Q3 2013 Earnings Release

October 28, 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 Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 and Allison Transmission’s Annual Report on Form 10-K for the 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 (benefit), 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 and adjusted 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 2013 Performance**
- **Full Year 2013 Guidance Update**

Q3 2013 Performance Summary

($ in millions)	Q3 2013	Q3 2012	% Variance
Net Sales	$466	$494	(5.5%)
Gross Margin %	44.2%	45.5%	(130 bps)
Adjusted Net Income (1)	$101	$100	1.8%
Adjusted Free Cash Flow (1)	$116	$120	(3.3%)

Commentary

Net Sales: the decrease was principally driven by previously contemplated reductions in U.S. defense spending, lower demand in the North America energy sector's hydraulic fracturing market, relative to the same period in 2012, fewer sales of North America hybrid-propulsion systems for transit buses and continued weakness in the Outside North America Off-Highway mining sector end market. Partially offsetting these declines were strength in the North America On-Highway end market, our largest, and the Service Parts, Support Equipment & Other end market.

Gross Margin: the decrease was principally driven by decreased net sales.

Adjusted Net Income: the increase was principally driven by reduced global commercial and product initiatives spending, and $12 million of technology-related license expenses in 2012 partially offset by decreased net sales and higher employee stock compensation expense.

Adjusted Free Cash Flow: the decrease 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 lower 2013 product initiatives spending.

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

Q3 2013 Sales Performance

($ in millions)

End Markets	Q3 2013	Q3 2012	% Variance	Commentary
North America On-Hwy	$212	$189	12%	Increased demand for Rugged Duty and Highway Series models
North America Hybrid-Propulsion Systems for Transit Bus	$15	$30	(50%)	Decreased demand and intra-year movement in the timing of orders
North America Off-Hwy	$9	$22	(59%)	Decreased demand driven by hydraulic fracturing applications, but essentially flat for the third consecutive quarter
Defense	$52	$74	(30%)	Continued reductions in U.S. defense spending to longer term averages experienced during periods without active conflicts
Outside North America On-Hwy	$70	$73	(4%)	Weakness in Japan truck, and China and Latin America bus tenders timing, partially offset by improved demand conditions in Russia bus
Outside North America Off-Hwy	$16	$22	(27%)	Decreased mining sector demand
Service Parts, Support Equipment & Other	$92	$84	10%	Increased demand for North America On-Highway and Off-Highway service parts
Total	**$466**	**$494**	**(6%)**	

Q3 2013 Financial Performance

($ in millions, except share data)	Q3 2013	Q3 2012	$ Var	% Var	Commentary
Net Sales	$466.3	$493.5	($27.2)	(5.5%)	Decrease was principally driven by previously contemplated reductions in U.S. defense spending, lower demand in the North America energy sector's hydraulic fracturing market, fewer sales of North America hybrid-propulsion systems for transit buses and continued weakness in the Outside North America Off-Highway mining sector end market. Partially offsetting these declines were strength in the North America On-Highway end market, our largest, and the Service Parts, Support Equipment & Other end market.
Cost of Sales	$260.2	$269.1	$8.9	3.3%	
Gross Profit	$206.1	$224.4	($18.3)	(8.2%)	Principally driven by decreased net sales
Operating Expenses					
Selling, general and administrative expenses	$74.0	$96.7	$22.7	23.5%	$12 million of lower intangible asset amortization, reduced global commercial spending activities, favorable product warranty expense and a warranty expense reduction for the dual power inverter module extended coverage program partially offset by $2 million of higher employee stock compensation
Engineering – research and development	$20.9	$35.9	$15.0	41.8%	A decrease of $3 million, excluding the 2012 technology-related license expenses of $12 million, principally driven by reduced product initiatives spending
Total operating expenses	$94.9	$132.6	$37.7	28.4%	
Operating Income	$111.2	$91.8	$19.4	21.1%	
Interest Expense, net	($37.3)	($40.8)	$3.5	8.6%	Deferred amortization and refinancing
Other Expense, net	($1.5)	($1.8)	$0.3	16.7%	
Income Before Income Taxes	$72.4	$49.2	$23.2	47.2%	
Income Tax Expense	($27.9)	($17.0)	($10.9)	(64.1%)	Increase in effective tax rate principally driven by decreased discrete activity
Net Income	$44.5	$32.2	$12.3	38.2%	
Diluted Earnings Per Share	$0.24	$0.17	$0.07	41.2%	Q3 2013: 188.0M shares; Q3 2012: 185.5M shares
Adjusted EBITDA[(1)]	$161.6	$159.5	$2.1	1.3%	
Adjusted EBITDA excluding technology-related license expenses[(1)]	$161.6	$171.5	($9.9)	(5.8%)	
Adjusted Net Income[(1)]	$101.3	$99.5	$1.8	1.8%	

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

Q3 2013 Cash Flow Performance

($ in millions)	Q3 2013	Q3 2012	$ Variance	% Variance	Commentary
Net Cash Provided by Operating Activities	$131	$139	($8)	(5.7%)	Principally driven by decreased net sales and lower other liabilities, net
CapEx	$15	$31	($16)	(51.0%)	Principally driven by lower 2013 product initiatives spending
Adjusted Free Cash Flow [1]	$116	$120	($4)	(3.3%)	Reduced cash flow from operations partially offset by reduced capital spending

($ in millions)	Q3 2013	Q3 2012	$ Variance	% Variance	Commentary
Operating Working Capital[2] Percentage of LTM Sales	10.4%	9.9%	N/A	50 bps	Principally driven by decreased LTM Sales and 2012 labor negotiations preparation
Cash Paid for Interest	$33	$32	$1	4.7%	Principally driven by adjusted margins due to refinancing and debt repayments
Cash Paid for Income Taxes	$1	$3	($2)	(80.8%)	Decreased outside North America 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 ($ in millions)	$1,920 to $1,935	We expect net sales to stabilize on a year-over-year basis, an improvement relative to the sales decline through the first three quarters of the year. We continue to anticipate improving trends in the fourth quarter of 2013 which we expect to be driven by growth in global On-Highway and Service Parts, Support Equipment & Other end markets, and abating year-over-year declines in the North America Off-Highway and North America Hybrid-Propulsion Systems for Transit Bus end markets.
Adjusted EBITDA excluding technology-related license expenses ($ in millions)	$630 to $640	
Adjusted EBITDA Margin excluding technology-related license expenses	32.75 to 33.25 percent	
Adjusted Free Cash Flow ($ in millions)	$340 to $360	
CapEx ($ in millions) Maintenance New Product Programs	 $63 to $66 $12 to $14	Subject to timely completion of development and sourcing milestones
Cash Income Taxes ($ in millions)	$8 to $12	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 September 30,		Last twelve months ended September 30,
	2009	2010	2011	2012	2012	2013	2013
Net (loss) income	**($323.9)**	**$29.6**	**$103.0**	**$514.2**	**$32.2**	**$44.5**	**$133.7**
plus:							
Interest expense, net	234.2	277.5	217.3	151.2	40.8	37.3	140.1
Cash interest expense	(242.5)	(239.1)	(208.6)	(167.3)	(31.8)	(33.3)	(159.6)
Income tax expense (benefit)	41.4	53.7	47.6	(298.0)	17.0	27.9	86.0
Cash income taxes	(5.5)	(2.2)	(5.8)	(10.7)	(2.6)	(0.5)	(5.2)
Fee to terminate services agreement with Sponsors	—	—	—	16.0	—	—	—
Technology-related investment expenses	—	—	—	14.4	6.4	—	2.5
Public offering expenses	—	—	—	6.1	—	0.3	0.9
Trade name impairment	190.0	—	—	—	—	—	—
Amortization of intangible assets	155.9	154.2	151.9	150.0	37.5	25.1	117.6
Adjusted net income	**$49.6**	**$273.7**	**$305.4**	**$375.9**	**$99.5**	**$101.3**	**$316.0**
Cash interest expense	242.5	239.1	208.6	167.3	31.8	33.3	159.6
Cash income taxes	5.5	2.2	5.8	10.7	2.6	0.5	5.2
Depreciation of property, plant and equipment	105.9	99.6	103.8	102.5	26.1	24.4	100.6
(Gain)/loss on repurchases of long-term debt	(8.9)	(3.3)	16.0	22.1	0.5	0.5	1.0
Dual power inverter module extended coverage	11.4	(1.9)	—	9.4	—	(2.4)	(2.4)
UAW Local 933 signing bonus	—	—	—	8.8	—	—	8.8
Benefit plan re-measurement	—	—	—	2.3	—	—	—
Unrealized (gain) loss on commodity hedge contracts	(5.8)	0.3	6.5	(1.0)	(2.1)	(0.8)	1.0
Unrealized (gain) loss on foreign exchange	—	(0.2)	0.3	0.1	0.0	1.8	2.6
Premiums and expenses on tender offer for long-term debt	—	—	56.9	—	—	—	—
Restructuring charges	47.9	—	—	—	—	—	1.0
Reduction of supply contract liability	—	(3.4)	—	—	—	—	—
Other, net[(1)]	53.2	10.9	8.6	7.0	1.1	3.0	12.4
Adjusted EBITDA	**$501.3**	**$617.0**	**$711.9**	**$705.1**	**$159.5**	**$161.6**	**$605.8**
Adjusted EBITDA excluding technology-related license expenses	**$501.3**	**$617.0**	**$711.9**	**$717.1**	**$171.5**	**$161.6**	**$611.8**
Net Sales	**$1,766.7**	**$1,926.3**	**$2,162.8**	**$2,141.8**	**$493.5**	**$466.3**	**$1,922.8**
Adjusted EBITDA margin	**28.4%**	**32.0%**	**32.9%**	**32.9%**	**32.3%**	**34.7%**	**31.5%**
Adjusted EBITDA margin excl technology-related license expenses	**28.4%**	**32.0%**	**32.9%**	**33.5%**	**34.8%**	**34.7%**	**31.8%**

(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 September 30,		Last twelve months ended September 30,
	2009	2010	2011	2012	2012	2013	2013
Net Cash Provided by Operating Activities	**$168.7**	**$388.9**	**$469.2**	**$497.5**	**$138.9**	**$131.0**	**$427.5**
(Deductions) or Additions:							
Long-lived assets	(88.2)	(73.8)	(96.9)	(123.9)	(31.4)	(15.4)	(71.2)
Fee to terminate services agreement with Sponsors	—	—	—	16.0	—	—	—
Technology-related license expenses	—	—	—	12.0	12.0	—	6.0
2009 Non-Recurring Activity [(1)]	61.0	—	—	—	—	—	—
Adjusted Free Cash Flow	**$141.5**	**$315.1**	**$372.3**	**$401.6**	**$119.5**	**$115.6**	**$362.3**
Net Sales	**$1,766.7**	**$1,926.3**	**$2,162.8**	**$2,141.8**	**$493.5**	**$466.3**	**$1,922.8**
Adjusted Free Cash Flow (% to Net Sales)	**8.0%**	**16.4%**	**17.2%**	**18.8%**	**24.2%**	**24.8%**	**18.8%**

(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.