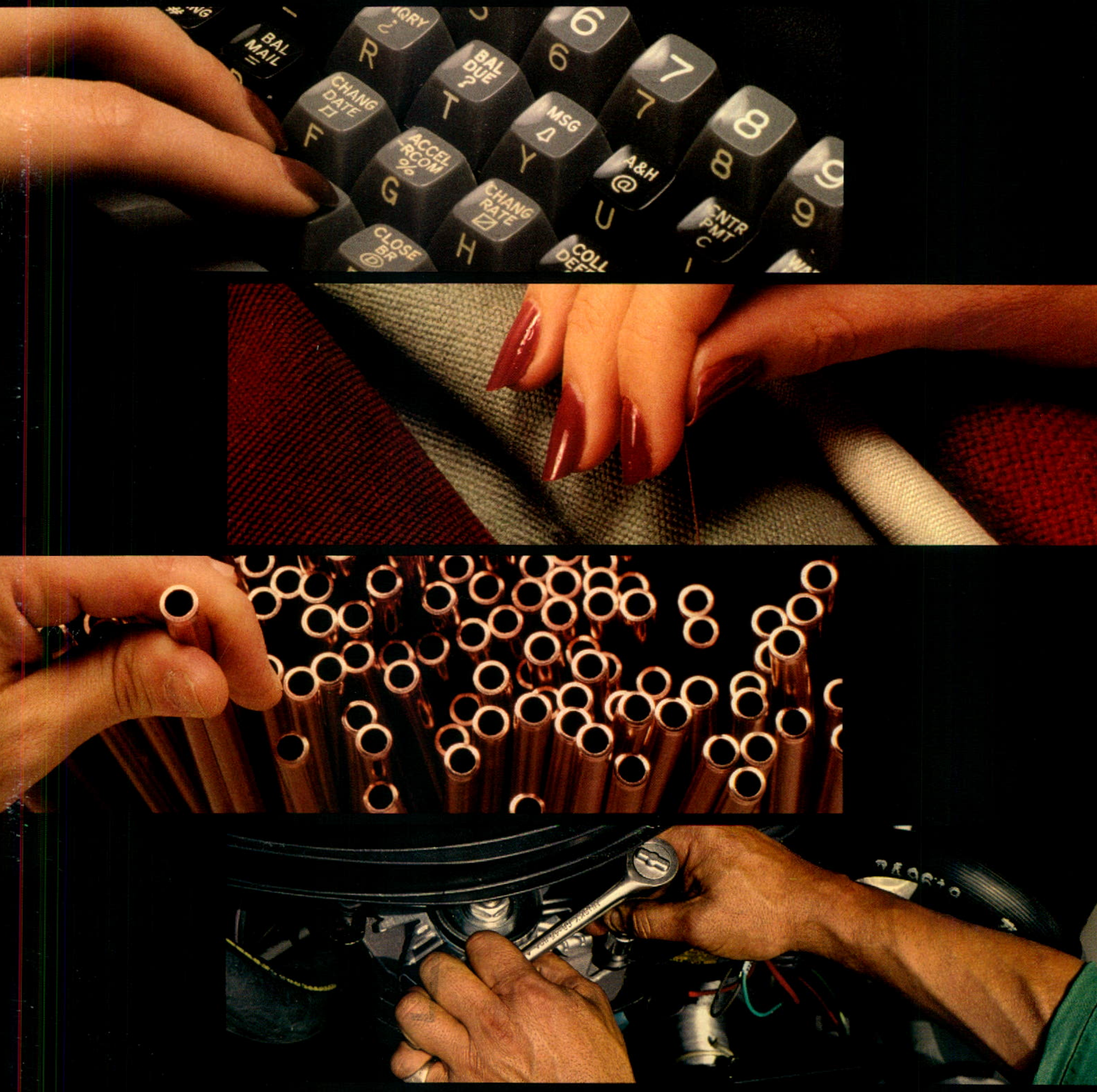
Household Finance Corporation
1979 Annual Report

Working for Tomorrow, Today



About The Cover

Hands at work...supplying products and services to workers and consumers throughout the world...meeting high performance standards and achieving a sense of accomplishment in a job well done...identifying and answering today's needs and preparing for tomorrow's demands...helping to keep national and local economies on the go. All across the nation and throughout the world, the 77,000 employees of Household are working for tomorrow, today.

With products and services designed to meet the needs of a changing world, Household is a highly diversified, multi-national corporation. Through its four major businesses—financial services and insurance, merchandising, manufacturing and transportation—Household is providing products and services for a changing workforce and family, a society concerned with inflation, a mobile people who must conserve energy and fuel, a population migrating south and west, and a society that must preserve its environment. Throughout its history, Household has strived to meet the challenges of the times and has achieved a position of leadership, now serving eight out of ten families in the United States every year. As the Corporation enters the Eighties and its own second century, Household is a strong company today with expectations for an even stronger, more prosperous tomorrow.

Corporate Information

Annual Meeting and Investor Inquiries

The annual meeting of stockholders will be held on April 15, 1980 at 9:30 a.m. at Household's International Headquarters. A formal notice of the meeting and proxy materials will be sent to shareholders about March 10, 1980.

Investor inquiries, including requests for copies of the Corporation's annual report on *Form 10-K* as filed with the Securities and Exchange Commission for the year 1979 and requests for information about the Dividend Reinvestment Service, should be addressed to the Secretary of the Corporation at Household's International Headquarters. Shareholder address changes and questions pertaining to shareholder accounts should be directed to the Stock Transfer Agent. Those forwarding stock certificates are advised to use registered mail.

Stock Transfer and Dividend Disbursing Agent

Harris Trust and Savings Bank
Stock Transfer Division
111 West Monroe Street
Chicago, Illinois 60690

In New York, deliver stock certificates for transfer to Harris' agent:
Schroder Trust Company
Stock Transfer Department, SC1
One State Street
New York, New York 10015

Agent for Automatic Dividend Reinvestment Service

Citibank
Dividend Reinvestment Service NBG-1
Sort 5710
New York, New York 10043

Financial Highlights

All amounts other than per share data are stated in millions.

		1979	1978	Percent Change
Volume	Finance receivables outstanding at December 31:			
	Consumer	**$3,605.3**	$3,136.8	+ 15%
	Purchased vehicle contracts	**490.9**		
	Commercial	**277.7**	134.2	+107
	Total	**4,373.9**	3,271.0	+ 34
	Merchandising net sales and revenues	**3,918.8**	3,312.6	+ 18
	Manufacturing net sales and revenues	**245.6**	232.2	+ 6
	Transportation revenues	**310.8**	261.8	+ 19
Earnings before Unrealized Foreign Exchange Gains and Losses (Income and expenses after taxes before *unrealized* foreign exchange gains and losses less related tax effects)				
	Finance	**$ 85.1**	$ 96.8	− 12%
	Merchandising	**57.1***	64.0	− 11
	Manufacturing	**19.6***	21.2	− 8
	Transportation	**17.6**	16.1	+ 10
	Corporate	**(23.6)**	(22.5)	+ 5
	Total	**155.8**	175.6	− 11
Unrealized Foreign Exchange Gains (Losses) Less Related Tax Effects	Finance	**5.3**	(22.4)	
	Manufacturing	**0.1**		
	Total	**5.4**	(22.4)	
Net Income		**$ 161.2***	$ 153.2	+ 5%
Earnings Per Common Share	Before unrealized foreign exchange gains (losses):			
	Primary basis	**$ 3.21***	$ 3.67	− 13%
	Fully diluted basis	**3.04***	3.43	− 11
	Net Income:			
	Primary	**3.33***	3.18	+ 5
	Fully diluted	**3.15***	2.99	+ 5
Dividends Declared Per Common Share		**$ 1.500**	$ 1.375	+ 9%
Average Number of Common Shares Outstanding	Actual	**46.1**	45.6	+ 1%
	Fully diluted basis	**51.3**	51.2	

* Adoption of LIFO in 1979 reduced income from Merchandising and Manufacturing businesses by $14.5 million and $2.4 million, respectively, and the Corporation's net income by $16.9 million or $0.33 per fully diluted share. See Summary of Significant Accounting Policies on Page 40.

Household Finance Corporation

International Headquarters
2700 Sanders Road
Prospect Heights, Illinois 60070
(312) 564-5000

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Household Finance Corporation

Finance HFC provides a broad range of financial services including consumer loans, insurance, income tax services, consumer banking and commercial leasing and financing. HFC has $4.4 billion in total finance receivables and serves 2.8 million customers. Alexander Hamilton Life Insurance Company of America offers credit and ordinary life insurance. HFC Leasing Inc. makes equity investments in major capital equipment.

Consumer Finance 2,125 offices in the USA, Canada, the United Kingdom, Puerto Rico, Japan; represented in Australia through 42 offices of David Jones—Household Finance Limited.

Alexander Hamilton Life Insurance Company of America ordinary life and credit insurance.

HFC Trust Limited (United Kingdom) consumer finance and banking.

HFC Leasing Inc. commercial leasing—financing of major equipment such as commercial aircraft, ocean-going vessels, railcars, mining equipment and computers.

Keystone Savings and Loan Association 12 offices in Southern California.

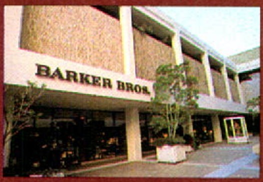
Industrial Banks consumer finance and banking—5 banks in Colorado.

Money Management Institute consumer education—booklets and filmstrips on all aspects of personal and family money management.

Merchandising City Products Corporation is one of the largest merchandising companies in the United States with annual sales of nearly $4 billion. Its diversified divisions engage in retail merchandising through 1,228 stores as well as wholesale distribution of consumer goods through 3,550 franchised outlets. Geographically dispersed, these merchandising activities primarily emphasize everyday merchandise and value prices. Annual sales of the retail T.G.&Y. and Vons chains are each approaching $1.5 billion.

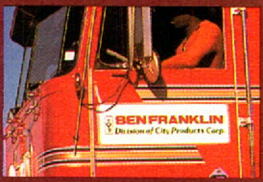
Retail:
T.G.&Y. general merchandise chain—935 stores in 29 states.

Vons 161 supermarkets in Southern California and Nevada.



Home Furnishings
Huffman-Koos 14 stores, New Jersey and New York.
Barker's 15 stores, L.A. area.
Colby's 4 stores, Chicago.
American Furniture 7 stores, El Paso area.

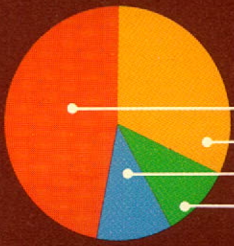
White Stores (company-owned) hard goods chain—92 stores in 8 states.



Wholesale:
Ben Franklin variety chain—1,885 independently owned stores operating in all 50 states.

Coast-to-Coast 1,203 franchised hardware stores in 29 states.

White Stores (franchised) hard goods chain—462 stores in 17 states.

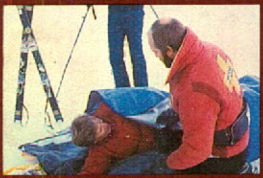


% of 1979 Earnings before unrealized foreign exchange gains and losses and expense from Corporate Operations.

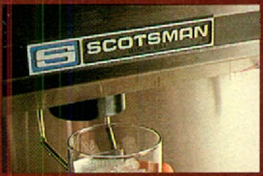
Manufacturing King-Seeley Thermos Co. is a diversified manufacturing company with annual sales exceeding $245 million. The company operates 17 plants in the USA, Canada, the United Kingdom and Italy. It serves the consumer, commercial and industrial markets with such products as Thermos® brand vacuumware, Structo® barbeque grills, Scotsman® brand ice systems, Halsey-Taylor® water coolers and drinking fountains, Almco® metal finishing equipment, Albion casters and King-Seeley cooking appliance controls.

Outdoor Living:
Thermos® manufacturer of vacuumware, jugs and ice chests, plastic insulated tableware, snack jars, lunch kits.

Structo® manufacturer of charcoal and gas barbecue grills.



Metallized Products all weather emergency and sportsman's blankets, custom vacuum metallized films.



Commercial Refrigeration:
Scotsman® manufacturer of commercial ice systems.

Halsey Taylor® manufacturer of refrigerated water coolers and drinking fountains.

Industrial:
Almco® manufacturer of industrial metal finishing equipment.
Albion designer, developer, and manufacturer of industrial casters and wheels.

King-Seeley manufacturer of control mechanisms for the cooking appliance industry.

Transportation National Car Rental System, Inc., with annual revenues of more than $310 million, is one of the largest car rental companies in the world. Under the Lend Lease name, the company is engaged in car leasing and truck rental and leasing. Through Mud Cat the company markets a small dredge used for environmental control.

In 1979, Household acquired a 56% ownership interest in Wien Air Alaska, Inc., the oldest and largest air carrier within Alaska.

National Car Rental represented at 2,200 locations in 90 countries and territories.

Lend Lease car leasing, truck rental and leasing.

Mud Cat a portable dredge used for environmental control of lakes and industrial settling ponds.

Wien Air Alaska oldest and largest air carrier of passengers, freight and mail within Alaska.

To the Shareholders:

Results Despite continued expansion and growth during 1979, earnings suffered from the effects of rapid inflation and high interest rates. They were also affected by a significant change in our accounting policy which has resulted in lower reported earnings but increased cash flow.

Earnings for the year were down 11% to $155.8 million, or $3.04 per fully diluted common share, before *unrealized* foreign exchange gains and losses. Net income in 1979, after *unrealized* foreign exchange gains and losses, was up 5% to $161.2 million, or $3.15 per fully diluted share. The Corporation changed its accounting policy, effective January 1, 1979, to the last-in, first-out (LIFO) method for valuing domestic inventories. The purpose of this change is to achieve a better matching of current costs with current revenues in an inflationary environment. The resulting decline in reported net income of $16.9 million, or 33¢ per fully diluted share, will be outweighed by the positive cash flow benefits associated with reduction of income tax payments and interest savings generated through corresponding reductions in borrowings. If this change in accounting had not been made, Household would have reported earnings before *unrealized* foreign exchange gains and losses of $172.7 million, or $3.37 per fully diluted common share.

Household's earnings before *unrealized* foreign exchange gains and losses represented a 13.0% return on shareholders' average book equity in 1979, compared with 15.8% in 1978, reflecting the impact of the change to LIFO and increased interest expense, resulting primarily from higher short-term interest rates. Without the impact of the change to LIFO, the 1979 return on equity would have been 14.3%.

During the year total receivables in the Finance Business grew 34%. Merchandising sales increased 18%, Manufacturing sales grew 6% and Transportation revenues rose 19%. A detailed commentary on the results of Household's businesses is provided in the Operating Reviews. Expansion in 1979 included a joint venture arrangement in Australia through acquisition of a 49% interest in David Jones—Household Finance Limited and purchase of 56% of the common stock of Wien Air Alaska, Inc., Alaska's largest air carrier.

Also during the year we were able to take advantage of a unique opportunity by purchasing retail vehicle instalment receivables from Chrysler Financial Corporation. Two separate transactions provided net proceeds to Chrysler Financial of approximately $500 million. These purchased vehicle contracts are secured by liens or security interests in vehicles sold by Chrysler dealers. The second purchase has the additional advantage of a floating rate that protects our yield from fluctuating interest rates.

These transactions illustrate management's efforts to direct assets of the Finance Business into areas where revenues are more adaptable to increasing costs of borrowings and operations. In 1980 particular emphasis will be placed on redirecting assets into the more profitable areas of the Finance Business, such as our highly successful Homeowner Loan Program.

Dividends A 6.9% increase in the quarterly dividend from $0.3625 to $0.3875 per common share was declared by the Board of Directors in September. This raised the annual rate per common share from $1.45 to $1.55. We have paid quarterly cash dividends for 54 consecutive years since our incorporation in 1925, and for the last 27 years the cash dividend payments to our common shareholders have increased annually.

Management During the year, John W. Ostrem was appointed Senior Vice President-Planning and Development. This appointment is indicative of the Corporation's commitment to forward planning. Mr. Ostrem previously served as Group Vice President-Financial Controls. Gaylen N. Larson, formerly a partner of the accounting firm Deloitte Haskins & Sells, was appointed Group Vice President and Controller of the Corporation.

Corporate Objectives Serving eight out of ten families in the United States every year, Household Finance Corporation is one of the nation's largest multi-industry diversified corporations.

Household seeks to employ the invested capital of its shareholders to achieve an aftertax return on equity of approximately 15% per annum, before the effects of *unrealized* foreign exchange gains and losses, and to distribute approximately 40% of these annual earnings in the form of cash dividends to common and preferred shareholders. This will provide shareholders with a return of 15% per annum through the combination of increased book value and cash dividends.

Household seeks to achieve this desired return for its shareholders by investing in and conducting a balance of diversified businesses: financial services and insurance, merchandising, manufacturing and transportation. Household is strongly positioned and experienced in these basic businesses which have an emphasis on serving consumer needs. This diversification is designed to achieve steady, balanced growth in revenues, earnings and dividends by capitalizing on existing corporate strengths, complementing and utilizing the resources and management skills of the Corporation. The Corporation is committed to providing top quality products and services for its customers and to achieving or maintaining dominant positions in its principal activities.

One of the nation's largest employers with 77,000 employees, Household believes that a key strategy in the achievement of its goals is the attraction and retention of people of the highest caliber. Household fosters a working environment characterized by open communications and a cooperative team approach, while encouraging and rewarding individual initiative and development. Whenever possible, the Corporation promotes from within the organization. Additionally, Household is committed to an organization of decentralized management with centralized accountability and coordination.

Long recognized for its high quality securities, Household is dedicated to the maintenance of its strong and conservative capital structure. The Corporation, including its consolidated subsidiaries, seeks to maintain, on average, 75% of its total debt in long-term, fixed-rate debt in order to minimize the sensitivity of earnings to swings in short-term interest rates. It is anticipated that retained earnings will continue to fully satisfy the Corporation's need for equity funds to support internal growth. The capital structure of the Corporation's nonconsolidated subsidiaries is maintained in a manner consistent with highly-rated companies with a similar industry classification.

In all its endeavors, Household is committed to the highest ethical standards and to a sincere people-orientation. Not only does the Corporation emphasize financial security for its shareholders, but it is dedicated to the satisfaction of its customers and the well-being of its employees. On a broader scale, Household advocates the free enterprise system and affirms its commitment to social responsibility and its desire to serve the public interest as a good corporate citizen.

Outlook While it is difficult to predict the future course of the economy, which today is greatly influenced by foreign events as well as government fiscal policies, we cannot ignore the obvious difficulties ahead with continuing high inflation, high interest rates and spiraling costs in general. With these problems, it is doubtful that the economy can achieve significant levels of real growth in 1980, and it may well experience a recession. Despite this discouraging environment at the start of a new decade, we look forward to the challenges of the 1980 s.

We believe in the inherent strength of the free enterprise system, and we applaud the increasing public recognition of the need to encourage business investment and to control government regulation and spending. As we look ahead to the uncertainties and difficulties facing the United States and the world, we are nevertheless confident that our financial resources and our diversity in basic businesses, with products and services that touch almost every lifestyle, combined with the dedication and enthusiasm of our employees, will enable us to meet the challenges of the new decade.

G. R. Ellis
Chairman of the Board and
Chief Executive Officer

D. C. Clark
President

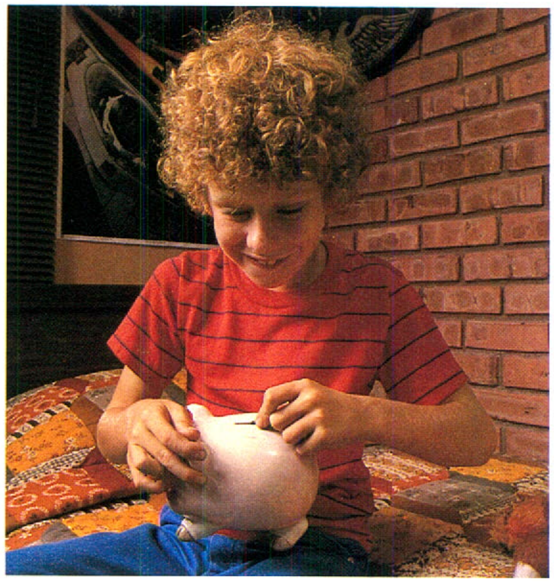
February 11, 1980

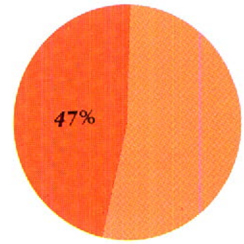
Making Every Dollar Count

Results In 1979 the Finance Business achieved its greatest gain in total finance receivables. Reaching a record level, total finance receivables increased $1.1 billion, or 34%, to $4.4 billion.

Results were impacted by significantly higher interest costs, principally caused by higher short-term rates, which averaged 11.4% in 1979 compared with 7.9% in 1978. Increased interest expense resulting from higher long- and short-term rates totaled $42.8 million and was the primary factor in reduced earnings. Earnings decreased 12% to $85.1 million, before *unrealized* foreign exchange gains and losses, while net income after *unrealized* foreign exchange gains and losses increased 22% to $90.4 million.

Consumer Finance Consumer receivables increased 15%, or $469 million, to $3.6 billion. This growth was widespread as the economic climate stimulated demand for consumer credit. Economic conditions over several years have caused the value of homes to increase dramatically, permitting the homeowner to borrow against some of this increased value. The Homeowner





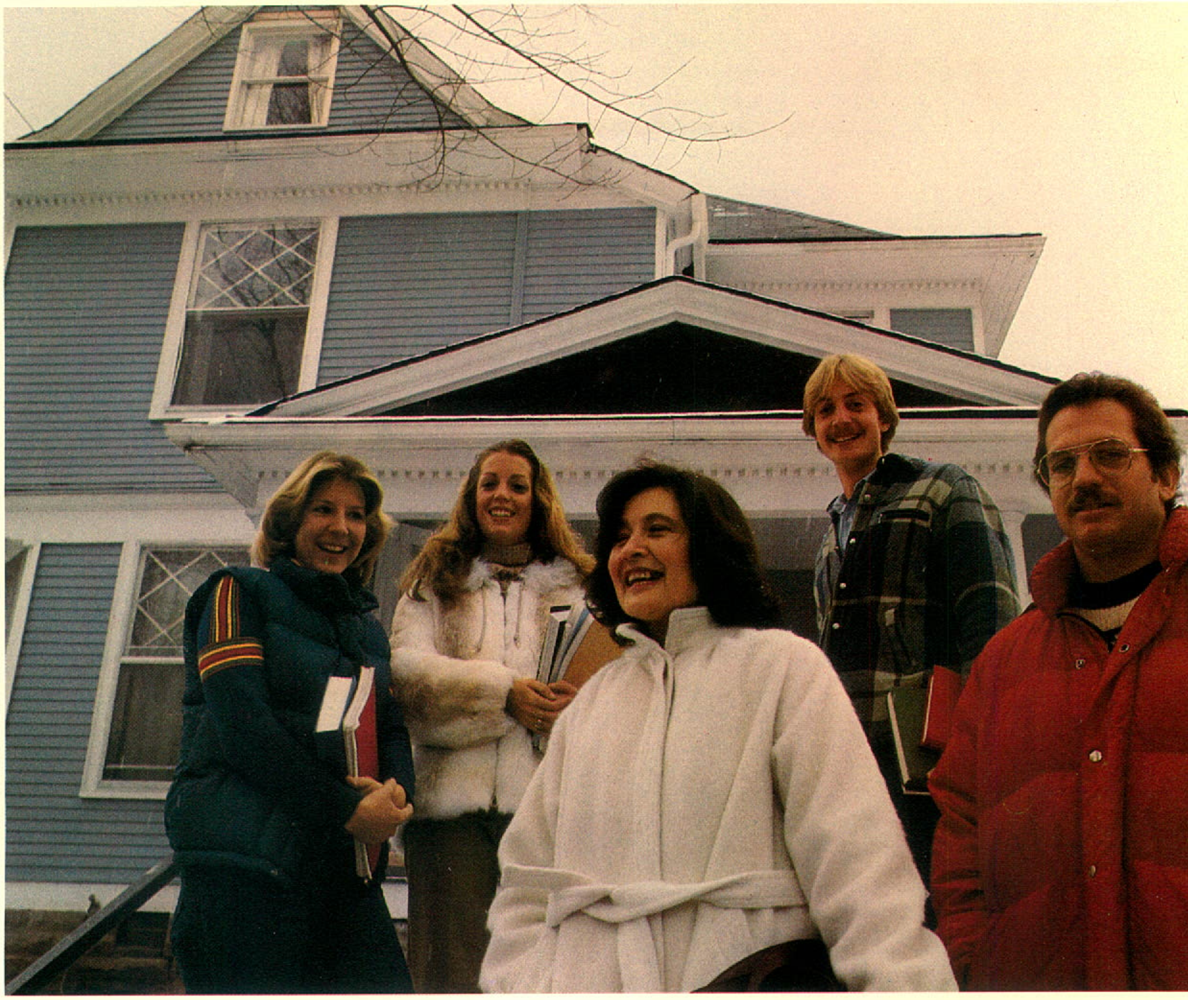
% of 1979 Earnings

Finance

		1979	1978	1977	1976	1975
Consumer Finance Receivables (millions of dollars)	Outstanding at December 31	**$3,605**	$3,137	$2,837	$2,636	$2,369
	Average Outstanding	**3,262**	2,928	2,687	2,465	2,329
	Loans Made	**2,447**	2,292	2,125	2,081	1,836
	Sales Contracts Acquired	**569**	527	430	380	265
	Net Chargeoffs of Consumer Receivables	**65**	59	57	53	53
	Percent of Average Consumer Receivables	**2.00%**	2.02%	2.12%	2.16%	2.28%
Consumer Finance Statistics	Number of Customers (thousands)	**2,789**	2,683	2,530	2,425	2,280
	Average Size of Loans Made (dollars)	**1,788**	1,610	1,544	1,479	1,423
	Average Balance Due (dollars)	**1,293**	1,169	1,121	1,087	1,039
	Average Monthly Income of Borrower (dollars)	**1,362**	1,249	1,176	1,106	1,039
	Monthly Payment as Percent of Monthly Income	**3.5%**	3.8%	4.0%	4.4%	4.5%
	Number of Branch Offices	**2,125**	2,062	2,015	1,954	1,861
Purchased Vehicle Contracts (millions of dollars)	Outstanding at December 31	**491**				
Purchased Vehicle Contracts Statistics	Number of Contracts (thousands)	**142**				
	Average Balance Due (dollars)	**3,451**				
Commercial Finance Receivables (millions of dollars)	Outstanding at December 31	**278**	134	74	23	11
Total Finance Receivables (millions of dollars)	Outstanding at December 31	**4,374**	3,271	2,911	2,659	2,380
	Credit Loss Reserves	**157**	134	122	111	100
	Percent of Year-End Receivables	**4.05%***	4.11%	4.21%	4.16%	4.20%

*Based on outstanding receivables exclusive of purchased vehicle contracts. Refer to Note 2 of financial statements of the Company for a further discussion of such receivables.

Alice Reid (center) buys and renovates older homes to rent to students at Indiana University, where she is an associate professor of education. Wanting a hedge against inflation, she joined friends in this real estate partnership four years ago. "The venture has been so successful, I decided this year to try it on my own. I needed $45,000 and someone recommended HFC. Not only did I get the loan, but the people were helpful and truly facilitated prompt processing of my application." In total, through partnership and on her own, Mrs. Reid has an ownership interest in some 20 pieces of property.



With real estate values continuing to go up, Americans are realizing the financial, as well as the practical living advantages of owning a home. Whether it's to increase the value of their property or to improve their standard of living, Americans are increasingly assuming loans for home improvement. In conjunction with the revitalization of cities, this is a trend that has particularly caught on in many urban neighborhoods.

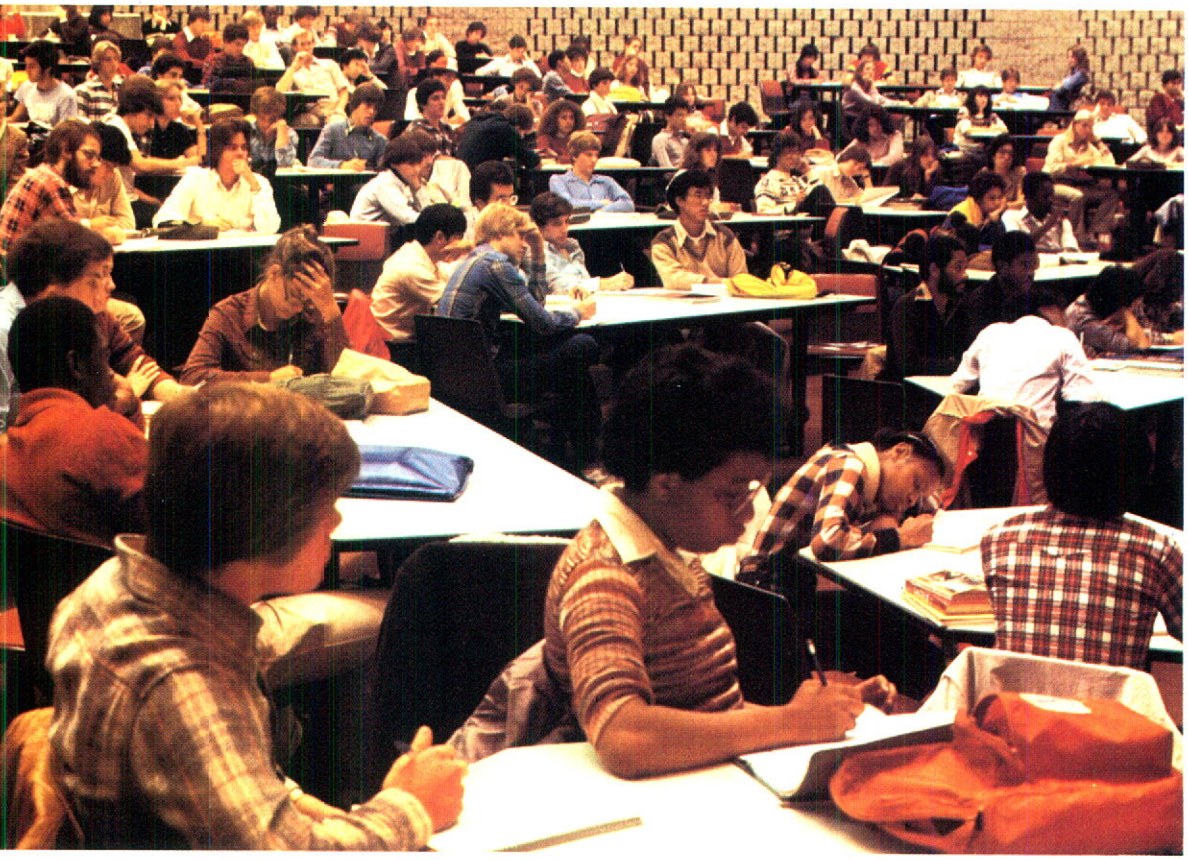
Loan Program has been successfully targeted to this market and played the single most important role in 1979 growth. Receivables, in individual amounts as large as $50,000, totaled $720.9 million at the end of 1979, marking an increase of 58% during the year. This segment of the business now represents 20% of total outstandings. Household will continue to place emphasis on this growing market in 1980 and throughout the decade.

At the end of 1979, HFC was operating 1,596 consumer finance offices in 48 states and Puerto Rico, 441 offices in 10 Canadian provinces, 82 offices in the United Kingdom and 6 offices in Japan. In March 1979, through a joint venture, HFC acquired a 49% interest in David Jones—Household Finance Limited in Australia. Through this company, HFC is now actively involved in the Australian consumer finance business, providing direct cash loans, retail sales contracts and real estate secured loans totaling $35.9 million through 42 branches.

Net consumer receivables were $2.9 billion in the United States, $542 million in Canada and $111 million in overseas operations. Excluding the effects of fluctuations in foreign exchange rates, receivables advanced 15% in the United States, 5% in Canada and 48% in overseas operations.

In 1979 the average loan made increased to $1,788 from $1,610 in 1978. The average maturity of loans made in 1979 was 62 months, a lengthening of nine months from 1978.

Although the average size of loan made has increased significantly in recent years, increasing customer income and lengthening loan maturities have caused the percentage of customers' monthly incomes required to repay their HFC accounts to decline from 4.5% four years ago to 3.5% today.



Today's students realize that tomorrow's lifestyle is dependent on the type of job and salary for which they qualify. Through vocational and other training programs, night school and college, students can gain the foundation to prepare them for promising careers. HFC makes loans for any worthwhile purpose including loans to parents wishing to provide their children with a college education.

Net chargeoffs as a percent of average consumer receivables decreased from 2.02% in 1978 to 2.00% in 1979, and overdue balance percentages were at the lowest year-end levels experienced in the past 23 years.

In 1979 HFC and Chrysler Financial Corporation reached an agreement whereby HFC would purchase vehicle instalment receivables from Chrysler Financial in an amount which would yield net proceeds of $500 million to Chrysler Financial. HFC purchased a portion of the receivables for $300 million in August. An additional portion was purchased in the fourth quarter for $200 million on a floating rate basis which protects HFC's yield from fluctuating interest rates. All these receivables are secured by liens or security interests in vehicles sold by Chrysler dealers.

Over the years, HFC has continued to expand its range of services. In addition to the Homeowner Loan Program, revolving sales credit offices were established and expanded.

In several states HFC is continuing to develop revolving lending programs which allow the customer to establish a line of credit which may be conveniently drawn upon for a variety of purposes.

Started in 1978, the HFC Income Tax Service was broadly expanded during the year and is now available in 1,343 branches in 39 states.

HFC provides consumer finance services in Australia (left) and Japan (below). In the United Kingdom, HFC Trust Limited provides a full range of consumer banking services.

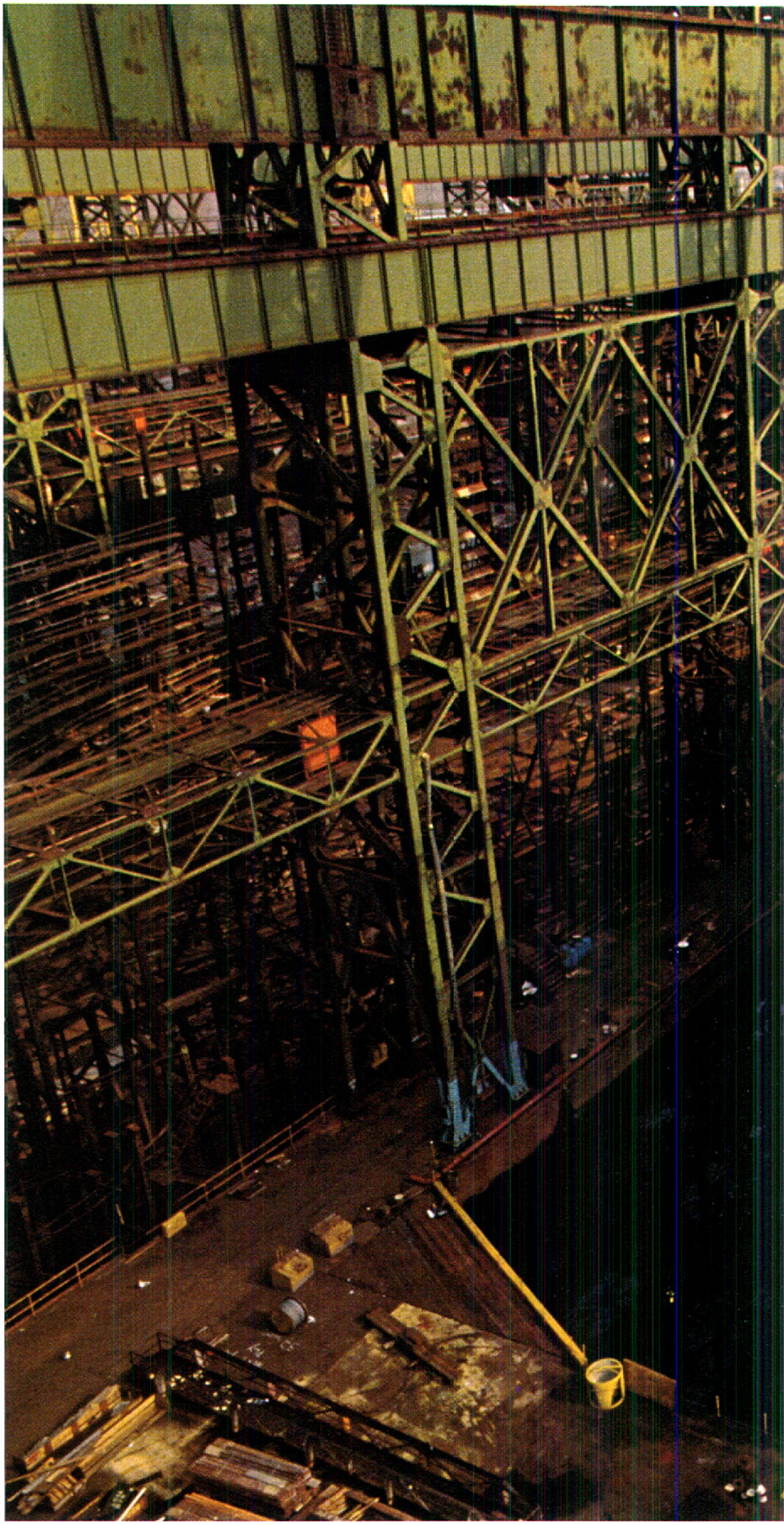
Insurance At the end of 1979, Household's insurance subsidiary, Alexander Hamilton Life Insurance Company of America, had approximately $10.9 billion of life insurance in force, including $6.4 billion of reinsurance assumed. At the end of 1979 assets were in excess of $543 million. During the year insurance premiums and commissions were $113 million, while policyholder benefits reached $79 million; this compares with $109 million and $75 million in 1978, respectively.

Alexander Hamilton has achieved a leading position in the credit insurance field through the sale of life and accident and health coverages principally to customers of HFC's consumer finance operations. A complete line of ordinary life products is offered through a system of 2900 agents located throughout the 49 states in which the company is licensed. In total Alexander Hamilton provides ordinary life, credit life, and credit accident and health insurance to more than 2 million people. A.M. Best Company, the highly regarded insurance industry rating service, has granted Alexander Hamilton its highest rating, A+ (excellent).

People buy life insurance for many reasons, but mainly to provide financial protection for their families if they themselves should die prematurely. The demand for life insurance has risen dramatically in the last 10 years as more women are entering the labor force and as young adults are taking on more responsibility earlier in life.

Commercial Finance HFC's commercial finance activities continued to experience excellent growth during 1979 as commercial receivables more than doubled. HFC Leasing Inc. is the equity owner of, among other things, over 9000 railcars, 800 over-the-road trailers and chassis, eight jet aircraft and two vessels. The Corporation's equity investment in the equipment acquired during 1979 was approximately $112 million. Leasing provides Household with the opportunity to enjoy the near-term cash flow benefits of ownership associated with investment tax credits and income tax deferrals as well as potential long-run benefits from the ultimate sale of HFC Leasing's interest in the equipment.

In 1979, Household purchased $52.5 million of privately-placed, limited-term preferred and preference stocks. Household's total investment in this type of stock is $132.5 million. Typically, terms on these stocks call for repayment within five to ten years. These investments have been made predominantly in companies with "A" or "AA" debt ratings.



Progress in transportation and the search for energy is in part dependent on the use of large, technologically-advanced pieces of equipment. HFC Leasing Inc. was formed in 1977 to purchase such major pieces of equipment for commercial leasing. Today HFC Leasing owns dragline mining equipment, vessels, computers, railcars and commercial aircraft.

The liquified natural gas vessel pictured above was purchased in the spring of 1979. With a capacity of 125,000 cubic meters, the Libra transports natural gas, which has been condensed to a liquid, from Indonesia to Japan, where it resumes its gaseous state for consumer and industrial use.

Other Consumer Finance Activities

In a very competitive market, the 12 branches of Keystone Savings and Loan in Southern California achieved solid growth during the year. With assets rising to $142 million, Keystone stresses service and convenient locations. This state-chartered self-funding operation makes only loans secured by real estate or by savings on deposit and offers passbook savings accounts and certificates of deposit. The "jumbo" account for customers with $100,000 on deposit features a negotiable rate. In 1979 Keystone opened one branch bringing the total of new branches opened to eight since HFC acquired Keystone in 1976. Keystone plans to expand further its operations and service area in the future.

Household's Industrial Banks, located in Colorado, experienced growth as consumers took advantage of the unique capabilities of the system. The state-chartered operation combines advantages of both consumer finance and savings and loan operations and is able by law to offer higher interest rates on savings accounts and certificates of deposit than banks or savings and loans. Additionally the Industrial Banks buy sales finance contracts and make direct cash loans as well as first and second mortgage loans. In 1979 another Industrial Bank was opened in Colorado and has already loaned more than $1 million. Expansion into other locations is planned for 1980.

Keystone recently opened this branch in Cerritos, California.

With the increasing popularity of condominiums and townhouses for young marrieds, singles and retirees, the 12 branches of Keystone Savings and Loan in Southern California have experienced an increase in applications for this type of mortgage lending.

With such Money Management Institute materials as Your Financial Plan, Managing Your Credit *and* Your Shopping Dollar, ***high school students all across the nation learn about personal and family finance.***

With today's inflationary economy, never before has there been such demand for the consumer education materials of HFC's Money Management Institute. Through MMI, HFC has been providing financial advice to individuals and families for fifty years. In 1979 MMI distributed upon request over a half-million pieces of literature to individual consumers, news media commentators, social workers, financial counselors, government officials, business leaders and educators.

Today, consumer education is an important part of high school curriculums across the country. As a result, colleges and universities are involved in training teachers in this subject area. MMI materials—including the Money Management Library of 12 booklets, as well as filmstrips and teachers' guides—are extensively used by consumer educators at both the secondary and college levels, either as resource materials or supplementary texts.

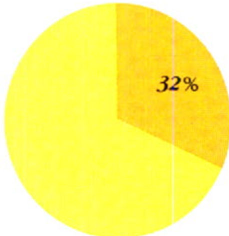
Ouida Dickey, Director of the Center for Economic Education at Berry College, Georgia, says, "MMI materials are useful from both a personal and professional standpoint; their practicality enables the teachers to use the publications in preparing their own economic plans."

Supplying New Demands

Results In 1979 Household's Merchandising Business recorded the largest sales gain in the company's history. This demonstration of strength reflects the company's concentration on improving sales production in existing stores and the addition of new productive stores. Net income for the year declined as a result of management's decision to adopt the LIFO accounting method of valuing inventories. Historically, the company has determined its inventories using FIFO, average cost and retail methods; on that basis the Merchandising Business would have reported a significant gain in net income for 1979.

Sales and revenues increased 18% to $3.9 billion, up from $3.3 billion in 1978. With mounting pressures on gross profit margins coupled with rising expenses, net income, after the $14.5 million LIFO adjustment, was $57.1 million, or 11% below 1978's $64 million. Overall selling space increased 5% to 46 million square feet. At the end of 1979 there were 1,228 retail stores, representing 26 million square feet in selling space, and 3,550 franchised stores, representing 20 million square feet.

The retail segment showed greatest strength as T. G. & Y. contributed the largest sales and income gains, before the LIFO adjustment, with strong support from a solid growth performance by Vons. In the wholesale segment, Coast-to-Coast contributed the largest sales and income gains. Combined results for the company-owned and franchised White Stores improved modestly, but operating income was not sufficient to cover interest costs.



% of 1979 Earnings

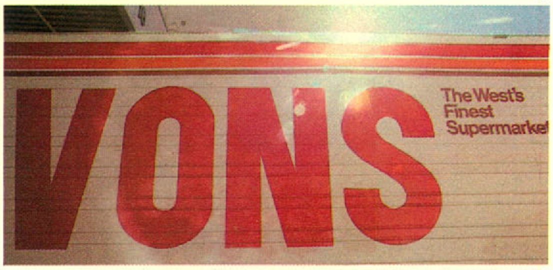
While the rest of nutrition-conscious America sleeps, produce buyers for Vons, Jim Iwamoto, Dick Spezzano and Art Hayashi, begin their work at 1 am at the Los Angeles Terminal Market. "Although much of our produce is pre-booked directly with the grower, we fill the balance of today's needs at the Market so the 161 Vons supermarkets can sell today produce that was growing yesterday," said Mr. Iwamoto.

Merchandising						**Percent of Total Net Sales**				
All amounts are stated in millions.	**1979**	1978	1977	1976	1975	**1979**	1978	1977	1976	1975
Net Sales by Product Class:										
Retail										
General Merchandise	**$1,583**	$1,351	$1,149	$1,020	$ 905	**40%**	41%	40%	40%	41%
Supermarkets	**1,473**	1,193	975	839	749	**38**	36	34	33	33
Home Furnishings	**142**	122	107	97	90	**4**	3	4	4	4
Total	**3,198**	2,666	2,231	1,956	1,744	**82**	80	78	77	78
Wholesale										
General Merchandise	**721**	647	616	565	481	**18**	20	22	23	22
Total Net Sales	**3,919**	3,313	2,847	2,521	2,225	**100**	100	100	100	100
Income before Taxes on Income	**102**	123	101	81	54	**2.6**	3.7	3.5	3.2	2.4
Net Income	**57•**	64	53	42	29	**1.5**	1.9	1.9	1.7	1.3

For additional industry segment information regarding 1979, 1978 and 1977, refer to pages 38 and 39.

•Adoption of LIFO in 1979 reduced net income by $14.5 million. See Summary of Significant Accounting Policies on page 40.

Also known for their meats, Vons operates its own meat processing plant to accommodate its customers with fresh, high quality meat. In an average day, the plant processes 525 head of cattle, 1,200 pork loins and 150,000 pounds of ground beef.



Retail

The Gourmet Meat Center at several Vons stores features such gourmet cuts as filet mignon, flank steaks and top sirloin.

Another specialty area, this Service Deli at Vons in Rancho Bernardo, California offers customers such items as bulk cheeses and luncheon meats.

161 Vons supermarkets in 2 states

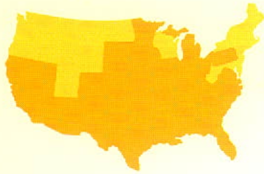
Supermarkets Vons' Grocery Co. (Vons) and the refrigeration service and ice manufacturing division increased sales 24% to $1.5 billion during 1979—thus exceeding the 22% level of increase reported in 1978. Operating income before the LIFO adjustment also increased. A record number of 17 new Vons stores were opened, and nine stores were completely remodeled. Expansion into the Las Vegas market undertaken in 1979 has proved successful. Vons' modern meat processing plant expanded its operation and now serves as a major supplier of hamburger beef patties for the nationally-known Burger King fast-food chain.

With inflation and the rising cost of fuel, consumers increasingly shopped for price and convenience. Vons responded by offering sharper-priced, image-building promotions, resulting in reduced gross profit margins. Vons' steady, strong growth is beginning to burden its distribution facility capacity and costs of operation. Consequently plans are well underway for development of additional warehouse facilities as well as for the opening of 10 new stores and 12 full-scale remodelings in 1980.

With inflation and the increasing popularity of do-it-yourself projects, interest in sewing remains high—not only among homemakers who sew for their families but among the 60% of American women employed outside the home.

T. G. & Y. has capitalized on this trend with its fabric department. While many discount stores do not carry fabrics, T. G. & Y. enjoys a position of leadership in the field with its wide selection and outstanding quality at low everyday prices. Fabrics account for over 10% of T. G. & Y.'s sales.

935 T.G.& Y. stores in 29 states



General Merchandise This segment includes 935 company-owned T. G. & Y. stores and 92 company-owned White home and auto stores. General merchandise sales increased 17% in 1979 and represent 40% of the total Merchandising Business volume. Operating income before the LIFO adjustment increased 19% and represents 53% of the total income generated by the Merchandising Business.

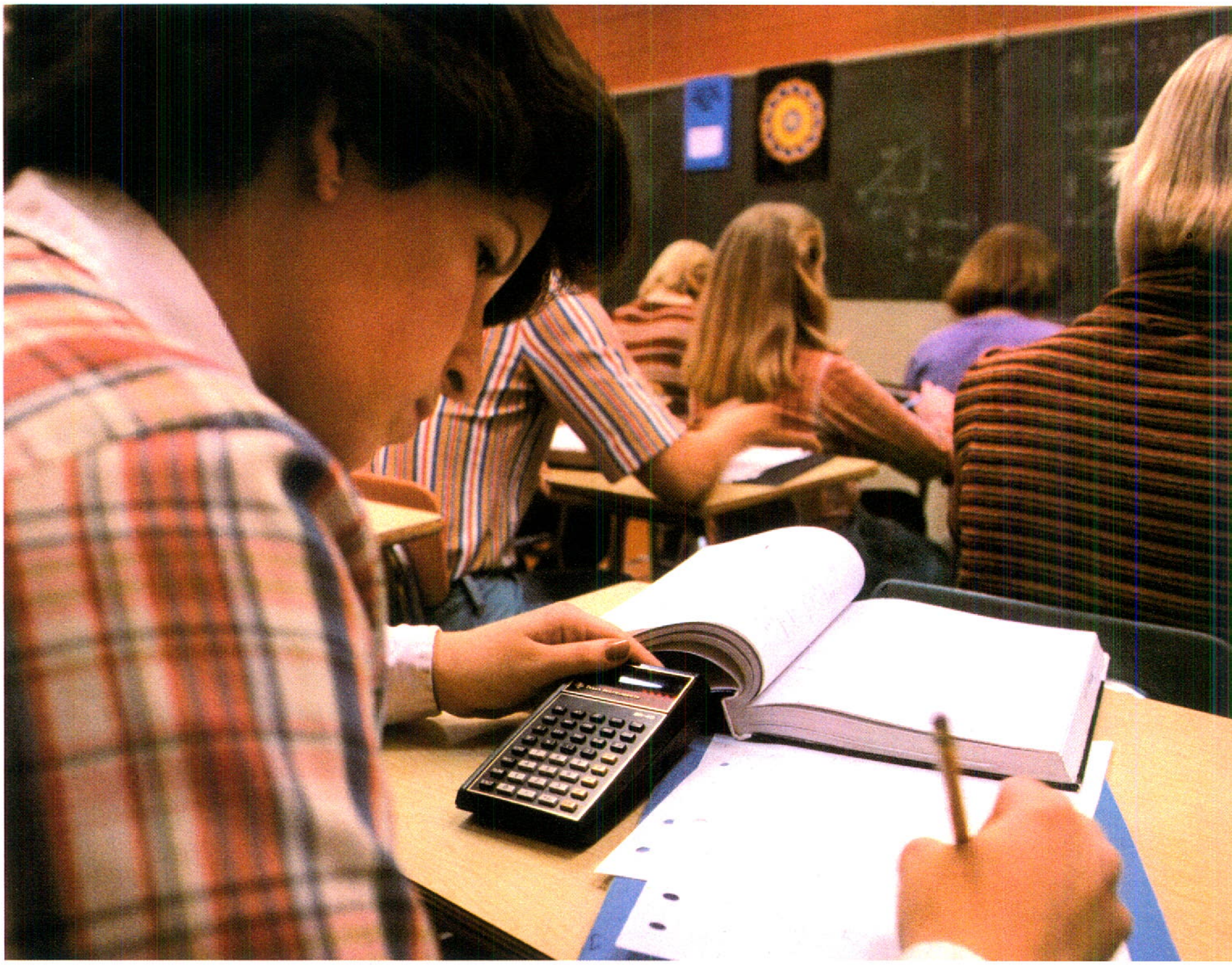
T. G. & Y. sales increased 19% to $1.5 billion, one of the largest increases reported among the mass merchandising chains, while operating income also improved substantially. These outstanding results reflect improved operations in existing stores, 10 major remodelings and the addition of 57 new stores, averaging 43,000 square feet. T. G. & Y.'s program of converting smaller stores into larger full-line family centers, through remodeling and expansion, continues with market opportunities; 39 mostly small, unprofitable stores were closed. New distribution centers were opened in Shelbyville, Kentucky and Edmond, Oklahoma, with an additional facility to be completed in 1980. T. G. & Y. also has scheduled for 1980 the opening of another 51 stores, averaging 45,000 square feet, the remodeling of eight stores and the closing of an estimated 32 less productive stores.

T. G. & Y. has positioned itself for growth despite inflation and energy problems. Since 1970 over 3 million Americans have migrated to the temperate Sunbelt; today 84% of T. G. & Y.'s market penetration spreads across the southern half of the United States. *The major* growth strategy is in rural Sunbelt towns where residents enjoy the convenience of T. G. & Y. stores.

Wholesale

Ben Franklin Serving 1,885 stores, Ben Franklin increased its sales significantly; however, operating income declined as a result of price reductions to franchisees to meet competitive pressures at the retail and wholesale levels. Additionally, Ben Franklin experienced one-time start-up costs associated with the establishment of a new distribution center. During the year 86 stores were opened, 125 were remodeled and 142 generally smaller stores were closed.

In 1980 Ben Franklin plans to build its reputation as a store standing for quality and selection by emphasizing its well-established departments and by expanding the home accent area. Products for home decoration, such as wicker, flowers for flower arrangements and crafts, including needlework and sewing supplies, will be featured.



Students preparing for tomorrow's work force not only need a good curriculum, textbooks and teaching, but the most modern school supplies. Ben Franklin has established a reputation over the years for its quality and selection of school supplies, recently helping meet the new demand for calculators.

1,885 Ben Franklin stores in all 50 states

As a way to save fuel and money, many commuters have taken to riding bicycles to work. In the last year, Coast-to-Coast stores have experienced a 23% increase in bicycle sales.

To lower their fuel bills and conserve energy, many homeowners insulate their houses. With do-it-yourself materials, they can do so conveniently and economically while improving the value of their property. Offering do-it-yourself insulation is a new and growing venture for Coast-to-Coast.

Coast-to-Coast Coast-to-Coast enjoyed a banner year, posting record sales and income before the LIFO adjustment. Thirty-nine stores were opened, over 100 stores were remodeled and 36 stores were closed. At year-end Coast was providing goods and services for 1,203 independent hardware dealers franchised by the company. Coast established its first stores in the state of Georgia, signaling the division's plan to penetrate the important Southeastern market. Also, as part of a new marketing concept, four new specialty sporting goods stores were opened in the Minneapolis area, and early consumer response has been encouraging.

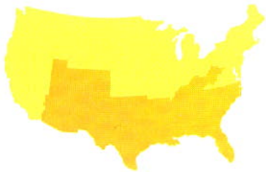
1,203 Coast-to-Coast stores in 29 states

White Stores *(Franchised)* Performance of White Stores wholesale business in 1979 fell short of expectations. Although sales to the 462 independent owners matched 1978 results, operating income declined. In addition to increased operating expenses generally, the division incurred other expenses associated with the revitalization of White Stores' merchandise and advertising programs for its dealers. These programs are expected to benefit operations and results in the near future.

Other Retail Activities

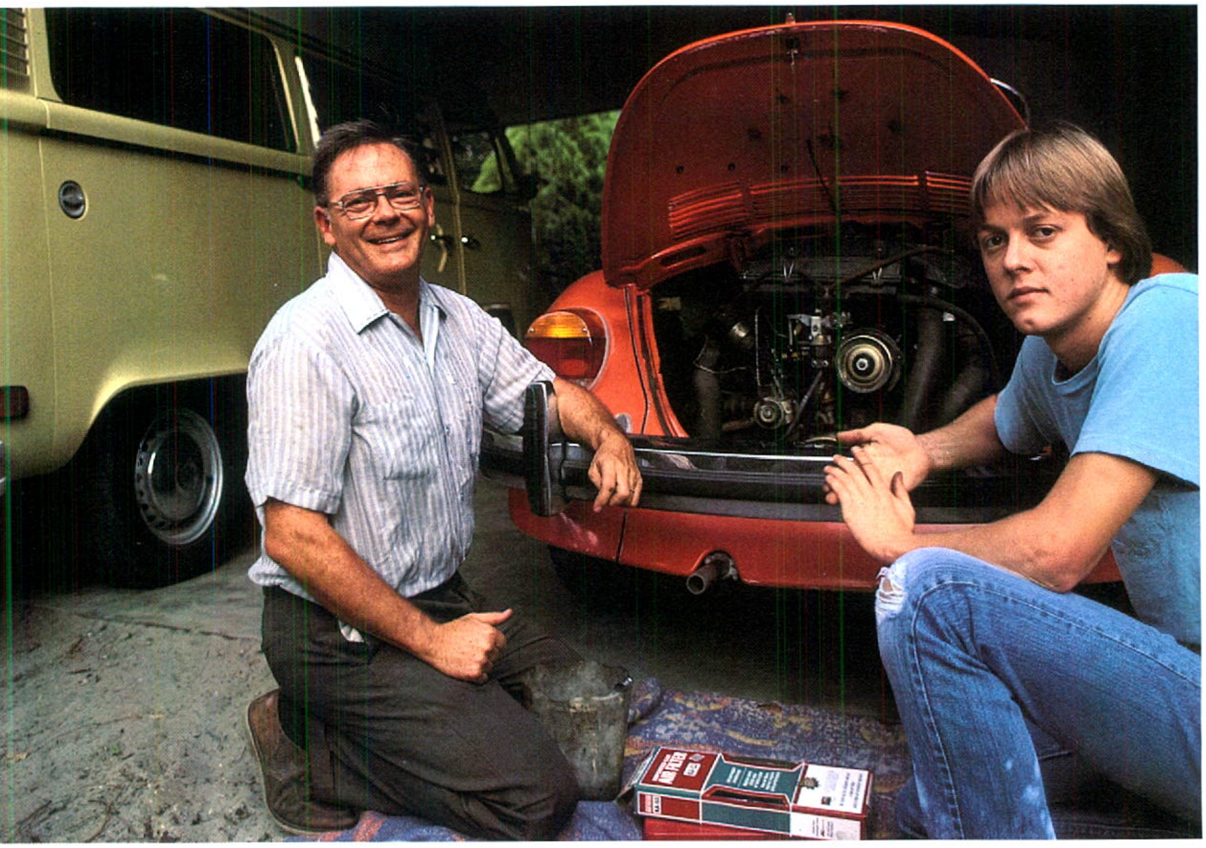
White Stores *(Company-owned)* Sales of the general merchandise retail segment of White Stores declined 8% in 1979. The plan to improve the performance of Whites continued to show progress in 1979 but not to the extend anticipated. Several planned new stores were not opened and others were delayed primarily as a result of the tornado that devastated the city of Wichita Falls, Texas, headquarters for White Stores. Whites was successful in completely remodeling 24 stores in 1979, and a major warehouse located in Jackson, Mississippi, no longer needed, was closed. In 1980 Whites will continue its program of modernizing stores and emphasizing automotive services.

462 White Stores (franchised) in 17 states



As Americans feel the pinch of inflation, especially in the cost of labor, they are opting to perform services themselves rather than hiring professionals. From the teenager who mows lawns for spending money to the father who teaches his son how to tune a car, busy students and workers are appreciating the convenience of quality do-it-yourself materials. White Stores, located primarily in the rapidly growing Sunbelt, are capitalizing on this expanding market with new lawn care equipment and auto supplies.

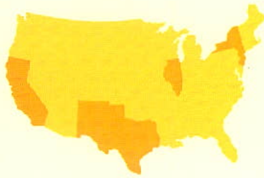
Whites sells its own brand of automotive supplies, including fanbelts, batteries, mufflers, oil, shock absorbers and air filters.



92 White Stores (company-owned) in 8 states

Home Furnishings Despite evidence of some softening of big ticket sales within the industry, the home furnishings division of the retail segment produced a sales increase of 16%, while operating income improved 33% before the LIFO adjustment. Each of the four divisions of the home furnishings business produced solid sales increases with the New Jersey-based Huffman-Koos chain achieving the largest sales and income increase. Its income gain more than doubled the sales gain primarily as a result of its extensive store remodeling program. American Furniture, El Paso, Texas, opened a clearance center during the year, while California-based Barker's opened a new large store, replacing a smaller unit, and will open its 16th store in 1980.

40 home furnishings stores in 6 states



With an improved standard of living, Americans want to furnish their homes fashionably as well as functionally. Customers who shop at any of Household's 40 home furnishings stores and want decorating assistance can utilize the store's design service. Lou Fredrick, senior designer for Chicago's Colby's, says, "People choose our design service because they want professional help with color and balance. I never impose my taste on a client. There's a wealth of design here to suit a variety of tastes, and I always work to do a room that will suit the customer." Mr. Fredrick, who has been with Colby's since 1932, adds, "I've enjoyed my many years with Colby's because they treat me well, like a member of the family."

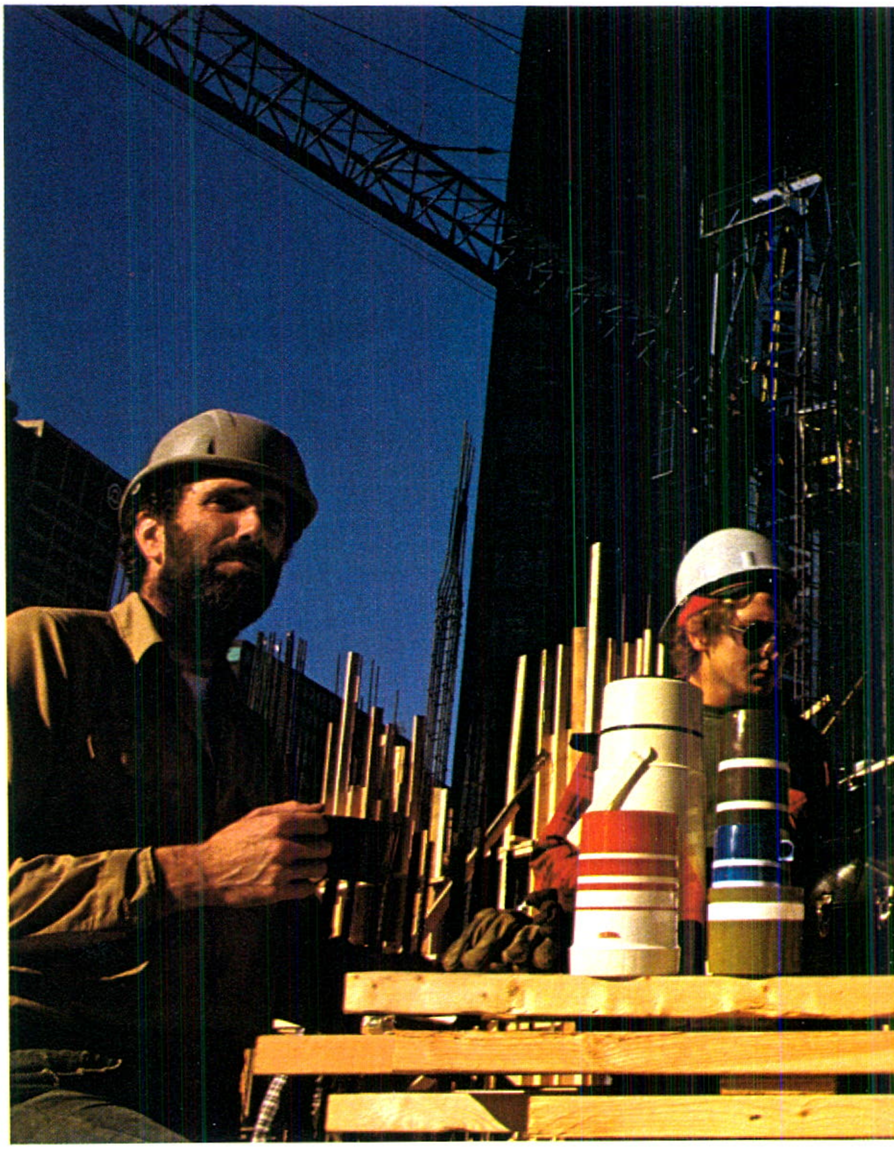
As part of a total rehabilitation program, Huffman-Koos has remodeled four of its 14 stores to feature rooms developed around specific lifestyles. Customers are offered a wide selection of furniture and can wander through the store until they find a room where they feel at home and can say "this is me."

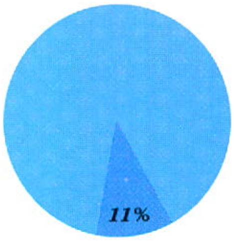
Completed last September, this Springfield, New Jersey store (opposite) has joined the other three remodeled stores in experiencing significant increases in sales and profits.

Products for a Changing World

Results Net sales and revenues of Household's Manufacturing Business increased 6% to $245.6 million, up from $232.2 million in 1978. For the year 1979 management decided to adopt the LIFO method of valuing domestic inventories in view of the impact of inflation and the desirability to more closely match current inventory costs with current revenues. With this change, 1979 results are not comparable with those of prior years. Earnings before *unrealized* foreign exchange gains and losses were $19.6 million in 1979, compared with $21.2 million in 1978. Net income totaled $19.7 million, compared with $21.2 million in 1978. The change to LIFO reduced 1979 net income by $2.4 million.

Results were affected by rapidly escalating material prices and production and supplier problems encountered in the commercial refrigeration operations. During the year operations were discontinued at the Fabricators Division, a small manufacturer of softboard and hardboard products for the automotive industry. This follows Household's policy of continually evaluating the profitability and future of its various businesses. Earnings include a charge of $411,000 associated with the discontinuance of operations at Fabricators and a $668,000 credit for the reversal of previously accrued taxes resulting from a 1979 change in United Kingdom tax legislation.





% of 1979 Earnings

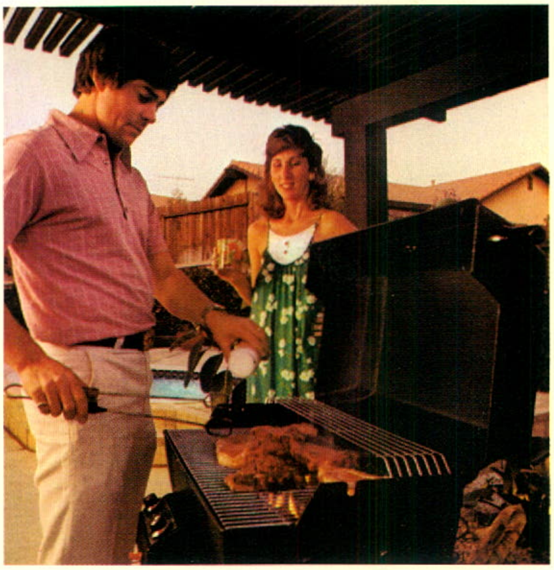
Manufacturing

All amounts are stated in millions.	1979	1978	1977	1976	1975	Percent of Total Net Sales 1979	1978	1977	1976	1975
Net Sales by Product Class:										
Outdoor Living	**$121**	$111	$101	$ 95	$ 86	**49%**	48%	48%	46%	51%
Commercial Refrigeration	**76**	74	64	62	48	**31**	32	31	30	28
Industrial	**49**	47	44	49	36	**20**	20	21	24	21
Total Net Sales	**246**	232	209	206	170	**100**	100	100	100	100
Income before Taxes on Income	**35**	41	37	38	26	**14.2**	17.6	17.8	18.3	15.4
Net Income	**20***	21	19	18	13	**8.0**	9.1	9.2	8.9	7.7
Earnings before *unrealized* foreign exchange gains and losses	**20***	21	19	19	14	**8.0**	9.1	9.0	9.4	8.0

For additional industry segment information regarding 1979, 1978 and 1977, refer to pages 38 and 39.

*Adoption of LIFO in 1979 reduced net income by $2.4 million. See Summary of Significant Accounting Policies on page 40.

A necessary part of the workday is lunch break. Workers can enjoy a piping hot cup of coffee or mug of soup and the convenience of having it on hand by carrying their Thermos® vacuumware.



More than ever Americans are taking to the ski slopes. Like so many other organizations and institutions that must carry first aid kits in their line of work, the National Ski Patrol uses Thermos® emergency blankets for their flexibility up to —60°F and ability to reflect radiated body heat.

With increased leisure time, American workers are finding more spare-time activities to pursue. Whether they're entertaining the boss, friends or family, Americans enjoy their food, especially when it's cooked over a Structo® gas or charcoal grill.

Outdoor Living Products Leisure time product sales increased 9% to $120.6 million.

The Thermos Division's school lunch kit program featuring popular children's characters was again very successful, and the Touch Top® vacuum beverage servers achieved significant market growth. In expectation of continuing increases in petro-chemical and energy costs, the division initiated cost reduction programs in all product areas. In 1980, the Go Stopper®, a vacuum beverage server with a pour-thru stopper, is planned. Consumer advertising is expected to improve distribution of such products of the Metallized Products Division as the Even-Up® Tanning Blanket and emergency and sportsman's blankets.

The Structo Division achieved major gains in the fast-growing gas barbeque grill industry with the introduction of several new models in 1979. Structo is anticipating record sales in 1980 with the continued introduction of new products featuring improvements which emphasize convenience and safety.

Thermos Limited, the United Kingdom subsidiary, made gains despite soft market demand, a national trucking strike and a strong British pound which increased prices in export markets. The complete vacuumware line underwent major changes in the beginning of 1979, and a new server and food flask with a plastic liner were introduced.

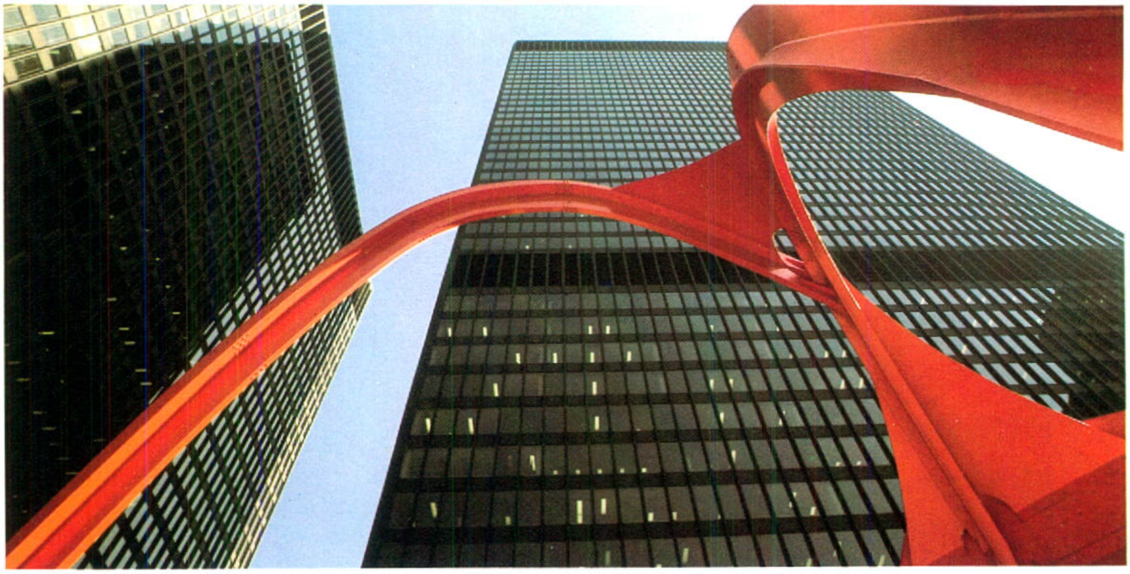
Canadian Thermos Products Limited achieved excellent results with increased sales of the Even-Up® Tanning Blanket and a newly designed picnic jug. In 1980 a Canadian version of the popular Sun Packer insulated chest is planned.

Commercial Refrigeration Products

The company initiated construction of a new 172,000 square foot manufacturing plant in South Carolina for support of new commercial Scotsman® ice equipment products. The facility will be completed in mid-1980 and new products introduced soon thereafter. Additionally, during the year Scotsman introduced a new flaked ice machine that is 40% more energy-efficient than regular cubed ice machines. New mechanized manufacturing equipment received during 1979 and additional research and development programs will assure the continued marketing of products that meet user needs and have strong price/value.

Italian subsidiary Frimont S. p. A. had a record year with commercial Scotsman® ice equipment sales throughout Europe, Africa, the Middle East and China. A new portable home ice machine was successfully introduced in those markets. To meet projected growth, additional manufacturing space will be added to the Frimont facility during 1980.

The Halsey-Taylor Division introduced several redesigned electric water cooler models that result in major energy and operating savings for the customer. Additional redesigned models will be introduced in 1980. Significant new manufacturing processes, quality control programs and advertising programs were adopted to further improve the customer acceptance of the product line. Programs for 1980 are directed toward additional improvements in delivery and training of personnel associated with the national network of factory authorized service centers.



With energy at a premium and the desire to make a profit, building developers and owners are looking for energy-efficient products to feature in their buildings.

The world's largest manufacturer of ice machines with a reputation for quality, Scotsman offers a broad line of energy-efficient cubers, flakers, dispensers and ice storage bins for use by fast food chains, educational and health care institutions, hotels, restaurants and employee cafeterias.

Scotsman® ice machines are featured in the employee cafeteria at the corporate headquarters of Baxter Travenol Laboratories, Inc.

Halsey-Taylor has designed this combination drinking fountain for regular use and use by the handicapped.

Halsey-Taylor, another leader in commercial refrigeration, offers top-of-the-line drinking fountains and water coolers known for their reliability and durability among plumbers, architects, and mechanical engineers.

Industrial Products Albion Industries Division had a record year in sales and earnings and successfully introduced several new caster products serving the material handling industry.

The Almco Division had an excellent year with increased sales of metal finishing systems, liquid filtration systems and gray iron castings.

The King-Seeley Division initiated major expansion of research and development facilities and personnel in support of plans for the introduction of new electronic appliance control devices.

Growth of the Metallized Products Division continued in 1979 with the installation of a third metallizer for the division's electron-beam coating facilities. With subsequent increased production, the integrated design of these manufacturing components provides the division with the unique opportunity to supply vacuum metallized films and papers, which serve as high quality substitutes for aluminum foil products, to the packaging, insulation, and graphic arts markets.

Busy Americans, especially singles, women employed outside the home, and single parents, are searching for ways to make their lives simpler. For their convenience in preparing meals, microwave ovens appeal to those who have homemaking as well as job responsibilities. This Amana Radarange features King-Seeley controls: the probe (right knob), which is used to sense the temperature of the food, and the power level (left lever), which is used to determine the correct cooking speed. King-Seeley manufactures other quality control mechanisms for the cooking appliance industry.

Economy Engineering has been manufacturing and selling the Hi-Jacker® since 1937. Albion casters are an integral part of this elevating work platform that lifts operators to a maximum height of 25 feet for all types of overhead work.

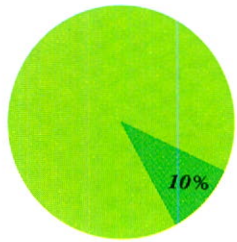
A Nation on the Move

Results National Car Rental System, Inc. achieved revenue growth of 19% to $310.8 million in 1979 with an increase in net income of 10% to $17.6 million.

As has been true in prior years, most of this increase came from the car rental business. Discount air fares and a sharp increase in the number of air travelers, both business and leisure, helped National achieve record reservation activity and fleet size.

Fuel costs and availability presented a major challenge as energy shortages produced higher costs for car rental operators and greater difficulty in maintaining sufficient supplies of fuel. Concerns about energy were also reflected in the used car market, which slowed considerably during the year, creating an adverse effect on National's net income.

The car leasing and truck rental and leasing divisions of Lend Lease showed increases in revenue as the market for leasing expanded.



% of 1979 Earnings

With the average cost of owning and operating a car almost 40¢ per mile, the concept of fly/drive, with its convenience and efficiency, is experiencing a new growth in today's energy-scarce society.

Transportation

All amounts are stated in millions.		1979	1978	1977	1976	1975
Continuing Operations	Revenues	**$ 311**	$ 262	$ 201	$ 174	$ 155
	Income before Taxes on Income	**31.1**	29.1	24.8	15.0	0.3*
	Household's Equity in Income	**17.6**	16.1	14.0	8.8	5.3*

*The 1975 income before taxes on income was after recognition of provisions of $2.2 million of additional depreciation and $1 million of other costs and losses applicable to the Truck Division. Household's 1975 equity in income included investment tax credits of approximately $3.7 million realized by the Transportation Business and tax benefits resulting from the realization of pre-1973 net operating loss carryforwards of approximately $1.4 million.

National emphasizes car condition and maintenance while increasing the number of fuel-efficient cars in its fleet. This is particularly attractive to the business traveler who accounts for 90% of National's business, and to families, who, because they are driving their own cars longer, prefer to rent newer, more reliable vehicles for vacation trips. Statistics show that less than 10% of the U.S. population has ever rented a car, leaving a large leisure market to be served by National.

Car Rental National continued to experience gains in both the business and leisure travel areas. While the energy shortage pointed out the benefits of car rental, especially in terms of fuel efficiency and ease of travel when combined with air transportation, it also produced higher costs for car rental operators and greater difficulty in maintaining sufficient supplies of fuel.

National continued to promote the fuel efficiencies of fly/drive transportation and to increase the number of economy and compact cars in its 40,000 car fleet.

Vehicle maintenance became even more important to National and its renters in 1979, and the company continued its emphasis on preventive maintenance and its Maintenance Check-List, a tag which certifies in writing that 10 items important to the customer's safety, comfort and convenience have been checked by a service agent prior to rental.

International growth was strong in 1979, as National and its affiliates worked to expand their share of the car rental market around the world. At the end of 1979, National was represented in more than 90 countries and territories.

Fleet leasing by corporations is becoming an increasingly popular alternative to vehicle ownership. Many companies are finding that leasing affords them a convenient and cost-effective way of providing their field sales forces with cars. With a fleet size of 24,000 cars, Lend Lease is experiencing growth by making inroads in the large fleet business and by offering high quality service.

Lend Lease Lend Lease's car leasing and truck rental and leasing divisions experienced growth as more and more businesses took advantage of the cost and service benefits of leasing.

The car leasing division experienced substantial growth in its fleet size, up 20% from 1978. The division continued to expand its computerized fleet management programs, offering clients new and improved reporting and better methods of analyzing their fleet costs.

The truck division's emphasis on premium equipment gave Lend Lease a marketing edge during the year, as customers realized greater fuel savings and operating performance of their vehicles. The premium equipment also brought Lend Lease a greater vehicle resale value. Additionally Lend Lease continued to offer a miles-per-gallon fuel guarantee which customers found very attractive.

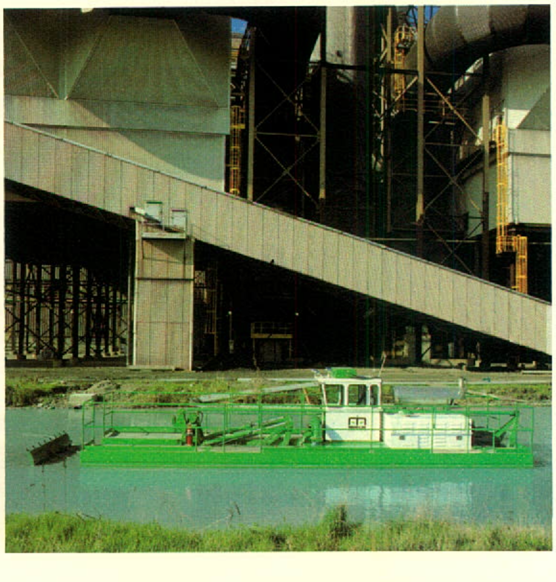
Twenty-four hours a day, Lend Lease trucks are on the road, transporting goods to their destination for use by workers and consumers all across the nation.

Lend Lease with 4,000 trucks in its fleet, encourages energy-efficient travel by offering customers a fuel guarantee. Confident that its trucks have been designed and equipped with the most fuel-efficient components and that they are well maintained, Lend Lease guarantees customers a specified mileage rate or will absorb the cost differential.

The newest member of the Household family, Wien Air Alaska, Inc., is Alaska's oldest and largest air carrier of passengers, freight and mail within the state. Federally authorized as a local air carrier over a route system exceeding 10,000 miles to 150 points in the state, Wien flies over 600,000 business and tourist passengers annually; cargo operations carry Alaska's seafood produce southbound and transport groceries and supplies northbound.

Mud Cat National redesigned its Mud Cat portable sediment removal system in 1979 and introduced several variations of the machine, which helped to develop new marketing opportunities. Mud Cat continued to find new applications for the system in cleaning up lakes, streams and industrial settling ponds and reclaiming minerals.

With concern for the environment and energy for tomorrow, Mud Cat continues to be used to maintain efficient use of industrial settling ponds by removing sludge and recovering valuable minerals and coal for future use.

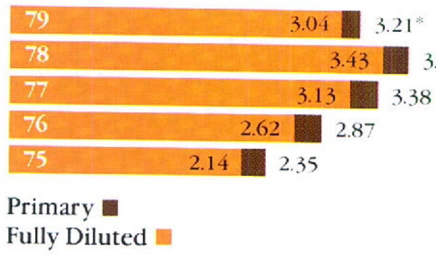


Financial Review

Earnings

For the year 1979, earnings before *unrealized* foreign exchange gains and losses were down 11% to $155.8 million, equivalent to $3.04 per common share on a fully diluted basis. After *unrealized* foreign exchange gains and losses, net income increased 5% to $161.2 million, or $3.15 per common share on a fully diluted basis. The change to the last-in, first-out (LIFO) method for valuing inventories reduced net income by $16.9 million, or 33¢ per common share on a fully diluted basis.

Earnings per Common Share
in dollars



Based on earnings before *unrealized* foreign exchange gains and losses.

*Adoption of LIFO in 1979 reduced earnings by 37 cents per primary share and 33 cents per fully diluted share.

Unrealized Foreign Exchange Gains and Losses

Because of HFC's large net asset investment exposed to Canadian exchange rate fluctuations, changes in the Canadian dollar exchange rate can generate significant *unrealized* foreign exchange gains and losses. The Canadian dollar exchange rate increased from 84.35 cents at December 31, 1978 to 85.70 cents at year-end 1979, compared with a drop in the Canadian dollar exchange rate from 91.42 cents to 84.35 cents in 1978. Household continues to believe that earnings before *unrealized* foreign exchange gains and losses represent more accurately the results of the Corporation as these *unrealized* gains and losses have no current impact on cash flow and their ultimate realization is highly uncertain. Because of widespread dissatisfaction with the accounting pronouncement adopted in 1976, which required for the first time that *unrealized* foreign exchange gains and losses be included in reported net income, the Financial Accounting Standards Board is continuing to review the pronouncement and consider possible revisions to it.

Change in Inventory Valuation Method

The Corporation elected to change its accounting policy for valuing domestic inventories to the LIFO method for the year ended December 31, 1979. The purpose of the change in method is to more closely match current inventory costs with current revenues, which results in reporting of cost of goods sold that is more closely based on recent prices. Household and many other large corporations have found this to be particularly important and in the best interest of shareholders in these times of acute inflation and with the projection that inflation will continue at high levels. LIFO will also be used for income tax purposes and therefore will provide significant cash flow benefits through the reduction of tax payments and interest savings generated through corresponding reductions in borrowing.

The change to LIFO reduced the Corporation's 1979 reported net income by $16.9 million, or 33¢ per fully diluted share. If this change in accounting had not been made, Household would have reported earnings before *unrealized* foreign exchange gains and losses of $172.7 million, or $3.37 per fully diluted share. Household's inventories are in its Merchandising and Manufacturing businesses. The change in method reduced reported 1979 net income in Merchandising and Manufacturing by $14.5 million and $2.4 million, respectively. Under Household's previous inventory methods, markdowns and other general valuation reserves were recorded to assure that inventories were conservatively stated at the lower of cost or recoverable value. Such reserves are generally not allowable under LIFO as inventories are carried in the balance sheet at amounts which are, on an overall basis, substantially lower than recoverable value. If the necessary reversal of these reserves had not been made, the full first year impact of adopting LIFO would have been a reduction of Household's income by $23.8 million and corresponding reductions of Merchandising and Manufacturing income by $19.5 million and $4.3 million, respectively. In the future, the effect of adopting LIFO on income will be dependent on inventory levels and the rate of inflation which Household's businesses experience. Both the Merchandising Business and Manufacturing Business would have reported gains in net income for 1979 if the change to LIFO had not been made.

Financial Reporting and Changing Prices

Inflation is one of the most pervasive problems facing the United States today; it curbs the real income and purchasing power of individual consumers and masks the real level of growth of business and the economy.

Inflation affects the profitability of the Corporation through increases in prices of energy, raw materials, services and labor and through the higher cost of borrowing funds required to finance the Corporation's operations and growth.

Household's management is seeking ways to cope with the impact of inflation. Adoption of the LIFO method for valuing inventories in 1979 improved cash flow and will more closely match current costs to current revenues.

In September 1979, the Financial Accounting Standards Board issued Statement No. 33, Financial Reporting and Changing Prices, which requires companies to provide supplementary disclosure of unaudited data intended to measure the impact of inflation. The standards for reporting historical cost/nominal dollar information in the financial statements are not changed, but supplemental financial data on both a constant dollar and a current cost basis are provided for the reader's analysis on pages 61 through 63.

Readers are cautioned against making unwarranted comparisons and inferences in examining these supplemental data. The information attempts to quantify many new concepts and is experimental in nature. A substantial amount of subjectivity and simplification has been used. Since financial statement users live in a world of nominal dollars—stock prices, dividends, interest and cash flows—these statements may hold more meaning for the theoretical economist.

Financings

The Corporation reduces the impact of short-term interest rate fluctuations by its policy of attempting to maintain approximately 75% of its Finance Business debt in the form of long-term borrowings. During 1979 short-term debt increased significantly to accommodate the rapid expansion of the Finance Business. A number of factors influenced the decision to allow a temporary increase in the ratio of short-term debt to total debt. These include the historically high interest rate level of the long-term debt market as well as the short-term nature of the purchased vehicle contracts which represented a significant portion of the 1979 receivables growth. Importantly, approximately 40% of these contracts were acquired on a floating rate basis which protects the Corporation's yield from interest rate fluctuations.

At year-end 1979, borrowings of the Corporation and its consolidated finance subsidiaries totaled $4 billion. Of this, $2.4 billion, or 59%, represented long-term borrowings, while short-term borrowings represented $1.6 billion, or 41%.

The average interest rate on all of Household's borrowings was 8.8% in 1979, compared with 7.5% in 1978. The average short-term interest rate in 1979 was 11.4%, compared with 7.9% in 1978.

In June 1979 Household completed the sale to the public of $100 million of 25-year senior subordinated debentures at an interest rate of 9⅝%. The senior long-term obligations continue to enjoy the high-quality ratings of "AA," "AA" and "Aa" given by Standard and Poor's Corporation, Fitch Investors Service, Inc. and Moody's Investor Service, Inc., respectively.

The Corporation satisfies most of its short-term money needs through the sale of commercial paper. These same rating agencies have accorded their highest commercial paper ratings of "A-1," "F-1" and "P-1," respectively, to Household's commercial paper. Lines of credit, totaling $1.2 billion, are maintained with 160 major domestic and international banks to support commercial paper borrowings.

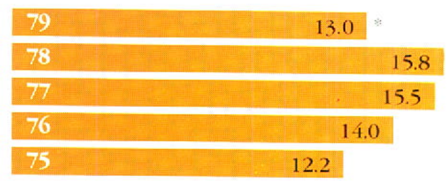
The Corporation schedules its long-term debt maturities so as to permit payback of the full amount of its currently outstanding short-term debt plus its currently maturing long-term debt in any given year from normal cash flows. In 1979, funds provided by Finance Business collections and operations totaled $2 billion while debt repayable in one year was $730.9 million. In 1978, funds provided by collections and operations were $1.8 billion, while debt repayable in one year was $668 million.

Return on Shareholders' Equity

Earnings from consolidated operations, before *unrealized* foreign exchange gains and losses, expressed as a percent of average consolidated shareholders' equity, decreased from 15.8% in 1978 to 13.0% in 1979. Significantly higher interest expense resulting primarily from higher short-term interest rates and a change to the LIFO method for valuing inventories contributed to the decline. Without the impact of the change to LIFO, the 1979 return on equity would have been 14.3%.

Management believes that return on equity is a meaningful performance measure for a corporation as it encompasses both asset management and capital structure. It takes all facets of the business into account in measuring the combined success of operations management through operating income and financial management through interest, taxes and leverage. It is Household's objective to achieve a 15% return on equity funds invested. This necessitates a careful allocation of asset resources and management of liabilities and dedication to overall expense control. The decision to change the method of valuing domestic inventories will make it more difficult over the next few years to meet the Corporation's objectives for return on equity. The cash benefits of such a move and the more accurate reporting, however, are in the shareholders' best interests.

Return on Shareholders' Average Book Equity
Consolidated (%)



Based on earnings before *unrealized* foreign exchange gains and losses

*Adoption of LIFO in 1979 reduced earnings by $16.9 million.

Dividends

The 1979 payout percentage for preferred and common stock dividends declared was 49% of total 1979 earnings before *unrealized* foreign exchange gains and losses. Dividend payouts are based on earnings before *unrealized* foreign exchange gains and losses since such gains and losses do not impact funds available for dividend payments.

The 1979 payout percentage was significantly affected by the change to LIFO, which has the effect of reducing reported earnings. The change also substantially benefits the corporation's cash flows and will not impair Household's ability to continue its 27-year record of higher annual cash dividend payments to the common shareholders.

During the past five years, the average annual compounded growth rate of Household's common stock cash dividends has been 9%. This increase compares favorably with the 8% average annual compounded increase in the Consumer Price Index over the same period.

Dividends per Common Share
in dollars

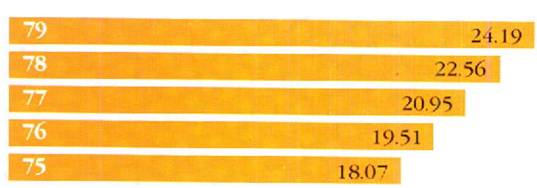
Rate at Year End ■
Declared During Year ■

Shareholders' Book Value at Year End

The annual earnings on shareholders' equity or book value, less dividends paid to shareholders, is reinvested in the Corporation's businesses to support future growth. In 1979 the amount of reinvested earnings was $84.5 million, increasing total shareholders' equity to $1.2 billion.

Shareholders' book value measures value of the shareholders' interest in the Corporation. Although this measure, on a per share basis, may vary from market price, Household believes that increasing book value is a meaningful measure to the shareholders over the long run. Household's book value per common share has increased 34% from $18.07 in 1975 to $24.19 at year-end 1979.

Shareholders' Book Value per Common Share
in dollars



Assumes the conversion of all preferred shares into common shares.

Per Share Market Information

Common Stock

Household Finance Corporation Common Stock is listed on the New York Stock Exchange and Midwest Stock Exchange. It also has unlisted trading privileges on the Boston, Pacific and PBW Stock Exchanges. Call and Put options are traded on the American Stock Exchange.

Common Stock ticker symbol—HFC

Preferred Stock

Household has two classes of preferred stock. The $2.375 and $2.50 Series of Cumulative Convertible Voting Preferred Stock are both listed on the New York Stock Exchange.

Market prices are stated in dollars.

			1979			1978		
			Market Price		Dividends	Market Price		Dividends
		Quarter	High	Low	Paid	High	Low	Paid
Common Stock		1st	19¼	17⅝	$0.3625	19⅜	16⅞	$0.325
		2nd	20⅜	17⅝	0.3625	21⅛	17⅝	0.325
		3rd	22	19½	0.3625	21¾	18¼	0.325
		4th	20⅞	16¾	0.3875	21	16⅞	0.3625
	Total Dividends Paid				$1.4750			$1.3375
$2.375 Convertible Preferred Stock	Shares are convertible into common at rate of 2¼ shares of common for each share of preferred	1st	43	39½	$0.59375	43¼	37⅞	$0.59375
		2nd	43	39½	0.59375	47	39½	0.59375
		3rd	48⅛	43⅝	0.59375	47	41½	0.59375
		4th	46	38	0.59375	46⅛	38⅞	0.59375
	Total Dividends Paid				$2.375			$2.375
$2.50 Convertible Preferred Stock	Shares are convertible into common at rate of 1½ shares of common for each share of preferred	1st	31⅝	29½	$0.625	33	30½	$0.625
		2nd	32¾	28¾	0.625	34¼	30⅝	0.625
		3rd	33½	32	0.625	35½	30½	0.625
		4th	33⅜	27	0.625	34	29	0.625
	Total Dividends Paid				$2.50			$2.50

		1979	1978
Shares Outstanding at December 31	Common	46,298,290	45,853,728
	$2.375 Preferred	615,651	765,177
	$2.50 Preferred	2,356,592	2,360,370
Number of Shareholders at December 31	Common	27,461	25,967
	$2.375 Preferred	2,812	3,183
	$2.50 Preferred	3,284	3,474
	Total	33,557	32,624

Summary of Operations

All amounts other than per share data are stated in millions.

	Year Ended December 31	1979	1978	1977	1976	1975
Income from Finance Business	Revenues	**$836.1**	$738.1	$676.8	$577.2	$526.8
	Expenses	**709.0**	570.0	505.4	423.9	382.4
	Income Before Unrealized Foreign Exchange Gains (Losses) and Provision for Taxes on Income	**127.1**	168.1	171.4	153.3	144.4
	Unrealized Foreign Exchange Gains (Losses)	**7.4**	(33.3)	(35.3)	1.3	(9.9)
	Income Before Provision for Taxes on Income	**134.5**	134.8	136.1	154.6	134.5
	Provision for United States and Foreign Taxes on Income	**44.1**	60.4	63.6	71.4	63.8
Income from Finance Business		**90.4**	74.4	72.5	83.2	70.7
Income from Merchandising Business		**57.1***	64.0	52.8	42.0	28.6
Income from Manufacturing Business		**19.7***	21.2	19.2	18.3	13.2
Income from Transportation Business						
	Continuing Operations	**17.6**	16.1	14.0	8.8	5.3
	Discontinued Operations					2.8**
Expense from Corporate Operations		**(23.6)**	(22.5)	(20.0)	(18.7)	(18.3)
Net Income		**161.2***	153.2	138.5	133.6	102.3
Preferred Stock Dividends		**7.5**	8.0	8.6	9.9	12.0
Net Income Applicable to Common Stock		**$153.7***	$145.2	$129.9	$123.7	$ 90.3
Average Common Shares Outstanding	Actual	**46.1**	45.6	44.8	43.2	41.5
	Fully diluted basis	**51.3**	51.2	51.1	51.2	51.0
Earnings Per Common Share	Primary	**$ 3.33**	$ 3.18	$ 2.90	$ 2.86	$ 2.18
	Fully diluted	**3.15***	2.99	2.71	2.61	2.00
Cash Dividends Declared on Common Stock	Total	**$ 69.2**	$ 62.7	$ 56.2	$ 50.3	$ 43.8
	Per Share	**$1.500**	$1.375	$1.250	$1.150	$1.050
Supplementary Information	Had unrealized foreign exchange gains and losses, less related tax effects, been excluded from the determination of net income, net income and related earnings per common share calculated on a fully diluted basis would have been as follows:					
	Net Income	**$155.8***	$175.6	$160.3	$134.2	$109.3
	Per Common Share	**$ 3.04***	$ 3.43	$ 3.13	$ 2.62	$ 2.14

*Adoption of LIFO in 1979 reduced income from Merchandising and Manufacturing businesses by $14.5 million and $2.4 million, respectively, and the Corporation's net income by $16.9 million or $0.33 per fully diluted share. See Summary of Significant Accounting Policies on Page 40.

**Household's equity in the Transportation Business' income from discontinued operations in 1975 was approximately $0.06 per share.

Analysis of Summary of Operations

Finance Business

1979 Compared with 1978

Revenues of the Finance Business represent finance charges on consumer receivables and purchased vehicle contracts, revenues from commercial financing activities, insurance premiums and commission and investment income of the insurance subsidiaries.

Receivables outstanding are the key element in generating revenues for the Finance Business. During 1979 average finance receivables increased $562 million resulting in higher related finance charges and expenses. This increase in average receivables reflects the continued growth of consumer receivables, additional leveraged lease and preferred stock investments and the purchase of vehicle instalment contracts from Chrysler Financial Corporation.

Investment and other income for 1979 increased principally because of an increase in dividend and interest income resulting from increased investments by the insurance subsidiaries and an increase in short-term investment income of the Finance Business. The increased short-term investment income of the Finance Business resulted principally from the temporary investment of excess funds which had been accumulated in anticipation of the purchase of vehicle instalment contracts.

Salaries and fringe benefits increased during 1979 because of higher staffing resulting from increased lending activity and normal compensation rate increases. Other operating expenses increased primarily because of increased lending activity. The provision for credit losses increased during 1979 principally because of the growth in consumer receivables which was substantially higher than in 1978.

The continued growth of consumer receivables, the expansion of commercial lending activities and the addition of purchased vehicle contracts all contributed to the need for increased borrowings during 1979. This, coupled with a rise in interest rates during the year, resulted in an increase in interest expense for 1979, with the most dramatic increase occurring in short-term interest. Of the total increase in short-term interest expense, approximately $37.1 million was the result of a higher average short-term interest rate of 11.4% in 1979, compared with 7.9% in 1978.

Earnings for 1979 included a pretax *unrealized* foreign exchange gain of $7.4 million, which compares with an *unrealized* foreign exchange loss of $33.3 million in 1978. *Unrealized* foreign exchange gains and losses result principally from fluctuations in the Canadian dollar exchange rate. For a more complete discussion of Household's foreign exchange position, see page 30.

The provision for taxes on income represented 32.8% and 44.8% of pretax earnings of the Finance Business for the years 1979 and 1978, respectively. The tax rate for 1979 was reduced principally by additional investment tax credits generated by leveraged leasing activities and by reductions in taxes resulting from additions to insurance policyholders' surplus. The tax rate for 1978 was increased principally by additional taxes resulting from the nondeductible portion of the *unrealized* foreign exchange loss. Note 4 to the financial statements of Household provides additional information.

1978 Compared with 1977

Average receivables increased during 1978, reflecting increased consumer and commercial lending activities which resulted in higher finance charges and operating expenses.

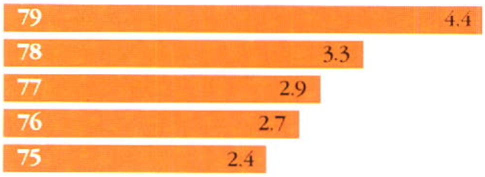
Investment and other income increased principally because of increased investments by the insurance subsidiaries and because of the inclusion of the investment income of Alexander Hamilton Life Insurance Company of America for the full year versus only nine months in 1977.

Salaries and fringe benefits increased during 1978 principally because of employee compensation rate increases. Other operating expenses were up, reflecting the growth in receivables and insurance premiums written, expenses associated with the new Headquarters building which was occupied in 1978 and the inclusion of the operating results of Alexander Hamilton for a full year versus only nine months in 1977. Additionally, 1978 operating expenses included a full year's amortization of acquisition expenses related to a large block of noncredit insurance acquired in the latter half of 1977.

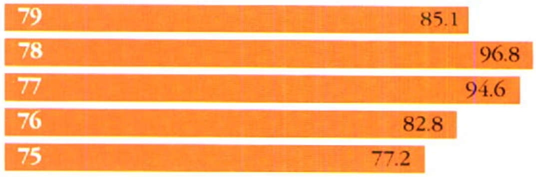
Higher levels of finance receivables outstanding in 1978 and 1977 required increased borrowings which, together with higher average short-term interest rates, resulted in increases in both long-term and short-term interest expense for 1978.

Finance Business

Total Finance Receivables at year end
in billions of dollars



Earnings
in millions of dollars



Based on earnings before *unrealized* foreign exchange gains and losses

Merchandising Business

1979 Compared with 1978
Key elements to the performance of the Merchandising Business are increased sales, maintenance of acceptable gross margins and expense control. Sales and revenues reached $3.9 billion in 1979, up 18% from 1978, the largest sales gains in the company's history. Net income was $57.1 million, down 11% from 1978. The results for 1979 were significantly affected by the company's adoption of the LIFO method for valuing inventories. The change to the LIFO method reduced 1979 income by $14.5 million. Additionally, income was moderated by increased competitive pressure and rising expenses. T. G. & Y., Coast-to-Coast and Huffman-Koos contributed the largest sales and income gains with strong support from Vons. Net income declined in the Ben Franklin Division. Whites, consisting of company-operated and franchised stores, showed improved operating results; however, operating income was not sufficient to offset interest costs. Overall selling space was increased 5%, compared with 3.2% in 1978.

1978 Compared with 1977
Net sales and revenues increased by $465.7 million in 1978, up 16% from 1977, and the ratio of costs and expenses to sales declined because of improved merchandising and expense control. As a result, net income increased $11.2 million, or 21%, compared with 1977. The most significant contributions to these improvements were provided by the Vons supermarket and the T. G. & Y. general merchandise divisions. Increased interest expense was incurred in 1978 because of higher rates and increased borrowings.

Whites improved operations in 1978, but this improvement was not sufficient to offset rising interest costs and a $2 million pretax provision required for planned store closings. The result was a net aftertax loss of $5.1 million in 1978, compared with a loss of $4.6 million in 1977.

Net Sales and Revenues
in billions of dollars

Earnings
in millions of dollars

*Adoption of LIFO in 1979 reduced earnings by $14.5 million.

Manufacturing Business

1979 Compared with 1978
Sales and cost control are key elements to profitable manufacturing results. In 1979 Manufacturing net sales and revenues increased 6% to $245.6 million while earnings before *unrealized* foreign exchange gains and losses decreased 8% to $19.6 million. Net income after *unrealized* foreign exchange gains and losses was $19.7 million in 1979, compared with $21.2 million in 1978.

The primary factor in reduced 1979 earnings was the adoption of the LIFO method of valuing inventories. The change to the LIFO method reduced 1979 earnings by $2.4 million. Additionally, results were affected by rapidly escalating prices for materials and production and supplier problems encountered in the commercial refrigeration operations. Earnings in 1979 include an aftertax provision of $411,000 associated with

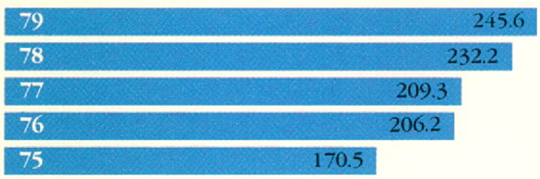
Manufacturing Business

the discontinuance of the Fabricators Division and a $668,000 reduction of income tax expense for the reversal of previously provided deferred tax resulting from United Kingdom tax legislation.

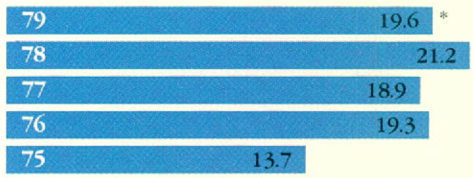
1978 Compared with 1977

Manufacturing revenues and earnings increased 11% and 12%, respectively. Earnings, excluding the effect of *unrealized* foreign exchange gains and losses, were $21.2 million in 1978, compared with $18.9 million in 1977. After recognition of an *unrealized* foreign exchange gain of $300,000, 1977 net income was $19.2 million. The increase in both revenues and income reflected a sharp increase in the commercial refrigeration group, covering both domestic and foreign operations, and the success of new products, such as the barbeque gas grill line and the Even-Up® Tanning Blanket. The increase in full-year operating results was partially impaired by a four and one-half month work stoppage at the Thermos Division Macomb plant. In spite of this work stoppage, which was settled in late November, Manufacturing's return on shareholders' average equity was 18%, the same as in 1977.

Net Sales and Revenues
in millions of dollars



Earnings
in millions of dollars



Based on earnings before *unrealized* foreign exchange gains and losses

*Adoption of LIFO in 1979 reduced earnings by $2.4 million.

Transportation Business

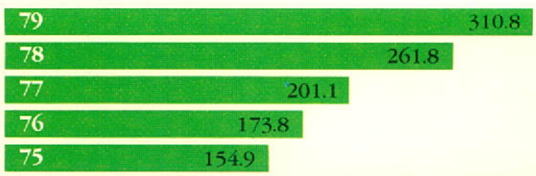
1979 Compared with 1978

The Car Rental Division continued to contribute the major portion of earnings in 1979 with car leasing activity recording significant gains. Revenue growth reflected increased air travel with resultant gains in both National's business and leisure car rentals. The Car Leasing Division experienced substantial growth in its fleet size, up 20% from last year. The car rental fleet is financed principally with short-term debt resulting in significant increases in interest expense in 1979. Gains on disposal of vehicles continued to be a key factor of profitability. In 1979 gains on disposal of vehicles decreased significantly from 1978 because of a slow used car market.

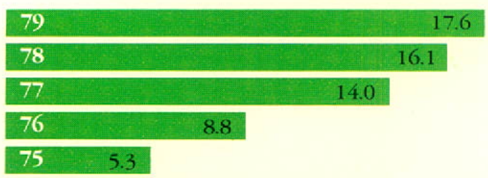
1978 Compared with 1977

The Car Rental Division contributed the major portion of the improved results in 1978 with revenue gains in business travel, especially large commercial account sales, and also in leisure travel. Reservation activity continued to increase with significant gains in referrals from travel agencies and airlines. Correspondingly, fleet sizes and rental check-ins increased to new record levels. The market for used vehicles was also very strong in 1978 with a significant increase over 1977 in gains on disposal of vehicles.

Revenues from Continuing Operations
in millions of dollars



Household's Income from Continuing Operations
in millions of dollars



Segment Information

All amounts are stated in millions of dollars.

	Industry Segment	Identifiable Assets			Net Sales and Revenues			Operating Profit		
	Year Ended December 31	1979	1978	1977	1979	1978	1977	1979*	1978	1977
Finance (Note 6)		**$4,815.1**	$3,710.9	$3,317.0	**$ 835.5**	$ 737.0	$ 675.9	**$126.5**	$167.0	$170.5
Merchandising	**Retail:**									
	General merchandise	**621.0**	561.9	484.7	**1,582.4**	1,350.5	1,148.5	**70.5**	74.8	63.7
	Supermarkets	**286.9**	236.3	193.6	**1,473.4**	1,193.0	975.1	**35.6**	38.2	26.9
	Home furnishings	**67.5**	64.3	60.5	**142.3**	122.3	107.4	**10.2**	8.4	6.3
	Total retail	**975.4**	862.5	738.8	**3,198.1**	2,665.8	2,231.0	**116.3**	121.4	96.9
	Wholesale:									
	General merchandise	**222.6**	181.2	179.5	**720.7**	646.8	615.9	**23.0**	31.6	34.3
	Total Merchandising	**1,198.0**	1,043.7	918.3	**3,918.8**	3,312.6	2,846.9	**139.3**	153.0	131.2
Manufacturing	Outdoor living products	**91.1**	76.1	66.5	**120.6**	111.1	100.7	**14.4**	17.2	17.0
	Commercial refrigeration products	**50.4**	44.0	39.2	**76.4**	74.3	64.3	**17.2**	20.4	17.8
	Industrial products	**23.2**	24.1	24.2	**48.6**	46.8	44.3	**7.0**	5.1	3.5
	Total Manufacturing	**164.7**	144.2	129.9	**245.6**	232.2	209.3	**38.6**	42.7	38.3
Transportation		**477.9**	417.7	337.4	**310.8**	261.8	201.1	**59.5**	49.6	38.3
Combined Businesses		**$6,655.7**	$5,316.5	$4,702.6	**$5,310.7**	$4,543.6	$3,933.2	**$363.9**	$412.3	$378.3

*Beginning in 1979 the Merchandising and Manufacturing businesses adopted the LIFO method of valuing domestic inventories. This change reduced operating profits of the Merchandising Business' retail general merchandising, supermarkets, and home furnishings, and wholesale general merchandising segments by $18.2, $5.5, $1.0, and $3.9 million, respectively, and of the Manufacturing Business' outdoor living, commercial refrigeration, and industrial products segments by $3.6, $0.6, and $0.5 million, respectively. See Summary of Significant Accounting Policies on page 40.

1. Description of Segments

The Finance Business is considered by management to be a dominant industry for segment reporting purposes.

The Merchandising Business includes both retail and wholesale merchandising. Within the retail segment, it operates stores characterized as general merchandising, supermarkets, and home furnishings. In the wholesale segment, its operations offer a wide selection of general merchandise to franchisees for their subsequent resale to consumers. The Merchandising Business has no significant foreign operations, export sales, or individual customer dependency.

The Manufacturing Business produces outdoor living and commercial refrigeration products as well as other industrial products. Outdoor living products are distributed to customers throughout the world. These products include vacuum bottles, jugs and chests, and barbecue grills. Commercial refrigeration products include automatic ice machines and electric water coolers.

The Transportation Business is engaged primarily in the renting and leasing of cars and trucks.

Intersegment and intergeographic transactions are insignificant.

2. Depreciation and Amortization and Capital Expenditures

	Depreciation and Amortization			Capital Expenditures		
	1979	1978	1977	1979	1978	1977
Finance	**$ 6.7**	$ 6.2	$ 4.7	**$ 6.3**	$ 16.9	$ 13.8
Merchandising:						
Retail:						
General merchandise	**14.2**	13.2	13.4	**43.7**	26.4	12.3
Supermarkets	**12.9**	10.7	9.4	**50.3**	32.1	31.5
Home furnishings	**1.6**	1.5	1.5	**3.5**	1.3	0.9
Total Retail	**28.7**	25.4	24.3	**97.5**	59.8	44.7
Wholesale—General merchandise	**4.5**	4.4	4.2	**8.9**	9.5	7.2
Total Merchandising	**33.2**	29.8	28.5	**106.4**	69.3	51.9
Manufacturing:						
Outdoor living products	**4.3**	3.6	3.2	**4.5**	4.3	4.2
Commercial refrigeration products	**1.2**	1.0	0.7	**2.7**	1.4	0.8
Industrial products	**1.1**	1.1	0.9	**1.3**	1.6	1.6
Total Manufacturing	**6.6**	5.7	4.8	**8.5**	7.3	6.6
Transportation	**69.4**	47.0	36.1	**110.5**	111.6	94.1
Combined Businesses	**$115.9**	$88.7	$74.1	**$231.7**	$205.1	$166.4

Capital expenditures for the Transportation Business include $94.8, $102.8 and $87.8 million for 1979, 1978 and 1977, respectively, which represent the net purchases of revenue-earning assets acquired during such years. Capital expenditures of the Merchandising Business include $42, $17.6 and $8.7 million for 1979, 1978 and 1977, respectively, for property and equipment acquired under capitalized leases which do not require substantial immediate outlays of cash as rental payments are made over the life of such leases.

	Geographic Area	Identifiable Assets			Net Sales and Revenues			Operating Profit		
		1979	1978	1977	**1979**	1978	1977	**1979***	1978	1977
Finance	United States	**$4,121.8**	$3,092.8	$2,694.6	**$ 701.2**	$ 610.5	$ 545.0	**$111.8**	$141.3	$133.1
	Canada	**569.8**	543.5	573.0	**110.9**	113.0	121.7	**14.0**	24.3	36.9
	Other	**123.5**	74.6	49.4	**23.4**	13.5	9.2	**0.7**	1.4	0.5
	Total Finance	**4,815.1**	3,710.9	3,317.0	**835.5**	737.0	675.9	**126.5**	167.0	170.5
Merchandising	United States	**1,198.0**	1,043.7	918.3	**3,918.8**	3,312.6	2,846.9	**139.3**	153.0	131.2
Manufacturing	United States	**129.5**	112.5	104.5	**199.1**	192.9	175.0	**28.0**	34.3	30.9
	Europe and Canada	**35.2**	31.7	25.4	**46.5**	39.3	34.3	**10.6**	8.4	7.4
	Total Manufacturing	**164.7**	144.2	129.9	**245.6**	232.2	209.3	**38.6**	42.7	38.3
Transportation	United States	**477.9**	417.7	337.4	**310.8**	261.8	201.1	**59.5**	49.6	38.3
Combined Businesses		**$6,655.7**	$5,316.5	$4,702.6	**$5,310.7**	$4,543.6	$3,933.2	**$363.9**	$412.3	$378.3

3. Operating Profit

Operating profit is equal to total net sales and revenues less operating expenses. Operating profit is computed before general corporate expenses, unrealized foreign exchange gains and losses, interest expense (except for the Finance Business because of the nature of its operations) and taxes on income.

4. Identifiable Assets

Identifiable assets are those assets that are used in the operation of each segment and geographic area. Corporate assets are principally cash, property and equipment, and receivables which are not identifiable by industry segment or geographic area.

5. Reconciliations

Reconciliation of identifiable assets, net sales and revenues and operating profit to amounts shown in financial statements included elsewhere in this report are as follows:

	Identifiable Assets			Net Sales and Revenues			Operating Profit		
	1979	1978	1977	**1979**	1978	1977	**1979**	1978	1977
Finance—As above:	**$4,815.1**	$3,710.9	$3,317.0	**$ 835.5**	$ 737.0	$ 675.9	**$126.5**	$167.0	$170.5
Investments in non-consolidated subsidiaries	**838.8**	766.8	695.9						
Receivables from nonconsolidated subsidiaries	**14.4**	18.7	29.4						
Equity in nonconsolidated finance business subsidiaries				**0.6**	1.1	0.9	**0.6**	1.1	0.9
Unrealized foreign exchange gains (losses)—primarily Canada							**7.4**	(33.3)	(35.3)
Total Finance	**$5,668.3**	$4,496.4	$4,042.3	**$ 836.1**	$ 738.1	$ 676.8	**$134.5**	$134.8	$136.1
Merchandising—As above:	**$1,198.0**	$1,043.7	$ 918.3	**$3,918.8**	$3,312.6	$2,846.9	**$139.3**	$153.0	$131.2
Corporate assets	**16.6**	19.1	12.0						
General corporate expenses							**(4.4)**	(4.4)	(7.3)
Interest expense							**(32.8)**	(26.0)	(23.2)
Total Merchandising	**$1,214.6**	$1,062.8	$ 930.3	**$3,918.8**	$3,312.6	$2,846.9	**$102.1**	$122.6	$100.7
Manufacturing—As above:	**$ 164.7**	$ 144.2	$ 129.9	**$ 245.6**	$ 232.2	$ 209.3	**$ 38.6**	$ 42.7	$ 38.3
Corporate assets	**5.8**	3.5	4.7						
General corporate expenses							**(2.3)**	(1.4)	(1.2)
Interest expense							**(1.4)**	(0.5)	(0.2)
Unrealized foreign exchange gains							**0.1**		0.3
Total Manufacturing	**$ 170.5**	$ 147.7	$ 134.6	**$ 245.6**	$ 232.2	$ 209.3	**$ 35.0**	$ 40.8	$ 37.2
Transportation—As above:	**$ 477.9**	$ 417.7	$ 337.4	**$ 310.8**	$ 261.8	$ 201.1	**$ 59.5**	$ 49.6	$ 38.3
Interest expense							**(28.4)**	(20.5)	(13.5)
Total Transportation	**$ 477.9**	$ 417.7	$ 337.4	**$ 310.8**	$ 261.8	$ 201.1	**$ 31.1**	$ 29.1	$ 24.8

6. Finance Operating Profits

The trend in Finance Business operating profits is impacted by leveraged leasing and other tax benefited investments. Earnings before *unrealized* foreign exchange gains and losses, less related tax effects, for 1979, 1978 and 1977 were $85.1, $96.8 and $94.6 million, respectively.

Summary of Significant Accounting Policies

Basis of Consolidation

The financial statements of Household Finance Corporation (the "Company") include the accounts of the Company and its wholly-owned finance and insurance subsidiaries. Insurance operations are consolidated with the finance operations in recognition of the integral nature and significance of the credit insurance operations. The accounts of certain other Finance Business subsidiaries are not consolidated generally because they are insignificant. Financial statements of the wholly-owned Merchandising (City Products Corporation), Manufacturing (King-Seeley Thermos Co.), and Transportation (National Car Rental System, Inc.) subsidiaries, which are presented following the Company's financial statements, are not consolidated with those of the Company because of the unrelated nature of their operations. Investments in all nonconsolidated subsidiaries are accounted for by the equity method.

Finance Accounting

Finance charges on precomputed interest loans and sales finance contracts are recognized as revenues generally when cash is received (collection basis) using the sum-of-the-digits method (Rule of 78) modified where appropriate to conform to state regulatory laws, except for longer maturity loans secured by real estate on which finance charges are recognized using annual percentage or graduated rate methods. Finance income on simple interest loans, delinquency fees, extension fees, and acquisition charges nonrefundable under state laws are recognized as revenues when cash is received. Discount earned on purchased vehicle contracts is recognized as revenue on the accrual basis of accounting using an effective yield method. Certain operating expenses are also recorded on a cash basis; conversion to a full accrual method of accounting would not materially change the reported financial position and results of operations. Provisions for credit losses are charged to income in amounts sufficient to maintain the credit loss reserves at levels necessary to cover anticipated losses on uncollected receivables. Accounts which are considered uncollectible or which require unwarranted collection costs are written off.

Insurance Accounting

Credit insurance premiums are recognized as revenue over the period at risk in relationship to anticipated claim patterns. Premiums for noncredit risks are recognized as revenue when due. Policy liabilities are established using actuarially derived assumptions of mortality, morbidity, refunds, withdrawals, interest, and future maintenance and settlement expenses. Costs associated with acquisition of insurance risks are deferred and generally amortized in relationship to revenues.

Foreign Currency Translation

Financial statements of foreign subsidiaries denominated in foreign currencies are translated generally in accordance with principles specified in Statement of Financial Accounting Standards No. 8. Foreign exchange gains and losses (realized and unrealized) are included in the statements of income in the periods in which they occur.

Inventories

Inventories are stated at the lower of cost or market. Beginning in 1979, cost for all inventories of the Merchandising Business and for domestic inventories of the Manufacturing Business, which constitute 87% of its inventories, is determined using the last-in, first-out (LIFO) method. The purpose of the change is to achieve a better matching of current costs with current revenues in an inflationary environment. Prior to 1979, cost was determined using the first-in, first-out (FIFO) method, and for certain inventories of the Merchandising Business average cost and retail methods. Under the LIFO method, inventories on hand at close of business on December 31, 1978 became opening inventories for LIFO purposes on January 1, 1979. Accordingly, adoption of LIFO did not change prior year financial statements. The change to LIFO reduced 1979 earnings as follows (millions of dollars except per share data):

Income of Merchandising Business	$14.5
Income of Manufacturing Business	2.4
Net income of Household	$16.9
Per share:	
Primary	$0.37
Fully diluted	$0.33

If the methods previously used had been retained by the Merchandising and Manufacturing businesses, inventories would have been higher than reported by $28.6 and $4.7 million, respectively, at December 31, 1979.

Investments in Securities

Investments in securities are carried at cost or amortized cost, as appropriate. Marketable equity securities, which are held by the insurance subsidiaries, are carried at market if significantly different from aggregate cost.

Property and Equipment and Revenue-Earning Assets

Property and equipment are carried at cost and depreciated over estimated productive lives or terms of the lease using various rates and methods. Revenue-earning assets of the Transportation Business include vehicles on operating leases and held for lease. Depreciation is computed on the straight-line method at rates intended to measure the reduction in market value over the periods vehicles are normally held. Because of the inability to accurately forecast future market values, gains or losses are realized at dates of vehicle disposal and included in the final determination of depreciation. These separately determined items, estimated depreciation provision and ultimate gain or loss on disposal, are considered by management to be inseparable elements of the total depreciation charges. Additional provisions for depreciation are made by the Transportation Business when it appears that depreciation, determined as previously described, does not adequately measure the decline in market value of vehicles intended to be sold in the near future.

Cost of Businesses Acquired

Cost of investments in excess of net assets of businesses acquired prior to October 1970 are not being amortized since management believes there has been no diminution in the value of these investments. These excess costs at December 31, 1979 and 1978 were $8.8 million for the Merchandising Business, $7.9 and $8.9 million, respectively, for the Manufacturing Business, $11.4 million for the Transportation Business, and $108.4 million for the Finance Business, of which $107.5 million is applicable to its investment in the Transportation Business. Excess costs of investments in businesses acquired subsequent to October 1970 are being amortized over periods ranging from 15 to 40 years. The excess costs remaining at December 31, 1979 and 1978 approximated $400 thousand for the Transportation Business and $11.1 and $11.7 million, respectively, for the Finance Business of which $2.4 million is applicable to its investment in the Transportation Business.

Preopening Costs

Costs associated with the opening of finance branch offices, retail stores, and transportation facilities are generally expensed as incurred.

Retirement Plans

The respective businesses have retirement plans covering substantially all employees. Unfunded actuarial liabilities are amortized over periods ranging from 20 to 40 years. Pension costs are funded as accrued. Retirement plan expenses for 1979 and 1978 were $6.6 and $6.1 million, respectively, for the Finance Business, $23.4 and $18.7 million, respectively, for the Merchandising Business, $2.1 and $1.8 million, respectively, for the Manufacturing Business and $800 thousand for the Transportation Business.

Taxes on Income

The Company and its United States subsidiaries (other than certain insurance subsidiaries) file consolidated Federal income tax returns. Portions of the consolidated Federal income tax provision are allocated to the nonconsolidated subsidiaries in amounts generally equivalent to those determinable if each of the nonconsolidated subsidiaries filed separate consolidated returns for their respective businesses. The flow-through method of accounting for investment tax credits is followed, except for investment tax credits generated by Finance Business leveraged leasing transactions for which the deferral method is followed. Deferred income taxes are provided on timing differences between financial and taxable income. Deferred income taxes on timing differences of nonconsolidated nonfinance subsidiaries in excess of pretax financial income of such subsidiaries are recorded by Household.

Earnings per Share

Primary earnings per common share are computed based on the average number of common shares and common stock equivalents outstanding during each year. Fully diluted earnings per common share are determined on the assumption that convertible preferred shares were converted into common shares as of the beginning of each year and that options to purchase common shares were exercised at the beginning of each year or time of issue, if later.

Statements of Income

All amounts other than per share data are stated in millions of dollars.

	Year Ended December 31	1979	1978
Income from Finance Business	Revenues:		
	Finance charges	**$675.3**	$586.5
	Insurance premiums and commissions	**112.6**	108.6
	Investment and other income	**48.2**	43.0
	Total Revenues	**836.1**	738.1
	Expenses:		
	Salaries and fringe benefits	**149.9**	130.6
	Other operating expenses	**134.1**	118.5
	Provision for credit losses	**88.0**	72.8
	Policyholders' benefits	**79.0**	74.5
	Interest:		
	Long-term	**138.7**	118.5
	Short-term	**119.3**	55.1
	Total Expenses	**709.0**	570.0
	Income Before Unrealized Foreign Exchange Gains (Losses) and Provision for Taxes on Income	**127.1**	168.1
	Unrealized Foreign Exchange Gains (Losses)	**7.4**	(33.3)
	Income Before Provision for Taxes on Income	**134.5**	134.8
	Provision for Taxes on Income—Note 4:		
	Current	**1.6**	58.1
	Deferred	**42.5**	2.3
	Total Provision for Taxes on Income	**44.1**	60.4
Income from Finance Business		**90.4**	74.4
Income from Merchandising Business		**57.1***	64.0
Income from Manufacturing Business		**19.7***	21.2
Income from Transportation Business		**17.6**	16.1
Expense from Corporate Operations—Note 7		**(23.6)**	(22.5)
Net Income		**$161.2***	$153.2
Earnings Per Common Share	Primary	**$ 3.33***	$ 3.18
	Fully diluted	**3.15***	2.99

The accompanying Summary of Significant Accounting Policies and Notes to Financial Statements are an integral part of these statements.

*Adoption of LIFO in 1979 reduced income from Merchandising and Manufacturing businesses by $14.5 million and $2.4 million, respectively, and the Company's net income by $16.9 million or $0.33 per fully diluted share. See Summary of Significant Accounting Policies on Page 40.

Balance Sheets

All amounts are stated in millions of dollars.

	December 31	1979	1978
Assets	Cash	$ 29.9	$ 59.2
	Investments in Securities—Note 1	480.5	443.2
	Receivables—Note 2:		
	Consumer (less unearned charges, 1979—$1,015.4; 1978—$782.7)	3,605.3	3,136.8
	Purchased vehicle contracts (less unearned charges, $71.2)	490.9	
	Commercial	277.7	134.2
	Total Finance Receivables	4,373.9	3,271.0
	Less: Credit loss reserves	(157.4)	(134.5)
	Insurance policy and claim reserves applicable to finance receivables	(145.7)	(130.4)
	Finance Receivables—net	4,070.8	3,006.1
	Revolving credit accounts purchased from Merchandising Subsidiaries	72.3	58.4
	Receivables—net	4,143.1	3,064.5
	Investments in Subsidiaries:		
	Merchandising	472.9	439.8
	Manufacturing	133.3	121.6
	Transportation	196.5	192.9
	Other	36.1	12.5
	Total Investments in Subsidiaries	838.8	766.8
	Property and Equipment (less accumulated depreciation and amortization, 1979—$36.2; 1978—$34.7)	58.3	50.3
	Other Assets	117.7	112.4
	Total Assets	$5,668.3	$4,496.4
Liabilities and Shareholders' Equity	Short-Term Debt—Note 3	$1,623.6	$ 698.4
	Accounts Payable and Other Liabilities	255.9	165.6
	Insurance Policy and Claim Reserves—applicable to risks other than finance receivables	199.6	180.1
	Taxes on Income—Note 4	9.1	37.5
	Senior Long-Term Debt—Note 5	2,048.7	2,066.8
	Senior Subordinated Long-Term Debt—Note 5	292.4	194.9
	Shareholders' Equity—Notes 5 and 6	1,239.0	1,153.1
	Total Liabilities and Shareholders' Equity	$5,668.3	$4,496.4

The accompanying Summary of Significant Accounting Policies and Notes to Financial Statements are an integral part of these Balance Sheets.

Statements of Changes in Financial Position

All amounts are stated in millions of dollars.

	Year Ended December 31	1979	1978
Resources Provided	Operations:		
	Net income	$ 161.2	$ 153.2
	Nonfund transactions:		
	Provision for credit losses	88.0	72.8
	Future policyholders' benefits—net increase	54.6	33.2
	Undistributed earnings of nonconsolidated subsidiaries	(49.5)	(70.8)
	Unrealized foreign exchange (gains) losses	(7.4)	33.3
	Depreciation and amortization	6.7	6.2
	Current taxes on income—net increase (decrease)	(45.9)	27.1
	Deferred income taxes	42.5	2.3
	Accounts payable and accrued expenses—net increase	15.4	6.7
	Other—net	(6.5)	(2.3)
	Total Resources Provided by Operations	259.1	261.7
	Collections on receivables (except finance charges and insurance premiums included in net income)	1,724.5	1,567.9
	Total Resources Provided by Operations and Collections on Receivables	1,983.6	1,829.6
	Short-term debt—net increase	925.2	50.8
	Long-term debt issued	117.3	307.1
	Other—net	21.4	10.2
	Total Resources Provided	$3,047.5	$2,197.7
Resources Applied	Loans made and acquired (excluding balances on refinanced contracts)	$2,758.6	$1,925.1
	Revolving credit accounts purchased from Merchandising Subsidiaries	125.0	112.3
	Investments:		
	Securities—net increase	37.3	18.8
	Property and equipment	14.6	17.2
	Nonconsolidated subsidiaries	23.6	
	Long-term debt paid	41.0	25.6
	Cash dividends	76.7	70.7
	Cash—increase (decrease)	(29.3)	28.0
	Total Resources Applied	$3,047.5	$2,197.7

The accompanying Summary of Significant Accounting Policies and Notes to Financial Statements are an integral part of these statements.

Statements of Changes in Shareholders' Equity

All amounts other than share data are stated in millions of dollars.

Amounts	Common Stock	Preferred Stock	Additional Paid-in Capital	Retained Earnings	Total Shareholders' Equity
Balance at January 1, 1978	$135.7	$17.2	$85.5	$831.0	$1,069.4
Net income				153.2	153.2
Cash dividends:					
Preferred				(8.0)	(8.0)
Common—$1.375 a share				(62.7)	(62.7)
Conversion of preferred stock into common	1.4	(1.4)			
Exercise of common stock options	0.1		1.1		1.2
Balance at December 31, 1978	137.2	15.8	86.6	913.5	1,153.1
Net income				**161.2**	**161.2**
Cash dividends:					
Preferred				**(7.5)**	**(7.5)**
Common—$1.50 a share				**(69.2)**	**(69.2)**
Conversion of preferred stock into common	**1.0**	**(1.0)**			
Exercise of common stock options	**0.1**		**1.3**		**1.4**
Balance at December 31, 1979—Notes 5 and 6	**$138.3**	**$14.8**	**$87.9**	**$998.0**	**$1,239.0**

Shares	Common Stock	Preferred Stock $2.375	Preferred Stock $2.50
Balance at January 1,1978	45,292,489	984,365	2,360,684
Conversion of preferred stock into common	493,614	(219,188)	(314)
Exercise of common stock options	67,625		
Balance at December 31, 1978	45,853,728	765,177	2,360,370
Conversion of preferred stock into common	**342,062**	**(149,526)**	**(3,778)**
Exercise of common stock options	**102,500**		
Balance at December 31, 1979—Note 6	**46,298,290**	**615,651**	**2,356,592**

The accompanying Summary of Significant Accounting Policies and Notes to Financial Statements are an integral part of these statements.

Notes to Financial Statements

1. Investments in Securities

Investments in securities at December 31, 1979 and 1978 are summarized as follows (millions of dollars):

	1979		1978	
	Cost	Market	Cost	Market
Marketable equity securities:				
Common stocks	$ 40.3	$43.4	$ 27.0	$ 28.2
Preferred stocks	4.8	4.4	4.8	4.4
Total	45.1	47.8	31.8	32.6
Other:				
Commercial paper	78.1	78.1	90.6	90.6
Term preferred stocks	22.6	20.0	14.7	13.4
Government bonds	86.7	79.6	72.8	71.5
Corporate bonds	112.3	99.1	122.8	113.3
Mortgage loans on real estate	131.0	*	107.4	*
Real estate	4.7	*	3.1	*
Total	435.4		411.4	
Total	$480.5		$443.2	

*Amounts not readily determinable.

Investments were held by insurance subsidiaries except for investments in commercial paper and government bonds of $24.5 and $1.5 million, respectively, at December 31, 1979 and $24.6 and $4.2 million, respectively, at December 31, 1978.

At December 31, 1979, investments in marketable equity securities include gross unrealized gains of $5.3 million and gross unrealized losses of $2.6 million.

Sales of marketable equity securities resulted in net realized gains in 1979 and 1978 of $3.5 and $1.5 million, respectively.

2. Receivables

Receivables at December 31, 1979 and 1978 and related maximum terms were as follows (millions of dollars):

	Amount		Maximum Terms in Months	
	1979	1978	1979	1978
Consumer finance receivables:				
Precomputed interest loans	$2,899.2	$2,533.2	180	180
Simple interest loans	1,058.6	830.2	180	180
Sales finance contracts	662.9	556.1	60	60
Total	4,620.7	3,919.5		
Less unearned charges	1,015.4	782.7		
Total	$3,605.3	$3,136.8		
Purchased vehicle contracts, less unearned charges of $71.2	$ 490.9		49	
Commercial finance receivables	$ 277.7	$ 134.2		
Revolving credit accounts	$ 72.3	$ 58.4	36	48

Contractual maturities of consumer finance receivables at December 31, 1979 were as follows (millions of dollars):

	Total	1980	1981	There-after
Precomputed interest loans	$2,899.2	$ 929.1	$ 708.1	$1,262.0
Simple interest loans	1,058.6	397.3	227.3	434.0
Sales finance contracts	662.9	399.3	177.4	86.2
Total	$4,620.7	$1,725.7	$1,112.8	$1,782.2

It is the experience of the Company that a substantial portion of the existing consumer loans will not be paid to maturity in accordance with initial contractual terms. Therefore, the above tabulation is not to be regarded as a forecast of future cash collections. The ratios of cash collections of principal during the year to the average principal balances outstanding during the year approximated 47% and 50% in 1979 and 1978, respectively.

The Company has purchased from Chrysler Financial Corporation certain vehicle instalment contracts without recourse. Under the terms of this agreement, the Company withheld 10% of the gross receivables as a deferred payment. The deferred payment will be returned to Chrysler Financial as the receivables are liquidated. The Company may, at its option, charge defaulted obligations against this deferred payment. At December 31, 1979, the deferred payment amounting to $56.2 million is included in Accounts Payable and Other Liabilities. Under the terms of the vehicle contract purchase agreement, the Company is committed through September 1982 to purchase additional vehicle contracts offered for sale by Chrysler Financial at their option provided, however, that the net cash advanced after each such purchase does not exceed $500 million on any date. The Company has the right to terminate the agreement upon ninety days' written notice. Contractual maturities of purchased vehicle contracts at December 31, 1979 were as follows: 1980, $297.5 million; 1981, $201 million; and, thereafter, $63.6 million. Experience has shown that a substantial portion of vehicle contracts are paid before maturity.

Commercial finance receivables consisted principally of privately negotiated investments in

2. Receivables (continued)

leveraged leases and limited-term preferred stocks. Investments in preferred stocks are included in commercial receivables in recognition of the mandatory redemption features. Commercial receivable revenues, previously reported as investment and other income, are classified as finance charges in the accompanying statements of income.

The Company participates in an ongoing program of purchasing an undivided interest in the revolving credit accounts of its merchandising subsidiaries. The Company charges a discount which is calculated to cover its applicable costs, principally interest. This discount, which in 1979 and 1978 amounted to $5.7 and $5.2 million, respectively, is included in finance charges. These revolving credit accounts had a weighted average remaining maturity of 22 months at December 31, 1979 and 1978.

3. Short-Term Debt

Short-term debt data for 1979 and 1978 were as follows (millions of dollars):

	Average Borrowings		Outstanding at December 31: Balance of Borrowings		Outstanding at December 31: Weighted Average Interest Rates	
	1979	1978	**1979**	1978	**1979**	1978
Commercial paper	**$ 830.0**	$505.5	**$1,365.6**	$493.5	**13.7%**	10.1%
Master notes	**182.6**	168.5	**213.5**	177.0	**12.7**	10.2
Bank and other borrowings	**18.1**	12.1	**44.5**	27.9	**16.2**	10.8
Total	**$1,030.7**	$686.1	**$1,623.6**	$698.4	**13.7%**	10.2%

The maximum aggregate short-term debt outstanding at the end of any month was $1,746.4 and $709.1 million during 1979 and 1978, respectively. Weighted average interest rates on average aggregate short-term debt outstanding excluding costs of maintaining lines of credit during 1979 and 1978 were 11.4% and 7.9%, respectively.

The Company has lines of credit with various banks, which at December 31, 1979 and 1978 amounted to $1,237 and $554.9 million, respectively, of which $1,172.8 million was unused at December 31, 1979. To support the availability of these lines, the Company pays commitment fees, maintains compensating balances or utilizes a combination of both. Borrowings under these lines require either a compensating balance of 10% or a surcharge which varies with the prime rate. At December 31, 1979 and 1978 compensating balance requirements totaled $21.9 and $28.3 million, respectively, and annual commitment fee requirements totaled $3.5 and $1.1 million, respectively.

4. Taxes on Income

The provisions for taxes on income resulted in effective tax rates differing from the statutory Federal income tax rate of 46% in 1979 and 48% in 1978. Reconciliations between these rates follow:

	1979	1978
Statutory Federal income tax rate	**46.0%**	48.0%
Increase (decrease) in rate resulting from:		
Changes in policyholders' surplus of stock life insurance companies	**(4.6)**	(3.8)
Unrealized foreign exchange (gains) losses	**(1.0)**	3.8
State income taxes net of Federal tax benefit	**1.6**	2.0
Investment tax credits	**(6.8)**	(2.6)
Dividends received deduction	**(3.2)**	(1.7)
Other factors—net	**0.8**	(0.9)
Effective tax rate	**32.8%**	44.8%

Foreign taxes on income were $7.8 and $11.6 million in 1979 and 1978, respectively. Provision for taxes on income has not been made on $124.4 million of undistributed earnings of foreign subsidiaries at December 31, 1979 as it is the Company's intention to reinvest such earnings indefinitely. Further, because of this intention, provision for deferred taxes has not been made on the unrealized foreign exchange gains and losses related to the Company's equity investment in its foreign finance subsidiaries. In addition, retained earnings of the life insurance subsidiaries included approximately $73.7 million at December 31, 1979 which, under provisions of the Internal Revenue Code, is defined as "policyholders' surplus" and currently is not subject to income taxes. This surplus could become subject to income taxes at the then current rates under certain conditions including certain cash distributions to the parent company. Because the possibility of any significant portion of this surplus being taxed is considered remote, provision for deferred taxes has not been made. Tax benefits associated with investment tax credits net of estimated recapture applicable to the Transportation subsidiaries are allocated to such subsidiaries regardless of realization on a separate return basis.

Deferred tax provisions (credits) result from timing differences between the recognition of revenues and expenses for tax and financial statement purposes. Deferred income tax provisions (credits) for 1979 and 1978 were as follows (millions of dollars):

	1979	1978
Timing differences of nonconsolidated nonfinance subsidiaries in excess of amounts allocated to such subsidiaries:		
Depreciation	**$ (4.3)**	$ (1.2)
Estimated investment tax credit recapture	**1.3**	2.6
Unrealized foreign exchange gains (losses)	**2.0**	(10.8)
Leveraged leasing transactions:		
Gross rental income	**(10.4)**	(4.2)
Interest expense on nonrecourse debt	**6.4**	2.6
Accelerated depreciation	**31.2**	12.0
Investment tax credits estimated to be utilized on the Federal income tax return in excess of amounts amortized to income during the year	**21.1**	6.9
Other—net	**(4.8)**	(5.6)
	$42.5	$ 2.3

5. Long-Term Debt

Long-term debt at December 31, 1979 and 1978 was as follows (millions of dollars):

	1979	1978
Senior Debt:		
4 3/8%, due 1981*	$ 11.8	$ 12.1
4 3/8%, due 1987	60.0	60.0
4 1/2%, due 1991	100.0	100.0
4 5/8%, due 1984*	14.4	15.6
4 3/4%, due 1989	85.0	85.0
4 7/8%, due 1981	50.0	50.0
4 7/8%, due 1993	125.0	125.0
5%, due 1982*	16.0	18.0
5 1/8%, due 1980	30.0	60.0
6 3/8%, due 1988	100.0	100.0
7 1/4%, due 1990	75.0	75.0
7 1/2%, due 1995	100.0	100.0
7 1/2%, due 1997	100.0	100.0
7 3/4%, due 1999	100.0	100.0
7.85%, due 1986	100.0	100.0
8%, due 1984	50.0	50.0
8%, due 1992*	25.7	25.3
8.2%, due 2007	100.0	100.0
8.3%, due 1986	75.0	75.0
8 3/8%, due 2003	100.0	100.0
8 1/2%, due 1983	100.0	100.0
8 1/2%, due 2001	100.0	100.0
9%, due 1985	150.0	150.0
9%, due 2000	100.0	100.0
10.4%, due 1981	50.0	50.0
10 1/2%, due 1994*	50.0	50.0
Bank notes, due 1981-1984 at interest rates varying with the London interbank offered rate plus the cost of reserves	36.3	20.7
Bank notes, due 1983, at 8.46%	44.5	44.5
Master notes, 1/8 of 1% over 180 day commercial paper note yield	10.5	10.5
Total	2,059.2	2,076.7
Debentures in treasury	(7.5)	(6.7)
Unamortized discount	(3.0)	(3.2)
Total Senior Debt	$2,048.7	$2,066.8

*Sinking fund debentures

	1979	1978
Senior Subordinated Debt:		
8.45%, due 1997	$100.0	$ 100.0
8 1/2%, due 1985	25.0	25.0
8 3/4%, due 1992*	50.0	50.0
9 5/8%, due 2004*	100.0	
9 7/8%, due 1986*	17.5	20.0
Total	292.5	195.0
Unamortized discount	(0.1)	(0.1)
Total Senior Subordinated Debt	$292.4	$ 194.9

*Sinking fund debentures

Weighted average interest rates of senior and senior subordinated debt outstanding, giving effect to amortization of debt discount and expenses, were 7.6% and 9.0%, respectively, at December 31, 1979 and 7.5% and 8.8%, respectively, at December 31, 1978.

The maturities and sinking fund requirements of the Company's long-term debt at December 31, 1979 were as follows (millions of dollars):

1980	$ 32.5
1981	132.3
1982	34.7
1983	152.8
1984	81.4
Thereafter	1,910.5

Certain provisions of the indentures covering the Company's debentures and the agreements covering its notes payable restrict the payment of dividends and the purchase or retirement of stock of any class. At December 31, 1979, under the most restrictive terms of the Company's various indentures and agreements, approximately $250 million of consolidated retained earnings was free of such restrictions.

6. Capital Stock

Capital stock authorized at December 31, 1979 and 1978 included 67.5 million shares of common stock with a par value of $1 a share and 8.2 million shares of preferred stock without par value.

At December 31, 1979, there were 4.9 million shares of common stock reserved for conversion of preferred stock.

Terms and amounts of the cumulative convertible preferred stock issues are summarized as follows:

	Total	$2.375	$ 2.50
Stated Value:			
Per share		$ 6.75	$ 4.50
Aggregate (millions of dollars):			
December 31, 1979	**$14.8**	**$ 4.2**	**$10.6**
December 31, 1978	$15.8	$ 5.2	$10.6
Preference value in involuntary liquidation—			
December 31, 1979:			
Per share		**$30.00**	**$18.00**
Aggregate (millions of dollars)	**$60.9**	**$18.5**	**$42.4**
Rate of conversion into common shares		2 1/4	1 1/2
December 31, 1979 redemption price		**$50.00**	**$50.50**

Common stock option data and transactions for 1979 and 1978 in the various option plans are summarized as follows:

Shares Under Option	1979 Number	1979 Price per Share	1978 Number	1978 Price per Share
Beginning of year	1,116,575	$10.82-$21.25	935,125	$10.82-$28.25
Granted	292,300	18.63- 20.82	399,300	17.57- 21.25
Exercised	(102,500)	10.82- 18.88	(67,625)	10.82- 18.88
Expired or cancelled	(68,650)	10.82- 20.44	(150,225)	14.69- 28.25
End of year:				
Outstanding	1,237,725	$10.82-$21.25	1,116,575	$10.82-$21.25
Exercisable	561,204		490,196	
Available for future grants	1,541,400		274,700	

7. Corporate Expenses

Corporate expenses, which are of an overall, parent-company nature, include administrative costs and imputed compounded carrying costs related to net outflows of funds to carry investments in the Company's three major nonconsolidated businesses. These expenses were as follows (millions of dollars):

	1979	1978
Administrative expenses	$ 6.4	$ 6.9
Imputed carrying costs	37.7	35.8
Total	44.1	42.7
Less related income tax effects	20.5	20.2
Corporate expenses	$23.6	$22.5

8. Investments in Other Subsidiaries

Investments in other subsidiaries at December 31, 1979 included the Company's investment in its wholly-owned savings and loan association (Keystone Savings and Loan Association) and five industrial bank subsidiaries, 56% owned airline subsidiary (Wien Air Alaska, Inc.), and 49% owned Australian finance affiliate (David Jones—Household Finance Limited). The fifth industrial bank, airline subsidiary and finance affiliate were new investments made in 1979.

9. Noncredit Insurance Operations

Selected data for non-credit life insurance operations for 1979 and 1978 were as follows (millions of dollars):

	1979	1978
Premium revenues	$ 37.9	$ 35.3
Investment income—net	14.5	13.4
Claims and other policy benefits	32.8	30.3
Operating income	6.1	5.3
Insurance in force at December 31	2,103.7	1,766.0

10. Foreign Operations

Foreign subsidiaries' assets, liabilities, earnings before unrealized foreign exchange gains and losses and net income accounted for 13%, 5%, 8% and 11%, respectively, of the consolidated amounts as of and for the year ended December 31, 1979 and 14%, 5%, 14% and 4%, respectively, of the consolidated amounts as of and for the year ended December 31, 1978.

11. Intercompany Transactions

As a result of the Company's income tax allocation policy Other Assets at December 31, 1979 and 1978 included receivables due the Company from nonconsolidated subsidiaries of $8.3 and $12.7 million, respectively, and Accounts Payable and Other Liabilities included amounts payable by the Company to nonconsolidated subsidiaries of $12.6 and $10.5 million, respectively. Other Assets at December 31, 1979 and 1978 also included $6 million of dividends receivable from the Merchandising Business.

12. Commitments

Commitments at December 31, 1979 consisted primarily of property leases for Finance Business branch office space and require aggregate minimum annual rentals, excluding payments for taxes and insurance, as follows: 1980, $18.2 million; 1981, $12.2 million; 1982, $9.3 million; 1983, $6.4 million; 1984, $3.6 million; and thereafter, $13 million. Generally, these leases cover periods of from five to ten years and are renewable for a period of approximately the initial lease term. Rent expense for 1979 and 1978 was $21.8 and $17.7 million, respectively.

At December 31, 1979, the Company was committed to fund equity investments of approximately $124 million under its leveraged leasing program for equipment costing approximately $358 million.

In connection with National Car Rental System, Inc. commercial paper financing, the Company has agreed to maintain at least 80% ownership of National common stock, and to cause National to maintain a ratio of debt to equity of no more than 6 to 1 and a ratio of income before interest expense to interest expense of no less than 1.5 to 1.

13. Other Information

Information by major industry segment and geographic area is included on pages 38 and 39. Supplementary information on the impact of inflation on accounting data is included on pages 61 through 63.

14. Subsequent Event

In January 1979 the Justice Department filed a civil suit to restrain the proposed merger of American Investment Company (AIC) into a subsidiary of Household, alleging violation of the federal antitrust laws. A U.S. District Court in Chicago ruled in favor of HFC and AIC in March, but a three-judge panel of the U.S. Court of Appeals reversed the trial court's decision in August. In January 1980 the U.S. Supreme Court refused to review the appellate court decision, resulting in abandonment of the proposed merger.

15. Quarterly Financial Data (Unaudited)

Selected 1979 and 1978 quarterly financial data restated for the first, second and third quarters of 1979 to give effect to the adoption of the LIFO method of valuing domestic inventories are as follows (millions of dollars except per share data):

	1979-Three Months Ended				1978-Three Months Ended			
	Dec.	Sept.	June	Mar.	Dec.	Sept.	June	Mar.
Revenues from Finance Business	$226.5	$210.0	$200.7	$198.9	$194.0	$184.5	$179.5	$180.1
Income from:								
Finance Business	11.0	26.8	22.3	30.3	23.8	10.0	26.1	14.5
Merchandising Business	24.1	11.1	13.6	8.3	27.1	14.0	14.1	8.8
Manufacturing Business	3.9	3.0	6.3	6.5	2.7	4.8	7.1	6.6
Transportation Business	2.6	5.8	5.6	3.6	1.7	5.5	5.0	3.9
Expense from Corporate Operations	(5.9)	(5.9)	(5.8)	(6.0)	(6.0)	(5.8)	(5.3)	(5.4)
Net Income	$ 35.7	$ 40.8	$ 42.0	$ 42.7	$ 49.3	$ 28.5	$ 47.0	$ 28.4
Per share: Primary	$ .73	$ .84	$ .87	$ .89	$ 1.03	$ .58	$ .99	$ .58
Fully Diluted	.70	.80	.82	.83	.96	.56	.92	55

The change to LIFO inventory valuation by the Merchandising and Manufacturing businesses in 1979 (see Summary of Significant Accounting Policies on page 40) reduced previously reported and fourth quarter 1979 net income and fully diluted earnings per share as follows (millions of dollars except per share data):

	Merchandising	Manufacturing	Net Income	Per Share
First Quarter	$ 2.9	$0.7	$ 3.6	$.07
Second Quarter	3.3	0.7	4.0	.08
Third Quarter	3.5	0.5	4.0	.07
Fourth Quarter	4.8	0.5	5.3	.11
Full Year	$14.5	$2.4	$16.9	$.33

The Company's businesses are subject to seasonal factors and, accordingly, the quarterly results of operations are not necessarily comparable nor indicative of results for the entire year.

Income from Finance Business decreased in the fourth quarter of 1979 compared with 1978 principally because of the adverse impact of higher interest rates.

The decrease in fourth quarter 1979 income from Merchandising Business resulted primarily from the adoption of LIFO. Income would have been higher in the fourth quarter of 1979, if not adjusted for LIFO as a result of significantly higher sales volume in 1979.

After giving effect to a LIFO adjustment of approximately $500 thousand, the fourth quarter 1979 income from Manufacturing Business still increased when compared with the fourth quarter of 1978 because of poor results in 1978 associated with anticipated and actual work stoppages.

Fourth quarter 1978 income from Transportation Business was adversely affected by the cost of settling a lawsuit and costs of carrying excess units in the car rental fleet during the months of November and December of 1978.

Income from Finance Business and net income can fluctuate widely because of the inclusion in the Statements of Income of unrealized foreign exchange gains and losses that result principally from changes in the Canadian foreign exchange rate. Had the unrealized foreign exchange gains and losses, less related tax effects, been excluded from the determination of net income, net income and related earnings per common share calculated on a fully diluted basis by quarter for 1979 and 1978 would have been as follows (millions of dollars except per share data):

	1979-Three Months Ended			
	Dec.	Sept.	June	Mar.
Net income	$38.9	$36.5	$44.0	$36.4
Per common share	.76	.71	.86	.71

	1978-Three Months Ended			
	Dec.	Sept.	June	Mar.
Net income	$48.3	$43.4	$44.8	$39.1
Per common share	.94	.85	.88	.76

Statements of Income

All amounts are stated in millions of dollars.

	Year Ended December 31	1979	1978
Net Sales and Revenues		$3,918.8	$3,312.6
Costs and Expenses	Cost of sales, buying and occupancy	3,136.2	2,616.3
	Selling and administrative	647.7	547.7
	Interest	32.8	26.0
	Total Costs and Expenses	3,816.7	3,190.0
Income Before Provision for Taxes on Income		102.1	122.6
Provision for Taxes on Income—Note 5	Current	42.7	57.7
	Deferred	2.3	0.9
	Total Provision for Taxes on Income	45.0	58.6
Net Income		$ 57.1*	$ 64.0

*Adoption of LIFO in 1979 reduced net income by $14.5 million. See Summary of Significant Accounting Policies on page 40.

Statements of Changes in Financial Position

All amounts are stated in millions of dollars.

	Year Ended December 31	1979	1978
Resources Provided	Operations:		
	Net income	$ 57.1	$ 64.0
	Nonfund transactions:		
	Depreciation and amortization	33.6	30.1
	Other	1.7	1.7
	Total Resources Provided by Operations	92.4	95.8
	Disposals of property and equipment	9.5	9.0
	Long-term debt issued	45.7	53.7
	Total Resources Provided	$ 147.6	$ 158.5
Resources Applied	Additions to property and equipment	$ 106.8	$ 69.8
	Long-term debt paid	16.6	16.9
	Dividends to Household	24.0	24.0
	Other—net	4.0	2.9
	Working capital—increase (decrease)	(3.8)	44.9
	Total Resources Applied	$ 147.6	$ 158.5
Changes in Components of Working Capital	Current Assets—increase (decrease):		
	Cash	$ (0.4)	$ (10.6)
	Receivables	5.0	(5.4)
	Inventories	75.1	112.0
	Prepaid expenses	4.4	2.9
	Current Liabilities—(increase) decrease:		
	Current maturities of long-term debt and capitalized lease obligations	(0.2)	0.5
	Accounts payable and other liabilities	(91.0)	(53.7)
	Dividend payable to Household		4.5
	Federal taxes on income	3.3	(5.3)
	Working Capital—Increase (Decrease)	$ (3.8)	$ 44.9

The accompanying Summary of Significant Accounting Policies and Notes to Financial Statements are an integral part of these statements.

Balance Sheets

All amounts are stated in millions of dollars.

	December 31	1979	1978
Assets	Current Assets:		
	Cash	$ 4.1	$ 4.5
	Notes and accounts receivable (less allowance for doubtful accounts, 1979—$11.1; 1978—$11.0)—Note 1	113.4	108.4
	Inventories	691.7	616.6
	Prepaid expenses	14.3	9.9
	Total Current Assets	823.5	739.4
	Property and Equipment—Note 2:		
	Land	23.2	24.9
	Buildings	103.2	102.1
	Equipment and leasehold improvements	326.9	279.2
	Less accumulated depreciation and amortization	(194.4)	(178.7)
	Total Owned	258.9	227.5
	Land and buildings under capitalized leases	134.2	96.2
	Equipment under capitalized leases	13.5	16.9
	Less accumulated amortization	(47.8)	(45.4)
	Total Leased	99.9	67.7
	Property and Equipment—net	358.8	295.2
	Other Assets:		
	Cost of investments in acquired businesses in excess of net assets at acquisition	8.8	8.8
	Other	23.5	19.4
	Total Other Assets	32.3	28.2
	Total Assets	$1,214.6	$1,062.8
Liabilities and Shareholder's Equity	Current Liabilities:		
	Short-term debt—Note 3	$ 15.0	$ 15.0
	Current maturities of long-term debt and capitalized lease obligations	13.2	13.0
	Accounts payable and other liabilities	435.6	344.6
	Dividend payable to Household	6.0	6.0
	Federal taxes on income:		
	Current	10.1	13.7
	Deferred	11.7	11.4
	Total Current Liabilities	491.6	403.7
	Capitalized Lease Obligations—Notes 2 and 4	109.8	77.2
	Long-Term Debt—Note 4	131.1	134.6
	Deferred Taxes on Income	9.2	7.5
	Shareholder's Equity—Note 4	472.9	439.8
	Total Liabilities and Shareholder's Equity	$1,214.6	$1,062.8

The accompanying Summary of Significant Accounting Policies and Notes to Financial Statements are an integral part of these Balance Sheets.

Notes to Financial Statements

1. Revolving Credit Account Agreement

The Company has an ongoing program of selling an undivided interest in revolving credit accounts to Household. A portion of the total receivables sold is withheld by Household pending collection. Discounts charged and amounts withheld (see Note 2 to Financial Statements of Household) are included in interest expense and notes and accounts receivable, respectively.

2. Leases

The Company leases certain of its stores, distribution facilities, vehicles and equipment for initial periods up to 30 years with various renewal options. The majority of the Company's leases are noncancelable operating leases. Rent commitments at December 31, 1979 for these leases were as follows: 1980, $57.4 million; 1981, $53.5 million; 1982, $49.8 million; 1983, $46 million; 1984, $43 million; and thereafter, $412.2 million. The total of minimum rentals to be received in the future under noncancelable subleases of operating leases is $67.8 million. Annual rental expenses for all leases other than capital leases were as follows (millions of dollars):

	1979	1978
Minimum rents	$ 64.5	$ 56.9
Contingent rents	13.6	8.9
Sublease rents received	(14.1)	(12.3)
Total	$ 64.0	$ 53.5

Future minimum lease commitments under capital leases together with the present value of the net minimum lease payments as of December 31, 1979 were (millions of dollars):

1980	$17.9	1983	$ 14.8
1981	17.0	1984	14.2
1982	15.6	Thereafter	179.2
Total minimum lease commitments			258.7
Less amount representing estimated executory costs (taxes, maintenance and insurance) included in commitments			13.6
Net minimum lease commitments			245.1
Less amount representing interest			129.2
Present value of net minimum lease commitments			$115.9

The total of minimum sublease rentals to be received in the future under noncancelable subleases of capital leases was $9.2 million. Capital leases of certain stores require additional contingent rentals based on a percentage of sales over a specified amount. These amounts were $2.9 and $2.3 million in 1979 and 1978, respectively.

3. Short-term Debt

The Company issues commercial paper and periodically obtains advances from Household. Interest expense paid to Household during 1979 and 1978 totaled $1.2 million and $200 thousand, respectively. At December 31, 1979 and 1978 short-term debt consisted of master notes due on demand which are generally refinanced through the issuance of similar debt. Weighted average interest rates on short-term master notes outstanding at December 31, 1979 and 1978 were 12.8% and 10.2%, respectively. The maximum aggregate short-term debt outstanding at the end of any month during 1979 and 1978 was $121.6 (including $55.1 million of advances from Household) and $71.7 million, respectively. The average aggregate short-term debt outstanding was $62.6 and $45.8 million, respectively, during 1979 and 1978 and related weighted average interest rates were 11.6% and 8.2%, respectively.

Lines of credit, maintained with various banks, amounted to $98.8 and $80.3 million at December 31, 1979 and 1978, respectively, and were unused during 1979 and 1978. Such lines are generally supported by average compensating balances equal to 5% of the line plus a fee or 10% of the line. Additional balances of 10% of any borrowing under the line are also required. Compensating balance requirements totalled $6.7 and $8 million at December 31, 1979 and 1978, respectively.

4. Long-term Debt

Long-term debt at December 31, 1979 and 1978 included both term notes payable and mortgage notes payable. Interest rates on the notes during both years ranged from 5½% to 9⅞%, and averaged 8.0% and 7.9% at December 31, 1979 and 1978, respectively. Certain note agreements require minimum working capital levels and limit the amount of retained earnings available for cash dividends at December 31, 1979 to approximately $138 million. Approximate annual maturities including capitalized lease obligations were as follows: 1981, $13.7 million; 1982, $13.1 million; 1983, $12.8 million; 1984, $12.5 million; and thereafter, $188.8 million.

5. Taxes on Income

Significant reconciling items to the statutory provisions for taxes on income for 1979 and 1978 include state income taxes net of Federal tax benefits of $3.6 and $4 million, respectively, and investment tax credits of $5.5 and $4.1 million, respectively.

6. Other Information

Information by major industry segment is included on pages 38 and 39. Supplementary information on the impact of inflation on accounting data is included on pages 61 through 63.

Statements of Income

All amounts are stated in millions of dollars.

Year Ended December 31		1979	1978
Net Sales and Revenues		**$245.6**	$232.2
Costs and Expenses	Manufacturing	**177.6**	162.1
	Selling and administrative	**31.7**	28.8
	Interest	**1.4**	0.5
	Total Costs and Expenses	**210.7**	191.4
Income Before Unrealized Foreign Exchange Gains and Provision for Taxes on Income		**34.9**	40.8
Unrealized Foreign Exchange Gains		**0.1**	
Income Before Provision for Taxes on Income		**35.0**	40.8
Provision for Taxes on Income—Note 3		**15.3**	19.6
Net Income		**$ 19.7***	$ 21.2

*Adoption of LIFO in 1979 reduced net income by $2.4 million. See Summary of Significant Accounting Policies on page 40.

Statements of Changes in Financial Position

All amounts are stated in millions of dollars.

Year Ended December 31		1979	1978
Resources Provided	Operations:		
	Net income	**$ 19.7**	$ 21.2
	Nonfund transactions:		
	Depreciation and amortization	**6.6**	5.7
	Write-off of goodwill	**1.0**	
	Total Resources Provided by Operations	**27.3**	26.9
	Other—net	**0.1**	0.1
	Total Resources Provided	**$ 27.4**	$ 27.0
Resources Applied	Additions to property and equipment	**$ 8.4**	$ 6.9
	Dividends to Household	**8.0**	8.0
	Working capital—increase	**11.0**	12.1
	Total Resources Applied	**$ 27.4**	$ 27.0
Changes in Components of Working Capital	Current Assets—increase (decrease):		
	Cash and short-term investments	**$ (1.6)**	$ 3.7
	Accounts receivable	**5.2**	2.7
	Inventories	**15.8**	5.4
	Other assets and prepaid expenses	**2.7**	0.2
	Current Liabilities—(increase) decrease:		
	Short-term debt	**(4.9)**	2.9
	Accounts payable and other liabilities	**(5.9)**	(2.4)
	Federal taxes on income	**0.8**	1.1
	Other taxes on income	**(1.1)**	(1.5)
	Working Capital—Increase	**$ 11.0**	$ 12.1

The accompanying Summary of Significant Accounting Policies and Notes to Financial Statements are an integral part of these statements.

Balance Sheets

All amounts are stated in millions of dollars.

	December 31	1979	1978
Assets	Current Assets:		
	Cash	$ 3.2	$ 3.0
	Short-term investments	6.1	7.9
	Accounts receivable (less allowance for doubtful accounts, 1979—$0.9; 1978—$0.8)	39.8	34.6
	Inventories	78.2	62.4
	Other assets and prepaid expenses	3.8	1.1
	Total Current Assets	131.1	109.0
	Property and Equipment:		
	Land, buildings and improvements	27.2	26.1
	Machinery and equipment	48.9	43.2
	Less accumulated depreciation and amortization	(46.0)	(41.0)
	Property and Equipment—net	30.1	28.3
	Other Assets:		
	Cost of investments in acquired businesses in excess of net assets at acquisition	7.9	8.9
	Other	1.4	1.5
	Total Other Assets	9.3	10.4
	Total Assets	$170.5	$147.7
Liabilities and Shareholder's Equity	Current Liabilities:		
	Short-term debt—Note 1	$ 6.0	$ 1.1
	Accounts payable and other liabilities	23.5	17.6
	Federal taxes on income		0.8
	Other taxes on income	7.7	6.6
	Total Current Liabilities	37.2	26.1
	Shareholder's Equity	133.3	121.6
	Total Liabilities and Shareholder's Equity	$170.5	$147.7

The accompanying Summary of Significant Accounting Policies and Notes to Financial Statements are an integral part of these Balance Sheets.

Notes to Financial Statements

1. Short-Term Debt

Short-term debt consisted primarily of notes and discounted paper payable generally within 90 days. The weighted average interest rates on outstandings at December 31, 1979 and 1978 were 15.3% and 12.2%, respectively. The maximum aggregate outstandings at any month-end during 1979 and 1978 approximated $23.1 and $19.2 million, respectively. The average aggregate of such debt outstanding at any month-end during 1979 and 1978 was $10.9 and $6.5 million, respectively, and the related weighted average interest rates were 12.4% and 8.2%, respectively.

Lines of credit are maintained with various banks and at December 31, 1979 and 1978 amounted to $15 and $22.5 million, respectively. Part of these lines are supported by fee arrangements and the remainder are supported by compensating balances generally equal to 10% of the line. Unused lines of credit during 1979 and 1978 averaged approximately $6.4 and $12.9 million respectively, and at December 31, 1979 and 1978 approximated $9 and $21.5 million, respectively.

2. Foreign Operations

Foreign subsidiaries' assets, liabilities and net income accounted for 21%, 42% and 34%, respectively, of the consolidated amounts as of and for the year ended December 31, 1979, and 21%, 48% and 22%, respectively, of the consolidated amounts as of and for the year ended December 31, 1978.

3. Taxes on Income

The provisions for taxes on income resulted in effective tax rates differing from the statutory Federal income tax rate of 46% in 1979 and 48% in 1978. Reconciliations between these rates were as follows:

	1979	1978
Statutory Federal income tax rate	46.0%	48.0%
Increase (decrease) in rate resulting from:		
State income taxes net of Federal benefit	2.6	2.5
U.K. tax legislation concerning stock relief	(1.9)	
Investment tax credits	(1.1)	(1.0)
Other—net	(1.9)	(1.4)
Effective tax rate	43.7%	48.1%

Foreign income taxes were $3.9 and $3.7 million in 1979 and 1978, respectively. Provision for taxes on income has not been made on approximately $21.4 million of undistributed earnings of foreign subsidiaries and the domestic international sales corporation at December 31, 1979 as it is management's intention to reinvest such earnings indefinitely.

4. Pension Plans

The actuarially computed value of vested benefits at the actuarial valuation date in 1979 was approximately $3.1 million in excess of pension fund assets.

5. Lease Commitments

The Company leases buildings and machinery and equipment for initial periods up to 20 years with various renewal options.

Rent expense for 1979 and 1978 was $2.7 and $2.1 million, respectively. Rent commitments for noncancelable operating leases at December 31, 1979 require annual payments as follows (millions of dollars):

Year ended December 31	
1980	$1.4
1981	1.0
1982	0.4
1983	0.2
1984	0.1
Thereafter	0.2

6. Other Information

Information by major industry segment and geographic area is included on pages 38 and 39. Supplementary information on the impact of inflation on accounting data is included on pages 61 through 63.

Statements of Income

All amounts are stated in millions of dollars.

	Year Ended December 31	1979	1978
Revenues		**$310.8**	$261.8
Expenses	Direct operating	**145.9**	131.4
	Depreciation of revenue-earning assets—Note 1	**65.6**	43.1
	Selling and administrative	**39.8**	37.7
	Interest	**28.4**	20.5
	Total Expenses	**279.7**	232.7
Income Before Provision For Taxes on Income		**31.1**	29.1
Provision for Taxes On Income—Note 3	Current	**(1.7)**	(2.2)
	Deferred	**15.2**	15.2
	Total Provision for Taxes on Income	**13.5**	13.0
Net Income		**$ 17.6**	$ 16.1

Statements of Changes in Financial Position

All amounts are stated in millions of dollars.

	Year Ended December 31	1979	1978
Resources Provided	Operations:		
	Net income	**$ 17.6**	$ 16.1
	Nonfund transactions:		
	Depreciation and amortization	**69.4**	47.0
	Deferred taxes on income	**15.2**	15.2
	Trade receivables—net (increase)	**(6.6)**	(9.5)
	Other assets and prepaid expenses—net (increase)	**(1.5)**	(1.5)
	Accounts payable and accrued liabilities—net increase	**8.8**	13.1
	Total Resources Provided by Operations	**102.9**	80.4
	Disposal of revenue-earning assets	**156.2**	150.9
	Vehicle obligations and other debt—net increase	**32.6**	35.9
	Total Resources Provided	**$291.7**	$267.2
Resources Applied	Purchase of revenue-earning assets	**$251.0**	$253.7
	Investment in direct financing leases—net increase	**9.1**	3.8
	Additions to property and equipment	**15.7**	8.8
	Dividends to Household	**14.0**	
	Advances to Household	**1.5**	1.9
	Other—net	**(0.3)**	(0.5)
	Cash—increase (decrease)	**0.7**	(0.5)
	Total Resources Applied	**$291.7**	$267.2

The accompanying Summary of Significant Accounting Policies and Notes to Financial Statements are an integral part of these statements.

Balance Sheets

All amounts are stated in millions of dollars.

	December 31	1979	1978
Assets	Cash	$ 1.9	$ 1.2
	Trade Receivables (less allowance for doubtful accounts, 1979—$3.5; 1978—$4.6)	39.3	32.7
	Other Assets and Prepaid Expenses	7.9	6.4
	Investment in Direct Financing Leases (less unearned income, 1979—$10.7; 1978—$8.7)—Notes 1 and 2	72.6	63.5
	Revenue-Earning Assets (less accumulated depreciation, 1979—$76.6; 1978—$51.3)—Notes 1 and 2	292.6	263.4
	Property and Equipment (less accumulated depreciation and amortization, 1979—$14.4; 1978—$12.0)	39.8	28.2
	Receivable from Household—Note 3	12.0	10.5
	Cost of Investments in Acquired Businesses in Excess of Net Assets at Acquisition	11.8	11.8
	Total Assets	$477.9	$417.7
Liabilities and Shareholder's Equity	Accounts Payable	$ 19.3	$ 13.9
	Accrued Insurance	20.6	15.8
	Other Accrued Liabilities	10.3	11.7
	Vehicle Obligations and Other Debt—Note 2	287.0	254.4
	Deferred Taxes on Income—Note 3	54.1	38.9
	Shareholder's Equity	86.6	83.0
	Total Liabilities and Shareholder's Equity	$477.9	$417.7

The accompanying Summary of Significant Accounting Policies and Notes to Financial Statements are an integral part of these Balance Sheets.

Notes to Financial Statements

1. Direct Financing Leases and Revenue-Earning Assets

At December 31, 1979 and 1978 revenue-earning assets consisted of rental vehicles of $253.7 and $223 million, respectively, and lease vehicles of $115.5 and $91.7 million, respectively. Generally, rentals vary from a day to a month and leases vary from one to six years. The net gain on disposal of revenue-earning assets included in depreciation expense for 1979 and 1978 was $15.1 and $18.7 million, respectively.

Investment in direct financing leases is reported net of estimated executory costs and related profit thereon which are insignificant. The amount of unearned income which was included in 1979 and 1978 income to offset initial direct costs was also insignificant.

Investment in direct financing leases and revenue-earning assets at December 31, 1979 and 1978 included cars and trucks leased to the Finance, Merchandising and Manufacturing businesses of approximately $15 and $17 million, respectively. Related revenues for 1979 and 1978 were approximately $7 and $5 million, respectively.

At December 31, 1979 future minimum payments to be received under noncancelable leases, classified by year of maturity, were as follows (millions of dollars):

	Direct Financing Leases	Operating Leases
1980	$45.0	$35.9
1981	29.5	24.4
1982	4.3	11.3
1983	2.4	5.7
1984	1.1	2.0
Thereafter	1.0	0.5

These amounts do not include contingent payments which may be received under vehicle leases on the basis of mileage in excess of stipulated minimums. During 1979 and 1978, such contingent payments amounted to $15 and $12.8 million, respectively. Revenues from rental vehicles for the same periods were $231.7 and $196.8 million, respectively.

2. Vehicle Obligations and Other Debt

Vehicle obligations and other debt outstanding at December 31, 1979 and 1978 were as follows (millions of dollars):

	1979	1978
Vehicle obligations	**$137.0**	$160.6
Commercial paper	**148.5**	92.0
Other	**1.5**	1.8
Total	**$287.0**	$254.4

Vehicle obligations consist of notes payable to banks and credit companies under financing agreements and accounts payable for vehicles. Certain of the notes payable are collateralized by leases, the underlying lease vehicles, and rental vehicles. The remaining notes require that National own unencumbered vehicles sufficient to satisfy any unsecured debt. In October 1978 National began issuing commercial paper. Weighted average interest rates on vehicle obligations and other debt outstanding at December 31, 1979 and 1978 were 12.0% and 10.2%, respectively. The maximum amounts outstanding at the end of any month were $289.6 million during 1979 and $254.4 million during 1978. The average aggregate amounts outstanding during 1979 and 1978 were $275 and $233.8 million, respectively, and the related weighted average interest rates were 10.7% and 9.0%, respectively.

At December 31, 1979 and 1978 unused credit lines were $200.4 and $175.5 million, respectively, including $160 and $98.4 million at December 31, 1979 and 1978, respectively, supporting outstanding commercial paper, on which fees are paid.

Interest expense for 1978 on notes payable to an insurance subsidiary of Household was $1.2 million.

3. Taxes on Income

The provisions for taxes on income resulted in effective tax rates differing from the statutory Federal income tax rate of 46% in 1979 and 48% in 1978. Reconciliations between these rates were as follows:

	1979	1978
Statutory Federal income tax rate	**46.0%**	48.0%
Increase (decrease) in rate resulting from:		
Investment tax credits	**(4.8)**	(6.5)
State income taxes net of Federal benefit	**3.5**	3.4
Other—net	**(1.3)**	(0.2)
Effective tax rate	**43.4%**	44.7%

Tax benefits for investment tax credits, net of estimated recapture, are allocated by Household to National. Receivable from Household includes the accumulated allocation of these benefits.

Deferred income taxes on timing differences result primarily from the use of accelerated depreciation. The tax effects of timing differences in excess of the Company's pretax financial income are recorded by Household.

4. Lease Commitments

National leases rental stations, service facilities and administrative offices for initial periods up to 25 years with various renewal options. Rent commitments for noncancelable leases at December 31, 1979 were as follows: 1980, $11.3 million; 1981, $9.6 million; 1982, $8.2 million; 1983, $6.7 million; 1984, $4.5 million; and thereafter, $10 million.

Rent expense for 1979 and 1978 was $29.1 and $29.9 million, respectively. Such amounts included contingent rentals (based on revenues) for car rental station leases of $11.3 and $11.1 million, respectively.

5. Litigation

On June 10, 1975, the Federal Trade Commission issued a complaint against National and the two other leading domestic car rental companies alleging generally that the respondents conspired to monopolize the car rental market at airport locations and to maintain a concentrated noncompetitive market structure. For settlement purposes only, National, the two other companies and staff counsel of the Commission agreed upon a consent order which did not constitute an admission of any of the charges in the complaint. The Commission approved and officially issued the order on November 21, 1976. Subsequent to the filing of the Commission complaint, fourteen civil actions for money damages, evidently related to the Commission action, were filed. Five of the civil actions have been settled and dismissed as to National. Management and legal counsel are of the opinion that meritorious defenses exist to the nine remaining civil actions and that they will not have a materially adverse effect on the financial statements of National.

6. Other Information

Information by major industry segment is included on pages 38 and 39. Supplementary information on the impact of inflation on accounting data is included on pages 61 through 63.

Management's Report and Auditors' Opinion

Household Finance Corporation

International Headquarters
2700 Sanders Road
Prospect Heights, Illinois 60070
(312) 564 5000

To the Shareholders of
Household Finance Corporation:

February 11, 1980

Management is responsible for the preparation, integrity and objectivity of the Company's financial statements. The financial statements are prepared from the Company's books and records of transactions in the ordinary course of business and, as appropriate, include amounts that are based upon management's best estimates and judgments, all in conformity with generally accepted accounting principles appropriate in the circumstances. Financial information elsewhere in the Annual Report is consistent with that in the financial statements.

The Company maintains systems of internal accounting controls and procedures which management believes provide reasonable assurance that financial records are reliable for preparing financial statements and maintaining accountability for assets. Internal auditors evaluate the adequacy of and investigate the adherence to these controls and procedures. Our independent auditors, Deloitte Haskins & Sells, also study and evaluate the Company's accounting systems and related controls and perform tests of transactions and account balances in accordance with generally accepted auditing standards. This permits them, as independent auditors, to render an opinion as to the fairness of the financial statements prepared by the Company.

The Audit Committee of the Board of Directors is composed solely of outside directors. It meets periodically with the independent auditors, the internal auditors and management to discuss auditing and financial reporting matters. Both the independent auditors and the internal auditors have unrestricted access to the Audit Committee without the presence of Company management for the purpose of discussing the results of their audit work and their opinions as to the adequacy of internal accounting controls and the quality of financial reporting.

Management has long recognized its responsibility for conducting the Company's affairs in a manner which is responsive to the interests of employees, shareholders, investors and society in general. This responsibility is reflected in our statement of policy on ethical standards which provides that the Company will fully comply with the laws, rules and regulations of every community in which it operates and adhere to the highest ethical standards and the officers, employees and agents of the Company are expected and directed to manage the business of the Company with complete honesty, candor and integrity.

G. R. Ellis
Chairman of the Board and Chief Executive Officer

D. C. Clark
President

John B. Spring
J. B. Spring
Senior Vice President and Chief Financial Officer

Deloitte Haskins+Sells

200 East Randolph Drive
Chicago, Illinois 60601

To the Shareholders of
Household Finance Corporation:

February 11, 1980

We have examined the balance sheets of Household Finance Corporation and consolidated subsidiaries as of December 31, 1979 and 1978 and the related statements of income, changes in shareholders' equity and changes in financial position for the years then ended. We have made similar examinations of the financial statements of the Company's nonconsolidated merchandising, manufacturing and transportation subsidiaries. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements of Household Finance Corporation and consolidated subsidiaries and of Household's nonconsolidated merchandising, manufacturing and transportation subsidiaries present fairly the financial position of these companies at December 31, 1979 and 1978 and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the period except, as to the financial statements of the Company and of its merchandising and manufacturing subsidiaries, for the effects of the change, with which we concur, in 1979 in the method of accounting for domestic inventories as described in the Summary of Significant Accounting Policies.

Deloitte Haskins & Sells

Supplementary Information on the Impact of Inflation on Accounting Data (Unaudited)

Introduction

Inflation has an ever changing and increasingly pervasive impact on the economy of the United States, Canada and other countries where Household's businesses are conducted. In the United States, the value of a 1967 dollar, as determined by the National Consumer Price Index for All Urban Consumers ("CPI-U"), deteriorated to less than 46¢ by 1979. In accordance with generally accepted accounting principles, financial statements have traditionally reported amounts based on actual (historical) dollars without adjustment for the constantly changing purchasing power of currency. The accounting profession has advanced many complex theories as to how the resulting inflation-caused distortion of traditional accounting measurements should be reported but none have received wide acceptance. In recognition of the increasing significance of inflation, the Financial Accounting Standards Board issued in 1979 Statement No. 33, Financial Reporting and Changing Prices, requiring that large businesses begin to experiment with measuring and reporting on the impact of inflation and include selected supplemental disclosures with annual financial statements.

The recommended disclosures include presentation of three basic types of accounting data—historical cost/nominal dollar, historical cost/constant dollar and current cost. **Historical cost/nominal dollar** is the presentation which shareholders traditionally receive. It is these amounts that are presented in the Corporation's basic financial statements and elsewhere throughout the Annual Report.

Historical cost/constant dollar is a concept used to adjust historical currency transactions into units of the same (constant) general purchasing power. The Statement requires that Household adjust historical dollars for this disclosure using the CPI-U. This index measures general inflation on a national basis for various commodities including such items as food, housing and fuel. Because it is a general inflationary measure and national in scope, it may not accurately portray the impact of inflation on Household's businesses.

Current cost identifies certain assets and expenses associated with use or sale of products and services in terms of what their current cost would have been when they were used or sold rather than what their nominal cost actually was. Obviously Household's inventories, stores and manufacturing plants would generally cost more to replace than when they were originally acquired. To maintain productive capacity, earnings must yield sufficient capital to replace inventories and facilities as they are sold or consumed. The current cost concept is specifically applied to each businesses' products, methods of operation, and types and locations of assets but it unrealistically assumes that like kinds of property, plant and equipment would be purchased and ignores changes such as improved technology.

The Statement also requires that disclosures distinguish between monetary and nonmonetary assets and liabilities. **Monetary** items are assets and liabilities which do not change in price and will be converted into a fixed amount of dollars. Examples of monetary items include cash, receivables and short and long-term debt. A net monetary asset position in an inflationary period results in a loss of purchasing power. On the other hand, a net monetary liability position results in a gain in purchasing power because the amount required to satisfy the net liability, expressed in units of comparable purchasing power, decreases with inflation. **Nonmonetary** items are assets and liabilities which do have occasion to change in price and which may or may not change at the same rate as general inflation. Examples of nonmonetary items include inventory, rental vehicles, property, plant and equipment.

The Statement requires that increases in current costs based on specific prices of inventories, revenue-earning assets, property, plant and equipment be compared with amounts based on general price level changes calculated using the CPI-U. The resulting amount, commonly known as **holding gains and losses,** is a measure of the additional increase or decrease in asset values that resulted from the Corporation holding specific assets instead of the general "market basket" of goods and services that is used to derive the CPI-U.

Household has elected to present inflation data in accordance with the partial restatement provisions of the Statement. Accordingly, only inventories, cost of goods sold, revenue-earning assets, property, plant, equipment and depreciation have been restated.

The reader is cautioned to exercise due care in use of the supplemental information on the impact of inflation on accounting data. In accordance with the Statement, none of the data (for instance, additional costs of goods sold and depreciation expenses) has been adjusted for theoretical income tax benefits. Further, not only are the presentations experimental in nature but they are based on simplified concepts, shortcut calculations, subjectivity and abbreviated disclosure.

Current Year Data

(All data in millions of average 1979 dollars)

	Nominal Basis	Constant Basis	Current Basis
Finance	$ 90.4	$ 87.7	$ 89.7
Merchandising	57.1	(7.0)	33.4
Manufacturing	19.7	13.2	12.7
Transportation	17.6	(7.3)	4.8
Corporate	(23.6)	(23.6)	(23.6)
Total Income	$161.2	$ 63.0*	$117.0*
Per Common Share:			
Primary	$ 3.33	$ 1.20	$ 2.37
Fully Diluted	$ 3.15	$ 1.20*	$ 2.28*

*If the purchasing power gain or loss on net monetary items held were included in constant basis and current basis income, which management believes is more representative of the inflation impact on the Corporation's operations, income would be $114.2 and $168.2 million or $2.23 and $3.28 per fully diluted share, respectively.

Data by Business (All data in millions of average 1979 dollars)	Nominal Basis	Constant Basis	Current Basis	Nominal Basis	Constant Basis	Current Basis
		Finance			Transportation	
Revenues	$ 836.1	$ 836.1	$ 836.1	$ 310.8	$ 310.8	$ 310.8
Operating expenses, etc.	444.3	444.3	444.3	181.9	181.9	181.9
Depreciation	6.7	9.4	7.4	69.4	94.3	82.2
Interest	258.0	258.0	258.0	28.4	28.4	28.4
Unrealized foreign exchange (gain)	(7.4)	(7.4)	(7.4)			
Provision for taxes on income	44.1	44.1	44.1	13.5	13.5	13.5
Total expenses	745.7	748.4	746.4	293.2	318.1	306.0
Income	$ 90.4	$ 87.7	$ 89.7	$ 17.6	$ (7.3)	$ 4.8
Purchasing power gain (loss) on net monetary items held during the year		$ (36.0)	$ (36.0)		$ 26.8	$ 26.8
At December 31, 1979:						
Property, plant and equipment			$ 70.8			$ 50.8
Revenue-earning assets						$ 307.5
Increase in current cost of revenue-earning assets and property and equipment			$ 5.0			$ 21.9
Effect of increase in general price level			8.3			40.9
Increase in current cost over (under) increase in general price level			$ (3.3)			$ (19.0)
Net assets at year end	$1,239.0*	$1,424.6*	$1,430.2*	$ 86.6	$ 121.2	$ 106.0

*Represents net assets of all businesses.

	Nominal Basis	Constant Basis	Current Basis	Nominal Basis	Constant Basis	Current Basis
		Merchandising			Manufacturing	
Net sales and revenues	$3,918.8	$3,918.8	$3,918.8	$ 245.6	$ 245.6	$ 245.6
Cost of goods sold, buying and occupancy	3,107.2	3,157.6	3,117.1	171.3	176.0	176.0
Depreciation and amortization	33.6	47.3	47.4	6.6	8.4	8.9
Selling and administrative	643.1	643.1	643.1	31.4	31.4	31.4
Interest	32.8	32.8	32.8	1.4	1.4	1.4
Unrealized foreign exchange (gain)				(0.1)	(0.1)	(0.1)
Provision for taxes on income	45.0	45.0	45.0	15.3	15.3	15.3
Total expenses	3,861.7	3,925.8	3,885.4	225.9	232.4	232.9
Income	$ 57.1	$ (7.0)	$ 33.4	$ 19.7	$ 13.2	$ 12.7
Purchasing power gain (loss) on net monetary items held during the year		$ 62.6	$ 62.6		$ (2.2)	$ (2.2)
At December 31, 1979:						
Inventories			$ 728.4			$ 81.0
Property, plant and equipment			512.0			51.0
Increase in current cost of inventories and property, plant and equipment			$ 85.9			$ 17.6
Effect of increase in general price level			135.8			15.3
Increase in current cost over (under) increase in general price level			$ (49.9)			$ 2.3
Net assets at year end	$ 472.9	$ 609.6	$ 626.7	$ 133.3	$ 149.7	$ 157.4

Five Year Data

	1979	1978	1977	1976	1975
Net Sales and Revenues—					
Constant 1979 Millions of Dollars:					
Finance	$ 836.1	$ 821.2	$ 810.7	$ 736.0	$ 710.4
Merchandising	3,918.8	3,685.6	3,410.0	3,215.0	3,000.6
Manufacturing	245.6	258.3	250.7	262.8	229.9
Transportation	310.8	291.3	240.9	221.6	208.9
Cash Dividends Declared per Common Share:					
Nominal Dollars	$ 1.50	$1.375	$ 1.25	$ 1.15	$ 1.05
Constant 1979 Dollars*	1.50	1.53	1.50	1.47	1.42
Shareholders' Book Value per Common Share at Year End:					
Nominal Dollars	$24.19	$22.56	$20.95	$19.51	$18.07
Constant 1979 Dollars*	22.91	24.17	24.47	24.33	23.62
Market Price per Common Share at Year End:					
Nominal Dollars	$18.13	$17.50	$18.25	$21.50	$16.00
Constant 1979 Dollars*	17.17	18.75	21.32	26.82	20.92
Average Consumer Price Index for All Urban Consumers Using Average 1967 Dollars as Base of 100.0	217.4	195.4	181.5	170.5	161.2

*Constant 1979 dollar amounts represent mid-year averages.

Finance

Household's cash dividends and book value per common share have kept pace with inflation. The CPI-U annual compounded inflation rate over the past five years has averaged 8% while dividends increased at a 9% rate and book value at a 7.1% rate. Market price per common share, however, has had an erratic pattern in terms of constant dollars. Generally, it has tended to fluctuate somewhat in relation to interest rate levels.

Substantially all of Household's assets and liabilities are of a monetary nature with the exception of its investments in nonconsolidated subsidiaries and its relatively small amount of physical assets. Since these monetary assets exceed monetary liabilities, the net asset position resulted in a $36 million loss of purchasing power in 1979. Appropriately, the data also show small holding losses and depreciation adjustments which are indicative of the relatively small amount of physical assets. The increase in current cost is less than the general price level change that Household is experiencing primarily because of declining replacement costs for data processing equipment.

Merchandising

The Merchandising business adopted the last-in, first-out (LIFO) method of valuing inventories in 1979 to more closely match current acquisition costs of merchandise with sales. For this reason, the nominal cost-of-goods-sold usually approximates that computed on a current cost basis. The difference in current cost over nominal cost for cost-of-goods-sold results principally from the restoration at the beginning of the year of markdown and other valuation reserves. We believe that current cost is a more realistic presentation of the effects of inflation on the Merchandising business.

We believe that the use of the mandatory broad-based CPI-U for measuring inflation under the constant dollar basis is inaccurate and misleading. Actual inventory costs during the year increased in the range of 5 to 8%, which is well below the 13% rate used in the CPI-U. Therefore, constant dollar costs of goods sold are inflated artificially by approximately $40 million due to this difference in inflation rates.

More than 85% of Merchandising's assets are nonmonetary, consisting of inventory and property and equipment. These assets are largely financed in the normal course of business by trade payables and other forms of debt, all monetary in nature. As a result, the net monetary position yields a $62.6 million gain in purchasing power using the CPI-U. The Company experienced a holding loss of $49.9 million, however, by having this large investment in nonmonetary assets. This results from the specific value of these assets increasing at a slower rate than the general inflation rate as measured by the CPI-U.

Manufacturing

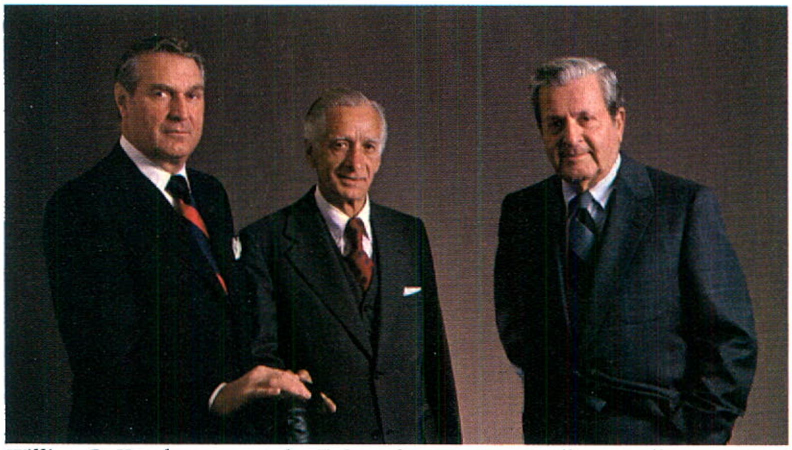
The Manufacturing business also adopted the LIFO method of accounting for domestic inventories in 1979. Cost of goods sold on a constant dollar and current cost basis exceed nominal costs as the inflation data also include presentation of foreign cost-of-goods-sold on a LIFO basis. Further, the impact of restoring general FIFO valuation reserves to income when LIFO was adopted has been eliminated in this presentation.

Inflation based on specific prices increased at a faster rate than based on general inflation. This is due to the substantial impact that rapidly increasing prices of petrochemicals, silver and primary metals have had on inventory costs.

Transportation

Transportation's assets are primarily rental and lease vehicles which are nonmonetary in nature. Most of the liabilities in this business, however, are monetary. The general inflation rate as measured by the CPI-U has exceeded the actual inflation rate experienced which we believe causes constant dollar data to be misleading. The current dollar presentation includes inflation adjusted increases in depreciation but ignores inflation adjustments for the ultimate gain or loss on disposal which management considers to be an inseparable element of depreciation.

Board of Directors



William D. Hendry
President,
Finance Division

John T. Gurash
Chairman,
CertainTeed Corporation
Building Materials
Chairman (Retired),
INA Corporation

Gilbert R. Ellis
Chairman of the Board and
Chief Executive Officer

Mitchell P. Kartalia
Chairman and Chief
Executive Officer,
Square D Company
Electrical Equipment
Manufacturing

Donald C. Clark
President

James M. Tait
President,
City Products
Corporation

Thomas D. Flynn
Partner (Retired),
Arthur Young &
Company,
Certified Public
Accountants

Miller Upton
Director and
Consultant

Mary J. Head
Director

Gordon P. Osler
Chairman,
Stanton Pipes
Limited
Iron Pipe
Manufacturing

Richard H. Headlee
President,
Alexander Hamilton Life
Insurance Company of
America

Joseph W. James
President,
National Car Rental
System, Inc.

Arthur E. Rasmussen
Director

Robert C. Trow
President,
King-Seeley
Thermos Co.

George W. Rauch
Member of Hubachek, Kelly,
Rauch & Kirby, Attorneys

John C. Whitehead
Senior Partner,
Goldman, Sachs & Co.
Investment Bankers

Household Finance Corporation

First Quarter Report March 31, 1979

Household Finance Corporation

About the Cover

The Sydney Opera House and single-arch Harbour Bridge, nicknamed "the coat hanger," are among the most identifiable landmarks of Australia. This country of 14 million people, on a land mass approximately the size of the continental United States, is the site of Household's most recent expansion and represents the fifth country where HFC's Consumer Finance Division conducts operations. On March 30, 1979, through a partnership arrangement, HFC acquired a 49% interest in David Jones Finance. Through this company, whose new name is David Jones-Household Finance Limited, HFC is now actively involved in the Australian consumer finance business, providing direct cash loans, retail sales contracts and real estate secured loans to a growing number of customers. The company currently has 36 branches throughout Australia with approximately $32 million in consumer receivables.

The Consumer Finance Division's program of overseas diversification began in 1973 with the formation of HFC Trust Limited in the United Kingdom. HFC Trust already has 69 branch offices with over $70 million in receivables, and expansion in this market is continuing at a rapid pace. HFC Trust is a consumer bank designed to meet the varied needs of its customers. Services include demand and time deposits as well as a broad range of consumer loans. In 1978, Household opened its first branch office in Japan. Additional office openings are planned for this year.

By far the largest of Household's foreign operations is in Canada. Household began providing consumer loans in Canada in 1933, and today HFC has 426 Canadian branch offices with over $511 million in receivables.

Domestically, Household's expansion in recent years in financial services has included the acquisition of Alexander Hamilton Life Insurance Company of America, Keystone Savings and Loan Association and several Industrial Banks in Colorado.

Household's financing activities are not limited to consumer finance. A significant growth area among HFC's diversified financial services is in commercial leveraged leasing. HFC Leasing, which completed its first transaction less than two years ago, has become a significant factor in the leveraged leasing market. As of the date of this report, HFC Leasing has taken or has committed to take an equity position in equipment costing approximately $650 million. Equipment purchased includes jet aircraft, ocean-going vessels, mining equipment and approximately 4,000 railcars.

Household's expansion into Australia is only the latest example of the Company broadening and strengthening its capabilities to successfully compete worldwide in a diversified financial services market.

Financial Highlights

All amounts other than per share data are stated in millions.

Three Months Ended March 31	1979	1978	Percent Change
Volume			
Finance receivables outstanding at March 31:			
Consumer	**$ 3,141.4**	$ 2,826.4	+11%
Commercial	**143.3**	78.1	+84
Total	**3,284.7**	2,904.5	+13
Merchandising net sales and revenues	**802.7**	678.2	+18
Manufacturing net sales and revenues	**69.4**	66.1	+ 5
Rental and Leasing revenues	**71.0**	57.7	+23
Earnings before Unrealized Foreign Exchange Gains and Losses (Income and expenses after taxes before *unrealized* foreign exchange gains and losses less related tax effects)			
Finance	**$ 24.2**	$ 25.1	− 4%
Merchandising	**11.1**	8.8	+27
Manufacturing	**7.1**	6.7	+ 5
Rental and Leasing	**3.6**	3.9	− 6
Corporate	**(6.0)**	(5.4)	+11
Total	**40.0**	39.1	+ 2
Per common share:			
Primary basis	**.83**	.82	+ 1
Fully diluted basis	**.78**	.76	+ 3
Unrealized Foreign Exchange Gains (Losses) Less Related Tax Effects			
Finance	**6.1**	(10.6)	
Manufacturing	**0.1**	(0.1)	
Total	**6.2**	(10.7)	
Net Income	**$ 46.2**	$ 28.4	+63%
Earnings Per Common Share			
Primary	**$ .96**	$ .58	+66%
Fully diluted	**.90**	.55	+64
Dividends Declared Per Common Share	**$ .3625**	$ .3250	+12%
Average Number of Common Shares Outstanding			
Actual	**45.9**	45.4	+ 1%
Fully diluted basis	**51.2**	51.1	

To the Shareholders:

Summary of Results

Earnings for the first quarter were $40 million, an increase of 2% when compared with $39.1 million in 1978 before inclusion of *unrealized* aftertax foreign exchange gains and losses. On this basis, fully diluted earnings per common share were 78¢ in 1979 compared with 76¢ in 1978. Finance Business earnings before the effects of *unrealized* foreign exchange gains and losses in the first quarter of 1979 were down 4%, principally as a result of higher short-term interest rates which averaged 10.20% compared with 6.76% during the same period in 1978. Merchandising had an excellent first quarter with income up 27%, whereas Manufacturing reported a modest gain of 5% before *unrealized* aftertax foreign exchange gains and losses. Rental and Leasing reported an income decline of 6%, chiefly as the result of higher interest rates.

After *unrealized* foreign exchange gains and losses, net income for the first quarter was $46.2 million compared with $28.4 million in 1978, an increase of 63%. This comparison is significantly affected by Canadian exchange rate fluctuations. Income for the first quarter of 1979 was increased by *unrealized* aftertax gains of $6.2 million, principally as a result of the increase in the Canadian dollar exchange rate during the period from 84.35 to 86.19 cents. Income for the first quarter of 1978 was decreased by *unrealized* aftertax losses of $10.7 million, principally as a result of the decline in the Canadian dollar exchange rate during the period from 91.42 to 88.15 cents. These *unrealized* foreign exchange gains and losses resulted from changes in foreign exchange rates between balance sheet dates. We continue to identify in our Financial Highlights the erratic effects on reported earnings of *unrealized* foreign exchange gains and losses since they have no impact on current cash flows and their ultimate realization is highly uncertain. It continues to be our belief that earnings before *unrealized* foreign exchange gains and losses more fairly present the financial results of our operations.

For the full year 1979, total corporate earnings are expected to be up in the area of 7% before taking into account *unrealized* foreign exchange gains and losses. This assumes a continuation of reasonably healthy consumer spending activities and prevailing high interest rates.

Finance

Consumer receivables of $3.1 billion decreased approximately $7.9 million during the normally seasonally slow first quarter, before adjusting for the Canadian dollar exchange rate. This compares with an unusually strong first quarter in 1978 during which consumer receivables increased approximately $7.6 million. After adjusting for the rise in the Canadian dollar exchange rate, consumer receivables increased approximately $4.6 million during the first quarter of 1979. Commercial receivables of $143.3 million increased $9.1 million during the first quarter and $65.2 million from a year ago. Average consumer and commercial receivables during the first quarter were $3.3 billion in 1979 compared with $2.9 billion in 1978.

Effective control of delinquency continued during the first quarter. The overall delinquency level of consumer receivables at March 31, 1979 was lower than at year-end 1978 and was the lowest March 31 level reported in 22 years. Net chargeoffs of bad debts during the first quarter of 1979 were $15.2 million or .49% of average consumer receivables outstanding compared with $12.9 million or .46% during the same period of 1978.

Finance earnings for the first quarter of 1979, excluding the effects of *unrealized* foreign exchange gains and losses, were $24.2 million compared with $25.1 million a year ago. These results reflect the impact of significantly higher short-term interest rates. The overall impact of these higher rates has been moderated by Household's policy of maintaining approximately 75% of total debt in long-term borrowings. After recognition of *unrealized* foreign exchange gains and losses, aftertax income for the first quarter was $30.3 million compared with $14.5 million in 1978.

Household and American Investment Company have executed a merger agreement whereby Household would acquire American. On January 9, 1979, the Justice Department filed a civil suit to restrain the proposed merger as an alleged violation of the antitrust laws. On March 23, 1979, a Judge of the United States District Court ruled in favor of Household and American and dismissed the complaint filed by the Department of Justice. On March 27, 1979, the Court of Appeals granted a motion for a stay of the acquisition pending an expedited review by the appellate court of the ruling by the District Court. Household and American remain confident that the ruling in their favor will be sustained on appeal.

Merchandising

First quarter merchandising sales were \$802.7 million and net income was \$11.1 million representing increases over the same quarter last year of 18% and 27%, respectively. While interest expense was sharply higher, excellent gains in operating income produced the strong improvement in net income.

Sales gains over last year were particularly noteworthy since the first quarter of 1978 included the full effect of the important Easter holiday selling period which added substantially to the volume of several divisions. The strongest sales gains in this year's first quarter were achieved by T.G.&Y., Vons, Coast-to-Coast, and the Home Furnishings group. Increased volume for these divisions was accompanied by strong profit growth except for Vons which met with severe cost inflation and increased competitive pricing. Moderate sales gains in identical company-owned White stores coupled with elimination of losses from closed stores enabled the division to report a small operating profit compared with a sizable loss in the same period a year ago. Sales and profits for the Ben Franklin division fell slightly below last year, reflecting a slowing in new store development.

Manufacturing

Net sales for the three months were \$69.4 million and income before *unrealized* aftertax foreign exchange gains and losses was \$7.1 million, both representing 5% gains over 1978.

The improvement in first quarter results was impeded by a transport workers' strike in the United Kingdom, the severe winter in the U.S., and rapidly escalating increases in the prices of materials and parts. It is believed that the lost sales and related income due to the transport workers' strike will be partially recovered in subsequent periods.

Rental and Leasing

National Car Rental System, Inc. revenues of \$71 million for the first quarter of 1979 represented an increase of 23%. Net income of \$3.6 million was down 6%, however, chiefly because of higher interest rates. Despite the fact that January and February are traditionally slow months for the car rental business, National's car rental operations experienced solid revenue growth and high fleet utilization. National's car rental and car leasing operations, before interest expense, showed improvement over the first quarter of last year, with car leasing growth especially strong.

During the first quarter of 1979, National announced plans to build a new, 230,000 square foot international headquarters in the Minneapolis suburb of Edina. The scheduled completion date is May of 1980.

G. R. Ellis
Chairman of the Board and
Chief Executive Officer

D. C. Clark
President

May 1, 1979

Household Finance Corporation
and Consolidated Subsidiaries

Statements of Income

All amounts other than per share data are stated in millions of dollars.

	Three Months Ended March 31	1979	1978
Income from Finance Business	Revenues:		
	Finance charges	**$ 157.9**	$ 141.0
	Insurance premiums and commissions	**28.1**	27.5
	Investment and other income	**12.9**	11.6
	Total Revenues	**198.9**	180.1
	Expenses:		
	Salaries and fringe benefits	**35.9**	31.7
	Other operating expenses	**32.7**	28.7
	Provision for credit losses	**17.9**	16.3
	Policyholders' benefits	**19.9**	20.4
	Interest:		
	Long-term	**33.4**	26.9
	Short-term	**18.2**	11.6
	Total Expenses	**158.0**	135.6
	Income Before Unrealized Foreign Exchange Gains (Losses) and Provision for Taxes on Income	**40.9**	44.5
	Unrealized Foreign Exchange Gains (Losses)	**8.9**	(15.9)
	Income Before Provision for Taxes on Income	**49.8**	28.6
	Provision for Taxes on Income—Note 2	**19.5**	14.1
Income from Finance Business		**30.3**	14.5
Income from Merchandising Business		**11.1**	8.8
Income from Manufacturing Business		**7.2**	6.6
Income from Rental and Leasing Business		**3.6**	3.9
Expense from Corporate Operations		**(6.0)**	(5.4)
Net Income		**$ 46.2**	$ 28.4
Earnings Per Common Share	Primary	**$ .96**	$ .58
	Fully diluted	**.90**	.55
Supplementary Information	Had unrealized foreign exchange gains and losses, less related tax effects, been excluded from the determination of net income, net income and related earnings per common share calculated on a fully diluted basis would have been as follows:		
	Net Income	**$ 40.0**	$ 39.1
	Per Common Share	**.78**	.76

Household Finance Corporation
Nonconsolidated Subsidiaries

Statements of Income

All amounts are stated in millions of dollars.

	Three Months Ended March 31	1979	1978
Merchandising	Net Sales and Revenues	**$802.7**	$ 678.2
	Costs and Expenses:		
	Cost of sales, buying, and occupancy	**632.5**	535.9
	Selling and administrative	**142.8**	120.1
	Interest	**7.0**	5.6
	Total Costs and Expenses	**782.3**	661.6
	Income Before Provision for Taxes on Income	**20.4**	16.6
	Provision for Taxes on Income	**9.3**	7.8
	Net Income	**$ 11.1**	$ 8.8
Manufacturing	Net Sales and Revenues	**$ 69.4**	$ 66.1
	Costs and Expenses:		
	Manufacturing	**47.7**	45.7
	Selling and administrative	**8.0**	7.0
	Interest	**0.2**	0.2
	Total Costs and Expenses	**55.9**	52.9
	Income Before Unrealized Foreign Exchange Gains (Losses) and Provision for Taxes on Income	**13.5**	13.2
	Unrealized Foreign Exchange Gains (Losses)	**0.1**	(0.1)
	Income Before Provision for Taxes on Income	**13.6**	13.1
	Provision for Taxes on Income	**6.4**	6.5
	Net Income	**$ 7.2**	$ 6.6
Rental and Leasing	Revenues	**$ 71.0**	$ 57.7
	Expenses:		
	Direct operating	**34.0**	28.4
	Depreciation of revenue-earning assets—Note 3	**14.6**	9.8
	Selling and administrative	**9.3**	8.2
	Interest	**6.5**	4.5
	Total Expenses	**64.4**	50.9
	Income Before Provision for Taxes on Income	**6.6**	6.8
	Provision for Taxes on Income	**3.0**	2.9
	Net Income	**$ 3.6**	$ 3.9

Household Finance Corporation
and Consolidated Subsidiaries

Balance Sheets

All amounts are stated in millions of dollars.

	March 31	1979	1978
Assets	Cash	$ 38.7	$ 30.3
	Investments in Securities	457.7	387.3
	Receivables:		
	Consumer (less unearned charges, 1979—$772.8; 1978—$644.3)	3,141.4	2,826.4
	Commercial	143.3	78.1
	Total Finance Receivables	3,284.7	2,904.5
	Less: Credit loss reserves	(137.6)	(125.0)
	Insurance policy and claim reserves applicable to finance receivables	(131.7)	(113.4)
	Finance Receivables—net	3,015.4	2,666.1
	Revolving credit accounts purchased from Merchandising Subsidiaries	85.7	84.8
	Receivables—net	3,101.1	2,750.9
	Investments in Subsidiaries	783.0	709.4
	Property and Equipment—net	51.3	42.0
	Other Assets	109.5	109.0
	Total Assets	$ 4,541.3	$ 4,028.9
Liabilities and Shareholders' Equity	Short-Term Debt	$ 709.2	$ 628.3
	Accounts Payable and Other Liabilities	173.5	152.8
	Insurance Policy and Claim Reserves—applicable to risks other than finance receivables	184.8	185.4
	Taxes on Income	28.0	5.7
	Senior Long-Term Debt	2,069.9	1,778.2
	Senior Subordinated Long-Term Debt	194.9	197.4
	Shareholders' Equity	1,181.0	1,081.1
	Total Liabilities and Shareholders' Equity	$ 4,541.3	$ 4,028.9

Household Finance Corporation
and Consolidated Subsidiaries

Statements of Changes in Financial Position

All amounts are stated in millions of dollars.

	Three Months Ended March 31	**1979**	1978
Resources Provided	Operations:		
	Net income	**$ 46.2**	$ 28.4
	Nonfund transactions:		
	Provision for credit losses	**17.9**	16.3
	Future policyholders' benefits—net increase	**14.4**	13.1
	Undistributed earnings of nonconsolidated subsidiaries	**(16.2)**	(13.6)
	Unrealized foreign exchange (gains) losses	**(8.9)**	15.9
	Depreciation and amortization	**1.4**	1.0
	Taxes on income—net (decrease)	**(9.5)**	(4.7)
	Deferred income taxes (credits)	**4.6**	(1.7)
	Accounts payable and accrued expenses—net increase	**15.7**	13.7
	Other—net	**0.1**	(1.2)
	Total Resources Provided by Operations	**65.7**	67.2
	Collections on receivables (except finance charges and insurance premiums included in net income)	**403.2**	374.1
	Total Resources Provided by Operations and Collections on Receivables	**468.9**	441.3
	Short-term debt—net increase (decrease)	**10.8**	(19.3)
	Long-term debt issued	**7.5**	
	Other—net	**(11.6)**	4.2
	Total Resources Provided	**$ 475.6**	$ 426.2
Resources Applied	Loans made and acquired (excluding balances on refinanced contracts)	**$ 398.9**	$ 381.7
	Revolving credit accounts purchased from Merchandising Subsidiaries	**56.6**	57.1
	Investments:		
	Securities—net increase (decrease)	**14.5**	(37.1)
	Property and equipment	**2.4**	3.7
	Long-term debt paid	**5.1**	4.9
	Cash dividends	**18.6**	16.8
	Cash—(decrease)	**(20.5)**	(0.9)
	Total Resources Applied	**$ 475.6**	$ 426.2

Notes to Financial Statements

1. Change in Reporting Entity

Alexander Hamilton Life Insurance Company of America (Household's noncredit life insurance subsidiary) was acquired on March 31, 1977 and the Company's investment had been accounted for on the equity method. On December 31, 1978, Alexander Hamilton and Maryland Life Insurance Company of Baltimore (Household's credit life insurance subsidiary) were merged into a wholly-owned subsidiary of Household. Alexander Hamilton's results are now included in the consolidated financial statements. The 1978 financial statements have been restated for this change in reporting entity. This restatement had no effect on reported earnings and related earnings per share.

2. Taxes on Income

The effective tax rates of the Finance Business for the three-month periods ended March 31, 1979 and 1978 of 39.1% and 49.4%, respectively, differ from the statutory Federal income tax rate of 46% in 1979 and 48% in 1978 principally because of the effects of (a) the exclusion from taxable income of a portion of the unrealized foreign exchange gains and losses, on which the probability of being taxed or receiving a benefit is considered remote, (b) the permanent difference arising from changes in the life insurance subsidiary's policyholders' surplus, (c) investment tax credits arising principally from leveraged leasing transactions, and (d) state income taxes net of Federal tax benefit.

3. Depreciation Expense

Rental and Leasing's net gains on disposals of revenue-earning assets were $4 and $4.2 million and are included in depreciation expense for the three months ended March 31, 1979 and 1978, respectively. These net gains are considered by management to be inseparable elements of total depreciation expense.

Annual Meeting of Shareholders

The 1979 Annual Meeting of HFC shareholders was held April 17, 1979, at the Corporation's new International Headquarters in Prospect Heights, Illinois. Mr. G. R. Ellis, Chairman of the Board and Chief Executive Officer, presided. Represented at the meeting in person or by proxy were more than 35 million shares of common and preferred stock, over 72% of the outstanding shares entitled to vote. Business transacted at the meeting included the election of the 16 management nominees as directors for a term of one year, the adoption of a resolution ratifying the appointment of Deloitte Haskins & Sells as the Corporation's independent auditors for the current year and the adoption of an amendment to the 1976 Employee Stock Option Plan increasing the authorized number of shares of common stock, which may be issued pursuant to the plan, from 1,000,000 to 2,500,000.

After serving as a Director for 13 years, Albert O. Steffey reached the mandatory retirement age for members of the Board and did not stand for reelection. Mr. Steffey first joined HFC in 1965 when the Company acquired City Products Corporation. He continued as Chairman and Chief Executive Officer of Household's Merchandising Division until he retired from that position in 1971. Mr. Steffey continued as a Director of HFC and served on several committees of the Board of Directors. We wish to acknowledge Mr. Steffey's many contributions to Household throughout this period of rapid growth and diversification.

Mr. Richard H. Headlee was elected for the first time to the Board of Directors. Mr. Headlee has served as President and Chief Executive Officer of Alexander Hamilton Life Insurance Company of America since 1972 and has been with Household since its acquisition of Alexander Hamilton in 1977.

Mr. D. C. Clark, President, reviewed the progress of the Corporation over the past several years. The Corporation's fully diluted earnings per share have grown from 1974 through 1978, at an annual compounded rate of 12.5% before *unrealized* foreign exchange gains and losses. During this same period, stockholders' return on average book equity increased from 12.9% in 1974 to 15.8% in 1978, again based on earnings before *unrealized* foreign exchange gains and losses.

Mr. Ellis then commented on each of the Company's four major businesses and on the Company's diversification which in itself has become a source of strength.

Household will continue to broaden its line of financial services, domestically and internationally. Mr. Ellis cited the Consumer Finance Division's successful homeowner loan program and income tax service, as examples. Commercial finance activities will emphasize the rapidly growing leveraged leasing program.

As one of the nation's largest general merchandising companies, we are already diversified and geographically dispersed. Major capital expenditure programs will continue to add new stores and improve existing ones. A key management strategy is to continue to reach customers by emphasizing quality products and services at value prices.

Our diversified manufacturing business is well balanced between consumer and commercial product lines. New product development is a key strategy that will continue to make important contributions to manufacturing sales. We are an industry leader in many of our major product lines and committed to maintaining that position. The Company continues to explore acquisition opportunities in the manufacturing area.

At National Car Rental, we are developing new markets not only for car rentals, but also for car and truck leasing. In 1978, the leasing operations were consolidated under the Lend Lease name to facilitate new marketing programs to capitalize on the growing interest in vehicle leasing. National will continue to provide a high level of customer service in a very competitive market. We expect to maintain the momentum we have begun in our innovative programs, particularly in car and truck maintenance.

Turning to the Corporation as a whole, Mr. Ellis stated that "our diversification strategy has been successful and is today regarded as an added strength by investors. Our major businesses are basically retail and consumer oriented and they are all financially sound and facing a challenging but bright future. The end result we are aiming for is steady, balanced growth in sales and earnings. A high return on investment is a key goal. We will continue to regularly review our dividend policy. We are financially strong, experienced in our businesses and well equipped to meet the challenges of the future."

Corporate Information

Finance

HFC Consumer Finance Division
2700 Sanders Road
Prospect Heights, Illinois 60070
(312) 564-5000

Consumer Finance
2,081 branch offices in the United States, Canada, the United Kingdom, Puerto Rico, Japan, and represented in Australia through 36 offices of David Jones—Household Finance Limited.

HFC Trust Limited (United Kingdom)
consumer finance and banking.

Alexander Hamilton Life Insurance Company of America
ordinary life and credit insurance.

HFC Leasing, Inc.
commercial leasing—financing of major equipment such as commercial aircraft, ocean-going vessels, railcars, mining equipment and computers.

Keystone Savings and Loan Association
11 offices in Southern California.

Industrial Banks
consumer finance and banking—5 banks in Colorado.

Money Management Institute
consumer education—booklets and filmstrips on all aspects of personal and family money management.

Merchandising

City Products Corporation
1700 S. Wolf Road
Des Plaines, Illinois 60018
(312) 298-8800

Retail:

T.G.&Y.
general merchandise chain—913 stores in 29 states.

Whites (company-owned)
hard goods chain—93 stores in 9 states.

Vons
150 supermarkets in Southern California and Nevada

Home Furnishings:

Huffman-Koos
14 stores in New Jersey

Barker's
15 stores in Los Angeles, California

Colby's
4 stores in Chicago, Illinois

American Furniture
7 stores in El Paso, Texas

Wholesale:

Ben Franklin
variety chain—1,916 independently owned stores operating in all 50 states.

Coast-to-Coast
1,197 franchised hardware stores in 26 states.

Whites (franchised)
hard goods chain—489 stores in 17 states.

Manufacturing

King-Seeley Thermos Co.
2700 Sanders Road
Prospect Heights, Illinois 60070
(312) 564-3910

Outdoor Living:

Thermos®
manufacturer of vacuumware, jugs and ice chests, plastic insulated tableware, snack jars, lunch kits.

Structo®
manufacturer of charcoal and gas barbecue grills.

Metallized Products
all weather emergency and sportsman's blankets, custom vacuum metallized films.

Commercial Refrigeration:

Scotsman®
manufacturer of commercial ice systems.

Halsey Taylor
manufacturer of refrigerated water coolers and drinking fountains.

Industrial:

Almco®
manufacturer of industrial metal finishing equipment.

Albion
designer, developer, and manufacturer of high quality industrial casters and wheels for the materials handling industry; special urethane products.

King-Seeley
manufacturer of high quality control mechanisms for the cooking appliance industry.

Fabricators
manufacturer of soft and hardboard products for the automotive industry.

Rental and Leasing

National Car Rental System, Inc.
5501 Green Valley Drive
Minneapolis, Minnesota 55437
(612) 830-2121

National Car Rental
car rental

Lend Lease
car leasing, truck rental and leasing

Mud Cat
a portable dredge used for environmental control of lakes and industrial settling ponds.

Household Finance Corporation

International Headquarters
2700 Sanders Road
Prospect Heights, Illinois 60070
(312) 564-5000

Management

Corporate Officers

Gilbert R. Ellis
Chairman of the Board and Chief Executive Officer

Donald C. Clark
President

Robert E. Bouma
Senior Vice President and General Counsel

James L. McCormick
Senior Vice President Government and Public Affairs

John W. Ostrem
Senior Vice President Planning and Development

John B. Spring
Senior Vice President and Chief Financial Officer

James D. Pinkerton
Vice President Administration and Secretary

Gaylen N. Larson
Group Vice President and Controller

Robert K. Strasser
Treasurer

Division Officers

Finance
Finance Division

William D. Hendry
President

Executive Vice Presidents
William J. Hunckler
Walter Kinka

Senior Vice Presidents
Buel Clifton
David E. Knudsten
Glenn R. Sanders
William B. Williams

Household Finance Corporation of Canada

Donald G. Bennett
President

Executive Vice President
Frank E. Silk

Alexander Hamilton Life Insurance Company of America

Richard H. Headlee
President

Executive Vice President
Albert C. Hassel

Merchandising
City Products Corporation

James M. Tait
President

Executive Vice President
Lawrence A. Del Santo

Senior Vice Presidents
Robert E. Potts
Roger E. Stangeland

Manufacturing
King-Seeley Thermos Co.

Robert C. Trow
President

Group Executive Vice Presidents
Gary G. Dillon
Jackson H. Sell

Transportation
National Car Rental System, Inc.

Joseph W. James
President

Executive Vice President
Bemiss A. Rolfs

Committees of the Board

Audit Committee
The Audit Committee reviews the Corporation's internal controls and financial reports and the examinations made by the independent auditors.
T. D. Flynn, *Chairman*
G. P. Osler
M. Upton
M. J. Head

Compensation Committee
The Compensation Committee determines the salaries, bonuses and stock options for senior company management.
M. Upton, *Chairman*
J. T. Gurash
M. P. Kartalia

Nominating Committee
The Nominating Committee recommends candidates for Board membership.
J. T. Gurash, *Chairman*
G. R. Ellis
M. Upton

Executive Committee
During intervals between Board meetings, the Executive Committee may act for the Board.
G. R. Ellis, *Chairman*
J. T. Gurash
A. E. Rasmussen
D. C. Clark
G. W. Rauch

Finance Committee
The Finance Committee advises and makes recommendations to the Board on financial matters and approves the sale of the Corporation's long-term debt securities.
D. C. Clark, *Chairman*
A. E. Rasmussen
G. W. Rauch
G. R. Ellis
J. M. Tait
M. P. Kartalia

Design: Boller/Coates/Robert

Major Photography: Hedrich Blessing