

JCPenney News Release

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JCPENNEY SECOND QUARTER OPERATING PROFIT TRIPLES

Sales Momentum Continues into August

Financial Position Strengthened and Cash Flow Trending Positive

PLANO, Texas, August 17, 2004 -- J. C. Penney Company, Inc. (NYSE: JCP) reported today that second quarter earnings from continuing operations were \$0.23 per share compared to a loss of \$0.03 per share last year. Earnings for the quarter benefited from strong department store sales, continued improvement in gross margin, and SG&A leverage.

During the quarter, the Company completed its sale of the Eckerd business. Reflecting sale adjustments and operating losses from this discontinued operation, as discussed below, the Company had modest net income for the quarter.

Allen Questrom, Chairman and Chief Executive Officer said, "I am pleased with second quarter operating results, and our recently announced capital structure repositioning. Our management team is focused on the customer and ensuring we are delivering fashionable, trend-right merchandise assortments that offer quality and value, with the added convenience of our three shopping channels. The sales and earnings trends we have experienced this year clearly demonstrate that we are connecting with the customer."

Questrom added, "Early back-to-school results are exceeding our expectations. A number of external factors, including higher oil prices and concerns over terrorism, could impact future consumer spending patterns, but we remain confident that our third quarter sales and operating profits will improve."

Operating Results

Second quarter operating profit nearly tripled to \$156 million compared with \$53 million last year, with strong sales, continued improvement in gross margin and expense leverage. Operating profit increased to 4.0 percent of sales, an improvement of 260 basis points. Comparable department store sales increased 7.1 percent. Sales reflect strength in both fashion and basic merchandise, and good customer response to planned marketing events. While Catalog/Internet sales decreased 1.6 percent, its contribution to profit continued to generate solid improvement. Internet sales continue to experience strong growth, increasing over 30 percent for the quarter, and about 40 percent year-to-date.

Gross margin increased by 150 basis points as a percent of sales, reflecting good sell-through of seasonal product, less clearance merchandise and consistent execution. Expenses were leveraged by 110 basis points as a percent of sales.

Discontinued Operations

The second quarter loss from discontinued operations was \$71 million, net of taxes, and is comprised of Eckerd's operating loss as well as adjustments to reflect the final terms of the sale.

Financial Condition and Cash Flow

As of July 31, 2004, cash investments were \$7.4 billion and include the receipt of gross proceeds from the sale of Eckerd. Long-term debt was \$5.1 billion, reflecting the payment of \$230 million of long-term debt that matured during the second quarter. With better than planned results in the first half of the year and continued improvement anticipated in the second half, free cash flow for the year is now expected to be positive.

August Sales and Third Quarter Earnings Guidance

August Department Store sales have exceeded expectations during the first two weeks of the period. Operating profit for the quarter is expected to benefit from continued improvement in gross margin and expense leverage. The Company currently anticipates that third quarter earnings from continuing operations will be in the range of \$0.35 to \$0.40 per share. Earnings guidance has been reduced to reflect the \$0.11 per share impact from the previously announced one-time charges related to early debt retirements.

Equity and Debt Reduction Program

In early August, the Company initiated a major equity and debt reduction program utilizing \$3.5 billion in net cash proceeds from the sale of Eckerd and \$1.1 billion of existing cash balances. To date, the Company has repurchased 1.8 million shares in open market transactions and has taken steps to retire \$487 million of long-term debt through early retirements and sinking fund payments, as follows:

- \$200 million of 6.0% Debentures Due 2006 (effective interest rate of 13.2%),
- \$92 million of 9.75% Sinking Fund Notes Due 2021, and
- \$195 million of 8.25% Sinking Fund Notes Due 2022 (including \$37.5 million in sinking fund payments)

As previously announced, the Company expects to complete the equity and debt reduction program within the next nine to twelve months.

Senior management will host a live conference call and real-time webcast on Tuesday, August 17, 2004, beginning at 9:30 a.m. EDT. Access to the conference call is open to the press and general public in a listen only mode. To access the conference call, please dial **973-935-2035** and reference the JCPenney Quarterly Earnings Conference Call. The telephone playback will be available for two days beginning approximately two hours after the conclusion of the call by dialing **973-341-3080**, pin code **4323458**. The live webcast may be accessed via JCPenney's

Investor Relations website (at JCPenney.net), or on StreetEvents.com (for members) and FullDisclosure.com (for media and individual investors). Replays of the webcast will be available for up to 90 days after the event.

J. C. Penney Corporation, Inc., the wholly-owned operating subsidiary of the Company, is one of America's largest department store, catalog, and e-commerce retailers, employing approximately 150,000 associates. As of July 31, 2004, J. C. Penney Corporation, Inc. operated 1,018 JCPenney department stores throughout the United States and Puerto Rico, and 60 Renner department stores in Brazil. JCPenney Catalog, including e-commerce, is the nation's largest catalog merchant of general merchandise, and JCPenney.com is one of the largest apparel and home furnishings sites on the Internet. J. C. Penney Corporation, Inc. is a contributor to JCPenney Afterschool Fund, a charitable organization committed to providing children with high quality after school programs to help them reach their full potential.

This release may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements, which reflect the Company's current views of future events and financial performance, involve known and unknown risks and uncertainties that may cause the Company's actual results to be materially different from planned or expected results. Those risks and uncertainties include, but are not limited to, competition, consumer demand, seasonality, economic conditions, and government activity. Investors should take such risks into account when making investment decisions. In addition, non-GAAP terms referenced, such as EBITDA and free cash flow, are defined and presented in the Company's 2003 Annual Report on Form 10-K.

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J. C. PENNEY COMPANY, INC.
SUMMARY OF OPERATING RESULTS
(Amounts in millions except per share data)

	13 weeks ended			26 weeks ended		
	July 31, 2004	July 26, 2003	% Inc. (Dec.)	July 31, 2004	July 26, 2003	% Inc. (Dec.)
Comparable department store sales increase/(decrease)	7.1%	2.3%		8.3%	-1.5%	
Catalog/Internet sales (decrease)/increase	-1.6%	3.9%		2.5%	-4.3%	
Department Stores and Catalog/Internet sales, net	\$ 3,857	\$ 3,645	5.8%	\$ 7,890	\$ 7,356	7.3%
Gross margin	1,443	1,310	10.2%	3,058	2,766	10.6%
Selling, general and administrative (SG&A) expenses	1,287	1,257	2.4%	2,673	2,629	1.7%
Operating profit	156	53	100.0% +	385	137	100.0%
Net interest expense	49	70	-30.0%	106	135	-21.5%
Real estate and other (income)	(5)	(12)	N/A	(13)	(21)	N/A
Income/(loss) from continuing operations before income taxes	112	(5)	100.0% +	292	23	100.0%
Income tax expense/(benefit)	40	(2)	100.0% +	102	6	100.0%
Income/(loss) from continuing operations	\$ 72	\$ (3)	100.0% +	\$ 190	\$ 17	100.0%
Discontinued operations, net of income tax (benefit)/expense of \$(88), \$2, \$(178) and \$27	(71)	3	N/A	(148)	44	N/A
Net income	\$ 1	\$ -	100.0% +	\$ 42	\$ 61	-31.1%
Earnings/(loss) per share from continuing operations - diluted	\$ 0.23	\$ (0.03)	100.0% +	\$ 0.62	\$ 0.02	100.0%
(Loss)/earnings per share - diluted	\$ (0.02)	\$ (0.02)	0.0%	\$ 0.14	\$ 0.18	-22.2%

FINANCIAL DATA:

Ratios as a % of sales:

Gross margin	37.4%	35.9%	38.8%	37.6%
SG&A expenses	33.4%	34.5%	33.9%	35.7%
Operating profit	4.0%	1.4%	4.9%	1.9%
Depreciation and amortization	\$ 86	\$ 88 ⁽¹⁾	\$ 173	\$ 177 ⁽¹⁾

SUPPLEMENTAL DATA:

Average shares outstanding (basic shares)	282.6	271.5	280.0	271.0
Average shares used for diluted EPS	287.4	271.5	307.9	273.0
Effective income tax rate for continuing operations	35.5%	46.6%	34.9%	24.7%

(1) Excludes \$10 million and \$22 million of accelerated depreciation for catalog facilities for the 13 weeks and 26 weeks ended July 26, 2003, respectively, which is included in Real Estate and Other.

J. C. PENNEY COMPANY, INC.
SUMMARY OF OPERATING RESULTS
(Amounts in millions except per share data)

	<u>July 31,</u> <u>2004</u>	<u>July 26,</u> <u>2003</u>
<u>SUMMARY BALANCE SHEETS:</u>		
Cash and short-term investments	\$ 7,414	\$ 2,617
Merchandise inventory (net of LIFO reserves of \$43 and \$49)	3,430	3,343
Other current assets	394	371
Property and equipment, net	3,464	3,498
Other assets	1,874	1,675
Assets of discontinued operations	-	6,840
Total assets	<u>\$ 16,576</u>	<u>\$ 18,344</u>
Accounts payable and accrued expenses	\$ 2,802	\$ 2,026
Short-term debt	20	25
Current maturities of long-term debt	1,065	626
Taxes payable, current and deferred	896	21
Long-term debt	4,060	5,128
Long-term deferred taxes	1,138	1,207
Other liabilities	993	778
Liabilities of discontinued operations	-	2,091
Total liabilities	<u>10,974</u>	<u>11,902</u>
Stockholders' equity	<u>5,602</u>	<u>6,442</u>
Total liabilities and stockholders' equity	<u>\$ 16,576</u>	<u>\$ 18,344</u>

	26 weeks ended	
	<u>July 31,</u> <u>2004</u>	<u>July 26,</u> <u>2003</u>
<u>SUMMARY STATEMENTS OF CASH FLOWS:</u>		
Net cash provided by/(used in):		
Total operating activities	<u>\$ 221</u>	<u>\$ (294)</u>
Investing activities		
Capital expenditures	(184)	(150)
Proceeds from sale of assets	28	68
Proceeds from the sale of Eckerd	4,666	-
Total investing activities	<u>4,510</u>	<u>(82)</u>
Financing activities		
Change in debt	(236)	574
Change in stock	169	(3)
Dividends paid, preferred and common	(81)	(80)
Total financing activities	<u>(148)</u>	<u>491</u>
Cash (paid to)/received from discontinued operations	<u>(163)</u>	<u>28</u>
Net increase in cash and short-term investments	4,420	143
Cash and short-term investments at beginning of period	<u>2,994</u>	<u>2,474</u>
Cash and short-term investments at end of period	<u>\$ 7,414</u>	<u>\$ 2,617</u>