

DOING AFTERMARKET RIGHT

2017 ANNUAL REPORT





DOING INNOVATION RIGHT

OVER **1M** PARTS STOCKED IN GLOBAL WAREHOUSE NETWORK **100,000+** OEM FACTORY-
NEW PARTS AVAILABLE ONLINE **850+** AIRCRAFT MAINTAINED, REPAIRED AND OVERHAULED

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Supply Chain Innovator

As part of our culture of thinking new and thinking ahead, AAR is developing **new digital platforms** that will provide our customers with Intelligent Solutions for buying/selling parts, and managing/tracking component inventory, as well as repairs and warranties. Our MRO Services network began operation of the state-of-the-art **Airframe MRO in Rockford**, Illinois, that now employs over 100 aircraft mechanics repairing major carrier aircraft and is on track to ramp up next year.

We also made innovations in our long-standing Parts Supply business that contributed to a significant revenue increase over last year. In addition to buying/selling parts, engines and aircraft, we focused on **exchanges**, leveraging the inventory pools in our global warehouse network. We will soon have one centralized, enhanced 24/7 AOG desk with access to our components in the U.S., Brussels and Hannover. We also expanded our parts portfolio by adding a new product line — **ATR parts**, through the acquisition of ACLAS Global inventory serving ASL Group airlines, with a dedicated sales team in the UK.

Online Parts Store

Challenge: Expand online access to AAR's inventory of over 1 million parts including surplus/serviceable and factory-new parts we sell in aftermarket for OEM partners.

AAR Solution: Create enhanced digital platform that makes internal database accessible to all existing/potential customers via easy-to-use interface on website; also list key parts on other online exchanges and link back to AAR Online Parts Store.

Results: A B2C experience for B2B customers — sold hundreds of parts to new/existing customers with expedited quotes, same-day shipping, customer rates and real-time visibility to order status and order history.



DOING INTEGRATION RIGHT

1,400 AIRCRAFT UNDER FLIGHT-HOUR SUPPORT 20+ OEMS SUPPORTED WITH SALES
OF COMMERCIAL AND GOVERNMENT PARTS 250,000+ PARTS REPAIRED ANNUALLY



Solutions Integrator

AAR significantly expanded its **flight-hour component support** of commercial airlines outside North America and to new platforms (NEO, ATR & B737 MAX), growing from 12 to 32 programs, totaling more than 1,400 aircraft. Integrated Supply Chain Solutions now has contracts in **every major region worldwide** — Europe (added ASL Group, Enter Air & Small Planet); Middle East (added flydubai); Australia (extended Air Austral); Asia (added Air New Zealand); Africa (added SAAT); North America (expanded Allegiant) and South America (added Viva LatinAmerica group). AAR's award-winning component repair shop network in New York and Amsterdam expanded to Australasia under a new partnership with Air **New Zealand component repair**.

As part of our growing OEM Aftermarket Solutions, AAR was named an exclusive distributor for global commercial and military aviation markets by **Milton Industries** and expanded our existing agreements with **Eaton, Meggitt and UTAS**. AAR's worldwide network was further integrated to better serve customers with **new warehouses** in Dubai World Central (DWC) Airport and Shanghai.

Nose-to-Tail Support

Challenge: Provide nose-to-tail support for CommutAir's new ERJ 145 fleet, building on AAR's long-term relationship with this regional partner of United Airlines.

AAR Solution: Leverage AAR's breadth of services to provide comprehensive cost-per-flight hour & cost-per-landing support via: component repair in New York; wheel, tire & brake repair in Miami; and component management and access to pool parts through AAR's global warehouse network. Use AAR's new digital platforms to track work in real-time.

Results: Integrated offering from **one supplier** that will provide predictable costs & superior reliability to support this new fleet and CommutAir's growth.



DOING PARTNERSHIP RIGHT

\$3B IN GOVERNMENT ASSETS MANAGED 900+ ISU® MISSION-SPECIFIC CONTAINERS
DESIGNED SINCE 1990 2M+ PASSENGERS TRANSPORTED IN AFGHANISTAN SINCE 2005



Trusted Partner

The U.S. government remains an important market for AAR. AAR Airlift was awarded a new contract by the **U.S. Department of State** for the Global Aviation Support Services program to provide maintenance, operations and logistical support for the Department's International Narcotics and Law Enforcement Office of Aviation aircraft fleet for up to 11 years, which we hope to begin soon upon the resolution of the latest incumbent protest. AAR also continued to support USTRANSCOM with rotary wing airlift services in Afghanistan where Airlift and its predecessor have been operating in rugged terrain since 2005. Airlift attained **NAAMTA Medical Transport Accreditation**, enhancing our standard of care for aerial rescue services.

Order volumes increased in Mobility Systems and included **ISU® reset and repair** opportunities with U.S. Special Operations Command units and a U.S. Air Force contract for KC-46 palletized seating. A NATO contract for specialized storage/shipping containers should help continue this trend and also provides the foundation to launch an ISU® reset and repair facility in Europe in FY18. Mobility was also honored to support the Presidential Inauguration with its **containerized kitchen** used by the National Guard to serve meals to soldiers on site in Washington, D.C.

Prime PBL

Challenge: Provide **total supply-chain management** to support all U.S. Air Force and contractor requisitions received for all C-130, KC-135 & E-3 landing gear parts via a long-term PBL contract.

AAR Solution: Leverage AAR's expertise in managing the repair, maintenance and logistics of landing gear with repair work in Miami and inventory supply & management in Wood Dale, IL, and Ogden, UT. Apply commercial MRO and supply chain best practices to help government increase efficiencies and reduce costs.

Results: AAR chosen as prime contractor for **15-year, \$909 million landing gear award.**

WHAT SETS AAR APART

AFTERMARKET EXPERT **INDEPENDENT** SUPPLY CHAIN IN
NOVATOR **NIMBLE** GLOBAL EXPERTISE, EMERGING MARKET
REACH SOLUTIONS INTEGRATOR **FOCUS** TRUSTED PARTNER



Dear Fellow Shareholders:

This year AAR debuted a brand refresh to help raise our visibility and build value in a dynamic global market. The new brand message is designed to better communicate the Company's breadth of aviation services and our unique ability to provide an independent single source for our customers' aftermarket needs.

Financial Results

Fiscal year 2017 was another solid year for AAR with diluted earnings per share from continuing operations increasing a healthy 32 percent over last fiscal year to \$1.45. The Company's sales grew 4 percent to \$1.77 billion, driven by sales growth in both the Aviation Services and Expeditionary Services segments. Sales to commercial customers represented 66.2 percent of consolidated sales with sales to government customers representing the balance. Our gross profit increased \$16.4 million in Aviation Services and \$22.2 million in Expeditionary Services. Cash flows provided from operating activities for continuing operations was \$24.2 million while net cash used in continuing operations was \$18.5 million as we continued to make strategic investments in our business, including assets to support new multi-year supply chain programs for customers, and return capital to shareholders through dividends and share repurchases.

Operational Highlights

In the Aviation Services sector, we experienced growth in our aircraft and parts supply activities and new contract awards for our Integrated Supply Chain Solutions worldwide. With new airline customers across the globe, we are now supporting over 1,400 aircraft, including next-generation aircraft platforms — A320neo and B737 MAX. Our ability to provide comprehensive fleet support was recognized in the government market with a \$909 million fixed-price contract from the U.S. Air Force for the Landing Gear Performance-Based Logistics One program. We also expanded our international support network entering into a component



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repair partnership with Air New Zealand and opening new warehouses in Dubai and Shanghai. The Parts Supply business added a new product line with the acquisition of ATR parts via a component support

contract with ASL Group in Europe. Our OEM Aftermarket Solutions group continued growth with new or expanded partnerships with Crane, Eaton and Milton. Continuing our goal to provide good-paying jobs to American workers, our 238,000 square-foot state-of-the-art airframe MRO facility opened in Rockford, Illinois.

In the Expeditionary Services sector, we are encouraged by increased volumes in our mobility business, coming off a historical low base. Mobility Systems was recently selected by the U.S. Air Force to provide KC-46 palletized seating and by NATO to provide containers and shelters.

Leadership Changes

This year we announced the retirement of two leaders who helped make AAR the success it is today, welcomed two new leaders, and promoted to President the next generation of leadership who will help me guide the Company to continued success in the future.

SELECTED FINANCIAL HIGHLIGHTS

(dollars in millions except per share data)

| For the year ended May 31* | 2017 | 2016 | 2015 | 2014 | 2013 |
|--------------------------------|------------|------------|------------|------------|------------|
| Operating Performance | | | | | |
| Net sales | \$ 1,767.6 | \$ 1,689.9 | \$ 1,621.4 | \$ 1,744.3 | \$ 1,842.6 |
| Net income attributable to AAR | 56.5 | 47.7 | 10.2 | 72.9 | 55.0 |
| Diluted earnings per share | \$ 1.64 | \$ 1.37 | \$ 0.24 | \$ 1.83 | \$ 1.38 |
| Financial Position | | | | | |
| Working capital | 553.4 | 540.3 | 456.9 | 645.4 | 585.1 |
| Total assets | 1,504.1 | 1,456.0 | 1,454.1 | 2,159.8 | 2,107.0 |
| Total debt | 159.3 | 150.1 | 154.0 | 634.0 | 708.6 |
| Stockholders' equity | 914.2 | 865.8 | 845.1 | 1,000.7 | 919.5 |

* As reported

Board Director General Ron Fogleman will retire from the Board at the October 11, 2017 shareholder meeting. In addition to his 16 years of service to AAR's shareholders, Ron served the country for 34 years, most recently as Chief of Staff of the U.S. Air Force. Ron's wise counsel, sense of humor and business perspective will be greatly missed by me and our fellow Board members. I wish Ron well in his retirement and am certain we will continue to hear from him.

Our long-standing Chief Financial Officer, Tim Romenesko, who also served as Chief Operating Officer, President and Board Vice-Chair during his 36 years at AAR, will be retiring on December 31, 2017. Tim first worked at my side in 1983 as we founded AAR's Aircraft Turbine Center and has been a trusted advisor ever since. I thank him for his dedicated service and look forward to seeing plenty of Tim in his post-retirement years.

I am excited that John Holmes, who was promoted to President and Chief Operating Officer on June 1, 2017 and recently elected to the Board, will lead the innovation, execution and operating performance of our Company. During his 16 years of progressive leadership, John has shown the ability to identify new opportunities and execute on them successfully. I have great confidence in John's leadership abilities and look forward to working with him to bring the Company to new heights.

I am pleased that we added Duncan J. McNabb to our Board of Directors. Duncan, a retired Air Force four-star general, brings to the role 37 years of military service experience, most recently as the Commander of USTRANSCOM, as well as other corporate board experience.

Mike Milligan will join AAR as Vice President and Chief Financial Officer on September 1, 2017. I am confident he will be a great fit and that his 15 years of CFO experience will be a great resource for the Company.

Looking Forward

We have momentum going into Fiscal Year 2018. I feel very good about the capabilities we added in the past year, pleased with our execution, and confident that the investments we have made will fund our future growth. We will continue our business strategy to grow our integrated supply chain and MRO businesses organically, while looking for opportunities to supplement growth through acquisitions and partnerships. We remain disciplined in our approach to acquisitions, with focus on enhancing the value proposition we offer our customers, and the returns we provide to shareholders.

When I visit with our employees worldwide, I am impressed by their level of engagement and their desire to delight our customers which, as we saw in Fiscal Year 2017, is a great path to creating shareholder value. Thanks to our more than 5000 employees for their hard work, to our customers for their business, and to our shareholders for their confidence. We are also grateful to the Board for their dedication to excellence and the sage counsel they provided throughout the year. In all, we are poised to do an even better job of "Doing It Right to better connect the world" next year.



David P. Storch
Chairman and Chief Executive Officer

DOING CSR RIGHT



AAR believes that part of “Doing It Right” means giving back to the communities we serve and where we operate. The Company focuses in four primary areas: **education** with a focus on science, technology, engineering and math (STEM); **veterans**, active military and their families; **health and wellness**; and **diversity and inclusion**.

We took our investment in STEM programs overseas with a new three-year partnership with the **Royal Aeronautical Society’s (RAeS) Cool Aeronautics** STEM program. The program introduces children around the United Kingdom and in RAeS’s overseas branches to the world of flying, aerospace engineering and space exploration.

At our headquarters, we continued our mentorship program with **Perspectives**

Charter School public high school students in Chicago and expanded it to a summer session where students are also mentored by AAR college interns. Our hangars and facilities across the U.S. conducted events and tours for elementary to college-age students to learn about educational paths and good-paying jobs in aviation. Based on support from the Company and our CEO David Storch, David received the 2016 Leroy R. Grumman Award for Technical Achievement from the **Cradle of Aviation Museum** in New York for his visionary support of the STEM Magnet School on the Cradle’s campus.

As part of our commitment to the **military**, AAR contributed to multiple **scholarship funds and foundations**, as well as to the building of the new

Center for Character and Leadership Development at the **U.S. Air Force Academy**. We continued our partnership with **Rags of Honor**, a Chicago-based silk screen company devoted to hiring homeless and unemployed veterans.

In support of **health and wellness**, we donated to the **Brain Research Foundation**, **American Cancer Society**, **CURE** — (Citizens United for Epilepsy Research), **Mayo Clinic**, and others to empower researchers in the effort to conquer diseases that impact us all.

See how AAR continues to make a difference in our communities, for our customers, employees and society at large by visiting: aarcorp.com/about/corporate-social-responsibility/.

GLOBAL EXPERTISE, EMERGING MARKET REACH

U.S.

HQ & warehouse near O'Hare Airport; MRO Services network of 5 airframe & 3 component repair shops; Mobility Systems, Composites & Airlift HQ.

UK

Integrated Supply Chain Solutions office in Gatwick with international support team.

Europe

Warehouse network includes Brussels, Amsterdam, & Hannover serving EMEA & supported by sales offices in Paris & London.

South America

Parts & Supply Chain sales office supporting customers in Latin America & Airlift SAR in Falkland Islands.

South Africa

Office in Johannesburg supporting SAAT contract.

Middle East

New warehouse in Dubai for EMEA.

Singapore

Engineering Services for interior modifications for Asian airlines & warehouse.

China

New warehouse in Shanghai.

Australasia

Flight-hour support for Air New Zealand's fleet of B777s & sales support based in Melbourne.

AAR is an independent provider of aviation services to commercial and government customers in over 100 countries. The company was incorporated in 1955 and today has revenues of approximately \$1.8B with more than 5,000 employees in 20 countries. AAR's aftermarket expertise and award-winning market solutions, which can be integrated or leveraged separately, help customers increase efficiency and reduce costs while maintaining high levels of quality, service and safety. We are a trusted partner to airlines, militaries and OEMs delivering competitiveness so they can focus on transporting passengers, cargo and parts around the world.

MARKET SOLUTIONS



MRO Services

- Airframe
- Landing Gear
- Component Repair
- Engineering/Technical



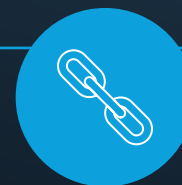
Parts Supply

- Serviceable & OEM Factory-New Parts
- Parts Sale, Exchange, Loan & Lease
- Engine Solutions
- Aircraft Teardown, Sales & Leasing



OEM Aftermarket Solutions

- Supply/Inventory Management
- Warehouse/Logistics
- Sales Support/Market Access
- Government Contract, DLA & ITAR Management



Integrated Supply Chain Solutions

- Flight-Hour Support
- Consumables & Expendables Aggregator
- Contract Logistics Support (CLS)
- Performance-Based Logistics (PBL)



Intelligent Solutions

- Digital Platforms (i.e. AARive)
- Repair Cycle Management (Airinmar)
- Technical Advisory Solutions



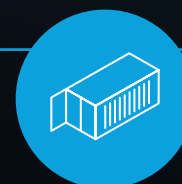
Airlift

- Aerial Transport of Passengers & Cargo
- Search & Rescue
- Fixed-Wing Short Take-off & Landing (STOL)
- Rotary-Wing Cargo Sling Load/Vertical Replenishment



Composites

- Design & Manufacturing:
 - Interior Structures
 - Flat Panels
- Product Testing
- Stress Analysis



Mobility Systems

- Air Cargo Containers (ISUs) & Pallets
- Rapidly Deployable Mobile Tactical Shelters
- SPACEMAX Shelters
- Integrated Command Control (C4) Centers

AAR LEADERSHIP

CORPORATE OFFICERS

David P. Storch
Chairman and Chief Executive Officer

Timothy J. Romenesko
Vice Chairman and Chief
Financial Officer

John M. Holmes
President and Chief Operating Officer

Kathleen M. Cantillon
Vice President, Strategic
Communications

Sarah L. Flanagan
Vice President, Financial Operations

Cheryle Robinson Jackson
Vice President, Global Development

Marcus D. Jadotte
Vice President, Public Affairs

Christopher A. Jessup
Vice President, Chief
Commercial Officer

Dany Kleiman
Vice President; General Manager,
Maintenance, Repair and Overhaul

Salvatore J. Marino
Vice President, Parts Supply Group

Eric S. Pachapa
Vice President, Controller and
Chief Accounting Officer

Robert J. Regan
Vice President, General Counsel
and Secretary

Jason Secore
Vice President and Treasurer

Donald J. Wetekam
Vice President, Government and
Defense Business Development

BOARD OF DIRECTORS

David P. Storch³ — Chairman
Chairman of the Board and Chief
Executive Officer, AAR

Anthony K. Anderson²
Independent Business Consultant;
Former Vice Chairperson and
Managing Partner of Midwest Area
at Ernst & Young LLP

Norman R. Bobins^{1,2}
Director, The PrivateBank

Michael R. Boyce^{2,4}
Chairman, PQ Corporation;
Chairman and Chief Executive
Officer, The Peak Investments

Ronald R. Fogleman^{2,3,4} — Chairman,⁵
Non-Executive Chairman of Orbital
ATK, 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}
Lead Director of Federal Signal
Corporation; Chairman, Federal
Signal Corporation (Ret.); Chairman
and Chief Executive Officer, UAL, Inc.
and United Airlines, Inc. (Ret.)

John M. Holmes
President and Chief Operating
Officer, AAR

Patrick J. Kelly^{1,4}
Managing Director, KMK &
Associates, LLC

Duncan J. McNabb⁴
Co-Founder and Managing Partner
of Ares Mobility Solutions Inc.;
General, U.S. Air Force (Ret.)

Peter Pace^{1,2,4}
General, U.S. Marine Corps (Ret.);
Chairman of the Joint Chiefs
of Staff (Ret.)

Timothy J. Romenesko
Vice Chairman and Chief
Financial Officer, AAR

Jennifer L. Vogel^{2,4}
Co-founder, Invista Advisors LLP;
Former Senior Vice President,
General Counsel, Secretary
and Chief Compliance Officer of
Continental Airlines

Marc J. Walfish^{1,3,4}
Founding Partner, Merit Capital
Partners

Ronald B. Woodard^{1,2} — Chairman
Chairman, MagnaDrive, Inc. (Ret.);
President, Boeing Commercial
Airplane Group (Ret.)

**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: 630-227-2058
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 11, 2017, 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.



NORTH AMERICA

AAR World Headquarters
1100 North Wood Dale Road
Wood Dale, IL 60191
Tel: (+1) 630.227.2000
www.aarcorp.com

EUROPE

AAR International
World Business Centre 1
3rd Floor
1206 Newall Road
Heathrow Airport, Hounslow
Middlesex
UK TW6 2RE
Tel: (+44) 208.990.6700

ASIA PACIFIC & INDIA

AAR International
15A Changi Business Park Central 1
#03-02 Eigthrium @CBP
Singapore 486035
Tel: (+65) 6508.6460

MIDDLE EAST & AFRICA

AAR International
International World Trade Center
The Offices Level 17
PO Box 130456
Abu Dhabi, UAE
Tel: (+971) 2.654.4010