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Allison Transmission

Q1 2012 Earnings Release

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Non-GAAP Financial Information

We use Adjusted net income, Adjusted EBITDA, Adjusted EBITDA margin, adjusted free cash flow and free cash flow to evaluate our performance relative to that of our peers. In addition, the Senior Secured Credit Facility has certain covenants that incorporate Adjusted EBITDA. However, Adjusted net income, Adjusted EBITDA, Adjusted EBITDA margin, adjusted free cash flow and free cash flow are not measurements of financial performance under GAAP, and these metrics may not be comparable to similarly titled measures of other companies. Adjusted net income is calculated as the sum of net income (loss), interest expense, net, income tax expense, trade name impairment and amortization of intangible assets, less cash interest expense, net and cash income taxes. Adjusted EBITDA is calculated as the sum of Adjusted net income, cash interest expense, net, cash income taxes, depreciation of property, plant and equipment and other adjustments as defined by the Senior Secured Credit Facility and as further described below. Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by net sales. Free cash flow is calculated as net cash provided by operating activities less capital expenditures. Adjusted free cash flow is free cash flow adjusted for non-recurring items.

We use Adjusted net income to measure our overall profitability because it better reflects our cash flow generation by capturing the actual cash taxes paid rather than our tax expense as calculated under GAAP and excludes the impact of the non-cash annual amortization of certain intangible assets that were created at the time of the Acquisition Transaction. We use Adjusted EBITDA and Adjusted EBITDA margin to evaluate and control our cash operating costs and to measure our operating profitability. We use adjusted free cash flow and free cash flow to evaluate the amount of cash generated by the business that, after the capital investment needed to maintain and grow our business, can be used for strategic opportunities, including investing in our business and strengthening our balance sheet. We believe the presentation of Adjusted net income, Adjusted EBITDA, Adjusted EBITDA margin, adjusted free cash and free cash flow enhances our investors' overall understanding of the financial performance and cash flow of our business.

You should not consider Adjusted net income, Adjusted EBITDA, Adjusted EBITDA margin, adjusted free cash flow and free cash flow as an alternative to net income (loss), determined in accordance with GAAP, as an indicator of operating performance, or as an alternative to net cash provided by operating activities, determined in accordance with GAAP, as an indicator of Allison's cash flow.

Call Agenda

- **Q1 2012 Performance**
- **End Markets Commentary**
- **Strategic Priorities Update**
- **Full Year 2012 Guidance**

Q1 2012 Performance Summary

($ in millions)	Q1 2012	Q1 2011	% Variance
Sales	$602	$517	16.4%
Gross Margin %	47.2%	44.5%	+270 bps
Adjusted EBITDA $(1)	$223	$169	32.0%
Adjusted EBITDA %(1)	37.0%	32.7%	+430 bps
Diluted Earnings Per Share	$0.31	N/A	—
Adjusted Free Cash Flow(2)(3)	$120	$98	22.4%

Commentary: Strong Q1 2012 results primarily due to recovering global on-highway commercial vehicle end markets and increased global off-highway demand

Full Year 2012 Guidance: Sales growth of 5 to 7 percent and Adjusted EBITDA margin of 33.5 to 34.5 percent

(1) See Appendix for a reconciliation of Adjusted EBITDA from net income (loss).
(2) Free Cash Flow = Cash provided by Operating Activities less CapEx. See slide 8.
(3) Q1 2012 Free Cash Flow adjusted for cash IPO costs of $16 million. See slide 8.

Q1 2012 Sales Performance

($ in millions)

End Markets	Q1 2012	Q1 2011	% Variance	Commentary on Quarter
North America On-Hwy	$219	$164	34%	Continued market recovery; all models up other than motor homes
North America Hybrid-Propulsion Systems for Transit Bus	$35	$39	(10%)	Municipal subsidy and spending constraints; value proposition challenges
North America Off-Hwy	$74	$64	16%	Increased natural gas fracturing activity
Military	$77	$84	(8%)	Reduced tracked demand partially offset by increased wheeled volume
Outside North America On-Hwy	$66	$57	16%	New product releases and increased market penetration
Outside North America Off-Hwy	$32	$23	39%	Increased mining and energy sector demand
Service Parts, Support Equipment & Other	$99	$86	15%	Price increases, increased transmission unit volume and global service parts demand
Total	**$602**	**$517**	**16%**	

Q1 2012 Financial Performance

($ in millions)	Q1 2012	Q1 2011	$ Variance	% Variance	Commentary on Quarter
Net Sales	$601.9	$517.0	$84.9	16.4%	Increased demand for global on-highway and off-highway products partially offset by lower demand for tracked military products and North America hybrid-propulsion systems for transit buses
Cost of Sales	$318.1	$287.0	$31.1	10.8%	
Gross Profit	$283.8	$230.0	$53.8	23.4%	Net sales growth and price increases on certain products
Operating Expenses					
Selling, general and administrative expenses	$101.2	$100.9	$0.3	0.3%	Continued focus on cost control
Engineering – research and development	$27.9	$30.3	($2.4)	(7.9%)	Reduced technology-related license expense partially offset by higher product initiatives spending
Total operating expenses	$129.1	$131.2	($2.1)	(1.6%)	
Operating Income	$154.7	$98.8	$55.9	56.6%	
Interest Expense, net	($40.7)	($49.6)	($8.9)	(17.9%)	Debt repayments and repurchases partially offset by new swaps and mark-to-market expense
Other (Expense) Income, net	($30.8)	$5.7	$36.5	640.4%	IPO costs and the February 2012 11% Senior Notes redemption ($200 million in aggregate principal amount)
Income Before Income Taxes	$83.2	$54.9	$28.3	51.5%	
Income Tax Expense	($25.2)	($18.0)	$7.2	40.0%	Effective Tax Rate 30.3% versus 32.8%
Net Income	$58.0	$36.9	$21.1	57.2%	
Diluted Earnings Per Share	$0.31	N/A	N/A	N/A	186.2 million shares
Memo: Adjusted EBITDA[(1)]	$223.0	$169.3	$53.7	31.7%	Increased net sales, favorable sales mix and operating leverage realization
Adjusted Net Income[(1)]	$144.1	$111.0	$33.1	29.8%	

(1) See Appendix for a reconciliation from net income (loss).

Q1 2012 Cash Flow Performance

($ in millions)	Q1 2012	Q1 2011	$ Variance	% Variance	Commentary
Cash Provided by Operating Activities	$140	$110	$30	27.3%	Net sales growth partially offset by non-recurring items
CapEx	$36	$12	$24	200.0%	Increased investments in new facilities and product initiatives
Free Cash Flow (1)	$104	$98	$6	6.1%	
Adjusted Free Cash Flow (2)	$120	$98	$22	22.4%	Q1 2012 Adjusted Free Cash Flow excludes cash IPO costs

($ in millions)	Q1 2012	Q1 2011	$ Variance	% Variance	Commentary
Operating Working Capital Percentage of LTM Sales (3)	8.8%	10.3%	N/A	(150 bps)	Net sales growth and increased A/P
Cash Paid for Interest	$36	$30	$6	20.0%	Q1 2012 redemption of 11% Sr. Notes and new swaps partially offset by 2011 debt repayments and repurchases
Cash Paid for Income Taxes	$3	$2	$1	50.0%	U.S. income tax shield and net operating loss utilization

(1) Free Cash Flow = Cash Provided by Operating Activities less CapEx.
(2) Adjusted Free Cash Flow = Free Cash Flow adjusted for cash IPO costs of $16 million.
(3) Operating Working Capital = A/R + Inventory – A/P.

End Markets Commentary

- **North America On-Highway**
  - Improved economic conditions
  - Municipal spending
  - Expect slower year over year growth rate for the balance of 2012
- **North America Hybrid-Propulsion Systems for Transit Bus**
  - Municipal spending constraints and value proposition challenges
  - Expect measured decline for full year 2012 to below the 2011 level
- **North America Off-Highway**
  - Majority of demand is natural gas fracturing; strong first quarter demand not expected to recur given customer forecast adjustments related to current natural gas pricing
- **Military**
  - Expecting return of U.S. defense spending to historical averages
- **Outside North America On-Highway**
  - Increased market penetration
  - Long term customer supply agreements
  - Vehicle releases
- **Outside North America Off-Highway**
  - Growth in mining and energy sectors
- **Service Parts, Support Equipment & Other**
  - Follow global economic conditions and transmission unit volume

Strategic Priorities Update

- **Expand global market leadership**
  - Capitalize on continued market recovery
  - New vocational offerings
- **Emerging markets penetration**
  - Vocational ladder strategy
  - Increase number of vehicle releases
- **Continued focus on new technologies and product development**
  - Address markets adjacent to core
  - Advanced fuel efficient technologies
- **Deliver strong financial results**
  - Earnings growth and cash flow generation
  - Focus on continued margin enhancement

Full Year 2012 Guidance

	Guidance	Commentary on Full Year
Net Sales Growth from 2011	5 to 7 percent	Assumes year over year growth in global on-highway and Outside North America off-highway end markets partially offset by year over year reductions in North America off-highway, tracked military products and North America hybrid-propulsion systems for transit bus end markets
Adjusted EBITDA % (1)	33.5 to 34.5 percent	Driven by sales mix and volume timing
CapEx ($ in millions) Maintenance New Facilities New Product Programs	 $55 to $60 $25 to $30 $30 to $40	New facilities and product programs subject to timely completion of development and sourcing milestones
Cash Income Taxes ($ in millions)	$10 to $15	U.S. income tax shield and net operating loss utilization

(1) See Appendix

APPENDIX

Non-GAAP Financial Information

Non-GAAP Reconciliations

Adjusted Net Income and Adjusted EBITDA reconciliation

$ in millions	For the year ended December 31,			Three months ended March 31,		Last twelve months ended March 31,
	2009	2010	2011	2011	2012	2012
Net (loss) income	**($323.9)**	**$29.6**	**$103.0**	**$36.9**	**$58.0**	**$124.1**
plus:						
Interest expense, net	234.2	277.5	217.3	49.6	40.7	208.4
Cash interest expense, net	(242.5)	(239.1)	(208.6)	(29.9)	(36.1)	(214.8)
Income tax expense	41.4	53.7	47.6	18.0	25.2	54.8
Cash income taxes	(5.5)	(2.2)	(5.8)	(1.6)	(2.9)	(7.1)
Fee to terminate services agreement with Sponsors	—	—	—	—	16.0	16.0
Initial public offering expenses	—	—	—	—	5.7	5.7
Trade name impairment	190.0	—	—	—	—	—
Amortization of intangible assets	155.9	154.2	151.9	38.0	37.5	151.4
Adjusted net income	**$49.6**	**$273.7**	**$305.4**	**$111.0**	**$144.1**	**$338.5**
Cash interest expense, net	242.5	239.1	208.6	29.9	36.1	214.8
Cash income taxes	5.5	2.2	5.8	1.6	2.9	7.1
Depreciation of property, plant and equipment	105.9	99.6	103.8	25.7	24.6	102.7
Loss on repurchases of long-term debt	—	—	—	—	13.5	13.5
Premiums and expenses on tender offer of long-term debt	—	—	56.9	—	—	56.9
Dual power inverter module extended coverage	11.4	(1.9)	—	—	—	—
(Gain) / loss on repurchases of long-term debt	(8.9)	(3.3)	16.0	—	—	16.0
Unrealized (gain) loss on hedge contracts	(5.8)	0.1	6.8	(1.6)	(0.7)	7.7
Reduction of supply contract liability	—	(3.4)	—	—	—	—
Restructuring charges	47.9	—	—	—	—	—
Other, net(1)	53.2	10.9	8.6	2.7	2.5	8.4
Adjusted EBITDA	**$501.3**	**$617.0**	**$711.9**	**$169.3**	**$223.0**	**$765.6**
Net sales	**$1,766.7**	**$1,926.3**	**$2,162.8**	**$517.0**	**$601.9**	**$2,247.7**
Adjusted EBITDA margin	**28.4%**	**32.0%**	**32.9%**	**32.7%**	**37.0%**	**34.1%**

(1) Includes charges or income related to legacy employee benefits, shared income with General Motors, benefit plan adjustments, transitional costs to establish Allison as a stand-alone entity, pension curtailment adjustments, employee stock compensation expense, service fees paid to Allison's Sponsors and an adjustment for the settlement of litigation which originated with the Predecessor but was assumed by the Company as part of the Acquisition Transaction.