

 *AAR* | **2005**

**Our industry  
has seen its  
share of turmoil.**

**Challenged by rising fuel costs, fierce  
competition and mounting financial  
pressures, many of our customers  
struggle to navigate the changes.**

# For AAR, the forecast is clear.

Grow our business by helping customers rise above the turbulence and move beyond the turmoil.

## FINANCIAL HIGHLIGHTS

FOR THE FISCAL YEAR ENDED MAY 31

000'S OMITTED EXCEPT PER SHARE DATA

	2005	2004	2003
<b>OPERATING PERFORMANCE</b>			
NET SALES	\$747,848	\$644,469	\$599,842
INCOME (LOSS) FROM CONTINUING OPERATIONS	18,572	4,565	(10,578)
DILUTED EARNINGS (LOSS) PER SHARE FROM CONTINUING OPERATIONS	\$0.55	\$0.14	(\$0.33)
<b>FINANCIAL POSITION</b>			
WORKING CAPITAL	\$314,517	\$300,943	\$192,837
TOTAL ASSETS	732,230	709,292	686,621
TOTAL DEBT	230,904	252,058	256,914
STOCKHOLDERS' EQUITY	\$314,744	\$301,684	\$294,988

## Dear Fellow Stockholders,

Fiscal 2005 was a year of improved financial performance with growth across all of AAR's business segments. During the year and in the months that followed, AAR won a number of significant programs, solidifying our standing in the marketplace and positioning the Company for future growth.

*While overall market conditions improved, many of our airline customers, particularly in the United States, struggled as the cost of fuel hit record highs. Meanwhile, our government and defense customers carried out their winning strategy of partnering with industry to manage their supply chains and improve their ability to mobilize troops and equipment. The major aircraft manufacturers signaled the shape of things to come with new aircraft designed to meet the changing requirements and route structures of the recovering aviation industry.*

*In this environment, AAR outperformed the growth of our industry, increased sales in all four of our operating segments, gained market share and generated cash to fund the Company's growth initiatives and expansion into new markets.*

During fiscal 2005, AAR grew its sales to \$747.8 million, a 16% increase over last year, and increased income from continuing operations by more than 300%. We also generated cash flow from operations of \$51 million, the highest level in the Company's history, enabling us to strengthen our balance sheet and make a number of strategic investments during the year.

This solid sales growth included a 26% increase in sales to airline customers, reflecting a moderate improvement in commercial aviation and AAR's growing share of this recovering market. Sales to AAR's government and defense customers also remained strong and increased 8% year-over-year as we continued to benefit from our defense customers' push to mobilize their forces and streamline their supply chains.

Overall, AAR made meaningful progress in nearly all areas of its financial performance. We increased the Company's gross profit margin to 16.2% from 15.6% a year earlier and reduced SG&A expense as a percentage of sales from 12.5% to 11.8% on a year-over-year basis.

We also lowered the Company's net interest expense by \$1.5 million as we reduced our debt throughout the year. Income from continuing operations for the year was \$18.6 million, or 55 cents per diluted share, compared with \$4.6 million or 14 cents per diluted share in fiscal 2004.

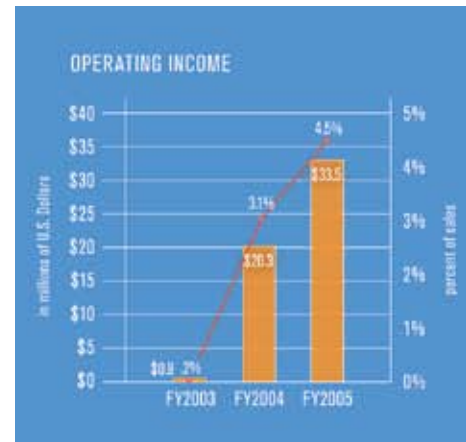
### **CAPITALIZING ON CHANGES IN OUR INDUSTRY**

During the year, worldwide airline traffic improved as the general flying public once again took to the skies. Available seat miles were up 11%, revenue passenger miles flown were up 14% and passenger traffic was up 12%, although many of the U.S. airlines struggled to improve their yields and combat the rising cost of fuel.<sup>1</sup> As crude oil continues to trade at record levels, we're anticipating further upheaval in the U.S. aviation marketplace.

AAR's government and defense customers invested in products and services to improve their ability to mobilize and respond to a growing variety of potential threats around the world. This resulted in continued strong demand for AAR's mobility products. While we don't expect these volumes to continue at record rates, we view the business environment favorably in the long term, as the U.S. reduces the number of permanent bases and migrates to a more mobile deployment strategy. Additionally, among the U.S. and its allies, there is growing acceptance of strategic partnerships with industry to manage platforms to improve mission readiness and contain costs.

During the year, the Company experienced strong demand from our customers in Asia and Europe, two markets we have targeted as growth areas. In Asia, to position ourselves in this growing market, we're increasing AAR's profile and presence primarily through partnership opportunities, as demonstrated by our landing gear joint venture with AIROD in Malaysia. In Europe, we are gaining market share with new and expanded inventory support programs. In fiscal 2005, we saw results from our efforts in these markets as reflected by a 47% sales increase in Asia and a 34% increase in Europe.

<sup>1</sup>Based on International Civil Aviation Organization (ICAO) data.



### STRENGTHENING OUR INDUSTRY-LEADING POSITION

To maximize revenues, increase market share and further align our operations to the marketplace, we made adjustments to our four business segments.

The Aviation Supply Chain segment includes all of our parts supply and licensed component repair facilities that offer inventory and supply chain management services to commercial and defense customers. Sales for these businesses increased 12% for the year and fourth quarter sales were exceptionally strong with a 34% year-over-year increase.

Subsequent to year-end, we were awarded a contract, as a member of the Northrop Grumman team, to provide supply chain services for the United Kingdom's Royal Air Force fleet of E-3D Sentry AWACS aircraft. AAR's portion of the contract is valued at approximately \$400 million over a 20-year term. This agreement builds upon the excellent relationship we've established teaming with Northrop Grumman in support of the U.S. Air Force Joint STARS program. Further, in August 2005, we were selected by Mesa Air Group to provide a fully integrated supply chain program for their CRJ 700/900 and ERJ 145 regional fleets. This major program, valued at nearly \$200 million over a 10-year term, combines our logistics, repair and asset management skills into a complete end-to-end solution and strengthens AAR's position in the fast-growing regional market.

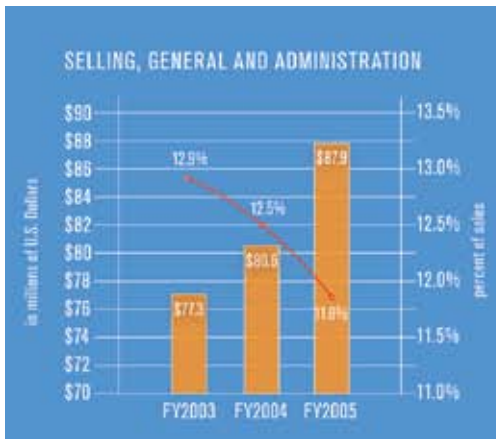
The Maintenance, Repair and Overhaul (MRO) segment includes our Oklahoma airframe facility, our recently established Indianapolis MRO operation and our Landing Gear Services business. Sales for the

MRO segment were up 5%, as many of our airline customers continued their recovery and searched for ways to reduce their operating costs.

Since announcing plans last year to commence operations in Indianapolis, we received our FAA certification; secured our first nose-to-tail customer, United Airlines; and successfully completed six heavy maintenance checks. Today, we're fully operational in three of the 10 bays available to us through our lease agreement. This accomplishment demonstrates the vision and dedication of a great many AAR employees, as well as the Company's entrepreneurial spirit — which is still alive and well in our 54th year.

Our Structures and Systems segment includes our businesses that design, engineer and manufacture mobility systems, cargo systems and composite structures. Sales in this segment increased 23% and, shortly after year-end, we received the largest original equipment order in the Company's history. AAR Cargo Systems was selected to provide in-plane cargo handling systems for the new Airbus A400M Military Transport Aircraft as a subcontractor to Pfalz Flugzeugwerke GmbH (PFW) of Speyer, Germany. AAR's share of the revenue from systems, service and spare parts sales is expected to exceed \$300 million over the duration of the program with deliveries expected to begin toward the end of AAR's fiscal year 2007.

In the Aircraft Sales and Leasing segment, we continued to leverage our aircraft trading experience and integrated capabilities and have successfully attracted financial partners, enabling us to expand our participation in this market. During the year, we added six aircraft to our fleet and are focusing on a specific niche as we continue to approach this market opportunistically.



We're committed to investing in our employees and during the year made a significant effort to ensure that all of AAR's 646 aviation maintenance technicians had the training they needed to excel at performing their jobs. As a result, AAR earned the Federal Aviation Administration's Diamond Certificate of Excellence Award at every one of its certified repair stations. This prompted the FAA to pay a special visit to AAR to recognize our employees' and the Company's commitment to ensuring the highest levels of quality and flight safety for customers and the flying public.

#### IN CLOSING...

In January, we announced that Ira A. Eichner, AAR's founder and Chairman of the Board, will retire from our Board of Directors effective October 19, 2005. We are forever grateful for Ira's vision in creating the Company, which began from humble origins in 1951. Once a one-man operation located in downtown Chicago, AAR is now a global industry leader with over 2,700 employees located around the world. In building the Company, Ira established a solid foundation of integrity, fiscal responsibility, quality and customer dedication, which is still in place today. It is with great pride and reverence that I accept the challenge of following in his footsteps and assuming his role as Board Chairman. On behalf of the entire AAR team, we wish Ira all the best in his well-deserved retirement and thank him for his vision, his dedication and his legacy.

In June, Joel Spungin, a truly valued member of our Board of Directors since 1992, passed away. Joel was a devoted and insightful Director, as well as an active member of our Audit and Compensation Committees. We will certainly miss Joel's contributions and remember him fondly.

I'd like to acknowledge the dedication and contributions of the men and women of AAR who made fiscal 2005 another successful year for the Company. I'd also like to thank our customers for their business and for placing their trust in AAR. And, lastly, I want to thank our stockholders for their confidence in AAR and for investing in our future.

This year's accomplishments would not have been possible without the wisdom and guidance of our Board of Directors. Their experience, intuition and absolute commitment to sound corporate governance helped guide AAR through our industry's worst down cycle and emerge a stronger and better Company.

Fiscal 2005 was a building year for AAR. While we made excellent progress on our goals, including a 67% increase in share price, our greatest accomplishment was positioning the Company for the future. As we step up to the challenges of our new fiscal year, I believe that we have an excellent team in place — one that is energized and ready to capitalize on the exciting changes in our industry.

Sincerely,

David P. Storch  
President and Chief Executive Officer

August 24, 2005

**CORPORATE OVERVIEW**

# AAR at-a-glance

For more than 50 years, AAR has helped the world's airlines and governments maximize aircraft uptime with comprehensive products, services and support programs.

**AAR BUSINESS SEGMENTS**



**Aviation Supply Chain**

AAR is a recognized leader in providing comprehensive aviation supply chain programs. We offer a wide variety of services that range from supplying individual spare parts to implementing end-to-end supply chain management programs. In addition to our program management capabilities, we maintain an extensive inventory of new and refurbished parts for virtually every type of aircraft in operation today. Our goal is to help customers reduce costs, increase parts availability and minimize downtime.

As part of our Aviation Supply Chain solutions, we also offer component repair services; overhaul, exchange and scrap replacement options; PMA parts supply; and proprietary systems integration solutions that provide customers with complete visibility across multi-vendor programs.

**Products and Services**

- Airframe Parts Supply & Repair
- Engine Parts Supply
- Inventory Management Programs
- PMA Development & Supply
- Business Systems Integration



**Maintenance, Repair and Overhaul**

AAR provides complete nose-to-tail support for our customers' aircraft maintenance, repair and overhaul needs, including everything from major structural repairs to the replacement of a single part. The start of operations at our world-class MRO facility in Indianapolis adds to the depth and breadth of services we offer through our Landing Gear Services facility in Miami, Florida, MRO facility in Oklahoma City, Oklahoma, and our aircraft storage operation in Roswell, New Mexico.

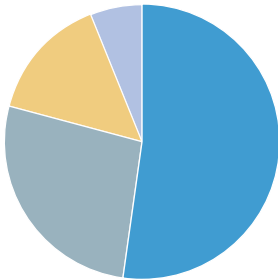
AAR is a high-quality, cost-effective resource for customers looking to control their expenses without sacrificing quality, service or safety. Our diverse portfolio of MRO services also gives our customers a single source for all of their maintenance needs.

**Products and Services**

- Aircraft Maintenance
- Landing Gear Services
- Aircraft Storage

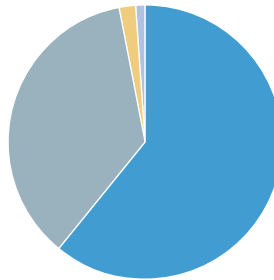
**SALES BY SEGMENT, MARKET AND REGION**

Sales by Segment



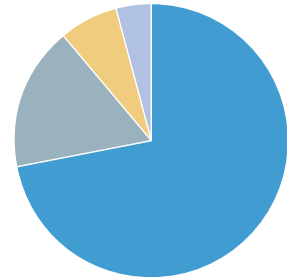
- Aviation Supply Chain – 52%
- Structures and Systems – 27%
- Maintenance, Repair and Overhaul – 15%
- Aircraft Sales and Leasing – 6%

Sales by Market



- Commercial Aviation – 61%
- Defense Services – 36%
- General Aviation – 2%
- Industrial Products – 1%

Sales by Region



- North America – 72%
- Europe – 17%
- Asia/Pacific – 7%
- Other – 4%

**Structures and Systems**

AAR manufactures and repairs specialized mobility products that include custom pallets, containers and shelters used by U.S. forces and their allies to enhance their ability to mobilize and deploy troops and equipment. We also specialize in the design and manufacture of customized in-aircraft cargo loading systems and advanced composite structures for the aviation and transportation industries. Parts and services for industrial gas and steam turbines are also included in this segment.

Our dedicated professionals ensure customer satisfaction by supporting a culture of innovation, accountability, quality and continuous improvement. For us, speed and precision go hand-in-hand. That means meeting our customers' tightest deadlines while getting the job done right the first time.

**Products and Services**

- Mobility Systems
- Cargo Systems
- Composite Structures
- Heavy Industrial Turbines

**Aircraft Sales & Leasing**

AAR helps our customers locate and acquire aircraft and provides innovative financing solutions. We provide start-to-finish guidance in sourcing, purchasing and remarketing aircraft and help customers protect their assets with a wide range of technical services. These services include aircraft evaluations, borescope inspections, lease return condition analysis, aircraft and engine records audits, preparation and storage, and asset management.

We match sellers with buyers, meeting specific operational and financial requirements and helping to determine optimal financing arrangements. Our sales and leasing services help customers adjust their fleet composition to meet the demanding needs of changing economics, route systems and passenger preferences.

**Products and Services**

- Aircraft Sales and Leasing
- Advisory Services
- Joint Ventures



## AVIATION SUPPLY CHAIN

# Managing the supply chain – end-to-end

New opportunities for aviation supply chain programs are on the rise – as is our share of the business.

Forecasts indicate continued growth for this segment of the industry, which encompasses parts supply programs and component repairs. For example, \$7.6 billion was spent for commercial airline component MRO in 2004. That's projected to increase to \$10.1 billion by 2009 and \$12.3 billion by 2014. On the defense side of the equation, components currently account for approximately \$9 billion of the aggregate MRO spend, and performance-based logistics programs are presenting new opportunities for innovative companies with advanced supply chain solutions.<sup>1</sup>

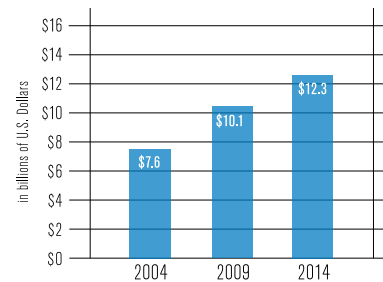
### Speeding Critical Components On Their Way

End-to-end management of the supply chain means critical components are ready to go whenever and wherever they're needed. Neither civilian nor military operators can tolerate the burden or expense of excessive inventory consuming resources and adding cost. AAR has the experience and the expertise to deliver the fully integrated solutions our customers need.

### Leveraging the Digital Revolution

What's different about many of today's new breed of components is that they're digital and more reliable than their analog ancestors. Instead of exhaustive test bench examinations, many squawks can be identified via remote computer testing. The net result: units are back in operation sooner. The digital revolution has gone a long way in promoting the lean-shelf, quick-turn philosophy that has cut aircraft downtime and reduced inventory costs. AAR possesses the expertise to leverage this revolution. It also has the know-how to precisely manage the day-to-day logistics that keep an airline or a military fleet up and running.

MARKET OUTLOOK – COMPONENT REPAIR



Source: AeroStrategy Management Consulting

The market for component repair, offered as part of our end-to-end supply chain programs, is projected to grow 62% over the next 10 years.

In 2005, Mesa Air Group subsidiary Air Midwest chose AAR to provide supply chain services for its fleet of Beech 1900D propjets. AAR has engineered a comprehensive materials management program encompassing logistics, line station and repair management, scrap replacement and servicing for all four of Air Midwest's line stations, as well as its 10 outlying repair stations, helping Air Midwest to focus on their customers while freeing up capital. The success of this program earned AAR a new contract to support Mesa's CRJ 700/900 and ERJ 145 fleets.

### Helping the Navy to Fly

On the military side, AAR was awarded a contract from Link Simulation and Training to provide logistical support for the United States Navy's new C-40As, a Boeing 737-700 variant. Under the terms of the agreement, an AAR/American Airlines team will perform comprehensive inventory supply chain management and airframe maintenance for the twin-jet transports — partnering to provide a complete end-to-end solution.

Today's operators, both civilian and defense, demand comprehensive, time-critical supply chain management. They want tight turnarounds and reliable service. It's an arena in which AAR delivers.

Aviation Supply Chain activities, which include component repair and overhaul, accounted for \$390.1 million in FY2005 — a full 52 percent of AAR's sales. This was up significantly from FY2004's figure of \$349.5 million.

<sup>1</sup> Overhaul & Maintenance magazine, Team SAI and BACK Aviation Solutions.



# Aviation's vital link.

AAR HELPS KEEP AIRCRAFT IN THE AIR — SPEEDING CRITICAL PARTS AND PROVIDING REPAIR SERVICES TO COMMERCIAL AND DEFENSE CUSTOMERS AROUND THE WORLD.

## MAINTENANCE, REPAIR AND OVERHAUL

## Reducing costs for carriers – it takes a partnership

More and more carriers are aligning themselves with AAR. The reason why: lower maintenance costs. And fewer headaches.

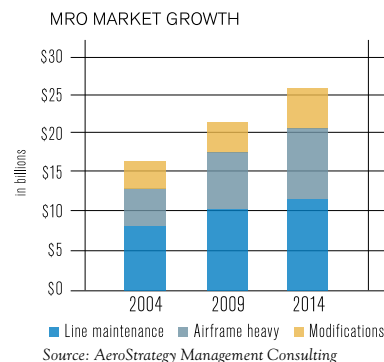
*Last year, AAR opened the doors to its new world-class MRO facility in Indianapolis. But today's aviation industry demands more than raw capability and operational excellence. At the core of our industry is the premise of partnership — of shared risks and rewards. In no arena is this more apparent than Maintenance, Repair and Overhaul.*

*Airlines, fiscally pressed to find ways to maintain quality and improve yields, are working with MRO providers to formulate solutions. In the forefront of that mission is AAR.*

### An Expanding Future

The MRO market shows no signs of leveling off. Increasingly, customers are viewing contract maintenance as a viable alternative for lowering their costs without sacrificing quality, service or safety. And AAR is well-positioned with the capacity, capability and workforce to respond to this growing demand.

That is what's compelling for AAR. What makes it worthwhile for airlines is that unit costs are dropping. In 2002, they were \$15.91 per 1,000 available seat miles (ASMs). By 2005, they had fallen to \$12.90 per 1,000 ASMs — a decline of 18.9 percent.<sup>1</sup> The forecast is for annual declines of approximately 3 percent for the next five years. Contract maintenance is a meaningful part of this significant savings.



AAR is well-positioned to capitalize on the growing demand for MRO services.

### Beating Costs Through Partnership

High quality and lower costs through partnerships with our customers. It's a formula for mutual success — nothing less than a fundamental change in the way MRO is managed. Leveraging the success of AAR's Oklahoma-based MRO operation and Miami-based landing gear facility, is AAR's new state-of-the-art Indianapolis maintenance facility. It's there that AAR provides heavy maintenance for United Airlines' fleet of 737s and the partnership has already reduced UA's 737 MRO costs. Credit for this success goes to AAR's highly trained technicians, who consistently deliver industry-leading turn times and are committed to service excellence and flight safety.

As carriers align themselves with AAR, we are working more closely with global partners to deliver high quality and containable costs elsewhere in the world. In 2005, AAR signed a joint venture agreement with Malaysian MRO provider AIROD to establish a landing gear overhaul facility in the dynamic South Asian nation. The joint venture is in a region where both cargo and passenger traffic are projected to grow between 5 and 7 percent over the next few years.

Whether we're serving customers in North America or Southeast Asia, the term "partnership" translates equally well.

MRO accounted for 15 percent of AAR's sales in FY2005 — \$111.9 million. The numbers were up from 2004's \$106.4 million and significantly above 2003's \$93.4 million.

### INDIANAPOLIS START-UP – CONCEPT TO CUSTOMER IN LESS THAN ONE YEAR.

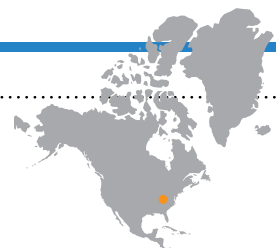
**JUNE 2004**  
Announce  
Start-Up Plans

**JULY 2004**  
Host  
Job Fair

**NOVEMBER 2004**  
Receive FAA  
Certification

**FEBRUARY 2005**  
Hire General  
Manager

**MARCH 2005**  
Sign First  
Customer



<sup>1</sup>Overhaul & Maintenance magazine, Team SAI and BACK Aviation Solutions.



# Ready to fly.

AAR'S NEWEST MRO FACILITY FEATURES SOME OF THE MOST ADVANCED EQUIPMENT IN THE WORLD. BUT IT'S OUR PEOPLE THAT KEEP OUR CUSTOMERS' PLANES FLYING SAFELY.

## STRUCTURES AND SYSTEMS

## Meeting the challenges of the world's fleet

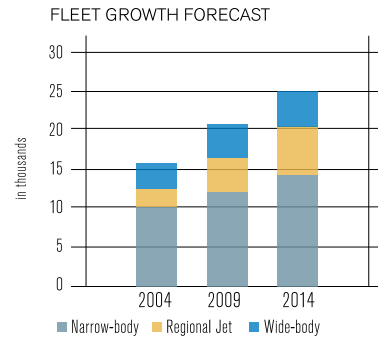
We're putting our advanced engineering to work where it's needed most — on solving problems for our customers.

Many factors have combined to drive AAR's continued strength and growth in this segment. Our defense customers' push to increase operational mobility of troops has been a primary driver, and it continues to present significant long-term prospects. To complement that business going forward, AAR is sharpening its focus on the commercial sector with an emphasis on increased engineering content and more original equipment to position the Company for growth as the world's fleet continues to grow.

### Leading the Way With Cargo

Engineering is the essential element behind AAR's expanding Structures and Systems business. Innovation underpins our efforts to offer reliable, cutting-edge Structures and Systems to our defense and airline customers. Performing at this level requires skill, size and scope — the kind of attributes found at a company with 54 years in the aviation business.

AAR is a time-tested leader in cargo technology. In 2005, AAR Cargo Systems was selected by Alenia Aeronautica to supply cargo handling and tow plate systems for the new C-27J Medium Tactical Transport, a project being jointly developed by Alenia and Lockheed Martin. And, subsequent to year-end, AAR was selected as part of a team to develop and produce cargo systems for the new Airbus A400M Military Transport Aircraft.



Source: Overhaul & Maintenance magazine, Team SAI and BACK Aviation Solutions

Fleet growth over the next 10 years will create opportunities for AAR's Structures and Systems business.

### Keeping the United States Air Force Mobile

Earlier in the year, the United States Air Force awarded AAR Mobility Systems a contract to provide an estimated 10,000 new 463L pallets, the standard pallet employed on USAF C-130, C-5 and C-141 airlifters. Pallets are the bricks and mortar of air mobility. They've got to be sturdy and capable of taking the kind of day-in, day-out pounding today's real-world operations produce.

### Protecting What's Important

AAR's Structures and Systems efforts are focused on real-world challenges. To that end, AAR's Composites manufacturing unit was chosen as a key player on the Northrop Grumman Corporation team working on Phase II of the Counter-Man Portable Air Defense System. AAR is designing custom, aerodynamic composite fairings to house and protect a commercial variant of Northrop Grumman's directional infrared countermeasure (DIRCM) system, currently in use on a variety of military aircraft throughout the world. The aim: to give governments and airlines the ability to protect commercial aircraft from shoulder-fired missiles.

For years, AAR has met the challenges of demanding customers. Today, we're forging solid relationships with the companies building and shaping tomorrow's aircraft fleets. Market forces dictating future growth are both traditional and groundbreaking, reflecting the need to do everything from load cargo to protect against new threats in a dangerous age.

The Structures and Systems segment of AAR accounted for 27 percent of the Company's sales in FY2005 — \$200.7 million. In FY2004, sales were \$163.6 million.



# Innovations in motion.

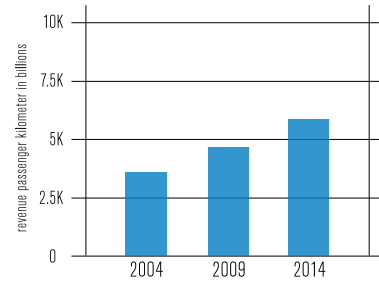
WITH CUSTOM-DESIGNED MOBILITY SYSTEMS, CARGO SYSTEMS AND COMPOSITE STRUCTURES, AAR HELPS CUSTOMERS MOVE PASSENGERS AND CARGO COST-EFFECTIVELY AND SAFELY.

## AIRCRAFT SALES AND LEASING

## Staying ahead of the market

The demand for new aircraft is accelerating. AAR is ready.

WORLD AIR TRAVEL CONTINUES TO GROW



Source: Boeing Market Outlook 2005

Robust growth in air travel creates demand for the sourcing and remarketing of aircraft.

Key forces indicate a continued rebound in Aircraft Sales and Leasing. The FAA says demand for airline seats, which plummeted after September 11, should recover by the end of calendar year 2005, and that commercial aviation in the United States is on track to transport one billion passengers by 2015.

Real market forces underpin these predictions. The Office of Management and Budget (OMB) projects that the U.S. economic recovery will be in full upswing over the next several years. Real GDP expanded by 3.7 percent in FY2005. It's projected to grow by 3.4 percent in FY2006. Over the next dozen years, OMB forecasts show GDP increasing at an annual rate of 3.2 percent. Worldwide economic activity is predicted to climb at the same clip.

### Following the Economy

Where the economy goes, the aviation industry follows. In 2004, the U.S. commercial aviation industry flew 953.6 billion available seat miles (ASMs). By 2016, FAA predicts that number will reach 1.6 trillion. That breaks down to a 5.7 percent annual growth rate.

Where 7,832 commercial aircraft transported fliers in 2004, it will take 11,272 of them to fill the demand by 2016. That's a growth rate of 3.7 percent per year or 287 aircraft annually. And airlines are hard-pressed to find economic solutions with uncompromised quality.

### Reading the Signs

Team SAI/BACK says the current mix of 63 percent narrow-body, 23 percent wide-body and 14 percent regional jets will shift somewhat by 2015. By then, 22 percent of the worldwide fleet will be regional jets, as major carriers increase flight frequencies and the kind of point-to-point flying passengers prefer. Look for domestic regional/commuter aircraft ASMs to continue double-digit growth — at least near term. Regional/commuter capacity was forecast to increase 20.7 percent in 2005 and 11.9 percent in 2006. After that, expect a steady 6.7 percent per annum increase over the next 12 years.

This tracks with AAR's strategic prediction that the market for Aircraft Sales and Leasing will be influenced by an aging, and at the same time, expanding, regional fleet.

Market indicators show an accelerating demand for Aircraft Sales and Leasing. The segment accounted for approximately \$45.1 million of AAR's sales in FY2005 — 6 percent of total sales. By comparison, the FY2004 figure was \$25.0 million.

*In aggregate, all these figures and AAR's progress this year underscore something fundamental about AAR in particular and the aviation industry in general: after every industry downturn, together we reach new heights.*



# Buy. Sell. Lease.

AAR IS LEVERAGING ITS INDUSTRY EXPERIENCE AND EXPANSIVE NETWORK OF RELATIONSHIPS TO HELP CUSTOMERS LOCATE, EVALUATE AND ACQUIRE HIGH-QUALITY AIRCRAFT TO MEET EVERY AVIATION NEED.



## Questions & Answers

### Growth, profitability and the competitive landscape.

**Q: What is AAR's approach to growing the Company?**

**A:** Our growth strategy includes a mix of organic growth through new program wins and greater market penetration with commercial and defense customers, as well as acquisitions where we can develop financial or operational synergies, add new capabilities to serve our target markets and expand our product offerings in the marketplace.

**Q: How does AAR plan to grow internationally?**

**A:** Our primary focus is on Asia and Europe because this is where we see the greatest potential; however, we will also selectively pursue other opportunities where it makes sense. We increased our presence in Asia through new sales offices and a joint venture in fiscal 2005, and we expect more activity of this type in the future. In Europe, we are adding new programs and taking steps to become a bigger player in this market and gain market share. It's our objective to continue to grow sales at a rate greater than the market growth rate.

**Q: What are AAR's investment merits?**

**A:** AAR has a long history of success and profitability, turning a profit in 52 of the 54 years we've been in business. AAR has persevered through several industry down cycles, and each time, has emerged as a stronger and more savvy competitor. This latest downturn is no exception. The Company incurred losses in the period immediately following 9/11, returned to profitability in fiscal 2004 and delivered a solid profit in fiscal 2005. AAR has improved its financial results, strengthened its balance sheet and won several significant new business awards to position the Company for future growth. We have a seasoned leadership team, which is focused on execution and a diverse product and service offering that is valued by the marketplace. The Company is poised to capitalize on the changing aviation/aerospace industry and drive increased value for its customers and shareholders.

**Q: What are AAR's competitive strengths?**

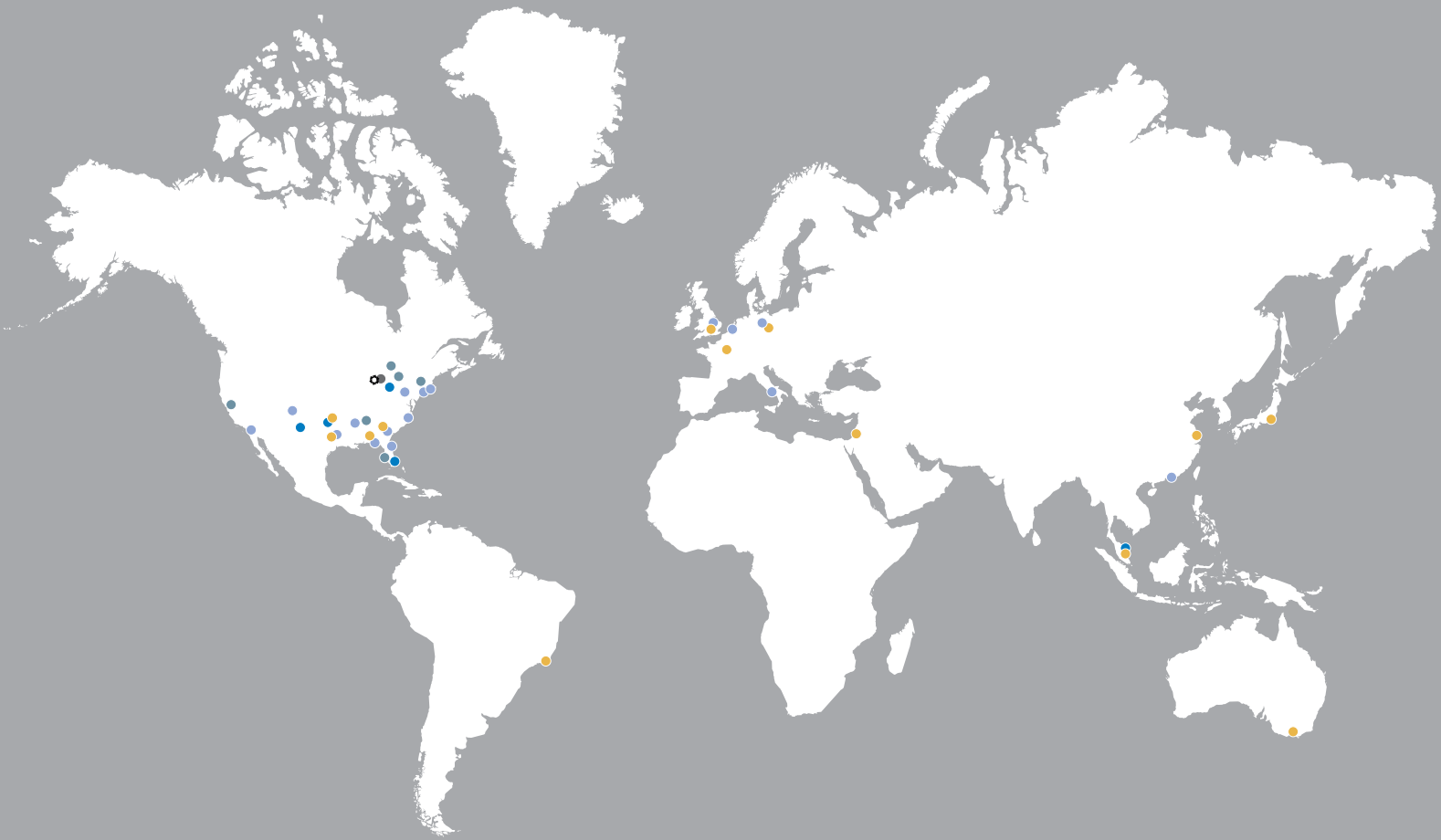
**A:** We view our speed, attention to quality and close-to-the-customer business model as primary competitive strengths. Additionally, we have extensive expertise in the areas of sourcing, logistics management and engineered solutions. We also leverage information technology to optimize and add value to our product and service offerings. AAR has 54 years of know-how and has maintained a strong entrepreneurial spirit throughout its history. We have earned a great reputation in the industry as a dependable company that makes things happen and gets the job done right.

**Q: Who are AAR's major suppliers and customers?**

**A:** Some of our major suppliers for engine parts include General Electric and Pratt & Whitney. Primary suppliers for airframe parts include Boeing, Honeywell, Goodrich and other major OEMs. Some of our major customers include the U.S. Government, Alaska Airlines, American Airlines, Boeing, Delta Airlines, Fiat Aviazione SpA, General Electric, L-3 Communications, MTU Maintenance GmbH, Northrop Grumman, United Airlines and United Parcel Service.

## Worldwide Locations

AAR's 2,700 employees are strategically located around the world to serve the needs of our global customers. Consistent with AAR's close-to-the-customer business model, we'll continue to complement AAR's diverse product and service offerings with an in-depth understanding of different cultures, business environments and regulatory requirements as we expand into new markets.



 AAR Corporate Headquarters,  
located in Wood Dale,  
Illinois, U.S.A.

- **Aviation Supply Chain**  
Amsterdam, The Netherlands  
Atlanta, Georgia\*  
Cherry Point, North Carolina  
Falls Creek, Pennsylvania\*  
Farmington, New Mexico\*  
Ft. Worth, Texas  
Garden City, New York  
Hannover, Germany  
Hurlburt Field, Florida\*  
Jacksonville, Florida  
Little Rock, Arkansas\*  
Macon, Georgia  
Mitcham, England  
Naples, Italy  
San Diego, California\*  
Teterboro, New Jersey  
Waddington, England\*  
Windsor, Connecticut  
Wood Dale, Illinois  
Zhuhai, China\*
- **Maintenance, Repair and Overhaul**  
Indianapolis, Indiana  
Kuala Lumpur, Malaysia  
Miami, Florida  
Oklahoma City, Oklahoma  
Roswell, New Mexico
- **Structures and Systems**  
Cadillac, Michigan  
Clearwater, Florida  
Frankfort, New York  
Livonia, Michigan  
Memphis, Tennessee  
Sacramento, California
- **Aircraft Sales and Leasing**  
Wood Dale, Illinois
- **Sales & Support**  
Atlanta, Georgia\*  
Dresden, Germany  
Huntsville, Alabama  
London, England  
Melbourne, Australia  
Oklahoma City, Oklahoma  
Paris, France  
Rio de Janeiro, Brazil  
San Antonio, Texas  
Shanghai, China  
Singapore, Republic  
of Singapore  
Tel Aviv, Israel  
Tokyo, Japan

\*Indicates AAR sites within customer facilities

**CORPORATE OFFICERS**

David P. Storch  
*President and Chief Executive Officer*

Michael K. Carr  
*Vice President, Tax*

Peter K. Chapman  
*Vice President, Marketing and Business Development*

James J. Clark  
*Group Vice President, Aviation Supply Chain*

Michael S. Cohen  
*Vice President, Operations and Engineering*

Kevin M. Larson  
*Vice President, Chief Information Officer*

J. Mark McDonald  
*Group Vice President, Structures and Systems; Maintenance, Repair and Overhaul*

David E. Prusiecki  
*Vice President, Defense Programs*

Howard A. Pulsifer  
*Vice President, General Counsel and Secretary*

Timothy J. Romenesko  
*Vice President, Chief Financial Officer and Treasurer*

Michael J. Sharp  
*Vice President, Controller and Chief Accounting Officer*

Timothy O. Skelly  
*Vice President, Human Resources*

**BOARD COMMITTEES**

**Audit**

James E. Goodwin,  
*Chairman*

James G. Brocksmith, Jr.  
Marc J. Walfish

**Compensation**

James G. Brocksmith, Jr.,  
*Chairman*

Ronald R. Fogleman  
Ronald B. Woodard

**Executive**

Ira A. Eichner,  
*Chairman*

David P. Storch  
James E. Goodwin  
Marc J. Walfish

**Nominating & Governance**

Ronald R. Fogleman,  
*Chairman*

James E. Goodwin  
Marc J. Walfish



Ira A. Eichner, Chairman of the Board and Founder, with David P. Storch, President and Chief Executive Officer.

**BOARD OF DIRECTORS**

Ira A. Eichner  
*Chairman of the Board and Founder, AAR CORP.*

David P. Storch  
*President and Chief Executive Officer, AAR CORP.*

Michael R. Boyce  
*Chairman and Chief Executive Officer, PQ Corporation  
Chairman and Chief Executive Officer, Peak Investments*

James G. Brocksmith, Jr.  
*Independent Business Consultant  
Retired Deputy Chairman and Chief Operating Officer, KPMG LLP*

General Ronald R. Fogleman, USAF (Ret.)  
*President and Chief Operating Officer, B Bar J Cattle Company  
President and Chief Operating Officer, Durango Aerospace, Inc.*

James E. Goodwin  
*Independent Business Consultant  
Retired Chairman and Chief Executive Officer, UAL Corporation*

Marc J. Walfish  
*Founder, Merit Capital Partners*

Ronald B. Woodard  
*Chairman of MagnaDrive, Inc.  
Retired President of the Boeing Commercial Airplane Group*

## **STOCKHOLDER INFORMATION**

### **Corporate Headquarters**

AAR CORP.  
1100 North Wood Dale Road  
Wood Dale, Illinois 60191

Telephone: 630-227-2000

Facsimile: 630-227-2019

[www.aarcorp.com](http://www.aarcorp.com)

### **Transfer Agent and Registrar**

EquiServe Trust Company, N.A.  
Jersey City, New Jersey

### **Annual Meeting of Stockholders**

The annual meeting of stockholders will be held at 9:00 a.m. (CDT) on Wednesday, October 19, 2005, at AAR Corporate Headquarters, 1100 North Wood Dale Road, Wood Dale, Illinois 60191.

The number of holders of common stock, including participants in security positions listings as of June 30, 2005, was approximately 7,500.

### **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 Secretary, AAR CORP., 1100 North Wood Dale Road, Wood Dale, Illinois 60191.

### **Special Counsel**

Schiff Hardin LLP  
Chicago, Illinois

### **Ticker Symbol**

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



1100 North Wood Dale Road, Wood Dale, Illinois 60191