

## **J. C. PENNEY COMPANY, INC.**

### **Audit Committee of the Board of Directors Charter**

(revised February 2008)

#### **I. Purpose**

The purpose of the Audit Committee ("Committee") is to:

- A. Assist the Board of Directors oversight of (i) the integrity of the Company's financial statements; (ii) the Company's compliance with legal and regulatory requirements; (iii) the independent auditor's qualifications and independence; and (iv) the performance of the Company's internal audit function and of the independent auditor;
- B. Prepare an audit committee report as required by the Securities and Exchange Commission ("SEC") to be included in the Company's annual proxy statement; and
- C. Have ultimate authority and responsibility to appoint, compensate, retain, and oversee the work of the Company's independent auditor. The independent auditor is directly accountable and shall report directly to the Committee. Nothing herein will preclude the Company from submitting the appointment of the independent auditor to stockholders for ratification.

#### **II. Composition and Meetings**

- A. The Committee shall be composed of at least three members of the Board. The members and the Chair of the Committee shall be appointed annually by the Board and the Chair shall, unless the Board determines otherwise, serve for no more than a five-year period. At least one member of the Committee shall be an "audit committee financial expert", and all members of the Committee must be "financially literate", as determined by the Board of Directors, and as these terms are defined by the rules of the SEC and/or the New York Stock Exchange ("NYSE"). The Board may remove a Committee member from the membership of the Committee at any time with or without cause. Members shall serve until their successors are appointed by the Board.
- B. Each member of the Committee shall meet the independence requirements of the NYSE and applicable federal securities law, including the rules and regulations of the SEC, as determined by the Board of Directors. No director qualifies as "independent" if the Board affirmatively determines that the director (i) is an "affiliated person" (as defined by applicable laws and the SEC rules and regulations) of the Company or

any subsidiary of the Company; or (ii) has accepted consulting, advisory or other compensatory fees from the Company or any subsidiary of the Company, other than director's fees, unless allowed otherwise by the rules of the NYSE. At the discretion of the Board of Directors, such members may receive fees for services on the Audit Committee or as Chair of the Audit Committee in addition to normal fees paid to all directors.

- C. No director may serve as a member of the Audit Committee if s/he serves on the audit committees of more than two other public companies unless the Board of Directors determines that such simultaneous service would not impair the ability of such director to effectively serve on the Audit Committee, and this determination is disclosed in the Company's annual proxy statement.
- D. In accordance with the Company's Bylaws, a majority of the members of the Audit Committee may fix its rules of procedure, determine its actions, and fix the time and place of its meetings and specify what notice thereof, if any, shall be given.
- E. The Committee may consult with and engage independent counsel (who may be counsel to the Company) and other advisors as it deems necessary.
- F. The Company shall provide appropriate funding, as determined by the Committee, for payment of: (i) compensation of any registered public accounting firm for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company; (ii) compensation to any advisor employed by the Committee; and (iii) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

### **III. Duties and Responsibilities**

The Committee shall have the following duties and responsibilities:

- A. With respect to independent auditors:
  - 1. To be directly responsible for and have the sole authority for the appointment, compensation, retention and oversight of the work of the independent auditor (including resolution of disagreements between management and the auditor regarding financial reporting), who shall report directly to the Audit Committee, and for the approval of all audit and engagement fees, and any significant non-audit fees;
  - 2. To be directly responsible and have the sole authority for the appointment, compensation, retention and oversight of any

registered public accounting firm, other than the independent auditor, engaged for the purpose of preparing or issuing an audit report or to perform audit review or attestation services, which firm shall report directly to the Audit Committee;

3. To pre-approve, or to adopt appropriate procedures to pre-approve, all audit and non-audit services to be provided by the independent auditor;
4. To evaluate, at least annually the performance of the independent auditor, including a specific evaluation of the lead partner of the independent auditor, whether there should be a rotation of the audit firm itself and of any other factors as may be required by the NYSE and other applicable laws and regulations;
5. To obtain and review, at least annually, a report by the independent auditor (it being understood that the independent auditor is responsible for the accuracy and completeness of this report) describing: (i) the firm's internal quality-control procedures; (ii) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; (iii) all relationships between the independent auditor and the Company and disclosing any relationships or services that may impact the quality of audit services or the objectivity and independence of the independent auditor; and to recommend that the Board of Directors take appropriate action in response to the report of the independent auditor to satisfy itself of the auditor's independence;
6. To obtain from, review and discuss with the independent auditor, in connection with any audit, a timely report relating to the Company's annual audited financial statements describing all critical accounting policies and practices used, all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments and the treatment preferred by the independent auditor, and any material written communications between the independent auditor and management, such as any "management" letter or schedule of unadjusted differences;
7. To review and discuss with the independent auditor any audit problems or difficulties encountered in the course of the audit work, including management's responses to the problems, and any communications between the audit team and the independent

auditors' national office respecting auditing or accounting issues presented by the engagement;

8. To discuss with management the timing and process for implementing the rotation of the lead audit partner, the concurring partner and any other active audit engagement team partner; and
9. To set clear Company hiring policies for employees and former employees of the independent auditor. This includes prohibiting the hiring of any current or former employees of the independent auditor into management positions overseeing financial reporting processes for one year following completion of any engagement to provide audit, review or attestation services to the Company.

B. With respect to the internal auditing department:

1. To review and approve the appointment and replacement of the director of the internal auditing department;
2. To annually review and approve the performance and salary of the director of the internal auditing department;
3. To annually review the audit plan, scope of work, budget and staffing of the internal auditing department; and
4. To periodically review and assess the reporting relationship of the director of the internal auditing department.

C. With respect to financial reporting principles and policies and internal audit controls and procedures:

1. To discuss with the independent auditor and internal auditing the scope of their examinations, including, but not limited to, their annual coordinated audit plan with particular attention to areas where the Committee or the independent auditor or internal auditing believes special attention should be directed;
2. To have the independent auditor and internal auditing perform such supplemental reviews or audits as the Committee may deem desirable;
3. After the annual audit of the Company's financial statements, to review the independent auditor's report thereon and to confer with the independent auditor on the degree of cooperation it received during the course of the audit, including any restrictions on the scope of the independent auditor's activities or on access to

requested information, and any significant disagreements with management;

4. To discuss the Company's annual audited financial statements and quarterly financial statements with management and the independent auditor, including the Company's disclosure under "Management's Discussion and Analysis of Financial Condition and Results of Operations";
5. To recommend to the Board whether the audited financial statements should be included in the Company's Annual Report on Form 10-K to be filed with the SEC;
6. To discuss the types of information and types of presentation to be made, as it deems appropriate, regarding earnings press releases, as well as financial information and earnings guidance provided by the Company to analysts and rating agencies;
7. To discuss the Company's policies with respect to operational risk assessment and management and to discuss with management the Company's major financial risks and the steps management has taken to monitor and control such exposures;
8. To confer with the independent auditor on its assessment of the Company's accounting and financial reporting policies and practices, the adequacy and effectiveness of internal auditing's function, recommendations for improvement, and any other pertinent matters, including the views of the independent auditor on the quality, not just the acceptability, of the Company's accounting principles as applied in its financial reporting;
9. To review with the director of the internal auditing department summaries of selected audit findings and, as appropriate, the reports of the internal auditing department relating to those findings, management's responses to the findings and management's process for correcting them, the effectiveness and independence of internal auditing's function, any significant problems or difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information, and any other pertinent matters;
10. To review and discuss with management, the independent auditor and the director of the internal auditing department, the adequacy and effectiveness of the Company's (i) financial reporting procedures, and (ii) internal control structure, including its disclosure controls and procedures and internal control over financial reporting (including any material weaknesses, significant

deficiencies, significant changes to internal controls and any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls);

11. Annually or as otherwise required pursuant to applicable rules of the SEC, (i) to review and discuss with management, the independent auditor and the director of the internal auditing department management's internal control report, which shall state the responsibility of management for establishing and maintaining an adequate internal control structure and procedures for financial reporting, and contain an assessment, as of the end of the most recent fiscal year, of the effectiveness of the Company's internal control over financial reporting, and (ii) to review and discuss with the independent auditors their attestation report on the effectiveness of the Company's internal control over financial reporting;
12. To review, among other things, (i) any major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles, any new pronouncements of the accounting profession and other regulatory bodies, and major issues as to the adequacy of the Company's internal controls and any special audit steps adopted in light of material control deficiencies; (ii) analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgment made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements; and (iii) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company; and
13. To meet and confer separately, periodically, with management, with internal auditors (or other personnel responsible for the internal audit function) and with the independent auditor.

D. With respect to legal and regulatory compliance:

1. To oversee the Company's compliance with law and regulation and, in connection therewith, to review and assess on no less than an annual basis, a report from the Company's Chief Ethics Officer regarding the operation, contents and effectiveness of the Company's legal compliance and ethics program;
2. To review and assess the adequacy of the Company's codes of ethics and the charter of the Legal Compliance and Ethics Committee;

3. To oversee, and with respect to members of the Board or any Executive Officer of the Company, approve or recommend to the full Board, as appropriate, any waivers of, the Company's applicable codes of ethics; and
4. To discuss with management any correspondence with regulators or governmental agencies and any litigation or other legal matters that raise material issues regarding the Company's financial statements or accounting policies or its compliance with law or regulation.

E. General:

1. To establish procedures for: (i) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and (ii) the confidential, anonymous submission by Company associates of concerns regarding questionable accounting or auditing matters;
2. To regularly review with the Board of Directors any issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the Company's independent auditors, and the performance of the internal audit function; and
3. To prepare an annual performance evaluation of the Committee.

#### **IV. Charter Review and Amendment**

The Committee shall review and reassess the adequacy of this Charter at least annually. The Board of Directors may make such amendments to this Charter, as it deems advisable, including, but not limited to, any amendments to conform to or reflect any change in any law, regulation, or ruling applicable to audit committees.

#### **V. Limitation of Committee's Role**

While the Committee has the duties and responsibilities set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate or prepared in accordance with generally accepted accounting principles. Management is responsible for preparing the Company's financial statements and the independent auditors are responsible for auditing those financial statements. The Committee serves a board-level oversight role in which it provides advice, counsel and direction to management and the independent auditors on the basis of information it receives, discussions with the independent auditors, and the

experience of the Committee's members in business, financial and accounting matters.