

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED JANUARY 30, 1999

OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM
----- TO

COMMISSION FILE NUMBER 1-6049

DAYTON HUDSON CORPORATION

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| MINNESOTA (State or other jurisdiction of incorporation or organization) | 41-0215170 (I.R.S. Employer Identification No.) |
| 777 NICOLLET MALL, MINNEAPOLIS, MINNESOTA (Address of principal executive offices) | 55402-2055 (Zip Code) |

Registrant's telephone number, including area code: 612/370-6948

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

| TITLE OF EACH CLASS ----- | NAME OF EACH EXCHANGE ON WHICH REGISTERED ----- |
|--|---|
| Common Stock, par value \$.1667 per share | New York Stock Exchange Pacific Exchange |
| Preferred Stock Purchase Rights | New York Stock Exchange Pacific Exchange |

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item
405 of Regulation S-K is not contained herein, and will not be contained, to the
best of registrant's knowledge, in definitive proxy or information statements
incorporated by reference in Part III of this Form 10-K or any amendment to this
Form 10-K. / /

Aggregate market value of the voting stock held by non-affiliates of the
Registrant on March 19, 1999 was \$31,308,051,019, based on the closing price of
\$67.75 per share of Common Stock as reported on the New York Stock
Exchange--Composite Index and \$4,211.25 per share of Series B ESOP Convertible
Preferred Stock as determined by Duff & Phelps. (Excluded from this figure is
the voting stock held by Registrant's Directors and Executive Officers.)

Indicate the number of shares outstanding of each of Registrant's classes of
common stock, as of the latest practicable date. March 19, 1999: 442,682,048
shares of common stock, par value \$.1667.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of Registrant's 1998 Annual Report to Shareholders are
incorporated into Parts I and II.
2. Portions of Registrant's Proxy Statement dated April 12, 1999 are

incorporated into Part III.

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PART I

ITEM 1. BUSINESS.

The first paragraph of Fourth Quarter Results, Page 21; Analysis of Financial Condition, Page 22; Performance Objectives, Page 23; Guest Credit, Page 24; Business Segment Comparisons, excluding years 1993-1995, Page 25; first textual paragraph of Summary of Accounting Policies--Organization, Page 26; Quarterly Results (Unaudited), Page 36; the information relating to store locations on Page 16 and the information relating to number of employees on Page 38, excluding years 1993-1995, of Registrant's 1998 Annual Report to Shareholders are incorporated herein by reference. Registrant was incorporated in Minnesota in 1902.

ITEM 2. PROPERTIES.

Leases, Pages 30-31 and the list of store locations on Page 16 of Registrant's 1998 Annual Report to Shareholders are incorporated herein by reference.

ITEM 3. LEGAL PROCEEDINGS.

Commitments and Contingencies, Page 29 of Registrant's 1998 Annual Report to Shareholders is incorporated herein by reference.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not Applicable.

ITEM X. EXECUTIVE OFFICERS OF THE REGISTRANT.

The executive officers of the Registrant as of April 1, 1999 and their positions and ages, are as follows:

| NAME | TITLE | AGE |
|---------------------------|--|-----|
| Robert J. Ulrich..... | Chairman, Chief Executive Officer, Chairman of the Executive Committee and Director of Registrant; Chairman and Chief Executive Officer of Target (a division of Registrant) | 55 |
| Kenneth B. Woodrow..... | President of Target | 54 |
| Larry V. Gilpin..... | Executive Vice President Team, Guest and Community Relations of Target | 55 |
| Robert G. McMahon..... | Senior Vice President, Property Development of Target | 50 |
| John E. Pellegrine..... | Executive Vice President, Marketing of Target | 62 |
| Gregg W. Steinhafel..... | Executive Vice President, Merchandising of Target | 44 |
| Bart Butzer..... | President of Mervyn's (a subsidiary of Registrant) | 43 |
| Linda L. Ahlers..... | President of the Department Store Division (a division of Registrant) | 48 |
| James T. Hale..... | Senior Vice President, General Counsel and Secretary of Registrant | 58 |
| Douglas A. Scovanner..... | Senior Vice President and Chief Financial Officer of Registrant | 43 |
| Vivian M. Stephenson..... | Executive Vice President and Chief Information Officer of Registrant | 61 |
| Gerald L. Storch..... | President, Credit and New Businesses of Registrant | 42 |
| JoAnn Bogdan..... | Controller and Chief Accounting Officer of Registrant | 46 |

Each officer is elected by and serves at the pleasure of the Board of Directors. There is no family relationship between any of the officers named nor is there any arrangement or understanding pursuant to which any person was selected as an officer. The period of service of each officer in the positions listed and other business experience as of April 1, 1999 is set forth below.

ROBERT J. ULRICH Chairman of the Board, Chief Executive Officer, Chairman of the Executive Committee and Director of Registrant since 1994. Chairman and Chief Executive Officer of Target since 1987.

KENNETH B. WOODROW President of Target since 1994, Vice Chairman of Target from 1993 to 1994 and Executive Vice President of Target from 1989 to 1993.

LARRY V. GILPIN Executive Vice President of Target since 1995 and Senior Vice President of Target from 1981 to 1995.

ROBERT G. MCMAHON Senior Vice President of Target since 1991 and Vice President of Target from 1990 to 1991.

JOHN E. PELLEGRENE Executive Vice President of Target since 1995 and Senior Vice President of Target from 1988 to 1995.

GREGG W. STEINHAFEL Executive Vice President of Target since 1994 and Senior Vice President and General Merchandise Manager of Target from 1987 to 1994.

BART BUTZER President of Mervyn's since 1997 and Regional Senior Vice President of Target from 1991 to 1997.

LINDA L. AHLERS President of the Department Store Division since 1996 and Executive Vice President, Merchandising of the Department Store Division from 1995 to 1996. Senior Vice President of Target from 1989 to 1995.

JAMES T. HALE Senior Vice President, Secretary and General Counsel of Registrant since 1981.

DOUGLAS A. SCOVANNER Senior Vice President and Chief Financial Officer of Registrant since 1994. Treasurer of Registrant in 1994. Senior Vice President, Finance of Fleming Companies, Inc. (a food wholesaler) from 1992 to 1994.

VIVIAN M. STEPHENSON Executive Vice President of Registrant since 1998 and Senior Vice President of Registrant from 1995 to 1998. Senior Vice President, MIS of Mervyn's from 1994 to 1995 and Vice President, MIS of Mervyn's from 1990 to 1994.

GERALD L. STORCH President, Credit and New Businesses of Registrant since 1998. President, Credit and Senior Vice President, Strategic Business Development of Registrant from 1997 to 1998. Senior Vice President of Registrant since 1993. Principal with McKinsey & Company (a consulting firm) from 1982 to 1993.

JOANN BOGDAN Controller and Chief Accounting Officer of Registrant since 1993. Assistant Controller of Registrant from 1988 to 1993.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Dividends Declared Per Share and Common Stock price, Page 36 of Registrant's 1998 Annual Report to Shareholders are incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA.

The Data on years 1994-1998 in the Summary Financial and Operating Data (excluding 1993 and Other Data), Page 38 of Registrant's 1998 Annual Report to Shareholders is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Management's Discussion and Analysis, Pages 17-24 and the last textual paragraph of Pension and Postretirement Health Care Benefits, Page 35 of Registrant's 1998 Annual Report to Shareholders are incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Market risk exposure of market risk sensitive instruments is not material.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Pages 25-36 and 38 (excluding years 1993-1995 on Page 25 and 1993 and Other Data in the Summary Financial and Operating Data on Page 38) and the Report of Independent Auditors, Page 37 of Registrant's 1998 Annual Report to Shareholders are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not Applicable

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Election of Directors, Pages 5-10 of Registrant's Proxy Statement dated April 12, 1999, is incorporated herein by reference. See also Item X of Part I hereof.

ITEM 11. EXECUTIVE COMPENSATION.

Executive Compensation, Pages 13-18, Report of the Compensation Committee on Executive Compensation, pages 19-23 and Director Compensation, Page 8 of Registrant's Proxy Statement dated April 12, 1999, are incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

"Largest Owners of the Corporation's Stock", Page 12 and "Stock Ownership of Directors and Officers", Page 11 of Registrant's Proxy Statement dated April 12, 1999, is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Not Applicable.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

a) FINANCIAL STATEMENTS:

Consolidated Results of Operations for the Years Ended January 30, 1999, January 31, 1998, and February 1, 1997.

Consolidated Statements of Financial Position at January 30, 1999, and January 31, 1998.

Consolidated Statements of Cash Flows for the Years Ended January 30, 1999, January 31, 1998, and February 1, 1997.

Consolidated Statements of Shareholders' Investment for the Years Ended January 30, 1999, January 31, 1998, and February 1, 1997.

Information which is an integral part of the financial statements: Notes to Consolidated Financial Statements on Pages 25-31 and 33-36 (excluding years 1993-1995 on Page 25) and the Report of Independent Auditors on Page 37 in Registrant's 1998 Annual Report to Shareholders.

The Registrant, through its special purpose subsidiary, Dayton Hudson Receivables Corporation ("DHRC") entered into a securitization transaction under which it transfers, on an ongoing basis, substantially all of its credit card receivables to a trust. Separate financial information is filed for DHRC in its separate Annual Report on Form 10-K.

b) REPORTS ON FORM 8-K

None.

c) EXHIBITS

(2) Not applicable

(3)A. Restated Articles of Incorporation (as amended April 30, 1998). Incorporated by reference to Exhibit (3)A. to Registrant's Form 10-Q Report for the quarter ended May 2, 1998.

B. By-Laws (as amended through November 11, 1998). Incorporated by reference to Exhibit (3)(ii). to Registrant's Form 10-Q Report for the quarter ended October 31, 1998.

(4)A. Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock, as amended. Incorporated by reference to Exhibit A to Exhibit 1 to Registrant's Form 8-K Report dated September 12, 1996.

B. Certificate of Designation, Preference and Rights of Series B ESOP Convertible Preferred Stock. Incorporated by reference to Exhibit (3)A. to Registrant's Form 10-K Report for the year ended January 30, 1993.

C. Instruments defining the rights of security holders, including indentures. Registrant agrees to furnish the Commission on request copies of instruments with respect to long-term debt.

(9) Not applicable

(10)A. Executive Incentive Plan (PTOC & EVA) (a)

B. Director Stock Option Plan of 1995 (b)

C. Executive Incentive Plan (Personal Score) (c)

D. Excess Benefit Plan (d)

E. Supplemental Pension Plan I (e)

F. Executive Long-Term Incentive Plan of 1981, as amended and restated through January 13, 1999

G. Supplemental Pension Plan II (f)

H. Supplemental Pension Plan III (g)

I. Deferred Compensation Plan Senior Management Group (h)

J. Deferred Compensation Plan Directors (i)

K. Income Continuance Policy, as amended through January 13, 1999

L. SMG Income Continuance Policy, as amended through January 13, 1999

M. SMG Executive Deferred Compensation Plan (j)

N. Director Deferred Compensation Plan (k)

(11) Not applicable

(12) Statements re Computations of Ratios

(13) 1998 Annual Report to Shareholders (only those portions specifically incorporated by reference herein shall be deemed filed with the Commission)

- (16) Not applicable
- (18) Not applicable
- (21) List of Subsidiaries
- (22) Not applicable
- (23) Consent of Independent Auditors
- (24) Powers of Attorney
- (27) Financial Data Schedule for the fiscal year ended January 30, 1999.
- (99)A. Registrant's Form 11-K Report
 - B. Registrant's Proxy Statement dated April 12, 1999 (only those portions specifically incorporated by reference shall be deemed filed with the Commission)(1)
 - C. Cautionary Statements Relating to Forward-Looking Information

Copies of exhibits will be furnished upon written request and payment of Registrant's reasonable expenses in furnishing the exhibits.

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- (a) Incorporated by reference to Exhibit A to Registrant's Proxy Statement dated April 19, 1995.
- (b) Incorporated by reference to Exhibit B to Registrant's Proxy Statement dated April 19, 1995.
- (c) Incorporated by reference to Exhibit (10)C. to Registrant's Form 10-K Report for the year ended January 29, 1994.
- (d) Incorporated by reference to Exhibit (10)D. to Registrant's Form 10-K Report for the year ended January 30, 1993.
- (e) Incorporated by reference to Exhibit (10)E. to Registrant's Form 10-K Report for the year ended February 1, 1997.
- (f) Incorporated by reference to Exhibit (10)G. to the Registrant's Form 10-K Report for the year ended February 1, 1997.
- (g) Incorporated by reference to Exhibit (10)H. to the Registrant's Form 10-K Report for the year ended February 1, 1997.
- (h) Incorporated by reference to Exhibit (10)I. to the Registrant's Form 10-K Report for the year ended February 1, 1997.
- (i) Incorporated by reference to Exhibit (10)J. to the Registrant's Form 10-K Report for the year ended February 1, 1997.
- (j) Incorporated by reference to Exhibit (10)M. to the Registrant's Form 10-K Report for the year ended February 1, 1997.
- (k) Incorporated by reference to Exhibit (10)N. to the Registrant's Form 10-K Report for the year ended February 1, 1997.
- (l) Incorporated by reference to Registrant's Proxy Statement dated April 12, 1999.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DAYTON HUDSON CORPORATION

By: /s/ DOUGLAS A. SCOVANNER

Douglas A. Scovanner
SENIOR VICE PRESIDENT AND CHIEF FINANCIAL
OFFICER

Dated: April 12, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, the report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ BOB ULRICH

Robert J. Ulrich
CHAIRMAN OF THE BOARD AND CHIEF
EXECUTIVE OFFICER

Dated: April 12, 1999

/s/ DOUGLAS A. SCOVANNER

Douglas A. Scovanner
SENIOR VICE PRESIDENT AND CHIEF
FINANCIAL OFFICER

Dated: April 12, 1999

/s/ J.A. BOGDAN

JoAnn Bogdan
CONTROLLER AND CHIEF ACCOUNTING
OFFICER

Dated: April 12, 1999

| | | |
|-----------------------|---------------------|-----------|
| LIVIO D. DESIMONE | SUSAN A. MCLAUGHLIN | |
| ROGER A. ENRICO | ANNE M. MULCAHY | |
| WILLIAM W. GEORGE | STEPHEN W. SANGER | |
| MICHELE J. HOOPER | SOLOMON D. TRUJILLO | Directors |
| JAMES A. JOHNSON | ROBERT J. ULRICH | |
| RICHARD M. KOVACEVICH | | |

Douglas A. Scovanner, by signing his name hereto, does hereby sign this document pursuant to powers of attorney duly executed by the Directors named, filed with the Securities and Exchange Commission on behalf of such Directors, all in the capacities and on the date stated, such persons being all of the Directors of the Registrant.

By: /s/ DOUGLAS A. SCOVANNER

Douglas A. Scovanner
ATTORNEY-IN-FACT

Dated: April 12, 1999

EXHIBITS
FILED WITH
DAYTON HUDSON CORPORATION
FORM 10-K

FOR THE YEAR ENDED JANUARY 30, 1999

- (10)F. Executive Long-Term Incentive Plan of 1981, as amended and restated through January 13, 1999
 - (10)K. Income Continuance Policy, as amended through January 13, 1999
 - (10)L. SMG Income Continuance Policy, as amended through January 13, 1999
 - (12) Statements re Computations of Ratios
 - (13) 1998 Annual Report to Shareholders
 - (21) List of Subsidiaries
 - (23) Consent of Independent Auditors
 - (24) Powers of Attorney
 - (27) Financial Data Schedule for the fiscal year ended January 30, 1999
 - (99)A. Registrant's Form 11-K Report
 - C. Cautionary Statements Relating to Forward-Looking Information
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DAYTON HUDSON CORPORATION
EXECUTIVE LONG TERM INCENTIVE PLAN
OF 1981
(AS AMENDED AND RESTATED JANUARY 13, 1999)

ARTICLE I
ESTABLISHMENT OF THE PLAN

1.1 The name of this plan shall be "The Dayton Hudson Corporation Executive Long Term Incentive Plan of 1981" (hereinafter called the "Plan").

1.2 The purpose of the Plan is to advance the interim performance and long-term growth of the Company by offering long-term incentives, in addition to current compensation and other benefits, to those key employees of the Company and its Subsidiaries who the Plan Committee determines will contribute to such performance and growth inuring to the benefit of the shareholders of the Company. Such long-term incentives may take the form of Stock Options, or Performance Shares, or Restricted Stock Awards or any combination.

ARTICLE II
DEFINITIONS

2.1 AWARD. An "Award" is used at times in the Plan to refer to the act of granting a Stock Option, Performance Share or Restricted Stock Award under the Plan.

2.2 BOARD. "Board" is the Board of Directors of Dayton Hudson Corporation.

2.3 CODE. "Code" is the Internal Revenue Code of 1986, as amended, as now in force or as hereafter amended.

2.4 COMPANY. "Company" is Dayton Hudson Corporation, a Minnesota corporation, and any successor thereof.

2.5 COVERED OFFICER. "Covered Officer" includes all Participants whose compensation, in the year in which the Award is made, is subject to the compensation expense deduction limitations set forth in Section 162(m) of the Code.

2.6 DATE OF GRANT. "Date of Grant" shall be the date designated in the resolution by the Plan Committee as the date of such Stock Option(s) or Performance Share(s) or Restricted Stock Award(s), but such date shall not be earlier than the date of the resolution and action thereon by the Plan Committee, or earlier than the effective date of the Plan, and in the absence of a date of grant or a fixed method of computing such date being specifically set forth in the Plan Committee's resolution, then the Date of Grant shall be the date of such Plan Committee's resolution and action.

2.7 FAIR MARKET VALUE. "Fair Market Value" of a share of Company common stock on any date is 100% of the mean between the high and low prices for such stock as reported for such stock on the New York Stock Exchange Composite Transactions Listing ("Composite Listing") on such date, or in the absence of such report 100% of the mean between the high and low prices of such stock on the New York Stock Exchange on such date or, if no sale has been recorded on the Composite Listing or made on such Exchange on such date, then on the last preceding date on which any such sale shall have been made in the order of primacy above indicated.

2.8 HOLDER. A "Holder" is a person who has been granted a Restricted Stock Award.

2.9 INCENTIVE STOCK OPTIONS. "Incentive Stock Options" are Stock Options that are intended to qualify under Section 422 of the Code.

2.10 NON-QUALIFIED OPTIONS. "Non-Qualified Options" are Stock Options that are not intended to qualify under Section 422 of the Code.

2.11 PARTICIPANT. A "Participant" is a person designated as such by the Plan Committee, pursuant to Article III hereof, for participation in the Plan.

2.12 PERFORMANCE GOALS. "Performance Goals" are defined in Section 4.1 hereof.

2.13 PERFORMANCE PERIOD. "Performance Period", with respect to a Performance Share, is a period of four consecutive fiscal years of the Company, beginning with the fiscal year in which such Performance Share is granted and may be referred to herein and by the Plan Committee by use of the calendar year in which a particular Performance Period commences.

2.14 PERFORMANCE SHARE. A "Performance Share" is a potential award consisting of a right to one share of the Company's \$.3333 par value common stock (subject to increase as provided in Section 4.2 hereof) or a lesser number of shares and the cash payment set forth in Section 5.2 hereof. A Performance Share shall be of no value to a Participant unless and until earned in accordance with Article V hereof.

2.15 PLAN COMMITTEE. The "Plan Committee" is the Committee referenced in Article IX hereof.

2.16 PLAN YEAR. The "Plan Year" shall be a fiscal year of the Company falling within the term of this Plan.

2.17 RELEVANT CHANGE ADJUSTMENTS. Appropriate adjustments in the number of shares and in the option price per share as authorized herein, may be made by the Plan Committee, in its discretion (except as provided in Section 11.8 hereof), to give effect to adjustments made in the number of shares of Company common stock through a merger, consolidation, recapitalization, reclassification, combination, spin-off, common stock dividend, stock split or other relevant change.

2.18 RESTRICTED STOCK AWARD. A "Restricted Stock Award" is an Award granted under Article VII of this Plan.

2.19 STOCK OPTION. A "Stock Option" is a right accruing in a Participant to purchase from the Company one share of the Company's \$.3333 par value common stock at the Fair Market Value of such share of common stock on the Date of Grant of the Stock Option, such exercise of option to be made any time within ten years and one day (ten years with respect to Incentive Stock Options) following the Date of Grant, and containing the terms and conditions set forth or allowed under Article VI hereof. Stock Options may be either Non-Qualified Options or Incentive Stock Options.

2.20 SUBSIDIARY CORPORATION. For purposes of this Plan, the term "Subsidiary" or "Subsidiary Corporation" means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company, in which each of the corporations other than the last corporation in the unbroken chain owns stock possessing fifty percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain as determined at the point in time when reference is made to such "Subsidiary" or "Subsidiary Corporation" in this Plan.

2.21 CHANGE IN CONTROL. A "Change in Control" shall be deemed to have occurred if:

- (a) a majority of the directors of the Company shall be persons other than persons
 - (i) for whose election proxies shall have been solicited by the Board or
 - (ii) who are then serving as directors appointed by the Board to fill vacancies on the Board caused by death or resignation (but not by removal) or to fill newly-created directorships,
- (b) 30% or more of the outstanding Voting Stock (as defined in Article IV of the Restated Articles of Incorporation, as amended, of the Company) of the Company is acquired or beneficially owned (as defined in Article IV of the Restated Articles of Incorporation, as amended, of the Company) by any person (as defined in Article IV of the Restated Articles of Incorporation, as amended, of the Company), or
- (c) the shareholders of the Company approve a definitive agreement or plan to
 - (i) merge or consolidate the Company with or into another corporation (other than (1) a merger or consolidation with a Subsidiary of the Company or (2) a merger in which the Company is the surviving corporation and either (A) no outstanding Voting Stock of the Company (other than fractional shares) held by shareholders immediately prior to the merger is converted into cash (except cash upon the exercise by holders of Voting Stock of the Company of statutory dissenters' rights), securities, or other property or (B) all holders of outstanding Voting Stock of the Company (other than fractional shares) immediately prior to the merger (except those that exercise statutory

dissenters' rights) have substantially the same proportionate ownership of the Voting Stock of the Company or its parent corporation immediately after the merger),

- (ii) exchange, pursuant to a statutory exchange of shares of Voting Stock of the Company held by shareholders of the Company immediately prior to the exchange, shares of one or more classes or series of Voting Stock of the Company for shares of another corporation or other securities, cash or other property,
- (iii) sell or otherwise dispose of all or substantially all of the assets of the Company (in one transaction or a series of transactions) or
- (iv) liquidate or dissolve the Company.

ARTICLE III
GRANTING OF STOCK OPTIONS, PERFORMANCE SHARES
AND RESTRICTED STOCK AWARDS TO PARTICIPANTS

3.1 ELIGIBLE EMPLOYEES. Stock Options, Restricted Stock Awards or Performance Shares may be granted by the Plan Committee to any key employee of the Company or a Subsidiary Corporation. A Stock Option(s) or Performance Share(s) or Restricted Stock Award(s) may be granted to a director of the Company provided that he/she is also at the time of grant a key employee of the Company or a Subsidiary Corporation. No Stock Option(s) or Performance Share(s) or Restricted Stock Award(s) shall be granted to a person who is at the time of award a member of the Plan Committee. A person who has been engaged by the Company for employment shall be eligible for grants under the Plan, provided such person actually reports for and commences such employment within ninety days after the Date of Grant.

3.2 DESIGNATION OF PARTICIPANTS. At any time and from time to time during the Plan Year, the Plan Committee may designate the key employees of the Company and its Subsidiaries eligible for Awards.

3.3 ALLOCATION OF STOCK OPTION(S), PERFORMANCE SHARE(S) OR RESTRICTED STOCK AWARD(S). Contemporaneously with the designation of a Participant pursuant to Section 3.2 hereof, the Plan Committee shall determine the number of Stock Option(s) and/or Restricted Stock Award(s) and/or Performance Share(s) to be granted to such Participant and the Date of Grant for such related Stock Option or Performance Share or Restricted Stock Award, taking into consideration such factors as it deems relevant, which may include the following:

- (a) the total number of Stock Option(s) and/or Restricted Stock Award(s) and/or Performance Share(s) available for allocation to all Participants; and

- (b) the work assignment or the position of the Participant and its sensitivity and/or impact in relationship to the profitability and growth of the Company and its Subsidiaries; and
- (c) the Participant's current and potential performance in reference to such factors.

Allocation of Awards may, in the discretion of the Plan Committee, be in the form of Stock Option(s) solely or Performance Share(s) solely, or Restricted Stock Award(s) solely, or any combination in whatever relationship one to the other, if any, as the Plan Committee in its discretion so determines. Allocation of Stock Options may, in the discretion of the Plan Committee, be in the form of Incentive Stock Option(s) solely or Non-Qualified Option(s) solely or a combination in whatever relationship to the other, if any, as the Plan Committee in its discretion so determines.

3.4 NOTIFICATION TO PARTICIPANTS AND DELIVERY OF DOCUMENTS. As soon as practicable after such determinations have been made, each Participant, shall be notified of (i) his/her designation as a Participant, (ii) the Date of Grant, and (iii) the number of Stock Option(s), and/or Restricted Stock Award(s) and/or the number of Performance Share(s) granted to the Participant, and in the case of Performance Share(s), the Performance Period and in the case of Restricted Stock Award(s), the Restriction Period. The Participant shall thereafter be supplied with written evidence of any such granted Performance Share(s) and/or Restricted Stock Award(s), and shall receive a Stock Option exercisable for purchase of one share of the Company's \$.3333 par value common stock for each Stock Option granted to the Participant pursuant to this Plan or indicating the aggregate of such grant, which option agreement(s) shall be in conformity with the provisions of Article VI hereof.

ARTICLE IV PERFORMANCE GOALS AND MAXIMUM AWARD

4.1 ESTABLISHMENT OF GOALS. Within a reasonable period of time after the beginning of each Performance Period, Performance Goals relative to such Performance Period shall be established by the Plan Committee in its absolute discretion. Such Performance Goals may include, but, except as provided below, are not limited to, criteria such as PTOC, EVA, amount or rate of growth in consolidated profits of the Company expressed as a percent, earnings per share, return on capital, return on investment, return on shareholders' equity. Performance Goals for Covered Officers must be based upon one or more of the foregoing specifically described performance goals. Performance Goals may be absolute in their terms or be measured against or in relationship to other companies comparably, similarly or otherwise situated. The Plan Committee, in its sole discretion, may modify the Performance Goals if it determines that circumstances have changed and modification is required to reflect the original intent of the Performance Goals. The Plan Committee may in its discretion classify Participants into as many groups as it determines, and as to any Participant(s) relate his/her Performance Goals partially, or entirely, to the measured performance, either absolutely or relatively, of an identified Subsidiary, operating company or test strategy or new venture of the Company.

4.2 LEVELS OF PERFORMANCE REQUIRED TO EARN PERFORMANCE SHARES. At or about the same time that Performance Goals are established for a specific period, the Plan Committee shall in its absolute discretion establish the percentage (not to exceed 150% thereof) of the Performance Share(s) granted for such Performance Period which shall be earned by the Participant for various levels of performance measured in relation to achievement of Performance Goals for such Performance Period.

4.3 OTHER RESTRICTIONS. The Plan Committee may provide restrictions on the delivery of common stock of the Company upon the earning of Performance Shares, including the future forfeiture of all or part of the common stock earned. The Plan Committee may provide that the shares of the Company's .3333 par value common stock issued on Performance Shares Earned be held in escrow and/or legended.

4.4 NOTIFICATION TO PARTICIPANTS. Promptly after the Plan Committee has established Performance Goals for a specific Performance Period or modified such goals, each Participant who has received a grant of any Performance Share(s) for that period shall be provided with written evidence of the Performance Goals so established or modified.

4.5 During any Plan Year, no Covered Officer may receive Awards that, in the aggregate, could result in that Participant receiving, earning or acquiring more than 1,000,000 shares of the Company's \$.3333 par value common stock, subject to the adjustments described in Section 2.17.

ARTICLE V EARNING OF PERFORMANCE SHARES

5.1 MEASUREMENT OF PERFORMANCE AGAINST PERFORMANCE GOALS. The Plan Committee shall as soon as practicable after the close of each Performance Period, make a determination of:

- (a) the extent to which the Performance Goals for such Performance Period have been achieved;
- (b) the percentage of the Performance Shares granted for such Performance Period which are earned for such Performance Period by Participants who have been from his/her date of hire in the continuous employ of the Company or Subsidiary or a combination thereof, during the subject Performance Period; and
- (c) the percentage of Performance Shares to be paid in cash, if any. The percentage paid in cash shall be uniform for all Participants in a particular Performance Period.

These determinations shall be absolute and final as to the facts and conclusions therein made and be binding on all parties. Promptly after the Plan Committee has made the foregoing determination each Participant who has earned Performance Share(s) based thereon shall be notified, in writing, of the number of Performance Shares so earned. For all purposes of this Plan notice shall be deemed to have been given the date action is taken by the Plan Committee making the determination.

5.2 TREATMENT OF PERFORMANCE SHARES EARNED. Upon the determination that a percentage of the Performance Share(s) has been earned for a Performance Period, a Participant to whom such earned Performance Share(s) has been granted and who has been (or was) in the employ of the Company or a Subsidiary thereof continuously from the date of his/her hire during the subject Performance Period to which the grant relates, subject to the exceptions set forth at Section 5.5 and Section 5.6 hereof, shall be entitled, subject to the other conditions of this Plan, to receive the shares of the Company's \$.3333 par value common stock for each Performance Share earned (less the shares paid in cash), plus a cash payment in the amount of the Fair Market Value of the shares of common stock to be paid in cash as determined in Section 5.1(c) hereof, calculated as of the close of business on the date of the notice referred to in Section 5.1 hereof. The provisions of Section 5.5 to the contrary notwithstanding, the Plan Committee may provide that the issued shares of common stock be held in escrow and/or be legended and that the common stock be subject to restrictions, including the future forfeiture of all or a part of the shares. Performance Shares shall under no circumstances become earned or have any value whatsoever for any Participant who is not in the employ of the Company or its Subsidiaries continuously during the entire Performance Period for which such Performance Shares are granted, except as provided at Section 5.5 or Section 5.6 hereof.

5.3 STOCK-CASH DISTRIBUTION. Each distribution determined in accordance with Section 5.2 above shall be made as soon as practicable after Performance Shares have been determined to have been earned unless the provisions of Section 5.4(a) hereof are applicable to a Participant.

5.4(a) DEFERRAL OF RECEIPT OF PERFORMANCE SHARE EARNOUT. A Participant who has received a grant of Performance Shares may by compliance with the then applicable procedures under the Plan irrevocably elect in writing to defer receipt of all or any part of the stock-cash distribution associated with the earnout, if any, of the Performance Shares (the combination thereof hereafter referred to as the "deferred account"). The deferral shall be effective until the Participant terminates his/her employment with the Company and its Subsidiaries except as otherwise provided herein.

The terms and conditions of such deferral, including but not limited to, the period of time for, and form of, election; the manner and method of payout; the form in which the deferred account shall be held; the interest equivalent or other payment that shall accrue upon the deferred account pending its payout; and the use and form of dividend equivalents in respect of stock units included within any deferred account, shall be as determined from time to time by the Plan Committee, which Plan Committee may change any and all of the terms and conditions at any time applicable to deferrals thereafter made.

5.4(b) AMENDMENT OF DEFERRAL ARRANGEMENTS. The Plan Committee may, at any time and from time to time, but prospectively only except as hereinafter provided, amend, modify, change, suspend or cancel any and all of the rights, procedures, mechanics and timing parameters relating to the deferral of receipt of Performance Share earnout under the Plan as set forth at Section 5.4(a) hereof. In addition, the Plan Committee may, in its sole discretion, accelerate the payout of the deferred account, or any portion thereof, either in a lump sum or in a series of payments, but under the following conditions only:

- (a) the Federal tax statutes, regulations or interpretations are amended, modified, or otherwise changed or affected in such a manner as to adversely alter or modify the tax effect of the "deferred account" as it is comprehended under the tax law and interpretations in effect for deferred accounts as of the effective date of this Plan, or
- (b) the deferred account holder suffers or incurs an event that would qualify for a "withdrawal" of contributions that have not been accumulated for two years without adverse consequences on the tax status of a qualified profit-sharing or stock bonus plan under the Federal tax laws applicable from time to time to such types of plans.

5.5 NON-DISQUALIFYING TERMINATION OF EMPLOYMENT. Except for Section 5.6 hereof, the only exceptions to the requirement of continuous employment during a Performance Period for Performance Share earnout eligibility are termination of a Participant's employment by reason of death (in which event the Performance Shares may be transferable by will or the laws of descent and distribution only to such Participant's beneficiary designated to receive the Performance Shares or to the Participant's applicable legal representatives, heirs or legatees), total and permanent disability, normal or late retirement or early retirement, with the consent of the Plan Committee, or transfer of an executive in a spin-off, with the consent of the Plan Committee, occurring during the Performance Period applicable to the subject Performance share grant. In such instance an earnout of the Performance Shares shall be made, as of the end of the Performance Period, and 100% of the total Performance Shares that would have been earned during the Performance Period shall be earned and paid out; provided, however, in a spin-off situation the Plan Committee may set additional conditions, such as, without limiting the generality of the foregoing, continuous employment with the spin-off entity. If a Participant's termination of employment does not meet the criteria set forth above, but the Participant had at least 15 years of continuous employment with the Corporation or a Subsidiary or any combination thereof, provided that if the person is not an Executive Officer (as defined under the Securities Exchange Act of 1934, as amended, and the regulations promulgated thereunder) of the Corporation at time of termination such 15 years need not be continuous, the Plan Committee may allow earn-outs of up to 100% of the total Performance Shares for the Performance Period(s) in which the termination of employment occurred, subject to any conditions that the Plan Committee shall determine.

5.6 CHANGE IN CONTROL. In the event of a Change in Control, all outstanding Performance Shares granted under the Plan shall be proratably payable ten days after the Change in Control; provided that no Performance Share shall be payable to a Participant within six months after the Date of Grant. The amount of Performance Shares payable shall be determined by multiplying 100% of each Performance Share grant by a fraction, the numerator of which shall be the number of months that have elapsed in the applicable Performance Period and the denominator of which shall be forty-eight.

ARTICLE VI STOCK OPTIONS

6.1 NON-QUALIFIED OPTION. Non-Qualified Options granted under the Plan are not intended to be Incentive Stock Options under the provisions of Section 422 of the Code. The Non-Qualified

Options shall be evidenced by Non-Qualified Option agreements in such form and not inconsistent with the Plan as the Plan Committee shall in its sole discretion approve from time to time, which agreements shall specify the number of shares to which they pertain and the purchase price of such shares and shall, but without limitation, contain in substance the following terms and conditions:

- (a) **OPTION PERIOD.** Each option granted shall expire and all rights to purchase shares thereunder shall cease ten years and one day after the Date of Grant of the Stock Option or on such date prior thereto as may be fixed by the Plan Committee, or on such date prior thereto as is provided by this Plan in the event of termination of employment or death or reorganization pursuant to Section 11.8(b) hereof. No option shall permit the purchase of any shares thereunder during the first year after the Date of Grant of such option, except as provided in Section 6.3 hereof.
- (b) **TRANSFERABILITY AND TERMINATION OF OPTIONS.** During the lifetime of an individual to whom an option is granted, the option may be exercised only by such individual and only while such individual is an employee of the Company or a Subsidiary and only if the Participant has been continuously so employed by any one or combination thereof since the Date of Grant of the option; provided, however, that if the employment of such Participant by the Company or a Subsidiary Corporation terminates, the option may additionally be exercised as follows, or in any other manner provided by the Plan Committee, but in no event later than 10 years and one day after the Date of Grant of the Stock Option, except as set forth in (ii) below:
 - (i) if a Participant's termination of employment occurs by reason of normal or late retirement under any retirement plan of the Company or its Subsidiaries, such Participant's Stock Options may be exercised within five years after the date of such termination of employment. If a Participant's termination of employment occurs by reason of early retirement under any retirement plan of the Company or its Subsidiaries, or, by reason of the transfer of an executive in a spin-off, or by reason of total and permanent disability, as determined by the Plan Committee, without retirement, then such Participant's Stock Options shall be exercisable for a period of up to five years after the date of such termination of employment if the Plan Committee consents to such an extension. During the extension period the right to exercise options, if any, accruing in installments, shall continue; provided, however, in an early retirement or a spin-off situation the Plan Committee may set additional conditions, such as, without limiting the generality of the foregoing, an agreement to not provide services to a competitor of the Company and its Subsidiaries and/or continuous employment with the spin-off entity.
 - (ii) if a Participant's termination of employment occurs by reason of death, then within five years after the date of death or the life of the option, whichever is

less, but in no event less than one year after the date of death, during which time installments shall continue to accrue.

- (iii) if a Participant's termination of employment occurs for any reason other than as specified in Section 6.1(b)(i) or (ii) hereof, the Participant has been continuously employed by the Company or a Subsidiary or any combination for more than 15 years, provided that if the person is not an Executive Officer (as defined under the Securities Exchange Act of 1934, as amended, and the regulations promulgated thereunder) of the Corporation at the time of termination such 15 years need not be continuous, and if the Plan Committee so approves, then within a period of up to five years after the date of termination of employment. During the period the right to exercise options, if any, accruing in installments shall continue; provided, however, the Plan Committee may set additional conditions.
- (iv) if a Participant's termination of employment occurs for any reason other than as specified in Section 6.1(b)(i) or (ii) hereof, the Plan Committee has not approved an extension pursuant to Section 6.1(b)(iii) and Participant's termination of employment is not occasioned by the commission of a dishonest or other illegal act, then, but only with respect to installments that have as of the date of termination already accrued, within ninety days after the date of such termination of employment except in the case of Participants who would at the time be subject to the provisions of Section 16(b) of the Securities Exchange Act of 1934, in which instance the period of exercise shall be two hundred ten days after termination. Those Participants terminated because of the commission of a dishonest or other illegal act shall have no additional period after termination of employment in which to exercise their options. Absence on a leave of absence approved by the Plan Committee shall not be deemed a termination or interruption of continuous employment for the purposes of the Plan.
- (v) Rights accruing to a Participant under the aforesaid Subsections (b)(i), (b)(iii) and (b)(iv) may, upon the death of a Participant subsequent to his/her termination of employment, be exercised or perfected by his/her duly designated beneficiary or otherwise by his/her applicable legal representatives, heirs or legatees to the extent vested in and unexercised or perfected by the Participant at the date of his/her death.

No option shall be assignable or transferable by the individual to whom it is granted, except that it may be transferable by will or the laws of descent and distribution in accordance with the provisions of the Plan. An option, if so transferable, may be exercised after the death of the individual to whom it is granted only by such individual's beneficiary designated to exercise the option or otherwise by his/her applicable legal representatives, heirs or legatees, and only within the specific time period set forth above.

In no event whether by the Participant directly or by his/her beneficiary or other representative shall any option be exercisable at any time after its expiration date as stated in the option agreement. When an option is no longer exercisable it shall be deemed for all purposes and without further act to have lapsed and terminated. The Plan Committee may in its sole discretion, but shall not be required to, determine, solely for the purposes of the Plan, that a Participant is permanently and totally disabled and the acts and decisions of the Plan Committee made in good faith in relation to any such determination shall be conclusive upon all persons and interests affected thereby.

- (c) EXERCISE OF OPTIONS. An individual entitled to exercise an option may, subject to its terms and conditions and the terms and conditions of the Plan, exercise it in whole at any time, or in part from time to time, by delivery to the Company at its principal office of written notice of exercise, specifying the number of whole shares with respect to which the option is being exercised. Before shares may be issued payment must be made in full, in legal United States tender, in the amount of the purchase price of the shares to be purchased at the time and any amounts for withholding as provided in Section 11.9 hereof; provided, however, in lieu of paying for the exercise price in cash as described above, the individual may pay (subject to such conditions and procedures as the Plan Committee may establish) all or part of such exercise price by delivering owned and unencumbered shares of the Company common stock having a Fair Market Value on the date of exercise of the option equal to or less than the exercise price of the options exercised, with cash, as set forth above, for the remainder, if any, of the purchase price. Subject to rules established by the Plan Committee, the withholdings required by Section 11.9 hereof may be satisfied by the Company withholding shares of Company common stock issued on exercise that have a Fair Market Value on the date of exercise of the option equal to or less than the withholding required by Section 11.9 hereof.

6.2 INCENTIVE STOCK OPTION. Incentive Stock Options granted under the Plan are intended to be incentive stock options under Section 422 of the Code and the Plan shall be administered, except with respect to the right to exercise options after termination of employment, to qualify Incentive Stock Options issued hereunder as incentive stock options under Section 422 of the Code. An Incentive Stock Option shall not be granted to an employee who owns, or is deemed under Section 424(d) of the Code to own, stock of the Company (or of any parent or Subsidiary of the Company) possessing more than 10% of the total combined voting power of all classes of stock therein. The aggregate Fair Market Value (determined as of the time the option is granted) of the stock with respect to which Incentive Stock Options are exercisable for the first time by any Participant during any calendar year (under all incentive stock option plans of the Company or any parent or Subsidiary of the Company) shall not exceed \$100,000. The Incentive Stock Options shall be evidenced by Incentive Stock Option Agreements in such form and not inconsistent with the Plan as the Plan Committee shall in its sole discretion approve from time to time, which agreements shall specify the number of shares to which they pertain and the purchase price of such shares.

The terms and conditions set forth in Subsections (a) through (c) of Section 6.1 hereof shall apply to an Incentive Stock Option; provided that the term of the Incentive Stock Option shall not exceed ten years; and provided, further, that in the event Section 6.1(b)(i) hereof is applicable, all installments shall become immediately exercisable.

6.3 CHANGE IN CONTROL. In the event of a Change in Control, all outstanding options granted under the Plan shall accelerate and will be exercisable in full for a period of two hundred ten (210) days after the Change in Control; provided that no option shall be exercisable by a Participant (i) within six months after the Date of Grant of the option or (ii) after the termination date of the option.

ARTICLE VII RESTRICTED STOCK

7.1 RESTRICTION PERIOD TO BE ESTABLISHED BY THE PLAN COMMITTEE. At the time a Restricted Stock Award is made, the Plan Committee shall establish a period of time (the "Restriction Period") applicable to such Award, which shall be not less than three years. Each Restricted Stock Award may have a different Restriction Period, at the discretion of the Plan Committee. Except as permitted or pursuant to Sections 7.4, 7.5 or 11.8 hereof, the Restriction Period applicable to a particular Restricted Stock Award shall not be changed.

7.2 OTHER TERMS AND CONDITIONS. Company common stock awarded pursuant to a Restricted Stock Award shall be represented by a stock certificate registered in the name of the Holder of such Restricted Stock Award. The Holder shall have the right to enjoy all shareholder rights during the Restriction Period with the exception that:

- (i) The Holder shall not be entitled to delivery of the stock certificate until the Restriction Period shall have expired.
- (ii) The Company may either issue shares subject to such restrictive legends and/or stop-transfer instructions as it deems appropriate or provide for retention of custody of the Company common stock during the Restriction Period.
- (iii) The Holder may not sell, transfer, pledge, exchange, hypothecate or otherwise dispose of the Company common stock during the Restriction Period.
- (iv) A breach of the terms and conditions established by the Plan Committee pursuant to the Restricted Stock Award shall cause a forfeiture of the Restricted Stock Award, and any dividends withheld thereon.
- (v) Dividends payable in cash or in shares of stock or otherwise may be either currently paid or withheld by the Company for the Holder's account. At the discretion of the Plan Committee, interest may be paid on the amount of cash dividends withheld,

including cash dividends on stock dividends, at a rate and subject to such terms as determined by the Plan Committee.

Provided, however, and the provisions of Section 7.4 to the contrary notwithstanding, in lieu of the foregoing, the Plan Committee may provide that no shares of common stock be issued until the Restriction Period is over and further provide that the shares of common stock issued after the Restriction Period has been completed, be issued in escrow and/or be legended and that the common stock be subject to restrictions including the forfeiture of all or a part of the shares.

7.3 PAYMENT FOR RESTRICTED STOCK. A Holder shall not be required to make any payment for Company common stock received pursuant to a Restricted Stock Award, unless the Plan Committee requires payment for such stock in the Restricted Stock Award.

7.4 FORFEITURE PROVISIONS. Subject to Section 7.5, in the event a Holder terminates employment during a Restriction Period, a Restricted Stock Award will be forfeited; provided, however, when the Plan Committee issues the Restricted Stock Award, it may provide in the Restricted Stock Award agreement for proration or full payout in the event of a termination of employment because of normal or late retirement, early retirement or spin-off with the consent of the Plan Committee, or death or total and permanent disability, as determined by the Plan Committee, or termination of employment after 15 years of continuous employment with the Corporation or a Subsidiary or any combination thereof, provided that if the person is not an Executive Officer (as defined under the Securities Exchange Act of 1934, as amended, and the regulations promulgated thereunder) of the Corporation at the time of termination such 15 years need not be continuous, subject to any other conditions the Plan Committee may determine.

7.5 CHANGE IN CONTROL. In the event of a Change in Control, all outstanding Restricted Stock Awards granted under the Plan will be proratably payable ten days after the Change in Control; provided that no Restricted Stock Award shall be payable to a Participant within six months after the Date of Grant. The amount of Company common stock payable shall be determined by multiplying each Restricted Stock Award granted by a fraction, the numerator of which shall be the number of months that have elapsed in the applicable Restriction Period and the denominator of which shall be the number of months in the Restriction Period.

ARTICLE VIII SHARES OF STOCK SUBJECT TO THE PLAN

8.1 The total number of shares that may be available for issuance under all Performance Shares, Stock Options and Restricted Stock Awards granted pursuant to the Plan shall not exceed in the aggregate 18,600,000 shares of the Company's \$.3333 par value common stock. Shares covered by granted Performance Shares which are not earned pursuant to any of the provisions of Article V hereof, or Stock Options or Performance Shares or Restricted Stock Awards which are forfeited for any reason or are not distributed or are covered by options that lapse or are cancelled before exercise, shall (unless the Plan shall have been terminated) again be available in the same relative amounts for other Performance Share, Restricted Stock Award and Stock Option grants under the Plan (except for shares for which cash equivalent payments are received by Participants pursuant to

the Plan), except that 660,825 shares for Stock Options, Performance Shares or Restricted Stock Awards that were outstanding on April 10, 1991 that are not earned or are forfeited for any reason or are not distributed or lapse or are cancelled before exercise shall be available for future grants and any additional shares for Stock Options, Performance Shares or Restricted Stock Awards that were outstanding on April 10, 1991 that are not earned or are forfeited for any reason or are not distributed or lapse or are cancelled before exercise shall not be available for future Performance Shares, Restricted Stock Awards or Stock Option Grants. Such shares may be authorized and unissued shares, or may be treasury shares held by the Company or may be shares purchased or held by the Company or a Subsidiary for purposes of the Plan, or any combination thereof.

ARTICLE IX
ADMINISTRATION OF THE PLAN

9.1 The Plan will be administered by a committee of the Board appointed from time to time by the Board. Each member of the committee shall be a "non-employee director" as that term is defined under Rule 16b-3, promulgated under the Securities Exchange Act of 1934, as amended, or any successor statute or regulation comprehending the same subject matter.

9.2 The Plan Committee shall have and exercise all of the powers and responsibilities granted expressly or by implication to it by the provisions of the Plan. Subject to and as limited by such provisions, the Plan Committee may from time to time enact, amend and rescind such rules, regulations and procedures with respect to the administration of the Plan as it deems appropriate or convenient.

9.3 All questions arising under the Plan, any Incentive Stock Option, Non-Qualified Stock Option, Performance Share or Restricted Stock Award agreement, or any rule, regulation or procedure adopted by the Plan Committee shall be determined by the Plan Committee, and its determination thereof shall be conclusive and binding upon all parties.

9.4 Any action required or permitted to be taken by the Plan Committee under the Plan shall require the affirmative vote of a majority of a quorum of the members of the Plan Committee. A majority of all members of the Plan Committee shall constitute a "quorum" for Plan Committee business. The Plan Committee may act by written determination instead of by affirmative vote at a meeting, provided that any written determination shall be signed by all members of the Plan Committee, and any such written determination shall be as fully effective as a majority vote of a quorum at a meeting.

ARTICLE X
REDUCTION IN AWARDS

10.1 Anything in this Plan to the contrary notwithstanding, the provisions of this Article X shall apply to a Participant if Ernst & Young determines that each of (a) and (b) below are applicable.

- (a) Payments or distributions hereunder, determined without application of this Article X, either alone or together with other payments in the nature of compensation to the Participant which are contingent on a change in the ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, or otherwise (but after any elimination or reduction of such payments under the terms of the Company's Income Continuance Policy Statement or SMG Income Continuance Policy Statement), would result in any portion of the payments hereunder being subject to an excise tax on excess parachute payments imposed under Section 4999 of the Code.
- (b) The excise tax imposed on the Participant under Section 4999 of the Code on excess parachute payments, from whatever source, would result in a lesser net aggregate present value of payments and distributions to the Participant (after subtraction of the excise tax) than if payments and distributions to the Participant were reduced to the maximum amount that could be made without incurring the excise tax.

10.2 Under this Article X the payments and distributions under this Plan shall be reduced (but not below zero) so that the present value of such payments and distributions shall equal the Reduced Amount. The "Reduced Amount" (which may be zero) shall be an amount expressed in present value which maximizes the aggregate present value of payments and distributions under this Plan which can be made without causing any such payment to be subject to the excise tax under Section 4999 of the Code. The determinations and reductions under this paragraph shall be made after eliminations or reductions, if any, have been made under the Company's Income Continuance Policy Statement or SMG Income Continuance Policy Statement.

10.3 If Ernst & Young determines that this Article X is applicable to a Participant, it shall so advise the Plan Committee. The Plan Committee shall then promptly give the Participant notice to that effect together with a copy of the detailed calculation supporting such determination which shall include a statement of the Reduced Amount. The Participant may then elect, in his/her sole discretion, which and how much of the Stock Options, Restricted Stock Awards and/or Performance Shares otherwise awarded under this Plan shall be eliminated or reduced (as long as after such election the aggregate present value of the remaining Stock Options, Restricted Stock Awards and/or Performance Shares under this Plan equals the Reduced Amount), and shall advise the Plan Committee in writing of his/her election within ten days of his/her receipt of notice. If no such election is made by the Participant within such ten-day period, the Plan Committee may elect which and how much of the Stock Options, Restricted Stock Awards, and/or Performance Shares shall be eliminated or reduced (as long as after such election their aggregate present value equals the Reduced Amount) and shall notify the Participant promptly of such election. For purposes of this Article X, present value shall be determined in accordance with Section 280G of the Code. All the foregoing determinations made by Ernst & Young under this Article X shall be made as promptly as practicable after it is determined that parachute payments will be made to the Participant if an elimination or reduction is not made. As promptly as practicable following the election hereunder, the Company shall provide to or for the benefit of the Participant such amounts and shares as are then due to the Participant under this Plan and shall promptly provide to or for the

benefit of the Participant in the future such amounts and shares as become due to the Participant under this Plan.

10.4 As a result of the uncertainty in the application of Section 280G of the Code at the time of the initial determination by Ernst & Young hereunder, it is possible that payments or distributions under this Plan will have been made which should not have been made ("Overpayment") or that additional payments or distributions which will have not been made could have been made ("Underpayment"), in each case, consistent with the calculation of the Reduced Amount hereunder. In the event that Ernst & Young, based upon the assertion of a deficiency by the Internal Revenue Service against the Company or the Participant which Ernst & Young believes has a high probability of success, determines that an Overpayment has been made, any such Overpayment shall be treated for all purposes as a loan to the Participant which the Participant shall repay together with interest at the applicable Federal rate provided for in Section 7872(f)(2) of the Code; provided, however, that no amount shall be payable by the Participant if and to the extent such payment would not reduce the amount which is subject to the excise tax under Section 4999 of the Code. In the event that Ernst & Young, based upon controlling precedent, determines that an Underpayment has occurred, any such Underpayment shall be promptly paid to or for the benefit of the Participant together with interest at the applicable Federal rate provided for in Section 7872(f)(2)(A) of the Code.

10.5 In making its determination under this Article X, the value of any non-cash benefit shall be determined by Ernst & Young in accordance with the principles of Section 280G(d)(3) of the Code.

10.6 All determinations made by Ernst & Young under this Article X shall be binding upon the Company, the Plan Committee and the Participant.

ARTICLE XI GENERAL PROVISIONS

11.1 AMENDMENT OR TERMINATION. The Board may at any time amend, suspend, discontinue or terminate the Plan (including the making of any necessary enabling, conforming and procedural amendments to the Plan to authorize and implement the granting of qualified Stock Options or other income tax preferred stock options which may be authorized by enactment of the United States Congress and/or the Internal Revenue Service subsequent to the effective date of this Plan); provided, however, that no amendment by the Board shall, without further approval of the shareholders of the Company:

- (a) except as provided at Section 2.17 hereof, increase the total number of shares of Company common stock which may be made subject to the Plan; or
- (b) except as provided at Section 2.17 hereof, change the purchase price of Company common stock under the Plan; or

- (c) materially modify the class of employees that are eligible to receive Stock Options and/or Performance Shares and/or Restricted Stock Awards pursuant to the Plan.

No action taken pursuant to this Section 11.1 of the Plan shall, without the consent of a Participant, alter or impair any Performance Share(s) or Stock Option(s) or Restricted Stock Award(s) which have been previously granted to a Participant.

11.2 NON-ALIENATION OF RIGHTS AND BENEFITS. Except as expressly provided herein, no right or benefit under the Plan shall be subject to anticipation, alienation, sale, assignment, pledge, encumbrance or charge and any attempt to anticipate, alienate, sell, assign, pledge, encumber or charge the same shall be void. No right or benefit hereunder shall in any manner be liable for or subject to the debts, contracts, liabilities or torts of the person entitled to such right or benefit. If any Participant or beneficiary hereunder should become bankrupt or attempt to anticipate, alienate, sell, assign, pledge, encumber or charge any right or benefit hereunder, then such right or benefit shall, in the sole discretion of the Plan Committee, cease and in such event the Company may hold or apply the same or any or no part thereof for the benefit of the Participant or beneficiary, his/her spouse, children or other dependents or any of them in any such manner and in such proportion as the Plan Committee in its sole discretion may deem proper.

11.3 NO RIGHTS AS SHAREHOLDER. The granting of Performance Share(s) and/or Stock Option(s) and/or Restricted Stock Award(s) under the Plan shall not entitle a Participant or any other person succeeding to his/her rights, to any dividend, voting or other right as a shareholder of the Company unless and until the issuance of a stock certificate to the Participant or such other person pursuant to the provisions of the Plan and then only subsequent to the date of issuance thereof.

11.4 LIMITATION OF LIABILITY OR OBLIGATION OF THE COMPANY. As illustrative only of the limitations of liability or obligation of the Company and not intended to be exhaustive thereof, nothing in the Plan shall be construed:

- (a) to give any employee of the Company any right to be granted any Stock Option and/or Performance Share and/or Restricted Stock Award other than at the sole discretion of the Plan Committee;
- (b) to give any Participant any rights whatsoever with respect to shares of the Company's \$.3333 par value common stock except as specifically provided in the Plan;
- (c) to limit in any way the right of the Company or any Subsidiary to terminate, change or modify, with or without cause, the employment of any Participant at any time; or
- (d) to be evidence of any agreement or understanding, express or implied, that the Company or any Subsidiary will employ any Participant in any particular position at any particular rate of compensation or for any particular period of time.

11.5 GOVERNMENT REGULATIONS. Notwithstanding any other provisions of the Plan seemingly to the contrary, the obligation of the Company with respect to Performance Shares, Stock Options or Restricted Stock Awards granted under the Plan shall at all times be subject to any and all applicable laws, rules, and regulations and such approvals by any government agencies as may be required or deemed by the Board or Plan Committee as reasonably necessary or appropriate for the protection of the Company.

In connection with any sale, issuance or transfer hereunder, the Participant acquiring the shares shall, if requested by the Company give assurances satisfactory to counsel of the Company that the shares are being acquired for investment and not with a view to resale or distribution thereof and assurances in respect of such other matters as the Company may deem desirable to assure compliance with all applicable legal requirements.

11.6 NON-EXCLUSIVITY OF THE PLAN. Neither the adoption of the Plan by the Board nor the submission of the Plan to shareholders of the Company for approval shall be construed as creating any limitations on the power or authority of the Board to adopt such other or additional incentive or other compensation arrangements of whatever nature as the Board may deem necessary or desirable or preclude or limit the continuation of any other plan, practice or arrangement for the payment of compensation or fringe benefits to employees generally, or to any class or group of employees, which the Company or any Subsidiary now has lawfully put into effect, including, without limitation, any retirement, pension, savings, profit sharing or stock purchase plan, insurance, death and disability benefits, and executive short term incentive plans.

11.7 EFFECTIVE DATE. Subject to the approval of this restated Plan by the holders of a majority of the voting power of the shares present and entitled to vote at the Company's Annual Meeting of Shareholders to be held May 21, 1997 and any necessary approval being obtained from any department, board or agency of the United States or states having jurisdiction, the Plan shall be effective as of May 21, 1997.

11.8 REORGANIZATION. In case the Company is merged or consolidated with another corporation, or in case the property or stock of the Company is acquired by another corporation, or in case of a separation, reorganization or liquidation of the Company, the Plan Committee or a comparable committee of any corporation assuming the obligations of the Company hereunder, shall either:

- (a) make appropriate provision for the protection of any outstanding Performance Shares, Stock Options and Restricted Stock Awards granted thereunder by the substitution on an equitable basis of appropriate stock of the Company, or of the merged, consolidated or otherwise reorganized corporation which will be issuable in respect to the shares of the Company's \$.3333 par value common stock. Stock to be issued pursuant to such Performance Shares shall be limited so that the excess of the aggregate fair market value of the shares subject to the Performance Shares immediately after such substitution over the purchase price thereof is not more than the excess of the aggregate fair market value of the shares subject to such

Performance Shares immediately before such substitution over the purchase price thereof; or

- (b) upon written notice to the Participant, provide that all Performance Shares granted to the Participant are deemed earned, that the Restriction Period of all Restricted Stock Awards has been eliminated and that all outstanding Stock Options shall accelerate and become exercisable in full but that all outstanding Stock Options, whether or not exercisable prior to such acceleration, must be exercised within not less than sixty days of the date of such notice or they will be terminated. In any such case the Plan Committee may, in its discretion, extend the sixty-day exercise period.

11.9 WITHHOLDING TAXES, ETC. All distributions under the Plan shall be subject to any required withholding taxes and other withholdings and, in case of distributions in Company common stock, the Participant or other recipient may, as a condition precedent to the delivery of the common stock, be required to pay to his/her participating employer the excess, if any, of the amount of required withholding over the withholdings, if any, from any distributions in cash under the Plan. No distribution under the Plan shall be made in fractional shares of the Company's common stock, but the proportional market value thereof shall be paid in cash.

11.10 GENERAL RESTRICTION. Each Performance Share, Stock Option and Restricted Stock Award shall be subject to the requirement that, if at any time the Board shall determine, in its discretion, that the listing, registration or qualification of the shares subject to such option and/or right upon any securities exchange or under any state or Federal Law, or the consent or approval of any government regulatory body, is necessary or desirable as a condition of, or in connection with the granting of such Performance Share or Stock Option or Restricted Stock Award or the issue or purchase of shares respectively thereunder, such Performance Share or Stock Option or Restricted Stock Award may not be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Board.

11.11 USE OF PROCEEDS. The proceeds derived from the sale of the stock pursuant to Stock Options or Restricted Stock Awards granted under the Plan shall constitute general funds of the Company.

11.12 HEADINGS. The headings of the Articles and their subparts in this Plan are for convenience of reading only and are not meant to be of substantive significance and shall not add to or detract from the meaning of such Article or subpart to which it refers.

January 13, 1999

DAYTON HUDSON CORPORATION

INCOME CONTINUANCE POLICY STATEMENT

I. CONCEPTS

A. GENERAL

The present policy of the Corporation is to provide, under certain defined circumstances, Income Continuance Payments to the persons listed on Exhibit A in the event of termination of employment. This policy is intended to assist in the occupational transition and financial security of those Executives whose services are no longer deemed required within the Corporation, who have during their tenure been faithful and honest employees, who do not during the period of those payments engage in disqualifying misconduct, and to the extent not compensated for services to a directly competitive employer and to assist Executives who terminate employment with the Corporation within 2 years after a Change in Control.

"Income Continuance" will be paid in monthly installments for from 18 to 24 months, depending upon the Executive's length of service in the Corporation, in an amount equal to the Executive's cash compensation prior to termination of employment.

This will be known as the Income Continuance Policy ("ICP") of the Corporation. It will be interpreted and applied in accordance with this Statement of policy and with any subsequent amendment or restatement applicable to the Executive.

B. ELIGIBILITY

To be eligible under ICP, an Executive must be listed on Exhibit A and be a member of the Corporation's Senior Management Group ("SMG").

C. REASSIGNMENT

An Executive will continue to have income protection under ICP for at least 18 calendar months (Eligibility Period) after internal reassignment to a position which is not an SMG position.

D. SPIN-OFF

An Executive who retains substantially the same position in an ongoing Operating Company or similar business unit after the Corporation has ceased to be its owner or operator will remain eligible for the same ICP benefits from the Corporation as if the Executive had been transferred to a non-SMG position within the Corporation at the time of the Spin-Off.

E. DISQUALIFICATION AND REDUCTION

Serious and deliberate misconduct in employment by an Executive resulting in discharge for cause can disqualify an Executive from ICP eligibility. Except as otherwise expressly provided in this Statement, after termination under ICP and normal windup of former duties an Executive will not be required to perform any regular services for the Corporation, and will be free to accept any other employment. Except as otherwise provided in this ICP, ICP Payments otherwise payable to an Executive will be reduced or excused in the amount of compensation from Directly Competitive Employment as specifically defined to the Executive in advance according to this Statement. An Executive otherwise entitled to ICP Payments after Termination, Reassignment or Spin-Off will be disqualified from receiving future Payments by reason of serious and deliberate misconduct which is unlawful or clearly and seriously harmful to the Corporation, or to its interest or those of certain subsequent employers.

F. INTERPRETATION

Subject to the express terms of this Statement, the Chief Executive Officer of the Corporation will have sole and final authority to interpret the ICP and determine its application, and will interpret it consistently and in good faith. Section I of this Statement is intended as a summary of the more detailed provisions of Section II. For that reason, Section II will control in the event of any difference.

G. MODIFICATION

ICP and the ICP Statement can only be modified or discontinued prospectively, and only by action of the Board of Directors or a committee of Directors acting with the authority of the Board for this purpose.

II. APPLICATION

A. ELIGIBILITY PERIOD - DEFINITION

The "Eligibility Period" of an Executive is determined by the number of full calendar months between the Executive's most recent first date of continuous service within the Corporation and the Effective Date of Termination, Spin-Off or

Reassignment by the Corporation. It will be calculated according to the following schedule:

| Months of Service ----- | Eligibility Period ----- |
|----------------------------|-----------------------------|
| 0 through 36 | 18 months |
| 37 through 48 | 19 months |
| 49 through 60 | 20 months |
| 61 through 72 | 21 months |
| 73 through 84 | 22 months |
| 85 through 96 | 23 months |
| more than 96 | 24 months |

An Executive entitled to ICP Payments will not be entitled to prepayment or other change in the monthly payment schedule.

B. ELIGIBILITY PERIOD - USE

The Eligibility Period of an Executive will determine the number of consecutive calendar months for which an Executive remains eligible for ICP Payments under this Statement after:

1. Reassignment to a new position within the Corporation which does not include SMG membership, or
2. The effective date of a Spin-Off by the Corporation.

C. PAYMENT PERIOD - DEFINITION

The Payment Period for an Executive will consist of the same number of months as the Executive's Eligibility Period, measured from the time when ICP Payments first become payable to the Executive under the terms of this Statement.

D. PAYMENTS

1. AMOUNT

Each monthly ICP Payment to an Executive during the Payment Period will equal one twelfth (1/12) of the Executive's Final Annual Cash Compensation from the Corporation which will consist of the sum of:

a. BASE COMPENSATION

The annual Base (regular monthly or other fixed salary) rate payable as Cash Compensation to the Executive at the time of Notice of Termination or effective date of Reassignment or Spin-

Off, but in no event less than the highest annual rate paid to the Executive at any time during a number of months equal to the Executive's Eligibility Period immediately before the Notice of Termination or effective date of Reassignment or Spin-Off, and

b. PERFORMANCE BONUS

The average amount of the three annual Performance Bonuses most recently paid or credited to the Executive as Cash Compensation or deferred bonus, prior to Executive's Notice of Termination or effective date of Reassignment or Spin-Off or downgrade. For purposes of ICP, the Performance Bonus of an Executive shall be determined according to the applicable Short Term Incentive Plan of the Corporation, shall also include, if applicable, any discretionary bonus paid during said applicable period on account of the Executive's performance but outside of the purview of the then applicable Short Term Incentive Plan.

c. ADJUSTMENT

The annual rate in dollars of each merit increase awarded to an Executive before Notice of Termination will be included in Base Compensation to determine the Executive's ICP Payments. If the Executive's annual rate of Base Compensation at the time of Notice of Termination has been increased or decreased to reflect a change from the Short Term Incentive Plan used to determine the Performance Bonus defined above, and the change is for the purpose of altering the future relationship of Bonus to total Annual Cash Compensation of the Executive, then the dollar amount of that increase or decrease in annual rate of Base Compensation will be excluded in determining ICP Payments.

2. COMMENCEMENT

Monthly ICP Payments, or entitlement to begin receiving them, will commence in the next full calendar month after the Effective Date of Termination, subject to any Set-offs, Adjustments and Withholding as specified in

a. DEFERRED ICP PAYMENTS

Until the Effective Date of Termination there will be no change in the rate or timing of compensation, benefits or perquisites to which the Executive was entitled immediately before the Notice of Termination, and no amount received from the Corporation before

that Effective Date will be charged against the ICP Payments to which the Executive is entitled under this Statement.

b. DIFFERENT EMPLOYMENT SEVERANCE DATE

If the Corporation agrees in writing with the Executive upon, or notifies the Executive of, an Employment Severance Date later than the ICP Effective Date of Termination, then:

- 1) All Cash Compensation that the Executive receives after the ICP Effective Date of Termination will be treated as an Adjustment and deducted from ICP Payments otherwise payable, as defined in 3 c below, and will be paid in the amount(s) and at the time(s) to which the Executive was entitled immediately before the Notice of Termination, and
- 2) Employee benefits and normal use and expense of executive perquisites and facilities available to the Executive before the Notice of Termination will continue until the Employment Severance Date and, except to any extent otherwise specified in this Statement or by written advance notice to the Executive by the Corporation, will not be charged against ICP Payments to which the Executive is entitled under this Statement.

3. SET-OFF AND WITHHOLDING

ICP Payments are not intended to duplicate or be in addition to any other payment due between the Corporation and the Executive.

a. REDUCTION

Each Payment otherwise due from the Corporation to the Executive will be reduced, dollar for dollar and in timing by all amounts which the Executive receives or is entitled to receive from the Corporation or under a plan, program or agreement maintained by and at the expense of the Corporation after the Effective Date of Termination or Spin-Off. This will include such sources as life and disability insurance. It will not apply to accrued vacation or expense reimbursement (both will be paid in cash at termination), Pension proceeds, Supplemental Retirement and Savings Plan proceeds, Deferred Compensation Plans, Social Security, fully exercisable or earned-out stock option, stock appreciation rights, performance shares or restricted stock awards, or benefits payable under any Worker's Compensation or similar law or regulation. Termination of employment by reason of mandatory retirement

under a lawful and uniform policy of the employer applicable to the Executive will not be treated as a termination for ICP purposes.

b. DEBT

The Corporation may apply not more than 25 percent of any ICP Payment otherwise due to the Executive to pay any overdue debt payable to the Corporation on any obligation of the Executive or dependent of Executive, until all such accounts are paid in full or current according to their terms.

c. ADJUSTMENTS

If monthly payments received by the Executive from the Corporation immediately after the Effective Date of Termination are not computed under ICP, then when regular monthly ICP Payments begin they will reflect itemized adjustments to apply the ICP monthly rate to the ICP Effective Date of Termination. Taxes and other amounts required by law or by the Executive's written instruction will be withheld from ICP amounts otherwise payable.

E. DEATH OF EXECUTIVE

If an Executive should die after Notice of Termination and before completion of the Executive's Payment Period, the remaining Payments will be made by the Corporation as follows, without unnecessary interruption:

1. Unless the Executive has otherwise designated in unrevoked writing, acknowledged in writing by the CEO, the surviving spouse of the Executive, if any, will be entitled to all remaining Payments.
2. If the Executive has otherwise effectively designated in unrevoked writing, acknowledged in writing by the CEO, then Payment will be made to or for the account of the person or persons so designated as identified by the Corporation.
3. In the absence of effective prior written designation by the Executive and of a known surviving spouse, the Corporation may hold remaining Payments until the executor, heirs or administrator of the Executive can be identified and Payment made and receipted to the reasonable satisfaction of the Corporation pursuant to the advice of its legal counsel.
4. In the interest of providing uninterrupted income to authorized beneficiaries of the Executive, any ICP Payment made with reasonable care and in good faith by the Corporation shall conclusively constitute Payment by the Corporation in accordance with and satisfaction of the

entitlement of the Executive and Executive's beneficiaries under ICP. No interest or other charge shall be payable by the Corporation or its representatives on any Payment delayed by the Corporation to permit reasonable verification of authorized recipient(s).

F. DISQUALIFICATION

No Executive will be disqualified from receipt of future ICP Payments by reason of any act or omission of anyone other than the Executive or one or more persons acting pursuant to the conscious and effective control of the Executive. Disqualification will be interpreted as follows:

1. WHILE EMPLOYED IN THE CORPORATION

Deliberate and serious disloyal or dishonest conduct in the course of employment will disqualify if it justifies and results in prompt discharge for specific cause under the established policies and practices of the Corporation as interpreted by the CEO for this purpose. Examples would include material unlawful conduct, material and conscious falsification or unauthorized disclosure of important records or reports, embezzlement or unauthorized conversion of property, serious violation of conflict of interest or vendor relations policies, and misuse or disclosure of significant trade secrets or other information likely to be of use to the detriment of the Corporation or its interests.

2. AFTER NOTICE OF TERMINATION OR SPIN-OFF

The ICP will not restrict an Executive's conduct or employment opportunities after Notice of Termination, or any independent remedy of the Corporation or its representatives by reason of the Executive's conduct while employed. The obligation of the Corporation to or for an Executive during the Eligibility and Payment Periods can be terminated only by the deliberate conduct of the Executive or one acting under the Executive's conscious and effective control, and only as to any ICP Payments not yet due, by reason of one or more of the following events:

- a. Unauthorized removal, use or disclosure of strategic or operating plans, trade secrets, customer lists, internal systems or other significant proprietary information of or concerning the Corporation or its personnel, the use or disclosure of which is intended or likely to cause loss or reduction of business advantage or substantial injury to the Corporation or its management, business opportunities or interests.
- b. Expressing or endorsing publication of untrue statements which are intended or likely to receive broad public attention and to bring the

Corporation or its interests, methods or representatives into disrepute.

- c. Providing materially false or misleading information concerning post-termination employment, or failure or refusal promptly and accurately to provide required information, verification or authorization required by the CEO as provided in this Statement and affecting any ICP payment due from the Corporation.
- d. Solicitation of or an offer to an employee within the Corporation to accept employment elsewhere, where the selection of or offer to the recruited employee was based in the whole or in part upon Executive's knowledge or experience concerning the employee which was acquired by the Executive while employed within the Corporation or through one or more personal acquaintances employed within the Corporation.
- e. Exercising the discretion, authority or powers of an office or position held by an Executive after Notice of Termination, and whether or not before an Effective Date of Termination or Employment Severance Date, unless specifically authorized or directed in writing in advance by an authorized executive of the Corporation.
- f. Because ICP is not intended to encourage or reward misconduct in employment, an Executive can be disqualified from receipt of future ICP Payments from the Corporation because of termination of employment by a Spin-Off employer for unlawful or serious and deliberate misconduct during the Executive's Eligibility Period. If the CEO independently determines and informs the Executive in writing that termination of employment by another employer was due to unlawful or serious and deliberate misconduct which would have resulted in ICP disqualification under the standards of this Statement if committed against and while employed by this Corporation, then the Executive will be deemed conclusively and irrevocably to have waived and abandoned all right to future ICP Payments from this Corporation. If the CEO concludes that there is reason to believe that disqualifying misconduct under this paragraph may have resulted in a termination of employment which would otherwise initiate or increase its ICP Payments to the Executive, the Corporation may postpone commencement of or change in ICP Payments until it has received from the Executive a full and accurate explanation of the circumstances and written authorization for the terminating employer to make full and confidential disclosure to the Corporation, and has had a

reasonable time not exceeding 60 days to complete an investigation and for the CEO to make a determination.

3. PRESERVATION OF RIGHTS

Neither ICP nor its application shall waive, excuse, preclude or otherwise affect any right or remedy which the Corporation or any agent or representative of the Corporation may have, individually or collectively, under law by reason of conduct of the Executive during or after employment within the Corporation. Disqualification or reduction of Payments under ICP will be an additional and not an exclusive remedy.

G. COMPETITIVE EMPLOYMENT

An Executive will receive not less than the full amount of the specified ICP Payments from the Effective Date of Termination through the full Payment Period whether or not compensated by another employer for services in that Period, unless disqualified under Section F., immediately above or employed by a Spin-Off employer, as defined, or as provided in this Section G. Compensation from employment which is not identified as Directly Competitive Employment ("DCE") will be in addition to and will not reduce any ICP Payment. If an Executive engages in DCE as specifically defined in advance and by this Statement, then each ICP Payment otherwise payable to the Executive will be currently reduced, dollar for dollar and in timing, by the amount of all Cash Compensation earned from that source during the Payment Period.

These provisions will be interpreted and administered as follows:

1. PURPOSE OF SET-OFF

Reduction of ICP Payments by the amount of Cash Compensation determined to be from DCE is not intended to restrict or penalize an Executive's choice of alternative career opportunities, but only to preserve and reconcile the personal income security intended to be provided to Executives by ICP with the legitimate interests of the Shareholders of the Corporation in its highly competitive business context.

2. COMPETITORS IDENTIFIED

At or about the time of Notice of Termination, the Corporation will inform the Executive in writing of those employers who have been individually and specifically determined to offer DCE for ICP purposes with respect to the Executive's former employment within the Corporation. This designation will take into account existing operations and known plans of the Corporation and of the employers listed, and will not change during the Eligibility Period by reason of subsequent and mutually unanticipated

changes in the operations or plans of either. An Executive whose employment with a Spin-Off employer is terminated during the Eligibility Period without disqualifying misconduct and who is not reemployed in the Corporation will receive designation of DCE employers promptly after written notice by the Executive to the Corporation of non-disqualifying termination of Spin-Off employment.

3. CRITERIA

The following criteria will be employed in determining and administering ICP application to DCE.

a. SELECTIVE POTENTIAL DETRIMENT

A position will not be determined to constitute DCE for this purpose unless the CEO determines that the competitive effectiveness of the Executive and the new employer would be materially enhanced by the Executive's current knowledge of such matters as the particular methods, policies, customers, suppliers, personnel or plans of the Corporation or its relevant Operating Company, as distinguished from the skills, experience and services of the Executive generally. The Corporation will identify for DCE purposes not more than three persons, firms or corporations who are determined for this purpose to be the leading direct and immediate competitors of the affected business of the Corporation.

b. PRESERVATION OF EMPLOYMENT OPPORTUNITIES

Whether or not an Executive's most recent employment within the Corporation involved direct participation in the management of one or more Operating Companies, this section will not be used to discourage or penalize otherwise suitable employment opportunities in retailing or otherwise. The Corporation may require, as a condition of avoiding DCE designation for the Executive, a suitable written undertaking by the Executive and the new employer that the Executive remains obliged not to use or divulge trade secrets or proprietary information of the Corporation and that the Executive will not volunteer or be expected or required to violate that obligation in the course of the new employment.

c. RELEVANT CONSIDERATIONS

In determining DCE, the CEO will give suitable consideration to geographic, product and price-line marketing overlaps, the nature and content of the Executive's particular knowledge of strategies

and plans within the Corporation, and the extent to which the Executive's knowledge, as distinguished from skills, is likely to be a significant factor in generating an employment opportunity. Employment exclusively with a component of a larger business entity, which component is not presently or known to be planned to be a direct and immediate competitor of the Executive's former Operating Company, will not be treated as DCE merely because one or more other components of that entity is or may become a competitor of the Corporation or one or more of its other Operating Companies.

4. ICP PAYMENT REDUCTION

Uniform and responsible administration of ICP will require reliable information and verification to the Corporation.

a. REPORTING

To be eligible for any ICP Payment during a period of DCE, an Executive must, in addition to all other required reporting, provide to the Corporation in writing an accurate statement of the amount and payment schedule of all Cash Compensation or its equivalent to be received from the new employer and of any subsequent change or correction of that amount, in such form and with such verification as the CEO may request in writing. An Executive will not be or become entitled to receive or retain any portion of any ICP Payment on account of any Payment Period for which that information, and any required verification, is not currently and accurately provided.

b. VERIFICATION AND RECONCILIATION

Required verification may include authorization for written confirmation from the employer and confidential disclosure of completed W-2, payroll and income tax forms of the Executive on which taxes have been or will be paid. If the Corporation withholds for more than 30 days any ICP Payment pending receipt of required information or verification which is later received and found satisfactory, the Corporation will pay interest at a realistic rate determined by the CEO for the period of delay. The Corporation and the Executive will each fairly and promptly adjust by payment any discrepancy later discovered between reported and actual Cash Compensation of the Executive, but the Corporation will have no liability for any amount not claimed by an Executive in writing before final expiration of the Executive's Payment Period.

H. REASSIGNMENT AND SPIN-OFF

The purpose of ICP is to attract and preserve the services of Executives for the benefit of the Corporation by providing unreduced personal income to them for the full Eligibility and Payment Periods in the absence of disqualifying personal misconduct, DCE or continued employment after a Spin-Off. If the Corporation should determine that its shareholders' interests would best be served by disposition or major alteration of an Executive's current Operating Company or position, ICP will be available to the Executive unless:

1. REASSIGNMENT AND OTHER ADJUSTMENTS

The Corporation may transfer an Executive to another position within the Corporation or any of its Operating Companies or reduce the Executive's Compensation in Executive's current position (collectively referred to as "Reassignment"). An Executive in the case of either event may elect ICP Payments if the Executive's total monetary compensation after Reassignment will be measurably and substantially below the total monetary compensation of the Executive immediately before notice of Reassignment. For this purpose, personal monetary compensation will include salary and bonus and continuation, or payment of the substantial equivalent in Cash Compensation, of all non-cash personal benefits and perquisites which the Executive was receiving immediately before and does not receive after the Reassignment and which are susceptible of accurate and objective measurement in dollars as determined by the CEO; or

2. SPIN-OFF

A Spin-Off (as defined) occurs and the Executive is requested by the Corporation to continue in the resulting company or operation in substantially the same position as immediately before Spin-Off.

a. ICP ELIGIBILITY

An Executive will, in the event of Spin-Off, have the same rights and limitations to elect to receive ICP payments in lieu of the continuation of employment as if Reassigned at that time to another position within the Corporation as provided in subparagraph (1), immediately above. Comparison of the Executive's monetary compensation before and after the ownership change will be measured by the same standards for this purpose. An Executive whose employment continues after Spin-Off will remain eligible for ICP Payments from the Corporation for the Executive's full

ICP Eligibility Period, measured from the effective date of Spin-Off.

b. SUBSEQUENT TERMINATION

If during the Eligibility period after Spin-Off the Executive's employment should be involuntarily terminated, or the Executive irrevocably terminates the employment because of an involuntary reduction in monetary compensation to a rate materially below the Executive's most recent monetary compensation rate within the Corporation, the Executive shall be eligible for full ICP Payments from the Corporation as though the Executive were then employed by the Corporation. Any amount paid to the Executive by the Spin-Off employer after effective date or on account of that termination will be set off against, and reduce dollar for dollar and in timing, any ICP Payments otherwise payable to the Executive by the Corporation.

c. REEMPLOYMENT OFFER

The obligation of the Corporation to make future ICP Payments to an Executive because of a non-disqualifying termination of employment after a Spin-Off under this subsection can be terminated by a suitable offer to the Executive of employment within the Corporation. Such an offer will be suitable for this purpose if it is a good faith offer of a management position at a rate of monetary compensation at least equal to the Executive's rate immediately before the effective date of Spin-Off, and is timely. It will be timely for this purpose if communicated to the Executive within 30 days after the Corporation receives written notice or has actual knowledge of the termination of the Executive's employment, and specifies a starting date not less than 30 nor more than 60 days thereafter. The Corporation will promptly initiate ICP Payments when notified in writing of the non-disqualifying termination, and continue Payments until the starting date specified in the reemployment offer, whether or not the offer is accepted. If the offer is not accepted and implemented by the Executive according to its terms, the obligation of the Corporation to make further ICP Payments will irrevocably expire on the starting date specified in the offer. If the offer is accepted, all Cash Compensation paid to the Executive after reemployment within the Corporation will be credited, dollar for dollar, against ICP Payments otherwise payable to the Executive.

d. ELIGIBILITY AFTER REEMPLOYMENT

If reemployed within the Corporation but not in an SMG position after involuntary termination during the Executive's Eligibility Period following Spin-Off under this section, the Executive will remain eligible under ICP for the balance of the Executive's Eligibility Period measured from the effective date of Spin-Off, but in no event for a period shorter than one-half of the number of calendar months in the Executive's Eligibility Period on the effective date of Spin-Off measured from the first date of reemployment.

e. INTERPRETATION.

A Spin-Off will be deemed to have occurred for purposes of this paragraph whether or not afterward: (a) the Executive has a personal ownership or incentive interest in the severed Company or operation; or (b) the severed Company or operation becomes, as a result of or after the severance, a part of one or more other legal entity or entities.

I. REPORTING

For convenience and uniformity of administration, each Executive while eligible for or entitled to ICP Payments after Termination or Spin-Off will be expected as a pre-condition currently and accurately to inform the Corporation in writing of the name and business address of each employer of Executive during the Eligibility and Payment Periods, including a summary description of the nature and principal business locations of the new employer and the title, principal duties, address and telephone number of the Executive. Significant changes in employment, duties or location will also be promptly reported. The Corporation will not be required to make any ICP Payment for any period for which it has not received a current and accurate report as required by, or by the CEO in accordance with, this Statement.

J. INTERPRETATION

1. An Executive may at any time request in writing of the CEO, and the CEO may respond or initiate to any, some or all of the Executives, a written determination of the application of the ICP to specific or reasonably foreseeable circumstances. The express language of Section II of this Statement will control where applicable, and the CEO will act reasonably and in good faith in providing any ICP or Statement interpretation. Any decision of the CEO consistent with those criteria will be: (1) Final and conclusive of the rights and obligations of all affected parties and (2) Applied uniformly as to all Executives then similarly situated (subject to

subsequent ICP amendment); and (3) Not subject to separate determination or review by any public or private agency or authority except as expressly provided in this Statement.

2. References to compensation and other monetary rates or measurements in this Statement and its applications are in current dollars, unadjusted by reason of inflation, deflation or otherwise.
3. Any portion of a full calendar month or year will be prorated on a full calendar basis, without differential related to such considerations as working days or holidays. Any portion of a day will be treated as a full day, and measurement days will begin and end at midnight, current time. The fiscal year of the Corporation will be treated for all purposes as it is for financial reporting purposes.
4. In the event of application or interpretation of ICP to an individual Executive who is a Director of the Corporation, or otherwise in its sole discretion, the Board of Directors of the Corporation or its authorized committee shall have and may exercise the sole, exclusive and final authority and discretion of the CEO for any purpose under ICP.

K. RELEASE

Payment and receipt of ICP Payments will be in full and final satisfaction of all claims by or through an Executive against the Corporation and its representatives by reason of the employment of the Executive and its termination, except as otherwise expressly provided in this Statement or as required by applicable law or regulation. A signed written Release to that effect, in form approved by the CEO, will be delivered by the Executive or the Executive's representative to the Corporation before the effective date of a Spin-Off affecting the Executive, and in any event before any ICP Payment will become payable by the Corporation to or on account of the Executive. The Release may, without limitation, require a representation that no confidential documents concerning the Corporation or its intentions have been or will be removed or retained by the Executive without specific authority, and that the Executive will not engage in disqualifying misconduct as defined in this Statement, in reference to the Corporation. The Release will not affect any conversion, vested or continuing rights available to an Executive under a plan of the Corporation other than ICP.

L. GENERAL

The ICP and this Statement will not constitute or infer an obligation or undertaking to employ any person for any future period of time or in any specific position. ICP Eligibility or Payments after Notice of Termination or Spin-Off will not create, continue or evidence any employment relationship with the Corporation. All employment privileges, benefits and perquisites not expressly

and in writing reserved to an Executive under ICP will terminate on the Effective Date of Termination or Spin-Off, unless otherwise expressly agreed in advance in writing by the Corporation. This will not affect any conversion, vested or other continuing benefits or rights available to an Executive under a plan of the Corporation other than ICP.

M. AMENDMENT

ICP and this Statement may not be terminated and may not be amended to reduce benefits with respect an Executive subject to the ICP until two years after the Executive receives written notice of the proposed termination or amendment. Except as set forth in the first sentence hereof, ICP and this Statement can be amended (including modification, restatement, suspension and termination) at any time, without prior written notice to or consultation with any Executive, by the Board of Directors or any committee appointed by the Board of Directors having the authority of the Board for that purpose. Any such change will have effect as follows:

1. EFFECTIVE DATE OF CHANGE

Except as set forth below, any amendment will be effective on the date of its adoption by the Board or committee or such other such subsequent date or dates as may be specified in the amendment or the resolution by which it is adopted. Unless otherwise mutually agreed in writing by the parties, (a) an amendment or termination will have no effect upon any Executive who at the time has received Notice of Termination under ICP and (b) a termination or an amendment that reduces benefits will not be effective as to an Executive subject to the ICP until 2 years after the Executive receives written notice of the termination or amendment.

2. NOTICE OF AMENDMENT

The Corporation will promptly after any amendment provide to each Executive then eligible for ICP benefits a written statement of ICP as amended, and no amendment will be effective as to an Executive until the later of the date the Executive receives such written statement, or two years after notice as provided in 1 above. An Executive will be deemed to have received the written statement if it is delivered to the Executive in person, or after 48 hours following its hand delivery or dispatch by mail or other suitable means of delivery to the last known address of the Executive.

3. ACQUIESCENCE

An amendment will apply in full to an Executive if mutually agreed in writing by the Executive and the Corporation, or if the Executive or the

Executive's representative knowingly receives a benefit or improvement under ICP as amended which would not have been available without the amendment. If any such benefit from an amendment is knowingly received by an Executive with the consent of the Corporation, then all elements of that amendment and all prior ICP Statements and amendments then currently in effect will also be applicable to the Executive.

4. ADJUSTMENT

A change in or addition or deletion of any benefit or perquisite plan or program of the Corporation applicable to an Executive may be expressly made subject to prior written agreement by the Executive upon a corresponding change in the interpretation or application of ICP to the Executive, to prevent redundant or other unintended benefits or detriments to the Executive or the Corporation which might otherwise result.

N. APPLICABLE LAW

It is intended that the decision of the CEO, as specified in the ICP statement, will be exclusive and final with respect to any application or interpretation of ICP. If any body of law should be used or applied in determining the meaning or effect of ICP, in the interest of consistency this will be deemed an agreement made and executed in the State of Minnesota and the law of the State of Minnesota will control.

O. DEFINITIONS

As used in this Statement:

1. "CASH COMPENSATION"

Means all amounts earned, whether or not currently payable, as wages, salary, bonus or a combination by an Executive, payable in cash or its equivalent or agreed to be in lieu of cash compensation. This will not include the value of employee or executive perquisites or benefits accrued or received pursuant to a plan of the employer which is uniformly applied to all of the employees of the employer who are similarly situated or is consistent with established prior practice for the position occupied by the Executive.

2. "CEO"

Means the Chief Executive Officer of Dayton Hudson Corporation, as then currently designated by its Board of Directors, or as otherwise expressly provided in the ICP Statement.

3. "CORPORATION"

Means Dayton Hudson Corporation and each and all of its Operating Companies, including divisions and subsidiaries, unless otherwise clearly intended by the written context.

4. "DIRECTLY COMPETITIVE EMPLOYMENT" (OR "DCE")

Means personal services to, or for the direct and intended benefit of, a person, firm or corporation determined by the CEO and specified in writing to the Executive at or about the time of Notice of Termination as constituting DCE for ICP purpose.

5. "EFFECTIVE DATE OF TERMINATION"

If no later date is specified in writing with the Notice of Termination, the Effective Date of Termination for all purposes will be the date the Notice is received by the Executive. No delay in public announcement, or continuation of former duties with or without the consent of the Corporation, will alter or extend the Effective Date of Termination for ICP purposes, unless expressly agreed upon in advance in writing. The Corporation reserves the right to announce a termination at any time after notice.

6. "EMPLOYMENT SEVERANCE DATE"

If there is no separate written agreement between the Executive and the Corporation, all employment relationships between them shall terminate on the ICP Effective Date of Termination and will do so in any event upon the effective date of a Spin-Off. If the Corporation agrees in writing in advance that the employment of the Executive within the Corporation will continue after the ICP Effective Date of Termination, then the Effective Date of Termination will control all ICP Payments to which the Executive is entitled under this Statement, but the employment of the Executive within the Corporation will continue until the Employment Severance Date to which the Corporation has agreed in writing with, or has given advance written notice to, the Executive.

7. "EXECUTIVE"

Means an individual listed on Exhibit A. Unless clearly otherwise intended by the written context, Executive will include all beneficiaries of and persons claiming by or through the designated employee or former employee. Provided, however, if an individual listed on Exhibit A terminates employment with the Corporation and does not return as an SMG prior to the end of his or her Eligibility Period, such individual will

not be treated as an Executive and will not be eligible for the ICP when he or she is rehired.

8. "NOTICE OF TERMINATION" (OR "NOTICE")

Means an unconditional written or oral statement of an Executive's organizational superior that the Executive's employment in the Corporation is terminated at the instance of the Corporation. Notice that an Executive's employment will end because of achievement of the age of mandatory retirement under lawful policies of the Corporation will not be a Notice of Termination for ICP purposes.

9. "OPERATING COMPANY"

Means a division or subsidiary of the Corporation which operates a group of department, low margin, soft lines or specialty stores, or a similar category of ventures within the Corporation having a common business purpose and single chief executive officer.

10. "PAYMENTS" (OR "ICP PAYMENTS")

By the Corporation will include all of those payments made by or on account of the Corporation under ICP and will include all of those made to or for the account of an Executive or a designated creditor or authorized representative or beneficiary of an Executive or deceased Executive.

11. "REASSIGNMENT"

Means a change in the assignment or work content of an Executive within the Corporation.

12. "SPIN-OFF"

Means a sale or other disposition as a going business of the Corporation's ownership or control of an Operating Company or other unit previously a part of the Corporation.

13. "CHANGE IN CONTROL"

A "Change in Control" shall be

(a) a majority of the directors of the Corporation shall be persons other than persons

(i) for whose election proxies shall have been solicited by the Board of Directors of the Corporation or

- (ii) who are then serving as directors appointed by the Board of Directors to fill vacancies on the Board of Directors caused by death or resignation (but not by removal) or to fill newly-created directorships,
- (b) 30% or more of the outstanding Voting Stock (as defined in Article IV of the Restated Articles of Incorporation of the Corporation) of the Corporation is acquired or beneficially owned (as defined in Article IV of the Restated Articles of Incorporation of the Corporation) by any person (as defined in Article IV of the Restated Articles of Incorporation of the Corporation), or
- (c) the shareholders of the Corporation approve a definitive agreement or plan to
 - (i) merge or consolidate the Corporation with or into another corporation (other than (1) a merger or consolidation with a subsidiary of the Corporation or (2) a merger in which the Corporation is the surviving corporation and either (A) no outstanding Voting Stock of the Corporation (other than fractional shares) held by shareholders immediately prior to the merger is converted into cash, securities, or other property or (B) all holders of outstanding Voting Stock of the Corporation (other than fractional shares) immediately prior to the merger have substantially the same proportionate ownership of the Voting Stock of the Corporation or its parent corporation immediately after the merger),
 - (ii) exchange, pursuant to a statutory exchange of shares of Voting Stock of the Corporation held by shareholders of the Corporation immediately prior to the exchange, shares of one or more classes or series of Voting Stock of the Corporation for shares of another corporation or other securities, cash or other property,
 - (iii) sell or otherwise dispose of all or substantially all of the assets of the Corporation (in one transaction or a series of transactions), or
 - (iv) liquidate or dissolve the Corporation.

NOTE: Additional Definitions for particular purposes are contained in the text.

P. CHANGE IN CONTROL

Other provisions of this Statement to the contrary notwithstanding, in the event of a Change in Control:

1. If an Executive's employment with the Corporation is terminated, whether voluntarily or involuntarily, within two years from a Change in Control, the Executive shall be eligible for ICP Payments.
2. In lieu of periodic payments, the ICP Payment shall be made in a lump sum within 20 days after Executive's termination of employment. The lump sum amount shall be determined by discounting the periodic ICP Payments by the Prime Rate of First National Bank of Minneapolis.
3. Except for the Release required by Section II.K. of this Statement all other obligations or restrictions of Executive under this Statement shall terminate.

Q. CERTAIN REDUCTION OF PAYMENTS BY THE CORPORATION

1. Anything in this ICP to the contrary notwithstanding, the provisions of this section Q shall apply to an Executive if Ernst & Young LLP determines that each of a and b below are applicable.
 - a. Payments hereunder, determined without application of this section Q, either alone or together with other payments in the nature of compensation to the Executive which are contingent on a change in the ownership or effective control of the Corporation, or in the ownership of a substantial portion of the assets of the Corporation, or otherwise, would result in any portion of the payments hereunder being subject to an excise tax on excess parachute payments imposed under section 4999 of the Internal Revenue Code of 1986, as amended (the "Code").
 - b. The excise tax imposed on the Executive under section 4999 of the Code on excess parachute payments, from whatever source, would result in a lesser net aggregate present value of payments and distributions to the Executive (after subtraction of the excise tax) than if payments and distributions to the Executive were reduced to the maximum amount that could be made without incurring the excise tax.
2. Under this section Q the payments under this ICP shall be reduced (but not below zero) so that the present value of such payments shall equal the Reduced Amount. The "Reduced Amount" (which may be zero) shall be an amount expressed in present value which maximizes the aggregate

present value of payments under this ICP which can be made without causing any such payment to be subject to the excise tax under section 4999 of the Code.

3. If Ernst & Young LLP determines that this section Q is applicable to an Executive, it shall so advise the Corporation. The Corporation shall then promptly give the Executive notice to that effect together with a copy of the detailed calculation supporting such determination which shall include a statement of the Reduced Amount. The Executive may then elect, in his/her sole discretion, which and how much of payments otherwise to be made under this ICP shall be eliminated or reduced (as long as after such election the aggregate present value of the remaining payments to be made under this ICP equals the Reduced Amount), and shall advise the Corporation in writing of his/her election within ten days of his/her receipt of notice. If no such election is made by the Executive within such ten-day period, the Corporation may elect which and how much of the payments shall be eliminated or reduced (as long as after such election the aggregate present value of the payments equals the Reduced Amount) and shall notify the Executive promptly of such election. For purposes of this section Q, present value shall be determined in accordance with Section 280G of the Code. All the foregoing determinations made by Ernst & Young LLP under this section Q shall be made as promptly as practicable after it is determined that parachute payments will be made to the Executive if an elimination or reduction is not made. As promptly as practicable following the election hereunder, the Corporation shall pay to or for the benefit of the Executive such amounts as are then due to the Executive under this ICP and shall promptly pay to or for the benefit of the Executive in the future such amounts as become due to the Executive under this ICP.
4. As a result of the uncertainty in the application of Section 280G of the Code at the time of the initial determination by Ernst & Young LLP hereunder, it is possible that payments under this ICP will have been made which should not have been made ("Overpayment") or that additional payments which will have not been made could have been made ("Underpayment"), in each case, consistent with the calculation of the Reduced Amount hereunder. In the event that Ernst & Young LLP, based upon the assertion of a deficiency by the Internal Revenue Service against the Corporation or the Executive which Ernst & Young LLP believes has a high probability of success, determines that an Overpayment has been made, any such Overpayment shall be treated for all purposes as a loan to the Executive which the Executive shall repay together with interest at the applicable Federal rate provided for in Section 7872(f)(2) of the Code; provided, however, that no amount shall be payable by the Executive if and to the extent such payment would not reduce the amount which is subject to the excise tax under Section 4999 of the Code. In the event that

Ernst & Young LLP, based upon controlling precedent, determines that an Underpayment has occurred, any such Underpayment shall be promptly paid to or for the benefit of the Executive together with interest at the applicable Federal rate provided for in Section 7872(f)(2)(A) of the Code.

5. In making its determination under this section Q, the value of any non-cash benefit shall be determined by Ernst & Young LLP in accordance with the principles of section 380G(d)(3) of the Code.
6. All determinations made by Ernst & Young LLP under this section Q shall be binding upon the Corporation and the Executive.

January 13, 1999

DAYTON HUDSON CORPORATION

SMG INCOME CONTINUANCE POLICY STATEMENT

FOR MEMBERS OF THE SENIOR MANAGEMENT GROUP

I. CONCEPTS

A. GENERAL

The present policy of the Corporation is to provide, under certain defined circumstances, Income Continuance Payments to certain members of its Senior Management Group ("SMG") whose employment is terminated at the instance of the Corporation or who terminates within two years after a Change in Control. This policy is intended to assist in the occupational transition and financial security of those identified Executives whose services are no longer deemed required within the Corporation, who have during their tenure been faithful and honest employees, who do not during the period of those payments engage in disqualifying misconduct, and to the extent not compensated for services to a directly competitive employer and to assist Executives who terminate employment with the Corporation within two years after a Change in Control.

This will be known as the SMG Income Continuance Policy ("SMG-ICP") of the Corporation. It will be interpreted and applied in accordance with this Statement of policy and with any subsequent amendment or restatement applicable to the Executive.

B. ELIGIBILITY

To be eligible under SMG-ICP, an Executive must be a member of the SMG after July 13, 1988, as specified in this Statement, and not be covered by the Dayton Hudson Corporation Income Continuance Policy Statement. An SMG shall not be eligible to participate under this policy if he/she is eligible to participate under the Dayton Hudson Corporation Income Continuance Policy.

C. REASSIGNMENT

An Executive will continue to have income protection under SMG-ICP for at least 12 calendar months (Eligibility Period) after internal reassignment to a position which does not otherwise include eligibility for SMG-ICP benefits.

D. SPIN-OFF

An Executive who retains substantially the same position in an ongoing Operating Company or similar business unit after the Corporation has ceased to be its owner or operator will remain eligible for the same SMG-ICP benefits from the Corporation as if the Executive had been transferred to a non-SMG position within the Corporation at the time of the Spin-Off.

E. DISQUALIFICATION AND REDUCTION

Serious and deliberate misconduct in employment by an Executive resulting in discharge for cause can disqualify an Executive from SMG-ICP eligibility. Except as otherwise expressly provided in this Statement, after termination under SMG-ICP and normal windup of former duties an Executive will not be required to perform any regular services for the Corporation, and will be free to accept any other employment. Except as otherwise provided in this Statement, SMG-ICP Payments otherwise payable to an Executive will be reduced or excused in the amount of compensation from Directly Competitive Employment as specifically defined to the Executive in advance according to this Statement. An Executive otherwise entitled to SMG-ICP Payments after Termination, Reassignment or Spin-Off will be disqualified from receiving future Payments by reason of serious and deliberate misconduct which is unlawful or clearly and seriously harmful to the Corporation, or to its interest or those of certain subsequent employers.

F. INTERPRETATION

Subject to the express terms of this Statement, the Chief Executive Officer of the Corporation will have sole and final authority to interpret the SMG-ICP and determine its application, and will interpret it consistently and in good faith. Section I of this Statement is intended as a summary of the more detailed provisions of Section II. For that reason, Section II will control in the event of any difference.

II. APPLICATION

A. ELIGIBILITY PERIOD - DEFINITION

The "Eligibility Period" of an Executive is determined by the Executive's most recent Salary Grade on the Effective Date of Termination, Spin-Off or Reassignment by the Corporation; provided, however, in the event of a downgrade or downgrades, the Eligibility Period of the Executive's highest Salary Grade shall continue to be applicable until the expiration of the Eligibility Period for that Salary Grade and then the Eligibility Period for the next highest Salary Grade shall be used until it expires and this process shall continue until the Eligibility Period for the last Salary Grade for which this Statement covers expires. It will be calculated according to the following schedule:

| Salary Grade ----- | Eligibility Period ----- |
|-----------------------|-----------------------------|
| 37-51 | 24 months |
| 35-36 | 22 months |
| 32-34 | 20 months |
| 30-31 | 18 months |
| 28-29 | 16 months |
| 26-27 | 14 months |
| lower than 26 | 12 months |

An Executive entitled to SMG-ICP Payments will not be entitled to prepayment or other change in the monthly payment schedule.

B. ELIGIBILITY PERIOD - USE

The Eligibility Period of an Executive will determine the number of consecutive calendar months for which an Executive remains eligible for SMG-ICP Payments under this Statement after:

1. Reassignment to a new position within the Corporation which is not designated an SMG Position, or
2. The effective date of a Spin-Off by the Corporation, or
3. A downgrade as set forth in A. above.

C. PAYMENT PERIOD - DEFINITION

The Payment Period for an Executive will consist of the same number of months as the Executive's Eligibility Period, measured from the time when SMG-ICP Payments first become payable to the Executive under the terms of this Statement.

D. PAYMENTS

1. AMOUNT

Each monthly SMG-ICP Payment to an Executive during the Payment Period will equal one twelfth (1/12) of the Executive's Final Annual Cash Compensation from the Corporation which will consist of the sum of:

a. BASE COMPENSATION

The annual Base (regular monthly or other fixed salary) rate payable as Cash Compensation to the Executive at the time of Notice of Termination or effective date of Reassignment or Spin-

Off or downgrade, but in no event less than the highest annual rate paid to the Executive at any time during a number of months equal to the Executive's Eligibility Period immediately before the Notice of Termination or effective date of Reassignment or Spin-Off or downgrade, and

b. PERFORMANCE BONUS

The average amount of the three annual Performance Bonuses most recently paid or credited to the Executive as Cash Compensation or deferred bonus, prior to Executive's Notice of Termination or effective date of Reassignment or Spin-Off or downgrade. For purposes of SMG-ICP, the Performance Bonus of an Executive shall be determined according to the applicable Short Term Incentive Plan of the Corporation, shall also include, if applicable, any discretionary bonus paid during said applicable period on account of the Executive's performance but outside of the purview of the then applicable Short Term Incentive Plan.

c. ADJUSTMENT

The annual rate in dollars of each merit increase awarded to an Executive before Notice of Termination will be included in Base Compensation to determine the Executive's SMG-ICP Payments. If the Executive's annual rate of Base Compensation at the time of Notice of Termination has been increased or decreased to reflect a change from the Short Term Incentive Plan used to determine the Performance Bonus defined above, and the change is for the purpose of altering the future relationship of Bonus to total Annual Cash Compensation of the Executive, then the dollar amount of that increase or decrease in annual rate of Base Compensation will be excluded in determining ICP Payments.

2. COMMENCEMENT

Monthly SMG-ICP Payments, or entitlement to begin receiving them, will commence in the next full calendar month after the Effective Date of Termination, subject to any Set-offs, Adjustments and Withholding as specified in

a. DEFERRED SMG-ICP PAYMENTS

Until the Effective Date of Termination there will be no change in the rate or timing of compensation, benefits or perquisites to which the Executive was entitled immediately before the Notice of Termination, and no amount received from the Corporation before

that Effective Date will be charged against the SMG-ICP Payments to which the Executive is entitled under this Statement.

b. DIFFERENT EMPLOYMENT SEVERANCE DATE

If the Corporation agrees in writing with the Executive upon, or notifies the Executive of, an Employment Severance Date later than the SMG-ICP Effective Date of Termination, then:

- 1) All Cash Compensation that the Executive receives after the SMG-ICP Effective Date of Termination will be treated as an Adjustment and deducted from SMG-ICP Payments otherwise payable, as defined in 3 c below, and will be paid in the amount(s) and at the time(s) to which the Executive was entitled immediately before the Notice of Termination, and
- 2) Employee benefits and normal use and expense of executive perquisites and facilities available to the Executive before the Notice of Termination will continue until the Employment Severance Date and, except to any extent otherwise specified in this Statement or by written advance notice to the Executive by the Corporation, will not be charged against SMG-ICP Payments to which the Executive is entitled under this Statement.

3. SET-OFF AND WITHHOLDING

SMG-ICP Payments are not intended to duplicate or be in addition to any other payment due between the Corporation and the Executive.

a. REDUCTION

Each Payment otherwise due from the Corporation to the Executive will be reduced, dollar for dollar and in timing by all amounts which the Executive receives or is entitled to receive from the Corporation or under a plan, program or agreement maintained by and at the expense of the Corporation after the Effective Date of Termination or Spin-Off. This will include such sources as life and disability insurance. It will not apply to accrued vacation or expense reimbursement (both will be paid in cash at termination), Pension proceeds, Supplemental Retirement and Savings Plan proceeds, Deferred Compensation Plans, Social Security, fully exercisable or earned-out stock option, stock appreciation rights, performance shares or restricted stock awards, or benefits payable under any Worker's Compensation or similar law or regulation.

Termination of employment by reason of mandatory retirement under a lawful and uniform policy of the employer applicable to the Executive will not be treated as a termination for SMG-ICP purposes.

b. DEBT

The Corporation may apply not more than 25 percent of any SMG-ICP Payment otherwise due to the Executive to pay any overdue debt payable to the Corporation on any obligation of the Executive or dependent of Executive, until all such accounts are paid in full or current according to their terms.

c. ADJUSTMENTS

If monthly payments received by the Executive from the Corporation immediately after the Effective Date of Termination are not computed under SMG-ICP, then when regular monthly SMG-ICP Payments begin they will reflect itemized adjustments to apply the SMG-ICP monthly rate to the SMG-ICP Effective Date of Termination. Taxes and other amounts required by law or by the Executive's written instruction will be withheld from SMG-ICP amounts otherwise payable.

E. DEATH OF EXECUTIVE

If an Executive should die after Notice of Termination and before completion of the Executive's Payment Period, the remaining Payments will be made by the Corporation as follows, without unnecessary interruption:

1. Unless the Executive has otherwise designated in unrevoked writing, acknowledged in writing by the CEO, the surviving spouse of the Executive, if any, will be entitled to all remaining Payments.
2. If the Executive has otherwise effectively designated in unrevoked writing, acknowledged in writing by the CEO, then Payment will be made to or for the account of the person or persons so designated as identified by the Corporation.
3. In the absence of effective prior written designation by the Executive and of a known surviving spouse, the Corporation may hold remaining Payments until the executor, heirs or administrator of the Executive can be identified and Payment made and receipted to the reasonable satisfaction of the Corporation pursuant to the advice of its legal counsel.

4. In the interest of providing uninterrupted income to authorized beneficiaries of the Executive, any SMG-ICP Payment made with reasonable care and in good faith by the Corporation shall conclusively constitute Payment by the Corporation in accordance with and satisfaction of the entitlement of the Executive and Executive's beneficiaries under SMG-ICP. No interest or other charge shall be payable by the Corporation or its representatives on any Payment delayed by the Corporation to permit reasonable verification of authorized recipient(s).

F. DISQUALIFICATION

No Executive will be disqualified from receipt of future SMG-ICP Payments by reason of any act or omission of anyone other than the Executive or one or more persons acting pursuant to the conscious and effective control of the Executive. Disqualification will be interpreted as follows:

1. WHILE EMPLOYED IN THE CORPORATION

Deliberate and serious disloyal or dishonest conduct in the course of employment will disqualify if it justifies and results in prompt discharge for specific cause under the established policies and practices of the Corporation as interpreted by the CEO for this purpose. Examples would include material unlawful conduct, material and conscious falsification or unauthorized disclosure of important records or reports, embezzlement or unauthorized conversion of property, serious violation of conflict of interest or vendor relations policies, and misuse or disclosure of significant trade secrets or other information likely to be of use to the detriment of the Corporation or its interests.

2. AFTER NOTICE OF TERMINATION OR SPIN-OFF

The SMG-ICP will not restrict an Executive's conduct or employment opportunities after Notice of Termination, or any independent remedy of the Corporation or its representatives by reason of the Executive's conduct while employed. The obligation of the Corporation to or for an Executive during the Eligibility and Payment Periods can be terminated only by the deliberate conduct of the Executive or one acting under the Executive's conscious and effective control, and only as to any SMG-ICP Payments not yet due, by reason of one or more of the following events:

- a. Unauthorized removal, use or disclosure of strategic or operating plans, trade secrets, customer lists, internal systems or other significant proprietary information of or concerning the Corporation or its personnel, the use or disclosure of which is intended or likely to cause loss or reduction of business advantage

or substantial injury to the Corporation or its management, business opportunities or interests.

- b. Expressing or endorsing publication of untrue statements which are intended or likely to receive broad public attention and to bring the Corporation or its interests, methods or representatives into disrepute.
- c. Providing materially false or misleading information concerning post-termination employment, or failure or refusal promptly and accurately to provide required information, verification or authorization required by the CEO as provided in this Statement and affecting any SMG-ICP payment due from the Corporation.
- d. Solicitation of or an offer to an employee within the Corporation to accept employment elsewhere, where the selection of or offer to the recruited employee was based in the whole or in part upon Executive's knowledge or experience concerning the employee which was acquired by the Executive while employed within the Corporation or through one or more personal acquaintances employed within the Corporation.
- e. Exercising the discretion, authority or powers of an office or position held by an Executive after Notice of Termination, and whether or not before an Effective Date of Termination or Employment Severance Date, unless specifically authorized or directed in writing in advance by an authorized executive of the Corporation.
- f. Because SMG-ICP is not intended to encourage or reward misconduct in employment, an Executive can be disqualified from receipt of future SMG-ICP Payments from the Corporation because of termination of employment by a Spin-Off employer for unlawful or serious and deliberate misconduct during the Executive's Eligibility Period. If the CEO independently determines and informs the Executive in writing that termination of employment by another employer was due to unlawful or serious and deliberate misconduct which would have resulted in SMG-ICP disqualification under the standards of this Statement if committed against and while employed by this Corporation, then the Executive will be deemed conclusively and irrevocably to have waived and abandoned all right to future SMG-ICP Payments from this Corporation. If the CEO concludes that there is reason to believe that disqualifying misconduct under this paragraph may have resulted in a termination of employment which would otherwise initiate or increase its SMG-ICP Payments to the

Executive, the Corporation may postpone commencement of or change in SMG-ICP Payments until it has received from the Executive a full and accurate explanation of the circumstances and written authorization for the terminating employer to make full and confidential disclosure to the Corporation, and has had a reasonable time not exceeding 60 days to complete an investigation and for the CEO to make a determination.

3. PRESERVATION OF RIGHTS

Neither SMG-ICP nor its application shall waive, excuse, preclude or otherwise affect any right or remedy which the Corporation or any agent or representative of the Corporation may have, individually or collectively, under law by reason of conduct of the Executive during or after employment within the Corporation. Disqualification or reduction of Payments under SMG-ICP will be an additional and not an exclusive remedy.

G. COMPETITIVE EMPLOYMENT

An Executive will receive not less than the full amount of the specified SMG-ICP Payments from the Effective Date of Termination through the full Payment Period whether or not compensated by another employer for services in that period, unless disqualified under Section F., immediately above or employed by a Spin-Off employer, as defined, or as provided in this Section G. Compensation from employment which is not identified as Directly Competitive Employment ("DCE") will be in addition to and will not reduce any SMG-ICP Payment. If an Executive engages in DCE as specifically defined in advance and by this Statement, then each SMG-ICP Payment otherwise payable to the Executive will be currently reduced., dollar for dollar and in timing, by the amount of all Cash Compensation earned (whether on a current or deferred payment basis) from that source during the Payment Period.

These provisions will be interpreted and administered as follows:

1. PURPOSE OF SET-OFF

Reduction of SMG-ICP Payments by the amount of Cash Compensation determined to be from DCE is not intended to restrict or penalize an Executive's choice of alternative career opportunities, but only to preserve and reconcile the personal income security intended to be provided to Executives by SMG-ICP with the legitimate interests of the Shareholders of the Corporation in its highly competitive business context.

2. COMPETITORS IDENTIFIED

At or about the time of Notice of Termination, the Corporation will inform the Executive in writing of those employers who have been individually and specifically determined to offer DCE for SMG-ICP purposes with respect to the Executive's former employment within the Corporation. This designation will take into account existing operations and known plans of the Corporation and of the employers listed, and will not change during the Eligibility Period by reason of subsequent and mutually unanticipated changes in the operations or plans of either. An Executive whose employment with a Spin-Off employer is terminated during the Eligibility Period without disqualifying misconduct and who is not reemployed in the Corporation will receive designation of DCE employers promptly after written notice by the Executive to the Corporation of non-disqualifying termination of Spin-Off employment.

3. CRITERIA

The following criteria will be employed in determining and administering SMG-ICP application to DCE.

a. SELECTIVE POTENTIAL DETRIMENT

A position will not be determined to constitute DCE for this purpose unless the CEO determines that the competitive effectiveness of the Executive and the new employer would be materially enhanced by the Executive's current knowledge of such matters as the particular methods, policies, customers, suppliers, personnel or plans of the Corporation or its relevant Operating Company, as distinguished from the skills, experience and services of the Executive generally. The Corporation will identify for DCE purposes not more than three persons, firms or corporations who are determined for this purpose to be the leading direct and immediate competitors of the affected business of the Corporation.

b. PRESERVATION OF EMPLOYMENT OPPORTUNITIES

Whether or not an Executive's most recent employment within the Corporation involved direct participation in the management of one or more Operating Companies, this section will not be used to discourage or penalize otherwise suitable employment opportunities in retailing or otherwise. The Corporation may require, as a condition of avoiding DCE designation for the Executive, a suitable written undertaking by the Executive and the new employer that the Executive remains obliged not to use or divulge trade secrets or proprietary information of the Corporation

and that the Executive will not volunteer or be expected or required to violate that obligation in the course of the new employment.

c. RELEVANT CONSIDERATIONS

In determining DCE, the CEO will give suitable consideration to geographic, product and price-line marketing overlaps, the nature and content of the Executive's particular knowledge of strategies and plans within the Corporation, and the extent to which the Executive's knowledge, as distinguished from skills, is likely to be a significant factor in generating an employment opportunity. Employment exclusively with a component of a larger business entity, which component is not presently or known to be planned to be a direct and immediate competitor of the Executive's former Operating Company, will not be treated as DCE merely because one or more other components of that entity is or may become a competitor of the Corporation or one or more of its other Operating Companies.

4. SMG-ICP PAYMENT REDUCTION

Uniform and responsible administration of SMG-ICP will require reliable information and verification to the Corporation.

a. REPORTING

To be eligible for any SMG-ICP Payment during a period of DCE, an Executive must, in addition to all other required reporting, provide to the Corporation in writing an accurate statement of the amount and payment schedule of all Cash Compensation or its equivalent to be received from the new employer and of any subsequent change or correction of that amount, in such form and with such verification as the CEO may request in writing. An Executive will not be or become entitled to receive or retain any portion of any SMG-ICP Payment on account of any Payment Period for which that information, and any required verification, is not currently and accurately provided.

b. VERIFICATION AND RECONCILIATION

Required verification may include authorization for written confirmation from the employer and confidential disclosure of completed W-2, payroll and income tax forms of the Executive on which taxes have been or will be paid. If the Corporation withholds for more than 30 days any SMG-ICP Payment pending

receipt of required information or verification which is later received and found satisfactory, the Corporation will pay interest at a realistic rate determined by the CEO for the period of delay. The Corporation and the Executive will each fairly and promptly adjust by payment any discrepancy later discovered between reported and actual Cash Compensation of the Executive, but the Corporation will have no liability for any amount not claimed by an Executive in writing before final expiration of the Executive's Payment Period.

H. REASSIGNMENT AND SPIN-OFF

The purpose of SMG-ICP is to attract and preserve the services of Executives for the benefit of the Corporation by providing unreduced personal income to them for the full Eligibility and Payment Periods in the absence of disqualifying personal misconduct, DCE or continued employment after a Spin-Off. If the Corporation should determine that its shareholders' interests would best be served by disposition or major alteration of an Executive's current Operating Company or position, SMG-ICP will be available to the Executive unless:

1. REASSIGNMENT AND OTHER ADJUSTMENTS

The Corporation may transfer an Executive to another position within the Corporation or any of its Operating Companies or reduce the Executive's Compensation in Executive's current position (collectively referred to as "Reassignment"). An Executive in the case of either event may elect SMG-ICP Payments if the Executive's total monetary compensation after Reassignment will be measurably and substantially below the total monetary compensation of the Executive immediately before notice of Reassignment. For this purpose, personal monetary compensation will include salary and bonus and continuation, or payment of the substantial equivalent in Cash Compensation, of all non-cash personal benefits and perquisites which the Executive was receiving immediately before and does not receive after the Reassignment and which are susceptible of accurate and objective measurement in dollars as determined by the CEO; or

2. SPIN-OFF

A Spin-Off (as defined) occurs and the Executive is requested by the Corporation to continue in the resulting company or operation in substantially the same position as immediately before Spin-Off.

a. SMG-ICP ELIGIBILITY

An Executive will, in the event of Spin-Off, have the same rights and limitations to elect to receive SMG-ICP payments in lieu of the continuation of employment as if Reassigned at that time to another position within the Corporation as provided in subparagraph (1), immediately above. Comparison of the Executive's monetary compensation before and after the ownership change will be measured by the same standards for this purpose. An Executive whose employment continues after Spin-Off will remain eligible for SMG-ICP Payments from the Corporation for the Executive's full SMG-ICP Eligibility Period, measured from the effective date of Spin-Off.

b. SUBSEQUENT TERMINATION

If during the Eligibility period after Spin-Off the Executive's employment should be involuntarily terminated, or the Executive irrevocably terminates the employment because of an involuntary reduction in monetary compensation to a rate materially below the Executive's most recent monetary compensation rate within the Corporation, the Executive shall be eligible for full SMG-ICP Payments from the Corporation as though the Executive were then employed by the Corporation. Any amount paid to the Executive by the Spin-Off employer after effective date or on account of that termination will be set off against, and reduce dollar for dollar and in timing, any SMG-ICP Payments otherwise payable to the Executive by the Corporation.

c. REEMPLOYMENT OFFER

The obligation of the Corporation to make future SMG-ICP Payments to an Executive because of a non-disqualifying termination of employment after a Spin-Off under this subsection can be terminated by a suitable offer to the Executive of employment within the Corporation. Such an offer will be suitable for this purpose if it is a good faith offer of a management position at a rate of monetary compensation at least equal to the Executive's rate immediately before the effective date of Spin-Off, and is timely. It will be timely for this purpose if communicated to the Executive within 30 days after the Corporation receives written notice or has actual knowledge of the termination of the Executive's employment, and specifies a starting date not less than 30 nor more than 60 days thereafter. The Corporation will promptly initiate SMG-ICP Payments when notified in writing of the non-disqualifying termination, and continue Payments until the

starting date specified in the reemployment offer, whether or not the offer is accepted. If the offer is not accepted and implemented by the Executive according to its terms, the obligation of the Corporation to make further SMG-ICP Payments will irrevocably expire on the starting date specified in the offer. If the offer is accepted, all Cash Compensation paid to the Executive after reemployment within the Corporation will be credited, dollar for dollar, against SMG-ICP Payments otherwise payable to the Executive.

d. ELIGIBILITY AFTER REEMPLOYMENT

If reemployed within the Corporation but not in an SMG position after involuntary termination during the Executive's Eligibility Period following Spin-Off under this section, the Executive will remain eligible under SMG-ICP for the balance of the Executive's Eligibility Period measured from the effective date of Spin-Off, but in no event for a period shorter than one-half of the number of calendar months in the Executive's Eligibility Period on the effective date of Spin-Off measured from the first date of reemployment.

e. INTERPRETATION.

A Spin-Off will be deemed to have occurred for purposes of this paragraph whether or not afterward: (a) the Executive has a personal ownership or incentive interest in the severed Company or operation; or (b) the severed Company or operation becomes, as a result of or after the severance, a part of one or more other legal entity or entities.

I. REPORTING

For convenience and uniformity of administration, each Executive while eligible for or entitled to SMG-ICP Payments after Termination or Spin-Off will be expected as a pre-condition currently and accurately to inform the Corporation in writing of the name and business address of each employer of Executive during the Eligibility and Payment Periods, including a summary description of the nature and principal business locations of the new employer and the title, principal duties, address and telephone number of the Executive. Significant changes in employment, duties or location will also be promptly reported. The Corporation will not be required to make any SMG-ICP Payment for any period for which it has not received a current and accurate report as required by, or by the CEO in accordance with, this Statement.

J. INTERPRETATION

1. An Executive may at any time request in writing of the CEO, and the CEO may respond or initiate to any, some or all of the Executives, a written determination of the application of the SMG-ICP to specific or reasonably foreseeable circumstances. The express language of Section II of this Statement will control where applicable, and the CEO will act reasonably and in good faith in providing any SMG-ICP or Statement interpretation. Any decision of the CEO consistent with those criteria will be: (1) Final and conclusive of the rights and obligations of all affected parties and (2) Applied uniformly as to all Executives then similarly situated (subject to subsequent SMG-ICP amendment); and (3) Not subject to separate determination or review by any public or private agency or authority except as expressly provided in this Statement.
2. References to compensation and other monetary rates or measurements in this Statement and its applications are in current dollars, unadjusted by reason of inflation, deflation or otherwise.
3. Any portion of a full calendar month or year will be prorated on a full calendar basis, without differential related to such considerations as working days or holidays. Any portion of a day will be treated as a full day, and measurement days will begin and end at midnight, current time. The fiscal year of the Corporation will be treated for all purposes as it is for financial reporting purposes.
4. In the event of application or interpretation of SMG-ICP to an individual Executive who is a Director of the Corporation, or otherwise in its sole discretion, the Board of Directors of the Corporation or its authorized committee shall have and may exercise the sole, exclusive and final authority and discretion of the CEO for any purpose under SMG-ICP.

K. RELEASE

Payment and receipt of SMG-ICP Payments will be in full and final satisfaction of all claims by or through an Executive against the Corporation and its representatives by reason of the employment of the Executive and its termination, except as otherwise expressly provided in this Statement or as required by applicable law or regulation. A signed written Release to that effect, in form approved by the CEO, will be delivered by the Executive or the Executive's representative to the Corporation before the effective date of a Spin-Off affecting the Executive, and in any event before any SMG-ICP Payment will become payable by the Corporation to or on account of the Executive. The Release may, without limitation, require a representation that no confidential documents concerning the Corporation or its intentions have been or will be removed or retained by the Executive without specific authority, and that the Executive will

not engage in disqualifying misconduct as defined in this Statement, in reference to the Corporation. The Release will not affect any conversion, vested or continuing rights available to an Executive under a plan of the Corporation other than SMG-ICP.

L. GENERAL

The SMG-ICP and this Statement will not constitute or infer an obligation or undertaking to employ any person for any future period of time or in any specific position. SMG-ICP Eligibility or Payments after Notice of Termination or Spin-Off will not create, continue or evidence any employment relationship with the Corporation. All employment privileges, benefits and perquisites not expressly and in writing reserved to an Executive under SMG-ICP will terminate on the Effective Date of Termination or Spin-Off, unless otherwise expressly agreed in advance in writing by the Corporation. This will not affect any conversion, vested or other continuing benefits or rights available to an Executive under a plan of the Corporation other than SMG-ICP.

M. AMENDMENT

SMG-ICP and this Statement may not be terminated and may not be amended to reduce benefits with respect an Executive subject to the SMG-ICP until two years after the Executive receives written notice of the proposed termination or amendment. Except as set forth in the first sentence hereof, SMG-ICP and this Statement can be amended (including modification, restatement, suspension and termination) at any time, without prior written notice to or consultation with any Executive, by the Board of Directors or any committee appointed by the Board of Directors having the authority of the Board for that purpose. Any such change will have effect as follows:

1. EFFECTIVE DATE OF CHANGE

Except as set forth below, any amendment will be effective on the date of its adoption by the Board or committee or such other such subsequent date or dates as may be specified in the amendment or the resolution by which it is adopted. Unless otherwise mutually agreed in writing by the parties, (a) an amendment or termination will have no effect upon any Executive who at the time has received Notice of Termination under SMG-ICP and (b) a termination or an amendment that reduces benefits will not be effective as to an Executive subject to the SMG-ICP until 2 years after the Executive receives written notice of the termination or amendment.

2. NOTICE OF AMENDMENT

The Corporation will promptly after any amendment provide to each Executive then eligible for SMG-ICP benefits a written statement of

SMG-ICP as amended, and no amendment will be effective as to an Executive until the later of the date the Executive receives such written statement, or two years after notice as provided in 1 above. An Executive will be deemed to have received the written statement if it is delivered to the Executive in person, or after 48 hours following its hand delivery or dispatch by mail or other suitable means of delivery to the last known address of the Executive.

3. ACQUIESCENCE

An amendment will apply in full to an Executive if mutually agreed in writing by the Executive and the Corporation, or if the Executive or the Executive's representative knowingly receives a benefit or improvement under SMG-ICP as amended which would not have been available without the amendment. If any such benefit from an amendment is knowingly received by an Executive with the consent of the Corporation, then all elements of that amendment and all prior SMG-ICP Statements and amendments then currently in effect will also be applicable to the Executive.

4. ADJUSTMENT

A change in or addition or deletion of any benefit or perquisite plan or program of the Corporation applicable to an Executive may be expressly made subject to prior written agreement by the Executive upon a corresponding change in the interpretation or application of SMG-ICP to the Executive, to prevent redundant or other unintended benefits or detriments to the Executive or the Corporation which might otherwise result.

N. APPLICABLE LAW

It is intended that the decision of the CEO, as specified in the SMG-ICP statement, will be exclusive and final with respect to any application or interpretation of SMG-ICP. If any body of law should be used or applied in determining the meaning or effect of SMG-ICP, in the interest of consistency this will be deemed an agreement made and executed in the State of Minnesota and the law of the State of Minnesota will control.

0. DEFINITIONS

As used in this Statement:

1. "CASH COMPENSATION"

Means all amounts earned, whether or not currently payable, as wages, salary, bonus or a combination by an Executive, payable in cash or its equivalent or agreed to be in lieu of cash compensation. This will not include the value of employee or executive perquisites or benefits accrued or received pursuant to a plan of the employer which is uniformly applied to all of the employees of the employer who are similarly situated or is consistent with established prior practice for the position occupied by the Executive.

2. "CEO"

Means the Chief Executive Officer of Dayton Hudson Corporation, as then currently designated by its Board of Directors, or as otherwise expressly provided in the SMG-ICP Statement.

3. "CORPORATION"

Means Dayton Hudson Corporation and each and all of its Operating Companies, including divisions and subsidiaries, unless otherwise clearly intended by the written context.

4. "DIRECTLY COMPETITIVE EMPLOYMENT" (OR "DCE")

Means personal services to, or for the direct and intended benefit of, a person, firm or corporation determined by the CEO and specified in writing to the Executive at or about the time of Notice of Termination as constituting DCE for SMG-ICP purpose.

5. "EFFECTIVE DATE OF TERMINATION"

If no later date is specified in writing with the Notice of Termination, the Effective Date of Termination for all purposes will be the date the Notice is received by the Executive. No delay in public announcement, or continuation of former duties with or without the consent of the Corporation, will alter or extend the Effective Date of Termination for SMG-ICP purposes, unless expressly agreed upon in advance in writing. The Corporation reserves the right to announce a termination at any time after notice.

6. "EMPLOYMENT SEVERANCE DATE"

If there is no separate written agreement between the Executive and the Corporation, all employment relationships between them shall terminate on the SMG-ICP Effective Date of Termination and will do so in any event upon the effective date of a Spin-Off. If the Corporation agrees in writing in advance that the employment of the Executive within the Corporation will continue after the SMG-ICP Effective Date of Termination, then the Effective Date of Termination will control all SMG-ICP Payments to which the Executive is entitled under this Statement, but the employment of the Executive within the Corporation will continue until the Employment Severance Date to which the Corporation has agreed in writing with, or has given advance written notice to, the Executive.

7. "EXECUTIVE"

Means an individual employed as an executive within the Corporation who currently is, or within the designated Eligibility period has been, a member of the SMG on or after July 13, 1988; provided, however, if a person is covered by the Dayton Hudson Corporation Income Continuance Policy statement, that person is not an Executive hereunder. Unless clearly otherwise intended by the written context, Executive will include all beneficiaries of and persons claiming by or through the designated employee or former employee.

8. "NOTICE OF TERMINATION" (OR "NOTICE")

Means an unconditional written or oral statement of an Executive's organizational superior that the Executive's employment in the Corporation is terminated at the instance of the Corporation. Notice that an Executive's employment will end because of achievement of the age of mandatory retirement under lawful policies of the Corporation will not be a Notice of Termination for SMG-ICP purposes.

9. "OPERATING COMPANY"

Means a division or subsidiary of the Corporation which operates a group of department, low margin, soft lines or specialty stores, or a similar category of ventures within the Corporation having a common business purpose and single chief executive officer.

10. "PAYMENTS" (OR "ICP PAYMENTS")

By the Corporation will include all of those payments made by or on account of the Corporation under SMG-ICP and will include all of those made to or for the account of an Executive or a designated creditor or

authorized representative or beneficiary of an Executive or deceased Executive.

11. "REASSIGNMENT"

Means a change in the assignment or work content of an Executive within the Corporation.

12. "SPIN-OFF"

Means a sale or other disposition as a going business of the Corporation's ownership or control of an Operating Company or other unit previously a part of the Corporation.

13. "CHANGE IN CONTROL"

A "Change in Control" shall be

- (a) a majority of the directors of the Corporation shall be persons other than persons
 - (i) for whose election proxies shall have been solicited by the Board of Directors of the Corporation or
 - (ii) who are then serving as directors appointed by the Board of Directors to fill vacancies on the Board of Directors caused by death or resignation (but not by removal) or to fill newly-created directorships,
- (b) 30% or more of the outstanding Voting Stock (as defined in Article IV of the Restated Articles of Incorporation of the Corporation) of the Corporation is acquired or beneficially owned (as defined in Article IV of the Restated Articles of Incorporation of the Corporation) by any person (as defined in Article IV of the Restated Articles of Incorporation of the Corporation), or
- (c) the shareholders of the Corporation approve a definitive agreement or plan to
 - (i) merge or consolidate the Corporation with or into another corporation (other than (1) a merger or consolidation with a subsidiary of the Corporation or (2) a merger in which the Corporation is the surviving corporation and either (A) no outstanding Voting Stock of the Corporation (other than fractional shares) held by shareholders immediately prior to the merger is converted into cash, securities, or other

property or (B) all holders of outstanding Voting Stock of the Corporation (other than fractional shares) immediately prior to the merger have substantially the same proportionate ownership of the Voting Stock of the Corporation or its parent corporation immediately after the merger),

- (ii) exchange, pursuant to a statutory exchange of shares of Voting Stock of the Corporation held by shareholders of the Corporation immediately prior to the exchange, shares of one or more classes or series of Voting Stock of the Corporation for shares of another corporation or other securities, cash or other property,
- (iii) sell or otherwise dispose of all or substantially all of the assets of the Corporation (in one transaction or a series of transactions), or
- (iv) liquidate or dissolve the Corporation.

14. "SALARY GRADE"

The numerical "Salary Grade" that the Executive is assigned under the Corporation's salary grading system.

NOTE: Additional Definitions for particular purposes are contained in the text.

P. CHANGE IN CONTROL

Other provisions of this Statement to the contrary notwithstanding, in the event of a Change in Control:

1. If an Executive's employment with the Corporation is terminated, whether voluntarily or involuntarily, within two years from a Change in Control, the Executive shall be eligible for ICP Payments.
2. In lieu of periodic payments, the ICP Payment shall be made in a lump sum within 20 days after Executive's termination of employment. The lump sum amount shall be determined by discounting the periodic ICP Payments by the Prime Rate of First National Bank of Minneapolis.
3. Except for the Release required by Section II.K. of this Statement all other obligations or restrictions of Executive under this Statement shall terminate.

Q. CERTAIN REDUCTION OF PAYMENTS BY THE CORPORATION

1. Anything in this SMG-ICP to the contrary notwithstanding, the provisions of this section Q shall apply to an Executive if Ernst & Young LLP determines that each of a and b below are applicable.
 - a. Payments hereunder, determined without application of this section Q, either alone or together with other payments in the nature of compensation to the Executive which are contingent on a change in the ownership or effective control of the Corporation, or in the ownership of a substantial portion of the assets of the Corporation, or otherwise, would result in any portion of the payments hereunder being subject to an excise tax on excess parachute payments imposed under section 4999 of the Internal Revenue Code of 1986, as amended (the "Code").
 - b. The excise tax imposed on the Executive under section 4999 of the Code on excess parachute payments, from whatever source, would result in a lesser net aggregate present value of payments and distributions to the Executive (after subtraction of the excise tax) than if payments and distributions to the Executive were reduced to the maximum amount that could be made without incurring the excise tax.
2. Under this section Q the payments under this SMG-ICP shall be reduced (but not below zero) so that the present value of such payments shall equal the Reduced Amount. The "Reduced Amount" (which may be zero) shall be an amount expressed in present value which maximizes the aggregate present value of payments under this SMG-ICP which can be made without causing any such payment to be subject to the excise tax under section 4999 of the Code.
3. If Ernst & Young LLP determines that this section Q is applicable to an Executive, it shall so advise the Corporation. The Corporation shall then promptly give the Executive notice to that effect together with a copy of the detailed calculation supporting such determination which shall include a statement of the Reduced Amount. The Executive may then elect, in his/her sole discretion, which and how much of payments otherwise to be made under this SMG-ICP shall be eliminated or reduced (as long as after such election the aggregate present value of the remaining payments to be made under this SMG-ICP equals the Reduced Amount), and shall advise the Corporation in writing of his/her election within ten days of his/her receipt of notice. If no such election is made by the Executive within such ten-day period, the Corporation may elect which and how much of the payments shall be eliminated or reduced (as long as after such election the aggregate present value of the payments equals the Reduced Amount) and

shall notify the Executive promptly of such election. For purposes of this section Q, present value shall be determined in accordance with Section 280G of the Code. All the foregoing determinations made by Ernst & Young LLP under this section Q shall be made as promptly as practicable after it is determined that parachute payments will be made to the Executive if an elimination or reduction is not made. As promptly as practicable following the election hereunder, the Corporation shall pay to or for the benefit of the Executive such amounts as are then due to the Executive under this SMG-ICP and shall promptly pay to or for the benefit of the Executive in the future such amounts as become due to the Executive under this SMG-ICP.

4. As a result of the uncertainty in the application of Section 280G of the Code at the time of the initial determination by Ernst & Young LLP hereunder, it is possible that payments under this SMG-ICP will have been made which should not have been made ("Overpayment") or that additional payments which will have not been made could have been made ("Underpayment"), in each case, consistent with the calculation of the Reduced Amount hereunder. In the event that Ernst & Young LLP, based upon the assertion of a deficiency by the Internal Revenue Service against the Corporation or the Executive which Ernst & Young LLP believes has a high probability of success, determines that an Overpayment has been made, any such Overpayment shall be treated for all purposes as a loan to the Executive which the Executive shall repay together with interest at the applicable Federal rate provided for in Section 7872(f)(2) of the Code; provided, however, that no amount shall be payable by the Executive if and to the extent such payment would not reduce the amount which is subject to the excise tax under Section 4999 of the Code. In the event that Ernst & Young LLP, based upon controlling precedent, determines that an Underpayment has occurred, any such Underpayment shall be promptly paid to or for the benefit of the Executive together with interest at the applicable Federal rate provided for in Section 7872(f)(2)(A) of the Code.
5. In making its determination under this section Q, the value of any non-cash benefit shall be determined by Ernst & Young LLP in accordance with the principles of section 380G(d)(3) of the Code.
6. All determinations made by Ernst & Young LLP under this section Q shall be binding upon the Corporation and the Executive.

CLAIMS PROCEDURE
FOR THE
DAYTON HUDSON CORPORATION
SMG INCOME CONTINUANCE POLICY STATEMENT
FOR MEMBERS OF THE SENIOR MANAGEMENT GROUP

When your employment with Dayton Hudson Corporation (the "Company") terminates, the Company will tell you whether you are eligible for benefits from the above-referenced plan and, if so, the amount and timing of the payments that will be made to you.

If you believe that the Company's determination is incorrect in any way, you must file a written claim with the Chief Executive Officer of the Company. The Chief Executive Officer ordinarily will respond to the claim within 90 days of the date on which it is received. However, if special circumstances require an extension of the period of time for processing a claim, the 90-day period can be extended for an additional 90 days by giving you written notice of the extension and the reason that the extension is necessary.

If the claim for a benefit is approved, you will receive written notice of the amount of your benefit and the date on which payments will begin. If your claim is denied in whole or in part, you will be told in writing the specific reasons for the decision and will receive an explanation of the procedures for reviewing the decision.

If you do not agree with the decision, you can request that the Chief Executive Officer reconsider his or her decision by filing a written request for review within 60 days after receiving notice that the claim has been denied. You or your representative can also present written statements which explain why you believe that the benefit claimed should be paid and may review all pertinent plan documents.

Generally, the decision will be reviewed within 60 days after the Chief Executive Officer receives a request for reconsideration. However, if special circumstances require a delay, the review may take up to 120 days. (If a decision cannot be made within the 60-day period, you will be notified of this fact in writing.) You will receive a written notice of the decision which will explain the reasons for the decision by making specific reference to the Plan provisions on which the decision is based.

EXHIBIT (12)

DAYTON HUDSON CORPORATION AND SUBSIDIARIES
 COMPUTATIONS OF RATIOS OF EARNINGS TO FIXED CHARGES AND
 RATIOS OF EARNINGS TO FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

| | FISCAL YEAR ENDED | | | | |
|--|-------------------|------------------|-----------------|-----------------|------------------|
| | JAN. 30, 1999 | JAN. 31, 1998 | FEB. 1, 1997 | FEB. 3, 1996 | JAN. 28, 1995 |
| RATIO OF EARNINGS TO FIXED CHARGES: | | | | | |
| Earnings: | | | | | |
| Consolidated net earnings before extraordinary charges..... | \$ 962 | \$ 802 | \$ 474 | \$ 311 | \$ 434 |
| Income taxes..... | 594 | 524 | 309 | 190 | 280 |
| Total earnings before extraordinary charges..... | 1,556 | 1,326 | 783 | 501 | 714 |
| Fixed charges: | | | | | |
| Interest expense..... | 421 | 437 | 464 | 461 | 439 |
| Interest portion of rental expense..... | 63 | 59 | 59 | 59 | 56 |
| Total fixed charges..... | 484 | 496 | 523 | 520 | 495 |
| Less: | | | | | |
| Capitalized interest..... | (16) | (16) | (16) | (14) | (7) |
| Fixed charges in earnings..... | 468 | 480 | 507 | 506 | 488 |
| Earnings available for fixed charges..... | \$ 2,024 | \$ 1,806 | \$ 1,290 | \$ 1,007 | \$ 1,202 |
| Ratio of earnings before extraordinary charges to fixed charges..... | 4.18 | 3.65 | 2.46 | 1.94 | 2.43 |
| RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED STOCK DIVIDENDS: | | | | | |
| Total fixed charges, as above..... | \$ 484 | \$ 496 | \$ 523 | \$ 520 | \$ 495 |
| Dividends on preferred stock (pre-tax basis)..... | 32 | 35 | 37 | 37 | 39 |
| Total fixed charges and preferred stock dividends..... | 516 | 531 | 560 | 557 | 534 |
| Earnings available for fixed charges and preferred stock dividends..... | \$ 2,024 | \$ 1,806 | \$ 1,290 | \$ 1,007 | \$ 1,202 |
| Ratio of earnings before extraordinary charges to fixed charges and preferred stock dividends..... | 3.92 | 3.40 | 2.30 | 1.81 | 2.25 |

1998 RESULTS

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

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

TARGET (AT YEAR END) EMPLOYEES: 189,000

[MAP]

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

| 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 |

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

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

MERVYN'S (AT YEAR END) EMPLOYEES: 30,000

[MAP]

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

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 |

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

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

DEPARTMENT STORES (AT YEAR END) EMPLOYEES: 35,000

[MAP]

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

MAJOR MARKETS

| | NO. OF STORES |
|----------------------|------------------|
| Chicago | 16 |
| Detroit | 11 |
| Minneapolis/St. Paul | 10 |

ANALYSIS OF OPERATIONS

EARNINGS

[CHART]

DILUTED EARNINGS
PER SHARE
(dollars)

| | '94 | '95 | '96 | '97 | '98 |
|----------------------|--------|--------|---------|---------|---------|
| AS REPORTED | \$.92 | \$.65 | \$.97 | \$ 1.59 | \$ 1.98 |
| BEFORE UNUSUAL ITEMS | | | \$ 1.18 | \$ 1.64 | \$ 2.06 |

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 |

[CHART]

PRE-TAX SEGMENT PROFIT
(millions)

| | '94 | '95 | '96 | '97 | '98 |
|--|---------|---------|---------|---------|---------|
| | \$1,189 | \$1,030 | \$1,471 | \$1,807 | \$2,097 |

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.

ANALYSIS OF OPERATIONS

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.

[CHART]

REVENUES
(millions)

| '94 | '95 | '96 | '97 | '98 |
|----------|----------|----------|----------|----------|
| \$21,311 | \$23,516 | \$25,371 | \$27,757 | \$30,951 |

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*
(DOLLARS)

| | 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.

ANALYSIS OF OPERATIONS

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.

ANALYSIS OF OPERATIONS

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.

ANALYSIS OF OPERATIONS

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.

[CHART]

CASH FLOW FROM OPERATIONS
(millions)

| '94 | '95 | '96 | '97 | '98 |
|-------|---------|---------|---------|---------|
| \$892 | \$1,161 | \$1,458 | \$1,795 | \$1,862 |

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.

[CHART]

CAPITAL EXPENDITURES
(millions)

| '94 | '95 | '96 | '97 | '98 |
|---------|---------|---------|---------|---------|
| \$1,095 | \$1,522 | \$1,301 | \$1,354 | \$1,657 |

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.

PERFORMANCE OBJECTIVES

SHAREHOLDER RETURN

[CHART]
 MARKET PRICE
 PER SHARE (dollars)

| | '94 | '95 | '96 | '97 | '98 |
|-------|---------|---------|---------|---------|---------|
| HIGH | \$14.31 | \$13.25 | \$19.94 | \$36.84 | \$63.75 |
| LOW | \$10.88 | \$10.75 | \$12.25 | \$18.94 | \$33.75 |
| CLOSE | \$11.50 | \$12.50 | \$18.81 | \$35.97 | \$63.75 |

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 appropriate 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% |
| TOTAL DEBT RATIO | 50% | 54% | 57% |

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

[CHART]
 RETAIL CAPITALIZATION
 (millions)

| | '96 | '97 | '98 |
|-------|---------|---------|---------|
| DEBT | \$4,271 | \$4,127 | \$4,118 |
| TOTAL | \$8,551 | \$9,082 | \$9,988 |

CREDIT CAPITALIZATION

(millions)

| | '96 | '97 | '98 |
|-------|---------|---------|---------|
| DEBT | \$1,817 | \$2,026 | \$2,108 |
| TOTAL | \$2,064 | \$2,302 | \$2,395 |

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% |

GUEST CREDIT

[CHART]

NEW ACCOUNTS OPENED
(millions)

| | '94 | '95 | '96 | '97 | '98 |
|----------|-----|-----|-----|-----|-----|
| DSD | .5 | .6 | .5 | .7 | .6 |
| MERVYN'S | 1.4 | 1.2 | 1.0 | 1.3 | 1.2 |
| TARGET | .4 | 2.1 | 2.7 | 3.9 | 3.9 |

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.

| CREDIT CONTRIBUTION (MILLIONS OF DOLLARS) | 1998 | 1997 | 1996 |
|---|----------|----------|----------|
| REVENUES: | | | |
| FINANCE CHARGE AND LATE FEE REVENUES | \$ 576 | \$ 501 | \$ 403 |
| MERCHANT FEES AND OTHER | 93 | 86 | 72 |
| TOTAL REVENUES | 669 | 587 | 475 |
| EXPENSES: | | | |
| BAD DEBT | 180 | 190 | 149 |
| OPERATIONS AND MARKETING | 169 | 125 | 116 |
| TOTAL EXPENSES | 349 | 315 | 265 |
| PRE-TAX CONTRIBUTION | \$ 320 | \$ 272 | \$ 210 |
| AVERAGE RECEIVABLES SERVICED (MILLIONS OF DOLLARS) | 1998 | 1997 | 1996 |
| TARGET | \$ 803 | \$ 644 | \$ 453 |
| MERVYN'S | 764 | 812 | 799 |
| DSD | 720 | 707 | 663 |
| TOTAL AVERAGE RECEIVABLES SERVICED | \$ 2,287 | \$ 2,163 | \$ 1,915 |
| TOTAL YEAR-END RECEIVABLES SERVICED | \$ 2,496 | \$ 2,424 | \$ 2,184 |

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.

[CHART]

CREDIT CONTRIBUTION
(millions)

| | '94 | '95 | '96 | '97 | '98 |
|--|-------|-------|-------|-------|-------|
| | \$170 | \$179 | \$210 | \$272 | \$320 |

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BUSINESS SEGMENT COMPARISONS

| (MILLIONS OF DOLLARS) | 1998 | 1997 | 1996 | 1995* | 1994 | 1993 |
|---|-----------|-----------|-----------|-----------|-----------|-----------|
| <hr/> | | | | | | |
| REVENUES | | | | | | |
| 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 | - | - | - | - | - |
| TOTAL REVENUES | \$ 30,951 | \$ 27,757 | \$ 25,371 | \$ 23,516 | \$ 21,311 | \$ 19,233 |
| <hr/> | | | | | | |
| PRE-TAX SEGMENT PROFIT | | | | | | |
| 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 |
| TOTAL PRE-TAX SEGMENT PROFIT | \$ 2,097 | \$ 1,807 | \$ 1,471 | \$ 1,030 | \$ 1,189 | \$ 1,018 |
| <hr/> | | | | | | |
| 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) |
| EARNINGS BEFORE INCOME TAXES AND EXTRAORDINARY CHARGES | \$ 1,556 | \$ 1,326 | \$ 783 | \$ 501 | \$ 714 | \$ 607 |
| <hr/> | | | | | | |
| ASSETS | | | | | | |
| 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 |
| TOTAL ASSETS | \$ 15,666 | \$ 14,191 | \$ 13,389 | \$ 12,570 | \$ 11,697 | \$ 10,778 |
| <hr/> | | | | | | |
| DEPRECIATION AND AMORTIZATION | | | | | | |
| 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 |
| TOTAL DEPRECIATION AND AMORTIZATION | \$ 780 | \$ 693 | \$ 650 | \$ 594 | \$ 548 | \$ 515 |
| <hr/> | | | | | | |
| CAPITAL EXPENDITURES | | | | | | |
| 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 |
| TOTAL CAPITAL EXPENDITURES | \$ 1,657 | \$ 1,354 | \$ 1,301 | \$ 1,522 | \$ 1,095 | \$ 978 |
| <hr/> | | | | | | |
| SEGMENT EBITDA | | | | | | |
| 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 |
| TOTAL SEGMENT EBITDA | \$ 2,866 | \$ 2,498 | \$ 2,118 | \$ 1,621 | \$ 1,736 | \$ 1,532 |

*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 |
|--|----------|----------|----------|
| REVENUES | \$30,951 | \$27,757 | \$25,371 |
| COSTS AND EXPENSES | | | |
| 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 |
| TOTAL COSTS AND EXPENSES | 29,395 | 26,431 | 24,588 |
| EARNINGS BEFORE INCOME TAXES AND EXTRAORDINARY CHARGES | 1,556 | 1,326 | 783 |
| PROVISION FOR INCOME TAXES | 594 | 524 | 309 |
| NET EARNINGS BEFORE EXTRAORDINARY CHARGES | 962 | 802 | 474 |
| EXTRAORDINARY CHARGES FROM PURCHASE AND REDEMPTION OF DEBT, NET OF TAX | 27 | 51 | 11 |
| NET EARNINGS | \$ 935 | \$ 751 | \$ 463 |
| BASIC EARNINGS PER SHARE | | | |
| EARNINGS BEFORE EXTRAORDINARY CHARGES | \$ 2.14 | \$ 1.80 | \$ 1.05 |
| EXTRAORDINARY CHARGES | (.06) | (.12) | (.03) |
| BASIC EARNINGS PER SHARE | \$ 2.08 | \$ 1.68 | \$ 1.02 |
| DILUTED EARNINGS PER SHARE | | | |
| EARNINGS BEFORE EXTRAORDINARY CHARGES | \$ 2.04 | \$ 1.70 | \$ 1.00 |
| EXTRAORDINARY CHARGES | (.06) | (.11) | (.03) |
| DILUTED EARNINGS PER SHARE | \$ 1.98 | \$ 1.59 | \$.97 |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING (MILLIONS) | | | |
| 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

| (MILLIONS, EXCEPT PER SHARE DATA) | BASIC EPS | | | DILUTED EPS | | |
|---|-----------|---------|---------|-------------|---------|---------|
| | 1998 | 1997 | 1996 | 1998 | 1997 | 1996 |
| 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 |
|---|---------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| CASH AND CASH EQUIVALENTS | \$ 255 | \$ 211 |
| RETAINED SECURITIZED RECEIVABLES | 1,656 | 1,555 |
| MERCHANDISE INVENTORIES | 3,475 | 3,251 |
| OTHER | 619 | 544 |
| TOTAL CURRENT ASSETS | 6,005 | 5,561 |
| PROPERTY AND EQUIPMENT | | |
| 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) |
| PROPERTY AND EQUIPMENT, NET | 8,969 | 8,125 |
| OTHER | 692 | 505 |
| TOTAL ASSETS | \$15,666 | \$14,191 |
| LIABILITIES AND SHAREHOLDERS' INVESTMENT | | |
| CURRENT LIABILITIES | | |
| 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 |
| TOTAL CURRENT LIABILITIES | 5,057 | 4,556 |
| LONG-TERM DEBT | 4,452 | 4,425 |
| DEFERRED INCOME TAXES AND OTHER | 822 | 720 |
| CONVERTIBLE PREFERRED STOCK, NET | 24 | 30 |
| SHAREHOLDERS' INVESTMENT | | |
| 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) |
| TOTAL SHAREHOLDERS' INVESTMENT | 5,311 | 4,460 |
| TOTAL LIABILITIES AND SHAREHOLDERS' INVESTMENT | \$ 15,666 | \$ 14,191 |

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 mainframe 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 |
|---|----------------|----------------|----------------|
| OPERATING ACTIVITIES | | | |
| 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 |
| INVESTING ACTIVITIES | | | |
| 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 |
| FINANCING ACTIVITIES | | | |
| 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 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$ 255 | \$ 211 | \$ 201 |

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Future minimum lease payments required under noncancelable 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 |
|---|-----------------------------------|-----------------|----------------------------------|----------------------|-----------------|---------|
| FEBRUARY 3, 1996 | \$257 | \$72 | \$110 | \$3,044 | \$(80) | \$3,403 |
| 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 |
| FEBRUARY 1, 1997 | 271 | 72 | 146 | 3,348 | (47) | 3,790 |
| 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 |
| JANUARY 31, 1998 | 280 | 73 | 196 | 3,930 | (19) | 4,460 |
| 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 |
| JANUARY 30, 1999 | \$268 | \$74 | \$286 | \$4,683 | \$- | \$5,311 |

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 | | PERFORM- ANCE SHARES | RESTRICTED SHARES |
| | NUMBER OF SHARES | WEIGHTED AVERAGE EXERCISE PRICE | NUMBER OF SHARES | WEIGHTED AVERAGE EXERCISE PRICE | | |
| FEBRUARY 3, 1996 | 9,967 | \$11.09 | 5,372 | \$10.30 | | |
| 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 | | | | |
| JANUARY 30, 1999 | 15,580 | \$24.79 | 5,685 | \$16.49 | 519* | 123* |

*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 |
| TOTAL | 15,580 | \$ 8.83 - \$60.22 |

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 | \$935 | \$751 | \$463 |
| NET EARNINGS-- PRO FORMA | \$934 | \$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 | \$16.24 | \$10.52 | \$5.65 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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% | 7 1/4% | 7 3/4% | 7% | 7 1/4% | 7 3/4% |
| 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 | 4 1/4 | 4 3/4 | 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 supporting 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.

/s/ 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.

/s/ Robert J. Ulrich

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

/s/ Douglas A. Scovanner

Douglas A. Scovanner
Senior Vice President and
Chief Financial Officer

/s/ 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(a) | 1994 | 1993 |
|---|----------|---------|---------|---------|---------|---------|
| RESULTS OF OPERATIONS | | | | | | |
| 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 |
| FINANCIAL POSITION DATA | | | | | | |
| 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 |
| PER COMMON SHARE DATA (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 |
| OTHER DATA | | | | | | |
| 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.

DAYTON HUDSON CORPORATION
(A MINNESOTA CORPORATION)LIST OF SUBSIDIARIES
(AS OF JANUARY 30, 1999)

The Associated Merchandising Corporation (NY)
Bullseye Corporation (DE)
Cahill & Company, Inc. (MN)
Capitol Lounge Corp. (WI)
Clybourn Trading Corp. (WI)
DHC Wine & Liquor Shop, Inc. (WI)
Daily Planet Company (MN)
Dayton Credit Company (MN)
Dayton Development Company (MN)
Dayton Hudson Brands, Inc. (MN)
Dayton Hudson Capital Corporation (MN)
Dayton Hudson Electronic Commerce, Inc. (MN)
Dayton Hudson Foundation (a MN not-for-profit organization)
Dayton Hudson Insurance Agency, Inc. (MN)
Dayton Hudson Receivables Corporation (MN)
Dayton's Commercial Interiors, Inc. (MN)
Dayton's Iron Horse Liquors, Inc. (MN)
Dayton's Sioux Falls, Inc. (SD)
Eighth Street Development Company (MN)
Highbridge Company (MN)
Highbridge Music Company (MN)
Hometown America Company (MN)
Marshall Field's Chicago, Inc. (DE)
Marshall Field of Columbus, Inc. (OH)
Marshall Field's Mayfair, Inc. (WI)
Marshall Field Stores, Inc. (DE)
Mervyn's (CA)
Mervyn's, Inc. (DE)
Northern Creations Company (MN)
Northern Fulfillment Services Company (MN)
Retailer's National Bank, N.A.
Rivertown Trading Company (MN)
Retail Properties, Inc. (DE)
RiverCrossings Company (MN)
Rooftop, Inc. (MN)
RTC Holding, Inc. (MN)
Seatamatic, Inc. (NV)
STL of Nebraska, Inc. (MN)
Target Connect, Inc. (MN)
Target Services, Inc. (MN)
Target Stores, Inc. (MN)

NOTE: Parenthetical information denotes state of incorporation

Consent of Independent Auditors

We consent to the incorporation by reference in the Annual Report (Form 10-K) of Dayton Hudson Corporation of our report dated March 1, 1999, included in the 1998 Annual Report to Shareholders of Dayton Hudson Corporation.

We also consent to the incorporation by reference in Registration Statement Numbers 33-42364 and 333-65347 on Form S-3 and Registration Statement Numbers 33-6918, 33-64013, 333-30311 and 333-27435 on Form S-8 of our report dated March 1, 1999, with respect to the consolidated financial statements incorporated by reference in this Annual Report (Form 10-K) of Dayton Hudson Corporation.

/s/ Ernst & Young LLP

Minneapolis, Minnesota
April 12, 1999

DAYTON HUDSON CORPORATION

Power of Attorney
of Director and/or Officer

KNOW ALL MEN BY THESE PRESENTS, that the undersigned director and/or officer of DAYTON HUDSON CORPORATION, a Minnesota corporation (the "Corporation"), does hereby make, constitute and appoint ROBERT J. ULRICH, JAMES T. HALE, DOUGLAS A. SCOVANNER, STEPHEN C. KOWALKE and TIMOTHY R. BAER and each or any one of them, the undersigned's true and lawful attorneys-in-fact, with power of substitution, for the undersigned and in the undersigned's name, place and stead, to sign and affix the undersigned's name as director and/or officer of the Corporation to (1) a Form 10-K, Annual Report, pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, for the fiscal year ended January 30, 1999, or other applicable form, including any and all exhibits, schedules, supplements and supporting documents thereto, including, but not limited to, the Form 11-K Annual Reports of the DHC 401(k) Plan (formerly referred to as the "Supplemental Retirement, Savings, and Employee Stock Ownership Plan") and similar plans pursuant to Section 15(d) of the Securities Exchange Act of 1934, as amended (the "1934 Act"), and all amendments, supplementations and corrections thereto, to be filed by the Corporation with the Securities and Exchange Commission (the "SEC"), as required in connection with its registration under the 1934 Act, as amended; (2) one or more Form 3, Form 4 or Form 5 pursuant to Section 16(a) of the 1934 Act and all amendments, supplementations and corrections thereto, to be filed with the SEC as required under the 1934 Act; and (3) one or more Registration Statements, on Form S-3, Form S-8, or other applicable forms, and all amendments, including post-effective amendments, thereto, to be filed by the Corporation with the SEC in connection with the registration under the Securities Act of 1933, as amended, of debentures or other securities of the Corporation, and to file the same, with all exhibits thereto and other supporting documents, with the SEC.

The undersigned also grants to said attorneys-in-fact, and each of them, full power and authority to do and perform any and all acts necessary or incidental to the performance and execution of the powers herein expressly granted. This Power of Attorney shall remain in effect until revoked in writing by the undersigned.

IN WITNESS WHEREOF, the undersigned has signed below as of this 10th day of March, 1999.

/s/ L. DeSimone

Livio D. DeSimone

/s/ Roger A. Enrico

Roger A. Enrico

/s/ William W. George

William W. George

/s/ Michele J. Hooper

Michele J. Hooper

/s/ James A. Johnson

James A. Johnson

/s/ R. M. Kovacevich

Richard M. Kovacevich

/s/ Susan A. McLaughlin

Susan A. McLaughlin

/s/ Anne M. Mulcahy

Anne M. Mulcahy

/s/ S. W. Sanger

Stephen W. Sanger

/s/ Solomon D. Trujillo

Solomon D. Trujillo

/s/ Bob Ulrich

Bob Ulrich

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM DAYTON HUDSON CORPORATION'S FORM 10K FOR THE YEAR ENDED JANUARY 30, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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|--------|-------------|-------|
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| | JAN-30-1999 | |
| | FEB-01-1998 | |
| | JAN-30-1999 | 255 |
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| | | 1812 |
| | | 156 |
| | | 3475 |
| | 6005 | |
| | | 12737 |
| | | 3768 |
| | 15666 | |
| 5057 | | |
| | | 4452 |
| 24 | | |
| | | 0 |
| | | 74 |
| | | 5237 |
| 15666 | | |
| | | 30951 |
| | 30951 | |
| | | 22634 |
| | | 22634 |
| | | 1286 |
| | | 112 |
| | 398 | |
| | | 1556 |
| | | 594 |
| 962 | | |
| | | 0 |
| | | 27 |
| | | 0 |
| | | 935 |
| | | 2.08 |
| | | 1.98 |

CAUTIONARY STATEMENTS RELATING TO FORWARD-LOOKING INFORMATION.

The Company and its representatives may, from time to time, make written or verbal forward-looking statements. Those statements relate to developments, results, conditions or other events the Company expects or anticipates will occur in the future. Without limiting the foregoing, those statements may relate to future revenues, earnings, store openings, market conditions and the competitive environment. Forward-looking statements are based on management's then current views and assumptions and, as a result, are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected.

Any such forward-looking statements are qualified by the following which contain certain of the important factors that could cause actual results to differ materially from those predicted by the forward-looking statements:

COMPETITIVE PRESSURES

The retail business is highly competitive. Each of our operations competes for customers, employees, locations, products, services and other important aspects of their businesses with many other local, regional and national retailers. Those competitors, some of which have a greater market presence than the Company, include traditional and off-price store-based retailers, direct mail businesses, entertainment and travel providers and other forms of retail commerce. Unanticipated changes in the pricing and other practices of those competitors may impact our expected results.

CONSUMER TRENDS

It is difficult to predict what merchandise consumers will demand, particularly merchandise that is trend driven. A substantial part of our business is dependent on our ability to make trend right decisions for a wide variety of goods and services. Failure to accurately predict constantly changing consumer tastes, preferences, spending patterns and other lifestyle decisions could adversely affect short term results and long term relationships with our guests.

CREDIT OPERATIONS

The Company's credit operations facilitate sales in our stores and generate additional revenue from fees related to extending credit. Our ability to extend credit to our guests depends on many factors including compliance with federal and state banking and consumer protection laws, any of which may change from time to time. In addition, changes in credit card use, payment patterns and default rates may result from a variety of economic, legal, social and other factors that we cannot control or predict with certainty. Changes that adversely impact our ability to extend credit and collect payments could negatively affect our results.

GENERAL ECONOMIC CONDITIONS

General economic factors that are beyond our control impact the Company's forecasts and actual performance. These factors include interest rates, recession, inflation, deflation, consumer credit availability, consumer debt levels, tax rates and policy, unemployment trends and other matters that influence consumer confidence and spending. Increasing volatility in financial markets may cause these factors to change with a greater degree of frequency and magnitude.

LABOR CONDITIONS

The Company's performance is dependent on attracting and retaining a large and growing number of quality team members. Many of those team members are in entry level or part time positions with historically high rates of turnover. Our ability to meet our labor needs while controlling our costs is subject to external factors such as unemployment levels, minimum wage legislation and changing demographics.

PRODUCT SOURCING

The products we sell are sourced from a wide variety of domestic and international vendors. All of our vendors must comply with applicable laws and our required standards of conduct. Our ability to find qualified vendors and access products in a timely and efficient manner is a significant challenge which is typically even more difficult with respect to goods sourced outside the United States. Trade restrictions, tariffs, currency exchange rates, transport capacity and costs and other factors significant to this trade are beyond our control and could impact our business.

YEAR 2000 DATE CONVERSION

Our business may be adversely affected by the inability of information systems and other technology to function properly using dates after December 31, 1999. The scope of this issue is difficult to predict with certainty and there can be no assurance that we, our business partners, banks, public utilities and others whose goods or services support the retail environment, will successfully complete every phase of the year 2000 conversion on a timely basis. Our current estimates of the cost and impact of the year 2000 issue are based upon certain assumptions including the continued availability of necessary resources, timely modifications to our plans that may be necessary, the preparedness of parties on whom our business depends and other factors. Failure of any of those assumptions could result in higher costs, system failures or business interruptions and could have a material, adverse impact on our future operations, earnings and financial position.

OTHER FACTORS

Other factors that could cause actual results to differ materially from those predicted include: weather, changes in the availability or cost of capital, the availability of suitable new store locations on acceptable terms, shifts in the seasonality of shopping patterns, labor strikes or other work interruptions, the impact of excess retail capacity in our markets, material acquisitions or dispositions, the success or failure of significant new business ventures, adverse results in material litigation, natural disasters, the outbreak of war or other significant national or international events.

The foregoing list of important factors is not exclusive and the Company does not undertake to revise any forward-looking statement to reflect events or circumstances that occur after the date the statement is made.