Q1 2013 Earnings Release

April 29, 2013

Lawrence Dewey, Chairman, President & Chief Executive Officer
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Safe Harbor Statement

The following information contains, or may be deemed to contain, “forward-looking statements” (as defined in the U.S. Private Securities Litigation Reform Act of 1995). The words “believe,” “expect,” “anticipate,” “intend,” “estimate” and other expressions that are predictions of or indicate future events and trends and that do not relate to historical matters identify forward-looking statements. You should not place undue reliance on these forward-looking statements. Although forward-looking statements reflect management’s good faith beliefs, reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements speak only as of the date the statements are made. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, changed circumstances or otherwise. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to: risks related to our substantial indebtedness; our participation in markets that are competitive; the highly cyclical industries in which certain of our end users operate; the failure of markets outside North America to increase adoption of fully-automatic transmissions; the concentration of our net sales in our top five customers and the loss of any one of these; future reductions or changes in government subsidies for hybrid vehicles, U.S. defense spending; general economic and industry conditions; the discovery of defects in our products, resulting in delays in new model launches, recall campaigns and/or increased warranty costs and reduction in future sales or damage to our brand and reputation; our ability to prepare for, respond to and successfully achieve our objectives relating to technological and market developments and changing customer needs; risks associated with our international operations; and labor strikes, work stoppages or similar labor disputes, which could significantly disrupt our operations or those of our principal customers.

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Allison Transmission’s business is subject to numerous risks and uncertainties, which may cause future results of operations to vary significantly from those presented herein. Important factors that could cause actual results to differ materially are discussed in Allison Transmission’s Annual Report on Form 10-K for year ended December 31, 2012.

Non-GAAP Financial Information

We use Adjusted net income, Adjusted EBITDA, Adjusted EBITDA excluding technology-related license expenses, Adjusted EBITDA margin, Adjusted EBITDA margin excluding technology-related license expenses, 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 excluding technology-related license expenses, Adjusted EBITDA margin, Adjusted EBITDA margin excluding technology-related license expenses, 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, net and cash income taxes, and adjusted for certain non-recurring items. Adjusted EBITDA is calculated as the sum of Adjusted net income, cash interest, 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 excluding technology-related license expenses is calculated as Adjusted EBITDA less technology-related license expenses. Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by net sales. Adjusted EBITDA margin excluding technology-related license expenses is calculated as Adjusted EBITDA excluding technology-related license expenses 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 interest paid and cash taxes paid rather than our interest expense and 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, Adjusted EBITDA excluding technology-related license expenses, Adjusted EBITDA margin and Adjusted EBITDA margin excluding technology-related license expenses 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 excluding technology-related license expenses, Adjusted EBITDA margin, Adjusted EBITDA margin excluding technology-related license expenses, 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 excluding technology-related license expenses, Adjusted EBITDA margin, Adjusted EBITDA margin excluding technology-related license expenses, 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 2013 Performance**
- **Full Year 2013 Guidance Update**

Q1 2013 Performance Summary

($ in millions)	Q1 2013	Q1 2012	% Variance
Net Sales	$457	$602	(24.0%)
Gross Margin %	43.4%	47.2%	(380 bps)
Adjusted Net Income (1)	$80	$144	(44.8%)
Adjusted Free Cash Flow (1)	$48	$120	(59.9%)

Commentary

Net Sales: the decrease was principally driven by considerably lower demand in the North America energy sector's hydraulic fracturing market, relative to the same period in 2012, due to weakness in natural gas pricing, previously considered reductions in U.S. defense spending and weaker Global On-Highway end markets. Partially offsetting these declines were price increases on certain products.

Gross Margin: gross margin for the quarter was 43.4 percent, an increase of 60 basis points from a gross margin of 42.8 percent for the fourth quarter of 2012, the most recent quarter with a similar level of net sales. The fourth quarter of 2012 gross margin excludes $15 million of costs and charges incurred to conclude a new five-year labor agreement.

Adjusted Net Income: the decrease was principally driven by decreased net sales, unfavorable material cost and $6 million of technology-related license expenses in 2013 partially offset by improved manufacturing performance, price increases on certain products, reduced global commercial spending activities, reduced product initiatives spending, decreased cash interest expense as a result of debt refinancing and repayments, and $14 million of premiums and expenses in 2012 related to redemptions of long-term debt.

Adjusted Free Cash Flow: the decrease from the same period in 2012 was principally driven by decreased net cash provided by operating activities partially offset by reduced capital expenditures. The decrease in capital expenditures was principally driven by the 2012 expansion of our India facility and lower product initiatives spending partially offset by increased investments in productivity and replacement programs.

(1) See Appendix for a reconciliation of Adjusted Net Income and Adjusted Free Cash Flow.

Q1 2013 Sales Performance

($ in millions)

End Markets	Q1 2013	Q1 2012	% Variance	Commentary
North America On-Hwy	$188	$219	(14%)	Decreased commercial vehicle production
North America Hybrid-Propulsion Systems for Transit Bus	$31	$35	(11%)	Decreased demand driven by municipal subsidy and spending constraints, engine emission improvements and non-hybrid alternative technologies
North America Off-Hwy	$8	$74	(89%)	Decreased demand from hydraulic fracturing applications due to weakness in natural gas pricing
Defense	$57	$77	(26%)	Continued reductions in U.S. defense spending to longer term averages experienced during periods without active conflicts
Outside North America On-Hwy	$62	$66	(6%)	Weakness in Asia partially offset by Latin America
Outside North America Off-Hwy	$21	$32	(34%)	Decreased mining sector demand
Service Parts, Support Equipment & Other	$90	$99	(9%)	Reduced demand for North America Off-Hwy service parts and global support equipment partially offset by price increases on certain products
Total	**$457**	**$602**	**(24%)**	

Q1 2013 Financial Performance

($ in millions, except share data)	Q1 2013	Q1 2012	$ Var	% Var	Commentary
Net Sales	$457.4	$601.9	($144.5)	(24.0%)	Decrease was principally driven by considerably lower demand in the North America energy sector's hydraulic fracturing market, relative to the same period in 2012, due to weakness in natural gas pricing, previously considered reductions in U.S. defense spending and weaker Global On-Highway end markets. Partially offsetting these declines were price increases on certain products.
Cost of Sales	$259.1	$318.1	$59.0	18.5%	
Gross Profit	$198.3	$283.8	($85.5)	(30.1%)	Decreased net sales and unfavorable material cost partially offset by improved manufacturing performance and price increases on certain products
Operating Expenses					
Selling, general and administrative expenses	$87.9	$101.2	$13.3	13.1%	$8 million of lower intangible asset amortization and reduced global commercial spending activities
Engineering – research and development	$29.0	$27.9	($1.1)	(3.9%)	A decrease of $5 million excluding the 2013 technology-related license expense of $6 million
Total operating expenses	$116.9	$129.1	$12.2	9.5%	
Operating Income	$81.4	$154.7	($73.3)	(47.4%)	
Interest Expense, net	($33.9)	($40.7)	$6.8	16.7%	Decrease principally driven by debt repayments and refinancings
Other Expense, net	($3.1)	($30.8)	$27.7	89.9%	Decrease principally driven by 2012 payment to terminate Sponsor services agreement, 2012 IPO related expenses and 2012 premiums and expenses related to redemptions of long-term debt
Income Before Income Taxes	$44.4	$83.2	($38.8)	(46.6%)	
Income Tax Expense	($16.9)	($25.2)	$8.3	32.9%	
Net Income	$27.5	$58.0	($30.5)	(52.6%)	
Diluted Earnings Per Share	$0.15	$0.31	($0.16)	(51.6%)	Q1 2013: 187.8M shares; Q1 2012: 186.2M shares
Adjusted EBITDA(1)	$140.7	$223.0	($82.3)	(36.9%)	
Adjusted EBITDA excluding technology-related license expenses(1)	$146.7	$223.0	($76.3)	(34.2%)	
Adjusted Net Income(1)	$79.5	$144.1	($64.6)	(44.8%)	

(1) See Appendix for a reconciliation from Net Income.

Q1 2013 Cash Flow Performance

($ in millions)	Q1 2013	Q1 2012	$ Variance	% Variance	Commentary
Net Cash Provided by Operating Activities	$55	$140	($85)	(60.8%)	Principally driven by decreased net sales
CapEx	$13	$36	($23)	(64.7%)	Principally driven by the 2012 expansion of our India facility and lower product initiatives spending partially offset by increased investments in productivity and replacement programs
Adjusted Free Cash Flow (1)	$48	$120	($72)	(59.9%)	Decreased net cash provided by operating activities partially offset by reduced capital expenditures

($ in millions)	Q1 2013	Q1 2012	$ Variance	% Variance	Commentary
Operating Working Capital(2) Percentage of LTM Sales	10.5%	8.8%	N/A	170 bps	Principally driven by LTM sales reduction and 2013 sales forecast
Cash Paid for Interest	$30	$36	($6)	(16.9%)	Principally driven by debt repayments and refinancings
Cash Paid for Income Taxes	$1	$3	($2)	(58.6%)	Decreased taxable income

(1) See Appendix for a reconciliation of Adjusted Free Cash Flow.
(2) Operating Working Capital = A/R + Inventory – A/P.

Full Year 2013 Guidance Update

	Guidance	Commentary
Net Sales Growth from 2012	(6) to (8) percent	Consistent with our previous guidance we expect low levels of demand in the North America energy sector's hydraulic fracturing market, reductions in U.S. defense spending to longer term averages experienced during periods without active conflicts and lower demand in the North America Hybrid-Propulsion Systems for Transit Bus end market due to municipal spending constraints to lead to net sales reductions in these end markets. We also expect that the majority of the full year 2013 net sales reduction implied by the midpoint of our guidance has occurred in the first quarter, and will be followed by growth in the Global On-Highway end markets for the balance of the year.
Adjusted EBITDA Margin excluding technology-related license expenses	32 to 34 percent	Principally driven by sales mix and volume timing
Adjusted Free Cash Flow ($ in millions)	$325 to $375	$1.73 to $2.00 per diluted share
CapEx ($ in millions) Maintenance New Product Programs	 $60 to $65 $20 to $25	New product programs subject to timely completion of development and sourcing milestones
Cash Income Taxes ($ in millions)	$15 to $20	U.S. income tax shield and net operating loss utilization

APPENDIX

Non-GAAP Financial Information

Non-GAAP Reconciliations (1 of 2)

Adjusted Net Income and Adjusted EBITDA reconciliation

$ in millions, Unaudited	For the year ended December 31,				Three months ended March 31,		Last twelve months ended March 31,
	2009	2010	2011	2012	2012	2013	2013
Net (loss) income	**($323.9)**	**$29.6**	**$103.0**	**$514.2**	**$58.0**	**$27.5**	**$483.7**
plus:							
Interest expense, net	234.2	277.5	217.3	151.2	40.7	33.9	144.4
Cash interest expense	(242.5)	(239.1)	(208.6)	(167.3)	(36.1)	(30.0)	(161.2)
Income tax expense (benefit)	41.4	53.7	47.6	(298.0)	25.2	16.9	(306.3)
Cash income taxes	(5.5)	(2.2)	(5.8)	(10.7)	(2.9)	(1.2)	(9.0)
Fee to terminate services agreement with Sponsors	—	—	—	16.0	16.0	—	—
Technology-related investment expenses	—	—	—	14.4	—	2.5	16.9
Initial public offering expenses	—	—	—	6.1	5.7	—	0.4
Trade name impairment	190.0	—	—	—	—	—	—
Amortization of intangible assets	155.9	154.2	151.9	150.0	37.5	29.9	142.4
Adjusted net income	**$49.6**	**$273.7**	**$305.4**	**$375.9**	**$144.1**	**$79.5**	**$311.3**
Cash interest expense	242.5	239.1	208.6	167.3	36.1	30.0	161.2
Cash income taxes	5.5	2.2	5.8	10.7	2.9	1.2	9.0
Depreciation of property, plant and equipment	105.9	99.6	103.8	102.5	24.6	24.7	102.6
(Gain)/loss on repurchases of long-term debt	(8.9)	(3.3)	16.0	22.1	13.5	—	8.6
Dual power inverter module extended coverage	11.4	(1.9)	—	9.4	—	—	9.4
UAW Local 933 signing bonus	—	—	—	8.8	—	—	8.8
Benefit plan re-measurement	—	—	—	2.3	—	—	2.3
Unrealized (gain) loss on hedge contracts	(5.8)	0.1	6.8	(0.9)	(0.7)	1.9	1.7
Premiums and expenses on tender offer for long-term debt	—	—	56.9	—	—	—	—
Restructuring charges	47.9	—	—	—	—	—	—
Reduction of supply contract liability	—	(3.4)	—	—	—	—	—
Other, net(1)	53.2	10.9	8.6	7.0	2.5	3.4	7.9
Adjusted EBITDA	**$501.3**	**$617.0**	**$711.9**	**$705.1**	**$223.0**	**$140.7**	**$622.8**
Adjusted EBITDA excluding technology-related license expenses	**$501.3**	**$617.0**	**$711.9**	**$717.1**	**$223.0**	**$146.7**	**$640.8**
Net Sales	**$1,766.7**	**$1,926.3**	**$2,162.8**	**$2,141.8**	**$601.9**	**$457.4**	**$1,997.3**
Adjusted EBITDA margin	**28.4%**	**32.0%**	**32.9%**	**32.9%**	**37.0%**	**30.8%**	**31.2%**
Adjusted EBITDA margin excl technology-related license expenses	**28.4%**	**32.0%**	**32.9%**	**33.5%**	**37.0%**	**32.1%**	**32.1%**

(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.

Non-GAAP Reconciliations (2 of 2)

Adjusted Free Cash Flow reconciliation

$ in millions, Unaudited	For the year ended December 31,				Three months ended March 31,		Last twelve months ended March 31,
	2009	**2010**	**2011**	**2012**	**2012**	**2013**	**2013**
Net Cash Provided by Operating Activities	**$168.7**	**$388.9**	**$469.2**	**$497.5**	**$139.6**	**$54.7**	**$412.6**
(Deductions) or Additions:							
Long-lived assets	(88.2)	(73.8)	(96.9)	(123.9)	(35.7)	(12.6)	(100.8)
Fee to terminate services agreement with Sponsors	—	—	—	16.0	16.0	—	—
Technology-related license expenses	—	—	—	12.0	—	6.0	18.0
2009 Non-Recurring Activity (1)	61.0	—	—	—	—	—	—
Adjusted Free Cash Flow	**$141.5**	**$315.1**	**$372.3**	**$401.6**	**$119.9**	**$48.1**	**$329.8**
Net Sales	**$1,766.7**	**$1,926.3**	**$2,162.8**	**$2,141.8**	**$601.9**	**$457.4**	**$1,997.3**
Adjusted Free Cash Flow (% to Net Sales)	**8.0%**	**16.4%**	**17.2%**	**18.8%**	**19.9%**	**10.5%**	**16.5%**

(1) 2009 adjusted for certain non-recurring activity: (a) capitalized accrued interest on Senior Toggle Notes ($29) million, (b) cash restructuring charge $51 million, (c) accounts payable early payments $3 million, (d) delayed accounts receivable receipts $19 million and (e) Lehman LIBOR swap settlement $17 million.