TARGET CORP
Form 10-K
March 08, 2017

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 28, 2017
OR

o	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
TARGET 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.)
1000 Nicollet Mall, Minneapolis, Minnesota (Address of principal executive offices)	55403 (Zip Code)

Registrant's telephone number, including area code: 612/304-6073
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 $0.0833 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x
Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.
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 x No o
Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Act). See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 126-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x

The aggregate market value of the voting stock held by non-affiliates of the registrant as of July 30, 2016 was $43,242,921,133, based on the closing price of $75.33 per share of Common Stock as reported on the New York Stock Exchange Composite Index.

Indicate the number of shares outstanding of each of registrant's classes of Common Stock, as of the latest practicable date. Total shares of Common Stock, par value $0.0833, outstanding at March 2, 2017 were 552,675,341.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Target's Proxy Statement to be filed on or about May 1, 2017 are incorporated into Part III.

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PART I

Item 1. Business

General

Target Corporation (Target, the Corporation or the Company) was incorporated in Minnesota in 1902. We offer our customers, referred to as "guests," everyday essentials and fashionable, differentiated merchandise at discounted prices. Our ability to deliver a preferred shopping experience to our guests is supported by our supply chain and technology, our devotion to innovation, our loyalty offerings such as REDcard Rewards and Cartwheel, and our disciplined approach to managing our business and investing in future growth. We operate as a single segment designed to enable guests to purchase products seamlessly in stores or through our digital channels. Since 1946, we have given 5 percent of our profit to communities.

We perform account servicing and primary marketing functions for, and earn a substantial portion of the profits generated by, the Target Credit Card and Target MasterCard consumer receivables portfolio, which is underwritten, funded, and owned by TD Bank Group (TD). Refer to Note 9 of the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data (the Financial Statements) for more information on the credit card profit sharing.

Prior to January 15, 2015, we operated a Canadian Segment. On January 15, 2015, we announced our exit from the Canadian market, and Target Canada Co. and certain other wholly owned subsidiaries of Target filed for protection (the Filing) in Canada under the Companies' Creditors Arrangement Act (CCAA) with the Ontario Superior Court of Justice in Toronto (the Court). Following the Filing, we no longer consolidate our former Canadian retail operation. Canadian financial results prior to the Filing are included in our financial statements and classified within discontinued operations. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and Note 7 of the Financial Statements for more information.

Prior to December 16, 2015, we operated 1,672 pharmacies and 79 clinics in our stores. On December 16, 2015, we sold our pharmacy and clinic businesses (Pharmacy Transaction) to CVS Pharmacy, Inc. (CVS). CVS now operates the pharmacy and clinic businesses in our stores under a perpetual operating agreement, subject to termination in limited circumstances. See MD&A and Note 6 of the Financial Statements for more information.

Discontinued operations in this Annual Report on Form 10-K refers only to our discontinued Canadian operations.

Financial Highlights

For information on key financial highlights and segment financial information, see the items referenced in Item 6, Selected Financial Data, MD&A, and Note 30 of the Financial Statements.

Seasonality

A larger share of annual revenues and earnings traditionally occurs in the fourth quarter because it includes the peak holiday sales period of November and December.

Merchandise

We sell a wide assortment of general merchandise and food. The majority of our general merchandise stores offer an edited food assortment, including perishables, dry grocery, dairy, and frozen items. Nearly all of our stores larger than 170,000 square feet offer a full line of food items comparable to traditional supermarkets. Our small, flexible format stores, generally smaller than 50,000 square feet, offer curated general merchandise and food assortments. Our digital channels include a wide assortment of general merchandise, including many items found in our stores, along with a complementary assortment such as additional sizes and colors sold only online.

A significant portion of our sales is from national brand merchandise. Approximately one-third of 2016 sales related to our owned and exclusive brands, including but not limited to the following:

Owned Brands

Archer Farms®	Market Pantry®	Sutton & Dodge®
Art Class™	Merona®	Threshold™
Ava & Viv®	Pillowfort™	up & up®
Boots & Barkley®	Room Essentials®	Wine Cube®
Cat & Jack™	Simply Balanced™	Wondershop™
Embark®	Smith & Hawken®	Xhilaration®
Gilligan & O'Malley®	Sonia Kashuk®	
Knox Rose™	Spritz™	

Exclusive Brands

C9 by Champion®	Hand Made Modern®	Mossimo®
DENIZEN® from Levi's®	Just One You® made by carter's®	Nate Berkus for Target
Fieldcrest®	Kid Made Modern®	Oh Joy!® for Target
Genuine Kids® from OshKosh®	Liz Lange® for Target	

We also sell merchandise through periodic exclusive design and creative partnerships and generate revenue from in-store amenities such as Target Café and Target Photo, and leased or licensed departments such as Target Optical, Starbucks, and other food service offerings. The majority of our stores also have a CVS pharmacy from which we will generate ongoing annual, inflation adjusted occupancy-related income (see MD&A and Note 6 of the Financial Statements for more information).

Distribution

The vast majority of merchandise is distributed to our stores through our network of 40 distribution centers. Common carriers ship general merchandise to and from our distribution centers. Vendors or third party distributors ship certain food items and other merchandise directly to our stores. Merchandise sold through our digital channels is distributed to our guests via common carriers from our distribution centers, from vendors or third party distributors, from our stores or through guest pick-up at our stores. Using our stores as fulfillment points allows improved product availability and delivery times and also reduces shipping costs.

Employees

At January 28, 2017, we employed approximately 323,000 full-time, part-time and seasonal employees, referred to as "team members." During the 2016 holiday sales period our employment levels peaked at approximately 373,000 team members. We offer a broad range of company-paid benefits to our team members. Eligibility for and the level of benefits vary depending on team members' full-time or part-time status, compensation level, date of hire, and/or length of service. Company-paid benefits include a 401(k) plan, medical and dental plans, disability insurance, paid vacation, tuition reimbursement, various team member assistance programs, life insurance, a pension plan (closed to new participants, with limited exceptions), and merchandise and other discounts. We believe our team member relations are good.

Working Capital

Our working capital needs are greater in the months leading up to the holiday sales period, which we typically finance with cash flow provided by operations and short-term borrowings. Additional details are provided in the Liquidity and Capital Resources section in MD&A.

Effective inventory management is key to our ongoing success, and we use various techniques including demand forecasting and planning and various forms of replenishment management. We achieve effective inventory management by staying in-stock in core product offerings, maintaining positive vendor relationships, and carefully planning inventory levels for seasonal and apparel items to minimize markdowns.

Competition

We compete with traditional and internet retailers, including off-price general merchandise retailers, apparel retailers, wholesale clubs, category specific retailers, drug stores, supermarkets, and other forms of retail commerce. Our ability to positively differentiate ourselves from other retailers and provide a compelling value proposition largely determines our competitive position within the retail industry.

Intellectual Property

Our brand image is a critical element of our business strategy. Our principal trademarks, including Target, SuperTarget and our "Bullseye Design," have been registered with the U.S. Patent and Trademark Office. We also seek to obtain and preserve intellectual property protection for our owned brands.

Geographic Information

Virtually all of our revenues are generated within the United States. The vast majority of our long-lived assets are located within the United States.

Available Information

Our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available free of charge at investors.target.com as soon as reasonably practicable after we file such material with, or furnish it to, the U.S. Securities and Exchange Commission (SEC). Our Corporate Governance Guidelines, Business Conduct Guide, Corporate Social Responsibility Report, and the charters for the committees of our Board of Directors are also available free of charge in print upon request or at investors.target.com.

Item 1A. Risk Factors

Our business is subject to many risks. Set forth below are the material risks we face. Risks are listed in the categories where they primarily apply, but other categories may also apply.

Competitive and Reputational Risks

Our continued success is dependent on positive perceptions of Target which, if eroded, could adversely affect our business and our relationships with our guests and team members.

We believe that one of the reasons our guests prefer to shop at Target, our team members choose Target as a place of employment and our vendors choose to do business with us is the reputation we have built over many years for serving our four primary constituencies: guests, team members, shareholders, and the communities in which we operate. To be successful in the future, we must continue to preserve Target's reputation. Reputational value is based in large part on perceptions, and broad access to social media makes it easy for anyone to provide public feedback that can influence perceptions of Target. It may be difficult to control negative publicity, regardless of whether it is accurate. While reputations may take decades to build, any negative incidents can quickly erode trust and confidence, particularly if they result in negative mainstream and social media publicity, governmental investigations, or litigation. Negative incidents could lead to tangible adverse effects on our business, including consumer boycotts, lost sales, loss of new store and technology development opportunities, or team member retention and recruiting difficulties. In addition, vendors and others with whom we choose to do business may affect our reputation. For example, CVS operates clinics and pharmacies within our stores, and our guests' perceptions of and experiences with CVS may impact our reputation.

If we are unable to positively differentiate ourselves from other retailers, our results of operations could be adversely affected.

In the past, we have been able to compete successfully by differentiating our guests' shopping experience through a careful combination of price, merchandise assortment, store environment, convenience, guest service, loyalty programs and marketing efforts. Our ability to create a personalized guest experience through the collection and use of accurate and relevant guest data is important to our ability to differentiate from other retailers. Guest perceptions regarding the cleanliness and safety of our stores, the functionality, reliability, and speed of our digital channels and fulfillment options, our in-stock levels, the effectiveness of our promotions, the attractiveness of our third party offerings, such as the clinics and pharmacies owned and operated by CVS, and other factors also affect our ability to compete. No single competitive factor is dominant, and actions by our competitors on any of these factors or the failure of our strategies could have an adverse effect on our sales, gross margins, and expenses.

We sell many products under our owned and exclusive brands. These brands are an important part of our business because they differentiate us from other retailers, generally carry higher margins than equivalent national brand products and represent a significant portion of our overall sales. If we are unable to successfully develop and support our owned and exclusive brands, if one or more of these brands experiences a loss of consumer acceptance or confidence, or if we are unable to successfully protect our intellectual property rights in these brands, our sales and gross margins could be adversely affected.

The continuing migration and evolution of retailing to digital channels has increased our challenges in differentiating ourselves from other retailers. In particular, consumers are able to quickly and conveniently comparison shop and determine real-time product availability using digital tools, which can lead to decisions based solely on price, the functionality of the digital tools or a combination of those and other factors. We must compete by offering a consistent and convenient shopping experience for our guests regardless of the ultimate sales channel. We must provide our guests and team members digital tools that have the right features and are reliable and easy to use. Failures to effectively execute in these efforts, actions by our competitors in response to these efforts, or failures of our vendors to manage their own channels, content and technology systems could hurt our ability to differentiate ourselves from other retailers and, as a result, have an adverse effect on sales, gross margins, and expenses.

If we are unable to successfully provide a relevant and reliable experience for our guests, regardless of where our guest demand is ultimately fulfilled, our sales, results of operations and reputation could be adversely affected.

Our business has evolved from an in-store experience to interaction with guests across multiple channels (in-store, online, mobile and social media, among others). Our guests are using computers, tablets, mobile phones and other devices to shop in our stores and online and provide feedback and public commentary about all aspects of our business. We must anticipate and meet changing guest expectations and counteract new developments and technology investments by our competitors. Our evolving retailing efforts include implementing new technology, software and processes to be able to fulfill guest orders directly from our vendors and from any point within our system of stores and distribution centers. Providing flexible fulfillment options is complex and may not meet guest expectations for accurate order fulfillment, faster and guaranteed delivery times, and low-price or free shipping. If we are unable to attract and retain team members or contract with third parties having the specialized skills needed to support these efforts, implement improvements to our guest facing technology in a timely manner, collect accurate, relevant, and usable guest data to support our personalization efforts, allow real-time and accurate visibility to product availability when guests are ready to purchase, quickly and efficiently fulfill our guests orders using the fulfillment and payment methods they demand, or provide a convenient and consistent experience for our guests across all sales channels, our ability to compete and our results of operations could be adversely affected. In addition, if Target.com and our other guest facing technology systems do not appeal to our guests, reliably function as designed, integrate across all sales channels, or maintain the privacy of guest data we may experience a loss of guest confidence and lost sales, which could adversely affect our reputation and results of operations.

If we fail to anticipate and respond quickly to changing consumer preferences, our sales, gross margins and profitability could suffer.

A large part of our business is dependent on our ability to make trend right decisions and effectively manage our inventory in a broad range of merchandise categories, including apparel, accessories, home décor, electronics, toys, seasonal offerings, food and other merchandise. For example, our apparel and home décor assortment is continually evolving and in other areas of our product assortment, including food, we are supporting guest wellness goals and offering more items that appeal to local cultural and demographic tastes. Failure to obtain accurate and relevant data on guest preferences, predict changing consumer tastes, preferences, spending patterns and other lifestyle decisions, emphasize the correct categories, implement effective promotions, and personalize our offerings to our guests may result in lost sales, spoilage, and increased inventory markdowns, which would lead to a deterioration in our results of operations by hurting our sales, gross margins, and profitability.

Technology Investments and Infrastructure Risks

If our capital investments in technology, supply chain, new stores and remodeling existing stores do not achieve appropriate returns, our competitive position, financial condition and results of operations may be adversely affected.

Our business is becoming increasingly reliant on technology investments, and the returns on these investments can be less predictable than building new stores and remodeling existing stores. We are currently making, and will continue to make, significant technology investments to provide a consistent and improved guest experience across all sales channels and improve our supply chain and inventory management systems. These technology initiatives might not provide the anticipated benefits or desired return or may provide them on a delayed schedule or at a higher cost. Our business also depends, in part, on our ability to build new stores and remodel existing stores in a manner that achieves appropriate returns on our capital investment. We compete with other retailers and businesses for suitable locations for our stores. Many of our expected new store sites are smaller and non-standard footprints located in fully developed markets, which require changes to our supply chain practices and are generally more time-consuming, expensive and uncertain undertakings than expansion into undeveloped suburban and ex-urban markets. Targeting the wrong technology or store opportunities, failing to make the best investments, being unable to make new concepts scalable or making an investment commitment significantly above or below our needs could result in the loss of our competitive position and adversely impact our financial condition or results of operations.

A significant disruption in our computer systems and our inability to adequately maintain and update those systems could adversely affect our operations and our ability to maintain guest confidence.

We rely extensively on our computer systems to manage and account for inventory, process guest transactions, manage and maintain the privacy of guest data, communicate with our vendors and other third parties, service REDcard accounts, and summarize and analyze results. We also rely on continued and unimpeded access to the Internet to use our computer systems. Our systems are subject to damage or interruption from power outages, telecommunications failures, computer viruses, malicious attacks, security breaches, and catastrophic events. If our systems are damaged or fail to function properly or reliably, we may incur substantial repair or replacement costs, experience data loss or theft and impediments to our ability to manage inventories or process guest transactions, engage in additional promotional activities to retain our guests, and encounter lost guest confidence, which could adversely affect our results of operations.

We continually make significant technology investments that are intended to help maintain and update our existing computer systems. Implementing significant system changes increases the risk of computer system disruption. The potential problems and interruptions associated with implementing technology initiatives could disrupt or reduce our operational efficiency, and could negatively impact guest experience and guest confidence.

Data Security and Privacy Risks

If our efforts to protect the security of information about our guests, team members and vendors are unsuccessful, we may face additional costly government enforcement actions and private litigation, and our sales and reputation could suffer.

We regularly receive and store information about our guests, team members, and vendors. We have programs in place to detect, contain and respond to data security incidents. However, because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and may be difficult to detect for long periods of time, we may be unable to anticipate these techniques or implement adequate preventive measures. In addition, hardware, software, or applications we develop or procure from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. Unauthorized parties may also attempt to gain access to our systems or facilities, or those of third parties with whom we do business, through fraud, trickery, or other forms of deceiving our team members, contractors, vendors, and temporary staff.

Until the data breach we experienced in the fourth quarter of 2013, all incidents we encountered were insignificant. The data breach we experienced in 2013 was significant and went undetected for several weeks. Both we and our vendors had data security incidents subsequent to the 2013 data breach; however, to date these other incidents have not been material to our consolidated financial statements. Based on the prominence and notoriety of the 2013 data breach, even minor additional data security incidents could draw greater scrutiny. If we, our vendors, or other third parties with whom we do business experience additional significant data security breaches or fail to detect and appropriately respond to significant data security breaches, we could be exposed to additional government enforcement actions and private litigation. In addition, our guests could lose confidence in our ability to protect their information, which could cause them to discontinue using our REDcards or loyalty programs, or stop shopping with us altogether.

Supply Chain and Third Party Risks

Changes in our relationships with our vendors, changes in tax policy or trade relations, interruptions in our supply chain or increased commodity or supply chain costs could adversely affect our results of operations.

We are dependent on our vendors to supply merchandise to our distribution centers, stores and guests. As we continue to add capabilities, our fulfillment network becomes increasingly complex and operating it becomes more challenging. If our fulfillment network does not operate properly or if a vendor fails to deliver on its commitments, we could experience merchandise out-of-stocks, delivery delays or increased delivery costs, which could lead to lost sales and decreased guest confidence, and adversely affect our results of operations.

A large portion of our merchandise is sourced, directly or indirectly, from outside the United States, with China as our single largest source. The results of the recent United States elections may signal a change in trade policy between the United States and other countries. Because a large portion of our merchandise is sourced, directly or indirectly, from outside the United States, major changes in tax policy or trade relations, such as the disallowance of tax deductions for imported merchandise or the imposition of additional tariffs or duties on imported products, could adversely affect our business, results of operations, effective income tax rate, liquidity and net income.

Political or financial instability, currency fluctuations, changes in trade policy, trade restrictions, tariffs or duties, the outbreak of pandemics, labor unrest, transport capacity and costs, port security, weather conditions, natural disasters or other events that could slow or disrupt port activities and affect foreign trade are beyond our control and could materially disrupt our supply of merchandise, increase our costs, and/or adversely affect our results of operations. There have been periodic labor disputes impacting the United States ports that have caused us to make alternative arrangements to continue the flow of inventory, and if these types of disputes recur, worsen, or occur in other countries through which we source products, it may have a material impact on our costs or inventory supply. Changes in the costs of procuring commodities used in our merchandise or the costs related to our supply chain, including vendor costs, labor, fuel, tariffs, duties, currency exchange rates, and supply chain transparency initiatives, could have an adverse effect on gross margins, expenses, and results of operations. Changes in our relationships with our vendors also have the potential to increase our expenses and adversely affect results of operations.

A disruption in relationships with third party service providers could adversely affect our operations.

We rely on third parties to support our business, including portions of our technology development and support, our digital platforms and fulfillment operations, credit and debit card transaction processing, extensions of credit for our 5% REDcard Rewards loyalty program, the clinics and pharmacies operated by CVS within our stores, the infrastructure supporting our guest contact centers, and aspects of our food offerings. If we are unable to contract with third parties having the specialized skills needed to support those strategies or integrate their products and services with our business, if we fail to properly manage those third parties, if they fail to meet our performance standards and expectations, including with respect to data security, then our reputation, sales, and results of operations could be adversely affected. In addition, we could face increased costs associated with finding replacement providers or hiring and retaining team members to provide these services in-house. An example of our reliance on third parties is our relationship with CVS. If our guests do not react favorably to CVS's operations or if our relationship with CVS is ineffective, our ability to discontinue the relationship is limited and our results of operations may be adversely affected. In addition, if we wish to have clinics and pharmacies in any new stores, those clinics and pharmacies must be owned and operated by CVS, which limits our flexibility in designing and operating new stores and new store concepts.

Legal, Regulatory, Global and Other External Risks

Our earnings are highly susceptible to the state of macroeconomic conditions and consumer confidence in the United States.

Virtually all of our sales are in the United States, making our results highly dependent on United States consumer confidence and the health of the United States economy. In addition, a significant portion of our total sales is derived from stores located in five states: California, Texas, Florida, Minnesota and Illinois, resulting in further dependence on local economic conditions in these states. Deterioration in macroeconomic conditions or consumer confidence could negatively affect our business in many ways, including slowing sales growth, reducing overall sales, and reducing gross margins.

These same considerations impact the success of our credit card program. Although we no longer own a consumer credit card receivables portfolio, we share in the economic performance of the credit card program with TD, which owns the receivables generated by our proprietary credit cards. Deterioration in macroeconomic conditions could adversely affect the volume of new credit accounts, the amount of credit card program balances and the ability of credit card holders to pay their balances. These conditions could result in us receiving lower profit sharing payments.

Uncharacteristic or significant weather conditions, alone or together with natural disasters, could adversely affect our operations.

Uncharacteristic or significant weather conditions can affect consumer shopping patterns, particularly in apparel and seasonal items, which could lead to lost sales or greater than expected markdowns and adversely affect our short-term results of operations. In addition, our three largest states by total sales are California, Texas and Florida, areas where natural disasters are more prevalent. Natural disasters in those states or in other areas where our sales are concentrated could result in significant physical damage to or closure of one or more of our stores, distribution centers or key vendors, and cause delays in the distribution of merchandise from our vendors to our distribution centers, stores, and directly to guests, which could adversely affect our results of operations by increasing our costs and lowering our sales.

We rely on a large, global and changing workforce of team members, contractors and temporary staffing. If we do not effectively manage our workforce and the concentration of work in certain global locations, our labor costs and results of operations could be adversely affected.

With over 300,000 team members, our workforce costs represent our largest operating expense, and our business and regulatory compliance is dependent on our ability to attract, train, and retain the appropriate mix of qualified team members, contractors, and temporary staffing and effectively organize and manage those resources as our business and strategic priorities change. Many team members are in entry-level or part-time positions with historically high turnover rates. Our ability to meet our changing labor needs while controlling our costs is subject to external factors such as labor laws and regulations, unemployment levels, prevailing wage rates, collective bargaining efforts, health care and other be

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nefit costs, changing demographics, and our reputation and relevance within the labor market. If we are unable to attract and retain adequate numbers and an appropriate mix of qualified team members, contractors and temporary staffing, our operations, guest service levels, support functions, and competitiveness could suffer. Those factors, together with increasing wage and benefit costs, could adversely affect our results of operations. We are periodically subject to labor organizing efforts. If we become subject to one or more collective bargaining agreements in the future, it could adversely affect our labor costs and how we operate our business.

We maintain a headquarters location in India and sourcing offices in China where there has generally been greater political, financial, environmental and health instability than the United States. An extended disruption of our operations in India or offices in China could adversely affect certain operations supporting stability and maintenance of our digital channels, information technology development, and sourcing operations.

Failure to address product safety and sourcing concerns could adversely affect our sales and results of operations.

If our merchandise offerings do not meet applicable safety standards or Target's or our guests' expectations regarding safety, supply chain transparency and integrity of sources of supply, we could experience lost sales and increased costs and be exposed to legal and reputational risk. All of our vendors must comply with applicable product safety laws, and we are dependent on them to ensure that the products we buy comply with all safety standards. Events that give rise to actual, potential or perceived product safety concerns, including food or drug contamination, could expose us to government enforcement action or private litigation and result in costly product recalls and other liabilities. All of our vendors must also comply with our Standards of Vendor Engagement, which cover a variety of expectations across multiple areas of social compliance, including supply chain transparency and sources of supply. We have a social compliance audit process, but we are also dependent on our vendors to ensure that the products we buy comply with our standards. Negative guest perceptions regarding the safety of the products we sell and events that give rise to actual, potential or perceived social compliance concerns could hurt our reputation and result in lost sales. For example, we recently terminated a relationship with a vendor that supplied us with cotton sheets that were represented to be 100 percent Egyptian cotton after we discovered that the vendor substituted non-Egyptian cotton. If that event or if similar events in the future cause our guests to seek alternative sources for their needs, we could lose sales and it may be difficult and costly for us to regain the confidence of our guests.

Our failure to comply with federal, state, local, and international laws, or changes in these laws could increase our costs, reduce our margins, and lower our sales.

Our business is subject to a wide array of laws and regulations in the United States and other countries in which we operate. Significant workforce-related legislative changes could increase our expenses and adversely affect our operations. Examples of possible workforce-related legislative changes include changes to an employer's obligation to recognize collective bargaining units, the process by which collective bargaining agreements are negotiated or imposed, minimum wage requirements, advance scheduling notice requirements, and health care mandates. In addition, changes in the regulatory environment affecting privacy and information security, product safety, payment methods and related fees, responsible sourcing, supply chain transparency, or environmental protection, among others, could cause our expenses to increase without an ability to pass through any increased expenses through higher prices. In addition, if we fail to comply with other applicable laws and regulations, including wage and hour laws, the Foreign Corrupt Practices Act and local anti-bribery laws, we could be subject to legal risk, including government enforcement action and class action civil litigation, which could adversely affect our results of operations by increasing our costs, reducing our margins, and lowering our sales.

Financial Risks

Changes in our effective income tax rate could adversely affect our business, results of operations, liquidity, and net income.

A number of factors influence our effective income tax rate, including changes in tax law, tax treaties, interpretation of existing laws, and our ability to sustain our reporting positions on examination. Changes in any of those factors could change our effective tax rate, which could adversely affect our net income. In addition, our operations outside of the United States may cause greater volatility in our effective tax rate.

If we are unable to access the capital markets or obtain bank credit, our financial position, liquidity, and results of operations could suffer.

We are dependent on a stable, liquid, and well-functioning financial system to fund our operations and capital investments. In particular, we have historically relied on the public debt markets to fund portions of our capital investments and the commercial paper market and bank credit facilities to fund seasonal needs for working capital. Our continued access to these markets depends on multiple factors including the condition of debt capital markets, our operating performance, and maintaining strong credit ratings. If rating agencies lower our credit ratings, it could adversely impact our ability to access the debt markets, our cost of funds, and other terms for new debt issuances. Each of the credit rating agencies reviews its rating periodically, and there is no guarantee our current credit rating will remain the same. In addition, we use a variety of derivative products to manage our exposure to market risk, principally interest rate and equity price fluctuations. Disruptions or turmoil in the financial markets could reduce our ability to meet our capital requirements or fund our working capital needs, and lead to losses on derivative positions resulting from counterparty failures, which could adversely affect our financial position and results of operations.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Stores at January 28, 2017	Stores	Retail Sq. Ft. (in thousands)		Stores	Retail Sq. Ft. (in thousands)
Alabama	22	3,150	Montana	7	780
Alaska	3	504	Nebraska	14	2,006
Arizona	46	6,136	Nevada	17	2,230
Arkansas	9	1,165	New Hampshire	9	1,148
California	273	35,575	New Jersey	46	5,929
Colorado	41	6,215	New Mexico	10	1,185
Connecticut	20	2,672	New York	75	9,961
Delaware	3	440	North Carolina	49	6,496
District of Columbia	1	179	North Dakota	4	554
Florida	122	17,135	Ohio	61	7,659
Georgia	51	6,916	Oklahoma	15	2,168
Hawaii	6	971	Oregon	19	2,280
Idaho	6	664	Pennsylvania	69	8,741
Illinois	92	12,361	Rhode Island	4	517
Indiana	31	4,174	South Carolina	19	2,359
Iowa	20	2,835	South Dakota	5	580
Kansas	18	2,473	Tennessee	31	3,990
Kentucky	13	1,551	Texas	147	20,726
Louisiana	16	2,246	Utah	13	1,953
Maine	5	630	Vermont	—	—
Maryland	39	4,952	Virginia	58	7,689
Massachusetts	40	5,188	Washington	37	4,328
Michigan	55	6,603	West Virginia	6	755
Minnesota	75	10,634	Wisconsin	37	4,560
Mississippi	6	743	Wyoming	2	187
Missouri	35	4,609			
			Total	1,802	239,502

Stores and Distribution Centers at January 28, 2017	Stores	Distribution Centers [a]
Owned	1,535	33
Leased	107	7
Owned buildings on leased land	160	—
Total	1,802	40

[a] The 40 distribution centers have a total of 51,831 thousand square feet.

We own our corporate headquarters buildings located in and around Minneapolis, Minnesota, and we lease and own additional office space elsewhere in the United States. We also lease office space in 12 countries for various support functions. Our properties are in good condition, well maintained, and suitable to carry on our business.

For additional information on our properties, see the Capital Expenditures section in MD&A and Notes 14 and 22 of the Financial Statements.

Item 3. Legal Proceedings

The following proceedings are being reported pursuant to Item 103 of Regulation S-K:

Federal Securities Law Class Actions

On May 17, 2016 and May 24, 2016, Target Corporation and certain present and former officers were named as defendants in two purported federal securities law class actions filed in the United States District Court for the District of Minnesota. The actions subsequently were consolidated under the caption In re: Target Corporation Securities Litigation, Case No. 0:16-cv-01315-JNE-BRT. The plaintiffs filed a Consolidated Amended Class Action Complaint (Consolidated Complaint) on November 14, 2016, alleging violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 relating to certain prior disclosures of Target about its expansion of retail operations into Canada (Canada Disclosure).Target, its former chief executive officer, its present chief operating officer, and the former president of Target Canada are named as defendants in the Consolidated Complaint. The plaintiff seeks to represent a class consisting of all purchasers of Target common stock between March 20, 2013 and August 4, 2014. The plaintiff seeks damages and other relief, including attorneys' fees, based on allegations that the defendants misled investors about the performance and prospects of Target Canada and that such conduct affected the value of Target common stock. On February 10, 2017, Target and the other defendants moved to dismiss the Consolidated Complaint. That motion has not yet been heard or decided. Target intends to vigorously defend this consolidated action.

ERISA Class Actions

On July 12, 2016 and July 15, 2016, Target Corporation, the Plan Investment Committee and Target's current chief operating officer were named as defendants in two purported Employee Retirement Income Security Act of 1974 (ERISA) class actions filed in the United States District Court for the District of Minnesota. The actions subsequently were consolidated under the caption In re: Target Corporation ERISA Litigation, Case No. 0:16-cv-02400-JNE-BRT. The plaintiffs filed an Amended Class Action Complaint (Amended Complaint) on December 14, 2016, alleging violations of Sections 404 and 405 of ERISA relating to the Canada Disclosure. Target, the Plan Investment Committee, and seven present or former officers are named as defendants in the Amended Complaint. The plaintiffs seek to represent a class consisting of all persons who were participants in or beneficiaries of the Target Corporation 401(k) Plan or the Target Corporation Ventures 401(k) Plan (collectively, the Plans) at any time between February 27, 2013 and May 19, 2014 and whose Plan accounts included investments in Target stock. The plaintiffs seek damages, an injunction and other unspecified equitable relief, and attorneys' fees, expenses, and costs, based on allegations that the defendants breached their fiduciary duties by failing to take action to prevent Plan participants from continuing to purchase Target stock during the class period at prices that allegedly were artificially inflated. On February 24, 2017, Target and the other defendants moved to dismiss the Amended Complaint. That motion has not yet been heard or decided. Target intends to vigorously defend this consolidated action.

The following governmental enforcement proceedings relating to environmental matters are reported pursuant to instruction 5(C) of Item 103 of Regulation S-K because they involve potential monetary sanctions in excess of $100,000:

On February 27, 2015, the California Attorney General sent us a letter alleging, based on a series of compliance checks, that we have not achieved compliance with California's environmental laws and the provisions of the injunction that was part of a settlement reached in 2011. Representatives of Target have had a series of meetings with representatives of the Attorney General's Office and certain California District Attorneys' Offices to discuss the allegations and attempt to resolve the matter. No formal legal action has been commenced, nor has any specific relief been sought, to date.

For a description of other legal proceedings, see Note 19 of the Financial Statements.

Item 4. Mine Safety Disclosures

Not applicable.

Item 4A. Executive Officers

Executive officers are elected by, and serve at the pleasure of, the Board of Directors. There are no family relationships between any of the officers named and any other executive officer or member of the Board of Directors, or any arrangement or understanding pursuant to which any person was selected as an officer.

Name	Title and Business Experience	Age
Casey L. Carl	Executive Vice President and Chief Strategy and Innovation Officer since December 2014. President, Omnichannel and Senior Vice President, Enterprise Strategy from July 2014 to December 2014. President, Multichannel, from November 2011 to July 2014.	41
Brian C. Cornell	Chairman of the Board and Chief Executive Officer since August 2014. Chief Executive Officer of PepsiCo Americas Foods, a division of PepsiCo, Inc., a multinational food and beverage corporation, from March 2012 to July 2014.	58
Rick H. Gomez	Executive Vice President and Chief Marketing Officer since January 2017. Senior Vice President, Brand and Category Marketing from April 2013 to January 2017. Vice President, Brand Marketing at MillerCoors, a multinational brewing company, from April 2011 to April 2013.	47
Don H. Liu	Executive Vice President, Chief Legal Officer and Corporate Secretary since August 2016. Executive Vice President, General Counsel and Corporate Secretary of Xerox Corporation from July 2014 to July 2016, and Senior Vice President, General Counsel and Corporate Secretary from March 2007 to August 2014.	55
Stephanie A. Lundquist	Executive Vice President and Chief Human Resources Officer since February 2016. Senior Vice President, Human Resources from January 2015 to February 2016. Senior Vice President, Stores and Distribution Human Resources from February 2014 to January 2015. From March 2011 to January 2014, Ms. Lundquist held several leadership positions with Target Canada.	41
Michael E. McNamara	Executive Vice President, Chief Information and Digital Officer since September 2016. Executive Vice President and Chief Information Officer from June 2015 to September 2016. Chief Information Officer of Tesco PLC, a multinational grocery and general merchandise retailer, from March 2011 to May 2015.	52
John J. Mulligan	Executive Vice President and Chief Operating Officer since September 2015. Executive Vice President and Chief Financial Officer from April 2012 to August 2015.	51
Janna A. Potts	Executive Vice President and Chief Stores Officer since January 2016. Senior Vice President, Stores and Supply Chain Human Resources from February 2015 to January 2016. Senior Vice President, Target Canada Stores and Distribution from March 2014 to January 2015. Senior Vice President, Store Operations from August 2009 to March 2014.	49
Jacqueline Hourigan Rice	Executive Vice President and Chief Risk and Compliance Officer since December 2014. Chief Compliance Officer of General Motors Company, a vehicle manufacturer, from March 2013 to November 2014. Executive Director, Global Ethics & Compliance of General Motors Company from January 2010 to February 2013.	45
Cathy R. Smith	Executive Vice President and Chief Financial Officer since September 2015. Executive Vice President and Chief Financial Officer of Express Scripts Holding Company, a pharmacy benefit manager, from February 2014 to December 2014. Executive Vice President of Strategy and Chief Financial Officer for Walmart International, a division of Wal-Mart Stores, Inc., a discount retailer, from March 2010 to January 2014.	53
Mark J. Tritton	Executive Vice President and Chief Merchandising Officer since June 2016. President of Nordstrom Product Group, of Nordstrom Inc., a fashion specialty retailer, from June 2009 to June 2016.	53
Laysha L. Ward	Executive Vice President and Chief External Engagement Officer since January 2017.	49

Chief Corporate Social Responsibility Officer from December 2014 to January 2017. President, Community Relations and Target Foundation from July 2008 to December 2014.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed on the New York Stock Exchange under the symbol "TGT." We are authorized to issue up to 6,000,000,000 shares of common stock, par value $0.0833, and up to 5,000,000 shares of preferred stock, par value $0.01. At March 2, 2017, there were 15,067 shareholders of record. Dividends declared per share and the high and low closing common stock price for each fiscal quarter during 2016 and 2015 are disclosed in Note 31 of the Financial Statements.
On January 11, 2012, our Board of Directors authorized the repurchase of $5 billion of our common stock and on June 9, 2015 expanded the program by an additional $5 billion for a total authorization of $10 billion. On September 20, 2016, our Board of Directors authorized a new $5 billion share repurchase program. We began repurchasing shares under this new authorization during the fourth quarter of 2016 upon completion of the previous $10 billion program. There is no stated expiration for the share repurchase programs. Under these programs, we repurchased 50.9 million shares of common stock in fiscal 2016, at an average price of $72.35, for a total investment of $3.7 billion. The table below presents information with respect to Target common stock purchases made during the three months ended January 28, 2017, by Target or any "affiliated purchaser" of Target, as defined in Rule 10b-18(a)(3) under the Exchange Act.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Dollar Value of Shares that May Yet Be Purchased Under Publicly Announced Programs
October 30, 2016 through November 26, 2016				
Open market and privately negotiated purchases	802,412	$ 67.23	802,412	$ 5,210,467,654
September 2016 ASR [(a)]	1,286,423	67.67	1,286,423	5,246,730,198
November 27, 2016 through December 31, 2016				
Open market and privately negotiated purchases	—	—	—	5,246,730,198
December 2016 ASR	4,618,451	76.77	4,618,451	4,892,156,933
January 1, 2017 through January 28, 2017				
Open market and privately negotiated purchases	2,362,745	66.27	2,362,745	4,735,572,452
Total	9,070,031	$ 71.90	9,070,031	$ 4,735,572,452

(a) Represents the incremental shares received upon final settlement of the accelerated share repurchase agreement (ASR) initiated in third quarter 2016.

	Fiscal Years Ended					
	January 28, 2012	February 2, 2013	February 1, 2014	January 31, 2015	January 30, 2016	January 28, 2017
Target	$100.00	$ 124.97	$ 118.53	$ 158.98	$ 160.89	$ 146.06
S&P 500 Index	100.00	117.61	141.49	161.61	160.54	194.04
Peer Group	100.00	127.43	154.12	191.03	208.03	231.50

The graph above compares the cumulative total shareholder return on our common stock for the last five fiscal years with the cumulative total return on the S&P 500 Index and a peer group consisting of 18 online, general merchandise, department store, food, and specialty retailers, which are large and meaningful competitors (Amazon.com, Inc., Best Buy Co., Inc., Costco Wholesale Corporation, CVS Health Corporation, Dollar General Corporation, The Gap, Inc., The Home Depot, Inc., Kohl's Corporation, The Kroger Co., Lowe's Companies, Inc., Macy's, Inc., Publix Super Markets, Inc., Rite Aid Corporation, Sears Holdings Corporation, Staples, Inc., The TJX Companies, Inc., Walgreens Boots Alliance, Inc., and Wal-Mart Stores, Inc.) (Peer Group). The peer group is consistent with the retail peer group used for our definitive Proxy Statement to be filed on or about May 1, 2017.

The peer group is weighted by the market capitalization of each component company. The graph assumes the investment of $100 in Target common stock, the S&P 500 Index and the Peer Group on January 28, 2012, and reinvestment of all dividends.

Item 6. Selected Financial Data

	As of or for the Fiscal Year Ended				
(millions, except per share data)	2016	2015	2014	2013	2012 [a]
Sales [b]	$69,495	$73,785	$72,618	$71,279	$73,301
Net Earnings / (Loss)					
Continuing operations	2,669	3,321	2,449	2,694	3,315
Discontinued operations	68	42	(4,085)	(723)	(316)
Net earnings / (loss)	2,737	3,363	(1,636)	1,971	2,999
Basic Earnings / (Loss) Per Share					
Continuing operations	4.62	5.29	3.86	4.24	5.05
Discontinued operations	0.12	0.07	(6.44)	(1.14)	(0.48)
Basic earnings / (loss) per share	4.74	5.35	(2.58)	3.10	4.57
Diluted Earnings / (Loss) Per Share					
Continuing operations	4.58	5.25	3.83	4.20	5.00
Discontinued operations	0.12	0.07	(6.38)	(1.13)	(0.48)
Diluted earnings / (loss) per share	4.70	5.31	(2.56)	3.07	4.52
Cash dividends declared per share	2.36	2.20	1.99	1.65	1.38
Total assets	37,431	40,262	41,172	44,325	47,878
Long-term debt, including current portion	12,749	12,760	12,725	12,494	16,260

Note: This information should be read in conjunction with MD&A and the Financial Statements.

[a] Consisted of 53 weeks.

[b] For 2012, includes credit card revenues.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Executive Summary

Fiscal 2016 included the following notable items:

- GAAP earnings per share from continuing operations were $4.58.
- Adjusted earnings per share were $5.01.
- Comparable sales decreased 0.5 percent, reflecting a 0.8 percent decrease in traffic.
- Comparable digital channel sales growth of 27 percent contributed 1.0 percentage points of comparable sales growth.
- We returned $5.0 billion to shareholders through dividends and share repurchase.

Sales were $69,495 million for 2016, a decrease of $4,290 million or 5.8 percent from the prior year, primarily due to the Pharmacy Transaction. Earnings from continuing operations before interest expense and income taxes in 2016 decreased by $561 million or 10.1 percent from 2015 to $4,969 million, primarily due to the 2015 gain on the Pharmacy Transaction. Operating cash flow provided by continuing operations was $5,329 million, $5,254 million, and $5,157 million for 2016, 2015, and 2014, respectively. In 2015, proceeds from the Pharmacy Transaction are included in investing cash flows provided by continuing operations. Refer to Note 6 of the Financial Statements for additional information about the transaction.

Earnings Per Share From Continuing Operations	2016	2015	2014	Percent Change 2016/2015	2015/2014
GAAP diluted earnings per share	$4.58	$5.25	$3.83	(12.7)%	37.2 %
Adjustments	0.42	(0.56)	0.39		
Adjusted diluted earnings per share	$5.01	$4.69	$4.22	6.7 %	11.3 %

Note: Amounts may not foot due to rounding. Adjusted diluted earnings per share from continuing operations (Adjusted EPS), a non-GAAP metric, excludes the impact of certain items not related to our routine retail operations. Management believes that Adjusted EPS is meaningful to provide period-to-period comparisons of our operating results. A reconciliation of non-GAAP financial measures to GAAP measures is provided on page 21.

We report after-tax return on invested capital (ROIC) from continuing operations because we believe ROIC provides a meaningful measure of our capital-allocation effectiveness over time. For the trailing twelve months ended January 28, 2017, ROIC was 15.0 percent, compared with 16.0 percent for the trailing twelve months ended January 30, 2016. Excluding the net gain on the Pharmacy Transaction, ROIC was 13.9 percent for the trailing twelve months ended January 30, 2016. A reconciliation of ROIC is provided on page 22.

Analysis of Results of Operations

Segment Results

(dollars in millions)	2016	2015 [a]	2014 [a]	Percent Change 2016/2015	2015/2014
Sales	$69,495	$73,785	$72,618	(5.8)%	1.6 %
Cost of sales	48,872	51,997	51,278	(6.0)	1.4
Gross margin	20,623	21,788	21,340	(5.4)	2.1
SG&A expenses [b]	13,360	14,448	14,503	(7.5)	(0.4)
EBITDA	7,263	7,340	6,837	(1.1)	7.4
Depreciation and amortization	2,298	2,213	2,129	3.8	3.9
EBIT	$4,965	$5,127	$4,708	(3.2)%	8.9 %

Note: See Note 30 of our Financial Statements for a reconciliation of our segment results to earnings before income taxes and more information about items recorded outside of segment SG&A.

(a) Sales include $3,815 million and $4,148 million related to our former pharmacy and clinic businesses for 2015 and 2014, respectively, and cost of sales include $3,076 million and $3,222 million, respectively. The sale of these businesses had no notable impact on EBITDA or EBIT.

(b) For 2016, 2015, and 2014, SG&A includes $663 million, $641 million, and $629 million, respectively, of net profit-sharing income from the arrangement with TD.

Rate Analysis	2016	2015	2014
Gross margin rate	29.7 %	29.5 %	29.4 %
SG&A expense rate	19.2	19.6	20.0
EBITDA margin rate [a]	10.5	9.9	9.4
Depreciation and amortization expense rate	3.3	3.0	2.9
EBIT margin rate [a]	7.1	6.9	6.5

Note: Rate analysis metrics are computed by dividing the applicable amount by sales.

(a) Excluding sales of our former pharmacy and clinic businesses, EBITDA margin rates were 10.5 percent and 10.0 percent for 2015 and 2014, respectively. and EBIT margin rates were 7.3 percent and 6.9 percent, respectively.

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Sales

Sales include all merchandise sales, net of expected returns, and gift card breakage. Refer to Note 2 of the Financial Statements for a definition of gift card breakage. Digital channel sales include all sales initiated through mobile applications and our conventional websites. Digital channel sales may be fulfilled through our distribution centers, our vendors, or our stores.
The decrease in 2016 sales reflects a decrease of approximately $3,815 million due to the Pharmacy Transaction and a comparable sales decrease of 0.5 percent, partially offset by the contribution from new stores. The increase in 2015 sales reflects an increase in comparable sales of 2.1 percent and the contribution from new stores, partially offset by a decrease of approximately $550 million due to the Pharmacy Transaction. Inflation did not materially affect sales in any period presented.

Sales by Channel	2016	2015 [a]	2014 [a]
Stores	95.6 %	96.6 %	97.4 %
Digital	4.4	3.4	2.6
Total	100 %	100 %	100 %

[a] Excluding sales of our former pharmacy and clinic businesses, stores and digital channels sales were 96.4 percent and 3.6 percent of total sales, respectively, for 2015 and 97.2 and 2.8 percent of total sales, respectively, for 2014.

Comparable sales is a measure that highlights the performance of our existing stores and digital channel sales by measuring the change in sales for a period over the comparable, prior-year period of equivalent length. Comparable sales include all sales, except sales from stores open less than 13 months, digital acquisitions we have owned less than 13 months, stores that have been closed, and digital acquisitions that we no longer operate. We removed pharmacy and clinic sales from the 2015 sales amounts when calculating 2016 comparable sales. Comparable sales measures vary across the retail industry. As a result, our comparable sales calculation is not necessarily comparable to similarly titled measures reported by other companies.

Comparable Sales	2016	2015	2014
Comparable sales change	(0.5)%	2.1 %	1.3 %
Drivers of change in comparable sales:			
Number of transactions	(0.8)	1.3	(0.2)
Average transaction amount	0.3	0.8	1.5

Contribution to Comparable Sales Change	2016	2015	2014
Stores channel comparable sales change	(1.5)%	1.3 %	0.7 %
Digital channel contribution to comparable sales change	1.0	0.8	0.7
Total comparable sales change	(0.5)%	2.1 %	1.3 %

Note: Amounts may not foot due to rounding.

Sales by Product Category	Percentage of Sales		
	2016	2015	2014
Household essentials [a]	22 %	26 %	25 %
Food, beverage, and pet supplies [b]	22	21	21
Apparel and accessories [c]	20	19	19
Home furnishings and décor [d]	19	17	17
Hardlines [e]	17	17	18
Total	100 %	100 %	100 %

(a) Includes pharmacy, beauty, personal care, baby care, cleaning, and paper products. Pharmacy represented 5 percent and 6 percent in 2015 and 2014, respectively.

(b) Includes dry grocery, dairy, frozen food, beverages, candy, snacks, deli, bakery, meat, produce, and pet supplies.

(c) Includes apparel for women, men, boys, girls, toddlers, infants and newborns, as well as intimate apparel, jewelry, accessories, and shoes.

(d) Includes furniture, lighting, kitchenware, small appliances, home décor, bed and bath, home improvement, automotive, and seasonal merchandise such as patio furniture and holiday décor.

(e) Includes electronics (including video game hardware and software), music, movies, books, computer software, sporting goods, and toys.

Further analysis of sales metrics is infeasible due to the collective interaction of a broad array of macroeconomic, competitive, and consumer behavioral factors, as well as sales mix and transfer of sales to new stores.
TD offers credit to qualified guests through Target-branded credit cards: the Target Credit Card and the Target MasterCard Credit Card (Target Credit Cards). Additionally, we offer a branded proprietary Target Debit Card. Collectively, we refer to these products as REDcards®. Guests receive a 5 percent discount on virtually all purchases and free shipping at Target.com when they use a REDcard. We monitor the percentage of sales that are paid for using REDcards (REDcard Penetration) because our internal analysis has indicated that a meaningful portion of incremental purchases on our REDcards are also incremental sales for Target.

REDcard Penetration	2016	2015	2014
Target Debit Card	12.8 %	12.1 %	11.2 %
Target Credit Cards	11.2	10.1	9.7
Total REDcard Penetration	24.0 %	22.3 %	20.9 %

Note: Excluding pharmacy and clinic sales, total REDcard penetration would have been 23.2 percent and 21.9 percent for 2015 and 2014, respectively. The sum of Target Credit Cards and Target Debit Card penetration may not equal Total REDcard Penetration due to rounding.

Gross Margin Rate

Our gross margin rate was 29.7 percent in 2016, 29.5 percent in 2015, and 29.4 percent in 2014. The 2016 increase was primarily due to the Pharmacy Transaction and favorable category sales mix, partially offset by increased shipping and digital fulfillment costs. Cost of goods savings helped offset the impact of a competitive promotional environment.

The 2015 increase was primarily due to favorable category sales mix and lower promotional activity relative to the highly promotional period in 2014 following the 2013 data breach, partially offset by the impact of increased digital channel sales.

Selling, General and Administrative Expense Rate

Our SG&A expense rate was 19.2 percent in 2016, 19.6 percent in 2015, and 20.0 percent in 2014. The decrease in 2016 primarily resulted from the benefit of the Pharmacy Transaction and technology-related cost savings, partially offset by increased stores hourly payroll.
The decrease in 2015 primarily resulted from cost saving initiatives and reduced marketing expense, partially offset by investments in other initiatives, none of which were individually significant.

Store Data

Change in Number of Stores	2016	2015
Beginning store count	1,792	1,790
Opened	15	15
Closed	(5)	(13)
Ending store count	1,802	1,792

Number of Stores and	Number of Stores		Retail Square Feet [a]	
Retail Square Feet	January 28, 2017	January 30, 2016	January 28, 2017	January 30, 2016
170,000 or more sq. ft.	276	278	49,328	49,688
50,000 to 169,999 sq. ft.	1,504	1,505	189,620	189,677
49,999 or less sq. ft.	22	9	554	174
Total	1,802	1,792	239,502	239,539

[a] In thousands, reflects total square feet less office, distribution center and vacant space.

Other Performance Factors

Other Selling, General and Administrative Expenses

We recorded $(4) million, $216 million, and $174 million of selling, general and administrative expenses outside of the segment during 2016, 2015, and 2014, respectively, because they relate to discretely managed matters. Additional information about these discretely managed items is provided within Note 30 of the Financial Statements.

Net Interest Expense

Net interest expense from continuing operations was $1,004 million, $607 million, and $882 million for 2016, 2015, and 2014, respectively. Net interest expense for 2016 and 2014 included a loss on early retirement of debt of $422 million and $285 million, respectively.

Provision for Income Taxes

Our 2016 effective income tax rate from continuing operations increased to 32.7 percent, from 32.5 percent in 2015, driven primarily by the 2015 rate impact of the $112 million tax benefit from releasing the valuation allowance on a capital loss. This comparative rate impact was partially offset by $27 million of excess tax benefit in 2016 related to shared-based payments after the adoption of Accounting Standards Update (ASU) No. 2016-09, Improvements to Employee Share-Based Payment Accounting, and lower pretax earnings. Note 23 of the Financial Statements provides a tax rate reconciliation.
Our 2015 effective income tax rate from continuing operations decreased to 32.5 percent, from 33.0 percent in 2014, driven primarily by the $112 million tax benefit from releasing the valuation allowance on a capital loss. This benefit was partially offset by a year-over-year decrease in the favorable resolution of various income tax matters and the rate impact of higher pretax earnings. The resolution of various income tax matters reduced tax expense by $8 million and $35 million in 2015 and 2014, respectively.

Discontinued Operations

See Note 7 of the Financial Statements for information about our Canada exit.

Reconciliation of Non-GAAP Financial Measures to GAAP Measures

To provide additional transparency, we have disclosed non-GAAP adjusted diluted earnings per share from continuing operations (Adjusted EPS). This metric excludes certain items presented below. We believe this information is useful in providing period-to-period comparisons of the results of our continuing operations. This measure is not in accordance with, or an alternative to, generally accepted accounting principles in the United States (GAAP). The most comparable GAAP measure is diluted earnings per share from continuing operations. Adjusted EPS should not be considered in isolation or as a substitution for analysis of our results as reported under GAAP. Other companies may calculate Adjusted EPS differently than we do, limiting the usefulness of the measure for comparisons with other companies.

(millions, except per share data)	2016 Pretax	2016 Net of Tax	2016 Per Share Amounts	2015 Pretax	2015 Net of Tax	2015 Per Share Amounts	2014 Pretax	2014 Net of Tax	2014 Per Share Amounts
GAAP diluted earnings per share from continuing operations			$ 4.58			$ 5.25			$ 3.83
Adjustments									
Loss on early retirement of debt	$422	$257	$ 0.44	$—	$ —	$ —	$285	$173	$ 0.27
Gain on sale [(a)]	—	—	—	(620)	(487)	(0.77)	—	—	—
Restructuring costs [(b)]	—	—	—	138	87	0.14	—	—	—
Data breach-related costs, net of insurance [(c)]	—	—	—	39	28	0.04	145	94	0.15
Other [(d)]	(4)	(2)	—	39	29	0.05	29	18	0.03
Resolution of income tax matters	—	(7)	(0.01)	—	(8)	(0.01)	—	(35)	(0.06)

Adjusted diluted earnings per share from continuing operations	$ 5.01	$ 4.69	$ 4.22

Note: Amounts may not foot due to rounding.

(a) Refer to Note 6 of the Financial Statements.

(b) Refer to Note 8 of the Financial Statements.

(c) Refer to Note 19 of the Financial Statements.

(d) For 2016, represents items related to the Pharmacy Transaction. For 2015, represents impairments related to our decision to wind down certain noncore operations, as described in Note 16 of the Financial Statements. The 2014 amounts include impairments of $16 million related to undeveloped land in the U.S. and $13 million of expense related to converting co-branded card program to MasterCard.

We have also disclosed after-tax return on invested capital for continuing operations (ROIC), which is a ratio based on GAAP information, with the exception of adjustments made to capitalize operating leases. Operating leases are capitalized as part of the ROIC calculation to control for differences in capital structure between us and our competitors. We believe this metric provides a meaningful measure of the effectiveness of our capital allocation over time. Other companies may calculate ROIC differently than we do, limiting the usefulness of the measure for comparisons with other companies.

After-Tax Return on Invested Capital

Numerator (dollars in millions)	Trailing Twelve Months January 28, 2017	Trailing Twelve Months January 30, 2016
Earnings from continuing operations before interest expense and income taxes	$4,969	$ 5,530
+ Operating lease interest (a)(b)	71	87
Adjusted earnings from continuing operations before interest expense and income taxes	5,040	5,617
- Income taxes (c)	1,648	1,827
Net operating profit	$3,392	$ 3,790

after
taxes

Denominator (dollars in millions)	January 28, 2017	January 30, 2016	January 31, 2015
Current portion of long-term debt and other borrowings	$ 1,718	$ 815	$ 91
+ Noncurrent portion of long-term debt	11,031	11,945	12,634
+ Shareholders' equity	10,953	12,957	13,997
+ Capitalized operating lease obligations [b][d]	1,187	1,457	1,490
- Cash and cash equivalents	2,512	4,046	2,210
- Net assets of discontinued operations	62	226	1,479
Invested capital	$ 22,315	$ 22,902	$ 24,523
Average invested capital [e]	$ 22,608	$ 23,713	

After-tax return on invested capital 15.0% 16.0% [f]

(a) Represents the add-back to operating income driven by the hypothetical interest expense we would incur if the property under our operating leases were owned or accounted for as capital leases, using eight times our trailing twelve months rent expense and an estimated interest rate of six percent.

(b) See the following Reconciliation of Capitalized Operating Leases table for the adjustments to our GAAP total rent expense to obtain the hypothetical capitalization of operating leases and related operating lease interest.

(c) Calculated using the effective tax rate for continuing operations, which was 32.7 percent and 32.5 percent for the trailing twelve months ended January 28, 2017 and January 30, 2016. For the twelve months ended January 28, 2017 and January 30, 2016, includes tax effect of $1,624 million and $1,799 million, respectively, related to EBIT and $23 million and $28 million, respectively, related to operating lease interest.

(d) Calculated as eight times our trailing twelve months rent expense.

(e) Average based on the invested capital at the end of the current period and the invested capital at the end of the prior period.

(f) Excluding the net gain on the Pharmacy Transaction, ROIC was 13.9 percent for the trailing twelve months ended January 30, 2016.

Capitalized operating lease obligations and operating lease interest are not in accordance with, or an alternative for, GAAP. The most comparable GAAP measure is total rent expense. Capitalized operating lease obligations and operating lease interest should not be considered in isolation or as a substitution for analysis of our results as reported under GAAP.

Reconciliation of Capitalized Operating Leases	Trailing Twelve Months		
(dollars in millions)	January 28, 2017	January 30, 2016	January 31, 2015
Total rent expense	$ 148	$ 182	$ 186
Capitalized operating lease obligations (total rent expense x 8)	1,187	1,457	1,490
Operating lease interest (capitalized operating lease obligations x 6%)	71	87	n/a

Analysis of Financial Condition

Liquidity and Capital Resources

Our period-end cash and cash equivalents balance decreased to $2,512 million from $4,046 million in 2015, primarily reflecting deployment during 2016 of proceeds from the Pharmacy Transaction and payment of related taxes. Due to the timing of the sale late in 2015, we did not fully deploy the net proceeds by the end of 2015. Short-term investments of $1,110 million and $3,008 million were included in cash and cash equivalents at the end of 2016 and 2015, respectively. Our investment policy is designed to preserve principal and liquidity of our short-term investments. This policy allows investments in large money market funds or in highly rated direct short-term instruments that mature in 60 days or less. We also place dollar limits on our investments in individual funds or instruments.

Capital Allocation

We follow a disciplined and balanced approach to capital allocation based on the following priorities, ranked in order of importance: first, we fully invest in opportunities to profitably grow our business, create sustainable long-term value, and maintain our current operations and assets; second, we maintain a competitive quarterly dividend and seek to grow it annually; and finally, we return any excess cash to shareholders by repurchasing shares within the limits of our credit rating goals.

Cash Flows

Our 2016 operations were funded by internally and externally generated funds. Operating cash flow provided by continuing operations was $5,329 million in 2016 compared with $5,254 million in 2015. These cash flows, combined with period year-end cash position, allowed us to invest in the business, fund early debt retirement and maturities, pay dividends, and repurchase shares under our share repurchase program. Proceeds from the Pharmacy Transaction are included in investing cash flows provided by continuing operations during 2015.

Inventory

Year-end inventory was $8,309 million, compared with $8,601 million in 2015. The decrease was due to our alignment of inventory levels with the slowing sales trend while appropriately supporting instocks.

Share Repurchases

During 2016, 2015, and 2014 we returned $3,686 million, $3,441 million, and $41 million, respectively, to shareholders through share repurchase. See Part II, Item 5 of this Annual Report on Form 10-K and Note 25 to the Financial Statements for more information.

Dividends

We paid dividends totaling $1,348 million ($2.32 per share) in 2016 and $1,362 million ($2.16 per share) in 2015, a per share increase of 7.4 percent. We declared dividends totaling $1,359 million ($2.36 per share) in 2016, a per share increase of 7.3 percent over 2015. We declared dividends totaling $1,378 million ($2.20 per share) in 2015, a per share increase of 10.6 percent over 2014. We have paid dividends every quarter since our 1967 initial public offering, and it is our intent to continue to do so in the future.

Short-term and Long-term Financing

Our financing strategy is to ensure liquidity and access to capital markets, maintain a balanced spectrum of debt maturities, and manage our net exposure to floating interest rate volatility. Within these parameters, we seek to minimize our borrowing costs. Our ability to access the long-term debt and commercial paper markets has provided us with ample sources of liquidity. Our continued access to these markets depends on multiple factors, including the condition of debt capital markets, our operating performance, and maintaining strong credit ratings. As of January 28, 2017, our credit ratings were as follows:

Credit Ratings	Moody's	Standard and Poor's	Fitch
Long-term debt	A2	A	A-
Commercial paper	P-1	A-1	F2

If our credit ratings were lowered, our ability to access the debt markets, our cost of funds, and other terms for new debt issuances could be adversely impacted. Each of the credit rating agencies reviews its rating periodically and there is no guarantee our current credit ratings will remain the same as described above.

In 2016, we funded our peak holiday sales period working capital needs through internally generated funds and the issuance of commercial paper. In 2015, we funded our peak holiday sales period working capital needs through internally generated funds.

Commercial Paper			
(dollars in millions)	2016	2015	2014
Maximum daily amount outstanding during the year	$89	$ —	$590
Average amount outstanding during the year	1	—	129
Amount outstanding at year-end	—	—	—
Weighted average interest rate	0.43%	—%	0.11 %

We have additional liquidity through a committed $2.5 billion revolving credit facility obtained through a group of banks in October 2016 which expires in October 2021. This new unsecured revolving credit facility replaced a $2.25 billion unsecured revolving credit facility that was scheduled to expire in October 2018. No balances were outstanding under either credit facility at any time during 2016, 2015, or 2014.

Most of our long-term debt obligations contain covenants related to secured debt levels. In addition to a secured debt level covenant, our credit facility also contains a debt leverage covenant. We are, and expect to remain, in compliance with these covenants. Additionally, at January 28, 2017, no notes or debentures contained provisions requiring acceleration of payment upon a credit rating downgrade, except that certain outstanding notes allow the note holders to put the notes to us if within a matter of months of each other we experience both (i) a change in control and (ii) our long-term credit ratings are either reduced and the resulting rating is non-investment grade, or our long-term credit ratings are placed on watch for possible reduction and those ratings are subsequently reduced and the resulting rating is non-investment grade.

We believe our sources of liquidity will continue to be adequate to maintain operations, finance anticipated expansion and strategic initiatives, fund debt maturities, pay dividends, and execute purchases under our share repurchase program for the foreseeable future. We continue to anticipate ample access to commercial paper and long-term financing.

Capital Expenditures

(a) In addition to these cash investments, we entered into leases related to new stores in 2016, 2015, and 2014 with total future minimum lease payments of $550 million, $338 million, and $85 million, respectively.

Capital expenditures increased in 2016 from the prior year because we increased our investments in existing stores, including remodels and guest experience enhancements. These increases were partially offset by continued efficiency gains in technology. Capital expenditures decreased in 2015 from the prior year as we opened fewer large-format stores and realized efficiency gains in technology, partially offset by increased guest experience and supply chain investments. As noted in the footnote to the chart presented above, we substantially increased our investments in leases in 2016 and 2015.

We expect capital expenditures in 2017 to increase to approximately $2.0 billion to $2.5 billion as we accelerate the rate of store remodels and flexible-format store openings, and continue to make supply chain investments. We also expect our rate of investment in store leases to continue to increase.

Commitments and Contingencies

Contractual Obligations as of	Payments Due by Period				
January 28, 2017		Less than	1-3	3-5	After 5
(millions)	Total	1 Year	Years	Years	Years
Recorded contractual obligations:					
Long-term debt [(a)]	$11,814	$1,683	$1,203	$2,150	$6,778
Capital lease obligations [(b)]	1,963	82	174	178	1,529
Deferred compensation [(c)]	515	56	114	121	224
Real estate liabilities [(d)]	52	52	—	—	—
Tax contingencies [(e)]	—	—	—	—	—
Unrecorded contractual obligations:					
Interest payments – long-term debt	6,308	510	819	710	4,269
Operating leases [(b)]	3,876	198	398	364	2,916
Purchase obligations [(f)]	1,762	609	814	107	232
Real estate obligations [(g)]	216	185	31	—	—
Future contributions to retirement plans [(h)]	—	—	—	—	—
Contractual obligations	$26,506	$3,375	$3,553	$3,630	$15,948

(a) Represents principal payments only. See Note 20 of the Financial Statements for further information.

(b) These payments also include $348 million and $269 million of legally binding minimum lease payments for stores that are expected to open in 2017 or later for capital and operating leases, respectively. See Note 22 of the Financial Statements for further information.

(c) The timing of deferred compensation payouts is estimated based on payments currently made to former employees and retirees, forecasted investment returns, and the projected timing of future retirements.

(d) Real estate liabilities include costs incurred but not paid related to the construction or remodeling of real estate and facilities.

(e) Estimated tax contingencies of $222 million, including interest and penalties and primarily related to continuing operations, are not included in the table above because we are not able to make reasonably reliable estimates of the period of cash settlement. See Note 23 of the Financial Statements for further information.

(f) Purchase obligations include all legally binding contracts such as firm minimum commitments for inventory purchases, merchandise royalties, equipment purchases, marketing-related contracts, software acquisition/license commitments, and service contracts. We issue inventory purchase orders in the normal course of business, which represent authorizations to purchase that are cancelable by their terms. We do not consider purchase orders to be firm inventory commitments; therefore, they are excluded from the table above. If we choose to cancel a purchase order, we may be obligated to reimburse the vendor for unrecoverable outlays incurred prior to cancellation. We also issue trade letters of credit in the ordinary course of business, which are excluded from this table as these obligations are conditioned on terms of the letter of credit being met.

(g) Real estate obligations include commitments for the purchase, construction, or remodeling of real estate and facilities.

(h) We have not included obligations under our pension plans in the contractual obligations table above because no additional amounts are required to be funded as of January 28, 2017. Our historical practice regarding these plans has been to contribute amounts necessary to satisfy minimum pension funding requirements, plus periodic discretionary amounts determined to be appropriate.

Off Balance Sheet Arrangements: Other than the unrecorded contractual obligations noted above, we do not have any arrangements or relationships with entities that are not consolidated into the financial statements.

Critical Accounting Estimates

Our consolidated financial statements are prepared in accordance with GAAP, which requires us to make estimates and apply judgments that affect the reported amounts. In the Notes to Consolidated Financial Statements, we describe the significant accounting policies used in preparing the consolidated financial statements. Our management has discussed the development, selection, and disclosure of our critical accounting estimates with the Audit & Finance Committee of our Board of Directors. The following items require significant estimation or judgment:

Inventory and cost of sales: Our inventory is valued at the lower of cost or market. We reduce inventory for estimated losses related to shrink and markdowns. Our shrink estimate is based on historical losses verified by physical inventory counts. Historically, our actual physical inventory count results have shown our estimates to be reliable. Market adjustments for markdowns are recorded when the salability of the merchandise has diminished. We believe the risk of inventory obsolescence is largely mitigated because our inventory typically turns in less than three months. Inventory was $8,309 million and $8,601 million at January 28, 2017 and January 30, 2016, respectively, and is further described in Note 12 of the Financial Statements.

Vendor income: We receive various forms of consideration from our vendors (vendor income), principally earned as a result of volume rebates, markdown allowances, promotions, and advertising allowances. Substantially all vendor income is recorded as a reduction of cost of sales.
We establish a receivable for vendor income that is earned but not yet received. Based on the agreements in place, this receivable is computed by estimating when we have completed our performance and when the amount is earned. The majority of the year-end vendor income receivables are collected within the following fiscal quarter, and we do not believe there is a reasonable likelihood that the assumptions used in our estimate will change significantly. Historically, adjustments to our vendor income receivable have not been material. Vendor income receivable was $385 million and $384 million at January 28, 2017 and January 30, 2016, respectively. Vendor income is described further in Note 4 of the Financial Statements.

Long-lived assets: Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The evaluation is performed at the lowest level of identifiable cash flows independent of other assets. An impairment loss would be recognized when estimated undiscounted future cash flows from the operation and/or disposition of the assets are less than their carrying amount. Measurement of an impairment loss would be based on the excess of the carrying amount of the asset group over its fair value. Fair value is measured using discounted cash flows or independent opinions of value, as appropriate. We recorded impairments of $43 million, $54 million, and $124 million in 2016, 2015, and 2014, respectively, which are described further in Note 14 of the Financial Statements.

Insurance/self-insurance: We retain a substantial portion of the risk related to certain general liability, workers' compensation, property loss, and team member medical and dental claims. However, we maintain stop-loss coverage to limit the exposure related to certain risks. Liabilities associated with these losses include estimates of both claims filed and losses incurred but not yet reported. We use actuarial methods which consider a number of factors to estimate our ultimate cost of losses. General liability and workers' compensation liabilities are recorded at our estimate of their net present value; other liabilities referred to above are not discounted. Our workers' compensation and general liability accrual was $447 million and $498 million at January 28, 2017 and January 30, 2016, respectively. We believe that the amounts accrued are appropriate; however, our liabilities could be significantly affected if future occurrences or loss developments differ from our assumptions. For example, a five percent increase or decrease in average claim costs would impact our self-insurance expense by $22 million in 2016. Historically, adjustments to our estimates have not been material. Refer to Item 7A, Quantitative and Qualitative Disclosures About Market Risk, for further disclosure of the market risks associated with these exposures. We maintain insurance coverage to limit our exposure to certain events, including network security matters.

Income taxes: We pay income taxes based on the tax statutes, regulations, and case law of the various jurisdictions in which we operate. Significant judgment is required in determining the timing and amounts of deductible and taxable items, and in evaluating the ultimate resolution of tax matters in dispute with tax authorities. The benefits of uncertain tax positions are recorded in our financial statements only after determining it is likely the uncertain tax positions would withstand challenge by taxing authorities. We periodically reassess these probabilities and record any changes in the financial statements as appropriate. Liabilities for uncertain tax positions, including interest and penalties, were $222 million and $215 million at January 28, 2017 and January 30, 2016, respectively, and primarily relate to continuing operations. We believe the resolution of these matters will not have a material adverse impact on our consolidated financial statements. Income taxes are described further in Note 23 of the Financial Statements.

Pension accounting: We maintain a funded qualified, defined benefit pension plan, as well as several smaller and unfunded nonqualified plans for certain current and retired team members. The costs for these plans are determined based on actuarial calculations using the assumptions described in the following paragraphs. Eligibility and the level of benefits varies depending on team members' full-time or part-time status, date of hire, age, and/or length of service.

The benefit obligation and related expense for these plans are determined based on actuarial calculations using assumptions about the expected long-term rate of return, the discount rate, and compensation growth rates. The assumptions, with adjustments made for any significant plan or participant changes, are used to determine the period-end benefit obligation and establish expense for the next year.

Our 2016 expected long-term rate of return on plan assets of 6.8 percent is determined by the portfolio composition, historical long-term investment performance, and current market conditions. A one percentage point decrease in our expected long-term rate of return would increase annual expense by $37 million.

The discount rate used to determine benefit obligations is adjusted annually based on the interest rate for long-term high-quality corporate bonds, using yields for maturities that are in line with the duration of our pension liabilities. Our

benefit obligation and related expense will fluctuate with changes in interest rates. A 0.5 percentage point decrease to the weighted average discount rate would increase annual expense by $30 million.
Based on our experience, we use a graduated compensation growth schedule that assumes higher compensation growth for younger, shorter-service pension-eligible team members than it does for older, longer-service pension-eligible team members.
Pension benefits are further described in Note 28 of the Financial Statements.

Legal and other contingencies: We believe the accruals recorded in our consolidated financial statements properly reflect loss exposures that are both probable and reasonably estimable. We do not believe any of the currently identified claims or litigation may materially affect our results of operations, cash flows, or financial condition. However, litigation is subject to inherent uncertainties, and unfavorable rulings could occur. If an unfavorable ruling were to occur, it may cause a material adverse impact on the results of operations, cash flows, or financial condition for the period in which the ruling occurs, or future periods. Refer to Note 19 of the Financial Statements for further information on contingencies.

New Accounting Pronouncements

Refer to Note 2 and Note 22 of the Financial Statements for a description of new accounting pronouncements related to revenues and leases, respectively. We do not expect any other recently issued accounting pronouncements will have a material effect on our financial statements.

Forward-Looking Statements

This report contains forward-looking statements, which are based on our current assumptions and expectations. These statements are typically accompanied by the words "expect," "may," "could," "believe," "would," "might," "anticipates," or words of similar import. The principal forward-looking statements in this report include: our financial performance, statements regarding the adequacy of and costs associated with our sources of liquidity, the expected impact of the Pharmacy Transaction on our financial performance, the continued execution of our share repurchase program, our expected capital expenditures and new lease commitments, the impact of changes in the expected effective income tax rate on net income, the expected compliance with debt covenants, the expected impact of new accounting pronouncements, our intentions regarding future dividends, contributions and payments related to our pension plan, the expected returns on pension plan assets, the expected timing and recognition of compensation expenses, the effects of macroeconomic conditions, the adequacy of our reserves for general liability, workers' compensation and property loss, the expected outcome of, and adequacy of our reserves for investigations, inquiries, claims and litigation, including those related to the 2013 data breach, expected changes to our contractual obligations and liabilities, the expected ability to recognize deferred tax assets and liabilities and the timing of such recognition, the process, timing and effects of discontinuing our Canadian operations, the resolution of tax matters, changes in our assumptions and expectations, and the expected benefits of restructuring activities.
All such forward-looking statements are intended to enjoy the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, as amended. Although we believe there is a reasonable basis for the forward-looking statements, our actual results could be materially different. The most important factors which could cause our actual results to differ from our forward-looking statements are set forth on our description of risk factors in Item 1A to this Form 10-K, which should be read in conjunction with the forward-looking statements in this report. Forward-looking statements speak only as of the date they are made, and we do not undertake any obligation to update any forward-looking statement.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

At January 28, 2017, our exposure to market risk was primarily from interest rate changes on our debt obligations, some of which are at a LIBOR-plus floating-rate. Our interest rate exposure is primarily due to differences between our floating rate debt obligations compared to our floating rate short term investments. At January 28, 2017, our floating rate debt exceeded our floating rate short-term investments by approximately $140 million. Based on our balance sheet position at January 28, 2017, the annualized effect of a 0.1 percentage point increase in floating interest rates on our floating rate debt obligations, net of our floating rate short-term investments, would not be significant. In general, we expect our floating rate debt to exceed our floating rate short-term investments over time, but that may vary in different interest rate environments. See further description of our debt and derivative instruments in Notes 20 and 21 to the Financial Statements.

We record our general liability and workers' compensation liabilities at net present value; therefore, these liabilities fluctuate with changes in interest rates. Based on our balance sheet position at January 28, 2017, the annualized effect of a 0.5 percentage point decrease in interest rates would be to decrease earnings before income taxes by $7 million.

In addition, we are exposed to market return fluctuations on our qualified defined benefit pension plans. The value of our pension liabilities is inversely related to changes in interest rates. A 0.5 percentage point decrease to the weighted average discount rate would increase annual expense by $30 million. To protect against declines in interest rates, we hold high-quality, long-duration bonds and interest rate swaps in our pension plan trust. At year-end, we had hedged 55 percent of the interest rate exposure of our funded status.

As more fully described in Notes 15 and 27 to the Financial Statements, we are exposed to market returns on accumulated team member balances in our nonqualified, unfunded deferred compensation plans. We control the risk of offering the nonqualified plans by making investments in life insurance contracts and prepaid forward contracts on our own common stock that offset a substantial portion of our economic exposure to the returns on these plans. The annualized effect of a one percentage point change in market returns on our nonqualified defined contribution plans (inclusive of the effect of the investment vehicles used to manage our economic exposure) would not be significant.

There have been no other material changes in our primary risk exposures or management of market risks since the prior year.

Item 8. Financial Statements and Supplementary Data

Report of Management on the Consolidated Financial Statements

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 accounting principles generally accepted in the United States 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 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 exercised its oversight role with respect to the Corporation's systems of internal control primarily through its Audit Committee, which is comprised of independent directors. The Committee oversees the Corporation's systems of internal control, accounting practices, financial reporting and audits to assess whether their quality, integrity, and objectivity are sufficient to protect shareholders' investments.
In addition, our consolidated financial statements have been audited by Ernst & Young LLP, independent registered public accounting firm, whose report also appears on this page.

Brian C. Cornell	Cathy R. Smith
Chairman and Chief Executive Officer	Executive Vice President and
March 8, 2017	Chief Financial Officer

Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements

The Board of Directors and Shareholders
Target Corporation

We have audited the accompanying consolidated statements of financial position of Target Corporation and subsidiaries (the Corporation) as of January 28, 2017 and January 30, 2016, and the related consolidated statements of operations, comprehensive income, cash flows, and shareholders' investment for each of the three years in the period ended January 28, 2017. 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 the standards of the Public Company Accounting Oversight Board (United States). 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 Target Corporation and subsidiaries at January 28, 2017 and January 30, 2016, and the consolidated results of their operations and their cash flows for each of the three years in the period ended January 28, 2017, in conformity with U.S. generally accepted accounting principles.
We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Corporation's internal control over financial reporting as of January 28, 2017, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework), and our report dated March 8, 2017, expressed an unqualified opinion thereon.

Minneapolis, Minnesota
March 8, 2017

Report of Management on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we assessed the effectiveness of our internal control over financial reporting as of January 28, 2017, based on the framework in Internal Control—Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on our assessment, we conclude that the Corporation's internal control over financial reporting is effective based on those criteria.

Our internal control over financial reporting as of January 28, 2017, has been audited by Ernst & Young LLP, the independent registered public accounting firm who has also audited our consolidated financial statements, as stated in their report which appears on this page.

Brian C. Cornell	Cathy R. Smith
Chairman and Chief Executive Officer	Executive Vice President and
March 8, 2017	Chief Financial Officer

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

The Board of Directors and Shareholders
Target Corporation

We have audited Target Corporation and subsidiaries' (the Corporation) internal control over financial reporting as of January 28, 2017, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (the COSO criteria). The Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Corporation's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of January 28, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of Target Corporation and subsidiaries as of January 28, 2017 and January 30, 2016, and the related consolidated statements of operations, comprehensive income, cash flows and shareholders' investment for each of the three years in the period ended January 28, 2017, and our report dated March 8, 2017, expressed an unqualified opinion thereon.

Minneapolis, Minnesota
March 8, 2017

Consolidated Statements of Operations

(millions, except per share data)	2016	2015	2014
Sales	$69,495	$73,785	$72,618
Cost of sales	48,872	51,997	51,278
Gross margin	20,623	21,788	21,340
Selling, general and administrative expenses	13,356	14,665	14,676
Depreciation and amortization	2,298	2,213	2,129
Gain on sale	—	(620)	—
Earnings from continuing operations before interest expense and income taxes	4,969	5,530	4,535
Net interest expense	1,004	607	882
Earnings from continuing operations before income taxes	3,965	4,923	3,653
Provision for income taxes	1,296	1,602	1,204
Net earnings from continuing operations	2,669	3,321	2,449
Discontinued operations, net of tax	68	42	(4,085)
Net earnings / (loss)	$2,737	$3,363	$(1,636)
Basic earnings / (loss) per share			
Continuing operations	$4.62	$5.29	$3.86
Discontinued operations	0.12	0.07	(6.44)
Net earnings / (loss) per share	$4.74	$5.35	$(2.58)
Diluted earnings / (loss) per share			
Continuing operations	$4.58	$5.25	$3.83
Discontinued operations	0.12	0.07	(6.38)
Net earnings / (loss) per share	$4.70	$5.31	$(2.56)
Weighted average common shares outstanding			
Basic	577.6	627.7	634.7
Dilutive effect of share-based awards	4.9	5.2	5.4
Diluted	582.5	632.9	640.1
Antidilutive shares	0.1	—	3.3
Dividends declared per share	$2.36	$2.20	$1.99

Note: Per share amounts may not foot due to rounding.
See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

(millions)	2016	2015	2014
Net income / (loss)	$2,737	$3,363	$(1,636)
Other comprehensive (loss) / income, net of tax			