

**Household Finance
Corporation**

1977 Annual Report



Household Finance Corporation ranks among the nation's largest diversified corporations. We have a balance of basic businesses with decentralized operating companies engaged in consumer finance and other financial and insurance services, merchandising, manufacturing, and vehicle rental and leasing. These business operations are concentrated in the United States and Canada with selective diversification in other countries. We employ over 65,000 people.

About the Cover

The Cooks . . . Bill, Peter, Emily and Ray . . . are standing in front of the Hay Waggon, an Inn which they own and operate 34 miles outside London in East Sussex. Their story and HFC's part in the drama is an example of the level of understanding and attention that every HFC customer receives.

Bill Cook, a retired insurance executive, and his wife Emily "Em" were looking for a retirement occupation that they could enjoy together, and a small home with a yard that was large enough for Bill to pursue his hobby . . . gardening. Their son, Peter, was an accountant for 14 years for a data processing firm. But his dream was to be a restaurateur of an English countryside inn. Peter's brother, Ray, had run his own London advertising agency and was seeking a complete career change and a rural lifestyle.

The family decided that by pooling their respective business skills and finances, they could purchase an Inn that dated from the 1500's, the Hay Waggon, an excellent example of Tudor craftsmanship. It offered something for everyone.

Originally it was a large farmhouse that had been converted to an Inn when coach travel became popular. It was a beautiful building with red tile roofs, oak beams and all the quaint charm that they had hoped for. What they didn't anticipate was their reception at Peter's own bank.

The family had formulated a business proposal and Peter approached his own bank for funding. As a good customer for the past 14 years, he assumed that the loan was a formality. But such was not the case. According to Peter, "They (the bank) did not adequately appreciate my past demonstrated abilities to handle cash flow, as well as control employees, and the awareness spelled out in the proposal that we would be in business to make a profit, not pursue a leisurely pastime." Reluctantly, the bank turned Peter and the Cooks down because they had no previous restaurant experience.

Disappointed, Peter sought reassurance from a friend. What he got instead was an answer. His friend recommended another lending source . . . HFC Trust.

According to Peter, "the way HFC Trust dealt with us was fantastic. They listened and objectively evaluated the proposal with an understanding of the facts of business life. They treated me fairly, as an individual and financially. I would recommend them to anyone." HFC Trust was pleased to welcome the Cooks as customers.

The story has an even happier ending. The old farmhouse was tastefully converted into a comfortable restaurant, where the original oven can still be seen, adjacent to the open hearth fire. It's been over one year since the Inn has run under the Cooks' supervision and it's a success. So successful that the bank which originally turned Peter down recently asked if he needed a new loan for expansion. As you might expect, Peter said no thank you, that he would continue to deal with HFC Trust because they're really "Someone to talk to about money." For more about HFC Trust, see the discussion on pages 6 and 7.

Financial Highlights

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

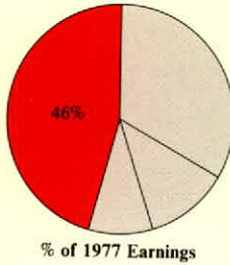
	1977	1976	Percent Change	
Volume				
Finance receivables outstanding at December 31:				
Consumer	\$2,837,245	\$2,635,921	+	8%
Commercial	73,778	22,997	+	221%
Total	2,911,023	2,658,918	+	9%
Merchandising net sales and revenues	2,846,930	2,521,400	+	13%
Manufacturing net sales and revenues	209,310	206,157	+	2%
Rental and leasing revenues	201,072	173,832	+	16%
Earnings before Unrealized Foreign Exchange Gains and Losses				
(Income after taxes before <i>unrealized</i> foreign exchange gains and losses less related tax effects)				
Finance	\$ 74,593	\$ 64,132	+	16%
Merchandising	53,062	42,320	+	25%
Manufacturing	18,890	19,344	-	2%
Rental and leasing	14,001	8,750	+	60%
Total	160,546	134,546	+	19%
Per common share:				
Primary basis	3.39	2.88	+	18%
Fully diluted basis	3.14	2.63	+	19%
Unrealized Foreign Exchange Gains (Losses) Less Related Tax Effects				
Finance	(22,115)	437		
Manufacturing	274	(1,029)		
Total	(21,841)	(592)		
Net Income	\$ 138,705	\$ 133,954	+	4%
Earnings per common share:				
Primary	2.90	2.87	+	1%
Fully diluted	2.71	2.62	+	3%
Dividends Declared per Common Share	\$ 1.25	\$ 1.15	+	9%
Average Number of Common Shares Outstanding				
Actual	44,816	43,241	+	4%
Fully diluted basis	51,145	51,179		



Household Finance Corporation
Prudential Plaza, Chicago, Illinois 60601

This is Household Finance Corporation:

Finance



% of 1977 Earnings

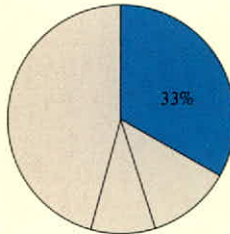
Household's Consumer Finance Division makes consumer loans through more than 2,000 branch offices in the United States, Canada, the United Kingdom and Puerto Rico. As the nation's oldest and largest consumer finance company specializing in personal cash loans, Household has 2.5 million customers and \$2.9 billion in total finance receivables. These include consumer sales finance contracts acquired from merchants and commercial finance receivables. Through its insurance subsidiaries, Household offers credit insurance in conjunction with its consumer finance operations and ordinary life insurance to the general public through independent agents.



Household Finance Corporation
Consumer loans

Alexander Hamilton Life
Insurance Company
Life insurance

Merchandising



% of 1977 Earnings

Subsidiary City Products Corporation is one of the largest merchandising companies in the United States with annual sales in excess of \$2.8 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.

Retail
Business

General
Merchandise

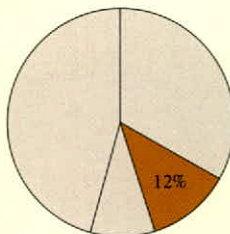


T. G. & Y.



Whites
(company-owned)

Manufacturing



% of 1977 Earnings

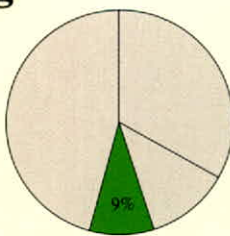
Subsidiary King-Seeley Thermos Co. with annual sales of more than \$200 million is a diversified manufacturing company operating 17 plants in the United States, Canada, the United Kingdom and Italy. The company serves the consumer, commercial and industrial markets. Outdoor living consumer products include 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, the Almco® line of industrial metal finishing equipment, and King-Seeley controls for the cooking appliance industry.

Outdoor Living
Products



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

Rental and Leasing



% of 1977 Earnings

Subsidiary National Car Rental System, Inc. rents and leases transportation vehicles and is one of the largest car rental companies in the world. Through company-owned facilities, licensees and affiliates, National operates in more than 2,400 locations in 72 countries and territories. The company is also engaged in truck rental and leasing, car leasing and the marketing of a small dredge used for environmental control of lakes and industrial settling ponds.



National Car Rental
Car rental and leasing

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



HFC Leasing, Inc.
Commercial leasing



Industrial banks



Money Management Institute
Consumer Education



HFC Trust Limited (United Kingdom)
Consumer finance and banking

Keystone Savings and Loan Association
Savings and loans



Supermarkets
Vons

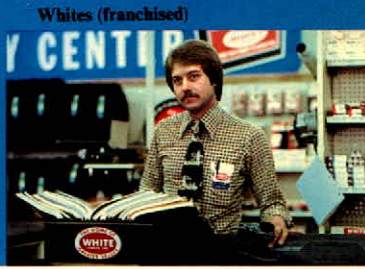
Wholesale Business
General Merchandise



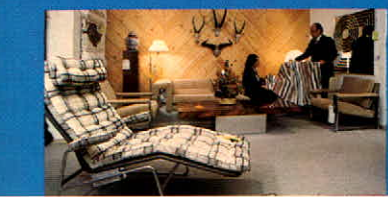
Ben Franklin



Coast-to-Coast



Whites (franchised)



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



Structo®
Barbecue grills
Metallized Products
All weather emergency
and sportsman's
blankets, custom vacuum
metallized films

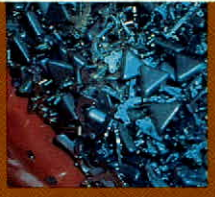


Commercial Refrigeration Products



Scotsman®
Automatic ice machines

Industrial Products



Almco®
Metal finishing
machines
and medias



King-Seeley
Appliance controls

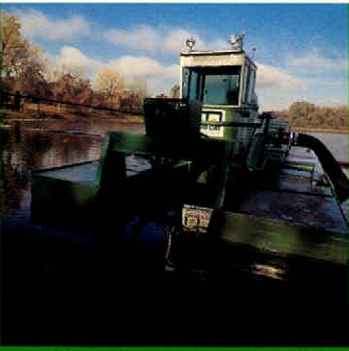


Halsey Taylor
Drinking
fountains and
water coolers

Albion
Industrial casters
and wheels,
special urethane
products



National Car Rental
Truck rental and leasing



Mud Cat
Portable dredging machines



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

To the Shareholders:

Household again achieved record earnings in 1977. Earnings before considering *unrealized* foreign exchange gains and losses increased 19% to \$160,546,000, compared with 1976 earnings which in turn represented a 22% increase over 1975. Fully diluted earnings per common share, before *unrealized* foreign exchange gains and losses, were \$3.14 in 1977 compared with \$2.63 in 1976, an increase of 19%. We continue to highlight separately the effects of *unrealized* foreign exchange gains and losses as an aid in analyzing Household's operating results. For a fuller discussion of Household's foreign exchange position, see page 28 in the Financial Review. Net income after *unrealized* foreign exchange gains and losses was \$138,705,000 (\$2.71 per share) in 1977 compared with \$133,954,000 (\$2.62 per share) in 1976.

Dividends declared per common share totaled \$1.25 in 1977 compared with \$1.15 in 1976. The quarterly dividend rate was increased with the October payment from \$0.30 to \$0.325 per share, bringing the present annual dividend rate to \$1.30. The amount of dividends paid per common

share has increased annually for 25 years and the Company has paid consecutive quarterly dividends without interruption since incorporation of the business in 1925. Household's earnings before *unrealized* foreign exchange gains and losses represented a return on shareholders' average book equity in 1977 of 15.4% compared with 13.9% in 1976.

The growth in operating earnings in 1977 resulted from healthy consumer borrowing and spending patterns and the successful programs of our operating units to market their services, control expenses and improve margins and profit ratios. A major event during the year was the acquisition in March of Alexander Hamilton Life Insurance Company of America, followed by the consolidation of the operations of all of Household's insurance subsidiaries at the Farmington Hills, Michigan headquarters of Alexander Hamilton.

Household's commercial finance activities expanded significantly with our entry into leveraged leasing in which Household participates in the equity ownership of capital equipment leased to others. Among our initial transactions in 1977, we participated in leases of commercial aircraft, railcars and a large ocean-going vessel.

Finance

Before adjustment for the Canadian dollar exchange rate, consumer receivables of Household's Consumer Finance Division increased by 9.3% or \$244,835,000 in 1977. The number of customer accounts increased by 105,000 to 2,530,000 open accounts at year end. After giving effect to the decreased value of the Canadian dollar at year end, consumer receivables grew by 7.6% to \$2,837,245,000.

For the second successive year, net chargeoffs of consumer accounts declined as a percentage of average consumer receivables outstanding, amounting to 2.12% in 1977 compared with 2.16% in 1976. The overall delinquency level of accounts also showed continued improvement, and was at the lowest year-end level since 1956.

An important contributor to receivables growth and profitability in 1977 was Household's Large Real Estate Loan Program, which was implemented during 1976 and expanded in 1977. This program allows homeowners to borrow up to \$25,000 on their real estate equity at

competitive rates of charge, and provides Household with a growing and significant portfolio of low-risk receivables.

Commercial finance receivables grew by \$50,781,000 to \$73,778,000 at year end, due to our investments in leveraged leases of capital equipment and additional purchases of intermediate-term preferred stocks. The assets and earnings of our insurance subsidiaries and Keystone Savings and Loan Association also increased significantly, and our developing consumer finance and banking business in the United Kingdom achieved profitability one year ahead of the original plan. In 1974, HFC Trust opened branches in the United Kingdom, providing both consumer financing and full consumer banking service. We have quickly become an important factor in consumer banking in England, with 56 branches in operation, and 200 more projected for the future. The success of our expansion of consumer finance operations to the United Kingdom has encouraged us to consider further selective diversification in other countries, and recently we decided to expand our consumer finance services to Japan.

Total Finance Business earnings in 1977 increased 16% to \$74,593,000 before taking into account \$22,115,000 of aftertax *unrealized* foreign exchange losses in 1977 and \$437,000 of such *unrealized* gains in 1976.

Merchandising

Net sales of Household's diversified Merchandising Business increased 13% to \$2,846,930,000 compared with \$2,521,400,000 in 1976. Net income increased 25% to a record \$53,062,000 from the \$42,320,000 earned in 1976. T.G. & Y., our 920 store retail general merchandising chain, became the first of the merchandising divisions to achieve sales in excess of \$1 billion. Vons, the 139 store supermarket chain in Southern California, is expected to reach that milestone in 1978. During 1977, Vons continued to increase its market share and combined substantial increases in sales with excellent growth in operating profits.

Wholesale operations reported sales of \$615,893,000 in 1977, an increase of 9%. These operations provide merchandise and services to franchised stores operating as Ben Franklin variety stores, Coast-to-Coast hardware stores, and Whites auto stores.

The White Stores Division, encompassing both company-operated stores and wholesale operations for franchised stores, incurred an aftertax loss of approximately \$4,600,000 in 1977 compared with \$8,800,000 in 1976. Further improvement in Whites' operation is expected in 1978.

Manufacturing

Net sales of Household's Manufacturing Business increased 2% to \$209,310,000 in 1977. Excluding the operations of two paper mills disposed of at the end of 1976, sales increased 7%. Although manufacturing earnings before *unrealized* foreign exchange gains and losses decreased 2% to \$18,890,000, this represented an 18% return on our average equity investment. Results for 1977 are being compared with particularly strong sales and earnings in 1976. In addition, earnings in 1977 were affected by continuing plant startup costs following the consolidation of certain production facilities in the last half of 1976 and by heavier market promotional expenditures in 1977. Strong performances were reported by our European operations. Our diversified Manufacturing Business is a leading company in its major product lines, and we continue to be actively interested in its further development through appropriate acquisitions as well as internal expansion.

Rental and Leasing

Revenues of National Car Rental System, Inc. increased 16% in 1977 to \$201,072,000, and Household's equity in the income of the Rental and Leasing Business increased 60% to \$14,001,000. Car rental operations set new records in fleet size, reservations and check-ins. The Car Leasing Division continued its fine growth record with a further increase in the size of its fleet. The Truck Division, now solidly profitable, achieved improved revenue and profit results.



Donald C. Clark
President

The Future

While it is hazardous to predict the future course of our economy, we look forward in 1978 to a continuing healthy environment for our businesses. We believe that interest rates on borrowed capital, which remained stable in 1977 compared with 1976, will increase in 1978. However, as explained more fully in our Financial Review, the impact of an increase in interest rates in any one year is moderated by our heavy reliance on long-term debt. We believe that consumers, investors and businessmen alike have been made uncertain in their decisions by the difficult economic events of recent years. Hopefully, they will in 1978 regain a degree of confidence in the future vitality of our economy and in the strengths of our nation.

There seems to be an increasing awareness on the part of government officials and representatives of various interest groups that a healthy economic environment for business and free enterprise is key to providing jobs, wages and the products and services necessary for higher standards of living. There is also an increasing awareness of the inequity in our Federal tax laws which currently require the double taxation of dividends, once as corporate earnings and again as individual income. This condition has been brought to

the attention of the shareholders and we have urged you to express your views on this by writing your representatives in Congress.

In 1978, Household will be celebrating its 100th anniversary. The Company traces its origins to the opening of a single lending office in Minneapolis in 1878. From this we have grown to become the nation's largest consumer finance company specializing in personal cash loans. However, we have not grown just in consumer finance. Today Household is one of the nation's largest diversified companies, with each of our major businesses themselves being among the largest in their industries. We view ourselves today as engaged in a balance of diversified basic businesses with decentralized operating companies engaged in consumer finance and other financial and insurance services, merchandising, manufacturing, and vehicle rental and leasing.

As we celebrate our first 100 years, it seems fitting that, in the summer of 1978, we will be moving into a new corporate headquarters building in Prospect Heights, Illinois. This is an appropriate new beginning to our second century. In the years ahead, we plan to continue to focus on the development of our basic businesses, seeking always to provide quality consumer and commercial services and products. We will continue to stress the importance of our people, keenly aware that, as in the past, it is our human resources which will make the difference. Our progress is always directly attributable to the contributions and concerted efforts of our more than 65,000 employees.

A handwritten signature in dark ink, appearing to read "G. R. Ellis".

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

A handwritten signature in dark ink, appearing to read "D. C. Clark".

D. C. Clark,
President

February 13, 1978

Finance

Expanding Services to New Markets

Receivables of the Consumer Finance Division increased 7.6% in 1977, ending the year with net consumer receivables of \$2,837,245,000. Before taking into account the decline in the value of the Canadian dollar with respect to Canadian receivables, total consumer receivables grew by 9.3% in 1977. Commercial receivables grew by 221% to \$73,778,000, resulting in total consumer and commercial receivables of \$2,911,023,000 at year end.

Gains in finance receivables were experienced in each of Household's major areas of operation, with the exception of Canada where high unemployment and a generally slow economy combined to cause a reduction of \$8,744,000 in finance receivables before taking into account the lower year-end value of the Canadian dollar. In the United States, net consumer receivables increased by 11.6% during 1977, and net consumer receivables increased by 58.5% in the United Kingdom. At the end of 1977, Canadian receivables amounted to \$514,794,000, or 18.1% of total consumer receivables, while receivables in the United Kingdom amounted to \$43,926,000, or 1.5% of the total.



Although lifestyles are different in foreign countries, financial decisions—how best to use income, when and how to use credit—are virtually the same in all developed countries. Recognizing this, Household applied the experience it has built in consumer finance for 100 years to a new overseas venture. Today, the HFC Trust operation in the United Kingdom

offers English families (like the one pictured below) help on all aspects of personal finance. A full range of banking services are available—personal loans, revolving credit linked to a checking facility, savings accounts, and conventional bank checking accounts.

Household's expansion into the United Kingdom was rapid. The first office opened in

1974. There are now 56 HFC Trust branch offices with total outstanding receivables of £23 million (\$43,926,000) and 83,000 customer accounts. New offices are planned to reach more customers. Our positive experience is also leading us to explore untapped markets in other countries such as Japan.





Importantly, the rate of growth in finance business earnings, before *unrealized* foreign exchange gains and losses, substantially exceeded the rate of growth in total receivables during 1977. These earnings increased by 16% to \$74,593,000, an all time high for Household. Growth in receivables and improvement in profitability during 1977 was achieved through the expansion of existing services, the introduction of new services and the selective purchase of receivables from other companies.

Expanding Services

During 1977, Household's Large Real Estate Loan Program was extended to most states where it is authorized by law. This program, which has been particularly successful, offers loans as large as \$25,000 secured by second mortgages on real estate, with maturities as long as fifteen years and with competitive rates of charge. At the end of 1977, real estate loans made for more than \$5,000 accounted for \$297,558,000 in receivables in 26 states and all Canadian provinces. In addition to

being an excellent growth program, it has significantly enhanced Household's profitability.

The Direct Mail Merchandising Program was expanded, with mailings made in 15 states during 1977. Among the quality and value-priced merchandise offered on credit terms were stereo equipment, color television sets, citizens band radios and motion picture equipment. This program offers additional ways of providing valuable services to customers and increasing receivables. The Colorado Industrial Banks acquired in 1976 performed well during 1977 and are giving Household experience in accepting customer deposits.

Several new services were introduced during 1977. In California, Convenient Credit Service began on an experimental basis. This program retains some of the features of closed-end credit, but it is also similar to revolving credit in that it offers improved convenience and speed of service to customers. As experience is gained in this important state, this program will be expanded. Revolving Lending Programs

were also implemented in two states and will be monitored closely and expanded as conditions warrant.

In the area of sales finance contracts, which accounted for 13% of Household's consumer receivables at the end of 1977, a special program was introduced in Canada which offers improved marketing techniques to selected merchants, including a merchant-oriented plastic customer identification card and a monthly "open to buy" listing of customers. Additional programs are expected to aid sales finance receivables growth in 1978.

Late in 1977, HFC Income Tax Service was introduced in all branch offices in five states. This service is offered to both existing and new customers. If the program meets expectations, it will be expanded.

Keystone Savings and Loan Association reported strong 1977 gains in loans, savings deposits and earnings, and at year end total assets exceeded \$115,000,000. Keystone operates nine offices in Southern California, including an office in a Vons supermarket, and currently has approval to open two additional offices.



Consumer Finance

Left: Household continues as a leader in the consumer finance industry by expanding to new markets. This office, located in a desirable mall location in California, makes Household's services readily available to suburban customers.

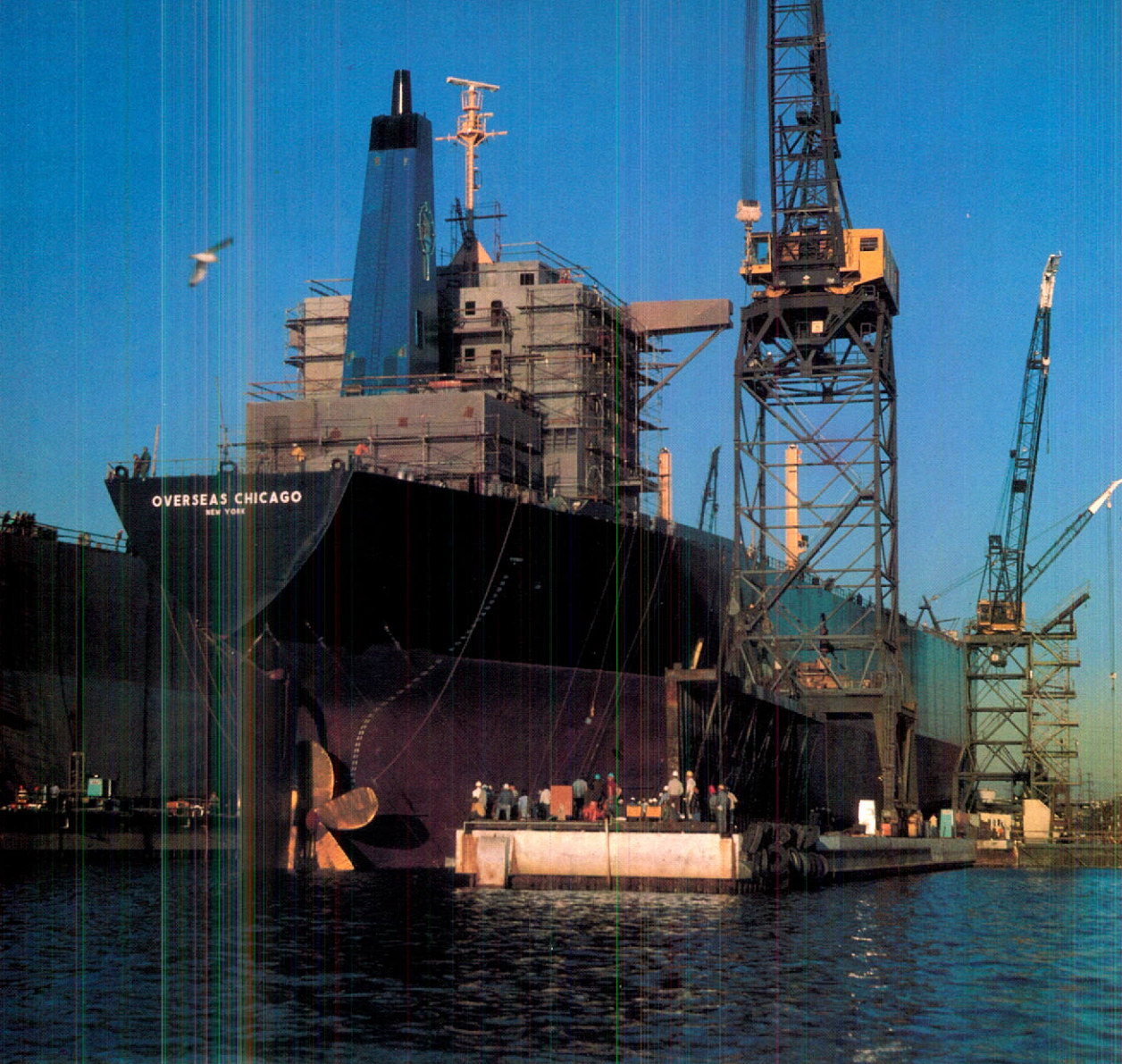
Money Management Institute

Above: Joyce Bryant, Vice President-Director of Household's Money Management Institute, discusses MMI materials with teachers and college students attending a consumer education conference. This highly respected consumer education department develops booklets and filmstrips on all aspects of personal and family money management. The materials have been used extensively in schools and by individuals throughout the U.S. and Canada since 1930.

Finance

	1977	1976	1975	1974	1973
Consumer Finance Receivables (000)					
Outstanding at December 31	\$2,837,245	\$2,635,921	\$2,368,885	\$2,363,266	\$2,263,911
Average Outstanding	2,686,604	2,464,830	2,328,987	2,346,830	2,100,152
Loans Made (000)	\$2,124,684	\$2,080,679	\$1,835,712	\$1,829,379	\$1,979,088
Average Size of Loans Made	1,544	1,479	1,423	1,328	1,258
Sales Contracts Acquired (000)	429,723	380,440	264,733	295,417	299,694
Net Chargeoffs of Consumer Receivables (000)	\$57,014	\$53,305	\$53,047	\$46,284	\$39,086
% of Average Consumer Receivables	2.12%	2.16%	2.28%	1.97%	1.86%
Number of Customers	2,530,000	2,425,000	2,280,000	2,445,000	2,491,000
Average Balance Due	\$1,121	\$1,087	\$1,039	\$967	\$909
Average Monthly Income of Borrower	\$1,176	\$1,106	\$1,039	\$957	\$882
Monthly Payment as % of Monthly Income	4.0%	4.4%	4.5%	4.8%	5.1%
Number of Branch Offices	2,015	1,954	1,861	1,831	1,771
Commercial Finance Receivables (000)					
Outstanding at December 31	\$73,778	\$22,997	\$11,159	\$4,315	—

*Leveraged Leasing
HFC Leasing is the
principal owner of the
U.S. flag vessel,
Overseas Chicago,
which is currently
serving in the Alaskan
oil trade.*



Commercial Finance

Household's commercial finance activities were expanded early in 1977 when the Company announced its entry into the commercial leasing business through HFC Leasing Inc., a wholly-owned subsidiary. HFC Leasing and its subsidiaries invest primarily in leveraged leases of capital equipment. Through leasing, Household participates in the financing of commercial assets leased to credit-worthy users. Through the equity ownership of these assets, Household is afforded collateral protection on its leasing investment and in addition derives a potential hedge against future inflation. Household's other principal commercial financing activity is the investment in intermediate-term preferred stocks.

So far, HFC Leasing activities have been directed towards the financing of major equipment, such as commercial aircraft, an ocean-going vessel, railcars, mining equipment, and a computer. These assets are leased to corporations for terms

ranging between five and twenty-five years. To date, all transactions have been financed through arrangements under which as much as 80% of the funds used to purchase the equipment are borrowed from institutional lenders with no recourse to Household. This arrangement provides numerous advantages, including the enhancement of the rate of return to Household and the reduction of the Company's cash or "equity" investment.

During 1977, Household approved investments totaling \$40 million in equipment costing \$114 million. Household has participated as a sole equity investor in some leases, and has also been a co-participant with bank leasing companies in other cases. At year end, HFC Leasing had actually funded these equity investments in the amount of \$28 million on equipment costing \$78 million. In 1977, the Company recovered approximately \$7 million of its initial \$28 million investment through the realization of investment tax credits associated with leased equipment. Due to the long term nature of these transactions, the Company

not only recognized profits in 1977, but also expects to realize continuing profits in future years.

Under the Company's intermediate-term preferred stock program, \$30 million of investments were made in 1977, increasing the Company's portfolio to \$45 million. These investments were made in major U.S. corporations. The majority of the investments in the portfolio are in the utilities industry where demands for additional capacity have created an ongoing need for substantial amounts of capital.

The Company anticipates that the growing need for capital expenditures in the U.S. and abroad will result in continuing commercial investment opportunities. Household's fast-growing commercial finance operations provide additional diversification and sources of earnings growth for the Corporation, and represent a further broadening of Household's financing capabilities.

Insurance
Household's insurance functions were consolidated in September 1977 in the Alexander Hamilton Life Insurance Company headquarters in Farmington Hills, Michigan.



Insurance Life and Credit Services

Household's insurance operations broadened significantly in March, 1977 with the acquisition of Alexander Hamilton Life Insurance Company of America. Following the acquisition, the operations of all of our insurance subsidiaries were consolidated at the Farmington Hills, Michigan headquarters of Alexander Hamilton. Our life insurance subsidiaries are now licensed in 49 states, the District of Columbia, and all provinces of Canada, and combined they have 2 million customers with over \$4.4 billion of life insurance in force. It is contemplated that Alexander Hamilton and credit life insurance subsidiary, Maryland Life Insurance Company of Baltimore, will be formally merged under the Alexander Hamilton name in 1978. The resulting life insurance subsidiary will then rank in the top 100 of 1800 stock life insurance companies in the United States based on premium volume. When combined with the financial strength of Maryland Life, Alexander Hamilton will have assets of approximately \$450,000,000 and premium revenues of over \$100,000,000.

Alexander Hamilton is currently rated "A" (Excellent) by the A. M. Best Company, the highly regarded insurance industry rating service. Record new ordinary life sales were achieved by a sales force of 550 independent life agents in 1977, and record new sales growth is projected for 1978. To attain this growth, regional sales offices will expand from five to seven, and several new life insurance products will be introduced.

The combined companies offer a full portfolio of ordinary life insurance products as well as various specialty credit insurance policies. Continuing development and expansion of insurance products is a key strategy. This includes the development of new products for customers of Household's Consumer Finance Division.

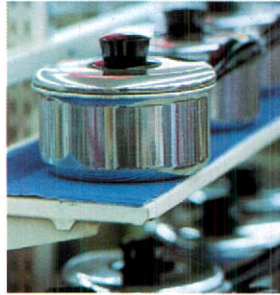
Merchandising

Reaching more of America's shoppers

Household's diversified Merchandising Business combined healthy sales increases in 1977 with substantially improved profitability. Sales and revenues increased 13% to \$2,846,930,000 from \$2,521,400,000 in 1976. Net income for 1977 of \$53,062,000 was 25% ahead of the \$42,320,000 earned in 1976.

During 1977, the Merchandising Business expanded retail space by adding a net of 1,100,000 square feet composed of 600,000 square feet in company-owned stores and 500,000 square feet in franchised outlets. Capital investment projections for 1978 include \$52,000,000 to open 77 company-owned retail stores, expand three distribution centers, complete Vons' meat distribution center, and update and remodel existing facilities and equipment.

Management's strategy for 1977, which proved effective, called for reaching today's value conscious consumer through aggressive promotion and merchandising programs. Increasingly, consumers concentrated their spending at stores that best met their objectives for quality, service, and prices. Continued emphasis on productivity improvement, margin management, and controlled expansion further enabled the Merchandising Business to translate volume gains into profits.



T.G.&Y., the largest division of Household's Merchandising Business, recently joined the elite group of national general merchandise retailing companies who have achieved the distinctive billion dollar sales level.

Sales volume for T.G.&Y. has tripled since 1970, reflecting the company's strategy of constantly upgrading its retailing techniques

and store sizes. Wide merchandise assortments and value priced name brand lines have transformed a small variety chain into a high volume mass merchandising company. Computerized warehouse inventory and store reorder systems, as well as expanded warehouse and truck fleets, have sharpened distribution capacity.

T.G.&Y., with headquarters in Oklahoma, operates 920 stores in 29 states with nearly 77% of its stores in the booming Southern sunbelt states. The store expansion programs in the '70s have been geared toward big store family centers (20,000 sq. ft. to 80,000 sq. ft.) like the store pictured below.



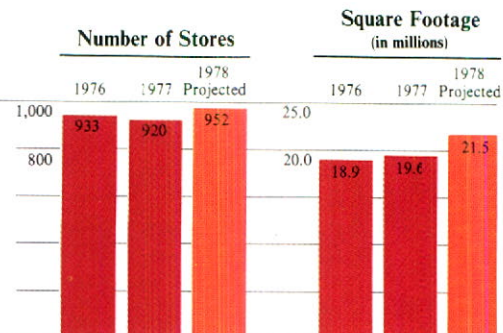
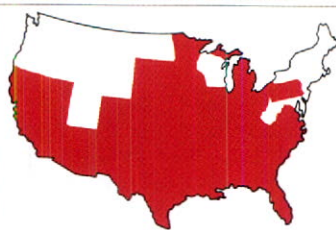
Merchandising Business

Retail

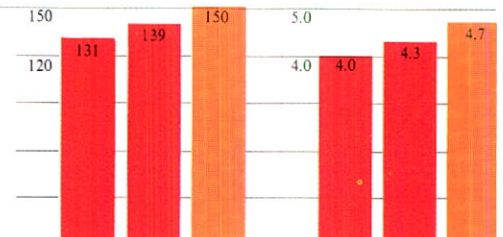
T. G. & Y.



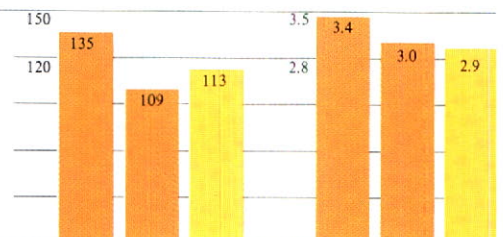
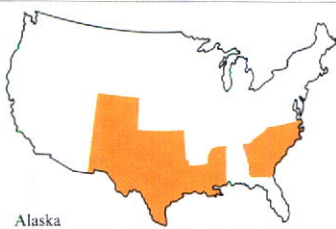
States where stores are located



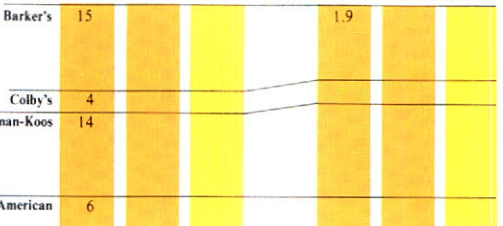
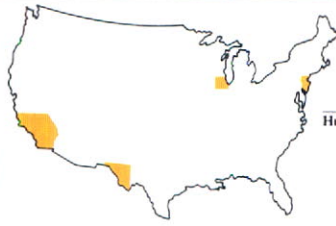
Vons



Whites (company-owned)



Barker's
Colby's
Huffman-Koos
American

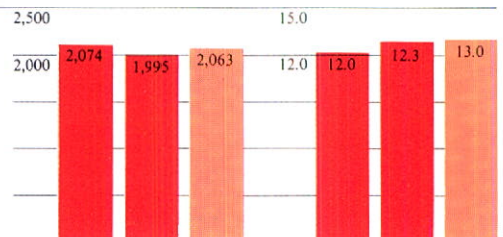
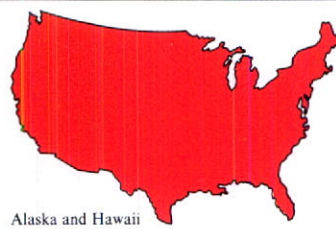


Total Retail

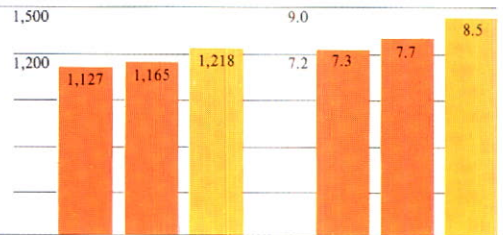
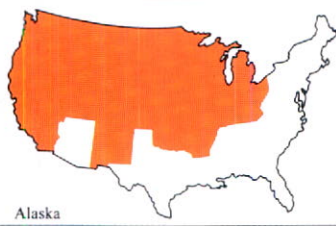
1,238 1,207 1,254 28.2 28.8 30.9

Wholesale

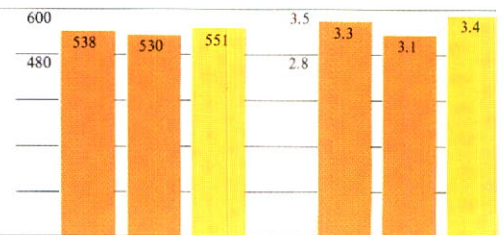
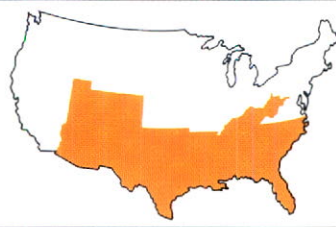
Ben Franklin



Coast-to-Coast



Whites (franchised)



Total Wholesale

3,739 3,690 3,832 22.6 23.1 24.9



Vons
 Vons record 1977 performance showed that customers were more receptive than ever to its everyday values and special food areas—bakeries, seafood cases, delicatessens and wine shops. Exceptional store facilities and services have made Vons one of Southern California's top supermarket chains.



Merchandising

All amounts are stated in millions.						Percent of Total Net Sales				
	1977	1976	1975	1974	1973	1977	1976	1975	1974	1973
Net Sales by Product Class:										
Retail Business										
General Merchandise	\$1,149	\$1,020	\$ 905	\$ 807	\$ 694	40%	40%	41%	41%	42%
Supermarkets	975	839	749	577	437	34	33	33	30	27
Home Furnishings	107	97	90	99	106	4	4	4	5	6
Total	\$2,231	\$1,956	\$1,744	\$1,483	\$1,237	78%	77%	78%	76%	75%
Wholesale Business										
General Merchandise	616	565	481	459	405	22	23	22	24	25
Total Net Sales	\$2,847	\$2,521	\$2,225	\$1,942	\$1,642	100%	100%	100%	100%	100%
Income before Taxes on Income	\$ 101	\$ 81	\$ 55	\$ 62	\$ 62	3.5%	3.2%	2.5%	3.2%	3.8%
Net Income	\$ 53	\$ 42	\$ 29	\$ 33	\$ 32	1.9%	1.7%	1.3%	1.7%	1.9%

For additional information with respect to industry segment data for 1977 refer to Note 8 of the Merchandising Business Financial Statements.

Ben Franklin

Using the national advertising theme "Discover Ben Franklin—We bring variety to life," a camera crew films a new television commercial. Ben Franklin marked its 100 year anniversary last year.



Discover
BEN FRANKLIN
We bring variety to life!



Retail—General Merchandise

This industry segment includes the company-owned stores of T.G.&Y. and White Stores. Sales increased 13% in 1977 and accounted for 40% of Merchandising Business' sales and 48% of its operating profit.

In 1977, T.G.&Y. became the first division of Household's Merchandising Business to reach \$1 billion in sales, having doubled its sales volume in the five years since 1972. As a result of substantial investments over the past five years, 73% of T.G.&Y.'s selling space is now in large 20,000 to 80,000 square feet family center stores and 27% is in conventional variety stores. Looking back to 1972, the smaller variety stores accounted for 46% of T.G.&Y.'s selling space.

Significant progress was made in the company-owned retail store division of White Stores during 1977. Retail sales of 109 continuing units increased 12%. The division closed 26 stores in early 1977, for which costs had been recognized in 1976. This action reduced operating losses

in 1977 and provided capital for alternative uses. With respect to the continuing units, major improvements were made in merchandising, store operations, credit, and management controls, which served to further reduce the operating loss.

Retail—Supermarkets

This industry segment includes Von's Grocery Co. and a refrigeration service and ice manufacturing division. Sales grew by 16% in 1977 and accounted for 34% of the Merchandising Business' sales and 21% of its operating profit.

Vons' sales and earnings increased substantially in 1977. In 1978, Vons is expected to become Household's second \$1 billion sales merchandising division, doubling its sales within less than four years. Operating profits in that same time span have grown faster than sales. For the fifth consecutive year, Vons has increased its share of the intensely competitive Southern California market. Its 1977 market share was 11.9%.

Coast-to-Coast
Wholesale hardware lines offered to Coast-to-Coast store owners appeal to the everyday needs of American households and the growing "do-it-yourself" market.



Retail—Home Furnishings

This industry segment includes the company's four home furnishings chains: Colby's in Chicago, Huffman-Koos in New Jersey, Barker's in Los Angeles, and American Furniture in El Paso, Texas. Sales of the home furnishings divisions were up 10% in 1977. They accounted for 4% of Merchandising Business' sales in 1977 and 5% of its operating profits.

Wholesale—General Merchandise

This industry segment includes the wholesale distribution activities of the Ben Franklin, Coast-to-Coast and White Stores Divisions. Sales to franchised dealers in 1977 increased by 9%. In 1977, this segment accounted for 22% of the Merchandising Business' sales and 26% of its operating profits.

The Ben Franklin Division celebrated its 100th anniversary in 1977. The division franchises and serves approximately 2,000 independently owned retail variety stores operating in all fifty states. Plans are underway to relocate an existing Ohio

distribution center to a new and larger facility in a more strategic market location.

Substantial sales and earnings gains were achieved by the Coast-to-Coast Division which merchandises hardware through over 1,100 franchised stores in 26 states. During the year, the division sold a distribution center in Minneapolis and replaced this with a new facility in Brookings, South Dakota. In addition, the corporate headquarters moved to a new building in a Minneapolis suburb. These moves were part of a comprehensive plan to reposition distribution facilities to accommodate growing market areas.

In addition to company-owned retail store operations discussed earlier, the White Stores Division also serves over 500 independently owned franchised stores in the South and Southwest. The wholesale division of Whites continues to be profitable.

Manufacturing Growth through New Products

Net sales and revenues of Household's diversified Manufacturing Business increased 2% to \$209,310,000 in 1977 compared with \$206,157,000 in 1976. Excluding 1976 sales of two paper mills disposed of at year-end 1976, the sales gain was 7% in 1977. Manufacturing Business earnings in 1977 before *unrealized* foreign exchange gains and losses were \$18,890,000, representing an 18% return on shareholders' average equity, compared with \$19,344,000 in 1976. Net income totaled \$19,164,000 compared with \$18,315,000 in 1976. The increase in net income is due to an *aftertax unrealized* foreign exchange gain of \$274,000 compared with a loss of \$1,029,000 in 1976.

Outdoor Living Products

The widely recognized brands of Thermos® and Structo® continued to attract leisure time enthusiasts. A number of new products are scheduled to appear in 1978. New Thermos® products include one and two liter Touch-Top® vacuum servers with push operated pump dispensers which eliminate pouring, and a new line of beverage servers. A multi-purpose cooler, the Jugler®, that may be used as either a jug or chest, will be introduced to expand

Scotsman®
installs
new machine:
Productivity
increases

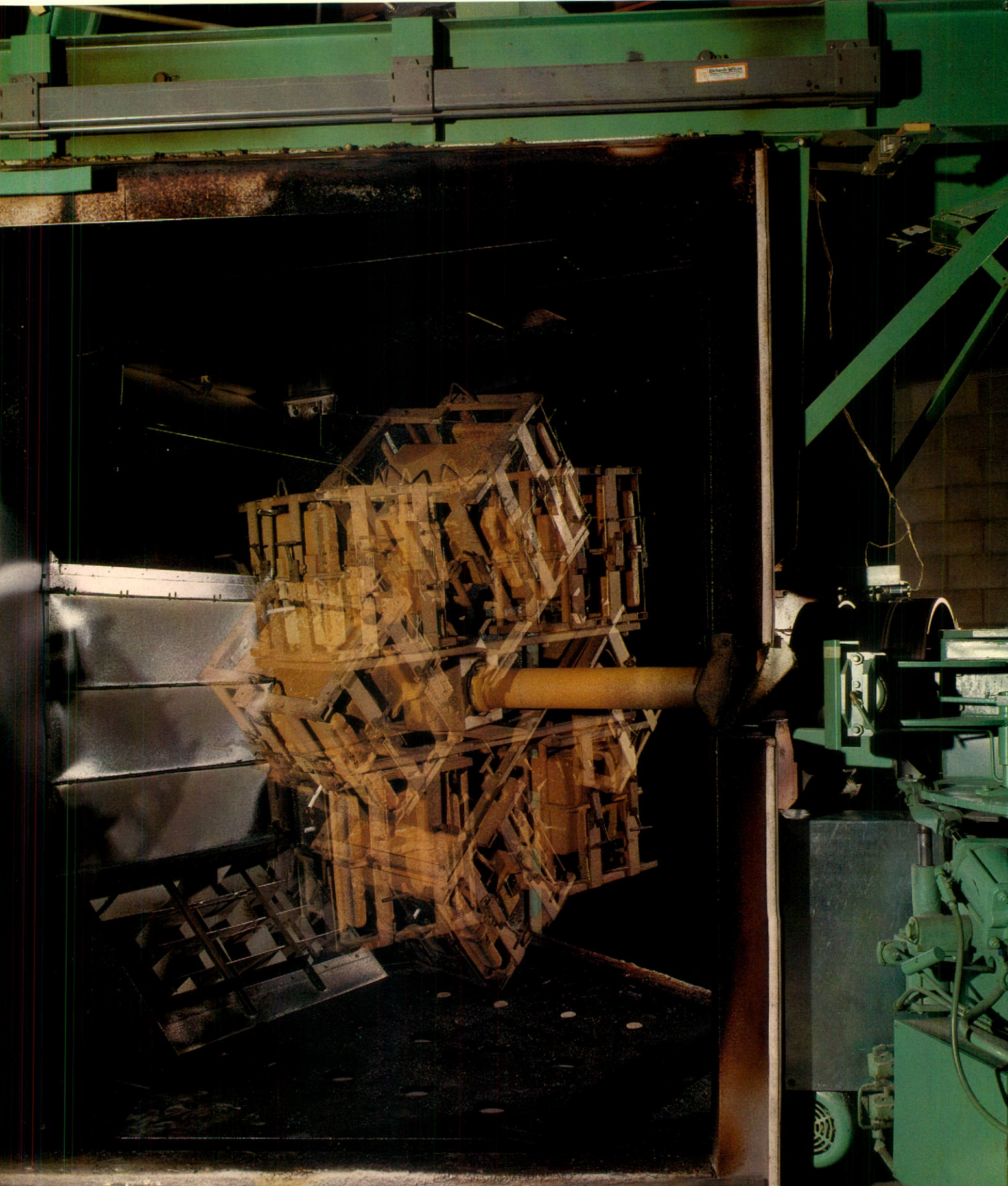
Increased demand for certain models in Scotsman's® product line of ice making equipment resulted in the installation during 1977 of a new machine to produce molded plastic bins for ice making equipment. Previously, the bins were made of stainless steel sheet metal which had to be cut, formed, cleaned and sealed. This multi-step process



extended over several working days. Model changes required a long lead time to re-tool machines and complicated production schedules. By contrast, with this new rotary casting machine, total production time is less than one hour.

The roto-cast is a sophisticated machine utilizing a new plastic molding technology. The new technology consists of converting powdered plastic into liquid through heat as it spins and rotates inside a metal mold (pictured below). The spinning creates an even layer on all surfaces of the mold so that when it is cooled, a complete one-piece seamless bin is recovered

from the mold. The end result is increased plant efficiency, a steady flow of high quality bins, and a responsive production process to meet volume and demand.





2

Outdoor Living Products

Several versatile new products were introduced in 1977.

Thermos® is successfully marketing:

1. The Jugler®—a combination jug and cooler.
2. Coolers in bright colors—lightweight, extremely portable and very durable.
3. The Sunpacker®—a small cooler featuring a flip-over lid for holding cans, cups and utensils.

Structo® added seven new portable propane gas grills to its growing group of outdoor cooking appliances.



our leisure time market potential. A metallized blanket for sun tanning was successfully market tested and will be introduced nationally in 1978 as the Even Up® Tanning Blanket.

Overseas, Thermos Limited, our United Kingdom subsidiary, followed a strong 1976 with another excellent year in 1977, particularly in the export market. In 1978 we will introduce a new line of denim "fold flat" insulated bags, a new solid ice pack, and a redesigned one liter server.

Canadian Thermos Products Limited results were affected by the government's anti-inflation program, which restricted earnings and limited our ability to increase prices, and the very sluggish Canadian economy. We expect some improvement in the Canadian economy in 1978.

The Structo Division, a leading manufacturer of charcoal barbecue grills, will make a strong move into the growing gas grill market in 1978 with a new expanded product line designed to sell at popular retail prices.

Commercial Refrigeration Products

The Queen Products Division manufac-

tures Scotsman® brand commercial ice systems. During 1977, a modular unit to produce cubed ice for high-volume users was introduced. A new compact model, designed for under-counter installations and producing up to 200 lbs. of cubed ice per day, was also introduced. During 1978, Scotsman® intends to maintain its overall industry leadership position by launching seven new models and continuing intensified distributor and dealer sales and service training programs.

Internationally, Frimont S.p.A., our Italian subsidiary, manufactures commercial ice systems under the Scotsman® brand name for worldwide distribution. Strong sales gains were made in Africa, the Middle East, and Eastern Europe. Ice usage in foreign markets is far behind U.S. ice utilization. As customs change, the potential for this market should provide further growth opportunities. A unit producing 70 lbs. of ice per day was a very successful new model. Smaller volume machines received strong foreign customer acceptance.

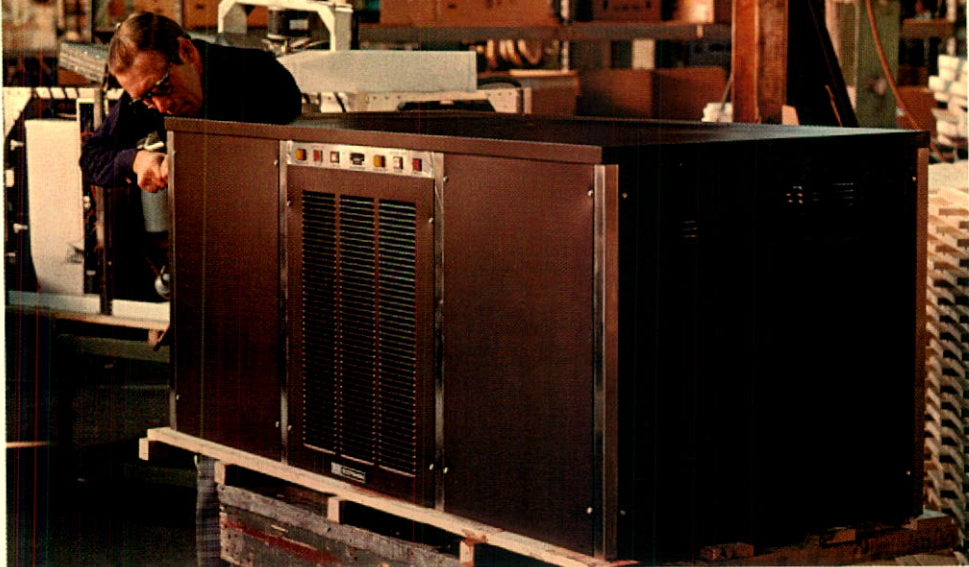
The Halsey Taylor Division, which

makes refrigerated water coolers and drinking fountains, strengthened its industry leadership position. Continuing its objective to improve and develop its products, a new research and development department was completed. This contains a unique custom-built environmental chamber and test lab and gives Halsey Taylor the most sophisticated facility in the industry.

Industrial Products

The Albion Industries Division is an industry leader in the design, development, and manufacturing of high quality industrial casters and wheels for the materials handling industry. This division's major strength is its rapid, versatile and flexible response to a customer's specific requirements.

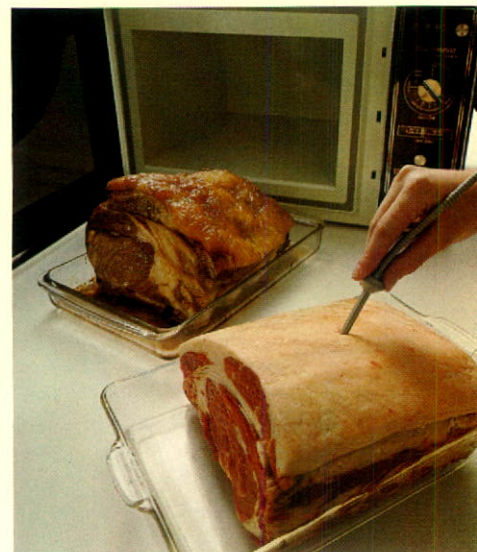
Almco, a leading manufacturer of industrial metal finishing equipment, specializes in large custom designed systems. Recent shipments included a vibratory finishing system sold to a leading aircraft manufacturer for deburring and finishing fuselage bulkheads. This system has a capacity of nearly 200 cu. ft. and is the largest of its type in the world.



Commercial Refrigeration Products

1. As the fast food industry grows, it creates a market opportunity for Scotsman® ice machines. For these high volume users, Scotsman's® new horizontal model makes over 1,325 lbs. of ice daily. A companion bin which stores 1,580 lbs. can be stacked on top and still fit under an 8 ft. ceiling, a space saving feature for many establishments.

2. New Halsey Taylor water fountains are more simply designed and built and are being engineered to require less energy to operate at high performance levels.



Industrial Products

The King-Seeley Division produces and supplies thermometers to microwave oven manufacturers. The thermometers eliminate much of the guesswork in meal preparation by allowing the microwave oven to cook by internal food temperature instead of time.

The Metallized Products Division completed a plant expansion and installed major new equipment—a wide width electron beam coating and laminating machine. Completion of this facility allows the division to produce a complete line of metallized papers, as well as high technology coatings on plastic films, papers, fabrics, and laminates.

The King-Seeley Division is a major manufacturer of high quality control mechanisms for the cooking appliance industry. In 1978 this division will market an electronic timer/power control system for microwave ovens and will introduce a series of redesigned meat probes for standard ranges and microwave ovens.

Manufacturing

All amounts are stated in millions.	1977					Percent of Total Net Sales				
	1977	1976	1975	1974	1973	1977	1976	1975	1974	1973
Net Sales by Product Class:										
Outdoor Living	\$101	\$ 95	\$ 86	\$ 81	\$ 76	48%	46%	51%	44%	45%
Commercial Refrigeration	64	62	48	56	50	31	30	28	31	30
Industrial Products	44	49	36	45	43	21	24	21	25	25
Total Net Sales	\$209	\$206	\$170	\$182	\$169	100%	100%	100%	100%	100%
Income before Taxes on Income	\$ 37	\$ 38	\$ 26	\$ 30	\$ 27	17.8%	18.3%	15.4%	16.5%	15.7%
Net Income	\$ 19	\$ 18	\$ 13	\$ 15	\$ 13	9.2%	8.9%	7.7%	8.2%	7.9%
Earnings before <i>unrealized</i> foreign exchange gains and losses	\$ 19	\$ 19	\$ 14	\$ 15	\$ 13	9.0%	9.4%	8.0%	8.3%	7.9%

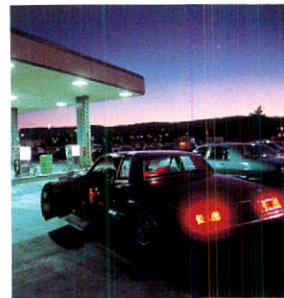
For additional information with respect to industry segment data for 1977 refer to Note 6 of the Manufacturing Business Financial Statements.

*National's
emphasis:
Preventive
Maintenance*

Consumer research shows car condition to be a primary concern of car renters. National's preventive car maintenance was put to the test in two independent audits conducted by the United States Auto Club (USAC). Hundreds of cars across the country were rented and thoroughly checked by official USAC inspectors, who found National's cars to be in

Rental and Leasing

An Innovator in a Competitive Market

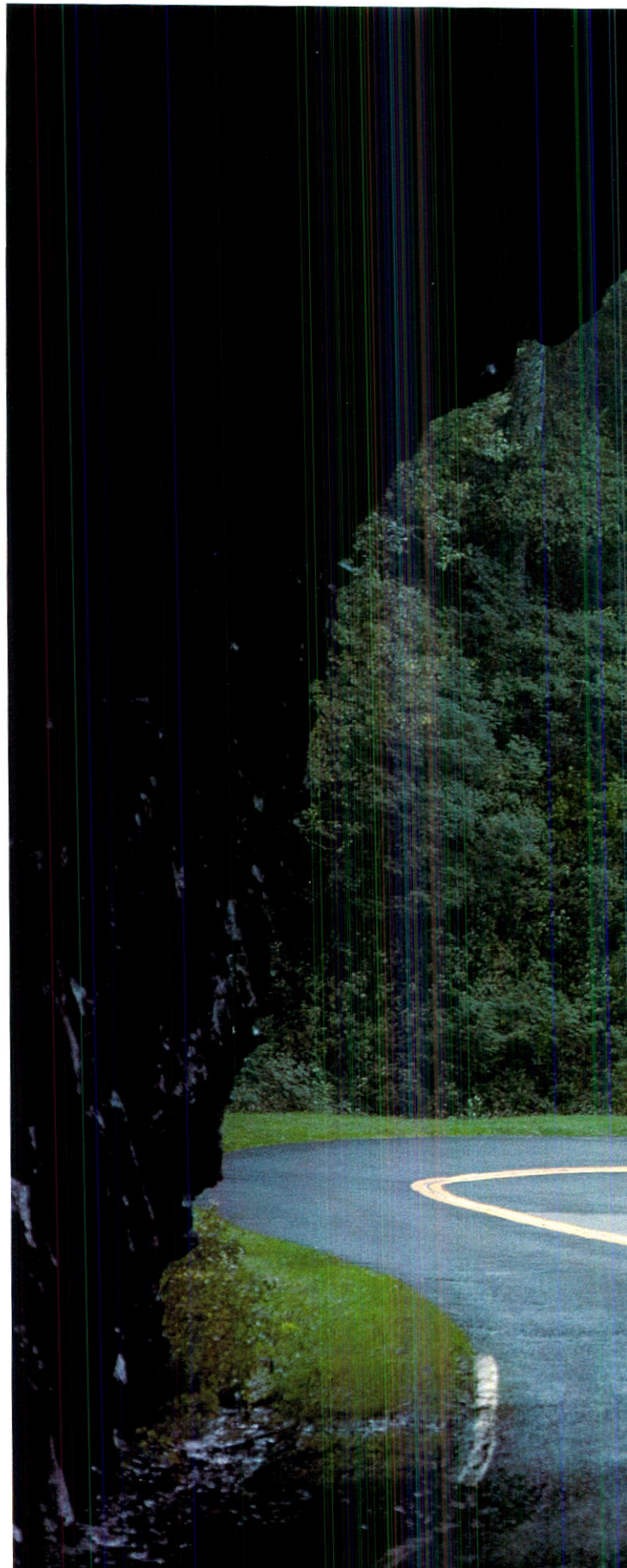


National Car Rental System, Inc. reported record revenues and profits in 1977. Revenues increased 16% to \$201,072,000, and income from continuing operations increased 67% from \$8,409,000 in 1976 to \$14,001,000 in 1977.

Car Rental

The Car Rental Division, which represents the majority of National's business, had a record year. High utilization of cars, coupled with increased fleet size, resulted in earnings improvement throughout the year. A record 2,056,000 car rental reservations were taken and National's market share at the major airport locations increased, based on revenues reported to airport commissions. Off-airport business also increased in 1977, backed by several new downtown locations and an aggressive marketing program. The used car market remained strong and contributed to National's gain on the disposal of used cars.

The division continued to emphasize car condition and believes its preventive maintenance and car care programs excel over its industry competitors. National also continued to expand and improve its



better overall condition than those of the other leading car rental companies.

National surpassed other car rental companies because it has several innovative programs. The Maintenance Check-list tag certifies the car condition in writing and assures renters that service agents have checked and serviced the car before it is rented. These tags

have space for customer comments, good or bad, and they are sent to National's president for his personal attention. Reports on cars that have not performed satisfactorily are traced back to the city, and are investigated. If a car is not functioning properly, a Service Alert tag noting the problem is filled out immediately and the car is pulled from the rental fleet until the problem is corrected.

National's concern for car condition has paid off. Customers know that they can rent dependable National cars because they are checked and properly maintained. Renters also know that National cares enough about them to solicit their comments. In addition, because National's cars are kept in good condition, their resale value is greater.





facilities throughout the U. S. In 1977, approximately \$3.5 million was spent on the construction and development of car rental counters and service facilities, with major expenditures in Boston, Newark, Miami and Orlando.

Car Leasing

The Car Leasing Division continued its steady growth with record revenues, profits and fleet size throughout the year. At the end of 1977, the division had nearly 16,000 cars in its fleet, an increase of 30% over the prior year. A new computerized program called FOCUS (Fleet Operations Control and Utilization System) was installed. Through this system National provides its car leasing clients sophisticated computer information on their fleet operations to better aid the client's record keeping.

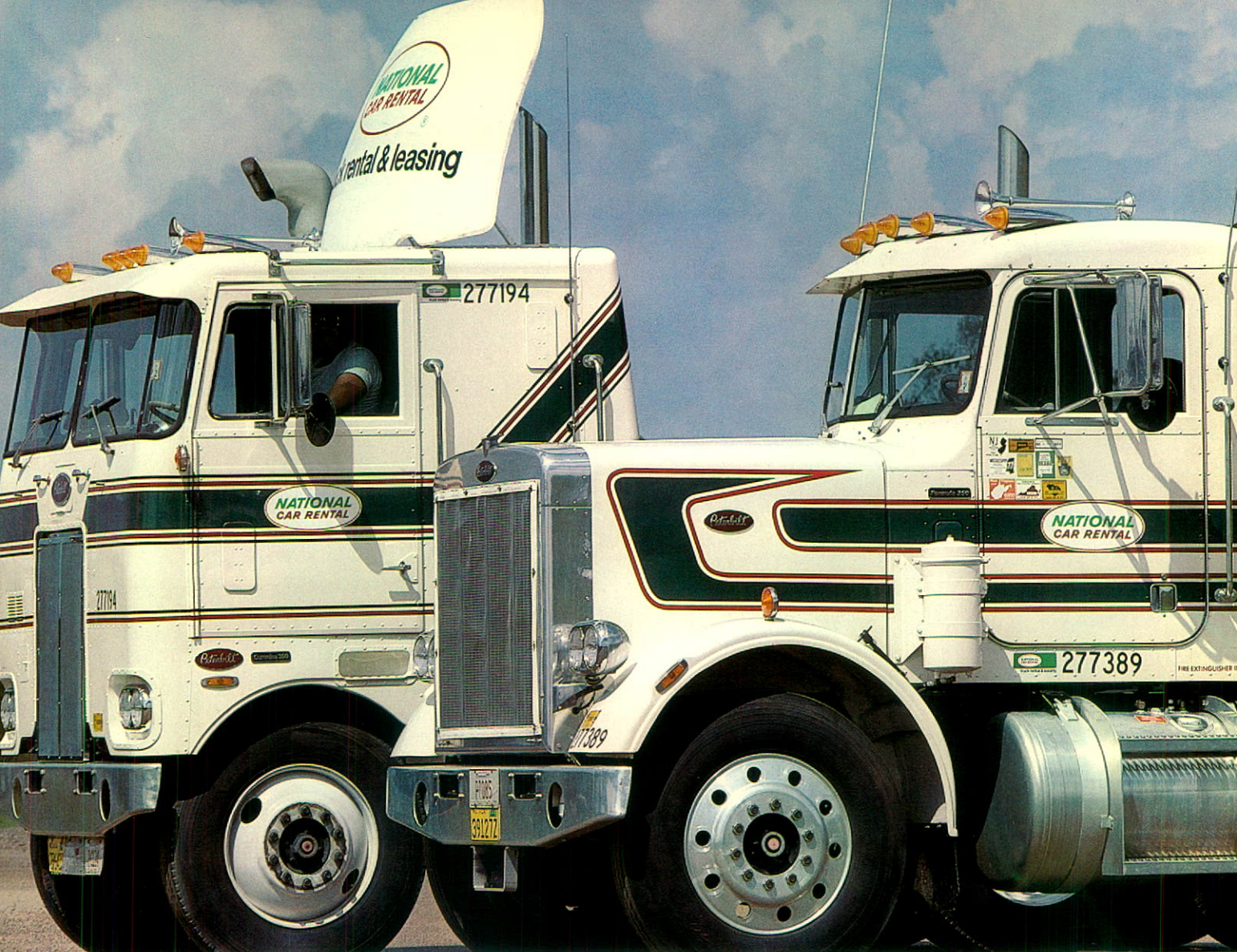
Truck Rental and Leasing

The year 1977 was also a good year for the Truck Division, which operates 33 truck locations throughout the U. S. and a fleet of 3,500 vehicles. A number of new truck locations were opened, mostly in the sunbelt states, to serve National's growing number of customers in that section of the country. The division continued to promote a premium truck concept, offering customers equipment designed to provide reduced downtime, less maintenance, less fuel consumption and greater driver acceptance. This approach, along with increased revenues from the division's full-service, long-term leases, provided a good improvement in profits for the year.

The Truck Division began several new driver safety programs in 1977 aimed at helping drivers and managers understand the benefits behind accident-free miles. By improving driving records, insurance costs can be lowered. In addition, a preventive maintenance program was developed to enhance the division's service performance.

Mud Cat

National's Mud Cat Division continues to improve with an aggressive sales approach. The international market provides new opportunities for the portable dredge, which is cleaning and restoring the ecological balance to bodies of water in such varied locations as a Hyde Park lake in downtown London, a canal in Madrid, a marina and a drinking water reservoir in Marseilles, France, and a river in South Africa.



National Car Maintenance

Left: Ten items important to customer safety, comfort and convenience are checked on each of National Car Rental's cars prior to rental, assuring the customer of the condition of the car.

Truck Rental and Leasing

Above: Premium equipment and extensive preventive maintenance programs have made National Car Rental an innovator in the truck rental and leasing business. Although the truck in the foreground looks new, it actually has 200,000 miles on it.

Rental and Leasing Continuing Operations

All amounts are stated in millions.	1977	1976	1975	1974	1973
Revenues	\$ 201	\$ 174	\$ 155	\$ 146	\$ 140
Income (Loss) before Taxes on Income	\$24.8	\$15.0	\$ 0.3*	\$ 7.0	\$(15.8)**
Household's Equity in Income (Loss)	\$14.0	\$ 8.8	\$ 5.3*	\$ 4.3	\$(14.0)**

*The 1975 income before taxes was after recognition of provisions of \$2,150,000 of additional depreciation and \$1,050,000 of other costs and losses applicable to the Truck Division. Household's equity includes investment tax credits of approximately \$3,725,000 realized by the Rental and Leasing Business and tax benefits resulting from the realization of pre-1973 net operating loss carryforwards of approximately \$1,459,000.

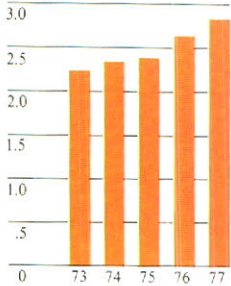
**The 1973 loss before taxes was after recognition of \$11,119,000 of unusual or infrequently occurring charges, principally the writeoffs of goodwill applicable to the Truck and Air Care Divisions and the writedown of assets to estimated net realizable value of the Mud Cat Division, and additional charges of \$4,471,000 related to a reduction in resale value of vehicles and deferred charges not considered to be of benefit to future periods. Household's equity in the loss for 1973 was reduced by related Federal income tax benefits of approximately \$4,400,000, net of a \$3,000,000 writeoff of goodwill on Household's books applicable to the Truck Division.

Financial Review

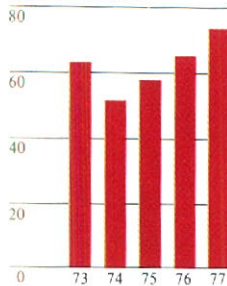
Analysis of Summary of Operations

Finance

Total Finance Receivables at year end in billions of dollars



Earnings in millions of dollars



Earnings are before unrealized foreign exchange gains and losses.

Finance Business

Average consumer finance receivables increased during 1976 and 1977, as did related revenues and expenses. In 1975, the average consumer finance receivables outstanding were slightly lower than in 1974, principally because of the depressed economic conditions and an easing in consumer loan demand.

Revenues of the Finance Business represent finance charges and also insurance premium, commission, and investment revenues of Household's credit insurance subsidiaries. Finance charges increased \$39,936,000 and \$44,329,000 in 1976 and 1977, respectively, reflecting increased consumer receivables outstanding, yields, and cash collections. Insurance premiums and commissions increased \$6,757,000 in 1977 principally as a result of increases in insured loans made.

Investment and other income for 1976 increased \$7,175,000 primarily because of increased average investments, and realized gains on the sales of investments. Investment and other income for 1977 increased by \$8,283,000, principally because of increased average investments in securities, the inclusion of approximately \$2,500,000 representing Household's equity in earnings of Alexander Hamilton Life Insurance Company of America, and increased revenues of approximately \$2,400,000 from commercial finance activities.

Operating expenses, including salaries and fringe benefits, in 1975, 1976, and 1977 amounted to 7.89%, 8.29%, and 8.11%, respectively, of average total finance receivables outstanding. Salaries and fringe benefits rose in 1976 principally because of employee compensation rate increases.

The 1977 provision for credit losses increased \$6,719,000 over 1976 because of higher chargeoffs of uncollectible accounts and a strengthening during 1977 of the credit loss reserves from 4.16% to 4.21% of total finance receivables.

The provision for insurance claims in 1976 increased \$5,842,000 as a result of the direct writing of credit insurance in Canada beginning in late 1975.

For 1976 and 1977, higher levels of finance receivables outstanding required increased borrowings. During 1975, total interest expense decreased by \$19,805,000 compared with 1974,

principally as a result of lower short-term interest rates. Interest expense in 1976 and 1977 increased \$12,108,000 and \$19,691,000, respectively, principally as a result of increased long-term borrowings during these years. In addition, average long-term interest rates have increased slightly each year.

Unrealized foreign exchange gains and losses are reported in accordance with current accounting pronouncements and principally reflect fluctuations in the Canadian exchange rate during the respective years. The unrealized foreign exchange gains (losses) before related income tax effects included in the determination of income for the years 1975, 1976, and 1977 were \$(9,865,000), \$1,274,000, and \$(35,314,000), respectively. See Note 12 to Financial Statements of Household for further discussion of the effects of unrealized foreign exchange gains and losses on net income and earnings per share.

The provision for taxes on income represented 45.7%, 43.9% and 42.5% of pretax earnings of the Finance Business for the years 1975, 1976, and 1977, respectively. The tax rate for 1975 was affected principally by the realization of a benefit from additional foreign tax credits, which benefit was partially offset by an increase in the tax rate resulting from a portion of the unrealized foreign exchange loss in 1975 not being taxable. The tax rates in 1976 and 1977 were affected principally by reductions in taxes resulting from additions to insurance policyholders' surplus, as to which the possibility of being taxed is considered remote, and in 1977 by additional taxes resulting from the nondeductible portion of the unrealized foreign exchange loss. Note 10 to the Financial Statements of Household provides additional information.

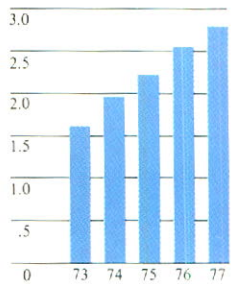
Merchandising Business

Merchandising income for 1977 increased \$10,742,000 over 1976 principally because of increases in net sales and revenues in all divisions as well as reduced operating losses at White Stores. In addition, improved merchandising and control of operations resulted in reductions in total costs and expenses as a percent of sales in 1977. The Vons supermarket division produced the most dramatic improvement in sales and

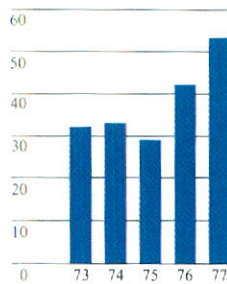
(continued)

Merchandising

Net Sales and Revenues in billions of dollars

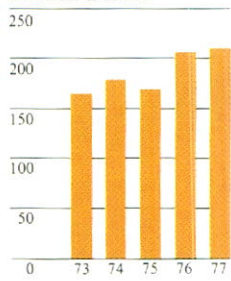


Earnings in millions of dollars

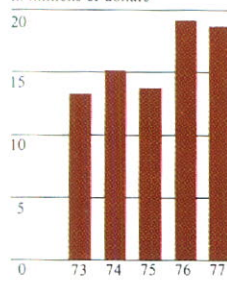


Manufacturing

Net Sales and Revenues in millions of dollars



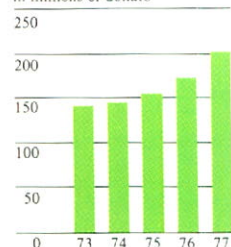
Earnings in millions of dollars



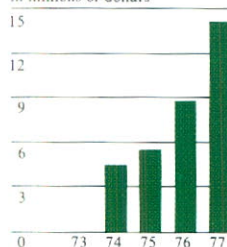
Earnings are before unrealized foreign exchange gains and losses.

Rental and Leasing

Revenues from Continuing Operations in millions of dollars



Household's Income (Loss) from Continuing Operations in millions of dollars



(14)

Summary of Operations

All amounts other than per share data are stated in thousands.	Year Ended December 31	1977	1976	1975	1974	1973
Income From Finance Business						
Revenues		\$636,606	\$577,237	\$526,782	\$529,050	\$480,375
Expenses		509,965	463,503	420,559	432,268	369,230
Income Before Unrealized Foreign Exchange Gains (Losses) and Provision for Taxes on Income		126,641	113,734	106,223	96,782	111,145
Unrealized Foreign Exchange Gains (Losses)		(35,314)	1,274	(9,865)	1,385	(230)
Income Before Provision for Taxes on Income		91,327	115,008	96,358	98,167	110,915
Provision for United States and Foreign Taxes on Income		38,849	50,439	44,025	45,192	48,438
Income From Finance Business		52,478	64,569	52,333	52,975	62,477
Income From Merchandising Business		53,062	42,320	29,117	33,164	31,750
Income From Manufacturing Business		19,164	18,315	13,192	15,039	13,359
Income (Loss) From Continuing Operations of Rental and Leasing Business		14,001	8,750	5,316	4,251	(14,041)
Income From Continuing Operations		138,705	133,954	99,958	105,429	93,545
Income (Loss) From Discontinued Operations of Rental and Leasing Business—Note 2 to Financial Statements of Rental and Leasing Subsidiaries				2,810	4,677	(43,604)
Net Income		138,705	133,954	102,768	110,106	49,941
Preferred Stock Dividends		8,616	9,913	11,999	12,573	12,690
Net Income Applicable to Common Stock		\$130,089	\$124,041	\$ 90,769	\$ 97,533	\$ 37,251
Average Common Shares Outstanding						
Actual		44,816	43,241	41,455	41,136	41,008
Fully Diluted Basis		51,145	51,179	51,023	51,014	51,010
Earnings Per Common Share						
Primary:						
Income from continuing operations		\$ 2.90	\$ 2.87	\$ 2.12	\$ 2.26	\$ 1.97
Income (loss) from discontinued operations				.07	.11	(1.06)
Net income		\$ 2.90	\$ 2.87	\$ 2.19	\$ 2.37	\$.91
Fully Diluted:						
Income from continuing operations		\$ 2.71	\$ 2.62	\$ 1.96	\$ 2.07	\$ 1.83
Income from discontinued operations				.05	.09	*
Net income		\$ 2.71	\$ 2.62	\$ 2.01	\$ 2.16	*
Cash Dividends Declared on Common Stock						
Total		\$ 56,168	\$ 50,255	\$ 43,801	\$ 40,122	\$ 36,196
Per Share		\$ 1.250	\$ 1.150	\$ 1.050	\$.975	\$.882
Supplementary Information						
Had unrealized foreign exchange gains and losses, less related tax effects, been excluded from the determination of income from continuing operations, the income from continuing operations and related earnings per common share calculated on a fully diluted basis would have been as follows:						
Income From Continuing Operations		\$160,546	\$134,546	\$107,027	\$104,862	\$ 93,684
Per Common Share		\$ 3.14	\$ 2.63	\$ 2.10	\$ 2.06	\$ 1.84

*Not shown since such amounts are anti-dilutive.

profitability in 1977. A net aftertax gain of approximately \$2,000,000 was recorded in the third quarter of 1977 on the sale of a Coast-to-Coast distribution facility.

During 1976, the sales and operating profits of T.G. & Y., Ben Franklin, Coast-to-Coast, and the home furnishings division showed marked improvement over 1975 results. Interest expense in 1976 was lower than in 1975 because of decreased borrowings. In addition, the operating losses incurred by the White Stores' operation were reduced in 1976 from those reported in 1975.

Manufacturing Business

In 1976, Manufacturing 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.

Rental and Leasing Business

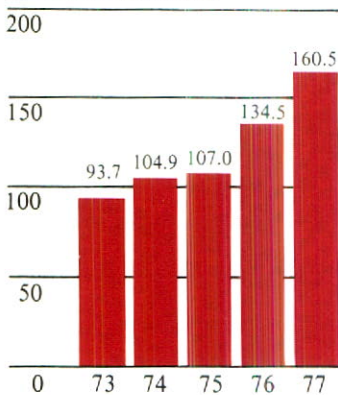
Income from the Rental and Leasing Business in 1977 continued the 1976 trend with strong performances by both the Car Rental and the Truck Divisions. Increased fleet utilization and size as well as greater emphasis on premium heavy duty trucks

and long-term full maintenance leases contributed to record earnings.

Results for 1975 and 1973 include Household's equity in the realization of pre-1973 net operating loss carryforwards for 1975 and Federal income tax benefits related to losses from continuing operations net of a writeoff of goodwill in 1973. Results for 1975 and 1973 give effect to the recognition of unusual and infrequently occurring charges, as well as additional charges. Refer to the table presented on page 25 for further discussion of these items. The losses and income from discontinued operations are described in Note 2 to Financial Statements of Rental and Leasing Subsidiaries.

Earnings from Continuing Operations

in millions of dollars



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

Record High Earnings

Earnings before *unrealized* foreign exchange gains and losses were up 19% over 1976 to a record high of \$160,546,000. Fully diluted earnings per share before *unrealized* foreign exchange gains and losses were \$3.14 in 1977 compared with \$2.63 in 1976, a gain of 19%. Net income (after *unrealized* foreign exchange losses, less related tax effects, of \$21,841,000 in 1977 and \$592,000 in 1976) was \$138,705,000 (\$2.71 per share) in 1977 compared with \$133,954,000 (\$2.62 per share) in 1976. *Unrealized* foreign exchange gains and losses have no impact on the current cash flow of the Corporation, and their ultimate realization

is uncertain. Accordingly, Household continues to place emphasis on operating results before *unrealized* foreign exchange gains and losses.

The Finance Business reported a 16% increase in 1977 earnings before *unrealized* foreign exchange gains and losses compared with a 9% gain in 1976. Merchandising posted a 25% income gain in 1977 on top of a 45% income gain in 1976. Household's equity in the income from continuing operations of the Rental and Leasing Business surged ahead 60% following a 65% gain in 1976. Manufacturing showed a modest 2% decline in earnings before *unrealized* foreign exchange gains and losses following a 41% gain in 1976.

Unrealized Foreign Exchange Gains and Losses

At year-end 1977, Household's Canadian finance operations had a \$515,000,000 U.S. dollar investment in receivables denominated in Canadian currency. This receivable investment, plus relatively minor amounts of other Canadian assets, was offset by a limited amount of debt and other liabilities denominated in Canadian currency. The resulting net asset investment exposed to Canadian exchange fluctuations at year-end 1977 was \$433,000,000 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 which are required to be included in the determination of net income under the provisions of Statement of Financial Accounting Standards No. 8. In 1977, Household had *unrealized* foreign exchange losses (less related tax effects) of \$21,841,000, principally as a result of the Canadian dollar exchange rate decline from 99.16 to 91.42 cents during the year.

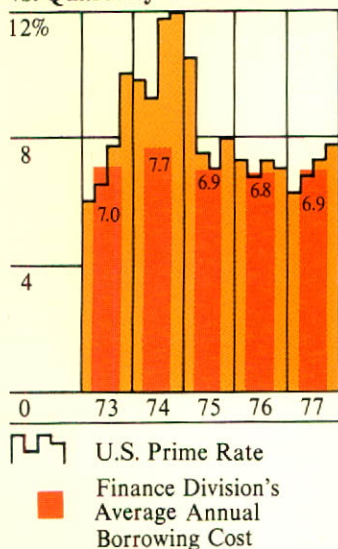
In the last two years, Household's aftertax *unrealized* foreign exchange gains and losses have fluctuated from a quarterly gain of \$7.9 million to a quarterly loss of \$13.7 million. These fluctuations, according to certain financial analysts, cause a "yo-yo" effect on earnings and make it difficult to analyze results of operations. Because of this, Household has placed the emphasis on operating results before *unrealized* foreign exchange gains and losses.

The decision to continue to carry the exposed net asset position rather than to reduce it through Canadian dollar borrowings is based on many factors. These include differences in interest rates, marketability of debt securities, and foreign exchange considerations. The difference between interest rates on U.S. dollar and Canadian dollar obligations has been the most significant consideration in our financial planning. U.S. long-term corporate bond interest rates historically have been lower than Canadian interest rates, and over the past twenty years year-end interest rates have averaged more than

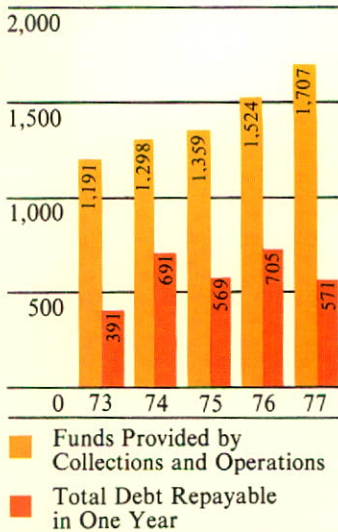
one percentage point below Canadian rates. While the exchange rate for the Canadian dollar has been both above and below the U.S. dollar, the interest rate for U.S. dollar borrowings has consistently been lower than comparable Canadian dollar borrowings. Lower interest rates represent lower cash outflows for Household, whereas *unrealized* translation gains and losses resulting from exchange fluctuations have no impact on cash flows. Management believes that the *real* savings in interest costs are more meaningful than any *unrealized* gains and losses on Canadian exchange fluctuations.

Although Canada's economy and currency have had a long-standing parallel relationship with the United States, this historic relationship has not existed with other countries, and consequently Household has financed its operations in these other countries with local currencies to the extent possible. The exposed net asset positions in the United Kingdom and Italy at year-end 1977 were approximately \$13,000,000 and \$2,000,000, respectively.

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

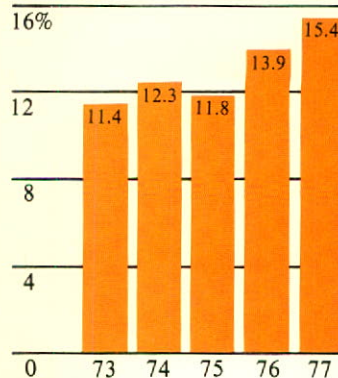


Finance Division Liquidity in millions of dollars



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' Average Book Equity



Based on earnings from continuing operations before unrealized foreign exchange gains and losses.

Financings

At year-end 1977, borrowings of the Company and its consolidated finance subsidiaries totaled \$2,629,434,000. Long-term debt was \$1,981,850,000 or 75% of total debt, while short-term debt was \$647,584,000 or 25%. Household's policy of maintaining approximately 75% of its total debt in the form of long-term borrowings significantly reduces the impact of short-term interest rate fluctuations on the Company's profits. The prime interest rate on short-term bank borrowings fluctuated widely from a low of 6% to a high of 12% over the last five years. Household's overall average annual interest rate, however, ranged from 6.8% to 7.7%, a change of less than one percentage point over the same time period.

During 1977, the average interest cost on Household's total borrowings was approximately 6.9% compared with 6.8% in 1976. The average cost of outstanding long-term debt was 7.3% compared with 7.1% in 1976, while the average cost of short-term borrowings was 5.8% compared with 5.9% in 1976.

Household continues to satisfy most of its short-term money needs through the sale of commercial paper. Although lines of credit totaling approximately \$487,000,000 are maintained with 163 banks in the United States, Canada and the United Kingdom, these lines basically are used to support our commercial paper operation and are not for borrowing purposes. The Company has been a direct issuer of commercial paper in the U.S. since 1972 and has been accorded the highest commercial paper ratings of "A-1" and "P-1" from Standard and Poor's Corporation and Moody's Investors Service, Inc. In addition, the Company's senior long-term debt obligations continue

Return On Shareholders' Equity

Shareholders' equity at December 31, 1977 totaled \$1,077,116,000 and averaged \$1,039,889,000 during the year. Earnings from continuing operations before unrealized foreign exchange gains and losses as a percent of shareholders' average equity increased from 11.8% in 1975 to 13.9% in 1976 to 15.4% in 1977.

Management is concentrating on programs designed to improve the rate of return on shareholders' equity. These

to enjoy the high-quality "AA" and "Aa" ratings given by these rating agencies.

Aside from the backup borrowing capability furnished by bank lines of credit, Household's financial position permits the payback of the full amount of its short-term debt plus currently-maturing long-term debt in any given year from the business' normal cash flows from operations and regular collections on outstanding receivables. The accompanying chart illustrates that funds provided by collections and operations exceeded beginning-of-year short-term debt plus current maturities of long-term debt outstanding in each of the past five years and that this margin has been steadily increasing. In addition, Household carefully schedules its long-term debt maturities relatively evenly over future years to achieve an orderly funding program.

To fund its 1977 growth, Household sold \$200,000,000 principal amount of debentures to the public. In February, \$100,000,000 of 20-year senior subordinated debentures were sold at an interest rate of 8.45%. In October, \$100,000,000 of 30-year senior debentures were sold at an interest rate of 8.20%. Both issues were listed for trading on the New York Stock Exchange and the proceeds in each case initially were used to reduce short-term indebtedness.

In July 1977, City Products Corporation, Household's merchandising subsidiary, completed arrangements to borrow \$50,000,000 through the private placement of senior notes bearing an interest rate of 8.5% and maturing on July 15, 1997. Of that amount, \$25,000,000 was received in July 1977, and the balance will be received in July 1978.

programs include the enhancement of profit margins through tight operating expense controls and the establishment of selling prices at competitive levels.

Assuming year-end conversion of all outstanding preferred shares into common shares, the book value or shareholders' equity per common share was \$21.10 at December 31, 1977.

Per Share Market and Dividend Information

1977

1976

Market prices are stated in dollars.

	Quarter	Market Price		Dividends Paid	Market Price		Dividends Paid
		High	Low		High	Low	
Common Stock	1st	21½	19¾	\$0.30	20½	15¾	\$0.275
	2nd	20½	19¾	0.30	20¼	15¾	0.275
	3rd	20%	19%	0.30	21¾	17¼	0.275
	4th	19%	18	0.325	22½	18¼	0.30
				\$1.225			\$1.125
\$2.375							
Convertible Preferred Stock	1st	47¼	43	\$0.59375	44¾	35½	\$0.59375
	2nd	45¾	42½	0.59375	44½	35½	0.59375
	3rd	46	44	0.59375	47½	39	0.59375
	4th	44%	40¼	0.59375	48¾	41¼	0.59375
				\$2.375			\$2.375
\$2.50							
Convertible Preferred Stock	1st	38%	35	\$0.625	36¼	30¾	\$0.625
	2nd	35¾	32%	0.625	36	29¾	0.625
	3rd	35%	34%	0.625	37	32¾	0.625
	4th	34¾	32¼	0.625	40	33	0.625
				\$2.50			\$2.50

Shares Outstanding at December 31

	1977	1976
Common	45,292,489	44,503,002
\$2.375 Preferred	984,365	1,320,288
\$2.50 Preferred	2,360,684	2,360,684

Number of Shareholders at December 31

	1977	1976
Common	26,116	25,856
\$2.375 Preferred	3,564	4,004
\$2.50 Preferred	3,547	3,487
Total	33,227	33,347

Dividends

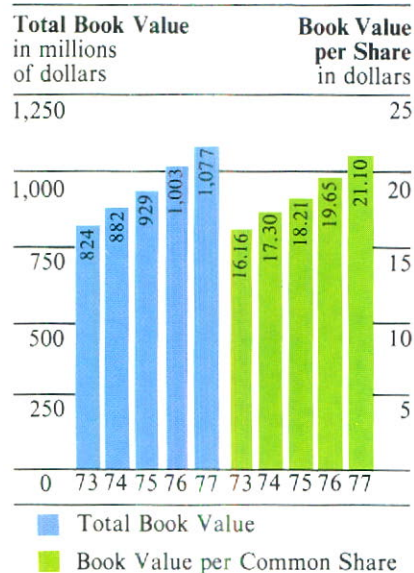
In September 1977, the common stock cash dividend was increased to an annual rate of \$1.30. Total dividends declared during 1977 on common stock were \$1.25 per share and mark a 25-year record of annual increases in the amount of common stock cash dividends paid and also mark a 52-year record of consecutive quarterly cash dividend payouts.

The 1977 payout ratio for preferred and common stock dividends declared was 40% of the Corporation's total 1977 earnings before *unrealized* foreign exchange gains and losses. Dividend payouts are based on earnings before *unrealized* foreign exchange gains and losses since such gains and losses do not impact funds available for dividend payments.

Automatic Dividend Reinvestment Service

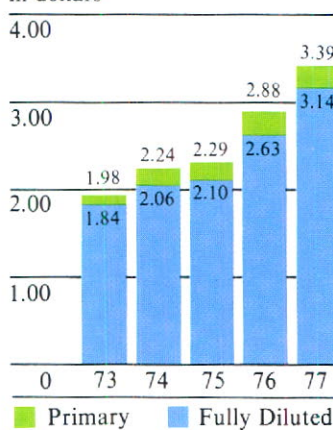
In 1975, an Automatic Dividend Reinvestment Service was initiated and made available to Household's common and preferred stockholders. This program automatically and regularly applies cash dividends toward purchase of additional Household common stock. Participants may also buy additional Household common stock with direct cash investments up to \$1,000 per month. At the time of the October 1977 dividend payment date, approximately 6% of all stockholders were taking advantage of the plan.

Stockholders' Book Value at Year End



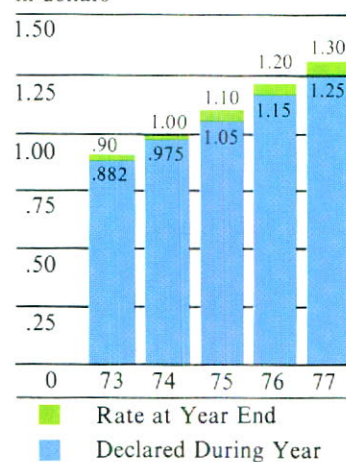
Assumes the conversion of all Preferred Shares into Common Shares.

Earnings per Common Share from Continuing Operations



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

Dividends per Common Share



Household Finance Corporation and Consolidated Subsidiaries Financial Statements

Financial Statements

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Dan Johnson
Branch Manager, Consumer Finance Division



Summary of Significant Accounting Policies

Basis of Consolidation. The accompanying financial statements include the accounts of the Company and its finance and credit insurance subsidiaries, each of which is wholly owned. The accounts of the credit insurance subsidiaries are included in the consolidated financial statements in recognition of the integral nature of the credit insurance operations. Financial statements of the wholly-owned merchandising, manufacturing, and rental and leasing subsidiaries are not consolidated with those of the Company because of the unrelated nature of their operations. The accounts of certain other Finance Business subsidiaries are not consolidated because they are insignificant. Investments in these companies, including Alexander Hamilton Life Insurance Company of America, a newly acquired wholly-owned life insurance subsidiary, are accounted for by the equity method. Financial statements and related notes of the three nonconsolidated nonfinance subsidiaries are presented on the following pages.

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 Statement of Income in the period in which they occur.

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 also are 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 consolidated credit insurance subsidiaries are prepared in accordance with generally accepted accounting principles as defined in the audit guide for stock life insurance companies issued by the American Institute of Certified Public Accountants. Premiums are included in income over the periods at risk using conservative estimates 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 amortized over terms of the agreements.

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.

Cost of Businesses Acquired. Cost of investments in excess of net assets of businesses acquired at dates of acquisition are being amortized over periods ranging from 15 to 40 years for businesses acquired subsequent to October 1970. Amounts related to businesses acquired prior to this date, primarily investments in rental and leasing subsidiaries, are not being amortized since management believes there has been no diminution in the value of these investments. Such excess costs at December 31, 1977 approximated \$119,000,000 of which approximately \$110,000,000 was applicable to the Rental and Leasing subsidiaries.

Taxes on Income. Household and its United States subsidiaries (other than life insurance subsidiaries) file consolidated Federal income tax returns. The total 1977 and 1976 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, except that the tax benefits associated with investment tax credits applicable to the Rental and Leasing subsidiaries are allocated to such subsidiaries regardless of realizability on a separate return basis. The flow-through method of accounting for investment tax credits is followed, except for investment tax credits generated by leveraged leasing transactions for which the deferral method is followed. Deferred income taxes are provided on timing differences between financial and taxable income, including timing differences of nonconsolidated nonfinance subsidiaries in excess of pretax financial income of such subsidiaries. Provision for taxes on income has not been made on \$109,726,000 of undistributed earnings of foreign subsidiaries at December 31, 1977 as it is the Company's intention to reinvest such earnings indefinitely. Further, because of this intention, a 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 credit life insurance subsidiaries included approximately \$41,000,000 at December 31, 1977 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.

Employees' Retirement Plans. The Company and consolidated subsidiaries have retirement plans covering substantially all employees. Unfunded actuarial liabilities are amortized over periods ranging from 20 to 30 years. Retirement plans expense for 1977 and 1976 approximated \$5,168,000 and \$5,350,000, respectively. These amounts were funded.

Earnings Per Share. Primary earnings per common share are computed based on the average number of common shares 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.

Household Finance Corporation

and Consolidated Subsidiaries

Statements of Income

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

Year Ended December 31

1977

1976

Income From Finance Business

Revenues:

Finance charges—Note 2	\$538,796	\$494,467
Insurance premiums and commissions	66,727	59,970
Investment and other income—Notes 2 and 5	31,083	22,800
Total revenues	636,606	577,237

Expenses:

Salaries and fringe benefits	119,045	112,608
Other operating expenses	102,772	92,894
Provision for credit losses	70,081	63,362
Provision for insurance claims	44,624	40,887
Interest:		
Long-term—Note 7	137,613	118,489
Short-term—Note 6	35,830	35,263
Total expenses	509,965	463,503

Income Before Unrealized Foreign Exchange Gains (Losses) and Provision for Taxes on Income

126,641 113,734

Unrealized Foreign Exchange Gains (Losses)

(35,314) 1,274

Income Before Provision for Taxes on Income

91,327 115,008

Provision for United States and Foreign

Taxes on Income—Note 10:

Current	26,896	52,353
Deferred	11,953	(1,914)

Total provision for taxes on income 38,849 50,439

Income From Finance Business

52,478 64,569

Income From Merchandising Business

53,062 42,320

Income From Manufacturing Business

19,164 18,315

Income From Rental and Leasing Business

14,001 8,750

Net Income

\$138,705 \$133,954

Earnings Per Common Share

Primary	\$2.90	\$2.87
Fully diluted	2.71	2.62

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

Household Finance Corporation

and Consolidated Subsidiaries

Balance Sheets

All amounts are stated in thousands of dollars.

	December 31	1977	1976
Assets			
Cash—Note 6	\$	30,483	\$ 25,303
Investments in Securities—Note 1		282,313	249,659
Receivables—Note 2:			
Consumer—less unearned charges, 1977—\$637,119; 1976—\$535,043		2,837,245	2,635,921
Commercial		73,778	22,997
Total finance receivables		2,911,023	2,658,918
Less: Credit loss reserves		(122,472)	(110,560)
Insurance policy and claim reserves applicable to finance receivables		(115,017)	(107,483)
Finance receivables—net		2,673,534	2,440,875
Revolving credit accounts purchased from Merchandising Subsidiaries		50,383	66,771
Receivables—net		2,723,917	2,507,646
Investments in Subsidiaries:			
Merchandising		407,447	375,385
Manufacturing		108,432	103,268
Rental and leasing		176,952	163,023
Other— Note 5		48,575	9,941
Total investments in subsidiaries		741,406	651,617
Property and Equipment—less accumulated depreciation and amortization, 1977—\$33,340; 1976—\$33,528		40,151	24,517
Other Assets— Notes 4 and 5		91,924	69,738
		\$3,910,194	\$3,528,480
Liabilities and Shareholders' Equity			
Short-Term Debt—Note 6	\$	647,584	\$ 558,801
Accounts Payable and Other Liabilities—Note 4		114,060	100,984
Insurance Policy and Claim Reserves— applicable to risks other than finance receivables		81,040	42,665
United States Federal and Foreign Taxes on Income—Note 10		8,544	17,811
Senior Long-Term Debt—Note 7		1,784,450	1,705,670
Senior Subordinated Long-Term Debt—Note 7		197,400	99,888
Shareholders' Equity—Notes 7, 8, and 9		1,077,116	1,002,661
		\$3,910,194	\$3,528,480

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

Household Finance Corporation

and Consolidated Subsidiaries

Statements of Changes in Financial Position

All amounts are stated in thousands of dollars.

Year Ended December 31

1977

1976

Resources Provided

Operations:		
Net income	\$ 138,705	\$ 133,954
Nonfund transactions:		
Provisions:		
Credit losses	70,081	63,362
Insurance claims	44,624	40,887
Undistributed earnings of nonconsolidated subsidiaries	(55,242)	(34,243)
Unrealized foreign exchange (gains) losses	35,314	(1,274)
Depreciation and amortization	4,596	4,721
Deferred income taxes (credits)	11,953	(1,914)
Other—net	1,855	10,248
Total resources provided by operations	251,886	215,741
Collections on receivables (except finance charges and insurance premiums included in net income)	1,455,020	1,307,795
Total resources provided by operations and collections on receivables	1,706,906	1,523,536
Short-term debt—net increase	88,783	
Long-term debt issued	204,128	390,215
Common shares issued upon conversion of preferred stock	2,268	6,397
Other—net	15,260	10,124
	\$2,017,345	\$1,930,272

Resources Applied

Loans made and acquired (excluding balances on refinanced contracts)	\$1,729,753	\$1,498,758
Revolving credit accounts purchased from Merchandising Subsidiaries	92,227	76,315
Assets obtained in acquisition of businesses:		
Consumer finance receivables—net		22,187
Cost in excess of net assets acquired		2,937
Investments:		
Securities—net increase	32,654	71,438
Property and equipment	20,230	8,232
Nonconsolidated subsidiaries	35,041	9,667
Short-term debt—net decrease		52,367
Long-term debt paid	25,941	98,000
Cash dividends	64,784	60,168
United States Federal and foreign taxes on income—net decrease	9,267	32,609
Conversion of preferred stock	2,268	6,397
Increase (decrease) in cash	5,180	(8,803)
	\$2,017,345	\$1,930,272

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

Household Finance Corporation

and Consolidated Subsidiaries

Statements of Changes in Shareholders' Equity

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

Amounts	Common Stock	Preferred Stock	Additional Paid-in Capital	Retained Earnings
Balance at January 1, 1976	\$126,998	\$25,932	\$84,961	\$690,919
Net income				133,954
Cash dividends:				
Preferred				(9,913)
Common—\$1.15 a share				(50,255)
Conversion of preferred stock into common	6,397	(6,397)		
Exercise of common stock options	3		62	
Balance at December 31, 1976	133,398	19,535	85,023	764,705
Net income				138,705
Cash dividends:				
Preferred				(8,616)
Common—\$1.25 a share				(56,168)
Conversion of preferred stock into common	2,268	(2,268)		
Exercise of common stock options	34		500	
Balance at December 31, 1977— Notes 7, 8, and 9	\$135,700	\$17,267	\$85,523	\$838,626
Shares	Common Stock	Preferred Stock		
		\$2.375	\$2.50	
Balance at January 1, 1976	42,366,396	2,267,854	2,360,884	
Conversion of preferred stock into common	2,132,206	(947,566)	(200)	
Exercise of common stock options	4,400			
Balance at December 31, 1976	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— Notes 8 and 9	45,292,489	984,365	2,360,684	

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

Household Finance Corporation

and Consolidated Subsidiaries

Notes to Financial Statements

1. **Investments in Securities** at December 31, 1977 and 1976 are summarized as follows (thousands of dollars):

	1977		1976	
	Cost	Market	Cost	Market
Marketable equity securities:				
Common stocks	\$ 26,509	\$ 27,907	\$ 17,424	\$ 20,507
Preferred stocks	1,168	1,141	1,654	1,657
Total	27,677	29,048	19,078	22,164
Other:				
Commercial paper	59,232	59,232	42,740	42,740
Certificates of deposit	1,500	1,500	17,499	17,499
Government bonds	64,564	65,629	65,788	70,194
Corporate bonds	67,638	67,550	73,773	76,873
Mortgage loans on real estate	61,702	*	30,781	*
Total	254,636		230,581	
Total	\$282,313		\$249,659	

*Amounts not readily determinable

Investments were held by insurance subsidiaries except for approximately \$55,500,000 and \$24,832,000 at December 31, 1977 and 1976, respectively, of commercial paper.

At December 31, 1977, the market value of marketable equity securities exceeded aggregate cost by \$1,371,000. Such excess represents the net of gross unrealized gains of \$2,427,000 and gross unrealized losses of \$1,056,000.

Net realized gains (losses) on sale of marketable equity securities included in 1977 and 1976 income amounted to (\$217,000) and \$1,366,000, respectively.

2. **Receivables** at December 31, 1977 and 1976 and related maximum terms were as follows (millions of dollars):

	Amount		Maximum Terms in Months	
	1977	1976	1977	1976
Consumer finance receivables:				
Precomputed interest loans	\$2,264	\$2,051	84*	84*
Simple interest loans	759	732	84*	84*
Sales finance contracts	451	388	60	60
Total	3,474	3,171		
Less unearned charges	637	535		
Total	\$2,837	\$2,636		
Commercial finance receivables	\$ 74	\$ 23		
Revolving credit accounts	\$ 50	\$ 67	48	48

*During 1976, Household introduced new lending programs which offer loans in amounts up to \$25,000, secured by real estate, and with maximum maturities of up to 180 months. At December 31, 1977 and 1976, loans outstanding under these programs with maturities in excess of 84 months approximated \$189,000,000 and \$7,000,000, respectively.

Contractual maturities of consumer finance receivables at December 31, 1977 were as follows (millions of dollars):

	Total	1978	1979	1980 and later
Precomputed interest loans	\$2,264	\$ 887	\$ 660	\$ 717
Simple interest loans	759	350	179	230
Sales finance contracts	451	275	123	53
Total	\$3,474	\$1,512	\$ 962	\$1,000

It is the experience of the Company that a substantial portion of the existing consumer loans will not be paid to maturity in accordance with initial contractual terms. Therefore, the above tabulation is not to be regarded as a forecast of future cash collections. The ratios of cash collections of principal during the year to the average principal balances outstanding during the year approximated 50% and 48% in 1977 and 1976, respectively.

Commercial finance receivables consist principally of privately negotiated investments in leveraged leases and 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. Certain of these receivables and the related revenues for the year ended December 31, 1976 have been reclassified accordingly in the financial statements for 1976.

The Company participates in an ongoing program of purchasing an undivided interest in the revolving credit accounts of its merchandising subsidiaries. A portion of the total receivables purchased is withheld, pending collection. Uncollectible accounts of \$7,592,000 and \$11,726,000 were charged against the amounts withheld during 1977 and 1976, respectively. The related amounts withheld at December 31, 1977 and 1976 of \$504,000 and \$668,000, respectively, are included in accounts payable and other liabilities. The Company charges a discount which is calculated to cover its applicable costs, principally interest on short-term borrowings. This discount, which in 1977 and 1976 amounted to \$5,218,000 and \$5,744,000, respectively, is included in finance charges. These revolving credit accounts had a weighted average remaining maturity of 21 months at both December 31, 1977 and 1976.

3. **Canadian and United Kingdom Finance Subsidiaries'** assets, liabilities, income before unrealized foreign exchange gains (losses), and net income included in the accompanying financial statements at December 31, 1977 were \$609,016,000, \$149,867,000, \$16,922,000, and \$6,896,000, respectively, and at December 31, 1976 were \$616,915,000, \$142,593,000, \$16,290,000, and \$16,059,000, respectively.

4. **Other Assets and Accounts Payable and Other Liabilities** included amounts receivable and payable between Household and its nonconsolidated subsidiaries. At December 31, 1977 and 1976, Other Assets included receivables due Household of \$8,950,000 and \$14,617,000, respectively, and Accounts Payable and Other Liabilities included amounts payable by Household of

Household Finance Corporation

and Consolidated Subsidiaries

Notes to Financial Statements

\$8,624,000 and \$6,624,000, respectively, as a result of the Company's Federal income tax allocation policy. Other assets also included \$10,500,000 and \$9,000,000 of dividends receivable from the Merchandising subsidiaries as of December 31, 1977 and 1976, respectively, and at December 31, 1977 an \$8,000,000 note receivable from the Rental and Leasing subsidiaries.

5. Investments in Other Nonconsolidated Subsidiaries, previously included in other assets, are now included in investments in subsidiaries in the Balance Sheets. The 1976 financial statements have been reclassified on a comparable basis. Included therein is the investment in Household's noncredit life insurance subsidiary, Alexander Hamilton Life Insurance Company of America, acquired in 1977. Selected data for this subsidiary at December 31, 1977 and the nine months then ended were as follows (thousands of dollars):

Premium revenues	\$ 32,793
Investment income (net)	8,300
Claims and other policy benefits	28,161
Net income	2,544
Total assets	172,262
Insurance in force	1,710,000

Household's equity in the earnings of Alexander Hamilton Life Insurance Company of America since date of acquisition is included in investment and other income.

6. Short-Term Debt data at December 31, 1977 and 1976 were as follows (millions of dollars):

	Outstanding		Weighted Average Interest Rates		Average Borrowings	
	1977	1976	1977	1976	1977	1976
Commercial paper notes	\$449	\$386	6.6%	5.7%	\$434	\$407
Master notes	176	157	6.7	4.8	170	164
Bank and other borrowings	23	16	7.4	10.3	8	7
Total	\$648	\$559	6.7%	5.6%	\$612	\$578

Weighted average interest rates on short-term debt outstanding at December 31, 1977 and 1976 exclude costs of maintaining lines of credit. The maximum aggregate short-term debt outstanding at the end of any month was \$692,363,000 and \$721,664,000 during 1977 and 1976, respectively. Weighted average interest rates on average aggregate debt outstanding during 1977 and 1976 were 5.8% and 5.9%, respectively.

Lines of credit are maintained with various banks and at December 31, 1977 and 1976 amounted to \$487,099,000 and \$470,968,000, respectively. The majority of the lines are supported by a commitment 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 \$27,370,000 and \$26,190,000 at December 31, 1977 and 1976, respectively.

7. Long-Term Debt at December 31, 1977 and 1976 consisted of various issues of senior debt with coupon rates ranging from 4% to 10½% and senior subordinated debt with coupon rates ranging from 8½% to 9⅞%. Weighted average interest rates, giving effect to amortization of debt discount and expenses of senior and senior subordinated debt outstanding, were 7.1% and 8.8%, respectively, at December 31, 1977 and 7.0% and 9.0%, respectively, at December 31, 1976. Unamortized discount of \$3,243,000 and \$3,459,000 applicable to senior debt and \$100,000 and \$112,000 applicable to senior subordinated debt has been deducted from total debt outstanding at December 31, 1977 and 1976, respectively. The maturities and sinking fund requirements of the companies' long-term debt at December 31, 1977 were as follows: 1978, \$20,453,000; 1979, \$49,108,000; 1980, \$36,031,000; 1981, \$120,675,000; 1982, \$20,200,000; 1983 through 1987, \$372,871,000; 1988 through 1992, \$430,855,000; 1993 through 1997, \$435,000,000; and thereafter, \$500,000,000.

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, 1977, under the most restrictive terms of Household's various indentures and agreements, approximately \$355,000,000 of consolidated retained earnings was free of such restrictions.

8. Capital Stock authorized at December 31, 1977 and 1976 included 67,500,000 shares of common stock with a par value of \$1 a share and 8,155,004 shares of preferred stock without par value.

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 (thousands of dollars):			
December 31, 1977	\$17,267	\$ 6,643	\$10,624
December 31, 1976	\$19,535	\$ 8,911	\$10,624
Preference value in involuntary liquidation—			
December 31, 1977:			
Per share		\$ 30.00	\$ 18.00
Aggregate (thousands of dollars)	\$72,023	\$29,531	\$42,492
Rate of conversion into common shares		2¼	1½
December 31, 1977 redemption price		\$ 50.95	\$ 51.50

At December 31, 1977, there were 5,755,847 shares of common stock reserved for conversion of preferred stock.

9. Common Stock Option data and transactions for 1977 and 1976 in the various option plans are summarized as follows:

Shares Under Option	1977		1976	
	Number	Price Per Share	Number	Price Per Share
Beginning of year	892,850	\$10.82–\$35.50	668,325	\$10.82–\$35.50
Granted	153,500	18.22– 20.44	277,450	18.07– 20.19
Exercised	(33,700)	10.82– 18.88	(4,400)	10.82– 16.32
Expired or cancelled	(77,525)	10.82– 35.50	(48,525)	10.82– 20.44
End of year:				
Outstanding	935,125	\$10.82–\$28.25	892,850	\$10.82–\$35.50
Exercisable	437,850		269,105	
Available for future grants	640,000		776,700	

10. Provisions for Taxes on Income of the Finance Business for 1977 and 1976 resulted in effective tax rates which differed from the statutory Federal income tax rate of 48%. Reconciliations between these rates were as follows:

	1977	1976
Statutory Federal income tax rate	48.0%	48.0%
Increase (decrease) in rate resulting from:		
Changes in policyholders' surplus of stock life insurance companies included in the determination of income as to which the possibility of being recognized for tax purposes is considered remote	(4.7)	(3.1)
Unrealized foreign exchange losses included in the determination of income as to which the possibility of being recognized for tax purposes is considered remote	3.9	
Investment tax credits	(2.3)	(.3)
Other factors—net	(2.4)	(.7)
Effective tax rates of the Finance Business	42.5%	43.9%

Deferred tax provisions (credits) resulting from timing differences between the recognition of revenues and expenses for tax and financial statement purposes were as follows (thousands of dollars):

	1977	1976
Tax effects of timing differences of nonconsolidated nonfinance subsidiaries in excess of amounts allocated to such subsidiaries:		
Depreciation	\$ 2,807	\$ 6,480
Estimated investment tax credit recapture	8,767	
Tax effects of unrealized foreign exchange gains (losses)	(13,089)	837
Tax effects of net accrued expenses deductible for tax purposes on a cash basis	(2,333)	(5,185)
Tax effects applicable to the provision for credit losses	4,962	(2,378)
Tax effects of accelerated depreciation arising from leveraged leases	3,802	
Investment tax credits estimated to be utilized on the Federal income tax return in excess of amounts amortized to income during the year	6,559	
Other—net	478	(1,668)
	\$11,953	\$(1,914)

11. Geographic Area Information for the Finance Business operations, considered by management as a dominant industry for segment reporting purposes, for the year ended December 31, 1977 is included on page 56. Total revenues include the equity in income of insignificant nonconsolidated finance business subsidiaries. General corporate expenses include \$4,170,000 representing corporate administration charges and \$28,883,000 representing interest imputed on these administration charges and accumulated net aftertax cash flows attributable to the investments in nonconsolidated nonfinance subsidiaries. This interest charge was based on the Company's average short-term and, where appropriate, long-term interest rates.

12. Selected 1977 and 1976 Quarterly Financial Data (Unaudited) follows (thousands of dollars except per share data):

	1977—Three Months Ended			
	December	September	June	March
Income from Finance Business:				
Revenues	\$163,108	\$162,655	\$153,957	\$156,886
Expenses	140,444	127,352	121,945	120,224
Income before unrealized foreign exchange gains (losses) and provision for taxes on income	22,664	35,303	32,012	36,662
Unrealized foreign exchange gains (losses)	(7,091)	(5,845)	(1,828)	(20,550)
Income before provision for taxes on income	15,573	29,458	30,184	16,112
Provision for taxes on income	2,775	13,532	12,642	9,900
Income from Finance Business	12,798	15,926	17,542	6,212
Income from Merchandising Business	20,120	13,364	12,130	7,448
Income from Manufacturing Business	4,671	3,491	5,528	5,474
Income from Rental and Leasing Business	3,133	4,623	3,428	2,817
Net Income	\$ 40,722	\$ 37,404	\$ 38,628	\$ 21,951
Per share: Primary	\$.85	\$.79	\$.82	\$.44
Fully diluted	.79	.74	.75	.43

Household Finance Corporation

and Consolidated Subsidiaries

Notes to Financial Statements

1976—Three Months Ended

	December	September	June	March
Income from Finance Business:				
Revenues	\$148,391	\$147,260	\$141,244	\$140,342
Expenses	123,613	116,582	113,412	109,896
Income before unrealized foreign exchange gains (losses) and provision for taxes on income	24,778	30,678	27,832	30,446
Unrealized foreign exchange gains (losses)	(15,889)	(1,398)	6,128	12,433
Income before provision for taxes on income	8,889	29,280	33,960	42,879
Provision for taxes on income	4,841	12,950	14,564	18,084
Income from Finance Business	4,048	16,330	19,396	24,795
Income from Merchandising Business	18,726	8,711	10,323	4,560
Income from Manufacturing Business	3,566	3,806	5,829	5,114
Income from Rental and Leasing Business	2,234	3,086	2,144	1,286
Net Income	\$ 28,574	\$ 31,933	\$ 37,692	\$ 35,755
Per share: Primary	\$.59	\$.69	\$.81	\$.78
Fully diluted	.56	.62	.74	.70

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.

The Finance Business income before unrealized foreign exchange gains (losses) and provision for taxes on income declined in the fourth quarter of 1977 compared with the fourth quarter of 1976 principally as the result of an increase in the provision for credit losses, because of higher chargeoffs of uncollectible accounts and a strengthening of the credit loss reserves, and an increase in interest expense, because of higher rates. The Finance Business provision for taxes on income declined during the fourth quarter of 1977 principally as a result of additional investment tax credits and a decrease in the portion of the unrealized foreign exchange loss which was not tax effected compared with the same period in 1976.

During the third quarter of 1977, the Merchandising Business recognized a gain, net of related income taxes, of approximately \$2,000,000 on the sale of a warehouse.

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, the net income and related earnings per common share calculated on a fully diluted basis by quarter for 1977 and 1976 would have been as follows (thousands of dollars except per share data):

1977—Three Months Ended

	December	September	June	March
Net income	\$43,718	\$41,329	\$39,873	\$35,626
Per common share	.86	.80	.78	.70

1976—Three Months Ended

	December	September	June	March
Net income	\$39,777	\$33,099	\$33,803	\$27,867
Per common share	.78	.64	.66	.55

The Canadian foreign exchange rate decreased from .9142 at December 31, 1977 to .9004 at February 10, 1978, the latest date available prior to the date of this report, resulting in a pretax unrealized foreign exchange loss of approximately \$6,600,000 during this period.

13. Commitments at December 31, 1977 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: 1978, \$14,067,000; 1979, \$10,574,000; 1980, \$8,075,000; 1981, \$5,324,000; 1982, \$3,522,000; and thereafter, \$8,746,000. 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 1977 and 1976 was \$14,873,000 and \$14,074,000, respectively.

Beginning in 1977, certain of the Company's leased cars have been leased through Household's Rental and Leasing subsidiaries under a capital lease agreement and have been capitalized in accordance with the provisions of Statement of Financial Accounting Standards No. 13. The effects of this transaction on the financial statements of Household were insignificant.

Construction of a new corporate headquarters building for Household is progressing and is scheduled to be completed in mid-1978. At December 31, 1977, the remaining commitment for the construction of this building approximated \$6,800,000.

Merchandising Financial Statements



Otto Zimmerhaki
Bakery Manager, Vons Supermarket

Merchandising Subsidiaries

of Household Finance Corporation

Statements of Income

All amounts are stated in thousands of dollars.

	Year Ended December 31	1977	1976
Net Sales and Revenues		\$2,846,930	\$2,521,400
Costs and Expenses			
Cost of sales, buying, and occupancy—Note 6		2,258,363	1,994,295
Selling and administrative		470,485	429,467
Interest—Notes 2 and 4		16,862	16,290
Total costs and expenses		2,745,710	2,440,052
Income Before Provision For Taxes on Income		101,220	81,348
Provision for Taxes on Income			
Current		45,250	42,211
Deferred		2,908	(3,183)
Total provision for taxes on income		48,158	39,028
Net Income		\$ 53,062	\$ 42,320

Balance Sheets

All amounts are stated in thousands of dollars.

	December 31	1977	1976
Assets			
Current Assets:			
Cash—Note 3		\$ 15,080	\$ 24,959
Notes and accounts receivable—less allowance for doubtful accounts, 1977—\$11,707; 1976—\$15,560—Note 2		113,783	96,214
Inventories		504,619	439,561
Prepaid expenses		7,049	6,700
Total current assets		640,531	567,434
Property and Equipment—Note 6:			
Land and buildings		131,776	126,007
Equipment and improvements		253,230	226,053
Less accumulated depreciation and amortization		(165,604)	(156,541)
Property and equipment—net		219,402	195,519
Other Assets:			
Cost of investments in acquired businesses in excess of net assets at acquisition		8,822	8,822
Other		16,364	17,385
Total other assets		25,186	26,207
		\$ 885,119	\$ 789,160

Liabilities and Shareholder's Equity

Current Liabilities:			
Short-term debt		\$ 15,000	\$ 11,755
Current maturities of long-term debt		7,806	6,852
Accounts payable and other liabilities		291,767	258,404
Dividend payable		10,500	9,000
Federal taxes on income:			
Current		7,616	12,833
Deferred		12,200	11,900
Total current liabilities		344,889	310,744
Long-Term Debt—Notes 4 and 6		120,783	93,131
Deferred Federal Taxes on Income		12,000	9,900
Shareholder's Equity—Note 4		407,447	375,385
		\$ 885,119	\$ 789,160

The accompanying Notes to Financial Statements are an integral part of these statements.

Merchandising Subsidiaries

of Household Finance Corporation

Notes to Financial Statements

1. The financial statements include the accounts of City Products Corporation (a wholly-owned subsidiary of Household Finance Corporation) and subsidiaries. Significant accounting policies are summarized as follows:

□ Inventories are stated at lower of cost or market. Cost 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 method, or first-in, first-out methods for other inventories.

□ Property and equipment are carried at cost and depreciated over estimated productive lives using various rates and methods.

□ Costs associated with the opening of new stores are expensed as incurred.

□ Cost of investments in acquired businesses in excess of net assets at dates of acquisition is not being amortized since management considers there has been no diminution in the value of the investments.

□ The Company and its subsidiaries are included in consolidated Federal income tax returns filed by Household. The total provision for Federal taxes on income approximates that determinable if the Company filed a separate consolidated tax return. Deferred income taxes are provided on timing differences between financial and taxable income resulting primarily from deferral of gross margin on the balances due from instalment sales and use of accelerated depreciation methods for tax purposes. The flow-through method of accounting for investment tax credits is followed and the provisions for taxes on income for 1977 and 1976 have been reduced for investment tax credits of \$3,400,000 and \$2,300,000, respectively.

□ The Company and its subsidiaries have pension plans covering a majority of their full-time employees. The Company's policy is to fund pension costs accrued which includes amortization of unfunded actuarial liabilities over a 40-year period. Total pension plan expense, including contributions to multi-employer plans, was \$14,952,000 in 1977 and \$12,704,000 in 1976.

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

3. Lines of credit are maintained with various banks and at December 31, 1977 and 1976 amounted to \$80,250,000 and \$80,600,000, respectively. Such lines are generally supported by average compensating balances equal to 10% of the line plus 10% of any borrowing under the line. Compensating balance requirements totaled approximately \$8,000,000 and \$8,100,000 at December 31, 1977 and 1976, respectively.

4. Long-term debt at December 31, 1977 and 1976 included obligations under capital leases amounting to \$15,225,000 and \$5,745,000, respectively, as well as notes payable. Interest rates on long-term notes payable during 1977 and 1976 ranged from 5½% to 9¾% and 4¾% to 9¾%, and averaged 7.6% and 7.3%, respectively. Approximate annual maturities on all long-term debt were as follows: 1979, \$7,626,000; 1980, \$7,506,000; 1981,

\$7,148,000; 1982, \$7,013,000; 1983 through 1987, \$36,044,000; 1988 through 1992, \$30,125,000; 1993 through 1997, \$16,335,000; and thereafter, \$8,986,000.

Certain note payable agreements limit the amount of retained earnings available for cash dividends and purchases of treasury stock at December 31, 1977 to approximately \$52,000,000 and require minimum working capital levels for some of the companies.

5. Changes in financial position during 1977 and 1976 were as follows (thousands of dollars):

	1977	1976
Source of Funds:		
Operations:		
Net income	\$ 53,062	\$42,320
Nonfund transactions:		
Depreciation and amortization	23,106	21,114
Other	2,100	1,500
Total	78,268	64,934
Disposals of property and equipment	7,927	2,043
Additions to long-term debt	35,837	5,800
Total	\$122,032	\$72,777
Use of Funds:		
Additions to property and equipment	\$ 52,281	\$24,670
Reductions of long-term debt	8,185	6,854
Dividends to Household	21,000	18,000
Other—net	1,614	736
Increase in working capital	38,952	22,517
Total	\$122,032	\$72,777
Changes in Components of Working Capital:		
Increase (decrease) in current assets:		
Cash	\$ (9,879)	\$ 2,636
Receivables	17,569	16,917
Inventories	65,058	36,533
Prepaid expenses	349	(1,085)
(Increase) decrease in current liabilities:		
Short-term debt	(3,245)	14,203
Current maturities of long-term debt	(954)	(60)
Accounts and dividends payable and other liabilities	(34,863)	(46,115)
Federal taxes on income	4,917	(512)
Increase in working capital	\$ 38,952	\$22,517

Merchandising Subsidiaries

of Household Finance Corporation

Notes to Financial Statements

6. The Company leases stores, distribution facilities, vehicles and equipment for initial periods ranging from 3 to 30 years with various renewal options.

Rent commitments at December 31, 1977 for all operating noncancelable leases were as follows: 1978, \$62,696,000; 1979, \$59,312,000; 1980, \$55,038,000; 1981, \$50,037,000; 1982, \$45,526,000; and thereafter, \$424,028,000.

The total of minimum rentals to be received in the future under noncancelable subleases of operating leases is \$74,276,000.

In addition to minimum rents, certain of the store leases provide for contingent rentals as a percentage of sales over a stipulated amount. Annual rental expense for all operating noncancelable leases was as follows (thousands of dollars):

	1977	1976
Minimum rents	\$62,434	\$54,094
Contingent rents	9,008	7,309
Sublease rents	(12,858)	(11,096)
Total	\$58,584	\$50,307

The provisions of Statement of Financial Accounting Standards No. 13 have been adopted only for leases entered into beginning January 1, 1977. Leases entered into prior to that date which would qualify as capital leases under the provisions of Statement No. 13 have been included in the operating lease amounts. These leases will be capitalized at a later date and, accordingly, the financial statements will be retroactively restated at that time. Had such leases been capitalized, the approximate amounts of additional assets and liabilities that would have been included in the balance sheets are \$55,730,000 and \$70,872,000 at December 31, 1977 and \$62,405,000 and \$76,665,000 at December 31, 1976. Net income would have been decreased by approximately 1% in both years.

Capital leases included in property and equipment at December 31, by major class, were as follows (thousands of dollars):

	1977	1976
Land and buildings	\$11,133	\$ 4,446
Equipment and improvements	5,632	1,482
Less accumulated amortization	(1,637)	(777)
Net	\$15,128	\$ 5,151

Future minimum lease commitments at December 31, 1977 for capital leases and the present value of net minimum lease commitments included in the maturities of long-term debt in Note 4 were as follows (thousands of dollars):

Year ending December 31:			
1978	\$2,182	1981	\$ 1,622
1979	2,055	1982	1,622
1980	1,734	Thereafter	25,055
Total minimum commitments			34,270
Less amount representing estimated executory costs (taxes, maintenance, and insurance) included in commitments			346
Net minimum lease commitments			33,924
Less amount representing interest			17,721
Present value of net minimum lease commitments			\$16,203

The capital leases of the Company are not subject to any subleases nor do they contain any contingent rent provisions.

7. To comply with requirements of the Securities and Exchange Commission, specific replacement cost data (unaudited) for the years 1977 and 1976 are included in Household's Form 10-K (a copy of which is available upon request). These data include management's estimates of the replacement costs of inventories and productive capacity (primarily stores, distribution facilities, fixtures, and equipment). Calculations also have been made as to the approximate effects which replacement costs might have had on cost of sales and depreciation expense.

The Company plans future requirements for productive capacity in considerable detail and develops comprehensive remodeling and updating programs, the costs of which are recorded currently. The effect of these remodeling and replacement programs is to minimize the impact of future replacement costs. The Company generally has been able to increase selling prices in concert with rising costs of purchases in order to maintain acceptable gross margins.

8. The Company operates principally in retail and wholesale merchandising. Within the retail business, the Company operates stores characterized as general merchandising, supermarkets, and home furnishings. In the wholesale business, the Company's operations offer a wide selection of general merchandise to franchisees for their subsequent resale to consumers.

Selected information by major industry segment is included on page 56. Intersegment sales are recorded at selling prices which recover the cost of merchandise sold and handling and warehousing expenses incurred by the selling segment. The receiving segment records the purchase on the basis used to price the intersegment sale. The Company has no significant foreign operations, export sales, or individual customer dependency.

Manufacturing Financial Statements



Dezzree Fleming
Parts Inspector, Structo Barbecue Grills

Manufacturing Subsidiaries

of Household Finance Corporation

Statements of Income

All amounts are stated in thousands of dollars.

	Year Ended December 31	1977	1976
Net Sales and Revenues		\$209,310	\$206,157
Costs and Expenses			
Manufacturing		146,567	144,032
Selling and administrative		25,644	23,113
Interest		219	96
Total costs and expenses		172,430	167,241
Income Before Unrealized Foreign Exchange Gains (Losses) and Provision for Taxes on Income		36,880	38,916
Unrealized Foreign Exchange Gains (Losses)		274	(1,109)
Income Before Provision for Taxes on Income		37,154	37,807
Provision for Taxes on Income—Note 5		17,990	19,492
Net Income		\$ 19,164	\$ 18,315

Balance Sheets

All amounts are stated in thousands of dollars.

	December 31	1977	1976
Assets			
Current Assets:			
Cash		\$ 3,054	\$ 1,200
Marketable securities		4,160	7,663
Accounts receivable—less allowance for doubtful accounts, 1977—\$634; 1976—\$526		31,757	32,246
Account and note receivable from sale of assets		140	2,511
Inventories		57,032	48,176
Prepaid expenses		887	640
Total current assets		97,030	92,436
Property and Equipment—Note 2		27,077	25,270
Other Assets:			
Cost of investments in acquired businesses in excess of net assets at acquisition		8,859	8,859
Note receivable		1,155	1,260
Other		493	423
Total other assets		10,507	10,542
		\$134,614	\$128,248

Liabilities and Shareholder's Equity

Current Liabilities:			
Short-term debt		\$ 4,000	\$ 176
Accounts payable		9,203	9,253
Taxes on income		6,977	9,586
Accrued and other liabilities		6,002	5,965
Total current liabilities		26,182	24,980
Shareholder's Equity		108,432	103,268
		\$134,614	\$128,248

The accompanying Notes to Financial Statements are an integral part of these statements.

Manufacturing Subsidiaries

of Household Finance Corporation

Notes to Financial Statements

1. The financial statements include the accounts of King-Seeley Thermos Co. (a wholly-owned subsidiary of Household Finance Corporation) and subsidiaries. Significant accounting policies are summarized as follows:

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 currency exchange gains and losses (realized and unrealized) are included in the Statement of Income in the period in which they occur. The assets, revenues, and net income of the foreign subsidiaries were approximately 19%, 16%, and 20%, respectively, of the consolidated amounts.

Marketable securities are stated at cost which approximates market.

Inventories are stated at the lower of cost (first-in, first-out) or market.

Property and equipment are carried at cost and depreciated over estimated productive lives using various rates and methods.

Cost of investments in acquired businesses in excess of net assets at dates of acquisition is not being amortized since management considers there has been no diminution in the value of the investments.

The Company and its subsidiaries are included in consolidated Federal income tax returns filed by Household. The provision for Federal taxes on income approximates that determinable if the Company filed a separate consolidated tax return. The flow-through method of accounting for investment tax credits is followed. Provision for income taxes has not been made on \$14,871,000 of undistributed earnings of foreign subsidiaries and the Company's domestic international sales corporation at December 31, 1977 as it is the Company's intention to reinvest such earnings indefinitely.

The Company and its subsidiaries have pension plans covering a majority of their employees. The Company's policy is to fund pension costs accrued which includes amortization of unfunded actuarial liabilities over periods not exceeding 40 years. Pension plan expense for 1977 and 1976 was \$1,281,000 and \$1,197,000, respectively. The actuarially computed value of vested benefits at the actuarial valuation date in 1977 was approximately \$2,579,000 in excess of pension fund assets.

2. Property and equipment at December 31 are comprised of the following:

	1977	1976
Land, buildings, and improvements	\$25,542	\$25,053
Machinery and equipment	38,316	33,517
Less accumulated depreciation	(36,781)	(33,300)
Property and equipment—net	\$27,077	\$25,270

3. Changes in financial position during 1977 and 1976 were as follows (thousands of dollars):

	1977	1976
Source of Funds:		
Operations:		
Net income	\$19,164	\$18,315
Nonfund transactions:		
Writeoff of goodwill		850
Depreciation and amortization	4,828	4,269
Total	23,992	23,434
Sale of paper mills		1,389
Decrease in long-term note receivable	105	
Total	\$24,097	\$24,823
Use of Funds:		
Additions to property and equipment	\$ 6,705	\$ 5,944
Increase in long-term note receivable		1,260
Dividends to Household	14,000	18,000
Increase (decrease) in working capital	3,392	(381)
Total	\$24,097	\$24,823
Changes in Components of Working Capital:		
Increase (Decrease) in Current Assets:		
Cash and marketable securities	\$ (1,649)	\$ (8,590)
Accounts and note receivable	(2,860)	12,091
Inventories	8,856	5,056
Prepaid expenses	247	(44)
(Increase) Decrease in Current Liabilities:		
Short-term debt, accounts payable, accrued and other liabilities	(3,811)	(2,579)
Taxes on income	2,609	(6,315)
Increase (Decrease) in Working Capital	\$ 3,392	\$ (381)

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

Rent expense for 1977 and 1976 was \$1,756,000 and \$1,798,000, respectively. Rent commitments for noncancelable operating leases at December 31, 1977 require annual payments as follows: 1978, \$1,028,000; 1979, \$625,000; 1980, \$401,000; 1981, \$280,000; 1982, \$91,000; and thereafter, \$495,000.

The Company has not entered into any significant capital leases in 1977. Capital leases entered into prior to 1977 also are insignificant.

Manufacturing Subsidiaries

of Household Finance Corporation

Notes to Financial Statements

5. The provision for taxes on income for 1977 and 1976 is reconciled to the amounts determined by applying the statutory Federal income tax rate as follows (thousands of dollars):

	1977	1976
Federal income tax at 48% statutory rate	\$17,834	\$18,147
State income taxes net of Federal benefit	763	929
Unrealized foreign exchange (gains) losses	(132)	456
Other—net	(475)	(40)
Provision for taxes on income	\$17,990	\$19,492

6. The Company manufactures 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.

Selected information by major industry segment and geographic area is included on page 56. The intersegment sales elimination represents \$936,000 in Industrial Products. The intergeographic sales elimination represents \$2,731,000 in the United States and \$30,000 in Europe and Canada. These sales between industry segments and geographic areas permit the recovery of manufacturing costs and a reasonable operating profit. The elimination of identifiable assets represents intersegment and intergeographic receivables and profit in inventory.

7. To comply with requirements of the Securities and Exchange Commission, specific replacement cost data (unaudited) for the years 1977 and 1976 are included in Household's Form 10-K (a copy of which is available upon request). 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 in order to maintain acceptable gross margins.

Rental and Leasing
Financial Statements



Bill Sandlin
Maintenance Serviceman, National Car Rental

Rental and Leasing Subsidiaries

of Household Finance Corporation

Statements of Income

All amounts are stated in thousands of dollars.

	Year Ended December 31	1977	1976
Revenues—Note 3		\$201,072	\$173,832
Expenses			
Direct operating		100,686	89,534
Depreciation of revenue-earning assets—Notes 1 and 3		33,327	37,231
Selling and administrative		28,748	21,057
Interest		13,530	10,996
Total expenses		176,291	158,818
Income Before Provision for Taxes on Income		24,781	15,014
Provision for Taxes on Income—Note 7			
Current		(2,273)	(5,620)
Deferred		13,053	12,225
Total provision for taxes on income		10,780	6,605
Income From Continuing Operations		14,001	8,409
Income from Discontinued Operations—Note 2			656
Net Income		\$ 14,001	\$ 9,065

Balance Sheets

All amounts are stated in thousands of dollars.

	December 31	1977	1976
Assets			
Cash—Note 4		\$ 1,714	\$ 4,903
Trade Receivables—less allowance for doubtful accounts, 1977—\$3,369; 1976—\$2,935		23,226	20,083
Other Assets and Prepaid Expenses		4,918	3,240
Investment in Direct Financing Leases—less unearned income, \$7,534—Notes 3, 4, and 11		59,717	
Revenue-Earning Assets—less accumulated depreciation, 1977—\$33,270; 1976—\$43,487—Notes 3, 4, and 11		203,681	184,273
Property and Equipment—less accumulated depreciation and amortization, 1977—\$9,194; 1976—\$7,864		23,542	20,109
Receivable from Household—Note 7		8,624	6,624
Cost of Investments in Acquired Businesses in Excess of Net Assets at Acquisition		11,934	12,436
		\$337,356	\$251,668
Liabilities and Shareholder's Equity			
Accounts Payable and Accrued Liabilities		\$ 28,275	\$ 23,985
Vehicle Obligations—Note 4		204,162	156,959
Other Notes Payable—Note 5		14,350	7,209
Deferred Taxes on Income—Note 7		23,642	10,589
Shareholder's Equity		66,927	52,926
		\$337,356	\$251,668

The accompanying Notes to Financial Statements are an integral part of these statements.

Rental and Leasing Subsidiaries

of Household Finance Corporation

Notes to Financial Statements

1. The financial statements include the accounts of National Car Rental System, Inc. (a wholly-owned subsidiary of Household Finance Corporation) and subsidiaries. Significant accounting policies are summarized as follows:

□ The Company is engaged primarily in the business of renting and leasing cars and trucks. Generally, rentals vary from a day to a month and leases vary from one to six years. Rental and lease contracts, except for direct financing leases in 1977 as discussed in Note 3, are accounted for as operating leases.

□ Revenue-earning assets 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 (gains of \$12,541,000 and \$10,496,000 in 1977 and 1976, respectively) and are 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 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. The major portion of the depreciation shown in the Statement of Income relates to rental cars, which are normally held for periods of six months to one year.

□ Property and equipment are carried at cost and depreciated over estimated productive lives using the straight-line method.

□ Cost of investments in acquired businesses in excess of net assets at acquisition (exclusive of amounts relating to purchases subsequent to October 1970, which are being amortized over 40 years) is not being amortized since management considers there has been no diminution in the value of the investments.

□ The Company and its subsidiaries are included in consolidated Federal income tax returns filed by Household. The total provision for Federal taxes on income approximates that determinable if the Company filed a separate consolidated tax return, except that tax benefits for all investment tax credits, net of estimated recapture, generated by the Company are allocated by Household to the Company. Deferred Federal income taxes, resulting primarily from the use of accelerated depreciation for tax purposes, are provided on timing differences to the extent of pretax financial income. Deferred Federal income taxes on timing differences in excess of pretax financial income are recorded by Household. Investment tax credits, net of estimated recapture, are accounted for on the flow-through method.

□ Retirement benefits are provided for certain employees under the Company's pension plans. The Company's policy is to fund pension costs accrued which include amortization of unfunded actuarial liabilities over periods not exceeding 30 years. Pension plan expense for 1977 and 1976 was \$457,000 and \$336,000, respectively.

2. In 1973, the Company recorded a provision for loss on disposal of the E Z Haul Division (one-way truck and trailer rental business). The disposal has been completed and management believes that substantially all phase-out costs have been incurred.

Income from discontinued operations in 1976 resulted from an adjustment of previously established accruals and proceeds received on disposition of assets in excess of the original estimated recoveries.

3. In 1977, the Company applied the principles of Statement of Financial Accounting Standards No. 13. Certain leases are now classified as direct financing leases, whereas in prior years all leases were classified as operating leases. Application of this new method during 1977 has reduced reported revenues and depreciation expense by approximately \$16,000,000 and resulted in an insignificant increase in net income, including the cumulative effect for prior years. It is impracticable to determine the effect of this change in accounting method on the financial statements for 1976.

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 1977 income to offset initial direct costs, was insignificant.

At December 31, 1977 and 1976, revenue-earning assets consisted of rental vehicles of \$179,523,000 and \$130,386,000, respectively, and lease vehicles of \$57,428,000 and \$97,374,000, respectively.

At December 31, 1977, future minimum payments to be received under noncancelable leases, classified by year of maturity, were as follows (thousands of dollars):

	Direct Financing Leases	Operating Leases
1978	\$36,945	\$17,027
1979	25,624	12,724
1980	2,045	9,616
1981	1,570	6,785
1982	836	3,785
Thereafter	231	1,233
Total	\$67,251	\$51,170

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 1977, such contingent payments amounted to \$10,293,000. Revenues from rental vehicles for the same period were \$154,603,000.

4. Vehicle obligations consist of notes payable to banks and credit companies under financing agreements and accounts payable for vehicles to be financed. Such obligations are collateralized by leases, the underlying lease vehicles, and rental vehicles. Existing lines of credit provide continuous financing, and it is anticipated that 1977 obligations will be replaced by financing additional vehicles. Weighted average interest rates on vehicle obligations outstanding at December 31, 1977 and 1976 were 8.2% and 7.4%, respectively.

In connection with financing agreements, compensating balances are maintained in non-interest bearing accounts at various banks in amounts ranging from 10% to 15% of the obligation balances outstanding. At December 31, 1977 and 1976, such balances aggregated \$615,000 and \$1,213,000, respectively. At December 31, 1977 and 1976, unused credit lines were approximately

Rental and Leasing Subsidiaries

of Household Finance Corporation

Notes to Financial Statements

\$58,000,000 and \$28,600,000, respectively, including \$7,000,000 at December 31, 1976 on which a commitment fee was payable.

5. Other notes payable at December 31, 1977 included \$10,000,000 of 7¾% 30-day notes payable to subsidiaries of Household. Interest expense for 1977 on notes payable to such subsidiaries was \$182,000.

6. Changes in financial position during 1977 and 1976 were as follows (thousands of dollars):

	1977	1976
Source of Funds:		
Operations:		
Net income	\$ 14,001	\$ 9,065
Nonfund transactions:		
Depreciation and amortization	36,090	39,578
Deferred taxes on income	13,053	12,225
Total	63,144	60,868
Disposal of revenue-earning assets	108,336	102,390
Vehicle obligations—net increase	47,203	18,632
Additions to other notes payable	20,000	7,345
Total	\$238,683	\$189,235
Use of Funds:		
Purchase of revenue-earning assets	\$196,128	\$170,154
Investment in direct financing leases—net increase (less transfer of \$35,057 from revenue-earning assets)	24,660	
Reduction of other notes payable	12,859	8,634
Advances to Household	2,000	6,624
Other—net	5,694	6,117
Decrease in funds	(2,658)	(2,294)
Total	\$238,683	\$189,235
Changes in Funds—increase (decrease):		
Cash	\$ (3,189)	\$ 1,841
Trade receivables	3,143	(536)
Other assets and prepaid expenses	1,678	(1,617)
Accounts payable and accrued liabilities	(4,290)	(1,982)
Decrease in funds	\$ (2,658)	\$ (2,294)

7. The provision for taxes on income for 1977 and 1976 is reconciled to the amount determined by applying the statutory Federal income tax rate as follows (thousands of dollars):

	1977	1976
Federal income tax at 48% statutory rate	\$ 11,895	\$ 7,207
Investment tax credits	(2,000)	(968)
State income taxes net of Federal benefit	825	390
Other—net	60	(24)
Provision for taxes on income	\$ 10,780	\$ 6,605

Receivable from Household represents Federal income tax benefits arising primarily from investment tax credits, net of estimated recapture. Certain reclassifications to the financial statements for 1976 have been made to conform to the presentation adopted in 1977.

8. The Company 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, 1977 require minimum annual payments (exclusive of taxes and insurance) as follows: 1978, \$5,596,000; 1979, \$5,499,000; 1980, \$3,841,000; 1981, \$2,689,000; 1982, \$1,708,000; and thereafter, \$7,396,000.

Rent expense for 1977 and 1976 was \$22,781,000 and \$21,220,000, respectively. Such amounts include contingent rentals (based on revenues) for car rental station leases of \$8,624,000 and \$7,093,000, respectively.

9. On June 10, 1975, the Federal Trade Commission (FTC) 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 FTC agreed upon a consent order which did not constitute an admission of any of the charges in the complaint. The FTC approved and officially issued the order on November 21, 1976. Subsequent to the filing of the FTC complaint, ten civil actions for money damages, evidently related to the FTC action, were filed. Three 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 seven remaining civil actions and that they will not have a materially adverse effect on the financial statements of National.

10. To comply with requirements of the Securities and Exchange Commission, specific replacement cost data (unaudited) for the years 1977 and 1976 are included in Household's Form 10-K (a copy of which is available upon request). 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. The Company generally has been able to adjust rental and lease rates in order to offset the increasing costs of revenue-earning assets.

11. Investment in direct financing leases and revenue-earning assets at December 31, 1977 included cars and trucks leased to the Finance, Merchandising, and Manufacturing Businesses aggregating approximately \$13,000,000.

Auditors' Opinion

HASKINS & SELLS

INTERNATIONALLY
DELOITTE, HASKINS & SELLS

200 EAST RANDOLPH DRIVE
CHICAGO, ILLINOIS 60601

To the Shareholders of
Household Finance Corporation:

We have examined the balance sheets of Household Finance Corporation and consolidated subsidiaries as of December 31, 1977 and 1976 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, 1977 and 1976 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.



February 13, 1978

Audit Committee

The Audit Committee of the Board of Directors is composed of four members, none of whom is an employee of the Company. The Chairman of the Committee, Thomas D. Flynn, is a past president of the American Institute of Certified Public Accountants and a retired partner and former Vice Chairman of the Management Committee of Arthur Young & Company, Certified Public Accountants. Other members include Mary J. Head, Vice Chairman of the Board, AMTRAK; Gordon P. Osler, Vice Chairman and Director of British Steel Corporation (Canada) Limited; and Miller Upton, retired President of Beloit College.

The Audit Committee, on behalf of the full Board of Directors, reviews the scope of the Company's independent audit and the proper application of accounting principles in the Company's financial statements. The Committee meets several times each year to determine that the audit functions of both the independent auditors and internal auditors are effectively accomplished. Company personnel and the independent auditors participate in these meetings. Both the internal and independent auditors have unrestricted access to the Audit Committee with or without the presence of Company management.

Household's Audit Committee has been in existence since 1966 and from its inception has consisted entirely of outside Directors.



Mary J. Head

Gilbert R. Ellis



Donald C. Clark

Thomas D. Flynn



John T. Gurash

Louis C. Duncan

Robert C. Trow

Board of Directors

Donald C. Clark
President

Louis C. Duncan
Vice Chairman of the Board

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
Vice Chairman of the Board,
AMTRAK (National Railroad
Passenger Corporation)

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

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

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

Arthur E. Rasmussen
Director

George W. Rauch
General Counsel of the
Corporation,
Hubachek, Kelly, Rauch
& Kirby, Attorneys

Albert O. Steffy
Director

James M. Tait
President,
City Products Corporation

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

Miller Upton
Director and Consultant

William E. Wehner
President,
Consumer Finance Division

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

Committees of the Board

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

M. Upton

G. P. Osler

Compensation Committee

The Compensation Committee determines the salaries, bonuses and stock options for senior Company management.

A. O. Steffy, *Chairman*

J. T. Gurash

M. Upton

M. P. Kartalia

J. C. Whitehead

Executive Committee

During intervals between Board meetings, the Executive Committee may act for the Board.

G. R. Ellis, *Chairman*

D. C. Clark

A. E. Rasmussen

L. C. Duncan

G. W. Rauch

J. T. Gurash

A. O. Steffy

Joseph W. James
 Mitchell P. Kartalia John C. Whitehead



George W. Rauch Miller Upton James M. Tait



Gordon P. Osler Arthur E. Rasmussen



William E. Wehner Albert O. Steffey

Management

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*

L. C. Duncan G. W. Rauch
 G. R. Ellis A. O. Steffey
 M. P. Kartalia J. M. Tait
 A. E. Rasmussen

Nominating Committee

The Nominating Committee recommends candidates for Board membership.

A. O. Steffey, *Chairman*

G. R. Ellis M. Upton

Corporate Officers

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

Donald C. Clark
 President

Louis C. Duncan
 Vice Chairman of the Board

John B. Spring
 Senior Vice President and
 Chief Financial Officer

James D. Pinkerton
 Secretary and Assistant
 General Counsel

John W. Ostrem
 Group Vice President
 Financial Controls

Robert K. Strasser
 Treasurer

John P. Hines
 Controller

Division Officers

Finance

Consumer Finance Division

William E. Wehner
 President

William D. Hendry
 Executive Vice President

Senior Vice Presidents:

Edgar J. Bramble

Buel Clifton

William J. Hunckler

Walter Kinka

David E. Knudtsen

William B. Williams

Household Finance Corporation of Canada

J. Arnold Anderson
 President

Donald G. Bennett
 Executive Vice President

**Alexander Hamilton Life
 Insurance Company**

Richard H. Headlee
 President

Merchandising

City Products Corporation

James M. Tait
 President

Wilford W. George
 Executive Vice President

Lawrence A. Del Santo
 Senior Vice President

Roger E. Stangeland
 Group Vice President

Manufacturing

King-Seeley Thermos Co.

Robert C. Trow
 President

Rental and Leasing

National Car Rental System, Inc.

Joseph W. James
 President

Paul W. Berglund
 Executive Vice President

Summary of Information by Industry Segment and Geographic Area

All amounts are stated in thousands of dollars.

Year Ended December 31, 1977

Industry Segment	Net Sales and Revenues	Operating Profit	Identifiable Assets
Finance	\$ 632,962	\$156,050	\$3,141,338
Merchandising			
Retail business:			
General merchandise	1,148,531	60,504	460,627
Supermarkets	975,057	26,400	188,090
Home furnishings	107,449	5,820	56,258
Total retail	2,231,037	92,724	704,975
Wholesale business:			
General merchandise	628,435	32,882	169,842
Intersegment eliminations	(12,542)		
Total Merchandising	2,846,930	125,606	874,817
Manufacturing			
Outdoor living products	100,690	17,020	66,493
Commercial refrigeration products	64,297	17,826	39,206
Industrial products	45,259	3,451	24,475
Intersegment eliminations	(936)		(246)
Total Manufacturing	209,310	38,297	129,928
Rental and Leasing	201,072	38,311	337,356
Combined Businesses	\$3,890,274	\$358,264	\$4,483,439

Geographic Area	Net Sales and Revenues	Operating Profit	Identifiable Assets
Finance			
United States	\$ 501,995	\$118,676	\$2,518,946
Canada	121,718	36,873	572,984
United Kingdom	9,249	501	49,408
Total Finance	632,962	156,050	3,141,338
Merchandising-U.S.	2,846,930	125,606	874,817
Manufacturing			
United States	177,800	30,908	105,715
Europe and Canada	34,271	7,378	25,462
Intergeographic eliminations	(2,761)	11	(1,249)
Total Manufacturing	209,310	38,297	129,928
Rental and Leasing—U.S.	201,072	38,311	337,356
Combined Businesses			
United States	3,725,066	313,512	3,835,585
Europe and Canada	165,208	44,752	647,854
Total Combined Businesses	\$3,890,274	\$358,264	\$4,483,439

Discussion of Industry Segment and Geographic Area Information

- Operating profit is equal to total net sales and revenues less operating expenses. Operating profit is computed before general corporate expenses (which for the Finance Business includes \$28,883,000 representing primarily interest imputed on the accumulated net aftertax cash flows attributable to its investments in nonconsolidated nonfinance subsidiaries), unrealized foreign exchange gains and losses, interest expense (except for the Finance Business because of the nature of its operations), and taxes on income.
- Identifiable assets are those assets that are used in the operations 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.
- Depreciation and amortization and capital expenditures of the Merchandising and Manufacturing subsidiaries by segment were as follows:

	Depreciation and Amortization	Capital Expenditures
Merchandising:		
Retail Business:		
General merchandise	\$10,900	\$12,331
Supermarkets	8,696	31,493
Home furnishings	1,009	861
Total retail	20,605	44,685
Wholesale business—		
General merchandise	2,241	7,224
Total Merchandising	\$22,846	\$51,909
Manufacturing:		
Outdoor living products	\$ 3,166	\$ 4,220
Commercial refrigeration products	713	755
Industrial products	927	1,640
Total Manufacturing	\$ 4,806	\$ 6,615

- Combined businesses net sales and revenues and operating profit do not reflect the elimination of interbusiness transactions.
- See Notes 11 of Finance, 8 and 6 of Merchandising, and 6 of Manufacturing Businesses, respectively, for further information relating to this summary.
- Totals above are reconciled to total net sales and revenues, operating profits, and identifiable assets of the Finance, Merchandising, and Manufacturing Businesses as follows:

	Net Sales and Revenues	Operating Profit	Identifiable Assets
Finance:			
Totals above	\$ 632,962	\$156,050	\$3,141,338
Equity in nonconsolidated finance business subsidiaries	3,644	3,644	
General corporate expenses		(33,053)	
Unrealized foreign exchange losses		(35,314)	
Investments in nonconsolidated subsidiaries			741,406
Dividend and receivables from nonconsolidated subsidiaries			27,450
Total Finance	\$ 636,606	\$ 91,327	\$3,910,194
Merchandising:			
Totals above	\$2,846,930	\$125,606	\$ 874,817
General corporate expenses		(7,524)	
Interest expense		(16,862)	
Corporate assets			10,302
Total Merchandising	\$2,846,930	\$101,220	\$ 885,119
Manufacturing:			
Totals above	\$ 209,310	\$ 38,297	\$ 129,928
General corporate expenses		(1,198)	
Interest expense		(219)	
Unrealized foreign exchange gains		274	
Corporate assets			4,686
Total Manufacturing	\$ 209,310	\$ 37,154	\$ 134,614

Corporate 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.

Transfer Agent, Registrar, and Dividend Disbursing Agent for the Common and Preferred Stock

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

Stockholder address changes and questions pertaining to stockholder accounts should be directed to the Stock Transfer Division of the Harris Bank in Chicago.

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

Debenture Issues

The following debenture issues are listed on the New York Stock Exchange:

4% due 1978
4 $\frac{7}{8}$ % due 1981
10.40%, Series 1B, due 1981
5% due 1982
4 $\frac{3}{8}$ % due 1984
8%, Series 1N, due 1984
8.30%, Series 2F, due 1986
7.85%, Series 3B, due 1986
4 $\frac{3}{8}$ % due 1987
10 $\frac{1}{2}$ %, Series 2B, due 1994
7 $\frac{1}{2}$ %, Series 1F, due 1995
8.45% Subordinated Series 1M,
due 1997
7 $\frac{3}{4}$ %, Series 2R, due 1999
9%, Series 3F, due 2000
8 $\frac{1}{2}$ %, Series 2N, due 2001
8 $\frac{3}{8}$ %, Series 4B, due 2003
8.20%, Series 4F, due 2007

The following debenture issues are publicly held but not listed on any exchange:

6 $\frac{3}{8}$ % due 1988
7 $\frac{1}{4}$ % due 1990
4 $\frac{1}{2}$ % due 1991
4 $\frac{7}{8}$ % due 1993
7 $\frac{1}{2}$ %, Series 1R, due 1997

Other issues of long-term debt are privately held and not listed.

Dividend Reinvestment Agent

Citibank
Dividend Reinvestment Service NBG-1
P.O. Box 5770
Grand Central Station
New York, New York 10017

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 above address or the Secretary of Household. Inquiries concerning established accounts should be directed to Citibank.

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 Office of the Secretary, Household Finance Corporation, 3200 Prudential Plaza, Chicago, Illinois 60601. The 10-K report for the year 1977 will be available after April 1, 1978.

Annual Meeting

You are cordially invited to attend the annual meeting of stockholders which will be held at 10:00 a.m. on Tuesday, April 11, 1978 at the Beverly Wilshire Hotel, Beverly Hills, California. The official Notice of Annual Meeting, Proxy

Statement, and Proxy form will be mailed to each shareholder on or about March 3, 1978. 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.

Corporate Headquarters

Household Finance Corporation
Prudential Plaza
Chicago, Illinois 60601
(312) 944-7174

During the summer of 1978, the Corporate Headquarters will be moving to a new location:

Household Finance Corporation
Sanders Road South of Willow
Prospect Heights, Illinois 60070

