Q3 2012 Earnings Release

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Allison Transmission

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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 expense, 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 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 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 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, 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

- **Q3 2012 Performance**
- **End Markets Commentary**
- **Full Year 2012 Guidance Update**

Q3 2012 Performance Summary

($ in millions)	Q3 2012	Q3 2011	% Variance
Net Sales	$494	$574	(14.0%)
Gross Margin %	45.5%	44.9%	+60 bps
Adjusted Net Income (1)	$100	$131	(24.2%)
Adjusted Free Cash Flow (1)	$120	$176	(32.1%)

Commentary

Net Sales: decreased demand for North America Off-Highway products relative to the elevated demand experienced in the prior year period driven by strength in natural gas pricing. North America On-Highway, Military and Service Parts, Support Equipment & Other end markets also experienced modest declines which were partially offset by price increases on certain products. Our Outside North America On-Highway net sales were in line with the prior year due to growth in China offsetting weakness in European end markets.

Gross Margin: improved manufacturing performance, favorable material cost and price increases on certain products.

Adjusted Net Income: decreased gross profit, $12 million of certain technology-related license expenses and increased cash interest expense as a result of debt refinancing and repayments, partially offset by lower global commercial and engineering – research and development spending activities.

Adjusted Free Cash Flow: decreased net cash provided by operating activities and increased capital expenditures attributable to increased product initiatives spending and investments in productivity and replacement programs.

Full Year 2012 Guidance: Net Sales decline of 2.5 to 3.5 percent, Adjusted EBITDA margin excluding technology-related license expenses of 33.5 to 34.0 percent and Adjusted Free Cash Flow of $350 million to $380 million.

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

Q3 2012 Sales Performance

($ in millions)

End Markets	Q3 2012	Q3 2011	% Variance	Commentary
North America On-Hwy	$189	$199	(5%)	Diminished commercial vehicle production
North America Hybrid-Propulsion Systems for Transit Bus	$30	$28	+7%	Timing of orders
North America Off-Hwy	$22	$76	(71%)	Decreased demand from natural gas hydraulic fracturing applications due to weakness in natural gas pricing
Military	$74	$81	(9%)	Decreased wheeled and tracked military products requirements consistent with reduced U.S. defense spending
Outside North America On-Hwy	$73	$73	0%	Strength in China offset by weaker environments in Europe and Latin America
Outside North America Off-Hwy	$22	$24	(8%)	Weaker mining sector demand partially offset by stronger demand from the energy sector
Service Parts, Support Equipment & Other	$84	$93	(10%)	Reduced demand for global off-highway service parts sales
Total	**$494**	**$574**	**(14%)**	

Q3 2012 Financial Performance

($ in millions)	Q3 2012	Q3 2011	$ Var	% Var	Commentary
Net Sales	$493.5	$574.0	($80.5)	(14.0%)	Decreased demand for North America Off-Highway, North America On-Highway, Military and Service Parts, Support Equipment & Other products partially offset by price increases on certain products. Our Outside North America On-Highway net sales were in line with the prior year due to growth in China offsetting weakness in European end markets
Cost of Sales	$269.1	$316.4	$47.3	14.9%	
Gross Profit	$224.4	$257.6	($33.2)	(12.9%)	Decreased net sales partially offset by improved manufacturing performance, favorable material cost and price increases
Operating Expenses					
Selling, general and administrative expenses	$96.7	$101.6	$4.9	4.8%	Lower global commercial spending activities offset by favorable 2011 product warranty expense adjustments
Engineering – research and development	$35.9	$31.9	($4.0)	(12.5%)	$12 million of certain technology-related license expense partially offset by the timing of product initiatives spending
Total operating expenses	$132.6	$133.5	$0.9	0.7%	
Operating Income	$91.8	$124.1	($32.3)	(26.0%)	
Interest Expense, net	($40.8)	($63.3)	$22.5	(35.5%)	Decreased mark-to-market expense and the favorable impact of debt repayments and repurchases partially offset by higher interest rates and deferred financing fees related to the Senior Secured Credit Facility refinancing
Other Expense, net	($1.8)	($3.7)	$1.9	(51.4)	Favorable foreign currency exchange, higher gains on derivative contracts partially offset by impairment of technology-related investments
Income Before Income Taxes	$49.2	57.1	($7.9)	(13.8%)	
Income Tax Expense	($17.0)	($18.3)	$1.3	(7.1%)	
Net Income	$32.2	$38.8	($6.6)	(17.0%)	
Diluted Earnings Per Share	$0.17	$0.21	$0.04	(17.0%)	Q3 2012:185.5M shares; Q3 2011 181.4M shares
Adjusted EBITDA[(1)]	$159.5	$193.4	($33.9)	(17.5%)	
Adjusted EBITDA excluding technology-related license expense [(1)]	$171.5	$193.4	($21.9)	(11.3%)	
Adjusted Net Income[(1)]	$99.5	$131.2	($31.7)	(24.2%)	

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

Q3 2012 Cash Flow Performance

($ in millions)	Q3 2012	Q3 2011	$ Variance	% Variance	Commentary
Cash Provided by Operating Activities	$139	$204	($65)	(31.8%)	Reduced sales volume, inconsistent commercial vehicle production schedules and labor negotiations planning
CapEx	$31	$28	$3	13.4%	Increased new product initiatives and timing of maintenance spending partially offset by completion of India facility expansion
Adjusted Free Cash Flow [(1)]	$120	$176	($56)	(32.1%)	Decreased net cash provided by operating activities and increased capital expenditures

($ in millions)	Q3 2012	Q3 2011	$ Variance	% Variance	Commentary
Operating Working Capital[(2)] Percentage of LTM Sales	9.9%	8.5%	N/A	140 bps	Inconsistent commercial vehicle production schedules and labor negotiations planning partially offset by LTM net sales growth
Cash Paid for Interest	$32	$26	($6)	(23.2%)	Sr Secured Credit Facility refinancing partially offset by debt repayments and repurchases
Cash Paid for Income Taxes	$3	$1	$2	85.7%	Increased taxable income

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

End Markets Commentary

- **North America On-Highway**
  - Market recovery stalled by heightened economic uncertainty
  - Expect full year net sales growth of 8 percent
- **North America Hybrid-Propulsion Systems for Transit Bus**
  - Municipal spending constraints and value proposition challenges
  - Expect full year net sales reduction of 16 percent
- **North America Off-Highway**
  - Majority of demand is natural gas hydraulic fracturing; weakening rig production and utilization rates
  - Expect full year net sales reduction of 43 percent
- **Military**
  - Expect full year net sales reduction of 2 percent
- **Outside North America On-Highway**
  - Solid progress on growth initiatives and attainment of vehicle releases
  - Heightened economic uncertainties pressuring commercial vehicle production forecasts
  - Expect full year net sales growth of 1.5% with strength in Asia offsetting weakness in European end markets
- **Outside North America Off-Highway**
  - Expect full year net sales growth of 27 percent principally driven by increased demand in the mining and energy sectors
- **Service Parts, Support Equipment & Other**
  - Expect full year net sales reduction of 1 percent

Full Year 2012 Guidance Update

	Guidance	Commentary on Full Year
Net Sales Growth from 2011	(2.5) to (3.5) percent	Assumes fourth quarter year over year net sales reductions in North America Off-Highway, Global On-Highway, Tracked Military and Service Parts, Support Equipment & Other end markets partially offset by year over year net sales growth in Outside North America Off-Highway and North America Hybrid-Propulsion Systems for Transit Bus end markets
Adjusted EBITDA Margin excluding technology-related license expense (1)	33.5 to 34.0 percent	Driven by sales mix and volume timing
Adjusted Free Cash Flow ($ in millions) (1)	$350 to $380	Driven by EBITDA, Cash Interest, Cash Income Taxes, CapEx, etc
CapEx ($ in millions) Maintenance New Facilities New Product Programs	 $61 to $64 $26 to $27 $33 to $39	New product programs subject to timely completion of development and sourcing milestones
Cash Income Taxes ($ in millions)	$12 to $15	U.S. income tax shield and net operating loss utilization

(1) See Appendix.

APPENDIX

Non-GAAP Financial Information

Non-GAAP Reconciliations (1 of 2)

Adjusted Net Income and Adjusted EBITDA reconciliation

$ in millions	For the year ended December 31, 2009	2010	2011	Three months ended September 30, 2011	2012	Last twelve months ended September 30, 2012
Net (loss) income	**($323.9)**	**$29.6**	**$103.0**	**$38.8**	**$32.2**	**$547.5**
plus:						
Interest expense, net	234.2	277.5	217.3	63.3	40.8	149.0
Cash interest	(242.5)	(239.1)	(208.6)	(25.8)	(31.8)	(188.6)
Income tax expense (benefit)	41.4	53.7	47.6	18.3	17.0	(302.6)
Cash income taxes	(5.5)	(2.2)	(5.8)	(1.4)	(2.6)	(9.7)
Fee to terminate services agreement with Sponsors	—	—	—	—	—	16.0
Technology-related investment expense	—	—	—	—	6.4	14.4
Initial public offering expenses	—	—	—	—	—	6.1
Trade name impairment	190.0	—	—	—	—	—
Amortization of intangible assets	155.9	154.2	151.9	38.0	37.5	150.4
Adjusted net income	**$49.6**	**$273.7**	**$305.4**	**$131.2**	**$99.5**	**$382.5**
Cash interest expense	242.5	239.1	208.6	25.8	31.8	188.6
Cash income taxes	5.5	2.2	5.8	1.4	2.6	9.7
Depreciation of property, plant and equipment	105.9	99.6	103.8	25.5	26.1	102.7
(Gain)/Loss on repurchases of long-term debt	(8.9)	(3.3)	16.0	3.0	0.5	26.3
Dual power inverter module extended coverage	11.4	(1.9)	—	—	—	9.4
Unrealized (gain) loss on hedge contracts	(5.8)	0.1	6.8	4.1	(2.1)	0.6
Premiums and expenses on tender offer for long-term debt	—	—	56.9	—	—	—
Restructuring charges	47.9	—	—	(0.6)	—	—
Reduction of supply contract liability	—	(3.4)	—	—	—	—
Other, net(1)	53.2	10.9	8.6	3.0	1.1	9.6
Adjusted EBITDA	**$501.3**	**$617.0**	**$711.9**	**$193.4**	**$159.5**	**$729.4**
Adjusted EBITDA excluding technology-related license expense	**$501.3**	**$617.0**	**$711.9**	**$193.4**	**$171.5**	**$741.4**
Net Sales	**$1,766.7**	**$1,926.3**	**$2,162.8**	**$574.0**	**$493.5**	**$2,170.9**
Adjusted EBITDA margin	**28.4%**	**32.0%**	**32.9%**	**33.7%**	**32.3%**	**33.6%**
Adjusted EBITDA margin excl technology-related license expense	**28.4%**	**32.0%**	**32.9%**	**33.7%**	**34.8%**	**34.2%**

(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	For the year ended December 31, 2009	2010	2011	Three months ended September 30, 2011	2012	Last twelve months ended September 30, 2012
Net Cash Provided by Operating Activities	**$168.7**	**$388.9**	**$469.2**	**$203.6**	**$138.9**	**$457.3**
(Deductions) or Additions:						
Long-lived assets	(88.2)	(73.8)	(96.9)	(27.7)	(31.4)	(135.5)
Fee to terminate services agreement with Sponsors	—	—	—	—	—	16.0
Technology-related license expense	—	—	—	—	12.0	12.0
2009 Non-Recurring Activity (1)	61.0	—	—	—	—	—
Adjusted Free Cash Flow	**$141.5**	**$315.1**	**$372.3**	**$175.9**	**$119.5**	**$349.8**
Net Sales	**$1,766.7**	**$1,926.3**	**$2,162.8**	**$574.0**	**$493.5**	**$2,170.9**
Adjusted Free Cash Flow (% to Net Sales)	**8.0%**	**16.4%**	**17.2%**	**30.6%**	**24.2%**	**16.1%**

(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.