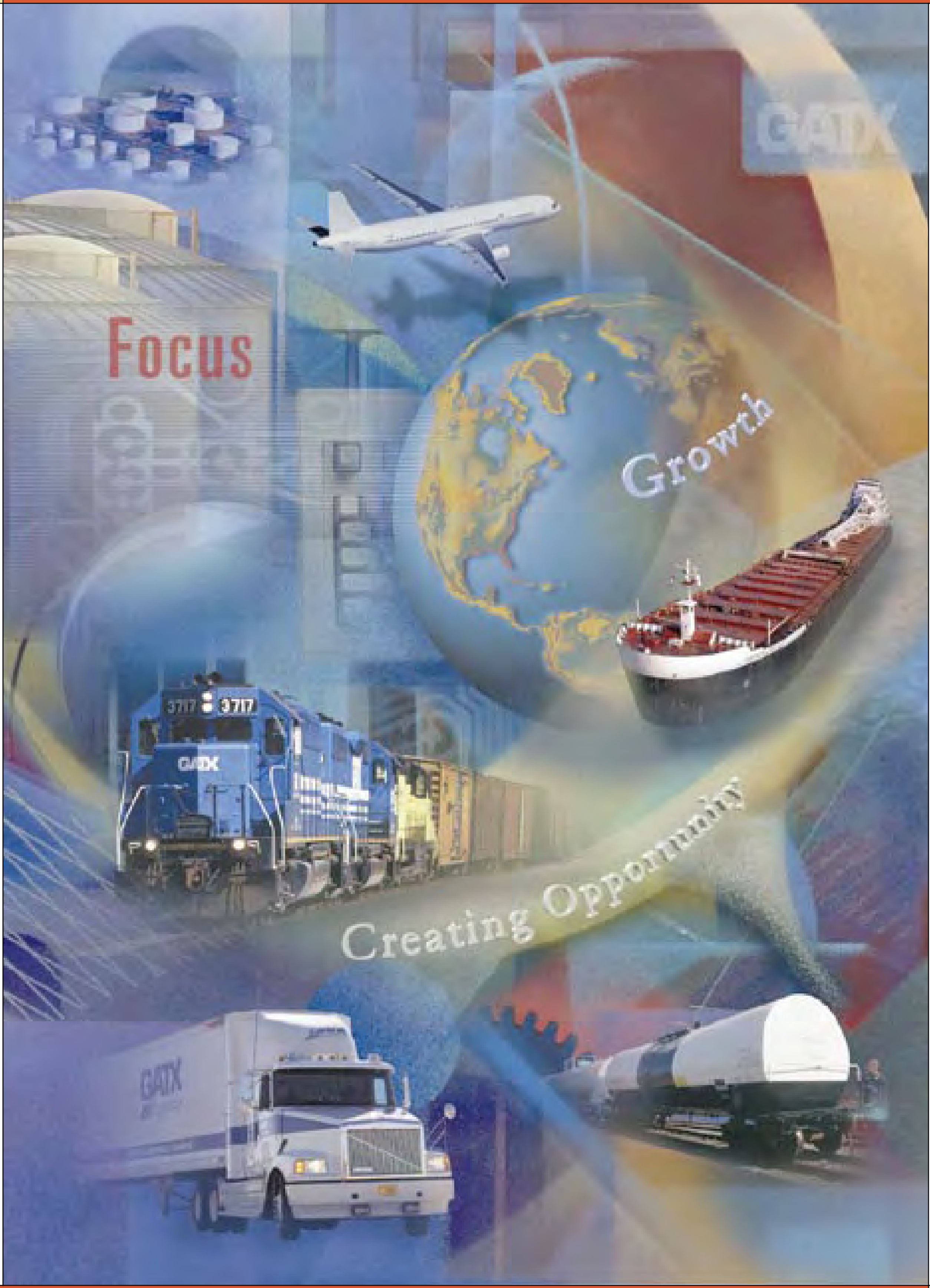
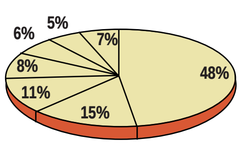
GATX CORPORATION 1998 ANNUAL REPORT



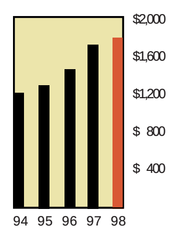
GATX FINANCIAL HIGHLIGHTS

In Millions, Except For Per Share Data	1998	1997	1996
Gross income	$1,763.1	$1,701.9	$1,414.4
Income before provision for restructuring	131.9	111.9	102.7
Net income (loss)	131.9	(50.9)	102.7
Common shares outstanding at year end (A)	49.3	48.9	40.5
Per common share (A)			
Income before provision for restructuring			
Basic	$ 2.68	$ 2.34	$ 2.22
Diluted	2.62	2.25	2.10
Net income (loss)			
Basic	2.68	(1.28)	2.22
Diluted	2.62	(1.28)	2.10
Dividends declared	1.00	.92	.86
Year-end stock price	37.88	36.28	24.25
Total assets	$4,939.3	$4,947.8	$4,750.2

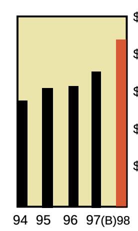
GATX Distribution Of Assets



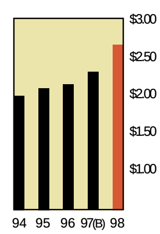
Railcars.................... 48%
Terminals & Pipelines.........15%
Aircraft.....................11%
Information Technology........ 8%
Warehouses................. 6%
Marine..................... 5%
Other...................... 7%



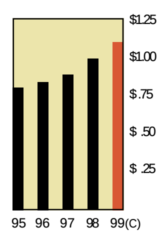
Gross Income
Dollars In Millions



Income
Dollars In Millions



Diluted Earnings
Per Share (A)
In Dollars



Dividends Declared
Per Common Share (A)
In Dollars

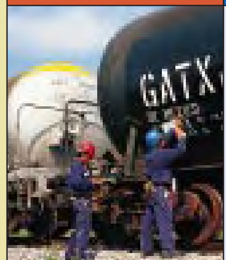
(A) Amounts have been restated to reflect the 2-for-1 stock split in June 1998.

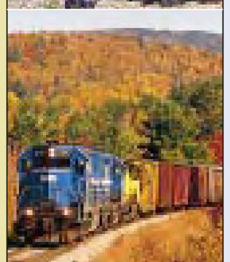
(B) Excludes effect of $163 million after-tax restructuring charge, which resulted in Basic and Diluted Earnings Per Share of ($1.28).

(C) Annualized

GATX

RAIL





Companies

- GATX Rail
- General American Transportation
- GATX Capital Rail Group
- AAE—(Europe)
- KVG—(Europe)
- GL Railease (Europe)
- CGTX—(Canada)
- GATX de Mexico
- Locomotive Leasing Partners

Services

- Railcar and locomotive leases to railroads and shippers that serve the chemical, petroleum, coal, food, rail, and other freight markets
- Full-range of rail leasing offerings
- Full-service maintenance and repair
- Fleet management
- Structured financial rail transactions

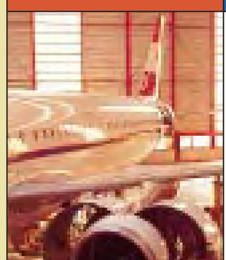
Strategies

- Provide customers with one-stop service for all railcar leasing needs
- Expand automated services through state-of-the-art Internet products
- Expand internationally
- Extend service capabilities
- Increase number of railcars managed through partnerships
- Combine asset management skills with service solutions

Key Statistics

- Largest North American tank car lessor
- Interests in 148,000 railcars
- Interests in nearly 1,000 locomotives
- Eight service centers across North America
- 48 mini-mobile railcar repair units in North America

FINANCIAL SERVICES/LEASING



Companies

- GATX Capital
- GATX Capital Aircraft Partnerships
- GATX FlightLease
- GATX Gulfstream
- GATX Capital Rail Partnerships
- GATX Capital Structured Finance
- GATX Capital Diversified Portfolios
- GATX Capital Technology Services
- GATX Capital Marine/Ship/Barge Investments

Services

- Investment origination in rail, air, technology, marine, and other equipment assets
- Financial partnering expertise
- Secondary lease market acquisitions
- Portfolio management
- Structuring of tax-advantaged and cross-border financings

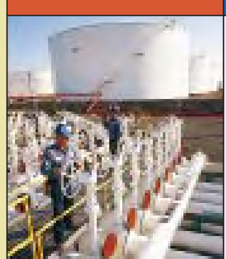
Strategies

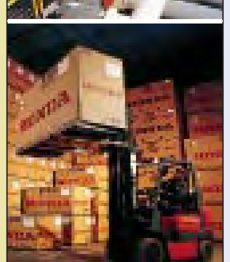
- Continue to invest to increase pool of earning assets
- Control more assets through partnerships
- Capitalize on long-term industry expertise in air, rail, marine, and technology assets
- Global resources
- Full range of technology leasing solutions

Key Statistics

- World's third largest independent aircraft lessor
- Owns, manages, has interests in $11 billion (original equipment cost) of assets
- Key partnerships with more than 50 companies
- GATX Capital invested $853 million in 1998

SUPPLY CHAIN MANAGEMENT





Companies

- GATX Terminals
- GATX Logistics
- American Steamship
- GATX Liquid Logistics
- GATX Inventory Monitoring Services
- Paxis

Services

- Bulk liquid storage and distribution services
- Pipeline connections and distribution
- Great Lakes shipping
- Extensive third-party integrated logistics services for chemical, petrochemical, petroleum, and dry products
- Remote tank monitoring
- Vendor managed inventory
- Internet, EDI, and electronic commerce integrated applications
- Commercial package distribution

Strategies

- Expand GATX's share of its customers' and potential customers' distribution dollars
- Capitalize on worldwide trends to outsourcing
- Focus on chemical and petrochemical industries where GATX has substantial competitive advantage
- Focus on significant petroleum storage and distribution capabilities
- Expand capabilities internationally
- Provide integrated distribution solutions for customers

Key Statistics

- Stores and distributes 10 percent of North American refined petroleum
- One of the three largest independent petroleum storage and distribution companies in the world
- With 100 warehouses and 23 million square feet of warehouse space, GATX is one of the largest contract logistics providers
- Largest capacity U.S. Great Lakes fleet

By intensely focusing on shareholder value, GATX reported its fifth consecutive year of record operating earnings. This has resulted from strategic expansion and improvement in our service. By integrating railcar leasing and services, financial services, and supply chain management, GATX offers its customers more effective and economical financial and operational alternatives in domestic and foreign markets.

Ron Zech, Chairman and Chief Executive Officer at the New York Stock Exchange

1998 was an excellent year for GATX. We reported record earnings and achieved our fifth consecutive year of record operating profits. Operations were strong in all of our business lines, highlighted by record years at our two largest income-earning operating companies, General American and GATX Capital, and by a strong rebound at GATX Terminals. For the year, GATX earned $132 million or $2.62 per share, an 18 percent increase over 1997, excluding that year's special charge. Our return on equity was 19 percent. I am pleased to report these excellent financial results, but, of equal importance, I am excited about the progress that we made in a number of strategically important areas that will enhance our ability to keep growing. I look forward to sharing examples with you throughout this annual report.

Our primary objective is to generate excellent long-term returns for our shareholders. Over the past three years, GATX's total return to shareholders on an annualized basis was nearly 20 percent. Despite an 18 percent increase in our profits in 1998, GATX's total return to shareholders was 7 percent, well below the S&P 500 and Midcap 400 indices, but higher than the Dow Jones Transportation Average. I am not pleased with how we did in 1998 on this score. It is my goal and my expectation that we will be able to achieve shareholder returns which better reflect the record levels of earnings that GATX is achieving.

The best way to generate shareholder returns over time is to increase the rate of profitable growth of the company. To this end, we have embarked on three substantial efforts that I expect will generate significant long-term value. I want to devote much of the remainder of this letter to discussing our efforts to:

- Enhance the Value of Our Assets
- Establish New Platforms for Future Earnings
- Create a Growth Culture

Before I do that, however, I want to comment briefly on our strong operating results and on several steps that we are taking to generate value by utilizing our capital effectively. At General American Transportation, railcar additions were at record levels, utilization remained high, and our international joint ventures made an increased contribution. GATX Capital had a great year for both new investments and remarketing; its markets are strong, and the portfolio is in excellent condition. The transformation at GATX Terminals is proceeding nicely, assisted by strong market conditions. GATX Logistics continues to make substantial progress in its evolution from warehousing to a broad-based integrated logistics company and added a number of attractive new contracts. American Steamship had a very strong operating year until the end of the season when the impact of increased imports of foreign steel began to be felt. All in all, 1998 was an excellent year for operations which are discussed in more detail in other sections of this annual report.

GATX is a capital-intensive company so the effective use of capital can substantially enhance profitability. This is a focus area for GATX which I call "working our capital smarter." 1998 was an important year for these efforts, in three respects. First, we aggressively stepped up to some under-performing asset situations. Since the announcement in late 1997 of the restructuring of our GATX Terminals subsidiary, we have sold nine terminals in the United States and the United Kingdom which did not fit into our strategic plan. One or two additional sales are planned. Over the course of 1998, we experienced disappointing results in our technology equipment reselling business, and, earlier this year, we announced our intention to exit this business.

Second, we financed the bulk of our 1998 new railcar additions utilizing the non-recourse leveraged lease financing approach that we used in 1997. In so doing, we have again added a substantial number of assets to our income earning portfolio without tying up the equity that would have been required if a less innovative financing approach had been taken. A look at our balance sheet will show that our total assets remained constant, so our return on assets increased by 16 percent. Less visibly, but very importantly, we are changing the ways we measure the profitability of our many business segments and how we charge for capital internally—to ensure that it is focused in our most profitable business opportunities.

Third, 1998 was a terrific year for another of GATX's equity management strengths: partnering. As you will read below, we dramatically expanded our partnering activities, with existing and new partners, which will allow us to participate in growing ventures while minimizing the expenditure of valuable capital. Partnering is a key skill that we have at GATX. To be a good partner, you need to think differently, and we have demonstrated a unique ability to do so. The many partnerships that we have created over the years have enabled us to leverage our financial and asset management capabilities, creating a much larger pool of earning assets than if we had relied only on our own capital. Let me turn now to the three important efforts I mentioned earlier.

ENHANCE THE VALUE OF OUR ASSETS Making attractive investments that will profitably grow our asset base will always be an important objective. However, enhancing the value of those assets is also critically important to improving the growth in GATX's profitability. This is not a new concept for us. Throughout our company's 100 years of service to our customers, we have often provided more than the asset itself. We have differentiated ourselves in the marketplace and distinguished ourselves from our competitors by providing an ever-expanding list of services which complement our assets. In recent years, however, we have dramatically increased our efforts to develop new service offerings.

We are bringing logistics solutions to customers across the corporation. Our heritage in this effort comes from GATX Logistics, a leader in supplying logistics services to a number of industry segments involving dry goods. These same skills and capabilities are applicable to many of our existing chemical and petroleum assets and customers, and we are devoting considerable effort to developing solution-driven capabilities in our liquids businesses. Logistics services—in the form of rail logistics, terminalling logistics, liquid logistics, chemical supply chain management and remote tank monitoring services—will be an important and growing component of what we do. GATX is increasingly able to supply its customers with value-adding services, which are important to their operations, and therefore increase the inherent value of our assets.

In previous annual reports, I have used the term "Intercompany Collaboration" to describe GATX's efforts to blend and bundle its existing services in order to provide a greater scope of services to our customers. Where appropriate, we are changing our organizational structure by developing customer focused teams and fewer customer contact points. Through these efforts, GATX will evolve to provide a wider range of transportation, distribution and logistics capabilities across the entire supply chain. We are also bringing our financing expertise to many of our non-financial activities. As evidenced by the success of GATX Capital and by the sophistication of the financings of our own assets, we have financial skills that can be brought to bear on the financing needs of our customers. We provide critical information about the asset and its contents with GATX's value-adding Internet/Technology and Information Services. We are increasingly integrating technology to support and enhance the asset, financial and supply chain expertise that we have traditionally supplied to our customers. The investment community is justifiably enthusiastic about what companies can accomplish with Internet-based technology. We invite our investors to visit the GATX web site to see the following array of useful, profitable, on-line applications that GATX provides to its customers.

If you visit the Liquid Logistics site within our web-warehouse at www.gatx.com, you will see how GATX allows its customers to track inventories—or any measurable attribute—from tanks located anywhere in the United States. GATX Logistics' website provides in-depth information about its services. In 1999, this site will offer a "pipeline view" to ensure that its customers can track where their product is in the supply chain on a real-time basis. Visit the GATX Rail site and see how our customers can access the mechanical record and other asset information of any railcar in the GATX fleet. At the GATX Capital site, we provide in-depth information about GATX Capital and its business lines. In the GATX Terminals site, see the capabilities of any of GATX's terminal locations, worldwide. All of these sites, in addition to the current GATX stock price and other investor relations information such as press releases and SEC filings are available at the GATX investor relations site.

Establish New Platforms For Future Earnings I am a great believer in the value of creating platforms which serve as bases from which a growing stream of future business and profits can flow. 1998 was an exceptional year for GATX as we created a number of new platforms that will serve us well in the years to come.

While our largest asset segment is rail, we have historically had two separate groups serving various customer requirements. This diluted our effectiveness. In 1998, we went to market as GATX Rail, a marketing platform from which we offer a single face to the customer and a comprehensive range of assets, financing structures, and services second to none, worldwide. In the past few years, we have aggressively expanded our rail presence in global markets. We now have substantial activities in Canada and Mexico, as part of a broad North American strategy and in Continental Europe through two successful joint ventures. In 1998, we established a new platform for further rail growth in the United Kingdom. Our initial investments were a passenger rail transaction with Virgin Rail and a freight car financing for the English, Welsh and Scottish Railway. Both of these transactions were done through GL Railease, a joint venture with National Westminster and GATX Capital. GATX is capitalizing on the global trend that many state-owned railroads are privatizing. The knowledge, capabilities, and services that GATX has developed from its leadership in the domestic market can be exported into these new and growing markets. These capabilities are in high demand by these newly restructured or privatized organizations.

Perhaps the best examples of platform building occurred in our aircraft activities. GATX is among the oldest and most experienced companies in the aircraft leasing industry. Over the past three decades, GATX's air business has evolved from a company that provided full-payout finance leases to a company that focuses on operating leases, primarily in European markets and has established an extensive group of partnerships through which it operates.

In 1998, GATX formed three new air partnerships, each of which substantially enhances our role in the air-leasing industry. First, we announced a marketing agreement between GATX and the SAir Group (Swissair). This partnership will provide a wider range of financing solutions, together with a larger and more balanced aircraft portfolio and a broader customer base. SAir Group brings an airline's wealth of experience, contacts and industry knowledge; GATX brings the capabilities and expertise of an established, successful financial services company. The resulting joint venture represents an organization with the scale, expertise, and operational effectiveness to be a major global competitor.

Second, in our new partnership with Gulfstream Aerospace Corporation, GATX expanded its activities in the business aviation lease market by becoming the first and only short-term operating leasing company providing large-cabin, long-range Gulfstream business aircraft.

The third new air partnership is with Rolls-Royce & Partners Finance, Ltd. and expands GATX's air leasing activities into providing spare jet engines for commercial aircraft. Taken together, these new partnership platforms provide excellent prospects for future growth and lead me to conclude that 1998 may well have been the most strategically important year in GATX's history of aircraft leasing.

In 1998, three new platforms relating to logistics services came of age. Our Rail Logistics effort, launched in 1997, added several new customers and is now actively involved in fleet management. As a part of our Liquid Logistics effort, we have created GATX Inventory Monitoring Services, and are building a new range of supplier managed inventory capabilities around our proprietary Internet-based remote tank monitoring capabilities. And we formed Paxis, a joint venture between GATX Logistics and Lockheed Martin. Paxis will take advantage of a new rate structure from the U.S. Postal Service and will soon be a significant factor in the business-to-residential package delivery market—a market whose already rapid growth is being accelerated by E-commerce. Paxis is a great example of what I want GATX to do—use our operational expertise, logistics knowledge, and partnering skills to aggressively enter a new business with exciting prospects and excellent growth opportunities.

Create A Growth Culture All of us, employees and shareholders alike, benefit from a company dedicated to growth. To create a growth culture, we have initiated a number of programs designed to clearly define the goals for each employee, each business unit, and the company as a whole. We have increased our internal expectations of what constitutes an acceptable level of growth and have modified our compensation programs to reward exceptional performance. These "pay for performance" plans are designed to motivate our employees toward profitable growth opportunities. We have created an environment where certain values—high ethics, creativity, aggressiveness, and enthusiasm—are hallmarks of GATX's culture.

I also expect all of us at GATX to have some fun together in achieving these new goals—and nothing is more fun and rewarding than building a successful and growing company. In last year's annual report, we dedicated several pages to the history of our company, which celebrated its 100th anniversary in 1998. An intercompany task force developed the goals of our centennial which were:

- Give back to our communities
- Make a lasting difference in the perception of GATX in the communities in which it participates
- Enhance the GATX culture that values teamwork

GATX's employees built three playgrounds near GATX facilities in communities that did not have them. A particular highlight of my year was opening one of these playgrounds with Chicago Mayor Richard M. Daley. GATX sponsored a national food drive ("Tanksgiving") with the Second Harvest organization in which more than 50 tons of food were collected and donated to food pantries. As part of this food drive, GATX's website sponsored a parallel activity in which school classrooms could win money to purchase food to be donated to food depositories. GATX brought a full-size tank car to the New York Stock Exchange where we invited our customers to help us celebrate our history as one of the 100 oldest companies traded on that exchange.

As you can tell, our approach to the celebration of our centennial was centered around our customers and our employees. I was proud to work alongside our employees as they generously volunteered their time, energy, and creativity to complete these substantial projects. GATX has great employees. My 6,000 associates are, indeed, the people who do the work that supports the customer and makes a profit for the company. As we increasingly provide services and information to complement our assets, our employees will be the critical difference in representing us to our customers. Please join me in thanking them and our outstanding board of directors for their individual and collective contributions that led to this record year.

Sincerely,

Ronald H. Zech
Chairman and Chief Executive Officer

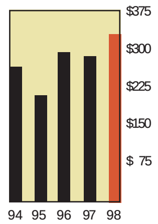
GATX

FOR OUR INVESTORS

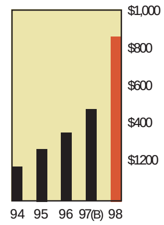
GATX creates long-term shareholder value by targeting a 15% return, defined as the sum of the average annualized earnings per share growth and dividend yield. Growth will be accomplished by expanding our existing business lines, identifying new growth platforms, increasing our use of partnering, and working our equity base more effectively.

FOR OUR CUSTOMERS

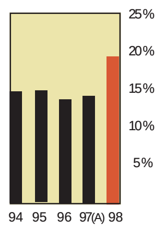
GATX provides its customers with railcar leasing, repair and management, financial services, and supply chain management. Through our family of operating companies, we provide transportation, distribution, storage and technology assets. GATX offers a broad variety of operational and technological services that enhance and add value to these assets. GATX develops and encourages a culture where the contributions of our employees exceed our customers' expectations.



Cash From Operations
Dollars in Millions

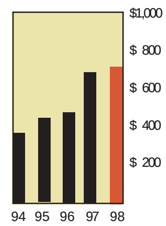


Portfolio Proceeds
Dollars In Millions

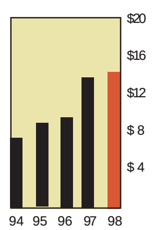


Return On Equity
In Percent

(A) Excludes effect of $163 million after-tax restructing charge. Including the charge, 1997 Return on Equity would be (7.1%).

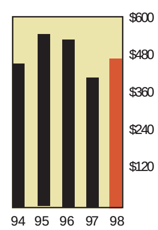


Investments In Affiliated Companies
Year-End Balance
Dollars in Millions

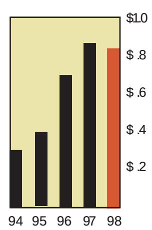


Book Value Per Share (A)
In Dollars

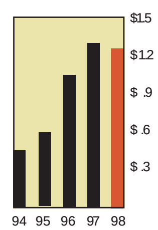
(A) Book Value Per Share has been restated to reflect the 2-for-1 stock split in June 1998.



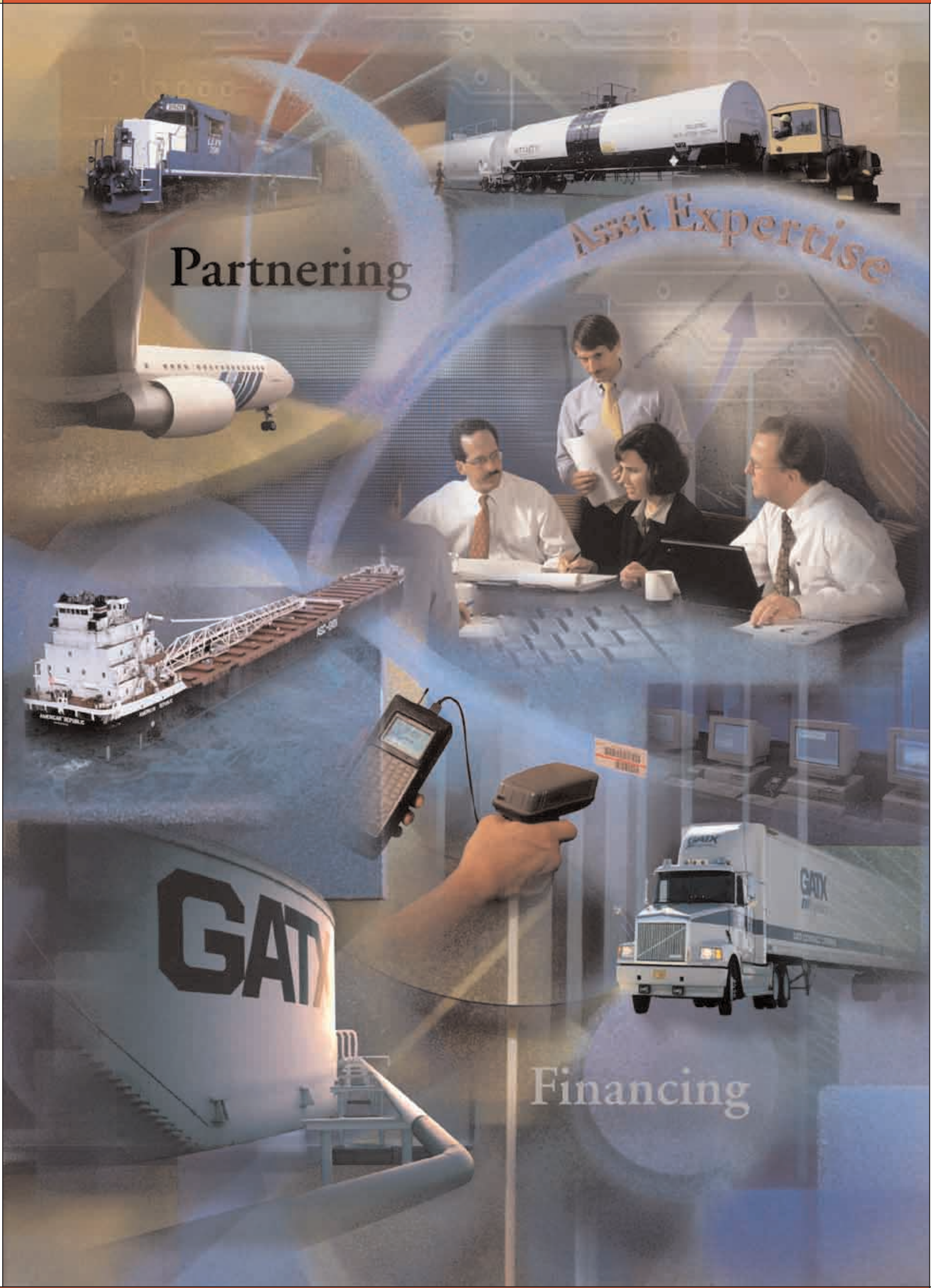
Capital Additions
Dollars In Millions



Portfolio Investments
Dollars In Billions



Capital Expenditures And Portfolio Investments
Dollars In Billions


Partnering
Asset Expertise
Financing
GATX

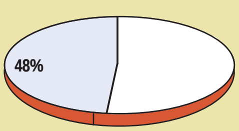
A key strategy of GATX is to leverage its current market leadership positions by combining existing areas of expertise. A good example is GATX Rail that combines the operating and repair knowledge of General American Transportation with the financing, asset, and industry capabilities of GATX Capital.

Leveraging the strengths, knowledge, and capabilities of both GATX Capital's Rail Group and General American Transportation Corporation, GATX Rail brings together the financial engineering expertise of a leader in investment, portfolio management, and asset remarketing with the rail activities of one of North America's largest and oldest lessors of railcars. GATX Rail provides a broad array of solutions which include flexible railcar leasing, fleet management services, maintenance options, innovative financing, design services, regulatory compliance, and data analysis. These efforts are supported by international strategic partnerships. By integrating capabilities and expertise, GATX Rail is focused on providing customers with rail solutions worldwide.

GENERAL AMERICAN TRANSPORTATION With 97,000 railcars in its fleet, General American operates the largest tank car fleet in North America and a significant fleet of specialty freight cars. General American provides a broad scope of rail solutions worldwide in the areas of railcar

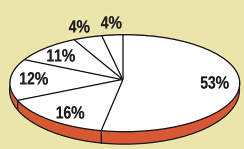
GATX RAIL

GATX Distribution Of Assets

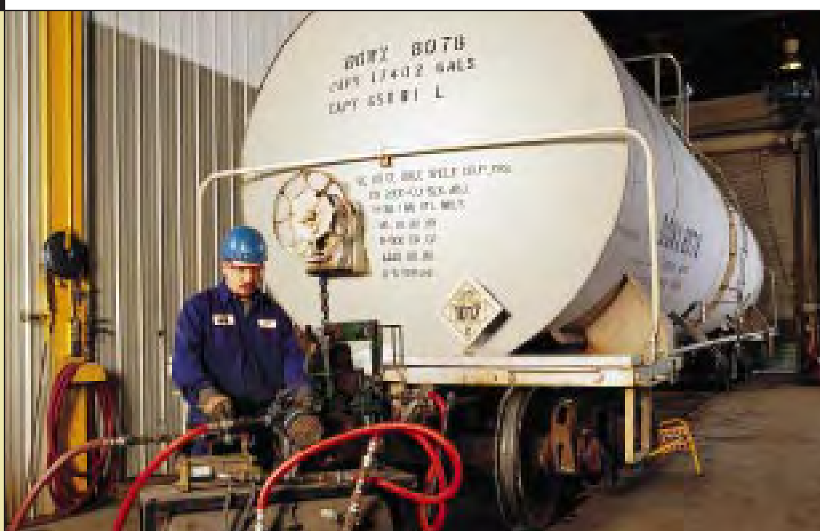


Rail	48%

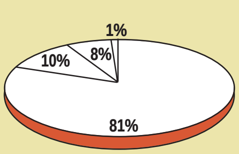
GATX Railcar Fleet Interest In 148,000 Cars



Tank Cars	53%
Covered Hoppers	16%
Grain Cars	12%
Coal Cars	11%
Boxcars & Gondolas	4%
Other	4%

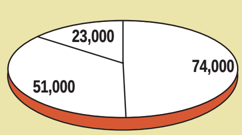


GATX Rail Fleet By Region



United States	81%
Europe	10%
Canada	8%
Mexico & Other	1%

GATX Interest in Railcars



General American Transportation Tank Cars	74,000
GATX Capital Railcars	51,000
General American Transportation Freight Cars	23,000

In addition to its eight "one-stop" repair facilities and its 48 mini-mobile repair units, General American provides railcar repair and inspection services at its customers' plant sites. In Midland, Michigan, General American repairs railcars at a Dow Chemical facility. This broad range of services helps our customers maximize the time their railcars are in productive use.

supply, railcar design, railcar maintenance, railcar management, and railcar finance.

General American's fleet consists of more than 50 different car types from general service cars to pressure service cars designed to transport over 700 commodities safely. These cars transport chemicals, petroleum, plastic, food, agricultural and forest products, coal, minerals, and consumer products.

General American primarily provides railcars to shippers under leases that include cars and a broad range of value-adding services to assist the customer in the efficient operation of these cars. Supporting General American's railcar maintenance efforts are 48 mini-mobile repair units that form an integrated service network throughout North America. Customers also receive services at four one-stop service centers in the United States, three in Canada, and one in Mexico.

General American has been an industry leader in utilizing the Internet to help its customers manage their fleets. Offerings include an extranet that provides customers with up-to-date mechanical and service information on their fleet, extensive information about General American, and a rich, interactive environment encouraging communication with customers. In addition, General American has extended its extranet to suppliers for the purpose of efficient and timely car maintenance activities.

General American continues to capitalize on market opportunities. Recent legislation has mandated more stringent repair guidelines and many shippers may not want to continue to service their own fleets. This creates an opportunity for General American to buy fleets and lease them back to their original owners while providing additional value-adding services. General American's historic skill as a lessor and its outstanding reputation as a service provider make these types of transactions possible. Trends away from on-road trucking because of the safety and efficiency of rail transport have also created new market opportunities for General American.

GATX Capital Rail Group GATX Capital's fleet has over 51,000 cars, including coal, aggregate, hopper, and other general purpose cars. GATX Capital primarily leases to Class I and Regional railroads. In addition, it provides rolling stock to shippers requiring railcars.

GATX Capital optimized its portfolio in 1998 by opportunistically selling highly-valued assets at premiums while purchasing other rail assets at attractive valuations that also have significant upside potential. GATX Capital's asset expertise gave it a competitive advantage. Market conditions remain strong and railroads are placing a high demand for additional general purpose cars.

Locomotive Leasing Partners Through a joint venture with the Electro-Motive Division of General Motors (EMD), GATX Capital leases a large, modern fleet of nearly 1,000 locomotives to railroads throughout North America. Railroads require efficient, reliable locomotives to allow them to provide a high quality transportation product to their customers. Locomotive

Rail Logistics is an innovative new concept being implemented by GATX Rail. GATX is integrating long-term trends to outsourcing, privatization, vendor managed inventory, and just-in-time inventory techniques to assist our customers in maximizing the value they achieve from their transportation and distribution assets.

Leasing Partners (LLP) fills this need through operating leases of well-maintained, high quality locomotives. Railroads often turn to LLP to help handle peak-power needs, or to satisfy a portion of longer requirements through creatively structured leases. Working closely with EMD, GATX Capital has been able to acquire, refurbish and deploy excellent assets that are in high demand and that perform well for LLP's customers.

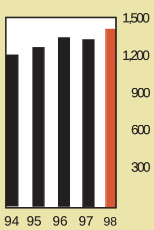
INTERNATIONAL RAIL GATX's rail business has experienced significant international growth in the 1990s. In 1996, General American Transportation acquired Canadian railcar lessor CGTX. Approximately half of CGTX's 9,400 cars are tank cars. General American also operates a fleet of nearly 1,400 cars in Mexico.

In Europe, GATX has a significant interest in railcar lessors AAE Cargo and KVG Kesselwagen Vermietgesellschaft mbH. AAE is the leading general-purpose freight car lessor in Europe, with a fleet of almost 7,300 cars operating throughout Europe and the United Kingdom. Based in Germany and Austria, KVG provides a modern fleet of 8,100 tank cars to European shippers of chemicals, food, and petroleum products.

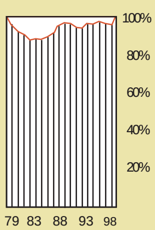
GATX's rail business also broke new ground in the United Kingdom late in 1998. Along with its long-term partner Lombard PLC, a subsidiary of National Westminster, GATX provided the financing for Virgin Rail's new high-speed, state-of-the-art passenger trains. This transaction marks GATX's first major foray into the United Kingdom rail market and significantly expands its presence in passenger rail financing.

GATX believes that the privatization and commercialization of international rail markets will provide considerable growth opportunities for GATX Rail to expand its fleets while providing rail transportation solutions around the world. In particular, the privatization of Europe's rail fleets has opened numerous new opportunities for GATX, especially with its strong market position through AAE and KVG.

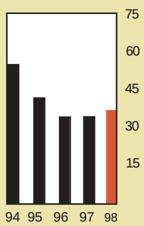
Combining market, industry, and customer knowledge is a hallmark of GATX Rail's capabilities. Through this blend of skill sets, GATX Rail purchased a fleet of aging coal cars. GATX Rail contracted Trinity Industries to cut the cars down to a smaller cubic capacity and rehabilitate all the running gear on these cars. The cars have been put into service to haul aggregate between Houston and San Antonio for Martin Marietta.



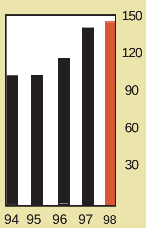
Total U.S. Rail Freight Volume
Billion Ton-Miles



General American Fleet Utilization
In Percent



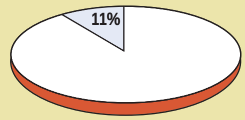
GATX Average Railcar Service Throughput
In Days



GATX Railcar Fleet Size Owned/Managed/Interest
In Thousands

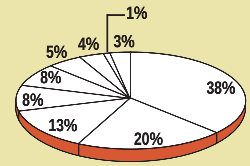
GATX has ownership, management, or marketing interests in 200 commercial jet aircraft. GATX is the third largest lessor, worldwide. Being among the oldest aircraft lessors, GATX brings substantial asset and financial expertise to its customers, clients, and joint-venture partners which include more than 35 worldwide airlines.

GATX Distribution Of Assets

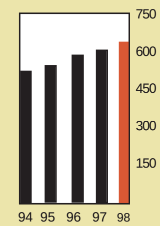


Air. 11%

GATX Aircraft Investment
By Type Of Airctraft



A320-A321. .38%
B-737. . . . . 20%
MD-80/DC-9. . . . . 13%
B-757. . . . . 8%
A310. . . . . 8%
MD-11. . . . . 5%
B-767. . . . . 4%
B-747. . . . . 1%
Gulfstream & Other. 3%



Revenue Passenger Miles
In Billions

Source Air Transportation Association 1998 Estimate

GATX AIR GROUP

GATX Air maximizes the number of aircraft it controls by partnering with other companies who have complementary skill sets. In a partnership with Gulfstream Aerospace, GATX provides operating leases for Gulfstream IV-SP's and V's, the premier corporate aircraft. Pictured on the next page is a new B-737-800 leased to Euralair. In 1998, GATX formed a marketing partnership with SAir Group (Swissair) to lease aircraft around the world.

GATX Capital leases commercial jet aircraft to airlines around the world. The Capital fleet of about 130 aircraft—or 200 aircraft on a combined basis with Swissair—consists largely of modern, Stage III, single aisle aircraft that have a large user base worldwide, such as B-737s and A320-A321s.

Over the course of 1998, GATX Capital set the stage for its future growth through several critical partnerships and the successful continuation of its new aircraft order program with Boeing. The formation of GATX Flightlease Management, a joint venture with an affiliate of SAir Group (Swissair), created the third largest aircraft management company in the world. The result of the venture is greater knowledge of the aircraft industry, new inroads into the European airlines in which SAir has an interest, new opportunities to lease to Swissair, and the infusion of the financial and leasing strengths of GATX Capital. GATX Flightlease places GATX Capital in the forefront of the global aircraft leasing market.

Partnering is a core strategy of GATX Capital and, through a joint venture with Gulfstream Aerospace Corporation, in 1998, GATX Capital ordered six Gulfstream corporate jets. Together with Gulfstream, GATX Capital will deploy these aircraft on operating leases worldwide. This is a natural partnership for GATX that leverages Gulfstream's operating knowledge and GATX's financial capabilities.

Capital also purchased a 50 percent ownership position in Rolls-Royce & Partners Finance, Ltd., which leases replacement jet aircraft engines. With a growing engine portfolio of 90 aircraft engines and industry-leading market share, Rolls-Royce & Partners Finance provides GATX Capital with yet another growth platform with an outstanding operations-oriented partner that has market-leading expertise.

Rolls-Royce & Partners Finance was the first operating lessor of spare aircraft engines nearly a decade ago. Currently, Rolls-Royce & Partners Finance enjoys approximately one third of this rapidly growing market. In the short time that GATX Capital has been involved with Rolls-Royce & Partners Finance, the new venture has invested significant funds in new engines.

GATX Capital's strategy to expand its aircraft portfolio through partnerships has allowed it to diversify its fleet, lower its risk profile, and create enhanced returns through management fees and residual sharing. Joint venture partnerships have allowed GATX Capital to broaden its presence in the aircraft leasing market, while at the same time achieving diversification in the overall GATX Capital portfolio. Aircraft investments constitute 28 percent of GATX Capital's total assets.

GATX Capital has the marketing, financial, and technical skills necessary to be a successful operating lessor of commercial jet aircraft. This blending of skills not only distinguishes GATX Capital from its competitors, but it creates a market advantage in the management of its aircraft fleet and attracting new partners.

GATX Capital Technology Group provides large corporate customers with full life-cycle asset management and information services. Through extensive offerings, corporate customers receive a range of integrated and stand-alone financial, consultative, operational, and information services. GATX brings value-adding expertise to this large and fast growing market.

GATX TECHNOLOGY GROUP

The technology leasing portion of the GATX Capital Technology Group is healthy and growing. The Technology Group leases desktop computers and other business technology to customers. This is one of the fastest growing areas of the leasing industry as more and more businesses are willing to outsource the management, purchase, and disposal of computer technology. The Technology Group brings in appropriate systems and equipment for the situation and removes, sells or redeploys computer assets at the end of the lease.

At the end of 1998, the GATX Capital Technology Group was comprised of technology leasing and a value-added reselling business (VAR). Despite attempts to make the VAR business more competitive in the marketplace, it has failed to meet acceptable return and growth levels. GATX is currently in discussions with strategic partners and buyers.

GATX has a decade long history of leasing and guaranteeing residuals on technology-based assets. While these

The GATX Capital Technology Group provides a full spectrum of technology services. In addition to leasing equipment ranging from modems, laptops, and desktops to larger mainframes, the Technology Group provides ancillary services such as training, help desks, and repair services. The Technology Group's customers are primarily mid-size to large companies who find that outsourcing their technology requirements saves them substantial costs.

assets tend to have relatively short lives, many companies do not rapidly upgrade computer systems, giving the Technology Group the opportunity to extend the lease into terms that are significantly more profitable.

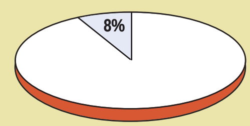
The GATX Capital Technology Group's assets under lease have grown from less than $50 million in 1994 to more than $500 million in 1998. To maximize the use of its equity, the Technology Group funds the majority of its investments through non-recourse, securitized financings. GATX believes that its technology leasing business should generate very strong returns as more leases mature and are extended.

A new and potentially high growth area for the Technology Group is Telecommunication Finance, which provides capital to start-up telecommunication companies. The GATX Capital Technology Group has established a joint venture that has knowledge of the markets and products to evaluate and balance the risk and reward of such investments.

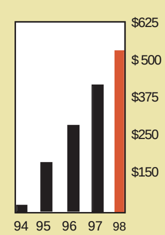
During 1998, the Technology Group dramatically advanced its capability to invest in the telecommunications industry. Telecommunication Finance provides infrastructure financing to a broad array of start-up and early-stage service providers that are building alternative communications networks in a deregulated environment. The Technology Group has enhanced its risk assessment abilities with the formation of a $200 million joint venture with two knowledgeable financial institutions that will provide the capital necessary to participate in this market and diversify the investments. This allows GATX to participate in the convergence of traditional telephony, data and internet communications.

GATX has invested in the information technology industry since 1986, and today has approximately $500 million in assets in this area. Information technology is one of the largest and fastest growing portions of the equipment leasing industry, and GATX is well positioned to participate in this expansion.

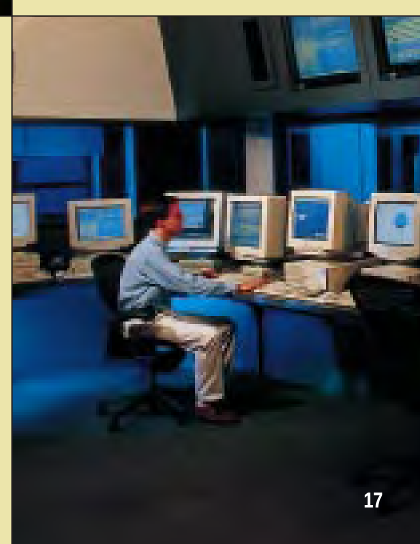
GATX Distribution Of Assets



Technology. 8%



GATX Technology Group Assets Under Lease
Dollars In Millions



By offering services to structure transactions and identify investment partners, GATX is a leader in buying and selling in the secondary market for leases and lease portfolios. Structured and Diversified Finance links virtually every new investment made by the company and our institutional clients.

GATX STRUCTURED AND DIVERSIFIED FINANCE

GATX Capital's Structured and Diversified Finance Group participates as an investor, arranger, and manager of capital assets with respect to equipment other than commercial jet aircraft, railroad equipment, high technology equipment, and other core areas of expertise.

In its role as investor, the group is involved in a multitude of activities. GATX Structured and Diversified Finance structures leases, loans and investments generated through both direct marketing to equipment users and acquisitions in the secondary market. By combining asset knowledge with financial structuring skills, Structured and Diversified Finance is able to offer its customers and partners not only traditional financial products, but also innovative risk sharing arrangements. Structured and Diversified Finance has orchestrated joint venture arrangements which have allowed the monetization and off-balance sheet treatment of our partners' assets. As an investor, GATX must continually look for new ways to deploy its capital at attractive risk-adjusted returns.

In 1998, Structured and Diversified Finance expanded the range of its financial offerings to include equity-linked financial products and high-yield debt investments in selected industries. Structured and Diversified Finance is also continuing to expand its operating lease and asset-based lending activities worldwide. In 1999, Structured and Diversified Finance will focus on offering operating leases and asset-based financing of marine assets. In addition, it will continue to work with partners to grow its residual value guarantee business, which allows lessors to write operating leases without being exposed to shortfalls in the value of leased equipment at lease expiration.

In its role as advisor, the group provides investment banking/advisory services to GATX Capital and other GATX operating businesses, plays a key role in finding institutional co-investors, and structures financial trans-

GATX Structured Finance combines industry and asset expertise, risk management, innovative structures, partnering, and financial skills to ultimately provide leased assets to customers. Like a puzzle, the combination of skill sets allows our customers to accomplish complicated financial transactions in niche areas.

actions for third parties in the United States and certain foreign markets—often through partnerships.

In its role as asset manager, Structured and Diversified Finance seeks to maximize the value of both its owned and managed portfolios. Its group of equipment professionals has expertise in asset valuation, residual value projection, industry assessment, and equipment remarketing. In 1998, Structured and Diversified Finance was able to combine this expertise and the skills of other GATX companies to sell various leases into the financial marketplace at values which were extremely attractive. The group also negotiated several major equipment dispositions that yielded proceeds substantially more than the equipment's depreciated book value.

GATX has been a leader in developing secondary markets for the acquisition of assets and lease portfolios from other financial institutions. Assets and portfolios purchased in the secondary market often have shorter remaining lease maturities and provide several options at lease expiration. The Structured and Diversified Finance Group provides timely, high quality technical, analytical, and pricing services across all of GATX Capital and, in certain cases, to other operating companies of GATX. To perform these functions, the Structured and Diversified Finance Group proactively seeks to develop and apply structuring methods, financial products, capital market techniques, and merger and acquisition strategies.

As intercompany collaborative efforts continue to develop and grow, GATX Structured and Diversified Finance will have a broader and more important role in assisting other parts of GATX with asset management and transaction structuring. In this role, GATX Structured and Diversified Finance acts as a catalyst for finding new and innovative ways to maximize GATX's equity by tying different operating companies together to optimize capital, add value to customers, and generate new profitable business avenues.

GATX Terminals is the largest independent bulk liquid storage and distribution company in North America. Having identified strategic worldwide opportunities, GATX Terminals is expanding its value-adding operational, technology, and management services to its chemical and petroleum customers.

GATX Terminals is one of the world's largest independent providers of bulk liquid storage and distribution. GATX Terminals offers its customers a vast network of bulk liquid storage and pipeline distribution services. GATX Terminals is addressing a challenging marketplace and is benefiting as a result of recent initiatives and its restructuring program.

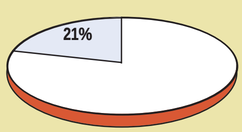
GATX Terminals' restructuring program began in 1997 and has acted as a catalyst for improvement after the difficult market conditions of 1996. A key component of the restructuring program was to rationalize certain terminals. In 1998, GATX Terminals sold its terminal in Vancouver, Wash., and the sales of the majority of its United Kingdom terminals and its Port Everglades, Fla., terminal were completed in February of 1999. The terminal located on Staten Island, N.Y., is also slated to be closed in 1999. GATX Terminals has strategically positioned itself as a key component of its customers' supply chains and distribution networks around the world.

GATX Terminals has continued to leverage its "Terminal within a Terminal" concept. As an example, in 1998, GATX Terminals partnered with Union Carbide to develop a dedicated facility within GATX Terminals' Carteret, NJ, facility to meet Union Carbide's storage and distribution needs on the East Coast. Union Carbide provided the financial support for capital outlays for the project, while GATX Terminals manages all services related to the facility. The end result is improved efficiency and market position for Union Carbide and the inclusion of GATX Terminals as a strategic partner for the long term.

GATX Terminals also operates two high volume pipelines that serve high growth areas. One runs between the Port of Los Angeles and Las Vegas; the other operates between Tampa and Orlando. Both pipelines play a critical role in distributing refined petroleum products to two of the fastest growing cities in the United States.

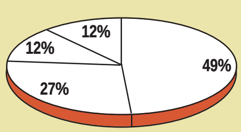
GATX Liquid Logistics focuses on identifying problems and developing solutions. Liquid Logistics uses GATX's extensive industry and logistics knowledge to assist our customers to increase efficiency and productivity in the storage and movement of chemical products. Liquid Logistics focuses on combining infrastructure and technology to maximize the information flow to our customers while at the same time minimizing the amount of capital a customer needs to invest in holding inventory stocks.

GATX Distribution Of Assets



Supply Chain. 21%

GATX Supply Chain Revenue Sources During 1998

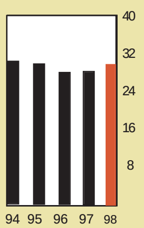


Dry Products. 49%
Petroleum. 27%
Chemical. 12%
Pipelines & Other. 12%

GATX Terminals has capitalized on international opportunities in Europe and in key Asian markets. Around the world, local chemical and petroleum companies are anxious for the opportunity to partner with a reputable, global storage and distribution partner like GATX Terminals. GATX Terminals is well positioned to provide creative global storage and distribution solutions.

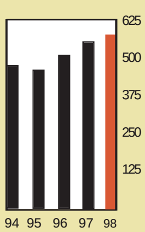
With the benefits of the restructuring program coming to fruition, GATX Terminals is poised for continued growth in domestic and international markets while playing an increasingly significant role in adding value to its customers' supply and distribution chains.

GATX LIQUID LOGISTICS GATX Liquid Logistics is the natural outgrowth of a number of GATX's core strengths: logistics management, transportation and storage of liquid products, and the ability to monitor and manage complete supply chains. Few, if any, other companies have the unique skill set necessary to provide complete chemical supply chain management.



Average Month-End Inventory Days On Hand
U.S. Industry Distillate & Motor Fuel Inventories

Source: American Petroleum Institute



GATX Terminals Throughput From Continuing Operations
Millions Of Barrels Delivered

GATX Liquid Logistics implements new technologies and business concepts, working in concert with other GATX operating companies, to manage the entire bulk chemical supply chain for customers. An entire supply chain may include delivering, on a continuous basis, liquid chemical raw materials, intermediate storage of bulk materials, management of transportation, inventory optimization, material handling services, and delivery of finished goods to market.

Liquid Logistics can provide a complete outsourcing of a chemical supply chain—or a progressive approach beginning with a sophisticated and secure technology to remotely replenish bulk inventories using the internet. Using the internet, GATX Inventory Monitoring Services provides chemical companies with the ability to optimize inventories (either in-bound raw materials or outbound finished goods to customers) and transportation costs by providing monitoring of all measures associated with a stored chemical including temperature, pressure, and volume.

Check GATX's Internet site to find out how much inventory is in a tank situated across the country. Capitalizing on its 100 year reputation for high quality, environmentally-sound, reliable service, GATX is offering customers complete supply chain and vendor managed inventory services for both liquid and dry products.

GATX SUPPLY CHAIN MANAGEMENT

GATX LOGISTICS GATX Logistics has developed value-adding services and technologies and has built critical mass to firmly position itself as an industry leader in integrated contract logistics. GATX Logistics has significantly altered its focus to meet customer needs for integrated services. The business has shifted strategically from warehousing to integrated contract logistics.

The development of information technology that monitors and controls distribution systems for customers will help drive GATX Logistics into the next century. The result of technological upgrades has been improved customer satisfaction and retention that has led to gaining a greater share of the customers' supply chain requirements on a longer-term basis.

In April, GATX Logistics became the sole source for integrated logistics services for the Curtice Burns business unit of Agrilink Foods. Since then, GATX Logistics has been providing freight management, packaging and labeling services, and distribution support for work-in-process and finished goods to and from Curtice Burns' production facilities located in and around Coloma, Mich. In addition to providing logistics services, GATX Logistics was able to develop a real estate financing solution for Agrilink. Other contracts that were renewed, expanded, or initiated in 1998 include Case, Ingersoll-Rand/Melroe Company, Kellogg's, Mitsubishi Motor Manufacturing and Thomson Consumer Electronics.

Looking to grow throughout the Americas, as well as in targeted industries such as automotive, consumer electronics and computers, consumer durables and packaged goods, GATX Logistics has evolved from a narrowly-focused warehousing company to a state-of-the-art integrated logistics company.

In addition, GATX Logistics' joint venture with Lockheed Martin, called Paxis, to capitalize on reduced U.S. Postal service rates for business-to-residential deliveries has tremendous growth potential, with virtually no equity investment by GATX.

GATX Logistics optimizes the movement of its customers' raw materials and products through the manufacturing and distribution process. GATX Logistics provides integrated logistics services to a wide range of industries providing in-bound materials management, assembly operations, value-adding processing and distribution support. Paxis, a joint venture between GATX Logistics and Lockheed Martin, helps customers optimize U.S. Postal Service shipping discounts for parcels.

In addition to operating the premier fleet of vessels on the U.S. Great Lakes, GATX provides leasing, management, and operational services for ships, barges, tugs, and tow boats. The Great Lakes fleet of self-unloading vessels primarily serves the steel and power generation industries.

GATX MARINE

GATX has developed a unique niche for marine-related operations and financial transactions through American Steamship Company and GATX Capital. American Steamship Company operates a fleet of Great Lakes vessels, while GATX Capital provides marine asset financing, leasing, and management.

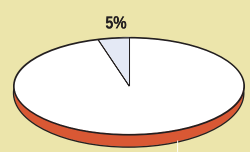
American Steamship Company American Steamship Company operates 11 state-of-the-art, self-unloading vessels on the Great Lakes that transport coal, iron ore, and limestone. Vessels range in size from 635 to 1,000 feet and are capable of transporting cargoes from 17,000 to 70,000 net tons and can self-discharge at speeds up to 10,000 tons per hour. Because American Steamship's vessels operate in fresh water, they have very long lives and require minimal amounts of maintenance. American Steamship is able to perform multiple port single trip loading, multiple port discharges, blended cargo discharges and multiple commodity single trip deliveries. American Steamship Company will soon operate a 34,000 deadweight ton tug barge on the East Coast and in the Gulf of Mexico.

American Steamship's customer base is consistent and highly concentrated among a small number of steel producers, limestone quarries, and electric utilities. American Steamship's "preferred" supplier status to these companies provides a competitive advantage and indicates the high levels of services provided.

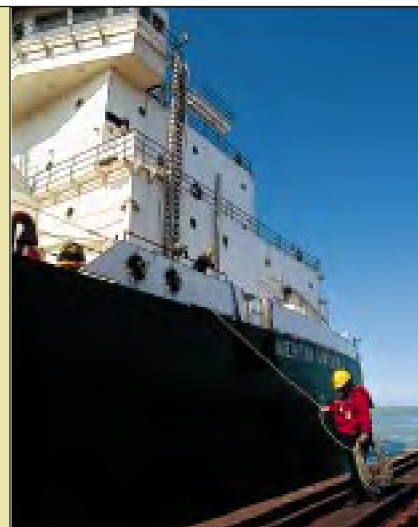
With the largest capacity fleet of vessels on the Great Lakes, American Steamship is one of the key components of transportation for one of the nation's most critical manufacturing areas. The Midwest accounts for over 70 percent of all U.S. integrated steelmaking capacity and about 50 percent of all automobile production.

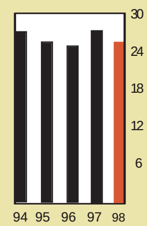
Helped by favorable weather conditions early in 1998, American Steamship delivered another strong year, transporting over 25 million net tons of cargo. However, the steel industry crisis resulting from the sale of low-cost foreign

GATX Distribution Of Assets



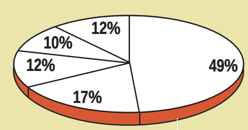
Marine. 5%





American Steamship Comany Great Lakes Tonnage
Tons in Millions

GATX Marine Assets
By Asset Type

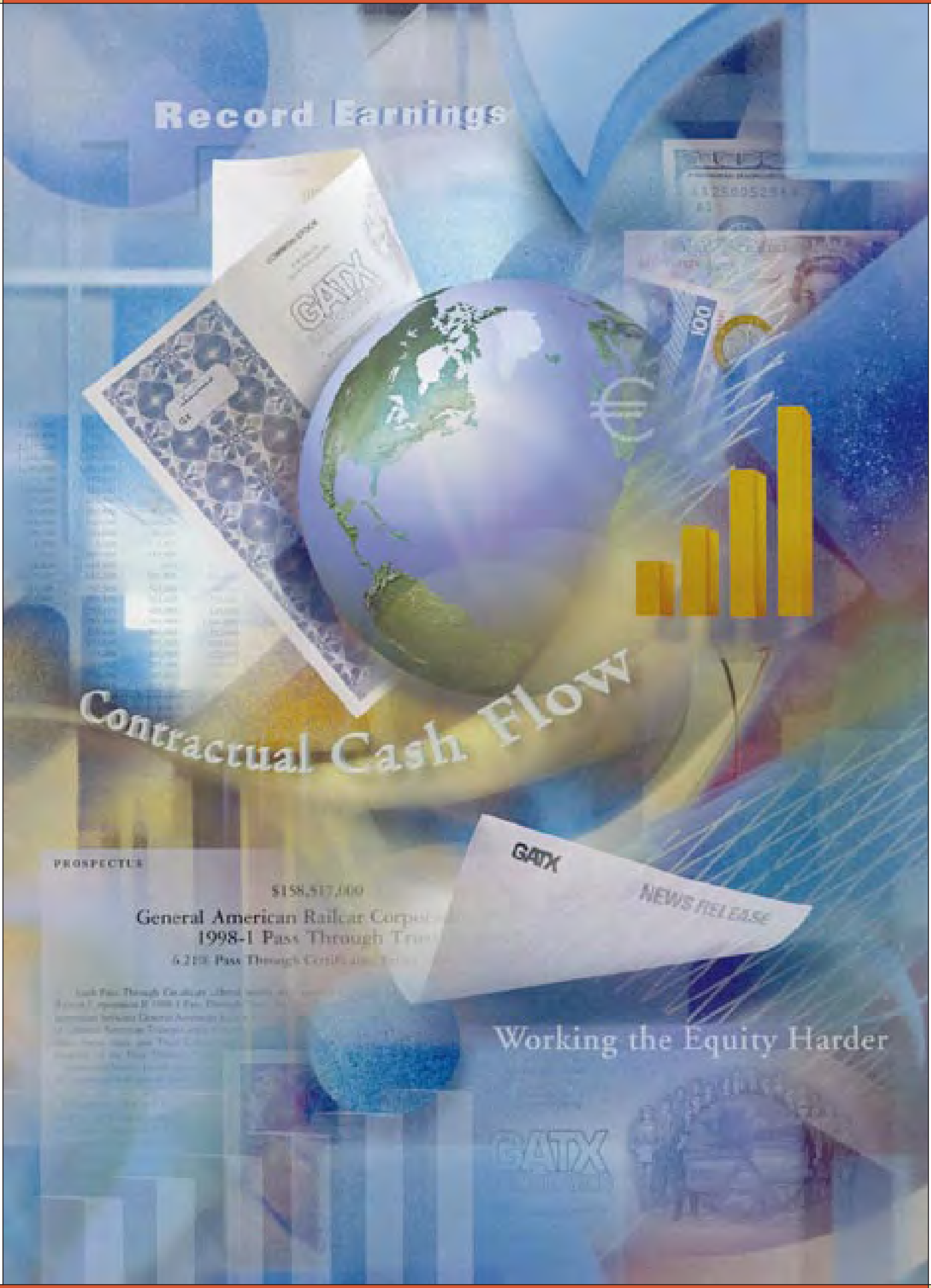


Great Lakes Vessels. 49%
Integrated Tug Barges. 17%
Barges. 12%
Towboats & Tugboats. 10%
Other. 12%

steel in domestic markets had an adverse effect in the fourth quarter and may carry into 1999. Nevertheless, American Steamship held its market share, by carrying 22 percent of all U.S. tonnage on the Great Lakes last year.

MARINE ASSET FINANCING GATX Capital continues to expand its marine asset financing business by focusing on the inland and coastal tug and barge markets as well as selected ocean-going vessels in conjunction with partners. The marine operating knowledge that resides in GATX Capital and is available from American Steamship has permitted GATX Capital to structure innovative asset risk sharing arrangements. In 1998, GATX Capital partnered with a large U.S. grain company to order 75 grain barges. These barges were contributed to a pool operated by a management company owned in part by the partner. This structure allowed the grain company to share the risks of ordering and deploying new equipment with GATX Capital, while maintaining access to the barges on an "as needed" basis.

American Steamship's fleet of 11 self-unloading vessels primarily serves the steel and power generation industries around the Great Lakes. Vessels of the size shown carry enough iron ore in a single load to make 18,000 automobiles. The boom on the deck is slightly shorter than a football field, and unloads the vessels at shore-based rates up to 10,000 tons per hour without the use of any shore-based unloading equipment.


Record Earnings
Contractual Cash Flow
PROSPECTUS
General American Railcar Corp
1998-1 Pass Through Tr
GATX
NEWS RELEASE
Working the Equity Harder

GATX REVIEW OF FINANCIAL OPERATIONS

Business Segments The following summary describes GATX's current business segments:

Railcar Leasing and Management represents General American Transportation Corporation and its foreign subsidiaries and affiliates (General American), which lease and manage tank cars and other specialized railcars.

Financial Services represents GATX Capital Corporation and its subsidiaries and affiliates (Capital), which arrange and service the financing of equipment and other capital assets on a worldwide basis.

Terminals and Pipelines represents GATX Terminals Corporation and its domestic and foreign subsidiaries and affiliates (Terminals), which own and operate tank storage terminals, pipelines and related facilities.

Logistics and Warehousing represents GATX Logistics, Inc. (Logistics), which provides distribution and logistics support services and warehousing facilities throughout North America.

Great Lakes Shipping represents American Steamship Company (ASC), which operates self-unloading vessels on the Great Lakes.

REPORT OF GATX MANAGEMENT
REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

TO OUR SHAREHOLDERS: The management of GATX Corporation has prepared the accompanying consolidated financial statements and related information included in this 1998 Annual Report to Shareholders and has the primary responsibility for the integrity of this information. The financial statements have been prepared in conformity with generally accepted accounting principles and necessarily include certain amounts which are based on estimates and informed judgments of management.

The financial statements have been audited by the company's independent auditors, whose report thereon appears on this page. Their role is to form an independent opinion as to the fairness with which such statements present the financial position of the company and the results of its operations.

GATX maintains a system of internal accounting controls which is designed to provide reasonable assurance as to the reliability of its financial records and the protection of its shareholders' assets. The concept of reasonable assurance is based on the recognition that the cost of a system of internal control should not exceed the related benefits. Management believes the company's system provides this appropriate balance in all material respects.

GATX's system of internal controls is further augmented by an audit committee composed of directors who are not officers or employees of GATX, which meets regularly throughout the year with management, the independent auditors and the internal auditors; an internal audit program that includes prompt, responsive action by management; and the annual audit of the company's financial statements by independent auditors.

Ronald H. Zech
Chairman, President and
Chief Executive Officer

David M. Edwards
Senior Vice President
and Chief Financial Officer

Ralph L. O'Hara
Controller and
Chief Accounting Officer

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF GATX CORPORATION: We have audited the accompanying consolidated balance sheets of GATX Corporation and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of operations, changes in shareholders' equity, comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of GATX Corporation and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Ernst & Young LLP

Chicago, Illinois
January 26, 1999

ERNST & YOUNG LLP

MANAGEMENT'S DISCUSSION AND ANALYSIS
1998 COMPARED TO 1997

GATX reported record net income of $132 million or $2.62 per share, on a diluted basis, for the year ended December 31, 1998 compared to a net loss of $51 million or $1.28 per share for 1997. Basic earnings per share was $2.68 compared to a per share loss of $1.28 for 1997.

During 1997, strategic decisions resulted in an after-tax restructuring charge of $163 million. Before the effects of the restructuring charge, operating income was $112 million with earnings per share on a diluted and basic basis of $2.25 and $2.34, respectively. The increase in 1998 operating income was principally due to record earnings at General American and Capital, improved conditions in the markets served by Terminals, and the benefit of last year's restructuring. Return on equity was 19.0% in 1998, up from 14.0% in 1997 prior to the effects of the restructuring charge.

The comparative performance for 1997 versus 1996 is discussed in the prior year's management discussion on pages 64-66 of this report.

RAILCAR LEASING AND MANAGEMENT'S gross income of $515 million increased 8% from 1997, with an average of over 5,000 more railcars on lease throughout North America. Average rental rates in 1998 were also slightly higher. At year end 1998, there were 81,600 railcars on lease, representing 95% utilization of the total North American fleet of 85,700 cars. Utilization at the end of 1997 was almost 96%, with 77,700 cars on lease.

General American's share of its two European affiliates' earnings was $2.5 million in 1998 compared to $.9 million last year. The increase is primarily due to holding one of the affiliates for an entire year as General American's interest was acquired in the fourth quarter of 1997.

Based on the revenues generated by the growing fleet, net income increased 7% to a record $67.1 million. Repair costs increased $8 million to support a larger fleet, but as a percentage of revenue were consistent with 1997. Selling, general, and administrative expense increased, primarily to support a major information systems initiative. Though the fleet grew substantially, depreciation and interest did not change appreciably from last year, primarily because of General American's continued use of sale-leaseback financing. In 1998, $208 million of railcars were sold and leased back, and the resultant asset ownership costs are included in operating lease expense.

FINANCIAL SERVICES GATX Capital's gross income of $597 million increased $13 million from 1997. Higher lease, interest, and asset remarketing income were offset in part by a significant decrease in technology equipment sales. Lease income was $22 million higher predominantly due to the growing leasing technology portfolio. Interest income increased $11 million, as market opportunities resulted in Capital extending $162 million in new loans in 1998. Asset remarketing income of $92 million exceeded last year's record $83 million. Asset remarketing, which does not fall evenly from period to period, includes both gains from the sale of assets out of Capital's own portfolio as well as residual sharing fees from the sale of managed assets. The largest gain in 1998 resulted from the sale of rail assets. While technology investing and leasing continued to grow, value-added reselling (VAR) sales of technology equipment in the U.S. and Europe experienced difficulties; sales of technology equipment decreased $31 million from last year.

During 1998, Capital continued to emphasize its strategy of joining with partners to finance and manage assets. Capital's share of earnings in such joint ventures was $27.9 million in 1998, a 64% increase over last year. Most of the increase was attributable to the joint venture formed with Pitney

MANAGEMENT'S DISCUSSION AND ANALYSIS
1998 COMPARED TO 1997 (CONTINUED)

Bowes at the end of 1997. A number of new joint ventures were formed in 1998, including GATX Flightlease Ltd. (aircraft), Rolls-Royce and Partners Finance Ltd. (aircraft engines), and GATX Telecom Investors (telecommunications). Capital also made incremental investments in several existing joint ventures to acquire additional aircraft.

Net income for 1998 was a record $59.3 million, exceeding last year by 11%. The record earnings were achieved despite absorbing a $6 million goodwill write-down related to the VAR sector due to the market difficulties facing the business.

Capital's allowance for possible losses increased by $7 million to $129 million, representing 6.3% of net investments, up from 5.8% at the end of 1997. The loss provision for 1998 was consistent with last year.

Compared to the end of last year, the asset mix of Capital's $2.4 billion portfolio at the end of 1998 showed a higher percentage of technology leasing equipment and a lower percentage of rail assets. Over $300 million was added to the technology leasing portfolio and approximately $170 million of rail assets were sold.

TERMINALS AND PIPELINES Terminals' gross income of $290 million decreased $2 million from 1997, primarily due to the sale of the Norco, Louisiana site in 1997. For both petroleum and chemical customers, demand at Terminals' U.S. facilities was stronger in 1998 resulting in improved revenues. Petroleum pricing in the futures market provided incentive to store product, while a favorable U.S. economy kept demand for chemical storage at a relatively high level.

During 1997, Terminals identified certain non-strategic locations and recorded a $123.8 million after-tax charge for the sale or closure of those and other impaired facilities. Three domestic and six terminals in the United Kingdom have been sold as of early 1999. One other domestic and a United Kingdom terminal are slated for sale or closure in 1999. On a continuing site basis, throughput and capacity utilization were 587 million barrels and 94% in 1998 compared to 560 million barrels and 93% in 1997.

Terminals' joint ventures, which primarily serve the European and Asian markets, contributed $13 million in earnings in 1998. Results in 1998 were hampered by unfavorable foreign exchange of approximately $1 million compared to 1997, but overall were comparable to last year. In Asia, the financial crisis and economic downturn appear to have bottomed out, though difficulties may continue to some degree for at least the first half of 1999.

Net income of $19.5 million for 1998 increased significantly from last year's operating earnings of $8.1 million (before the $123.8 million after-tax restructuring charge), based primarily on improving market conditions and benefits from the restructuring. Selling, general, and administrative costs were essentially constant with the year ago period. Proceeds from the sale of Norco and other assets were used to pay down debt, and interest expense accordingly decreased $4 million from 1997. Depreciation expense was almost $14 million lower, in large part due to the asset write-downs taken as part of the 1997 restructuring.

MANAGEMENT'S DISCUSSION AND ANALYSIS
1998 COMPARED TO 1997 (CONTINUED)

Logistics and Warehousing Logistics' gross income of $273 million increased 6% due to the addition of major customers and increased business with existing customers. Lost customers and slower production periods by certain customers partially offset this increase. Total warehouse capacity was 23 million square feet and 21 million square feet in 1998 and 1997, respectively. Space utilization of 95% in 1998 was comparable to the prior year.

Logistics' net income was $1.0 million in 1998 compared to a net loss in 1997 of $37.4 million, which included the effects of a $39.0 million after-tax charge for the write-down of goodwill. Logistics' income decreased $.6 million in 1998 from 1997 results before the special charge, reflecting a $3 million receivable writeoff from a customer that ceased operations, customer turnover, and lower volume with certain customers. Logistics' 1998 results reflect lower selling, general and administrative costs and lower goodwill amortization resulting from the 1997 write-down.

Great Lakes Shipping Gross income in 1998 was $87 million, a 5% decrease from last year largely due to a 1997 gain related to the remarketing of a third party vessel and less tonnage carried in the current year. Tonnage carried in 1998 was 25.3 million tons, 4% lower than the 26.4 million tons carried in 1997, due to the decline in the domestic steel industry in the latter part of the year. Lower domestic steel production caused by the high level of imported steel reduced the demand for iron ore transportation. Total tonnage of coal transported also decreased as unseasonably warm weather caused inventory levels for large domestic utilities to remain high. Revenue per ton was comparable with the prior year.

Net income was $7.2 million in 1998 compared to $7.9 million 1997, which included a $1.3 million remarketing gain. Excluding the remarketing gain, net income in 1998 increased 9% despite the lower tonnage. The increase is attributable to favorable weather conditions, operating efficiencies and higher vessel utilization, partially offset by business development costs. Contribution margin per ton was 10% greater than the prior year due to operating efficiencies.

The environment on the Great Lakes remained competitive, with the demand for vessel capacity stable in 1998. ASC carried an estimated 22% of the total U.S. flag Great Lakes tonnage, similar to 1997. Total U.S. flag tonnage was 117 million tons in 1998 compared to 118 million tons in 1997. Iron ore cargoes represented 42% of ASC's tonnage versus 43% in 1997. Coal cargoes represented 25% of ASC's tonnage, up from 24% last year. It is anticipated that the Great Lakes environment will be negatively impacted in 1999 by the crisis resulting from the sale of low-cost foreign steel in domestic markets and consequent excess vessel capacity on the Great Lakes.

Corporate and Other Corporate and Other net expense of $20.7 million was comparable to the prior year. A decrease in interest expense was offset by an increase in selling, general and administrative expenses, including the costs to develop the Liquid Logistics initiative.

FINANCIAL DATA OF BUSINESS SEGMENTS

GATX provides services to a variety of markets through five principal business segments. The financial data presented on this and the following page conform to Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information,* and depict the profitability, financial position, and cash flow of each of GATX's business segments.

Segment profitability is presented to reflect operating results inclusive of allocated support expenses from the parent company and interest costs based upon the debt levels shown below. Certain amounts have been reclassified (as compared to prior reported GATX segments) to conform with management's assessment of results for each operation. Most notably, the financing effects considered non-operational to the Railcar Leasing and Management segment have been reclassified to the Corporate and Other segment. As a result of eliminating the non-operating financial components, management is able to assess performance using better return measures, such as return on equity, both across segments and over time. Based on a targeted capital structure for Railcar Leasing and Management, the return on equity trend increased from 20.4% in 1996 to 23.3% in 1998. In certain cases, return on equity is labeled n/m (not meaningful) on the table to reflect returns that are immaterial, negative, or distorted as a result of the 1997 restructuring charge.

In Millions	Railcar Leasing and Management	Financial Services	Terminals and Pipelines	Logistics and Warehousing	Great Lakes Shipping	Corporate and Other	Intersegment	Total
1998								
Profitability								
Gross income (expense)	$ 514.5	$ 597.1	$290.4	$273.4	$ 87.2	$ 5.2	$ (4.7)	**$1,763.1**
Interest expense	(52.9)	(114.6)	(53.6)	(.6)	(6.8)	(8.0)	1.6	**(234.9)**
Depreciation and amortization	(97.3)	(110.8)	(41.0)	(10.0)	(6.4)	(1.2)	(.8)	**(267.5)**
Income (loss) before taxes and share of affiliates' earnings	105.8	64.0	12.1	3.0	11.3	(31.3)	(2.3)	**162.6**
Share of affiliates' earnings (loss)	2.5	27.9	13.3	(.1)	—	—	—	**43.6**
Net income (loss)	67.1	59.3	19.5	1.0	7.2	(20.7)	(1.5)	**131.9**
Return on equity (A)	23.3%	23.1%	n/m	1.2%	21.1%	n/m	n/m	**19.0%**
Financial Position								
Identifiable assets	1,539.9	2,207.2	958.4	144.0	169.1	21.6	(100.9)	**4,939.3**
Debt	710.4	1,620.9	615.2	7.0	96.5	75.5	(3.9)	**3,121.6**
Equity	298.3	272.1	117.8	94.7	32.5	(80.2)	(2.3)	**732.9**
Items Affecting Cash Flow								
Net cash provided by (used in) operating activities	166.1	78.8	84.5	13.8	17.7	(21.8)	—	**339.1**
Portfolio proceeds	—	863.5	—	—	—	—	(6.4)	**857.1**
Total cash provided (used)	166.1	942.3	84.5	13.8	17.7	(21.8)	(6.4)	**1,196.2**
Capital additions and portfolio investments	384.8	853.0	70.9	7.8	4.8	1.1	(7.7)	**1,314.7**

(A) Based on average equity for the year.

FINANCIAL DATA OF BUSINESS SEGMENTS (CONTINUED)

In Millions	Railcar Leasing and Management	Financial Services	Terminals and Pipelines	Logistics and Warehousing	Great Lakes Shipping	Corporate and Other	Intersegment	Total
1997								
Profitability								
Gross income (expense)	$ 476.9	$ 584.4	$ 292.8	$257.1	$ 91.4	$ .6	$ (1.3)	**$1,701.9**
Interest expense	(51.0)	(96.8)	(57.3)	(.2)	(7.1)	(11.6)	1.6	**(222.4)**
Depreciation and amortization	(98.0)	(81.7)	(54.7)	(10.5)	(6.4)	(1.0)	—	**(252.3)**
Income (loss) before taxes, restructuring, and share of affiliates' earnings	98.8	62.3	(7.0)	4.6	12.3	(32.2)	(1.3)	**137.5**
Share of affiliates' earnings (loss)	.9	17.0	13.1	(.1)	—	—	—	**30.9**
Operating income (loss) before restructuring (B)	62.7	53.6	8.1	1.6	7.9	(21.3)	(.7)	**111.9**
Net income (loss)	62.7	53.6	(115.7)	(37.4)	7.9	(21.3)	(.7)	**(50.9)**
Return on equity (A)	22.1%	23.3%	n/m	n/m	21.9%	n/m	n/m	**(7.1)%**
Financial Position								
Identifiable assets	1,504.5	2,275.8	937.1	112.1	177.2	26.9	(85.8)	**4,947.8**
Debt	693.8	1,697.2	626.0	1.8	101.7	91.4	—	**3,211.9**
Equity	278.8	241.9	104.5	78.1	35.8	(82.9)	(.8)	**655.4**
Items Affecting Cash Flow								
Net cash provided by (used in) operating activities	158.3	57.4	69.2	12.2	19.2	(24.9)	—	**291.4**
Portfolio proceeds	—	458.7	—	—	—	—	—	**458.7**
Total cash provided (used)	158.3	516.1	69.2	12.2	19.2	(24.9)	—	**750.1**
Capital additions and portfolio investments	336.9	866.3	68.0	4.2	.2	—	—	**1,275.6**
1996								
Profitability								
Gross income (expense)	$ 427.9	$ 337.3	$ 297.6	$267.5	$ 85.2	$ (.8)	$ (.3)	**$1,414.4**
Interest expense	(45.0)	(86.1)	(52.9)	(.3)	(7.5)	(12.0)	1.0	**(202.8)**
Depreciation and amortization	(86.8)	(45.3)	(51.9)	(11.1)	(6.3)	(1.0)	—	**(202.4)**
Income (loss) before taxes and share of affiliates' earnings	86.8	56.1	3.6	3.8	8.3	(29.7)	(.2)	**128.7**
Share of affiliates' earnings	2.9	13.6	11.9	—	—	—	—	**28.4**
Net income (loss)	56.6	45.9	13.0	.9	5.4	(19.0)	(.1)	**102.7**
Return on equity (A)	20.4%	22.4%	5.3%	.7%	14.5%	n/m	n/m	**13.8%**
Financial Position								
Identifiable assets	1,452.2	1,808.9	1,195.7	164.7	179.6	33.0	(83.9)	**4,750.2**
Debt	631.3	1,293.0	724.0	1.9	108.0	149.7	—	**2,907.9**
Equity	288.2	218.7	240.7	132.5	36.4	(141.5)	(.1)	**774.9**
Items Affecting Cash Flow								
Net cash provided by (used in) operating activities	161.6	102.2	54.4	17.2	7.1	(45.0)	—	**297.5**
Portfolio proceeds	—	354.8	—	—	—	—	—	**354.8**
Total cash provided (used)	161.6	457.0	54.4	17.2	7.1	(45.0)	—	**652.3**
Capital additions and portfolio investments	386.8	659.3	129.5	6.6	.8	1.8	—	**1,184.8**

(A) Based on average equity for the year. In 1997, consolidated return on equity, based on operating income, was 14.0%.

(B) Pretax income excludes a $224.8 million charge for restructuring with $185.8 million related to Terminals and Pipelines and $39.0 million pertaining to Logistics and Warehousing. The after-tax impacts were $162.8 million, $123.8 million, and $39.0 million, respectively.

CONSOLIDATED STATEMENTS OF OPERATIONS

In Millions, Except Per Share Data/Year Ended December 31	1998	1997	1996
GROSS INCOME	$1,763.1	$1,701.9	$1,414.4
COSTS AND EXPENSES			
Operating expenses	838.0	840.3	689.2
Interest	234.9	222.4	202.8
Provision for depreciation and amortization	267.5	252.3	202.4
Provision for possible losses	14.7	11.1	12.5
Selling, general and administrative	245.4	238.3	178.8
Provision for restructuring	–	224.8	–
	1,600.5	1,789.2	1,285.7
INCOME (LOSS) BEFORE INCOME TAXES AND SHARE OF AFFILIATES' EARNINGS	162.6	(87.3)	128.7
INCOME TAXES (BENEFIT)	74.3	(5.5)	54.4
INCOME (LOSS) BEFORE SHARE OF AFFILIATES' EARNINGS	88.3	(81.8)	74.3
SHARE OF AFFILIATES' EARNINGS	43.6	30.9	28.4
NET INCOME (LOSS)	$ 131.9	$ (50.9)	$ 102.7
PER SHARE DATA			
Basic:			
Net Income (Loss)	$ 2.68	$ (1.28)	$ 2.22
Average Number of Common Shares (in thousands)	49,178	45,084	40,379
Diluted:			
Net Income (Loss)	2.62	(1.28)	2.10
Average Number of Common Shares and Common Share Equivalents (in thousands)	50,426	45,084	48,924
Dividends paid:			
Common	1.00	.92	.86
$3.875 Cumulative Preferred	–	1.9375	3.875

The accompanying notes are an integral part of these consolidated financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS 1998 COMPARED TO 1997

Overview: The comparison of 1998 to 1997 results is heavily influenced by the $163 million after-tax restructuring charge taken last year.

Gross Income of $1.8 billion in 1998 increased $61 million or 4% over last year. General American's revenues increased $38 million, with an average of over 5,000 more cars on lease in North America than in 1997. Logistics added several new large customers in 1998 and expanded business with key existing customers, resulting in revenue growth of $16 million. GATX Capital's gross income increased $13 million, with higher lease, interest, and asset remarketing income offset in part by a $31 million decrease in VAR sales. ASC's and Terminals' gross income decreased $4 million and $2 million, respectively. ASC carried less tonnage and 1997 revenues included a remarketing gain. Terminals' decrease included the effect of selling its Norco terminal in 1997.

Operating Expenses of $838 million were $2 million lower than last year. Consistent with the reduction in GATX Capital's VAR sales, the cost of sales decreased $32 million. General American's operating expenses increased by $25 million with $8 million related to repairs supporting the growing railcar fleet and $14 million due to operating lease expense for the ongoing sale-leaseback of railcars. Logistics' operating costs increased $16 million. Terminals' operating expenses were $4 million lower primarily due to selling Norco. ASC carried fewer tons and benefited from certain operating efficiencies, resulting in a $3 million cost reduction.

Interest Expense of $235 million increased almost $13 million. GATX Capital's average debt balance during 1998 was $261 million higher than the prior year, resulting in an $18 million increase in interest expense. Terminals' interest expense was $4 million lower primarily due to using asset sale proceeds to pay down debt.

Depreciation and Amortization Expense was $15 million more than in 1997. Terminals' depreciation was $14 million lower, in large part due to the asset write-downs taken as part of the 1997 restructuring. GATX Capital's depreciation expense was $20 million higher due to the growth in operating lease investments during 1998. Amortization also was higher, primarily due to a $6 million write-off of goodwill related to the VAR technology business partially offset by less amortization at Logistics.

The Provision for Possible Losses of $15 million, a $4 million increase over last year, includes Logistics' $3 million write-off of a receivable from a customer that ceased operations.

Selling, General and Administrative Expenses in 1998 included expenditures for employee costs, information systems, and new business development partially offset by cost control benefits. SG&A as a percentage of gross income was approximately 14%, comparable with the prior year.

Income Tax Expense of $74 million represented an effective tax rate of approximately 46%, higher than last year's 41% (before restructuring charges). Certain expenses in 1998, including the goodwill write-down for the VAR technology business, were not deductible for tax purposes.

Share of Affiliates' Earnings grew by 41% over 1997. The majority of the increase was attributable to PBG Capital, a joint venture formed late in 1997 between GATX Capital and Pitney Bowes, and a full year of affiliate earnings from KVG, a German-based railcar joint venture acquired in 1997.

Consolidated Earnings of $132 million, an increase of $20 million from last year (before restructuring charges), were driven by record earnings at GATX Capital and General American, and sharply higher results at Terminals.

CONSOLIDATED BALANCE SHEETS

In Millions/December 31	1998	1997
Assets		
Cash and Cash Equivalents	$ 94.5	$ 77.8
Receivables		
Trade accounts	156.2	161.9
Finance leases	676.0	877.0
Secured loans	241.6	180.3
Less–Allowance for possible losses	(135.9)	(128.5)
	937.9	1,090.7
Operating Lease Assets and Facilities		
Railcars and service facilities	2,567.1	2,501.7
Tank storage terminals and pipelines	1,168.2	1,128.9
Great Lakes vessels	204.2	199.4
Operating lease investments and other	770.2	704.4
	4,709.7	4,534.4
Less–Allowance for depreciation	(1,919.6)	(1,823.9)
	2,790.1	2,710.5
Investments in Affiliated Companies	715.3	707.4
Other Assets	401.5	361.4
	$ 4,939.3	$ 4,947.8
Liabilities, Deferred Items and Shareholders' Equity		
Accounts Payable	$ 353.0	$ 354.7
Accrued Expenses	54.1	58.0
Debt		
Short-term	299.9	370.2
Long-term:		
Recourse	2,171.3	2,221.4
Nonrecourse	451.9	408.2
Capital lease obligations	198.5	212.1
	3,121.6	3,211.9
Deferred Income Taxes	325.1	297.6
Other Deferred Items	352.6	370.2
Total Liabilities and Deferred Items	4,206.4	4,292.4
Shareholders' Equity		
Preferred stock	–	–
Common stock	34.3	34.1
Additional capital	331.6	322.6
Reinvested earnings	446.0	363.4
Accumulated other comprehensive loss	(32.2)	(17.9)
	779.7	702.2
Less–Cost of common shares in treasury	(46.8)	(46.8)
Total Shareholders' Equity	732.9	655.4
	$ 4,939.3	$ 4,947.8

The accompanying notes are an integral part of these consolidated financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF BALANCE SHEETS 1998 COMPARED TO 1997

OVERVIEW: Total assets were $4.9 billion and approximated the balance at the end of 1997. While there were record portfolio investments and capital additions during 1998, these were more than offset by significant asset reductions, including $268 million of depreciation and amortization, the sale-leaseback of $231 million of railcars, portfolio proceeds from repayments of portfolio loans and leases, and from asset remarketing.

In addition to the $4.9 billion of assets on the balance sheet, GATX utilizes over $1 billion of assets, such as railcars, aircraft, and warehouses, that are financed with operating leases and therefore are not included on the balance sheet.

TOTAL RECEIVABLES, including finance leases and secured loans, decreased $145 million mostly due to activity at GATX Capital. Finance leases decreased $201 million primarily due to the remarketing of rail assets. Several new significant investment opportunities resulted in secured loans increasing by $61 million.

OPERATING LEASE ASSETS AND FACILITIES of $2.8 billion increased by only $80 million, despite $1.3 billion of portfolio investments and capital additions made in 1998. Substantially offsetting the additions were depreciation, the sale-leaseback of railcars at General American and GATX Capital, and asset remarketing.

INVESTMENTS IN AFFILIATED COMPANIES of $715 million increased $8 million. Though $147 million was invested in GATX's joint ventures in 1998, and a record $44 million of equity income was recognized, these additions were largely offset by cash distributions.

OTHER ASSETS of $402 million increased $41 million since the end of last year, with the largest part of the increase due to progress payments for aircraft.

TOTAL DEBT of $3.1 billion decreased $90 million since the end of 1997. Short-term debt and other recourse debt collectively decreased $134 million. GATX's use of nonrecourse debt continued to be emphasized, with that component of debt increasing $44 million. GATX's cash needs for 1998 were generally satisfied with internally-generated cash flow from operations, portfolio proceeds, and sale-leaseback proceeds.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In Millions/Year Ended December 31	1998	1997	1996
Operating Activities			
Net income (loss)	$ 131.9	$ (50.9)	$ 102.7
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Realized gains on remarketing of leased equipment	(72.9)	(74.1)	(40.9)
Provision for restructuring, net of tax	–	162.8	–
Provision for depreciation and amortization	267.5	252.3	202.4
Provision for possible losses	14.7	11.1	12.5
Deferred income taxes	38.8	18.0	25.2
Net change in trade receivables, inventories, accounts payable and accrued expenses	(13.4)	34.9	30.2
Other	(27.5)	(62.7)	(34.6)
Net cash provided by operating activities	339.1	291.4	297.5
Investing Activities			
Additions to operating lease assets and facilities	(468.5)	(362.0)	(436.2)
Additions to equipment on lease, net of nonrecourse financing	(501.6)	(536.4)	(376.3)
Secured loans extended	(161.6)	(35.1)	(117.1)
Investments in affiliated companies	(147.2)	(306.1)	(92.8)
Other investments and progress payments	(35.8)	(36.0)	(162.4)
Capital additions and portfolio investments	(1,314.7)	(1,275.6)	(1,184.8)
Portfolio proceeds:			
From remarketing of leased equipment	242.0	218.5	100.7
From return of investment	615.1	240.2	254.1
Total portfolio proceeds	857.1	458.7	354.8
Proceeds from other asset sales	261.6	226.9	250.3
Net cash used in investing activities	(196.0)	(590.0)	(579.7)
Financing Activities			
Proceeds from issuance of long-term debt	360.1	569.9	757.3
Repayment of long-term debt	(361.6)	(395.2)	(283.3)
Net (decrease) increase in short-term debt	(69.2)	207.8	(121.1)
Repayment of capital lease obligations	(15.4)	(15.3)	(14.4)
Issuance of common stock under employee benefit programs and other	9.0	12.4	3.1
Cash dividends	(49.3)	(49.4)	(48.0)
Net cash (used in) provided by financing activities	(126.4)	330.2	293.6
Net Increase in Cash and Cash Equivalents	$ 16.7	$ 31.6	$ 11.4

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Financial data of business segments for 1998, 1997, and 1996 on pages 32 and 33 are an integral part of the consolidated financial statements of GATX Corporation and subsidiaries.

NOTE A—SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies of GATX and its consolidated subsidiaries are discussed below.

Consolidation—The consolidated financial statements include the accounts of GATX and its majority-owned subsidiaries. Investments in 20 to 50 percent-owned companies and joint ventures are accounted for under the equity method and are shown as investments in affiliated companies, with operating results shown as share of affiliates' earnings.

Cash Equivalents—GATX considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Operating Lease Assets and Facilities—Operating lease assets and facilities are stated principally at cost. Assets acquired under capital leases are included in operating lease assets and the related obligations are recorded as liabilities. Provisions for depreciation include the amortization of the cost of capital leases and are computed by the straight-line method which results in equal annual depreciation charges over the estimated useful lives of the assets. The estimated useful lives of depreciable assets are as follows:

Railcars	20-38 years
Buildings, leasehold improvements, storage tanks, and pipelines	5-40 years
Great Lakes vessels	30-40 years
Machinery and related equipment	3-25 years
Operating lease investments	3-38 years

Goodwill—GATX has classified the cost in excess of the fair value of net assets acquired as goodwill. Goodwill, which is included in other assets, is being amortized on a straight-line basis over 10 to 40 years. GATX continually evaluates the existence of goodwill impairment on the basis of whether the goodwill is recoverable from projected undiscounted net cash flows of the related business, and in that regard adjusted certain carrying amounts in 1997 (as is explained in Note O) and 1998. In 1998, $6.0 million of goodwill related to Capital's technology equipment sales business was written off, as that asset was determined to be impaired. Goodwill, net of accumulated amortization of $37.5 million and $28.5 million, was $116.6 million and $118.7 million as of December 31, 1998 and 1997, respectively. Amortization expense was $13.8 million in 1998, $6.7 million in 1997, and $5.3 million in 1996.

Income Taxes—United States income taxes have not been provided on the undistributed earnings of foreign subsidiaries and affiliates which GATX intends to permanently reinvest in these foreign operations. The cumulative amount of such earnings was $190.9 million at December 31, 1998.

Other Deferred Items—Other deferred items include the accrual for postretirement benefits other than pensions; environmental, general liability and workers' compensation reserves; and other deferred credits.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Off-Balance Sheet Financial Instruments—GATX uses interest rate and currency swaps, forwards and similar contracts to set interest and exchange rates on existing or anticipated transactions. These instruments qualify for hedge accounting. Fair values of GATX's off-balance sheet financial instruments (futures, swaps, forwards, options, guarantees, and lending and purchase commitments) are based on current market prices, settlement values or fees currently charged to enter into similar agreements. The fair values of the hedge contracts are not recognized in the financial statements. Net amounts paid or received on such contracts are recognized over the term of the contract as an adjustment to interest expense or the basis of the hedged financial instrument.

Environmental Liabilities—Expenditures that relate to current or future operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are charged to environmental reserves. Reserves are recorded in accordance with accounting guidelines to cover work at identified sites when GATX's liability for environmental clean-up is both probable and a minimum estimate of associated costs can be made; adjustments to initial estimates are recorded as necessary.

Revenue Recognition—The majority of GATX's gross income is derived from the rentals of railcars, commercial aircraft, Great Lakes vessels, and technology equipment as well as terminaling, warehousing and logistics services. In addition, income is derived from technology equipment sales, finance leases, asset remarketing, secured loans and other services.

Foreign Currency Translation—The assets and liabilities of GATX operations located outside the United States are translated at exchange rates in effect at year end, and income statements are translated at the average exchange rates for the year. Gains or losses resulting from the translation of foreign currency financial statements are deferred and recorded as a separate component of consolidated shareholders' equity. The cumulative foreign currency translation loss recorded in accumulated other comprehensive loss was $(38.8) million and $(22.5) million at the end of 1998 and 1997, respectively.

Investments in Equity Securities—Financial Services' venture leasing portfolio includes stock and stock warrants held as available-for-sale securities. The unrealized gain on these securities, recorded in accumulated other comprehensive loss was $6.6 million and $4.6 million at the end of 1998 and 1997, respectively.

Use of Estimates—The preparation of financial statements in conformity with generally accepted accounting principles necessarily requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as revenues and expenses during the reporting period. Actual amounts when ultimately realized could differ from those estimates.

EARNINGS PER SHARE—Basic and diluted earnings per share are determined in accordance with the requirements of Statement of Financial Accounting Standards No. 128. Basic EPS is calculated as net income (loss) available to common shareholders, adjusted for preferred dividends, divided by the weighted average number of common shares outstanding. Diluted EPS is calculated as net income (loss) divided by the sum of the weighted average number of common shares outstanding and common stock equivalents. Common stock equivalents include shares issuable upon exercise of employee stock options (reduced by the number of shares assumed to be repurchased by the option proceeds) and also assumes all preferred stock has been converted into common shares if the effect of such conversion is not antidilutive.

NEW ACCOUNTING PRONOUNCEMENTS—In 1998, GATX adopted the Statement of Financial Accounting Standards No. 130, *Reporting Comprehensive Income* ("SFAS 130"). SFAS 130 establishes new rules for the reporting and display of comprehensive income and its components; however, the adoption of this statement had no impact on the company's net income or shareholders' equity. Comprehensive income (loss) consists of net income (loss), foreign currency translation adjustments and changes in unrealized gain (loss) on securities and is presented in the Consolidated Statements of Comprehensive Income (Loss). Prior year consolidated financial statements have been reclassified to conform with SFAS 130 requirements.

GATX adopted the Statement of Financial Accounting Standards No. 131, *Disclosures About Segments of an Enterprise and Related Information* ("SFAS 131"), in 1998 which changes the way the company reports information about its operating segments. The adoption of SFAS 131 did not affect consolidated results of operations or financial position, but did affect the disclosure of segment information. The information for 1997 and 1996 has been restated from the prior years' presentation in order to conform with the 1998 presentation. See segment discussion at page 32.

In 1998, the AICPA issued Statement of Position 98-1, *Accounting For the Costs of Computer Software Developed or Obtained For Internal Use* ("SOP 98-1"). SOP 98-1 is effective for financial statements for years beginning after December 15, 1998 and requires the capitalization of certain costs incurred after the date of adoption in connection with developing or obtaining software for internal use. The company currently expenses such costs incurred. Management is currently assessing the impact that the adoption of SOP 98-1 will have on the company's financial position, results of operations, and cash flows.

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS 133"), which is required to be adopted in years beginning after June 15, 1999. GATX, which utilizes fundamental derivatives to hedge changes in interest rates and foreign currencies, expects to adopt SFAS 133 effective January 1, 2000. This new accounting standard will require that all derivatives be recorded on the balance sheet at fair value. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in the fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. Management is currently assessing the impact that the adoption of SFAS 133 will have on the company's financial position, results of operations, and cash flows.

RECLASSIFICATIONS—Certain amounts in the 1997 and 1996 financial statements have been reclassified to conform to the 1998 presentation.

NOTE B—ACCOUNTING FOR LEASES

The following information pertains to GATX as a lessor:

FINANCE LEASES—GATX's finance leases include direct financing leases and leveraged leases. Financing leases which are financed principally with nonrecourse borrowings at lease inception and which meet certain criteria are accounted for as leveraged leases. Leveraged lease contracts receivable are stated net of the related nonrecourse debt. The components of the investment in finance leases were (in millions):

December 31	1998	1997
Net minimum future lease receivables	**$ 690.0**	$ 773.6
Estimated residual values	**202.5**	415.9
	892.5	1,189.5
Less–Unearned income	**(216.5)**	(312.5)
Investment in finance leases	**$ 676.0**	$ 877.0

OPERATING LEASES—The majority of railcar and tank storage assets and certain other equipment leases included in operating lease assets are accounted for as operating leases.

MINIMUM FUTURE RECEIPTS—Minimum future lease receipts from finance leases and minimum future rental receipts from noncancelable operating leases by year at December 31, 1998 were (in millions):

	Finance Leases	Operating Leases	Total
1999	$ 225.8	$ 737.9	$ 963.7
2000	140.0	537.2	677.2
2001	93.7	380.6	474.3
2002	57.4	262.3	319.7
2003	40.9	155.8	196.7
Years thereafter	132.2	502.0	634.2
	$ 690.0	$2,575.8	$3,265.8

The following information pertains to GATX as a lessee:

CAPITAL LEASES—Assets classified as operating lease assets and finance leases which have been financed under capital leases were (in millions):

December 31	1998	1997
Railcars	**$ 151.1**	$ 152.0
Great Lakes vessels	**159.5**	159.5
Other	**1.8**	—
	312.4	311.5
Less–Allowance for depreciation	**(183.8)**	(173.5)
	128.6	138.0
Finance leases	**8.6**	9.9
	$ 137.2	$ 147.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Operating Leases—GATX has financed railcars, aircraft, warehouses, and other assets through sale-leasebacks which are accounted for as operating leases. In addition, GATX leases certain other assets and office facilities. Total rental expense, net of sublease income, for the years ended December 31, 1998, 1997, and 1996 was $198.9 million, $186.5 million, and $170.2 million, respectively. Sublease income was $3.8 million, $5.1 million, and $6.9 million, in 1998, 1997, and 1996, respectively.

Future Minimum Rental Payments—Future minimum rental payments due under noncancelable leases at December 31, 1998 were (in millions):

	Capital Leases	Operating Leases	Nonrecourse Operating Leases
1999	$ 32.7	$ 153.5	$ 24.0
2000	31.8	137.3	27.7
2001	30.8	127.0	27.7
2002	30.3	128.8	25.2
2003	28.3	112.5	28.0
Years thereafter	157.5	1,336.3	452.2
	$311.4	$1,995.4	$584.8
Less—Amounts representing interest	(112.9)		
Present value of future minimum capital lease payments	$198.5		

The above capital lease amounts and certain operating leases do not include the costs of licenses, taxes, insurance, and maintenance which GATX is required to pay. Future minimum operating lease payments have not been reduced by aggregate future noncancelable sublease rentals of $2.8 million. Interest expense on the above capital leases was $16.5 million in 1998, $17.6 million in 1997, and $19.1 million in 1996.

The amounts shown as nonrecourse operating leases reflect rental payments of two bankruptcy remote special purpose corporations which are wholly-owned by GATX. These rentals are consolidated for accounting purposes but do not represent legal obligations of GATX.

NOTE C—SECURED LOANS

Investments in secured loans are stated at the principal amount outstanding plus accrued interest. The loans are collateralized by equipment. As of December 31, 1998, secured loan principal due by year was as follows (in millions):

	Loan Principal
1999	$ 69.8
2000	29.7
2001	25.4
2002	29.3
2003	59.1
Years thereafter	28.3
	$241.6

NOTE D—INVESTMENTS IN AFFILIATED COMPANIES

GATX has investments in 25 to 50 percent-owned companies and joint ventures which are accounted for using the equity method. These domestic and foreign investments are in businesses similar to those of GATX's principal subsidiaries. Distributions received from such affiliates were $167.5 million, $71.6 million, and $36.4 million in 1998, 1997 and 1996, respectively. These distributions reflect both operating results and return of principal.

For all affiliated companies held at the end of a year, operating results, as if GATX held 100 percent interest, were (in millions):

Year Ended December 31	1998	1997	1996
Gross income	**$ 611.9**	$ 505.7	$ 360.9
Net income	**102.0**	74.4	57.2

For all affiliated companies held at the end of a year, summarized balance sheet data, as if GATX held 100 percent interest, were (in millions):

December 31	1998	1997
Total assets	**$ 4,200.7**	$ 3,199.1
Long-term liabilities	**2,056.6**	910.3
Other liabilities	**339.7**	607.3
Shareholders' equity	**$ 1,804.4**	$ 1,681.5

NOTE E—FOREIGN OPERATIONS

GATX has a number of investments in subsidiary and affiliated companies which are located in or derive gross income from foreign countries. Foreign entities contribute significantly to share of affiliates' earnings. The foreign identifiable assets represent investments in affiliated companies as well as fully consolidated assets for a Canadian railcar subsidiary, a Mexican railcar operation, and foreign lease and loan investments.

In Millions

Year Ended December 31 Gross Income	1998	1997	1996
Foreign	**$ 219.7**	$ 188.8	$ 112.5
United States	**1,543.4**	1,513.1	1,301.9
	$ 1,763.1	$ 1,701.9	$ 1,414.4

Year Ended December 31 Share of Affiliates' Earnings	1998	1997	1996
Foreign	**$ 24.4**	$ 21.6	$ 20.3
United States	**19.2**	9.3	8.1
	$ 43.6	$ 30.9	$ 28.4

December 31 Identifiable Assets	1998	1997	1996
Foreign	**$ 856.2**	$ 848.2	$ 872.4
United States	**4,083.1**	4,099.6	3,877.8
	$ 4,939.3	$ 4,947.8	$ 4,750.2

Foreign cash flows generated are used to meet local operating needs and for reinvestment. The translation of the foreign balance sheets into U.S. dollars results in an unrealized foreign currency translation adjustment, a component of accumulated other comprehensive income (loss).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE F—SHORT-TERM DEBT AND LINES OF CREDIT

Short-term debt (in millions) and its weighted average interest rate as of year end were:

December 31	1998		1997	
	Amount	Rate	Amount	Rate
Commercial paper	**$ 163.3**	**6.07%**	$153.8	6.34%
Other short-term borrowings	**136.6**	**6.14%**	216.4	6.33%
	$ 299.9		$370.2	

At December 31, 1998, certain technology assets and facilities with a net carrying value of $49.1 million were pledged as collateral for $24.8 million of other short-term borrowings.

Under a revolving credit agreement with a group of banks, GATC may borrow up to $350.0 million. While at year end no borrowings were outstanding, availability under the line was reduced by $35.0 million of commercial paper outstanding. GATC also had borrowings of $110.7 million under unsecured money market lines at December 31, 1998.

GATX Capital and two of its wholly-owned subsidiaries have commitments under credit agreements with a group of banks for revolving credit loans totaling $397.5 million of which $246.3 million was available at December 31, 1998; availability under the line was reduced by $151.2 million of outstanding commercial paper and other short-term borrowings.

Both GATC's and GATX Capital's primary revolving credit agreements contain various restrictive covenants, including requirements to maintain a defined minimum net worth and certain financial ratios. Both GATC and GATX Capital met all credit agreement requirements at December 31, 1998.

Interest expense on short-term debt was $23.5 million in 1998, $24.0 million in 1997, and $26.2 million in 1996.

NOTE G—LONG-TERM DEBT

Long-term debt (in millions) and the range of interest rates as of year end were:

	Interest Rates	Final Maturity	December 31 1998	December 31 1997
Variable rate:				
Term notes	5.46%-6.31%	1999-2003	**$ 195.7**	$ 67.5
Nonrecourse obligations	5.38%-7.38%	2000-2002	**37.5**	44.6
			233.2	112.1
Fixed rate:				
Term notes	5.56%-10.88%	1999-2012	**1,887.7**	2,066.0
Nonrecourse obligations	5.40%- 9.75%	1999-2013	**414.4**	363.6
Industrial revenue bonds	6.63%- 7.30%	2019-2024	**87.9**	87.9
			2,390.0	2,517.5
			$ 2,623.2	$2,629.6

Maturities of GATX's long-term debt as of December 31, 1998 for each of the years 1999 through 2003 were (in millions):

	Maturities
1999	$331.1
2000	530.4
2001	256.5
2002	273.7
2003	313.6

At December 31, 1998, certain technology assets, facilities, aircraft, railcars, vessels and warehouse equipment with a net carrying value of $480.4 million were pledged as collateral for $403.1 million of notes and bonds.

Interest cost incurred on long-term debt, net of capitalized interest, was $194.9 million in 1998, $180.8 million in 1997, and $157.5 million in 1996. Interest cost capitalized as part of the cost of construction of major assets was $3.3 million in 1998, $2.5 million in 1997, and $6.8 million in 1996.

NOTE H—OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

In the ordinary course of business, GATX utilizes off-balance sheet financial instruments to manage financial market risk, including interest rate and foreign exchange risk.

At December 31, 1998, GATX had the following off-balance sheet financial instruments (in millions):

Interest Rate Swaps	Notional Amount	Pay Rate/ Index	Receive Rate/Index	Maturity
GATX pays fixed, receives floating	$772.8	4.80-8.75%	LIBOR	1999-2003
GATX pays floating, receives fixed	702.0	LIBOR	5.41-7.65%	1999-2008

Currency Swaps	Receive	Deliver	Maturity
Canadian dollar swaps	$142.6	C$194.8	2001-2011
Deutschemark swap	$ 40.5	72.5DM	2002

GATX had the following interest rate hedge activity (in millions):

Interest Rate Swaps	Pay Fixed	Pay Floating
Balance at January 1, 1997	$ 907.9	$1,137.0
Additions	44.7	—
Maturities	(200.0)	(447.0)
Balance at December 31, 1997	752.6	690.0
Additions	370.2	30.0
Maturities	(350.0)	(18.0)
Balance at December 31, 1998	$ 772.8	$ 702.0

GATX uses interest rate swaps and forwards to manage its assets and liabilities, to convert floating rate debt to fixed rate debt (or fixed to floating) and to manage interest rate risk associated with the anticipated issuance of debt. At GATC, interest rate swaps are utilized to better match the cash flow characteristics of its debt portfolio and its railcar leases. Railcar assets are financed with long-term fixed rate debt or through sale-leasebacks. However, the railcar assets are placed on lease with average new lease terms of five years; the average renewal term is three years. Rents are fixed over these lease terms. Interest rate swaps effectively convert GATC's long-term fixed rate debt to fixed rate debt with maturities of three months to five years. Through the swap program, changes in GATC's interest expense are expected to better reflect changes in railcar lease rates. Also, GATX Capital uses interest rate swaps in addition to commercial paper and floating rate medium-term notes to match fund its floating rate lease and loan portfolio with floating rate borrowings.

In its swaps, GATX agrees to exchange, at specific intervals, the difference between fixed and floating rate interest amounts calculated on an agreed upon notional principal amount. The swaps have in effect converted $772.8 million of long-term fixed rate debt into one to three year fixed rate debt.

The net amount payable or receivable from the interest rate swap agreements is accrued as an adjustment to interest expense. The fair value of its interest rate swap agreements is an estimate of the amount the company would receive or pay to terminate those agreements. At December 31, 1998, GATX would have received $36.6 million if the swaps were terminated; GATX would have received $14.6 million if the swaps were terminated at December 31, 1997.

GATX has entered into currency swaps to hedge $142.6 million in debt obligations at its Canadian subsidiaries and $40.5 million in debt obligations associated with a German joint venture. The fair market value of its currency swap agreements is an estimate of the amount the company would receive or pay to terminate those agreements. At December 31, 1998, GATX would have received $23.3 million if the swaps were terminated; GATX would have received $10.9 million if the swaps were terminated at December 31, 1997.

In the event that a counterparty fails to meet the terms of the interest rate swap agreement or a foreign exchange contract, GATX's exposure is limited to the interest rate or currency differential. GATX manages the credit risk of counterparties by dealing only with institutions that the company considers financially sound and by avoiding concentrations of risk with a single counterparty. GATX considers the risk of nonperformance to be remote.

NOTE I—FAIR VALUE OF OTHER FINANCIAL INSTRUMENTS

The fair value of a financial instrument represents the amount at which the instrument could be exchanged in a current transaction between willing parties. The following methods and assumptions were used to estimate the fair value of financial instruments:

The carrying amount of cash and cash equivalents, trade receivables, accounts payable, and short-term debt approximates fair value because of the short maturity of those instruments. Also, the carrying amount of variable rate long-term debt and variable rate secured loans approximates fair value.

The fair value of fixed rate secured loans was estimated using discounted cash flow analyses, at interest rates currently offered for loans with similar terms to borrowers of similar credit quality.

The fair value of fixed rate long-term debt was estimated by performing a discounted cash flow calculation using the term and market interest rate for each note based on GATX's current incremental borrowing rates for similar borrowing arrangements. Portions of fixed rate long-term debt have effectively been converted to floating rate debt by utilizing interest rate swaps (GATX pays floating, receives fixed), as described in Note H, Off-Balance Sheet Financial Instruments. In such instances, the increase (decrease) in the fair value of the fixed rate long-term debt would be offset in part by the increase (decrease) in the fair value of the interest rate swap.

The following table sets forth the carrying amounts and fair values of the company's fixed rate instruments (in millions):

December 31	1998		1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Secured loans-fixed	**$ 222.8**	**$ 219.5**	$ 153.6	$ 157.1
Long-term debt–fixed	**2,390.0**	**2,467.1**	2,517.5	2,614.6

NOTE J—PENSION AND OTHER POSTRETIREMENT BENEFITS

GATX and certain of its subsidiaries maintain non-contributory defined benefit pension plans covering their respective employees. Benefits payable under the pension plans are based on years of service and/or final average salary. The funding policy for the pension plans is based on an actuarially determined cost method allowable under Internal Revenue Service regulations.

In addition to the pension plans, GATX's other postretirement plans provide health care, life insurance and other benefits for certain retired employees who meet established criteria. Most domestic employees are eligible for health care and life insurance benefits if they retire from GATX with immediate pension benefits under the GATX plan. The plans are either contributory or non-contributory, depending on various factors.

In 1998, GATX adopted the Statement of Financial Accounting Standards No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits.* While the new standard does not change the measurement or recognition of costs for pension or other postretirement plans, it does standardize disclosures and eliminates those that are no longer considered useful. The following tables, prepared in accordance with the new standard, set forth pension and other postretirement obligations and plan assets (in millions) as of December 31:

	Pension Benefits		Retiree Health and Life	
	1998	1997	1998	1997
Change in benefit obligation:				
Benefit obligation at beginning of period	$ 276.1	$ 255.2	$ 68.8	$ 70.3
Service cost	5.9	5.8	.5	.5
Interest cost	20.4	20.0	4.8	5.1
Plan amendments	(.6)	—	—	—
Actuarial loss/(gain)	24.8	14.2	(.5)	(1.7)
Benefits paid	(22.0)	(21.6)	(6.5)	(6.8)
Curtailments	—	(.7)	1.3	1.4
Special termination benefits	—	3.2	—	—
Benefit obligation at end of period	$ 304.6	$ 276.1	$ 68.4	$ 68.8

	Pension Benefits		Retiree Health and Life	
	1998	1997	1998	1997
Change in fair value of plan assets:				
Plan assets at beginning of period	$ 299.1	$ 272.0	$ —	$ —
Actual return on plan assets	44.4	44.7	—	—
Company contributions	4.3	4.0	6.5	6.8
Benefits paid	(22.0)	(21.6)	(6.5)	(6.8)
Plan assets at end of period	$ 325.8	$ 299.1	$ —	$ —

	Pension Benefits		Retiree Health and Life	
	1998	1997	1998	1997
Funded status:				
Funded status of the plan	$ 21.2	$ 23.0	$(68.4)	$(68.8)
Unrecognized net gain	(23.0)	(25.7)	(12.1)	(13.2)
Unrecognized prior service cost	2.1	3.1	—	—
Unrecognized net transition (asset) obligation	(.3)	(.3)	.5	—
Prepaid (accrued) cost	$ —	$ .1	$(80.0)	$(82.0)

	Pension Benefits		Retiree Health and Life	
	1998	1997	1998	1997
Amount recognized:				
Prepaid benefit cost	$ 6.7	$ 6.4	$ —	$ —
Accrued benefit liability	(8.4)	(8.0)	(80.5)	(82.5)
Intangible asset	1.7	1.7	.5	.5
Total recognized	$ —	$ .1	$(80.0)	$(82.0)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The components of pension and other postretirement benefit costs are as follows (in millions):

	Pension Benefits			Retiree Health and Life		
	1998	1997	1996	1998	1997	1996
Service cost	**$ 5.9**	$ 5.8	$ 5.5	**$ .5**	$ .5	$ .5
Interest cost	**20.4**	20.0	18.7	**4.8**	5.1	5.3
Expected return on plan assets	**(22.6)**	(21.5)	(21.0)	**—**	—	—
Amortization of:						
Unrecognized prior service cost	**.4**	.4	.4	**—**	—	—
Unrecognized net (gain) loss	**.1**	.1	—	**(.6)**	(.5)	(.5)
Unrecognized net (asset) obligation	**—**	(.1)	—	**—**	—	.1
Recognized gain due to settlement or curtailment	**—**	(.7)	—	**—**	—	—
Recognized special termination benefits expense	**—**	3.2	—	**—**	1.1	—
Net costs	**$ 4.2**	$ 7.2	$ 3.6	**$ 4.7**	$6.2	$5.4

As permitted by Statement of Financial Accounting Standards No. 87, GATX amortizes the prior service cost using a straight-line method over the average remaining service period of employees to receive benefits under the plan.

Assumptions as of December 31:

	Pension Benefits		Retiree Health and Life	
	1998	1997	1998	1997
Discount rate	**7.00%**	7.75%	**7.00%**	7.75%
Expected return on plan assets	**8.75%**	8.75%	**n/a**	n/a
Rate of compensation increases	**5.00%**	5.00%	**5.00%**	5.00%

The assumed health care cost trend rate was 5.0% for participants over the age of 65 and 6.0% for participants under the age of 65 for 1998 and thereafter. The health care cost trend rate has a significant effect on the other postretirement benefit cost and obligation. A 1% increase in the trend rate would increase the cost by $.3 million and the obligation by $3.7 million. A 1% decrease in the trend rate would decrease the cost by $.3 million and the obligation by $3.0 million.

In addition to contributions to its defined benefit plans, GATX makes contributions to the multiemployer pension plans of various unions. Further, GATX and its subsidiaries maintain several 401(k) retirement plans which are available to substantially all salaried and certain other employee groups. GATX may contribute to the plans as defined by their respective terms. The contribution to such plans were (in millions):

Year Ended December 31	1998	1997	1996
Contributions to multiemployer pension plans	**$ .6**	$1.8	$2.0
Contributions to 401(k) plans	**4.2**	4.0	3.6

NOTE K—INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of GATX's deferred tax liabilities and assets were (in millions):

December 31	1998	1997
Deferred tax liabilities:		
Book/tax basis differences due to depreciation	$357.5	$343.2
Leveraged leases	39.0	52.4
Lease accounting (other than leveraged)	49.0	44.6
Other	69.1	52.3
Total deferred tax liabilities	514.6	492.5
Deferred tax assets:		
Alternative minimum tax credit	52.8	54.0
Accruals not currently deductible for tax purposes	48.7	52.5
Allowance for possible losses	50.7	47.7
Postretirement benefits other than pensions	27.1	28.2
Other	10.2	12.5
Total deferred tax assets	189.5	194.9
Net deferred tax liabilities	$325.1	$297.6

At December 31, 1998, GATX had an alternative minimum tax credit of $52.8 million that can be carried forward indefinitely to reduce future regular tax liabilities.

GATX and its United States subsidiaries file a consolidated federal income tax return. Amounts shown as Current—Federal represent taxes payable as determined by the Alternative Minimum Tax. Included in 1997's total deferred tax credit is a $56.5 million deferred tax benefit resulting from Terminals' $185.8 million pretax restructuring charge. Income taxes consisted of (in millions):

Year Ended December 31	1998	1997	1996
Current–			
Domestic:			
Federal	$ 26.2	$ 28.0	$ 24.4
State and local	3.2	1.1	2.4
	29.4	29.1	26.8
Foreign	6.1	3.9	2.4
	35.5	33.0	29.2
Deferred–			
Domestic:			
Federal	27.3	(45.6)	18.9
State and local	5.7	.4	4.9
	33.0	(45.2)	23.8
Foreign	5.8	6.7	1.4
	38.8	(38.5)	25.2
Income tax expense (benefit)	$ 74.3	$ (5.5)	$ 54.4
Income taxes paid	$ 33.7	$ 35.5	$ 33.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The reasons for the difference between GATX's effective income tax rate and the federal statutory income tax rate were:

Year Ended December 31	1998	1997	1997(A)	1996
Federal statutory income tax rate	**35.0%**	35.0%	35.0%	35.0%
Add (deduct) effect of:				
Corporate owned life insurance	**(1.3)**	2.6	(1.7)	(2.0)
State income taxes	**3.6**	(5.6)	3.6	3.6
1997 restructuring charges	**—**	(19.0)	—	—
Foreign income	**4.5**	(2.4)	1.5	1.7
Goodwill amortization	**2.6**	(2.0)	1.3	1.1
Minority interest	**—**	(.4)	.3	.3
Other	**1.3**	(1.9)	1.1	2.6
Effective income tax rate	**45.7%**	6.3%	41.1%	42.3%

(A) Before restructuring charges

NOTE L—SHAREHOLDERS' EQUITY

The company's shareholders approved an amendment to GATX's certificate of incorporation which increased authorized shares of common stock from 60 million to 120 million shares and effected a two-for-one stock split, in the form of a stock dividend, effective June 1, 1998. Par value remained at $.625 per share after the split. All share and per share amounts in the accompanying consolidated financial statements have been restated accordingly.

GATX's certificate of incorporation also authorizes 5 million shares of preferred stock at a par value of $1.00 per share. Shares of preferred stock issued and outstanding consist of Series A and B $2.50 cumulative convertible preferred stock, which entitles holders to a cumulative annual cash dividend of $2.50 per share. Each share of such preferred stock may be called for redemption by GATX at $63 per share, has a liquidating value of $60 per share, and may be converted into 5 shares of common stock.

Holders of $2.50 convertible preferred stock and common stock are entitled to one vote for each share held. Except in certain instances, all such classes vote together as a single class.

A total of 4,753,591 shares of common stock were reserved at December 31, 1998, for the following:

	Shares
Conversion of outstanding preferred stock	127,868
Incentive compensation programs	4,589,023
Employee service awards	36,700
	4,753,591

During 1997, GATX called for redemption all the outstanding shares of its $3.875 cumulative convertible preferred stock, each share of which was convertible into 2.2988 shares of common stock. As a result of the redemption, 3.4 million preferred shares were converted to 7.8 million shares of common.

In an effort to ensure the fair value to all shareholders in the event of an unsolicited takeover offer for the company, GATX adopted a Shareholders' Rights Plan. Shareholders of record on August 14, 1998 received a distribution of one right for each share of the company's common stock held. Initially the rights are represented by GATX's common stock certificates and are not exercisable. The rights will be exercisable only if a person acquires or announces a tender offer which would result in beneficial ownership of 20 percent or more of the company's common stock. If a person acquires beneficial ownership of 20 percent or more of the company's common stock, all holders of rights other than the acquiring person will be entitled to purchase the company's common stock at half price. The rights are scheduled to expire on August 14, 2008.

NOTE M—INCENTIVE COMPENSATION PLANS

The GATX Corporation 1995 Long Term Incentive Compensation Plan (the 1995 Plan) contains provisions for the granting of non-qualified stock options, incentive stock options, stock appreciation rights (SARs), cash and common stock individual performance units (IPUs), restricted stock rights, restricted common stock and performance awards. An aggregate of 3,000,000 shares of common stock may be issued under the 1995 Plan. As of December 31, 1998, 943,000 shares are available for issuance under the 1995 Plan.

Non-qualified stock options and incentive stock options may be granted for the purchase of common stock for periods not longer than ten years from the date of grant. The exercise price will be not less than the higher of market value at date of grant or par value of the common stock. All options become exercisable commencing on a date no earlier than one year from the date of grant.

SARs can be issued in conjunction with non-qualified or incentive stock options and entitle the holder to receive the difference between the option price and fair market value of the common stock at time of exercise, either in shares of common stock, cash, or a combination of the two at GATX's discretion. Exercise of SARs results in cancellation of the underlying options. During 1998, no SARs were issued and none were outstanding.

IPUs may be granted to key employees and, if predetermined performance goals are met, will be redeemed in cash and common stock, as applicable, with the redemption value determined in part by the fair market value of the common stock as of the date of redemption and in part by the extent to which pre-established performance goals have been achieved. A total of 27,442 IPUs were granted during 1998 and 60,316 IPUs in total were outstanding at the end of the year. In 1998, there were no payouts to participants in redemption of previously issued IPUs.

Restricted stock rights may be granted to key employees entitling them to receive a specified number of shares of restricted common stock. The recipients of restricted common stock are entitled to all dividends and voting rights, but the shares are not transferable prior to the expiration of a "restriction period" as determined at the discretion of the Compensation Committee of the Board of Directors. Performance Awards are granted to employees who have been granted restricted stock rights or restricted common stock, but these Awards may not exceed the market value of the restricted common stock when restrictions lapse. The Performance Awards provide cash payments if certain criteria and earnings goals are met over a predetermined period. During 1998, five grants totaling 1,800 shares of restricted stock were made.

Stock options are outstanding under the GATX Corporation 1985 Long Term Incentive Compensation Plan (the 1985 Plan), as amended, but no additional options, stock or awards may be issued thereunder.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Data with respect to both plans, including the range of exercise prices per share for 1998 and 1997, are set forth below:

	Number of Shares Under Stock Option Plans 1998	1997	Price Per Share
Outstanding at January 1	3,321,300	3,334,300	$ 9.97-33.47
Granted	543,350	611,000	33.38-39.72
Exercised	(372,849)	(564,950)	9.97-33.47
Canceled	(103,526)	(59,050)	23.78-39.72
Outstanding at December 31	3,388,275	3,321,300	$ 9.97-39.72
Outstanding at December 31, by year granted:			
1988	—	40,000	$ 12.83
1989	47,000	102,200	14.97
1990	64,000	91,000	9.97
1991	185,500	213,300	14.00
1992	154,200	202,300	12.75
1993	306,800	328,300	18.84
1994	416,700	476,400	20.91
1995	501,400	565,300	23.78-25.28
1996	639,025	706,300	23.16-24.91
1997	550,300	596,200	27.44-33.47
1998	523,350	—	33.38-39.72
Total	3,388,275	3,321,300	$ 9.97-39.72
Options exercisable at December 31	2,459,525	2,290,866	
Options available for future grant at December 31	943,000	1,384,624	

Accounting for Stock Options GATX has elected to follow Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees,* in accounting for its employee stock options. Under these guidelines, no compensation expense is recognized because the exercise price of GATX's employee stock options equals the market price of the underlying stock on the date of grant.

Pro forma information regarding net income and earnings per share is required by Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), and has been determined as if GATX had accounted for its employee stock options under the fair value method. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following assumptions for 1998, 1997 and 1996: dividend yield of 3.1%, 2.8% and 3.6%, respectively; volatility factor of the expected market price of GATX's common stock of .19, .16 and .15, respectively; expected life of the option of six years, four years and five years, respectively; and weighted average risk-free interest rate of 4.8%, 5.9% and 6.1%, respectively.

The Black-Scholes model, one of the most frequently referenced models to value options, was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including expected stock price volatility. Because GATX's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the option vesting period. The resultant pro forma net income (loss) and earnings (loss) per share were (in millions except for earnings per share information):

Year Ended December 31	1998	1997	1996
Pro forma net income (loss)	**$129.8**	$(52.2)	$101.6
Pro forma earnings (loss) per share:			
Basic	**$ 2.64**	$(1.30)	$ 2.19
Diluted	**$ 2.57**	$(1.30)	$ 2.08

Because SFAS 123's provisions are prospective (retroactive application is prohibited), awards granted prior to 1995 are not considered in the above pro forma amounts. Additionally, because options generally are granted late in the year and vest over a three-year period, the pro forma amounts above do not reflect a full annualized effect.

NOTE N—COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS OF CREDIT RISK

GATX's revenues are derived from a wide range of industries and companies. Approximately 20% of total revenues are generated from the transportation or storage of products for the chemical industry; for similar services, 18% of revenues are derived from the petroleum industry. The sale and leasing of technology equipment represents about 17% of total revenues. GATX also provides services and products to the chemical, petroleum, and technology markets through its affiliates, which are accounted for under the equity method. In addition, approximately 11% of GATX's assets consist of commercial aircraft operated by various domestic and international airlines.

Under its lease agreements, GATX retains legal ownership of the asset except where such assets have been financed by sale-leasebacks. With most loan financings, the loan is collateralized by the equipment. GATX performs credit evaluations prior to approval of a lease or loan contract. Subsequently, the creditworthiness of the customer and the value of the collateral are monitored on an ongoing basis. GATX maintains an allowance for possible losses and other reserves to provide for potential losses which could arise should customers become unable to discharge their obligations to GATX and to provide for permanent declines in investment value.

At December 31, 1998, GATX had commitments of $341 million for orders and options by aircraft joint ventures for interests in 25 new aircraft to be delivered between 1999-2001. GATX also has other firm commitments totaling $361 million, primarily to acquire railcars and other equipment and to upgrade terminal and repair facilities.

GATX has issued $222 million of residual and rental guarantees at December 31, 1998. Guarantees are commitments issued to guarantee performance of an affiliate to a third party, generally in the form of lease and loan payment guarantees, or to guarantee the value of an asset at the end of a lease. Lease and loan payment guarantees generally involve guaranteeing repayment of the financing required to acquire assets being leased by an affiliate to third parties, and are in lieu of making direct equity investments in the affiliate. Asset value guarantees represent GATX Capital's commitment to a third party that an asset or group of assets will be worth a specified amount at the end of a lease term. Based on known and expected market conditions, management does not believe that the asset value guarantees will result in any adverse financial impact to GATX.

GATX is also a party to letters of credit and bonds totaling $24 million and $18 million at December 31, 1998 and 1997, respectively. In GATX's past experience, virtually no claims have been made against these financial instruments. Management does not expect any material losses to result from these off-balance-sheet instruments because performance is not expected to be required, and, therefore, is of the opinion that the fair value of these instruments is zero.

GATX and its subsidiaries are engaged in various matters of litigation and have a number of unresolved claims pending, including proceedings under governmental laws and regulations related to environmental matters. While the amounts claimed are substantial and the ultimate liability with respect to such litigation and claims cannot be determined at this time, it is the opinion of management that damages, if any, required to be paid by GATX and its subsidiaries in the discharge of such liability are not likely to be material to GATX's consolidated financial position or results of operations.

NOTE O—RESTRUCTURING CHARGES

During 1997 strategic decisions resulted in a $225 million ($163 million after-tax) restructuring charge related to Terminals and Logistics. Terminals' portion of the restructuring charges was based on the decision to close, sell or revalue certain domestic and foreign terminal locations to reflect permanent changes in market conditions. The charge primarily represents the write-down of asset values with minor costs related to closure activities. The charge at Logistics represents the write-down of goodwill to reflect the impairment of certain acquired facilities. The carrying values of certain assets at Terminals and Logistics were written down to fair value as described in Note A.

In Millions	Pre-Tax	After-Tax
Terminals	$185.8	$123.8
Logistics	39.0	39.0
Total	$224.8	$162.8

During 1998 and early 1999, Terminals acted upon its restructuring plan by divesting certain domestic and foreign terminal locations.

CONSOLIDATED QUARTERLY FINANCIAL DATA (UNAUDITED) AND COMMON STOCK INFORMATION

In Millions, Except Per Share Data	Gross Income	Operating Expenses and Depreciation	Net Income (Loss)	Basic Net Income (Loss) Per Share (A)	Diluted Net Income (Loss) Per Share (A)
1998					
First Quarter	**$ 408.9**	**$ 243.5**	**$ 37.4**	**$ .76**	**$ .74**
Second Quarter	**437.6**	**274.1**	**30.8**	**.63**	**.61**
Third Quarter	**459.5**	**283.7**	**38.1**	**.78**	**.76**
Fourth Quarter	**457.1**	**290.4**	**25.6**	**.52**	**.51**
Total	**$1,763.1**	**$1,091.7**	**$ 131.9**	**$ 2.68**	**$ 2.62**
1997					
First Quarter	$ 394.6	$ 241.8	$ 31.2	$ .69	$ .63
Second Quarter	434.7	279.0	30.2	.63	.61
Third Quarter	430.9	273.2	28.0	.57	.56
Fourth Quarter	441.7	291.9	(140.3)	(2.87)	(2.87)(B)
Total	$1,701.9	$1,085.9	$ (50.9)	$ (1.28)	$ (1.28)(B)

(A) Quarterly results may not be additive, as per share amounts are computed independently for each quarter and the full year based on the respective weighted average common shares and common stock equivalents outstanding. Amounts have been restated to reflect the 2-for-1 stock split in June 1998.

(B) Conversion of preferred stock is excluded from computation of diluted net loss per share because of antidilutive effect.

COMMON STOCK INFORMATION GATX common shares are listed on the New York, Chicago and London Stock Exchanges under ticker symbol GMT.

The approximate number of holders of record of common stock as of February 22, 1999 was 3,769. The following table shows the reported high and low sales price of GATX common shares on the New York Stock Exchange, the principal market for GATX shares, and the dividends declared per share:

	Common Stock High	Common Stock Low		Common Stock High	Common Stock Low
1998			1997		
First Quarter	**$40.56**	**$34.00**	First Quarter	$25.25	$23.75
Second Quarter	**44.13**	**38.75**	Second Quarter	29.56	24.06
Third Quarter	**47.56**	**31.69**	Third Quarter	33.88	28.81
Fourth Quarter	**39.00**	**26.25**	Fourth Quarter	36.69	30.22
Annual Dividends Declared	**$1.00**		Annual Dividends Declared	$ .92	

SELECTED CONSOLIDATED FINANCIAL DATA

In Millions, Except Per Share Data/Year Ended or at December 31	1998	1997 (A)	1996	1995	1994
Results of Operations					
Gross Income	**$1,763.1**	$1,701.9	$1,414.4	$1,246.4	$1,155.0
Costs and Expenses	**1,600.5**	1,789.2	1,285.7	1,129.4	1,037.2
Income (Loss) Before Income Taxes and Share of Affiliates' Earnings	**162.6**	(87.3)	128.7	117.0	117.8
Income Taxes (Benefit)	**74.3**	(5.5)	54.4	47.6	48.8
Income (Loss) Before Share of Affiliates' Earnings	**88.3**	(81.8)	74.3	69.4	69.0
Share of Affiliates' Earnings	**43.6**	30.9	28.4	31.4	22.5
Net Income (Loss)	**$ 131.9**	$ (50.9)	$ 102.7	$ 100.8	$ 91.5
Per Share Data (B)					
Net Income (Loss) Applicable to Common Stock, as Adjusted	**$ 131.8**	$ (57.6)	$ 89.5	$ 87.6	$ 78.2
Per Share of Common Stock and Common Stock Equivalents:					
Net Income (Loss), Basic	**$ 2.68**	$ (1.28)	$ 2.22	$ 2.19	$ 1.97
Shares Used in Computation (in thousands)	**49,178**	45,084	40,379	40,005	39,685
Per Share Assuming Conversion, Except in 1997, of All Outstanding Preferred Stock:					
Net Income (Loss), Diluted	**$ 2.62**	$ (1.28)	$ 2.10	$ 2.07	$ 1.89
Shares Used in Computation (in thousands)	**50,426**	45,084	48,924	48,731	48,331
Dividends Declared Per Share of Common Stock	**$ 1.00**	$ .92	$ .86	$ .80	$ .75
Financial Condition					
Total Assets	**$4,939.3**	$4,947.8	$4,750.2	$4,042.9	$3,650.7
Total Long-term Debt and Capital Lease Obligations	**2,821.7**	2,841.7	2,664.1	2,092.5	1,805.1
Shareholders' Equity	**732.9**	655.4	774.9	717.8	662.4
Common Shareholders' Equity	**732.1**	654.7	609.2	551.8	496.1
Common Shareholders' Equity Per Share (B)	**14.84**	13.36	14.79	13.44	12.15

(A) The 1997 restructuring charge was $224.8 million on a pre-tax basis, $162.8 million on an after-tax basis.
(B) Amounts have been restated to reflect the 2-for-1 stock split in June 1998.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF CASH FLOWS 1998 COMPARED TO 1997

GATX generates significant cash from its operating activities and proceeds from its investment portfolio which are used to service debt, pay dividends, and fund capital additions and portfolio investments. Most of the capital requirements are considered discretionary and represent additions to the railcar fleet, capital equipment investment portfolio, joint ventures, and terminal and pipeline facilities. As a result, the level of capital spending and investments can be adjusted as conditions in the economy or GATX's businesses warrant.

CASH PROVIDED BY OPERATING ACTIVITIES generated $339 million of cash flow in 1998, a $48 million increase from 1997. GATX Capital, Terminals and General American all reported higher cash flow and Logistics' and ASC's cash flows were consistent with the year ago period. To the extent GATX Capital reports increased gains on asset remarketing or equity in earnings of affiliates, cash flows from operations will decrease, as Capital's remarketing proceeds and cash distributions from affiliates are included in portfolio proceeds.

CAPITAL ADDITIONS AND PORTFOLIO INVESTMENTS totaled a record $1.3 billion, an increase of $39 million from 1997. General American's capital additions in 1998 were $385 million, including $366 million for the addition of railcars. In 1997, General American's additions were $337 million including $275 million for fleet additions and an investment in a 40% interest in KVG, a German railcar company. Terminals' expenditures were comparable to the prior year.

GATX Capital's portfolio investments of $853 million were slightly lower than last year's record of $866 million, representing strong market opportunities in the technology leasing and aircraft sectors. Capital's technology leasing operation funded $307 million, a 36% increase over 1997's volume. Late in 1998, Capital acquired a 50% interest in Rolls-Royce and Partners Finance Ltd., a lessor of aircraft engines. Including the interest in the Rolls-Royce partnership, Capital invested $128 million in its aircraft joint ventures in 1998. Capital extended $162 million of loans to various entities in 1998, which are collateralized by vessels and aircraft. In 1997, GATX Capital acquired a portfolio of leases from Pitney Bowes for $368 million.

PORTFOLIO PROCEEDS of $857 million increased 87% from 1997 reflecting exceptional activity. Proceeds from the remarketing of leased equipment, primarily rail and aircraft assets, included both the return of principal and the gains on the transactions. Proceeds from the return of investment were $615 million and $240 million for 1998 and 1997, respectively. Included in the portfolio proceeds amount are loan principal receipts and distributions from joint venture investments.

PROCEEDS FROM OTHER ASSET SALES of $262 million in 1998 included the receipt of $231 million from the sale-leaseback of railcars at General American and Capital. Asset sale activity included General American's sale-leaseback of 3,380 railcars, scrapping of 2,100 cars, and Terminals' sale of its Vancouver terminal. In 1997 General American sold and leased back $167 million of railcars and Terminals sold its Norco, Louisiana facility.

CASH USED IN FINANCING ACTIVITIES was $126 million compared to cash provided of $330 million in 1997. Because of 1998's substantial portfolio proceeds and cash flow from operations, long-term debt remained constant and $69 million of short-term debt was paid down.

Common dividends per share were $1.00 in 1998 compared to $.92 in 1997. In January 1999, the Board of Directors approved a 10% increase in the quarterly dividend to $.275 per common share, or $1.10 on an annualized basis. This is the fourteenth consecutive year GATX has increased its dividend.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF CASH FLOWS 1998 COMPARED TO 1997 (CONTINUED)

Liquidity and Capital Resources General American Transportation Corporation (GATC) and GATX Capital have revolving credit facilities. GATC and GATX Capital also have commercial paper programs and uncommitted money market lines which are used to fund operating needs. The GATC revolving credit facility expires in 2003 while GATX Capital's revolving credit facility expires in 2001. Under the covenants of the commercial paper programs and rating agency guidelines, GATC and GATX Capital individually must keep unused revolver credit capacity at least equal to the amount of commercial paper outstanding. At December 31, 1998, GATX and its subsidiaries had available unused committed lines of credit amounting to $561.3 million.

GATC has a $650 million shelf registration for pass through trust certificates and debt securities of which $100 million of notes and $106 million of pass through certificates have been issued at year end. GATX Capital has a shelf registration for $532 million of which $370 million has been issued. At year end, GATX had $702 million of commitments to provide financing to customers or to acquire assets, $444 million of which is scheduled to fund in 1999.

At December 31, 1998, approximately $346 million of subsidiary net assets were restricted, limiting the ability of the subsidiaries to transfer assets to GATX parent in the form of loans, advances or dividends. The majority of net asset restrictions relate to the revolving credit agreement of GATC and the various loan agreements of GATX Capital. Such restrictions are not expected to have an adverse impact on the ability of GATX to meet its cash obligations.

Risk Management and Market Sensitive Instruments GATX, like most other companies, is exposed to certain market risks, including changes in interest rates and currency exchange rates. To manage these risks, GATX, pursuant to preestablished and preauthorized policies, enters into certain derivative transactions, predominantly interest rate swaps. These interest rate swaps and other derivative instruments are entered into for hedging purposes only; GATX does not hold or issue derivative financial instruments for speculative purposes.

GATX's interest expense is affected by changes in interest rates as a result of its use of variable rate debt instruments, including commercial paper and other floating rate debt. Based on GATX's variable rate debt at December 31, 1998, if market rates were to increase by 10% of GATX's weighted average floating rate, after-tax interest expense would increase by approximately $2 million in 1999.

Changes in certain currency exchange rates would affect GATX's reported earnings. Based on 1998 reported earnings, a uniform and hypothetical 10% strengthening in the U.S. dollar versus those foreign currencies would decrease after-tax income in 1999 by approximately $2 million.

The interpretation and analysis of the results from the hypothetical changes to interest rates and currency exchange rates should not be considered in isolation; such changes would typically have corresponding offsetting changes. Offsetting effects are present, for example, to the extent that floating rate debt is associated with floating rate assets.

Environmental Matters Certain operations of GATX's subsidiaries (collectively GATX) present potential environmental risks principally through the transportation or storage of various commodities. Recognizing that some risk to the environment is intrinsic to its operations, GATX is committed to protecting the environment as well as complying with applicable environmental protection laws and regulations. GATX, as well as its competitors, is subject to extensive regulation under federal, state and local environmental laws which have the effect of increasing the costs and liabilities associated with the conduct of its operations. In addition, GATX's foreign operations are subject to environmental laws in effect in each respective jurisdiction.

GATX's policy is to monitor and actively address environmental concerns in a responsible manner. GATX has received notices from the U.S. Environmental Protection Agency (EPA) that it is a potentially responsible party (PRP) for study and clean-up costs at 13 sites under the requirements of the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (Superfund). Under these Acts and comparable state laws, GATX may be required to share in the cost to clean-up various contaminated sites identified by the EPA and other agencies. GATX also has received notice that it is a PRP at one site to undertake a Natural Resource Damage Assessment. In all instances, GATX is one of a number of financially responsible PRPs and has been identified as contributing only a small percentage of the contamination at each of the sites. Due to various factors such as the required level of remediation or restoration and participation in clean-up or restoration efforts by others, GATX's total clean-up costs at these sites cannot be predicted with certainty; however, GATX's best estimates for remediation and restoration of these sites have been determined and are included in its environmental reserves.

Future costs of environmental compliance are indeterminable due to unknowns such as the magnitude of possible contamination, the timing and extent of the corrective actions that may be required, the determination of the company's liability in proportion to other responsible parties, and the extent to which such costs are recoverable from third parties including insurers. Also, GATX may incur additional costs relating to facilities and sites where past operations followed practices and procedures that were considered acceptable at the time but in the future may require investigation and/or remedial work to ensure adequate protection to the environment under current or future standards. If future laws and regulations contain more stringent requirements than presently anticipated, expenditures may be higher than the estimates, forecasts, and assessments of potential environmental costs provided below. However, these costs are expected to be at least equal to the current level of expenditures. In addition, GATX has provided indemnities for environmental issues to the buyers of three divested companies, and a number of divested terminal facilities for which GATX believes it has adequate reserves.

GATX's environmental reserve at the end of 1998 was $74 million and reflects GATX's best estimate of the cost to remediate known environmental conditions. Additions to the reserve were $14 million in 1998 and $11 million in 1997. Expenditures charged to the reserve amounted to $12 million and $14 million in 1998 and 1997, respectively.

In 1998, GATX made capital expenditures of $5 million for environmental and regulatory compliance compared to $13 million in 1997. These projects included marine vapor recovery systems, discharge prevention compliance, waste water systems, impervious dikes, tank modifications for emissions control, and tank car cleaning systems. Environmental projects authorized or planned would require capital expenditures of approximately $7 million in 1999. GATX anticipates it will make annual expenditures at approximately the same level over each of the next three years.

MANAGEMENT'S DISCUSSION AND ANALYSIS 1998 COMPARED TO 1997 (CONTINUED)

Year 2000 Readiness Disclosure GATX continues to address what is commonly referred to as the Year 2000 problem. GATX has completed the assessment phase of reviewing its critical information systems for Year 2000 compliance. Efforts are well underway in both modifying and replacing its in-house developed software as well as upgrading its vendor-supported software so that its computer systems will function properly with respect to dates in the year 2000 and thereafter. Several remediation projects and systems replacements are already in place, and efforts are continuing on others. Critical projects should be completed by mid-year 1999. Additionally, other less critical information systems have been reviewed and corrective action is being taken where indicated.

GATX also is reviewing its operating assets to determine any exposure to time-sensitive controls which may be embedded in the equipment. These situations are being assessed on an ongoing basis and replacement or remediation is in process where there is indicated need.

GATX is inquiring of both customers and vendors where the company's information systems interface directly with third parties to ensure that the interfaces and the third party systems are or will be Year 2000 compliant. Where considered appropriate, the company is working directly with such third parties to test or remediate such systems. The company also interacts electronically with certain external entities but has no means of ensuring that they will be Year 2000 ready. Additionally, GATX has been inquiring of key vendors in an effort to establish the ability of the provider to deliver product or services on a timely basis in the year 2000.

GATX believes it has an effective program in place to resolve the Year 2000 issue in a timely manner and to minimize the company's exposure. If these steps were not taken, or are not completed timely, the Year 2000 issue could have a significant impact on the operations of the company. The project is estimated to be completed during 1999, which is prior to any anticipated impact on its operating systems. Based on the progress and results of the Year 2000 project thus far, GATX believes that the Year 2000 issue should not pose significant operational problems. However, in the event that the company's efforts have not addressed all potential systems problems, contingency plans are being developed to enable critical business operations to continue. The total Year 2000 project cost is estimated to not exceed $11 million, of which approximately $5 million has been expensed through 1998. These costs have not and are not expected to have a material adverse impact on the company's financial position, results of operations or cash flows.

Forward-Looking Statements GATX reported record results for 1998. Many economists believe that the U.S. economy is entering a recessionary environment, but GATX's results reported herein have not been impacted to any significant extent. However, should a recession develop, GATX's prospective results would not be immune from the effects thereof if there were significant changes in demand for its services or assets provided.

Certain statements in Management's Discussion and Analysis constitute forward-looking statements made pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995. This information may involve risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. Although the company believes that the expectations reflected in such forward-looking statements are based on reasonable assumptions, such statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to, unanticipated changes in the markets served by GATX such as the aircraft, petroleum, chemical, rail, technology and steel industries.

MANAGEMENT'S DISCUSSION AND ANALYSIS 1997 COMPARED TO 1996

The following discussion analyzes GATX's comparative performance for the years ended December 31, 1997 and 1996. This information should be read in conjunction with the consolidated financial statements on pages 34, 36, 38 and, 43. The discussion of comparative results of GATX's operations for the years ended December 31, 1998 and 1997 is presented in the management discussion and analysis and the financial data of business segments beginning on page 32.

GATX reported a net loss of $51 million or $1.28 per share, on a diluted basis, for the year ended December 31, 1997 compared to net income of $103 million or $2.10 per share for 1996.

During 1997, strategic decisions resulted in a $163 million after-tax restructuring charge related to the Terminals and Pipelines and the Logistics and Warehousing segments. The changed market environment which Terminals serves required aggressive action to revitalize operations and includes the sale or closure of the Staten Island terminal as well as seven terminals in the United Kingdom. Other smaller facilities are also being evaluated or are in the process of sale or closing. The after-tax restructuring charge attributable to Terminals was $124 million. Logistics continued to implement its strategy of providing integrated logistics solutions while reducing its role in the lower margin, public warehousing business. To better reflect the economics of this strategic direction, a $39 million after-tax charge was taken to write-down the carrying value of goodwill relating to certain past warehousing acquisitions.

Before the effects of the $163 million after-tax charge, income was $112 million or $2.25 per share on a diluted basis. These operating earnings reached a record level with four of GATX's five subsidiaries achieving record results. Based on the $112 million of total earnings, GATX achieved a return on equity of 14.0%, up slightly from 13.8% in 1996.

Railcar Leasing and Management General American's gross income of $477 million increased by $49 million from 1996. The full year effect of the mid-1996 acquisition of the remaining 55% interest in CGTX accounted for $28 million of the revenue increase with the balance attributable to a larger U.S. fleet and improved rental rates. Prior to GATX acquiring the remaining interest, CGTX had been accounted for as an affiliate. Railcar additions continued to be strong in 1997 with 4,800 cars added to the North American fleet, reaching a total of 77,700 cars on lease. With a total fleet of 81,100 cars, utilization ended the year at 96%, up from 95% at the end of 1996. In addition to the North American fleet, during 1997 General American purchased a 40% interest in Kesselwaggon Vermietgesellschaft mbH (KVG), a German and Austrian-based tank car and specialty railcar leasing company.

Record net income of $63 million increased by 11% over 1996 reflecting the higher revenues and the full year impact of CGTX, partially offset by higher repair costs and other operating and asset ownership expenses. Operating margins improved by 14% as the growth in revenues exceeded the increase in fleet repair costs and SG&A expenses.

Repair costs increased 7% due to the larger fleet size but decreased as a percentage of revenue from 1996 due in part to the mix of cars and the types of repairs completed. Throughput days, the time it takes a railcar to be repaired through the General American repair network, remained at the 1996 average of 32 days. Asset ownership costs, consisting of operating lease rents, depreciation, and interest expense, increased as a result of the growing fleet. General American's share of earnings of affiliates declined from 1996 due to the aforementioned change in accounting for CGTX.

MANAGEMENT'S DISCUSSION AND ANALYSIS 1997 COMPARED TO 1996 (CONTINUED)

Financial Services Gross income of $584 million for 1997 increased sharply from 1996 driven by higher technology equipment sales, lease income, and gains on sale of assets. Of the $247 million or 73% overall increase from last year, $171 million was attributable to technology equipment sales. A full year of technology equipment sales was recorded in 1997 whereas 1996 included only two months. Lease income grew by $50 million, in large part due to a growing technology leasing portfolio. Gains from asset remarketing in 1997 were at a record level of $69 million, or $33 million more than last year. Because the timing of such sales is dependent on changing market conditions, such gains do not occur evenly from period to period.

Net income for 1997 was a record $54 million, a 17% improvement over last year's results, with asset remarketing gains on sale of assets generating much of the increase. Technology sales and leasing revenues were substantially offset by asset ownership and human resource costs necessary to grow these businesses. Record investment volume of $866 million, including over $200 million for the technology leasing portfolio, led to depreciation expense increasing by $36 million and interest expense increasing by $11 million. Included in the investment volume was the $368 million Pitney Bowes transaction, the largest in GATX Capital's history. SG&A, which for the first time in 1997 included a full year of results from the equipment sales sector, also increased due to higher incentive compensation, transaction costs, and administrative expenses.

The provision for possible losses of $11 million decreased $2 million from 1996. The allowance for possible losses increased to $122 million, representing 5.8% of net investments, as compared to 6.6% at the end of last year.

The share of affiliates' earnings increased by $3 million to $17 million despite the technology equipment business no longer being accounted for as a joint venture for 1997. During 1997, Capital recorded affiliate earnings from three new joint ventures, including two aircraft partnerships and the newly-formed joint venture with Pitney Bowes. Affiliate earnings also increased at Locomotive Leasing Partners, a joint venture established in 1996 with Electro-Motive Division of General Motors.

Capital continued to manage and change its portfolio mix during 1997, with aircraft now representing a proportionally smaller part of total assets while the rail and technology sectors grew. Strategic aircraft sales, the Pitney Bowes transaction (primarily rail assets), and substantial technology leasing investment volume were the drivers of the change in asset concentrations.

Terminals and Pipelines Terminals' gross income for 1997 of $293 million was 2% less than 1996 primarily due to the continued softness in both the domestic and international petroleum markets. In general, the petroleum market was characterized by competitive pricing pressures as refineries continued to produce on a just-in-time basis thereby reducing the demand for storage. Gross income related to services provided to the chemical market remained steady with 1996 while pipeline revenues improved slightly.

While throughput of petroleum products remained strong, rates further declined from the 1996 levels. Throughput for 1997, defined as barrels delivered to customers, of 639 million barrels at all wholly-owned locations remained steady with 1996. Average storage utilization for the year was 91%, an improvement of 5% over 1996.

Terminals' net loss for 1997 was $116 million, including the effects of a $124 million after-tax restructuring charge. On an operating basis, Terminals' 1997 income of $8 million declined from the prior year's $13 million. The difficult petroleum market conditions resulted in a 4% decrease in

MANAGEMENT'S DISCUSSION AND ANALYSIS
1997 COMPARED TO 1996 (CONTINUED)

operating margin. Overall operating costs and SG&A expenses decreased by 1% from 1996. Fixed asset ownership costs, which include interest and depreciation, increased to 38% of revenue from 35% primarily due to the full year impact of significant facility and infrastructure investments made in 1996. The share of affiliates' earnings of $13 million increased by $1 million from 1996 reflecting improved results primarily from European chemical markets. Asian results approximated the prior year, with improvement in the chemical market offset by foreign exchange rate variances.

During the fourth quarter of 1997, Terminals recorded an after-tax provision of $124 million reflecting the results of a strategic review. Initial steps were taken to sell or close certain locations including the Staten Island terminal and seven storage facilities which make up GATX Terminals Limited in the United Kingdom. Additionally, adjustments were made to the carrying cost of certain other locations where conditions indicated that asset values were impaired. Throughput and utilization for the facilities not designated for sale or closure were 560 million barrels and 93%, respectively in 1997.

LOGISTICS AND WAREHOUSING Logistics' gross income of $257 million decreased 4% due to the impact of lost business and slower production periods by certain customers. New customers and increased business with existing customers somewhat offset this decrease. Total warehouse capacity at year end of 21.4 million square feet was in-line with 1996. Space utilization of 95% improved by 4% from last year.

Logistics' net loss for 1997 was $37 million, including the effects of a $39 million after-tax charge related to the write-down of goodwill relating to certain past acquisitions involved in public warehousing to better reflect the economics of that sector of the industry. On an operating basis, Logistics' 1997 income of $1.6 million grew from the prior year's $.9 million. Operating margins for 1997 improved to 10.0% from 9.6% in 1996 due to replacing some of the lost public warehousing business with more profitable contract logistics business, productivity improvements, and reduced empty space.

GREAT LAKES SHIPPING Gross income in 1997 was $91 million, a 7% improvement from 1996 due to increased tonnage carried and residual sharing fees earned by partnering with GATX Capital in a third-party vessel financing and remarketing. Cargo carried in 1997 totaled 26.4 million tons, a 7% increase from the 24.6 million tons carried in 1996 primarily from coal cargoes. Strong customer demand, favorable weather conditions, and high water levels all contributed to the solid performance.

Record income of $7.9 million increased by $2.5 million or 46% from 1996. The residual sharing fees contributed $1.3 million with the balance primarily due to the margin on the increased tonnage carried. Contribution margin per ton was 4% greater than the prior year due to a change in mix of commodities carried as well as operating efficiencies.

ASC carried an estimated 22% of the total U.S. flag Great Lakes tonnage, similar to 1996. U.S. flag tonnage was 118 million tons, an increase of 8 million tons from 1996. Iron ore cargoes represented 43% of ASC's tonnage, 7% less than the prior year. Domestic raw steel production was approximately 90% in 1997, up 2% from 1996. Coal cargoes represented 24% of ASC's tonnage, up from 21% as a result of new business.

CORPORATE AND OTHER Corporate and Other net expense of $21 million increased by $2 million from 1996 primarily due to the reversal in 1996 of a legal reserve following the successful defense of litigation against GATX.

GATX LOCATION OF OPERATIONS

GENERAL AMERICAN TRANSPORTATION CORPORATION

Headquarters
Chicago, Illinois

Business Offices
Valencia, California
Atlanta, Georgia
Chicago, Illinois
Hackensack, New Jersey
Philadelphia, Pennsylvania
Pittsburgh, Pennsylvania
Houston, Texas
Mexico City, Mexico
Calgary, Alberta
Toronto, Ontario
Montreal, Quebec

Major Service Centers
Colton, California
Waycross, Georgia
East Chicago, Indiana
Hearne, Texas
Tierra Blanca, Mexico
Red Deer, Alberta
Montreal, Quebec
Moose Jaw, Saskatchewan

Mini Service Centers
Muscle Shoals, Alabama
White Springs, Florida
Terre Haute, Indiana
Plaquemine, Louisiana
Midland, Michigan
Cincinnati, Ohio
Masury, Ohio
Catoosa, Oklahoma
Copper Hill, Tennessee
Freeport, Texas

Mobile Service Units
Mobile, Alabama
Colton, California
Macon, Georgia
East Chicago, Indiana
Geismar, Louisiana
Norco, Louisiana
Carteret, New Jersey
Las Cruces, New Mexico
Albany, New York
Galena Park, Texas
Olympia, Washington
Altamira, Mexico
Guaymas, Mexico
Tamarinda, Mexico
Edmonton, Alberta
Red Deer, Alberta
Vancouver, British Columbia
Sarnia, Ontario
Montreal, Quebec
Moose Jaw, Saskatchewan

Affiliates
Buenos Aires, Argentina
Vienna, Austria
Hamburg, Germany
Zug, Switzerland

GATX CAPITAL CORPORATION

Headquarters
San Francisco, California

Offices
Burbank, California
Tampa, Florida
Chicago, Illinois
Eden Prairie, Minnesota
Sydney, Australia
Toronto, Canada
Blagnac, France
Frankfurt, Germany
Singapore, Republic of Singapore
Tokyo, Japan

Affiliates
Sydney, Australia
San Francisco, California
LaGrange, Illinois
Toronto, Ontario
Zug, Switzerland
Elstree, United Kingdom
Woking, United Kingdom

GATX TERMINALS CORPORATION

Headquarters
Chicago, Illinois

Terminals
Carson, California
Richmond, California
San Pedro, California
Orlando, Florida
Tampa, Florida
Argo, Illinois
Carteret, New Jersey
Paulsboro, New Jersey
Portland, Oregon (2)
Philadelphia, Pennsylvania
Galena Park, Texas
Pasadena, Texas
Seattle, Washington
Altamira, Mexico

Pipelines

Calnev Pipe Line
Adelanto, California
Barstow, California
Colton, California
Las Vegas, Nevada

Central Florida Pipeline
Orlando, Florida
Tampa, Florida

Manchester Jet Line
Manchester, United Kingdom

Terminal Affiliates
Antwerpen/Lillo, Belgium
Lanshan, China
Kawasaki, Japan
Kobe, Japan
Yokohama, Japan
Kertih, Malaysia
Jurong Town, Singapore
Pulau Busing, Singapore
Barcelona, Spain
Bilboa, Spain
Tarragona, Spain
Valencia, Spain
Seal Sands, United Kingdom

Pipeline Affiliate

Olympic Pipeline
Renton, Washington

GATX LOGISTICS, INC.

Headquarters
Jacksonville, Florida

Locations
Little Rock, Arkansas
Bell, California
Industry, California
Mira Loma, California
Ontario, California
Stockton, California
Danbury, Connecticut
Jacksonville, Florida
Atlanta, Georgia
Dacula, Georgia
Bedford Park, Illinois
Bolingbrook, Illinois
Chicago, Illinois
Hodgkins, Illinois
Normal, Illinois
Richmond, Indiana
Indianapolis, Indiana
Shreveport, Louisiana
Elkridge, Maryland
Coloma, Michigan
Grand Rapids, Michigan
Kalamazoo, Michigan
Bloomington, Minnesota
Delisle, Mississippi
Sardis, Mississippi
Greensboro, North Carolina
Winston-Salem, North Carolina
New York, New York
Syracuse, New York
Akron, Ohio
Obetz, Ohio
Westerville, Ohio
Oklahoma City, Oklahoma
Bedford, Pennsylvania
Arlington, Texas
Carrolton, Texas
El Paso, Texas
Fort Worth, Texas
Grand Prairie, Texas
Clearfield, Utah
Chesapeake, Virginia
Seattle, Washington
Racine, Wisconsin
Toronto, Canada
Tepotzotlan, Mexico
Puerto Rico

Affiliate
Santiago, Chile

AMERICAN STEAMSHIP COMPANY

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Toledo, Ohio

Vessels
M/V Indiana Harbor
M/V Walter J. McCarthy, Jr.
M/V St. Clair
M/V American Mariner
M/V H. Lee White
M/V Charles E. Wilson
M/V Adam E. Cornelius
M/V American Republic
M/V Buffalo
M/V Sam Laud
Str. John J. Boland

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

In Millions, Except Number of Shares	DOLLARS			SHARES		
December 31	1998	1997	1996	1998	1997	1996
Preferred Stock						
Balance at beginning of period	$ —	$ 3.4	$ 3.4	26,365	3,418,705	3,431,020
Conversion of preferred stock into common stock	—	(3.4)	—	(300)	(3,392,340)	(12,315)
Balance at end of period	—	—	3.4	26,065	26,365	3,418,705
Common Stock						
Balance at beginning of period	34.1	28.8	28.6	54,480,556	46,129,548	45,792,814
Issuance of common stock	.2	.4	.2	340,107	548,754	275,154
Conversion of preferred stock into common stock	—	4.9	—	1,500	7,802,254	61,580
Balance at end of period	34.3	34.1	28.8	54,822,163	54,480,556	46,129,548
Treasury Stock						
Balance at beginning of period	(46.8)	(47.0)	(47.1)	(5,539,440)	(5,580,078)	(5,581,908)
Issuance of common stock	—	.2	.1	1,210	40,638	1,830
Balance at end of period	(46.8)	(46.8)	(47.0)	(5,538,230)	(5,539,440)	(5,580,078)
Additional Capital						
Balance at beginning of period	322.6	314.6	310.5			
Issuance of common stock	9.0	13.0	4.1			
Conversion of preferred stock into common stock	—	(5.0)	—			
Balance at end of period	331.6	322.6	314.6			
Reinvested Earnings						
Balance at beginning of period	363.4	463.7	409.0			
Net income (loss)	131.9	(50.9)	102.7			
Dividends declared	(49.3)	(49.4)	(48.0)			
Balance at end of period	446.0	363.4	463.7			
Accumulated Other Comprehensive Income (Loss)						
Balance at beginning of period	(17.9)	11.4	13.4			
Foreign currency translation loss	(16.3)	(28.3)	(7.6)			
Unrealized gain (loss) on securities, net	2.0	(1.0)	5.6			
Balance at end of period	(32.2)	(17.9)	11.4			
Total Shareholders' Equity	$ 732.9	$ 655.4	$ 774.9			

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

In Millions/Year Ended December 31	1998	1997	1996
Net income (loss)	$ 131.9	$ (50.9)	$ 102.7
Other comprehensive income (loss), net of tax			
Foreign currency translation loss	(16.3)	(28.3)	(7.6)
Unrealized gain (loss) on securities, net	2.0	(1.0)	5.6
Other comprehensive loss	(14.3)	(29.3)	(2.0)
Comprehensive Income (Loss)	$ 117.6	$ (80.2)	$ 100.7

The accompanying notes are an integral part of these consolidated financial statements.

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East Chicago, Indiana
Hearne, Texas
Tierra Blanca, Mexico
Red Deer, Alberta
Montreal, Quebec
Moose Jaw, Saskatchewan

Mini Service Centers
Muscle Shoals, Alabama
White Springs, Florida
Terre Haute, Indiana
Plaquemine, Louisiana
Midland, Michigan
Cincinnati, Ohio
Masury, Ohio
Catoosa, Oklahoma
Copper Hill, Tennessee
Freeport, Texas

Mobile Service Units
Mobile, Alabama
Colton, California
Macon, Georgia
East Chicago, Indiana
Geismar, Louisiana
Norco, Louisiana
Carteret, New Jersey
Las Cruces, New Mexico
Albany, New York
Galena Park, Texas
Olympia, Washington
Altamira, Mexico
Guaymas, Mexico
Tamarinda, Mexico
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Zug, Switzerland

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Singapore, Republic of Singapore
Tokyo, Japan

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Elstree, United Kingdom
Woking, United Kingdom

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Pasadena, Texas
Seattle, Washington
Altamira, Mexico

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Barstow, California
Colton, California
Las Vegas, Nevada

Central Florida Pipeline
Orlando, Florida
Tampa, Florida

Manchester Jet Line
Manchester, United Kingdom

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Lanshan, China
Kawasaki, Japan
Kobe, Japan
Yokohama, Japan
Kertih, Malaysia
Jurong Town, Singapore
Pulau Busing, Singapore
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Bilboa, Spain
Tarragona, Spain
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Bolingbrook, Illinois
Chicago, Illinois
Hodgkins, Illinois
Normal, Illinois
Richmond, Indiana
Indianapolis, Indiana
Shreveport, Louisiana
Elkridge, Maryland
Coloma, Michigan
Grand Rapids, Michigan
Kalamazoo, Michigan
Bloomington, Minnesota
Delisle, Mississippi
Sardis, Mississippi
Greensboro, North Carolina
Winston-Salem, North Carolina
New York, New York
Syracuse, New York
Akron, Ohio
Obetz, Ohio
Westerville, Ohio
Oklahoma City, Oklahoma
Bedford, Pennsylvania
Arlington, Texas
Carrolton, Texas
El Paso, Texas
Fort Worth, Texas
Grand Prairie, Texas
Clearfield, Utah
Chesapeake, Virginia
Seattle, Washington
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M/V H. Lee White
M/V Charles E. Wilson
M/V Adam E. Cornelius
M/V American Republic
M/V Buffalo
M/V Sam Laud
Str. John J. Boland

GATX OFFICERS AND DIRECTORS

GATX OFFICERS

RONALD H. ZECH
Chairman, President and
Chief Executive Officer

DAVID M. EDWARDS
Senior Vice President and
Chief Financial Officer

DAVID B. ANDERSON
Vice President,
Corporate Development,
General Counsel and
Secretary

WILLIAM L. CHAMBERS
Vice President,
Human Resources

GAIL L. DUDDY
Vice President,
Compensation, Benefits,
and Corporate Human
Resources

BRIAN A. KENNEY
Vice President–Finance

RALPH L. O'HARA
Controller

CLIFFORD J. PORZENHEIM
Vice President–Corporate
Strategy

THOMAS W. REEDY
Treasurer

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Managing Director, William Blair
Capital Partners, LLC

RICHARD M. FAIRBANKS[1,4]
Managing Director of
Domestic & International Issues,
Center for Strategic &
International Studies

WILLIAM C. FOOTE[3,4]
Chairman and Chief Executive
Officer, USG Corporation

DEBORAH M. FRETZ[3,4]
Senior Vice President,
Lubricants and Logistics,
Sun Company, Inc.

RICHARD A. GIESEN[2,3]
Chairman and Chief Executive
Officer, Continental
Glass & Plastic, Inc.

MILES L. MARSH[1,4]
Chairman, President and
Chief Executive Officer,
Fort James Corporation

CHARLES MARSHALL[2,3]
Retired: Former Vice Chairman
of the Board, American Telephone
and Telegraph Company

MICHAEL E. MURPHY[1,2]
Retired: Former Vice Chairman
and Chief Administrative Officer,
Sara Lee Corporation

JOHN W. ROGERS, JR.[4]
President, Ariel Capital
Management, Inc.

RONALD H. ZECH
Chairman, President and
Chief Executive Officer,
GATX Corporation

[1]Member, Audit Committee
[2]Member, Compensation Committee
[3]Member, Nominating Committee
[4]Member, Retirement Funds Review Committee

GATX SUBSIDIARIES

GENERAL AMERICAN
TRANSPORTATION CORPORATION
D. Ward Fuller, President

GATX CAPITAL CORPORATION
Jesse V. Crews, President

GATX TERMINALS CORPORATION
Anthony J. Andrukaitis, President

GATX LOGISTICS, INC.
Joseph A. Nicosia, President

AMERICAN STEAMSHIP COMPANY
Ned A. Smith, President

GATX LIQUID LOGISTICS, INC.
Stephen H. Fraser,
Managing Director

GATX CORPORATE INFORMATION

ANNUAL MEETING

Friday, April 23, 1999, 9:00 a.m.
GATX Corporation
500 West Monroe Street
Chicago, Illinois 60661-3676

FINANCIAL INFORMATION AND PRESS RELEASES:

A copy of the company's annual report on Form 10-K for 1998 and selected other information are available without charge.

Corporate information and press releases may be found at http://www.gatx.com. A variety of current financial information, historical financial information, press releases and photographs are available at this site.

GATX press releases may be obtained by automated PR Newswire Company News On-Call's automated fax service at (800) 758-5804. The company identification number for GATX is 105121.

INQUIRIES

Inquiries regarding dividend checks, the dividend reinvestment plan, stock certificates, replacement of lost certificates, address changes, account consolidation, transfer procedures and year-end tax information should be addressed to GATX Corporation's Transfer Agent and Registrar:

Chase Mellon Shareholder Services, L.L.C.
Overpeck Centre
85 Challenger Road
Ridgefield Park, NJ 07660
Telephone: (800) 851-9677
Internet: http://www.chasemellon.com

INFORMATION RELATING TO SHAREHOLDER OWNERSHIP, DIVIDEND PAYMENTS, OR SHARE TRANSFERS:

Lisa M. Ibarra, Assistant Corporate Secretary
Telephone: (312) 621-6603
Fax: (312) 621-6647
Email: lmibarra@gatx.com

GATX Corporation welcomes and encourages questions and comments from its shareholders, potential investors, financial professionals and the public at large. To better serve interested parties, the following GATX personnel may be contacted by telephone, fax and/or writing.

TO REQUEST PUBLISHED FINANCIAL INFORMATION AND FINANCIAL REPORTS, CONTACT:

GATX CORPORATION

Investor Relations Department
500 West Monroe Street
Chicago, Illinois 60661-3676
Telephone: (800) 428-8161

Automated request line for materials:
(312) 621-6300

INDIVIDUAL INVESTORS INQUIRIES:

Janet Bower, Investor Relations Analyst
Telephone: (312) 621-4297
Fax: (312) 621-6698
Email: jmbower@gatx.com

ANALYSTS, INSTITUTIONAL SHAREHOLDERS AND FINANCIAL COMMUNITY PROFESSIONALS:

Robert C. Lyons, Director of Investor Relations
Telephone: (312) 621-6633
Email: rclyons@gatx.com

Aaron H. Hoffman, Manager Investor and Public Relations
Telephone: (312) 621-6493
Email: ahhoffman@gatx.com
Fax: (312) 621-6698

QUESTIONS REGARDING SALES, SERVICE OR LEASE INFORMATION:

General American Transportation Corporation
(312) 621-6564

GATX Capital Corporation– (415) 955-3200

GATX Terminals Corporation– (312) 621-8032

GATX Logistics, Inc.– (904) 396-2517

American Steamship Company– (716) 635-0222

GATX Liquid Logistics, Inc.– (312) 621-6200

INDEPENDENT AUDITORS

Ernst & Young LLP

DESIGNER Sandra Dubois Design • PHOTOGRAPHERS Charlie Westerman, Richard Lanenga • TYPOGRAPHY Total Plus • PRINTER Lithographix • This annual report is printed on recycled papers.