



AAR DELIVERS



2013
ANNUAL REPORT

**MARKET-LEADING
POSITIONS**

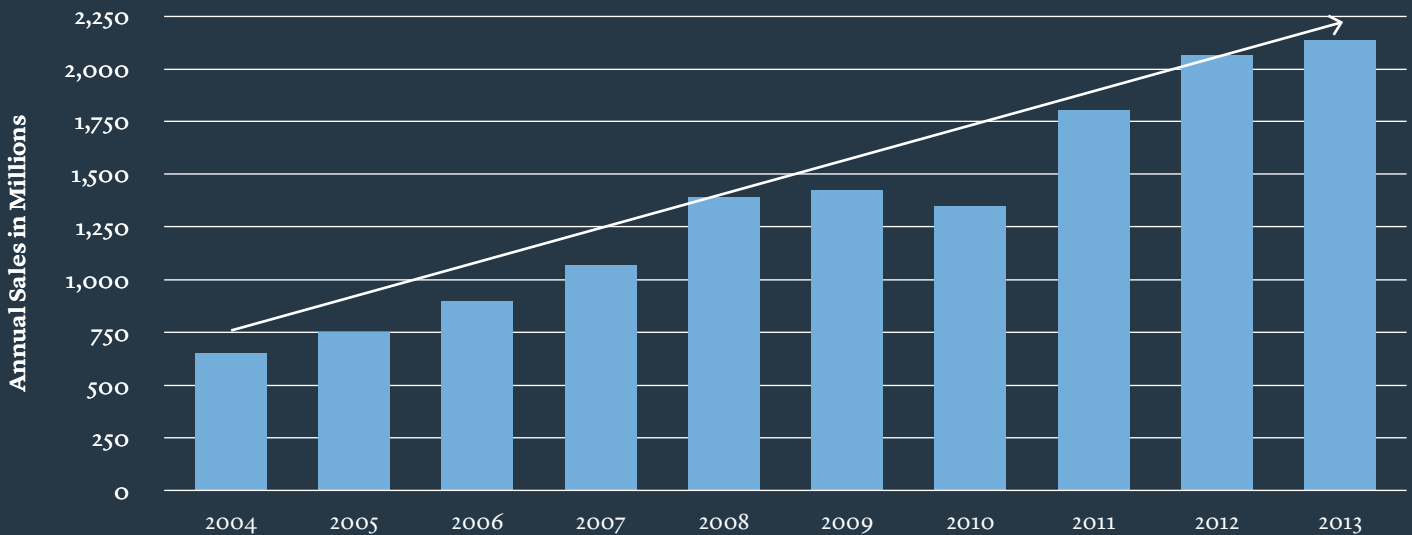
**INNOVATIVE
TECHNOLOGY
PRODUCTS**

**GLOBAL
CUSTOMER
BASE**

**VALUE-ADDED
AVIATION SERVICES**

**SOLID
GROWTH PLATFORM**

TEN-YEAR SALES GROWTH



AAR is a leading aerospace and defense solutions provider that offers a diverse range of services and products to customers in 110 countries. As the needs of the world's commercial and defense aviation sectors become increasingly complex, our response is simple: **AAR DELIVERS.**

Across our operations, we deliver comprehensive solutions that enable customers to operate more efficiently. And, with approximately 6,300 employees dedicated to delivering superior services and products to customers, the result is profitable growth that delivers value for our shareholders.

AVIATION SERVICES

- ▶ Inventory Management Programs
- ▶ Aircraft and Engine Parts Supply
- ▶ Parts Repair Management
- ▶ Aircraft and Engine Sales and Leasing
- ▶ Aircraft Maintenance and Overhaul
- ▶ Component and Landing Gear Overhaul
- ▶ Engineering Services
- ▶ Expeditionary Airlift

TECHNOLOGY PRODUCTS

- ▶ Cargo Systems
- ▶ Unit Load Devices
- ▶ Specialized Mobility Products
- ▶ Communications Systems Integration
- ▶ Metals Machining and Composites Fabrication

TO OUR STOCK CUSTOMERS, AND



We are pleased to report that in fiscal 2013, AAR delivered a year of growth, improved profitability and strong cash flow. AAR's sales for the year were a record \$2.14 billion, an increase of 3.5% from the prior year and we reported adjusted diluted earnings per share of \$1.85. We achieved these results by maintaining a sharp focus on innovation, execution and delivering high-value solutions for our commercial and defense customers.

During the year, the Company generated \$125 million of free cash flow, enabling us to reduce our net debt position by \$91 million. We retired our 1.75% convertible notes, which also reduced the number of shares used in our diluted share count by

3.4 million shares. We bought back nearly one million shares of common stock at an average price of \$14.90 and paid out \$0.30 per share in dividends. Additionally, we took advantage of favorable financing markets to issue \$150 million of 7.25% notes with a yield to maturity of 6.128%. We used the proceeds to reduce the size of our revolving credit facility and also extended the term. Together, these moves created long-term value for our stockholders.

In the second quarter, we consolidated our business activities, enabling us to go from four segments to two: Aviation Services and Technology Products. The move reflects our on going strategy to offer our customers a more comprehensive solution.

DELIVERING PERFORMANCE THROUGH TWO SEGMENTS

In **Aviation Services**, AAR ranks among the world's top providers of aircraft and engine parts through our supply chain businesses. This is a core competency that traces all the way back to the Company's very beginning. During the year, we pushed further into new product lines in our trading businesses and we substantially increased the number of aircraft that we support under flight-hour agreements. Our parts distribution business

STOCKHOLDERS, AND EMPLOYEES

experienced significant growth with key product lines, such as Unison, and we grew our distribution network with new facilities in Singapore and Amsterdam. We also expanded our programs beyond the aviation market with a contract to manage inventories of medical supplies for the U.S. Central Command (CENTCOM).

AAR ranks as the largest provider of aircraft maintenance in North America and the third largest globally. We grew this business from 3.5 million labor hours three years ago to over 5 million this past year. We continue to expand our Maintenance,

Repair and Overhaul (MRO) operations, ramping up our new facility in Duluth. We have an industry-leading position in the U.S. narrow-body market and, subsequent to year-end, added a sixth facility in Lake Charles, Louisiana that adds 520,000 square feet of capacity and capability to support larger, wide-body aircraft. The facility will include a new hangar that is currently under construction, which will accommodate aircraft as large as the Boeing 747-8 and Airbus A380. Our 1MRO initiative ensures a seamless customer experience across AAR's six MRO locations while keeping quality and aircraft availability levels high.

AAR serves as the largest provider of expeditionary airlift services for the U.S. Department of Defense. The majority of our 57 fixed- and rotary-wing aircraft are operating in Afghanistan, where demand for these assets remains high. Last year, AAR Airlift conducted more than 26,000 flights, transporting approximately

SELECTED FINANCIAL HIGHLIGHTS

For the Year Ended May 31,
(\$ in millions except per share data)

	2013	2012	2011	2010	2009
Operating Performance					
Net sales	\$2,137.3	\$2,065.0	\$1,805.1	\$1,352.2	\$1,424.0
Net income attributable to AAR	55.0	67.7	69.8	44.6	56.8
Diluted earnings per share	\$1.38 ⁽¹⁾	\$1.65	\$1.73	\$1.16	\$1.45
Financial Position					
Working capital	644.7	590.1	498.0	521.6	596.9
Total assets	2,136.9	2,195.7	1,703.7	1,500.2	1,375.9
Total debt	708.6	792.2	437.1	428.6	381.4
Stockholder's equity	919.5	866.0	835.3	746.4	696.7

⁽¹⁾ Fiscal 2013 diluted earnings per share from continuing operations was \$1.85 before consideration of a \$19.5 million after-tax charge in connection with a defense logistics program.

NOTE: \$125 million of *free cash flow* is calculated as follows: fiscal year 2013 cash from operations of \$163 million less fiscal year 2013 capital expenditures of \$38 million. \$91 million *reduction in net debt* is calculated as follows: reduction in total debt at May 31, 2013 as compared with May 31, 2012 of \$83 million, plus the increase of cash at May 31, 2013 as compared with May 31, 2012 of \$8 million.

WE WORKED HARD THROUGHOUT THE YEAR TO DELIVER AGAINST EXPECTATIONS AND ARE VERY PLEASED TO HAVE DONE SO WHILE POSITIONING OUR BUSINESS FOR ADDITIONAL GROWTH

443,000 passengers and delivering 56 million pounds of mail and cargo. A key to the successful performance and turnaround of this business has been our focus on maintenance execution and spare parts supply, which will continue. We continue to deliver against our contracts in Afghanistan and believe that the worldwide demand for these services remains strong. We are very proud of our employees who put themselves in harm's way to deliver these mission-critical services in harsh and austere conditions.

As we enter our new fiscal year, we will continue to grow the Company's leadership positions in this segment.

Within our **Technology Products** segment, we are recognized around the world as a leading provider of cargo handling equipment and containers for commercial and military aircraft. Our Telair and Nordisk acquisitions, which operated as part of AAR for the full fiscal year, gave us a greater presence in commercial markets and contributed meaningfully to the results for this segment. We also launched a new 1Manufacturing initiative intended to

further optimize and integrate design and production capabilities across our Technology Products businesses.

AAR's cargo and baggage handling systems are used on a variety of the industry's leading platforms. We support virtually all of the installed Airbus fleet and have started delivering initial supplies to Airbus for the new A350 aircraft. This year, we delivered the first system for Airbus' new entrant into the military transport market, the A400M. We were also selected by a leading freight carrier to design and manufacture the cargo loading system for their new Boeing 767 freighter aircraft. We have delivered the first systems and will be ramping up to full production this fiscal year. We are the cargo systems provider for the Boeing 747-8, as well. Our cargo systems business is well positioned to capitalize on the aircraft build cycle and as operators look to convert passenger aircraft to freighters.

Increasingly, commercial customers have been seeking lighter weight and improved fire containment for their onboard containers. This year, our Nordisk business partnered with technology leader DuPont to develop and test a light-weight fire resistant container capable of containing a fire for up to six hours of flight. We have confidence in

this innovative product and believe that it addresses a pressing industry issue.

DELIVERING A SOLID GROWTH PLATFORM

As we focus on fiscal 2014 and the opportunities ahead, we anticipate growing the business by strengthening our industry-leading positions. We will continue to develop customer-focused solutions with more engineering content, enabling us to become a more integral part of our customers' operations. As we did this past year, we will maintain a sharp focus on operational efficiency and cash generation.

In closing, we appreciate the hard work and dedication of our 6,300 employees in 17 countries around the world. AAR employees are the reason a company our size is able to compete successfully with some of the largest and most formidable aerospace companies in the world. We value the strategic direction, sound counsel and active engagement provided by our Board of Directors. And, we thank our valued customers for the trust and confidence they place in us, every day. We are committed to delivering value in the coming year and well into the future.

Sincerely,

David P. Storch
David P. Storch

Chairman and Chief Executive Officer

Timothy J. Romenesko

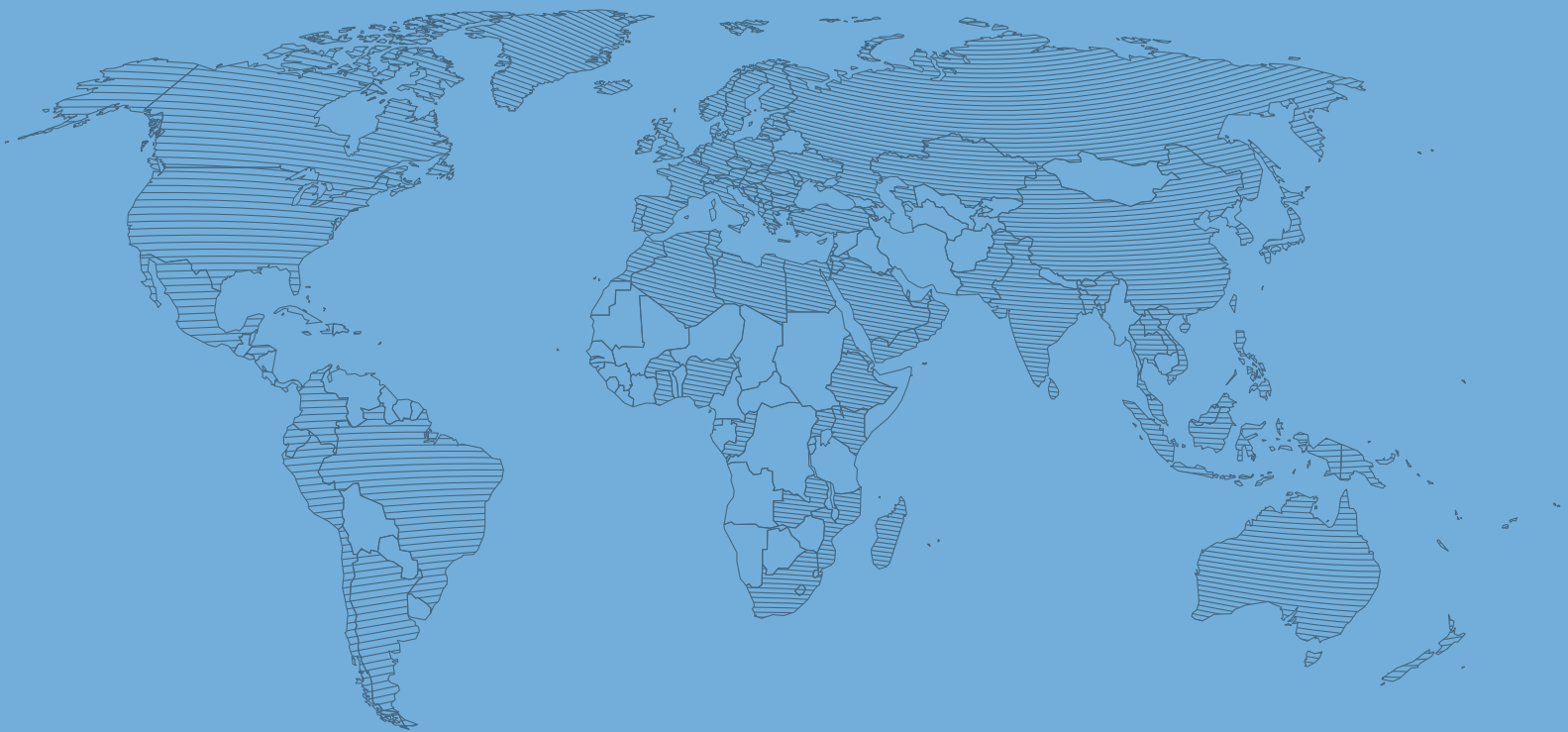
Timothy J. Romenesko

President and Chief Operating Officer

August 23, 2013

DELIVERING SOLUTIONS WORLDWIDE

AAR Delivers—for customers in 110 countries. Our world-class Aviation Services and Technology Products segments provide solutions that enable customers to fly passengers, cargo and defense assets in a safe, reliable and cost-efficient manner.



 AAR'S GLOBAL CUSTOMER BASE, PAST THREE YEARS

AVIATION SERVICES



#1 MRO
IN NORTH AMERICA



#1 INDEPENDENT PROVIDER OF AIRLIFT TO U.S. DOD



A TOP PROVIDER OF SUPPLY CHAIN MANAGEMENT, LOGISTICS AND INVENTORY SUPPORT



AAR's Aviation Services business holds leadership positions in a range of vital areas. We are the No. 1 provider of Maintenance, Repair and Overhaul (MRO) services in North America and the third largest worldwide, with six facilities to provide essential maintenance and modifications for major airline customers. Our Aviation Supply Chain business ranks among the world's top providers of aftermarket aircraft parts and logistics programs, as well as OEM components. Our Airlift business serves government and defense customers, helping to transport personnel, cargo and supplies in harsh environments around the world, operating in the Middle East, Africa and Western Pacific with a current focus on supporting U.S. forces in Afghanistan.



DELIVERING GROWTH

We look forward to continued growth in Aviation Services, as AAR is well positioned to benefit from favorable industry trends. Commercial airlines continue to outsource maintenance services as they press for operating and cost efficiencies. At the same time, as airlines seek to manage supply chain costs, they prefer to deal with suppliers such as AAR that can provide bundled solutions. We also see exciting potential for international growth and are working to capture that potential by opening distribution facilities in Amsterdam and Singapore, and exploring MRO and supply chain ventures in countries around the world. At Airlift, we are seeking opportunities to serve new government and non-government customers.

DELIVERING PERFORMANCE

With a growth rate that is outpacing the MRO industry, AAR is gaining market share. Contributing to this growth, our 1MRO strategy ensures a consistent, seamless approach to meeting customers' needs across all of our facilities. Our MRO facility in Duluth, Minnesota came online in 2013, increasing available annual maintenance hours by 10%. And, subsequent to year-end, AAR added more capability with a new MRO facility in Lake Charles, Louisiana. We are continually adding to our Supply Chain capabilities. For example, our exclusive distribution partnership with Unison Industries allows us to meet customers' needs for electrical components, sensors, and systems. At Airlift, we achieved outstanding operational performance and enhanced levels of readiness in the past year.

DELIVERING A CUSTOMIZED SOLUTION

Sourcing and Modifying Aircraft for the Colombian Air Force

A broad base of diverse global resources enabled AAR to deliver for a major customer, the Colombian Air Force, known as Fuerza Aerea Colombiana (FAC). To meet FAC's requirements, we sourced and modified two Boeing 737-400 aircraft, one configured for freight and the other for both passenger and freight use.

AAR's solution drew on a wide range of skills: procuring aircraft, installing higher-rated engines and other components, repairing landing gear, reconfiguring interiors, designing and installing seating and cargo pallets, custom-painting the aircraft, performing maintenance checks and inspections—even training FAC personnel. It was a process that required a solid team effort across eight AAR businesses. In early fiscal 2014, we announced a similar program to modify two Boeing 737s for the U.S. Marshals Service.

The FAC project shows how AAR can provide not only expertise, but also innovation, teamwork, cost-efficiency and a commitment to quality—delivering against the needs of the most exacting commercial and government customers.

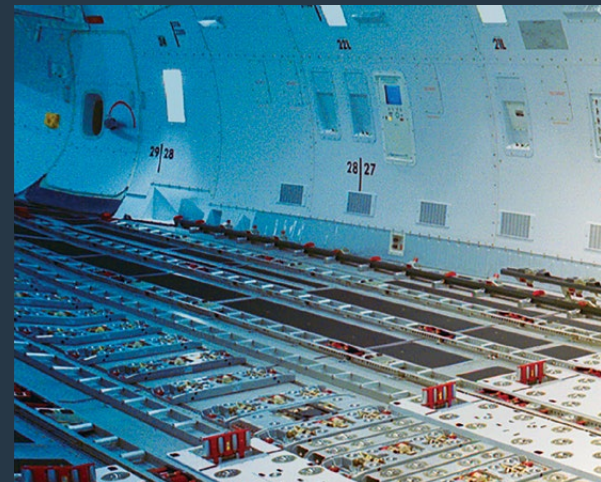
TECHNOLOGY PRODUCTS

AAR's Technology Products segment delivers industry-leading cargo handling systems for commercial and military aircraft. This segment has continued to expand its capabilities since the acquisition in fiscal 2012 of Telair and Nordisk, which enhanced our position as a tier-1 provider. Other AAR businesses design and produce aerostructures and interiors using advanced precision machining and composite manufacturing processes, and provide specialized mobility products for military and humanitarian missions. Our strong position in Technology Products is built on a track record of innovative products and advanced design, as well as close alignment with the needs of AAR's customers.

DELIVERING INNOVATION

Our Technology Products are highly regarded for innovations that improve product performance and cost-effectiveness. AAR's Telair business developed an advanced lower-deck cargo system for Airbus, using a reusable container with preassembled cargo handling components to streamline installation on the production line. Our Nordisk business has pioneered a lightweight, Fire Resistant Container (FRC). Using a state-of-the-art friction stir welding process, AAR's Lightweight Multipurpose Shelters (LMS) meet rigorous requirements for security, durability and mobility in defense applications.

TELAIR IS ONE OF THE WORLD'S LEADING SUPPLIERS OF CONTAINERIZED CARGO HANDLING SYSTEMS



DELIVERING OPPORTUNITY

We see a number of opportunities for growth in Technology Products. The aircraft industry is in the midst of a record build cycle. As most aircraft manufacturers now assemble planes from components sourced globally, we are well positioned to provide precision components to OEMs. We expect continued demand for cargo conversions as newer passenger aircraft come on the market that can be adapted for cargo use. We are also focusing on international expansion; for example, several Nordisk products have received Chinese Technical Standard Order (CTSO) approval, giving us an opening to this growing market. As we seek to grow our Technology Products business, we will focus on finding specialized markets where we can add value to customers through innovative design, engineering and integration.

DELIVERING SOLUTIONS

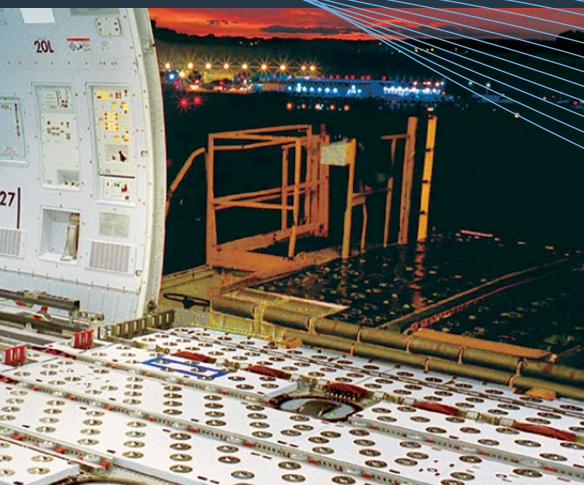
Introducing Safer, Fire-Containing Cargo Units

The aviation industry is continually seeking lighter-weight solutions to reduce the risk of onboard fires. AAR's Nordisk business, the world's largest supplier of Unit Load Devices (ULDs) for cargo handling, is playing a pioneering role in developing innovative cargo containers with unique features, including fire containment.

In 2013, AAR announced the development of a new ULD design, which during testing was proven to contain an onboard fire for up to six hours of flight. Partnering with DuPont, AAR was able to replace the traditional aluminum construction with DuPont™ Kevlar® brand fiber and Nomex® XF flame barrier. The result: more effective fire containment—in a unit that is also lighter than any similar product on the market.

This design is intended to provide additional time to respond in the event of a fire, delivering a competitive edge over existing products. The ability to meet complex customer needs, such as reducing fire risk while providing a weight advantage, demonstrates AAR's commitment to delivering solutions.

NORDISK DESIGNS AND MANUFACTURES INNOVATIVE, ADVANCED UNIT LOAD DEVICES (ULDs)



OEM CARGO SYSTEMS FOR

AIRBUS A330, A340 AND A400M,
BOEING 747-8 AND CH-47 HELICOPTER;
CARGO CONVERSIONS
FOR AIRBUS A330 AND
BOEING 747-400 AND 767-200/300

WHAT ARE AAR'S STRONGEST LEADERSHIP POSITIONS?

HOW IMPORTANT ARE YOUR INTERNATIONAL GROWTH OPPORTUNITIES?

WHERE DO YOU SEE THE GREATEST OPPORTUNITIES IN YOUR BUSINESS SEGMENTS?

WHAT POTENTIAL DO YOU SEE FOR AIRLIFT IN THE NEXT FEW YEARS?

WHAT ARE AAR'S MAIN AREAS OF FOCUS AS YOU LOOK TO DELIVER GROWING SHAREHOLDER VALUE?

In Aviation Services, we lead in aircraft maintenance, repair and overhaul and recently added capability, with major facilities in Minnesota and Louisiana. Our leadership in supply chain services is based on our ability to supply customers with the parts they need—when and where they need them. And we are also the leader in expeditionary airlift. In Technology Products, we lead in cargo handling systems and specialized products that support mission-critical mobility requirements.

International expansion is a sharp focus for AAR. Sales outside the United States grew approximately 50% in 2013, and we received the President’s “E” Award from the U.S. Department of Commerce for helping to expand U.S. exports. In the past fiscal year, we added distribution facilities in Amsterdam and Singapore. We are also targeting opportunities for MRO and supply chain services in Middle Eastern and African aviation markets. Some Nordisk products are now approved under China’s technical standards. Our expertise in providing customer solutions is proving to be exportable into new markets around the world.

Growth in Aviation Services will come from our strength in supply chain and MRO, as customers look to us to deliver cost savings, greater operating flexibility and more productive use of assets. That should drive growth in our spare parts and logistics business. We are also building on our market-leading MRO position by offering customers our 1MRO solution—a consistent set of procedures, quality assurance checks and performance tracking across all our MRO locations. And we’ve added more MRO capability in Minnesota and Louisiana.

In Technology Products, we see the potential for further growth in commercial cargo systems. We are aligned with major OEMs, as well as the aftermarket, and customers rely on AAR for specialized cargo handling solutions and containers. We are continually developing new products that are lightweight, easier to install and more efficient to use. The strong aircraft build cycle also will drive growth, as manufacturers need machined components and to outfit new aircraft with cargo handling solutions.

Current demand for Airlift is strong and the business is performing well. Our team does incredible work supporting missions in harsh environments. Operating performance and readiness have improved, and revenues have grown as a result. We expect to continue to support U.S. forces in Afghanistan, as we seek to capture new work with other government and non-government customers.

As we move forward, we constantly focus on execution. Our strategy for success is to deliver superior services and products to our customers and to manage the business in a disciplined way. We constantly look for ways to grow, by adding or expanding customer relationships, tapping international markets and increasing our offerings. We also focus on driving better operating margins and increasing cash generation. Bottom line, we will continue to deliver value to our stockholders.

CORPORATE OFFICERS

David P. Storch

Chairman and Chief Executive Officer

Timothy J. Romenesko

President and Chief Operating Officer

Jack M. Arehart

Vice President, Co-Chief Commercial Officer

Michael K. Carr

Vice President, Tax and Assistant Treasurer

Peter K. Chapman

Vice President, Co-Chief Commercial Officer

John C. Fortson

Vice President, Chief Financial Officer and Treasurer

Axel P. Hauner

Vice President, Cargo Systems

John M. Holmes

Aviation Services Group Vice President—Inventory Management and Distribution

Cheryle R. Jackson

Vice President, Government Affairs and Corporate Development

Dany Kleiman

Aviation Services Group Vice President—Repair and Engineering; Technology Products

Kevin M. Larson

Vice President, Chief Information Officer

Randy J. Martinez

Aviation Services Group Vice President—Airlift

David E. Prusiecki

Vice President, Defense Programs

Robert J. Regan

Vice President, General Counsel and Secretary

Michael J. Sharp

Vice President, Controller and Chief Accounting Officer

Timothy O. Skelly

Vice President, Chief Human Resources Officer

Donald J. Wetekam

Senior Vice President, Government and Defense Business Development

BOARD OF DIRECTORS

David P. Storch³—Chairman

Chairman and Chief Executive Officer, AAR CORP.

Anthony K. Anderson^{1,2}

Independent Business Consultant

Norman R. Bobins^{1,2}

Non-Executive Chairman, The PrivateBank and Trust Company—Chicago

Michael R. Boyce^{2,4}

Chairman and Chief Executive Officer, PQ Corporation; Chairman and Chief Executive Officer, The Peak Group

Ronald R. Fogleman^{2,3,4}—Chairman,⁵

Non-Executive Chairman, Alliant Techsystems, Inc. President and Chief Operating Officer, B Bar J Cattle and Consulting Company General, U.S. Air Force (Ret.)

James E. Goodwin¹—Chairman,^{3,4}

Chairman, Federal Signal Corporation; Retired Chairman and Chief Executive Officer, UAL, Inc. and United Airlines, Inc.

Patrick J. Kelly^{1,4}

Managing Director, KMK & Associates, LLC

Peter Pace^{2,4}

General, U.S. Marine Corps (Ret.); Chairman of the Joint Chiefs of Staff (Ret.)

Timothy J. Romenesko

President and Chief Operating Officer, AAR CORP.

Marc J. Walfish^{1,3,4}

Founding Partner, Merit Capital Partners

Ronald B. Woodard^{1,2}—Chairman

Chairman, MagnaDrive, Inc.; Retired President, Boeing Commercial Airplane Group

Honorary**Ira A. Eichner**

Founder and Chairman of the Board Emeritus

¹ Member of Audit Committee

² Member of Compensation Committee

³ Member of Executive Committee

⁴ Member of Nominating and Governance Committee

⁵ Lead Director

STOCKHOLDER INFORMATION

CORPORATE HEADQUARTERS

AAR CORP.
1100 North Wood Dale Road
Wood Dale, Illinois 60191
Telephone: 630-227-2000
Facsimile: 630-227-2059
www.aarcorp.com

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company, N.A.
Providence, Rhode Island

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

KPMG LLP
Chicago, Illinois

ANNUAL MEETING OF STOCKHOLDERS

The annual meeting of stockholders will be held at 9:00 a.m. (Chicago time) on Wednesday, October 9, 2013, at AAR's Corporate Headquarters, 1100 North Wood Dale Road, Wood Dale, Illinois 60191.

THE INVESTOR SERVICE PROGRAM

AAR CORP. provides its stockholders the opportunity to purchase additional shares of common stock of the Company by automatic reinvestment of dividends and optional additional investments. Stockholders may obtain information regarding this plan by contacting the Corporate Secretary, AAR CORP., 1100 North Wood Dale Road, Wood Dale, Illinois 60191.

TICKER SYMBOL

AAR stock is traded on the New York and Chicago Stock Exchanges under the ticker symbol AIR.



AAR CORP.

1100 North Wood Dale Road
Wood Dale, Illinois 60191
www.aarcorp.com

