

JCPenney



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ANNUAL REPORT

LETTER TO OUR STOCKHOLDERS



MARVIN R. ELLISON, CHAIRMAN AND CEO

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IN 2016 ALONE, WE IMPLEMENTED ALL-NEW GROWTH CATEGORIES, DELIVERED A VASTLY IMPROVED OMNICHANNEL EXPERIENCE AND ACHIEVED POSITIVE NET INCOME FOR THE FIRST TIME SINCE 2010.

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The past year has been a time of continued progress and evolution at JCPenney. In 2016 alone, we implemented all-new growth categories, delivered a vastly improved omnichannel experience and achieved positive net income for the first time since 2010. And while we've gained tremendous momentum in changing the way customers view the traditional department store, we know there's much work to do to remain competitive in a dynamic retail environment.

At our analyst meeting last August, we introduced growth opportunities to bolster our strategic framework of omnichannel, private brands, and increased revenue per customer first outlined in 2015. These strategic pillars enabled us to streamline our areas of focus, so we can pursue growth initiatives that entice customers to shop often and spend more on every trip.

We believe that becoming a leading destination for home refresh, value, special sizes, beauty and omnichannel excellence are the biggest opportunities to drive our business. The following report highlights the activities currently underway for each initiative. Not coincidentally, these growth opportunities fit squarely under each pillar of our framework, allowing us to continue building increased momentum as we seek to achieve sustainable growth and profitability.

HOME REFRESH

One of the biggest undertakings over the past year was our decision to go into the Home Refresh category by piloting major appliances in select markets to capitalize on the millions of American homeowners who are updating their homes. After a highly successful pilot period, which included a

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robust online selection at jcp.com, we rolled out appliance showrooms to over 500 stores across the nation, resulting in meaningful revenue growth and increased sales per square foot within our Home departments. These results are encouraging, particularly as we shift our retail strategy to incorporate less weather sensitive categories. To build on this success, we plan to roll out appliances to 100 additional locations in the coming year.

As we transitioned to 2017, we further intensified our efforts in Home by launching JCPenney Home Services. We know that homeowners continue to invest a larger percentage of their disposable income on home upgrades. To meet this demand, we're piloting a variety of turn-key services; from heating and cooling systems, simple bath remodels and one-week window blinds installation; to capitalize on the home improvement trend, while acquiring available market share and differentiating our business from the competition.

WINNING WITH VALUE

Although we're confident that we can effectively compete in an industry where homeowners are spending more than \$300 billion annually, JCPenney will continue to stand for great style at an amazing value across the entire store. We have some of the strongest private apparel brands in retail, all of which drive margin and protect our bottom line. These brands, coupled with our national and exclusive brand portfolio, allow us to capitalize on our strengths in design and sourcing, in-store presentation and pricing optimization to build market share in apparel, accessories, footwear, as well as home.

SPECIAL SIZE DESTINATION

Plus size fashion is one of the fastest-growing categories in retail, but this customer is still greatly underserved. In response to this need, JCPenney launched Boutique+ in 2016, our first fashion brand for the full-figured woman. And since these shoppers prefer to touch, feel and try on merchandise in-store, we debuted an all-new dedicated area of the store that gives plus size women an elevated environment for shopping a curated assortment of classic and modern fashion, denim and activewear.

BEAUTY ATTRACTIONS

We're continuing to build on the success of beauty by expanding and enhancing in-store experiences that simply cannot be replicated online. In 2016, we opened over 60 new Sephora inside JCPenney locations, and plan to add an additional 70 shops in 2017. We're also expanding the size of over 30 highly productive Sephora locations and rolling out new and exciting brands across the fleet and online where customers now have the option of buying Sephora products at JCPenney.com and picking them up in the store the same day.

Salon is another key component of our beauty strategy, as we know these customers visit the store eight times a year and spend twice as much as the average customer. In 2017, we're rebranding an additional 50 salon locations to The Salon By InStyle – a modern concept that appeals to new and younger customers and strengthens loyalty among existing clients. We've introduced a new feature on JCPenney.com and the mobile app that gives clients the flexibility of booking their appointments online.

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OMNICHANNEL ADVANCEMENTS

In an ongoing endeavor to connect with how, when and where customers prefer to shop, we also made considerable strides in omnichannel last year. In fact, a third-party research firm ranked jcpenny.com as the fifth highest rated website for 2016, recognizing our e-commerce site for its overall improvement in functionality.

Making items easy to find on jcpenny.com was fundamentally important as we made the strategic decision to increase our online product assortment by 40% last year, and introduced new product categories such as electronics, smart home devices, camping and outdoor gear, musical instruments and more. However, we're not stopping there. We have plans to increase our online item assortment by over 140% versus last year to effectively compete with pure-play e-commerce rivals who simply lure shoppers with their vast selection.

We believe maintaining a strong brick and mortar portfolio gives us a competitive advantage in the evolving retail landscape since our physical stores function as a seamless extension of the omnichannel experience. We help shoppers complete online purchases through a variety of fulfillment options, including ship to store, same-day store pickup and a faster home delivery with the capability to fill jcp.com orders with store inventory in hundreds of JCPenney stores. Consequently, approximately 77% of all online orders touched a physical store in 2016. With rising fulfillment costs plaguing the entire industry, we are pleased that our brick and mortar locations enable us to offset the last-mile delivery cost.

Omnichannel allows us to leverage our nationwide store footprint to bring speed and convenience to customers who expect a seamless digital and in-store shopping experience. As we improve site functionality, expand ship-from-store capabilities and continually refine the features associated with our mobile app, we expect to continue driving increased revenue in 2017.



WE BELIEVE MAINTAINING A STRONG BRICK AND MORTAR PORTFOLIO GIVES US A COMPETITIVE ADVANTAGE IN THE EVOLVING RETAIL LANDSCAPE SINCE OUR PHYSICAL STORES FUNCTION AS A SEAMLESS EXTENSION OF THE OMNICHANNEL EXPERIENCE.

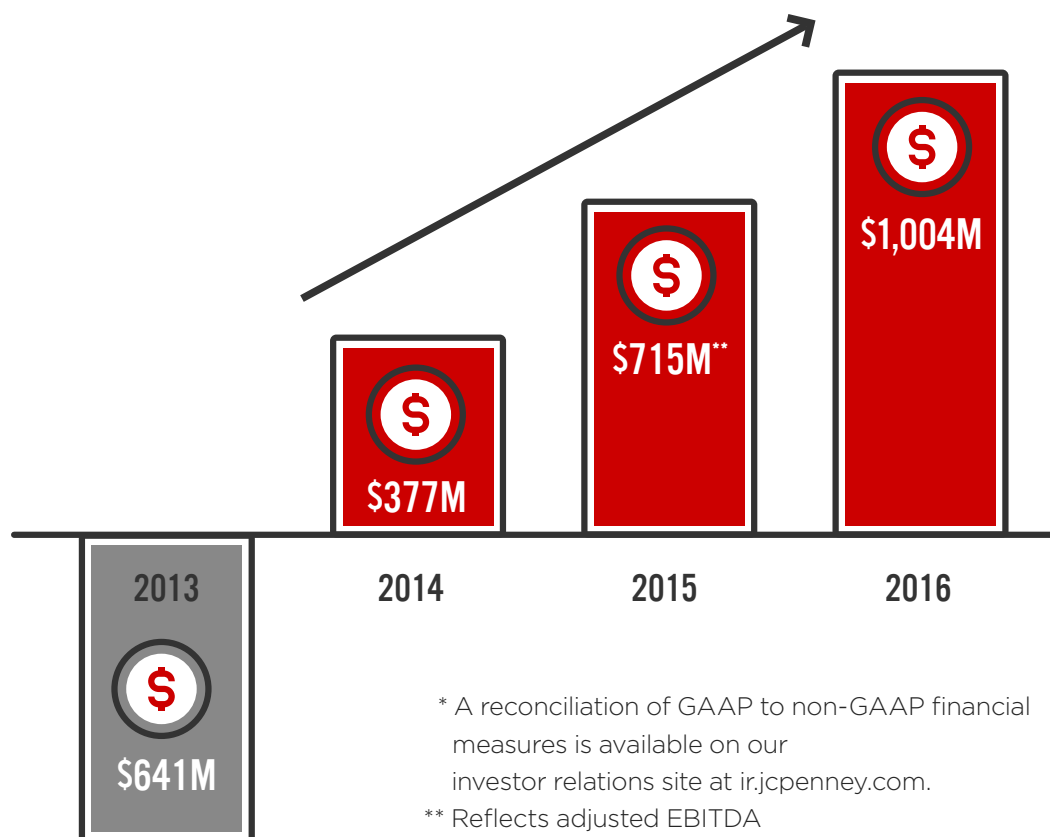


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FINANCIAL TURNAROUND

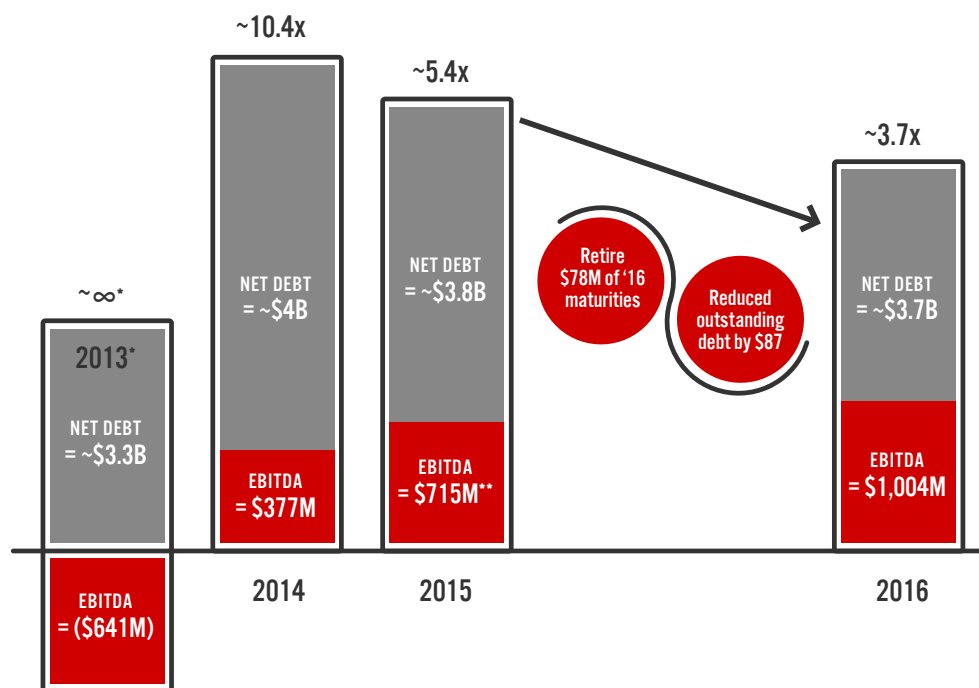
Amid a tough retail environment, I'm proud to say that, in addition to producing a positive net income for the first time in six years, we delivered on our goal of generating \$1 billion in EBITDA for 2016. Considering how far the Company has come in the last few years, this was no small feat.



Looking back on the full year, we significantly improved our capital structure, which enabled us to strengthen our balance sheet and deleverage our debt position. Over the course of 2016, we utilized available cash to retire approximately \$160 million of outstanding debt. Our ability to successfully deliver on our \$1 billion EBITDA target for 2016, coupled with our reduced debt levels, brought our net debt to EBITDA ratio down to 3.7 times by the end of 2016, compared to 5.4 times the year prior.

LETTER TO OUR STOCKHOLDERS

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In closing, I would be remiss not to mention some of the challenging decisions we made as a Company. In February of this year, we announced the closure of 138 stores, one supply chain facility and the relocation of another supply chain facility as part of our efforts to optimize operations and drive growth. It became evident that store locations that could fully execute the Company's growth initiatives generated significantly higher sales, and a more vibrant in-store shopping environment. It's essential for us to invest Company resources in those locations as well as initiatives that offer the greatest revenue potential. Making these decisions is never easy, but we feel this is a necessary business decision as we build a foundation for a successful and sustainable future.

Lastly, I'd like to take a moment to thank every one of our 100,000 associates across this great Company. Their unwavering Warrior Spirit and commitment to execution has been critical to implementing our growth strategies, providing exceptional customer service in our stores and delivering profitability. There's still much work to be done moving forward, but I'm confident we have the right initiatives in place to differentiate JCPenney from our competitors. Thank you for your trust and loyalty in JCPenney, and we look forward to another year of prosperity and growth.

God Bless

Marvin R. Ellison
Chairman and Chief Executive Officer
J. C. Penney Company, Inc.

JCPenney



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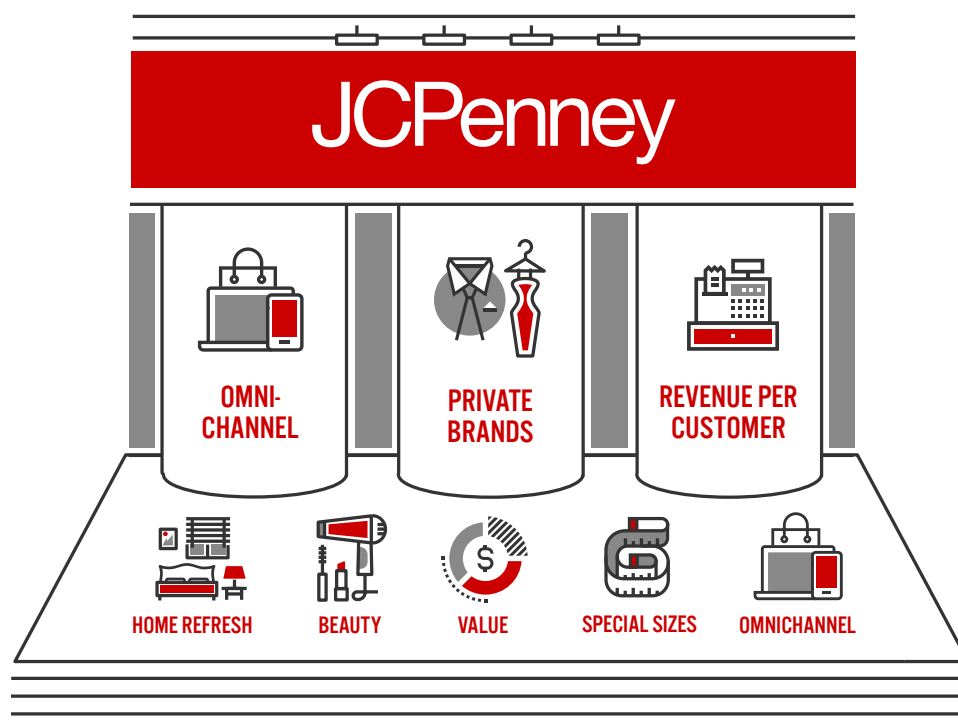
PERFORMANCE SUMMARY

In 2016, JCPenney delivered positive net income for the first time since 2010 – achieving a \$514 million improvement in net income over the prior year. EBITDA also improved \$477 million to \$1.0 billion for the year, a 91% improvement compared to 2015. While comparable store sales were flat, SG&A expenses for the full year decreased \$237 million. Please see pages 23 to 26 of the Company’s 2016 Form 10-K on our non-GAAP financial measures.

	TOTAL NET SALES*	GROSS MARGIN	ADJUSTED EPS	STORE COUNT
FISCAL 2016	\$12.5	35.7%	\$0.08	1,013
FISCAL 2015	\$12.6	36.0%	(\$1.03)	1,021
FISCAL 2014	\$12.2	34.8%	(\$2.51)	1,062
FISCAL 2013	\$11.8	29.4%	(\$5.13)	1,094

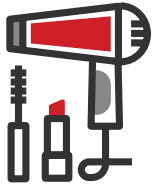
* Amount represented in billions.

In 2015, JCPenney introduced a strategic framework of three priorities – omnichannel, private brands and revenue per customer – designed to drive Company performance. To bolster this framework, we’ve outlined several growth initiatives aimed at accelerating long-term performance.

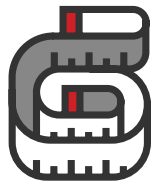




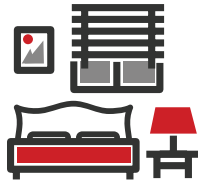
VALUE We know value is important to the JCPenney customer, and it's a promise we've made to our customers for over a century. Through our powerful private brand portfolio, including Liz Claiborne®, The Original Arizona Jean Co®, St. John's Bay®, Xersion™ and much more, we provide style and quality. Moreover, we're keeping customers engaged with the JCPenney brand through an optimized media mix to drive both retention and acquisition, as well as an updated loyalty program.



BEAUTY JCPenney is focused on becoming the customer's complete style solution, from fashion to beauty, shoes to accessories. We're expanding Sephora inside JCPenney to nearly 650 locations, continuing to rebrand Salon by InStyle™ to more than 150 locations and reinvigorating Modern Bride in Fine Jewelry.



SPECIAL SIZES JCPenney is celebrating diverse body types by becoming a destination for special sizes for the entire family. In 2016, we introduced Boutique+™, our first-ever plus-size fashion brand designed exclusively for the full-figured woman. It can be shopped in an all-new contemporary in-store presentation called The Boutique, which offers a curated assortment of plus-size casual sportswear, denim and activewear in a new elevated environment.



HOME REFRESH We're helping customers refresh their homes through a wide range of bed, bath and home furnishings and accessories, as well as all-new hard line categories like major appliances and home services. Customers are responding positively to our return to appliances, which are now in over 500 stores and at jcp.com. JCPenney is also testing and expanding a variety of home remodeling categories, including Signature Design by Ashley™, Empire Today™ flooring and other do-it-for-me services.



OMNICHANNEL JCPenney is enhancing its omnichannel execution to connect with customers how, when and where they prefer to shop. To support this initiative, the Company is expanding its assortment online, offering a variety of pickup and delivery options, and leveraging an order fulfillment strategy that increases delivery speed and reduces markdowns.

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**WIN WITH
VALUE**

JCPenney private and exclusive brands are an important part of our value-winning proposition and represent over 50 percent of our sales. To keep them relevant in a fast fashion retail environment, we're streamlining our speed-to-market process by shortening our production time by six weeks. Everything from buying, design, sourcing and logistics is being refined to introduce merchandise more quickly and frequently. This is a major sales and gross margin opportunity as we make smarter, more trend-right decisions, closer to our customers' needs.

FASHION IN THE FAST LANE

In May 2017, JCPenney accelerated its position in the fast fashion race with the expansion of its private brand City Streets® that offers trend-right merchandise priced at an extreme value. The newly-expanded City Streets collection now encompasses men's, women's, kids casual sportswear and accessories. Style essentials and seasonal grab-and-go merchandise at accessible price points make City Streets the perfect brand for a generation of shoppers who demand constant newness on a limited budget. Other JCPenney private brands, including Arizona®, a.n.a® and Ambrielle® are also edging their way into the fast fashion lane by offering select trendy pieces at an amazing value, all on a reduced design and production timeline.



A FUN AND FLIRTY SHOPPING DESTINATION

Back-to-School 2017 will mark the reinvention of Flirtitude®, a collection of fun and feminine sleepwear, intimates and loungewear for college girls. In stores, she'll discover a new, lively shopping experience within the juniors' area, highlighting colorful tees, hoodies, leggings, bras, panties and pajamas to fit her style and mood.

LIZ CLAIBORNE, 40 AND FABULOUS

Last year, we celebrated 40 fabulous years of the Liz Claiborne® brand with a 40 Looks of Liz Claiborne fall collection. These looks showcased timeless fashion inspired by four decades of expertly coordinated collections that have inspired the way women dress for the workplace today. To complement the 40 looks, JCPenney introduced Liz Claiborne Uptown, a new handbag and accessory capsule collection, with creations inspired by the designer's affinity for animal prints. Available exclusively at JCPenney, Liz Claiborne is a full lifestyle brand encompassing over 30 categories, including menswear and home.



Totes, wallets and handbags in seasonal colors with unique embellishments like bows, studs and charms make the Liz Claiborne Uptown handbag collection a stand out favorite.





BOOTS WIN BIG FOR HOLIDAY

JCPenney was positioned to win during Black Friday and Thanksgiving weekend 2016 with our Spotlight Deal on Arizona and a.n.a contemporary boots. We sold more than one million pairs of fashion boots, priced to buy from \$19.99.



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The diamond earrings were one of the hottest items during Black Friday weekend. For the first time ever, JCPenney offered \$20 diamond stud earrings on Thanksgiving day. Originally priced at \$124, this was a scintillating deal that prompted customers to make JCPenney their primary destination for Black Friday shopping. We nearly sold out of the diamond earrings during Black Friday weekend, and it was such a shining success that we are planning a similar offer for Mother's Day 2017 with pearls.

MODERN STYLE ATTRACTS MILLENNIALS

Millennials are the largest generation of consumers today, and their style expectations are just as sizeable. To engage this fashion-driven customer segment, the JCPenney trend and design teams revamped Studio™ by JCPenney Home™ by infusing modern abstract designs and geometric motifs throughout the fall collection, including bedding, bath accessories and window treatments. Influenced by city lofts and urban living, the brand features clean lines, textured fabrics and rich, bold colors to bring a modern elegance to any bedroom. Updated window treatments and coordinating curtain rods infused with modern touches like sleek metal grommets complement the bedding and bath collections.





ACTIVE CONTINUES TO MOVE WITH SHOPPERS

The activewear trend continues to score big with shoppers with no signs of backing down. In fact, it's one of our best-selling apparel trends across all categories, which is why we're positioning JCPenney as an activewear destination for the entire family. Our powerful statements of private and national brands inspire active apparel shoppers to break a sweat, whether hitting the gym or running errands on a hot day.

ACTIVELY INSPIRING GREATNESS

Activewear continues to drive traffic and sales across all areas of the Company, which is why JCPenney created inspiring new environments for one of our biggest activewear brands – Nike. Anchored by an impressive Nike swoosh sign in 600 JCPenney stores, the new environments for men feature oversized visual elements of world-class athletes and graphics to help shoppers discover innovative gear for basketball, cross-training, running and more. The new areas also feature an expanded assortment of apparel and accessories including Dri-FIT base layer pants, moisture-wicking compression tees, performance socks, weighted jump ropes, water bottles and workout gloves. Similar visual elements have been replicated for women and kids in select stores.



- Nike athletic shoes
- for men are situated
- adjacent to the
- updated environments
- for an easy, seamless
- shopping experience
- with over 100 stores
- featuring enhanced
- visual elements.





ADIDAS® IN MOTION

Adidas® is experiencing a resurgence in everything from the classic sneakers to athleisure apparel. For spring 2017, Adidas for women was introduced to 100 JCPenney stores and will expand to additional stores for back-to-school and holiday. Shoppers will find key retro styles like the track pants along with jackets, bras, tees and shorts.



PERFORMANCE MEETS STYLE & VALUE

As one of the fastest growing private brands at JCPenney, Xersion™ activewear goes the distance by providing quality and style at an unbeatable value. It includes apparel, athletic shoes, seasonal accessories and outerwear for men, women and kids in comfortable, breathable fabrics. Designed to meet the demands of high-impact workouts, the collection features everything from shorts to pullovers with quick-dri, moisture wicking, UV protection and compression performance technologies in trendy designs and bold colors. Additional elements such as no chafe seams, reflective tape and concealed pockets ensure maximum output without distraction.

In 2016, JCPenney launched Xersion Studio for women, an athleisure streetwear capsule collection. Xersion Studio is comprised of casual pieces such as wrap tees and skirted capris in cotton fabrications and of-the-moment color palettes perfect for a yoga workout or casual outings. The compelling combination of performance and athleisure apparel paired with innovation at an affordable price make this brand a formidable competitor in the activewear category.



XERSION™





SCORING BIG WITH MICHAEL STRAHAN

The Company's successful partnership with former Super Bowl champion and Pro Football Hall of Famer Michael Strahan began in 2015 with the launch of Collection by Michael Strahan™, a tailored clothing brand that has resonated with style-conscious men everywhere. The brand has been so successful that we expanded the partnership to launch MSX™ by Michael Strahan, an exclusive line of athleisure for men, including tees, polos, jogger pants and chinos. Inspired by Michael's active lifestyle, the brand features quick-dri, stretch technology designed to meet the high demands of the day in comfort. Men will also notice an attention to detail not typically found in other active lifestyle collections including no-chafe seams, auto-lock zippers, UV protection and reflective strips. Working with the JCPenney design team, Strahan infused his style throughout this collection in a variety of modern colors and fabrics that speak to every man.

Also new this year, Collection by Michael Strahan shoes were introduced in over 200 JCPenney stores in September 2016 and includes both dress and athleisure styles. In February 2017, MSX by Michael Strahan launched boxers, briefs and undershirts, offering men everyday essentials in premium, comfort-stretch fabrics. Available in an assortment of colors at an amazing value, this high-quality product cannot be found anywhere else.

PRICED TO BUY, GUARANTEED TO LOVE

The Company's new spring marketing campaign, Priced to Buy, Guaranteed to Love, aims to showcase our value proposition by going beyond just low prices in order to highlight the high quality, stylish merchandise found at JCPenney. JCPenney will show shoppers how they can get their Penney's worth by emphasizing product attributes such as performance, durability and trendiness, as well as value.

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New marketing and in-store statements this spring will show customers the season's key fashion and color trends, such as blush, embroidery, bold and cold shoulder, florals and blocked heeled sandals at incredible price points.



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JCPenney partnered with Pinterest to entice moms for a special Mother's Day campaign, displaying Pinterest boards in 10 malls across the country to highlight hair, fashion and beauty products.



POWER OF A PENNEY

As part of the Get Your Penney's Worth™ brand promise, JCPenney introduced Power Penney Days, showcasing key seasonal private brand items at enticing \$3, \$5, \$7 and \$9 price points, as well as Lucky Penney Day sales, which featured items at \$7 throughout the year. These events helped introduce shoppers to the quality, style and value found with JCPenney private brands.



In celebration of Mother's Day, JCPenney offered customers a limited edition Liz Claiborne pouch filled with over \$35 worth of savings and offers for just one penny. The fashionable bag contained coupons on apparel, intimates, makeup and salon services.



BEAUTY SOLUTIONS

BECOMING HER TOTAL BEAUTY SOLUTION

Capitalizing on the projected growth of beauty, JCPenney is strengthening its position as a complete beauty solution by offering a captivating mix of fashion, beauty, salon, shoes and accessories. This is a key differentiator for us. We have affordable fashion and accessories that fit the busy lifestyle of a modern American mom; unique beauty experiences with Sephora inside JCPenney and The Salon by InStyle™; and finishing touches like Fine Jewelry to complete her look with precious gemstones and fine diamonds that last a lifetime.

BEAUTY NEVER LOOKED SO GOOD

JCPenney and visionary beauty retailer Sephora celebrated 10 years of Sephora inside JCPenney with the grand opening of over 60 locations in 2016. Showcasing a stunning beauty presentation of prestige cosmetics, skincare, fragrance, tools and accessory products, Sephora inside JCPenney is a dynamic attraction in more than half of our stores. Known as one of the first collaborations of its kind, this exclusive partnership is credited with increasing revenue per customer and bringing Sephora to new and high potential markets across the country. In 2017, JCPenney will open 70 new locations and over 30 expansions, offering even more brands such as Clinique, Origins and Laura Mercier.





ADDING VOLUME TO SALON

Since launching an exclusive partnership with the editors from InStyle in 2015, JCPenney has transformed numerous salons, which feature a contemporary look and cutting-edge salon services that appeal to a new generation of clients. Company will rebrand 50 salon locations to The Salon By InStyle in 2017, as the Company continues its dynamic reinvention of over 750 salons across the country. As an extension of the revitalization in 2016, JCPenney introduced a competitive compensation program for experienced stylists with robust books of business. This new recruiting initiative is designed to attract some of the industry's best stylists by offering some of the highest commissions of any salon chain, flexible schedules and greater career advancement. Booking an appointment with your favorite stylist is easier than ever as JCPenney.com now offers the ability to schedule an appointment online or via the mobile app.

DIAMONDS FIT FOR A BRIDE - AND PRINCESS

Since its inception in 2011, Modern Bride has been devoted to providing a fine jewelry experience that caters to today's bridal customer. Later this year, we'll reinvigorate the in-store Modern Bride presence with new graphics and sparkling fixtures. What's more, this spring we'll unveil two new collections, Hallmark's bridal collection and Enchanted Disney Fine Jewelry.



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The Hallmark bridal collection features engagement rings in timeless, classic designs with a modern romantic twist for millennial couples seeking affordable luxury in bridal jewelry.



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Fans of Cinderella, Beauty and the Beast and Snow White can now wear princess-inspired fine jewelry complete with glittering diamonds. Enchanted Disney Fine Jewelry has incorporated the essence of each beloved masterpiece into elegant engagement rings, necklaces, fashion rings and earrings that capture the magic behind each story.

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**HOME
REFRESH**

Home is an important growth category for JCPenney and the department has undergone quite a refresh. With the addition of major appliances and the expansion of home services, hard lines have taken a more prominent role in the merchandise assortment complementing the soft home brands that customers have come to love including JCPenney Home, Royal Velvet® and Liz Claiborne. The Home Store at JCPenney can now help customers upgrade their homes with bathroom remodels and water solutions to new bedding, pillows and bath towels.

TURNING UP THE HEAT IN THE KITCHEN

Cooks™ has provided everyday chefs the basic kitchen essentials since 2005. In September 2016, JCPenney debuted Cooks Signature™ as an elevated extension to this highly successful private brand. A high-end collection of cutlery, cookware and small kitchen electrics, Cooks Signature features premium, professional-grade quality kitchen products at an amazing value. Home chefs will find a toaster oven, slow cooker, coffee maker, knife set, cookware sets and more to use when cooking a gourmet meal or a quick dinner. Cooks Signature is designed, developed and sourced by the talented in-house team at JCPenney ensuring customers get the highest quality product for the best possible price.



TOWELING OFF IN LUXURY

Royal Velvet is a premium home brand associated with elegance and luxury, and the new Royal Velvet Luxury Egyptian Cotton loops bath towel and mat do not disappoint. Developed with 100 percent Egyptian Cotton loops for supreme absorbency and softness, the towel is oversized for maximum coverage. Available in 13 solid colors and four jacquard prints, the towel complements a wide selection of sophisticated bedding, window coverings and bath products from Royal Velvet.

Customers can feel confident in the authenticity of the Egyptian cotton used in this product as it earned the Accredited Gold Seal for Egyptian Cotton from the Cotton Egypt Association. Part of a new DNA-based authentication program designed to rid the supply chain of falsely labeled goods, the seal ensures that products labeled as Egyptian cotton are constructed 100 percent from the fiber – giving both customers and retailers the peace of mind that they are purchasing genuine, luxurious Egyptian cotton.

ROYAL VELVET



JCPENNEY RETURNS TO MAJOR APPLIANCES

After an extremely successful 22-store pilot in early 2016, JCPenney made the strategic decision to roll out major appliances to jcp.com and 500 stores by the fall with a leading selection of kitchen and laundry appliances from Samsung, LG and GE. With no interest financing, free delivery, a price match guarantee, plus the ability to earn JCPenney Rewards, customers can always feel confident they are getting a great value at JCPenney.

Customer response to the appliance showrooms has been outstanding. In fact, it's been so successful that we are expanding to another 100 stores for spring 2017, bringing the total appliance store count to approximately 600 JCPenney locations.





MAKING A NAME IN HOME SERVICES

The home improvement market is booming and JCPenney is building on the momentum by launching JCPenney Home Services this spring. By partnering with the industry's leading manufacturers and service providers, JCPenney Home Services will initially test a limited number of programs in select stores by providing turn-key services for heating and cooling systems, bathroom remodeling, quick ship and installed blinds, whole home water solutions, awnings and smart home technology. Expanding our home services presents a great opportunity to capture additional revenue and differentiate our business.

HARD LINES COME INTO FOCUS

One of the Company's biggest focus areas in 2016 was the home department. In addition to re-launching major appliances, we began revamping our hard line assortment by pursuing our former leadership position in window coverings. In 500 stores, we expanded the floor space by 25 percent to create an enhanced presentation of ready-made curtains, blinds, shades and decorative hardware in inspiring, open-sell displays. Additionally, we are also rolling out quick ship and installed blinds as an affordable alternative to our custom blinds service. We've partnered with a reputable vendor to measure, order and install faux wood blinds for only \$129 in one week. No other major retailer installs within that timeframe.



We added Signature Design by Ashley® to our furniture assortment in select stores and jcp.com, giving JCPenney customers the ability to shop living, dining and bedroom collections from the most recognized furniture brand in the country. We also tested a partnership with Empire Today®, a national leader in the installed carpet and flooring industry. Currently we have 18 Empire Today locations in five markets, showcasing a large selection of quality carpet, hardwood, laminate, vinyl and tile samples in a store-within-a-store concept. As an independent operator, Empire Today occupies between 750 and 1,000 square feet inside the JCPenney Home department.

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SPECIAL SIZES DESTINATION

JCPenney has a long history of selling and marketing merchandise that fits a diverse range of sizes, and now we want to become the destination for special sizes. From our most recent women's petite, tall and plus-size initiatives, to our Foundry Supply Co.™ big and tall brand for men, to our extended sizing in boys husky, girls plus and juniors plus, our product development and design teams understand that our customers come in all shapes and body types.

SAVVY STYLE FOR EVERY SIZE

In May 2016, JCPenney launched Boutique+®, the first private brand designed exclusively for plus-size women featuring a contemporary collection of blouses, skirts, pants and dresses in feminine silhouettes, edgy patterns and vibrant colors. The Company also partnered with fashion designer and Project Runway® winner Ashley Nell Tipton, who serves as the Boutique+ brand ambassador providing her expertise on plus-size style for the millennial woman. For the fall season, JCPenney debuted Ashley Nell Tipton for Boutique+® as an extension of its plus-size private brand. The capsule collection features designs that challenge the rules of full-figured fashion design by embracing curvier silhouettes and trendy accents such as sequins and sheer overlays that appeal to millennial plus-size women who want more flare in their wardrobes. Boutique+ sizes range from 0x-4x, 16W-30W and up to 5x on JCPenney.com.



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BOUTIQUE 



To celebrate the launch of Boutique+, JCPenney released the “#Here I Am” video featuring Ashley Nell Tipton and other plus-size influencers sharing their stories of body positivity. The video went viral generating over 12 million views.

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SEXY INTIMATES THAT FLATTER HER CURVES

To continue meeting the needs of 100 million plus-size American women, JCPenney has extended the Boutique+ brand to include bras and panties available in 120 JCPenney stores and on JCPenney.com. Plunge and balconette bras paired with hipster and cheeky panties in lace and sheer fabrics provide this underserved market with sexier options at a value. Sizes are available up to 3x and 44DDD. In addition to our Boutique+ collection, our Ambrielle® private brand features a feminine assortment of lingerie for curvier figures.

Ambrielle®



BIG STYLE, TALL STANDARDS

The men's big & tall customer is one of the fastest growing market segments in the industry. We have significantly invested in this man with our Big & Tall shops and have committed to bringing him the brands and styles that he wants, in sizes that fit. In addition to great national brands like Nike, Adidas, IZOD® and Van Heusen®, our private brand, The Foundry Big & Tall Supply Co., offers great quality at an exceptional value. The big & tall shopper can come to JCPenney and find apparel clothing and accessories for all of his needs including active wear, dress shirts, suits or casual weekend gear. We offer big and tall sizes in 2XL to 6XL and up to 60-inch waist.



RIGHT SIZE, RIGHT STYLE FOR KIDS

Kids want to wear the latest trends regardless of their shape and size. JCPenney has a strong history in kids' extended sizes and is broadening our assortment to give kids even more choices by introducing plus and husky sizes in our private active wear brand, Xersion. And to make mom's shopping experience even better, we have created dedicated plus and husky shops in most stores, with large, easy-to-find signage, featuring popular brands from Levi's, Arizona, Total Girl and more.

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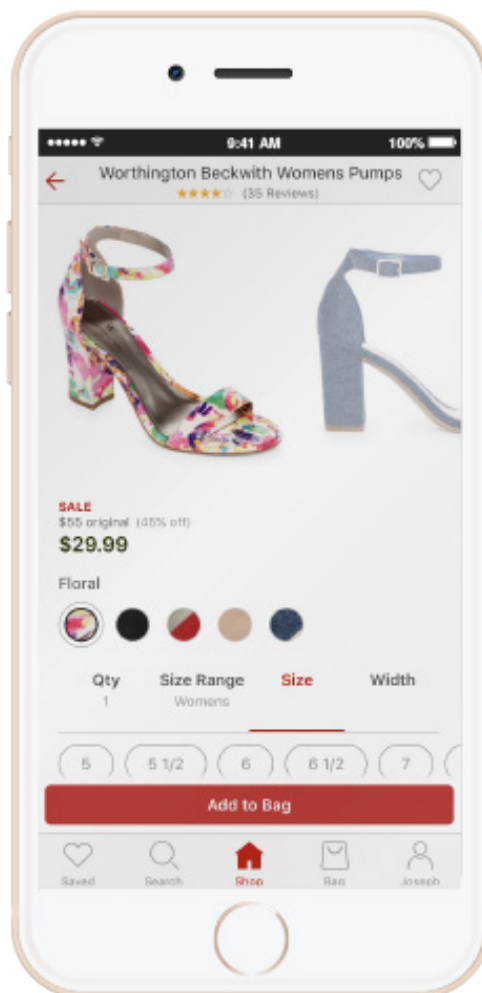


OMNI CHANNEL

CONVENIENCE IS JUST A TAP AWAY

We're focused on leveraging our mobile app to drive sales and build deeper relationships with shoppers who have a strong affinity for their smartphones. Today, nearly 50 percent of all jcpenny.com traffic comes from a mobile device, and we've converted 20 percent more browsers into buyers since the redesign of the app. What's more, our JCPenney app users make three times as many trips to our store and purchase 3.5 times more than non-app customers.

Shoppers can expect new and exciting features in the JCPenney mobile app in 2017. A new digital wallet feature allows users to scan and store their gift cards, coupons, JCPenney Rewards and more all in one place. Users can even make a payment on their JCPenney credit card within the app. Additionally, customers who are using the JCPenney app in stores are now able to do a simple store price check by scanning an item's barcode directly from their smartphone. These new features are in addition to key enhancements that have been made to the app, including faster downloading pages and upgraded search capabilities.



DISCOVER MORE AT JCPENNEY.COM

To remain competitive and give customers even more reasons to choose JCPenney, the Company has expanded the depth and breadth of its online assortment, which now has twice the selection of the retailer's largest store. JCPenney.com now features over 40 percent more items online than 2015, with additional toys, apparel and home merchandise, along with new exciting categories not found in stores, including electronics, pet care products, musical instruments, sporting goods, fitness equipment, camping gear and more.



PRONTO PICKUP AT PENNEY'S

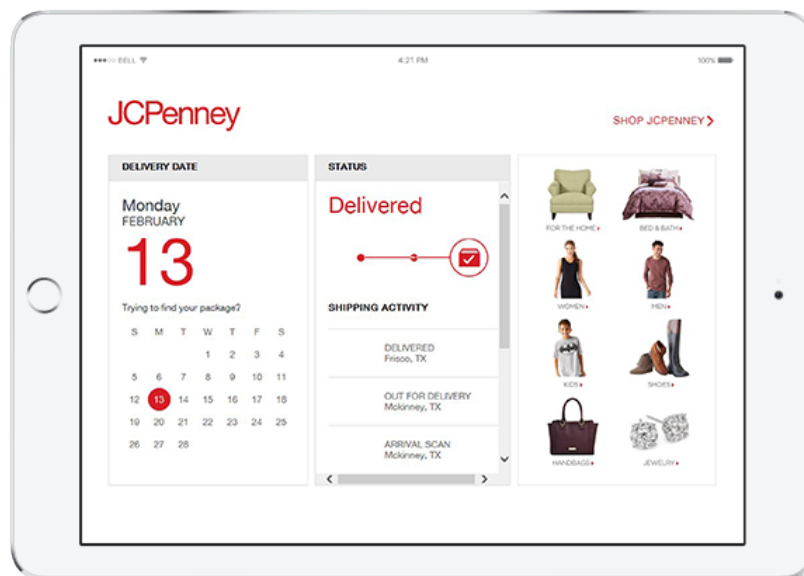
JCPenney launched same-day pickup just before the key Back-to-School shopping season in 2016. On average, over 16,000 items are available for same-day pickup in any given store. Salon tools and haircare products have proven to be popular as they are shoppers' top product category designated for same-day pickup. Today, 40 percent of online orders are now picked up in the store using our ship-to-store and same-day pickup options. Store pickup is not only a convenience for the customer, it's also a traffic and sales driver for stores. In fact, over one-third of customers who come to the store for the purpose of picking up an online order are likely to make an additional purchase of approximately \$50.



Cyber Monday 2016 proved to be the Company's busiest day for same-day package pickup.


DEPENDABLE DELIVERIES

Customers are more confident in purchasing an item when they know in advance when it will arrive on their doorstep. Later this year, JCPenney.com will begin displaying delivery dates during every step of the transaction – from the product gallery all the way to check out. Additionally, customers will be able to track their deliveries, allowing them to see exactly where it is and when it will arrive.



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INVESTING IN OUR FUTURE



@JCPenney
we are ...

.....
Mike Amend, EVP of Omnichannel, was a keynote speaker at the 2016 Shop.org Retail's Digital Summit in Dallas, where he shared a video discussing the culture and speed of change at JCPenney.

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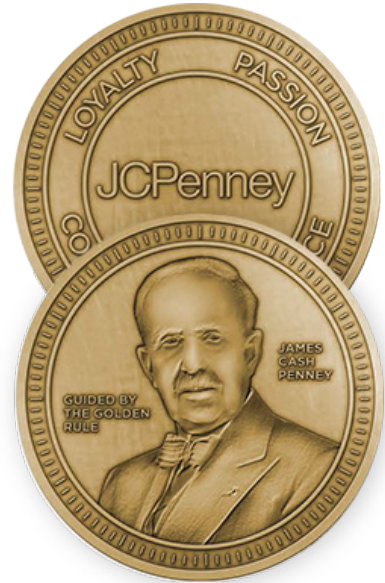


WARRIOR CULTURE

RECOGNIZING THE WARRIOR SPIRIT

The Warrior coin has been placed in the hands of extraordinary associates across the Company. Each year, JCPenney executives award commemorative Warrior coins to associates who show exemplary Warrior Spirit through the Company's values of loyalty, passion, courage and service. But this isn't just any coin – only those associates who go the extra mile to do what's right for our customers, communities and fellow associates are considered for the honor.

Recipients of these unique coins are then recognized in an annual Warrior Book that highlights the inspiring story of service and dedication behind each accolade.



SUPPORTING THE LEADERS OF TOMORROW

Our JCPenney Warrior team at CherryVale Mall in Rockford, Ill. has taken the Warrior values to new heights by making a difference for local schools and students in need. For the last three years, the Rockford JCPenney team has donated 200 books, 100 school uniforms, 300 healthy snacks, 300 school supplies and more across multiple schools needing assistance in molding the leaders of tomorrow.



Associates from JCPenney at CherryVale Mall proudly display school supplies donated to a local elementary school.

REUNITING FRIENDS AND COLLEAGUES NEAR AND FAR

In 2016, Company leaders reunited in Dallas with friends and longtime colleagues for what has become an annual event – the JCPenney General Manager Conference. Nearly 900 general managers from around the Company spent three days participating in various interactive sessions and informational workshops, gaining knowledge, enthusiasm and inspiration for the year ahead. General managers even had the opportunity to view demonstrations of – and provide input on – some of the Company's newest initiatives and products during a special exposition.



KEEPING IT SIMPLE

At the 2016 general manager conference, JCPenney introduced a business initiative named Project Simple. The initiative is aimed at reducing complexity for store leadership and associates, while enhancing the customer experience and driving a customer-centric culture. Since implementation, JCPenney has greatly reduced unnecessary communication to stores, implemented a new task management system to streamline store actions, created a weekly playbook with three key priorities and much more.

The positive results of these efforts are evident within our stores, as reported by the American Customer Satisfaction Index®. According to the index, JCPenney is ranked number two for customer satisfaction among department and discount stores for 2016. What's more, the Company was the biggest gainer within its category, up 11 percent, to 82 percent, from the previous index.

- Through business
- simplification, general
- managers now have
- more time to own their
- businesses and drive our
- omnichannel strategy.
- Unlike in the past, physical
- stores now get credit for
- sales within their four walls,
- as well as for all jcp.com
- sales within their respective
- zip codes. This empowers
- our general managers and
- associates to do everything
- they can to help customers
- find exactly what they need,
- when and how they need it.

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STORES AND REAL ESTATE

CELEBRATING A CENTURY OF SERVICE

Throughout America, JCPenney operates stores that local communities have counted on for style and quality for generations. In fact, James Cash Penney opened his first retail stores in the early 20th century, and many of these locations have operated within the same towns and cities for over a century. This year alone, 13 of our locations are celebrating centennials, and a large number of other locations are celebrating 75 and 50-year anniversaries, as well.

2017 also marks the Company's 100-year anniversaries within the states of Texas and Illinois. James Cash Penney introduced locations in Wichita Falls, Texas and Moline, Ill. in 1917 – just as the United States was entering World War I.



Original JCPenney store in downtown Moline, Illinois



Original JCPenney store in downtown Wichita Falls, Texas

RENEWING OUR COMMITMENT TO COMMUNITIES

Shopping patterns are evolving, but JCPenney continues to see the value of opening new brick-and-mortar stores in high potential markets. In 2016, JCPenney opened two new stores – one all-new location and one mall relocation.

Our all-new store opened on Oct. 21 in San Bernardino, Calif. – a community not served by JCPenney since 2003. Although we departed for a brief period, we're proud to become reacquainted with the city we first met 100 years ago. The 119,000-square-foot, two level store at Inland Center features the latest in JCPenney store environment and design. Easy-to-navigate aisles, vivid LED lighting and impactful graphics highlight compelling merchandise from popular private and national brands. The store also features Sephora inside JCPenney, The Salon by InStyle and a major appliance showroom.

The Company's Salinas, Calif. store relocated to a newly-built anchor box adjacent to its former position within Northridge Mall, continuing its 90-year presence in the city. The 127,000-square-foot, single level store also features the best in beauty and home furnishings, while boasting extensive energy efficiencies that outperform California Energy Commission Title 24 standards by more than 10%.



San Bernardino, California Grand Opening (October 2016)

HOME OFFICE EVOLUTION

JCPenney closed on the sale of its Home Office in Plano, Texas, in late 2016 resulting in \$216 million of net cash proceeds. The sale enabled the Company to capitalize on the booming North Texas real estate market. Proceeds from the sale will allow the Company to reduce outstanding debt. The Company is leasing back and fully renovating approximately 65 percent of the building, creating inspiring open concept workspaces tailored for each specific workgroup. These enhancements will not only benefit current associates, but will help JCPenney continue to attract and retain top talent.



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COMMUNITY ENGAGEMENT



GIVING OUR PENNEY'S WORTH

Building on a nearly 20-year relationship, JCPenney has teamed up with the Y as its signature charity partner. The collaboration with the Y allows JCPenney to strengthen the communities where our customers and associates live, work and shop. Working with the Y, JCPenney is helping kids and families reach their full potential. The partnership is brought to life through product purchases that support the Y's youth development, healthy living and social responsibility initiatives, along with fundraising and exclusive events in local JCPenney stores and communities.



In July, JCPenney hosted a Back-to-School community event with celebrity Vanessa Lachey at the Hollywood Y in Los Angeles, California. Y kids were treated to a pair of new jeans from an Arizona denim bar, make-up touch ups from Sephora inside JCPenney, haircuts from jcp salon, vision screenings from JCPenney Optical, backpack giveaways and more.



In celebration of #GivingTuesday on Nov. 29, JCPenney made a \$100,000 donation to the Y and hosted private shopping events throughout the month of December benefitting the Y. In select cities, Y kids were invited to visit a JCPenney store to shop gifts for their families, while being treated to a special visit with a hometown celebrity. NFL San Francisco 49ers player Carlos Hyde visited with Y kids during a shopping event in San Jose.



Funds from the promotion were donated to the Y's achievement gap initiative, which supports academically at-risk students through summer learning loss prevention and afterschool programs.



GOLDEN RULE RELIEF FUND

The Golden Rule Relief Fund (GRRF) provides assistance to associates experiencing financial hardship caused by unforeseen situations such as natural disasters, house fires or floods. When disaster strikes, GRRF ensures that associates have the support they need.



GOLDEN RULE RELIEF FUND CHALLENGE

In 2016, we challenged every associate to make a one-time donation to the GRRF between May 1-July 1, with a goal to reach at least 80 percent participation. JCPenney Chairman and CEO Marvin Ellison promised to personally contribute \$100,000 to the fund if the company reached the participation goal. Thanks to our associates' generosity, we had record-breaking participation of 88 percent and Marvin signed a check for a \$100,000 personal contribution.

SUPPORTING OUR LOCAL COMMUNITIES DURING DISASTERS

Unprecedented torrential downpours created devastating floods in Louisiana in August 2016, destroying homes and businesses in our local communities and stranding residents. Through the JCPenney Company Fund, we donated \$25,000 to the American Red Cross to aid in disaster relief efforts. The donation assisted the organization in mobilizing trailers loaded with shelter and kitchen supplies, deploying trained volunteers and delivering thousands of ready-to-eat meals to coordinated relief sites.

In total, the Company Fund granted nearly \$100,000 to associates and organizations overseeing relief efforts following Hurricane Matthew, the Tennessee wildfires, Houston and central Maryland floods and Dallas police shootings. Furthermore, JCPenney donated \$5,000 in water to our store in Flint, MI to support their efforts during the city's water crisis.



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