

*The
JCPenney Supplier
Legal Compliance
Program*

May 2007

Dear JCPenney Supplier:

A deep commitment to legal compliance and ethical business practices is firmly embedded in JCPenney's history and company culture.

Our commitment, in fact, is as old as the Company. When James Cash Penney founded the Company in 1902, he named his first store The Golden Rule Store. The name proclaimed his unique stance as a merchant: doing business by the high standard of the Golden Rule. His ideals were embodied in a set of core principles, known as The Penney Idea, that he and his partners adopted in 1913. They still govern the Company's practices today. His ideals also underlie the *JCPenney Statement of Business Ethics*, which guides the day-today business conduct of our associates.

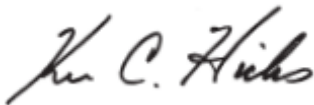
You have been selected as a JCPenney supplier, in part, because we believe you share our commitment to legal compliance and ethical business practices. As a JCPenney supplier, you are required not only to honor that commitment in your dealings with us, but also to ensure that all your contractors do so as well. Your commitment to this concept is confirmed in our contractual agreements.

In the *JCPenney Supplier Legal Compliance Program* brochure, first published in 1996, we restate the basic principles that have always defined our mutual understanding of legal compliance and ethical business practices. This current edition is a product of our continuing efforts to promote increasingly higher levels of compliance and vigilance on the part of our suppliers and their contractors.

As always, we urge you to discuss our program at all appropriate levels of your company, to provide copies of it to all your contractors, and to make sure that all concerned fully understand what is required of them.

Thank you for your continued attention to these important matters.

Sincerely,



Ken C. Hicks
President and
Chief Merchandising Officer

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Our Commitment

Throughout our more than 100-year history, JCPenney has been committed to legal compliance and ethical business practices in all our activities. JCPenney demands the same commitment from each of our suppliers.

Suppliers and Their Selection

JCPenney is in the business of buying and selling merchandise. We do not manufacture the merchandise we sell. Instead, we purchase goods from thousands of independent suppliers, who operate or contract with thousands of factories in the United States and around the world. JCPenney does not own or operate any of these factories, nor do we control their production capacity, which is available to other factory customers. In selecting suppliers, JCPenney tries to identify reputable companies that are willing and able to conduct their business in conformity with all applicable legal requirements and the high ethical standards espoused by JCPenney.

Contract Requirements

JCPenney's purchase contracts explicitly require our suppliers to comply with all applicable laws and regulations, including those of the United States and those of any foreign country in which the merchandise is manufactured or from which it is exported. Our contracts also require all suppliers to impose the same obligation on their contractors.

A failure by a supplier, or by one of its contractors, to comply with all applicable legal requirements will violate JCPenney's contract with the supplier, giving us the right to cancel the contract and seek compensation for any resulting expense or loss. Moreover, serious or repeated violations of such requirements by a supplier or its contractors will result in termination of the supplier's business relationship with JCPenney.

Foreign Sourcing Issues

JCPenney requires the merchandise it purchases from suppliers to meet all applicable laws and regulations, both U.S. and foreign. JCPenney will not accept merchandise that fails to meet an applicable requirement. To address issues of particular concern in the foreign sourcing area, we have stated in our *JCPenney Foreign Sourcing Requirements* that we

will not knowingly allow the importation into the United States of merchandise or knowingly accept merchandise that:

- Does not have accurate country-of-origin labeling;
- Was manufactured with convict, forced, or indentured labor;
- Was manufactured with illegal child labor; or
- Was manufactured in violation of any other applicable labor, workplace safety or environmental law or regulation.

For each shipment of foreign-produced merchandise, we require our foreign suppliers and our U.S. suppliers of imported merchandise to obtain the manufacturer's certificate that the merchandise was manufactured at a specified factory (identified by name, location, and country), and confirming compliance with each of our requirements. Additionally, we require suppliers of diamonds and diamond jewelry to certify that their merchandise does not contain conflict diamonds and meets the requirements of the Clean Diamonds Trade Act and the Kimberly Process Certification Scheme.

Labor Law Compliance

JCPenney expects all its suppliers to take extra care, through monitoring or other means, to ensure that they and their contractors comply with applicable labor laws. This expectation is reflected in the terms of our purchase contracts.

We require all domestic suppliers to certify that the merchandise in each shipment they make to JCPenney was produced in compliance with the Fair Labor Standards Act and applicable regulations and orders of the U.S. Department of Labor. Of suppliers of JCPenney brand merchandise we additionally require that they identify all factories and contractors, domestic or foreign, they plan to use to produce such merchandise and certify in writing that each factory will operate in compliance with all applicable labor laws.

If we receive notice from the U.S. Department of Labor or any state or foreign government labor authority that a factory being used by any JCPenney supplier has violated applicable labor laws and has failed to correct the violation, we will direct the immediate suspension of all shipments of merchandise to JCPenney from that factory. Any resumption of shipments will be conditioned upon verification that the supplier has in place the monitoring programs necessary to ensure compliance with all applicable labor laws.

JCPenney will not accept merchandise produced in violation of applicable labor laws. We will not hesitate to discontinue our relationship with any supplier that we determine lacks either the will or the ability to meet our requirements.

Supplier Responsibility for Factory Compliance

JCPenney expects all its suppliers to take all steps necessary to ensure legal compliance in the factories where they produce merchandise for JCPenney, whether the factories are operated by them or by their contractors.

We require all foreign and domestic suppliers of JCPenney brand merchandise, and all foreign suppliers of merchandise purchased and imported by JCPenney's sourcing subsidiary, J. C. Penney Purchasing Corporation, to participate in JCPenney's factory legal compliance survey program. Under this program, before a supplier can use a particular factory, whether in the United States or abroad, the factory must first conduct a self-survey of key legal compliance and workplace safety issues and then be inspected by specially trained JCPenney associates. If a deficiency is found, the factory is given 30 days to correct it. If the factory fails to correct the deficiency, or if our supplier decides to drop the factory as a contractor, the factory is placed on JCPenney's suspended factory list and may not be used by any JCPenney supplier. U.S.-based suppliers of JCPenney brand merchandise they import are also subject to random audits of their import documents by JCPenney inspectors.

Also, we have instructed our associates and buying agents, when they visit a supplier's or a contractor's domestic or foreign facilities, to watch for and report any legal violations or questionable conduct to their management for follow-up and, when appropriate, corrective action.

Investigative Procedures

As soon as JCPenney discovers or learns of a potential legal violation by a supplier or its contractors, we will notify the supplier, fully investigate the situation, and, if we determine that the allegations are supported by credible evidence, take corrective action. If the supplier does not cooperate in the investigation, we will terminate our relationship with the supplier.

Policy for Violations

If there is credible evidence indicating that one of our suppliers, or one of their contractors, is violating the legal compliance provisions of our contracts, JCPenney may take one or more of the following actions:

- Suspend current business activity until the supplier or the contractor is in complete compliance and we are assured the supplier has taken the steps necessary to prevent future violations;
- Cancel outstanding orders;

- Place the violating factory on our suspended factory list prohibiting use by a JCPenney supplier;
- Terminate our relationship with the supplier; or
- Report illegal activity to the appropriate legal authorities.

Cooperation with Law Enforcement Authorities

JCPenney has a long history of cooperating with law enforcement authorities in the proper execution of their duties. We expect our suppliers and their contractors to show the same cooperation with those authorities.

Environmental Initiatives

In *Matters of Principle: JCPenney & Environmental Responsibility*, we state our commitment to continually review our operations to assess their potential impact on, and to take steps to eliminate or minimize significant threats to, the environment and human health and safety. We expect our suppliers, domestic and foreign, to make and keep the same commitment with respect to their operations, and to ensure that their contractors do the same.

Education Efforts

JCPenney regularly communicates with our suppliers on legal compliance issues through our supplier web site, supplier information bulletins, supplier summits and almost daily communication with supplier representatives. We also actively support efforts by industry and government to provide guidance on such issues.

We expect our suppliers to cooperate in such efforts and to take the steps necessary to ensure that their contractors are also fully informed.

Our Commitment is Firm

We believe our approach is balanced and fair. It has also been effective.

Although our supplier base is large and changes often, we have found that our suppliers, both in the United States and in foreign countries, have largely honored their legal compliance and ethical commitments to us. Exceptions have been rare.

We are committed to doing business with suppliers and manufacturers who obey the law. As we pledged ourselves in *The Penney Idea* more than 90 years ago, we see this commitment as the only "right and just" thing to do.