Household Finance Corporation

1976 Annual Report

Cover: Carrying a warm lunch in a Thermos® kit is part of daily life for millions of American families. Thermos® brand vacuumware is only one of Household Finance Corporation's many products and services. We are a diversified company serving customers through many businesses. Household's activities include:

Business	Products and Services	Name
Finance	consumer loans consumer purchases financing commercial loans commercial leasing industrial banks	Household Finance Corporation
	credit insurance	Maryland Life Insurance Co. Household Insurance Co.
	consumer finance and banking	HFC Trust (United Kingdom)
	savings & loans	Keystone Savings & Loan Association
	consumer education	Money Management Institute
Merchandising	variety stores	T. G. & Y. Ben Franklin
	supermarkets	Vons
	hard goods stores	Coast-to-Coast Whites
	furniture stores and home furnishings	Huffman-Koos Barker's Colby's American Furniture
	ice manufacturing	City Ice
Manufacturing	vacuumware, jugs and ice chests, plastic insulated tableware, snack jars, lunch kits, all weather emergency and sportsman's blankets	Thermos®
	barbecue grills	Structo®
	automatic ice machines	Scotsman®
	metal finishing machines and medias	Almco®
	drinking fountains and water coolers	Halsey Taylor
	industrial casters and wheels special urethane products	Albion
	appliance controls	King-Seeley
	custom vacuum metallized films	Metallized Products
	soft and hardboard automobile products	Fabricators
Rental and Leasing	car rental and leasing truck rental and leasing	National Car Rental
	portable dredging machines	Mud Cat
	specialized air cargo containerization	Air Care

Financial Highlights

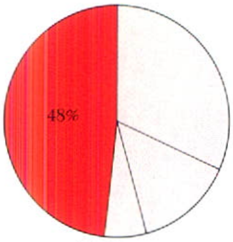
All amounts other than per share data are stated in thousands of dollars.

		1976	1975	Percent Change
Volume				
	Finance instalment notes receivable:			
	Outstanding at December 31	$2,643,918	$2,375,044	+ 11%
	Average outstanding	2,472,100	2,334,164	+ 6%
	Merchandising net sales and revenues	2,521,400	2,224,968	+ 13%
	Manufacturing net sales and revenues	206,157	170,470	+ 21%
	Rental and leasing revenues	173,832	154,913	+ 12%
Income After Taxes (Before unrealized foreign exchange gains (losses) less related tax effects)				
	Continuing Operations:			
	Finance	$ 64,132	$ 58,873	+ 9%
	Merchandising	42,320	29,117	+ 45%
	Manufacturing	19,344	13,721	+ 41%
	Household's income from rental and leasing:			
	National Car Rental Income	8,409	3,857	+ 118%
	Household's equity in National Car Rental's tax credits (reported by National as additions to paid-in capital)		1,459	
	Total continuing operations	134,205	107,027	+ 25%
	Per common share:			
	Primary basis	2.87	2.29	+ 25%
	Fully diluted basis	2.62	2.10	+ 25%
	Discontinued operations of rental and leasing	341	2,810	
	Total	134,546	109,837	+ 22%
Unrealized Foreign Exchange Gains (Losses) Less Related Tax Effects				
	Finance	$ 437	$ (6,540)	
	Manufacturing	(1,029)	(529)	
	Total	(592)	(7,069)	
Net Income		$ 133,954	$ 102,768	+ 30%
	Earnings per common share:			
	Primary	2.87	2.19	+ 31%
	Fully diluted	2.62	2.01	+ 30%
Dividends per Share Declared on Common Stock		$ 1.15	$ 1.05	+ 10%
Average Number of Common Shares Outstanding		43,241	41,455	+ 4%

Household Finance Corporation
Prudential Plaza, Chicago, Illinois 60601

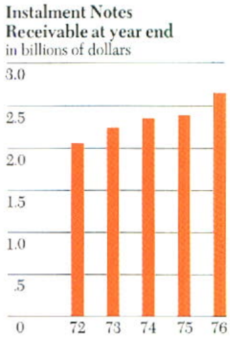
Contents

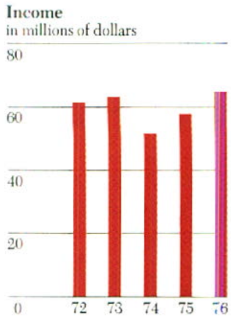
Consumer Finance



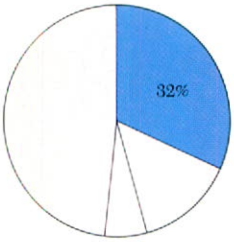
% of 1976 Income

Household Finance, with more than $2,600,000,000 of outstanding instalment notes receivable and 1,954 branch lending offices in the United States, Canada, United Kingdom and Puerto Rico, is the largest consumer finance company specializing in personal cash loans. In conjunction with its lending operations, Household offers credit insurance written or reinsured by its insurance subsidiaries and also purchases consumers' sales finance contracts from merchants.



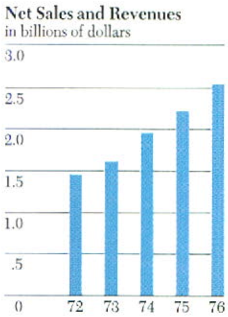


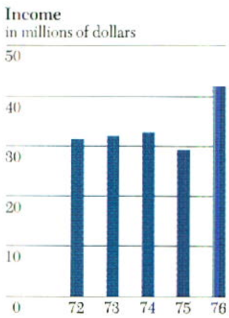
Merchandising



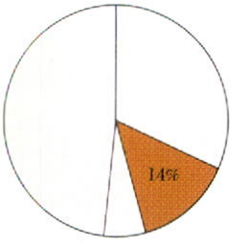
% of 1976 Income

Subsidiary City Products Corporation is one of the largest merchandising companies in the United States with annual sales exceeding $2,500,000,000 by 1,242 company-owned and 3,735 franchised retail stores. General merchandise is sold by T. G. & Y. and Ben Franklin variety stores, and Whites and Coast-to-Coast hard goods stores. Food products are sold by Vons grocery supermarkets, and furniture and home furnishings by Colby's, Huffman-Koos, Barker's and American Furniture stores.



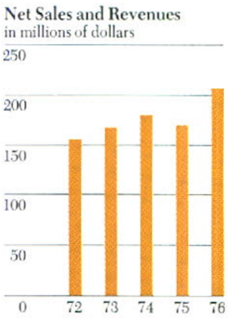


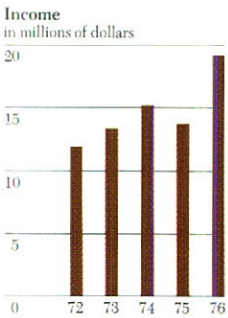
Manufacturing



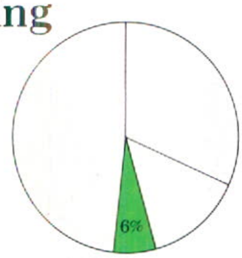
% of 1976 Income

Subsidiary King-Seeley Thermos Co. with annual sales of more than $200,000,000 is a diversified manufacturing company operating 17 plants in the United States, Canada, the United Kingdom and Italy. Consumer products include Thermos® brand vacuumware and Structo® barbecue grills. Commercial products include Scotsman® brand automatic ice machines and Halsey Taylor water coolers and drinking fountains.



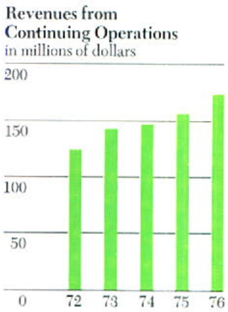


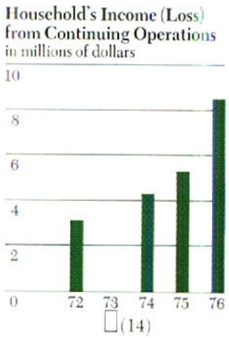
Rental and Leasing



% of 1976 Income

Subsidiary National Car Rental System, Inc. is one of the largest car rental companies with rental locations throughout the United States. National also engages in car leasing and truck rental and leasing.

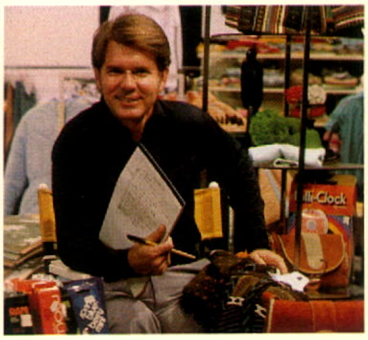
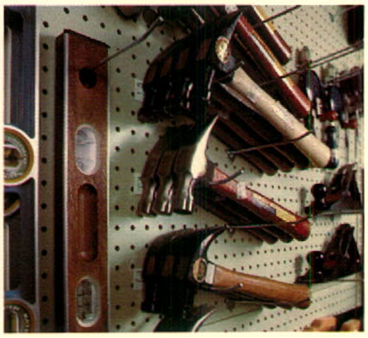


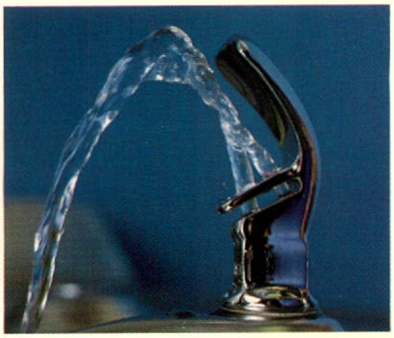


Note: All income is *before* aftertax unrealized foreign exchange gains or losses

This is Household Finance Corporation:




To the Shareholders:

February 11, 1977

Household enjoyed record earnings in 1976, not only for the Corporation as a whole, but for each of our four businesses as well. Income from continuing operations, *before* aftertax unrealized foreign exchange losses, increased 25.4% to \$134,205,000 from \$107,027,000 in 1975. Including discontinued operations and unrealized foreign exchange losses, net income in 1976 was \$133,954,000 compared with \$102,768,000 in 1975, an increase of 30.3%. Aftertax unrealized foreign exchange losses of \$592,000 in 1976 compare with unrealized losses of \$7,069,000 in 1975. Income from discontinued operations totaled \$341,000 in 1976 compared with \$2,810,000 in 1975.

The record earnings reflect the continued dedication of all employees to improved performance which was enhanced by more favorable economic conditions following the deep 1974-75 recession. Improved product and service demand gave us strong growth in finance receivables and in sales and revenues of our merchandising, manufacturing, and rental and leasing businesses. Fully diluted earnings per common share from continuing operations, *before* aftertax unrealized foreign exchange losses, increased 24.8% to \$2.62 in 1976.

Last September, Household's Board of Directors increased the common stock quarterly cash dividend by 9.1%, from \$0.275 to \$0.30 per share, bringing the annual dividend rate from \$1.10 to \$1.20 per share. Household has maintained a 24-year record of higher annual cash dividend payments during each calendar year per common share. We are naturally proud of this, and of Household's record of continuous consecutive quarterly dividends for all 51 years since our incorporation in 1925.

Beginning in 1976, the Financial Accounting Standards Board (FASB) requires multi-national corporations to include their *unrealized* foreign exchange gains or losses from fluctuations in foreign currency exchange rates in their net income figures. Previously, unrealized gains or losses were credited or charged to the Company's reserves for exchange fluctuations. As applied to Household and particularly to Household's investment in its Canadian finance business, we believe the FASB's accounting pronouncement results in confusing and unnecessarily volatile reported earnings. We therefore emphasize Household's income *before* unrealized foreign exchange gains or losses.

To illustrate the problem, at the beginning of 1976, the Canadian dollar exchange rate for U.S. dollars was \$.984.

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

The exchange rate rose sharply during the first half of 1976 to $1.0321 at June 30, and then declined during the second half of the year to $.9916 at year end. During 1975, the exchange rate began at $1.01, declined to $.9709 at June 30, and then rose to $.984 by year end. As a result of the accounting pronouncement, Household's reported net income in the first two quarters of 1976 included large *unrealized* gains from the fluctuations in the Canadian dollar exchange rate which were mostly reversed during the second half of the year. During the first six months, net income included a $11,767,000 aftertax unrealized foreign exchange gain compared with an aftertax loss of $10,165,000 in the first six months of 1975, a year-to-year swing of $21,932,000. Second half results, however, include a $12,359,000 aftertax loss compared with a $3,096,000 aftertax gain during the last six months of 1975, a negative swing of $15,455,000.

Finance

Household's Consumer Finance Division had an excellent year in 1976. Consumer finance income, *before* aftertax unrealized foreign exchange gains or losses, increased 8.9% to $64,132,000. Customer notes receivable increased by 11.3% or $268,874,000 to $2,643,918,000. Net chargeoffs of accounts declined to 2.16% as a percentage of average receivables outstanding from 2.27% in 1975. In addition, the overall delinquency level declined substantially to the lowest year-end level since 1956.

In England, Household acquired the 26 branch offices and approximately $19,000,000 of receivables of Niagara Financial Services Limited, serving to speed the development of HFC Trust Limited, Household's chain of consumer finance and banking offices in the United Kingdom. HFC Trust Limited became a wholly-owned subsidiary in August when Household purchased the minority interest previously held by J. P. Morgan & Co., Incorporated.

Household is developing a commercial finance program involving leveraged leasing, second mortgages on income-producing real estate, and some preferred stock investments. Commercial receivables totaled $22,997,000 at December 31, 1976.

A merger of Hamilton International Corporation, the parent corporation of Alexander Hamilton Life Insurance Company of America, into a subsidiary of Household, under the terms of which the Hamilton International stockholders will receive approximately $29,800,000, will be voted on by those stockholders in March 1977. Household has purchased a 24% voting interest in Hamilton International for $4,400,000. Alexander Hamilton, with life insurance in force exceeding $1,380,000,000, is licensed to operate in 45 states and is headquartered in Farmington Hills, Michigan. It is engaged in the sale of ordinary life insurance products through independent agents to the general public.

Merchandising

Aided by a strong Christmas season, net sales of Household's merchandising business increased 13.3% to $2,521,400,000 compared with $2,224,968,000 in 1975. Net income for 1976 of $42,320,000 was 45.3% greater than the $29,117,000 earned in 1975. Strong sales and operating income gains were provided by the T.G. & Y. and Ben Franklin variety stores divisions, which together accounted for 50% of the total sales of the merchandising business in 1976. The Coast-to-Coast chain of hard goods stores and the furniture stores divisions also showed impressive gains over 1975. Following two years of outstanding sales and operating income gains by the Vons supermarket chain in Southern California, a price-war developed in 1976, and as a result Vons incurred a moderate decline in income.

The White Stores Division of hard goods stores reported an aftertax loss of approximately $8,800,000 in 1976 compared with a loss of approximately $11,400,000 in 1975. The 1976 loss includes a $2,950,000 pretax provision for planned store closings. While we do not expect Whites to become profitable in 1977, we do expect further and more substantial improvement towards attaining profitability.

Manufacturing

Net sales of Household's manufacturing business increased 20.9% to $206,157,000 in 1976; this following the weak economy and labor strikes that adversely affected 1975 results. Manufacturing income, *before* aftertax unrealized foreign exchange losses, increased 41.0% to $19,344,000. The Queen Products Division, which manufactures Scotsman® brand automatic ice machines, ended a 4½-month work stoppage with a settlement in February and went on to make a strong recovery. Our manufacturing business has been very successful over the years, and we are actively interested in its further development through appropriate acquisitions.

Rental and Leasing

Revenues from the continuing operations of Household's rental and leasing business, National Car Rental System, Inc., increased 12.2% to $173,832,000 in 1976. The improved economy resulted in healthy car rental demand and a strong market for the sale of used vehicles. Car rental operations recorded an increase in rental transactions, vehicle utilization and fleet size. The Truck Division, which experienced a substantial loss in 1975, showed significant improvement during 1976, and is currently operating at a profit. This division continued to emphasize full-service truck leasing and opened several new locations during the year.

National's income from continuing operations increased 118% to $8,409,000 in 1976, reflecting a significant improvement in operations. We are pleased to report National's progress and its emergence as a strong and healthy company.

Corporate

On January 27, 1977, the Board elected Donald C. Clark, 45, as President of the Corporation, succeeding me in that capacity. Mr. Clark, who first joined the Company in 1955 as a trainee in the Consumer Finance Division, served most recently as Executive Vice President and continues as Chief Financial Officer. Louis C. Duncan, 63, also formerly an Executive Vice President, was elected Vice Chairman of the Board. Mr. Duncan has served the Company well in various management capacities for 40 years.

We believe the positive trends of 1976 will continue in 1977. We are hopeful that economic conditions and consumers' optimism will improve. We are confident of our competitive strengths and of our position in sound growing businesses. As we approach Household's 100th anniversary in 1978, construction is proceeding with a new corporate headquarters building in Prospect Heights, Illinois, a suburb of Chicago. Completion of the building is scheduled for mid-1978. Household and certain subsidiaries will be the occupants of the four-story building, culminating a century of growth as well as representing a new beginning.

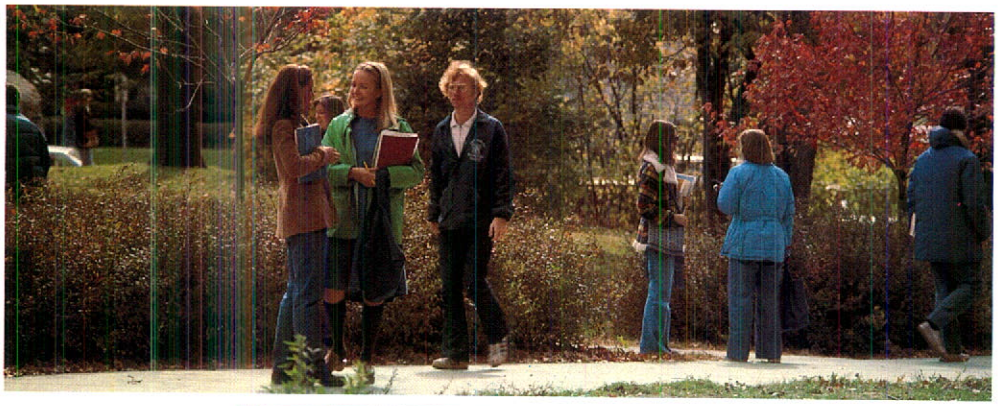
G. R. Ellis,
Chairman of the Board
and Chief Executive Officer

Consumer Finance

Consumer Finance/Five Year Summary of Significant Data

Instalment Notes Receivable (000):	1976	1975	1974	1973	1972
Outstanding at December 31	$2,643,918	$2,375,044	$2,367,581	$2,263,911	$2,009,465
Average outstanding	2,472,100	2,334,164	2,347,884	2,100,152	1,904,059
Loans Made (000)	$2,083,122	$1,838,571	$1,833,733	$1,979,088	$1,826,500
Average Size of Loan Made	$1,479	$1,423	$1,328	$1,258	$1,162
Sales Contracts Acquired (000)	$380,440	$264,733	$295,417	$299,694	$227,411
Net Chargeoffs of Customer Receivables (000)	$53,305	$53,047	$46,284	$39,086	$37,643
% of Average Receivables	2.16%	2.27%	1.97%	1.86%	1.98%
Number of Customers	2,425,000	2,280,000	2,445,000	2,491,000	2,354,000
Average Balance Due	$1,090	$1,042	$968	$909	$854
Average Monthly Income of Borrower	$1,106	$1,039	$957	$882	$824
Monthly Payment as % of Monthly Income	4.4%	4.5%	4.8%	5.1%	5.3%
Number of Branch Offices	1,954	1,861	1,831	1,771	1,694

HFC's expanded second mortgage loan program offers loans up to $25,000. We make it possible for many parents to finance their children's college educations.



HFC Trust operations in the United Kingdom expanded rapidly in 1976.

Distinctive and personal interiors characterize Keystone Savings and Loan offices in Southern California, a recent acquisition.

Consumer Finance Division instalment notes receivable increased a record $268,874,000 or 11.3% in 1976 to $2,643,918,000. Of this year-end total, 21.4% or $567,049,000 represents Canadian receivables and 1.0% or $27,706,000 were from the United Kingdom. Sales finance contracts purchased from merchants represented 11.9% of the total year-end receivables. Income, *before* aftertax unrealized foreign exchange gains or losses, increased 8.9% to $64,132,000. Three main factors lead to the strong receivables growth: favorable market conditions, new programs extending services, and recent acquisitions.

Market Conditions

An improved economy in 1976 stimulated consumer spending and the demand for consumer credit. Beginning in late March, Household experienced healthy loan demand that continued through the remainder of the year. As rising personal incomes and greater employment assisted Household customers to meet scheduled loan payments, overall delinquency declined by December 31, 1976, to its lowest year-end level in 20 years. Net chargeoffs of customer accounts also declined.

According to Federal Reserve Board statistics on outstanding consumer instalment credit in the United States, personal loans held by finance companies grew 7.70% in 1976 while personal loans held by banks grew 6.74%. By comparison, Household's personal loan receivables in the United States grew 9.77%. Personal loans plus consumer goods credit (excluding automobile, mobile home and home-improvement credit) grew at a rate of 11.91% for Household, 7.03% for finance companies, 8.81% for commercial banks, 20.46% for credit unions, and 7.45% for other institutions such as retailers, mutual savings banks,and savings and loans. The total personal loan and consumer goods credit market grew by 10.04%.

New Programs

Household's program of larger loans secured by second mortgages on real estate was expanded in early 1976 with the introduction in Canada of loans up to $15,000. An expanded real estate loan program was then introduced in eight states of the U.S. offering loans as large as $25,000 with maturities of up to 15 years. Borrowers' uses for these loans include remodeling homes, financing college educations, purchasing vacation homes, and consolidating debts. Since the costs of servicing these larger secured loans are substantially lower as a percentage of the amount lent, contract maturities are longer, and less credit risk is involved, they can be made at significantly lower interest rates than smaller size loans. Due to strong acceptance of the program, sixteen additional states will be included in 1977.

The success of our cash voucher loan program involving mailings to former customers saw itself extended in 1976 from an experiment in California to a fully operational program in 22 states and all Canadian provinces. Also, a direct

Home remodeling is a major reason for the continuing trend toward larger loans.

Linda Lawless, branch manager, Matteson, Illinois.

mail merchandising pilot program giving eligible customers the opportunity to purchase quality motion picture equipment on a monthly payment basis was conducted in several states. In another new program, Household will offer financing through its branch offices for qualified individuals who wish to purchase National Car Rental cars rotated out of the rental fleet.

Recognizing the importance of advertising in generating business, in 1976 Household initiated a new advertising campaign centered around the theme "Come On In." The campaign emphasizes that Household wants to help people get the most out of life, and seeks to expand consumers' perception of Household as a place to borrow for "wants" as well as "needs."

Household's insurance operations continued to grow in 1976. Operations were broadened in Canada with subsidiary Maryland Life Insurance Company's direct writing of credit life and accident and health coverages for Household's Canadian loan customers. In the U.S., the direct mail marketing of noncredit coverages was expanded. The pending acquisition of Alexander Hamilton Life Insurance Company of America will serve to further broaden and establish insurance as a major Household activity.

Acquisitions

In August, HFC Trust Limited, Household's chain of consumer finance and banking branches in the United Kingdom, acquired Niagara Financial Services Limited. This acquisition added 26 branch offices and approximately $19,000,000 of loan receivables to Household's operations abroad. With the opening of an additional ten offices by HFC Trust Limited during the year, the total number of branches in England grew to 47 with over $27,000,000 of loan receivables outstanding. The Niagara offices will be converted to HFC Trust Limited branches in the future and HFC Trust Limited plans to open additional new offices in 1977.

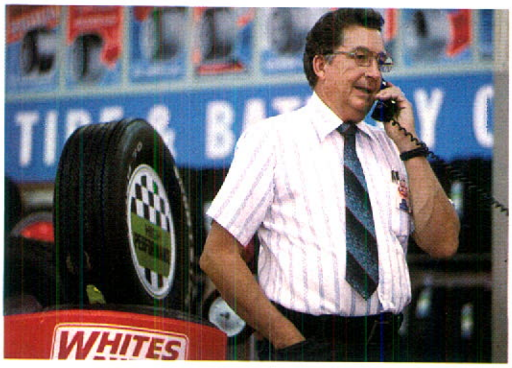
Following the commencement of Puerto Rican consumer finance operations in 1975, eight additional offices were acquired in 1976 bringing the total number of Household's Puerto Rican offices to fifteen. During the year, Household opened an additional 49 offices in the United States and Canada, while closing 14. At year end, our branch network totaled 1,954.

To gain new experience in other related financial service areas, Household acquired Keystone Savings and Loan Association, located in Orange County, California, and four industrial banks in Pueblo, Greeley, Alamosa, and Lamar, Colorado. Keystone Savings and Loan operates seven offices in the Los Angeles area and has assets exceeding $80,000,000. The Colorado industrial banks also accept savings deposit accounts and offer credit extension services.

Merchandising

At Vons supermarkets in Southern California, over 9,400 employees keep foods flowing smoothly from supplier to shopping carts.

Shoppers find T.G. & Y. stores a natural place to turn to for do-it-yourself supplies.



White Stores sell and service a complete line of automotive parts.

Household's merchandising business continued to grow in 1976 with sales and revenues increasing 13.3% to $2,521,400,000 from $2,224, 968,000 in 1975. This increase is well ahead of reported industry increases. The merchandising division's net income for 1976 totaled $42,320,000, a gain of 45.3% over the $29,117,000 earned in 1975.

The company entered 1976 in a good position to capitalize on improved levels of consumer confidence. Continued emphasis on raising volume at existing stores and tight expense control contributed to a year of record income. Results also benefited from reduced borrowings and lower interest rates.

Additions and expansions to both company-owned and franchised stores during 1976 improved our market position by adding a net of 948,000 square feet of retail space. At year end, 1,242 company-owned stores occupied 28,286,000 square feet while 3,735 franchised stores operated in 22,571,000 square feet of retail space. 1977 plans provide for opening 50 new company-owned stores with a total of 1,641,000 square feet and 217 new franchised stores totaling 1,469,000 square feet.

General Merchandise
T.G. & Y. stores increased its sales volume 15% in 1976 to $914,899,000. At year end, T.G. & Y. operated 933 family center and variety stores in 29 states in the South, Southwest and Midwest, with 18,864,000 square feet of retail space, an increase of 1,062,000 square feet over 1975. During 1976, 47 new stores were opened, 5 were remodeled and 37 older stores were closed. During 1977, T.G. & Y. plans to open 40 new stores and expand ten existing units for a total addition in retail store space of 1,435,000 square feet. Sales in 1977 are expected to exceed one billion dollars.

The Ben Franklin Division, serving nearly 2,100 franchised merchants in all 50 states, recorded an outstanding year of growth in sales and income. Ben Franklin franchised a record 163 stores in 1976 and 58 franchisees elected to expand or remodel. This added 1,334,000 square feet of new retail space and 183 small stores totaling 747,000 square feet were closed. The abnormally high number of closings included 98 drug and food outlets partially served by Ben Franklin; 72 of these closings were caused by one retail drug chain's decision to provide its own services. At year end, 2,074 Ben Franklin stores were in operation occupying 12,058,000 square feet. Plans for 1977 provide for opening 106 new Ben Franklin stores and expanding and remodeling 67 existing stores. Together, this will create an additional 1,079,000 square feet of retail space.

Supermarkets
Sales of Von's Grocery Co. in 1976 increased 12.3% to $820,853,000, and, although profits declined moderately, Vons profitability remains in the top rank of its industry. Vons maintained its strong 10.4% share of the Southern California market and generated very satisfactory

Merchandising All dollar amounts are stated in millions.	1976	% of Total Sales	1975	% of Total Sales	1974	% of Total Sales	1973	% of Total Sales	1972	% of Total Sales
Net Sales by Product Class:										
Variety	$1,250	50%	$1,082	48%	$ 938	48%	$ 793	48%	$ 723	49%
Supermarkets*	839	33	749	34	577	30	437	27	385	26
Hard Goods	335	13	304	14	321	17	290	18	249	17
Home Furnishings	97	4	90	4	99	5	106	6	103	7
Other					7		16	1	18	1
Total Net Sales	$2,521	100%	$2,225	100%	$1,942	100%	$1,642	100%	$1,478	100%
Income before Taxes on Income	$ 81	3.2%	$ 55	2.5%	$ 62	3.2%	$ 62	3.8%	$ 62	4.2%
Net Income	$ 42	1.7%	$ 29	1.3%	$ 33	1.7%	$ 32	1.9%	$ 32	2.2%

*Includes Refrigeration Division.

The home furnishings stores—Colby's, Huffman-Koos, Barker's and American Furniture—salespeople trained in interior design help customers select and coordinate high quality furniture.

Like all independent Ben Franklin store owners, Conrad Kleinpeter, of Buras, Louisiana, is constantly responding to the needs of his small town community. His new, expanded junior sportswear department offers younger customers the latest in fashion.

profits despite an accelerating price-war in its already highly competitive markets. In June 1976, construction began on a meat distribution center located adjacent to Vons general distribution complex in El Monte, California. When fully operational, the center will process meat products from their first cutting through to the point of final distribution in Vons stores. With the addition of four new stores, the chain now has 131 units occupying 4,003,000 square feet of retail space. In 1977, Vons plans include opening seven new stores and remodeling 15 existing units.

Hard Goods Stores
The Coast-to-Coast Stores Division, serving 1,123 independently owned hard goods stores, achieved record sales and income during 1976. The division opened 60 new stores, closed 38 and remodeled 74. Retail space increased by 369,000 square feet to 7,230,000. During 1977, the division plans 60 new stores and 80 remodelings, many of which will involve expansion. Division headquarters will be relocated in Minneapolis and the division's present distribution facility in that city will move to a new facility in Brookings, South Dakota.

Although the White Stores Division did not operate profitably in 1976, measurable progress was made. Sales and revenues were level with those of 1975 although the division operated 14 fewer company-owned stores. The division's realignment will be completed early in 1977, with the closing of 26 additional stores. Thirty-one company-owned stores will be rehabilitated. After the scheduled closings, Whites will operate 109 company-owned stores. White's wholesale business serves 538 franchised stores and continues to be profitable.

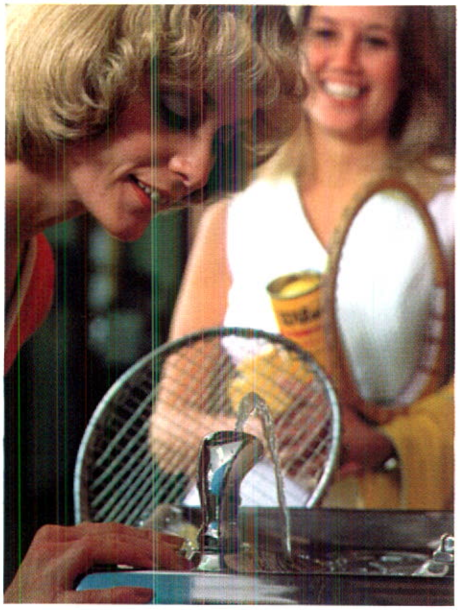
Furniture and Home Furnishings
Sales at the company's four furniture stores divisions improved during 1976. Colby's in Chicago, Huffman-Koos in New Jersey and Barker's in Los Angeles reported substantial income gains. The American Furniture Stores in El Paso generated acceptable profits, although income was down due primarily to effects on consumer buying power as a result of the devaluations of the Mexican peso.

Manufacturing

Manufacturing All dollar amounts are stated in millions.	1976	% of Total Sales	1975	% of Total Sales	1974	% of Total Sales	1973	% of Total Sales	1972	% of Total Sales
Net Sales by Product Class:										
Consumer Products	$ 95	46%	$ 86	51%	$ 80	44%	$ 75	44%	$ 73	47%
Commercial and Industrial Products	111	54	84	49	102	56	94	56	81	53
Total Net Sales	$206	100%	$170	100%	$182	100%	$169	100%	$154	100%
Income before Taxes on Income	$ 38	18.4%	$ 26	15.3%	$ 30	16.5%	$ 27	16.0%	$ 24	15.6%
Net Income	$ 18	8.7%	$ 13	7.6%	$ 15	8.2%	$ 13	7.7%	$ 12	7.8%

Only Thermos® manufactures its own glass. Precise quantities of golden molten glass heated to 2,800°F are drawn from the furnace and fed into automatic forming and blowing machines that shape the unique Thermos® vacuum bottle filler.

Halsey Taylor quick-chilling fountains are a cool break for people hard at play.



A quality control expert tests each bottle Thermos® manufactures with hot water and thermometers before it is shipped from the factory.

Net sales and revenues of Household's manufacturing subsidiaries increased 20.9% to $206,157,000 in 1976 compared with $170,470,000 in 1975. Net income totaled $18,315,000, an increase of 38.8% compared with $13,192,000 in 1975. Our increase in sales and earnings in 1976 resulted from an improved economy, increased production, and continued emphasis on cost reduction programs. This was achieved in spite of significant foreign exchange losses by our subsidiaries abroad, primarily in England and Italy, resulting from currency devaluations.

The consolidation at Kendallville, Indiana of all the operations of the Baltimore and Kendallville plants of the King-Seeley Division, and the consolidation at Freeport, Illinois of the Structo and Halsey Taylor Divisions were completed in 1976. Also, King-Seeley Thermos Co. sold the Rochester, Michigan and Adams, Massachusetts paper mills of the Rochester Paper Division.

Consumer Products

The Thermos Division increased sales and earnings in 1976. Several new and restyled Thermos® brand vacuumware items were introduced along with a restyled insulated picnic jug and portable ice chest. The complete line of picnic jugs and chests has been improved for 1977 by adding new colors, packaging and improved product features. The Insul-Server Meal Delivery System for serving food to patients was introduced to hospitals and institutions in 1976 and will be expanded in 1977.

Thermos Limited had an excellent year despite the continuing economic problems in England. The export market was particularly strong. An aggressive export pricing policy partially offset the impact of inflation on operations in England. Our 1977 plans include introducing a new 8-ounce plastic case Thermos® brand vacuum bottle, and adding new colors and designs to the vacuumware line.

Profits in our Canadian subsidiary, Canadian Thermos Products Limited, did not enjoy the growth of our other divisions because of the slowdown in the Canadian economy and the government's anti-inflation program that placed limitations on earnings. Unfortunately, it is expected that this program will also affect 1977 results.

The Structo Division, a leading manufacturer of charcoal barbecue grills, increased sales in 1976. In 1977, Structo will introduce a new line of square covered charcoal and gas cookers, featuring a long-wearing bright porcelain finish. The square cooker category will include both portable and permanent mount liquid propane and gas models and will further expand this division's position in the fast growing gas grill market.

Commercial and Industrial Products

The Queen Products Division, which manufactures the Scotsman® brand commercial ice systems and Almco® line of metal finishing machinery and media, increased sales and earnings in 1976.

As in many fine restaurants around the world, the Commander's Palace in New Orleans uses Scotsman® flaked ice for buffets.

For the garden gourmet, the Structo® charcoal grill line offers the latest convenience in outdoor cooking.

Part of this increase is attributable to rebuilding customer inventories depleted by the work stoppage that started on October 1, 1975 and ended on February 10, 1976. In 1976, two new Scotsman® modular cubers were introduced that produce up to 375 pounds and 700 pounds of ice per day. Their competitive selling price per pound of ice has already gained them an enthusiastic acceptance by national users.

A new compact cuber, designed for undercounter installations featuring front serviceability and producing up to 125 pounds of ice per day, also proved successful. In 1977, Scotsman plans to introduce four new models and a special emphasis will be placed on distributor and dealer sales and service training.

In 1976, Almco introduced the first of a line of steel media vibratory metal finishing machines. Steel media are preferable in some instances because they yield a higher luster on the parts being finished than other media presently in use, and they seldom need to be replaced.

The Halsey Taylor Division continued in 1976 to maintain its leadership as a manufacturer of refrigerated water coolers and drinking fountains. Sales were affected by the slow recovery of non-residential construction, but Halsey Taylor quality, serviceability, and dependability continue to make this broad product line the choice of leading architects and contractors for all types of buildings and uses.

Albion Industries Division, an industry leader in design, development and manufacture of high quality industrial casters and wheels, increased sales and earnings in 1976. A new automotive material handling caster, newly developed caster braking and an improvement in textile casters were significant product developments during the year.

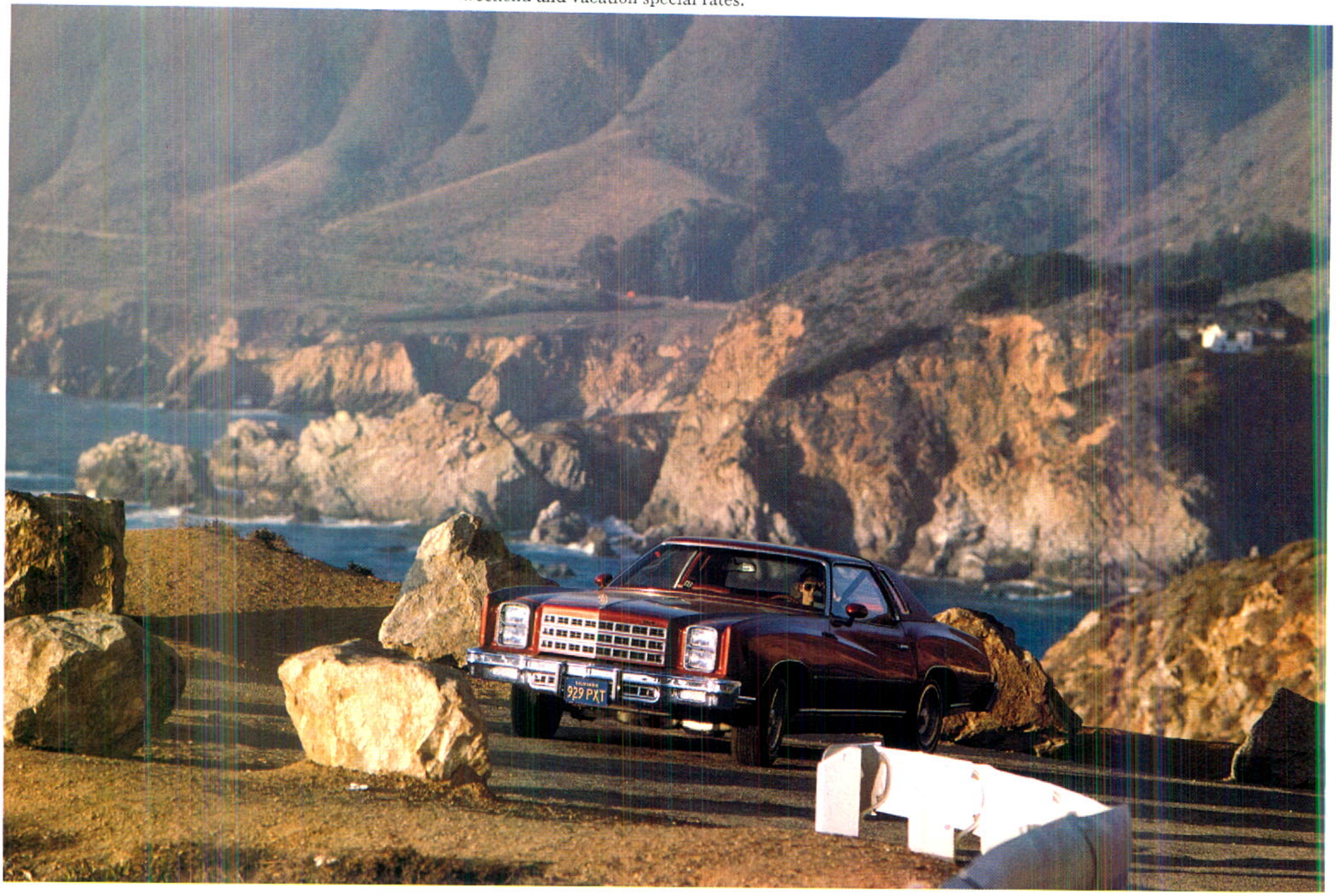
The Metallized Products Division had improved results in 1976 and anticipates additional increases in 1977, following the approval of metallized film for food packaging.

The King-Seeley Division, which manufactures controls for electric ranges and the rapidly growing microwave oven industry, increased sales in 1976 as a result of improvement in the major appliance market and the introduction of a new microwave temperature control system. In 1977, this division is introducing a new "Clean Oven" range control system, a new meat probe and a new electronic temperature and cook control specifically designed for the microwave oven field.

After selling two paper mills, the remaining operation of the Rochester Paper Division will be known as the Fabricators Division. This division produces interior trim and foundation parts for major automotive manufacturers.

Rental and Leasing

While the largest market for car rentals remains the business traveller, National attracts a growing number of leisure renters through a wide range of weekend and vacation special rates.



National Car Rental System, Inc. realized excellent revenue and profit growth throughout 1976. This resulted from a significant improvement in operations as well as an improved economy. Revenues increased 12.2% to $173,832,000, while National's income from continuing operations increased 118% to $8,409,000.

National's car rental market share at airports remained steady, despite the addition of more operators at several major airports. At the same time, National continued to expand to off-airport and downtown locations and is now represented at more than 2,400 car rental locations in 62 countries around the world.

National's concern for car condition was clearly indicated early in 1976 when it commissioned an audit by the United States Auto Club which showed, of the four major car rental companies, National's cars were in the best overall condition. The Company continued to emphasize its Maintenance Check-List and Service Alert programs, which require pre-checking of the cars and certifying their condition in writing to customers.

The used car market was strong during 1976, and National introduced a new 12-month, 12,000-mile limited warranty program on its sale of used rental cars. Because gasoline availability was not a problem, National saw a slightly greater demand for larger cars and adjusted its fleet accordingly. The smaller cars, however, continued to be popular and National's fleet included approximately 30% economy and compact cars.

In November, the Federal Trade Commission issued a consent order entered into by National and the two other leading domestic car rental companies. The order is for settlement purposes only and does not constitute an admission by National that the law had been violated, as alleged in 1975 when the FTC charged the respondents with monopolistic conspiracy at airport

Rental and Leasing—Continuing Operations All dollar amounts are stated in millions.	1976	1975	1974	1973	1972
Revenues	$ 174	$155	$146	$ 140	$123
Income (Loss) before Taxes on Income	$15.0	$ 0.3*	$ 7.0	$(15.8)**	$ 6.7
Income (Loss)	$ 8.4	$ 3.9*	$ 4.3	$(15.9)**	$ 3.5
Household's Equity in Income (Loss)	$ 8.4	$ 5.3*	$ 4.3	$(14.0)**	$ 3.2

*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 Truck Rental and Leasing Division. The income of $3,900,000 gives effect to realization of investment tax credits of $3,725,000 as described in Note 7 to Financial Statements of Rental and Leasing Subsidiaries.

**The 1973 loss was after recognition of $11,119,000 of unusual or infrequently occurring charges and additional charges of $4,471,000 related to a reduction in resale value of vehicles and deferred charges not considered to be beneficial to future periods.

National's Maintenance Check-List and Service Alert programs paid off in 1976 when the United States Auto Club study of the four major car rental companies rated National's cars first in overall condition.

National's Truck Division features equipment with premium specifications. The advantages of this equipment include improved operating costs, increased driver satisfaction, and higher resale value.

locations. Subsequent to the filing of the FTC complaint, several civil actions for money damages relating to the FTC action were filed. One has since been dismissed. Management and legal counsel believe meritorious defenses exist to each of the remaining actions and that they will not have an adverse effect on the financial position and operations of National.

Over the past year, National's Car Leasing Division experienced substantial growth in revenue, profit, and fleet size, and like the Car Rental Division, enjoyed a strong used car market. The Car Leasing Division continued to improve its systems development programs to enhance customer reports and internal management information. The division operates out of nine sales offices across the United States and offers all types of vehicle leases.

The Truck Division showed significant improvement during 1976, after experiencing a substantial loss in 1975. It is currently operating at a profit. In 1976, the division concentrated on sound, effective maintenance programs for its truck fleets with heavier emphasis on full-service leasing as opposed to daily rental business. It also continued to promote its concept of leasing premium trucks with high quality components. The division increased its revenues 18.6% over 1975, mainly through an increase in its full-service business. Although the daily truck rental fleet was reduced as planned, revenues increased well over the 1975 level through improved fleet utilization.

In 1976, the Mud Cat Division continued to develop new applications for the portable dredge it markets for the removal of sediment and sludge from recreational waters and industrial settling ponds. Among other uses in 1976, the Mud Cat machine reclaimed silica sand in Louisiana, recovered molybdenum from an underground mine in Colorado, and, in cooperation with the Army Corps of Engineers, created a pleasure boat access along the Mississippi River.

Financial Review

Earnings, Dividends and Shareholders' Equity
Net income in 1976 totaled $133,954,000. Of this amount, cash dividends of $9,913,000 were distributed on Household's two series of preferred stock, leaving income available for common shares of $124,041,000. Of this amount, $50,255,000 or 40.5% was distributed as cash dividends to common shareholders and $73,786,000 or 59.5% was retained and reemployed in Household's businesses. In terms of net income available to common shareholders of $2.87 per common share, cash dividends declared during the year of $1.15 represented 40.1%.

Following the September increase in the cash dividend rate for common shares declared by the Board of Directors, additional shares of the outstanding $2.375 convertible preferred stock were converted by their holders into common shares. At the time of this increase, as well as the increase declared in 1975, holders of the $2.375 preferred stock were notified that the annual fixed dividend rate of $2.375 was less than the current annual dividend rate on 2¼ shares of common stock into which each share of the $2.375 preferred is convertible. Based upon the current annual dividend rate of $1.20 per common share, dividends on 2¼ shares of common stock would be $2.70, or 13.7% more than $2.375 per annum.

Shareholders' equity at year end totaled $1,002,661,000 and averaged approximately $970,066,000 during the year. Net income of the Corporation as a percent of the average shareholders' equity was 13.8% compared with 11.4% in 1975. Assuming conversion of all preferred shares into common shares, the book value or shareholders' equity per common share was $19.65 at December 31, 1976, and averaged $18.95 during the year. Fully diluted net income per common share of $2.62 represented a return of 13.8% on the average book value per share compared with 11.4% in 1975.

Financings
In 1976, after preferred and common dividends, $73,786,000 or 55.1% of net income was reinvested in Household's businesses as additional equity capital to support future growth. Other capital is provided by borrowings, most of which is done by the parent Corporation in connection with the Company's consumer finance operations.

With improved market conditions and the need for funds caused by growth in finance business receivables, Household sold $375,000,000 principal amount of debentures to the public through underwriters during 1976. In January, $75,000,000 principal amount of 10-year debentures were sold at an interest rate of 8.30%, and $100,000,000 principal amount of 24-year debentures at a price producing an effective yield to maturity of 9.05%. In September, Household sold $100,000,000 principal amount of 10-year debentures at 7.85%, and $100,000,000 of 27-year debentures at a price producing an effective yield to maturity of 8.45%.

All debentures were listed for trading on the New York Stock Exchange and the proceeds of the debenture issues were used to reduce short-term indebtedness incurred in connection with the consumer finance business. In late 1976, approximately $60,000,000 was lent by the parent Corporation to its Canadian finance subsidiary because of the prevailing higher interest rates in Canada. This use of U.S. funds in Canada is an exception to Household's usual practice of borrowing Canadian dollars in Canada to finance Canadian operations.

Borrowings by the Company and its consolidated finance subsidiaries at year-end 1976 totaled $2,364,359,000. Of this, long-term debt totaled $1,805,558,000 or 76.4%, and short-term borrowings totaled $558,801,000 or 23.6%. It is the Company's policy to maintain approximately 75% of its total debt in the form of long-term borrowings.

During 1976, the average interest cost on the total borrowings of the Company and its consolidated finance subsidiaries was approximately 6.8% compared with 6.9% in 1975. The average cost of outstanding long-term debt was 7.1% compared with 7.0% in 1975, while the average cost of short-term borrowings was 5.9% compared with 6.6% in 1975. Household's senior long-term debt obligations continue to enjoy the high grade quality double-A rating by both Standard & Poor's Corporation and Moody's Investors Service, Inc. In addition, Household's short-term commercial paper borrowings carry the highest ratings from those agencies, "A-1" and "P-1," respectively. To support short-term commercial paper borrowings, Household has lines of credit totaling $451,900,000 with 124 banking institutions in the United States and Canada, and maintains compensating balances with certain banks.

Foreign Currency Exposure
Most of Household's exposure to foreign currency fluctuations is its investment in the Canadian finance business. At year-end 1976, the assets of this business, less liabilities payable in Canadian dollars, amounted to U.S. $464,800,000. During 1976, the Canadian dollar exchange rate for U.S. dollars fluctuated between $.9837 and $1.0379, but increased overall from $0.984 at the beginning of the year to $0.9916 at year end. This resulted in an unrealized foreign exchange gain for the calendar year, before related income taxes, of approximately $1,910,000. On an aftertax basis, the unrealized gain amounted to $1,073,000.

Household's second largest foreign currency exposure is its investment in HFC Trust Limited, the chain of consumer finance and banking offices being developed in the United Kingdom. The assets of this organization, less liabilities payable in British pounds, amounted to $9,542,000 at December 31, 1976. It is the Company's policy to borrow funds in British pounds where possible. The exposed portion of our investment in the United Kingdom basically represents our equity investment in HFC Trust, which by current UK regulations we are required to finance by converting U.S. dollars to British pound sterling. During the year, the market value of the British pound dropped from U.S. $2.0242 to U.S. $1.7025, resulting in an aftertax unrealized foreign exchange loss of $636,000.

Summary of Operations

All amounts other than per share data are stated in thousands. Year Ended December 31

		1976	1975	1974	1973	1972
Income From Finance Business	**Revenues**	$577,237	$526,782	$529,050	$480,375	$421,144
	Expenses:					
	Operating	205,502	184,111	183,784	168,508	155,047
	Provision for credit losses	63,362	59,759	51,600	49,150	43,830
	Provision for insurance claims	40,887	35,045	35,435	27,482	22,809
	Interest	153,752	141,644	161,449	124,090	92,919
	Total expenses	463,503	420,559	432,268	369,230	314,605
	Income Before Unrealized Foreign Exchange Gains (Losses) and Provision for Taxes on Income	113,734	106,223	96,782	111,145	106,539
	Unrealized Foreign Exchange Gains (Losses)—Note 1	1,274	(9,865)	1,385	(230)	1,936
	Income Before Provision for Taxes on Income	115,008	96,358	98,167	110,915	108,475
	Provision for United States and Foreign Taxes on Income	50,439	44,025	45,192	48,438	46,431
Income From Finance Business		64,569	52,333	52,975	62,477	62,044
Income From Merchandising Business		42,320	29,117	33,164	31,750	31,585
Income From Manufacturing Business		18,315	13,192	15,039	13,359	11,800
Income (Loss) From Continuing Operations of Rental and Leasing Business		8,409	5,316	4,251	(14,041)	3,247
Income From Continuing Operations		133,613	99,958	105,429	93,545	108,676
Income (Loss) From Discontinued Operations of Rental and Leasing Business—Note 2		341	2,810	4,677	(43,604)	(3,941)
Net Income		133,954	102,768	110,106	49,941	104,735
Preferred Stock Dividends		9,913	11,999	12,573	12,690	15,558
Net Income Applicable to Common Stock		$124,041	$ 90,769	$ 97,533	$ 37,251	$ 89,177
Average Common Shares Outstanding	**Actual**	43,241	41,455	41,136	41,008	37,287
	Fully Diluted Basis	51,179	51,023	51,014	51,010	51,033
Earnings Per Common Share	**Primary:**					
	Income from continuing operations	$ 2.86	$ 2.12	$ 2.26	$ 1.97	$ 2.50
	Income (loss) from discontinued operations	.01	.07	.11	(1.06)	(.11)
	Net income	$ 2.87	$ 2.19	$ 2.37	$ .91	$ 2.39
	Fully Diluted:					
	Income from continuing operations	$ 2.61	$ 1.96	$ 2.07	$ 1.83	$ 2.12
	Income (loss) from discontinued operations	.01	.05	.09	*	(.07)
	Net income	$ 2.62	$ 2.01	$ 2.16	*	$ 2.05
Cash Dividends Declared on Common Stock	**Total**	$ 50,255	$ 43,801	$ 40,122	$ 36,196	$ 32,344
	Per Share	$ 1.150	$ 1.050	$ .975	$ .882	$ .848

*Not shown since such amounts are anti-dilutive.

Notes to Summary of Operations

1. As a result of FASB accounting pronouncements, beginning in 1976 unrealized foreign exchange gains and losses have been included in the Statement of Income in the periods in which they occur. Years prior to 1976 have been restated to apply the new method retroactively. See Note 12 to Financial Statements of Household for further discussion.
2. See Note 4 to Financial Statements of Household for information regarding discontinued operations.

A third area of exposure is represented by manufacturing operations in Canada, the United Kingdom and Italy. The investment subject to exchange risk in these operations amounted to $8,536,000 at year end, and the total aftertax unrealized exchange loss during the year was $1,029,000.

It is Household's current general practice to finance the growth of foreign operations by borrowings in the local currencies. As discussed above, a significant exception was made in 1976 when Household lent approximately $60,000,000 to its Canadian finance subsidiary. The cost of borrowing in the United States was less than the prevailing interest rates in Canada to such an extent that the expected savings in interest expense should more than cover any losses from expected declines in the Canadian exchange rate.

Analysis of Summary of Operations

Finance Business

Average instalment notes receivable of the finance business increased during 1974 and 1976, as did related revenues and expenses. In 1975, the average instalment notes receivable outstanding were slightly less than in 1974 due mostly to the poor 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 insurance subsidiaries. The 1976 increase in finance charges reflects increased average receivables and average yields; the increase in insurance premiums and commissions reflects the direct writing of credit insurance in Canada beginning in October 1975. Increased average investments together with increased realized gains on the sale of investments resulted in an increase in investment and other income in 1975 and 1976.

Operating expenses in 1975 and 1976 amounted to 7.89% and 8.31%, respectively, of average instalment notes receivable outstanding. Operating expenses rose in 1976 principally because of employee compensation rate increases.

Higher unemployment and rates of inflation in 1975 adversely affected the ability of customers to meet their payment obligations. The provision for credit losses increased as a result of higher levels of net writeoffs of uncollectible accounts and because Household provided for an increase in the credit loss reserves to 4.21% of instalment notes receivable outstanding at December 31, 1975 compared with 3.96% at year-end 1974. The increase in provision for insurance claims in 1976 arose from the direct writing of credit insurance in Canada beginning in late 1975 as well as increases in loss ratios.

For the years 1974 and 1976, higher levels of instalment notes receivable outstanding required increased borrowings. Of the increase in interest expense in 1974, approximately $11,500,000 was the result of higher short-term interest rates. During 1975, total interest expense decreased by approximately $19,800,000 compared with 1974, principally as a result of lower short-term interest rates. Income from the finance business for 1974 was adversely affected by the sharp rise in short-term interest rates, while income for 1975 increased as a result of their sharp decline. The average cost of long-term borrowings has increased slightly each year. Unrealized foreign exchange gains and losses are reported in accordance with recent accounting pronouncements and principally reflect fluctuations in the Canadian dollar exchange rate during the respective periods.

The provision for taxes on income represented 46.0%, 45.7%, and 43.9% of pretax earnings of the finance business for the years 1974, 1975, and 1976, respectively. The rate declined in 1975 because the finance business was able to realize the benefit of additional foreign tax credits, although this was partially offset by an increase in the rate resulting from a portion of the unrealized foreign exchange loss in 1975 not being tax-effected. The tax rate in 1976 is principally affected by additions to the insurance subsidiary's policyholders' surplus as to which the possibility of being taxed is considered remote.

Merchandising Business

Merchandising income for 1975 declined due to credit and operating losses incurred by White Stores, the Texas-based hard goods chain.

During 1976, the sales and income of the T. G. & Y., Ben Franklin, Coast-to-Coast, and furniture stores divisions showed marked improvement over 1975 results. Income of the merchandising businesses also benefited from a decrease in interest expense, principally a result of decreased borrowings. White Stores continued to incur losses, although less than in 1975.

Manufacturing Business

In 1975, manufacturing revenues and income were down, reflecting lower demand for commercial and industrial products because of economic conditions and a plant work stoppage that ended in February 1976. Results in 1976 reflect a sharp increase in demand for commercial and industrial products.

Rental and Leasing Business

Results in 1976 reflected strong car rental operations resulting from an increase in rental transactions, improved fleet utilization, and a good market for the sale of used vehicles, and improved performance of the Truck Division in reducing its excess daily rental fleet and concentrating on developing long-term, full-service truck leases.

Income from continuing operations in 1975 increased principally because of the realization of pre-1973 net operating loss and investment tax credit carryforwards as described in Note 7 to Financial Statements of the Rental and Leasing subsidiaries. The 1973 loss from continuing operations of the Rental and Leasing business reflected charges as explained in the table presented on page 13.

The losses and income from discontinued operations are described in Note 4 to Financial Statements of Household.

Financial Statements

Contents

Summary of Significant Accounting Policies

Basis of Consolidation. The accompanying financial statements include the accounts of the Company and its finance and insurance subsidiaries, each of which is wholly owned. The accounts of the insurance subsidiaries are included in the consolidated financial statements in recognition of the integral nature of the credit insurance operations. Financial statements of wholly-owned merchandising, manufacturing, rental and leasing, and certain nonsignificant subsidiaries are not consolidated with those of the Company because of the unrelated nature of their operations. Investments in these companies are accounted for by the equity method and the financial statements and notes of the three major nonconsolidated 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 currency translation adjustments (realized and unrealized) are included in the statement of income in the period in which they occur. See Note 12 for the effects of changes in accounting policies.

Finance Accounting. Finance charges on precomputed instalment 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. 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 insurance subsidiaries are prepared in accordance with generally accepted accounting principles as defined in audit guides for stock life and casualty 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 instalment notes receivable, such estimates produce results which approximate the sum-of-the-digits method. Costs of acquiring nonfinance related policies are deferred and amortized over periods at risk.

Investments in Securities. Investments are held primarily by insurance subsidiaries. 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 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 considers there has been no diminution in the value of these investments. Such excess costs at December 31, 1976 approximated $120,000,000 of which approximately $110,000,000 was applicable to Rental and Leasing.

Income Taxes. Household and its United States subsidiaries (other than life insurance subsidiaries) file consolidated Federal income tax returns. The total 1976 and 1975 consolidated Federal income tax provisions have been allocated to the nonconsolidated subsidiaries in amounts generally equivalent to those determinable if each of the nonconsolidated subsidiaries filed separate consolidated returns for their respective businesses. The flow-through method of accounting for investment tax credits is followed. Deferred income taxes are provided on timing differences between financial and taxable income, including timing differences of nonconsolidated subsidiaries in excess of pretax financial income of such subsidiaries. Provision for taxes on income has not been made on $101,869,000 of undistributed earnings of foreign subsidiaries at December 31, 1976 as it is the Company's intention to reinvest such earnings indefinitely.

Employees' Benefit 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.

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

Statement of Income

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

Year Ended December 31		1976	1975
Income From Finance Business			
	Revenues:		
	Finance charges—Note 2	$495,555	$454,531
	Insurance premiums and commissions	59,970	56,626
	Investment and other income	21,712	15,625
	Total revenues	577,237	526,782
	Expenses:		
	Operating	205,502	184,111
	Provision for credit losses	63,362	59,759
	Provision for insurance claims	40,887	35,045
	Interest	153,752	141,644
	Total expenses	463,503	420,559
	Income Before Unrealized Foreign Exchange Gains (Losses) and Provision for Taxes on Income	113,734	106,223
	Unrealized Foreign Exchange Gains (Losses)—Note 12	1,274	(9,865)
	Income Before Provision for Taxes on Income	115,008	96,358
	Provision for United States and Foreign Taxes on Income	50,439	44,025
Income From Finance Business		64,569	52,333
Income From Merchandising Business		42,320	29,117
Income From Manufacturing Business		18,315	13,192
Income From Continuing Operations of Rental and Leasing Business—Note 4		8,409	5,316
Income From Continuing Operations		133,613	99,958
Income From Discontinued Operations of Rental and Leasing Business—Note 4		341	2,810
Net Income		$133,954	$102,768
Earnings Per Common Share			
	Primary:		
	Income from continuing operations	$ 2.86	$ 2.12
	Income from discontinued operations	.01	.07
	Net income	$ 2.87	$ 2.19
	Fully diluted:		
	Income from continuing operations	$ 2.61	$ 1.96
	Income from discontinued operations	.01	.05
	Net income	$ 2.62	$ 2.01

The accompanying Notes to Financial Statements are an integral part of this statement.

Household Finance Corporation
and Consolidated Subsidiaries

Statement of Changes in Financial Position
All amounts are stated in thousands of dollars.

Year Ended December 31	1976	1975
Source of Funds		
Collections on receivables (except finance charges and insurance premiums included in net income)	$1,307,795	$1,150,422
Operations:		
Net income	133,954	102,768
Nonfund transactions:		
Provisions:		
Credit losses	63,362	59,759
Insurance claims	40,887	35,045
Undistributed earnings of nonconsolidated subsidiaries	(34,243)	(1,028)
Depreciation and amortization	4,721	4,707
Deferred income taxes (credits)	(1,914)	(2,610)
Other—net	10,248	(195)
Total funds provided by collections and operations	1,524,810	1,348,868
Short-term debt—net increase		140,031
Senior long-term debt issued	390,215	18,550
Common shares issued upon conversion of preferred stock	6,397	3,451
Decrease (increase) in cash	8,803	(5,795)
	$1,930,225	$1,505,105
Use of Funds		
Loans made (excluding balances on refinanced contracts)	$1,498,758	$1,194,907
Revolving credit accounts purchased from Merchandising Subsidiaries	76,315	142,693
Assets obtained in acquisition of businesses:		
Instalment notes receivable—net	22,187	
Goodwill	2,937	
Investments:		
Securities—net increase	71,438	19,979
Property and equipment	8,232	4,244
Nonconsolidated subsidiaries	9,667	
Short-term debt—net decrease	52,367	
Senior long-term debt paid	98,000	105,008
Cash dividends	60,168	55,800
Accrued taxes on income—net decrease (increase)	40,602	(43,533)
Conversion of preferred stock	6,397	3,451
Other—net	(16,843)	22,556
	$1,930,225	$1,505,105

The accompanying Notes to Financial Statements are an integral part of this statement.

Statement of Changes in Shareholders' Equity

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

		Common Stock	Preferred Stock	Additional Paid-in Capital	Retained Earnings
Balance at December 31, 1974, as reported		$123,547	$29,383	$84,961	$617,081
	Adjustment for the cumulative effects on prior years of applying retroactively changes in accounting principles—Note 12				26,870
Balance at December 31, 1974, as restated		123,547	29,383	84,961	643,951
	Net income				102,768
	Cash dividends:				
	Preferred				(11,999)
	Common—$1.05 a share				(43,801)
	Conversion of preferred stock into common	3,451	(3,451)		
Balance at December 31, 1975		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— Notes 6, 7, and 8		**$133,398**	**$19,535**	**$85,023**	**$764,705**

The accompanying Notes to Financial Statements are an integral part of this statement.

Household Finance Corporation
and Consolidated Subsidiaries

Balance Sheet
All amounts are stated in thousands of dollars.

December 31	1976	1975
Assets		
Cash—Note 5	$ 25,303	$ 34,098
Investments in Securities—Note 1	249,659	178,221
Receivables—Note 2:		
Instalment notes—less unearned charges, 1976—$535,340; 1975—$451,150	2,643,918	2,375,044
Less: Credit loss reserves	(110,560)	(100,000)
Insurance policy and claim reserves applicable to receivables	(107,483)	(81,932)
Instalment notes receivable—net	2,425,875	2,193,112
Revolving credit accounts purchased from Merchandising Subsidiaries	66,771	111,573
Receivables—net	2,492,646	2,304,685
Investments in Subsidiaries:		
Merchandising	375,385	351,065
Manufacturing	103,268	102,953
Rental and leasing	163,023	154,030
Total investments in subsidiaries	641,676	608,048
Property and Equipment—less accumulated depreciation and amortization, 1976—$33,528; 1975—$30,895	24,517	20,516
Other Assets	80,062	59,754
	$3,513,863	$3,205,322
Liabilities and Shareholders' Equity		
Short-Term Debt	$ 558,801	$ 611,168
Accounts Payable and Accrued Liabilities	94,360	66,997
Insurance Policy and Claim Reserves—applicable to risks other than instalment notes receivable	42,665	33,815
United States Federal and Foreign Taxes on Income	9,818	50,420
Senior Long-Term Debt—Note 6	1,705,670	1,414,236
Senior Subordinated Long-Term Debt—Note 6	99,888	99,876
Shareholders' Equity—Notes 6, 7, 8, and 12	1,002,661	928,810
	$3,513,863	$3,205,322

The accompanying Notes to Financial Statements are an integral part of this statement.

Notes to Financial Statements

1. **Investments in Securities** at December 31, 1976 and 1975 are summarized as follows (thousands of dollars):

	1976		1975	
	Cost	Market	Cost	Market
Marketable equity securities:				
Common stocks	$ 17,424	$20,507	$ 17,662	$17,944
Preferred stocks	1,654	1,657	2,306	1,847
Total	19,078	22,164	19,968	19,791
Other:				
Commercial paper	42,740	42,740	1,656	1,656
Certificates of deposit	17,499	17,499	10,500	10,500
Government bonds	65,788	70,194	38,058	37,298
Corporate bonds	73,773	76,873	80,019	76,572
Mortgage loans on real estate	30,781	*	28,020	*
Total	230,581		158,253	
Total	$249,659		$178,221	

*Amounts not readily determinable

At December 31, 1976, the market value of marketable equity securities exceeded aggregate cost by $3,086,000. Such excess represents the net of gross unrealized gains of $3,322,000 and gross unrealized losses of $236,000.

At December 31, 1975, a valuation allowance for the $177,000 excess of aggregate cost over market value of marketable equity securities was not established because of the insignificance of the amount. Such excess represents the net of gross unrealized gains of $1,457,000 and gross unrealized losses of $1,634,000.

Net realized gains on sale of marketable equity securities included in 1976 and 1975 income amounted to $1,366,000 and $258,000, respectively.

Investments in government and corporate bonds and mortgage loans are considered as long-term investments. Management believed that the aggregate decline in market value at December 31, 1975 represented a temporary, rather than permanent, impairment in value.

2. **Receivables** at December 31, 1976 and 1975 and related maximum terms were as follows (millions of dollars):

	Amount		Maximum Terms in Months	
	1976	1975	1976	1975
Instalment notes:				
Precomputed interest loans	$2,051	$1,860	84*	84
Simple interest loans	740	673	84*	84
Sales finance contracts	388	293	60	60
Total	3,179	2,826		
Less unearned charges	535	451		
Total	$2,644	$2,375		
Revolving credit accounts	$ 67	$ 112	48	48

*During 1976, Household introduced new lending programs which offer instalment loans in amounts up to $25,000, secured by real estate and with maximum maturities of up to 180 months. At December 31, 1976, instalment loans outstanding under these programs and with maturities in excess of 84 months were not significant.

Contractual maturities of the instalment notes receivable at December 31, 1976 were as follows (millions of dollars):

	Total	1977	1978	1979 and later
Precomputed interest loans	$2,051	$ 854	$633	$564
Simple interest loans	740	357	175	208
Sales finance contracts	388	234	108	46
Total	$3,179	$1,445	$916	$818

It is the experience of the Company that a substantial portion of the existing instalment notes 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 48% in both 1976 and 1975.

On September 30, 1975, the Company began 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 $11,726,000 and $3,350,000 were charged against the amounts withheld during 1976 and the last three months of 1975, respectively. The related amounts withheld at December 31, 1976 and 1975 of $668,000 and $1,116,000, respectively, are included in accounts payable and accrued liabilities. The Company charges a discount which is calculated to cover its applicable costs, principally interest on short-term borrowings, and which in 1976 and the last three months of 1975 amounted to $5,744,000 and $1,912,000, respectively and is included in finance charges. At December 31, 1976 and 1975, these revolving credit accounts had a weighted average remaining maturity of 21 months and 24 months, respectively.

Notes to Financial Statements

3. **Canadian and United Kingdom Finance Subsidiaries'** assets, liabilities, and retained earnings since acquisition included in the accompanying financial statements were $616,915,000, $142,593,000, and $87,017,000, respectively, at December 31, 1976 and $509,599,000, $120,080,000, and $77,666,000, respectively, at December 31, 1975.

In August 1976, Household purchased the minority interest in its United Kingdom finance subsidiary, HFC Trust Limited, which in the same month purchased Niagara Financial Services Limited. Beginning in 1976, the accounts of the United Kingdom subsidiaries have been included in the consolidated financial statements. Financial statements for 1975 in which the investment in HFC Trust Limited was accounted for on the equity method have not been restated because of the immateriality of the amounts involved.

4. **The Rental and Leasing Subsidiaries** recorded in 1973 a $50,661,000 provision for loss on disposal of the E Z Haul Division (one-way truck and trailer rental business). The proceeds which were to be received on disposal of E Z Haul Division assets and the operating, administrative, and other costs to be incurred during the phase-out were estimated based upon then available information, which was not definitely ascertainable until the discontinuance was completed. Evaluations of the accruals for phase-out costs required at December 31, 1976 and 1975 indicated that $416,000 and $4,959,000, respectively, of previously established accruals were no longer necessary. Such amounts and the proceeds received on disposition of assets in excess of the original estimated recoveries have been included in income of the rental and leasing subsidiaries as credit adjustments of the original 1973 provision for loss on disposal. Household's equity in such amounts, less related Federal income taxes of $315,000 in 1976 and $2,593,000 in 1975, is included in Household's net income as income from discontinued operations of the Rental and Leasing Business.

Household's equity in income from continuing operations of the Rental and Leasing Business for 1976 and 1975 consists of National's income from continuing operations of $8,409,000 and $3,857,000, respectively, and tax credits of $1,459,000 in 1975 relating to the realization of pre-1973 net operating loss carryforwards.

5. **Lines of Credit** are maintained with various banks and at December 31, 1976 and 1975 amounted to $470,968,000 and $451,725,000, 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 the borrowing under the line. Compensating balance requirements totaled $26,190,000 and $26,585,000 at December 31, 1976 and 1975, respectively.

6. **Long-Term Debt** at December 31, 1976 and 1975 consisted of various issues of senior debt with coupon rates ranging from 4% to 10½% in the United States and Canada and a variable rate in the United Kingdom currently at 15¼% and senior subordinated debt with coupon rates ranging from 8½% to 9⅞%. Average interest rates, giving effect to amortization of debt discount and expenses, of senior and senior subordinated debt outstanding were 7.0% and 9.0%, respectively, at December 31, 1976 and 6.9% and 9.0%, respectively, at December 31, 1975. Unamortized discount of $3,459,000 and $2,325,000 applicable to senior debt and $112,000 and $124,000 applicable to senior subordinated debt has been deducted from total debt outstanding at December 31, 1976 and 1975, respectively. The maturities and sinking fund requirements of the companies' long-term debt at December 31, 1976 were as follows (Canadian dollars at par): 1977, $12,638,000; 1978, $33,758,000; 1979, $36,240,000; 1980, $36,325,000; 1981, $118,825,000; 1982 through 1986, $333,215,000; 1987 through 1991, $472,500,000; 1992 through 1996, $266,000,000; and 1997 through 2003, $500,000,000.

In February 1977, the Company sold $100,000,000 of senior subordinated debt with a coupon rate of 8.45%. The Company intends to use the net proceeds from this issue to reduce outstanding United States short-term bank loans and commercial paper.

In August 1976, an indenture modification program was completed and became effective. 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, 1976, under the most restrictive terms of the various indentures and agreements, approximately $260,000,000 of consolidated retained earnings was free of such restrictions.

. **Capital Stock** authorized at December 31, 1976 and 1975 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. Changes during the two years ended December 31, 1976 in the shares of capital stock outstanding were as follows (thousands):

	Common Stock	Preferred Stock $2.375	Preferred Stock $ 2.50
Balance at January 1, 1975	41,216	2,779	2,361
Conversion of preferred stock into common	1,150	(511)	
Balance at December 31, 1975	42,366	2,268	2,361
Conversion of preferred stock into common	2,132	(948)	
Exercise of common stock options	5		
Balance at December 31, 1976	**44,503**	**1,320**	**2,361**

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, 1976	**$19,535**	**$ 8,911**	**$10,624**
December 31, 1975	$25,932	$15,308	$10,624
Preference value in involuntary liquidation—December 31, 1976			
Per share		$ 30.00	$ 18.00
Aggregate (thousands of dollars)	**$82,098**	**$39,600**	**$42,498**
Rate of conversion into common shares		2¼	1½
December 31, 1976 redemption price		$51.425	$ 52.00

At December 31, 1976 there were 6,511,674 shares of common stock reserved for conversion of preferred stock.

3. **Common Stock Options** outstanding at December 31, 1976 amounted to 892,850 shares (of which 269,105 applied to exercisable options); 776,700 shares were available for the granting of additional options. Under the terms of the new 1976 Employee Stock Option Plan (the "1976 Plan"), the Board of Directors is authorized for ten years to grant to eligible employees options to purchase, under certain conditions and limitations, an aggregate of 1,000,000 shares of the Company's common stock at a price not less than the market value of the stock at the date the option is granted. Options granted under the 1976 Plan may be exercised in instalments after one year from the date of the grant. In certain situations, the Company may require the employee to surrender the option upon exercise and receive in lieu of exercise a payment in cash and/or shares equal to the appreciation in value between the option price and the market value at the date of exercise. Transactions for 1976 and 1975 in the various option plans are summarized as follows:

	1976		1975	
	Shares Under Option		Shares Under Option	
	Number	Price Per Share	Number	Price Per Share
Beginning of year	668,325	$10.82-$35.50	662,225	$10.82-$35.50
Granted	277,450	18.07- 20.19	50,600	12.75- 16.82
Exercised	(4,400)	10.82- 16.32		
Expired or cancelled	(48,525)	10.82- 20.44	(44,500)	16.25- 30.33
End of year	892,850	$10.82-$35.50	668,325	$10.82-$35.50

9. **Provisions for Taxes on Income** of the finance business for 1976 and 1975 are stated at effective tax rates of 43.9% and 45.7%, respectively. The 4.1% and 2.3% differences for 1976 and 1975, respectively, as compared to the statutory Federal rate of 48%, are accounted for by (a) reductions of 3.1% and .4%, respectively, resulting from the stock life insurance company's policyholders' surplus additions included in the determination of income as to which the possibility of being taxed is considered remote, (b) a reduction of 2.8% in 1975 resulting from additional allowable foreign tax credit, and (c) a reduction of 1.0% and an addition of .9%, respectively, resulting from other factors, none of which was significant in amount.

10. **Retirement Income Plan** expense for 1976 and 1975 approximated $5,350,000 and $4,300,000, respectively. These amounts are funded. Changes in 1975 actuarial assumptions regarding interest, salary increases, and mortality and changes in the specified age and length of service of eligible employees reduced 1975 retirement income plan expense by approximately $500,000.

11. **Commitments** principally consisting of property leases, primarily of office space used for the conduct of the finance business, require aggregate minimum annual rentals, excluding payments for taxes and insurance, as follows: 1977, $13,315,000; 1978, $10,606,000; 1979, $7,316,000; 1980, $4,530,000; 1981, $2,943,000; 1982 through 1986, $5,155,000; and thereafter, $2,287,000. 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 1976 and 1975 was $14,074,000 and $13,066,000, respectively. Construction of a new corporate headquarters building for Household has commenced and is scheduled to be completed in mid-1978. At December 31, 1976, the remaining commitment for the construction of this building approximated $16,000,000.

Notes to Financial Statements

2. **Changes in Accounting Principles** were initiated in 1976 to comply with FASB Statements of Financial Accounting Standards Nos. 5 (as amended by No. 11) and 8 entitled "Accounting for Contingencies" and "Accounting for Translation of Foreign Currency Transactions and Foreign Currency Financial Statements," respectively. Prior to 1976, the Company maintained reserves for exchange fluctuations to provide for possible losses on foreign investments. These reserves were established by deferral of unrealized gains arising from translation of foreign (principally Canadian) assets and liabilities into United States currency and by transfers from retained earnings and charges to income. Realized foreign currency gains and losses, which were immaterial in amount, generally were credited to income and charged to the reserves, respectively, as they were incurred.

Beginning in 1976, unrealized gain and loss adjustments arising from the translation of foreign assets and liabilities have been included in the determination of net income as currency translation rates change and the contingency reserves for exchange fluctuations have been eliminated. The cumulative effect of these changes in accounting principles for all years prior to 1975 has been added to retained earnings at December 31, 1974. Financial statements for 1975 have been restated to apply the new method retroactively. Net income and earnings per share for 1975 have been restated as follows (other than per share data in thousands of dollars):

Net income, as previously reported	$112,308
Deduct effect of applying retroactively changes in accounting principles	9,540
Net income, as restated	$102,768
Earnings per common share:	
Primary:	
As previously reported	$2.42
Deduct effect of applying retroactively changes in accounting principles	.23
As restated	$2.19
Fully diluted:	
As previously reported	$2.20
Deduct effect of applying retroactively changes in accounting principles	.19
As restated	$2.01

The effect of these changes in accounting principles was to increase net income by $437,000 for 1976. This increase represented $.01 of both primary and fully diluted earnings per share.

13. **Selected 1976 Quarterly Financial Data (Unaudited)** follows (thousands of dollars):

	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 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 Continuing Operations of Rental and Leasing Business	2,017	3,033	2,089	1,270
Income from Continuing Operations	28,357	31,880	37,637	35,739
Income from Discontinued Operations of Rental and Leasing Business	217	53	55	16
Net Income	$28,574	$ 31,933	$ 37,692	$ 35,755

Revenues and expenses for the quarters ended March 31 and June 30, 1976 have been restated from amounts previously reported to give effect to the consolidation of the accounts of HFC Trust Limited. Prior to the quarter ended September 30, 1976, the results of operations of this United Kingdom subsidiary were recognized on the equity method. See Note 3 for further discussion.

Income from Finance Business can fluctuate widely because of the inclusion in the statement of income of unrealized foreign exchange gains and losses that result principally from changes in the Canadian foreign exchange rate.

Merchandising Subsidiaries

Merchandising Subsidiaries
of Household Finance Corporation

Statement of Income
All amounts are stated in thousands of dollars.

	Year Ended December 31	1976	1975
Net Sales and Revenues		$2,521,400	$2,224,968
Costs and Expenses			
	Cost of sales, buying, and occupancy	1,994,295	1,738,692
	Selling and administrative	429,467	409,682
	Interest—Notes 2 and 4	16,290	21,609
	Total costs and expenses	2,440,052	2,169,983
Income Before Provision For Taxes on Income		81,348	54,985
Provision For Taxes on Income			
	Current	42,211	33,562
	Deferred	(3,183)	(7,694)
	Total provision for taxes on income	39,028	25,868
Net Income		$ 42,320	$ 29,117

The accompanying Notes to Financial Statements are an integral part of this statement.

Merchandising Subsidiaries
of Household Finance Corporation

Balance Sheet
All amounts are stated in thousands of dollars.

	December 31	1976	1975
Assets			
	Current Assets:		
	Cash—Note 3	$ 24,959	$ 22,323
	Notes and accounts receivable—less allowance for doubtful accounts, 1976—$15,560; 1975—$14,934—Note 2	96,214	79,297
	Inventories	439,561	403,028
	Prepaid expenses, etc.	6,700	7,785
	Total current assets	567,434	512,433
	Property and Equipment:		
	Land and buildings	126,007	122,871
	Equipment and improvements	226,053	213,964
	Less accumulated depreciation and amortization	(156,541)	(142,829)
	Property and equipment—net	195,519	194,006
	Other Assets:		
	Cost of investments in acquired businesses in excess of net assets at acquisition	8,822	8,822
	Other	17,385	16,649
	Total other assets	26,207	25,471
		$ 789,160	$ 731,910
Liabilities and Shareholder's Equity			
	Current Liabilities:		
	Notes payable	$ 11,755	$ 25,958
	Accounts payable and other liabilities	265,256	221,081
	Dividend payable	9,000	7,000
	Federal taxes on income:		
	Current	12,833	8,621
	Deferred	11,900	15,600
	Total current liabilities	310,744	278,260
	Long-Term Debt—Note 4	93,131	94,185
	Deferred Federal Taxes on Income	9,900	8,400
	Shareholder's Equity—Note 5	375,385	351,065
		$ 789,160	$ 731,910

The accompanying Notes to Financial Statements are an integral part of this statement.

Merchandising Subsidiaries
of Household Finance Corporation

Notes to Financial Statements

1. The financial statements represent 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 variety and food marketing stores 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.

☐ 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 companies are included in consolidated Federal income tax returns filed by Household. The total provision for Federal taxes on income approximates that determinable if the merchandising subsidiaries filed separate consolidated tax returns. 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 1976 and 1975 have been reduced for investment tax credits of $2,300,000 and $2,925,000, respectively.

☐ The Company and its subsidiaries have pension plans covering a majority of their full-time employees. The companies are providing and funding normal cost plus amortization of unfunded actuarial liabilities over a 40-year period.

2. On September 30, 1975, the companies began an ongoing program of selling an undivided interest in revolving credit accounts to Household. Household's interest in such receivables was $66,771,000 at December 31, 1976 and $111,573,000 at December 31, 1975. Household withholds, pending collection, a portion of the total receivables purchased. At December 31, 1976 and 1975 the amount withheld was $668,000 and $1,116,000, respectively, and was included in notes and accounts receivable. Household charges a discount calculated to cover its applicable costs, principally interest on short-term borrowings; in 1976 and the last three months of 1975, this discount amounted to $5,744,000 and $1,912,000, respectively, and is included in interest expense.

3. Lines of credit are maintained with various banks and at December 31, 1976 and 1975 amounted to $80,600,000 and $98,450,000, respectively. Such lines are generally supported by average compensating balances equal to 10% of the line plus 10% of the borrowing under the line. Compensating balance requirements totaled approximately $8,100,000 and $9,800,000 at December 31, 1976 and 1975, respectively. Lines of credit were reduced in both 1976 and 1975 because of the significant reduction in short-term debt outstanding and plans for continued sale of receivables to Household, as explained in Note 2.

4. Long-term debt at December 31, 1976 and 1975 consisted of notes with interest rates ranging from 4¾% to 9⅝% and averaging 7.3% and 7.2%, respectively. The long-term debt at December 31, 1976 requires annual principal payments of approximately $6,900,000 from 1978 to 1980, $5,700,000 from 1981 to 1989, and $3,700,000 from 1990 to 1993. The Company borrowed short-term funds during the first nine months of 1975 from Household. Such borrowings averaged $89,341,000 and related interest expense amounted to $4,315,000. No such borrowings were outstanding at December 31, 1975 and no such borrowings were made during the year ended December 31, 1976.

5. Changes in shareholder's equity during 1976 and 1975 were as follows (thousands of dollars):

	1976	1975
Balance at beginning	$351,065	$362,948
Net income	42,320	29,117
Dividends to Household	(18,000)	(41,000)
Balance at end	$375,385	$351,065

6. Changes in financial position during 1976 and 1975 were as follows (thousands of dollars):

	1976	1975
Source of Funds:		
Operations:		
Net income	$42,320	$29,117
Nonfund transactions:		
Depreciation, etc.	21,114	19,936
Other	1,500	1,800
Total—operations	64,934	50,853
Disposals of property	2,043	3,157
Long-term debt issued	5,800	2,332
Decrease in working capital		32,821
	$72,777	$89,163
Use of Funds:		
Additions to property	$24,670	$37,202
Long-term debt reduction	6,854	6,898
Dividends to Household	18,000	41,000
Other—net	736	4,063
Increase in working capital	22,517	
	$72,777	$89,163

7. Pension plan expense for 1976 and 1975 was $4,804,000 and $3,436,000, respectively. The companies follow a policy of generally providing for normal cost plus amortization of unfunded actuarial liabilities over 40 years. The companies' pension plans have been amended to comply with the 1974 Pension Reform Act. The effect of these amendments was to increase annual pension expense for 1976 by approximately $830,000.

8. Rent commitments at December 31, 1976 for all noncancelable leases and for those noncancelable leases which are considered to be "noncapitalized financing leases" (leases which cover 75% or more of the economic life of the property or which assure lessors full recovery of their investments plus a reasonable rate of return), net of rentals to be received on subleases, were as follows (thousands of dollars):

	All Leases		Noncapitalized Financing Leases	
	Leases*	Sub-leases	Leases*	Sub-leases
1977	$ 44,459	$ 9,693	$ 5,227	$ 814
1978	42,608	9,112	5,040	804
1979	41,568	8,348	5,022	747
1980	39,210	7,607	5,013	675
1981	36,727	6,701	4,771	624
1982-1986	156,540	24,842	19,320	2,056
1987-1991	119,564	10,312	15,626	867
1992-1996	62,017	1,894	8,620	285
Thereafter	12,938	489	114	
Total	$555,631	$78,998	$68,753	$6,872

*Amounts are net of subleases

Rent commitments are applicable principally to leases of land and buildings for stores and warehouses and exclude amounts required for taxes, insurance, and other operating expenses. Retail store leases generally cover periods ranging from 10 to 20 years and contain renewal options.

Rent expense (net of sublease rents), contingent rents (net of sublease contingent rents), and rents from subleases were as follows (thousands of dollars):

	All Leases		Noncapitalized Financing Leases	
	1976	1975	1976	1975
Total rent expense	$61,349	$51,838	$5,678	$5,576
Contingent rents	5,657	4,337	438	319
Sublease rents	11,096	10,328	888	890

The present values at December 31, 1976 of minimum lease commitments for all noncapitalized financing leases (exclusive of amounts required for taxes, insurance, and other operating costs) and related noncancelable subleases were $36,962,000 and $3,395,000, respectively. The interest rates on these noncapitalized financing leases range from approximately 4% to 10% with a weighted average rate of 8.3%.

If the financing leases had been capitalized, related assets amortized on a straight-line basis, and interest cost accrued on the basis of outstanding lease liability, the resulting change in net income would have been less than one percent in 1976 and two percent in 1975.

Notes to Financial Statements

9. To comply with current requirements of the Securities and Exchange Commission, specific replacement cost data (unaudited) for the year 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, warehouses, 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 companies plan future requirements for productive capacity in considerable detail and develop 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 companies generally have been able to increase selling prices in concert with rising costs of purchases in order to maintain acceptable gross margins, with the exception of certain periods which were subject to Federal price controls.

Manufacturing Subsidiaries

Manufacturing Subsidiaries
of Household Finance Corporation

Statement of Income

All amounts are stated in thousands of dollars.

Year Ended December 31		1976	1975
Net Sales and Revenues		$206,157	$170,470
Costs and Expenses			
	Manufacturing	144,032	122,652
	Selling and administrative	23,113	20,660
	Interest	96	376
	Total costs and expenses	167,241	143,688
Income Before Unrealized Foreign Exchange (Losses) and Provision for Taxes on Income		38,916	26,782
Unrealized Foreign Exchange (Losses)		(1,109)	(554)
Income Before Provision for Taxes on Income		37,807	26,228
Provision for Taxes on Income		19,492	13,036
Net Income		$ 18,315	$ 13,192

The accompanying Notes to Financial Statements are an integral part of this statement.

Manufacturing Subsidiaries
of Household Finance Corporation

Balance Sheet
All amounts are stated in thousands of dollars.

	December 31	1976	1975
Assets			
	Current Assets:		
	Cash	$ 1,200	$ 1,131
	Marketable securities	7,663	16,322
	Accounts receivable—less allowance for doubtful accounts, 1976—$526; 1975—$500	32,246	22,666
	Account and note receivable from sale of assets—Note 4	2,511	
	Inventories	48,176	43,120
	Prepaid expenses, etc.	640	684
	Total current assets	92,436	83,923
	Property and Equipment:		
	Land, buildings, and improvements	25,053	25,034
	Machinery and equipment	33,517	33,528
	Less accumulated depreciation	(33,300)	(33,589)
	Property and equipment—net	25,270	24,973
	Other Assets:		
	Cost of investments in acquired businesses in excess of net assets at acquisition	8,859	9,709
	Note receivable—Note 4	1,260	
	Other	423	434
	Total other assets	10,542	10,143
		$128,248	$119,039
Liabilities and Shareholder's Equity			
	Current Liabilities:		
	Short-term debt	$ 176	$ 804
	Accounts payable	9,253	6,132
	Taxes on income	9,586	3,271
	Other	5,965	5,879
	Total current liabilities	24,980	16,086
	Shareholder's Equity—Note 2	103,268	102,953
		$128,248	$119,039

The accompanying Notes to Financial Statements are an integral part of this statement.

Manufacturing Subsidiaries
of Household Finance Corporation

Notes to Financial Statements

1. The financial statements represent 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 FASB Statement No. 8. Foreign currency exchange losses included in income for 1976 and 1975 approximated $1,048,000 and $550,000, respectively. The 1975 statement of income has been reclassified to show separately the $554,000 of unrealized foreign exchange losses which previously were included in selling and administrative expenses. The assets, revenues, and net income of the foreign subsidiaries were approximately 15% of the respective 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 is 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 is included in consolidated Federal income tax returns filed by Household. The provisions for Federal taxes on income approximate those determinable if the Company filed separate tax returns. The flow-through method of accounting for investment tax credits is followed.
☐ Provision for income taxes has not been made on $12,419,000 of undistributed earnings of foreign subsidiaries at December 31, 1976 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 the pension cost provision which includes amortization of unfunded actuarial liabilities over periods not exceeding 40 years.

. Changes in shareholder's equity during 1976 and 1975 were as follows (thousands of dollars):

	1976	1975
Balance at beginning	$102,953	$ 97,761
Net income	18,315	13,192
Dividends to Household	(18,000)	(8,000)
Balance at end	$103,268	$102,953

. Pension plan expense for 1976 and 1975 was $1,197,000 and $964,000, respectively. The increase in 1976 expense resulted primarily from increased benefits under the plans. The actuarially computed value of vested benefits at the actuarial valuation date in 1976 was approximately $2,300,000 in excess of pension fund assets.

. In November 1976, the Company agreed to sell the assets less certain liabilities of the Rochester, Michigan and Adams, Massachusetts paper mills for cash and a 9% note with quarterly instalments from 1977 through 1986. This sale, including the writeoff of $750,000 of related goodwill, has been recorded in the 1976 financial statements.

5. Changes in financial position during 1976 and 1975 were as follows (thousands of dollars):

	1976	1975
Source of Funds:		
Operations:		
Net income	$18,315	$13,192
Nonfund transactions—depreciation, etc.	5,119	4,367
Total—operations	23,434	17,559
Sale of paper mills—Note 4	1,389	
Decrease in working capital	381	
	$25,204	$17,559
Use of Funds:		
Additions to property, etc.	$ 5,944	$ 4,446
Increase in long-term note receivable—Note 4	1,260	
Dividends to Household	18,000	8,000
Increase in working capital		5,113
	$25,204	$17,559

6. Rent expense for 1976 and 1975 was $1,798,000 and $2,056,000, respectively. Rent commitments for noncancelable leases at December 31, 1976, classified by property categories, require annual payments as follows (thousands of dollars):

	Buildings	Machinery and Equipment
1977	$ 462	$421
1978	380	259
1979	294	95
1980	212	
1981	107	
Thereafter	139	
Total	$1,594	$775

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

Federal income tax at 48% statutory rate	$18,147
Increases (reductions) in taxes resulting from:	
State income taxes net of Federal benefit	929
Unrealized foreign exchange losses	456
Other—net	(40)
	$19,492

8. To comply with current requirements of the Securities and Exchange Commission, specific replacement cost data (unaudited) for the year 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 companies generally have 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 Subsidiaries

Rental and Leasing Subsidiaries
of Household Finance Corporation

Statement of Income

All amounts are stated in thousands of dollars.

Year Ended December 31	1976	1975
Revenues	$173,832	$154,913
Expenses		
Direct operating	89,534	83,796
Depreciation of revenue-earning assets—Note 10	37,231	38,881
Selling and administrative—Note 10	21,057	20,985
Interest	10,996	10,944
Total expenses	158,818	154,606
Income Before Provision for Taxes on Income	15,014	307
Provision (Credit) for Taxes on Income—Note 7		
Current	(2,496)	(773)
Deferred	9,101	(4,236)
Charge equivalent to tax credits relating to pre-1973 net operating loss carryforwards realized		1,459
Total provision (credit) for taxes on income	6,605	(3,550)
Income From Continuing Operations	8,409	3,857
Income from Discontinued Operations—Note 2	656	5,403
Net Income	$ 9,065	$ 9,260

The accompanying Notes to Financial Statements are an integral part of this statement.

Rental and Leasing Subsidiaries
of Household Finance Corporation

Balance Sheet
All amounts are stated in thousands of dollars.

December 31	1976	1975
Assets		
Cash—Note 4	$ 4,903	$ 3,062
Trade Receivables—less allowance for doubtful accounts, 1976—$2,935; 1975—$3,732	20,083	20,619
Other Assets and Prepaid Expenses	6,740	4,857
Revenue-Earning Assets—less accumulated depreciation, 1976—$43,487; 1975—$41,672—Notes 4 and 10	184,273	152,495
Property and Equipment—less accumulated depreciation and amortization, 1976—$7,864; 1975—$6,127—Note 5	20,109	17,451
Cost of Investments in Acquired Businesses in Excess of Amounts Assigned to Net Tangible Assets	12,436	12,960
	$248,544	$211,444
Liabilities and Shareholder's Equity		
Accounts Payable and Accrued Liabilities—Note 2	$ 23,985	$ 22,003
Revenue-Earning Asset Obligations—Note 4	156,959	137,082
Deferred Taxes on Income	7,465	
Other Notes Payable—Note 5	7,209	8,498
Shareholder's Equity—Note 3	52,926	43,861
	$248,544	$211,444

The accompanying Notes to Financial Statements are an integral part of this statement.

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 applicable to continuing operations are summarized as follows:

☐ Revenue-earning assets are principally vehicles which are carried at cost. 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 $10,496,000 and $4,905,000 in 1976 and 1975, 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.

☐ The operating method of accounting is used to recognize income from leasing activities.

☐ Cost of investments in acquired businesses in excess of amounts assigned to net tangible assets (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 investment.

☐ Beginning in 1973, the companies have been included in consolidated Federal income tax returns filed by Household. The provisions for Federal taxes on income approximate those generally determinable if the rental and leasing subsidiaries filed separate consolidated tax returns, except that all tax benefits associated with the realization of the companies' pre-1973 investment tax credit and operating loss carryforwards are allocated to National. Deferred income taxes (limited to those determinable on a separate return basis) are provided on timing differences between financial and taxable income resulting primarily from the use of accelerated depreciation methods for tax purposes. The flow-through method of accounting for investment tax credits is followed.

☐ Retirement benefits are provided for certain employees under the Company's pension plans. National's policy is to fund pension costs accrued which include amortization of unfunded actuarial liabilities over periods not exceeding 30 years.

2. In 1973, National recorded a $50,661,000 provision for loss on disposal of the E Z Haul Division (one-way truck and trailer rental business). The proceeds to be received on disposal of E Z Haul Division assets and the operating, administrative, and other costs to be incurred during the phase-out period were estimated based upon then available information. Evaluation of the accruals for phase-out costs required at December 31, 1976 and 1975 indicated that $416,000 and $4,959,000, respectively, of previously established accruals were no longer necessary. Such amounts and the proceeds received on disposition of assets in excess of the original estimated recoveries have been included in 1976 and 1975 income from discontinued operations as credit adjustments of the original 1973 provision for loss on disposal.

An analysis of the changes during 1976 and 1975 in National's estimated recoveries on disposal of E Z Haul Division assets and estimated phase-out costs follows (thousands of dollars):

Year Ended December 31, 1976

	Balance Dec. 31, 1975	1976 Recoveries (Expenses)	1976 Credits to Income	Balance Dec. 31, 1976
Estimated recoveries on disposal	Nil	$240	$240	Nil
Estimated operating, administrative, and other phase-out costs	$1,950	(534)	416	$1,000
			$656	

Year Ended December 31, 1975

	Balance Dec. 31, 1974	1975 Recoveries (Expenses)	1975 Credits to Income	Balance Dec. 31, 1975
Estimated recoveries on disposal	Nil	$ 444	$ 444	Nil
Estimated operating, administrative, and other phase-out costs	$8,134	(1,225)	4,959	$1,950
			$5,403	

The accrual for estimated phase-out costs is included in accounts payable and accrued liabilities.

3. Changes in shareholder's equity during 1976 and 1975 were as follows (thousands of dollars):

	1976	1975
Balance at beginning	$43,861	$36,142
Net income	9,065	9,260
Tax credits relating to pre-1973 net operating loss carryforwards—Note 7		1,459
Dividend to Household		(3,000)
Balance at end	$52,926	$43,861

4. Revenue-earning asset obligations consisted of notes payable to banks and credit companies under financing agreements and accounts payable for vehicles to be financed. Substantially all vehicles were collateralized to such obligations. Existing lines of credit provide continuous financing, and it is anticipated that 1976 obligations will be replaced by financing additional vehicles.

In connection with financing agreements, deposits are maintained in non-interest bearing accounts at various banks in amounts ranging from 10% to 20% of the obligation balances outstanding. At December 31, 1976 and 1975, such deposits aggregated $1,213,000 and $2,040,000, respectively. At December 31, 1976 and 1975 unused credit lines were approximately $28,600,000 and $35,300,000, respectively, including $7,000,000 and $5,000,000, respectively, on which a commitment fee is payable. When used, these lines require equal amounts of revenue-earning assets as security.

5. Other notes payable at December 31, 1976 and 1975 consisted of various notes with interest rates ranging from 5.0% to 10.0% and averaging 7.8% and 8.3%, respectively. The required payments of loan principal for the five years ending December 31, 1981 are $2,764,000, $2,627,000, $692,000, $169,000, and $35,000, respectively. The net book value of property and equipment collateralized to other notes payable was $5,386,000 at December 31, 1976.

6. Changes in financial position during 1976 and 1975 were as follows (thousands of dollars):

	1976	1975
Source of Funds:		
Operations:		
Net income	$ 9,065	$ 9,260
Nonfund transactions:		
Depreciation, etc.	39,578	40,576
Deferred taxes on income	9,101	
Charge equivalent to tax credits relating to pre-1973 net operating loss carryforwards		1,459
Total—operations	57,744	51,295
Disposal of revenue-earning assets	102,390	82,153
Revenue-earning asset obligations—net increase	18,632	19,183
Other financing	7,345	
	$186,111	$152,631
Use of Funds:		
Purchase of revenue-earning assets	$170,154	$131,782
Reduction of other financing	8,634	2,579
Dividend to Household		3,000
Other—net	6,117	3,817
Increase in funds*	1,206	11,453
	$186,111	$152,631

*Funds consist of cash, trade receivables, and other assets and prepaid expenses less accounts payable and accrued liabilities.

7. Beginning with the 1973 return, the companies have been included in consolidated Federal income tax returns filed by Household.

At December 31, 1974, there were $3,040,000 and $3,043,000 of net operating loss carryforwards and investment tax credit carryforwards, respectively, which arose in years prior to 1973 when the companies were filing separate Federal income tax returns. Because of the reversal in 1975 of timing differences resulting from the use of accelerated depreciation methods for tax purposes, the pre-1973 net operating loss carryforwards were realized in the 1975 consolidated Federal income tax return of Household and subsidiaries resulting in a tax benefit of $1,459,000 which has been allocated to National. Because of a recapitalization in 1973, this 1975 tax benefit has been credited directly to additional paid-in capital in accordance with Accounting Principles Board Opinion No. 11. In addition, the 1975 provision (credit) for current taxes on income gives effect to the realization of the pre-1973 investment tax credit carryforwards as well as investment tax credits arising in 1975.

The provision (credit) for taxes on income for 1976 and 1975 is reconciled to the amount determined by applying the statutory Federal income tax rate as follows (thousands of dollars):

	1976	1975
Federal income tax at 48% statutory rate	$7,207	$ 147
Investment tax credits:		
Pre-1973 carryforwards		(3,043)
Current year	(968)	(682)
State taxes net of Federal benefit	390	4
Other—net	(24)	24
Provision (credit) for taxes on income	$6,605	$(3,550)

Notes to Financial Statements

8. Pension plan expense for 1976 and 1975 was $336,000 and $228,000, respectively.

9. Rent expense for 1976 and 1975 was $21,220,000 and $18,922,000, respectively. Such amounts include contingent rentals (based on revenues) for car rental station leases of $7,093,000 and $6,459,000, respectively. Rent commitments for noncancelable leases at December 31, 1976, classified by property categories, require minimum annual payments (exclusive of taxes and insurance) as follows (thousands of dollars):

	Total	Rental Stations	Administrative Offices	Revenue-Earning Assets
1977	$ 6,229	$ 3,776	$ 986	$1,467
1978	6,321	4,055	799	1,467
1979	5,159	3,420	755	984
1980	2,850	2,049	754	47
1981	1,854	1,100	754	
1982-1986	5,311	2,592	2,719	
1987-1991	1,820	1,804	16	
1992-1996	376	376		
Thereafter	121	121		
Total	$30,041	$19,293	$6,783	$3,965

10. An unusually weak demand in the commercial truck rental market during 1975 required the management of National to reevaluate its Truck Division. As a result of the adoption of new operating policies, provisions of $2,150,000 for additional depreciation of rental vehicles which were in excess of then current requirements and which were to be disposed of and $1,050,000 for other costs and losses estimated to be incurred were recorded in the 1975 statement of income.

11. On June 10, 1975, the Federal Trade Commission issued a complaint against National and the two other leading domestic car rental companies, alleging generally that the respondents conspired to monopolize the car rental market at airport locations and to maintain a concentrated non-competitive market structure. While no specific relief was sought in the complaint, the Commission stated that it would seek relief appropriate to remedy any proven violation of antitrust law. Subsequent to the filing of the FTC complaint, several civil actions for money damages evidently related to the FTC action were filed, one of which has been dismissed. For settlement purposes only, National, the two other companies, and staff counsel of the Federal Trade Commission agreed upon a proposed consent order which does not constitute an admission of any of the charges in the complaint. The Federal Trade Commission ordered that the proceeding be withdrawn from adjudication, accepted the agreements and ordered them posted on the public record for 60 days (ended September 9, 1976). The FTC approved the order on October 26, 1976 and officially issued it on November 21, 1976. Management and legal counsel are of the opinion that meritorious defenses exist to each of the civil actions and they will not have a materially adverse effect on the financial statements of National.

12. To comply with current requirements of the Securities and Exchange Commission, specific replacement cost data (unaudited) for the year 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 companies generally have been able to adjust rental and lease rates in order to offset the increasing costs of revenue-earning assets.

Auditors' Opinion

Haskins & Sells
Certified Public Accountants

200 East Randolph Drive
Chicago, Illinois 60601

To the Shareholders of
Household Finance Corporation:

We have examined the balance sheet of Household Finance Corporation and consolidated subsidiaries as of December 31, 1976 and 1975 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, 1976 and 1975 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 after restatement for the changes, with which we concur, in the methods of accounting for foreign currency exchange gains and losses and contingencies as described in Note 12 to Financial Statements of Household.

Haskins & Sells

February 11, 1977

Household Finance Corporation
and Consolidated Subsidiaries

Fourth Quarter Summary of Income (Unaudited)
All amounts other than per share data are stated in thousands of dollars.

Three Months Ended December 31		1976	1975
Income From Finance Business			
	Revenues	$148,391	$134,112
	Expenses	123,613	113,687
	Income before unrealized foreign exchange gains (losses) and provision for taxes on income	24,778	20,425
	Unrealized foreign exchange gains (losses)	(15,889)	3,325
	Income before provision for taxes on income	8,889	23,750
	Provision for taxes on income	4,841	8,418
Income From Finance Business		4,048	15,332
Income From Merchandising Business		18,726	11,732
Income From Manufacturing Business		3,566	1,603
Income (Loss) From Continuing Operations of Rental and Leasing Business		2,017	(572)
Income From Continuing Operations		28,357	28,095
Income From Discontinued Operations of Rental and Leasing Business		217	2,597
Net income		$ 28,574	$ 30,692
Earnings Per Common Share			
	Primary:		
	Income from continuing operations	$ .58	$ .60
	Net income	.59	.66
	Fully diluted:		
	Income from continuing operations	$ .55	$ .55
	Net income	.56	.60

Management's Discussion of Fourth Quarter Results

Finance Business
The 1976 fourth quarter income before provision for taxes on income includes a $15,889,000 unrealized foreign exchange loss compared with a $3,325,000 unrealized foreign exchange gain during the fourth quarter of 1975. This loss is principally the result of a decline in the Canadian foreign exchange rate from $1.0283 at September 30, 1976 to $.9916 at December 31, 1976, and substantially offset the $17,163,000 unrealized foreign exchange gain reported for the first nine months of 1976. Interest expense increased approximately $4,041,000 principally as a result of increased borrowings to support receivables growth.

Merchandising Business
Results of the Merchandising Business for the fourth quarter of 1976 were affected by strong Christmas season sales, particularly at T.G. & Y., and decreased interest expense principally resulting from a decrease in borrowings. Results in 1975 were depressed because of White's operating losses and the recording of inventory adjustments of approximately $3,400,000 net of taxes on income during the fourth quarter.

Manufacturing Business
Fourth quarter results for 1976 reflected the stronger demand for Manufacturing Business products and included a $750,000 writeoff of goodwill related to the sale of two paper mills. Results in the fourth quarter of 1975 were adversely affected by a work stoppage at the Queen Products Division.

Rental and Leasing Business
Continuing operations of the Rental and Leasing Business for the fourth quarter of 1976 reflected the continued improvement in Truck Division performance and strong car rental operations resulting from increased rental transactions, improved fleet utilization, and the continued good market for the sale of used vehicles. Results for the fourth quarter of 1975 included approximately $1,562,000 net of taxes on income of additional provisions for depreciation and other costs and losses with respect to the Truck Division.

Per Share Market and Dividend Information

Market prices are stated in dollars.

		1976			1975		
		Market Price		Dividends	Market Price		Dividends
	Quarter	High	Low	Paid	High	Low	Paid
Common Stock	1st	20½	15¾	$0.275	18½	11⅞	$0.25
	2nd	20¼	15⅞	0.275	18	13⅞	0.25
	3rd	21⅜	17¼	0.275	17⅞	12⅜	0.25
	4th	22⅛	18¼	0.30	17⅝	13½	0.275
				$1.125			$1.025
$2.375 Convertible Preferred Stock—Note 1	1st	44⅞	35½	$0.59375	42	26¾	$0.59375
	2nd	44½	35½	0.59375	40	32	0.59375
	3rd	47½	39	0.59375	40½	28¼	0.59375
	4th	48¾	41¼	0.59375	40	31¼	0.59375
				$2.375			$2.375
$2.50 Convertible Preferred Stock—Note 2	1st	36¼	30¾	$0.625	32¾	25½	$0.625
	2nd	36	29¾	0.625	32	28¼	0.625
	3rd	37	32¾	0.625	34	25⅝	0.625
	4th	40	33	0.625	33½	27½	0.625
				$2.50			$2.50

Shares Outstanding at December 31

	1976	1975
Common	44,503,002	42,366,396
$2.375 Preferred	1,320,288	2,267,854
$2.50 Preferred	2,360,684	2,360,884

Numbers of Shareholders at December 31

	1976	1975
Common	25,856	24,217
$2.375 Preferred	4,004	4,966
$2.50 Preferred	3,487	3,482
Total	33,347	32,665

Notes: (1) The $2.375 preferred stock is convertible into common at the rate of 2¼ shares of common for each share of preferred.
(2) The $2.50 preferred stock is convertible into common at the rate of 1½ shares of common for each share of preferred.

Corporate Information

Stocks

Common

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

Common Stock ticker symbol—HFC

Preferreds

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 Stocks

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, SC 1
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
4⅞% due 1981
10.40%, Series 1B, due 1981
5% due 1982
4⅝% due 1984
8%, Series 1N, due 1984
8.30%, Series 2F, due 1986
7.85%, Series 3B, due 1986
4⅜% due 1987
10½%, Series 2B, due 1994
7½%, Series 1F, due 1995
7¾%, Series 2R, due 1999
9%, Series 3F, due 2000
8½%, Series 2N, due 2001
8⅜%, Series 4B, due 2003

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

6⅜% due 1988
7¼% due 1990
4½% due 1991
4⅞% due 1993
7½%, Series 1R, due 1997

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

Dividend Reinvestment Agent

Citibank
Dividend Reinvestment Service
P.O. Box 5510
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.

Addresses

Corporate Headquarters

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

Consumer Finance

Household Finance Corporation
Prudential Plaza
Chicago, Illinois 60601

Merchandising

City Products Corporation
1700 S. Wolf Rd.
Des Plaines, Illinois 60018

Manufacturing

King-Seeley Thermos Co.
3989 Research Park Drive
Ann Arbor, Michigan 48104

Rental and Leasing

National Car Rental System, Inc.
5501 Green Valley Drive
Minneapolis, Minnesota 55437

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 12, 1977 in the Auditorium, Main Floor, Prudential Plaza, Chicago. The official Notice of Annual Meeting, Proxy Statement, and Proxy form will be mailed to each shareholder on or about March 4, 1977. 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.

Management

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

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

Mitchell P. Kartalia
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
Company,
Hubachek, Kelly, Rauch
& Kirby, Attorneys

Albert O. Steffey
Director

James M. Tait
President,
City Products Corporation

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

Miller Upton
Director

William E. Wehner
President,
Consumer Finance Division

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

Committees of the Board

Audit	Compensation	Executive	Finance
T. D. Flynn Chairman	A. O. Steffey Chairman	G. R. Ellis Chairman	D. C. Clark Chairman
G. P. Osler	M. Upton	D. C. Clark	L. C. Duncan
M. Upton	J. C. Whitehead	L. C. Duncan	G. R. Ellis
		J. T. Gurash	M. P. Kartalia
		A. E. Rasmussen	A. E. Rasmussen
		G. W. Rauch	G. W. Rauch
		A. O. Steffey	A. O. Steffey

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

James D. Pinkerton
Secretary and Assistant
General Counsel

Robert K. Strasser
Treasurer

John W. Ostrem
Vice President and Controller

Division Officers

Finance

Consumer Finance Division

William E. Wehner
President

William D. Hendry
Executive Vice President

Senior Vice Presidents:
Edward J. Bramble
Buel Clifton
William J. Hunckler
William B. Williams

Household Finance Corporation of Canada

J. Arnold Anderson
President

Donald G. Bennett
Executive Vice President

Merchandising

City Products Corporation

James M. Tait
President

Wilford W. George
Executive Vice President

Lawrence A. Del Santo
Senior Vice President

Manufacturing

King-Seeley Thermos Co.

Robert C. Trow
President

Harold J. Seigle
Executive Vice President

Frank L. Tupper
Executive Vice President

Rental and Leasing

National Car Rental System, Inc.

Joseph W. James
President

Paul W. Berglund
Executive Vice President

John B. Spring
Group Vice President

Household Finance Corporation
Prudential Plaza, Chicago, Illinois 60601