SEARS, ROEBUCK AND CO.

BOARD OF DIRECTORS

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CORPORATE GOVERNANCE GUIDELINES

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Originally Adopted: November 9, 1994

Most recent revision: March 10, 2004

1. Corporate Governance Guidelines

These are the Sears, Roebuck and Co. Board of Directors Corporate Governance Guidelines ("Guidelines"), adopted by and governing the Sears, Roebuck and Co. Board of Directors ("Board"), and are posted on the Company's website. These Guidelines may be revised by the Board. The Nominating and Governance Committee of the Board reviews these Guidelines periodically and may recommend changes to the Board.

2. Director Responsibilities

The business of the Company is conducted by its officers under the direction and oversight of the Board, to enhance the long-term value of the Company for the shareholders. Directors are responsible for exercising their business judgment to act in a manner they believe to be in the best interest of the Company and its shareholders. Service on the Board is a significant commitment. The Board has approximately eight scheduled meetings per year at which it reviews and discusses reports by management on the performance of the Company, its plans and prospects, as well as immediate issues facing the Company. Directors other than the Chairman are expected to serve on one or more Board Committees. Except in extenuating circumstances, each Director is expected to attend all meetings of the Board and any Committee to which he or she is appointed, as well as the annual meeting of shareholders. In addition to attending Board and Committee meetings, Directors discharge their responsibilities throughout the year through considerable telephone contact and other communications with the Chairman and other key executives, as well as with outside auditors and external advisors.

In addition to its general oversight of management, the Board and Committees of the Board also perform a number of specific functions, including:

A. selecting, evaluating and compensating the Chief Executive Officer ("CEO") and overseeing CEO succession planning;

B. providing counsel and oversight on the selection, evaluation, development and compensation of senior management;

C. monitoring the integrity of the financial statements of the Company, the Company's system of internal control, and the compliance by the Company with legal and regulatory requirements;

D. reviewing, approving and monitoring fundamental financial and business strategies and major corporate actions, and other actions as required by state corporate law; and

E. assessing major risks facing the Company, and reviewing options for mitigation.

3. <u>Board Guideline on Independence of Directors</u>

The Board believes that in most situations the CEO should be the only employee-Director, but certain circumstances may warrant the addition of one or more additional employee-Directors. A majority of Directors shall be “independent Directors.” The Company has adopted the following standards for a Director to be considered an independent Director. If the Director is independent according to these standards, then the Director shall be deemed to be free of interests or affiliations that could give rise to a biased approach to directorship responsibilities and/or a conflict of interest or interfere with his or her exercise of independent judgment, and to have no material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company).

A. A Director who is an employee, or whose immediate family member is an executive officer, of the Company is not independent until three years after the end of such employment relationship, except that employment as an interim Chairman or CEO shall not impair a Director’s independence immediately following that employment.

B. A Director who receives, or whose immediate family member receives, any direct compensation from the Company , other than Director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service), is not independent until three years after he or she ceases to receive such direct compensation. Compensation received by a Director for former service as an interim Chairman or CEO need not be considered in determining independence under this test. Compensation received by an immediate family member for service as a non-executive employee of the Company need not be considered in determining independence under this test.

C. A Director who is affiliated with or employed by, or whose immediate family member is affiliated with or employed in a professional capacity by, a present or former internal or external auditor of the Company is not independent until three years after the end of the affiliation or the employment or auditing arrangement.

D. A Director who is employed, or whose immediate family member is employed, as an executive officer of another company where any of the Company’s present executives serve on that company’s compensation committee is not independent until three years after the end of such service or the employment arrangement.

E. A Director who is an executive officer, general partner or an employee, or whose immediate family member is an executive officer, of a company (including a charitable organization) that makes payments to or receives payments from the Company for property or services in an amount which, in any single fiscal year, exceeds the greater of $1 million or 2% of such other company’s consolidated gross revenues is not independent until the earlier to occur of the ceasing of the Director or family member to be employed by the other company or three years after falling below such threshold.

"Immediate family member" of a person includes such person's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law, and anyone (other than domestic employees) who shares such person's home. When the look-back provisions of this section are applied to determine whether a Director is independent, individuals who are no longer immediate family members as a result of legal separation or divorce, or those who have died or become incapacitated, need not be considered. References in this section 3 to the Company include any subsidiary in the Company's consolidated group.

4. Size of the Board

The Board believes that 9 to 12 members is the optimum size range for this Board.

5. Guidelines for Selection of Nominees for the Board of Directors

The Board has adopted written Guidelines for Selection of Nominees for the Board of Directors. A copy is attached as Appendix A. The Board may also consider other criteria that it considers relevant in light of the Board's responsibilities as articulated hereunder and the then-current needs of the Board. The Guidelines for Selection of Nominees for the Board of Directors and such other criteria apply to any candidate who has been recommended to be a nominee for Director, regardless of who recommends such candidate.

The Nominating and Governance Committee recommends nominees for election to the Board. The Committee will evaluate the qualifications of and consider candidates recommended by shareholders, who may forward such recommendations to the Sears, Roebuck and Co. Board of Directors – Nominating and Governance Committee, c/o Corporate Secretary, Sears, Roebuck and Co. Law Department, 3333 Beverly Rd., Hoffman Estates, IL 60179.

6. Directors' Ownership of Shares

The Board has adopted a policy (attached as Appendix B) that Directors are expected to own common shares of the Company.

7. Resignation or Retirement of Officers as Board Members

The Board expects that when an employee Director retires or resigns as an employee, he or she will resign from the Board at the same time.

8. Directors Who Change Job Responsibility

Directors who change their principal employment or responsibilities will offer to resign from the Board.

The practice provides an opportunity for the Board, initially through the Nominating and Governance Committee, to review the appropriateness of the member's continued membership on the Board.

9. Term Limits

The Board has not established term limits. The Nominating and Governance Committee, in consultation with the Chairman, will review each Director's continuation on the Board at least every three years. This procedure will allow each Director a convenient opportunity to review and communicate whether he or she wishes to continue as a member of the Board.

10. Retirement Age

The Board's Policy on Retirement Age of Directors, (attached as Appendix C,) provides that the retirement age of an non-employee Director is 72.

11. Chairman of the Board and CEO Positions

The positions of Chairman of the Board and CEO may be held by the same person, at the discretion of the Board. It is the Board's responsibility to determine the best arrangement for the Company and its shareholders, given any changing circumstances of the Company and the composition of the Board.

12. Lead Director

The Board has not designated a lead Director. When non-employee Directors meet in executive session, the leader of that meeting is the Chair of the Committee having the jurisdiction over that subject matter.

13. Agendas For Board Meetings

The Chairman of the Board, in consultation with the appropriate officers and staff, establishes the agenda for each Board meeting. Directors may suggest additional agenda items and may raise at any meeting subjects that are not on the agenda.

At least one Board meeting each year, normally in December, will be devoted to a review of the Company's annual and long-term strategic plans.

14. Board Materials Distributed In Advance

Information that is important to the Board's or a Committee's understanding of the business to be conducted is distributed to the members in advance of each meeting. Management attempts to make this material concise, while still providing the necessary information. This permits more meeting time to be spent on discussion and questions from Directors. If the subject is too sensitive to be distributed in writing, the presentation will be made at the meeting.

15. Executive Sessions of Non-employee Directors

The non-employee Directors meet in executive session whenever they wish to do so -- generally at each regularly scheduled meeting -- but not less often than once each year. If any non-employee Directors are not “independent Directors,” then at least once a year all independent Directors shall meet in executive session without the Directors that are not independent. Shareholders who wish to communicate directly with the non-employee Directors may do so by writing to Sears, Roebuck and Co. Board of Directors – Non-employee Directors, c/o Corporate Secretary, Sears, Roebuck and Co. Law Department, 3333 Beverly Rd., Hoffman Estates, IL 60179.

16. Standing Committees of the Board

The Board has the following standing committees: the Audit Committee, the Compensation Committee, the Nominating and Governance Committee, and the Executive Committee. The Board may at any time form a new committee or disband an existing committee, subject to applicable law and New York Stock Exchange rules. Each Committee operates under a charter approved by the Board, which are posted on the Company’s website. Each Committee periodically reviews its charter and may recommend revisions to the Board.

Only “independent Directors” (as defined in Section 3 above) may serve on the Audit, Compensation and Nominating and Governance Committees.

In addition, only Directors who meet the definition of “outside directors” within the meaning of Section 162(m) of the Internal Revenue Code and “Non-Employee Directors” within the meaning of Exchange Act Rule 16b-3 may serve on the Compensation Committee.

Audit Committee membership also conforms to the following standards:

(i) *Limitation on Service on Other Audit Committees:*

Ordinarily only Directors who do not serve on more than two audit committees of boards of public companies in addition to the Sears Board will be appointed to the Audit Committee, unless the Board determines that the additional service on other companies' audit committees will not affect the Director's ability to discharge his or her duties with respect to the Audit Committee.

(ii) *Audit Committee Independence.* Only Directors who meet the standard of independence set forth in Exchange Act Rule 10A-3(b)(1) (in addition to the definition of independence in section 3 of these Guidelines) may serve on the Audit Committee.

(iii) *Financial Literacy.* Only Directors who are financially literate may serve on the Audit Committee. The Board considers a Director financially literate if the Director has the ability to read and understand fundamental financial statements.

(iv) *Accounting or Related Financial Management Expertise.* At least one member of the audit committee must have accounting or related financial management expertise. The Board considers a Director to have such expertise if the Director has the following attributes:

A. An understanding of generally accepted accounting principles and financial statements;
B. The ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;
C. Experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company's financial statements, or experience actively supervising one or more persons engaged in such activities;
D. An understanding of internal control over financial reporting; and
E. An understanding of audit committee functions.

The Director shall have acquired such attributes through education and experience as a principal financial officer, principal accounting officer, controller, public accountant or auditor or experience in one or more positions that involve the performance of similar functions; experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor or person performing similar functions; experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements; or other relevant experience.

17. Assignment and Rotation of Committee Members and Chairs

The Nominating and Governance Committee recommends to the Board, and the Board designates, the members of the committees, taking into account the wishes and experience of individual Directors and the then-current needs of each Committee and the Board. The Nominating and Governance Committee designates the Chair of each Board Committee. The term of the Chair of each Board Committee is generally six years, but may at the Nominating and Governance Committee's discretion be shorter or longer, and is subject to annual review by the Nominating and Governance Committee.

The Nominating and Governance Committee and the Board review committee membership annually and consider whether membership of any committee should be changed. There are no fixed terms for committee membership.

Generally, the Chairman of the Nominating and Governance Committee serves on the Compensation Committee and the Chairman of the Compensation Committee serves on the Nominating and Governance Committee.

18. Committee Meetings

Committee meetings are generally scheduled to coincide with regular Board meetings. The Chair of any committee may call additional meetings, as needed.

19. Committee Agendas

The Chair of each committee, in consultation with the appropriate officers and staff, develops the committee's agenda. Directors may suggest additional agenda items and may raise at any meeting subjects that are not on the agenda.

The Audit, Compensation and Nominating and Governance Committees establish annual agendas of subjects to be discussed during the year

20. Board Access to Senior Management

Board members may initiate contact with the Company's management.

The CEO invites key members of management to Board meetings from time to time so that they may provide additional insight into the items being discussed. The Board expects that management will use this process to give exposure to managers with senior management potential.

21. Board Access to Internal and External Advisors

The Board may engage the Company's internal and independent accountants, internal and outside lawyers and other internal staff, and shall have the authority to hire separate independent accounting experts, lawyers and other consultants to assist and advise the Board in connection with its responsibilities. The Board shall have available appropriate funding from the Company for such engagements.

22. Board Interaction with Institutional Investors, The Press, Customers, Etc.

Management appoints persons to interact with institutional investors, the press and members of the public. Individual Directors ordinarily do not communicate directly with these constituencies about Company matters, unless requested to do so by the Board or management.

Shareholders may communicate in writing with the Board by sending the communication to the Sears, Roebuck and Co. Board of Directors, c/o Corporate Secretary, Sears, Roebuck and Co. Law Department, 3333 Beverly Rd., Hoffman Estates, IL 60179.

23. Board Compensation Review

Non-employee Directors receive compensation for their service on the Board ("Board Compensation"), as described in the Company's annual Proxy Statement. Management reports annually to the Nominating and Governance Committee the status of the Company's Board Compensation in relation to that of peer companies.

Changes in Board Compensation are proposed from time to time by the Nominating and Governance Committee, and may be adopted by the Board. Board Compensation is based on the following principles: Directors should be fairly compensated in light of the size and complexity of the Company and its demands on Directors and in light of board compensation paid by peer companies; and compensation should align Directors' interests with the long-term interests of shareholders.

24. Assessing the Board's Performance

The Nominating and Governance Committee performs (or retains and oversee an independent consultant to perform) an annual assessment of the performance of the Board as a whole to determine whether the Board and Committees are functioning effectively, and reports thereon to the Board. The assessment is based on how the Board fulfilled its duties and responsibilities under these Guidelines, and on other criteria that the Nominating and Governance Committee considers relevant in light of the then-current needs of the Board. The Committee reviews and discusses the results with the independent Directors in executive session.

The Nominating and Governance Committee also conducts a separate assessment of each individual Director whose term is expiring and who is being considered for nomination for another term as Director, based on the criteria set forth in the Guidelines for Selection of Nominees for the Board of Directors, as set forth in Appendix A hereto.

25. Director Orientation and Continuing Education

The Chairman of the Board, General Counsel, Chief Financial Officer and Human Resources executive, shall provide each new Director with appropriate orientation with respect to his or her duties as a Director and committee member. Directors that are named to the Audit Committee will have further orientation sessions with the Company's External Auditor, Internal Auditor, Controller and Chief Compliance Officer. In addition each new Director will participate in presentations and tours of each of the Company's significant business areas (e.g. Supply Chain, Full-Line Stores, Product Repair Services, The Great Indoors and Lands' End). Directors will also be provided with a Company guidebook that includes a variety of information including the Company's Annual Report and Proxy Statement, Code of Conduct, Director Compensation Information, Corporate Governance Guidelines or such other similar materials as are provided by the Corporate Secretary.

Continuing education seminars by recognized organizations (i.e. NACD) will be offered to the Directors on a periodic basis by the Chairman of the Board. The Company will pay for the cost for such seminars. Directors are encouraged to attend these or other seminars of interest that will be beneficial to them in the discharge of their duties as Directors. Audit Committee members will be provided a financial literacy tutorial on topics of interest on an annual basis by the Company at its October meeting.

26. Formal Evaluation of the CEO

The Nominating and Governance Committee and the independent Directors on the Board perform an annual evaluation of the CEO. The results of the evaluation are communicated to the CEO.

The evaluation is based on broad-based objective criteria such as the Company's overall performance, accomplishment of long-term strategic objectives, leadership development, and such other criteria as the Nominating and Governance Committee determines given the then-current needs of the Board.

The evaluation is used by the Compensation Committee in its annual review of the compensation of the CEO.

27. Succession Planning

The CEO reports annually to the Nominating and Governance Committee on succession planning for the CEO position, including providing his or her current recommendation as to a successor in case the CEO becomes unable to perform his or her duties.

In addition, the CEO meets annually with the Nominating and Governance Committee and the non-employee Directors to discuss succession planning for executive officers other than the CEO.

28. Shareholder Proposal Policy

The Board considers the merits of shareholder proposals, particularly those that are approved by a majority of votes cast. Because the Board is vested under law with a duty to act in a manner it believes to be in the best interest of the Company and its shareholders, it must take many factors into account in deciding whether to take the action specified in any such proposal. The Board will make that decision on the basis not only of the voting results but also of what is in the best interests of the Company and its shareholders in light of all the relevant facts and circumstances. The Board invites and encourages shareholders to communicate in writing with the Board concerning shareholder proposals -- see section 15 (Non-employee Directors) and section 22 (Board) hereof for contact information.

APPENDIX A
REVISED MARCH , 2004

SEARS, ROEBUCK AND CO.
GUIDELINES FOR SELECTION OF NOMINEES
FOR THE BOARD OF DIRECTORS

Following are general criteria for the selection of nominees for the Board:

1. Integrity

2. A past or present position of leadership in his or her field of endeavor which may include business, government or education

3. Business or professional knowledge and experience that will contribute to the effectiveness of the Board and the committees of the Board, and will replace, when possible, important attributes possessed by Directors who have retired or will retire in the near future

4. The ability to understand and exercise sound judgment on issues related to the goals of Sears

5. A willingness and ability to devote the time and effort required to serve effectively on the Board, including preparation for and attendance at Board and committee meetings, and preferably, be able to serve at least two full terms prior to retirement from the Board.

6. An understanding of the interests of shareholders, customers, employees, suppliers, communities, and the general public, and the intention and ability to act in the interests of all shareholders

7. A desire to serve on the Board primarily to contribute to the growth and prosperity of Sears and help create long-term value for its shareholders

8. Independence, as set forth in section 3 of these Guidelines.

9. 25 years of age (By-Laws)

Appendix B
Revised March 13, 2002

Sears, Roebuck and Co.
Director Share Ownership Policy
Adopted by the Directors
March 12, 1997

It is the policy of Sears, Roebuck and Co. to encourage a proprietary interest on the part of its Directors in the Company’s success through their acquisition and retention of common shares of the Company. In furtherance of this policy, each Director who does not own common shares with a market value (measured by the higher of initial cost or current fair market value) equal to at least five times the annual cash retainer for Directors in effect from time to time (currently $40,000 per annum) is expected to acquire such amount of common shares. A person who is a Director on November 8, 1995 is expected to acquire such number of shares no later than January 1, 2001. A person who is elected as a Director subsequent to November 8, 1995 is expected to acquire such number of shares within sixty (60) months of the date of such person’s election as a Director. Such purchases may be suspended during periods when it is inappropriate for insiders to purchase shares. For purposes of this policy, common share equivalents held by such Director under the Deferred Compensation Plan for Directors are considered as common shares owned.

APPENDIX C
REVISED FEBRUARY 12, 2003

SEARS, ROEBUCK AND CO.

POLICY ON RETIREMENT AGE OF DIRECTORS

ADOPTED BY THE BOARD OF DIRECTORS

ON FEBRUARY 12, 2003

1. The retirement date of a non-employee Director of Sears is his or her 72^{ND} birthday.

2. The retirement date for a Director who is also an officer of Sears or any of its subsidiaries is the effective date of termination of such Director's status as an officer of Sears or the subsidiary.

3. References to the retirement age of Directors in any benefit plan text or description are amended to conform to this policy.

4. This policy cancels and supersedes prior policies regarding retirement age of Directors.