Household Finance Corporation
1978 Annual Report

nce Company

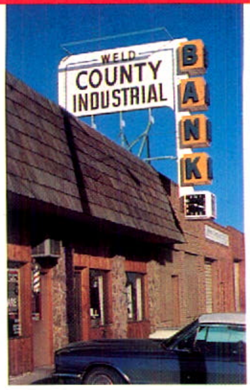
HFC Leasing Inc.
Commercial leasing

HFC Trust Limited (United Kingdom)
Consumer finance and banking

Keystone Savings and Loan Association
Savings and loans

Industrial Banking Group
Consumer finance and banking

Money Management Institute
Consumer education



Wholesale

Huffman-Koos
Barker's
Colby's
American Furniture
Home furnishings

White Stores (company-owned)
Hard goods chain

Ben Franklin
Variety chain

Coast-to-Coast
Hardware chain

White Stores (franchised)
Hard goods chain

d Products
all weather
y and sportsman's
custom vacuum
d films

Commercial Refrigeration Products

Scotsman®
Automatic ice machines

Halsey Taylor
Drinking fountains and water coolers

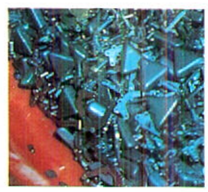
Industrial Products

Albion
Industrial casters and wheels

Almco®
Metal finishing machines and medias

Fabricators
Automotive trim

King-Seeley
Appliance controls



Rental

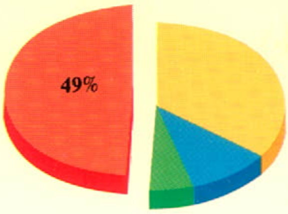
Lend Lease
Car leasing
Truck rental and leasing

Mud Cat
Portable dredging machines

This is Household Finance Corporation:

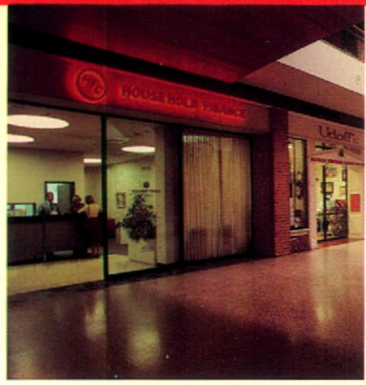
Finance

Household provides a broad range of financial services including consumer loans and sales finance, insurance, income tax services, consumer banking, and commercial leasing and financing. HFC's Consumer Finance Division makes consumer loans through more than 2,000 branch offices in the United States, Canada, the United Kingdom, Puerto Rico and Japan. As the nation's oldest and largest consumer finance company specializing in personal cash loans, Household has 2.7 million customers and $3.3 billion in finance receivables. Alexander Hamilton Life Insurance Company of America offers credit insurance as well as ordinary life insurance.



% of 1978 Earnings

HFC Consumer Finance Division
Consumer loans

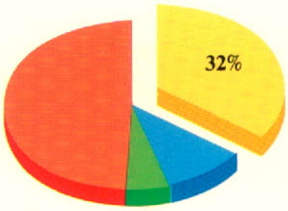


Alexander Hamilton Life Insur
of America
Life insurance

Merchandising

Retail

City Products Corporation is one of the largest merchandising companies in the United States with annual sales exceeding $3.3 billion. Its diversified divisions engage in retail merchandising as well as the wholesale distribution of consumer goods. The company owns and operates retail stores of three types: general merchandise stores, supermarkets and home furnishings stores. Wholesale operations offer wide selections of general merchandise to independent retail store franchisees for sale to consumers.



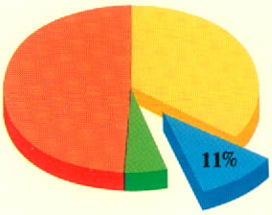
% of 1978 Earnings

T. G. & Y.
General merchandise chain

Vons
Supermarkets

Manufacturing

King-Seeley Thermos Co. is a diversified manufacturing company with annual sales of more than $230 million. It operates 17 plants in the United States, Canada, the United Kingdom and Italy. The company serves the consumer, commercial and industrial markets. Outdoor living consumer products include Thermos® brand vacuumware and Structo® barbecue grills. Commercial refrigeration equipment includes Scotsman® brand ice systems and Halsey Taylor refrigerated water coolers and drinking fountains. Industrial products include Albion industrial casters and wheels, Almco® metal finishing equipment and King-Seeley cooking appliance controls.



% of 1978 Earnings

Outdoor Living Products

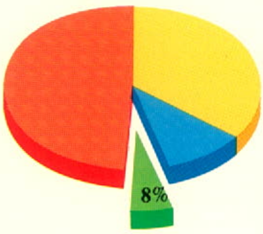
Thermos®
Vacuumware, jugs and ice chests, insulated tableware, plastic snack jars, lunch kits

Structo®
Barbecue grills

Metalliz
Tanning,
emergen
blankets,
metallize

Rental and Leasing

National Car Rental System, Inc. rents and leases transportation vehicles with annual revenues of more than $260 million. It is one of the largest car rental companies in the world. Through company-owned facilities, licensees and affiliates, National is represented at more than 2,000 locations in 85 countries and territories. Under the Lend Lease name, the company is also engaged in truck rental and leasing and car leasing. Under the Mud Cat name, the company markets a small dredge used for environmental control of lakes and industrial settling ponds.



% of 1978 Earnings

National Car Rental
Car rental

Earnings are before *unrealized* foreign exchange gains and losses and expense from Corporate Operations.

About the Cover

Ringed by forest preserves and quiet ponds, the new International Headquarters of Household Finance Corporation is a spacious building that is comfortable and efficiently designed. A low structure of earth toned brick, the building houses our Corporate executive staff and serves as the headquarters for our Finance and Manufacturing Businesses; it is located in Prospect Heights, Illinois, about 25 miles northwest of Chicago. The new headquarters opened in the summer of 1978, coinciding with the celebration of Household's 100th anniversary year.

At the center of the building, a four-story atrium unites the building's four wings and contains a beautiful enclosed garden full of plants and trees, waterfalls, rock formations, walks and benches. The garden is illuminated—and warmed—by sunlight which enters from the glass roof overhead.

Departmental areas were planned for the people who use them and incorporate the latest principles of office design. Work areas are flexible to provide efficient traffic flow and provide employees an outside view.

Energy conservation was also a major concern. Heat generated by the building's occupants, its computer equipment and lights is recycled to heat the building in winter.

A great deal of thought went into planning our new home. The result is a place striking, inviting and approachable. It will serve our needs for many years to come.

Household Finance Corporation ranks among the nation's largest diversified corporations. We have a balance of basic businesses. Our decentralized operating companies are industry leaders in the fields of consumer finance and other financial and insurance services, merchandising, manufacturing, and vehicle rental and leasing. Our markets are concentrated in the United States and Canada with selective diversification in other countries. We employ 74,000 people.

Financial Highlights

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

		1978	1977	Percent Change
Volume	Finance receivables outstanding at December 31:			
	Consumer	**$ 3,136.8**	$ 2,837.2	+ 11%
	Commercial	**134.2**	73.8	+ 82
	Total	**3,271.0**	2,911.0	+ 12
	Merchandising net sales and revenues	**3,312.6**	2,846.9	+ 16
	Manufacturing net sales and revenues	**232.2**	209.3	+ 11
	Rental and Leasing revenues	**261.8**	201.1	+ 30
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	**$ 96.8**	$ 94.6	+ 2%
	Merchandising	**64.0**	52.8	+ 21
	Manufacturing	**21.2**	18.9	+ 12
	Rental and Leasing	**16.1**	14.0	+ 15
	Corporate	**(22.5)**	(20.0)	+ 13
	Total	**175.6**	160.3	+ 10
	Per common share:			
	Primary basis	**3.67**	3.38	+ 9
	Fully diluted basis	**3.43**	3.13	+ 10
Unrealized Foreign Exchange Gains (Losses) Less Related Tax Effects	Finance	**(22.4)**	(22.1)	
	Manufacturing		0.3	
	Total	**(22.4)**	(21.8)	
Net Income		**$ 153.2**	$ 138.5	+ 11%
Earnings Per Common Share	Primary	**$ 3.18**	$ 2.90	+ 10%
	Fully diluted	**2.99**	2.71	+ 10
Dividends Declared Per Common Share		**$ 1.375**	$ 1.250	+ 10%
Average Number of Common Shares Outstanding	Actual	**45.6**	44.8	+ 2%
	Fully diluted basis	**51.2**	51.1	

Household Finance Corporation
International Headquarters
2700 Sanders Road
Prospect Heights, Illinois 60070

To the Shareholders:

D. C. Clark and G. R. Ellis overlooking the atrium of Household's new International Headquarters.

Record Results for our Centennial Year

We are pleased to report record results for 1978, Household's centennial year. Earnings reached new highs for all four of our major businesses. Earnings were up 10% to \$175.6 million or \$3.43 per fully diluted common share, before *unrealized* foreign currency exchange gains and losses. For a full discussion of Household's foreign exchange position, see page 28 in the Financial Review. The 1978 increase follows increases of 19% in 1977 and 23% in 1976.

Our net income in 1978, after *unrealized* foreign exchange gains and losses, was a record \$153.2 million or \$2.99 per fully diluted share. Net income for 1977 was \$138.5 million or \$2.71 per fully diluted share.

During the year Household passed the \$3 billion mark in receivables in the Finance Business. We opened our first consumer finance branch office in Japan. Our Merchandising Business exceeded \$3 billion in sales; sales for Vons supermarkets topped \$1 billion. During the summer, we moved into our new International Corporate Headquarters in Prospect Heights, Illinois.

These accomplishments and the record results of the past year attest to the fine performance of our 74,000 employees and their ability to continually improve our services and products.

Dividends and Shareholders' Equity

In September, the Board of Directors declared an 11.5% increase from \$0.325 to \$0.3625 per share in the quarterly cash dividend on common shares. The present annual dividend rate is \$1.45 per share. We have paid quarterly dividends for 53 consecutive years and the dividends paid on each share of common stock have increased each year for 26 years. The average annual compounded growth rate in these dividends over the past five years has been 9.3%. The Consumer Price Index increased 8.0% annually over this period. This means our U.S. common shareholders have been able to stay ahead of the inflation rate over the last five years with their cash dividends.

Household's earnings before *unrealized* foreign exchange gains and losses represented a 15.8% return on shareholders' average book equity in 1978, compared to 15.5% in 1977. This reflects our efforts to improve the return which has progressed from 12.9% in 1974, 12.2% in 1975 and 14.0% in 1976.

Finance

Before adjusting for the Canadian dollar exchange rate, 1978 consumer finance receivables increased 12% or \$345.7 million. The Homeowner Loan Program continued to be an important growth factor. Customer open accounts increased by 153 thousand to 2.7 million. Commercial finance receivables, which include leveraged leases of capital equipment, grew to \$134.2 million, an increase of \$60.4 million.

Finance Business earnings increased 2% to \$96.8 million before taking into account \$22.4 million of aftertax *unrealized* foreign exchange losses in 1978. Results were adversely affected by higher interest costs caused by the sharp rise in short-term interest rates.

Consumer delinquency was at the lowest year-end level in 22 years. The percentage of our customers' incomes required for their monthly loan payments to Household continued to decline. For a further discussion of consumer debt levels, see page 16.

In December 1978 American Investment Company (AIC) shareholders approved a proposed merger of AIC into a subsidiary of Household. AIC has over 450 consumer finance offices in 30 states and approximately

$400 million in consumer receivables. Under the merger agreement, AIC shareholders will receive a total of $76 million, an amount approximating book value. The merger is conditional upon various governmental approvals. On January 9, 1979, the Justice Department filed a civil suit to restrain the proposed merger, alleging violation of the antitrust laws. Both Household and AIC are contesting vigorously the Department's efforts to prevent the merger.

Merchandising Net sales of our diversified Merchandising Business increased 16% to $3.3 billion in 1978. Net income increased 21% to a record $64 million. Our return on average book equity was 15.2%. Vons supermarket chain in Southern California achieved sales in excess of $1 billion, becoming the second of our Merchandising divisions to pass this mark. T.G.&Y., the retail general merchandising chain located mainly in the South and Southwest, became a $1 billion retailer in 1977. Vons and T.G.&Y. were both strong performers in 1978.

Manufacturing Net sales of the Manufacturing Business increased 11% in 1978 to $232.2 million. Before *unrealized* foreign exchange gains and losses, earnings increased 12% to $21.2 million, representing a return of 18.4% on the average book equity of our Manufacturing Business. Our refrigeration and industrial products' operations in particular reported good performances. We will continue our search to expand the Manufacturing Business through acquisitions, in addition to our own new product development.

Rental and Leasing National Car Rental System, Inc. attained a 30% increase in revenues in 1978 to $261.8 million. Income of the Rental and Leasing Business increased 15% to $16.1 million. Discounted air fares and increased air travel boosted car rental reservations, and fleet utilization was high. At airport locations National continued to strengthen its market position. The car leasing and truck rental and leasing operations were consolidated under the Lend Lease name.

Management Early in 1979, William D. Hendry succeeded William E. Wehner as President of HFC's Consumer Finance Division and as a member of Household's Board of Directors. Mr. Hendry, who has been with the Company for 38 years, previously served as Executive Vice President of the Consumer Finance Division. Mr. Wehner retired after more than 42 years with Household. He contributed importantly to our success, serving as the first President of the Consumer Finance Division, which was established formally in 1973.

During 1978, Robert E. Bouma was appointed Senior Vice President and General Counsel of the Corporation, a new internal post created at the recommendation of George W. Rauch, Household's former General Counsel. Mr. Rauch continues as a member of the Board of Directors. James L. McCormick was promoted to Senior Vice President—Government and Public Affairs. James D. Pinkerton was appointed Vice President—Administration in addition to his previous post as Secretary of the Corporation.

Outlook Although economists differ, the consensus is that short-term interest rates in 1979 will be higher on average than in 1978. During the latter part of 1978 we witnessed the beginning of this movement toward higher rates. To curb the effects of rising interest rates on Household's cost of borrowed capital in the Finance Business, we maintain approximately 75 percent of our total debt in long-term borrowings. This significantly reduces the impact of swings in short-term interest rates on our overall money costs. The Company is also protected against the effects of rising interest rates by its diversification within the Finance Business and in other businesses as well. We expect that increased short-term interest rates in 1979, however, will have a particularly adverse effect on our Consumer Finance Business. Today, an increase or decrease of one full percentage point in short-term money costs, based upon the 1978 level of average borrowings, has an annual impact of about 7¢ per fully diluted share.

We plan to comply with the Wage and Price guidelines implemented by the Federal Government, even though they will cause many inequities and we question their merit and efficiency. The root of inflation, we believe, is large and continued government deficit spending. Efforts by private enterprise to control inflation will not succeed unless they are coupled with meaningful and consistent curtailed government spending. Although they will have an impact, the overall effect of the Wage and Price guidelines on Household is not expected to be significant.

Economic circumstances in the years ahead will continue to test Household's strength and resourcefulness. We are confident, however, of our leadership positions in our four major diversified businesses, each of which is healthy and prospering. From a foundation built over 100 years ago, we have grown to become one of the nation's largest diversified corporations, and one of the largest employers as well. We enter our second century with the financial and human resources to achieve the goals of our basic businesses—providing quality goods and services at reasonable prices which insure a *fair return to our* stockholders. In the pages that follow, we will be illustrating some of the many ways that eight out of ten families in the United States come in contact with a Household product or service every year.

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

D. C. Clark
President

February 12, 1979

A Centennial

A Century of Progress

A centennial is an event worth celebrating. The passage of a hundred years tests the strength of institutions and ideas.

At Household Finance Corporation, we are proud to be one of a very few corporations to stand this test of time. A company which began in the dreams of one man has grown quietly to become one of the nation's largest and most diversified corporations. When Frank Mackey founded the company in 1878, he built upon an idea whose time had come—providing loans to the new market of wage earners who were immigrating to America's cities. Since then, HFC has led the way into many other new markets, and answered many other new needs, balancing innovations with experience. We've accepted—and encouraged—change, while preserving the best of the past.

Yesterday

1878 Frank Mackey opens his first lending office in Minneapolis, Minnesota.

1894 With almost 20 offices in operation across the midwest, Chicago is made the Company's headquarters, and the first installment loan plan is created.

1916 The Company helps write the Uniform Small Loan Law to help protect credit-worthy borrowers.

1925 With 34 offices in 26 cities, the Company is incorporated and renamed Household Finance Corporation.

1926 The first quarterly cash dividend on the new Corporation's common stock is paid in January, beginning an unbroken record of consecutive quarterly dividends.

1929 When the depression strikes, HFC helps consolidate the outstanding debts of families, and delays collection of debts until people go back to work. Household stock is listed on the NYSE.

1931 HFC publishes its first consumer education brochure, establishing a program which has led to the distribution of 27 million money management booklets.

1933 HFC opens its first office in Canada through the acquisition of Canada's first chartered consumer loan company.

1946 Outstanding loans top $100 million for the first time, and spurred by the intense post-war demand for credit, HFC enters a period of rapid growth.

1950 The 500th branch lending office is opened in San Francisco, California.

1955 Introduction of the advertising theme, "Never Borrow Money Needlessly."

1959 The 1,000th branch office is opened near Harrisburg, Pennsylvania.

1961 HFC begins a program of diversification with the purchase of the franchising parent of 938 Coast-to-Coast hardware stores.

1964 HFC achieves a record $1 billion in customer notes receivable.

1965 The Corporation acquires City Products Corporation, which has franchised and company-owned retail outlets including T.G. & Y., Ben Franklin, Huffman-Koos, Barker's, Colby's and American Furniture.

1966 HFC acquires White Stores, a company-owned and franchised hard goods chain.

1968 With the acquisition of King-Seeley Thermos, HFC enters the manufacturing field. Sales of the Merchandising Business top $1 billion.

1969 A fourth line of business—vehicle rental and leasing—is established with the purchase of National Car Rental, the country's third largest car rental company. Vons supermarkets are also acquired.

1972 Net income of the Corporation tops $100 million for the first time, and customer notes receivable of the Finance Business reach the $2 billion mark. Diversification continues with the purchase of Maryland Life Insurance Company of Baltimore.

1973 The first HFC Trust office is opened in England to offer consumer finance and banking services throughout the United Kingdom.

1976 The Corporation acquires Keystone Savings and Loan in California, and four industrial banks in Colorado. The chain of HFC Trust offices in the United Kingdom is expanded with the acquisition of Niagara Financial Services Limited, bringing the number of United Kingdom branches to 47.

1977 The 2,000th Consumer Finance branch office is opened, and the Corporation acquires the Alexander Hamilton Life Insurance Company of America. HFC enters the commercial leasing business through leveraged leases of capital equipment.

1978 Finance Business receivables top $3 billion and HFC celebrates its centennial by opening new Corporate Headquarters in Prospect Heights, Illinois. The first HFC lending office in Japan is opened and sales of the Merchandising Business top $3 billion.

Today

Today, Household Finance Corporation touches many aspects of American life. If Household Finance Corporation put its name on everything it financed, on everything it manufactured, rented, leased, insured, or merchandised, almost everyone would see it everyday. Each year, eight out of ten U.S. families come in contact with some service or product of HFC. Our 74,000 employees are active in such varied businesses as consumer finance, commercial finance, insurance and other financial services, merchandising, manufacturing, and vehicle rental and leasing. We are expanding both internationally and at home.

If any single factor explains our success, it is that we have always helped our customers make the most of their lives. From helping people consolidate debts or go to school, to helping them enjoy their leisure, HFC has had an impact on the life of the country. We're proud of our role and proud of the work we do—helping people achieve the things they value most.

The end of our first century is a fitting time to take a look at Household and its role in America's life. To add another dimension to our celebration of this centennial year, the following ten pages contain a special essay. Here we look at some of the things that America values, and how HFC helps keep these values strong. To cover all our businesses would be quite difficult. But we hope to offer new insights into Household Finance Corporation, the diversity of our activities and the many ways that our products and services touch most United States families every year.

"Hats off to the past; coats off to the future."

—American proverb

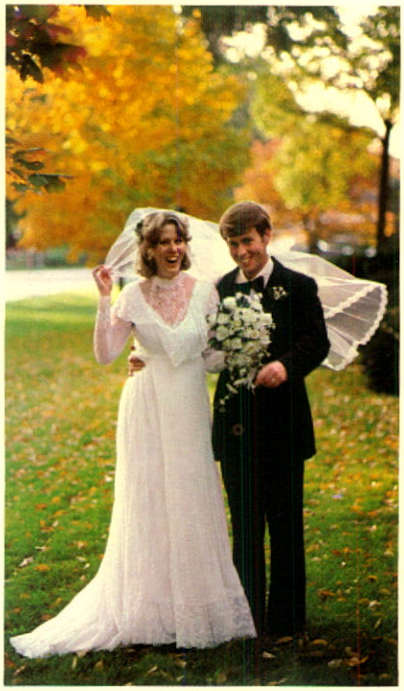
Looking through an entrance corridor at HFC's new International Headquarters in Prospect Heights, Illinois.

"A Strong Family"

The life of a family is made up of a thousand private moments that only those closest to you can ever really share. A family's bonds are forged through small events, through family dinners, and weddings, Sunday outings, and summer camping trips. Each family has such moments—moments when we're reminded of what we're working for, and what we're striving to protect.

Strong, loving families stand out from the crowd. Maybe it's the way a father carries his youngest child, or the way the mother holds an older child's hand, the two of them sharing an adventure. Their happiness spreads to all who see them. Our families make our lives; our families are what we value most.

For four generations, HFC has grown with America; today, 8 out of every 10 families in the United States come in contact with a Household product or service every year. A family may look to HFC to help provide the financial resources they need in many different areas—from college tuition to the bills that accompany home remodeling. In California, they might cook food purchased from a Vons supermarket and celebrate Thanksgiving in a home furnished by Barker's.



Couples just starting out in life often need a little help along the way, and HFC delivers–with needed financial assistance loans, and just as important, advice in managing money wisely. HFC's Consumer Finance Division is the nation's oldest–and largest–finance company specializing in personal loans. The company serves 2.7 million customers from over 2,000 branch offices, spread throughout the United States, the United Kingdom, Canada, Puerto Rico and just starting in Japan.

"A Home of Your Own"

Owning a home has always been a part of the American way of life. We've sung about it, read about it, joked about it. And we've dreamed. Homes are the subject of endless discussions, the object of endless labors, and the focus of our most enduring memories.

Simple or sprawling, restored or new, our homes reveal our deepest ties. It's where you planted your first garden and decorated your first room. Our earliest recollections, our warmest reunions, our greatest discoveries are all fixed firmly to that single place. Home is the one place we can always return to—because we never really leave.

People can find just about everything they need for the house at one of the 4,800 HFC-owned or franchised stores. From paint to plants, from power saws to sewing machines, HFC provides products that local markets need, through its Coast-to-Coast and White stores.

For thousands of people every year, HFC makes the possibility of home improvements come true. Our Homeowner Loan Program gives present homeowners a chance to use equity in their houses as security for large loans. Many customers use the loan proceeds to make major improvements like new kitchens, which add further value to their homes. And HFC even helps out in the kitchen in many ways—with appliance controls by our King-Seeley Division and kitchen utensils from T.G. & Y. or Ben Franklin stores.

HFC's insurance operations provide the protection that every home—and every homeowner—needs. Our life insurance and credit life insurance subsidiary Alexander Hamilton Life Insurance Company of America, serves more than 2 million customers and ranks among the largest 100 of the 1800 life insurance companies in the country.

With four home furnishings companies in major markets across the U.S., HFC helps make a house into a living home. Young couples and established families alike select their new furniture at Huffman-Koos in New Jersey, Colby's in Chicago, Barker's in Los Angeles and American Furniture in the El Paso area.

"I'm the boss"

Working for yourself. It means getting up early and staying up late. Worrying about the weather or the next big sale. Fighting the paper work, and trying to grow.

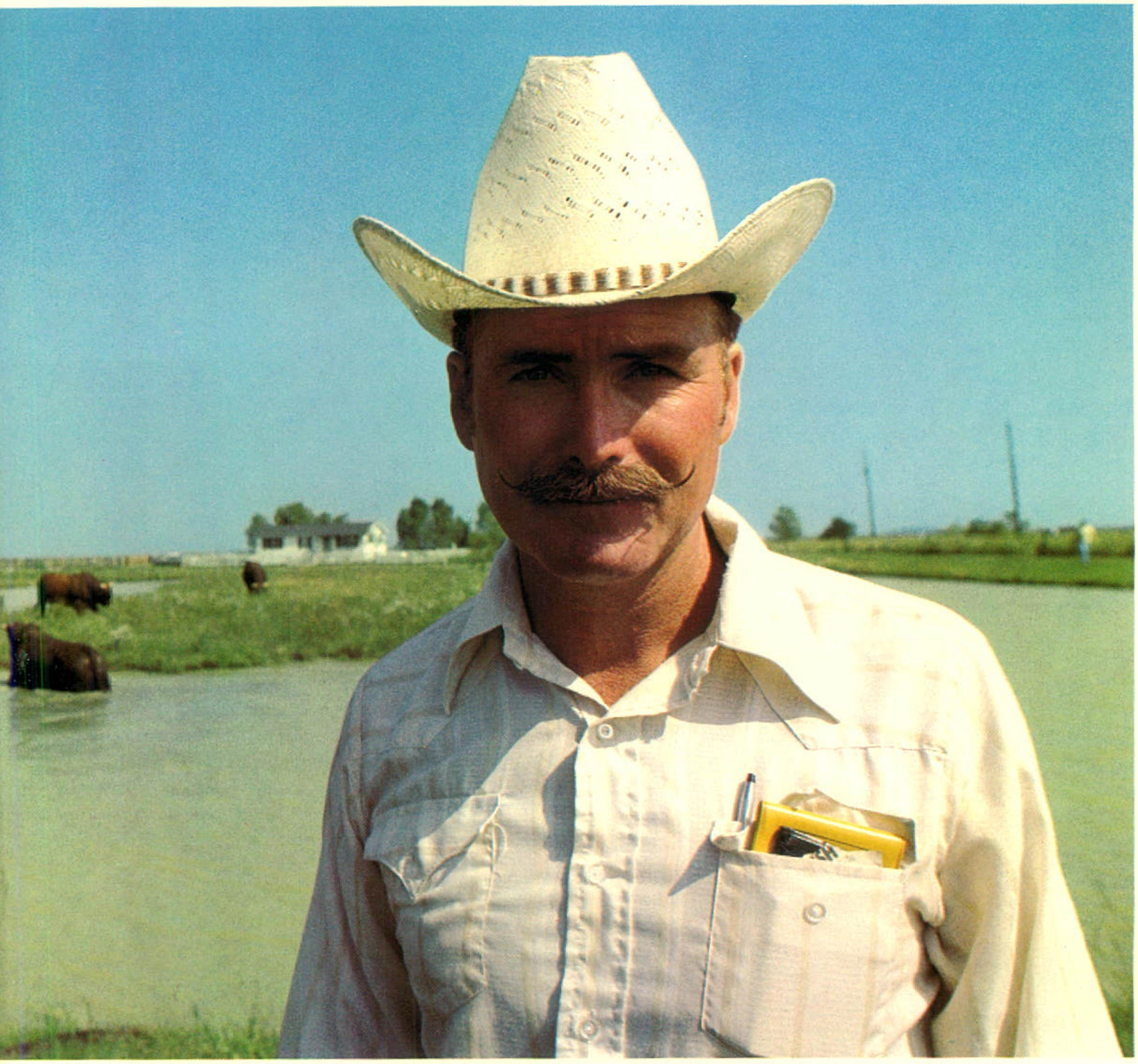
But people with initiative soon find their own rewards, and the history of American business can be written in the names of men and women who went their own way. From the open plains to city towers, we've always valued self-reliance and get-up-and-go.

Today, the tradition of the independent entrepreneur is as strong as ever. From storekeeper to restaurateur, from farmer to physician, many thousands of Americans seek the unique satisfaction of seeing their ideas made real. We're a people who have never forgotten that dreams come true with hard work and perseverance. Many HFC customers got their start in a business of their own as a result of an HFC loan or through an HFC franchising agreement.

Another HFC success story: a Ben Franklin franchise owner in front of his own store in Louisiana. HFC is the wholesale distributor to Ben Franklin stores across the country. Ben Franklin celebrated its 100th anniversary in 1977.

From the yarn shop owner who started her business with a personal loan from HFC, to the travelling veterinarian who leases his car from Lend Lease, HFC provides a variety of services to independent business people.

When you're working for yourself, reliable equipment is a must. Restaurant owners, whether Oriental or French, know that good food and service start with the best supplies. Scotsman® ice machines, from our Manufacturing Business, are found in well-equipped restaurants around the world.



HFC helps feed the country, from hauling cattle feed and fertilizers to ranches and grain to markets in railcars leased by HFC Leasing, to delivering food to restaurants in trucks leased from Lend Lease. We even help clean up our environment; our Mud Cat portable dredging machine is used to restore the ecological balance to farm ponds and rivers alike.

"A Good Education"

From the beginning, Americans have shown a thirst for knowledge and a hearty respect for what learning can accomplish. In a country where success stems from achievement, education can be a means of entrance to the mainstream of American life.

But education is more than a means of achieving success; it also helps us enjoy it. In night schools, seminars, private workshops, and a host of other educational centers, Americans can learn everything from A to Z—auto repair to zoology, from retirement living to new business techniques. Our growth as a nation is reflected in our desire for personal growth. In many instances, loan proceeds are used for educational purposes.

On the campus or the job, HFC is at work supplying many of the machines and fixtures that are an integral part of daily life. The metal parts on the band instruments were finished with the help of HFC's Almco metal finishing subsidiary. To quench the thirst after band practice, Halsey Taylor drinking fountains and water coolers are common fixtures in schools, offices and factories all across the country.

Every September, the nation goes back to school with HFC. Our T.G.& Y. and Ben Franklin stores carry everything from school supplies to clothing, and a wealth of other merchandise too. Our subsidiary City Products Corporation is one of the largest merchandising companies in the United States, with annual sales in excess of $3 billion.

A good education for your children is every parent's dream. At HFC, we're proud that we can help that dream come true. Our Consumer Finance Division has special programs for families with children in college—programs like our Homeowner Loans which provide large sums of money over extended maturities for tuition and other schooling costs.

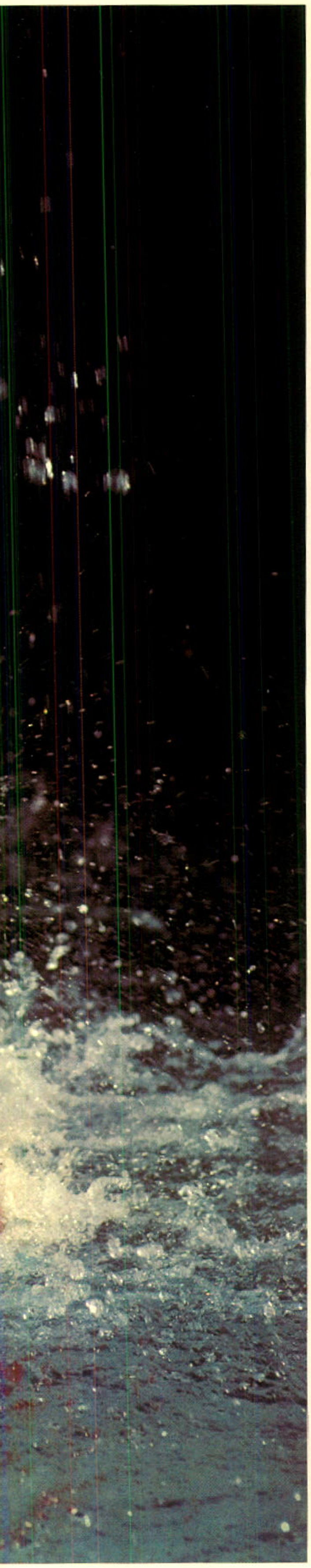
"Some Time Away"

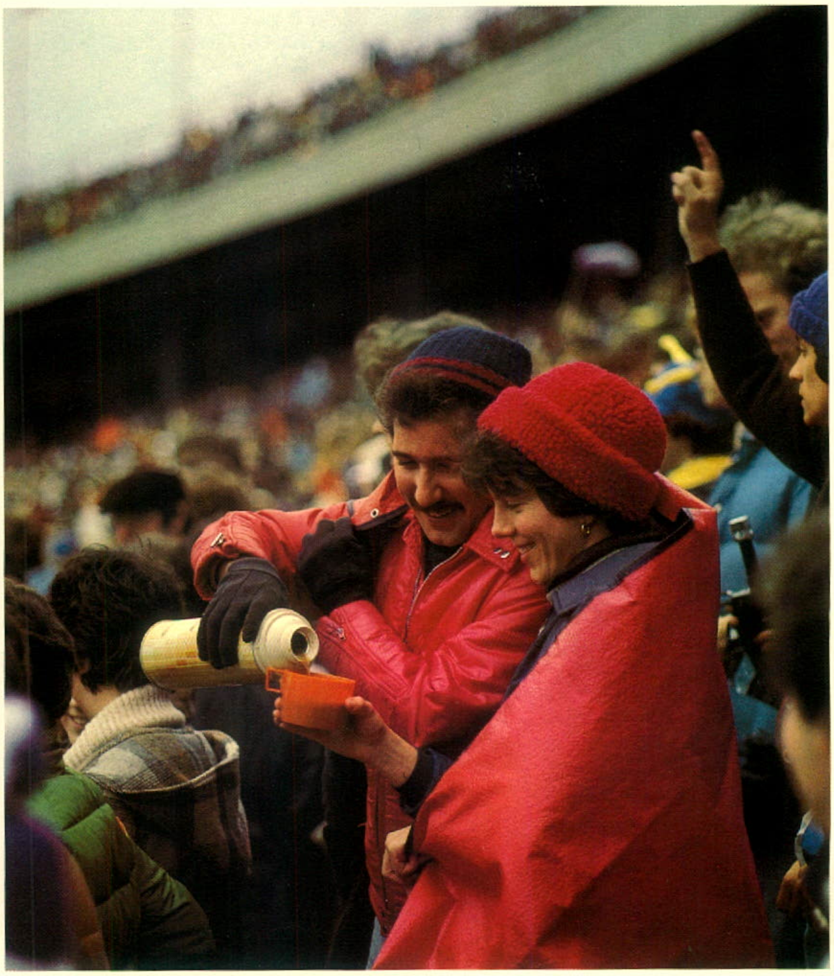
When does a vacation begin? For some, it starts with the thrill of making plans. For others, it begins the moment the plane touches down. But for most of us, time away from the job doesn't really start until we draw our first deep breath of relaxation, and realize that for the next few weeks or hours, our time is all our own.

No matter where we live, it always feels good to get away. Our recreations are the most varied in the world. We spectate and participate; we tour in groups and strike out on our own. From an elegant hotel retreat to the cold morning splendor of a back pack trip in the country, we're always on the lookout for the fresh experience, the new horizon. We work hard at having fun.

HFC helps people get away from it all, with its National Car Rental subsidiary—a landmark in airports and vacation centers represented in 85 countries on five continents. We were the first to establish a computerized central reservation system, and our rental car maintenance program set a new standard in the industry.

HFC's Consumer Finance Division provides a large number of family vacation loans—for trips to visit relatives or a vacation abroad. And our HFC Leasing subsidiary finances the purchase of aircraft to carry people anywhere they want to go.





HFC's T.G.&Y. stores offer a complete line of sporting goods to help people make the most of their leisure time. Our T.G.&Y. stores serve customers in 29 states, and have annual sales in excess of $1 billion.

From crowded stadiums to deserted beaches, Thermos® brand products bring extra enjoyment to outdoor activities. Our Structo® grills are a familiar sight at campsites and backyard barbecues. And the introduction of new products, such as our metallized sportsman blankets, helps our Manufacturing Business grow.

Consumer Finance

In 1978 the Consumer Finance Division reached new highs in finance receivables. At the end of the year, net consumer receivables were $3.1 billion, an increase of $300 million, or 11%. Percentage increases for 1978 were greater than those in 1977 in both the United States and the United Kingdom. In the United States the improved growth rate was widespread, involving two-thirds of the states. An expanded Homeowner Loan Program, backed by an aggressive marketing effort, played the single most important role in the record level of receivables.

By the end of the year Household was operating 1,570 consumer finance offices in 48 states and Puerto Rico, 424 offices in ten Canadian provinces, 67 offices in the United Kingdom and one new office in Japan. Net consumer receivables were almost $2.6 billion in the United States, more than $509 million in Canada and $69 million in the United Kingdom with the operation in Japan just beginning. During the year, receivables advanced more than 12% in the United States, declined 1% in Canada and increased almost 58% in the United Kingdom. The number of customer accounts grew significantly in each country.

The general economic climate improved during 1978 which stimulated the demand for consumer credit. Retail sales were strong, resulting in a higher volume of retail sales contract business. Continued inflation has caused the value of homes to increase dramatically, permitting the homeowner to borrow currently against some of this increased value.

In 1978 the average size of our loans made increased to $1,610 from $1,544 in 1977. The average sales contract acquired increased to $677 from $641 in 1977. The average maturity of loans made in 1978 was 53 months, a lengthening of four months from 1977. Rising customer income and lengthening loan maturities reduced the average monthly loan payment required to 3.8% of customers' monthly incomes in 1978 from 4.0% in 1977.

Recently, much publicity has appeared in the media concerning consumers' "excessive debt levels." Household's statistics suggest that this concern is misplaced. We find that the percentage of customers' monthly incomes required to repay their accounts with Household has declined from 4.8% four years ago to only 3.8% today. In the U.S. economy overall, consumer debt repayments as a percentage of aftertax income has remained remarkably constant since the mid-1960s. Further, our experience shows that consumers generally are careful not to incur more obligations than they can handle, and we observe no recent departure from this behavior. For many years one of Household's themes has been "Never Borrow Money Needlessly," and Household's lending practices are designed to help customers improve their financial situation. Net chargeoffs as a percent of average receivables declined from 2.12% in 1977 to 2.02% in 1978. Overdue balance percentages were at the lowest year-end levels experienced in the past 22 years. Household sees no evidence that its customers today are

Finance

Finance		1978	1977	1976	1975	1974
Consumer Finance Receivables (millions of dollars)	Outstanding at December 31	**$3,137**	$2,837	$2,636	$2,369	$2,364
	Average Outstanding	**2,928**	2,687	2,465	2,329	2,347
	Loans Made	**$2,292**	$2,125	$2,081	$1,836	$1,829
	Sales Contracts Acquired	**527**	430	380	265	295
	Net Chargeoffs of Consumer Receivables	**$ 59**	$ 57	$ 53	$ 53	$ 46
	Percent of Average Consumer Receivables	**2.02%**	2.12%	2.16%	2.28%	1.97%
	Number of Customers (thousands)	**2,683**	2,530	2,425	2,280	2,445
Consumer Finance Averages	Average Size of Loans Made	**$1,610**	$1,544	$1,479	$1,423	$1,328
	Average Balance Due	**1,169**	1,121	1,087	1,039	967
	Average Monthly Income of Borrower	**1,249**	1,176	1,106	1,039	957
	Monthly Payment as Percent of Monthly Income	**3.8%**	4.0%	4.4%	4.5%	4.8%
	Number of Branch Offices	**2,062**	2,015	1,954	1,861	1,831
Commercial Finance Receivables (millions of dollars)	Outstanding at December 31	**$ 134**	$ 74	$ 23	$ 11	$ 4
Total Finance Receivables (millions of dollars)	Outstanding at December 31	**$3,271**	$2,911	$2,659	$2,380	$2,368
	Credit Loss Reserves	**$ 134**	$ 122	$ 111	$ 100	$ 94
	Percent of Year-End Receivables	**4.11%**	4.21%	4.16%	4.20%	3.96%

overburdened with debt and we believe the consumer is well positioned to handle his current debt load.

In recent years, Household has sought to expand the range of services offered to its customers. The first effort in this direction was entry into the financing of retail consumer goods through conditional sales contracts. The volume of this business grew 23% during 1978, and now represents $474.2 million in receivables.

Household's Homeowner Loan Program, which was expanded as one of the most competitive programs in the field in late 1976, showed excellent advances again during 1978. At the end of the year these receivables, in individual amounts as large as $25,000, totaled $457.2 million, an increase of 54% during the year. During early 1979, Household will increase its maximum loan amount to $50,000 where permitted by state law. Care is taken in this program to insure that home equities are conservatively appraised. It is clear that much more development and growth will occur in this market.

The Homeowner Loan Program had a strong performance throughout the year.

We are also experimenting with revolving loans in several states. These loans establish a line of credit upon which the customer may draw for a variety of purposes.

In 1978 our HFC Income Tax Service was offered in 80 branches in five states. Based on favorable first year experience, this new service was extended late in the year to a total of 176 branches in eleven states. We are intensifying our marketing campaign, and the volume of business and profitability are expected to grow.

Household's Direct Mail Merchandising program continued to develop in 1978. Customers in 43 states received eight major mailings during the year. Quality merchandise such as small appliances and electronic equipment was offered at attractive prices with credit terms. Other mail marketing programs were also instituted which contributed to the growth of receivables.

Household's Industrial Banks in Colorado and Keystone Savings and Loan in California, both of which accept deposits, are opening new offices. A new Industrial Bank was opened in January 1979, and additional charter applications are pending. Keystone opened two new branches during 1978, and planned future expansion will add to the existing 11 branches.

The United Kingdom operation, HFC Trust Ltd., grew rapidly in 1978, and 12 new offices were opened. The HFC Trust services have been well received in the market, and the future of this operation is most promising. HFC—Japan opened its first office in September 1978. We are also exploring other promising new markets throughout the world.

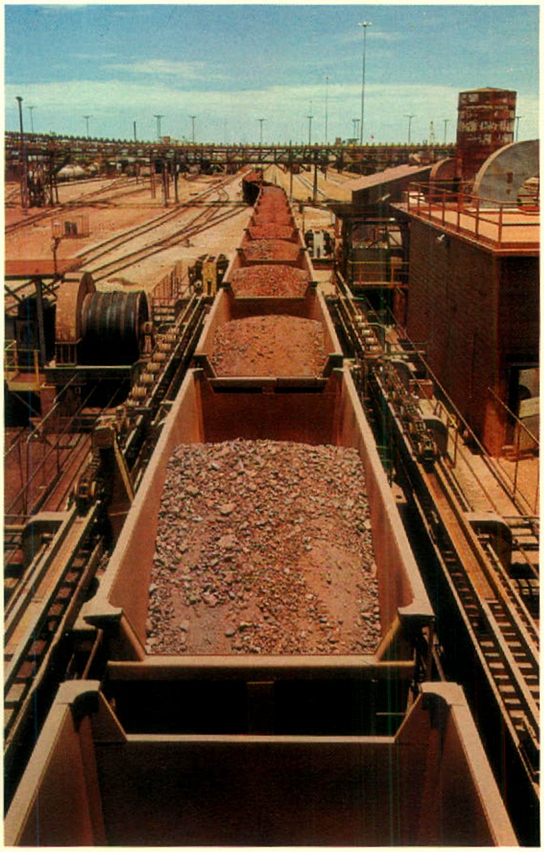
Japan was selected as a new area for HFC's financial services. The first branch office opened in September.

Commercial Finance

Since funding its first transaction in mid-1977, HFC Leasing Inc. (HFCL) has become the sole equity owner and lessor of 2,600 railcars, 800 over-the-road trailers and chassis, five computers and a major piece of mining equipment. In addition, HFCL has substantial equity participation in three commercial aircraft and one ocean-going vessel. The aggregate cost of HFCL's ownership interest is approximately $164 million. The Company's equity investment in the equipment acquired during 1977 and 1978 was approximately $59 million, of which some $16 million has already been recovered through investment tax credits; another $15 million has become available from the deferral of Household's income tax payments. Most HFCL investments are for extended terms which will result in income recognition for many years into the future.

Since 1975, HFC has expanded its commercial lending businesses through purchases of privately placed, limited-term, preferred stocks issued by a number of major U.S. companies. At year-end 1978, the Company had made sixteen such investments for a total of $80 million. Fundings in 1978 amounted to $35 million. These investments have been made predominantly in "A" and "AA" rated corporations with typical terms calling for repayment within five to ten years.

Mining equipment, railcars and jets are leased through HFC Leasing.



Insurance

Household's insurance subsidiary operations have been successfully consolidated at the home office of Alexander Hamilton Life Insurance Company of America in Farmington Hills, Michigan. On a consolidated basis, Household's insurance operations have approximately $4.7 billion of life insurance in force, with assets in excess of $490 million at the end of 1978. During 1978, insurance premiums and commissions were a record $109 million, while policyholder benefits reached $75 million.

Our insurance products have given us a leading position in the credit insurance field through the sale of credit life and accident and health coverages to customers of HFC's Consumer Finance Division. We also offer a complete portfolio of ordinary life products through a general agency system. Historically, the life insurance industry has experienced steady growth; we expect that this area of business will be a relatively stable source of future earnings growth.

Ordinary life insurance activities are conducted through 2400 agents located throughout the 49 states in which the company is licensed. Alexander Hamilton Life Insurance Company of America ranks in the top 100 of the 1800 life insurance companies in the U.S. based on premium income. The company is currently rated A (excellent) by the A.M. Best Company, the highly regarded insurance industry rating service.

Results

In 1978 Household's diversified Merchandising Business continued its solid growth. For the third consecutive year, the gain in income outpaced gains in sales and revenues. Consumers responded favorably to on-going programs designed to give good value and quality service.

Sales and revenues increased 16% to \$3.3 billion, up from \$2.8 billion in 1977. Net income of \$64 million was 21% better than last year's \$52.8 million. A slower pace in the development of new shopping facilities led management to concentrate on improving the sales productivity of existing stores. Net selling square footage grew only 3.2% but productivity gains were noteworthy, and are expected to exceed those reported by other major retailers. Household's Merchandising Business produced a return on average book equity exceeding 15% in 1978. This reflects the Company's efforts to improve the return on Household's investment and positions the Company among the industry's leading performers. Vons contributed the largest sales and income gains, closely followed by the strong performance of the T.G.&Y. general merchandise chain.

White Stores, consisting of both company-operated and franchised stores, improved operations in 1978. Income improvement, however, was not sufficient to offset rising interest costs and a \$2 million pretax provision for closing unsatisfactory stores.

Sales for Vons supermarkets in Southern California surpassed the \$1 billion mark in 1978.

Retail

The retail segment of the Merchandising Business consists of 146 supermarkets, 1,022 general merchandise stores and 40 home furnishings stores. All of these stores are company-owned and operated and represent 80% of our total sales.

Supermarkets

This segment includes Von's Grocery Co. ("Vons") and the Refrigeration Service and Ice Manufacturing Division. This segment's sales in 1978 increased 22% and now represent 36% of the Merchandising Businesses' sales and accounts for 25% of its operating profit.

Vons, which operates 146 supermarkets in Southern California, became Household's second "billion dollar" retail division. In so doing, Vons doubled its volume in less than four years. Operating profits in that same period increased substantially. Vons enjoys a high leadership position among all supermarket companies in the extremely competitive Southern California market. Vons outstanding performance stems from its competitive pricing, innovative store promotions and planning. Vons opened nine stores in 1978; five of these were value centers which are larger, improved facilities designed to serve a wider range of needs. The new Meat Service Center in El Monte became fully operational during the year. During 1979 Vons will expand beyond Southern California for the first time by opening several new supermarkets in the Las Vegas, Nevada area.

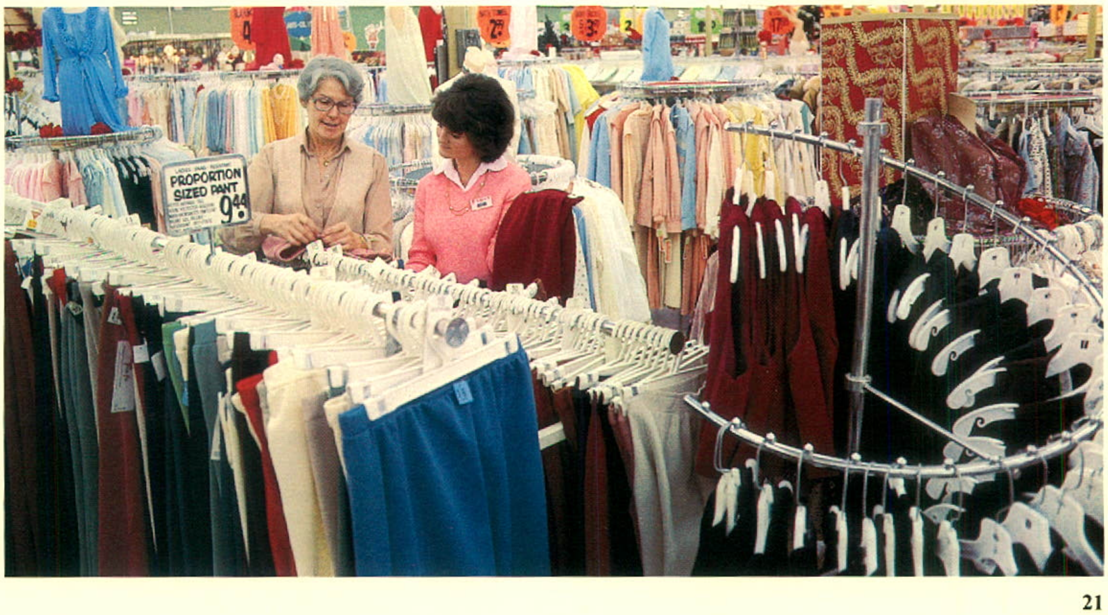
General Merchandise

This segment includes the company-owned stores of T.G.&Y. and White Stores. Sales grew by 18% in 1978 and represented 41% of the total Merchandising Businesses' volume. Operating profits increased 18% during the year, and now represent 49% of the Merchandising Business' operating profit. In 1978 T.G.&Y. recorded strong sales and profit increases. Sales were up 19% from 1977 and profits improved substantially. T.G.&Y.'s improvement results from better merchandise selection and presentation, and strong price promotions. Conversions of smaller stores into larger, modern family centers will continue.

The company-owned retail segment of White Stores increased its sales 4% and reduced its operating loss in 1978 before providing for the cost of planned store closings. The outlook for 1979 is encouraging; plans provide for opening four new retail stores and converting 20 existing stores to a new prototype developed in 1978. Early in 1979 ten smaller stores will be converted to emphasize auto services and a broad selection of auto parts. Further repositioning in the retail division entails closing 12 poorly located stores and a distribution center. These actions will eliminate continuing losses in unproductive stores, release capital for positive use and permit Whites to concentrate on those stores and markets that offer the greatest potential.

Home Furnishings

The home furnishings operations increased sales by 14% in 1978 and improved operating profits by 32%. The 15-store chain of Barker's Home Furnishings Stores in Los Angeles and the 14-store chain of Huffman-Koos Home Furnishings Stores in New Jersey led the group with sales increases of 18% and 17%, respectively. These generally favorable results were achieved by offering merchandise that appealed to specific customer groups and by improving promotion and presentation at the retail level.



In the Misses & Ladies sportswear department at T.G.&Y., stylish proportioned pants are a growing sales category.

Wholesale

This segment of Household's Merchandising Business encompasses the wholesale distribution activities of Ben Franklin, Coast-to-Coast and White Stores. These companies distribute merchandise under franchise agreements to independent store owners. Wholesale sales to these franchised dealers increased 5% in 1978, while comparable operating profits improved slightly, excluding a major capital gain in 1977.

The Ben Franklin Division, which serves over 1,900 independently-owned variety stores, fell short of the sales and operating income levels of 1977. Refined merchandise offerings and a new wholesale pricing strategy are being developed to support a fresh marketing approach. Ben Franklin will soon open a new warehouse in Indiana, replacing a less efficient facility in Ohio.

Coast-to-Coast, which serves nearly 1,200 franchised hardware stores, achieved a record sales increase of 18%. Profits exceeded projections for the year. Coast-to-Coast's strongest growth continues to be in the Western and East Central markets. Coast now operates seven prototype Home Centers and expects to open four new sporting goods specialty stores on a test basis during 1979. If warranted, these concepts will be expanded.

In addition to its retail business discussed earlier, White Stores wholesale business serves nearly 500 independently-owned home and auto stores in the South and Southwest. Growth in this segment of White's business was moderate in 1978; but the outlook is good and the business is profitable. Many new programs have been introduced to improve the growth of White's wholesale business. A new prototype store will be introduced in 1979 to assist store owners in their efforts to increase sales and profits.

Ben Franklin's extensive craft departments are benefiting from the continuing interest in hobbies.

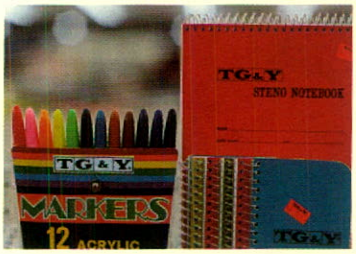
White Stores are getting a new look—one which invites customers to select from a broad range of home and auto products and services.

Merchandising Business

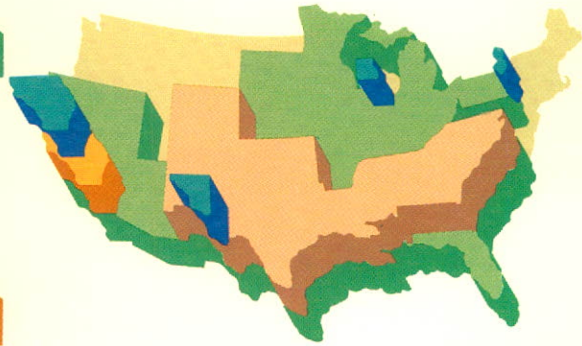
Retail

Geographic Locations

T.G. & Y.



Vons



Also Alaska

Whites (Company-Owned)

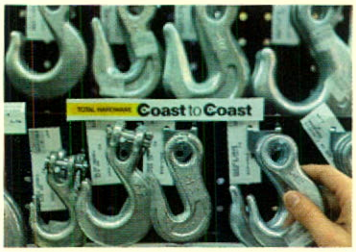
Barker's Colby's

Huffman-Koos American

Retail	Number of Stores 1978	1977	Selling Sq. Ft. (millions) 1978	1977
T.G.&Y.	**917**	920	**18.1**	17.0
Whites (Company Owned)	**105**	109	**1.6**	1.7
Vons	**146**	139	**2.8**	2.6
Barker's, Colby's, Huffman-Koos, American	**40**	39	**1.7**	1.7
Total Retail	**1,208**	1,207	**24.2**	23.0

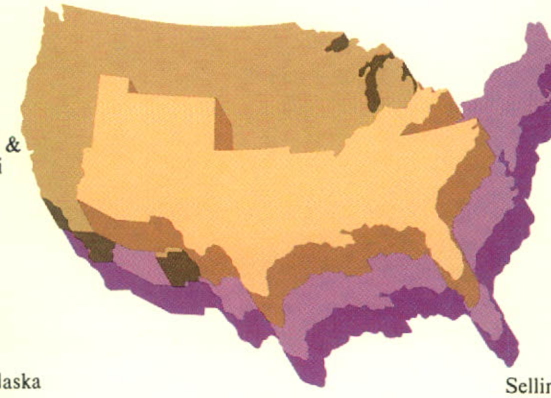
Wholesale

Ben Franklin



Coast-to-Coast

Also Alaska & Hawaii



Also Alaska

Whites (Franchised)

Wholesale	Number of Stores 1978	1977	Selling Sq. Ft. (millions) 1978	1977
Ben Franklin	**1,941**	1,995	**12.2**	12.3
Coast-to-Coast	**1,195**	1,165	**5.7**	5.2
Whites (Franchised)	**497**	530	**2.0**	2.2
Total Wholesale	**3,633**	3,690	**19.9**	19.7

Merchandising

All amounts are stated in millions.	1978	1977	1976	1975	1974	Percent of Total Net Sales 1978	1977	1976	1975	1974
Net Sales by Product Class:										
Retail										
General Merchandise	**$1,351**	$1,149	$1,020	$ 905	$ 807	**41%**	40%	40%	41%	41%
Supermarkets	**1,193**	975	839	749	577	**36**	34	33	33	30
Home Furnishings	**122**	107	97	90	99	**3**	4	4	4	5
Total	**2,666**	2,231	1,956	1,744	1,483	**80**	78	77	78	76
Wholesale										
General Merchandise	**647**	616	565	481	459	**20**	22	23	22	24
Total Net Sales	**$3,313**	$2,847	$2,521	$2,225	$1,942	**100%**	100%	100%	100%	100%
Income before Taxes on Income	**$ 123**	$ 101	$ 81	$ 54	$ 61	**3.7%**	3.5%	3.2%	2.4%	3.2%
Net Income	**$ 64**	$ 53	$ 42	$ 29	$ 33	**1.9%**	1.9%	1.7%	1.3%	1.7%

For additional industry segment information for 1978 and 1977, refer to pages 36 and 37.

Results

Household's diversified Manufacturing Business set new records in 1978. Net sales and revenues increased 11% to $232.2 million compared with $209.3 million in 1977. Earnings before *unrealized* foreign exchange gains and losses were $21.2 million in 1978 compared with $18.9 million in 1977, an increase of 12%. Net income totaled $21.2 million compared with $19.2 million in 1977. Results in the Commercial Refrigeration Products group were particularly strong.

The increase in sales and net income reflected solid product demand in most lines and good customer acceptance of the new items that were introduced. These results were achieved in spite of a 4½ month work stoppage at the Macomb Plant of the Thermos Division that ended on November 25.

A major goal of the Manufacturing Business is to introduce new products and refine existing ones to insure continued growth and profitability. Expenditures in new product development and research were increased in 1978 and larger sums are budgeted for 1979.

Outdoor Living Products

In 1978, the market for leisure time products was characterized by continued growth. Consumers favored personal-sized products that offered new or unique features. In 1979, new Thermos Division products will include another small, personal-sized cooler, the Daytripper®, a two-liter insulated jug with its own dispensing system, a pour-through stopper that will make vacuum bottles more convenient and liter-sized plastic decorated vacuumware with side handles. A new product, the Even Up® Tanning Blanket, was successfully introduced and will be complemented by a new "couples" size in 1979.

The Structo Division made major gains in the fast-growing gas grill segment of the barbecue grill market. Eight gas grills, including three new deluxe models, and 25 charcoal grills will be marketed in 1979. All feature major improvements in convenience and safety.

Outside North America, Thermos Limited in the United Kingdom handles the marketing and production of the Thermos line. The demand for vacuumware was strong in the U.K. market, but recessions affected demand in several export markets. Productivity improved at Thermos Limited when all glass manufacturing was consolidated at one plant.

Canadian Thermos Products Limited continued to be affected by a weak economy. A new line of picnic jugs and the end of government controls are expected to contribute to improved results in 1979.

New Thermos® products maintain the division's leadership in the leisure time market.

Commercial Refrigeration Products

Cubed ice is produced by Scotsman®, the world's largest supplier of ice-making systems.

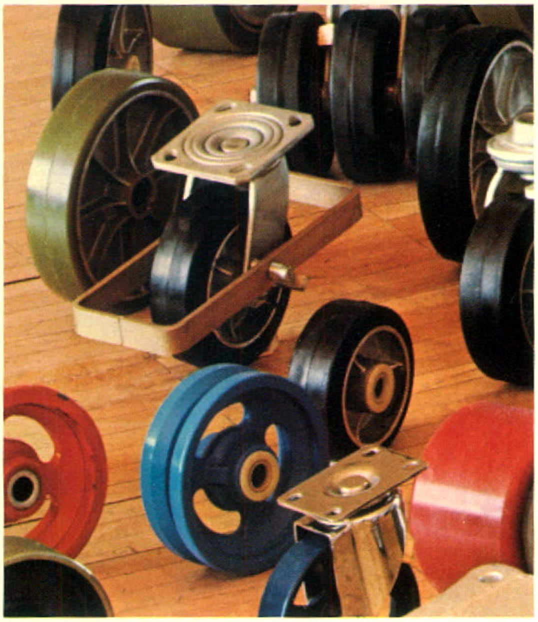
The Halsey Taylor Division implemented a major engineering program for its entire line of electric water coolers resulting in improved reliability, energy efficiency, assembly and parts interchangeability.

The Queen Products Division manufactures Scotsman® brand ice systems. During 1978 our leadership position remained strong. Innovative product development will continue to be the key to our future growth. Current projects will place special emphasis on efficient energy use, greater ice production, sanitary dispensing and ice transportation systems.

Frimont, S.p.A., our Italian subsidiary, manufactures ice systems under the Scotsman® brand name for worldwide distribution. Frimont will introduce a small portable unit that will not require water or drain connections. This is an industry first for a machine that produces clear ice.

In preparation for the 1980 Olympic games, a large quantity of commercial Scotsman® ice machines have been delivered to the USSR.

Industrial Products



Albion is a leader in the market for high-quality casters and wheels.

The Albion Industries Division continued its consistent growth in the medium and heavy-duty caster and wheel market.

Almco Division's line of large specialized metal finishing systems was expanded to include a new series of patented cyclonic filtration systems to filter contaminated industrial liquids.

In 1979 the King-Seeley Division will introduce an all electronic timer/power and temperature control system for microwave ovens and electric ranges.

The Metallized Products Division experienced major growth in 1978. A third metallizing machine will be installed during 1979. This new equipment will permit the division to keep pace with the growing demand in food packaging for vacuum metallized films and papers which are used as substitutes for aluminum foil laminated products.

The Fabricators Division improved its operating record in the highly competitive automotive trim parts market.

Manufacturing

All amounts are stated in millions.	**1978**	1977	1976	1975	1974	Percent of Total Net Sales **1978**	1977	1976	1975	1974
Net Sales by Product Class:										
Outdoor Living	**$111**	$101	$ 95	$ 86	$ 81	**48%**	48%	46%	51%	44%
Commercial Refrigeration	**74**	64	62	48	56	**32**	31	30	28	31
Industrial Products	**47**	44	49	36	45	**20**	21	24	21	25
Total Net Sales	**$232**	$209	$206	$170	$182	**100%**	100%	100%	100%	100%
Income before Taxes on Income	**$ 41**	$ 37	$ 38	$ 26	$ 30	**17.6%**	17.8%	18.3%	15.4%	16.5%
Net Income	**$ 21**	$ 19	$ 18	$ 13	$ 15	**9.1%**	9.2%	8.9%	7.7%	8.2%
Earnings before *unrealized* foreign exchange gains and losses	**$ 21**	$ 19	$ 19	$ 14	$ 15	**9.1%**	9.0%	9.4%	8.0%	8.3%

For additional industry segment information for 1978 and 1977, refer to pages 36 and 37.

Results

National Car Rental System, Inc. experienced a most favorable year in 1978. Revenues increased 30% to $261.8 million, while net income rose 15% to $16.1 million.

Most of this increase came from the Car Rental Division where fleet size, reservations and rental transactions all reached new records. Gains were also made in commercial account sales, travel agency revenue and airline-generated reservations. The used vehicle market was strong throughout the year.

Car Rental

In the important area of airport car rental business, National continued to increase its market position, based on revenue reported to airport commissions. Competitive programs and a continuing emphasis on customer service played key roles in this gain. Lower air fares stimulated airline traffic especially in the summer months and resulted in additional business for the car rental industry, including many first-time car renters.

The off-airport market also expanded during the year, and National anticipates excellent growth in this area as well.

Internationally, National continued to expand with new licensees in such places as Singapore and New Zealand. Together with its international affiliates, Tilden Rent-a-car in Canada and Europcar in Europe, Africa and the Middle East, as well as its own licensees, National is now represented in 85 countries and territories around the world.

Research conducted during the year showed that National's marketing efforts enhanced the

National's emphasis on car condition and customer service, coupled with an aggressive marketing and sales program, produced solid growth during the year.

Before a car can be rented, it must be inspected against the Maintenance Check-List tag.

Computerized diagnostic units analyze a car's condition to help National's maintenance service agents correct any problems.

Company's image, especially in the area of car condition. This aspect of the business will again be emphasized in the coming year. Marketing programs will focus on National's Maintenance Check-List, which assures renters that the cars have been fully checked prior to rental.

Lend Lease

In 1978 the car leasing and the truck rental and leasing operations were consolidated under the Lend Lease name. Consolidation provides an opportunity to develop special marketing programs for these businesses, and to capitalize on the growing interest in vehicle leasing.

Lend Lease's car leasing division currently operates more than 20,000 vehicles, up 25% from last year. In 1978 several new customer services were introduced, including two special credit cards—one to handle purchases of tires, batteries and accessories, and one which can be used to purchase fuel from six major oil companies. The division also improved its Fleet Operation Control and Utilization System (FOCUS). This sophisticated data processing system allows Lend Lease to continue its high level of service.

In 1978 the Lend Lease truck division continued to expand its full-service leasing activities, using premium equipment designed for maximum fuel efficiency. Other customer services included the industry's first simplified one-page contract, a comprehensive preventive maintenance program and a unique miles-per-gallon fuel guarantee. With more than 30 maintenance facilities across the country, and a fleet of nearly 4,000 trucks, Lend Lease is one of the top ten truck leasing operations in the United States.

The name Lend Lease now identifies National's car leasing and truck rental and leasing operations.

Rental and Leasing

All amounts are stated in millions.		1978	1977	1976	1975*	1974
Continuing Operations	Revenues	**$ 262**	$ 201	$ 174	$155	$146
	Income before Taxes on Income	**$29.1**	$24.8	$15.0	$ 0.3	$ 7.0
	Household's Equity in Income	**$16.1**	$14.0	$ 8.8	$ 5.3	$ 4.3

*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 Rental and Leasing Business and tax benefits resulting from the realization of pre-1973 net operating loss carryforwards of approximately $1.4 million.

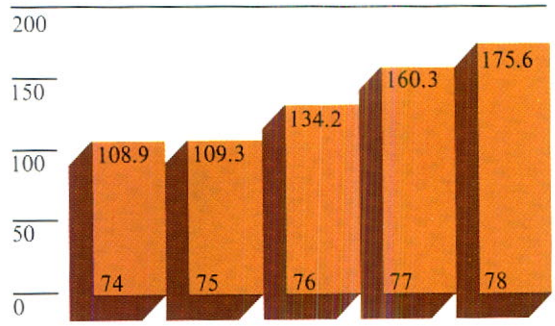
Record High Earnings

In this its centennial year, Household achieved another year of record high earnings. All of our major businesses contributed to this achievement, with each reporting record volume levels and record earnings.

Earnings before *unrealized* foreign exchange gains and losses increased 10% to $175.6 million, equivalent to $3.43 per common share on a fully diluted basis. After *unrealized* foreign exchange gains and losses, net income increased 11% to $153.2 million, or $2.99 per common share on a fully diluted basis.

The Finance Business, despite substantially increased short-term interest rates, showed a modest 2% increase in 1978 earnings before *unrealized* foreign exchange gains and losses, following a 14% gain in earnings in 1977. Merchandising reported a 21% earnings increase in 1978, compared with a 26% gain in 1977. Manufacturing reported a 12% gain in 1978 earnings before *unrealized* foreign exchange gains and losses, following a 2% decline in 1977. Rental and Leasing continued its excellent performance with a 15% increase in 1978 following a 60% gain in 1977.

Earnings
in millions of dollars



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

Unrealized Foreign Exchange Gains and Losses

At year-end 1978, Household's net asset investment exposed to Canadian exchange rate fluctuations was approximately $409 million expressed in U.S. dollars. Because of this large exposed net asset position, fluctuations in the Canadian dollar exchange rate can generate significant *unrealized* foreign exchange gains and losses. These *unrealized* foreign exchange gains and losses are required to be included in the determination of income in the period in which they occur under the provisions of Statement of Financial Accounting Standards No. 8, Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements. The Canadian dollar exchange rate declined from 99.16 cents at December 31, 1976 to 91.42 cents at December 31, 1977 and to 84.35 cents at year-end 1978.

Many factors influence Household's decision to continue carrying an exposed net asset position during this period of declining Canadian exchange rates. These factors include the cost of hedging such an exposed net asset position, the difference in the cost of borrowed funds between the U.S. and Canada, the relative marketability of debt securities between the two countries, and the historical likelihood that the wide fluctuations in the exchange rates in one period will be reversed in a later period.

Since Household's investment in Canada dating back to 1933 is a long-term commitment, we take a long-range view with respect to the Canadian dollar exchange rate when considering the ultimate economic costs of borrowing in U.S. or Canadian funds. The interest rates for U.S. dollar borrowings have consistently been lower than rates for comparable Canadian dollar borrowings. Lower interest rates represent lower cash outflows, whereas *unrealized* translation gains and losses resulting from exchange rate fluctuations have no impact on cash flows and their ultimate realization is highly uncertain. Household believes that real savings in interest expense are more meaningful than *unrealized* gains and losses on Canadian exchange fluctuations.

Commentators have, nonetheless, noted the effect Statement No. 8 has had on companies, and also have noted that some companies take uneconomic actions in order to avoid its impact on their financial statements. It is our policy to avoid such actions which in the long term would act to reduce our cash flows.

At the invitation of the Financial Accounting Standards Board, Household communicated its disagreement with respect to Statement No. 8, both in writing and in oral presentation before the Board. We strongly advocate that the FASB reconsider its current position which requires the inclusion of *unrealized* foreign exchange gains and losses in the determination of net income. We recommend instead that the FASB permit *unrealized* foreign exchange gains and losses, as well as other *unrealized* holding gains and losses, to be taken to shareholders' equity either directly or through a new financial statement which would be separate from the statement of income. Such an amendment would eliminate from the determination of net income the distortions of these *unrealized* gains and losses while still permitting their full disclosure in the financial statements.

Recent events indicate the FASB has concluded that changes in Statement No. 8 are needed. Current indications are that the FASB may soon act to reduce or eliminate the impact that the erratic swings in foreign exchange rates have on reported earnings. One proposed change now being given favorable consideration by the FASB is the one which Household has strongly advocated in its writings to and discussions with the Board. We are encouraged by these prospects and anticipate that changes in Statement No. 8 will result in more meaningful financial reporting.

Financings

The volatility of short-term interest rates was demonstrated once again this year. The Company reduces the impact of short-term interest rate fluctuations by its policy of maintaining approximately 75% of its total Finance Business debt in the form of long-term borrowings. At year-end 1978, borrowings of the Company and its consolidated finance subsidiaries totaled $3 billion. Of this, $2.3 billion or 76% represented long-term borrowings, while short-term borrowings represented $700 million or 24%. The prime interest rate on short-term bank borrowings has fluctuated widely over the last five years from a low of 6¼% to a high of 12%. By comparison, the Company's overall average interest rate on total long- and short-term borrowings has changed less than one percentage point over the same period, from a low of 6.8% to a high of 7.7%.

The average interest rate on all of Household's borrowings rose to 7.5% in 1978 from 6.9% in 1977, primarily because of the increase in the rate on short-term borrowings. The average short-term interest rate in 1978 was 7.9% compared with 5.8% in 1977.

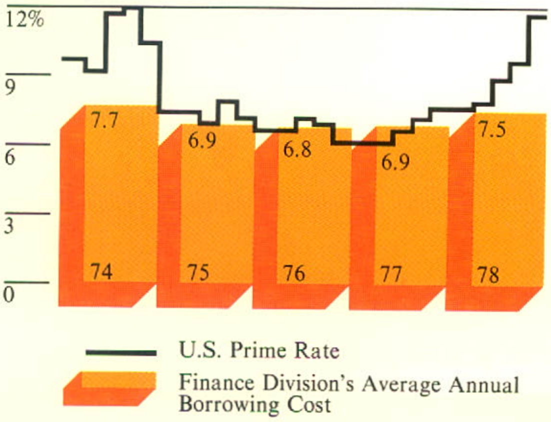
In order to fund its continuing receivable growth, the Company publicly sold $100 million of 8.50% five-year senior debentures and privately placed $44.5 million of 8.46% five-year notes with several banks in May 1978. In October 1978, Household sold to the public $150 million of seven-year senior debentures at an interest rate of 9%. The proceeds in each case were used to reduce short-term indebtedness. The Company's 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 Investors Service, Inc., respectively.

The Company satisfies most of its short-term money needs through the sale of commercial paper. Standard and Poor's Corporation, Fitch Investors Service, Inc., and Moody's Investors Service, Inc. 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 $555 million are maintained with 148 major domestic and international banks.

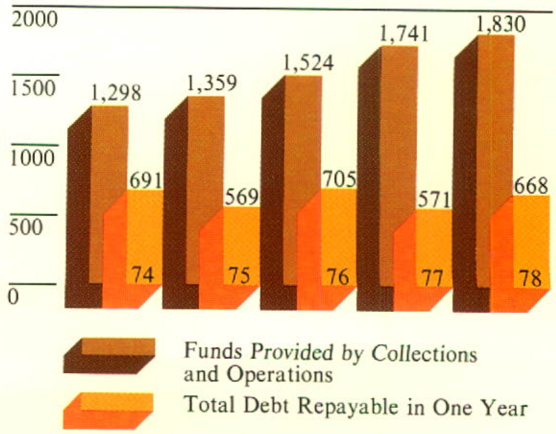
To provide an orderly funding program, the Company schedules its long-term debt maturities so as to permit payback of the full amount of its currently outstanding short-term debt plus its currently maturing long-term debt in any given year from normal cash flows generated by Company operations and collections on outstanding receivables. The accompanying chart illustrates that during the last five years funds provided by collections and operations ranged from 1.9 to 3.0 times the total debt repaid. The Company intends to maintain this conservative funding program in future years.

In October 1978, National Car Rental System, Inc., Household's rental and leasing subsidiary, began selling dealer-placed commercial paper. National's commercial paper has also received the highest commercial paper ratings of "A-1," "F-1," and "P-1" given by the rating agencies.

Finance Divisions's Average Annual Borrowing Cost for Short- and Long-term Debt vs. Quarter-End U.S. Prime Rate



Finance Division Liquidity
in millions of dollars



Total debt repayable in one year is represented by total short-term debt plus current maturities of long-term debt at the beginning of the year.

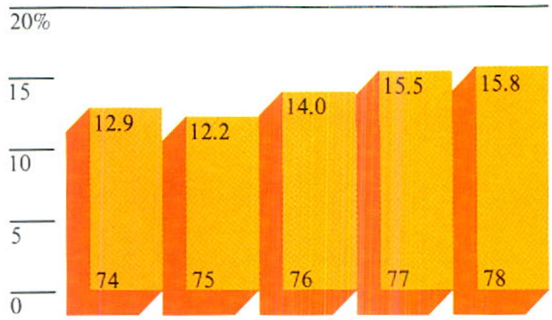
Return On Shareholders' Equity

Consolidated shareholders' equity at December 31, 1978 totaled $1.2 billion and averaged $1.1 billion during the year. Earnings from consolidated operations before *unrealized* foreign exchange gains and losses, expressed as a percent of consolidated shareholders' average equity, increased from 14.0% in 1976, to 15.5% in 1977, and to 15.8% in 1978.

Our goal is the maintenance and enhancement of a superior return on the equity funds invested in our Company. Our plans emphasize the careful allocation of asset resources and management of liabilities as well as tight expense controls. These policies have produced consistently high returns on shareholders' equity. Profitability programs will be conducted in accordance with the Federal program of voluntary wage and price controls.

The book value of shareholders' equity per common share, assuming year-end conversion of all outstanding preferred shares into common shares, was $22.56 at December 31, 1978, up from $20.95 at December 31, 1977.

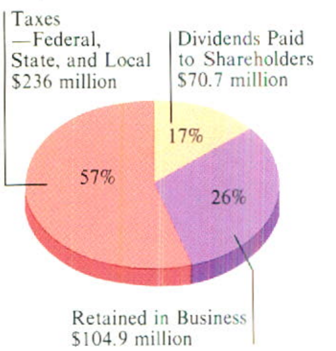
Return on Shareholders' Average Book Equity
Consolidated



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

Taxes

Disposition of Household's Income



Income is before all taxes and before *unrealized* foreign exchange gains and losses.

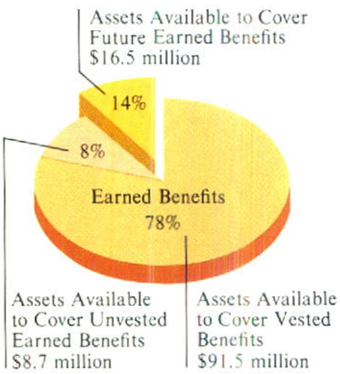
The tax burden borne by business affects consumers and employees as well as shareholders. Household's total tax expense in 1978 was $236 million. This amount includes taxes on income as well as property, franchise, social security, and other taxes assessed by all levels of government. Household's total 1978 tax expense amounted to $4.61 per common share, compared with the $3.43 fully diluted earnings per share remaining for its stockholders.

While it has made no investment in our Company, government is a major partner in our business. The Company's shareholders received in the form of dividends 17% of Household's 1978 income before all taxes and before *unrealized* foreign exchange gains and losses. Another 26% was retained in the business to finance future growth. Government received the remaining 57% of this income.

The present tax laws work against not only corporations, but also the people and institutions who invest in them. Federal tax laws, for example, currently require the double taxation of dividends—once as corporate earnings and again as individual income. The climate for investment would be improved by the enactment of legislation reducing or eliminating this double taxation on dividends. We urge you to help in this effort by writing to your senators and representatives expressing your views on the double taxation of dividends.

Pension Plan Funding

Total Assets of HFC Pension Plans ($116.7 million)



Assets and vested and unvested earned benefits are actuarially computed and represent the aggregate of all of Household's pension plans, each of which can have a different relationship between assets and earned benefits from that portrayed in this composite chart.

Shareholders, bondholders, employees, and management all have reason to be concerned about the appropriate funding of pension plans. This concern has been accentuated under the provisions of the Employee Retirement Income Security Act. This act, better known as ERISA, protects participants from under-funded pension plans by allowing legal claims against corporate assets up to 30% of net worth after pension fund assets have been exhausted. These claims rank not only before shareholders' rights but have the status of tax liens and are, therefore, senior to claims of other creditors. Household, as well as our principal independent actuaries, Towers, Perrin, Forster & Crosby, believe that the best way to measure the adequacy of pension plan funding is to compare each plan's assets with the plan's earned benefits, both computed on an actuarial basis. The earned benefits represent the Company's current maximum commitment to plan participants, because this amount provides for all benefits earned to date, whether vested or not. Benefits are vested when the plan participants have an unequivocal right to receive these benefits.

The accompanying chart indicates that the combined results of all of Household's pension plans, based on our latest actuarial valuations, not only have sufficient assets to cover both the vested and nonvested portions of the benefits earned by our employees to date but have $16.5 million of remaining assets available to cover benefits to be earned in the future. Household's management and its actuaries believe that our pension plans are appropriately and conservatively funded and that they properly safeguard the interests of our shareholders, employees, and creditors.

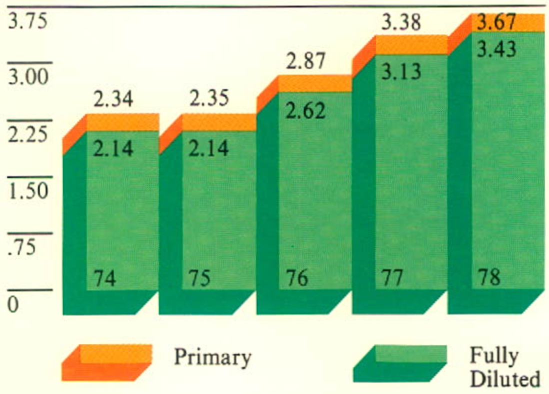
Dividends

Total dividends declared during 1978 on common stock were $1.375 per share. Consistent with recent years, the 1978 payout ratio for preferred and common stock dividends declared was 40% of the Company's total 1978 earnings before *unrealized* foreign exchange gains and losses. Dividend payments 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 dividends paid per share on common stock have increased every year for 26 years. This marks a 53-year record of consecutive quarterly cash dividend payments. In September 1978, the common stock cash dividend was increased 11.5% to an annual rate of $1.45.

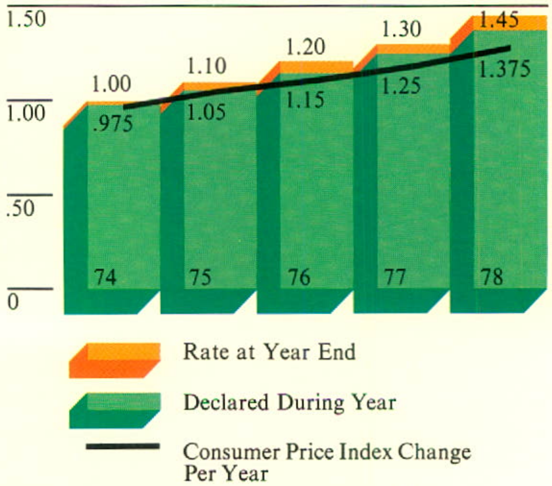
It is common knowledge that the stock market as a whole has not performed well over the past few years. Household's common stock has not been an exception. Household's dividend increases, however, have provided our stockholders with a measure of protection against inflation. During the past five years, the average annual compounded growth rate of Household's common stock cash dividends has been 9.3%. This increase compares favorably with the 8.0% average annual compounded increase in the Consumer Price Index over the same period. The increase in Household's dividend payments has more than offset inflation, an advantage not found in fixed income investments such as savings accounts and bonds. In addition to the cash dividends distributed, Household's book value per common share has increased 41% or $6.51 over the same five-year period from $16.05 to $22.56.

Earnings per Common Share
in dollars



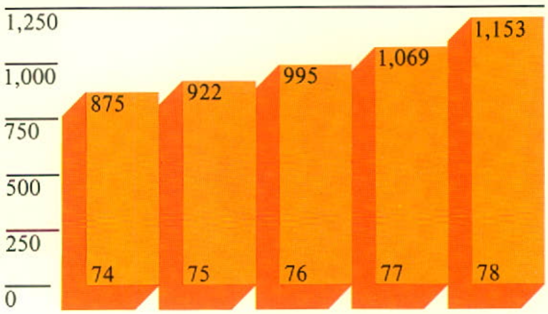
Based on earnings before *unrealized* foreign exchange gains and losses.

Dividends per Common Share
in dollars

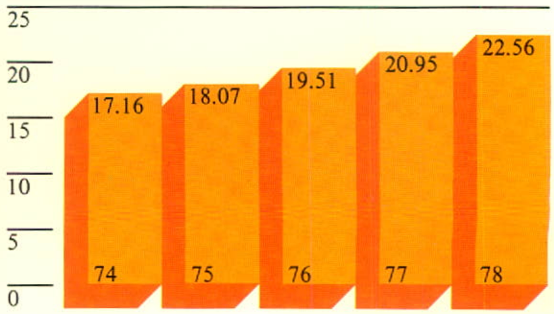


Stockholders' Book Value at Year End

Stockholders' Total Book Value
in millions of dollars



Stockholders' Book Value per Common Share
in dollars



Assumes the conversion of all Preferred Shares into Common Shares.

Analysis of Summary of Operations

Finance Business

1978 Compared with 1977

Receivables outstanding are the key element in generating revenues for the Finance Business. Average finance receivables outstanding increased $293 million during 1978 and resulted in higher related revenues and expenses.

Investment and other income for 1978 increased principally because of an increase in dividends and interest income resulting from increased investments by our insurance subsidiaries and an increase in revenues from commercial financing activities.

Salaries and fringe benefits increased during 1978 principally because of employee compensation rate increases. Other operating expenses were up reflecting growth in receivables and insurance premiums written, expenses of the new headquarters building, and the inclusion of the operating results of Alexander Hamilton Life Insurance Company of America (AHLIC) for the full year versus only nine months in 1977. In addition, 1978 operating expenses included a full year's amortization of acquisition expenses relating to a large block of noncredit insurance acquired in the latter half of 1977; this expense was generally offset by increased revenues.

Higher levels of finance receivables outstanding in 1978 and 1977 required increased borrowings. This, coupled with higher average short-term interest rates in 1978, resulted in increases in both long-term and short-term interest expense for 1978. Of the total increase in short-term interest expense, approximately $13.9 million was the result of a higher average short-term interest rate of 7.9% in 1978 compared with 5.8% in 1977.

Earnings, excluding the effect of *unrealized* foreign exchange gains and losses, were $96.8 million in 1978 compared with $94.6 million in 1977. After recognition of *unrealized* foreign exchange losses, less related tax effects, of $22.4 million and $22.1 million in 1978 and 1977, net income was $74.4 million in 1978 compared with $72.5 million in 1977. *Unrealized* foreign exchange gains and losses resulted principally from fluctuations in the Canadian dollar exchange rate. These gains and losses represented the effect of rate fluctuations on the translation of our Canadian dollar exposed net asset position which approximated $409 million at year-end 1978. For a more complete discussion of Household's foreign exchange position, see page 28.

1977 Compared with 1976

Average finance receivables outstanding increased during 1977, as did related revenues and expenses. Insurance premiums and commissions increased $39.5 million in 1977, principally as a result of increases in insured loans made and the acquisition in March 1977 of AHLIC.

Investment and other income for 1977 increased by $15.7 million, principally because of increased average investments in securities, the previously mentioned acquisition of AHLIC, and increased revenues of approximately $2.4 million from commercial finance activities.

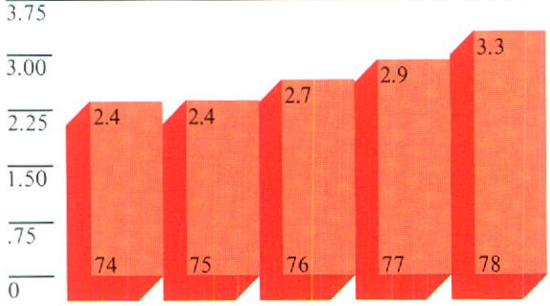
Other operating expenses and policyholders' benefits increased in 1977, principally as a result of the acquisition of AHLIC and the increase in lending volume.

The 1977 provision for credit losses increased $6.7 million over 1976 because of higher charge-offs of uncollectible accounts and a strengthening during 1977 of the credit loss reserves from 4.16% to 4.21% of total finance receivables.

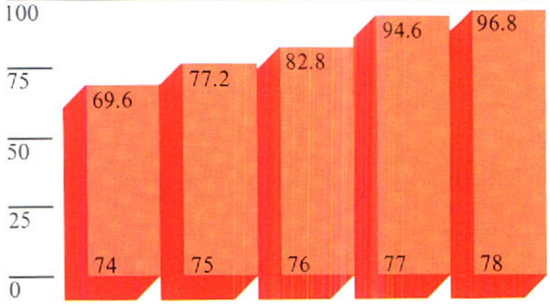
For 1976 and 1977, higher levels of finance receivables outstanding required increased borrowings. Interest expense in 1977 increased $17.7 million, principally as a result of increased long-term borrowings during the year.

The tax provision in 1977 was affected principally by reductions in taxes resulting from additions to insurance policyholders' surplus and by additional taxes resulting from the nondeductible portion of the *unrealized* foreign exchange loss. Note 11 to the Financial Statements of Household provides additional information.

Total Finance Receivables at year end
in billions of dollars



Earnings
in millions of dollars



Earnings are before *unrealized* foreign exchange gains and losses.

Merchandising Business

1978 Compared with 1977

Increased sales are the key to improved performance in the Merchandising Business. A second important factor is the maintenance of cost to sales at a constant or improving ratio. Sales and revenues increased by $466 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, consisting of company-operated and franchised stores, 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.

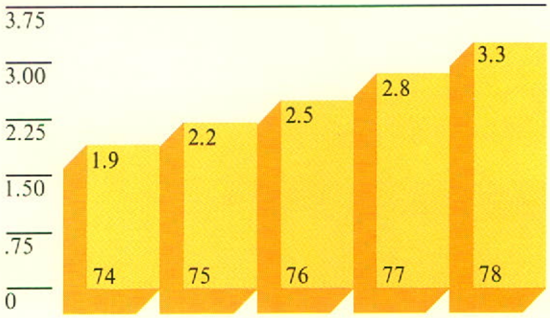
1977 Compared with 1976

In 1977, net income increased by $10.8 million from 1976, primarily as a result of sales and revenue growth and a reduction in the ratio of costs and expenses to sales. Vons supermarket provided the most significant gains in sales and profits. White Stores significantly reduced its operating losses. A nonrecurring aftertax gain of $2 million resulted from the sale of a Coast-to-Coast distribution facility.

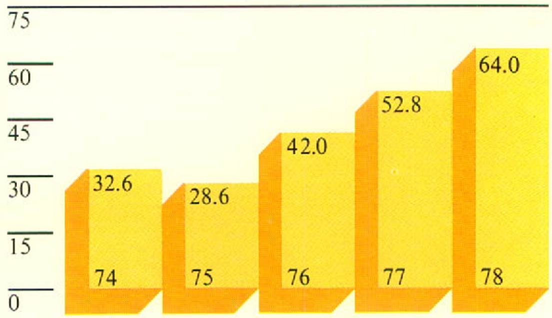
Prior Years

In 1976, net income improved by $13.4 million over 1975. These gains reflected generally improved sales, effective expense controls, lower interest costs because of reduced borrowings, and reduced operating losses incurred by the White Stores Division.

Net Sales and Revenues
in billions of dollars



Earnings
in millions of dollars



Manufacturing Business

1978 Compared with 1977

As in the Merchandising Business, sales and cost control are key elements to profitable manufacturing results. In 1978, 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 thousand, 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 1977.

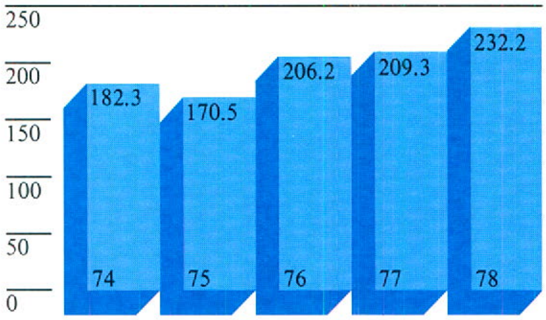
1977 Compared with 1976

In 1976, Manufacturing Business revenues and income were up reflecting a sharp increase in demand for commercial and industrial products. Results in 1977 reflected a more moderate increase in demand, continuing plant startup costs following the merging of certain production facilities in the last half of 1976, and heavier 1977 market promotional expenditures covering selected product lines.

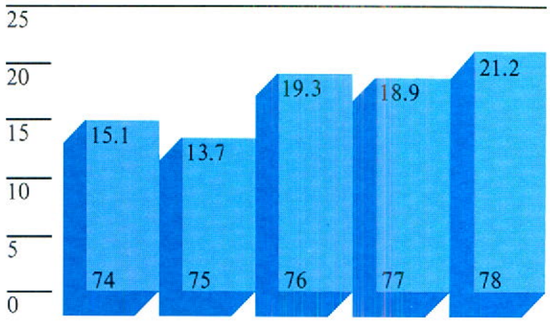
Analysis of Summary of Operations

Manufacturing Business

Net Sales and Revenues
in millions of dollars



Earnings
in millions of dollars



Earnings are before *unrealized* foreign exchange gains and losses.

Rental and Leasing Business

1978 Compared with 1977

Successful rental and leasing results are mainly dependent upon efficient vehicle purchase and disposal, optimum fleet utilization, dedicated customer service, and strategic operating locations. 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.

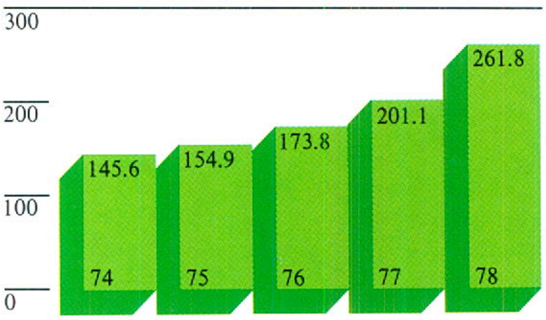
1977 Compared with 1976

Income in 1977 continued the 1976 trend with a strong performance by both the Car Rental and Truck Divisions. The improvement over 1976 was mainly attributable to increased fleet utilization and size as well as greater emphasis on premium, heavy-duty trucks and long-term, full-maintenance leases.

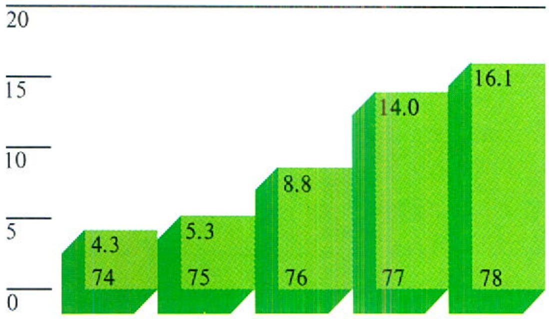
Prior Years

Results from continuing operations for 1975 included Household's equity in the realization of $1.4 million of pre-1973 net operating loss carryforwards.

Revenues from Continuing Operations
in millions of dollars



Household's Income from Continuing Operations
in millions of dollars



Corporate Operations

Corporate expenses increased in 1978 over 1977 principally because of relocation expenses attributable to the move to the Company's new headquarters and because of higher imputed carrying costs. See Note 1 to the financial statements of Household for further discussion.

Summary of Operations

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

	Year Ended December 31	**1978**	1977	1976	1975	1974
Income from Finance Business	Revenues	**$ 738.1**	$ 676.8	$ 577.2	$ 526.8	$ 529.1
	Expenses	**570.0**	505.4	423.9	382.4	395.4
	Income Before Unrealized Foreign Exchange Gains (Losses) and Provision for Taxes on Income	**168.1**	171.4	153.3	144.4	133.7
	Unrealized Foreign Exchange Gains (Losses)	**(33.3)**	(35.3)	1.3	(9.9)	1.4
	Income Before Provision for Taxes on Income	**134.8**	136.1	154.6	134.5	135.1
	Provision for United States and Foreign Taxes on Income	**60.4**	63.6	71.4	63.8	64.8
Income from Finance Business		**74.4**	72.5	83.2	70.7	70.3
Income from Merchandising Business		**64.0**	52.8	42.0	28.6	32.6
Income from Manufacturing Business		**21.2**	19.2	18.3	13.2	15.0
Income from Rental and Leasing Business						
	Continuing Operations	**16.1**	14.0	8.8	5.3	4.3
	Discontinued Operations*				2.8	4.6
Expense from Corporate Operations		**(22.5)**	(20.0)	(18.7)	(18.3)	(17.3)
Net Income		**153.2**	138.5	133.6	102.3	109.5
Preferred Stock Dividends		**8.0**	8.6	9.9	12.0	12.6
Net Income Applicable to Common Stock		**$ 145.2**	$ 129.9	$ 123.7	$ 90.3	$ 96.9
Average Common Shares Outstanding	Actual	**45.6**	44.8	43.2	41.5	41.1
	Fully diluted basis	**51.2**	51.1	51.2	51.0	51.0
Earnings Per Common Share	Primary	**$ 3.18**	$ 2.90	$ 2.86	$ 2.18	$ 2.36
	Fully diluted	**2.99**	2.71	2.61	2.00	2.15
Cash Dividends Declared on Common Stock	Total	**$ 62.7**	$ 56.2	$ 50.3	$ 43.8	$ 40.1
	Per Share	**$ 1.375**	$ 1.250	$ 1.150	$ 1.050	$ .975
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	**$ 175.6**	$ 160.3	$ 134.2	$ 109.3	$ 108.9
	Per Common Share	**$ 3.43**	$ 3.13	$ 2.62	$ 2.14	$ 2.14

*Household's equity in the Rental and Leasing Business' income from discontinued operations in 1975 and 1974 was approximately $0.06 and $0.10 per share and was included in the results for those years.

Segment Information

All amounts are stated in millions of dollars.

	Industry Segment	Net Sales and Revenues		Operating Profit		Identifiable Assets	
	Year Ended December 31	**1978**	1977	**1978**	1977	**1978**	1977
Finance		**$ 737.0**	$ 675.9	**$167.0**	$170.5	**$3,710.9**	$3,317.0
Merchandising	**Retail:**						
	General merchandise	**1,350.5**	1,148.5	**74.8**	63.7	**561.9**	484.7
	Supermarkets	**1,193.0**	975.1	**38.2**	26.9	**236.3**	193.6
	Home furnishings	**122.3**	107.4	**8.4**	6.3	**64.3**	60.5
	Total retail	**2,665.8**	2,231.0	**121.4**	96.9	**862.5**	738.8
	Wholesale:						
	General merchandise	**646.8**	615.9	**31.6**	34.3	**181.2**	179.5
	Total Merchandising	**3,312.6**	2,846.9	**153.0**	131.2	**1,043.7**	918.3
Manufacturing	Outdoor living products	**111.1**	100.7	**17.2**	17.0	**76.1**	66.5
	Commercial refrigeration products	**74.3**	64.3	**20.4**	17.8	**44.0**	39.2
	Industrial products	**46.8**	44.3	**5.1**	3.5	**24.1**	24.2
	Total Manufacturing	**232.2**	209.3	**42.7**	38.3	**144.2**	129.9
Rental and Leasing		**261.8**	201.1	**49.6**	38.3	**417.7**	337.4
Combined Businesses		**$4,543.6**	$3,933.2	**$412.3**	$378.3	**$5,316.5**	$4,702.6

1. Description of Segments

The Finance Business is considered by management to be a dominant industry for segment reporting purposes. Geographic area information is shown above. Total revenues include the equity in income of insignificant nonconsolidated Finance Business subsidiaries.

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 Rental and Leasing 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 and capital expenditures of the Merchandising and Manufacturing Businesses by segment were as follows:

	Depreciation and Amortization		Capital Expenditures	
	1978	1977	**1978**	1977
Merchandising:				
Retail:				
General merchandise	**$13.2**	$13.4	**$26.4**	$12.3
Supermarkets	**10.7**	9.4	**32.1**	31.5
Home furnishings	**1.5**	1.5	**1.3**	0.9
Total Retail	**25.4**	24.3	**59.8**	44.7
Wholesale:				
General merchandise	**4.4**	4.2	**9.5**	7.2
Total Merchandising	**$29.8**	$28.5	**$69.3**	$51.9
Manufacturing:				
Outdoor living products	**$ 3.6**	$ 3.2	**$ 4.3**	$ 4.2
Commercial refrigeration products	**1.0**	0.7	**1.4**	0.8
Industrial products	**1.1**	0.9	**1.6**	1.6
Total Manufacturing	**$ 5.7**	$ 4.8	**$ 7.3**	$ 6.6

Geographic Area

		Net Sales and Revenues 1978	Net Sales and Revenues 1977	Operating Profit 1978	Operating Profit 1977	Identifiable Assets 1978	Identifiable Assets 1977
Finance	United States	**$ 610.5**	$ 545.0	**$141.3**	$133.1	**$3,092.8**	$2,694.6
	Canada	**113.0**	121.7	**24.3**	36.9	**543.5**	573.0
	United Kingdom	**13.5**	9.2	**1.4**	0.5	**74.6**	49.4
	Total Finance	**737.0**	675.9	**167.0**	170.5	**3,710.9**	3,317.0
Merchandising	United States	**3,312.6**	2,846.9	**153.0**	131.2	**1,043.7**	918.3
Manufacturing	United States	**192.9**	175.0	**34.3**	30.9	**112.5**	104.5
	Europe and Canada	**39.3**	34.3	**8.4**	7.4	**31.7**	25.4
	Total Manufacturing	**232.2**	209.3	**42.7**	38.3	**144.2**	129.9
Rental and Leasing	United States	**261.8**	201.1	**49.6**	38.3	**417.7**	337.4
Combined Businesses		**$4,543.6**	$3,933.2	**$412.3**	$378.3	**$5,316.5**	$4,702.6

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

Reconciliations to net sales and revenues, operating profit, and identifiable assets of the Finance, Merchandising, and Manufacturing Businesses included elsewhere in this report are as follows:

	Net Sales and Revenues 1978	Net Sales and Revenues 1977	Operating Profit 1978	Operating Profit 1977	Identifiable Assets 1978	Identifiable Assets 1977
Finance:						
Totals above	**$ 737.0**	$ 675.9	**$ 167.0**	$ 170.5	**$3,710.9**	$3,317.0
Equity in nonconsolidated finance business subsidiaries	**1.1**	0.9	**1.1**	0.9		
Unrealized foreign exchange losses—primarily Canada			**(33.3)**	(35.3)		
Investments in nonconsolidated subsidiaries					**766.8**	695.9
Dividends and receivables from nonconsolidated subsidiaries					**18.7**	29.4
Total Finance	**$ 738.1**	$ 676.8	**$ 134.8**	$ 136.1	**$4,496.4**	$4,042.3
Merchandising:						
Totals above	**$3,312.6**	$2,846.9	**$ 153.0**	$ 131.2	**$1,043.7**	$ 918.3
General corporate expenses			**(4.4)**	(7.3)		
Interest expense			**(26.0)**	(23.2)		
Corporate assets					**19.1**	12.0
Total Merchandising	**$3,312.6**	$2,846.9	**$ 122.6**	$ 100.7	**$1,062.8**	$ 930.3
Manufacturing:						
Totals above	**$ 232.2**	$ 209.3	**$ 42.7**	$ 38.3	**$ 144.2**	$ 129.9
General corporate expenses			**(1.4)**	(1.2)		
Interest expense			**(0.5)**	(0.2)		
Unrealized foreign exchange gains				0.3		
Corporate assets					**3.5**	4.7
Total Manufacturing	**$ 232.2**	$ 209.3	**$ 40.8**	$ 37.2	**$ 147.7**	$ 134.6

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 because they are insignificant. Financial statements of the wholly-owned Merchandising (City Products Corporation), Manufacturing (King-Seeley Thermos Co.), and Rental and Leasing (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 the 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. 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, although collection efforts do not cease.

Insurance Accounting

The accounts of the insurance subsidiaries are prepared in accordance with generally accepted accounting principles. Premiums are generally included in income over the periods at risk (credit insurance) or when due (whole-life contracts). Policy liabilities are established using actuarially derived assumptions of mortality, morbidity, refunds, withdrawals, interest, and future maintenance and settlement expenses. As to risks related to finance receivables, such estimates produce results which approximate the sum-of-the-digits method. Costs associated with acquisition of nonfinance-related insurance risks are deferred and generally amortized over the premium-paying period of the policies.

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.

Investments in Securities

Marketable equity securities are carried at the lower of aggregate cost or market (if significantly different from cost). Securities other than marketable equity securities are carried at amortized cost. Investments in securities whose value has been permanently impaired are carried at estimated net realizable value. Realized gains and losses on security transactions are included in income currently. Costs of securities sold are determined using the specific identification method.

Inventories

Inventories are stated at lower of cost or market. Cost for the Merchandising Business is determined principally using first-in, first-out or average cost methods for warehouse stocks, retail method for general merchandise and supermarket inventories, and average cost, retail, or first-in, first-out methods for other inventories. Cost for the Manufacturing Business is determined using the first-in, first-out method.

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 Rental and Leasing Business are carried at cost and 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 such assets are normally held. Because of the inability to accurately forecast future market values, gains or losses are realized at dates of 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 Rental and Leasing 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, 1978 and 1977 were $8.8 million for the Merchandising Business, $8.9 million for the Manufacturing Business, $11.4 and $11.5 million, respectively, for the Rental and Leasing Business, and $108.4 million for the Finance Business, of which $107.4 million is applicable to its investment in the Rental and Leasing 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, 1978 and 1977 approximated $400 and $500 thousand, respectively, for the Rental and Leasing Business and $11.7 and $12.3 million, respectively, for the Finance Business of which $2.5 and $2.6 million, respectively, are applicable to its investment in the Rental and Leasing Business.

Preopening Costs

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

Retirement Plans

The companies 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 1978 and 1977 were $6.1 and $5.3 million for the Finance Business, $18.7 and $15 million for the Merchandising Business, $1.8 and $1.3 million for the Manufacturing Business and $800 and $500 thousand for the Rental and Leasing Business, respectively.

Taxes on Income

The Company and its United States subsidiaries (other than life insurance subsidiaries) file consolidated Federal income tax returns. The total 1978 and 1977 consolidated Federal income tax provisions have been 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 provided by the Finance Business.

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.

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 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.

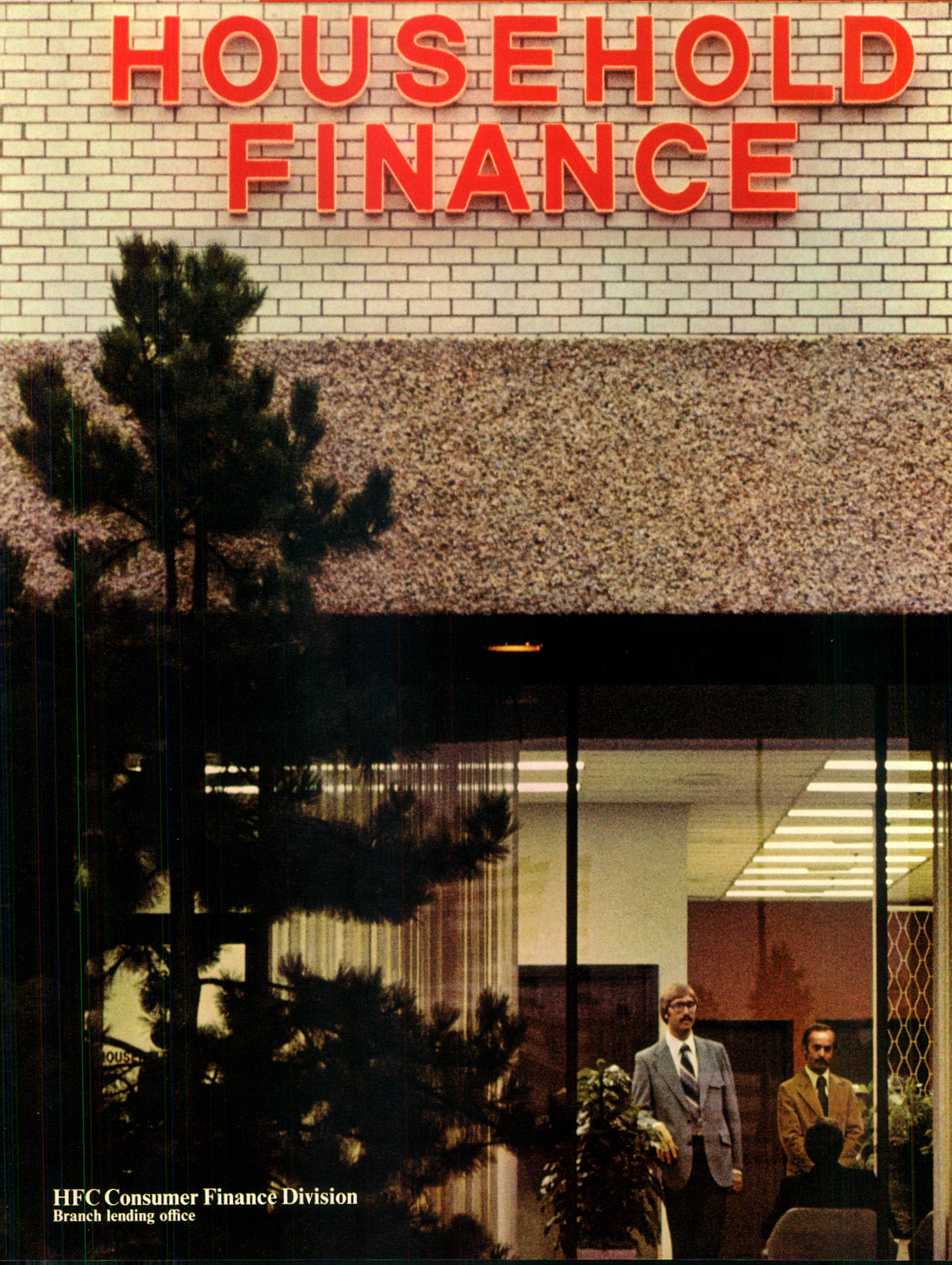
Market prices are stated in dollars.

			1978			1977		
			Market Price		Dividends	Market Price		Dividends
		Quarter	High	Low	Paid	High	Low	Paid
Common Stock		1st	19⅜	16⅞	$0.325	21⅝	19⅜	$0.30
		2nd	21⅛	17⅝	0.325	20½	19⅛	0.30
		3rd	21¾	18¼	0.325	20⅝	19⅝	0.30
		4th	21	16⅞	0.3625	19⅞	18	0.325
	Total Dividends Paid				$1.3375			$1.225
$2.375 Convertible Preferred Stock	Shares are convertible into common at rate of 2¼ shares of common for each share of preferred	1st	43¼	37⅝	$0.59375	47¼	43	$0.59375
		2nd	47	39½	0.59375	45¾	42½	0.59375
		3rd	47	41½	0.59375	46	44	0.59375
		4th	46⅛	38⅜	0.59375	44⅝	40¼	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	33	30½	$0.625	38⅞	35	$0.625
		2nd	34¼	30⅝	0.625	35¾	32⅞	0.625
		3rd	35½	30½	0.625	35⅞	34⅝	0.625
		4th	34	29	0.625	34¾	32¼	0.625
	Total Dividends Paid				$2.50			$2.50

		1978	1977
Shares Outstanding at December 31	Common	45,853,728	45,292,489
	$2.375 Preferred	765,177	984,365
	$2.50 Preferred	2,360,370	2,360,684

		1978	1977
Number of Shareholders at December 31	Common	25,967	26,116
	$2.375 Preferred	3,183	3,564
	$2.50 Preferred	3,474	3,547
	Total	32,624	33,227

Household Finance Corporation
and Consolidated Subsidiaries Financial Statements



HFC Consumer Finance Division
Branch lending office

Statements of Income

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

	Year Ended December 31	1978	1977
Income from Finance Business	Revenues:		
	Finance charges—Note 3	**$ 579.5**	$ 538.8
	Insurance premiums and commissions	**108.6**	99.5
	Investment and other income—Note 3	**50.0**	38.5
	Total Revenues	**738.1**	676.8
	Expenses—Note 1:		
	Salaries and fringe benefits	**130.6**	118.1
	Other operating expenses	**118.5**	105.1
	Provision for credit losses	**72.8**	70.1
	Policyholders' benefits	**74.5**	72.9
	Interest:		
	Long-term—Note 8	**118.5**	103.4
	Short-term—Note 7	**55.1**	35.8
	Total Expenses	**570.0**	505.4
	Income Before Unrealized Foreign Exchange Gains (Losses) and Provision for Taxes on Income	**168.1**	171.4
	Unrealized Foreign Exchange (Losses)	**(33.3)**	(35.3)
	Income Before Provision for Taxes on Income	**134.8**	136.1
	Provision for Taxes on Income—Notes 1 and 11:		
	Current	**58.1**	50.7
	Deferred	**2.3**	12.9
	Total Provision for Taxes on Income	**60.4**	63.6
Income from Finance Business		**74.4**	72.5
Income from Merchandising Business		**64.0**	52.8
Income from Manufacturing Business		**21.2**	19.2
Income from Rental and Leasing Business		**16.1**	14.0
Expense from Corporate Operations—Note 1		**(22.5)**	(20.0)
Net Income		**$ 153.2**	$ 138.5
Earnings Per Common Share	Primary	**$ 3.18**	$ 2.90
	Fully diluted	**2.99**	2.71

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	1978	1977
Assets	Cash—Note 7	**$ 59.2**	$ 31.2
	Investments in Securities—Note 2	**443.2**	424.4
	Receivables—Note 3:		
	Consumer (less unearned charges, 1978—$782.7; 1977—$637.1)	**3,136.8**	2,837.2
	Commercial	**134.2**	73.8
	Total Finance Receivables	**3,271.0**	2,911.0
	Less: Credit loss reserves	**(134.5)**	(122.5)
	Insurance policy and claim reserves applicable to finance receivables	**(130.4)**	(115.0)
	Finance Receivables—net	**3,006.1**	2,673.5
	Revolving credit accounts purchased from Merchandising Subsidiaries	**58.4**	50.4
	Receivables—net	**3,064.5**	2,723.9
	Investments in Subsidiaries:		
	Merchandising	**439.8**	399.8
	Manufacturing	**121.6**	108.4
	Rental and Leasing	**192.9**	176.9
	Other	**12.5**	10.8
	Total Investments in Subsidiaries	**766.8**	695.9
	Property and Equipment (less accumulated depreciation and amortization, 1978—$34.7; 1977—$33.5)	**50.3**	45.6
	Other Assets—Note 5	**112.4**	121.3
	Total Assets	**$ 4,496.4**	$ 4,042.3
Liabilities and Shareholders' Equity	Short-Term Debt—Note 7	**$ 698.4**	$ 647.6
	Accounts Payable and Other Liabilities—Note 5	**165.6**	152.6
	Insurance Policy and Claim Reserves—applicable to risks other than finance receivables	**180.1**	180.4
	Taxes on Income—Note 11	**37.5**	10.4
	Senior Long-Term Debt—Note 8	**2,066.8**	1,784.5
	Senior Subordinated Long-Term Debt—Note 8	**194.9**	197.4
	Shareholders' Equity—Notes 8, 9, and 10	**1,153.1**	1,069.4
	Total Liabilities and Shareholders' Equity	**$ 4,496.4**	$ 4,042.3

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	1978	1977
Resources Provided	Operations:		
	Net income	$ 153.2	$ 138.5
	Nonfund transactions:		
	Provision for credit losses	72.8	70.1
	Future policyholders' benefits—net increase	33.2	82.6
	Undistributed earnings of nonconsolidated subsidiaries	(70.8)	(52.2)
	Unrealized foreign exchange losses	33.3	35.3
	Depreciation and amortization	6.2	4.7
	Taxes on income—net increase (decrease)	27.1	(9.5)
	Deferred income taxes	2.3	12.9
	Accounts payable and accrued expenses—net increase	6.7	14.5
	Other—net	(2.3)	(11.4)
	Total Resources Provided by Operations	261.7	285.5
	Collections on receivables (except finance charges and insurance premiums included in net income)	1,567.9	1,455.0
	Total Resources Provided by Operations and Collections on Receivables	1,829.6	1,740.5
	Short-term debt—net increase	50.8	88.8
	Long-term debt issued	307.1	204.1
	Other—net	10.2	(32.2)
	Total Resources Provided	$ 2,197.7	$ 2,001.2
Resources Applied	Loans made and acquired (excluding balances on refinanced contracts)	$ 1,925.1	$ 1,717.9
	Revolving credit accounts purchased from Merchandising Subsidiaries	112.3	92.2
	Assets obtained in acquisition of business:		
	Securities		132.1
	Insurance reserves		(91.6)
	Accounts payable and other liabilities		(33.3)
	Other-net		23.3
	Investments:		
	Securities—net increase	18.8	42.7
	Property and equipment	17.2	20.7
	Long-term debt paid	25.6	25.9
	Cash dividends	70.7	64.8
	Cash—increase	28.0	6.5
	Total Resources Applied	$ 2,197.7	$ 2,001.2

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, 1977	**As previously reported**	$133.4	$ 19.5	$85.0	$ 764.7	$ 1,002.6
	Adjustment for the cumulative effects in prior years of applying retroactively changes in accounting principles—Note 4 to financial statements of Merchandising Subsidiaries				(7.4)	(7.4)
	As restated	133.4	19.5	85.0	757.3	995.2
	Net income				138.5	138.5
	Cash dividends:					
	Preferred				(8.6)	(8.6)
	Common—$1.25 a share				(56.2)	(56.2)
	Conversion of preferred stock into common	2.3	(2.3)			
	Exercise of common stock options			0.5		0.5
Balance at December 31, 1977		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—Notes 8, 9, and 10		**$137.2**	**$ 15.8**	**$86.6**	**$ 913.5**	**$ 1,153.1**

Shares		Common Stock	Preferred Stock $2.375	Preferred Stock $2.50
Balance at January 1, 1977		44,503,002	1,320,288	2,360,684
	Conversion of preferred stock into common	755,787	(335,923)	
	Exercise of common stock options	33,700		
Balance at December 31, 1977		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—Notes 9 and 10		**45,853,728**	**765,177**	**2,360,370**

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

Notes to Financial Statements

1. Corporate Expenses

Beginning in 1978, Household initiated a policy of identifying and separately reporting in its Statements of Income corporate expenses which are of an overall, parent-company nature. These expenses were previously included in the results of the Finance Business which served in the dual role of both the corporate parent company and the Finance Business operating division. This new segregation of expenses is designed to present better the results of operations of the Finance Business as well as to state separately the expenses of Corporate Operations. The Statement of Income for 1977 has been reclassified to present this additional disclosure. Corporate expenses 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. This cost considers cash investments, cash dividends paid on stock issued in connection with the acquisition of these businesses, and cash dividends paid to the Company's shareholders with respect to the earnings of these businesses subsequent to acquisition. Corporate expenses for 1978 and 1977 were as follows (millions of dollars):

	1978	1977
Administrative expenses	**$ 6.9**	$ 4.2
Imputed carrying costs	**35.8**	34.2
Total	**42.7**	38.4
Less related income tax effects	**20.2**	18.4
Corporate expenses	**$22.5**	$20.0

2. Investments in Securities

Investments in securities at December 31, 1978 and 1977 are summarized as follows (millions of dollars):

	1978		1977	
	Cost	**Market**	Cost	Market
Marketable equity securities:				
Common stocks	**$ 27.0**	**$ 28.2**	$ 31.8	$ 33.1
Preferred stocks	**19.5**	**17.8**	7.1	7.0
Total	**46.5**	**46.0**	38.9	40.1
Other:				
Commercial paper	**88.5**	**88.5**	59.5	59.5
Certificates of deposit	**2.1**	**2.1**	2.0	2.0
Government bonds	**72.8**	**71.5**	83.9	85.4
Corporate bonds	**122.8**	**113.3**	131.2	129.7
Mortgage loans on real estate	**107.4**	*	104.6	*
Real estate	**3.1**	*	4.3	*
Total	**396.7**		385.5	
Total	**$443.2**		$424.4	

*Amounts not readily determinable.

Investments were held by insurance subsidiaries except for investments in commercial paper of approximately $24.6 and $55.5 million at December 31, 1978 and 1977, respectively, and investments in government bonds of $4.2 million at December 31, 1978.

At December 31, 1978, the aggregate cost of marketable equity securities exceeded market value by $500 thousand. Such excess represents the net of gross unrealized gains of $2.7 million and gross unrealized losses of $3.2 million. A valuation allowance was not established because of the insignificance of the amount.

Sales of marketable equity securities resulted in a net realized gain of $1.8 million in 1978 and a net realized loss of $100 thousand in 1977.

3. Receivables

Receivables at December 31, 1978 and 1977 and related maximum terms were as follows (millions of dollars):

	Amount		Maximum Terms in Months	
	1978	1977	**1978**	1977
Consumer finance receivables:				
Precomputed interest loans	**$2,533.2**	$2,263.9	**180**	180
Simple interest loans	**830.2**	758.9	**180**	180
Sales finance contracts	**556.1**	451.5	**60**	60
Total	**3,919.5**	3,474.3		
Less unearned charges	**782.7**	637.1		
Total	**$3,136.8**	$2,837.2		
Commercial finance receivables	**$ 134.2**	$ 73.8		
Revolving credit accounts	**$ 58.4**	$ 50.4	**48**	48

Contractual maturities of consumer finance receivables at December 31, 1978 were as follows (millions of dollars):

	Total	1979	1980	There-after
Precomputed interest loans	$2,533.2	$ 904.1	$ 689.1	$ 940.0
Simple interest loans	830.2	361.4	179.5	289.3
Sales finance contracts	556.1	333.8	151.4	70.9
Total	$3,919.5	$1,599.3	$1,020.0	$1,300.2

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

3. Receivables (continued)

approximated 50% in 1978 and 1977.

Commercial finance receivables consisted principally of privately negotiated investments in leveraged leases and limited-term preferred stocks. Investments in preferred stocks are included in commercial receivables in recognition of the mandatory redemption features which give these investments characteristics similar to a lending arrangement with an obligation to repay. All commercial receivable revenues are included in investment and other 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 on related borrowings. This discount, which in 1978 and 1977 amounted to $5.4 and $5.2 million, respectively, is included in finance charges. These revolving credit accounts had a weighted average remaining maturity of 22 and 21 months at December 31, 1978 and 1977, respectively.

4. Foreign Operations

Foreign subsidiaries' assets, liabilities, earnings before unrealized foreign exchange gains and losses, and net income accounted for 14%, 4%, 11%, and 1%, respectively, of the Finance Business amounts as of December 31, 1978 and 15%, 5%, 18%, and 10%, respectively, of the Finance Business amounts as of December 31, 1977.

5. Intercompany Transactions

Other Assets and Accounts Payable and Other Liabilities included amounts receivable and payable between Household and its nonconsolidated subsidiaries. At December 31, 1978 and 1977, Other Assets included receivables due Household of $12.7 and $9 million, respectively, and Accounts Payable and Other Liabilities included amounts payable by Household of $10.5 and $8.6 million, respectively, as a result of the Company's Federal income tax allocation policy. Other Assets at December 31, 1978 and 1977 also included $6 and $10.5 million, respectively, of dividends receivable from the Merchandising Business, and in 1977 notes receivable of $10 million from the Rental and Leasing Business.

6. Noncredit Insurance Operations

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 and financial data previously reported for 1978 and 1977 have been restated for this change in reporting entity. This restatement had no effect on reported earnings and related earnings per share. Selected data for non-credit life insurance operations for 1978 and the nine months ended December 31, 1977 were as follows (millions of dollars):

	1978	1977
Premium revenues	$ **35.3**	$ 32.8
Investment income—net	**13.4**	8.8
Claims and other policy benefits	**30.3**	28.3
Operating income	**5.3**	3.7
Insurance in force at December 31	**1,766.0**	1,710.0

7. Short-Term Debt

Short-term debt data for 1978 and 1977 were as follows (millions of dollars):

	Average Borrowings		Outstanding at December 31: Balance of Borrowings		Outstanding at December 31: Weighted Average Interest Rates	
	1978	1977	**1978**	1977	**1978**	1977
Commercial paper	**$505.5**	$433.5	**$493.5**	$449.3	**10.1%**	6.6%
Master notes	**168.5**	170.2	**177.0**	175.8	**10.2**	6.7
Bank and other borrowings	**12.1**	8.7	**27.9**	22.5	**10.8**	7.4
Total	**$686.1**	$612.4	**$698.4**	$647.6	**10.2%**	6.7%

Weighted average interest rates on short-term debt outstanding at December 31, 1978 and 1977 exclude costs of maintaining lines of credit. The maximum aggregate short-term debt outstanding at the end of any month was $709.1 and $692.4 million during 1978 and 1977, respectively. Weighted average interest rates on average aggregate debt outstanding during 1978 and 1977 were 7.9% and 5.8%, respectively.

Lines of credit are maintained with various banks and at December 31, 1978 and 1977 amounted to $554.9 and $487.1 million, respectively, of which $513.6 was unused at December 31, 1978. The majority of the lines are supported by a fee and average compensating balances equal to 10% of one-half of the line plus 10% of any borrowing under the line. Compensating balance requirements totaled $28.3 and $27.4 million at December 31, 1978 and 1977, respectively.

Notes to Financial Statements

8. Long-Term Debt

Long-term debt at December 31, 1978 and 1977 was as follows (millions of dollars):

	1978	1977
Senior Debt:		
4% due 1978*	$	$ 18.0
4⅜%, due 1981*	**12.1**	13.7
4⅜%, due 1987	**60.0**	60.0
4½%, due 1991	**100.0**	100.0
4⅝%, due 1984*	**15.6**	16.8
4¾%, due 1989	**85.0**	85.0
4⅞%, due 1981	**50.0**	50.0
4⅞%, due 1993	**125.0**	125.0
5%, due 1982*	**18.0**	20.0
5⅛%, due 1979 and 1980	**60.0**	60.0
6⅜%, due 1988	**100.0**	100.0
7¼%, due 1990	**75.0**	75.0
7½%, due 1995	**100.0**	100.0
7½%, due 1997	**100.0**	100.0
7¾%, due 1999	**100.0**	100.0
7.85%, due 1986	**100.0**	100.0
8%, due 1984	**50.0**	50.0
8%, due 1992*	**25.3**	27.4
8.2%, due 2007	**100.0**	100.0
8.3%, due 1986	**75.0**	75.0
8⅜%, due 2003	**100.0**	100.0
8½%, due 1983	**100.0**	
8½%, due 2001	**100.0**	100.0
9%, due 1985	**150.0**	
9%, due 2000	**100.0**	100.0
10.4%, due 1981	**50.0**	50.0
10½%, due 1994*	**50.0**	50.0
Bank notes, due 1979–1981 at interest rates varying with the London interbank official rate plus the cost of reserves	**20.7**	7.0
Bank notes, due 1983, at 8.46%	**44.5**	
Master notes, ⅛ of 1% over 180 day commercial paper note yield	**10.5**	10.5
Total	**2,076.7**	1,793.4
Debentures in treasury	**(6.7)**	(5.7)
Unamortized discount	**(3.2)**	(3.2)
Total Senior Debt	**$ 2,066.8**	$ 1,784.5

*Sinking fund debentures

	1978	1977
Senior Subordinated Debt:		
8.45%, due 1997	**$ 100.0**	$ 100.0
8½%, due 1985	**25.0**	25.0
8¾%, due 1992*	**50.0**	50.0
9⅞%, due 1986*	**20.0**	22.5
Total	**195.0**	197.5
Unamortized discount	**(0.1)**	(0.1)
Total Senior Subordinated Debt	**$ 194.9**	$ 197.4

*Sinking fund debentures

Weighted average interest rates of senior and senior subordinated debt outstanding, giving effect to amortization of debt discount and expenses, were 7.5% and 8.8%, respectively, at December 31, 1978 and 7.1% and 8.8%, respectively, at December 31, 1977.

The maturities and sinking fund requirements of the companies' long-term debt at December 31, 1978 were as follows (millions of dollars):

1979	$ 32.5
1980	48.9
1981	132.4
1982	20.2
1983	153.5
Thereafter	1,877.5

Certain provisions of the indentures covering Household'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, 1978, under the most restrictive terms of Household's various indentures and agreements, $296.8 million of consolidated retained earnings was free of such restrictions.

9. Capital Stock

Capital stock authorized at December 31, 1978 and 1977 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, 1978, there were 5.3 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, 1978	**$15.8**	**$ 5.2**	**$10.6**
December 31, 1977	$17.2	$ 6.6	$10.6
Preference value in involuntary liquidation—			
December 31, 1978:			
Per share		**$30.00**	**$18.00**
Aggregate (millions of dollars)	**$65.5**	**$23.0**	**$42.5**
Rate of conversion into common shares		2¼	1½
December 31, 1978 redemption price		**$50.475**	**$51.00**

10. Common Stock Options

Common stock option data and transactions for 1978 and 1977 in the various option plans are summarized as follows:

Shares Under Option	1978 Number	1978 Price per Share	1977 Number	1977 Price per Share
Beginning of year	**935,125**	**$10.82–$28.25**	892,850	$10.82–$35.50
Granted	**399,300**	**17.57– 21.25**	153,500	18.82– 20.44
Exercised	**(67,625)**	**10.82– 18.88**	(33,700)	10.82– 18.88
Expired or cancelled	**(150,225)**	**14.69– 28.25**	(77,525)	10.82– 35.50
End of year:				
Outstanding	**1,116,575**	**$10.82–$21.25**	935,125	$10.82–$28.25
Exercisable	**490,196**		437,850	
Available for future grants	**274,700**		640,000	

11. Taxes on Income

Provisions for taxes on income for 1978 and 1977 are reconciled to the amounts determined by applying the statutory Federal income tax rate as follows:

	1978	1977
Statutory Federal income tax rate	**48.0%**	48.0%
Increase (decrease) in rate resulting from:		
Changes in policyholders' surplus of stock life insurance companies	**(3.8)**	(3.2)
Unrealized foreign exchange losses	**3.8**	2.6
State income taxes net of Federal tax benefit	**2.0**	1.9
Investment tax credits	**(3.1)**	(1.5)
Other factors—net	**(2.1)**	(1.0)
Effective tax rates	**44.8%**	46.8%

Foreign taxes on income were $11.6 and $18.5 million in 1978 and 1977, respectively. Provisions for taxes on income have not been made on $114.4 million of undistributed earnings of foreign subsidiaries at December 31, 1978 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 $57.7 million at December 31, 1978 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. Beginning in 1978, state and local taxes on income, previously included in operating expenses in the Statements of Income, have been included in the provision for taxes on income. The 1977 Statement of Income has been reclassified on a comparable basis. Tax benefits associated with investment tax credits net of estimated recapture applicable to the Rental and Leasing 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 for 1978 and 1977 were as follows (millions of dollars):

	1978	1977
Tax effects of timing differences of nonconsolidated nonfinance subsidiaries in excess of amounts allocated to such subsidiaries:		
Depreciation	**$ (1.2)**	$ 2.8
Estimated investment tax credit recapture	**2.6**	8.8
Tax effects of unrealized foreign exchange gains (losses)	**(10.8)**	(13.1)
Tax effects applicable to gross rental income arising from leveraged leases	**(4.2)**	(1.0)
Tax effects applicable to the provision for credit losses	**(0.4)**	5.0
Tax effects of accelerated depreciation arising from leveraged leases	**12.0**	3.8
Investment tax credits estimated to be utilized on the Federal income tax return in excess of amounts amortized to income during the year	**6.9**	6.6
Other—net	**(2.6)**	
	$ 2.3	$ 12.9

12. Commitments

Commitments at December 31, 1978 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: 1979, $16.1 million; 1980, $12.4 million; 1981, $8 million; 1982, $5.7 million; 1983, $3.3 million; and thereafter, $10.7 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 1978 and 1977 was $17.7 and $14.9 million, respectively.

At December 31, 1978, the Company had committed to fund equity investments of approximately $30 million under its 1979 leveraged leasing program for equipment costing approximately $97.6 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. Geographic Area Information

Geographic area information is included on pages 36 and 37.

Notes to Financial Statements

14. Quarterly Financial Data (Unaudited)

Selected 1978 and 1977 quarterly financial data are as follows (millions of dollars except per share data):

	1978-Three Months Ended			
	December	**September**	**June**	**March**
Revenues from Finance Business	**$ 194.0**	**$ 184.5**	**$ 179.5**	**$ 180.1**
Income from:				
Finance Business	**23.8**	**10.1**	**26.0**	**14.5**
Merchandising Business	**27.1**	**14.0**	**14.1**	**8.8**
Manufacturing Business	**2.7**	**4.8**	**7.1**	**6.6**
Rental and Leasing Business	**1.7**	**5.5**	**5.1**	**3.8**
Expense from Corporate Operations	**(6.0)**	**(5.8)**	**(5.3)**	**(5.4)**
Net Income	**$ 49.3**	**$ 28.6**	**$ 47.0**	**$ 28.3**
Per share: Primary	**$ 1.03**	**$ .58**	**$ .99**	**$ .58**
Fully diluted	**.96**	**.56**	**.92**	**.55**

	1977-Three Months Ended			
	December	September	June	March
Revenues from Finance Business	$ 179.2	$ 174.7	$ 166.0	$ 156.9
Income from:				
Finance Business	18.0	20.8	22.5	11.2
Merchandising Business	20.0	13.3	12.1	7.4
Manufacturing Business	4.7	3.5	5.5	5.5
Rental and Leasing Business	3.2	4.6	3.4	2.8
Expense from Corporate Operations	(5.2)	(4.9)	(4.9)	(5.0)
Net Income	$ 40.7	$ 37.3	$ 38.6	$ 21.9
Per share: Primary	$ .86	$ .78	$ .82	$ .44
Fully diluted	.80	.73	.75	.43

The quarterly data above have been restated for the change in reporting entity as discussed in Note 6. This change had no effect on net income and related earnings per share. 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 increased in the fourth quarter of 1978 compared with 1977 principally because of an unrealized foreign exchange gain in 1978 compared with a loss in 1977.

Fourth quarter 1978 Income from Merchandising Business increased compared with the fourth quarter 1977 as a result of significantly higher sales volume in 1978.

The decrease in fourth quarter 1978 Income from Manufacturing Business was due primarily to anticipated and actual work stoppages.

Fourth quarter 1978 Income from Rental and Leasing Business was affected by the cost of settling a lawsuit brought against National in 1977 and costs of carrying excess units in the car rental fleet during the months of November and December.

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 1978 and 1977 would have been as follows (millions of dollars except per share data):

	1978-Three Months Ended				1977-Three Months Ended			
	December	**September**	**June**	**March**	December	September	June	March
Net income	**$48.3**	**$43.4**	**$44.8**	**$39.1**	$43.7	$41.3	$39.8	$35.5
Per common share	**.94**	**.85**	**.88**	**.76**	.85	.81	.78	.69

15. Subsequent Event

Household and American Investment Company, a corporation engaged in the business of consumer finance and insurance with headquarters in St. Louis, Missouri, have executed a merger agreement whereby Household would acquire American by means of a statutory merger of American into a wholly-owned subsidiary of Household. Shareholders of American, at a special meeting in December 1978, approved the merger. Under the agreement the shareholders of American would receive cash in the aggregate amount of approximately $76 million. The merger is conditional upon various governmental approvals. On January 9, 1979, the Justice Department filed a civil suit to restrain the proposed merger as an alleged violation of the antitrust laws. Household and American are contesting vigorously the Government's efforts to prevent the merger. Completion of the merger has been suspended pending a trial of the Government's civil suit.

Coast-to-Coast
Hardware store

Statements of Income

All amounts are stated in millions of dollars.

	Year Ended December 31	1978	1977
Net Sales and Revenues		**$3,312.6**	$2,846.9
Costs and Expenses	Cost of sales, buying, and occupancy—Note 4	**2,616.3**	2,252.5
	Selling and administrative	**547.7**	470.5
	Interest—Notes 1, 3, and 4	**26.0**	23.2
	Total Costs and Expenses	**3,190.0**	2,746.2
Income Before Provision for Taxes on Income		**122.6**	100.7
Provision for Taxes on Income	Current—Note 5	**57.7**	45.2
	Deferred	**0.9**	2.7
	Total Provision for Taxes on Income	**58.6**	47.9
Net Income		**$ 64.0**	$ 52.8

Statements of Changes in Financial Position

All amounts are stated in millions of dollars.

	Year Ended December 31	1978	1977
Resources Provided	Operations:		
	Net income	**$ 64.0**	$ 52.8
	Nonfund transactions:		
	Depreciation and amortization	**30.1**	29.0
	Other	**1.7**	1.9
	Total Resources Provided by Operations	**95.8**	83.7
	Disposals of property and equipment	**9.0**	8.7
	Long-term debt issued	**53.7**	35.9
	Total Resources Provided	**$ 158.5**	$ 128.3
Resources Applied	Additions to property and equipment	**$ 69.8**	$ 52.3
	Long-term debt paid	**16.9**	13.9
	Dividends to Household	**24.0**	21.0
	Other—net	**2.9**	1.6
	Working capital—increase	**44.9**	39.5
	Total Resources Applied	**$ 158.5**	$ 128.3
Changes in Components of Working Capital	Current Assets—increase (decrease):		
	Cash	**$(10.6)**	$(9.9)
	Receivables	**(5.4)**	17.6
	Inventories	**112.0**	65.1
	Prepaid expenses	**2.9**	0.3
	Current Liabilities—(increase) decrease:		
	Short-term debt		(3.3)
	Current maturities of long-term debt and capitalized lease obligations	**0.5**	(0.4)
	Accounts payable and other liabilities	**(53.7)**	(33.3)
	Dividend payable	**4.5**	(1.5)
	Federal taxes on income	**(5.3)**	4.9
	Working Capital—Increase	**$ 44.9**	$ 39.5

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	1978	1977
Assets	Current Assets:		
	Cash—Note 2	$ 4.5	$ 15.1
	Notes and accounts receivable (less allowance for doubtful accounts, 1978—$11.0; 1977—$11.7)—Note 1	108.4	113.8
	Inventories	616.6	504.6
	Prepaid expenses	9.9	7.0
	Total Current Assets	739.4	640.5
	Property and Equipment—Note 4:		
	Land	24.9	25.9
	Buildings	102.1	94.8
	Equipment and leasehold improvements	279.2	247.6
	Less accumulated depreciation and amortization	(178.7)	(164.0)
	Total Owned	227.5	204.3
	Land and buildings under capitalized leases	96.2	86.9
	Equipment under capitalized leases	16.9	18.4
	Less accumulated amortization	(45.4)	(45.0)
	Total Leased	67.7	60.3
	Property and Equipment—net	295.2	264.6
	Other Assets:		
	Cost of investments in acquired businesses in excess of net assets at acquisition	8.8	8.8
	Other	19.4	16.4
	Total Other Assets	28.2	25.2
	Total Assets	$ 1,062.8	$ 930.3
Liabilities and Shareholder's Equity	Current Liabilities:		
	Short-term debt—Note 2	$ 15.0	$ 15.0
	Current maturities of long-term debt and capitalized lease obligations	13.0	13.5
	Accounts payable and other liabilities	344.6	290.9
	Dividend payable	6.0	10.5
	Federal taxes on income:		
	Current	13.7	7.6
	Deferred	11.4	12.2
	Total Current Liabilities	403.7	349.7
	Capitalized Lease Obligations—Notes 3 and 4	77.2	69.5
	Long-Term Debt—Note 3	134.6	105.5
	Deferred Taxes on Income	7.5	5.8
	Shareholder's Equity—Notes 3 and 4	439.8	399.8
	Total Liabilities and Shareholder's Equity	$ 1,062.8	$ 930.3

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 3 to Financial Statements of Household) are included in interest expense and notes and accounts receivable, respectively.

2. Lines of Credit

Lines of credit are maintained with various banks and at December 31, 1978 and 1977 amounted to $80.3 million. Such lines are generally supported by average compensating balances equal to 10% of the line plus 10% of any borrowing under the line.

3. Long-term Debt

Long-term debt at December 31, 1978 and 1977 included both term notes payable and mortgage notes payable. Interest rates on the notes during both years ranged from 5½% to 9⅝% and averaged 7.9% and 7.6% in 1978 and 1977, respectively. Certain note agreements require minimum working capital levels and limit the amount of retained earnings available for cash dividends at December 31, 1978 to approximately $90 million. Approximate annual maturities including capitalized lease obligations were as follows: 1980, $12.9 million; 1981, $13.5 million; 1982, $12.7 million; 1983, $12.2 million; and thereafter, $160.5 million.

4. 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, 1978 for these leases were as follows: 1979, $53.6 million; 1980, $50.9 million; 1981, $47.1 million; 1982, $43.8 million; 1983, $41.4 million; and thereafter, $386.6 million. The total of minimum rentals to be received in the future under noncancelable subleases of operating leases is $71.9 million.

Annual rental expenses for all leases other than capital leases were as follows (millions of dollars):

	1978	1977
Minimum rents	**$ 56.9**	$ 53.0
Contingent rents	**8.9**	7.2
Sublease rents received	**(12.3)**	(11.1)
Total	**$ 53.5**	$ 49.1

In 1978 the Company complied with the Securities and Exchange Commission requirement to apply retroactively the provisions of Statement of Financial Accounting Standards No. 13, Accounting for Leases, to pre-1977 leases. Certain leases formerly treated as operating leases now qualify as capital leases. This results in the recording of leased assets and related liabilities as well as amortization and interest expense in lieu of rent expense.

The retroactive application resulted in a cumulative reduction in shareholder's equity at January 1, 1977 of $7.4 million and a reduction in 1977 net income of $300 thousand.

Future minimum lease commitments under capital leases together with the present value of the net minimum lease payments as of December 31, 1978 were (millions of dollars):

Year ending December 31:

1979	$15.6	1982	$ 11.6
1980	14.2	1983	10.6
1981	13.3	Thereafter	103.4

Total minimum lease commitments	168.7
Less amount representing estimated executory costs (taxes, maintenance, and insurance) included in commitments	13.2
Net minimum lease commitments	155.5
Less amount representing interest	72.3
Present value of net minimum lease commitments	$ 83.2

The total of minimum sublease rentals to be received in the future under noncancelable subleases of capital leases was $6.8 million. Capital leases of certain stores require additional contingent rentals based on a percentage of sales over a specified amount. These amounts were $2.3 and $1.8 million in 1978 and 1977, respectively.

5. Taxes on Income

Significant reconciling items to the statutory provisions for taxes on income for 1978 and 1977 include state income taxes net of Federal tax benefits of $4 and $3.3 million, respectively, and investment tax credits of $4.1 and $3.4 million, respectively.

6. Segment Information

Selected information by major industry segment is included on pages 36 and 37.

7. Replacement Cost Data (Unaudited)

Replacement cost data for 1978 and 1977 are included in Household's Form 10-K. Estimated replacement costs of inventories and productive capacity are included in this data in addition to the approximate effects replacement costs have had on cost of sales and depreciation expense. Future requirements for productive capacity are continually being planned through comprehensive remodeling programs the costs of which are expensed currently. These programs minimize the impact of future replacement costs. Acceptable gross margins have generally been maintained by increasing selling prices in concert with rising costs.

Queen Products Division
Scotsman ice equipment

Statements of Income

All amounts are stated in millions of dollars.

	Year Ended December 31	1978	1977
Net Sales and Revenues		**$232.2**	$209.3
Costs and Expenses	Manufacturing	**162.1**	146.6
	Selling and administrative	**28.8**	25.6
	Interest	**0.5**	0.2
	Total Costs and Expenses	**191.4**	172.4
Income Before Unrealized Foreign Exchange Gains and Provision for Taxes on Income		**40.8**	36.9
Unrealized Foreign Exchange Gains			0.3
Income Before Provision for Taxes on Income		**40.8**	37.2
Provision for Taxes on Income—Note 3		**19.6**	18.0
Net Income		**$ 21.2**	$ 19.2

Statements of Changes in Financial Position

All amounts are stated in millions of dollars.

	Year Ended December 31	1978	1977
Resources Provided	Operations:		
	Net income	**$ 21.2**	$ 19.2
	Nonfund transaction:		
	Depreciation and amortization	**5.7**	4.8
	Total Resources Provided by Operations	**26.9**	24.0
	Other—net	**0.1**	0.1
	Total Resources Provided	**$ 27.0**	$ 24.1
Resources Applied	Additions to property and equipment	**$ 6.9**	$ 6.7
	Dividends to Household	**8.0**	14.0
	Working capital—increase	**12.1**	3.4
	Total Resources Applied	**$ 27.0**	$ 24.1
Changes in Components of Working Capital	Current Assets—increase (decrease):		
	Cash and marketable securities	**$ 3.7**	$(1.7)
	Accounts receivable	**2.7**	(2.9)
	Inventories	**5.4**	8.9
	Prepaid expenses	**0.2**	0.3
	Current Liabilities—(increase) decrease:		
	Short-term debt	**2.9**	(3.8)
	Accounts payable and other liabilities	**(2.4)**	
	Federal taxes on income	**1.1**	2.7
	Other taxes on income	**(1.5)**	(0.1)
	Working Capital—Increase	**$ 12.1**	$ 3.4

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	1978	1977
Assets	Current Assets:		
	Cash—Note 5	**$ 3.0**	$ 3.0
	Marketable securities	**7.9**	4.2
	Accounts receivable (less allowance for doubtful accounts, 1978—$0.8; 1977—$0.6)	**34.6**	31.9
	Inventories	**62.4**	57.0
	Prepaid expenses	**1.1**	0.9
	Total Current Assets	**109.0**	97.0
	Property and Equipment:		
	Land, buildings, and improvements	**26.1**	25.6
	Machinery and equipment	**43.2**	38.3
	Less accumulated depreciation and amortization	**(41.0)**	(36.8)
	Property and Equipment—net	**28.3**	27.1
	Other Assets:		
	Cost of investments in acquired businesses in excess of net assets at acquisition	**8.9**	8.9
	Other	**1.5**	1.6
	Total Other Assets	**10.4**	10.5
	Total Assets	**$ 147.7**	$ 134.6
Liabilities and Shareholder's Equity	Current Liabilities:		
	Short-term debt—Note 5	**$ 1.1**	$ 4.0
	Accounts payable and other liabilities	**17.6**	15.2
	Federal taxes on income	**0.8**	1.9
	Other taxes on income	**6.6**	5.1
	Total Current Liabilities	**26.1**	26.2
	Shareholder's Equity	**121.6**	108.4
	Total Liabilities and Shareholder's Equity	**$ 147.7**	$ 134.6

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. Foreign Operations

Foreign subsidiaries' assets, liabilities, and net income accounted for 21%, 48%, and 22%, respectively, of the consolidated amounts as of December 31, 1978, and 19%, 42%, and 20%, respectively, of the consolidated amounts as of December 31, 1977.

2. Lease Commitments

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

Rent expense for 1978 and 1977 was $2.1 and $1.8 million, respectively. Rent commitments for noncancelable operating leases at December 31, 1978 require annual payments as follows (millions of dollars):

Year ended December 31	
1979	$1.3
1980	0.8
1981	0.5
1982	0.1
1983	0.1
Thereafter	1.0
Total rent commitments	$3.8

3. Taxes on Income

Provisions for taxes on income for 1978 and 1977 are reconciled to the amounts determined by applying the statutory Federal income tax rate as follows:

	1978	1977
Statutory Federal income tax rate	**48.0%**	48.0%
Increase (decrease) in rate resulting from:		
State income taxes net of Federal benefit	**2.5**	2.1
Investment tax credits	**(1.0)**	(0.6)
Other—net	**(1.4)**	(1.1)
Effective tax rates	**48.1%**	48.4%

Foreign income taxes were $3.7 and $3.5 million in 1978 and 1977, respectively. Provision for taxes on income has not been made on approximately $20 million of undistributed earnings of foreign subsidiaries and the domestic international sales corporation at December 31, 1978 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 1978 was approximately $3.7 million in excess of pension fund assets.

5. Short-Term Debt

Lines of credit are maintained with various banks and at December 31, 1978 and 1977 amounted to $22.5 and $19.5 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.

6. Segment Information

Selected information by major industry segment and geographic area is included on pages 36 and 37.

7. Replacement Cost Data (Unaudited)

Replacement cost data for the years 1978 and 1977 are included in Household's Form 10-K. These data include management's estimates of the replacement cost of inventories and productive capacity (primarily buildings, machinery, and equipment). Calculations also have been made as to the approximate effects which replacement costs might have had on manufacturing costs and depreciation expense.

The replacement of productive capacity usually requires a substantially greater capital investment than that of the assets being replaced. The Company generally has been able to compensate for increases in manufacturing costs through improvements in operations and increases in selling prices to maintain acceptable gross margins.

National Car Rental
Car rental fleet

Statements of Income

All amounts are stated in millions of dollars.

	Year Ended December 31	1978	1977
Revenues		$ 261.8	$ 201.1
Expenses	Direct operating	131.4	100.7
	Depreciation of revenue-earning assets—Note 1	43.1	33.3
	Selling and administrative	37.7	28.8
	Interest	20.5	13.5
	Total Expenses	232.7	176.3
Income Before Provision for Taxes on Income		29.1	24.8
Provision for Taxes on Income—Note 3	Current	(2.2)	(2.3)
	Deferred	15.2	13.1
	Total Provision for Taxes on Income	13.0	10.8
Net Income		$ 16.1	$ 14.0

Statements of Changes in Financial Position

All amounts are stated in millions of dollars.

	Year Ended December 31	1978	1977
Resources Provided	Operations:		
	Net income	$ 16.1	$ 14.0
	Nonfund transactions:		
	Depreciation and amortization	47.0	36.1
	Deferred taxes on income	15.2	13.1
	Accounts payable and accrued liabilities—net increase	13.1	4.3
	Trade receivables—net (increase)	(9.5)	(3.2)
	Other assets and prepaid expenses—net (increase)	(1.5)	(1.7)
	Total Resources Provided by Operations	80.4	62.6
	Disposal of revenue-earning assets	150.9	108.3
	Vehicle obligations and other debt—net increase	35.9	54.4
	Total Resources Provided	$ 267.2	$ 225.3
Resources Applied	Purchase of revenue-earning assets	$ 253.7	$ 196.1
	Investment in direct financing leases—net increase	3.8	24.7
	Additions to property and equipment	8.8	6.3
	Advances to Household	1.9	2.0
	Other—net	(0.5)	(0.6)
	Cash—(decrease)	(0.5)	(3.2)
	Total Resources Applied	$ 267.2	$ 225.3

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	1978	1977
Assets	Cash	**$ 1.2**	$ 1.7
	Trade Receivables (less allowance for doubtful accounts, 1978—$4.6; 1977—$3.4)	**32.7**	23.2
	Other Assets and Prepaid Expenses	**6.4**	4.9
	Investment in Direct Financing Leases (less unearned income, 1978—$8.7; 1977—$7.5)—Notes 1 and 2	**63.5**	59.7
	Revenue-Earning Assets (less accumulated depreciation, 1978—$51.3; 1977—$33.3)—Notes 1 and 2	**263.4**	203.7
	Property and Equipment (less accumulated depreciation and amortization, 1978—$12.0; 1977—$9.2)	**28.2**	23.6
	Receivable from Household—Note 3	**10.5**	8.6
	Cost of Investments in Acquired Businesses in Excess of Net Assets at Acquisition	**11.8**	12.0
	Total Assets	**$417.7**	$337.4
Liabilities and Shareholder's Equity	Accounts Payable	**$ 13.9**	$ 9.1
	Accrued Insurance	**15.8**	11.4
	Other Accrued Liabilities	**11.7**	7.8
	Vehicle Obligations and Other Debt—Note 2	**254.4**	218.5
	Deferred Taxes on Income—Note 3	**38.9**	23.7
	Shareholder's Equity	**83.0**	66.9
	Total Liabilities and Shareholder's Equity	**$417.7**	$337.4

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

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 1978 and 1977 income to offset initial direct costs was also insignificant.

At December 31, 1978 and 1977, revenue-earning assets consisted of rental vehicles of $223 and $179.5 million, respectively, and lease vehicles of $91.7 and $57.5 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 1978 and 1977 was $18.7 and $12.5 million, respectively.

Investment in direct financing leases and revenue-earning assets at December 31, 1978 and 1977 included cars and trucks leased to the Finance, Merchandising, and Manufacturing Businesses of approximately $17 and $13 million, respectively. Related revenues for 1978 and 1977 were approximately $5 and $2 million, respectively.

At December 31, 1978, 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
1979	$38.1	$26.8
1980	24.9	20.9
1981	4.0	13.0
1982	3.2	8.5
1983	1.6	3.3
Thereafter	0.4	1.3
Total	$72.2	$73.8

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 1978 and 1977, such contingent payments amounted to $12.8 and $10.3 million, respectively. Revenues from rental vehicles for the same periods were $196.8 and $154.6 million, respectively.

Notes to Financial Statements

2. Vehicle Obligations and Other Debt

Vehicle obligations and other debt outstanding at December 31, 1978 and 1977 were as follows (millions of dollars):

	1978	1977
Vehicle obligations	**$160.6**	$204.1
Commercial paper	**92.0**	
7¾% 30-day notes payable to an insurance subsidiary of the Finance Business		10.0
Other	**1.8**	4.4
Total	**$254.4**	$218.5

Vehicle obligations consist of notes payable to banks and credit companies under financing agreements and accounts payable for vehicles. Such obligations are collateralized by leases, the underlying lease vehicles, and rental vehicles. In October 1978 National began issuing commercial paper. Weighted average interest rates on vehicle obligations and commercial paper outstanding at December 31, 1978 and 1977 were 10.2% and 8.2%, respectively.

At December 31, 1978 and 1977, unused credit lines were $175.5 and $58 million, respectively, including $98.4 million at December 31, 1978, supporting outstanding commercial paper, on which fees were payable.

Interest expense for 1978 and 1977 on notes payable to the insurance subsidiary of the Finance Business was $1.2 million and $200 thousand, respectively.

3. Taxes on Income

Provisions for taxes on income for 1978 and 1977 are reconciled to the amounts determined by applying the statutory Federal income tax rate as follows:

	1978	1977
Statutory Federal income tax rate	**48.0%**	48.0%
Increase (decrease) in rate resulting from:		
Investment tax credits	**(6.5)**	(8.0)
State income taxes net of Federal benefit	**3.4**	3.3
Other—net	**(0.2)**	0.2
Effective tax rates	**44.7%**	43.5%

Tax benefits for all investment tax credits, net of estimated recapture, are allocated by Household to National. Deferred Federal income taxes on timing differences, resulting primarily from the use of accelerated depreciation, in excess of National's pretax financial income are recorded by Household.

Receivable from Household represents income tax benefits arising primarily from investment tax credits, net of estimated recapture.

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, 1978 were as follows: 1979, $8.5 million; 1980, $7 million; 1981, $5.7 million; 1982, $4.1 million; 1983, $2.4 million; and thereafter, $7.3 million.

Rent expense for 1978 and 1977 was $29.9 and $22.8 million, respectively. Such amounts included contingent rentals (based on revenues) for car rental station leases of $11.1 and $8.6 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, eleven 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 six remaining civil actions and that they will not have a materially adverse effect on the financial statements of National.

6. Replacement Cost Data (Unaudited)

Replacement cost data for the years 1978 and 1977 are included in Household's Form 10-K. These data include management's estimates of the replacement cost of productive capacity (revenue-earning assets, buildings, and equipment). Calculations also have been made as to the approximate effects which replacement costs might have had on depreciation expense.
The replacement of productive capacity usually requires a greater capital investment than the original cost of the assets being replaced. National generally has been able to adjust rental and lease rates to offset the increasing costs of productive capacity.

Management's Report and Auditors' Opinion

Household Finance Corporation

International Headquarters
2700 Sanders Road
Prospect Heights, Illinois 60070

To the Shareholders of
Household Finance Corporation:

February 12, 1979

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 are under the surveillance of staffs of internal auditors who consider the adequacy and investigate the adherence to these controls and procedures in actual practice. Our independent auditors, Deloitte Haskins & Sells, also study and evaluate the Company's accounting systems and related controls and perform tests of transactions and 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 (a) 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, (b) 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, (c) conflicts of interest are to be avoided, and (d) relations with public officials are to be maintained at a level which is beyond reproach.

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 12, 1979

We have examined the balance sheets of Household Finance Corporation and consolidated subsidiaries as of December 31, 1978 and 1977 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 rental and leasing 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 rental and leasing subsidiaries present fairly the financial position of these companies at December 31, 1978 and 1977 and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

Board of Directors

Donald C. Clark
President

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

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

John T. Gurash
Chairman of the Executive Committee,
INA Corporation, Insurance

Mary J. Head
Director

William D. Hendry
President,
Consumer Finance Division

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

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

Gordon P. Osler
Vice Chairman,
British Steel Corporation (Canada) Limited

Arthur E. Rasmussen
Director

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

Albert O. Steffey
Director

James M. Tait
President,
City Products Corporation

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

Miller Upton
Director and Consultant

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

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

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

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

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

Nominating Committee
The Nominating Committee recommends candidates for Board membership.
A. O. Steffey, *Chairman*; G. R. Ellis; M. Upton

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 B. Spring
Senior Vice President and Chief Financial Officer

James D. Pinkerton
Vice President-Administration and Secretary

John W. Ostrem
Group Vice President Financial Controls

Robert K. Strasser
Treasurer

John P. Hines
Controller

Division Officers

Finance
Consumer Finance Division
William D. Hendry
President

Executive Vice Presidents:
William J. Hunckler
Walter Kinka

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

Household Finance Corporation of Canada
J. Arnold Anderson
President

Donald G. Bennett
Executive Vice President

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

Albert C. Hassel
Executive Vice President

Merchandising
City Products Corporation
James M. Tait
President

Executive Vice Presidents:
Lawrence A. Del Santo
Wilford W. George

Roger E. Stangeland
Senior Vice President

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

Executive Vice Presidents:
Gary Dillon
Jackson Sell

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

Bemiss A. Rolfs
Executive Vice President

Household Finance Corporation

Semi-Annual Report
June 30, 1978

Household Finance Corporation

About the Cover
Still bathed in machine oil and shavings, the precision brass fittings on the cover made by the Scotsman Division of Household's manufacturing business await product assembly on one of the division's ice machines.

Scotsman Division is the world's largest quality manufacturer of commercial ice systems. Rising demand for ice machines by restaurants and hotels is bringing the division higher sales and earnings in 1978. From its main manufacturing facility in Albert Lea, Minnesota, Scotsman markets its products primarily through a select national distributor organization. Its manufacturing facility in Milan, Italy serves as the marketing point for Europe and the rest of the world.

Scotsman is representative of the diverse nature of Household's manufacturing business. The total manufacturing group is divided into three segments according to the markets served: outdoor living, commercial refrigeration and industrial. Everyday millions of people come into contact with HFC products, either directly through purchase or indirectly through use. The outdoor living products of Thermos® vacuumware, portable jugs and chests, and Structo® barbecue grills are bought throughout the world. The commercial refrigeration products of Scotsman® ice machines and Halsey Taylor water fountains are found extensively in restaurants, hotels, motels, hospitals, offices and schools. The industrial products are comprised of the Almco metal finishing machines, Albion casters and King-Seeley cooking appliance controls. End uses of these industrial products are polished golf club heads, baggage carts and conventional and microwave ovens.

A total of 17 plants produce these products. Thirteen plants are located in the United States (Norwich and Taftville, Connecticut; Macomb and Freeport, Illinois; Kendallville, Indiana; Albert Lea, Minnesota; Utica and Albion, Michigan; Winchester, Massachusetts). One plant is in Canada, two plants are in the United Kingdom, and one is in Italy. To improve efficiencies, several plant consolidations have occurred within the past two years.

It may seem unusual for people to think of Household Finance as a major manufacturer. However, our manufacturing subsidiary, King-Seeley Thermos Co., by itself ranks high among Fortune Magazine's Second 500 Largest Industrial Companies in the United States. Sales in 1977 exceeded $200 million. In terms of net income, King-Seeley Thermos ranked 59th in the Second 500.

Financial Highlights

All amounts other than per share data are stated in thousands.	Six Months Ended June 30 1978	1977	Percent Change	Three Months Ended June 30 1978	1977	Percent Change
Volume						
Finance receivables outstanding at June 30:						
Consumer	**$2,937,311**	$2,692,340	+ 9%	**$2,937,311**	$2,692,340	+ 9%
Commercial	**87,727**	43,080	+104	**87,727**	43,080	+104
Total	**3,025,038**	2,735,420	+ 11	**3,025,038**	2,735,420	+ 11
Merchandising net sales and revenues	**1,446,342**	1,266,013	+ 14	**768,175**	663,561	+ 16
Manufacturing net sales and revenues	**136,175**	118,348	+ 15	**70,121**	59,580	+ 18
Rental and leasing revenues	**123,901**	94,362	+ 31	**66,190**	49,888	+ 33
Earnings before Unrealized Foreign Exchange Gains and Losses (Income and expenses after taxes before *unrealized* foreign exchange gains and losses less related tax effects)—Notes 1, 2, and 4						
Finance	**$ 49,035**	$ 48,431	+ 1%	**$ 23,896**	$ 23,697	+ 1%
Merchandising	**22,894**	19,451	+ 18	**14,133**	12,087	+ 17
Manufacturing	**13,772**	11,149	+ 24	**7,054**	5,540	+ 27
Rental and leasing	**8,913**	6,245	+ 43	**5,059**	3,428	+ 48
Corporate	**(10,733)**	(9,904)	+ 8	**(5,335)**	(4,922)	+ 8
Total	**83,881**	75,372	+ 11	**44,807**	39,830	+ 12
Per common share:						
Primary basis	**1.76**	1.59	+ 11	**.94**	.84	+ 12
Fully diluted basis	**1.64**	1.47	+ 12	**.88**	.78	+ 13
Unrealized Foreign Exchange Gains (Losses) Less Related Tax Effects—Note 2						
Finance	**(8,497)**	(14,773)		**2,160**	(1,233)	
Manufacturing	**(48)**	(147)		**25**	(12)	
Total	**(8,545)**	(14,920)		**2,185**	(1,245)	
Net Income	**$ 75,336**	$ 60,452	+ 25%	**$ 46,992**	$ 38,585	+ 22%
Earnings per common share:						
Primary	**1.57**	1.26	+ 25	**.99**	.82	+ 21
Fully diluted	**1.47**	1.18	+ 25	**.92**	.75	+ 23
Dividends Declared per Common Share	**$ .65**	$ .60	+ 8%	**$ .325**	$ .30	+ 8%
Average Number of Common Shares Outstanding						
Primary	**45,449**	44,617	+ 2%	**45,524**	44,701	+ 2%
Fully diluted	**51,158**	51,147		**51,175**	51,145	

To the Shareholders:

Total earnings for the six months of $83,881,000 and for the quarter ended June 30 of $44,807,000 were up 11% and 12%, respectively, before inclusion of *unrealized* foreign exchange gains and losses. On this basis, fully diluted earnings per common share for the six months were $1.64 compared with $1.47 in 1977, and for the second quarter were 88¢ compared with 78¢ in 1977. Strong gains continued to be reported by the Merchandising, Manufacturing, and Rental and Leasing Businesses while the Finance Business showed only a slight increase during the quarter reflecting the impact of significantly higher short-term interest rates.

After *unrealized* foreign exchange gains and losses, net income for the six months was $75,336,000 compared with $60,452,000 in 1977, an increase of 25%, and for the second quarter was $46,992,000 compared with $38,585,000 in 1977, an increase of 22%. These year-to-date net income comparisons are affected significantly by fluctuations in the Canadian dollar exchange rate. Household's foreign net asset exposure is the greatest in Canada.

We continue to identify in our Financial Highlights the erratic effects on reported earnings of *unrealized* foreign exchange gains and losses since these *unrealized* gains and losses have no impact on current cash flows and their ultimate realization is highly uncertain. It is our belief that earnings before *unrealized* foreign exchange gains and losses more fairly present our actual performance. We believe the 11% year-to-date and 12% second quarter increases in earnings before the effects of *unrealized* foreign exchange gains and losses are, therefore, a more appropriate portrayal of our earnings growth for the respective periods and not the 25% and 22% increases in net income after the inclusion of *unrealized* foreign exchange gains and losses.

Finance

In June 1978, Household's finance receivables exceeded three billion dollars, a new milestone in the Finance Division's growth. It took 86 of our first 100 years to achieve the one billion dollar receivable level, another eight years to reach the two billion dollar level, and five and one-half years to reach the three billion dollar mark. The current receivable portfolio includes our consumer finance operations in the United States, Canada, Puerto Rico, and the United Kingdom as well as $87,727,000 generated by our fast-growing commercial financing operations, an area which provides additional diversification and sources of earnings growth for the Finance Business.

Total consumer and commercial finance receivables were $3,025,038,000 at June 30, 1978 compared with $2,911,023,000 at December 31, 1977 and $2,735,420,000 a year ago. Consumer receivables increased during the second quarter $107,074,000 before adjusting for the effects of foreign currency translation, principally the Canadian dollar exchange rate. Commercial receivables increased $9,603,000 during the second quarter and $44,647,000 during the last 12 months. Average consumer and commercial receivables during the first six months of 1978 were $2,917,002,000 compared with $2,640,781,000 in 1977. The overall delinquency level of consumer receivables at June 30, 1978 was lower than at the year end and was the lowest June 30 level reported in 21 years, again demonstrating continued effective control of delinquency. Net chargeoffs of bad debts during the first six months of 1978 were $27,828,000 or .98% of average consumer receivables outstanding, compared with $27,410,000 or 1.05% of average consumer receivables outstanding during the same period in 1977.

Finance earnings for the first six months, excluding the effect of *unrealized* foreign exchange gains and losses, were $49,035,000 compared with $48,431,000 a year ago and in the second quarter were $23,896,000 compared with $23,697,000 a year ago. These results reflect the impact of significantly higher short-term interest rates in 1978 compared with 1977. 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; however, the average cost of our short-term funds during the first six months of 1978 was 6.91% compared to 5.25% for the like 1977 period. After recognition of *unrealized* foreign exchange gains and losses, aftertax income for the first six months was $40,538,000 compared with $33,658,000 in 1977 and for the second quarter was $26,056,000 compared with $22,464,000 in 1977.

Household is continuing to expand its international consumer finance operations. In June 1978, Household was authorized by the Japanese government to establish a consumer finance subsidiary in that country. The new subsidiary, Household Finance Corporation—Japan, plans to open its first office in Tokyo this year.

Merchandising

For the six months, net sales were $1,446,342,000 and net income was $22,894,000, representing gains over

1977 of 14% and 18%, respectively. In the second quarter, sales were up 16% from last year while net income improved 17%.

The growth in sales and earnings was primarily the result of particularly strong performances by Von's Grocery Company, Coast-to-Coast Stores, and T. G. & Y. Stores.

While sales and profit growth in the first half have been very satisfactory, the division expects margins to be lower in the second half as a result of increased promotional emphasis in a more competitive environment.

Manufacturing

Net sales for the six months were $136,175,000 and income before aftertax *unrealized* foreign exchange losses was $13,772,000 representing gains over 1977 of 15% and 24%, respectively. Continuing the strong first quarter trend, second quarter net sales and income before *unrealized* foreign exchange gains increased 18% and 27% compared with 1977.

The increase in sales reflected solid product demand in most lines and good customer acceptance of new items introduced for the 1978 season. The improvement in income is the result of higher sales as well as improved plant utilization because of higher production levels and generally improved manufacturing efficiency.

Rental and Leasing

Six-month net income for National Car Rental increased 43% to $8,913,000 and revenues rose 31% to $123,901,000. Second quarter net income was up 48% to $5,059,000, with revenues up 33% to $66,190,000.

Responding to the favorable trends in business and leisure travel, National's volume growth was reflected in increased rental transactions and continued strength in the demand for vehicle leasing. Fleet sizes increased significantly in each division of the Rental and Leasing Business to service the increased demand.

The improvement in earnings resulted primarily from higher volume plus a continued strong market for the sale of used vehicles.

Corporate

Corporate expenses, representing interest expenses attributable to cash investments in the nonconsolidated Merchandising, Manufacturing, and Rental and Leasing Businesses as well as certain administrative expenses which are of an overall, parent-company nature, are now being reported separately in order to present more clearly the results of operations of the Finance Business and to identify expenses from corporate operations. These expenses were previously included in the results of the Finance Business. This new segregation of expenses is more fully discussed in Note 1 to Financial Statements.

* * * *

In July 1978, the Federal Trade Commission released a complaint against Household alleging violation of the Truth in Lending Act in connection with new loans made to customers previously declared bankrupt, a practice common in the consumer credit industry. The Commission contends that sums the bankrupt debtor is already morally obligated to pay a creditor must, nonetheless, be called a finance charge when included in a subsequent credit extension by that creditor. Household strongly disputes the FTC's position. Household believes its disclosure practices in this regard are in total compliance with the law. The Company intends to contest the Complaint before the Commission and, if necessary, in the Courts. As the Federal Reserve Board is charged with the responsibility of interpreting the Truth in Lending Act, Household had asked the Federal Trade Commission to submit its unique legal position to the Federal Reserve Board but the Commission refused.

In May 1978, Household completed the sale to the public through underwriters of $100,000,000 of five-year debentures at an interest rate of 8½% and also placed $44,500,000 of 8.46%, five-year notes with several banks.

Effective June 1, 1978, James L. McCormick was appointed to the newly created corporate position of Senior Vice President—Government and Public Affairs. He previously served as Vice President—Public Relations.

During the first week of July, we began moving into our new HFC International Headquarters in Prospect Heights, Illinois. Located in the new building will be the corporate headquarters, the headquarters for our Finance Business, and the headquarters for our Manufacturing Business.

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

D. C. Clark
President

August 2, 1978

Statements of Income
Household Finance Corporation and Consolidated Subsidiaries

All amounts other than per share data are stated in thousands of dollars.	Six Months Ended June 30 1978	Six Months Ended June 30 1977	Three Months Ended June 30 1978	Three Months Ended June 30 1977
Income From Finance Business				
Revenues:				
Finance charges	**$283,229**	$264,923	**$142,269**	$130,441
Insurance premiums and commissions	**34,610**	32,612	**17,458**	16,801
Investment and other income	**17,893**	13,308	**8,994**	6,715
Total revenues	**335,732**	310,843	**168,721**	153,957
Expenses—Note 1:				
Salaries and fringe benefits	**62,996**	57,030	**31,993**	28,357
Other operating expenses	**53,316**	47,149	**27,160**	23,552
Provision for credit losses	**32,686**	31,179	**16,416**	15,798
Provision for insurance claims	**21,523**	20,951	**10,741**	10,702
Interest:				
Long-term	**55,215**	50,438	**28,326**	25,968
Short-term	**23,944**	14,350	**12,302**	7,076
Total expenses	**249,680**	221,097	**126,938**	111,453
Income Before Unrealized Foreign Exchange Gains (Losses) and Provision for Taxes on Income	**86,052**	89,746	**41,783**	42,504
Unrealized Foreign Exchange Gains (Losses)—Note 2	**(12,358)**	(22,378)	**3,517**	(1,828)
Income Before Provision for Taxes on Income	**73,694**	67,368	**45,300**	40,676
Provision for Taxes on Income—Notes 1 and 3	**33,156**	33,710	**19,244**	18,212
Income From Finance Business	**40,538**	33,658	**26,056**	22,464
Income From Merchandising Business—Note 4	**22,894**	19,451	**14,133**	12,087
Income From Manufacturing Business	**13,724**	11,002	**7,079**	5,528
Income From Rental and Leasing Business	**8,913**	6,245	**5,059**	3,428
Expense From Corporate Operations—Note 1	**(10,733)**	(9,904)	**(5,335)**	(4,922)
Net Income	**$ 75,336**	$ 60,452	**$ 46,992**	$ 38,585
Earnings Per Common Share				
Primary	**$ 1.57**	$ 1.26	**$ .99**	$ .82
Fully diluted	**1.47**	1.18	**.92**	.75
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:				
Net income	**$ 83,881**	$ 75,372	**$ 44,807**	$ 39,830
Per common share	**1.64**	1.47	**.88**	.78

Statements of Income
Nonconsolidated Subsidiaries of Household Finance Corporation

All amounts are stated in thousands of dollars.	Six Months Ended June 30 1978	Six Months Ended June 30 1977	Three Months Ended June 30 1978	Three Months Ended June 30 1977
Merchandising				
Net Sales and Revenues	**$1,446,342**	$1,266,013	**$768,175**	$663,561
Costs and Expenses—Note 4:				
Cost of sales, buying, and occupancy	**1,144,240**	1,002,991	**608,338**	524,237
Selling and administrative	**246,688**	215,043	**126,636**	110,604
Interest	**11,829**	10,439	**6,214**	5,356
Total costs and expenses	**1,402,757**	1,228,473	**741,188**	640,197
Income before provision for taxes on income	**43,585**	37,540	**26,987**	23,364
Provision for taxes on income	**20,691**	18,089	**12,854**	11,277
Net Income	**$ 22,894**	$ 19,451	**$ 14,133**	$ 12,087
Manufacturing				
Net Sales and Revenues	**$ 136,175**	$ 118,348	**$ 70,121**	$ 59,580
Costs and Expenses:				
Manufacturing	**94,014**	82,718	**48,367**	41,803
Selling and administrative	**14,228**	12,868	**7,189**	6,479
Interest	**483**	145	**318**	111
Total costs and expenses	**108,725**	95,731	**55,874**	48,393
Income before unrealized foreign exchange gains (losses) and provision for taxes on income	**27,450**	22,617	**14,247**	11,187
Unrealized foreign exchange gains (losses)	**(35)**	(161)	**25**	(11)
Income before provision for taxes on income	**27,415**	22,456	**14,272**	11,176
Provision for taxes on income	**13,691**	11,454	**7,193**	5,648
Net Income	**$ 13,724**	$ 11,002	**$ 7,079**	$ 5,528
Rental and Leasing				
Revenues	**$ 123,901**	$ 94,362	**$ 66,190**	$ 49,888
Expenses:				
Direct operating	**60,381**	46,411	**32,065**	24,490
Depreciation of revenue-earning assets—Note 5	**20,769**	17,651	**10,932**	9,348
Selling and administrative	**17,374**	12,758	**9,171**	6,629
Interest	**9,599**	6,447	**5,066**	3,358
Total expenses	**108,123**	83,267	**57,234**	43,825
Income before provision for taxes on income	**15,778**	11,095	**8,956**	6,063
Provision for taxes on income	**6,865**	4,850	**3,897**	2,635
Net Income	**$ 8,913**	$ 6,245	**$ 5,059**	$ 3,428

Balance Sheets

Household Finance Corporation and Consolidated Subsidiaries

All amounts are stated in thousands of dollars.	June 30 1978	1977
Assets		
Cash	$ 34,902	$ 32,697
Investments in Securities	249,187	233,153
Receivables:		
Consumer—less unearned charges, 1978—$711,586, 1977—$573,875	2,937,311	2,692,340
Commercial	87,727	43,080
Total finance receivables	3,025,038	2,735,420
Less: Credit loss reserves	(126,695)	(113,206)
Insurance policy and claim reserves applicable to finance receivables	(120,286)	(108,761)
Finance receivables—net	2,778,057	2,513,453
Revolving credit accounts purchased from Merchandising Subsidiaries	83,022	91,172
Receivables—net	2,861,079	2,604,625
Investments in Subsidiaries—Note 4	760,594	702,618
Property and Equipment—net	40,600	26,637
Other Assets	73,556	76,206
	$4,019,918	$3,675,936
Liabilities and Shareholders' Equity		
Short-Term Debt	$ 579,900	$ 591,484
Accounts Payable and Other Liabilities	122,780	109,399
Insurance Policy and Claim Reserves—applicable to risks other than finance receivables	83,627	42,382
United States Federal and Foreign Taxes on Income	10,766	14,694
Senior Long-Term Debt	1,913,678	1,693,322
Senior Subordinated Long-Term Debt	197,406	199,894
Shareholders' Equity—Note 4	1,111,761	1,024,761
	$4,019,918	$3,675,936

Statements of Changes in Financial Position

Household Finance Corporation and Consolidated Subsidiaries

	Six Months Ended June 30		Three Months Ended June 30	
All amounts are stated in thousands of dollars.	**1978**	1977	**1978**	1977
Resources Provided				
Operations:				
Net income	**$ 75,336**	$ 60,452	**$ 46,992**	$ 38,585
Nonfund transactions:				
Provisions:				
Credit losses	**32,686**	31,179	**16,416**	15,798
Insurance claims	**21,523**	20,951	**10,741**	10,702
Undistributed earnings of nonconsolidated subsidiaries	**(31,584)**	(23,418)	**(17,584)**	(7,445)
Unrealized foreign exchange (gains) losses	**12,358**	22,378	**(3,517)**	1,828
Depreciation and amortization	**2,087**	2,198	**1,068**	1,113
United States Federal and foreign taxes on income—net increase (decrease)	**2,222**	(3,117)	**5,915**	(7,191)
Deferred income taxes (credits)	**5,233**	(9,702)	**6,946**	(1,617)
Accounts payable and accrued expenses —net increase (decrease)	**2,528**	3,798	**(6,983)**	(8,875)
Other—net	**(5,267)**	(192)	**(8,008)**	750
Total resources provided by operations	**117,122**	104,527	**51,986**	43,648
Collections on receivables (except finance charges and insurance premiums included in net income)	**784,575**	736,155	**410,483**	380,832
Total resources provided by operations and collections on receivables	**901,697**	840,682	**462,469**	424,480
Long-term debt issued	**155,002**	102,665	**155,002**	2,665
Other—net	**29,104**	4,672	**14,647**	3,785
	$1,085,803	$948,019	**$632,118**	$430,930
Resources Applied				
Loans made and acquired (excluding balances on refinanced contracts)	**$ 895,700**	$824,851	**$511,505**	$487,643
Revolving credit accounts purchased from Merchandising Subsidiaries	**84,491**	81,228	**27,364**	27,585
Investments:				
Securities—net increase (decrease)	**(33,126)**	(16,506)	**(205)**	12,870
Property and equipment	**8,825**	4,318	**4,889**	2,304
Nonconsolidated subsidiaries		35,041		
Short-term debt—net (increase) decrease	**67,684**	(32,683)	**48,380**	(116,962)
Long-term debt paid	**24,223**	13,130	**19,338**	148
Cash dividends	**33,587**	31,246	**16,801**	15,626
Increase in cash	**4,419**	7,394	**4,046**	1,716
	$1,085,803	$948,019	**$632,118**	$430,930

Notes to Financial Statements

1. Beginning in 1978, Household initiated a policy of identifying corporate expenses which are of an overall, parent-company nature and separately reporting these expenses in the Statements of Income. The 1977 Statements of Income have been reclassified on a comparable basis. Expenses from Corporate Operations were previously included in the results of the Finance Business, which served in the dual role of both the corporate parent company and the Finance Business operating division. This new segregation of corporate expenses is designed to present more clearly the results of operations of the Finance Business as well as to separately state the expenses of Corporate Operations.

Corporate expenses include certain administrative expenses attributable to all four businesses and corporate interest expenses. Corporate interest expenses represent compounded interest costs based on net cash outflows related to corporate administrative expenses and the cost of carrying investments in the Company's three major nonconsolidated subsidiaries. This carrying cost considers cash investments and preferred stock cash dividends paid in connection with the acquisition of these subsidiaries as well as common stock cash dividends paid with respect to the earnings of these subsidiaries subsequent to acquisition, all net of cash flows to the parent company.

Administrative expenses for the six months were $2,568,000 and $2,111,000 and for the second quarter were $1,344,000 and $997,000 for 1978 and 1977, respectively. Interest expenses for the six months were $17,836,000 and $16,902,000 and for the second quarter were $8,855,000 and $8,451,000 for 1978 and 1977, respectively. Related tax effects netted against these administrative and interest expenses for the six months were $9,671,000 and $9,109,000 and for the second quarter were $4,864,000 and $4,526,000 for 1978 and 1977, respectively.

2. Accounts denominated in foreign currencies are translated generally in acordance with Statement of Financial Accounting Standards No. 8 which requires that unrealized foreign currency translation adjustments be included in the Statements of Income in the periods in which they occur. Because of the swings that may be experienced in the Canadian dollar exchange rate, income from the Finance Business can fluctuate widely.

3. The effective tax rates of the Finance Business for the six months ended June 30, 1978 and 1977 of 45.0% and 50.0%, respectively, differ from the statutory Federal income tax rate of 48% principally because of the effects of (a) the permanent differences arising from changes in the credit life insurance subsidiary's policyholders' surplus, (b) 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, and (c) investment tax credits arising principally from leveraged leasing transactions.

Beginning in 1978, Finance Business state and local taxes on income, previously included in operating expenses in the Statements of Income, have been reclassified to the provision for taxes on income. The 1977 Statements of Income have been reclassified on a comparable basis.

4. In 1977, the Merchandising Business adopted the provisions of Statement of Financial Accounting Standards No. 13, entitled "Accounting for Leases," only with respect to leases entered into during 1977. Beginning in 1978, Merchandising expanded its application of Statement No. 13 to include leases entered into prior to 1977. As a result, certain pre-1977 leases are now classified as financing leases whereas in prior years such leases were classified as operating leases. The financial statements for 1977 have been restated on a comparable basis.

The effect of this capitalization of pre-1977 financing leases was to record the assets and liabilities for these leased facilities and equipment, together with the cumulative aftertax effect on retained earnings, on the books of the Merchandising Business and to record the corresponding adjustments to investments in subsidiaries and retained earnings on the books of Household. These adjustments on the books of Household and the effects on net income were insignificant.

5. Rental and Leasing's net gains on disposals of revenue-earning assets are included in depreciation expense and for the six months were $8,708,000 and $4,655,000 and for the second quarter were $4,462,000 and $2,445,000, for 1978 and 1977, respectively. These net gains are considered by management to be inseparable elements of total depreciation expense.

6. Certain reclassifications have been made in the 1977 Statements of Changes in Financial Position to conform with the 1978 presentation.

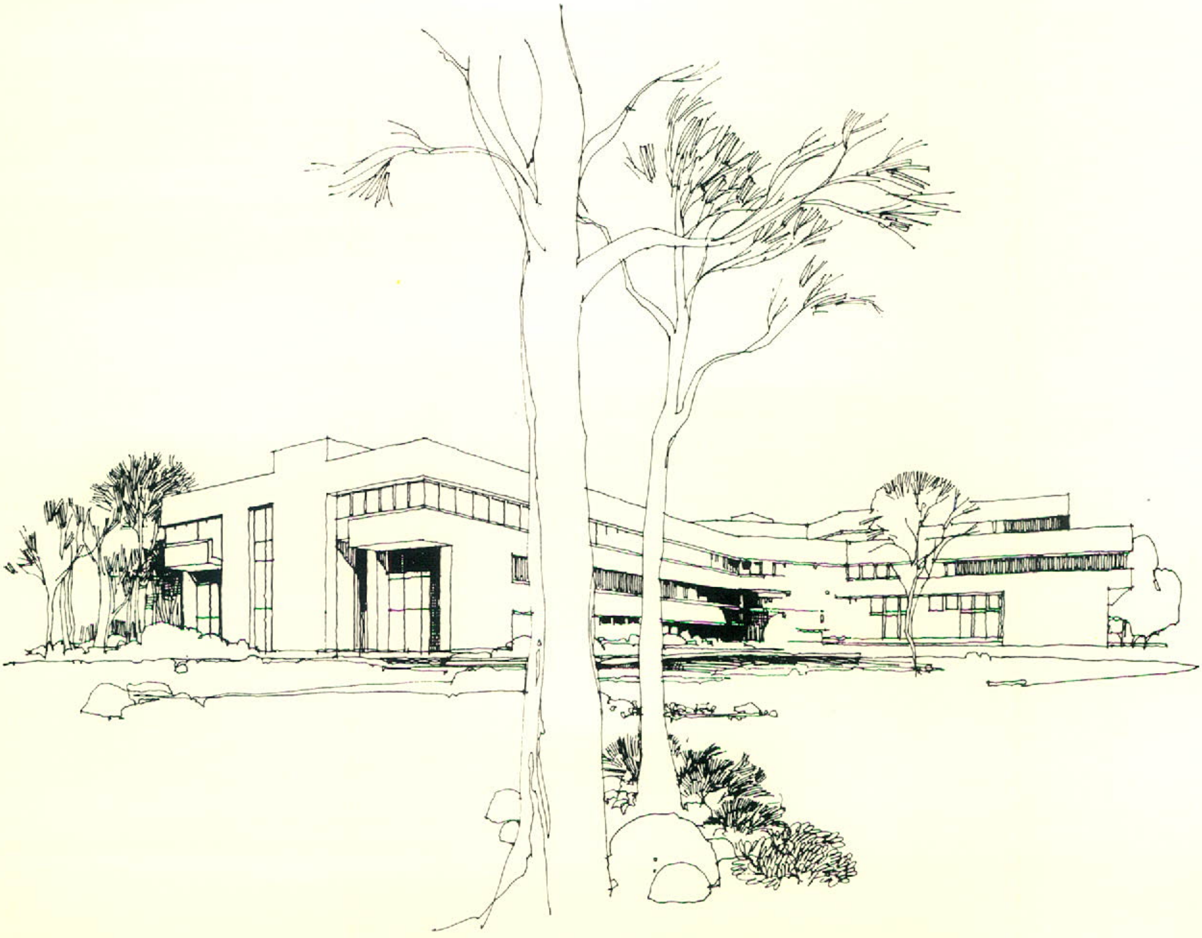
7. The Letter to Shareholders includes a discussion of the complaint recently filed against Household by the Federal Trade Commission.

Corporate Information

Household Finance Corporation has moved to our new corporate headquarters Northwest of Chicago, located near the intersection of Willow Road and the Tri-State Tollway.

Our new address is:

HFC International Headquarters
2700 Sanders Road
Prospect Heights, Illinois 60070
Telephone: 312-564-5000



Corporate Information

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

Consumer Finance
2,049 branch offices in the United States, Canada, United Kingdom, Puerto Rico and Japan.

HFC Trust Limited (United Kingdom)
consumer finance and banking—60 HFC Trust branch offices.

Alexander Hamilton Life Insurance Co.
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
nine offices in Southern California.

Industrial Banks
consumer finance and banking—four 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—109 stores in ten states.

Vons
139 supermarkets in Southern California.

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—1,977 independently owned stores operating in all 50 states.

Coast-to-Coast
1,177 franchised hardware stores in 26 states.

Whites (franchised)
hard goods chain—521 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 metalized 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.

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

National Car Rental
car and 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

Corporate Information

Transfer Agent, Registrar, and Dividend Disbursing Agent for the Common and Preferred Stock	Stockholder address changes and questions pertaining to stockholder accounts should be directed to the Stock Transfer Division of the Harris Bank in Chicago. Harris Trust and Savings Bank Stock Transfer Division 111 W. 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
Investor Inquiries	Investor inquiries, including requests for the Form 10-K report filed annually with the Securities and Exchange Commission, may be directed to the address following. The 10-K report for the year 1978 will be available after April 1, 1979.	Office of the Secretary Household Finance Corporation 2700 Sanders Road Prospect Heights, Illinois 60070
Annual Meeting	You are cordially invited to attend the annual meeting of stockholders which will be held at 9:30 A.M. on Tuesday, April 17, 1979 at HFC International Headquarters, 2700 Sanders Road, Prospect Heights, Illinois.	The official Notice of Annual Meeting, Proxy Statement, and Proxy form will be mailed to each shareholder on or about March 12, 1979. If you are unable to attend the meeting, it will be appreciated if you will sign and return the proxy form as soon as possible.
Dividend Reinvestment Agent	The Dividend Reinvestment Service, which is offered through Citibank, New York, entitles HFC shareholders to automatically and regularly apply common and/or preferred cash dividends toward the purchase of additional Household Common Stock. Participants also have the option of purchasing more common shares through this plan with direct cash payments.	Interested shareholders may obtain additional information by writing Citibank at the address below or the Secretary of Household. Inquiries concerning established accounts should be directed to Citibank. Citibank Dividend Reinvestment Service NBG-1 P.O. Box 5710 New York, New York 10043
Corporate Headquarters	**Household Finance Corporation** International Headquarters 2700 Sanders Road Prospect Heights, Illinois 60070 (312) 564-5000	
Addresses	**Finance** HFC Consumer Finance Division 2700 Sanders Road Prospect Heights, Illinois 60070 Alexander Hamilton Life Insurance Company of America 33045 Hamilton Blvd. Farmington Hills, Michigan 48024 **Merchandising** City Products Corporation 1700 S. Wolf Road Des Plaines, Illinois 60018	**Manufacturing** King-Seeley Thermos Co. 2700 Sanders Road Prospect Heights, Illinois 60070 **Rental and Leasing** National Car Rental System, Inc. 5501 Green Valley Drive Minneapolis, Minnesota 55437

Design: Boller Coates Robert
Major photography: Michael Mauney