Investor Relations Presentation
Third Quarter 2017 (Published Dec 1, 2017)

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: 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; risks related to our substantial indebtedness; uncertainty in the global regulatory and business environments in which we operate; 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 and other external factors impacting demand 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, competitive threats and changing customer needs; risks associated with our international operations; labor strikes, work stoppages or similar labor disputes, which could significantly disrupt our operations or those of our principal customers; and our intention to pay dividends and repurchase shares of our common stock.

Allison Transmission cannot assure you that the assumptions made in preparing any of the forward-looking statements will prove accurate or that any long-term financial goals will be realized. All forward-looking statements included in this presentation speak only as of the date made, and Allison Transmission undertakes no obligation to update or revise publicly any such forward-looking statements, whether as a result of new information, future events, or otherwise. In particular, Allison Transmission cautions you not to place undue weight on certain forward-looking statements pertaining to potential growth opportunities, long-term financial goals or the value we currently ascribe to certain tax attributes set forth herein. Actual results may vary significantly from these statements.

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 the year ended December 31, 2016.

Allison Transmission

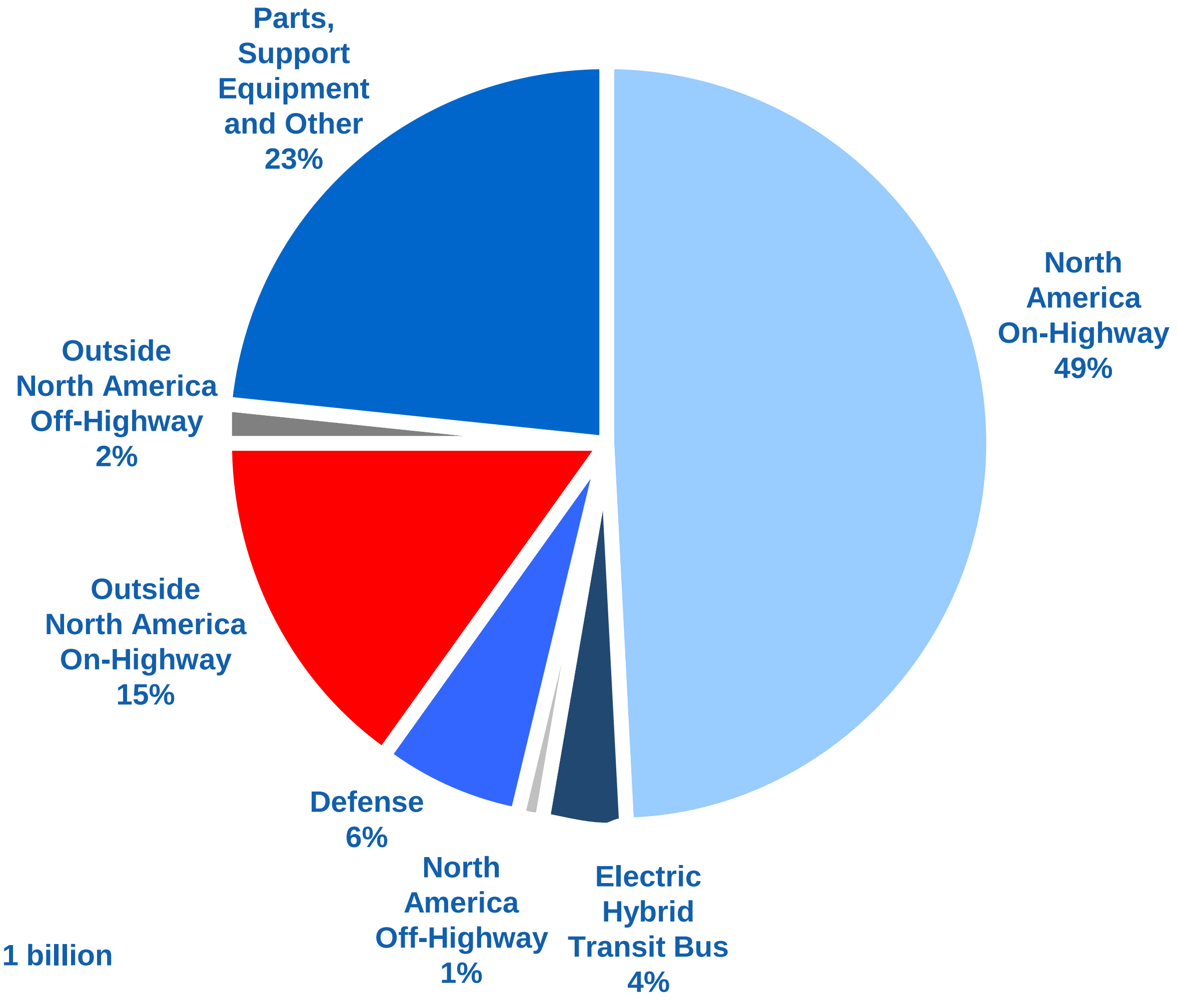
Business Overview

Allison Transmission at a Glance

- World's largest manufacturer of fully-automatic transmissions for medium- and heavy-duty commercial vehicles
  - 60% global market share of fully-automatic transmissions
  - Virtually no exposure to cyclical Class 8 line-haul tractor market
- Allison is the premier fully-automatic transmission brand
  - Premium price component frequently specified by end users
  - Differentiated technology offering superior performance and lower total cost of ownership
- Well positioned for revenue and earnings growth
  - Further adoption outside North America
  - Expanding addressable market
  - Funded growth opportunities in asset light business model
- Strong cash flow generation and well-defined capital allocation policy

Allison Transmission at a Glance

LTM[1] Net Sales by End Market



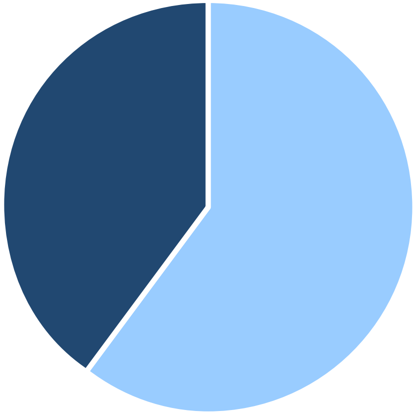
LTM[1] Net Sales: $2.1 billion

[1] LTM 9/30/17.

Global Market Leader

- The "de facto" standard in medium- and heavy-duty applications
  - Well established as standard in North America
- Increasing presence in emerging markets which today are predominantly manual
- Virtually no exposure to cyclical Class 8 line-haul tractor market

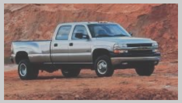
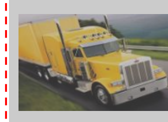
Global On-Highway Fully-Automatic Share(1)



(1) 2016 Units. Source: Allison and ACT Research.
(2) Majority of "Other" volume is in North American Class 4-5 truck and European bus.

Allison Transmission

North America On-Highway End Market

		Underserved	Core Addressable Market				Underserved	
	Class 1-3	Class 4-5	Motor Home	School Bus	Class 6-7	Class 8 Straight	Class 8 Metro	Class 8 Tractor (Linehaul)
Vehicles								
Weight (000s of lbs)	< 14 lbs	14 – 19 lbs	16 – 33 lbs	16 – 33 lbs	19 – 33 lbs	33 lbs+	33 lbs+	33 lbs+
2016 Industry Units Produced	7,272,574	89,797	21,208	36,231	89,330	69,752	49,799	108,796
2016 Allison Share	0%	3%	36%	92%	70%	63%	6%	0%

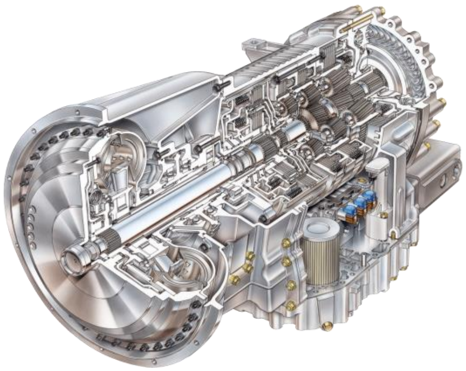
- ~ 30-40% of Allison's North America On-Highway market volume is driven by municipal spending, reducing end-market volatility
- Opportunity to further penetrate Class 4-5, following General Motors / Navistar agreement to re-enter[1] the medium-duty market, exclusively with the Allison fully-automatic transmission, expected in late 2018
- Opportunity in Class 8 Metro[2] market with purpose built TC-10 transmission

Note: Analysis excludes Allison's Transit/Coach Bus and Electric Hybrid Transit Bus volume.
Source: Class 1-3 from Wards 2016 Factory Sales North America; Core Addressable Market and Class 8 Tractor from Allison and ACT Research.

1. General Motors previously exited the medium-duty market in 2009.
2. "Metro" is a term for tractors that are used in urban environments, currently representing ~30% of the Class 8 tractor market.

Strategic Priorities

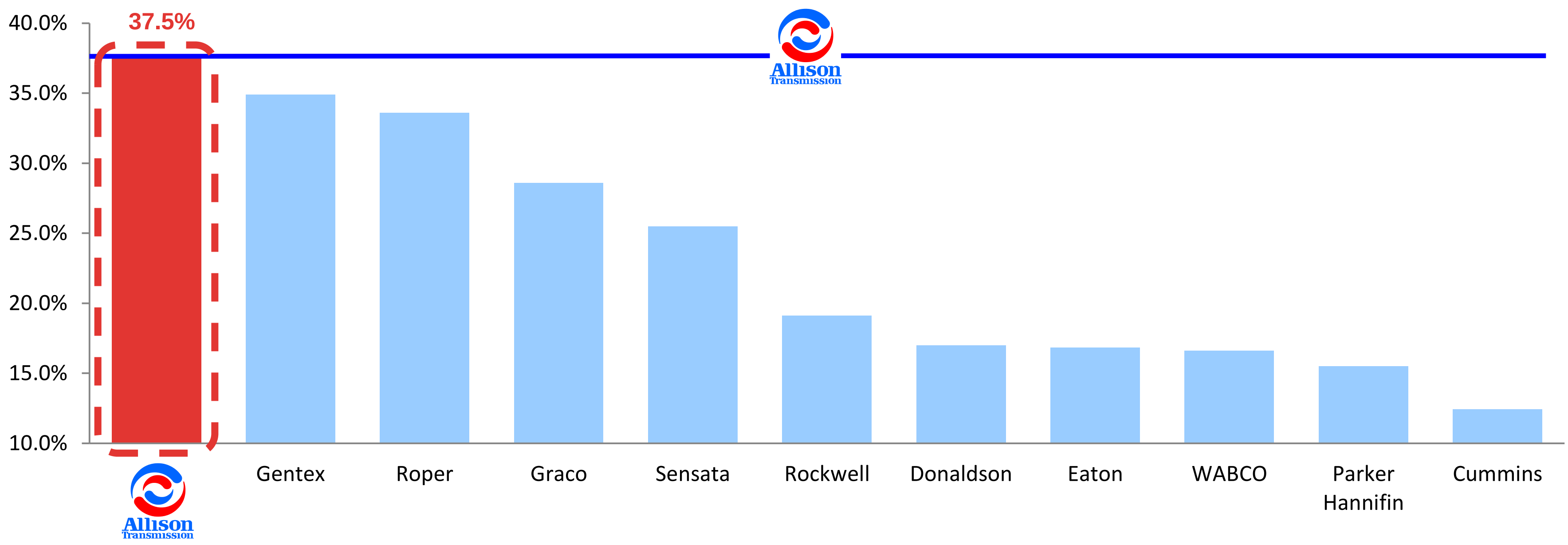
- Expand global market leadership
  - Capitalize on improved developed markets demand
  - New vocational offerings
- Emerging markets penetration
  - Vocational ladder strategy
  - Increase number of vehicle releases
- Continued focus on new technologies and product development
  - Address markets adjacent to core
  - Leverage core technologies for new products with minimal investment
  - Advanced fuel efficient and emissions reduction technologies
  - Alternative fuels and electrification initiatives
- Deliver strong financial results
  - Exploit capacity availability and asset light business model
  - Focus on margin sustainment
  - Earnings growth and cash flow generation
  - Well-defined capital allocation policy



Allison Transmission

Exceptional EBITDA Margin

EBITDA Margin(1)



(1) LTM 9/30/2017 EBITDA provided by FactSet. EBITDA included above may not be consistent with such entity's reported EBITDA or Adjusted EBITDA, if available.
See appendix for comments regarding the presentation of non-GAAP financial information.

Premier Industrial Company

- Global Market Leader
- Premier Brand and End User Value Proposition
- Technology Leadership - The Allison Advantage
- Diverse End Markets
- Multiple Organic Growth Opportunities
- Strong Cash Flow Generation with Well-Defined Capital Allocation Policy

A Recognized Leader and Respected Brand

- Over 100 year history of providing high-quality innovative products and demonstrated value to end users

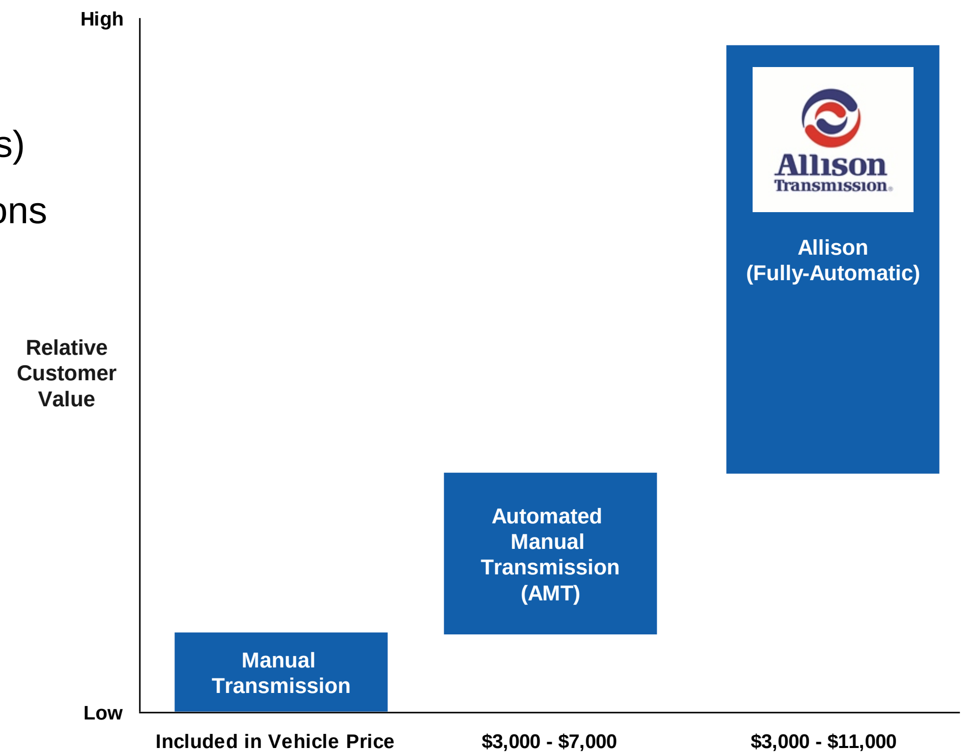
- The Allison brand is associated with:
  - High Quality
  - Reliability
  - Durability
  - Vocational Value and Expertise
  - Technological Leadership
  - Superior Customer Service
  - Attractive Total Lifecycle Value

End Users Frequently Request Allison Transmissions by Name and Pay a Premium for Them

End User Value Proposition

- Advantages of a fully-automatic Allison Transmission
  - Productivity (acceleration)
  - Maintenance Savings (life cycle costs)
  - Fuel Efficiency and Reduced Emissions
  - Driver Skillset / Wages
  - Training (time, cost)
  - Shift Quality
  - Safety
  - Residual Value

End Users are Willing to Pay a Premium Price for Allison



Payback period for a premium Allison Transmission averages less than 3 years

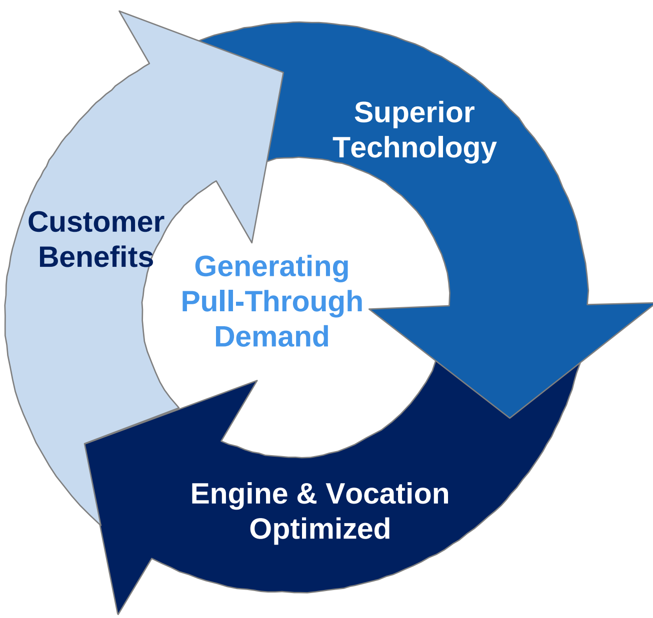
Technology Leadership – The Allison Advantage

- Allison employs proprietary and patented technology developed over many decades and more than six million units
- Technology is matched to the selected engine and optimized for the intended vocation
- Software algorithms are individually tailored to maximize performance in thousands of duty cycles
- Customers benefit from superior performance and lower life cycle costs

Allison Advantage

Lower Vehicle Life Cycle Costs

Superior Performance



Technology Differentiators

Proprietary and patented technology developed over many decades and over 6 million units

Allison Advantage

Properly Matched to Selected Engine

Optimized for Intended Vocation

Very Diverse End Markets

Global

On-Highway

Distribution

Coca-Cola, Pepsi, FedEx, Penske Truck Leasing, UPS

Emergency

BAA
British Airport Authority
Fire Department City of New York

Motorhome

THOR INDUSTRIES, INC.
WINNEBAGO INDUSTRIES
PREVOST

Rugged Duty

VEOLIA ENVIRONMENTAL SERVICES
The City of New York Department of Sanitation
WM WASTE MANAGEMENT

School/Shuttle Bus

First Student

Transit

New Delhi Transit
BMCT
Beijing City Transit

Electric Hybrid Transit Bus

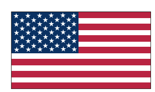
SEPTA
M metro
King County METRO

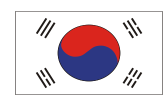
Off-Highway

HALLIBURTON
VOLVO Construction Equipment
TEREX
JEREH

Defense

Medium- and Heavy-Tactical





Aftermarket

Parts, Support Equipment & Other

Retran®

Allison Transmission

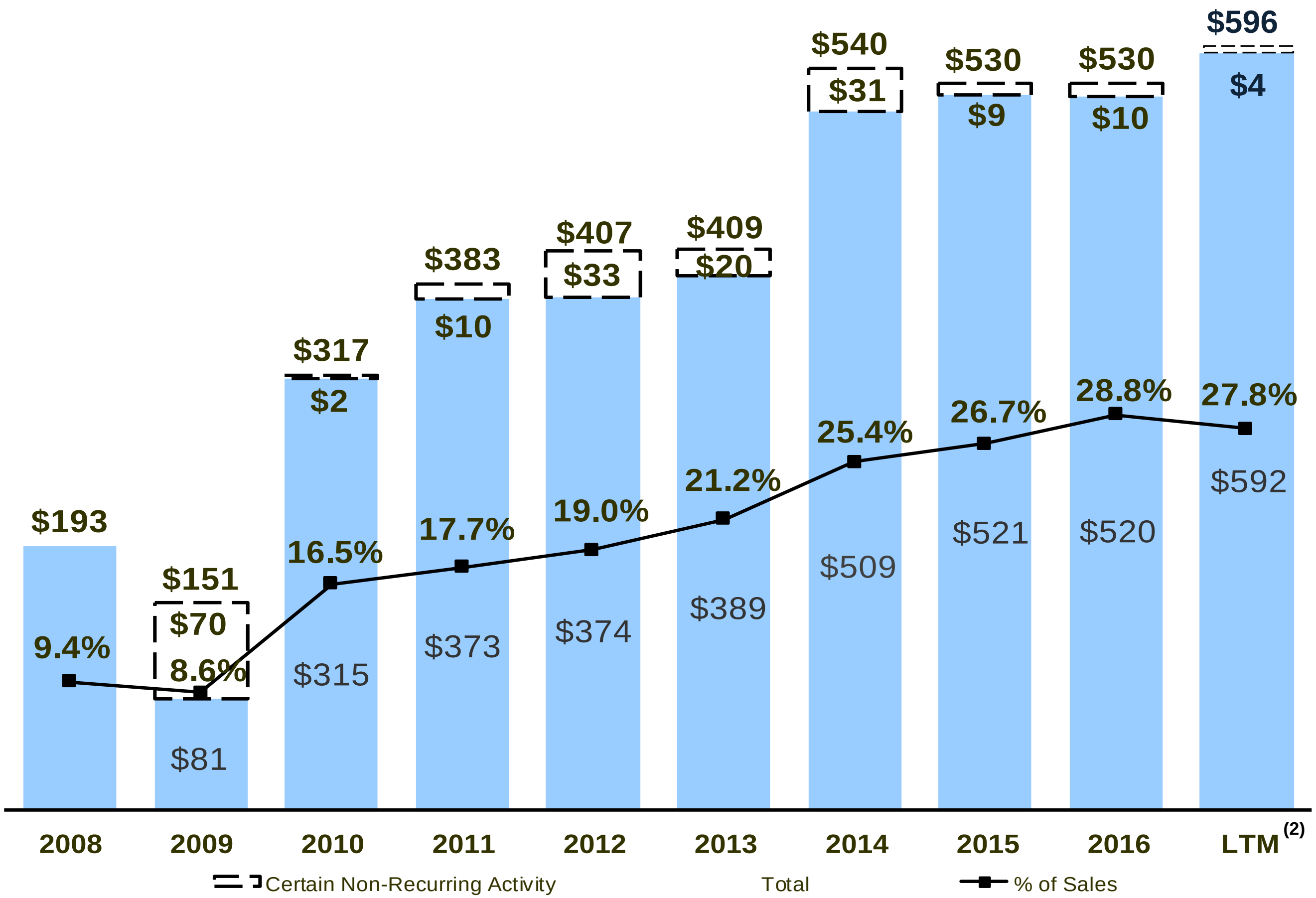
Over 50 Year Relationship with Industry-Leading OEMs

North America	On-Highway	PACCAR, NAVISTAR®, BLUE BIRD, SPARTAN, Mack, HINO, OSHKOSH, FREIGHTLINER, Pierce, AUTOCAR
	Electric Hybrid Transit Bus	GILLIG, NEW FLYER, MOTOR COACH INDUSTRIES, NOVA BUS
	Off-Highway	HITACHI, PACCAR, Schlumberger, HALLIBURTON, BJ
Outside North America	On-Highway	DAIMLER, KING LONG, RENAULT TRUCKS, Optare, MAN, SCANIA, SOLARIS, HINO, DAF, VOLVO, 陕汽重卡, VANHOOL, TATA, DFM 东风汽车公司 DONGFENG MOTOR CORPORATION
	Off-Highway	BELAZ, JEREH, BELL, Atlas Copco, VOLVO Construction Equipment, TEREX, beml NEW FRONTIERS. NEW DREAMS, SANY
Defense	Medium- and Heavy-Tactical	U.S. Government, OSHKOSH®, BAE SYSTEMS, GENERAL DYNAMICS, NAVISTAR®

Significant Cash Flow Generation

Adj. Free Cash Flow Generation(1)

($ in millions)

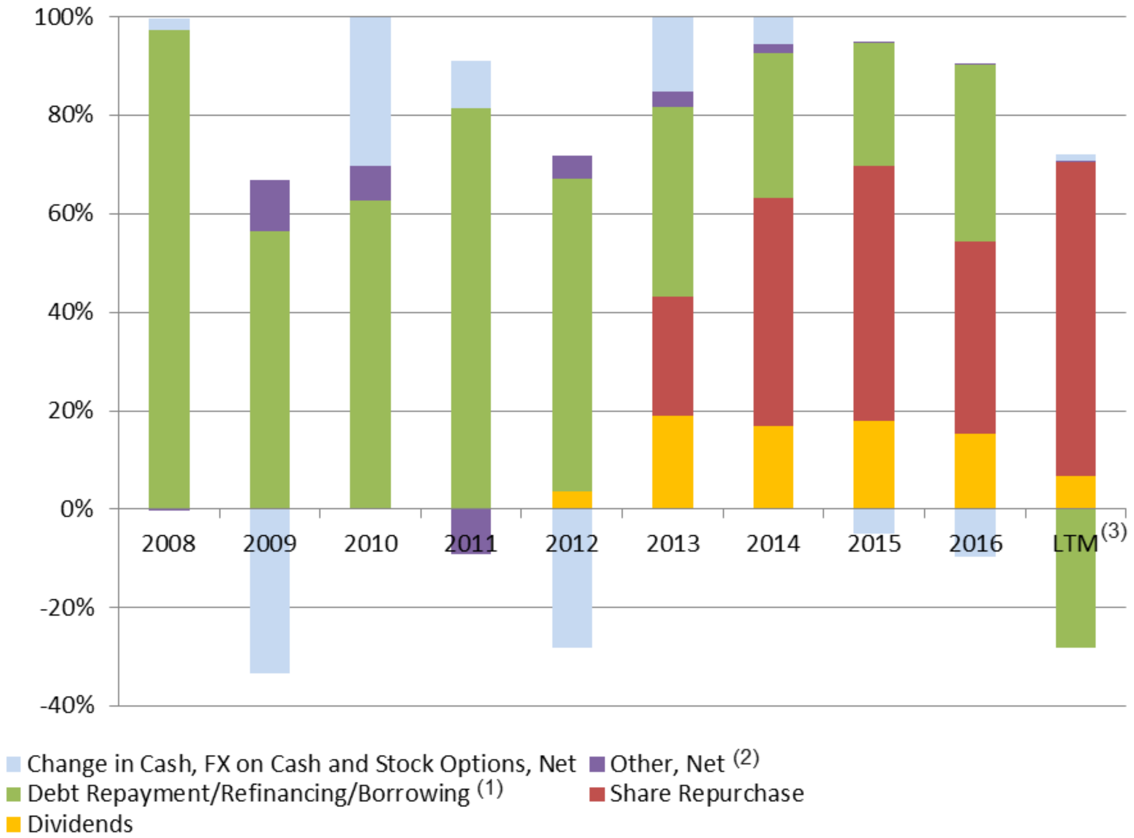


Note: See appendix for comments regarding the presentation of non-GAAP financial information.
(1) See appendix for a reconciliation of Adjusted Free Cash Flow.
(2) LTM 9/30/17.

Capital Allocation Priorities

- Organic revenue and earnings growth
- New product and technology development
- Prudent balance sheet management
- Return capital to shareholders
- Low-cost, flexible and pre-payable debt structure with long dated maturities

Free Cash Flow Utilization



Well-Defined Capital Allocation Policy

- Realize returns from completed investments in global commercial capabilities, and new product and technology development
- Prudent balance sheet management
- Return capital to shareholders
  - Quarterly dividend
  - $1.5 billion share repurchase authorization thru Dec 2019
- Low-cost, flexible and pre-payable debt structure with long dated maturities

Note: See appendix for comments regarding the presentation of non-GAAP financial information.
(1) Net of change in Cash & Cash Equivalents
(2) 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. All periods adjusted for collateral for interest rate derivatives, purchase of available-for-sale securities, proceeds from disposal of assets, investments in technology-related initiatives and license expenses, and fee to terminate services agreement with Sponsors.
(3) LTM 9/30/2017.

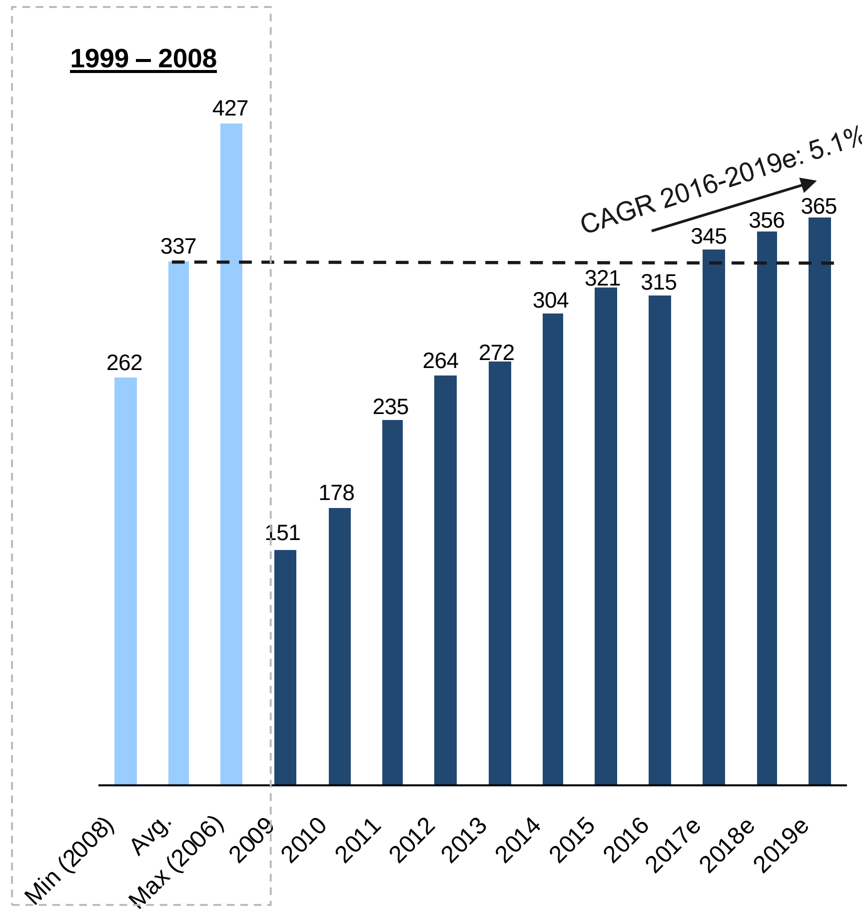
Multiple Organic Growth Opportunities

- Developed Markets Opportunities
- Increase Penetration of Fully-Automatic Transmissions
- Accelerate Adoption in Emerging Markets
- Global Off-Highway Growth Opportunities
- Leading Technology and Innovation
- Diverse Propulsion Solutions

Developed Markets Opportunities

- Production has rebounded from cyclical lows with moderate growth fueled by pick-up in economic activity
  - Housing recovery, increased construction and energy activities driving greater demand for medium and heavy duty trucks
  - Lack of near term significant EPA emission changes reduces cyclicality
- Allison's growth is also supported by
  - Pent up demand from deferred purchases
  - Continued demand for fuel efficient vehicles
- Significant opportunity in Class 4-5 and Class 8 Metro markets
  - GM re-entering medium-duty market, exclusively with Allison transmission
  - TC10 transmission, purpose built for the Class 8 Metro market

North America Production in Allison's Core Addressable Market (units in 000s)(1)



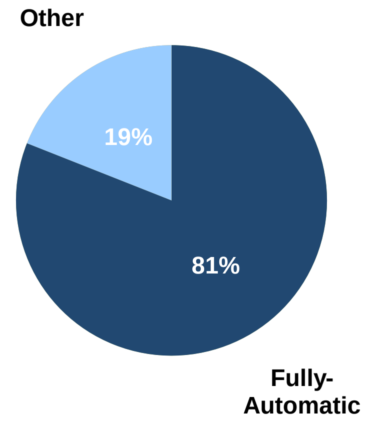
(1) Source: ACT Research, October 2017. Includes: Class 4 thru 8 less Class 8 Tractor & Class 8 Straight with Sleeper. 2017e: Total 517,741 less Class 8 Tractor of 171,630 less Class 8 Straight with Sleeper of 1,317.

Increase Penetration of Fully-Automatic Transmissions

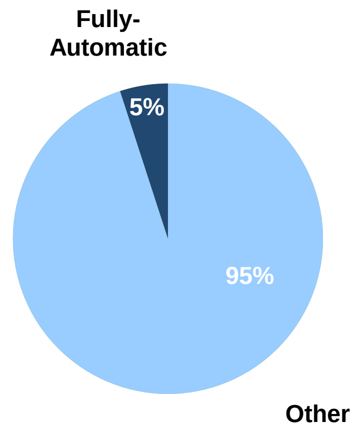
- Ongoing need for productivity improvements
  - Better acceleration and shorter travel time result in increased miles and revenue
  - Improved fuel efficiency and increased vehicle uptime
- Focus on reducing life cycle costs
  - Lower maintenance and fuel expense
  - Increased vehicle residual value
- Micro and demographic trends
  - Ease of operation increases pool of qualified drivers
  - Less driver training, lower turnover and improved safety
- Underserved North America market segments

Penetration of Fully-Automatic Transmissions On-Highway

North America(1)



Outside North America(2)(3)



Source: Allison.
(1) Includes Class 4-7 trucks, Class 8 straight trucks, buses (school, conventional transit, shuttle and coach) and motorhomes.
(2) Includes medium- and heavy-duty commercial vehicles.
(3) 2016 Outside-North America On-Highway Transmission Net Sales by Region: EMEA $171M, Asia Pacific-Japan $61M, Asia Pacific-China $53M, South America $18M, and India $2M.

Accelerate Adoption in Emerging Markets – China

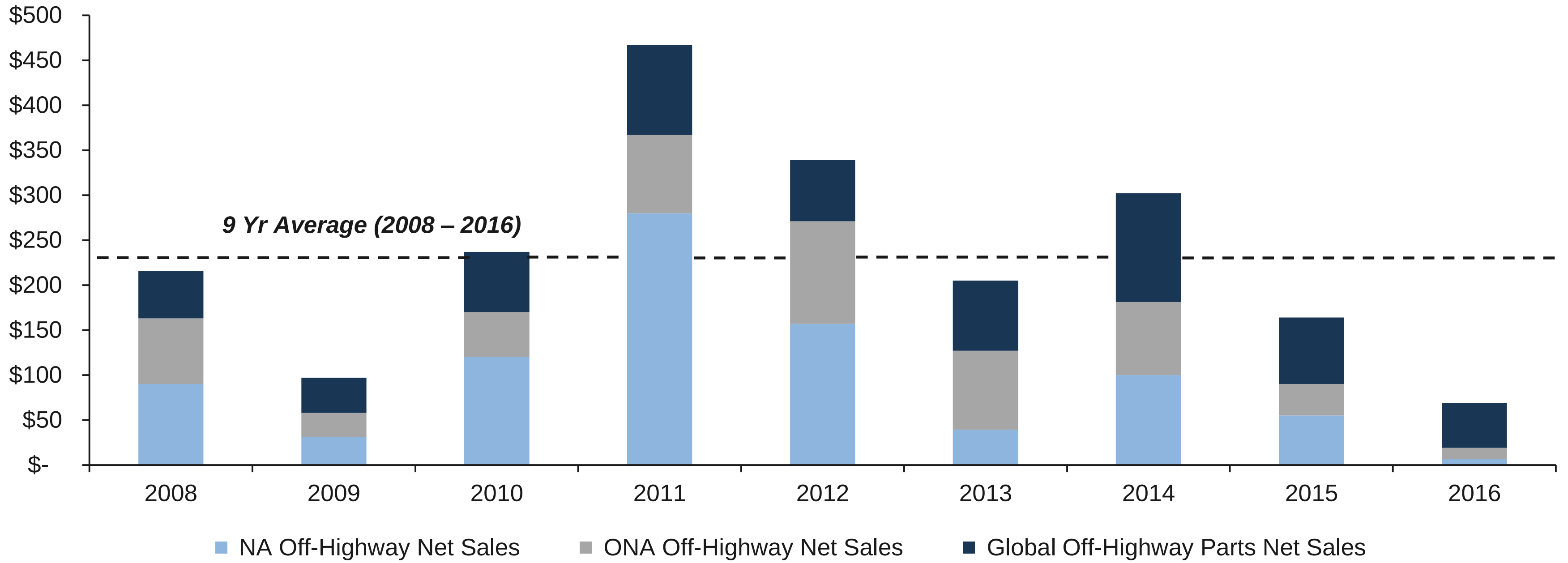
- Allison is the #1 supplier of fully-automatic transmissions in China as a result of targeting specific vocations
  - Substantial installed base of over 65,000 transmissions in China
- Several million commercial vehicles produced annually of which approximately 250,000 are addressable by Allison
  - Allison's existing bus presence serves as entry point for incremental penetration into a market in which Fully-Automatic penetration is less than 5%

- Significant growth opportunities by targeting a wide range of vocational truck applications
  - Government emphasis on equipment modernization for mining, rescue operations, school buses and other applications
  - Construction and energy sectors
- OEM release activities supported by focused end user initiatives resulting in fleets requesting Allison by name

Allison's China Truck Vocational Focus

Global Off-Highway Growth Opportunities

- Energy Sectors
  - Considerable end market cyclicality, recovering from trough levels
  - Multiple opportunities in exploration, fracturing and oil & gas support
  - Introduction of new high horsepower hydraulic fracturing transmissions
- Mining and Construction
  - Considerable end market cyclicality, currently at trough levels
  - North America, Europe, Middle East, Africa and China
  - Increasing urbanization in emerging markets driving increased construction activity and raw material demand
- High Horsepower Hydraulic Fracturing Transmissions
  - New Oil Field Series (OFS) models based on six decades of industry expertise
  - Addresses global market demand for higher horsepower, extended duty cycles, lower days-to-depth and higher recovery factors



Leading Technology and Innovation

FuelSense® 2.0

- Proprietary software launched in 2017, ideally suited for shift dense vocations such as transit, school bus, refuse, construction and distribution
- DynaActive Shifting utilizes learning algorithm to continuously find the ideal balance of fuel economy and performance
- Neutral at Stop trims fuel consumption and emissions by reducing load on the engine when the vehicle is stopped
- Acceleration Rate Management limits vehicle acceleration to a customized calibrated rate

Nine Speed Transmission

- New design targeted for release in 2020, leverages the proven reliability of the Allison six-speed 2000 Series™
- New benchmark in fuel efficiency and reduced emissions standards
- Significant fuel savings due to deep first gear ratio, industry leading ratio coverage and advanced engine stop-start capability
- Improved driver comfort and acceleration, allowing for a smoother launch and increased productivity

xFE Models

- New transmissions with redesigned torque converter damper, optimized gear ratios and coupled with FuelSense Max™ packages
- Represents the latest in fuel savings innovation
  - Fuel savings of up to 7% over comparatively equipped models with FuelSense features
  - Best fuel economy from an automatic transmission
- Available in the 1000, 2000 and 3000 Series fully-automatic transmission models

TC10®

- Ten-speed fully-automatic transmission targeted at Class 8 tractors primarily serving urban markets
  - Addressable annual market size of ~60k units
  - Historically a “manual” market underserved by Allison’s fully-automatic product portfolio
- Optimizes acceleration and eliminates power interrupt that occurs in manual and automated manual shifting
- In March 2017 PACCAR announced availability of the TC10 in Kenworth and Peterbilt models

Average Annual Spend over $110 Million in Product-Related Research and Development Since 2007

FuelSense is a registered trademark of Allison Transmission Inc.

Diverse Propulsion Solutions

- Allison's addressable market is a complex application space due to vocational fragmentation, requiring a range of propulsion solutions where Allison is a natural supplier
  - Internal Combustion Engines
  - Alternative Fuels with proven performance and a funded infrastructure
  - Electric Hybrid Systems
  - Plug-in Options
  - Full Electric Solutions
- The combination of our Electrification Experience and Expertise, Vocational Knowledge, and Product Planning discipline uniquely positions Allison to have:
  - the right products
  - for the right customers
  - at the right time

Allison Electric Hybrid 40 / 50 EP™

- Since 2003, Allison's electric hybrid propulsion system for transit buses has proven to be among the most dependable and efficient electric hybrid systems at work anywhere in the world
- Allison's second generation electric hybrid propulsion system features full electric capabilities, and is engineered for regenerative braking, converting a vehicle's kinetic energy into stored electric power to propel the vehicle or to operate auxiliaries
- Allison is the lead electrification and system integrator, controlling the entire powertrain including the engine
- To date, Allison has sold more electric hybrid systems for commercial vehicles than any other company in the world
  - Approximately 8,000 Allison Hybrids delivered worldwide
  - In 230 cities worldwide
  - In 43 of 50 states in the United States
  - 41,078,950 gallons (155,500,741 liters) of fuel saved
  - 406,465 metric tons of CO_2 prevented
- Released with all North American Transit OEMs
  - Purpose built architecture and design
  - Superior gradeability
  - Real world fuel economy gains and reduced emissions

Allison Transmission

Electrification Initiatives

- MAN Latin America, utilizing an Allison 2100 Series transmission in its Volkswagen e-Delivery truck
  - First fully electric truck developed in Brazil, expected to commence pilot fleet testing in 2018
  - Targeted for urban delivery, will be available in nine and eleven metric-ton gross vehicle weight models
  - Latest electric vehicle application to use Allison fully automatic transmissions to provide customers with reduced emissions solutions
  - Allison transmissions' multi-speed gearing effectively multiplies motor torque, allowing for the use of less-expensive and lighter electric motors
- Terberg fully electric terminal tractor equipped with an Allison 3000 Series transmission
  - Operating throughout Europe since 2015
  - 100% pure electric truck uses an Allison fully automatic transmission to launch with a gross combination weight of up to 65 tons
  - Further utilizes the power take-off provision to drive the hydraulic pump, which saves an additional electric generator
- Equity stake in Odyne, a leading manufacturer of electric hybrid systems for medium and heavy-duty work trucks, along with a cooperation agreement to develop an exportable power system that can be utilized with our 1000, 2000, 3000, and 4000 Series transmissions
- Multiple OEM programs examining a variety of electrification concepts

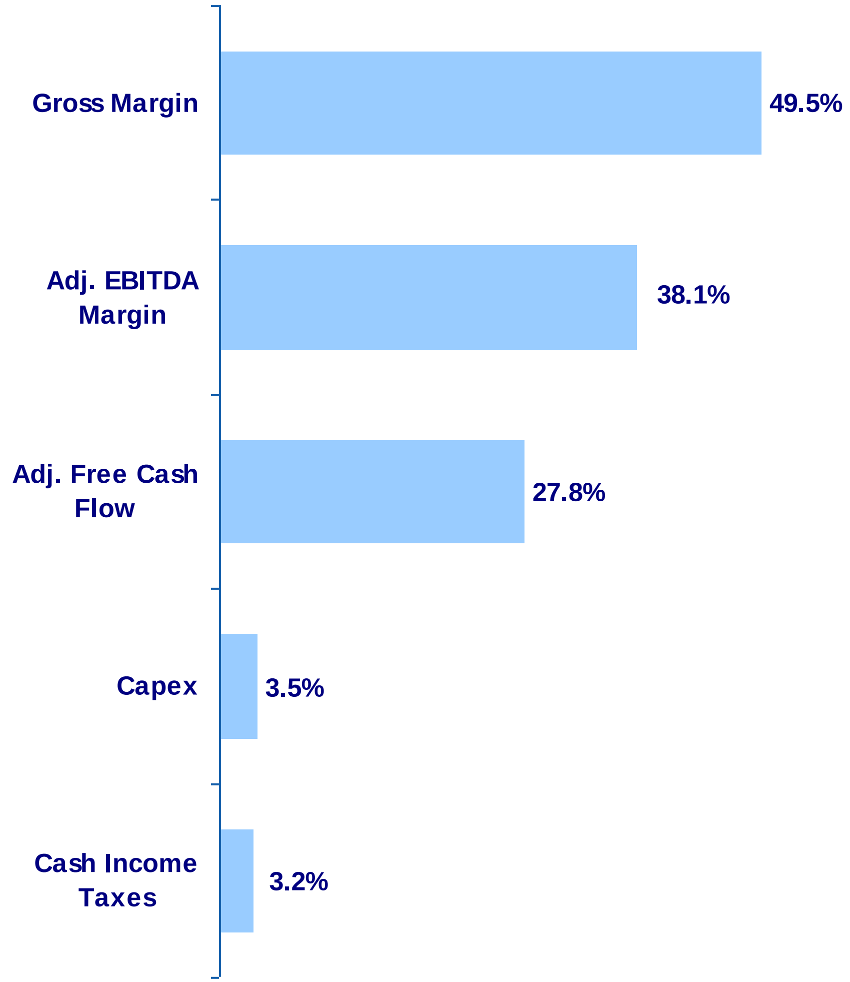
Financial Overview

Allison Financial Highlights

- Solid operating margins
  - End markets diversity
  - Premium vocational pricing model
  - Cost controls and productivity improvements
  - Multi-Tier UAW wage and benefits structure
- Low recurring capital expenditure requirements
- Valuable U.S. income tax shield
  - $0.5-$0.6bn present value
- Positioned for long-term cash earnings growth
  - Multiple growth opportunities in asset light business model
- Strong free cash flow

LTM(1) Financial Metrics

(% of Net Sales)

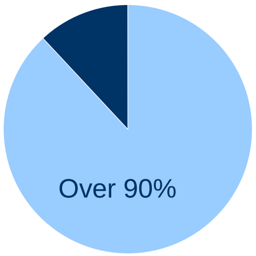


(1) LTM 9/30/17.

Note: See appendix for comments regarding the presentation of non-GAAP financial information.

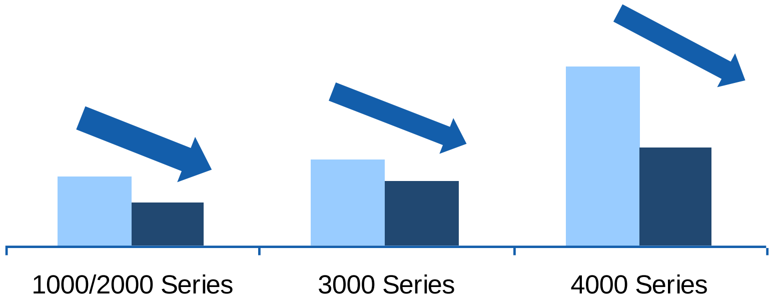
Solid Operating Margins

Long-Term Customer Supply Agreements



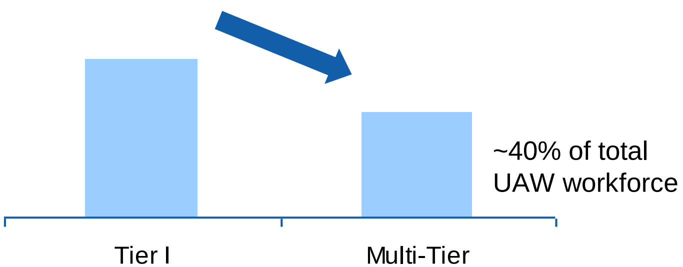
Over 90% of 2016 N.A. On-Highway Unit Volume was covered by long-term customer supply agreements

Manufacturing Efficiencies (hours/unit)



Hours Per Unit continue to decline

Workforce Optimization (cost/employee) [(1)]



Significant savings driven by retirement of Tier I workers; 600 hourly employees are retirement eligible (~45% of workforce)

International Manufacturing

India (~$103mm total investment)

- New facility constructed to better serve Asia-Pacific
- Phase I: In-sourced component manufacturing (Q3 2010)
- Phase II: Assembly of 1000/2000 Series (Q3 2012)

Hungary (~$17mm total investment)

- Relocated assembly of 3000/4000 Series (Q2 2011)

Source: Allison.
(1) As of 12/31/16.

Income Tax Attributes

Income Tax Attributes Overview

- Allison acquired from General Motors in August 2007
  - Asset deal structure
  - Step-up in basis for U.S. federal income tax purposes

Cash Income Taxes Paid 2008-2016 ($ millions)

2008	2009	2010	2011	2012	2013	2014	2015	2016
$4	$6	$2	$6	$11	$4	$5	$5	$13

- As of 12/31/2016 Allison had $1.8bn of unamortized intangible assets
  - Expect annual U.S. federal income tax deductions of $315mm through 2021 and $183mm in 2022

($ millions)	Total	2017	2018	2019	2020	2021	2022
Annual tax amortization	$1,758	$315	$315	$315	$315	$315	$183
Cash tax savings(1)	**653**	117	117	117	117	117	68

Results in present value tax savings of $505-$571mm(2)

(1) Assuming continued profitability and no limitations at an assumed 37% federal and state tax rate.
(2) Based on annual discount rate of 5-10%; includes amortization of intangibles.

Allison Transmission

Summary

- Allison Transmission is the global leader in the markets it serves
  - Premier fully-automatic transmission brand
  - Over 100 year operating history
- Strong financial position
  - Industry leading EBITDA margin
  - Asset light business model
  - Significant free cash flow generation
  - Returning capital to shareholders
- Substantial long-term growth opportunities
  - Expand global leadership
  - Penetrate emerging markets
  - Address underserved markets
  - Continuous product innovation

Guidance / Supplemental Financial Data

2017 Guidance Update

	Guidance	Commentary
Net Sales Change from 2016	21 to 22 percent	Full year 2017 net sales guidance reflects stronger demand for North America Off-Highway service parts, Global On-Highway products and Global Off-Highway products. Our full year 2017 net sales outlook also assumes price increases on certain products.
Adjusted EBITDA Margin	37.75 to 38.75 percent	
Adjusted Free Cash Flow ($ in millions)	$510 to $530	
CapEx ($ in millions) Maintenance New Products	 $85 $5 to $10	Subject to timely completion of development and sourcing milestones
Cash Income Taxes ($ in millions)	$105 to $115	

Historical Financial Summary

Financial Summary

In $ millions	Annual									LTM [1]
	2008	2009	2010	2011	2012	2013	2014	2015	2016	
Net Sales	$2,061	$1,767	$1,926	$2,163	$2,142	$1,927	$2,127	$1,986	$1,840	$2,143
% Growth	*(5.2%)*	*(14.3%)*	*9.0%*	*12.3%*	*(1.0%)*	*(10.0%)*	*10.4%*	*(6.7%)*	*(7.3%)*	*15.9%*
Adjusted EBITDA [2]	544	511	619	722	717	633	745	720	644	816
% Margin	*26.4%*	*28.9%*	*32.1%*	*33.4%*	*33.5%*	*32.8%*	*35.0%*	*36.3%*	*35.0%*	*38.1%*
Effective Cash Tax Rate [3]	NM	NM	*2.7%*	*3.9%*	*4.9%*	*1.4%*	*1.4%*	*1.8%*	*3.8%*	*12.7%*
Total CapEx	75	88	74	97	124	74	64	58	71	75
% of Net Sales [4]	*3.7%*	*5.0%*	*3.8%*	*4.5%*	*5.8%*	*3.9%*	*3.0%*	*2.9%*	*3.8%*	*3.5%*
Adj. Free Cash Flow	193	151	317	383	407	409	540	530	530	596
% of Net Sales	*9.4%*	*8.6%*	*16.5%*	*17.7%*	*19.0%*	*21.2%*	*25.4%*	*26.7%*	*28.8%*	*27.8%*

- Resiliency through the 2009 downturn, evidenced by increasing EBITDA margins and strong free cash flow generation
- Completed investments in global commercial capabilities, new product development and low-cost country manufacturing
- Strong free cash flow driven by high margins, asset light business model, and income tax attributes

Note: See appendix for comments regarding the presentation of non-GAAP financial information.

(1) LTM 9/30/17.
(2) Excluding technology-related license expenses: 2009 of $10 million, 2010 of $2 million, 2011 of $10 million, 2012 of $12 million, 2013 of $6 million, 2014 of $6 million.
(3) Effective cash tax rate defined as cash income taxes divided by income (loss) before taxes.
(4) 2011 is 2.7%, 2012 is 2.8%, 2013 is 3.2%, 2014 is 2.9%, 2015 is 2.9%, 2016 is 3.5% and LTM is 3.1% excluding Outside-North America manufacturing expansion and new products related.

Allison Quarterly Sales Summary

Quarterly Net Sales by End Market ($ millions)

	2012				2013				2014				2015				2016				2017		
Net Sales	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
NA On-Highway	$219	$217	$189	$188	$188	$216	$212	$210	$233	$243	$256	$256	$268	$277	$262	$252	$257	$264	$224	$217	$255	$299	$282
NA Hybrid Transit Bus	35	18	30	32	31	27	15	32	24	28	23	17	18	20	12	23	17	16	8	20	20	15	19
NA Off-Highway	74	44	22	17	8	8	9	14	12	23	30	36	22	10	12	11	5	1	1	0	1	5	17
Defense	77	80	74	74	57	58	52	35	34	49	35	38	25	29	34	25	25	28	25	37	27	30	35
ONA On-Highway	66	78	73	73	62	75	70	86	64	62	73	65	57	73	67	65	70	74	78	83	72	85	89
ONA Off-Highway	32	30	22	30	21	36	16	14	21	24	18	19	16	8	4	7	3	3	2	4	6	10	14
Parts, Support Equipment & Other	99	92	84	73	90	92	92	100	106	107	118	113	98	94	102	95	85	89	96	108	118	136	139
Total Net Sales	**$602**	**$559**	**$494**	**$487**	**$457**	**$512**	**$466**	**$491**	**$494**	**$536**	**$553**	**$544**	**$504**	**$511**	**$493**	**$478**	**$462**	**$475**	**$434**	**$469**	**$499**	**$580**	**$595**
	2012				2013				2014				2015				2016				2017		
Variance - Year over Year	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
NA On-Highway	$55	$28	($10)	$13	($31)	($1)	$23	$22	$45	$27	$44	$46	$35	$34	$6	($4)	($11)	($13)	($38)	($35)	($2)	$35	$58
NA Hybrid Transit Bus	(4)	(22)	2	5	(4)	9	(15)	0	(7)	1	8	(15)	(6)	(8)	(11)	6	(1)	(4)	(4)	(3)	3	(1)	11
NA Off-Highway	10	(26)	(54)	(53)	(66)	(36)	(13)	(3)	4	15	21	22	10	(13)	(18)	(25)	(17)	(9)	(11)	(11)	(4)	4	16
Defense	(7)	11	(7)	4	(20)	(22)	(22)	(39)	(23)	(9)	(17)	3	(9)	(20)	(1)	(13)	0	(1)	(9)	12	2	2	10
ONA On-Highway	9	1	0	3	(4)	(3)	(3)	13	2	(13)	3	(21)	(7)	11	(6)	0	13	1	11	18	2	11	11
ONA Off-Highway	9	9	(2)	11	(11)	6	(6)	(16)	0	(12)	2	5	(5)	(16)	(14)	(12)	(13)	(5)	(2)	(3)	3	7	12
Parts, Support Equipment & Other	13	2	(9)	(12)	(9)	0	8	27	16	15	26	13	(8)	(13)	(16)	(18)	(13)	(5)	(6)	13	33	47	43
Total Net Sales	**$85**	**$3**	**($80)**	**($29)**	**($145)**	**($47)**	**($28)**	**$4**	**$37**	**$24**	**$87**	**$53**	**$10**	**($25)**	**($60)**	**($66)**	**($42)**	**($36)**	**($59)**	**($9)**	**$37**	**$105**	**$161**
	2012				2013				2014				2015				2016				2017		
Variance - Sequential	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
NA On-Highway	$44	($2)	($28)	($1)	$0	$28	($4)	($2)	$23	$10	$13	$0	$12	$9	($15)	($10)	$5	$7	($40)	($7)	$38	$44	($17)
NA Hybrid Transit Bus	8	(17)	12	2	(1)	(4)	(12)	17	(8)	4	(5)	(6)	1	2	(8)	11	(6)	(1)	(8)	12	0	(5)	4
NA Off-Highway	4	(30)	(22)	(5)	(9)	0	1	5	(2)	11	7	6	(14)	(12)	2	(1)	(6)	(4)	0	(1)	1	4	12
Defense	7	3	(6)	0	(17)	1	(6)	(17)	(1)	15	(14)	3	(13)	4	5	(9)	0	3	(3)	12	(10)	3	5
ONA On-Highway	(4)	12	(5)	0	(11)	13	(5)	16	(22)	(2)	11	(8)	(8)	16	(6)	(2)	5	4	4	5	(11)	13	4
ONA Off-Highway	13	(2)	(8)	8	(9)	15	(20)	(2)	7	3	(6)	1	(3)	(8)	(4)	3	(4)	0	(1)	2	2	4	4
Parts, Support Equipment & Other	14	(7)	(8)	(11)	17	2	0	8	6	1	11	(5)	(15)	(4)	8	(7)	(10)	4	7	12	10	18	3
Total Net Sales	**$86**	**($43)**	**($65)**	**($7)**	**($30)**	**$55**	**($46)**	**$25**	**$3**	**$42**	**$17**	**($9)**	**($40)**	**$7**	**($18)**	**($15)**	**($16)**	**$13**	**($41)**	**$35**	**$30**	**$81**	**$15**

Appendix: Non-GAAP Financial Information

Non-GAAP Financial Information

We use Adjusted EBITDA and Adjusted EBITDA margin to measure our operating profitability. We believe that Adjusted EBITDA and Adjusted EBITDA margin provide management, investors and creditors with useful measures of the operational results of our business and increase the period-to-period comparability of our operating profitability and comparability with other companies. Adjusted EBITDA margin is also used in the calculation of management's incentive compensation program. The most directly comparable U.S. generally accepted accounting principles ("GAAP") measure to Adjusted EBITDA is Net income. Adjusted EBITDA is calculated as the earnings before interest expense, income tax expense, amortization of intangible assets, depreciation of property, plant and equipment and other adjustments as defined by our debt agreement. Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by net sales.

We use Adjusted free cash flow to evaluate the amount of cash generated by our business that, after the capital investment needed to maintain and grow our business and certain mandatory debt service requirements, can be used for repayment of debt, stockholder distributions and strategic opportunities, including investing in our business and strengthening our balance sheet. We believe that Adjusted free cash flow enhances the understanding of the cash flows of our business for management, investors and creditors. Adjusted free cash flow is also used in the calculation of management's incentive compensation program. The most directly comparable GAAP measure to Adjusted free cash flow is Net cash provided by operating activities.

Non-GAAP Reconciliations (1 of 2)

Adjusted EBITDA reconciliation

$ in millions, Unaudited	For the year ended December 31,									Last Twelve months ended September 30,
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net income	**($328)**	**($324)**	**$30**	**$103**	**$514**	**$165**	**$229**	**$182**	**$215**	**$350**
plus:										
Interest expense, net	386	235	277	217	151	133	138	114	101	95
Income tax expense (benefit)	37	41	54	48	(298)	101	139	107	126	187
Technology-related investment expenses	—	—	—	—	14	5	2	—	1	3
Trade name impairments	180	190	—	—	—	—	—	80	—	—
Impairments of long-lived assets	—	—	—	—	—	—	15	1	—	—
Enviromental remediation	—	—	—	—	—	—	—	14	—	—
Amortization of intangible assets	156	156	154	152	150	105	99	97	92	90
Depreciation of property, plant and equipment	107	106	100	104	103	99	94	88	84	81
(Gain) loss on redemptions and repayments of long-term debt	(21)	(9)	(3)	16	22	1	1	1	—	—
Stockholder activism expenses	—	—	—	—	—	—	—	—	4	—
Dual power inverter module extended coverage	2	11	(2)	—	9	(2)	1	(2)	1	(2)
UAW Local 933 signing bonus	4	—	—	—	9	—	—	—	—	—
Unrealized (gain) loss on commodity hedge contracts	—	(6)	—	7	(1)	2	(1)	1	(2)	—
Unrealized loss (gain) on foreign exchange	—	—	—	—	—	2	5	1	1	1
Expenses related to long-term debt refinancing	—	—	—	57	—	—	—	25	12	—
Restructuring charges	16	48	—	—	—	1	1	—	—	—
Employee stock compensation	7	7	8	8	6	14	15	10	9	11
Other, net[(1)]	(2)	46	(1)	—	26	1	1	1	—	—
Adjusted EBITDA	**$544**	**$501**	**$617**	**$712**	**$705**	**$627**	**$739**	**$720**	**$644**	**$816**
Adjusted EBITDA excluding technology-related license expenses	**$544**	**$511**	**$619**	**$722**	**$717**	**$633**	**$745**	**$720**	**$644**	**$816**
Net Sales	**$2,061**	**$1,767**	**$1,926**	**$2,163**	**$2,142**	**$1,927**	**$2,127**	**$1,986**	**$1,840**	**$2,143**
Adjusted EBITDA margin	**26.4%**	**28.4%**	**32.0%**	**32.9%**	**32.9%**	**32.5%**	**34.7%**	**36.2%**	**35.0%**	**38.1%**
Adjusted EBITDA margin excl technology-related license expenses	**26.4%**	**28.9%**	**32.1%**	**33.4%**	**33.5%**	**32.8%**	**35.0%**	**36.3%**	**35.0%**	**38.1%**

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

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Non-GAAP Reconciliations (2 of 2)

Adjusted Free Cash Flow reconciliation

$ in millions, Unaudited	For the year ended December 31,									Last twelve months ended September 30,
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net Cash Provided by Operating Activities	**$268**	**$169**	**$389**	**$469**	**$498**	**$464**	**$573**	**$580**	**$591**	**$667**
(Deductions) or Additions:										
Long-lived assets	(75)	(88)	(74)	(97)	(124)	(75)	(64)	(58)	(71)	(75)
Fee to terminate services agreement with Sponsors	—	—	—	—	16	—	—	—	—	—
Technology-related license expenses	—	9	2	10	12	6	6	—	—	—
Stockholder activism expenses	—	—	—	—	—	—	—	—	4	—
Excess tax benefit from stock-based compensation	—	—	—	—	5	14	25	8	6	4
2009 Non-Recurring Activity (1)	—	61	—	—	—	—	—	—	—	—
Adjusted Free Cash Flow	**$193**	**$151**	**$317**	**$383**	**$407**	**$409**	**$540**	**$530**	**$530**	**$596**
Net Sales	**$2,061**	**$1,767**	**$1,926**	**$2,163**	**$2,142**	**$1,927**	**$2,127**	**$1,986**	**$1,840**	**$2,143**
Adjusted Free Cash Flow (% to Net Sales)	**9.4%**	**8.6%**	**16.5%**	**17.7%**	**19.0%**	**21.2%**	**25.4%**	**26.7%**	**28.8%**	**27.8%**

(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.

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