

DOING

IT

TO  
BETTER  
CONNECT  
THE  
WORLD

RIGHT



2016 ANNUAL REPORT

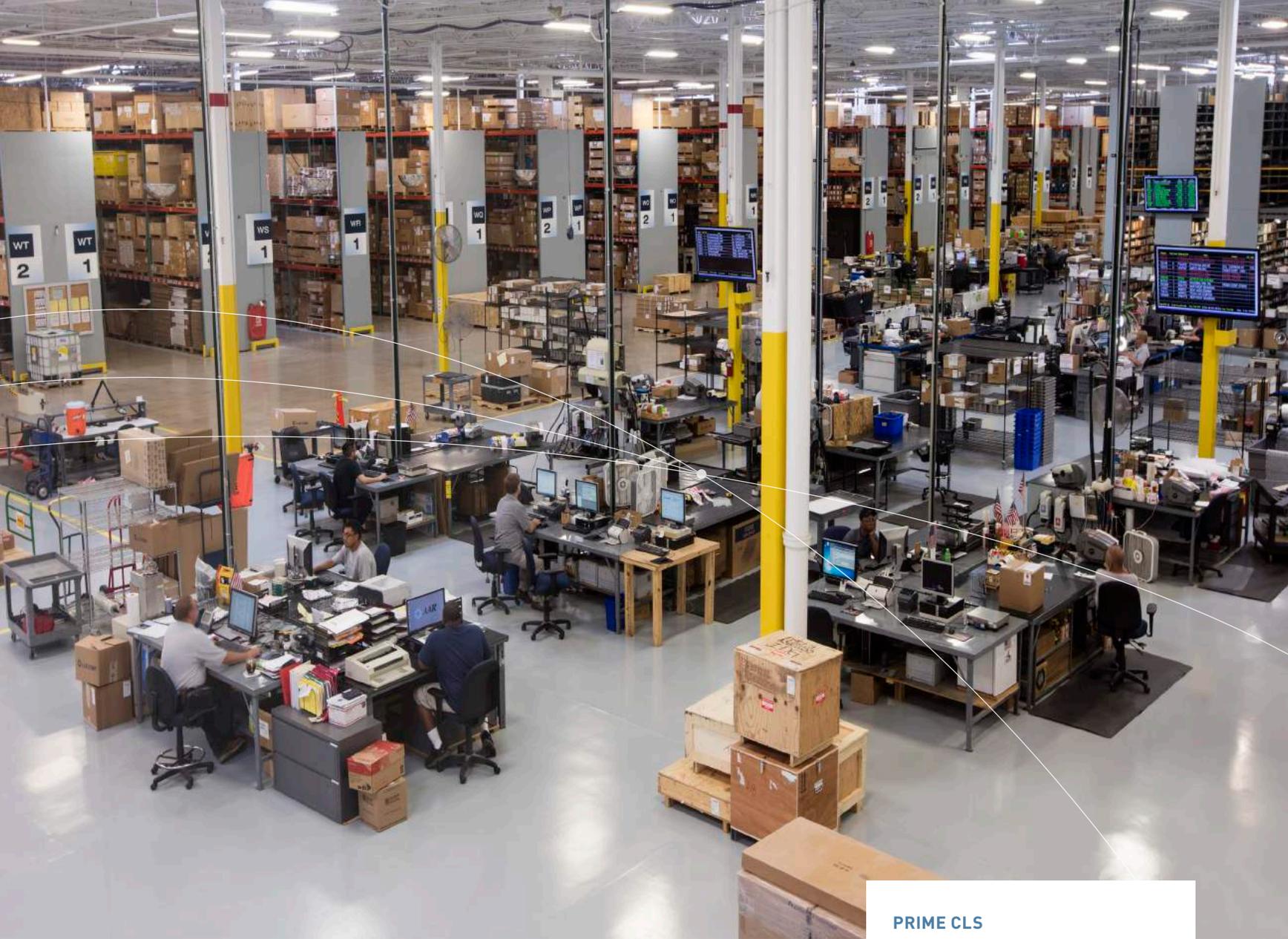
**DOING IT RIGHT**

TO  
BETTER  
CONNECT  
SUPPLY WITH DEMAND

**Parts and Supply Chain** is the fastest growing business in AAR due to our innovative solutions designed to increase efficiency and reduce costs. We can leverage our parts supply experience, global warehouse network, component repair expertise and seamless IT platforms to create an **Integrated Supply Chain Solution** customized for government and commercial fleet operators. We bolstered our international support team this year, which resulted in new PBH contracts with airlines outside the U.S. that benefit from our aftermarket expertise including Volotea, IBEX and fastjet. We were also awarded CLS contracts to support the Navy's C-40A and Afghan C-130 fleets.

A number of new OEM partners and product lines are now leveraging AAR's **OEM Aftermarket Solutions** for inventory management and sales support. We signed an agreement with UTC Aerospace Systems to manage distribution requirements and stock inventory of defense parts in support of Japanese military aircraft and with Crane Aerospace as exclusive spare part distributor and repair provider for their **foreign military sales**.

Recognizing an opportunity to leverage our parts trading and rotorcraft operations experience, AAR launched a new business to provide parts and services to rotorcraft operators. **Rotorcraft Services** provided include part sales/exchanges, engineering and total lifecycle support.



1000+ 50 1100

AIRCRAFT  
SUPPORTED

PRODUCT LINES  
SUPPORTED FOR OVER  
30 OEMS

PART SHIPMENTS  
FROM 27 WAREHOUSES  
DAILY

#### PRIME CLS

**Task:** Provide fleet logistics sustainment, including commercial depot and site support, for the Navy's C-40A Clipper fleet.

**AAR Solution:** Leverage AAR's commercial best practices in flight-hour support and utilize our broad range of services & facilities across the U.S. – parts supply at Chicago warehouse & 5 Navy Air Stations; heavy maintenance at MRO in Oklahoma City, landing gear repair in Miami, and component repair shop in New York. Subcontract with industry leaders for engines (Lockheed Martin) and 14 CFR Part 121 certificate holder (United Airlines).

**Results:** AAR Integrated Supply Chain Solutions chosen as prime contractor for a 5-year, \$105m award.

**DOING IT RIGHT**

TO  
BETTER  
CONNECT  
SAFETY WITH SPEED

**MRO Services** includes the maintenance, repair and overhaul of fixed-wing and rotary-wing airframes, as well as components including landing gear, wheels and brakes. America's largest independent MRO, AAR's 1MRO network includes 5 facilities in North America and was voted **Top Airframe MRO Worldwide** by readers of *ATE&M*. The Duluth MRO celebrated completion of its 200th narrow-body Airbus aircraft for Air Canada, Oklahoma City celebrated completion of its 500th aircraft for Alaska Airlines, and the Indianapolis, Miami and Lake Charles MROs did heavy checks on wide-bodies based outside the U.S. as airlines began to repatriate the work and provided more opportunities for American workers.

AAR's component repair shops continued to receive recognition from customers and regulators. The facility in New York received the FAA's AMT Diamond Award of Excellence for its AMT training program for the tenth consecutive year and the Amsterdam location was named for the third time "Outstanding Source of Repair" and ranked No. 1 among all SOR facilities by the NATO Support Agency.

AAR's Design Engineering group also completed **interior cabin modifications** for many airlines' aircraft operating worldwide including B767, A320, B757, and A330.



5<sup>M</sup>

MANHOURS  
WORKED

2.3<sup>M</sup>

SQUARE FEET OF  
AIRCRAFT SPACE

300<sup>K</sup>

PART REPAIRS  
MANAGED ANNUALLY

#### AFTERMARKET EXPERT

**Task:** Strengthen AAR's leadership position as the leading independent airframe MRO in North America and expand the capabilities of our existing 1MRO network of facilities.

**AAR Solution:** Identify a centrally located airport in a region that is cost effective, offers a trained workforce/A&P program, and an aerospace industrial base, as well as sufficient economic capacity to build a state-of-the art MRO facility to serve next-generation aircraft.

**Results:** AAR opens a new 238,000 square foot facility, with 2 10-story tall hangars at the Rockford International Airport that can service all aircraft platforms up to four Boeing B787s or an Airbus A380 with everything from heavy maintenance checks to modification services.

**DOING IT RIGHT**

TO  
BETTER  
CONNECT  
SUPPORT WITH NEED

AAR's Expeditionary Services businesses provide customers with services and systems to support military, humanitarian and commercial operations worldwide.

**Airlift** – In addition to Falkland Islands search and rescue operations, Airlift was awarded an additional task order and an extension by US Transportation Command for its rotary wing airlift services in Afghanistan. Based on operations in region for over 10 years, Airlift is proud to have earned the Department of Defense's (DoD) confidence. Airlift was also honored by the **Corporate Distinguished Service Award** from the National Defense Transportation Association (NDTA) for our strong and efficient support of the U.S. economy & national security through our work in Afghanistan, Africa and the Western Pacific.

**Mobility Systems** – AAR's Mobility Systems group continues to be an industry leader in supporting troops with shelters, containers and pallets. Demonstrating AAR's long-standing ability to meet the military's evolving needs, Mobility was awarded both the Next Generation Automatic Test System shelters contract for the US Army and a contract for DLA to provide lightweight mobile hybrid shelters for the U.S. DoD. The In-Tech division was awarded contracts to support U.S. Army Central Command Post in Kuwait and U.S. Air Force Air Command & Control systems at Tinker Air Force Base.

Mobility acquired the **SPACEMAX®** product line to expand its portfolio of shelters with a lower-cost, plug-and-play hard-wall option that is light enough to be lifted or towed and can be assembled by 4 people in 5 minutes.



249<sup>K</sup>

FLIGHT HOURS BY  
AIRLIFT SINCE 2005

1.9<sup>M</sup>

PASSENGERS  
TRANSPORTED SINCE  
2005

800<sup>+</sup>

ISU<sup>®</sup> MISSION-SPECIFIC  
CONTAINERS DESIGNED  
SINCE 1990

#### TRUSTED PARTNER

**Task:** Commercialize the search & rescue operation in the Falkland Islands by transitioning from the UK Military of Defense.

**AAR Solution:** Airlift leveraged its experience in 3 areas: operating in rugged terrain such as Afghanistan; integrating civil operations into military organizations; and managing overseas staff. Teamed with subcontractors BIH and ARS and identified new rotorcraft platform (AW189) to take advantage of latest technology.

**Results:** Four-month ramp up of operations included acceptance of 2 customized new production AW189s, training of personnel and deployment of first SAR AW189 in service; Airlift conducted its first rescue operation within days of launch.

HOW WE DO IT RIGHT: OUR VALUES

QUALITY FIRST  
FIND A WAY DO IT WELL  
OWN IT  
INSPIRE TRUST  
MAKE MONEY  
BE INCLUSIVE  
SAFETY  
ALWAYS  
BE HONEST  
WORK AS ONE  
HAVE FUN  
DO IT FAST  
THINK NEW

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**AT AAR, WE  
CONSTANTLY  
SEARCH FOR  
THE RIGHT THING  
TO DO FOR OUR  
CUSTOMERS, OUR  
EMPLOYEES, OUR  
SHAREHOLDERS  
AND SOCIETY.**

**Dear Fellow Shareholders:**

This year AAR reinvigorated our mission and values to help focus our businesses and employees on what we strive for every day – Doing It Right. More than a slogan, Doing It Right to better connect the world is our Company’s purpose. When AAR started in 1955, it was ahead of its time - supplying parts to the burgeoning aviation industry in America. Today, we are an aftermarket leader doing what is right worldwide – serving as a vital link in commercial airline safety and supporting the U.S. military and its allies. Through our services and products, we deliver to our customers the cost savings and efficiencies they need to be competitive. This lets them do what they do best – fly and connect the world.

**Financial Results**

Fiscal 2016 was a solid year for AAR with diluted EPS from continuing operations of \$1.16 and an increase in sales of 4.3% over fiscal year 2015. I am particularly pleased with our performance in the Aviation Services segment, which represents 85% of our consolidated revenue. In this segment, our 8.3% growth outpaced the market as we continue to provide innovative, industry-leading supply chain solutions to an expanding base of commercial and government customers. Our Expeditionary Services segment, representing 15% of our consolidated sales, disappointed with fewer than expected contract positions for Airlift services and softer than anticipated military demand for our Mobility Systems.



During the year, we returned approximately \$30 million to shareholders through dividends and share repurchases. We ended the year in a strong financial position with cash on hand plus unused capacity on our credit facility of slightly over \$400 million. This financial strength gives us the stability, flexibility, and capacity to not only invest in existing businesses, but also aggressively pursue acquisitions while maintaining strong financial discipline.

**Operational Highlights**

I am pleased with the progress we made expanding our operations to numerous locations around the world, which is detailed in the pages of this annual report. Highlights for Aviation Services include the accelerated expansion of our integrated supply chain solutions outside North America with new PBH awards from airlines including Volotea in Europe, fastjet in Africa and IBEX in Asia. In the government market, we successfully transitioned from subcontractor to prime contractor in providing Contract Logistics Support to the U.S. Navy’s C-40A and Afghan Air Force’s C-130 fleets. The segment also expanded its aftermarket support for OEMs including Eaton, Crane Aerospace and UTC Aerospace Systems. A bright spot in Expeditionary Services was the on-time launch of Airlift’s Search and Rescue operations in the Falkland Islands for the UK Ministry of Defense. The 10-year contract demonstrates AAR’s ability to leverage its operational experience to secure new contracts worldwide.

## SELECTED FINANCIAL HIGHLIGHTS

(dollars in millions except per share data)

For the year ended May 31*	2016	2015	2014	2013	2012
<b>Operating Performance</b>					
Net sales	\$ 1,662.6	\$ 1,594.3	\$ 1,709.1	\$ 1,807.9	\$ 1,865.7
Net income attributable to AAR	47.7	10.2	72.9	55.0	67.7
Diluted earnings per share	\$ 1.37	\$ 0.24	\$ 1.83	\$ 1.38	\$ 1.65
<b>Financial Position</b>					
Working capital	544.1	483.8	684.7	626.7	567.5
Total assets	1,442.1	1,454.1	2,159.8	2,107.0	2,163.1
Total debt	150.1	154.0	634.0	708.6	792.2
Stockholders' equity	865.8	845.1	1,000.7	919.5	866.0

\* As reported

### Market Outlook

AAR is well-positioned to benefit from growth in both the commercial and government aviation markets. While we see modest growth in the airline industry, AAR's industry-leading value proposition will allow us to increase market share. We have experienced growth in our integrated supply chain programs supporting the government market and expect more as governments around the world adopt outsourced solutions as a way to reduce operating costs. While U.S. defense budgets are expected to remain under pressure, we have had some initial success transitioning our Airlift operations into new programs and have some large opportunities in the pipeline. There is much uncertainty in the world, and AAR's Airlift and Mobility businesses are well positioned to support the movement of troops and supplies that may be needed in new or expanded theaters of military operation.

### Looking Forward

For the next fiscal year, we will continue to make investments in our industry-leading operations, and I am excited about our future prospects. We will soon open a new two-hangar MRO facility at the Rockford, Illinois airport that was custom built and designed to serve next-generation aircraft, allowing us to build on our position as the largest independent MRO provider in North America.

AAR's goal is to be the best and largest aviation after-market services provider in the world. To achieve that goal, we are focused on increasing our profit margins, improving ROIC, and growing earnings. Our executive compensation plans are designed by our Board of Directors to drive improvements in these key financial metrics. To improve operational performance deeper in the organization, we launched a best-in-class performance program that paid bonuses this year to front-line employees in the MRO and Airlift operations for meeting key quality, execution and safety metrics.

In closing, we appreciate the renewed commitment of our over 4500 employees in 20 countries to Doing It Right and living our values every day. We firmly believe that pursuit of these values will benefit our shareholders, our customers and the communities in which we do business.

I am pleased that we added a new member to our Board of Directors this year with the election of a highly successful aviation executive, Jennifer L. Vogel. Jennifer's addition strengthens and diversifies a highly accomplished Board. We are grateful to the Board for its vital role in helping us to achieve positive financial results and maintain our long-term focus on the Company's strategic direction.

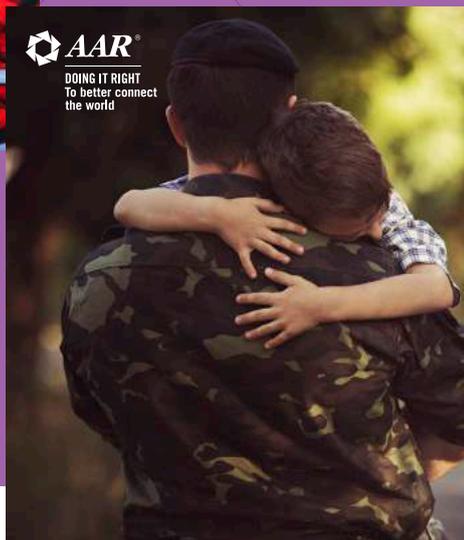


**David P. Storch**  
Chairman, President and Chief Executive Officer

DOING IT RIGHT



TO BETTER CONNECT  
VALUES WITH ACTIONS



DOING IT RIGHT

AAR CEO David P. Storch is proud to support CURE's work to find a cure for epilepsy by raising funds for research. As a provider of aviation services to government, AAR is particularly excited about CURE's new research program focused on post-traumatic epilepsy (PTE) as a result of traumatic brain injury (TBI), which will benefit veterans who have been touched by TBI resulting from PTE.

At AAR, part of living our values is giving back. The Company invests in non-profits and organizations that provide support in three primary areas: **veterans, education (with a focus on STEM), and health and wellness**. We also contribute to organizations and events in the communities where our facilities are located and our employees live such as airshows and events that raise money to fight common diseases.

We continued our partnership with **Rags of Honor**, the Chicago-based apparel company devoted to hiring unemployed veterans, which leveraged AAR's investment to move into a larger facility on the city's north side. Also to benefit vets, AAR CEO David P. Storch chaired a fundraiser for **CURE**, which is devoted to finding a cure for epilepsy by raising funds for research and just received a Dept. of Defense grant to focus on post-traumatic epilepsy that results from traumatic brain injury.

We took our partnership with **Perspectives Charter Schools** in Chicago to the next level when employees volunteered to serve as mentors to high-school students interested in aviation who spent one day a week in our office learning about the industry. We continued tours of our MRO hangars for students, including those from **Overtown Youth Center** in Miami, so they could learn about well-paying jobs in aviation and the importance of studying science, technology, engineering and math (STEM). And we even took our career outreach efforts international by donating school supplies to the **Aviation Education Center** that runs camps for school-aged children in Nigeria to encourage school attendance.

## GLOBAL EXPERTISE, EMERGING MARKET REACH

U.S. – HQ & warehouse near O’Hare Intl. Airport; MRO Services network of 5 facilities & 3 component repair shops; Mobility Systems & Airlift HQ.

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

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

South America – Parts & Supply Chain sales office supporting customers in Latin America.

Central Africa – 3 operational bases in austere locations serving U.S. troops and U.N. peacekeeping mission.

South Africa – New office in Johannesburg supporting commercial airlines throughout the continent.

Singapore – Design Engineering Services developing interior modifications for Asian airlines.

AAR is an independent provider of services to the commercial aviation and government markets worldwide. The company was incorporated in 1955 and today has revenues of approximately \$1.7 billion with more than 4500 employees in 20 countries. AAR’s aftermarket expertise and award-winning aviation services, 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 customers in over 100 countries delivering competitiveness so they can focus on transporting passengers, cargo and parts around the world.

# AAR AT-A-GLANCE

## SERVING COMMERCIAL OPERATORS, GOVERNMENT & OEMS

### AVIATION SERVICES



#### PARTS & SUPPLY CHAIN

Our aviation supply chain business ranks among the world's top providers of after-market aircraft parts, logistics and inventory management, as well as OEM components. We offer a full menu of services and can customize a program that minimizes risk and provides price certainty for commercial aviation and government fleets.

##### Parts Supply

- Parts Sale, Exchange, Loan & Lease
- Parts Kitting
- Engine Solutions
- Aircraft Sales & Leasing

##### OEM Aftermarket Solutions

- Supply/Inventory Management
- Warehouse/Logistics
- Sales Support/Market Access
- Government Contract Management
- Military Packaging
- DLA Access/ITAR Compliance

##### Integrated Supply Chain Solutions

- Flight Hour Support
- C&E Aggregator
- 24/7 AOG
- CLS
- PBL
- Repair Cycle Management (Airinmar)



#### MRO SERVICES

We are the largest independent provider of airframe MRO in the Americas and the third largest in the world. We operate a network of 5 airframe repair facilities across the U.S., as well as shops for component repair in and outside the U.S. with services ranging from heavy checks to interior modifications.

- Airframe
- Landing Gear
- Component
- Rotorcraft
- FBO
- Design Engineering
- Technical

### EXPEDITIONARY SERVICES



#### AIRLIFT

Our well-respected airlift group made its name supporting U.S. troops in Afghanistan and also provides turnkey solutions to support vital defense, contingency and human aid operations in austere environments around the world.

- Aerial Transport of Passengers & Cargo
- Search & Rescue
- Night Vision Systems
- Aeromedical Services
- Fixed-Wing Short Take-Off & Landing (STOL) Support
- Rotary-Wing Cargo Sling Load Operations
- Vertical Replenishment



#### MOBILITY SYSTEMS

Our industry-leading mobility business designs and manufactures specialized systems to support the movement of people and supplies for military, humanitarian and commercial operations.

- Air Cargo Containers (ISUs) & Pallets
- Cold Chain Solutions (Temperature-Controlled Containers)
- Rapidly Deployable Mobile Tactical Shelters
- SPACEMAX® Shelters for Multi-Use
- Integrated Command & Control (C4) Centers

# AAR LEADERSHIP

## CORPORATE OFFICERS

**David P. Storch**  
Chairman of the Board, President  
and Chief Executive Officer

**Timothy J. Romenesko**  
Vice Chairman and Chief  
Financial Officer

**John M. Holmes**  
Vice President; Chief Operating  
Officer of Aviation Services

**Kathleen M. Cantillon**  
Vice President, Strategic  
Communications

**Michael K. Carr**  
Vice President, Tax and Assistant  
Treasurer

**Cheryle R. Jackson**  
President, AAR Africa

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

**Randy J. Martinez**  
Vice President, Business Development

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

**Robert J. Regan**  
Vice President, General Counsel  
and Secretary

**Jason B. Secore**  
Treasurer

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

## BOARD OF DIRECTORS

**David P. Storch**<sup>3 – Chair</sup>  
Chairman of the Board, President  
and Chief Executive Officer  
AAR CORP.

**Anthony K. Anderson**<sup>2</sup>  
Independent Business Consultant;  
Former Vice Chair and Managing  
Partner of Midwest Area of Ernst &  
Young LLP

**Norman R. Bobins**<sup>1,2</sup>  
Non-Executive Chairman, The  
PrivateBank and Trust Company—  
Chicago

**Michael R. Boyce**<sup>2,4</sup>  
Chairman and Chief Executive Officer,  
PQ Corporation (Ret); Chairman and  
Chief Executive Officer, The Peak  
Group (Ret.)

**Ronald R. Fogleman**<sup>2,3,4 – Chair, 5</sup>  
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. Goodwin**<sup>1 – Chair, 3, 4</sup>  
Lead Director of Federal  
Signal Corporation  
Chairman, Federal Signal  
Corporation;  
Retired Chairman and Chief  
Executive Officer,  
UAL, Inc. and United Airlines, Inc.

**Patrick J. Kelly**<sup>1,4</sup>  
Managing Director, KMK &  
Associates, LLC

**Peter Pace**<sup>1,2,4</sup>  
General, U.S. Marine Corps (Ret.);  
Chairman of the Joint Chiefs  
of Staff (Ret.)

**Timothy J. Romenesko**  
Vice Chairman and Chief  
Financial Officer  
AAR CORP.

**Jennifer L. Vogel**<sup>2,4</sup>  
Vista Advisors Co-founder  
and Owner;  
Former Senior Vice President,  
General Counsel, Secretary  
and Chief Compliance Officer of  
Continental Airlines

**Marc J. Walfish**<sup>1,3,4</sup>  
Founding Partner, Merit Capital  
Partners

**Ronald B. Woodard**<sup>1,2 – Chair</sup>  
Chairman, MagnaDrive, Inc. (Ret.);  
Retired President, Boeing  
Commercial Airplane Group

**Honorary**  
**Ira A. Eichner**  
Founder and Chairman of the  
Board Emeritus

- <sup>1</sup> Member of Audit Committee
- <sup>2</sup> Member of Compensation Committee
- <sup>3</sup> Member of Executive Committee
- <sup>4</sup> Member of Nominating and Governance Committee
- <sup>5</sup> Lead Director

## STOCKHOLDER INFORMATION

**Corporate Headquarters**  
AAR CORP.  
1100 North Wood Dale Road  
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Telephone: 630-227-2000  
Facsimile: 630-227-2058  
[www.aarcorp.com](http://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 Tuesday, October 11, 2016, 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**

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#### **EUROPE**

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London, UK TW6 2RE  
Tel: 44 208.990.6700

#### **ASIA PACIFIC & INDIA**

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Singapore 486035  
Tel: 65.6508.6460

#### **MIDDLE EAST & AFRICA**

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Abu Dhabi, UAE  
Tel: 971.2495. 6702