLS OUT FOR WORLD'S LARGEST VEHICLE PLATFORM

In 2005, AAM began the 14-month launch of driveline products for the GMT 900 program—GM's 2007 full-size SUVs and pickups. The first models to hit showrooms were the Chevrolet Tahoe and GMC Yukon. The Cadillac Escalade ESV and EXT, Chevrolet Suburban and Avalanche, GMC Yukon XL and other vehicle derivatives will follow.

With its 15 derivatives, the GMT 900 program represents a significant portion of our business. Involving 15 AAM plants worldwide, it demands AAM's world-class expertise in engineering, program management, logistics, procurement and manufacturing.

AAM GOES GLOBAL WITH HUMMER H3 LAUNCH

AAM recently undertook one of our most complex launches—the driveline system for the mid-size HUMMER H3 sport utility vehicle. The all-wheel-drive H3 incorporates AAM's PowerLite® aluminum front axles, cast iron rear axles and front and rear driveshafts. The manufacturing of components for the H3 involved a total of eight AAM plants in three countries—our most extensive manufacturing coordination effort to date, culminating in a successful launch at our Three Rivers Driveline facility in Michigan. A recently completed 50,000-square-foot expansion at this facility will accommodate future business.



AAM'S LAUNCH READINESS AND OPERATIONAL EXCELLENCE ARE KEY ADVANTAGES IN ENTERING WORLD AUTOMOTIVE MARKETS. THE SUCCESSFUL DELIVERY OF SOME OF THE LARGEST AND MOST COMPLEX PROGRAMS IN 2005 REINFORCES OUR ABILITY TO SERVE OUR CUSTOMERS GLOBALLY.

ABLE AND GLOBAL



(Above) This new rear axle assembly line illustrates AAM's investment to meet the requirements of the GMT 900 program.



OUR SUPPLIERS MEET OUR COMPLEX GLOBAL REQUIREMENTS

As AAM expands globally, we continually seek out the best supplier partners to ensure that we are provided with the highest quality, lowest cost materials and equipment available in the world. Our top-notch suppliers in 25 countries provide exceptional launch and program management capabilities. We recently added engineers, technical support and associates at all AAM business offices and continue to implement the latest technology tools to enhance supplier collaboration.

(Above)
Heading up the 14-month launch of the GMT 900 program at Detroit Gear & Axle:
Terri Kemp, Manufacturing Manager;
Sylvester Bradley, Manufacturing Manager;

Gerald Coster, Plant Manager,
Jim Kline, Launch Manager;
Tony Selliman, Area Manager.



Seven Core Competencies

Engineering
Forging
Machining
Welding
Heat Treating
Assembly
Product Validation



AT THE FOREFRONT IN PRODUCT, PROCESS AND SYSTEMS TECHNOLOGY

(Below)

Tom Szymanski, President & Chief Operating Officer of AAM's subsidiary Colfor Manufacturing, Inc., examines wheel hubs being produced at Colfor's recently expanded Minerva, Ohio facility.



(Left)

Ongoing improvements at Buffalo Gear, Axle & Linkage (BGA), including installation of a new Fuji Pinion Blanking Lean Cell, are resulting in lean lead-time and quick changeover advantages.

(Inset left)

Norman Weber, Plant Manager, BGA (center), with his leadership team: (from left to right) James Waris, Quality Manager; Gregory Tokarz, Manufacturing Manager; Judy Giese, Personnel Director and Mark LoPresti, Finance Manager.

AAM innovation in product, process and systems technology is a distinguishing feature of our new and existing facilities around the world. We continually seek out, invest in and implement the latest technologies to design, develop, test, validate and manufacture our products. Ongoing improvements in automation and cycle time reduction, as well as associate involvement in continuous improvement workshops, keep our overall productivity on the rise, at an annual rate of nearly eight percent since 1994.

UNIQUE, ADVANCED PROCESSES RECENTLY INTRODUCED AT AAM

Manufacturing new products often requires new processes. We recently launched Minimum Quantity Lube (MQL) technology, which has resulted in shorter machine cycle times, better long-term quality and an improved working environment.

The introduction of laser welding provides the benefits of greater precision, improved noise, vibration and harshness (NVH) performance, fewer packaging constraints and mass and cost reduction. We are also developing precision grinding of hypoid gear teeth, magnesium machining, vacuum carburizing and induction hardening heat treat processes.

COLFOR FACILITY EXPANSION PROVIDES STATE-OF-THE-ART MACHINING

Our recent \$60 million investment in building expansion, machinery and equipment at AAM's Colfor Manufacturing operations in Minerva, Ohio transformed the facility into a high-volume, state-of-

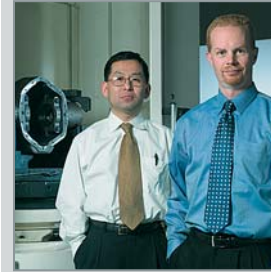
the-art machining operation. More than 100 new pieces of heat treating and machining equipment enable Colfor to meet the quality and precision requirements of customers such as GM Powertrain, BorgWarner and The Timken Company.

INFORMATION TECHNOLOGY CONTRIBUTES TO AAM QUALITY AND PRODUCTIVITY

AAM recently implemented a digital manufacturing system for data management and process planning. The system gives AAM management the ability to monitor production and quality and resolve issues in real time at all of our operations. We also routinely utilize simulation tools to validate capital equipment purchases and predetermine factory throughput, capacity and capabilities for new facilities.

(Top right)

Inacio Moriguchi, Executive Director, Metal Form Engineering & Manufacturing Support and Kevin Smith, Executive Director, Manufacturing Engineering, oversee the development of new processes for the GMT 900.



Process Development Center

Process

Development Center goes into full swing for GMT 900 launch

Preparation for the GMT 900 launch in 2005 raised the level of activity significantly at AAM's new Process Development Center (PDC). Well in advance of purchasing actual equipment for the production of components for GM's full-size pickups and SUVs, PDC engineers toolled up and produced parts to validate the production intent process. They developed and validated advanced processes for front axle carrier machining and front and rear axle assembly for the launch before implementation at Detroit Gear & Axle.



SENIOR MANAGEMENT
PROMOTIONS IN 2005 KEEP AAM
FOCUSED ON LEADING CHANGE.

LEADING CHANGE IN EVERYTHING WE DO

THE RIGHT LEADERS FOR DEVELOPING NEW OPPORTUNITIES

Senior management promotions and appointments in 2005 ensure that AAM can take advantage of the opportunities afforded by change. These appointments include the following:

- Yogendra N. Rahangdale to President & Chief Operating Officer from Executive Vice President – Operations & Planning.
- Richard F. (Rick) Dauch to Executive Vice President – Worldwide Manufacturing from President, Metal Formed Products Division.
- Michael K. Simonte to Vice President – Finance & Chief Financial Officer from Vice President & Treasurer.
- Michael C. Flynn to Vice President – Procurement from Executive Director, Sales for General Motors/Delphi.
- Patrick J. Spohn to Vice President & Controller from Corporate Controller.
- Shannon J. Curry to Treasurer from Assistant Treasurer.



(Above)
AAM's Quality Engineering Technical Center staff includes: **Allan Rae, Director, Corporate Quality Systems; Ruth Hooper, Supplier Quality Manager; John S. Sofia, Vice President – Quality Assurance & Customer Satisfaction; Kristy Coles, Lead Warranty Engineer.**

(Top left)
Yogendra N. Rahangdale, President & Chief Operating Officer with Michael C. Flynn, Vice President – Procurement.

(Bottom left)
Michael K. Simonte, Vice President – Finance & Chief Financial Officer (center) with Shannon J. Curry, Treasurer and Patrick J. Spohn, Vice President & Controller.

SHAPING CHANGE THROUGH THE NEXT GENERATION

AAM associates continue to be a force for change. Kristy L. Coles is one example. In 2005, Kristy was recognized by the Automotive Hall of Fame as one of four recipients of the organization's Young Leadership & Excellence Award. A corporate senior quality engineer, Kristy leads by example, training and coaching fellow engineers, assisting in new business initiatives and supporting product and manufacturing engineering.

OUR QUALITY OPENS NEW DOORS

AAM's benchmark quality, warranty and delivery performance is a key differentiator and competitive advantage in terms of our ability to earn new business. We increasingly achieve Six Sigma performance of less than 3.4 discrepant parts per million (PPM), as measured by our largest customer, at our domestic facilities and continue to average less than 10 PPM throughout the world. Our world-class product quality is a competitive advantage enabling our customers to significantly reduce warranty costs and improve their customer satisfaction ratings.

LEADERSHIP IN COMMUNITY GIVING

This past year, AAM's Co-Founder, Chairman & CEO Richard E. Dauch served as Chair of the United Way's Tocqueville Society Committee. Members of the society exemplify exceptional giving in addition to supporting the United Way's core mission of targeting the root causes of critical community needs.



Operational Excellence

Award-winning, leading-edge human resource practices

In 2005, AAM was recognized for the fourth time as one of **Metropolitan Detroit's 101 Best and Brightest Companies to Work For.** Sponsored by the **Michigan Business & Professional Association (MBPA)**, this award program honors companies that demonstrate innovation in their commitment to employees.

(Above)
AAM equips nearly 11,000 associates-such as Elizabeth Vulaj, Product Engineer; Nicole Magee, Prototype Coordinator; and Joseph Zogaib, Product Engineer-with the equipment, systems and training to continually exceed expectations.

AAMFINANCIALS

Management's Discussion and Analysis

OVERVIEW

American Axle & Manufacturing Holdings, Inc. (Holdings) and its subsidiaries (collectively, we, our, us or AAM) is a premier Tier I supplier to the automotive industry and a worldwide leader in the manufacture, engineering, design and validation of driveline and drivetrain systems and related powertrain components and chassis modules for light trucks, sport utility vehicles (SUVs), passenger cars and crossover vehicles. Driveline and drivetrain systems include components that transfer power from the transmission and deliver it to the drive wheels. Our driveline, drivetrain and related powertrain products include axles, chassis modules, driveshafts, power transfer units, transfer cases, chassis and steering components, driving heads, crankshafts, transmission parts and metal-formed products.

We are the principal supplier of driveline components to General Motors Corporation (GM) for its rear-wheel drive (RWD) light trucks and SUVs 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. Sales to GM were approximately 78% of our total net sales in 2005, 80% in 2004 and 82% in 2003.

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 a Lifetime Program Contract (LPC). 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 have been successful in competing, and we will continue to compete for future GM business upon the expiration of the LPCs.

We are also the principal supplier of driveline system products for the Chrysler Group's heavy-duty Dodge Ram full-size pickup trucks (Dodge Ram program) and its derivatives. As part of this program, we supply a fully integrated computer-controlled chassis system for the Dodge Ram Power Wagon. Sales to DaimlerChrysler Corporation (DaimlerChrysler) were approximately 13% of our total net sales in 2005, 11% in 2004 and 9% in 2003.

In addition to GM and DaimlerChrysler, we supply driveline systems and other related components to PACCAR Inc., Volvo Group, Ford Motor Company (Ford), and other original equipment manufacturers (OEMs) and Tier I supplier companies such as Magna International, Inc. and The Timken Company. Our net sales to customers other than GM increased 3.6% to \$754.4 million in 2005 as compared to \$728.0 million in 2004 and \$674.0 million in 2003. In the second quarter of 2005, we launched a program supporting independent rear drive axles (IRDAs) for South Korean automaker Ssangyong Motor Corporation.

INDUSTRY TRENDS AND COMPETITION

There are a number of key trends affecting the highly competitive automotive industry. The industry is global with an increased emphasis on new consumer markets, geographically diverse production facilities and supplier consolidation. Pricing pressures are significant, while domestic manufacturing costs, including labor and certain raw materials, are escalating. As a result, OEMs and suppliers are developing strategies to reduce costs such as producing in low cost locations and sourcing on a global basis. Product development and advanced technology are critical to attracting and retaining business. The driveline systems segment of the industry in which we compete reflects these trends, and we expect them to continue.

GLOBAL AUTOMOTIVE PRODUCTION Global automotive production is increasing in Central and Eastern Europe, Asia (particularly China, South Korea and India) and South America. The rate of growth of automotive production in these regions is expected to be much greater than the more traditional automotive production centers such as North America, Western Europe and Japan. We have opened offices in India, China and South Korea and we have expanded our existing facility in Brazil to support these growing markets. We expect our activity in these markets to increase significantly over the next several years. In 2006, we will begin construction of new manufacturing facilities in China and Central/Eastern Europe.

CHANGE IN CONSUMER DEMAND AND PRODUCT MIX SHIFT

The demand for SUV-type vehicles is shifting to smaller passenger cars and crossover vehicles with smaller displacement engines and higher fuel economy. A significant portion of our current revenue stream is tied to full-size and mid-size SUV's and as demand softens for these products, our current revenue streams will be impacted. However, our R&D efforts have led to new business awards for new products that support AWD and RWD passenger cars and crossover vehicles positioning us well to compete as the product mix shifts. AAM's new and incremental business backlog now includes awards for new products supporting seven passenger car and crossover vehicle programs that represent future annual sales of over \$600 million by 2012.

4WD/AWD There is a continuing trend toward higher 4WD/AWD penetration in the market place. 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, which also increases our content-per-vehicle.

DECLINING U.S. DOMESTIC MARKET SHARE Competition from offshore and transplant OEMs continues to intensify, and the U.S. market share for GM and Ford has declined as their U.S. domestic vehicle production levels decreased by 8% in 2005. Since approximately 78% of our 2005 revenue is derived from net sales to GM, this continuing trend is significant for us. A mitigating factor for us in this trend is our continuing effort to diversify our customer base as our sales to customers other than GM have increased to \$754.4 million representing approximately 22% of net sales in 2005.

PRICE PRESSURE Year-over-year price reductions are a common practice in the automotive industry. We sell most of our products under long-term contracts with prices scheduled at the time the contracts are established. Some of our contracts require us to reduce our prices in subsequent years and most of our contracts allow us to adjust prices for engineering changes. We do not believe that the price reductions we have committed to our customers will have a material adverse impact on our future operating results because we intend to offset such price reductions through cost reductions and other productivity initiatives.

SUPPLY BASE CONSOLIDATION The OEMs have continued to reduce their supply base, preferring stronger relationships with a smaller number of suppliers capable of designing, engineering, testing, validating and manufacturing systems and modules for their increasingly global operations. The trend is to move away from regional suppliers and toward suppliers that can serve global markets in a cost efficient manner. The financial strength of a supplier is also an important factor in sourcing decisions as the

OEMs work to protect their continuity of supply. We believe our engineering capabilities and financial resources position us well in this environment.

Supply base consolidation is not limited to Tier I suppliers. The competitive pressures of the automotive industry have forced the consolidation of our supply base as well. We have expanded our global purchasing activities in order to procure materials cost-effectively while ensuring continuity of high quality supply.

STEEL AND OTHER METALLIC MATERIAL PRICING Worldwide market conditions have resulted in higher steel and other metallic material prices. We are focused on mitigating the impact of this trend through commercial agreements with our customers, strategic sourcing arrangements with suppliers and technology advancements that will allow us to use less metallic content in the manufacture of our products.

The majority of our sales contracts with our largest customers provide price adjustment provisions for metal market price fluctuations. Because we do not have such provisions with all of our customers for all of the parts that we sell, we are experiencing higher net costs for raw materials. Our cost increases have come in the form of metal market adjustments, base price increases and surcharges. We also have contracts with our steel suppliers that ensure continuity of supply and our validation and testing capabilities enable us to strategically utilize steel sources on a global basis.

SHIFT OF WARRANTY RESPONSIBILITIES The OEMs are also shifting warranty responsibilities to their supply base. In our eleven-year history, we have experienced negligible warranty charges from our customers due to our contractual relationships and ongoing improvements in the areas of quality, reliability and durability with respect to the products that we sell. Although we do not expect that our warranty obligations will have a material adverse impact on our future operating results, we will continue to closely monitor potential future warranty costs.

FINANCIAL DISTRESS OF U.S. DOMESTIC SUPPLY BASE The declining market share of the U.S. domestic OEMs has resulted in the under-utilization of industry capacity which has significantly pressured the U.S. domestic supply base. Steel and metallic material prices rose significantly, and higher energy and fuel costs exacerbated the cost issue. In 2005, several key automotive suppliers joined many other suppliers that have filed for Chapter 11 bankruptcy protection since 2003. The declining market share of U.S. domestic OEMs and its supply base caused by global competition is creating a major structural change in the U.S. domestic automotive industry targeted at dramatically reducing cost.



Net Sales
Dollars in millions

RESULTS OF OPERATIONS

NET SALES Net sales were \$3,387.3 million in 2005 as compared to \$3,599.6 million in 2004 and \$3,682.7 million in 2003. The decrease in 2005 net sales of 5.9% relative to 2004 compares to a decrease in North American (N.A.) light vehicle production of less than 1% and a decrease of nearly 9% in GM light truck production. The decrease in 2004 net sales of 2% relative to 2003 compares to a decrease in N.A. light vehicle production of less than 1% and a decrease of nearly 5% in GM light truck production.

The decreases in net sales resulting from lower GM light truck production volumes, in both 2005 and 2004, were partially offset by metal market price adjustments. Our sales were also positively impacted by increased production of the Dodge Ram heavy-duty pickup truck program that we support.

Sales in 2004 and 2003 benefited from the launch in the second half of 2003 of the GMC Canyon and Chevrolet Colorado and increased production of GM's full-size pickup and SUV programs. Our sales activity in 2004 and 2003 also reflects the impact of our successful launch in the second half of 2002 of new driveline system products supporting the Dodge Ram program, the launch in the third quarter of 2002 of GM's HUMMER H2 and the 2002 introduction of the longer wheel-base Chevrolet Trailblazer EXT and GMC Envoy XL. Sales in 2003 were partially offset by decreased production of the Chevrolet Astro and GMC Safari van program.

Our content-per-vehicle (as measured by the dollar value of our products supporting GM's N.A. light truck platforms and the Dodge Ram program) was \$1,201 in 2005 up from \$1,173 in 2004 and 2003. The impact of metal market price adjustments, favorable pricing due to technology improvements and mix shifts favoring 4WD/AWD versions of light truck products were the primary drivers of content growth for the year. Our 4WD/AWD penetration rate has also increased in these periods to 63.7% in 2005 as compared to 62.6% in 2004 and 61.8% in 2003. 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.



Gross Profit
Dollars in millions

• Percent of Sales

GROSS PROFIT Gross profit was \$304.7 million in 2005 as compared to \$474.5 million in 2004 and \$540.3 million in 2003. Gross margin was 9.0% in 2005 as compared to 13.2% in 2004 and 14.7% in 2003. Our gross profit in 2005 was adversely impacted by lower GM light truck production volumes, increased supplemental unemployment benefits to our hourly associates, higher energy and material costs, and increased launch costs, which include non-capitalizable project expenses in addition to machine startup costs.

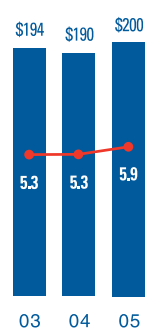
In 2004, we initiated a voluntary separation program whereby employees could receive lump-sum payments to voluntarily terminate their employment with AAM. We offered separation payments under this program to adjust our hourly workforce to meet current business conditions. The associated labor cost is normally recovered in approximately one year. The following table summarizes our activity under the program:

	2005	2004
	(Dollars in millions)	
Approximate pre-tax charge	\$17.3	\$23.8
Number of associates	317	453

In February 2004, our national collective bargaining agreement with the UAW expired. As a result of not reaching an agreement before the expiration of the contract, we experienced a temporary work stoppage of less than two days at six of our North American manufacturing facilities. In 2004, our operating results include costs and expenses of approximately \$5.2 million related to overtime and other costs to recover lost production as a result of the work stoppage.

Lump-sum ratification payments totaling \$37.5 million (including applicable payroll taxes) were made in the first half of 2004 in accordance with new collective bargaining agreements with unions that represent our hourly associates at six of our locations in the U.S. These lump-sum payments relate to future service of our hourly associates. Through 2005, we expensed \$21.2 million of these payments, which represented amounts earned in relation to the agreements including \$7.1 million and \$7.5 million paid in lieu of base wage increases in 2005 and 2004, respectively. The remaining \$16.3 million relates to amounts which would be earned during the terms of the agreements and will be amortized over the remaining lives of the agreements.

In 2003, productivity gains were partially offset by a \$9.3 million charge for an early retirement program for our hourly associates and a \$2.2 million third quarter charge to adjust costs relating to our salaried workforce.

**SG&A**

Dollars in millions

• Percent of Sales

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (SG&A)

SG&A (including research and development (R&D)) was \$199.6 million in 2005 as compared to \$189.7 million in 2004 and \$194.0 million in 2003. SG&A as a percentage of net sales was 5.9% in 2005 and 5.3% in 2004 and 2003. In addition to higher R&D spending, SG&A in 2005 reflects the cost of AAM's first-ever restricted stock grants. SG&A in 2005 as compared to 2004 also reflects higher costs incurred to support our strategic growth initiatives in other countries partially offset by lower profit sharing expense as a result of lower earnings. SG&A in 2004 as compared to 2003 includes higher R&D spending offset by

lower profit sharing expense due to lower earnings and changes to our incentive compensation plans implemented in 2004.

R&D In 2005, R&D spending in product, process and systems increased 7.3% to \$73.6 million as compared to \$68.6 million in 2004 and \$60.7 million in 2003. The focus of this increasing

**R&D**

Dollars in millions

investment is to develop innovative driveline and drivetrain systems and components for passenger cars, light trucks and SUVs in the global marketplace. Product development in this area includes power transfer units, transfer cases, driveline and transmission differentials, multi-piece driveshafts, IRDAs and independent front drive axles (IFDAs). We also continue to focus on electronic integration in our existing products. The most recent examples of these initiatives are the electronic SmartBar™ stabilizer based roll-control system, TracRite® GTL electronic differentials and TracRite® EL electronic locking differentials all featured in the Dodge Ram Power Wagon. In addition, we continue to

support the development of hybrid vehicle systems. Our efforts in these areas have resulted in the development of prototypes and various configurations of these driveline systems for several OEMs throughout the world.

OPERATING INCOME Operating income was \$105.1 million in 2005 as compared to \$284.8 million in 2004 and \$346.3 million in 2003. Operating margin was 3.1% in 2005, 7.9% in 2004 and 9.4% in 2003. The decreases in operating income and operating margin in 2005 and 2004 were due to the factors discussed in Gross Profit and SG&A.

**Net Interest Expense**

Dollars in millions

NET INTEREST EXPENSE

Net interest expense was \$27.2 million in 2005, \$25.5 million in 2004 and \$46.8 million in 2003. Interest expense increased in 2005 due to higher average outstanding borrowings and higher interest rates in 2005 as compared to 2004. Interest expense decreased in 2004 as compared to 2003 due to the favorable impact of our debt refinancing activities in the first quarter of 2004.

OTHER INCOME (EXPENSE) Following are the components of Other Income (Expense) for 2005, 2004 and 2003:

Debt refinancing and redemption costs Debt refinancing and redemption costs expensed in the first quarter of 2004 are summarized as follows (dollars in millions):

Call premium on 9.75% Notes	\$ 14.6
Write-off of unamortized discount and debt issuance costs	
9.75% Notes	5.7
1997 Bank Credit Facilities	3.2
Debt refinancing and redemption costs	<u>\$ 23.5</u>

The details of the debt refinancing and redemption costs are more fully explained in the section entitled "Liquidity and Capital Resources – Capitalization and Debt Availability."

Other, net This activity is related principally to the net effect of foreign exchange gains and losses.

INCOME TAX EXPENSE Income tax expense was \$24.0 million in 2005, \$76.3 million in 2004 and \$106.1 million in 2003. Our effective income tax rate was 30.0% in 2005, 32.4% in 2004 and 35.0% in 2003. The decrease in our effective income tax rate in 2005 as compared to 2004 was primarily due to the impact of federal income tax credits which do not vary proportionately with net income. These credits, when applied against our lower pre-tax income in 2005, had a more significant impact on our effective tax rate. The decrease in our effective income tax rate in 2004 as compared to 2003 was primarily due to tax effects related to the recognition of R&D tax credits, the Medicare Part D subsidy and lower foreign rates.

NET INCOME AND EARNINGS PER SHARE (EPS) Net income was \$56.0 million in 2005 as compared to \$159.5 million in 2004 and \$197.1 million in 2003. Diluted earnings were \$1.10 per share in 2005 as compared to \$2.98 per share in 2004 and \$3.70 per share in 2003. Net income and EPS were primarily impacted by the factors discussed in Gross Profit and SG&A. Additionally, in 2004, net income and EPS include the impact of a one-time first quarter charge related to debt refinancing and redemption costs of \$15.9 million, net of tax (\$23.5 million before tax).

EARNINGS BEFORE INTEREST EXPENSE, INCOME TAXES, DEPRECIATION AND AMORTIZATION (EBITDA) EBITDA was \$293.0 million in 2005 as compared to \$432.7 million in 2004 and \$513.8 million in 2003. The decrease in EBITDA in 2005 and 2004 were primarily due to the factors discussed in Gross Profit and SG&A. In 2004, EBITDA includes the impact of a one-time first quarter charge of \$23.5 million related to debt refinancing and redemption costs. For an explanation and reconciliation of EBITDA, refer to the section entitled "Supplemental Financial Data."

LIQUIDITY AND CAPITAL RESOURCES

Our primary liquidity needs are to fund capital expenditures, debt service obligations, working capital investments and our quarterly cash dividend program. We believe that operating cash flow and borrowings under our Revolving Credit Facility will be sufficient to meet these needs in the foreseeable future.



**Net Cash Provided
By Operating
Activities**
Dollars in millions

OPERATING ACTIVITIES Net cash provided by operating activities was \$280.4 million in 2005 as compared to \$453.2 million in 2004 and \$496.9 million in 2003. Significant factors impacting our 2005 operating cash flow as compared to 2004 were:

- Lower net income;
- Lower tax deferrals;
- Higher inventories;
- Lower lump-sum payments per union contracts; and
- Lower profit sharing payout.

Deferred taxes The impact on our operating cash flow as a result of deferring income taxes was \$(1.1) million in 2005, \$46.3 million in 2004 and \$20.4 million in 2003. Our tax deferrals were lower in 2005 as compared to 2004 due to reduced provisions for accelerated tax and bonus depreciation and the realization of federal tax credits utilizable in future years.

Our deferred tax asset valuation allowances were \$31.2 million at year-end 2005, \$32.5 million at year-end 2004 and \$34.9 million at year-end 2003. The majority of our allowances relate to foreign net operating losses and capital allowance carryforwards. Although these carryforwards do not expire, we considered prior operating results and future plans, as well as the utilization period of other temporary differences, in determining the amount of our valuation allowances.

Pension and other postretirement benefits We contributed \$34.7 million to our pension trusts in 2005 as compared to \$35.7 million in 2004 and \$42.1 million in 2003. This funding compares to our annual pension expense of \$41.3 million in 2005, \$39.1 million in 2004 and \$41.2 million in 2003. We expect our pension funding in 2006 to be in the range of \$30.0 million to \$40.0 million.

Our cash outlay for other postretirement benefit obligations was \$3.5 million in 2005, \$2.7 million in 2004 and \$3.9 million in 2003. This compares to our annual postretirement benefit expense of \$70.1 million in 2005, \$69.5 million in 2004 and \$55.7 million in 2003. We expect our funding of other postretirement benefit obligations in 2006 to be approximately \$5.0 million.

Accounts receivable Accounts receivable at year-end 2005 were \$328.0 million as compared to \$334.9 million at year-end 2004 and \$339.2 million at year-end 2003. Accounts receivable were impacted by reduced sales in the fourth quarter of 2005 as compared to the fourth quarter of 2004.

Our accounts receivable allowances were \$3.1 million at year-end 2005, \$2.5 million at year-end 2004 and \$2.8 million at year-end 2003.

Inventories At year-end 2005, inventories were \$207.2 million as compared to \$196.8 million at year-end 2004 and \$171.8 million at year-end 2003. Spare parts inventories increased in these periods as we implemented new product, process and systems technology initiatives to support ongoing major program launches. In addition, we managed preventive maintenance strategies to protect against costly disruptions in operations due to machine downtime.

Our inventory valuation allowances were \$20.3 million at year-end 2005, \$12.6 million at year-end 2004 and \$14.8 million at year-end 2003. The change in our inventory valuation allowances in 2005 as compared to 2004 was primarily due to increased reserves for indirect inventories. We continuously monitor and adjust our allowance as necessary to recognize as an asset only those quantities that we can reasonably estimate will be used.

Accounts payable and accrued expenses The change in our accounts payable and accrued expenses was a use of cash of \$32.2 million in 2005 as compared to a source of cash of \$18.9 million in 2004 and \$2.6 million in 2003. Accounts payable were lower at year-end 2005 as compared to year-end 2004 due to lower inventory purchases and capital expenditures in the fourth quarter. Additionally, accrued compensation and benefits were lower at year-end 2005 as compared to year-end 2004 primarily due to lower profit sharing accruals.

Accrued compensation and benefits were lower at year-end 2004 as compared to year-end 2003 primarily due to lower profit sharing accruals, which were more than offset by increased accounts payable due to higher inventory purchases and capital expenditures in the fourth quarter.



Capital Expenditures
Dollars in millions

INVESTING ACTIVITIES Capital expenditures were \$305.7 million in 2005, \$240.2 million in 2004 and \$229.1 million in 2003. In addition to ongoing productivity improvements, our largest capital projects in 2005 included investments for process development equipment for the GMT 900 program (GM's next generation full-size truck and SUV platform which launched in December 2005) and expenditures to support the model year 2005 launch of the HUMMER H3, the Dodge Ram Mega Cab, GM's new six speed transmission, and IFDAs for South Korean automaker Ssangyong Motor Corporation. We also incurred capital expenditures to support the further expansion of our Guanajuato Gear & Axle manufacturing facility in 2005.

We expect our capital spending in 2006 to approximate \$260.0 million supporting the 2006 and 2007 model year launch of the GMT 900 program and other major customer programs. We expect to have expenditures in 2006 that will continue to support our selective global expansion initiatives with new manufacturing facilities in China and Central/Eastern Europe and new equipment to enhance our testing and validation capabilities at our European Headquarters in Bad Homburg, Germany. Other major capital projects include the

expansion of our Colfor Manufacturing operations in Minerva, Ohio and expenditures to support passenger car and crossover vehicle programs in our new and incremental business backlog.

We have invested our capital with the objective of improving quality, productivity and long-term profitable growth. Our after-tax return on invested capital (ROIC) was 5.2 % in 2005, 12.7% in 2004 and 16.1% in 2003. In 2005 and 2004, our ROIC reflects the impact of lower production volumes, increased costs of steel and other metallic material prices, voluntary separation programs and the effect of debt refinancing activities in the first quarter of 2004. For an explanation and reconciliation of ROIC, refer to the section entitled "Supplemental Financial Data."

NET OPERATING CASH FLOW AND FREE CASH FLOW Net operating cash flow was a deficit of \$25.3 million in 2005 as compared to a surplus of \$213.0 million and \$267.8 million in 2004 and 2003, respectively. Free cash flow was a deficit of \$55.7 million in 2005 as compared to surpluses of \$190.0 million in 2004 and \$267.8 million in 2003. For an explanation and reconciliation of net operating cash flow and free cash flow, refer to the section entitled "Supplemental Financial Data."

FINANCING ACTIVITIES Net cash provided by financing activities was \$14.8 million in 2005 as compared to a use of \$211.3 million in 2004 and \$262.6 million in 2003. Total debt outstanding was \$489.2 million at year-end 2005, \$448.0 million at year-end 2004 and \$449.7 million at year-end 2003. Total debt outstanding increased by \$41.2 million at year-end 2005 as compared to year-end 2004 primarily due to a decrease in operating cash flow performance and increased capital expenditures to support the launch of new business and our global expansion.

CAPITALIZATION AND DEBT AVAILABILITY Our total capitalization was \$1.5 billion at year-end 2005 and \$1.4 billion at year-end 2004. Our net debt to capital ratio was 32.8% at year-end 2005 as compared to 31.2% at year-end 2004. For an explanation and reconciliation of net debt to capital, refer to the section entitled "Supplemental Financial Data."



Our senior unsecured revolving credit facility (Revolving Credit Facility) provides up to \$600.0 million of revolving bank financing commitments through April 2010 and bears interest at rates based on LIBOR or an alternate base rate, plus an applicable margin. Together with our foreign credit facilities and uncommitted lines of credit, the Revolving Credit Facility is our primary source of day-to-day liquidity.

The Revolving Credit Facility is used for general corporate purposes, which included the refinancing of the previously existing senior secured bank credit facilities (1997 Bank Credit Facilities) in 2004. We had been amortizing fees and expenses associated with the 1997 Bank Credit Facilities over the life of the agreement. In January 2004, the unamortized balance of such fees and expenses of \$3.2 million was expensed when we terminated our bank financing commitments under the 1997 Bank Credit Facilities.

At December 31, 2005, \$575.0 million was available under the Revolving Credit Facility, which reflected a reduction of \$25.0 million for standby letters of credit issued against the facility. We also utilize foreign credit facilities and uncommitted lines of credit to finance working capital needs. At December 31, 2005, \$87.1 million was outstanding and \$83.9 million was available under such agreements.

In February 2004, we issued \$250.0 million of 5.25% Senior Notes due February 2014 (5.25% Notes) and \$150.0 million of 2.00% Senior Convertible Notes due 2024 (2.00% Convertible Notes) in concurrent private offerings pursuant to Rule 144A of the Securities Act of 1933. We received net proceeds from these offerings of approximately \$394.0 million, after deducting discounts and commissions of the initial purchasers and other expenses. We used a portion of the net proceeds to repurchase \$63.0 million, or 1.59 million shares, of our common stock in privately negotiated transactions. The remainder of the net proceeds was used to redeem all \$300.0 million of the outstanding 9.75% Senior Subordinated Notes due March 2009 (9.75% Notes) at a cost of \$314.6 million on March 1, 2004, and for other general corporate purposes. In the first quarter of 2004, the \$14.6 million call premium and an additional \$5.7 million of unamortized discounts and debt issuance costs were expensed as a result of this redemption.

The weighted-average interest rate of our total debt outstanding was 5.0%, 4.8% and 5.9% during 2005, 2004 and 2003, respectively.

Credit Ratings Our current credit ratings and (outlook) are BBB - (Negative), Ba2 (Negative) and BBB - (Stable) with Standard & Poors Rating Services, Moody's Investors Services and Fitch Ratings, respectively.

Dividend Program In April 2004, AAM's Board of Directors declared our first quarterly cash dividend as a public company of \$0.15 per share. On an annualized basis, the dividend payout equates to \$0.60 per share. We paid \$30.4 million and \$23.0 million to stockholders of record under the quarterly cash dividend program during 2005 and 2004, respectively.

Stock Repurchase Program During 2004, AAM's Board of Directors approved a stock repurchase program under which we may repurchase up to 5.5 million shares of common stock in the open market or in privately negotiated transactions from time to time through the first quarter of 2006. Including the common stock we acquired in connection with our debt refinancing activities in the first quarter of 2004, we have repurchased 5.0 million shares of our common stock for \$171.0 million under this stock repurchase program.

Off-Balance Sheet Arrangements 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 consolidated financial statements. Pursuant to these operating leases, most of which were initiated prior to year-end 1999, we have the opportunity to purchase the underlying machinery and equipment at specified buy-out dates. We exercised our purchase options for \$3.0 million of such lease buy-outs in 2003. Remaining lease renewal or repurchase options are approximately \$106.0 million in 2006, of which \$29.9 million has been elected for repurchase in April 2006. We have no off-balance sheet arrangements with unconsolidated entities.

Contractual Obligations The following table summarizes payments due on our contractual obligations as of December 31, 2005:

	Payments due by period				
	Total	<1 yr	1-3 yrs	3-5 yrs	>5 yrs
	(Dollars in millions)				
Long-term debt	\$ 486.8	\$ 87.0	\$ -	\$ -	\$ 399.8
Interest obligations ⁽¹⁾	263.3	16.1	32.3	32.3	182.6
Capital lease obligations	2.4	0.3	0.7	0.8	0.6
Operating leases ⁽²⁾	143.6	62.8	48.4	27.4	5.0
Purchase obligations ⁽³⁾	163.1	146.8	16.3	-	-
Other long-term liabilities ⁽⁴⁾	387.1	18.9	46.7	65.2	256.3
Total contractual obligations	\$ 1,446.3	\$ 331.9	\$ 144.4	\$ 125.7	\$ 844.3

⁽¹⁾ Interest obligations represent future interest payments on our public debt.

⁽²⁾ Operating leases include all lease payments through the end of the contractual lease terms, including elections for repurchase options, and exclude any non-exercised purchase options on such leased equipment.

⁽³⁾ Purchase obligations represent our obligated purchase commitments for capital expenditures.

⁽⁴⁾ Other long-term liabilities represent our pension and other postretirement obligations that were actuarially determined through 2015.

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 risk. From time to time, we use foreign currency forward contracts to reduce the effects of fluctuations in exchange rates, primarily relating to the Euro, Mexican Peso, Pound Sterling, Brazilian Real and Canadian Dollar. At December 31, 2005, we had currency forward contracts with a notional amount of \$35.7 million outstanding. A 10% change in any of these individual currencies would not have had a material impact on our consolidated financial statements in 2005.

Future business operations and opportunities, including the expansion of our business outside North America, may further increase 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 contracts.

INTEREST RATE RISK We are exposed to variable interest rates on certain credit facilities. From time to time, we use interest rate hedging to reduce the effects of fluctuations in market interest rates. The pre-tax earnings and cash flow impact of a one-percentage-point increase in interest rates (approximately 21.2% of our weighted-average interest rate at December 31, 2005) on our long-term debt outstanding at year-end 2005 would be approximately \$0.9 million.

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.

LITIGATION AND ENVIRONMENTAL MATTERS

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 adverse effect on our financial condition, results of operations or cash flows.

We are subject to various federal, state, local and foreign environmental and occupational safety and health laws, regulations and ordinances, including those regulating air emissions, water discharge, waste management and environmental cleanup. We will continue to closely monitor our environmental conditions to ensure that we are in compliance with all laws, regulations and ordinances. GM has agreed to indemnify and hold us harmless against certain environmental conditions existing prior to our asset purchase from GM on March 1, 1994. GM's indemnification obligations terminated on March 1, 2004 with respect to new claims that may arise against GM. We have made, and will continue to make, capital and other expenditures (including recurring administrative costs) to comply with environmental requirements. Such expenditures were not significant during 2005, nor do we expect such expenditures to be significant in 2006.

EFFECT OF NEW ACCOUNTING STANDARDS

FASB STATEMENT NO. 123 (REVISED 2004) In December 2004, the FASB issued Statement No. 123(R), *"Share-Based Payment."* FASB Statement No. 123(R) replaces FASB Statement No. 123, *"Accounting for Stock-Based Compensation"* and supersedes APB Opinion No. 25, *"Accounting for Stock Issued to Employees."* The revised statement requires that the compensation cost relating to share-based payment transactions be recognized in financial statements and measured on the fair value of the equity or liability instruments issued. Effective April 14, 2005, the Securities and Exchange Commission issued a new rule that amends the compliance dates for companies to implement the revised statement to the beginning of their next fiscal year after June 15, 2005, which for AAM is January 1, 2006. AAM currently estimates that its stock-based compensation expense will increase by approximately \$10.0 million in 2006.

On December 31, 2005 we accelerated the vesting of certain "under water" stock options in response to the required adoption of FASB Statement No. 123(R) on January 1, 2006. As a result of the vesting acceleration, approximately 1.8 million shares became immediately exercisable in full to the extent that the market price of the underlying stock exceeded the exercise price of the options. The pro forma expense is reflected in our "Stock-Based Compensation" disclosure included within Note 1 to our consolidated financial statements. The acceleration was intended to eliminate future compensation expense with respect to the "under water" stock options that we would otherwise recognize under our adoption of FASB Statement No. 123(R).

CRITICAL ACCOUNTING POLICIES

In order to prepare consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), we are required to make estimates and assumptions that affect the reported amounts and disclosures in our consolidated financial statements. These estimates are subject to an inherent degree of uncertainty and actual results could differ from our estimates.

Other items in our consolidated financial statements require estimation. In our judgment, they are not as critical as those disclosed herein. We have discussed and reviewed our critical accounting policies disclosure with the Audit Committee of our Board of Directors.

PENSION AND OTHER POSTRETIREMENT BENEFITS In calculating our liabilities and expenses related to pension and other postretirement benefits, key assumptions include the discount rate, expected long-term rate of return on plan assets and rates of increase in compensation and health care costs.

The discount rates used in the valuation of our U.S. pension and other postretirement benefit obligations were based on an actuarial review of a hypothetical portfolio of long-term, high quality corporate bonds matched against our expected payment stream. In 2005, the discount rates determined on that basis were 5.8% for the valuation of our pension and 5.9% for the valuation of our other postretirement benefit obligations. The discount rate used in the valuation of our foreign pension obligation was based on a review of long-term bonds, including published indices in the applicable market. In 2005, the discount rate determined on that basis was 5.0%. The expected long-term rate of return on our plan assets was 8.0% in 2005. We developed this rate of return assumption based on a review of long-term historical returns for the asset classes represented within our portfolio. The asset allocation for our plans was developed in consideration of the demographics of the plan participants and expected payment stream of the liability. Our investment policy allocates 65-70% of the plans' assets to equity securities, with the remainder invested in fixed income securities and cash. The rates of increase in compensation and health care costs are based on current market conditions, inflationary expectations and historical information.

All of our assumptions were developed in consultation with our actuarial service providers. While we believe that we have selected reasonable assumptions for the valuation of our pension and other postretirement benefits obligations at year-end 2005, actual trends could result in materially different valuations.

The effect on our pension plans of a 0.5% decrease in both the discount rate and expected return on assets is shown below as of September 30, 2005, our valuation date.

	Discount Rate	Expected Return on Assets
	(Dollars in millions)	
Decline in funded status	\$ 50.2	N/A
Reduction in equity	\$ 52.4	N/A
Increase in 2005 expense	\$ 6.7	\$ 1.7

No changes in benefit levels and no changes in the amortization of gains or losses have been assumed.

A 9% annual increase in the per-capita cost of covered health care benefits was assumed for 2006. The rate was assumed to decrease gradually to 5% for 2012 and remain at that level thereafter. A 0.5% decrease in the discount rate for our other postretirement benefits would have increased total service and interest cost by \$8.8 million in 2005. A one-percentage-point increase in the assumed health care trend rate would have increased total service and interest cost in 2005 and the postretirement obligation at December 31, 2005 by \$16.3 million and \$107.3 million, respectively.

ACCOUNTS RECEIVABLE ALLOWANCES The scope of our relationships with certain customers, such as GM and DaimlerChrysler, is inherently complex and, from time to time, we identify differences in our valuation of receivables due from these customers. Differences in the quantity of parts processed as received by customers and the quantity of parts shipped by AAM is one major type of such difference. Price differences can arise when we and our customer agree on a price change but the customer's pricing database does not reflect the commercial agreement. In these instances, revenue is fixed and determinable, but payment could fall outside our normal payment terms as we work through the process of resolving these differences.

All of our transactions with our customers occur within the parameters of a purchase order which makes the price fixed and determinable. Because of the inherently complex nature of our supply relationships with our customers, from time to time we encounter situations that were not contemplated in the purchase order. As a result, we sometimes enter into non-routine agreements outside the original scope of the purchase order. These agreements may be temporary, are fixed and determinable, and often have payment terms that are different than our normal terms. We

recognize the revenue or cost recovery from such arrangements in accordance with the commercial agreement.

We track the aging of uncollected billings and adjust our accounts receivable allowances on a quarterly basis as necessary based on our evaluation of the probability of collection. We recognize revenue or cost recoveries in accordance with our understanding of a commercial agreement.

While we believe that we have made an appropriate valuation of our accounts receivable due from GM, DaimlerChrysler and other customers for accounting purposes, unforeseen changes in our ability to enforce commercial agreements or collect aged receivables may result in actual collections that differ materially from 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 inventory, 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, 2005, such indirect inventories comprised approximately 39% 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. We have used the same approach in 2005 and 2004 to evaluate the adequacy of our indirect inventory valuation allowances.

While we believe that we have made an appropriate valuation of such inventories 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.

ESTIMATED USEFUL LIVES FOR DEPRECIATION At December 31, 2005, approximately 81% of our capitalized investment in property, plant and equipment, or \$2.3 billion, was 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 straightline 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 our 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 DEFERRED TAX ASSETS AND OTHER TAX LIABILITIES Because we operate in many different geographic locations, including several foreign, state and local tax jurisdictions, the evaluation of our ability to use all recognized deferred tax assets is inherently complex. In assessing our ability to realize such deferred tax assets, we review the scheduled reversal of deferred tax liabilities, the projections of taxable income in future periods and the effectiveness of various tax planning strategies in making our assessment. Our consideration of these matters, including the determination of our other tax liabilities, requires significant management judgment.

While we believe we have made appropriate valuations of our deferred tax assets, unforeseen changes in tax legislation, regulatory activities, audit results, operating results, financing strategies, organization structure and other related matters may result in material changes in our deferred tax asset valuation allowances.



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:

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

SUPPLEMENTAL FINANCIAL DATA

The following supplemental financial data presented for the years ended December 31, 2005, 2004 and 2003 are reconciliations of non-GAAP financial measures, which are intended to facilitate analysis of our business and operating performance. This information is not and should not be viewed as a substitute for financial measures determined under GAAP. Other companies may calculate these non-GAAP financial measures differently.

Earnings Before Interest Expense, Income Taxes, Depreciation and Amortization (EBITDA)

	2005	2004	2003
	(Dollars in millions)		
Net income	\$ 56.0	\$ 159.5	\$ 197.1
Interest expense	27.9	25.8	47.5
Income taxes	24.0	76.3	106.1
Depreciation and amortization	185.1	171.1	163.1
EBITDA	\$293.0	\$432.7	\$513.8

We believe EBITDA is a meaningful measure of performance as it is commonly utilized by management and investors to analyze operating performance and entity valuation. Our management, the investment community and the banking institutions routinely use EBITDA, together with other measures, to measure our operating performance relative to other Tier I automotive suppliers. EBITDA should not be construed as income from operations, net income or cash flow from operating activities as determined under GAAP.

Net Operating Cash Flow and Free Cash Flow

	2005	2004	2003
	(Dollars in millions)		
Net cash flow provided by operating activities	\$280.4	\$453.2	\$496.9
Less: Purchases of property, plant and equipment	305.7	240.2	229.1
Net operating cash flow	(25.3)	213.0	267.8
Less: Dividends paid	(30.4)	(23.0)	-
Free cash flow	\$ (55.7)	\$ 190.0	\$ 267.8

We believe net operating cash flow and free cash flow are meaningful measures as they are commonly utilized by management and investors to assess our ability to generate cash flow from business operations to repay debt and return capital to our stockholders. Net operating cash flow is also a key metric used in our calculation of incentive compensation.

After-Tax Return on Invested Capital (ROIC)

	2005	2004	2003
	(Dollars in millions)		
Net income	\$ 56.0	\$ 159.5	\$ 197.1
Add: After-tax net interest expense ⁽¹⁾	19.0	17.2	30.4
After-tax return	75.0	176.7	227.5
Net debt ⁽²⁾	485.5	433.6	437.3
Add: Stockholders' equity	994.8	955.5	954.7
Invested capital			
End of year	1,480.3	1,389.1	1,392.0
Beginning of year	1,389.1	1,392.0	1,428.3
Average invested capital ⁽³⁾	1,434.7	1,390.6	1,410.2
ROIC ⁽⁴⁾	5.2%	12.7%	16.1%

⁽¹⁾ After-tax net interest expense is equal to tax effecting net interest expense by the applicable effective income tax rate as disclosed in Note 7 to the consolidated financial statements.

⁽²⁾ Net debt is equal to total debt less cash and cash equivalents as reconciled in the net debt to capital table appearing on this page.

⁽³⁾ Average invested capital is equal to the average of beginning and ending invested capital.

⁽⁴⁾ ROIC is equal to after-tax return divided by average invested capital.

We believe ROIC is a meaningful overall measure of business performance because it reflects our earnings performance relative to our investment level. ROIC is also a key metric used in our calculation of incentive compensation.

Net Debt to Capital

	2005	2004	2003
	(Dollars in millions)		
Total debt	\$ 489.2	\$ 448.0	\$ 449.7
Less: Cash and cash equivalents	3.7	14.4	12.4
Net debt	485.5	433.6	437.3
Add: Stockholders' equity	994.8	955.5	954.7
Invested capital	1,480.3	1,389.1	1,392.0
Net debt to capital ⁽¹⁾	32.8%	31.2%	31.4%

⁽¹⁾ Net debt to capital is equal to net debt divided by invested capital.

We believe net debt to capital is a meaningful measure of financial condition as it is commonly utilized by management, investors and creditors to assess relative capital structure risk.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

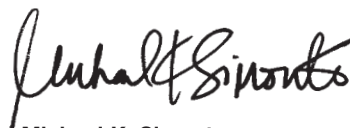
We are responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2005. In making this assessment, we used the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, we believe that as of December 31, 2005, our internal control over financial reporting is effective based on those criteria.

Our independent auditors have issued an audit report on our assessment of our internal control over financial reporting. This report appears on page 29.



Richard E. Dauch
Co-Founder, Chairman of the Board &
Chief Executive Officer
February 3, 2006



Michael K. Simonte
Vice President – Finance &
Chief Financial Officer
(also in the capacity of Chief Accounting Officer)
February 3, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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, 2005 and 2004, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2005. 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 the standards of the Public Company Accounting Oversight Board (United States). 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 American Axle & Manufacturing Holdings, Inc. and its subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of American Axle & Manufacturing Holdings, Inc. and its subsidiaries internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 3, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.



Deloitte & Touche LLP
Detroit, Michigan
February 3, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that American Axle & Manufacturing Holdings, Inc. and its subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's Board of Directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2005 of the Company and our report dated February 3, 2006 expressed an unqualified opinion on those financial statements.



Deloitte & Touche LLP

Detroit, Michigan

February 3, 2006

Consolidated Statements of Income

Year Ended December 31,

(In millions, except per share data)

	2005	2004	2003
Net sales	\$ 3,387.3	\$ 3,599.6	\$ 3,682.7
Cost of goods sold	3,082.6	3,125.1	3,142.4
Gross profit	304.7	474.5	540.3
Selling, general and administrative expenses	199.6	189.7	194.0
Operating income	105.1	284.8	346.3
Net interest expense	(27.2)	(25.5)	(46.8)
Other income (expense)			
Debt refinancing and redemption costs	-	(23.5)	-
Other, net	2.1	-	3.7
Income before income taxes	80.0	235.8	303.2
Income taxes	24.0	76.3	106.1
Net income	\$ 56.0	\$ 159.5	\$ 197.1
Basic earnings per share	\$ 1.12	\$ 3.09	\$ 3.84
Diluted earnings per share	\$ 1.10	\$ 2.98	\$ 3.70

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

December 31,

(In millions, except per share data)

	2005	2004
Assets		
Current assets		
Cash and cash equivalents	\$ 3.7	\$ 14.4
Accounts receivable, net of allowances of \$3.1 million in 2005 and \$2.5 million in 2004	328.0	334.9
Inventories, net	207.2	196.8
Prepaid expenses and other	45.5	39.1
Deferred income taxes	17.0	7.4
Total current assets	601.4	592.6
Property, plant and equipment, net	1,836.0	1,713.0
Deferred income taxes	3.0	6.8
Goodwill	147.8	147.8
Other assets and deferred charges	78.4	78.6
Total assets	\$ 2,666.6	\$ 2,538.8
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 338.5	\$ 349.3
Trade payable program liability	42.6	49.3
Accrued compensation and benefits	115.3	128.4
Other accrued expenses	52.8	58.6
Total current liabilities	549.2	585.6
Long-term debt	489.2	448.0
Deferred income taxes	116.1	114.5
Postretirement benefits and other long-term liabilities	517.3	435.2
Total liabilities	1,671.8	1,583.3
Stockholders' Equity		
Series A junior participating preferred stock, par value \$0.01 per share; 0.1 million shares authorized; no shares outstanding in 2005 or 2004	-	-
Preferred stock, par value \$0.01 per share; 10.0 million shares authorized; no shares outstanding in 2005 or 2004	-	-
Common stock, par value \$0.01 per share; 150.0 million shares authorized; 55.4 million and 54.8 million shares issued in 2005 and 2004, respectively	0.5	0.5
Series common stock, par value \$0.01 per share; 40.0 million shares authorized; no shares outstanding in 2005 or 2004	-	-
Paid-in capital	385.6	357.6
Retained earnings	843.5	817.9
Treasury stock at cost, 5.1 million shares in both 2005 and 2004	(171.7)	(171.7)
Unearned compensation	(14.8)	-
Accumulated other comprehensive loss, net of tax		
Minimum pension liability adjustments	(52.6)	(47.1)
Foreign currency translation adjustments	3.9	(2.2)
Unrecognized gain on derivatives	0.4	0.5
Total stockholders' equity	994.8	955.5
Total liabilities and stockholders' equity	\$ 2,666.6	\$ 2,538.8

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Year Ended December 31,

(In millions)

	2005	2004	2003
Operating activities			
Net income	\$ 56.0	\$ 159.5	\$ 197.1
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	185.1	171.1	163.1
Deferred income taxes	(1.1)	46.3	20.4
Stock-based compensation	5.6	-	-
Pensions and other postretirement benefits, net of contributions	72.0	72.1	51.9
Loss on retirement of equipment	7.0	9.2	3.5
Debt refinancing and redemption costs	-	23.5	-
Changes in operating assets and liabilities			
Accounts receivable	6.5	7.2	(2.1)
Inventories	(10.6)	(23.7)	4.1
Accounts payable and accrued expenses	(32.2)	18.9	2.6
Other assets and liabilities	(7.9)	(30.9)	56.3
Net cash provided by operating activities	280.4	453.2	496.9
Investing activities			
Purchases of property, plant and equipment	(305.7)	(240.2)	(229.1)
Purchase buyouts of leased equipment	-	-	(3.0)
Net cash used in investing activities	(305.7)	(240.2)	(232.1)
Financing activities			
Net borrowings (repayments) under revolving credit facilities	49.0	(81.9)	87.5
Proceeds from issuance of long-term debt	-	399.7	-
Redemption of 9.75% Notes	-	(314.6)	-
Payments of long-term debt and capital lease obligations	(8.4)	(24.4)	(375.2)
Debt issuance costs	-	(9.7)	-
Employee stock option exercises	4.6	13.6	25.1
Dividends paid	(30.4)	(23.0)	-
Purchase of treasury stock	-	(171.0)	-
Net cash provided by (used in) financing activities	14.8	(211.3)	(262.6)
Effect of exchange rate changes on cash	(0.2)	0.3	0.8
Net (decrease) increase in cash and cash equivalents	(10.7)	2.0	3.0
Cash and cash equivalents at beginning of year	14.4	12.4	9.4
Cash and cash equivalents at end of year	\$ 3.7	\$ 14.4	\$ 12.4
Supplemental cash flow information			
Interest paid	\$ 31.3	\$ 33.6	\$ 50.1
Income taxes paid, net of refunds	\$ 35.7	\$ 32.2	\$ 34.2

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

(In millions)

	Common Stock		Paid-in Capital	Retained Earnings	Treasury Stock	Unearned Compensation	Accumulated Other Comprehensive Loss	Comprehensive Income
	Shares Outstanding	Par Value						
Balance at January 1, 2003	49.7	\$ 0.5	\$ 279.0	\$ 484.3	\$ (0.7)	\$ -	\$ (59.5)	
Net income				197.1				\$ 197.1
Unrecognized gain on derivatives, net							1.0	1.0
Foreign currency translation, net							0.7	0.7
Minimum pension liability adjustment, net							(4.9)	(4.9)
Comprehensive income								<u>\$ 193.9</u>
Exercise of stock options, including tax benefit	3.9		57.2					
Balance at December 31, 2003	53.6	0.5	336.2	681.4	(0.7)	-	(62.7)	
Net income				159.5				\$ 159.5
Unrecognized gain on derivatives, net							1.0	1.0
Foreign currency translation, net							3.9	3.9
Minimum pension liability adjustment, net							9.0	9.0
Comprehensive income								<u>\$ 173.4</u>
Exercise of stock options, including tax benefit	1.1		21.4					
Dividends paid				(23.0)				
Purchase of treasury stock	(5.0)				(171.0)			
Balance at December 31, 2004	49.7	0.5	357.6	817.9	(171.7)	-	(48.8)	
Net income				56.0				\$ 56.0
Unrecognized loss on derivatives, net							(0.1)	(0.1)
Foreign currency translation, net							6.1	6.1
Minimum pension liability adjustment, net							(5.5)	(5.5)
Comprehensive income								<u>\$ 56.5</u>
Exercise of stock options, including tax benefit	0.6		28.0					
Dividends paid				(30.4)				
Stock-based compensation expense						5.6		
Restricted stock awards						(20.4)		
Balance at December 31, 2005	50.3	\$ 0.5	\$385.6	\$843.5	\$(171.7)	\$(14.8)	\$(48.3)	

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, our, us or AAM) is a premier Tier I supplier to the automotive industry and a worldwide leader in the manufacture, engineering, design and validation of driveline and drivetrain systems and related powertrain components and chassis modules for light trucks, sport utility vehicles (SUVs), passenger cars and crossover vehicles. Driveline and drivetrain systems include components that transfer power from the transmission and deliver it to the drive wheels. Our driveline, drivetrain and related powertrain products include axles, chassis modules, driveshafts, power transfer units, transfer cases, chassis and steering components, driving heads, crankshafts, transmission parts and metal-formed products. In addition to locations in the United States (U.S.) (Michigan, New York and Ohio), we also have offices or facilities in Brazil, China, England, Germany, India, Japan, Mexico, Scotland and South Korea.

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 or when realizable in accordance with our commercial agreements. 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 do not recognize the revenue or cost recovery until such time as the uncertainty is removed.

RESEARCH AND DEVELOPMENT (R&D) COSTS We expense R&D as incurred. R&D spending was \$73.6 million, \$68.6 million and \$60.7 million in 2005, 2004 and 2003, respectively.

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

ACCOUNTS RECEIVABLE The majority of our accounts receivable are due from original equipment manufacturers in the automotive industry. Credit is extended based on the evaluation of our customers' financial condition and is reviewed on an ongoing basis. Trade accounts receivable are generally due on average within 50 days from the date of shipment and are past due when payment is not received within the stated terms. Amounts due from customers are stated net of allowances for doubtful accounts. We determine our allowances by considering factors such as, length of time accounts are past due, our previous loss history, the customer's ability to pay its obligation to us, and the condition of the general economy and the

industry as a whole. We write-off accounts receivable when they become uncollectible.

CUSTOMER TOOLING Reimbursable costs incurred for customer tooling are classified as accounts receivable. In the event we estimate that the cost of such customer tooling is not deemed collectible, a loss is recognized at such time.

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 our foreign and 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. At December 31, 2005 and 2004, inventories were as follows:

	2005	2004
	(Dollars in millions)	
Raw materials and work-in-progress	\$ 212.2	\$ 196.1
Finished goods	29.9	27.6
Gross inventories	242.1	223.7
LIFO reserve	(14.6)	(14.3)
Other inventory valuation reserves	(20.3)	(12.6)
Inventories, net	\$ 207.2	\$ 196.8

PROPERTY, PLANT AND EQUIPMENT Property, plant and equipment consists of the following:

	Estimated Useful Lives (Years)	2005	2004
		(Dollars in millions)	
Land	-	\$ 24.6	\$ 23.5
Land improvements	10 - 15	19.6	18.7
Buildings and building improvements	15 - 40	391.8	350.9
Machinery and equipment	3 - 15	2,319.5	2,045.8
Construction in progress	-	96.8	143.6
		2,852.3	2,582.5
Accumulated depreciation and amortization		(1,016.3)	(869.5)
Property, plant and equipment, net		\$ 1,836.0	\$ 1,713.0

We state property, plant and equipment including tooling at cost. Construction in progress includes costs incurred for the construction of buildings and building improvements, and machinery and equipment in process. All expenditures for repair and maintenance costs that do not extend the useful life of the related asset are expensed in the period incurred.

We record depreciation and tooling amortization on the straight-line method over the estimated useful lives of depreciable assets. Depreciation and tooling amortization amounted to \$158.3 million, \$156.6 million and \$159.8 million in 2005, 2004 and 2003, respectively.

IMPAIRMENT OF LONG-LIVED ASSETS We evaluate the carrying value of long-lived assets and long-lived assets to be disposed for potential impairment on an ongoing basis in accordance with FASB Statement No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets."* We consider projected future undiscounted cash flows, trends and other circumstances in making such estimates and evaluations. If an impairment is deemed to exist, the carrying amount of the asset is adjusted based on its fair value.

GOODWILL We record goodwill when the purchase price of acquired businesses exceeds the value of their identifiable net tangible and intangible assets acquired. With the adoption of FASB Statement No. 142, *"Goodwill and Other Intangible Assets,"* on January 1, 2002, we no longer amortize goodwill. Instead, we periodically evaluate goodwill for impairment. To meet our ongoing annual obligation, we completed impairment tests as of December 31, 2005 and 2004 and concluded that there was no impairment of our goodwill. Goodwill is our only significant intangible asset.

Goodwill was reduced \$2.4 million in 2003 due to the utilization of a portion of our foreign net operating loss carryforwards for which deferred tax asset valuation allowances were established in our initial purchase accounting for the 1998 acquisition of Albion Automotive (Holdings) Limited.

TRADE PAYABLE PROGRAM LIABILITY We offer our suppliers access to an accelerated supplier payment program through which they can elect for a designated finance company to advance payment on their invoices due from us. We gain no advantage on the timing of such payments or the amounts due to be paid. The only difference between these obligations and other trade payables is that we are obligated to pay the finance company on the due date for such payment established in the terms and conditions of the purchase order. Our agreement with the finance company calls for us to share in the discount fees charged to the suppliers by the finance company for any advance payments made through this program. The fees collected in association with this program were negligible for 2005, 2004, and 2003.

STOCK-BASED COMPENSATION As permitted by FASB Statement No. 123, *"Accounting for Stock-Based Compensation,"* we account for our employee stock options in accordance with APB Opinion No. 25, *"Accounting for Stock Issued to Employees,"* and related interpretations. Although it is our practice to grant options with no intrinsic value, 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.

Had we determined compensation cost based upon the fair value of the options at the grant date consistent with the alternative fair value method set forth in FASB Statement No. 123, our net income and EPS would have been adjusted to the pro forma amounts indicated as follows:

	2005	2004	2003
	(Dollars in millions, except per share data)		
Net income, as reported	\$ 56.0	\$159.5	\$197.1
Deduct: Total employee stock option expense determined under the fair value method, net of tax	(22.3)	(16.4)	(13.1)
Pro forma net income	\$ 33.7	\$143.1	\$184.0
Basic EPS, as reported	\$ 1.12	\$ 3.09	\$ 3.84
Basic EPS, pro forma	\$ 0.67	\$ 2.77	\$ 3.59
Diluted EPS, as reported	\$ 1.10	\$ 2.98	\$ 3.70
Diluted EPS, pro forma	\$ 0.67	\$ 2.69	\$ 3.50

We estimated the fair value of our employee stock options on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	2005	2004	2003
Expected volatility	41.64%	44.04%	47.55%
Risk-free interest rate	4.36%	3.70%	3.50%
Dividend yield	2.25%	None	None
Expected life of options	7 years	7 years	7 years
Weighted-average grant-date fair value	\$ 10.50	\$ 19.83	\$ 12.69

In March 2005, we awarded performance accelerated restricted stock and restricted stock units (PARS and RSUs, respectively) under our 1999 Stock Incentive Plan, as amended. The total amount of compensation expense associated with these awards has been recorded as unearned compensation and is presented as a separate component of stockholders' equity. The PARS and RSUs vest over three to five years contingent upon the satisfaction of future financial performance targets. The unearned compensation is expensed over the vesting period. As of December 31, 2005, approximately \$5.6 million pre-tax of compensation expense has been recorded under these awards.

DERIVATIVES We account for derivatives under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted. 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.

In May 2003, the FASB issued Statement No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." FASB Statement No. 149 amends and clarifies accounting for derivative instruments and hedging activities under FASB Statement No. 133. FASB Statement No. 149 is effective for contracts entered into or modified and for hedging relationships designated after June 30, 2003 with this guidance applied prospectively. The adoption of this Statement did not have a significant impact on our results of operations or financial position at December 31, 2005 or 2004.

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 consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), we are required to make estimates and assumptions that affect the reported amounts and disclosures in our consolidated financial statements. Actual results could differ from those estimates.

RECLASSIFICATIONS We have reclassified certain 2004 amounts to conform to the presentation of our 2005 consolidated financial statements.

EFFECT OF NEW ACCOUNTING STANDARDS *FASB Statement No. 123 (revised 2004)* In December 2004, the FASB issued Statement No. 123(R), "Share-Based Payment." FASB Statement

No. 123(R) replaces FASB Statement No. 123, "Accounting for Stock-Based Compensation" and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." The revised statement requires that the compensation cost relating to share-based payment transactions be recognized in financial statements and measured on the fair value of the equity or liability instruments issued. Effective April 14, 2005, the Securities and Exchange Commission issued a new rule that amends the compliance dates for companies to implement the revised statement to the beginning of their next fiscal year after June 15, 2005, which for AAM is January 1, 2006. AAM currently estimates that its stock-based compensation expense will increase by approximately \$10.0 million in 2006.

On December 31, 2005 we accelerated the vesting of certain "under water" stock options in response to the required adoption of FASB Statement No. 123(R) on January 1, 2006. As a result of the vesting acceleration, approximately 1.8 million shares became immediately exercisable in full to the extent that the market price of the underlying stock exceeded the exercise price of the options. The pro forma expense is reflected in our "Stock-Based Compensation" disclosure included within Note 1. The acceleration was intended to eliminate future compensation expense with respect to the "under water" stock options that we would otherwise recognize under our adoption of FASB Statement No. 123(R).

2. LONG-TERM DEBT AND LEASE OBLIGATIONS

Long-term debt consists of the following:

	2005	2004
	(Dollars in millions)	
5.25% Notes, net of discount	\$ 249.7	\$ 249.7
2.00% Convertible Notes	150.0	150.0
Uncommitted lines of credit	71.5	-
Foreign credit facilities and other	15.6	44.1
Capital lease obligations	2.4	4.2
Long-term debt	\$ 489.2	\$ 448.0

DEBT REFINANCING AND REDEMPTION In 2004, we entered into our senior unsecured revolving credit facility. The revolving credit facility, as amended, provides up to \$600.0 million of revolving bank financing commitments through April 2010, (Revolving Credit Facility). The Revolving Credit Facility is used for general corporate purposes, which included the refinancing of the previously existing senior secured bank credit facilities (1997 Bank Credit Facilities). We had been amortizing fees and expenses associated with the 1997 Bank Credit Facilities over the life of the agreement. In January 2004, the unamortized balance of such fees and expenses of \$3.2 million was expensed when we terminated our bank financing commitments under the 1997 Bank Credit Facilities.

In February 2004, we issued \$250.0 million of 5.25% Senior Notes due February 2014 (5.25% Notes) and \$150.0 million of 2.00% Senior Convertible Notes due 2024 (2.00% Convertible Notes) in concurrent private offerings pursuant to Rule 144A of the Securities Act of 1933. We received net proceeds from these offerings of approximately \$394.0 million, after deducting discounts and commissions of the initial purchasers and other expenses. We used a portion of the net proceeds to repurchase \$63.0 million, or 1.59 million shares, of our common stock in privately negotiated transactions. The remainder of the net proceeds was used to redeem all \$300.0 million of the outstanding 9.75% Senior Subordinated Notes due March 2009 (9.75% Notes) at a cost of \$314.6 million on March 1, 2004, and for other general corporate purposes. In the first quarter of 2004, the \$14.6 million call premium and an additional \$5.7 million of unamortized discounts and debt issuance costs were expensed as a result of this redemption.

Debt refinancing and redemption costs expensed in the first quarter of 2004 are summarized as follows (dollars in millions):

Call premium on 9.75% Notes	\$ 14.6
Write-off of unamortized discount and debt issuance costs	
9.75% Notes	5.7
1997 Bank Credit Facilities	3.2
Debt refinancing and redemption costs	<u>\$ 23.5</u>

REVOLVING CREDIT FACILITY Our Revolving Credit Facility bears interest at rates based on LIBOR or an alternate base rate, plus an applicable margin. At December 31, 2005, \$575.0 million was available under the Revolving Credit Facility, which reflected a reduction of \$25.0 million for standby letters of credit issued against the facility.

The Revolving Credit Facility provides back-up liquidity for our foreign credit facilities and uncommitted lines of credit. We intend to use the availability of long-term financing under the Revolving Credit Facility to refinance any current maturities related to such debt agreements that are not otherwise refinanced on a long-term basis in their respective markets. Accordingly, we have classified such amounts as long-term debt.

5.25% NOTES The 5.25% Notes are senior unsecured obligations of American Axle & Manufacturing, Inc. (AAM, Inc.) and are fully and unconditionally guaranteed by Holdings. Holdings has no significant assets other than its 100% ownership of AAM, Inc. and no subsidiaries other than AAM, Inc.

2.00% CONVERTIBLE NOTES The 2.00% Convertible Notes are senior unsecured obligations of Holdings and are fully and unconditionally guaranteed by AAM, Inc. At the option of the holder, under certain conditions, these notes are convertible through 2024. The conversion rate is subject to adjustment for certain events, including the payment of dividends, change of control and other events specified in

the indenture. In October 2004, we gave notice of our irrevocable election to pay cash for the accreted principal portion of the securities upon conversion.

LEASES We lease certain facilities, machinery and equipment under capital leases expiring at various dates. Approximately \$9.4 million and \$22.2 million of such gross asset cost is included in property, plant and equipment at December 31, 2005 and 2004, respectively. The weighted-average interest rate on these capital lease obligations at December 31, 2005 was 7.1%.

We also lease certain facilities, machinery and equipment under operating leases expiring at various dates. Pursuant to these operating leases, we have the opportunity to purchase the underlying machinery and equipment at specified buy-out dates. The existing lease renewal or repurchase options are approximately \$106.0 million in 2006, of which \$29.9 million has been elected for repurchase in April 2006. Future minimum payments under noncancelable operating leases are as follows: \$62.8 million in 2006; \$24.7 million in 2007; \$23.7 million in 2008, \$19.1 million in 2009, \$8.3 million in 2010 and \$5.0 million thereafter. Our total expense relating to operating leases was \$32.2 million, \$30.6 million and \$33.3 million in 2005, 2004 and 2003, respectively.

UNCOMMITTED LINES OF CREDIT In 2005, we had access to \$110.0 million of uncommitted bank lines of credit. At December 31, 2005, \$71.5 million was outstanding under such uncommitted bank credit lines.

FOREIGN CREDIT FACILITIES We utilize local currency credit facilities to finance the operations of certain foreign subsidiaries. These credit facilities, guaranteed by Holdings and/or AAM, Inc., expire at various dates through March 2006. At December 31, 2005, \$15.6 million was outstanding under these facilities and an additional \$45.4 million was available. At December 31, 2004, \$44.1 million was outstanding and an additional \$14.8 million was available.

DEBT COVENANTS The Revolving Credit Facility contains operating covenants which, among other things, require us to comply with a leverage ratio and maintain a minimum level of net worth. The Revolving Credit Facility also limits our ability to incur certain types of liens and amounts of indebtedness or merge into another company.

DEBT MATURITIES Aggregate maturities of long-term debt are as follows (dollars in millions):

2006	\$ 87.3
2007	0.3
2008	0.4
2009	0.4
2010	0.4
Thereafter	400.4
Total	<u>\$ 489.2</u>

NET INTEREST EXPENSE The following table summarizes supplemental information regarding the components of net interest expense as reported in our consolidated statements of income:

	2005	2004	2003
	(Dollars in millions)		
Gross interest expense	\$ 33.6	\$ 31.6	\$ 53.5
Capitalized interest	(5.7)	(5.8)	(6.0)
Interest income	(0.7)	(0.3)	(0.7)
Net interest expense	\$ 27.2	\$ 25.5	\$ 46.8

3. DERIVATIVES AND RISK MANAGEMENT

DERIVATIVE FINANCIAL INSTRUMENTS In the normal course of business, we are exposed to market risk 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 risk. From time to time, we use foreign currency forward contracts to reduce the effects of fluctuations in exchange rates, primarily relating to the Euro, Mexican Peso, Pound Sterling, Brazilian Real and Canadian Dollar. We had currency forward contracts with a notional amount of \$35.7 million and \$21.0 million outstanding at December 31, 2005 and 2004, respectively.

INTEREST RATE SWAPS We are exposed to variable interest rates on certain credit facilities. From time to time, we use interest rate hedging to reduce the effects of fluctuations in market interest rates. At December 31, 2005 and 2004, we did not hedge any of our interest rate risk through interest rate swaps. At December 31, 2003, we hedged a portion of our interest rate risk by entering into interest rate swaps with a notional amount of approximately \$26.4 million. These interest rate swaps, which were first established in 1999, converted variable financing based on 3-month LIBOR rates into fixed U.S. dollar rates varying from

6.88% to 6.96% and expired during 2004. Generally, we designate interest rate swaps as effective cash flow hedges of the related debt and reflect the net cost of such agreements as an adjustment to interest expense over the lives of the debt agreements. The ineffective portion of any such hedges is included in current earnings to the extent hedges are in place. There were no hedges in place during 2005. The impact of hedge ineffectiveness was not significant during the year ended December 31, 2004.

FAIR VALUE OF FINANCIAL INSTRUMENTS The carrying value of our cash and cash 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 Revolving Credit Facility, the uncommitted lines of credit and foreign credit facilities approximates their fair value due to the frequent resetting of the interest rates. We have estimated the fair value of the 5.25% Notes and the 2.00% Convertible Notes, using available market information, to be approximately \$195.0 million and \$110.1 million, respectively at December 31, 2005.

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 allowances for doubtful accounts. When appropriate, we also diversify the concentration of invested cash among different financial institutions and we monitor the selection of counter parties to other financial instruments to avoid unnecessary concentrations of credit risk.

Sales to General Motors Corporation (GM) were approximately 78%, 80% and 82% of our total net sales in 2005, 2004 and 2003, respectively. Accounts receivable due from GM were \$233.3 million at year-end 2005 and \$237.2 million at year-end 2004. Sales to DaimlerChrysler Corporation (DaimlerChrysler) were approximately 13% of our total net sales in 2005, 11% in 2004 and 9% in 2003. Accounts receivable due from DaimlerChrysler were \$66.0 million at year-end 2005 and \$51.7 million at year-end 2004. No other single customer accounted for more than 10% of our consolidated net sales in any year presented.

4. STOCKHOLDER RIGHTS PLAN

In September 2003, our Board of Directors adopted a Stockholder Rights Plan (the Rights Plan) and declared a dividend of one preferred share purchase right for each outstanding share of common stock for stockholders of record on September 25, 2003. The Rights Plan provides a reasonable means of safeguarding the interests of all stockholders against unsolicited takeover attempts at a price not reflective of its fair value. The Rights Plan is designed to give the Board of Directors sufficient time to evaluate and respond to an unsolicited takeover attempt and to encourage anyone or group considering such action to negotiate first with the Board of Directors.

5. EMPLOYEE BENEFIT PLANS

PENSION AND OTHER POSTRETIREMENT BENEFITS We sponsor various qualified and non-qualified defined benefit pension plans for our eligible associates. We maintain hourly and salaried benefit plans that provide postretirement medical, dental, vision and life benefits to our eligible retirees and their dependents in the U.S. We also 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, 2005 and 2004. The principal weighted-average assumptions used in the valuation of our U.S. and foreign plans appear in the following table. The U.S. discount rate was based on an actuarial review of a hypothetical portfolio of long-term, high quality corporate bonds matched against our expected payment stream. The foreign discount rate was based on a review of long-term bonds, including published indices in the applicable market. The assumptions for expected return on plan assets were based on a review of long-term historical returns for the asset classes represented within our portfolio. The rates of increase in compensation and health care costs were based on current market conditions, inflationary expectations and historical information.

	Pension Benefits						Other Postretirement Benefits		
	2005		2004		2003		2005	2004	2003
	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign			
Discount rate	5.80%	5.00%	6.20%	5.75%	6.25%	5.50%	5.90%	6.35%	6.25%
Expected return on plan assets	8.00%	8.00%	9.00%	8.00%	9.00%	8.00%	N/A	N/A	N/A
Rate of compensation increase	4.25%	3.25%	4.25%	3.50%	4.25%	3.50%	4.25%	4.25%	4.25%

The weighted-average asset allocations at September 30, 2005 and 2004, by asset category appear in the following table. The asset allocation for our plans was developed in consideration of the demographics of the plan participants and expected payment stream of the liability.

	U.S.			Foreign		
	2005	2004	Target Allocation	2005	2004	Target Allocation
Equity securities	69.7%	66.0%	65.0% - 70.0%	71.0%	70.5%	65.0% - 70.0%
Fixed income securities	29.2%	32.8%	30.0% - 35.0%	28.0%	28.0%	30.0% - 35.0%
Cash	1.1%	1.2%	0.0% - 5.0%	1.0%	1.5%	0.0% - 5.0%
Total	100.0%	100.0%		100.0%	100.0%	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accumulated benefit obligation for all defined benefit pension plans was \$535.9 million and \$461.0 million at September 30, 2005 and 2004, respectively. The following table summarizes the changes in benefit obligations and plan assets and reconciles the funded status of the benefit plans to the net benefit plan asset (liability):

	Pension Benefits		Other Postretirement Benefits	
	2005	2004	2005	2004
	(Dollars in millions)		(Dollars in millions)	
Change in benefit obligation				
Benefit obligation at beginning of year	\$486.3	\$416.5	\$418.6	\$ 397.5
Service cost	32.7	32.6	38.1	39.0
Interest cost	31.3	27.9	28.9	25.6
Plan amendments	-	21.2	(9.7)	(9.3)
Actuarial loss (gain)	34.0	(5.6)	32.4	(31.7)
Participant contributions	1.7	1.7	-	-
Curtailment	(1.4)	-	-	-
Benefit payments	(13.8)	(14.5)	-	(2.5)
Currency fluctuations	(9.2)	6.5	(3.2)	-
Net change	75.3	69.8	86.5	21.1
Benefit obligation at end of year	561.6	486.3	505.1	418.6
Change in plan assets				
Fair value of plan assets at beginning of year	350.6	283.5	-	-
Actual return on plan assets	47.0	35.6	-	-
Employer contributions	33.2	40.2	3.3	2.5
Participant contributions	1.7	1.7	-	-
Benefit payments	(13.7)	(14.5)	(3.3)	(2.5)
Currency fluctuations	(6.1)	4.1	-	-
Net change	62.1	67.1	-	-
Fair value of plan assets at end of year	412.7	350.6	-	-
Funded status — U.S. plans at September 30	(120.7)	(106.1)	(505.1)	(418.6)
Funded status — foreign plan at September 30	(28.3)	(29.6)	-	-
Unrecognized actuarial loss	117.3	108.3	129.7	99.4
Unrecognized prior service cost	31.1	34.2	(19.8)	(10.9)
Fourth quarter contribution	5.5	4.0	0.8	0.6
Net asset (liability) at December 31	\$ 4.9	\$ 10.8	\$(394.4)	\$(329.5)

Amounts recognized in our balance sheets are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2005	2004	2005	2004
	(Dollars in millions)		(Dollars in millions)	
Prepaid benefit cost	\$ 19.5	\$ 11.4	\$ -	\$ -
Accrued benefit liability	(128.1)	(109.5)	(394.4)	(329.5)
Intangible asset	28.9	31.9	-	-
Minimum pension liability adjustment	84.6	77.0	-	-
Net asset (liability) at December 31	\$ 4.9	\$ 10.8	\$(394.4)	\$(329.5)

The components of net periodic benefit cost are as follows:

	Pension Benefits			Other Postretirement Benefits		
	2005	2004	2003	2005	2004	2003
	(Dollars in millions)			(Dollars in millions)		
Service cost	\$ 32.7	\$ 32.6	\$ 28.1	\$ 38.1	\$ 39.0	\$ 32.6
Interest cost	31.3	27.9	23.6	28.9	25.6	20.7
Expected asset return	(30.3)	(26.6)	(23.6)	N/A	N/A	N/A
Amortized loss	4.5	4.1	1.9	3.9	5.4	2.4
Amortized prior service cost	3.1	2.5	1.7	(0.8)	(0.5)	-
Special termination benefits	-	-	9.3	-	-	-
Other	-	(1.4)	0.2	-	-	-
Net periodic benefit cost	\$ 41.3	\$ 39.1	\$ 41.2	\$ 70.1	\$ 69.5	\$ 55.7

For measurement purposes, a 9% annual increase in the per-capita cost of covered health care benefits was assumed for 2006. The rate was assumed to decrease gradually to 5% for 2012 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 2005 and the postretirement obligation at December 31, 2005 by \$16.3 million and \$107.3 million, respectively. A one-percentage-point decrease in the assumed health care cost trend rate would have decreased total service and interest cost in 2005 and the postretirement obligation at December 31, 2005 by \$12.3 million and \$82.1 million, respectively.

The expected future pension and postretirement benefits to be paid for each of the next five years and in the aggregate for the succeeding five years thereafter are as follows: \$18.9 million in 2006; \$21.5 million in 2007; \$25.2 million in 2008; \$30.4 million in 2009; \$34.8 million in 2010 and \$256.3 million thereafter. These amounts were estimated using the same assumptions to measure our 2005 year-end pension and postretirement benefit obligation and include an estimate of future employee service.

MEDICARE PRESCRIPTION DRUG, IMPROVEMENT AND

MODERNIZATION ACT OF 2003 During 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 was signed into law. This Act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of postretirement health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The effect of the subsidy reduced our other postretirement benefit obligation by \$28.1 million in 2004, which was treated as an actuarial gain and is being amortized over the future service lives of active employees. Our net periodic other postretirement benefit cost was reduced by \$6.0 million and \$4.7 million in 2005 and 2004, respectively, as a result of the subsidy.

CONTRIBUTIONS We expect our pension funding in 2006 to be in the range of \$30.0 million to \$40.0 million and our cash outlay for other postretirement benefit obligations to be approximately \$5.0 million in 2006.

ACCELERATED ATTRITION PROGRAM In accordance with FASB Statement No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," we recorded a \$9.3 million charge in 2003 for hourly associates who were eligible to participate in an early retirement program. Each hourly associate who elected to participate received a one-time lump sum payment.

SEVERANCE OBLIGATIONS AND OTHER POSTEMPLOYMENT BENEFITS Pursuant to FASB Statement No. 112, "Employers' Accounting for Postemployment Benefits," we recorded a \$3.4 million charge during the third quarter of 2003 to adjust costs relating to our salaried workforce.

VOLUNTARY SAVINGS PLANS Most of our U.S. associates are eligible to participate in voluntary savings plans. Our maximum match under these plans is 50% of salaried associates' contributions up to 6% of their eligible salary. Matching contributions amounted to \$2.6 million in 2005 and \$3.6 million in 2004 and 2003. Under these plans, our common stock became an investment option for our participants during 2002.

DEFERRED COMPENSATION PLAN Certain U.S. associates are eligible to participate in a non-qualified deferred compensation plan. Payments of \$0.8 million and \$0.6 million have been made in 2005 and 2004, respectively to eligible associates that have elected distributions. At December 31, 2005 and 2004, our deferred compensation liability was \$13.8 million and \$12.7 million, respectively. We recognized \$0.9 million, \$1.0 million and \$1.3 million of expense related to this deferred compensation plan in 2005, 2004 and 2003, respectively.

6. STOCK OPTIONS

At December 31, 2005, we have stock options outstanding under three stock compensation plans approved by our stockholders. Under two of these plans, a total of 19.1 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. We have granted a total of 13.8 million options under these stock compensation plans through December 31, 2005, which become vested based upon duration of employment. The vesting of some of these options awarded pursuant to one of the plans was accelerated due to the satisfaction of certain annual or cumulative performance criteria. At December 31, 2005, 6.9 million of these options have been exercised.

At December 31, 2004, there were 0.2 million options held by several of our officers which were granted in 1997 as a replacement for an incentive compensation plan established in 1994. These options were immediately vested and were exercisable at a weighted-average exercise price per share of approximately \$0.12. All remaining options granted under this plan were exercised during 2005.

The following table summarizes activity relating to our stock options:

	Number of Shares	Weighted-Average Exercise Price Per Share
	(In millions, except per share data)	
Outstanding at January 1, 2003	8.9	\$ 10.61
Options granted	2.0	23.74
Options exercised	(3.9)	6.55
Options lapsed or canceled	-	20.56
Outstanding at December 31, 2003	7.0	\$ 16.43
Options granted	1.7	38.35
Options exercised	(1.1)	12.17
Options lapsed or canceled	(0.3)	28.07
Outstanding at December 31, 2004	7.3	\$ 21.82
Options granted	0.3	26.24
Options exercised	(0.6)	7.70
Options lapsed or canceled	(0.2)	29.22
Outstanding at December 31, 2005	6.8	\$23.00

Options outstanding at December 31, 2005 have a weighted-average remaining contractual life of approximately 6 years. The following is a summary of the range of exercise prices for stock options that are outstanding and exercisable at December 31, 2005:

	Outstanding Stock Options	Weighted-Average Exercise Price Per Share	Number of Stock Options Exercisable	Weighted-Average Exercise Price Per Share
	(In millions, except per share data)		(In millions, except per share data)	
Range of exercise prices				
\$4.26	0.6	\$ 4.26	0.6	\$ 4.26
\$8.85	0.7	8.85	0.7	8.85
\$9.15 - \$13.13	0.1	12.17	0.1	12.17
\$15.00 - \$24.13	2.2	21.09	2.2	21.10
\$24.15 - \$28.45	1.7	24.66	1.7	24.66
\$32.13 - \$40.83	1.5	38.50	1.5	38.50
	6.8	\$ 23.00	6.8	\$ 22.99

7. INCOME TAXES

Income before income taxes for U.S. and non-U.S. operations was as follows:

	2005	2004	2003
	(Dollars in millions)		
U.S. income	\$ 20.2	\$ 155.3	\$ 253.9
U.S. foreign			
source income	33.0	31.7	31.5
Non-U.S. income	26.8	48.8	17.8
Total income before income taxes	\$ 80.0	\$ 235.8	\$ 303.2

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

	2005	2004	2003
	(Dollars in millions)		
Current			
Federal	\$ 5.9	\$ 18.3	\$ 76.2
Other state and local	4.5	4.0	6.8
Foreign	14.7	7.7	2.7
Total current	25.1	30.0	85.7
Deferred			
Federal	(1.3)	36.8	20.0
Other state and local	(1.6)	0.5	(2.9)
Foreign	1.8	9.0	3.3
Total deferred	(1.1)	46.3	20.4
Total income taxes	\$ 24.0	\$ 76.3	\$ 106.1

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

	2005	2004	2003
Federal statutory	35.0%	35.0%	35.0%
Foreign income taxes	(1.9)	(0.5)	(0.1)
State and local	1.8	1.2	0.8
Federal tax credits	(5.3)	(1.7)	(1.0)
Other	0.4	(1.6)	0.3
Effective income tax rate	30.0%	32.4%	35.0%

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

	2005	2004
	(Dollars in millions)	
Current deferred tax assets		
Employee benefits	\$ 11.4	\$ 10.9
Prepaid taxes and other	9.9	-
Total current deferred tax assets	21.3	10.9
Current deferred tax liabilities		
Inventory and other	(4.3)	(3.5)
Current deferred tax asset, net	\$ 17.0	\$ 7.4

	2005	2004
	(Dollars in millions)	
Noncurrent deferred tax assets		
Employee benefits	\$ 159.8	\$ 127.5
NOL carryforwards	20.8	19.7
Tax credit carryforwards	2.4	1.7
Capital allowance carryforwards	13.7	15.0
Prepaid taxes	2.8	12.1
Goodwill	-	0.4
Other	1.3	1.3
Valuation allowances	(31.2)	(32.5)
Noncurrent deferred tax assets, net	169.6	145.2

	2005	2004
Noncurrent deferred tax liabilities		
Fixed assets and other	(282.7)	(252.9)
Noncurrent deferred tax liability, net	\$(113.1)	\$(107.7)

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

	2005	2004
	(Dollars in millions)	
U.S. federal deferred tax liability, net	\$(116.1)	\$(114.5)
Other foreign deferred tax asset, net	3.0	6.8
Noncurrent deferred tax liability, net	\$(113.1)	\$(107.7)

The deferred income tax assets and liabilities summarized on the preceding page 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 2005 and 2004, our net noncurrent foreign deferred tax asset was primarily attributable to timing differences related to our minimum pension liability for our foreign operations. Also at year-end 2005 and 2004, our net noncurrent U.S. Federal deferred tax liability was principally attributable to the impact of accelerated tax depreciation. The impact of this accelerated tax depreciation was offset in both 2005 and 2004 primarily by timing differences related to postretirement benefits and alternative minimum tax credit carryforwards that do not expire.

Our deferred tax asset valuation allowances at December 31, 2005 and 2004 are principally related to foreign net operating losses and capital allowance carryforwards. Although these carryforwards do not expire, we considered prior operating results and future plans, as well as the utilization period of other temporary differences, in determining the amount of our valuation allowances. In 2005 and 2004, we utilized a portion of such foreign tax benefits.

Payments for federal, state, local and foreign income taxes were \$36.0 million, \$33.3 million and \$44.9 million in 2005, 2004 and 2003, respectively.

8. EARNINGS PER SHARE (EPS)

The following table sets forth the computation of our basic and diluted EPS:

	2005	2004	2003
	(In millions, except per share data)		
Numerator			
Net income	\$ 56.0	\$ 159.5	\$ 197.1
Denominators			
Basic shares outstanding –			
Weighted-average			
shares outstanding	50.1	51.6	51.3
Effect of dilutive securities			
Dilutive stock-based			
compensation	1.0	1.9	2.0
Diluted shares outstanding –			
Adjusted weighted-			
average shares after			
assumed conversions	51.1	53.5	53.3
Basic EPS	\$ 1.12	\$ 3.09	\$ 3.84
Diluted EPS	\$ 1.10	\$ 2.98	\$ 3.70

Certain exercisable stock options were excluded in the computations of diluted EPS because the exercise price of these options was greater than the average annual market prices. The number of stock options outstanding, which was not included in the calculation of diluted EPS, was 4.7 million at year-end 2005, 1.6 million at year-end 2004 and less than 0.1 million at year-end 2003. The ranges of exercise prices related to the excluded exercisable stock options were \$23.73 - \$40.83 at year-end 2005, \$34.88 - \$40.83 at year-end 2004 and \$34.15 - \$34.88 at year-end 2003.

9. LABOR RELATIONS

In 2004, we initiated a voluntary separation program whereby employees could receive lump-sum payments to voluntarily terminate their employment with AAM. We offered separation payments under this program to adjust our hourly workforce to meet current business conditions. The associated labor cost is normally recovered in approximately one year. The following table summarizes our activity under the program:

	2005	2004
	(Dollars in millions)	
Approximate pre-tax charge	\$17.3	\$23.8
Number of associates	317	453

In February 2004, our national collective bargaining agreement with the UAW expired. As a result of not reaching an agreement before the expiration of the contract, we experienced a temporary work stoppage of less than two days at six of our North American manufacturing facilities. In 2004, our operating results include costs and expenses of approximately \$5.2 million related to overtime and other costs to recover lost production as a result of the work stoppage.

Lump-sum ratification payments totaling \$37.5 million (including applicable payroll taxes) were made in the first half of 2004 in accordance with new collective bargaining agreements with unions that represent our hourly associates at six of our locations in the U.S. These lump-sum payments relate to the future service of our hourly associates. Through 2005, we expensed \$21.2 million of these payments, which represented amounts earned in relation to the agreements including \$7.1 million and \$7.5 million paid in lieu of base wage increases in 2005 and 2004, respectively. The remaining \$16.3 million relates to amounts which would be earned during the terms of the agreements and will be amortized over the remaining lives of the agreements.

10. COMMITMENTS AND CONTINGENCIES

Obligated purchase commitments for capital expenditures were approximately \$163.1 million at December 31, 2005 and \$155.6 million at December 31, 2004.

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 adverse effect on our financial condition, results of operations or cash flows.

We are subject to various federal, state, local and foreign environmental and occupational safety and health laws, regulations and ordinances, including those regulating air emissions, water discharge, waste management and environmental cleanup. We will continue to closely monitor our environmental conditions to ensure that we are in compliance with all laws, regulations and ordinances. GM has agreed to indemnify and hold us harmless against certain environmental conditions existing prior to our purchase of the assets from GM on March 1, 1994. GM's indemnification obligations terminated on March 1, 2004 with respect to any new claims that we may have against GM. We have made, and will continue to make, capital and other expenditures (including recurring administrative costs) to comply with environmental requirements. Such expenditures were not significant during 2005, and we do not expect such expenditures to be significant in 2006.

11. SEGMENT AND GEOGRAPHIC INFORMATION

We operate in one reportable segment: the manufacture, engineering, design and validation of driveline systems and related powertrain components and chassis modules for light trucks, SUVs, passenger cars and crossover vehicles. 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.

	2005	2004	2003
		(Dollars in millions)	
Net sales			
United States	\$ 2,323.6	\$ 2,472.5	\$ 2,600.0
Canada	316.8	328.1	325.2
Mexico and South America	614.6	667.6	642.2
Europe and other	132.3	131.4	115.3
Total net sales	\$ 3,387.3	\$ 3,599.6	\$ 3,682.7
Long-lived assets			
United States	\$ 1,603.0	\$ 1,499.3	\$ 1,411.6
Other	459.2	440.1	416.5
Total long-lived assets	\$ 2,062.2	\$ 1,939.4	\$ 1,828.1

12. UNAUDITED QUARTERLY FINANCIAL AND MARKET DATA

	March 31	June 30	September 30	December 31	Full Year
	(Dollars in millions, except per share data)				
2005					
Net sales	\$ 818.9	\$ 867.7	\$ 848.1	\$ 852.6	\$ 3,387.3
Gross profit	72.3	85.4	83.3	63.7	304.7
Net income	13.3	18.9	19.3	4.5	56.0
Basic EPS	\$ 0.27	\$ 0.38	\$ 0.38	\$ 0.09	\$ 1.12
Diluted EPS ⁽¹⁾	\$ 0.26	\$ 0.37	\$ 0.38	\$ 0.09	\$ 1.10
Market price ⁽²⁾					
High	\$ 29.88	\$ 25.27	\$ 28.61	\$ 23.08	\$ 29.88
Low	\$ 24.11	\$ 18.76	\$ 22.01	\$ 17.87	\$ 17.87
2004					
Net sales	\$ 952.8	\$ 929.6	\$ 841.6	\$ 875.6	\$ 3,599.6
Gross profit	136.4	133.4	107.9	96.8	474.5
Net income	36.5	55.3	36.4	31.3	159.5
Basic EPS	\$ 0.69	\$ 1.06	\$ 0.71	\$ 0.63	\$ 3.09
Diluted EPS ⁽¹⁾	\$ 0.66	\$ 1.02	\$ 0.68	\$ 0.61	\$ 2.98
Market price ⁽²⁾					
High	\$ 41.98	\$ 39.86	\$ 35.66	\$ 30.84	\$ 41.98
Low	\$ 34.10	\$ 33.30	\$ 27.84	\$ 26.87	\$ 26.87

⁽¹⁾ Full year diluted EPS will not necessarily agree to the sum of the four quarters because each quarter is a separate calculation.

⁽²⁾ Prices are the quarterly high and low closing sales prices for our common stock as reported by the New York Stock Exchange (NYSE). We had approximately 466 stockholders of record as of February 20, 2006.

Five Year Financial Summary

Year Ended December 31,

(In millions, except per share data)

	2005	2004	2003	2002	2001
Statement of income data					
Net sales	\$ 3,387.3	\$ 3,599.6	\$ 3,682.7	\$ 3,480.2	\$ 3,107.2
Gross profit	304.7	474.5	540.3	491.7	409.7
Selling, general and administrative expenses	199.6	189.7	194.0	180.5	164.4
Operating income	105.1	284.8	346.3	311.2	241.3
Net interest expense	(27.2)	(25.5)	(46.8)	(50.6)	(59.4)
Net income	56.0	159.5 ^(a)	197.1	176.1 ^(b)	114.9
Diluted earnings per share	\$ 1.10	\$ 2.98	\$ 3.70	\$ 3.38	\$ 2.36
Diluted shares outstanding	51.1	53.5	53.3	52.1	48.7
Balance sheet data					
Cash and cash equivalents	\$ 3.7	\$ 14.4	\$ 12.4	\$ 9.4	\$ 12.3
Total assets	2,666.6	2,538.8	2,398.7	2,335.7	2,160.9
Total long-term debt	489.2	448.0	449.7	734.1	878.2
Dividends paid	(30.4)	(23.0)	-	-	-
Stockholders' equity	994.8	955.5	954.7	703.6	534.7
Dividends declared per share	\$ 0.60	\$ 0.45	\$ -	\$ -	\$ -
Statement of cash flows data					
Cash provided by operating activities	\$ 280.4	\$ 453.2	\$ 496.9	\$ 384.2	\$ 232.8
Cash used in investing activities	(305.7)	(240.2)	(232.1)	(252.9)	(375.5)
Cash (used in) provided by financing activities	14.8	(211.3)	(262.6)	(133.2)	120.2
Other data					
EBITDA ^(c)	\$ 293.0	\$ 432.7	\$ 513.8	\$ 470.6	\$ 367.8
Depreciation and amortization	185.1	171.1	163.1	145.8	126.6
Capital expenditures	305.7	240.2	229.1	207.7	375.5
Buyouts of sale-leasebacks	-	-	3.0	45.2	-

^(a) Includes a one-time charge of \$15.9 million, net of tax related to debt refinancing and redemption costs in the first quarter of 2004.

^(b) Includes a \$5.5 million gain, net of tax and other related costs, due to an insurance settlement related to a fire that occurred at our forge operations in Detroit, Michigan.

^(c) We believe that earnings before interest expense, income taxes, depreciation and amortization (EBITDA) is a meaningful measure of performance as it is commonly utilized by management and investors to analyze operating performance and entity valuation. Our management, the investment community and the banking institutions routinely use EBITDA, together with other measures, to measure our operating performance relative to other Tier I automotive suppliers. EBITDA should not be construed as income from operations, net income or cash flow from operating activities as determined under accounting principles generally accepted in the United States of America. Other companies may calculate EBITDA differently.

	2005	2004	2003	2002	2001
Net income	\$ 56.0	\$ 159.5	\$ 197.1	\$ 176.1	\$ 114.9
Interest expense	27.9	25.8	47.5	51.0	60.3
Income taxes	24.0	76.3	106.1	97.7	66.0
Depreciation and amortization	185.1	171.1	163.1	145.8	126.6
EBITDA	\$ 293.0	\$ 432.7	\$ 513.8	\$ 470.6	\$ 367.8

BOARD OF DIRECTORS

Richard E. Dauch	<i>Co-Founder, Chairman of the Board & Chief Executive Officer American Axle & Manufacturing Holdings, Inc.</i>
Elizabeth A. Chappell	<i>President & Chief Executive Officer Detroit Economic Club</i>
Forest J. Farmer	<i>Chairman, Chief Executive Officer & President The Farmer Group</i>
Richard C. Lappin	<i>Former Chairman Haynes International Inc.</i>
B.G. Mathis	<i>Retired Executive Vice President – Administration & Chief Administrative Officer American Axle & Manufacturing Holdings, Inc.</i>
William P. Miller II	<i>Senior Investment Officer Ohio Public Employees Retirement System</i>
Larry K. Switzer	<i>Retired Chief Executive Officer Danka PLC</i>
Thomas K. Walker	<i>Chairman & Chief Executive Officer Lackawanna Acquisition</i>
Dr. Henry T. Yang	<i>Chancellor & Professor of Mechanical Engineering University of California – Santa Barbara</i>
Audit Committee	<i>Thomas K. Walker (chairman), Richard C. Lappin, William P. Miller II, Larry K. Switzer</i>
Compensation Committee	<i>Forest J. Farmer (chairman), Elizabeth A. Chappell, Thomas K. Walker</i>
Executive Committee	<i>Richard E. Dauch (chairman), Forest J. Farmer, Thomas K. Walker</i>
Nominating/Corporate Governance Committee	<i>Richard C. Lappin (chairman), Forest J. Farmer, Thomas K. Walker</i>
Technology Committee	<i>Dr. Henry T. Yang (chairman), Richard C. Lappin, William P. Miller II, Thomas K. Walker</i>

Board of Directors information as of February 20, 2006

OFFICERS

Richard E. Dauch *	<i>Co-Founder, Chairman of the Board & Chief Executive Officer</i>
Yogendra N. Rahangdale *	<i>President & Chief Operating Officer</i>
David C. Dauch *	<i>Executive Vice President – Commercial & Strategic Development</i>
Richard F. Dauch *	<i>Executive Vice President – Worldwide Manufacturing</i>
John J. Bellanti **	<i>Vice President – Engineering & Chief Technology Officer</i>
Marion A. Cumo, Sr. **	<i>Vice President – Special Projects</i>
Thomas O. Delanoy **	<i>Vice President – Materials Management & Logistics</i>
Michael C. Flynn **	<i>Vice President – Procurement</i>
John E. Jerge **	<i>Vice President – Human Resources</i>
Patrick S. Lancaster *	<i>Vice President, Chief Administrative Officer & Secretary</i>
Allan R. Monich **	<i>Vice President – Program Management & Capital Planning</i>
Steven J. Proctor **	<i>Vice President – Sales & Marketing</i>
Alberto L. Satine **	<i>Vice President – Strategic & Business Development</i>
Abdallah F. Shanti **	<i>Vice President – Information Technology, Electronic Product Integration & Chief Information Officer</i>
Michael K. Simonte *	<i>Vice President – Finance & Chief Financial Officer</i>
John S. Sofia **	<i>Vice President – Quality Assurance & Customer Satisfaction</i>
Patrick J. Spohn **	<i>Vice President & Controller</i>

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

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

Officers information as of February 20, 2006

STOCKHOLDERS' INFORMATION

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.

One Dauch Drive
 Detroit, Michigan 48211-1198
 Telephone: (313) 758-2000
 Internet: www.aam.com

FORM 10-K ANNUAL REPORT

AAM's Form 10-K annual report for 2005, filed with the Securities and Exchange Commission, is available on our website or from:
 American Axle & Manufacturing Holdings, Inc.
 Investor Relations
 One Dauch Drive
 Detroit, Michigan 48211-1198
 Telephone: (313) 758-4823

CORPORATE NEWS RELEASES

Corporate news releases are available on the internet at: www.aam.com

ANNUAL MEETING OF STOCKHOLDERS

The 2006 Annual Meeting of Stockholders will be held on April 27, 2006, at 3:00 p.m. at:
 the AAM World Headquarters
 One Dauch Drive
 Detroit, Michigan 48211-1198

EQUITY SECURITIES

American Axle & Manufacturing Holdings, Inc.
 Common Stock Transfer Agent
 Computershare Trust Company, N.A.
 P.O. Box 43069
 Providence, RI 02940-3069
 Telephone: (877) 282-1168
 (Inside the United States)
 Telephone: (781) 575-2879
 (Outside the United States)
 Telephone: (800) 952-9245
 (TDD/TTY for hearing impaired)
 Internet: www.computershare.com

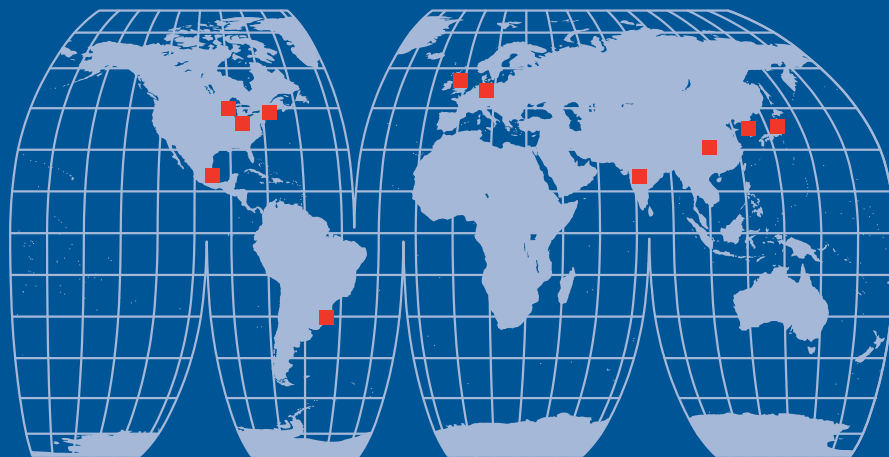
CERTIFICATIONS REGARDING PUBLIC DISCLOSURES & LISTING STANDARDS

AAM has filed with the Securities and Exchange Commission as exhibits 31.1 and 31.2 to its Form 10-K for the year ended December 31, 2005, the certification required by Section 302 of the Sarbanes-Oxley Act of 2002 regarding the quality of the company's public disclosure. In addition, the annual certification of the Chief Executive Officer regarding compliance by AAM with the corporate governance listing standards of the NYSE was submitted without qualification to the NYSE following the April 2005 Annual Meeting of Stockholders.

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**AMERICAN
AXLE &
MANUFACTURING**



Technical, Business and Manufacturing Locations

NORTH AMERICA

Michigan

Detroit Forge
Detroit Gear & Axle
Detroit South Campus
MSP Industries
Technical Center
Three Rivers Driveline
World Headquarters

New York

Buffalo Gear, Axle & Linkage
Cheektowaga Machining
Tonawanda Forge

Ohio

Colfor Manufacturing
Malvern, Ohio
Minerva, Ohio
Salem, Ohio

Mexico

Guanajuato Gear & Axle
Guanajuato Forge

SOUTH AMERICA

Brazil

AAM do Brasil
South American Business Office

ASIA

Japan

Japan Business Office

China

China Business Office

India

India Business Office

South Korea

Korea Business Office

EUROPE

United Kingdom

Albion Automotive
Glasgow, Scotland
Lancashire, England

Germany

AAM Europe GmbH

