



AAR CORP.

WORLD HEADQUARTERS

2003 Annual Report

AAR is the largest independent TOTAL SUPPORT provider of products and services to the global aviation/aerospace industry. The Company designs and implements customized supply chain and logistics support programs; performs aircraft maintenance and modification services; repairs and overhauls aircraft, engine and landing gear components; designs and manufactures mobility systems, cargo loading systems and composite structures; and sources aircraft and engines for sale and lease and provides technical advisory services.





To our stockholders, customers and employees:

As we entered fiscal 2003, we expected the operating environment in the aviation industry to remain difficult. Regrettably, our expectations were borne out. The Company's fiscal 2003 financial results reflect the ongoing financial struggles of many of our airline customers in the face of continued weak economic conditions and lingering effects from the events of September 11. Although we were encouraged by steady improvement in our financial results during the first three quarters of fiscal 2003, our fourth quarter was negatively impacted by reduced demand due to the war in Iraq and the outbreak of SARS. Our fourth quarter results also included a \$5.4 million impairment charge caused by reduced values for certain assets supporting older generation aircraft. During fiscal 2003, we generated \$35 million of cash flow from operations principally from enhanced working capital management.

The aviation and aerospace industries have undergone dramatic change over the past two years. As the flying public demands low fares, low-cost carriers with less infrastructure are succeeding in gaining market share and reporting respectable financial results. In order to compete and level the playing field, many of the world's larger commercial airlines are being forced to fundamentally change the way they conduct business.

More than ever, our commercial airline customers, both large and small, are seeking low-cost value-added solutions that will drive down their overall supply chain cost. Our U.S. Government customers are also looking for industry partners to provide low-cost performance-based logistics support. In response to these changing industry conditions, we continue to build upon our "close to the customer" business model by identifying opportunities in the marketplace, developing capabilities to capture those opportunities, and lowering our own cost structure.

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Over the past 12 months we developed significant repair capabilities in the fast growing regional jet market. At our Oklahoma City airframe maintenance facility, we developed airframe maintenance capability for the Canadian Regional Jet (CRJ) and at our component repair shops in New York and Amsterdam, we developed repair capabilities for over 150 components on the CRJ. These components include pneumatic and hydraulic systems, avionics, accessories and other flight critical components. The investments we have made allow us to offer a more comprehensive suite of low-cost solutions for the CRJ operator. I am pleased to report these investments are paying off with recent wins at Mesa Air Group in the U.S. and Air Nostrum headquartered in Spain. During the year, we also developed new component repair capability for the Boeing 777 and next generation 737s.

Although still below historical levels, we experienced improvement in engine and airframe part sales compared with the prior fiscal year. Sales to general aviation customers, however, were down

\$16.7 million as we closed most of our branch locations supporting the general aviation market and reduced staffing levels.

During the year, we added third-party advisory services to our growing list of capabilities. Advisory services include aircraft and engine lease return condition analysis, technical records review, maintenance and storage management and re-marketing activities. These services are marketed to financial owners of aircraft and engines, banks, leasing companies and original equipment manufacturers and we expect that additional opportunities will be created for the Company as our advisory business grows.

We continue to perform quite well in the government market as we achieved sales of \$170.2 million to the U.S. Government and its contractors during the fiscal year. Our Mobility Systems Division in Cadillac, Michigan performed at record levels supplying containers, shelters and pallets for U.S. Military tactical deployment requirements. As the leading manufacturer of these critical

systems, we are well positioned as the U.S. Military's deployment strategy continues its trend towards more flexibility and increased strategic and tactical mobility. Demand for component and airframe maintenance services and logistics support also remains strong as our military customers look for "nose-to-tail" support services to achieve lower costs and improve readiness levels.

In order to provide low-cost value-added solutions and return to profitability, we continue to lower our fixed cost of operations. We eliminated excess capacity through the consolidation of facilities, and over the past two years achieved an 18% reduction in selling, general and administrative expenses. As a result of actions taken during the second half of fiscal 2003, we expect this trend to continue.

We completed a number of financing transactions during the year to strengthen our liquidity position. In March 2003, we entered into a new \$35 million accounts receivable securitization facility to replace an expiring securitization facility and an expiring

credit line. In May, we completed a \$30 million secured revolving credit facility, and repurchased \$10 million and exchanged \$16.9 million of the Notes due in October 2003 for Notes due ratably over three years commencing October 2004. These transactions, along with the free cash flow we generated during fiscal 2003, allowed us to reduce our net obligations by \$38 million during the year and have provided us with adequate liquidity both to meet our maturing credit obligations and to support our operations and growth initiatives. Subsequent to the end of fiscal 2003, we completed an \$11 million financing secured by a mortgage on our Wood Dale, Illinois headquarters facility.

A Special Thanks

During the year, two valued members of the Board of Directors retired. Ned Jannotta joined our Board in 1964 when the Company's sales were less than \$5 million. Over the years, Ned has provided the Company invaluable wisdom and guidance through its various stages of growth and



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cycles. Howard Bernick served on our Board for eight years. His insights and thoughtful counsel will be missed. I would like to thank Ned and Howard for their many contributions while serving on our Board and wish them all the best in the future.

In March 2003, we elected Marc J. Walfish to our Board of Directors. Marc is the founder and Managing Director of William Blair Mezzanine Capital Partners, which invests capital in middle-market companies throughout the United States. Marc's extensive knowledge of finance and the capital markets makes him an excellent addition to our Board, and I look forward to a long and productive relationship with him.

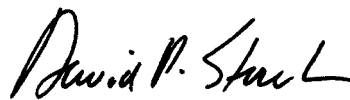
Looking Ahead

The immediate outlook for the airline industry remains unclear as it continues to be impacted by geopolitical events and a soft economy. However, we believe that our Company, with its ability to adapt quickly to changing markets, its financial

discipline, its leadership position and its experienced and skilled management team, is well equipped for the challenges and opportunities that lie ahead. We will continue to adapt to changes in the marketplace and aggressively merchandise the Company to our airline and military customers as the best low-cost alternative.

I am very grateful to our 2,100 employees for their performance, dedication and perseverance during these difficult times and to our customers for their confidence in our abilities. As always, I thank our Board of Directors for their wise counsel and steady guidance. I am thankful to our stockholders for their continued support and am committed to making their investment a rewarding one.

Sincerely,



David P. Storch
President and Chief Executive Officer

August 15, 2003



Board of Directors

Ira A. Eichner

Chairman of the Board and Founder, AAR CORP.

David P. Storch

President and Chief Executive Officer, AAR CORP.

A. Robert Abboud

President, A. Robert Abboud & Co.

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, 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

Joel D. Spungin

Managing Partner, DMS Enterprises, L.P.

Retired Chairman and Chief Executive Officer, United Stationers, Inc.

Marc J. Walfish

Managing Director, William Blair Mezzanine Capital Partners

Board Committees

Audit

A. Robert Abboud, *Chairman*

James G. Brocksmith, Jr.

James E. Goodwin

Joel D. Spungin

Compensation

James G. Brocksmith, Jr., *Chairman*

A. Robert Abboud

Ronald R. Fogleman

Joel D. Spungin

Executive

Ira A. Eichner, *Chairman*

David P. Storch

A. Robert Abboud

Nomination & Governance

James E. Goodwin, *Chairman*

Ronald R. Fogleman

Marc J. Walfish

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

Vice President, Maintenance, Repair
and Overhaul Services

J. Mark McDonald

Vice President, Manufacturing

Roberta R. McQuade

Vice President, Human Resources

David E. Prusiecki

Vice President, Defense Programs

Howard A. Pulsifer

Vice President, General Counsel and Secretary

Timothy J. Romensko

Vice President and Chief Financial Officer

Andrew C. Sewall

Vice President, Operations

Michael J. Sharp

Vice President, Controller and
Chief Accounting Officer

Stockholder Information

Corporate Headquarters

One AAR Place
1100 North Wood Dale Road
Wood Dale, Illinois 60191
Telephone: (630) 227-2000
Facsimile: (630) 227-2019
www.aarcorp.com

Transfer Agents and Registrars

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

Annual Meeting of Stockholders

The annual meeting of stockholders will be held October 8, 2003 at 10:00 a.m. (CDT) at AAR World 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, 2003, was approximately 7,500.

Stockholders' Dividend Reinvestment Service Plan

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 writing the Secretary, AAR CORP., One AAR Place, 1100 North Wood Dale Road, Wood Dale, Illinois 60191.

Special Counsel

Schiff Hardin & Waite
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