

CONFLICT DIAMONDS

INTRODUCTION

Zale Corporation is committed to the ongoing global efforts to stop the trade in conflict diamonds. In January 2003, governments, non-governmental organizations and the diamond industry created an intergovernmental agreement called the Kimberley Process Certification Scheme ("KPCS") to eradicate conflict diamonds from the world's diamond supply. Zale participates in a voluntary program of self-regulation to complement the KPCS in cooperation with the leading organizations in the jewelry industry, including the World Diamond Council and Jewelers of America. Through these joint efforts and as announced by Kimberley Process authorities in 2004, well over 99% of the world's diamond supply is certified to be from sources that are free from conflict. As North America's largest specialty jeweler, Zale will continue to do its part to ensure the diamonds we sell are certified from legitimate sources not involved in funding conflict and in compliance with United Nations resolutions.

Since the adoption of KPCS in January 2003 and the signing into law of the Clean Diamond Trade Act in April 2003, Zale has developed a conflict diamonds compliance program, starting with the revision of its Vendor Code of Conduct to include the Kimberley Process chain of warranties. The revised code specifically requires all Zale vendors to guarantee that the diamonds and diamond-containing jewelry they provide to Zale are conflict free. Since the implementation of the revised code, Zale has consistently received the following warranty from Zale vendors supplying diamonds and diamond jewelry:

"The diamonds herein invoiced have been purchased from legitimate sources not involved in funding conflict and in compliance with United Nations Resolutions. The undersigned hereby guarantees that these diamonds are conflict free, based on personal knowledge and/or written guarantees provided by the supplier of these diamonds."

Other significant measures Zale has instituted include, but are not limited to, requiring our diamond vendors to provide proof of warranty from their sources of diamond merchandise upon request, training store associates on the Zale conflict diamond program, and auditing our processes for compliance. In 2006 Zale also required its vendors to recertify their adherence to KPCS.

To learn more about the conflict diamond issue and the efforts Zale is taking to bar conflict diamonds from its inventory and provide assurances to our customers that the diamonds we sell are from legitimate sources, read the following information.

OUR CONFLICT DIAMONDS POLICY

We take the issue of conflict diamonds very seriously.

- Conflict diamonds are diamonds mined in certain African combat zones that have fueled and funded civil war and gross abuses against the civilian population. Such diamonds are estimated to currently account for less than 1% of the world diamond production.
- All of the nations with significant involvement in the diamond trade and the leading industry associations have cooperated in creating a global certification system aimed at preventing criminals from placing these conflict diamonds into the legitimate diamond

supply chain. To supplement this government effort, leading organizations in the jewelry industry have created a voluntary program of self-regulation.

- We fully support this new program and will do everything we can to make the new system work. Diamonds are a symbol of love and we want our customers to have confidence that we are using our best efforts to both bar conflict diamonds from our inventory and sell diamonds and diamond jewelry that are "conflict free".
- This fact sheet will assist you in understanding the conflict diamond issue and the global certification system of warranties that took effect on January 1, 2003.

ROLE OF GOVERNMENTS

- As of 2006, approximately 70 countries have adopted a system to control the export and import of rough diamonds mined from January 1, 2003 onward. Known as the Kimberley Process Certification Scheme (KPCS), it requires that each shipment of rough diamonds - before stones are cut and polished - be in a tamper-resistant container and accompanied by a certificate of origin. Each certificate is uniquely numbered and contains information detailing the shipment's contents.
- Participating countries have pledged to turn back or impound shipments of rough diamonds from any nation that fails to subscribe to the new standards. Shipments lacking proper certification will be treated in a similar way. The U.S. Customs and Border Protection is responsible for enforcement at American ports.
- In the past, the legitimate supply chain was most vulnerable to exploitation between the time diamonds were mined in African combat zones and the time they were exported from the country of origin. Under KPCS, that problem is addressed as rough diamonds are packaged with a certificate of origin soon after they are mined. At later stages of the diamonds' journey to market, rough diamonds also carry a certificate describing the shipment's contents and confirming that the stones are coming from a Kimberley Process participant. Any country declining to participate is effectively barred from the international diamond trade.

ROLE OF INDUSTRY

- To supplement the government program, the International Diamond Manufacturers Association (IDMA) and the World Federation of Diamond Bourses (WFDB) - representing virtually all significant processors and traders - have established a regimen of self-regulation. Its principal element is a system of warranties that will accompany invoices covering the sale of rough diamonds, polished diamonds and diamond jewelry. The requirement applies to rough diamonds mined after December 31, 2002 and product fabricated from them.
- Each time the diamonds change hands, the seller affirms to the buyer, in writing, that the diamonds come from legitimate sources "not involved in funding conflict and in compliance with United Nations resolutions..." Under a new code of conduct adopted by IDMA and WFDB, members are required, among other things, to deal only with sellers that use the warranty system.
- Zale Corporation, along with other industry members, formed the not-for-profit Council for Responsible Jewellery Practices (CRJP) in May 2005 to promote responsible business practices in a transparent and accountable manner throughout the diamond and gold jewelry supply chain from mine to retail, including adherence to the Kimberley Process warranty system. Zale has committed to undergo regular independent third party monitoring of its compliance with KPCS as implemented by CRJP.

ROLE OF THE RETAILER

The most important contribution jewelers can make within our industry is to deal only with

trade suppliers of diamonds and diamond jewelry that comply with Kimberley Process and its warranty system. We follow this policy and have taken concrete, comprehensive steps to sell diamonds that are conflict free:

- Since January 2003, our trade suppliers of diamonds and diamond jewelry have been required to guarantee to us in writing that the jewelry they supply to us is conflict free by 1) signing a Vendor Code of Conduct certification and/or 2) incorporating the KPCS warranty into each invoice submitted to Zale. The warranty states as follows:

The diamonds herein invoiced have been purchased from legitimate sources not involved in funding conflict and in compliance with the United Nations Resolutions. The seller hereby guarantees that these diamonds are conflict free, based on personal knowledge and/or written guarantees provided by the supplier of these diamonds.

- For diamonds mined before January 1, 2003, we require our diamond and diamond jewelry suppliers to certify in writing that they do not knowingly sell conflict diamonds and that, to the best of their ability, they have undertaken reasonable measures to help prevent the sale of conflict diamonds in this country.
- Zale requires its diamond vendors to recertify annually their adherence to KPCS.
- Following the recommendation of industry leaders, we retain for at least five years the warranties accompanying our purchases of diamonds and diamond jewelry.
- Additionally, we require our diamond vendors to provide us with proof of warranty from their sources of merchandise upon our request. If a vendor refuses to guarantee that their diamonds and diamond jewelry are conflict free or if we have reason to believe that their merchandise came from questionable sources, we refuse to transact business with that vendor.
- We train our sales associates about this program so that our customers have confidence that the diamonds and diamond jewelry sold in our stores and over the internet are "conflict free."
- Our executive management monitors compliance with the system of warranties and updates the Company's procedures when necessary.

FREQUENTLY ASKED QUESTIONS ON CONFLICT DIAMONDS

The questions and answers below will assist you in understanding the conflict diamond issue. We want our shareholders, customers and employees to have confidence that Zale is using its best efforts to both bar conflict diamonds from its inventory and sell diamonds that are "conflict free".

What are Conflict Diamonds?

Conflict diamonds are diamonds mined in certain African combat zones that have fueled and funded civil war and gross abuses against the civilian population. Such diamonds are estimated to currently account for less than 1% of the world diamond production.

What is the Kimberley Process?

As of 2006, approximately 70 countries have adopted a system to control the export and import

of rough diamonds mined from January 1, 2003 onward. Known as the Kimberley Process Certification Scheme (KPCS), it requires that each shipment of rough diamonds--before stones are cut and polished--be in a tamper-resistant container and accompanied by a certificate of origin. At later stages of the diamonds' journey to market, rough diamonds also carry a certificate describing the shipment's contents and confirming that the stones are coming from a Kimberley Process participant. Any country declining to participate is effectively barred from the international diamond trade. In addition, the Clean Diamond Trade Act was signed into law by President George W. Bush on April 25, 2003 which codifies many of the provisions of the Kimberly Process. The U.S. Customs and Border Protection is responsible for enforcement at American ports.

What role does the jewelry industry have in protecting the diamond supply?

The most important contribution jewelers can make within our industry is to deal only with trade suppliers of diamonds and diamond jewelry that comply with KPCS. Zale fully supports this voluntary program of self-regulation.

What is the diamond industry doing to ensure that the self-regulating KPCS program is working?

Zale Corporation, along with other industry members, formed the not-for-profit Council for Responsible Jewellery Practices (CRJP) in May 2005 to promote responsible business practices in a transparent and accountable manner throughout the diamond and gold supply chain, including adherence to the Kimberley Process system of warranties. CRJP is creating a practical implementation system that will use independent third-party monitors to credibly demonstrate that the business practices of CRJP members are in compliance with KPCS as well as other key industry initiatives.

What steps has Zale Corporation taken to safeguard its diamond supply?

Zale has taken concrete, comprehensive steps to offer for sale diamonds that are "conflict free":

- Since January 2003, our trade suppliers of diamonds and diamond jewelry have been required to guarantee to us in writing that the jewelry they supply to us is conflict free by 1) signing a Vendor Code of Conduct certification and/or 2) incorporating the KPCS warranty into each invoice submitted to Zale. The warranty states as follows:

"The diamonds herein invoiced have been purchased from legitimate sources not involved in funding conflict and in compliance with United Nations Resolutions. The undersigned hereby guarantees that these diamonds are conflict free, based on personal knowledge and/or written guarantees provided by the supplier of these diamonds."

This warranty assures Zale that the vendor vouches for the legitimacy of the merchandise and that the vendor, in turn, has required the same warranty from their source of merchandise.

- Zale requires its diamond vendors to recertify annually their adherence to KPCS.
- Zale is a founding member of the Council for Responsible Jewellery Practices as described above.
- Following the recommendation of industry leaders, we retain for at least five years the warranties accompanying our purchases of diamonds and diamond jewelry.
- Zale requires its diamond vendors to provide proof of warranty from their sources of merchandise upon its request. If a vendor refuses to guarantee that its diamonds and

- diamond jewelry are conflict free or if we have reason to believe that its merchandise came from questionable sources, we refuse to transact business with that vendor.
- We train our sales associates about this program so that our customers have confidence that the diamonds we sell in our stores and over the internet are "conflict free".
 - Our executive management monitors compliance with the system of warranties and updates the Company's procedures when necessary.

For more information about Zale's policies, please visit our website at www.zalecorp.com, call Investor/Public Relations at 972-580-5047 or email ir@zalecorp.com.

Additional information about the Kimberley Process and its system of warranties can be found at the following links:

World Diamond Council www.diamondfacts.org

Kimberley Process www.kimberleyprocess.com

Council for Responsible Jewellery Practices www.responsiblejewellery.com

Jewelers of America www.jewelers.org