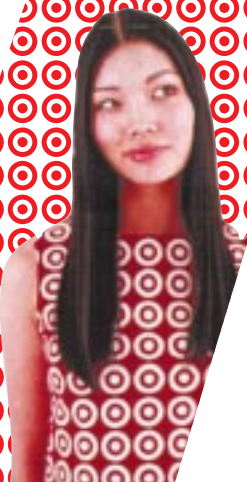


WITH ROOM TO GROW

DAYTON HUDSON  
CORPORATION

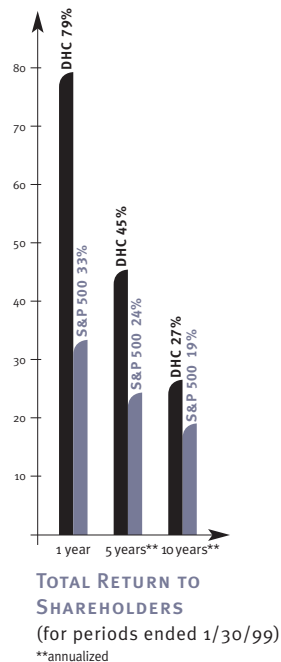
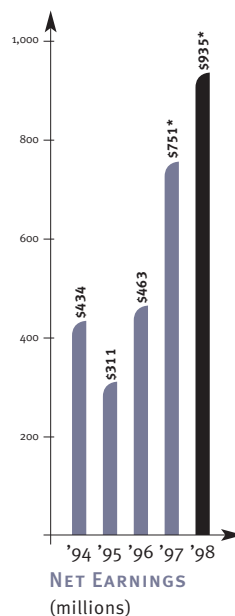
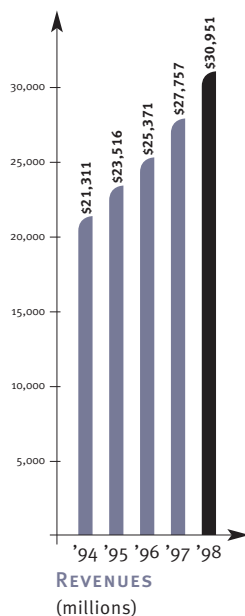
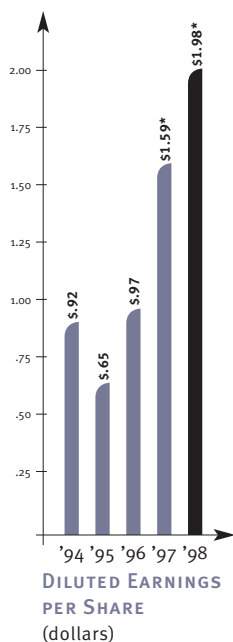
ANNUAL REPORT 1998



1998 was exceptional.

1	FINANCIAL HIGHLIGHTS
2	REPORT TO SHAREHOLDERS
8	SEGMENT DISCUSSION
15	CORPORATE GIVING
16	PERFORMANCE SUMMARY
17	FINANCIAL REVIEW
40	SHAREHOLDER INFORMATION

*Dayton Hudson Corporation*  
**FINANCIAL HIGHLIGHTS 1998**



DHC98 1

**OPERATING RESULTS (\$ MILLIONS)**

	1998	1997	CHANGE
REVENUES	\$30,951	\$27,757	12%
PRE-TAX SEGMENT PROFIT	\$ 2,097	\$ 1,807	16%
NET EARNINGS*	\$ 935	\$ 751	24%

**PER SHARE DATA**

DILUTED EARNINGS*	\$ 1.98	\$ 1.59	25%
CASH DIVIDENDS DECLARED	\$ .36	\$ .33	9%

**AT YEAR-END**

COMMON SHARES OUTSTANDING	441,809,806	437,833,456
RETAIL SQUARE FEET	130,172,000	123,058,000
NUMBER OF STORES	1,182	1,130

\*Includes unusual items, resulting in a net after-tax charge in 1998 of \$35 million, or 8 cents per share, and a net after-tax charge in 1997 of \$24 million, or 5 cents per share.



At Dayton Hudson, our success — and our continued growth — are predicated on our ability to distinguish ourselves from other retailers — to be faster, better and different from the competition. In 1998, we once again focused our efforts on building unique store brands at each of our divisions, leveraging the resources of the total corporation and investing in businesses that will improve our overall results and increase shareholder value.

Indeed, 1998 was another year of solid growth and outstanding financial performance.

- Pre-tax segment profit grew 16 percent, reflecting double-digit increases at both Target and our Department Store Division.
- Net earnings rose 24 percent to \$935 million and earnings per share increased 25 percent to \$1.98.
- Our total return to shareholders of 79 percent — reflecting both stock price appreciation and dividends — significantly outperformed the S&P 500 for the third consecutive year.
- And finally, we announced a \$1 billion share repurchase program that we expect to complete over the next two years.

In addition, Dayton Hudson made two important acquisitions during 1998. We acquired Rivertown Trading Company to provide expertise in direct marketing and fulfillment services, and to support our internet retailing efforts.

We also acquired The Associated Merchandising Corporation to enhance our global sourcing capabilities, strengthen our product development and provide a comprehensive international quality control system. We believe that the addition of these two organizations increases Dayton Hudson's competitive advantage and expands our long-term growth opportunities.

We are pleased with our achievements in 1998 and remain confident that the strategies in place at each of our divisions position Dayton Hudson for continued profitable growth in the future.

#### TARGET

Clearly, the primary driver of Dayton Hudson's growth is Target. In 1998, Target generated more than \$23 billion in revenues and contributed nearly \$1.6 billion of segment profit. During the year, we opened 55 net new Target stores, and significantly increased our penetration in Northeastern and mid-Atlantic markets, such as New York, Philadelphia, Baltimore and Washington, D.C. With nearly 40 percent of the U.S. population and less than 10 percent of our current store base, this region of the country will continue to be a major focus of our expansion efforts for years to come. In 1999, our plans include new store entries into the Boston and Pittsburgh markets.

Target's impressive growth — compound annual increases of 14 percent in revenues and 21 percent in profits over the past five years — reflects our success in differentiating our strategy, strengthening guest loyalty and creating a distinct competitive advantage. It also reflects a disciplined approach to investing capital and an uncompromising commitment to the unique brand identity represented by our merchandise, our stores and our marketing.

To date, our approach to SuperTarget® is indicative of this philosophy. For the past four years we have experimented with the supercenter format, combining grocery and general merchandise in 14 stores. Our efforts have been focused on achieving two objectives:

- to create a food offering and a store environment that is as attractive to our guests as the assortment and presentation in our general merchandise discount stores; and
- to design and operate a store that meets or exceeds our financial goals.

Encouraged by the results we are now producing at these stores, we feel confident that this concept provides Target with additional opportunities for future growth.

The Target Guest Card® is another important contributor to our growth in profit and market share, and an integral element of Target's brand character. In 1998, we again enjoyed a significant increase in guest credit contribution,

reflecting the acquisition of new accounts, growth in our balances and a broader acceptance of our Take Charge of Education<sup>SM</sup> guest loyalty program. Today, the Target Guest Card comprises the largest portion of our overall credit portfolio, with opportunity for substantial growth in the future.

**"WE BELIEVE that each of our divisions is strategically positioned to compete effectively in its respective segment and we remain confident that Dayton Hudson can continue to deliver 15 percent annual earnings per share growth over time."**

We believe Target's strategy to differentiate itself in the discount segment — and our ability to consistently execute this strategy — is critical to our success and will continue to drive Target and Dayton Hudson's growth well into the next decade.

#### **MERVYN'S CALIFORNIA® AND THE DEPARTMENT STORE DIVISION**

Together, Mervyn's and our Department Store Division comprise about 25 percent of Dayton Hudson's revenues and profits, and contribute meaningfully to the corporation's overall growth. These two divisions provide fashion leadership, management talent and expertise, and allow us to enjoy economies of scale in many areas, including credit, transportation and information systems.

In addition, during the past five years, Mervyn's and the Department Stores combined to generate approximately \$1.3 billion of after-tax cash flow, allowing us to aggressively grow Target while controlling the growth of our debt. In other words, the financial contribution from Mervyn's and our Department Stores is a key factor in our ability to achieve 15 percent or more annual earnings per share growth over time.

In 1999, Mervyn's primary objective is to produce reasonable and consistent top-line growth and improve profitability. At our Department Stores, our goal is to continue to enhance the powerful brand identity of the Marshall Field's, Hudson's and Dayton's names and extend our recent favorable performance record. We remain committed to our middle-market and traditional department store strategies and are confident that they will continue to be valuable partners in our "Power of One" efforts and our future growth.

#### GUEST CREDIT

Guest credit strategically supports our core retail operations and is an integral component of each division's business and financial results. Through its generation of incremental sales and growth of credit contribution, guest credit contributes significantly to our overall earnings growth. During the past five years, contribution from guest credit has increased at a compound annual rate of 18 percent, and both return on investment and EVA have risen sharply.

In 1999, we will continue to invest in guest credit programs at all three divisions in order to sustain our profitable growth. Specifically, we will continue to expand the penetration of the Target Guest Card, build our guest loyalty programs and manage our credit expenses.

#### 1999 AND BEYOND

Longer term, our growth and financial success will reflect our continued ability to differentiate our strategies from our competitors. We must continue to anticipate new opportunities and act promptly when they are presented. We must be innovative and remain focused on reinforcing our distinct store brands. And, we must continue to invest prudently in our businesses and fully leverage our available resources.

Though we cannot rest on our laurels, the strength and momentum of our recent performance, combined with the solid leadership and strategies in place at each of our divisions, give us confidence that we can continue to deliver annual earnings per share growth of 15 percent or more over time and create substantial value for our shareholders.

March 24, 1999



BOB ULRICH

*Chairman and Chief Executive Officer*

Our long-range objective for earnings per share growth is simple: 15 percent or more over time. The foundation for our confidence in meeting this goal is just as simple: continue to expand Target. In 1999, we will again invest more than \$1 billion to grow

“DIFFERENTIATING OUR STORES from other retailers is central to our ability to continue to generate sales and profit growth at each of our divisions.”

the Target store base. Mervyn's and the Department Stores play a key

role in the company's growth by helping fund Target's expansion.

New ventures like SuperTarget, and our credit business, also will help fuel our future revenue and profit growth. With the power of our store brands—and the way our businesses are wedded together to achieve growth—we expect to continue to generate

strong shareholder returns **G O I N G F O R W A R D .**







“At last we can afford to buy some of the things we design.”

— *Michael Graves*





Target is one of the two fastest growing retailers in the rapidly expanding discount segment of general

merchandise retailing. Target has delivered compound annual revenue growth over the past ten years of 14 percent, reflecting a 5 percent increase in comparable-store sales, combined with sales growth of approximately 9 percent from new stores. Over the same time period, Target's pre-tax profit has grown at a compound annual rate of 16 percent.

The key to our consistent growth is our proven strategy to differentiate Target from other discount competitors. Simply put, where there is an opportunity for Target to be different, we are—in our merchandise, store presentation and marketing. In the past 12 months, Target introduced merchandise initiatives that reinforce that differentiation—and ultimately contribute to the company's sales growth. These initiatives include Restore & Restyle™ home improvement products; Calphalon Kitchen Essentials® cookware and bakeware; and a unique line of home products designed by highly respected architect and designer Michael Graves. These products create a new level of merchandising excitement throughout our stores.

#### CONSISTENT STORE GROWTH

Adding stores in new U.S. markets continues to represent a significant opportunity for Target. We are just beginning to enter some of the most highly populated markets in the United States with major opportunities in Baltimore, Washington, D.C., Boston, Philadelphia, Pittsburgh and greater New York City. Our success in the new markets we have recently entered in the Northeast and mid-Atlantic gives us confidence that our growth in the region will be strong. At year end, we operated 65 stores in this region; by the year 2001 our store base in the region will more than double. These markets offer Target exciting growth opportunities because of their dense population and the favorable income demographics of potential guests.

**"OUR RESEARCH shows that the higher the income, the better educated and the higher the employment status, the more guests like Target."**

Target also is increasing its penetration in existing markets in two ways: by building new stores; and relocating, expanding or remodeling our current stores in those markets. While Target has one of the newest store bases among large U.S. retailers, we will invest more than \$500 million over the next three years to remodel stores to keep them fresh and representative of the Target brand.

## SUPERTARGET GROWTH

SuperTarget represents a strong growth opportunity for Target. We are optimistic about the potential of this combined general merchandise/grocery concept. At year end, we operated 14 SuperTargets, and are very encouraged with the results these stores are generating. In 1999, we will open two additional SuperTargets that reflect the right balance of store size, service intensity, capital investment and merchandise assortment to make SuperTarget a highly successful store for the long term. We anticipate the acceleration of our growth of SuperTarget moving forward.

## GUEST CREDIT EXPANSION

The Target Guest Card also plays a key role in Target's growth. Credit contributes to earnings growth in two ways: by driving sales at our stores and through credit's own contribution to profits. The Target Guest Card has exceeded the company's expectations for card account growth and profitability since its introduction in 1994. Target currently has more than 12 million guest card accounts; that amount is expected to grow to approximately 20 million cardholders by 2001. Credit revenues and profit contribution are growing at a double-digit rate as a result of new account growth, operating expense leverage and the enhancement of our credit

loyalty programs. Target's School Fundraising Made Simple<sup>SM</sup> card loyalty program allows guests to contribute 1 percent of their purchases on the Target Guest Card to a school of their choice. More than 2 million guests participate in this program.

**"TARGET is always reinventing the way we do business, so guests can truly 'expect more'."**

The internet also represents a potential longer-term growth opportunity for Target. While we firmly believe that e-commerce will never be a substitute for store-based retailing, we will be prepared if internet retailing becomes a more important channel for our guests. As a result, we are devoting more resources to the technology and processes required to support this new medium. Our Rivertown Trading subsidiary will play a key role in our e-commerce initiatives. As we move forward, Target will use its website as one more way to build its brand, and we will become more active with on-line selling.

Target's strong brand identity and differentiated strategy gives us a competitive advantage and a resulting confidence in our future growth prospects.



Mervyn's continues to play a key role in supporting Dayton Hudson's growth by providing cash flow to help fund Target's store expansion. In 1998, we made progress strengthening Mervyn's competitive position through merchandising, marketing and store initiatives. And while Mervyn's delivered below-plan sales and profit performance, Mervyn's did post its second consecutive year of positive comparable-store sales growth in 1998. We believe Mervyn's can expand its margins and deliver more consistent comparable-store sales growth going forward.

**"Mervyn's efforts in 1998 centered on upgrading merchandise content — and then building the store and marketing experience around it."**

#### IMPROVED MERCHANDISE CONTENT

Mervyn's main focus in 1998 was to improve the quality, content and clarity of its merchandise offering. We expanded the number and breadth of national brands, and will add new brands such as Hallmark Home Collections, Sideout and Cuisinart in 1999. We are also expanding our relationships with many key national brands we carry such as Gloria Vanderbilt and Villager by Liz Claiborne. And we have edited and more clearly defined our owned brands such as Hillard & Hanson® and High Sierra®. In addition, we are making it easier for guests to shop by segmenting the entire store by brand or lifestyle.

In 1998, Mervyn's developed a marketing strategy that more consistently supports its



brand image as a promotional, middle-market neighborhood department store. Mervyn's will become more visible to guests in 1999 with increased broadcast advertising and a more compelling Sunday newspaper tab, exposing guests to new merchandise and great values every week.

#### UPDATED STORES AND SYSTEMS

Mervyn's completed ten full-store remodels and made minor remodels to 11 additional stores in 1998. We also added 18 new merchandise shops and new fixtures at every store. In 1999, Mervyn's will remodel another 20 stores.

Improving both in-stocks and guest service are priorities in 1999. The implementation of Dayton Hudson's Global Merchandising System and the Location Management System will help Mervyn's improve guest service and drive incremental sales through more effective price management, reduced markdowns, increased inventory turns and improved in-stocks.

We are optimistic that Mervyn's will generate consistent comparable-store sales increases and profit improvement in the year ahead, and will remain an important contributor to the company's overall growth.



In 1996, Dayton's, Hudson's and Marshall Field's began a mission to become the "best store in town." The repositioning has been well-received by our guests, resulting in two consecutive years of strong earnings growth. In fact, our department stores led the department store industry in comparable-store sales growth in 1998. We continue to refine our strategies in merchandising, guest service and marketing in order to differentiate our stores—and deliver further improvement in our operating results.

#### DIFFERENTIATED MERCHANDISE

Our merchandising strategy has three goals: First, to be dominant in national brands with the best assortments and the newest items. Second, to differentiate our offering through our high-quality owned brands that fill in the gaps between the national brands and are only available at Dayton's, Hudson's or Marshall Field's. In 1998, we launched an important new casual owned brand aimed at juniors and young men called Oxford & Fulham™. We have increased the sales penetration of our owned brands to 10 percent. Third, to constantly edit our assortments, eliminating those brands that aren't consistent with our market position.

#### SOPHISTICATED MARKETING

To reinforce our reputation as the best store in town, we want our guests to know that

Dayton's, Hudson's and Marshall Field's are fashion leaders in their markets—and sophisticated without being stuffy. For example, our "Where Else?" marketing campaign tells our guests that we are different and better—and supports our less promotional strategy.

DAYTON'S

*Marshall Field's*

HUDSON'S

"WE HAVE a single-minded focus on being the best store in town—with a passion for great merchandise and superior service."

#### ENHANCED STORE EXPERIENCE

To improve the guest experience at our stores—and preserve and enhance our strong market share in our core upper Midwest markets—we launched a disciplined, multi-year store remodeling program and undertook eight remodels in 1998. In 1999, we will remodel nine more stores to make them more guest friendly. And we are investing in training our team members to deliver consistently superior service.

The best store in town means merchandise that is different and exciting, service that is consistently excellent, and a store environment that is attractive and convenient. Our strategy is working, and our Department Stores will continue to play a key role in Dayton Hudson's future growth.





Whether it's helping kids in crisis, supporting fine arts programs, or getting children ready to go back to school, Dayton Hudson funding and volunteers are there to help. In 1999, our grant-making will exceed \$67 million, helping fund thousands of nonprofit organizations that serve our communities across the nation.

In 1998, our three divisions and the Dayton Hudson Foundation gave more than \$57 million to arts, social action and education groups across the country. We made a \$2.8 million corporate contribution to more than 300 United Way organizations in 41 states, and our employees gave another \$11 million to the United Way.

**“AT DAYTON HUDSON we believe it is our responsibility to invest in the communities where we operate stores. We focus our grant-making in key areas that are fundamental to the well-being of healthy communities.”**

In 1999, the Dayton Hudson Foundation will present the newly created Masterworks Awards to recognize and encourage the commitment of corporations and nonprofit organizations to philanthropy.

At Target, we have donated nearly \$7 million to local schools since the inception in 1997 of our School Fundraising Made Simple<sup>SM</sup> program.

Through the program, 1 percent of purchases made on the Target Guest Card go back to a school of the guest's choice. More than 2 million guests and 92,000 schools currently participate in the program.

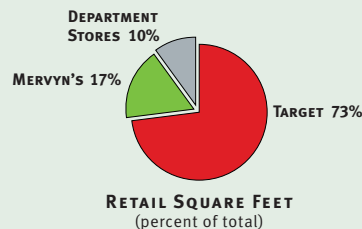
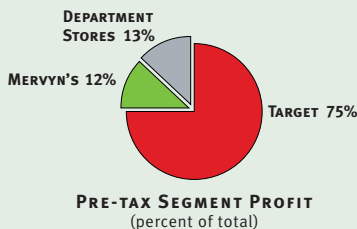
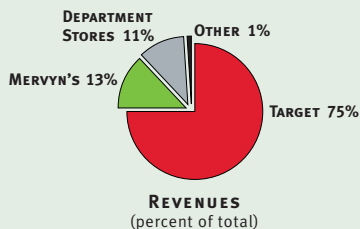
In 1998, construction began on Target House<sup>®</sup>, a home-away-from-home for patients and their families at St. Jude Children's Research Hospital in Memphis. Target House, which will open in May 1999, features 50 suites where families can stay for up to two years, free of charge, while the children are undergoing treatment.

In an unprecedented effort to support women transitioning from welfare to work, Mervyn's developed the Community Closet, a 53-foot big rig truck transformed into a mobile store. In 1998, the program clothed more than 1,000 women in 14 cities. Mervyn's partnered with local nonprofits dedicated to helping women with job training and placement to select the women to receive their free work wardrobes. In 1999, another 1,000 women will receive wardrobes.

At the Department Stores, a new community relations strategy beginning in 1999 called "Project Imagine" will showcase Dayton's, Hudson's and Marshall Field's contributions to their communities through support of arts and cultural organizations.

At Dayton Hudson, we care about our communities.

# 1998 RESULTS



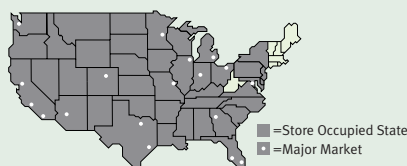
## TARGET

(IN MILLIONS)	1998	1997	1996
<b>REVENUES</b>	<b>\$23,056</b>	\$20,368	\$17,853
<b>PRE-TAX SEGMENT PROFIT</b>	<b>\$ 1,578</b>	\$ 1,287	\$ 1,048
<b>STORES</b>	<b>851</b>	796	736
<b>RETAIL SQUARE FEET*</b>	<b>94,553</b>	87,158	79,360

\* In thousands, reflects total square feet less office, warehouse and vacant space.

## TARGET (at year end)

EMPLOYEES: 189,000



## MAJOR MARKETS

	No. OF STORES
Greater Los Angeles	70
Chicago	36
Minneapolis/St. Paul	33
San Francisco Bay Area	28
Dallas/Ft. Worth	24
Detroit	23
Atlanta	22
Houston	21
Greater Miami	20
Phoenix	16
Denver/Boulder	15
San Diego	14
Washington DC	14
Seattle/Tacoma	13
St. Louis	12
Indianapolis	11
Tampa/St. Petersburg	11
Greater Cleveland	10

RETAIL SQ. FT. No. OF IN THOUSANDS STORES	RETAIL SQ. FT. No. OF IN THOUSANDS STORES	RETAIL SQ. FT. No. OF IN THOUSANDS STORES	RETAIL SQ. FT. No. OF IN THOUSANDS STORES
Alabama 117 1	Iowa 1,818 17	Nevada 841 8	South Dakota 391 4
Arizona 2,600 24	Kansas 1,283 10	New Jersey 1,128 9	Tennessee 2,101 20
Arkansas 229 2	Kentucky 1,145 11	New Mexico 852 8	Texas 9,134 84
California 16,141 144	Louisiana 203 2	New York 1,770 14	Utah 1,055 6
Colorado 2,484 23	Maryland 1,900 16	North Carolina 2,409 22	Virginia 2,526 21
Delaware 146 1	Michigan 4,899 46	North Dakota 437 4	Washington 2,525 24
Florida 7,106 64	Minnesota 5,728 49	Ohio 3,180 28	Wisconsin 2,354 22
Georgia 2,913 27	Mississippi 116 1	Oklahoma 817 8	Wyoming 182 2
Idaho 406 4	Missouri 1,506 14	Oregon 1,194 11	<b>TOTAL 94,553 851</b>
Illinois 5,791 50	Montana 299 3	Pennsylvania 485 4	
Indiana 2,877 30	Nebraska 1,072 9	South Carolina 393 4	

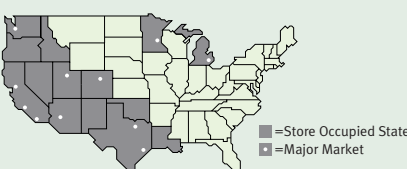
## MERVYN'S

(IN MILLIONS)	1998	1997	1996
<b>REVENUES</b>	<b>\$4,176</b>	\$4,227	\$4,369
<b>PRE-TAX SEGMENT PROFIT</b>	<b>\$ 240</b>	\$ 280	\$ 272
<b>STORES</b>	<b>268</b>	269	300
<b>RETAIL SQUARE FEET*</b>	<b>21,729</b>	21,810	24,518

\* In thousands, reflects total square feet less office, warehouse and vacant space.

## MERVYN'S (at year end)

EMPLOYEES: 30,000



## MAJOR MARKETS

	No. OF STORES
Greater Los Angeles	48
San Francisco Bay Area	29
Dallas/Ft. Worth	12
San Diego	12
Phoenix	11
Detroit	9
Houston	9
Minneapolis/St. Paul	9
Seattle/Tacoma	9
Greater Salt Lake City	8
Denver/Boulder	6

RETAIL SQ. FT. No. OF IN THOUSANDS STORES	RETAIL SQ. FT. No. OF IN THOUSANDS STORES	RETAIL SQ. FT. No. OF IN THOUSANDS STORES	RETAIL SQ. FT. No. OF IN THOUSANDS STORES
Arizona 1,207 15	Michigan 1,176 15	Oregon 551 7	
California 9,703 125	Minnesota 1,132 9	Texas 3,344 42	
Colorado 854 11	Nevada 495 7	Utah 760 8	
Idaho 83 1	New Mexico 266 3	Washington 1,429 16	
Louisiana 459 6	Oklahoma 270 3	<b>TOTAL 21,729 268</b>	

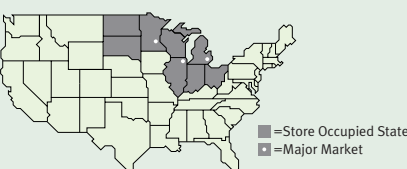
## DEPARTMENT STORES

(IN MILLIONS)	1998	1997	1996
<b>REVENUES</b>	<b>\$3,285</b>	\$3,162	\$3,149
<b>PRE-TAX SEGMENT PROFIT</b>	<b>\$ 279</b>	\$ 240	\$ 151
<b>STORES</b>	<b>63</b>	65	65
<b>RETAIL SQUARE FEET*</b>	<b>13,890</b>	14,090	14,111

\* In thousands, reflects total square feet less office, warehouse and vacant space.

## DEPARTMENT STORES (at year end)

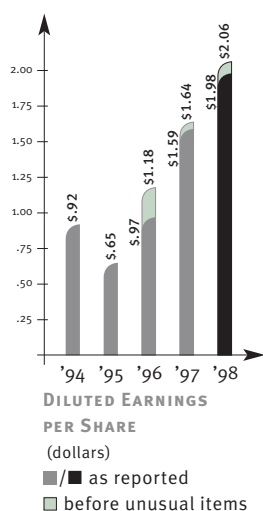
EMPLOYEES: 35,000



## MAJOR MARKETS

	No. OF STORES
Chicago	16
Detroit	11
Minneapolis/St. Paul	10

RETAIL SQ. FT. No. OF IN THOUSANDS STORES	RETAIL SQ. FT. No. OF IN THOUSANDS STORES	RETAIL SQ. FT. No. OF IN THOUSANDS STORES	RETAIL SQ. FT. No. OF IN THOUSANDS STORES
<b>DAYTON'S</b>	<b>HUDSON'S</b>	<b>MARSHALL FIELD'S</b>	
Minnesota 3,035 12	Michigan 4,619 20	Illinois 4,173 17	
North Dakota 297 3		Indiana 246 2	
South Dakota 102 1		Ohio 618 3	
Wisconsin 373 3		Wisconsin 427 2	
		<b>TOTAL DSD 13,890 63</b>	



## EARNINGS

Our net earnings were \$935 million in 1998, compared with \$751 million in 1997 and \$463 million in 1996. Earnings per share were \$1.98 in 1998, \$1.59 in 1997 and \$.97 in 1996. (References to earnings per share refer to diluted earnings per share. Earnings per share, dividends per share and common shares outstanding reflect our 1998 two-for-one share split and our three-for-one share split in 1996.)

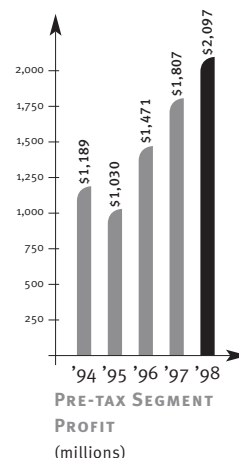
## EARNINGS ANALYSIS

(MILLIONS OF DOLLARS, EXCEPT PER SHARE DATA)

	EARNINGS			DILUTED EARNINGS PER SHARE		
	1998	1997	1996	1998	1997	1996
NET EARNINGS BEFORE UNUSUAL ITEMS	\$970	\$775	\$555	\$2.06	\$1.64	\$1.18
FAVORABLE OUTCOME OF INVENTORY SHORTAGE TAX MATTER	20	—	—	.04	—	—
SECURITIZATION GAIN (PRE-TAX 1998 \$35 MIL, 1997 \$45 MIL)	21	27	—	.05	.06	—
SECURITIZATION LOSS (PRE-TAX 1998 \$38 MIL)	(23)	—	—	(.05)	—	—
NET SECURITIZATION GAIN/(LOSS)	(2)	27	—	—	.06	—
MAINFRAME OUTSOURCING (PRE-TAX 1998 \$42 MIL)	(26)	—	—	(.06)	—	—
REAL ESTATE REPOSITIONING (PRE-TAX 1996 \$134 MIL)	—	—	(81)	—	—	(.18)
NET EARNINGS BEFORE EXTRAORDINARY CHARGES	962	802	474	2.04	1.70	1.00
EXTRAORDINARY CHARGES — DEBT REPURCHASE	(27)	(51)	(11)	(.06)	(.11)	(.03)
NET EARNINGS	\$935	\$751	\$463	\$1.98	\$1.59	\$ .97

## PRE-TAX SEGMENT PROFIT

Pre-tax segment profit increased 16 percent in 1998 to \$2,097 million, compared with \$1,807 million in 1997 and \$1,471 million in 1996. Pre-tax segment profit is first-in, first-out (FIFO) earnings before securitization effects, interest, corporate and other expense, and unusual items. Target and the Department Store Division (DSD) both contributed to our pre-tax profit growth, which was partially offset by Mervyn's performance. We expect growth in profitability at all three operating companies in 1999.



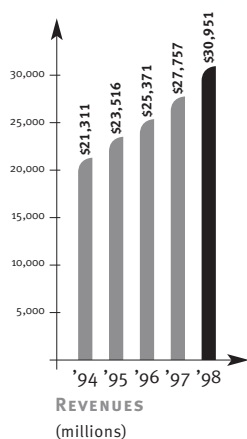
**Target's** pre-tax profit rose 23 percent in 1998 to \$1,578 million. Target's full-year profit margin rate increased to 6.8 percent in 1998 from 6.3 percent in 1997, reflecting continued strong comparable-store sales growth of 6.1 percent and modest improvement in the gross margin rate due primarily to favorable markdown performance. The operating expense rate improved slightly from 1997, reflecting favorable sales leverage and store productivity, offset by higher wage rates. Continued growth in guest credit also contributed to improved sales and earnings. In 1999, we expect our profit margin rate to remain essentially unchanged and total revenues are expected to grow due to mid-single-digit comparable-store sales increases combined with new store sales growth.

**Mervyn's** pre-tax profit declined 14 percent in 1998 to \$240 million. Comparable-store sales grew 0.9 percent. The gross margin rate declined due to unfavorable markdown performance, partially offset by improved markup, and the expense rate increased due to lower sales leverage. Guest credit continued to positively impact Mervyn's sales and earnings in 1998. Continuing the improved trend from fourth quarter 1998, we expect measurable improvement in our 1999 profit margin rate and a low to mid-single-digit comparable-store sales increase.

**DSD's** pre-tax profit in 1998 was \$279 million, a 16 percent increase over 1997, reflecting comparable-store sales growth of 4.5 percent and a significant improvement in the gross margin rate, due to improved markdowns and markup. Comparable-store sales are expected to grow in the low-single-digits in 1999 and our profit margin rate is expected to increase modestly from 1998.

## REVENUES AND COMPARABLE-STORE SALES

In 1998, our total revenues increased 11.5 percent and comparable-store sales increased 5.2 percent. Revenues include retail sales, finance charges, late fees and other revenues. Comparable-store sales are sales from stores open longer than one year. Target's revenue growth reflected strong comparable-store sales and new store expansion. Mervyn's 1998 total revenues declined, due in part to store closings during 1997. Mervyn's sales trend improved in the fourth quarter, reflecting continued focus on merchandising and marketing initiatives. DSD's total revenue growth reflected strong comparable-store sales. Increased finance charge and late fee revenues also contributed to revenue growth.



Revenue growth in 1997 reflected a combination of new store and comparable-store sales growth at Target and comparable-store sales growth at Mervyn's and DSD, somewhat offset by a decline in Mervyn's total revenue due to closed stores.

The impact of inflation on our consolidated operations was minimal and, as a result, the overall comparable-store sales increase closely approximated real growth.

## REVENUES AND COMPARABLE-STORE SALES GROWTH

	1998		1997	
	REVENUES	COMPARABLE-STORE SALES	REVENUES	COMPARABLE-STORE SALES
TARGET	13.2%	6.1%	14.1%	5.7%
MERVYN'S	(1.2)	0.9	(3.3)	1.9
DSD	3.9	4.5	0.4	1.0
TOTAL	11.5%	5.2%	9.4%	4.5%

## REVENUES PER SQUARE FOOT \*

	1998	1997	1996
TARGET	\$253	\$244	\$235
MERVYN'S	192	187	179
DSD	235	224	223

(\*Thirteen-month average retail square feet.)

## GROSS MARGIN RATE

In 1998, our overall gross margin rate improved modestly from the prior year. Gross margin includes cost of retail sales and excludes buying and occupancy costs. Strong growth at Target, our lowest gross margin rate division, continues to impact our business mix.

**Target's** gross margin rate increased modestly in 1998 primarily due to lower markdowns. In 1999, we anticipate the gross margin rate to be essentially even with 1998.

**Mervyn's** gross margin rate decreased reflecting unfavorable markdown performance, partially offset by higher markup. In 1999, we expect Mervyn's gross margin rate to increase as we continue to improve the quality and trend content of our merchandise.

**DSD's** gross margin rate increased significantly over 1997 due to improved markdowns and markup. In 1999, we anticipate DSD's gross margin rate will increase modestly.

In 1997, our overall gross margin rate was essentially even with the prior year, reflecting improved markup, partially offset by higher markdowns, at all three divisions.

The LIFO provision, included in cost of retail sales, was as follows:

## LIFO PROVISION: CREDIT/(EXPENSE)

(MILLIONS OF DOLLARS, EXCEPT PER SHARE DATA)

	1998	1997	1996
TARGET	\$ -	\$ -	\$ -
MERVYN'S	6	-	5
DSD	12	(6)	(14)
TOTAL	\$ 18	\$ (6)	\$ (9)
PER SHARE	\$ .02	\$ (.01)	\$ (.01)

The LIFO provision is calculated based on inventory levels, markup rates and internally generated retail price indices. The 1998 LIFO credit at Mervyn's resulted primarily from higher inventory levels, reflecting an investment in certain categories to improve basic in-stock positions. The LIFO credit at DSD resulted from higher markup. The 1997 LIFO charge at DSD resulted from lower inventory levels.

## OPERATING EXPENSE RATE

Our overall operating expense rate was essentially even with 1997. Operating expense includes selling, publicity and administrative expenses (excluding start-up, and corporate and other expense), depreciation and amortization, buying and occupancy costs, and taxes other than income taxes. Target's strong growth continues to impact our overall expense rate structure.



**Target's** operating expense rate improved slightly over 1997. In 1998, we completed our three-year program to remove \$200 million from operating expenses. As previously disclosed, wage rate pressure within our competitive markets somewhat offset our 1998 savings. In 1999, we will remain focused on controlling our expenses, principally through improved productivity.

**Mervyn's** operating expense rate increased in 1998 due to lower sales leverage. We anticipate an improved rate in 1999 due to our expectation of improved comparable-store sales results.

**DSD's** operating expense rate was essentially unchanged from 1997. In 1999, we expect DSD's operating expense rate to be even with 1998.

The operating expense rate in 1997 improved over 1996 due to the favorable effect of Target's increased impact on the overall expense rate structure and significant operating expense rate improvements at DSD.

#### INTEREST EXPENSE

We consider payments to holders of our sold securitized receivables as "interest equivalent." In 1998, combined interest expense and interest equivalent was \$446 million, \$3 million lower than 1997 due to a lower average portfolio interest rate, partially offset by higher average funded balances. The average portfolio interest rate in 1998 was 7.8 percent. In 1997, combined interest expense and interest equivalent was \$18 million lower than 1996 due to a lower average portfolio rate and lower average funded balances. The average portfolio interest rate in 1997 was 8.1 percent. Combined interest expense and interest equivalent in 1999 is expected to be similar to 1998. The average portfolio interest rate is expected to continue to decline, offset by higher average funded balances.

During 1998, we repurchased \$127 million of debt for \$170 million, resulting in an after-tax extraordinary charge of \$27 million (\$.06 per share). The debt repurchased had a weighted-average interest rate of 9.2 percent and an average remaining life of 21 years. The replacement of this debt with lower interest rate financing will have a favorable impact on interest expense going forward. In 1997 and 1996, we repurchased \$503 and \$325 million of long-term debt, resulting in after-tax extraordinary charges of \$51 million (\$.11 per share) and \$11 million (\$.03 per share), respectively.

#### INCOME TAX RATE

The effective tax rate was 38.2 percent in 1998 and 39.5 percent in both 1997 and 1996. The 1998 effective tax rate reflects the beneficial effect of \$20 million (\$.04 per share), resulting from the favorable outcome of our inventory shortage tax matter. Our 1999 tax rate is expected to approximate 39.0 percent.

#### SECURITIZED RECEIVABLES

During third quarter 1998, Dayton Hudson Receivables Corporation (DHRC), a special-purpose subsidiary, sold to the public \$400 million of securitized receivables. This issue of asset-backed securities had an expected maturity of five years and a stated rate of 5.90 percent. Proceeds from the sale were used for general corporate purposes, including funding the growth of receivables. As required by Statement of Financial Accounting Standards (SFAS) No. 125, the sale transaction resulted in a \$35 million pre-tax gain (\$.05 per share). This gain was offset by a \$38 million pre-tax charge (\$.05 per share) related to the maturity of our 1995 securitization. The net impact was a \$3 million (less than \$.01 per share) reduction of 1998 finance charge revenues and pre-tax earnings.

In 1997, DHRC sold to the public \$400 million of securitized receivables, with an expected maturity of five years and a stated rate of 6.25 percent. This transaction resulted in a \$32 million pre-tax gain. Additionally, 1997 results included a \$13 million pre-tax gain attributable to the application of SFAS No. 125 to our 1995 securitization. Combined, these gains resulted in a \$45 million (\$.06 per share) increase in finance charge revenues and pre-tax earnings.

Our Consolidated Results of Operations also include reductions of finance charge revenues and bad debt expense related to the sold securitized receivables. These amounts represent payments to holders of our sold securitized receivables and are included in our pre-tax earnings reconciliation on page 25 as interest equivalent. Interest equivalent was \$48 million in 1998, \$33 million in 1997 and \$25 million in 1996. During 1999, our current \$800 million of sold securitized receivables will result in approximately \$12 million of interest equivalent per quarter.

**MAINFRAME OUTSOURCING**

In fourth quarter 1998, we obtained Board of Directors approval and announced our plan to outsource our mainframe computer data center functions. Subsequently, we finalized a contract with a vendor to provide us with these functions. As part of the plan, we will sell our mainframe equipment to the vendor and eliminate approximately 110 employee positions. The fourth quarter 1998 associated expenses were \$42 million (\$.06 per share) and are included in selling, publicity and administrative expenses.

The expenses recognized in the fourth quarter include \$36 million for the write-down of mainframe equipment, \$4 million in one-time, incremental fees and \$2 million in employee severance. In 1999, we expect to expense an additional \$5 million to \$10 million related to the outsourcing and to complete the transition by the third quarter.

**REAL ESTATE REPOSITIONING**

In 1996, we recorded a pre-tax charge of \$134 million (\$.18 per share) for real estate repositioning at Mervyn's and DSD to strengthen competitive positions and achieve improved long-term results. The charge included \$114 million for Mervyn's to sell or close its 25 stores in Florida and Georgia, and approximately ten other under-performing stores throughout the chain. Also included was a net pre-tax charge of \$20 million for DSD's sale of its Texas stores and the closure of two other stores.

As of year-end 1998, we have substantially completed our repositioning activities. Mervyn's has sold 24 stores and closed eight under-performing stores, while DSD has sold all stores included in the plan. Exit costs incurred in 1998 and 1997 (approximately \$5 million and \$17 million, respectively) were charged against the reserve. The reserve remaining at year-end 1998 was \$20 million, representing the estimated costs that will be incurred to sell the closed stores.

**START-UP EXPENSE**

In first quarter 1999, we will adopt Statement of Position (SOP) 98-5, "Reporting on the Costs of Start-Up Activities." The adoption will not impact total year start-up expense, but will shift approximately \$15 million of start-up expense out of first quarter 1999 into the remaining quarters. Substantially all of this effect will be at Target.

**YEAR 2000 READINESS DISCLOSURE**

We began mitigating the risks associated with the year 2000 date conversion in 1993. In 1997, we established a corporate-wide, comprehensive plan of action designed to achieve an uninterrupted transition into the year 2000. This project includes three major elements: 1) information technology (IT) systems, 2) non-IT, or embedded technology, systems and 3) relationships with our key business partners. The project is divided into five phases: awareness, assessment, renovation, validation and implementation. We have completed the awareness and assessment phases for all three elements, and are currently at different points in the renovation, validation and implementation phases for each of the elements. We are using both internal and external resources to implement our plan.

For our IT systems, we have assessed both existing and newly implemented hardware and applications (software and operating systems), and have finalized the development of plans to address all assessed risks. Approximately 95 percent of our hardware is year 2000 compliant, and the remainder is currently in the renovation phase. Approximately 80 percent of our applications are compliant, with 20 percent in the renovation and validation phases. We anticipate completion of the validation, or testing, phase for our software and all key operating systems by mid 1999. Our year 2000 readiness in this area has been significantly enhanced by our recent, substantial common systems development initiatives through which we have invested heavily in IT over the past three years.

We began addressing non-IT systems, or embedded technology/infrastructure, risks at our stores, distribution centers and headquarters facilities early in our initiative. Approximately 85 percent of our non-IT systems are compliant and the remainder are currently in the renovation phase. Validation and implementation are approximately 80 percent complete and we anticipate finishing the balance by mid 1999.

We have identified our key business partners and have been working closely with them to assess their readiness and mitigate the risk to us if they are not prepared for the year 2000. We have installed the year 2000 compliant version of Electronic Data Interchange (EDI) software and expect to finalize testing of EDI and other electronic transmissions with key business partners by mid/late 1999.



In planning for the most reasonably likely worst case scenarios, we have addressed all three major elements in our project. We believe our IT systems will be ready for the year 2000, but we may experience isolated incidences of non-compliance. We plan to allocate internal resources and retain dedicated consultants and vendor representatives to be ready to take action if these events occur. Our contingency plans for non-IT systems are currently in process, and we are simultaneously putting the required resources in place to carry out those plans for key non-IT systems, such as those within our stores. We are contacting many critical business partners to assess their readiness and will finish developing appropriate contingency plans by mid 1999. Although we value our established relationships with key vendors, substitute products for most of the goods we sell in our stores may be obtained from other vendors. If certain vendors are unable to deliver product on a timely basis, due to their own year 2000 issues, we anticipate there will be others who will be able to deliver similar goods. However, the lead time involved in sourcing certain goods may result in temporary shortages of relatively few items. We also recognize the risks to us if other key suppliers in areas such as utilities, communications, transportation, banking and government are not ready for the year 2000, and are developing contingency plans to minimize the potential adverse impacts of these risks.

In 1998, we expensed \$27 million related to year 2000 readiness. Prior to 1998, we expensed approximately \$5 million. We estimate approximately another \$20 million will be expensed as incurred to complete the year 2000 readiness program, with most of the spending occurring in the first half of 1999. In addition, this program has accelerated the timing of approximately \$25 million of planned capital expenditures. All expenditures related to our year 2000 readiness initiative will be funded by cash flow from operations and will not materially impact our other operating or investment plans.

#### INFORMATION SYSTEMS

We have invested heavily in information services (IS) in the past three years. We consolidated our IS operations in 1996 and are developing and implementing common systems across all three divisions to better leverage our resources. As a result

of our common systems initiatives, the growth in our IS expense substantially outpaced our revenue growth in recent years. Net IS expense growth in 1999 is expected to be similar to our revenue growth.

We adopted SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," in first quarter 1998. The adoption resulted in decreased expense, which increased pre-tax earnings by approximately \$68 million, net of depreciation, for 1998 (\$.09 per share), partially offsetting our other systems expenses. The annual impact of software capitalization will diminish significantly over the next few years.

#### FOURTH QUARTER RESULTS

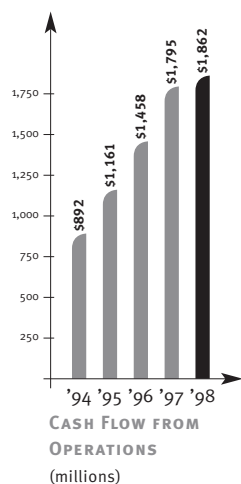
Due to the seasonal nature of the retail industry, fourth quarter operating results typically represent a substantially larger share of total year revenues and earnings due to the inclusion of the holiday shopping season.

Fourth quarter 1998 net earnings were \$423 million, compared with \$356 million in 1997. Earnings per share were \$.90 for the quarter, compared with \$.76 in 1997.

**Target's** pre-tax profit increased 26 percent to \$646 million, reflecting a 13.9 percent total revenue increase, a modestly higher gross margin rate due to lower markdowns and an operating expense rate essentially even with last year. Continued growth in the profitability of guest credit also contributed to Target's fourth quarter profit improvement. Comparable-store sales increased 6.8 percent.

**Mervyn's** pre-tax profit was equal to a year ago at \$104 million, reflecting a 3.4 percent total revenue increase, offset by a lower gross margin rate due to higher markdowns. The operating expense rate improved slightly primarily due to favorable sales leverage. Comparable-store sales increased 4.4 percent.

**DSD's** pre-tax profit increased 12 percent to \$115 million, reflecting a 4.2 percent total revenue increase and a significantly higher gross margin rate due to favorable markdowns and markup. The operating expense rate increased slightly over 1997. Comparable-store sales increased 3.5 percent.



Our financial condition remains strong. Cash flow from operations was \$1,862 million, driven by earnings growth, strong inventory control and accounts payable leveraging. Internally generated funds continue to be the most important component of our capital resources and, along with our ability to access a variety of financial markets, provide funding for our expansion plans. We continue to fund the growth in our business through a combination of retained earnings, debt and sold securitized receivables.

During 1998, average total receivables serviced (which includes both retained and sold securitized receivables) increased 6 percent, or \$124 million, due to growth of the Target Guest Card. Year-end total receivables serviced increased 3 percent from last year. In 1998, the number of Target Guest Card holders grew to over 12 million accounts at year end, compared with over nine million in 1997. In 1999, we expect continued growth of the Target Guest Card, which will benefit sales growth and credit profitability.

Inventory levels increased \$224 million in 1998. This growth was more than fully funded by the \$423 million increase in accounts payable over the same period.

Capital expenditures were \$1,657 million in 1998, compared with \$1,354 million in 1997. Investment in Target accounted for 82 percent of 1998 capital expenditures, with 10 percent at Mervyn's and 8 percent at DSD. Net property and equipment increased \$844 million, reflecting capital invested offset by depreciation. During 1998, Target opened 55 net new stores, Mervyn's closed one store and DSD closed two stores. Approximately 63 percent of total expenditures was for new stores, expansions and remodels. Other capital investments were for information systems, distribution and other infrastructure to support store growth. Over the past five years, Target's retail square footage has grown at a compound annual rate of approximately 10 percent. We expect Target to continue to expand in the range of 7 to 9 percent annually for the foreseeable future.

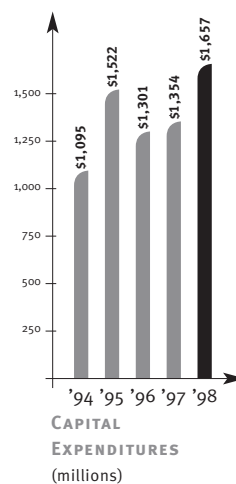
Capital expenditures in 1999 are expected to approximate \$1.8 billion for the construction of new stores, expansion and remodeling of existing stores, and other capital support. The majority of capital will continue to be invested in Target. In the upcoming year, Target plans to open 60 to 65 net new stores, including new stores in the Boston and Pittsburgh markets and additional stores in New York, New Jersey, North and South Carolina, and other states. DSD plans to open one new store in 1999.

Our plans also include full-scale remodels of 46 Target, seven Mervyn's and nine DSD stores.

Our financing strategy is to ensure liquidity and access to capital markets, to manage the amount of floating-rate debt and to maintain a balanced spectrum of debt maturities. Within these parameters, we seek to minimize our cost of borrowing.

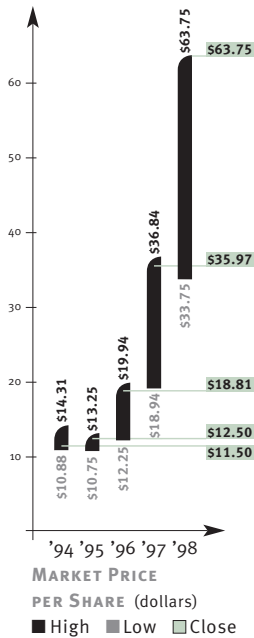
In January 1999, our Board of Directors authorized the repurchase of \$1 billion of our common stock. We expect to complete our repurchase program over the next two years. Repurchases will be made primarily in open market transactions, subject to market conditions. There was no repurchase activity in 1998.

A key to our access to liquidity and capital markets is maintaining strong investment-grade debt ratings. During the year, our long-term debt was upgraded by Moody's and Standard and Poor's. Further liquidity is provided by \$1.6 billion of committed lines of credit obtained through a group of 31 banks. Going forward, we expect that continued profit increases and cash flow from operations will allow us to fund our planned capital expenditures and share repurchase while maintaining or improving our debt ratings.



#### CREDIT RATINGS

	MOODY'S	STANDARD AND POOR'S	DUFF & PHELPS
LONG-TERM DEBT	A3	A-	A-
COMMERCIAL PAPER	P-2	A-2	D-1-
SOLD SECURITIZED RECEIVABLES	Aaa	AAA	N/A



### SHAREHOLDER RETURN

Our primary objective is to maximize shareholder value over time through a combination of share price appreciation and dividend income while maintaining a prudent and flexible capital structure. Our total return to shareholders was 79 percent in fiscal 1998 and 45 percent and 27 percent per year over the last five and ten years, respectively.

### MEASURING VALUE CREATION

We measure value creation internally using a form of Economic Value Added (EVA), which we define as after-tax segment profit less a capital charge for all investment employed. The capital

charge is an estimate of our after-tax cost of capital adjusted for the age of our stores, recognizing mature stores inherently have higher returns than newly opened stores. We estimate the after-tax cost of capital for our retail business is approximately 10 percent, while our credit operations' after-tax cost of capital is approximately 6 percent as a result of its ability to support higher debt levels. We expect to generate returns in excess of these costs of capital, thereby producing EVA.

EVA is used to evaluate our performance and to guide capital investment decisions. A significant portion of executive incentive compensation is tied to the achievement of targeted levels of annual EVA improvement.

### FINANCIAL OBJECTIVES

We believe that managing our business with a focus on EVA helps achieve our objective of annual earnings per share growth of 15 percent or more over time. We plan to produce these results, while maintaining a prudent debt ratio for our retail operations, which will allow efficient capital market access to fund our growth. Earnings per share before unusual items has grown at compound annual rates of 20 percent and 14 percent over the last five and ten years, respectively.

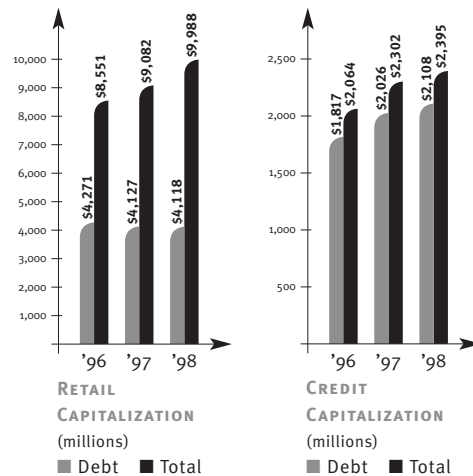
Reflecting our strong cash flow, we ended 1998 with a retail debt ratio of 41 percent. In evaluating our debt level, we separate retail operations from credit operations due to their inherently different financial characteristics. We view the appro-

priate capitalization of our credit business to be 88 percent debt and 12 percent equity, similar to ratios of comparable credit card businesses.

### DEBT RATIO\*

	1998	1997	1996
RETAIL	41%	45%	50%
CREDIT	88%	88%	88%
<b>TOTAL DEBT RATIO</b>	<b>50%</b>	<b>54%</b>	<b>57%</b>

(\*Includes the impact of sold securitized receivables and off-balance sheet operating leases as if they were debt.)



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### PRE-TAX SEGMENT PROFIT AND EBITDA

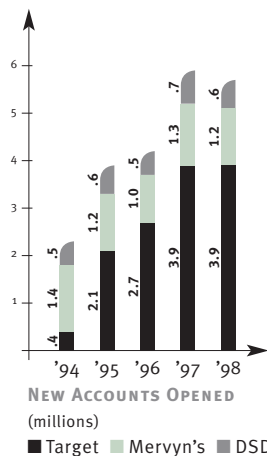
Pre-tax segment profit is first-in, first-out (FIFO) earnings before securitization effects, interest, corporate and other expense, and unusual items. EBITDA is pre-tax segment profit before depreciation and amortization. Management uses pre-tax segment profit and EBITDA, among other standards, to measure divisional operating performance. EBITDA supplements, and is not intended to represent a measure of performance in accordance with, disclosures required by generally accepted accounting principles. It is included as a tool for analyzing our results.

### PRE-TAX SEGMENT PROFIT AS A PERCENT OF REVENUES

	1998	1997	1996
TARGET	6.8%	6.3%	5.9%
MERVYN'S	5.7%	6.6%	6.2%
DSD	8.5%	7.6%	4.8%

### EBITDA AS A PERCENT OF REVENUES

	1998	1997	1996
TARGET	9.0%	8.5%	8.0%
MERVYN'S	9.0%	9.6%	9.7%
DSD	12.6%	11.6%	8.6%



We offer proprietary credit in each of our business segments. These credit programs strategically support our core retail operations and are an integral component of each business segment. The programs contribute to our earnings growth by driving sales at each of our business segments and through growth in credit contribution. Therefore, credit contribution, shown below, is reflected in each business segment's pre-tax profit

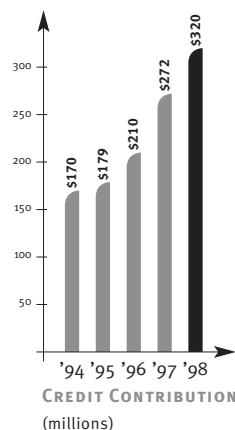
on a receivables serviced basis. Because we service both the retained and sold securitized receivables, we manage our portfolio on a serviced basis. In contrast, our consolidated financial statements reflect only our retained securitized receivables.

In 1998, pre-tax contribution from credit increased 18 percent over the prior year, compared to the 6 percent growth in average receivables serviced. The improved credit performance reflects continued growth of the Target Guest Card, along with strong revenue increases associated with changes in credit terms and expansion of our guest loyalty programs at all three divisions.

In 1999, we plan to continue to grow guest credit's contribution by acquiring new accounts, enhancing guest loyalty programs, controlling bad debt expense and leveraging operating expenses.

Merchant fees are the fees charged to our retail operations on a basis similar to fees charged by third-party credit cards. Merchant fees, including deferred billing fees charged for carrying non-revenue-earning revolving balances, are intercompany transfer prices that are eliminated in consolidation. Operations and marketing expenses are those associated with the acquisition, retention and servicing of accounts.

The year-end allowance for doubtful accounts was \$203 million, 8.1 percent of year-end receivables serviced, an increase of 1.2 percentage points from the prior year.



## FORWARD-LOOKING STATEMENTS

The preceding Management's Discussion and Analysis contains forward-looking statements regarding our performance, liquidity and the adequacy of our capital resources. Those statements are based on our current assumptions and expectations and are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. We caution that the forward-looking statements are qualified by the risks and challenges posed by increased competition, shifting consumer demand, changing consumer credit markets and general economic conditions, hiring and retaining effective team members, sourcing merchandise from domestic and international vendors, preparing for the impact of year 2000, and other risks and uncertainties. As a result, while we believe that there is a reasonable basis for the forward-looking statements, you should not place undue reliance on those statements. You are encouraged to review Exhibit (99)c attached to our Form 10-K Report for the year ended January 30, 1999, which contains additional important factors that may cause actual results to differ materially from those predicted in the forward-looking statements.

CREDIT CONTRIBUTION (MILLIONS OF DOLLARS)			
	1998	1997	1996
<b>REVENUES:</b>			
FINANCE CHARGE AND LATE FEE REVENUES	\$ 576	\$ 501	\$ 403
MERCHANT FEES AND OTHER	93	86	72
<b>TOTAL REVENUES</b>	<b>669</b>	<b>587</b>	<b>475</b>
<b>EXPENSES:</b>			
BAD DEBT	180	190	149
OPERATIONS AND MARKETING	169	125	116
<b>TOTAL EXPENSES</b>	<b>349</b>	<b>315</b>	<b>265</b>
<b>PRE-TAX CONTRIBUTION</b>	<b>\$ 320</b>	<b>\$ 272</b>	<b>\$ 210</b>

AVERAGE RECEIVABLES SERVICED (MILLIONS OF DOLLARS)			
	1998	1997	1996
TARGET	\$ 803	\$ 644	\$ 453
MERVYN'S	764	812	799
DSD	720	707	663
<b>TOTAL AVERAGE RECEIVABLES SERVICED</b>	<b>\$2,287</b>	<b>\$2,163</b>	<b>\$1,915</b>
<b>TOTAL YEAR-END RECEIVABLES SERVICED</b>	<b>\$2,496</b>	<b>\$2,424</b>	<b>\$2,184</b>

# BUSINESS SEGMENT COMPARISONS

(Millions of Dollars)	1998	1997	1996	1995*	1994	1993
<b>REVENUES</b>						
TARGET	\$23,056	\$20,368	\$17,853	\$15,807	\$13,600	\$11,743
MERVYN'S	4,176	4,227	4,369	4,516	4,561	4,436
DEPARTMENT STORE DIVISION	3,285	3,162	3,149	3,193	3,150	3,054
CORPORATE AND OTHER	434	—	—	—	—	—
<b>TOTAL REVENUES</b>	<b>\$30,951</b>	<b>\$27,757</b>	<b>\$25,371</b>	<b>\$23,516</b>	<b>\$21,311</b>	<b>\$19,233</b>
<b>PRE-TAX SEGMENT PROFIT</b>						
TARGET	\$ 1,578	\$ 1,287	\$ 1,048	\$ 721	\$ 732	\$ 600
MERVYN'S	240	280	272	117	198	172
DEPARTMENT STORE DIVISION	279	240	151	192	259	246
<b>TOTAL PRE-TAX SEGMENT PROFIT</b>	<b>\$ 2,097</b>	<b>\$ 1,807</b>	<b>\$ 1,471</b>	<b>\$ 1,030</b>	<b>\$ 1,189</b>	<b>\$ 1,018</b>
LIFO PROVISION CREDIT/(EXPENSE)	18	(6)	(9)	(17)	19	91
SECURITIZATION ADJUSTMENTS:						
SFAS 125 GAIN/(LOSS),NET	(3)	45	—	—	—	—
INTEREST EQUIVALENT	(48)	(33)	(25)	(10)	—	—
INTEREST EXPENSE	(398)	(416)	(442)	(442)	(426)	(446)
MAINFRAME OUTSOURCING	(42)	—	—	—	—	—
REAL ESTATE REPOSITIONING	—	—	(134)	—	—	—
CORPORATE AND OTHER	(68)	(71)	(78)	(60)	(68)	(56)
<b>EARNINGS BEFORE INCOME TAXES AND EXTRAORDINARY CHARGES</b>	<b>\$ 1,556</b>	<b>\$ 1,326</b>	<b>\$ 783</b>	<b>\$ 501</b>	<b>\$ 714</b>	<b>\$ 607</b>
<b>ASSETS</b>						
TARGET	\$10,475	\$ 9,487	\$ 8,257	\$ 7,330	\$ 6,247	\$ 5,495
MERVYN'S	2,339	2,281	2,658	2,776	2,917	2,750
DEPARTMENT STORE DIVISION	2,123	2,188	2,296	2,309	2,392	2,240
CORPORATE AND OTHER	729	235	178	155	141	293
<b>TOTAL ASSETS</b>	<b>\$15,666</b>	<b>\$14,191</b>	<b>\$13,389</b>	<b>\$12,570</b>	<b>\$11,697</b>	<b>\$10,778</b>
<b>DEPRECIATION AND AMORTIZATION</b>						
TARGET	\$ 496	\$ 437	\$ 377	\$ 328	\$ 294	\$ 264
MERVYN'S	138	126	151	150	145	146
DEPARTMENT STORE DIVISION	135	128	119	113	108	104
CORPORATE AND OTHER	11	2	3	3	1	1
<b>TOTAL DEPRECIATION AND AMORTIZATION</b>	<b>\$ 780</b>	<b>\$ 693</b>	<b>\$ 650</b>	<b>\$ 594</b>	<b>\$ 548</b>	<b>\$ 515</b>
<b>CAPITAL EXPENDITURES</b>						
TARGET	\$ 1,352	\$ 1,155	\$ 1,048	\$ 1,067	\$ 842	\$ 716
MERVYN'S	169	72	79	273	146	180
DEPARTMENT STORE DIVISION	127	124	173	161	96	80
CORPORATE AND OTHER	9	3	1	21	11	2
<b>TOTAL CAPITAL EXPENDITURES</b>	<b>\$ 1,657</b>	<b>\$ 1,354</b>	<b>\$ 1,301</b>	<b>\$ 1,522</b>	<b>\$ 1,095</b>	<b>\$ 978</b>
<b>SEGMENT EBITDA</b>						
TARGET	\$ 2,074	\$ 1,724	\$ 1,425	\$ 1,049	\$ 1,026	\$ 864
MERVYN'S	378	406	423	267	343	318
DEPARTMENT STORE DIVISION	414	368	270	305	367	350
<b>TOTAL SEGMENT EBITDA</b>	<b>\$ 2,866</b>	<b>\$ 2,498</b>	<b>\$ 2,118</b>	<b>\$ 1,621</b>	<b>\$ 1,736</b>	<b>\$ 1,532</b>

\*Consisted of 53 Weeks

Each operating division's assets and operating results include the retained securitized receivables held by Dayton Hudson Receivables Corporation and Retailers National Bank, as well as related income and expenses.

## CONSOLIDATED RESULTS OF OPERATIONS

(MILLIONS OF DOLLARS, EXCEPT PER SHARE DATA)

	1998	1997	1996
<b>REVENUES</b>	<b>\$30,951</b>	<b>\$27,757</b>	<b>\$25,371</b>
<b>COSTS AND EXPENSES</b>			
COST OF RETAIL SALES, BUYING AND OCCUPANCY	22,634	20,320	18,628
SELLING, PUBLICITY AND ADMINISTRATIVE	5,077	4,532	4,289
DEPRECIATION AND AMORTIZATION	780	693	650
INTEREST EXPENSE	398	416	442
TAXES OTHER THAN INCOME TAXES	506	470	445
REAL ESTATE REPOSITIONING	—	—	134
<b>TOTAL COSTS AND EXPENSES</b>	<b>29,395</b>	<b>26,431</b>	<b>24,588</b>
EARNINGS BEFORE INCOME TAXES AND EXTRAORDINARY CHARGES	1,556	1,326	783
PROVISION FOR INCOME TAXES	594	524	309
<b>NET EARNINGS BEFORE EXTRAORDINARY CHARGES</b>	<b>962</b>	<b>802</b>	<b>474</b>
EXTRAORDINARY CHARGES FROM PURCHASE AND REDEMPTION OF DEBT, NET OF TAX	27	51	11
<b>NET EARNINGS</b>	<b>\$ 935</b>	<b>\$ 751</b>	<b>\$ 463</b>
<b>BASIC EARNINGS PER SHARE</b>			
EARNINGS BEFORE EXTRAORDINARY CHARGES	\$ 2.14	\$ 1.80	\$ 1.05
EXTRAORDINARY CHARGES	(.06)	(.12)	(.03)
<b>BASIC EARNINGS PER SHARE</b>	<b>\$ 2.08</b>	<b>\$ 1.68</b>	<b>\$ 1.02</b>
<b>DILUTED EARNINGS PER SHARE</b>			
EARNINGS BEFORE EXTRAORDINARY CHARGES	\$ 2.04	\$ 1.70	\$ 1.00
EXTRAORDINARY CHARGES	(.06)	(.11)	(.03)
<b>DILUTED EARNINGS PER SHARE</b>	<b>\$ 1.98</b>	<b>\$ 1.59</b>	<b>\$ .97</b>
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING (MILLIONS)</b>			
BASIC	440.0	436.1	433.3
DILUTED	467.3	463.7	460.9

( See Notes to Consolidated Financial Statements throughout pages 25-36. )

### SUMMARY OF ACCOUNTING POLICIES

**Organization** Dayton Hudson Corporation is a general merchandise retailer. Our operating divisions consist of Target, Mervyn's and the Department Store Division (DSD). Target, an upscale discount chain located in 41 states, contributed 75 percent of our 1998 revenues. Mervyn's, a middle-market promotional department store located in 14 states in the West, South and Midwest, contributed 13 percent of revenues. DSD, a traditional department store located in eight states in the upper Midwest, contributed 11 percent of revenues. The Associated Merchandising Corporation and Rivertown Trading Company contributed 1 percent of 1998 revenues.

**Consolidation** The financial statements include the balances of the Corporation and its subsidiaries after elimination of material intercompany balances and transactions. All material subsidiaries are wholly owned.

**Use of Estimates** The preparation of our financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results may differ from those estimates.

**Fiscal Year** Our fiscal year ends on the Saturday nearest January 31. Unless otherwise stated, references to years in this report relate to fiscal years rather than to calendar years. Fiscal years 1998, 1997 and 1996 consisted of 52 weeks.

### REVENUES

Finance charge and late fee revenues on internal credit sales, net of the effect of sold securitized receivables, were \$447 million on sales of \$4.5 billion in 1998, \$459 million on sales of \$4.2 billion in 1997 and \$346 million on sales of \$3.8 billion in 1996. Leased department sales were \$188 million, \$165 million and \$162 million in 1998, 1997 and 1996, respectively.

**EARNINGS PER SHARE**

Basic EPS is net earnings, less dividend requirements on the Employee Stock Ownership Plan (ESOP) preferred shares, divided by the average number of common shares outstanding during the period.

Diluted EPS assumes conversion of the ESOP preferred shares into common shares and replacement of the ESOP preferred dividends with common stock dividends. Net earnings were also adjusted for expense required to fund the ESOP debt service, prior to repayment of the loan. References herein to earnings per share refer to Diluted EPS.

All earnings per share, dividends per share and common shares outstanding reflect our 1998 two-for-one share split and our three-for-one share split in 1996.

	BASIC EPS			DILUTED EPS		
	1998	1997	1996	1998	1997	1996
(MILLIONS, EXCEPT PER SHARE DATA)						
NET EARNINGS*	\$962	\$802	\$474	\$962	\$802	\$474
LESS: ESOP NET EARNINGS ADJUSTMENT	(20)	(20)	(20)	(8)	(13)	(14)
ADJUSTED NET EARNINGS*	\$942	\$782	\$454	\$954	\$789	\$460
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	440.0	436.1	433.3	440.0	436.1	433.3
PERFORMANCE SHARES	—	—	—	.8	1.3	1.7
STOCK OPTIONS	—	—	—	5.5	3.9	2.4
ASSUMED CONVERSION OF ESOP PREFERRED SHARES	—	—	—	21.0	22.4	23.5
TOTAL COMMON EQUIVALENT SHARES OUTSTANDING	440.0	436.1	433.3	467.3	463.7	460.9
EARNINGS PER SHARE*	\$2.14	\$1.80	\$1.05	\$2.04	\$1.70	\$1.00

(\*Before extraordinary charges)

**ADVERTISING COSTS**

Advertising costs, included in selling, publicity and administrative expenses, are expensed as incurred and were \$745 million, \$679 million and \$634 million for 1998, 1997 and 1996, respectively.

**IMPACT OF YEAR 2000**

Year 2000 related costs, included in selling, publicity and administrative expenses, are expensed as incurred. In 1998 we expensed \$27 million related to year 2000 readiness. Prior to 1998, we expensed approximately \$5 million. Year 2000 capital expenditures are recorded at cost less accumulated depreciation.

**MAINFRAME OUTSOURCING**

In fourth quarter 1998, we obtained Board of Directors approval and announced our plan to outsource our mainframe computer data center functions. Subsequently, we finalized a contract with a vendor to provide us with these functions. As part of the plan, we will sell our mainframe equipment to the vendor and eliminate approximately 110 employee positions. The fourth quarter 1998 associated expenses were \$42 million (\$.06 per share) and are included in selling, publicity and administrative expenses.

The expenses recognized in the fourth quarter include \$36 million for the write-down of mainframe equipment, \$4 million in one-time, incremental fees and \$2 million in employee severance. We expect to complete the transition by third quarter 1999.

**REAL ESTATE REPOSITIONING**

In 1996, we recorded a pre-tax charge of \$134 million (\$.18 per share) for real estate repositioning at Mervyn's and DSD to strengthen competitive positions and achieve improved long-term results. The charge included \$114 million for Mervyn's to sell or close its 25 stores in Florida and Georgia, and approximately ten other under-performing stores throughout the chain. Also included was a net pre-tax charge of \$20 million for DSD's sale of its Texas stores and the closure of two other stores.

As of year-end 1998, we have substantially completed our repositioning activities. Mervyn's has sold 24 stores and closed eight under-performing stores, while DSD has sold all stores included in the plan. Exit costs incurred in 1998 and 1997 (approximately \$5 million and \$17 million, respectively) were charged against the reserve. The reserve remaining at year-end 1998 was \$20 million, representing the estimated costs that will be incurred to sell the closed stores.

**START-UP EXPENSE**

In first quarter 1999, we will adopt SOP 98-5, "Reporting on the Costs of Start-Up Activities." The adoption will not impact total year start-up expense, but will shift approximately \$15 million of start-up expense out of first quarter 1999 into the remaining quarters. Substantially all of this effect will be at Target.



# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(MILLIONS OF DOLLARS)	JANUARY 30, 1999	JANUARY 31, 1998
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
CASH AND CASH EQUIVALENTS	\$ 255	\$ 211
RETAINED SECURITIZED RECEIVABLES	1,656	1,555
MERCHANDISE INVENTORIES	3,475	3,251
OTHER	619	544
<b>TOTAL CURRENT ASSETS</b>	<b>6,005</b>	<b>5,561</b>
<b>PROPERTY AND EQUIPMENT</b>		
LAND	1,868	1,712
BUILDINGS AND IMPROVEMENTS	7,217	6,497
FIXTURES AND EQUIPMENT	3,274	2,915
CONSTRUCTION-IN-PROGRESS	378	389
ACCUMULATED DEPRECIATION	(3,768)	(3,388)
<b>PROPERTY AND EQUIPMENT, NET</b>	<b>8,969</b>	<b>8,125</b>
<b>OTHER</b>	<b>692</b>	<b>505</b>
<b>TOTAL ASSETS</b>	<b>\$15,666</b>	<b>\$14,191</b>
<b>LIABILITIES AND SHAREHOLDERS' INVESTMENT</b>		
<b>CURRENT LIABILITIES</b>		
ACCOUNTS PAYABLE	\$ 3,150	\$ 2,727
ACCRUED LIABILITIES	1,444	1,346
INCOME TAXES PAYABLE	207	210
CURRENT PORTION OF LONG-TERM DEBT AND NOTES PAYABLE	256	273
<b>TOTAL CURRENT LIABILITIES</b>	<b>5,057</b>	<b>4,556</b>
<b>LONG-TERM DEBT</b>	<b>4,452</b>	<b>4,425</b>
<b>DEFERRED INCOME TAXES AND OTHER</b>	<b>822</b>	<b>720</b>
<b>CONVERTIBLE PREFERRED STOCK, NET</b>	<b>24</b>	<b>30</b>
<b>SHAREHOLDERS' INVESTMENT</b>		
CONVERTIBLE PREFERRED STOCK	268	280
COMMON STOCK	74	73
ADDITIONAL PAID-IN-CAPITAL	286	196
RETAINED EARNINGS	4,683	3,930
LOAN TO ESOP	—	(19)
<b>TOTAL SHAREHOLDERS' INVESTMENT</b>	<b>5,311</b>	<b>4,460</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' INVESTMENT</b>	<b>\$15,666</b>	<b>\$14,191</b>

( See Notes to Consolidated Financial Statements throughout pages 25-36. )

## CASH EQUIVALENTS

Cash equivalents represent short-term investments with a maturity of three months or less from the time of purchase.

## RETAINED SECURITIZED RECEIVABLES

Through our special purpose subsidiary, Dayton Hudson Receivables Corporation (DHRC), we transfer, on an ongoing basis, substantially all of our receivables to a trust in return for certificates representing undivided interests in the trust's assets. DHRC owns the undivided interest in the trust's assets, other than the sold securitized receivables and the 2 percent of trust assets held by Retailers National Bank (RNB), a wholly owned subsidiary of the Corporation that also services the receivables. Prior to June 1998, RNB held 5 percent of trust assets. The undivided interests held by DHRC and RNB, as well as related

income and expenses, are reflected in each operating division's assets and operating results based on the origin of the credit sale giving rise to the receivable.

During third quarter 1998, DHRC sold to the public \$400 million of securitized receivables. This issue of asset-backed securities had an expected maturity of five years and a stated rate of 5.90 percent. Proceeds from the sale were used for general corporate purposes, including funding the growth of receivables. As required by SFAS No. 125, the sale transaction resulted in a \$35 million pre-tax gain (\$.05 per share). This gain was offset by a \$38 million pre-tax charge (\$.05 per share) related to the maturity of our 1995 securitization. The net impact was a \$3 million (less than \$.01 per share) reduction of 1998 finance charge revenues and pre-tax earnings.

In 1997, DHRC sold to the public \$400 million of securitized receivables, with an expected maturity of five years and a stated rate of 6.25 percent. This transaction resulted in a \$32 million pre-tax gain. Additionally, 1997 results included a \$13 million pre-tax gain attributable to the application of SFAS No. 125 to our 1995 securitization. Combined, these gains resulted in a \$45 million (\$.06 per share) increase in finance charge revenues and pre-tax earnings.

As of year-end 1998, \$800 million of securitized receivables have been sold to investors and DHRC has borrowed \$100 million of notes payable secured by receivables.

The fair value of the retained securitized receivables, classified as available for sale, was \$1,656 million and \$1,555 million at year-end 1998 and 1997, respectively. The fair value of the retained securitized receivables was lower than the aggregate receivables value by \$156 million and \$126 million at year-end 1998 and 1997, respectively, due to our estimates of ultimate collectibility. Write-downs have been included in selling, publicity and administrative expenses in our Consolidated Results of Operations.

#### INVENTORIES

Inventories and the related cost of sales are accounted for by the retail inventory accounting method using the last-in, first-out (LIFO) basis and are stated at the lower of LIFO cost or market. The cumulative LIFO provision was \$60 million and \$92 million at year-end 1998 and year-end 1997, respectively.

#### PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over estimated useful lives. Buildings and improvements are depreciated over eight to 55 years. Furniture and fixtures are depreciated over three to eight years. Accelerated depreciation methods are generally used for income tax purposes.

On an ongoing basis, as required by SFAS No. 121, we evaluate our long-lived assets for impairment using undiscounted cash flow analysis. Impairment losses due to main-frame outsourcing and real estate repositioning are described on page 27.

#### INTERNAL USE SOFTWARE

We adopted SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," in first quarter 1998. The adoption resulted in decreased expense, which increased pre-tax earnings by approximately \$68 million, net of depreciation, for 1998 (\$.09 per share), partially offsetting our other systems expenses. The annual impact of software capitalization will diminish significantly over the next few years. Software is depreciated over four years.

#### ACCOUNTS PAYABLE

Outstanding drafts included in accounts payable were \$519 million and \$452 million at year-end 1998 and 1997, respectively.

#### INVENTORY SHORTAGE TAX MATTER

We have historically deducted for income tax purposes the inventory shortage expense accrued for book purposes in a manner consistent with industry practice. With respect to our 1983 Federal income tax return, the Internal Revenue Service (IRS) challenged the practice of deducting accrued shortage not verified with a year-end physical inventory. In 1997, the United States Tax Court (Tax Court) returned a judgment on this issue in favor of the IRS. We appealed the decision to the United States Court of Appeals for the Eighth Circuit (Appeals Court) and in August 1998, the Appeals Court reversed the Tax Court decision. In November 1998, we received notification that the IRS did not appeal and the 1983 case had been closed. The beneficial effect resulting from the outcome of the 1983 case is \$20 million (\$.04 per share) and has been reflected as a reduction in the 1998 fourth-quarter and full-year effective income tax rates.

#### COMMITMENTS AND CONTINGENCIES

Commitments for the purchase, construction, lease or remodeling of real estate, facilities and equipment were approximately \$412 million at year-end 1998. We are exposed to claims and litigation arising out of the ordinary course of business. Management, after consulting with legal counsel, believes the currently identified claims and litigation will not have a material adverse effect on our results of operations or our financial condition taken as a whole.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(MILLIONS OF DOLLARS)	1998	1997	1996
<b>OPERATING ACTIVITIES</b>			
NET EARNINGS BEFORE EXTRAORDINARY CHARGES	\$ 962	\$ 802	\$ 474
RECONCILIATION TO CASH FLOW:			
DEPRECIATION AND AMORTIZATION	780	693	650
DEFERRED TAX PROVISION	(11)	(63)	(107)
OTHER NONCASH ITEMS AFFECTING EARNINGS	70	43	11
CHANGES IN OPERATING ACCOUNTS PROVIDING/(REQUIRING) CASH:			
RETAINED SECURITIZED RECEIVABLES	(56)	(235)	(210)
SOLD SECURITIZED RECEIVABLES	400	400	—
MATURITY OF SOLD SECURITIZED RECEIVABLES	(400)	—	—
MERCHANDISE INVENTORIES	(198)	(220)	(13)
ACCOUNTS PAYABLE	336	199	281
ACCRUED LIABILITIES	75	182	275
INCOME TAXES PAYABLE	15	62	55
OTHER	(111)	(68)	42
CASH FLOW PROVIDED BY OPERATIONS	1,862	1,795	1,458
<b>INVESTING ACTIVITIES</b>			
EXPENDITURES FOR PROPERTY AND EQUIPMENT	(1,657)	(1,354)	(1,301)
PROCEEDS FROM DISPOSALS OF PROPERTY AND EQUIPMENT	107	123	103
ACQUISITION OF SUBSIDIARIES, NET OF CASH RECEIVED	(100)	—	—
OTHER	(5)	—	—
CASH FLOW REQUIRED FOR INVESTING ACTIVITIES	(1,655)	(1,231)	(1,198)
NET FINANCING SOURCES	207	564	260
<b>FINANCING ACTIVITIES</b>			
DECREASE IN NOTES PAYABLE, NET	(305)	(127)	(416)
ADDITIONS TO LONG-TERM DEBT	600	375	700
REDUCTIONS OF LONG-TERM DEBT	(343)	(690)	(414)
PRINCIPAL PAYMENTS RECEIVED ON LOAN TO ESOP	8	22	40
DIVIDENDS PAID	(178)	(165)	(155)
OTHER	55	31	11
CASH FLOW USED FOR FINANCING ACTIVITIES	(163)	(554)	(234)
NET INCREASE IN CASH AND CASH EQUIVALENTS	44	10	26
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	211	201	175
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 255</b>	<b>\$ 211</b>	<b>\$ 201</b>

Amounts presented herein are on a cash basis and therefore may differ from those shown in other sections of this Annual Report. Cash paid for income taxes was \$564 million, \$454 million and \$352 million during 1998, 1997 and 1996, respectively. Cash paid for interest (including interest capitalized) was \$393 million, \$485 million and \$434 million during 1998, 1997 and 1996, respectively.

See Notes to Consolidated Financial Statements throughout pages 25-36.

### ACQUISITIONS

In first quarter 1998, we acquired The Associated Merchandising Corporation, an international sourcing company that provides services to our three operating divisions and other retailers, and we also acquired Rivertown Trading Company, a direct marketing firm. Both subsidiaries are included in the consolidated financial statements. Their revenues and operating results are included in corporate and other in our pre-tax earnings reconciliation on page 25 and were immaterial in 1998.

### LEASES

Assets held under capital leases are included in property and equipment and are charged to depreciation and interest over the life of the lease. Operating leases are not capitalized and lease rentals are expensed. Rent expense on buildings, classified in buying and occupancy, includes percentage rents that are based on a percentage of retail sales over stated levels. Total rent expense was \$150 million, \$143 million and \$146 million in 1998, 1997 and 1996, respectively. Most of the long-term leases include options to renew, with terms varying from five to 30 years. Certain leases also include options to purchase the property.

Future minimum lease payments required under non-cancelable lease agreements existing at January 30, 1999 were:

FUTURE MINIMUM LEASE PAYMENTS		
(MILLIONS OF DOLLARS)	OPERATING LEASES	CAPITAL LEASES
1999	\$ 115	\$ 23
2000	94	22
2001	86	21
2002	78	21
2003	63	19
AFTER 2003	564	142
TOTAL FUTURE MINIMUM LEASE PAYMENTS	\$1,000	\$248
LESS: INTEREST*	(281)	(103)
PRESENT VALUE OF MINIMUM LEASE PAYMENTS	\$ 719	\$145**

\*Calculated using the interest rate at inception for each lease (the weighted average interest rate was 9.0 percent).

\*\*Includes current portion of \$9 million.

#### LINES OF CREDIT

At January 30, 1999, two committed credit agreements totaling \$1.6 billion were in place through a group of 31 banks at specified rates. There were no balances outstanding at any time during 1998 or 1997 under these agreements.

#### LONG-TERM DEBT AND NOTES PAYABLE

At January 30, 1999, \$100 million of notes payable were outstanding representing financing secured by the Dayton Hudson Credit Card Master Trust Series 1996-1 Class A variable funding certificate. This certificate is debt of DHRC and is classified in the current portion of long-term debt and notes payable in our Consolidated Statements of Financial Position. The average amount of secured and unsecured notes payable outstanding during 1998 was \$715 million at a weighted-average interest rate of 5.7 percent.

In 1998, we issued \$200 million of long-term debt at 6.65 percent, maturing in 2028 and \$200 million at 5.88 percent, maturing in 2008. We also issued \$200 million of long-term debt maturing in 2010, which is puttable in 2000, and we sold to a third party the right to call and remarket these securities in 2000 to their final maturity. The proceeds from all issuances were used for general corporate purposes.

Also during 1998, we repurchased \$127 million of long-term debt with an average remaining life of 21 years and a weighted-average interest rate of 9.2 percent, resulting in an after-tax extraordinary charge of \$27 million (\$.06 per share).

At year end the debt portfolio was as follows:

LONG-TERM DEBT AND NOTES PAYABLE			
(MILLIONS OF DOLLARS)	JANUARY 30, 1999 RATE*	BALANCE	JANUARY 31, 1998 RATE* BALANCE
NOTES PAYABLE	5.2%	\$ 100	5.7% \$ 405
NOTES AND DEBENTURES:			
DUE 1998-2002	8.8	1,080	8.9 1,245
DUE 2003-2007	7.4	965	7.4 966
DUE 2008-2012	7.5	764	9.3 383
DUE 2013-2017	9.6	70	9.6 70
DUE 2018-2022	9.1	709	9.1 816
DUE 2023-2027	7.2	575	7.2 575
DUE 2028-2037	6.4	300	5.9 100
TOTAL NOTES PAYABLE, NOTES AND DEBENTURES**	7.9%	\$4,563	8.1% \$4,560
CAPITAL LEASE OBLIGATIONS		145	138
LESS: CURRENT PORTION		(256)	(273)
LONG-TERM DEBT AND NOTES PAYABLE		\$4,452	\$4,425

\*Reflects the weighted-average stated interest rate as of year end.

\*\*The estimated fair value of total notes payable and notes and debentures, using a discounted cash flow analysis based on our incremental interest rates for similar types of financial instruments, was \$5,123 million at January 30, 1999 and \$5,025 at January 31, 1998.

Required principal payments on long-term debt and notes payable over the next five years, excluding capital lease obligations, are \$247 million in 1999, \$389 million in 2000, \$352 million in 2001, \$192 million in 2002 and \$464 million in 2003.

#### DERIVATIVES

From time to time we use interest rate swaps to hedge our exposure to interest rate risk. The fair value of the swaps is not reflected in the financial statements and any gain or loss recognized upon early termination is amortized over the life of the related debt obligation. The fair value of existing swaps is immaterial.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which is required to be adopted for fiscal years beginning after June 15, 1999. The adoption of this new statement is not expected to have a material effect on our earnings or financial position.

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' INVESTMENT

(MILLIONS OF DOLLARS, EXCEPT SHARE DATA)	CONVERTIBLE PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	LOAN TO ESOP	TOTAL
<b>FEBRUARY 3, 1996</b>	<b>\$257</b>	<b>\$72</b>	<b>\$110</b>	<b>\$3,044</b>	<b>\$(80)</b>	<b>\$3,403</b>
CONSOLIDATED NET EARNINGS	—	—	—	463	—	463
DIVIDENDS DECLARED	—	—	—	(159)	—	(159)
TAX BENEFIT ON UNALLOCATED PREFERRED STOCK DIVIDENDS AND OPTIONS	—	—	7	—	—	7
CONVERSION OF PREFERRED STOCK AND OTHER	14	—	16	—	—	30
NET REDUCTION IN LOAN TO ESOP	—	—	—	—	33	33
STOCK OPTION ACTIVITY	—	—	13	—	—	13
<b>FEBRUARY 1, 1997</b>	<b>271</b>	<b>72</b>	<b>146</b>	<b>3,348</b>	<b>(47)</b>	<b>3,790</b>
CONSOLIDATED NET EARNINGS	—	—	—	751	—	751
DIVIDENDS DECLARED	—	—	—	(169)	—	(169)
TAX BENEFIT ON UNALLOCATED PREFERRED STOCK DIVIDENDS AND OPTIONS	—	—	17	—	—	17
CONVERSION OF PREFERRED STOCK AND OTHER	9	—	18	—	—	27
NET REDUCTION IN LOAN TO ESOP	—	—	—	—	28	28
STOCK OPTION ACTIVITY	—	1	15	—	—	16
<b>JANUARY 31, 1998</b>	<b>280</b>	<b>73</b>	<b>196</b>	<b>3,930</b>	<b>(19)</b>	<b>4,460</b>
CONSOLIDATED NET EARNINGS	—	—	—	935	—	935
DIVIDENDS DECLARED	—	—	—	(182)	—	(182)
TAX BENEFIT ON UNALLOCATED PREFERRED STOCK DIVIDENDS AND OPTIONS	—	—	25	—	—	25
CONVERSION OF PREFERRED STOCK AND OTHER	(12)	—	37	—	—	25
NET REDUCTION IN LOAN TO ESOP	—	—	—	—	19	19
STOCK OPTION ACTIVITY	—	1	28	—	—	29
<b>JANUARY 30, 1999</b>	<b>\$268</b>	<b>\$74</b>	<b>\$286</b>	<b>\$4,683</b>	<b>\$ —</b>	<b>\$5,311</b>

**Common Stock** Authorized 3,000,000,000 shares, \$.1667 par value; 441,809,806 shares issued and outstanding at January 30, 1999; 437,833,456 shares issued and outstanding at January 31, 1998.

In January 1999, our Board of Directors authorized the repurchase of \$1 billion of our common stock. We expect to complete our repurchase program over the next two years. Repurchases will be made primarily in open market transactions, subject to market conditions. There was no repurchase activity in 1998.

**Preferred Stock** Authorized 5,000,000 shares; Series B ESOP Convertible Preferred Stock \$.01 par value, 338,492 shares issued and outstanding at January 30, 1999; 362,004 shares issued and outstanding at January 31, 1998. Each share converts into 60 shares of our common stock, has voting rights equal to the equivalent number of common shares and is entitled to cumulative annual dividends of \$56.20. Beginning in January 2000, under certain circumstances, the shares may be converted to common stock at our election, or the election of the ESOP.

**Junior Preferred Stock Rights** In September 1996, we declared a distribution of shares of preferred share purchase rights. Terms of the plan provide for a distribution of one preferred share purchase right for each outstanding share of our common stock. Each right will entitle shareholders to buy one six-hundredth of a share of a new series of junior participating preferred stock at an exercise price of \$50.00, subject to adjustment. The rights will be exercisable only if a person or group acquires ownership of 20 percent or more of our common stock or announces a tender offer to acquire 30 percent or more of our common stock.

See Notes to Consolidated Financial Statements throughout pages 25-36.

# STOCK OPTION PLAN

We have a stock option plan for key employees. Options include Incentive Stock Options, Non-Qualified Stock Options or a combination of the two. A majority of the options vest annually in equal amounts over a four-year period. These options are cumulatively exercisable and expire no later than ten years after the date of the grant. We also have a non-qualified stock option plan for non-employee members of our Board of Directors. Such options become exercisable after one year and have a ten-year term. The typical frequency of stock option grants is once each fiscal year; due to a change in timing, two annual grant cycles fell into 1996.

A performance share and restricted share plan exists for key employees although no grants have been made since 1995. Performance shares are issued to the extent certain financial goals are met over the four-year period from the date of grant. Restricted shares are issued four years from the date of grant. Once issued, performance shares and restricted shares generally vest only upon retirement.

## OPTIONS, PERFORMANCE SHARES AND RESTRICTED SHARES OUTSTANDING (SHARES IN THOUSANDS)

	OPTIONS					
	TOTAL OUTSTANDING			CURRENTLY EXERCISABLE		
	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	PERFORMANCE SHARES	RESTRICTED SHARES
FEBRUARY 3, 1996	9,967	\$11.09	5,372	\$10.30	1,607	359
GRANTED	6,539	16.09				
CANCELED	(145)	12.19				
EXERCISED	(1,751)	9.67				
FEBRUARY 1, 1997	14,610	\$13.48	4,782	\$10.88	1,264	311
GRANTED	2,653	33.63				
CANCELED	(346)	15.02				
EXERCISED	(2,450)	10.27				
JANUARY 31, 1998	14,467	\$17.69	4,860	\$13.15	794	212
GRANTED	3,309	48.16				
CANCELED	(173)	23.77				
EXERCISED	(2,023)	12.27				
<b>JANUARY 30, 1999</b>	<b>15,580</b>	<b>\$24.79</b>	<b>5,685</b>	<b>\$16.49</b>	<b>519*</b>	<b>123*</b>

\*Represents shares issued subsequent to year end pursuant to the plan.

## OPTIONS OUTSTANDING

(SHARES IN THOUSANDS)	SHARES OUTSTANDING AT JANUARY 30, 1999	RANGE OF EXERCISE PRICE
	6,274	\$ 8.83 - \$15.00
	3,626	\$15.00 - \$25.00
	2,371	\$25.00 - \$35.00
	1,221	\$35.00 - \$45.00
	2,088	\$45.00 - \$60.22
<b>TOTAL</b>	<b>15,580</b>	<b>\$ 8.83 - \$60.22</b>

As of January 30, 1999, outstanding options had a weighted-average remaining contractual life of 7.7 years. The number of unissued common shares reserved for future grants under the stock option plans were 4,136,969 at January 30, 1999, and 7,143,228 at January 31, 1998.

We apply Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," to account for our stock option and performance share plans. Because the exercise price of our employee stock options equals the market price of the underlying stock on the grant date, no compensation expense related to options is recognized. Performance share compensation expense is recognized based on the fair value of the shares at the end of each reporting period. If we had elected to recognize compensation cost based on the fair value of the options and performance shares at grant date as prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation," net earnings would have been the pro forma amounts shown below. EPS calculated under SFAS No. 123 was unchanged from reported EPS.

## PRO FORMA EARNINGS

	1998	1997	1996
NET EARNINGS — AS REPORTED	<b>\$935</b>	\$751	\$463
NET EARNINGS — PRO FORMA	<b>\$934</b>	\$751	\$462

The Black-Scholes method was used to estimate the fair value of the options at grant date based on the following factors:

	1998	1997	1996
DIVIDEND YIELD	.7%	1.0%	1.7%
VOLATILITY	30%	25%	25%
RISK FREE INTEREST RATE	4.6%	5.4%	6.3%
EXPECTED LIFE IN YEARS	5.6	5.6	5.6
WEIGHTED AVERAGE FAIR VALUE AT GRANT DATE	<b>\$16.24</b>	\$10.52	\$5.65

# INCOME TAXES

Reconciliation of tax rates is as follows:

PERCENT OF EARNINGS BEFORE INCOME TAXES			
	1998	1997	1996
FEDERAL STATUTORY RATE	35.0%	35.0%	35.0%
STATE INCOME TAXES,			
NET OF FEDERAL TAX BENEFIT	4.5	4.5	4.6
DIVIDENDS ON PREFERRED STOCK	(.5)	(.5)	(.8)
WORK OPPORTUNITY TAX CREDITS	(.2)	(.1)	—
INVENTORY SHORTAGE TAX MATTER	(1.3)	—	—
OTHER	.7	.6	.7
EFFECTIVE TAX RATE	38.2%	39.5%	39.5%

The components of the provision for income taxes were:

INCOME TAX PROVISION: EXPENSE/(BENEFIT)			
(MILLIONS OF DOLLARS)	1998	1997	1996
CURRENT:			
FEDERAL	\$497	\$488	\$344
STATE	110	99	72
	607	587	416
DEFERRED:			
FEDERAL	(10)	(55)	(89)
STATE	(3)	(8)	(18)
	(13)	(63)	(107)
TOTAL	\$594	\$524	\$309

The components of the net deferred tax asset/(liability) were:

NET DEFERRED TAX ASSET/(LIABILITY)		
(MILLIONS OF DOLLARS)	JANUARY 30, 1999	JANUARY 31, 1998
GROSS DEFERRED TAX ASSETS:		
SELF-INSURED BENEFITS	\$132	\$117
DEFERRED COMPENSATION	128	103
INVENTORY	72	46
VALUATION ALLOWANCE	64	52
POSTRETIREMENT HEALTH CARE OBLIGATION	42	42
OTHER	132	115
	570	475
GROSS DEFERRED TAX LIABILITIES:		
PROPERTY AND EQUIPMENT	(374)	(306)
OTHER	(63)	(49)
	(437)	(355)
TOTAL	\$133	\$120

# EMPLOYEE STOCK OWNERSHIP PLAN

We sponsor a defined contribution employee benefit plan. Employees who meet certain eligibility requirements can participate by investing up to 20 percent of their compensation. We match 100 percent of each employee's contribution up to 5 percent of respective total compensation. Our contribution to the plan is invested in the ESOP. Through December 1998, ESOP preferred shares (401(k) preferred shares) were allocated to participants. In January 1999, we began providing new common shares to the ESOP to fund the employer match.

In 1989, we loaned \$379 million to the ESOP at a 9 percent interest rate. The loan was paid off during 1998. Proceeds from the loan were used by the ESOP to purchase 438,353 shares of 401(k) preferred shares. The original issue value of the 401(k) preferred shares of \$864.60 per share is guaranteed by the Corporation. Each 401(k) preferred share is convertible into 60 shares of our common stock after giving effect to the 1998 and 1996 common share splits.

Our contributions to the ESOP, plus dividends paid on all 401(k) preferred shares held by the ESOP, were used to repay the loan principal and interest. Our cash contributions to the ESOP were \$17 million in 1998, \$3 million in 1997 and \$23 million in 1996. Dividends earned on 401(k) preferred shares held by the ESOP were \$19 million in 1998, \$21 million in 1997 and \$22 million in 1996. The dividends on allocated 401(k) preferred shares were paid to participants' accounts in additional 401(k) preferred shares until June 1998. Dividends are now paid to participants in cash. Benefits expense, calculated based on the shares allocated method, was \$29 million in 1998, \$17 million in 1997 and \$31 million in 1996.

Upon a participant's termination, we are required to exchange at fair value each 401(k) preferred share for 60 shares of common stock and cash, if any. At January 30, 1999, 338,492 shares of 401(k) preferred shares were allocated to participants with a fair market value of \$1,319 million. The 401(k) preferred shares are classified as shareholders' investment to the extent the preferred shares are permanent equity. The remaining 401(k) preferred shares of \$24 million represent our maximum cash obligation at year-end, measured by the market value difference between the preferred shares and common shares, and is excluded from shareholders' investment.



# PENSION AND POSTRETIREMENT HEALTH CARE BENEFITS

We adopted SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" in 1998. The Statement only impacts disclosures of pensions and other postretirement benefits and does not change the measurement of expenses or recognition of the assets and liabilities associated with the plans.

We have defined benefit pension plans that cover all employees who meet certain age, length of service and hours worked per year requirements. Benefits are provided based upon years of service and the employee's compensation. Retired employees also become eligible for certain health care benefits if they meet minimum age and service requirements and agree to contribute a portion of the cost.

## CHANGE IN BENEFIT OBLIGATION

(MILLIONS OF DOLLARS)	PENSION BENEFITS		POSTRETIREMENT HEALTH CARE BENEFITS	
	1998	1997	1998	1997
BENEFIT OBLIGATION AT BEGINNING OF YEAR	\$610	\$523	\$ 81	\$ 77
SERVICE COST	35	27	1	1
INTEREST COST	45	39	6	5
PLAN AMENDMENTS	—	2	—	—
ACTUARIAL LOSS	65	59	5	5
ACQUISITIONS	26	—	—	—
BENEFITS PAID	(52)	(40)	(8)	(7)
BENEFIT OBLIGATION AT DECEMBER 31	\$729	\$610	\$ 85	\$ 81

## CHANGE IN PLAN ASSETS

FAIR VALUE OF PLAN ASSETS AT BEGINNING OF YEAR	\$718	\$587	\$ —	\$ —
ACTUAL RETURN ON PLAN ASSETS	106	118	—	—
EMPLOYER CONTRIBUTION	59	50	8	7
ACQUISITIONS	25	—	—	—
BENEFITS PAID	(49)	(37)	(8)	(7)
FAIR VALUE OF PLAN ASSETS AT DECEMBER 31	\$859	\$718	\$ —	\$ —

## RECONCILIATION OF PREPAID/(ACCRUED) COST

FUNDED STATUS	\$130	\$108	\$ (85)	\$ (81)
UNRECOGNIZED ACTUARIAL GAIN	(16)	(32)	(18)	(23)
UNRECOGNIZED PRIOR SERVICE COST	2	2	3	3
NET PREPAID/(ACCRUED) COST	\$116	\$ 78	\$ (100)	\$ (101)

(The benefit obligation and fair value of plan assets, for the pension plans with benefit obligations in excess of plan assets, were \$34 and \$0 as of December 31, 1998 and \$26 and \$0 as of December 31, 1997.)

## NET PENSION AND POSTRETIREMENT HEALTH CARE BENEFITS EXPENSE

(MILLIONS OF DOLLARS)	PENSION BENEFITS			POSTRETIREMENT HEALTH CARE BENEFITS		
	1998	1997	1996	1998	1997	1996
SERVICE COST BENEFITS EARNED DURING THE PERIOD	\$35	\$27	\$26	\$1	\$1	\$1
INTEREST COST ON PROJECTED BENEFIT OBLIGATION	45	39	37	6	6	6
EXPECTED RETURN ON ASSETS	(58)	(48)	(44)	—	—	—
RECOGNIZED GAINS AND LOSSES	3	—	1	(1)	(2)	(1)
RECOGNIZED PRIOR SERVICE COST	—	1	1	—	1	—
TOTAL	\$25	\$19	\$21	\$6	\$6	\$6

The amortization of any prior service cost is determined using a straight-line amortization of the cost over the average remaining service period of employees expected to receive benefits under the plan.

## ACTUARIAL ASSUMPTIONS

(AS OF DECEMBER 31)	PENSION BENEFITS			POSTRETIREMENT HEALTH CARE BENEFITS		
	1998	1997	1996	1998	1997	1996
DISCOUNT RATE	7%	7¼%	7¼%	7%	7¼%	7¼%
EXPECTED LONG-TERM RATE OF RETURN ON PLANS' ASSETS	9	9	9	N/A	N/A	N/A
AVERAGE ASSUMED RATE OF COMPENSATION INCREASE	4	4¼	4¼	N/A	N/A	N/A

An increase in the cost of covered health care benefits of 7 percent is assumed for 1999. The rate is assumed to decrease to 6 percent in the year 2000 and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. A 1 percent change in assumed health care cost trend rates would have the following effects:

(MILLIONS OF DOLLARS)	1% INCREASE	1% DECREASE
EFFECT ON TOTAL OF SERVICE AND INTEREST COST COMPONENTS OF NET PERIODIC POSTRETIREMENT HEALTH CARE BENEFIT COST	\$—	\$—
EFFECT ON THE HEALTH CARE COMPONENT OF THE POSTRETIREMENT BENEFIT OBLIGATION	\$5	\$(4)

# QUARTERLY RESULTS (UNAUDITED)

The same accounting policies are followed in preparing quarterly financial data as are followed in preparing annual data. Costs directly associated with revenues, such as cost of goods sold and percentage rent on leased stores, are allocated based on revenues. Certain other costs not directly associated with revenues, such as benefit plan expenses and real estate taxes, are allocated evenly throughout the year.

The table below summarizes results by quarter for 1998 and 1997:

(MILLIONS OF DOLLARS, EXCEPT PER SHARE DATA)

	FIRST QUARTER		SECOND QUARTER		THIRD QUARTER		FOURTH QUARTER		TOTAL YEAR	
	1998	1997	1998	1997	1998	1997	1998	1997	1998	1997
REVENUES	\$6,468	5,889	\$7,056	6,293	\$7,288	6,622	\$10,139	8,953	\$30,951	27,757
GROSS PROFIT (a)	\$1,741	1,636	\$1,913	1,707	\$1,955	1,807	\$2,708	2,287	\$8,317	7,437
NET EARNINGS BEFORE EXTRAORDINARY CHARGES (b) (d)	\$160	126	\$172	141	\$183	179	\$447	356	\$962	802
NET EARNINGS (b) (c) (d)	\$158	105	\$172	130	\$182	160	\$423	356	\$935	751
BASIC EARNINGS PER SHARE (b) (c) (d) (e)	\$.35	.23	\$.38	.29	\$.40	.36	\$.95	.80	\$2.08	1.68
DILUTED EARNINGS PER SHARE (b) (c) (d) (e)	\$.33	.22	\$.36	.27	\$.39	.34	\$.90	.76	\$1.98	1.59
DIVIDENDS DECLARED PER SHARE (e)	\$.09	.08	\$.09	.08	\$.09	.08	\$.09	.09	\$.36	.33
COMMON STOCK PRICE (f)										
HIGH	\$44.81	23.00	\$52.63	32.31	\$48.25	32.75	\$63.75	36.84	\$63.75	36.84
LOW	\$36.25	18.94	\$42.50	23.19	\$33.75	26.19	\$42.69	30.78	\$33.75	18.94

- (a) Gross profit is revenues less cost of retail sales, buying and occupancy. The LIFO provision, included in gross profit, is analyzed each quarter for estimated changes in year-end inventory levels, markup rates and internally generated retail price indices. A final adjustment is recorded in the fourth quarter for the difference between the prior quarters' estimates and the actual total year LIFO provision.
- (b) Third quarter 1998 net earnings include a \$35 million pre-tax gain (\$.05 per basic and diluted share) related to the 1998 securitization and a \$38 million pre-tax loss (\$.05 per basic and diluted share) related to the maturity of the 1995 securitization. Third quarter 1997 net earnings include a \$32 million pre-tax gain (\$.04 per basic and diluted share) related to the 1997 securitization transaction. Total year 1997 net earnings include a \$45 million pre-tax gain (\$.06 per basic and diluted share) related to the 1997 and 1995 securitization transactions.
- (c) In 1998, first, third and fourth quarter net earnings include extraordinary charges, net of tax, related to the purchase and redemption of debt of \$2 million, \$1 million and \$24 million (\$.01, \$.00 and \$.05 per basic and diluted share), respectively. In 1997, first, second and third quarter net earnings include extraordinary charges, net of tax, related to the purchase and redemption of debt of \$21 million, \$11 million and \$19 million (\$.05, \$.03 and \$.04 per basic share and \$.05, \$.02 and \$.04 per diluted share), respectively.
- (d) Fourth quarter and total year 1998 net earnings before extraordinary charges, net earnings and earnings per share include a mainframe outsourcing pre-tax charge of \$42 million (\$.06 per basic and diluted share) and the beneficial effect of \$20 million (\$.04 per basic and diluted share) of the favorable outcome of our inventory shortage tax matter.
- (e) Per share amounts are computed independently for each of the quarters presented. The sum of the quarters may not equal the total year amount due to the impact of changes in average quarterly shares outstanding and/or rounding caused by the 1998 two-for-one common share split.
- (f) Our common stock is listed on the New York Stock Exchange and Pacific Exchange. At March 19, 1999 there were 13,019 shareholders of record and the common stock price was \$67.75 per share.

## REPORT OF INDEPENDENT AUDITORS

Board of Directors and Shareholders  
Dayton Hudson Corporation

We have audited the accompanying consolidated statements of financial position of Dayton Hudson Corporation and subsidiaries as of January 30, 1999 and January 31, 1998 and the related consolidated results of operations, cash flows and shareholders' investment for each of the three years in the period ended January 30, 1999. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence sup-

porting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Dayton Hudson Corporation and subsidiaries at January 30, 1999 and January 31, 1998 and the consolidated results of their operations and their cash flows for each of the three years in the period ended January 30, 1999 in conformity with generally accepted accounting principles.

*Ernst & Young LLP*

Minneapolis, Minnesota

March 1, 1999

## REPORT OF MANAGEMENT

Management is responsible for the consistency, integrity and presentation of the information in the Annual Report. The consolidated financial statements and other information presented in this Annual Report have been prepared in accordance with generally accepted accounting principles and include necessary judgments and estimates by management.

To fulfill our responsibility, we maintain comprehensive systems of internal control designed to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with established procedures. The concept of reasonable assurance is based upon a recognition that the cost of the controls should not exceed the benefit derived. We believe our systems of internal control provide this reasonable assurance.

The Board of Directors exercises its oversight role with respect to the Corporation's systems of internal control primarily through its Audit Committee, which is comprised of five independent directors. The Committee oversees the Corporation's systems of internal control, accounting practices, financial reporting and audits to ensure their quality, integrity and objectivity are sufficient to protect shareholders' investments. The Committee's report appears on this page.

In addition, our consolidated financial statements have been audited by Ernst & Young LLP, independent auditors, whose report also appears on this page. As a part of its audit, Ernst & Young LLP develops and maintains an understanding of the Corporation's internal accounting controls and conducts such tests and employs such procedures as it considers necessary to render its opinion on the consolidated financial statements. Their report expresses an opinion as to the fair presentation, in all material respects, of the consolidated financial statements and is based on independent audits made in accordance with generally accepted auditing standards.

*Robert J. Ulrich*

Robert J. Ulrich  
Chairman of the Board and  
Chief Executive Officer

*Douglas A. Scovanner*

Douglas A. Scovanner  
Senior Vice President and  
Chief Financial Officer

*JoAnn Bogdan*

JoAnn Bogdan  
Controller and Chief Accounting Officer  
March 1, 1999

## REPORT OF AUDIT COMMITTEE

The Audit Committee met two times during fiscal 1998 to review the overall audit scope, plans for internal and independent audits, the Corporation's systems of internal control, emerging accounting issues, officer and director expenses, audit fees and retirement plans. The Committee also met individually with the internal auditors and independent auditors, without management present, to discuss the results of their audits. The Committee encourages the internal and independent auditors to communicate closely with the Committee.

Audit Committee results were reported to the full Board of Directors and the Corporation's annual financial statements were reviewed and approved by the Board of Directors before issuance. The Audit Committee also recommended to the Board of Directors that the independent auditors be reappointed for fiscal 1999, subject to the approval of the shareholders at the annual meeting.

March 1, 1999

## SUMMARY FINANCIAL AND OPERATING DATA

(MILLIONS OF DOLLARS, EXCEPT PER SHARE DATA)	1998	1997	1996	1995 <sup>(a)</sup>	1994	1993
<b>RESULTS OF OPERATIONS</b>						
REVENUES	\$30,951	27,757	25,371	23,516	21,311	19,233
COST OF RETAIL SALES, BUYING AND OCCUPANCY	\$22,634	20,320	18,628	17,527	15,636	14,164
SELLING, PUBLICITY AND ADMINISTRATIVE	\$ 5,077	4,532	4,289	4,043	3,614	3,158
DEPRECIATION AND AMORTIZATION	\$ 780	693	650	594	548	515
INTEREST EXPENSE AND INTEREST EQUIVALENT	\$ 446	449	467	452	426	446
EARNINGS BEFORE INCOME TAXES AND EXTRAORDINARY CHARGES (c) (d)	\$ 1,556	1,326	783	501	714	607
INCOME TAXES	\$ 594	524	309	190	280	232
NET EARNINGS (c) (d) (e)	\$ 935	751	463	311	434	375
<b>FINANCIAL POSITION DATA</b>						
WORKING CAPITAL	\$ 948	1,005	1,329	1,432	1,569	1,436
PROPERTY AND EQUIPMENT, NET	\$ 8,969	8,125	7,467	7,294	6,385	5,947
TOTAL ASSETS	\$15,666	14,191	13,389	12,570	11,697	10,778
LONG-TERM DEBT	\$ 4,452	4,425	4,808	4,959	4,488	4,279
SHAREHOLDERS' INVESTMENT	\$ 5,311	4,460	3,790	3,403	3,193	2,849
<b>PER COMMON SHARE DATA (b)</b>						
DILUTED EARNINGS PER SHARE (c) (d) (e)	\$ 1.98	1.59	.97	.65	.92	.80
CASH DIVIDEND DECLARED	\$ .36	.33	.32	.30	.28	.27
MARKET PRICE: HIGH	\$ 63.75	36.84	19.94	13.25	14.31	13.94
LOW	\$ 33.75	18.94	12.25	10.75	10.88	10.56
YEAR-END CLOSE	\$ 63.75	35.97	18.81	12.50	11.50	11.00
COMMON SHAREHOLDERS' INVESTMENT	\$ 11.41	9.59	8.21	7.47	7.07	6.38
<b>OTHER DATA</b>						
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING (MILLIONS) (b)	440.0	436.1	433.3	431.0	429.6	428.8
DILUTED AVERAGE COMMON SHARES OUTSTANDING (MILLIONS) (b)	467.3	463.7	460.9	458.3	457.4	456.3
CAPITAL EXPENDITURES	\$ 1,657	1,354	1,301	1,522	1,095	978
NUMBER OF STORES: TARGET	851	796	736	670	611	554
MERVYN'S	268	269	300	295	286	276
DSD	63	65	65	64	63	63
TOTAL STORES	1,182	1,130	1,101	1,029	960	893
TOTAL RETAIL SQUARE FOOTAGE (THOUSANDS)	130,172	123,058	117,989	109,091	101,163	93,947
NUMBER OF EMPLOYEES	256,000	230,000	218,000	214,000	194,000	174,000

(a) Consisted of 53 weeks.

(b) Earnings per share, dividends per share, market price per share and common shares outstanding reflect our 1998 two-for-one common share split and our 1996 three-for-one common share split.

(c) 1998 includes a \$35 million pre-tax gain (\$.05 per share) related to the sale of securitized accounts receivable and a \$38 million pre-tax loss (\$.05 per share) related to the maturity of our 1995 securitization; 1997 included a \$45 million pre-tax gain (\$.06 per share) related to the sales of securitized accounts receivable.

(d) 1998 includes a mainframe outsourcing pre-tax charge of \$42 million (\$.06 per share) and the beneficial effect of \$20 million (\$.04 per share) of the favorable outcome of our inventory shortage tax matter. 1996 included a real estate repositioning pre-tax charge of \$134 million (\$.18 per share).

(e) Extraordinary charges, net of tax, related to early extinguishment of debt were \$27 million (\$.06 per share) in 1998, \$51 million (\$.11 per share) in 1997 and \$11 million (\$.02 per share) in 1996.

The Summary Financial and Operating Data should be read in conjunction with the Notes to Consolidated Financial Statements throughout pages 25-36.

# DIRECTORS

Livio D. DeSimone  
Chairman and  
Chief Executive Officer,  
3M  
(diversified manufacturer)  
(1) (5) (6)

Roger A. Enrico  
Chairman and  
Chief Executive Officer,  
PepsiCo, Inc.  
(domestic and international  
beverage and food company)  
(1) (2) (3)

William W. George  
Chairman and  
Chief Executive Officer,  
Medtronic, Inc.  
(therapeutic medical device  
company) (1) (2) (4)

Michele J. Hooper  
Former President and  
Chief Executive Officer,  
Stadtlander Drug Co., Inc.  
(pharmaceutical  
manufacturer) (1) (2) (6)

James A. Johnson  
Chairman, Executive  
Committee of the Board,  
Fannie Mae  
(financial services company)  
(1) (3) (4) (5)

Richard M. Kovacevich  
President and  
Chief Executive Officer,  
Wells Fargo & Co.  
(banking and financial  
services company) (1) (2) (6)

Susan A. McLaughlin  
President, Consumer  
Services, BellSouth  
Telecommunications, Inc.  
(communications services  
company) (1) (2) (4)

Anne M. Mulcahy  
Executive Vice President;  
President,  
General Markets Operations,  
Xerox Corporation  
(document management  
company) (1) (4) (5)

Stephen W. Sanger  
Chairman and  
Chief Executive Officer,  
General Mills, Inc.  
(consumer foods company)  
(1) (3) (5) (6)

Solomon D. Trujillo  
President and  
Chief Executive Officer,  
US WEST, Inc.  
(telecommunications  
company) (1) (3) (4) (5)

Robert J. Ulrich  
Chairman and  
Chief Executive Officer,  
Dayton Hudson Corporation  
and Target (1)

- (1) *Executive Committee*
- (2) *Audit Committee*
- (3) *Compensation Committee*
- (4) *Corporate Responsibility Committee*
- (5) *Finance Committee*
- (6) *Nominating Committee*

# OFFICERS

Robert J. Ulrich\*\*  
Chairman and  
Chief Executive Officer,  
Dayton Hudson Corporation  
and Target

Kenneth B. Woodrow\*\*  
President, Target

Larry V. Gilpin\*\*  
Executive Vice President,  
Team, Guest and  
Community Relations,  
Dayton Hudson Corporation  
and Target

Robert G. McMahon\*\*  
Senior Vice President,  
Property Development,  
Dayton Hudson Corporation  
and Target

John E. Pellegrine\*\*  
Executive Vice President,  
Marketing,  
Dayton Hudson Corporation  
and Target

Gregg W. Steinhafel\*\*  
Executive Vice President,  
Merchandising, Target

Bart Butzer\*\*  
President, Mervyn's

Linda L. Ahlers\*\*  
President,  
Department Store Division

James T. Hale\*\*  
Senior Vice President,  
General Counsel  
and Secretary,  
Dayton Hudson Corporation

Douglas A. Scovanner\*\*  
Senior Vice President and  
Chief Financial Officer,  
Dayton Hudson Corporation

Vivian M. Stephenson\*\*  
Executive Vice President and  
Chief Information Officer,  
Dayton Hudson Corporation

Gerald L. Storch\*\*  
President, Credit and  
New Businesses,  
Dayton Hudson Corporation

Donna L. Avery  
President,  
Rivertown Trading Company

JoAnn Bogdan\*  
Controller and  
Chief Accounting Officer,  
Dayton Hudson Corporation

Brigid A. Bonner  
Vice President,  
E-Commerce, Technology  
and Strategy,  
Dayton Hudson Corporation

Gail J. Dorn  
Vice President,  
Communications,  
Dayton Hudson Corporation  
and Target

Nate K. Garvis  
Vice President,  
Government Affairs,  
Dayton Hudson Corporation

William P. Hise  
Assistant Secretary,  
Dayton Hudson Corporation

Susan D. Kahn  
Vice President,  
Investor Relations,  
Dayton Hudson Corporation

Stephen C. Kowalke  
Vice President and Treasurer,  
Dayton Hudson Corporation

Richard J. Kuzmich  
President and  
Chief Executive Officer,  
The Associated Merchandising  
Corporation

Jack N. Reif  
Assistant Treasurer,  
Dayton Hudson Corporation

Sara J. Ross  
Assistant Treasurer,  
Dayton Hudson Corporation

\* *Executive Officer*  
+ *Corporate Operating  
Committee Member*

 **TARGET**

**mervyn's**  
*California*

DAYTON'S

*Marshall Field's*

HUDSON'S

40) DHC98

D H C  
G U E S T  
C R E D I T

 **AMC**

**RIVERTOWN**  
TRADING COMPANY

DCI

## SHAREHOLDER INFORMATION

### ANNUAL MEETING

The Annual Meeting of Shareholders is scheduled for May 19, 1999, at 9:30 a.m. CDT at The Children's Theatre, 2400 Third Avenue South, Minneapolis, Minnesota.

### SHAREHOLDER INFORMATION

Quarterly and annual shareholder information, including the Form 10-Q and Form 10-K Annual Report, which are filed with the Securities and Exchange Commission, is available at no charge to shareholders. To obtain copies of these materials, you may call 612-370-6736 or write to:

Vice President, Investor Relations, Dayton Hudson Corporation

777 Nicollet Mall, Minneapolis, Minnesota 55402

Information about Dayton Hudson is also available on the internet at [www.dhc.com](http://www.dhc.com).

### SALES INFORMATION

Comments regarding Dayton Hudson sales results are provided periodically throughout the year on a recorded telephone message. You may access this message by calling 612-370-6500.

### DIRECT STOCK PURCHASE/DIVIDEND REINVESTMENT PLAN

First Chicago Trust Company of New York has a direct service investment plan that allows interested investors to purchase Dayton Hudson stock directly, rather than through a broker, and become a registered shareholder of the Company. The program, which is sponsored and administered by First Chicago Trust Company of New York, offers many features including dividend reinvestment. For detailed information regarding this program, call First Chicago Trust toll free at 1-888-268-0203 or write to:

The DirectSERVICE Investment Program, c/o First Chicago Trust Company, P.O. Box 2598, Jersey City, NJ 07303-2598

### TRANSFER AGENT, REGISTRAR AND DIVIDEND DISBURSING AGENT

First Chicago Trust Company of New York

### TRUSTEE, DAYTON HUDSON CORPORATION 401(K) AND PENSION PLANS

State Street Bank and Trust Company

### STOCK EXCHANGE LISTINGS

(Trading symbol DH)

New York Stock Exchange and Pacific Exchange

### SHAREHOLDER ASSISTANCE

For assistance regarding individual stock records, lost certificates, name or address changes, dividend or tax questions, call First Chicago Trust at 1-800-317-4445 or write to:

First Chicago Trust Company of New York

P.O. Box 2500, Jersey City, NJ 07303-2500

The background of the image is composed of various geometric shapes, primarily triangles, in two shades of green: a medium sage green and a lighter, muted green. These shapes are arranged in a non-repeating, abstract pattern against a white background. Some shapes are solid, while others are semi-transparent, creating a layered effect. The overall composition is modern and minimalist.

In 1999, expect even more.





**DAYTON HUDSON CORPORATION**

777 Nicollet Mall, Minneapolis, Minnesota 55402  
(612) 370-6948 [www.dhc.com](http://www.dhc.com)

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