Q4 2012 Earnings Release
February 19, 2013

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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, 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

- **Q4 2012 Performance**
- **2013 Guidance**

Q4 2012 Performance Summary

($ in millions)	Q4 2012	Q4 2011	% Variance
Net Sales	$487	$516	(5.6%)
Gross Margin %	39.9%	43.1%	(320 bps)
Adjusted Net Income [1]	$46	$52	(12.6%)
Adjusted Free Cash Flow [1]	$82	$30	171.0%

Commentary

Net Sales: the decrease was principally driven by reduced demand for North America Off-Highway transmission products and service parts due to continued weakness in natural gas pricing. Partially offsetting these declines were increased net sales in the global On-Highway and Outside North America Off-Highway end markets and price increases on certain products. Strength in the Outside North America Off-Highway end market was principally driven by higher demand in the energy and mining sectors.

Gross Margin: excluding $15 million of costs and charges to conclude a new five-year labor agreement with the UAW Local 933 the gross margin decreased 30 bps.

Adjusted Net Income: the decrease was principally driven by decreased net sales, $16 million of costs and charges to conclude a new five-year labor agreement with the UAW Local 933, a $9 million product warranty charge for specific product issues and higher product initiatives spending partially offset by favorable material costs, price increases on certain products, reduced global commercial spending activities and decreased cash interest expense as a result of debt refinancing and repayments.

Adjusted Free Cash Flow: the increase was principally driven by increased net cash provided by operating activities and reduced capital expenditures. The decrease in capital expenditures was principally driven by prior year spending for the India expansion and the timing of investments in productivity and replacement programs partially offset by increased product initiatives spending.

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

Q4 2012 Sales Performance

($ in millions)

End Markets	Q4 2012	Q4 2011	% Variance	Commentary
North America On-Hwy	$188	$175	7%	Increased commercial vehicle production
North America Hybrid-Propulsion Systems for Transit Bus	$32	$27	19%	Timing of orders
North America Off-Hwy	$17	$70	(76%)	Decreased demand from hydraulic fracturing applications due to weakness in natural gas pricing
Military	$74	$70	6%	Increased wheeled product requirements for several programs partially offset by lower tracked products demand
Outside North America On-Hwy	$73	$70	4%	Strength in China partially offset by weakness in Latin America while Europe was flat
Outside North America Off-Hwy	$30	$19	58%	Stronger demand from the energy and mining sectors
Service Parts, Support Equipment & Other	$73	$85	(14%)	Reduced demand for North America Off-Hwy and On-Hwy service parts partially offset by price increases on certain products
Total	**$487**	**$516**	**(6%)**	

Q4 2012 Financial Performance

($ in millions)	Q4 2012	Q4 2011	$ Var	% Var	Commentary
Net Sales	$487.0	$516.1	($29.1)	(5.6%)	Decreased demand for North America Off-Highway and Service Parts, Support Equipment & Other products partially offset by increased demand for North America On-Highway, Outside North America Off-Highway, North America Hybrid-Propulsion Systems for Transit Bus, Military, Outside North America On-Highway products and price increases on certain products
Cost of Sales	$292.8	$293.7	$0.9	0.3%	
Gross Profit	$194.2	$222.4	($28.2)	(12.7%)	Decreased net sales and $15 million of costs and charges to conclude a new five-year labor agreement with the UAW Local 933 partially offset by favorable material costs and price increases on certain products
Operating Expenses					
Selling, general and administrative expenses	$112.0	$109.9	($2.1)	(1.9%)	Product warranty charge of $9 million and UAW Local 933 contract signing bonus charge of $1 million partially offset by reduced global commercial spending activities
Engineering – research and development	$28.1	$26.0	($2.1)	(8.1%)	Increased product initiatives spending
Total operating expenses	$140.1	$135.9	($4.2)	(3.1%)	
Operating Income	$54.1	$86.5	($32.4)	(37.5%)	
Interest Expense, net	($35.6)	($33.4)	($2.2)	(6.6%)	Lower favorable mark-to-market adjustments for interest rate derivatives and increased Term B Loan margins due to refinancing partially offset by the favorable impact of debt repayments and repurchases
Other Income (Expense), net	$2.6	($3.3)	$5.9	178.8%	Increased grant income and reduction in loss associated with debt redemptions
Income Before Income Taxes	$21.1	$49.8	($28.7)	(57.6%)	Higher U.S. taxable income
Income Tax Expense	($9.9)	($5.3)	($4.6)	(86.8%)	
Net Income	$11.2	$44.5	($33.3)	(74.8%)	
Diluted Earnings Per Share	$0.06	$0.24	($0.18)	(75.0%)	2012: 186.2M shares; 2011: 183.3M shares
Adjusted EBITDA[1]	$131.9	$156.2	($24.3)	(15.6%)	
Adjusted Net Income[1]	$45.8	$52.4	($6.6)	(12.6%)	

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

Q4 2012 Cash Flow Performance

($ in millions)	Q4 2012	Q4 2011	$ Variance	% Variance	Commentary
Net Cash Provided by Operating Activities	$112	$72	$40	55.9%	Reduced Operating Working Capital investment principally driven by lower net sales, conclusion of 2012 labor negotiations, debt repayments and accruals for labor negotiations charges partially offset by lower net income
CapEx	$30	$42	($12)	(27.9%)	Completion of India facility expansion (Q4 2011) and timing of investments in productivity and replacement programs partially offset by product initiatives spending
Adjusted Free Cash Flow (1)	$82	$30	$52	171.0%	Increased net cash provided by operating activities and reduced capital expenditures

($ in millions)	Q4 2012	Q4 2011	$ Variance	% Variance	Commentary
Operating Working Capital(2) Percentage of LTM Sales	8.8%	8.7%	N/A	10 bps	
Cash Paid for Interest	$47	$68	($21)	(31.3%)	Reduced Sr. Notes interest partially offset by Sr. Secured Credit Facility refinancing
Cash Paid for Income Taxes	$2	$1	$1	149.3%	Increased taxable income

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

2013 Guidance - End Markets Commentary

Allison expects first quarter net sales to be significantly lower than the same period in 2012 driven by considerably lower demand in the North America energy sector's hydraulic fracturing market, previously considered reductions in Military net sales and weaker Global On-Highway end markets entering 2013. We expect that the majority of the full year 2013 net sales reduction implied by the midpoint of our guidance will occur in the first quarter followed by growth in the Global On-Highway end markets for the balance of the year.

- **North America On-Highway**
  - Moderated market recovery rate: somewhat elevated year end 2012 vehicle retail inventory levels, November 2012 thru January 2013 Allison order rates down year over year and OEMs reducing take rates/adding downtime in Q1 2013
  - 2012 net sales $813 million; Expect 2013 net sales midpoint growth of 8 percent
- **North America Hybrid-Propulsion Systems for Transit Bus**
  - Municipal subsidy and spending constraints, engine emissions improvements and non-hybrid alternative technologies that generally require a fully-automatic transmission (e.g. xNG)
  - 2012 net sales $115 million; Expect 2013 net sales midpoint reduction of 24 percent
- **North America Off-Highway**
  - Hydraulic fracturing market's challenges continue for the first half of the year given forecasts for low rig utilization rates and high levels of surplus equipment attributable to weakness in natural gas pricing
  - 2012 net sales $157 million; Expect 2013 net sales midpoint reduction of 68 percent
- **Outside North America On-Highway**
  - Growth in key developing markets through increased fully-automatic transmission penetration and implementation of additional vehicle releases; limited improvement in European end markets
  - 2012 net sales $290 million; Expect 2013 net sales midpoint growth of 5 percent
- **Outside North America Off-Highway**
  - 2012 net sales $114 million; Expect 2013 net sales midpoint reduction of 11 percent driven by weak mining sector capital spending forecasts
- **Military**
  - 2012 net sales $305 million; Expect 2013 net sales midpoint reduction of 31 percent driven by continued reductions in U.S. defense spending to longer term averages experienced during periods without active conflicts
- **Service Parts, Support Equipment & Other**
  - 2012 net sales $348 million; Expect 2013 net sales midpoint growth of 3 percent driven by improved North America On-Highway service parts levels in the second half of the year and increased support equipment sales commensurate with higher transmission unit volumes

2013 Guidance - Summary

	Guidance	Commentary
Net Sales Growth from 2012	(6) to (8) percent	Reflects a cautious approach given the continued heightened level of uncertainty in our end markets and the lack of near-term visibility and confidence in certain of our end markets. Allison's 2013 net sales outlook also incorporates an assumed continuation of cyclically low levels of demand in the North America energy sector's hydraulic fracturing market, the previously considered 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 demand due to municipal spending constraints. Accordingly we assume year over year net sales reductions in the Global Off-Highway, Military and North America Hybrid-Propulsion Systems for Transit Bus end markets partially offset by year over year net sales growth in the Global On-Highway and Service Parts, Support Equipment & Other end markets.
Adjusted EBITDA Margin	32 to 34 percent	Principally driven by sales mix and volume timing
Adjusted Free Cash Flow ($ in millions)	$325 to $375	$1.75 to $2.01 per diluted share
CapEx ($ 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 December 31,	
	2009	2010	2011	2012	2011	2012
Net (loss) income	**($323.9)**	**$29.6**	**$103.0**	**$514.2**	**$44.5**	**$11.2**
plus:						
Interest expense, net	234.2	277.5	217.3	151.2	33.4	35.6
Cash interest expense	(242.5)	(239.1)	(208.6)	(167.3)	(68.0)	(46.7)
Income tax expense (benefit)	41.4	53.7	47.6	(298.0)	5.3	9.9
Cash income taxes	(5.5)	(2.2)	(5.8)	(10.7)	(0.7)	(1.7)
Fee to terminate services agreement with Sponsors	—	—	—	16.0	—	—
Technology-related investment expense	—	—	—	14.4	—	—
Initial public offering expenses	—	—	—	6.1	—	—
Trade name impairment	190.0	—	—	—	—	—
Amortization of intangible assets	155.9	154.2	151.9	150.0	37.9	37.5
Adjusted net income	**$49.6**	**$273.7**	**$305.4**	**$375.9**	**$52.4**	**$45.8**
Cash interest expense	242.5	239.1	208.6	167.3	68.0	46.7
Cash income taxes	5.5	2.2	5.8	10.7	0.7	1.7
Depreciation of property, plant and equipment	105.9	99.6	103.8	102.5	26.8	26.5
(Gain)/Loss on repurchases of long-term debt	(8.9)	(3.3)	16.0	22.1	4.7	0.5
Dual power inverter module extended coverage	11.4	(1.9)	—	9.4	—	—
UAW Local 933 signing bonus	—	—	—	8.8	—	8.8
Benefit plan re-measurement	—	—	—	2.3	—	—
Unrealized (gain) loss on hedge contracts	(5.8)	0.1	6.8	(0.9)	1.7	0.2
Premiums and expenses on tender offer for long-term debt	—	—	56.9	0.0	—	—
Restructuring charges	47.9	—	—	—	—	—
Reduction of supply contract liability	—	(3.4)	—	—	—	—
Other, net[1]	53.2	10.9	8.6	7.0	1.9	1.7
Adjusted EBITDA	**$501.3**	**$617.0**	**$711.9**	**$705.1**	**$156.2**	**$131.9**
Adjusted EBITDA excluding technology-related license expense	**$501.3**	**$617.0**	**$711.9**	**$717.1**	**$156.2**	**$131.9**
Net Sales	**$1,766.7**	**$1,926.3**	**$2,162.8**	**$2,141.8**	**$516.1**	**$487.0**
Adjusted EBITDA margin	**28.4%**	**32.0%**	**32.9%**	**32.9%**	**30.3%**	**27.1%**
Adjusted EBITDA margin excl technology-related license expense	**28.4%**	**32.0%**	**32.9%**	**33.5%**	**30.3%**	**27.1%**

(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 December 31,	
	2009	2010	2011	2012	2011	2012
Net Cash Provided by Operating Activities	**$168.7**	**$388.9**	**$469.2**	**$497.5**	**$71.9**	**$112.1**
(Deductions) or Additions:						
Long-lived assets	(88.2)	(73.8)	(96.9)	(123.9)	(41.6)	(30.0)
Fee to terminate services agreement with Sponsors	—	—	—	16.0	—	—
Technology-related license expense	—	—	—	12.0	—	—
2009 Non-Recurring Activity [(1)]	61.0	—	—	—	—	—
Adjusted Free Cash Flow	**$141.5**	**$315.1**	**$372.3**	**$401.6**	**$30.3**	**$82.1**
Net Sales	**$1,766.7**	**$1,926.3**	**$2,162.8**	**$2,141.8**	**$516.1**	**$487.0**
Adjusted Free Cash Flow (% to Net Sales)	**8.0%**	**16.4%**	**17.2%**	**18.8%**	**5.9%**	**16.9%**

(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.