Sustainability Report 2011
KB Home Sustainability Report
Purpose and Structure

The 2011 KB Home Sustainability Report is our fifth annual public report. Our intent is to share progress we made in 2011 against goals set in our 2010 report, establish new goals for 2012 and foster continued discussion and engagement with all of our stakeholders on the complex issues surrounding sustainability.

All information provided in this report, including financial data, is for our fiscal year ended November 30, 2011, unless otherwise noted. We also identify in this report a number of goals and priorities for 2012. We fully intend to do our best to achieve these objectives, subject to shifts in the business climate.

We have made reasonable efforts to ensure the accuracy of the information in this report. Certain data, estimations, calculations and comparisons presented herein are provided by or are based on third party sources, including public agencies, and methods that we believe to be reliable, but that we have not independently evaluated or confirmed. In addition, some of these data, estimations, calculations and comparisons, while growing in use and acceptance, are relatively new and may be subject to revisions, refinements and updates, or superseded over time, by other data, measures or metrics.

As with our previous reports, this report follows the Global Reporting Initiative (GRI) Guidelines, which provide a widely recognized level of accountability and transparency, and are considered by many environmental experts to be the current international standard for sustainability reporting. A full accounting of the GRI indicators addressed in this report and more information on GRI Guidelines can be found in the GRI Index of Indicators section.

We are committed to issuing additional reports in the future, reflecting the integral role of sustainability in KB Home’s business.
My Home. My Earth.
Guiding Principles

KB Home’s sustainability initiatives have been guided by five core principles established in our inaugural 2007 Sustainability Report:

1. Offer environmentally friendly and affordably priced homes, products and features that minimize our homeowners’ carbon footprint and energy usage, conserve natural resources, and create more sustainable homes and communities.

2. Utilize our history of innovation and our process-driven approach to reduce waste and natural resource usage throughout our organization.

3. Be an active and responsible member of the communities in which we operate.

4. Be an environmental educator for all our employees, homebuyers and business partners regarding home energy conservation and environmental sustainability.

5. Maintain our standards of transparency and corporate citizenship by publicly reporting on the progress in and challenges to our sustainability efforts.

KB HOME’S VISION FOR SUSTAINABILITY

To become a leading environmentally friendly national company by engaging the talents of our employees and trade partners, utilizing the power of our innovative business model to minimize the impact of our business and homes on the environment, to increase positive change in the protection of our Earth and its resources and to continue to make the dream of homeownership attainable.

A Message from Jeffrey T. Mezger, President and Chief Executive Officer of KB Home

To our customers, employees, stockholders and partners in sustainability:

I am pleased to share with you KB Home’s fifth annual Sustainability Report. We have accomplished quite a lot in five relatively short years toward our goal of becoming a leading environmentally friendly company. While recognizing that KB Home and the overall homebuilding industry still have considerable areas of opportunity, 2011 was another year of great progress for our company, as we took many actions on behalf of both our customers and the environment in the area of sustainability.

Throughout the year, in addition to building all of our new homes throughout the year to ENERGY STAR® guidelines, we broke new ground in our industry with the company-wide launch of the KB Home Energy Performance Guided®, or EPG®, in February. Similar to an MPG sticker for new cars, the EPG shows consumers what we expect their energy bills to be in an energy-efficient KB home as designed as well as the estimated monthly savings that are possible with such a KB home.

We also decided to offer and showcase more homes with solar power systems in an effort to encourage more Americans to power their homes with this clean and renewable resource. In March, we made solar power systems a standard feature of homes in 10 of our communities in Southern California and have since expanded this initiative to additional communities. In September, we introduced our new ZeroHouse 2.0 option, an exciting program designed to give our homebuyers the choice to make almost any KB home a net-zero energy home that can produce as much energy as it consumes.

These offerings provide benefits to the environment as well as our homebuyers, and KB Home is in the unique position to evaluate the resonance of these options with today’s consumer. The expense of these options relative to the potential savings is a key concern for many of our customers, and we can leverage our economies of scale as we determine the optimal offerings for our homebuyers.

What will never change, however, and one thing that I will never question, is our focus on our customers. Our customers are one of the primary reasons why every home we build today is, in several ways, more sustainable than a typical existing home. The energy- and water-saving features and building technologies incorporated into every KB home give all of our buyers the opportunity to lower their monthly utility costs and enjoy considerable savings for years to come, while also lessening their negative impact on the environment.

We continue to believe that our commitment to sustainability is simply the right thing to do for our customers, our employees, our stockholders, our company and the environment. And so, in 2012, we intend to keep moving forward, working toward achieving new goals through our company-wide My Home. My Earth® program. Our goals are centered around the categories of consumer benefits and awareness, energy efficiency and building science innovation, water efficiency and conservation, and waste reduction.

I am very proud of our employees who are working hard every day to meet the goals we have set for ourselves and take great pride in knowing that the homes we build are not only making an important difference in the lives of those who own them, but can also be helpful to the environment. We consider it a privilege and an honor to have helped over half a million families achieve the dream of homeownership throughout our 55 year history. And we must continue to evolve our business practices to ensure that we are doing our part to protect our precious planet for future generations of homebuyers.

Sincerely,

Jeffrey T. Mezger
President and Chief Executive Officer
KB Home
10990 WILSHIRE BLVD., LOS ANGELES, CA 90024
TEL 310 331 4000 | WEB KBHOME.COM
Building a More Sustainable Home

Energy efficiency comes standard in every KB home...and so do other environmentally conscious products!

Every KB home comes with our proprietary Energy Performance Guide® (EPG®). The EPG provides an estimate of monthly energy costs for each home as designed, as well as an estimate of monthly energy cost savings when compared to a typical resale home in the local market. This information comes from our Home Energy Raters, who use energy analysis software to assess our home designs. For example, this home in one of our beautiful KB Home communities in Austin has projected monthly energy costs of $128, for an estimated monthly savings of $87. Considering that the average length of homeownership is eight years (source: National Association of Realtors 2010 White Paper, “The Long Term Value of Home Ownership”), the savings can add up quickly—to over $8,000 during that time. This home is also estimated to avoid the emission of 3.1 tons of carbon dioxide (CO₂) per year, helping to reduce our homeowners’ carbon footprint.

ENVIRONMENTALLY CONSCIOUS FEATURES INCLUDED IN A KB HOME:

1. ENERGY STAR® qualified homes (third-party verified)
2. ENERGY STAR appliances
3. Programmable thermostats
4. Low-E windows
5. ENERGY STAR entry doors
6. Blown-in attic insulation
7. Radiant barrier roofing
8. Insulated garage doors
9. Water-conserving dishwashers
10. WaterSense® bath faucets, toilets and showerheads
11. Efficient water circulation systems
12. Water-efficient landscaping
13. MERV-8 rated air filters
14. Low-VOC interior paint
15. ERI Green Label Plus™ low-VOC carpeting
16. Formaldehyde-free insulation
17. Prebuilt wall panels, floor trusses and roof trusses
18. Doors, cabinets and shelving (made from recycled wood particles) that avoid or minimize the use of new wood
19. Carpeting that is recyclable (Cradle to Cradle® certified)
20. Kwikset® SmartKey locks
21. HVAC uses Carrier’s Puron® earth friendly refrigerant
2011 My Home. My Earth® Commitments and Results

KB Home’s 2010 Sustainability Report outlined a number of specific, measurable actions that we committed to in 2011 in an effort to further our goal of becoming a leading environmentally friendly national company. Our 2011 commitments and results, which are outlined in the pages that follow, relate to four key areas of focus: consumer awareness and education; water efficiency and conservation; building science innovation; and waste reduction. Along with the progress we have made, we identify the challenges we faced and the goals we are still working to achieve.

Consumer Awareness and Education

Raise consumer awareness of the financial and other benefits of our environmental building practices, and educate buyers on the earth-conscious features included in our homes.

2011 GOAL
Be the first national homebuilder to provide a KB Home Energy Performance Guide® (EPG®) for every new KB home built in February 2011 and beyond, containing information about the as-designed home’s expected energy performance rating and estimated monthly electric and gas costs.

PROGRESS
COMPLETED
• The KB Home EPG initiative launched nationally in Feb. 2011.
• In September 2011, KB Home enhanced its EPG to include information on a KB home’s as-designed estimated monthly energy cost savings compared to a typical resale home.
• The information provided by the EPG comes from our Home Energy Raters, who use energy analysis software to assess our home designs. Additionally, every ENERGY STAR® qualified KB home is tested and evaluated by one of these Raters. The process typically includes a blower door test, a duct blaster test and the completion of a thermal envelope checklist. The standards and testing guidelines that Home Energy Raters follow are maintained by the Residential Energy Services Network (RESNET®).

2011 GOAL
Implement national sales, marketing and communications outreach programs on the new EPG and the information it provides to raise awareness among consumers.

PROGRESS
COMPLETED
• Over 40% of all KB Home sales and marketing collateral pieces featured the EPG in 2011.
• Communications outreach on the KB Home EPG garnered over 350 million media impressions.
• This extensive media coverage prompted other homebuilders to work with RESNET to prepare informative consumer marketing pieces similar to our EPG. This eventually led to the creation of RESNET’s “Energy Smart Builder” program.

2011 GOAL
Provide information to buyers and potential buyers on the benefits of environmentally conscious homes and products via KB Home Studio displays, online content and more.

PROGRESS
COMPLETED
• KB Home Studio team members actively supported our divisions in providing homebuyers with information about our environmentally conscious homes and products. Our KB Home Studios showcase several products that can help homebuyers increase the energy and water efficiency of their homes. One of our key areas of focus in 2011 was reinforcing the EPG rollout by introducing an array of products that can help reduce homebuyers’ monthly energy bills.
• KB Home continuously updated its sustainability-related website content. In 2011, we added the EPG to our online community pages to help consumers compare the energy performance estimates of the different plans. In addition, a video featuring Martha Stewart, highlighting a KB home’s standard energy-efficient features and cost-saving benefits, was posted on our website.
• The My Home. My Earth® section of the KB Home website garnered over 19,000 unique views in 2011.
**Consumer Awareness and Education (Cont.)**

**2011 GOAL**
Identify additional ways KB Home can serve as a leader in raising consumer awareness of environmental building practices.

**PROGRESS**

**COMPLETED**

- **The KB Home GreenHouse**: An Idea Home Created with Martha Stewart, our first net-zero energy home, debuted at the International Builders’ Show in January 2011. This special showcase home was an opportunity to demonstrate that a certified “green” home can be affordable, functional and stylish. Over 1,200 industry professionals, consumers and members of the media took a guided tour of the home during its opening week and an additional 15,000 people registered for a virtual tour available online.

- **Earth Day, April 22, 2011, was also EPG “Everybody Put on Green” Day in KB Home markets and communities across the country. On this day, KB Home sent “green” street teams out in each of its markets to raise awareness of our EPG and other industry-leading environmental initiatives. An internal awareness campaign was also conducted among KB Home employees, including an EPG photo contest and other activities.**

- **In May 2011, KB Home, in collaboration with the EPA WaterSense® program, organized an educational event with local elected officials and students at our WaterSense community in Roseville, CA.**

- **Also in May 2011, KB Home unveiled Primera Terra, one of the largest communities of LEED®Platinum certified homes in California. This Los Angeles community has garnered several awards for its innovative features.**

- **Raising the awareness of industry professionals helps to raise consumer awareness. To that end, KB Home hosted an educational event at Primera Terra for the local U.S. Green Building Council (USGBC) chapter. Additionally, KB Home executives have participated in and presented at several industry and sustainability-related events, sharing our knowledge of and experience with sustainable practices.**

- **In October 2011, KB Home joined the Environmental Media Association (EMA), and also became a member of this nonprofit’s board of directors.**

- **KB Home organized educational events with local elected officials and students for the unveiling of it’s net-zero energy home option, dubbed the ZeroHouse 2.0, in Tampa, San Antonio and Southern California in the fall of 2011.**

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**Faces of Sustainability**

“Following KB’s leadership, there are now over 100 national, state and local builders that have made commitments to have their homes energy rated... I label KB for its national leadership.”

Steve Baden, Executive Director, Residential Energy Services Network (RESNET)

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**KB HOME ENERGY PERFORMANCE GUIDE® (EPG®)**

“Know MPG. Get to know EPG,” was KB Home’s message to consumers during the February 2011 launch of its proprietary Energy Performance Guide, or EPG. Included with every new KB home and on display in the model homes at our communities nationwide, the EPG shows an estimate of monthly energy costs for the home as designed, as well as an estimate of the monthly energy cost savings when compared to a typical resale home in the local market.

The information shown on the EPG is provided by our Home Energy Raters, who use energy analysis software to assess our home designs. These are the same Raters who test and evaluate every ENERGY STAR® qualified home we build. The standards and guidelines that they follow are maintained by the Residential Energy Services Network (RESNET).

The KB Home EPG helped to fill a void in consumer awareness when it comes to buying a home. Most consumers wouldn’t dream of purchasing a new car without knowing its estimated mileage per gallon; yet, before the EPG, many buyers had no way of knowing their estimated energy costs before they purchased a home.

The EPG provides home shoppers with an easy way to compare the relative energy efficiency of a new KB home to other new and resale home options, and moreover, a way to better understand and estimate their total cost of homeownership after they move in. As one local broadcaster put it, “Why hadn’t they thought of this before?”

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**People love our built-in energy efficiency!**

Rebecca Churla

We pay 165 for our electricity and gas! Absolutely • our KB home!!!

Unlike · Comment - December 27, 2011 at 6:11am

Shareca

I absolutely love my KB home. My energy and gas bill is usually 80 bucks each month combined. Way cheaper than when I was living in my one bedroom apartment. Thank u KB!

Like · Comment - December 16, 2011 at 8:36pm

Elvira

My energy bill runs $118.00 per month. Where I was paying over $300.00 at my last home... I’m so happy about that...

Like · Comment - December 17, 2011 at 12:55pm

Karen

I like this.----
LEED® PLATINUM CERTIFIED PRIMERA TERRA AT PLAYA VISTA

In May 2011, KB Home unveiled Primera Terra, one of the largest communities of LEED Platinum certified homes in California. Located in the master-planned community of Playa Vista on the westside of Los Angeles, the 52 luxury condominium homes are equipped with energy- and water-saving features and built with sustainable materials designed to make them more comfortable and efficient than a typical new or resale home. In fact, the homes are estimated to be at least 40% more energy efficient than California’s Title 24 new home standards and boast energy costs that are estimated to be as little as $57 per month in select homes, as highlighted in the KB Home EPG®.

Primera Terra homeowners enjoy a community garden, secured bike storage and electric-vehicle charging stations in the building’s subterranean parking garage—amenities that are intended to support and promote a more sustainable lifestyle. Playa Vista is a community known for its walkability, plentiful parks, sports fields and neighborhood gathering spots, as well as ease of access to essential services including banking, shopping and dining.

Since its opening, Primera Terra has garnered multiple awards for its innovative design and sustainable features.

KB UNIVERSITY: EDUCATION STARTS AT HOME

KB Home’s goal of raising awareness of the benefits of our sustainable building practices and features starts with educating our team members. Using our online internal KB University, all new KB Home team members are required to take and pass a My Home. My Earth® training course and certification test as part of their new hire orientation. This course provides ample information on the features and benefits of our ENERGY STAR® qualified homes and other environmentally conscious products.

Additionally, in 2011, we provided KB Home Sales, Marketing, Purchasing, Studio, Construction and Customer Service team members with a supplemental KB University training course that focused on our new Energy Performance Guide® (EPG®). This training gave these team members tools to effectively communicate to consumers the potential cost-saving benefits of an energy-efficient KB home as designed when compared to a typical resale home.

FACES OF SUSTAINABILITY

“I want to congratulate KB Home on their successes and achievements in the face of what I know remains a very challenging time for homebuilders across the country. I have every confidence that under Jeff Mengen’s leadership, KB Home will continue to serve as a catalyst to transform the residential market toward sustainability.”

S. Richard Fedrizzi, President, CEO and Founding Chairman, U.S. Green Building Council

2011 GOAL

Introduce weather-based irrigation systems in all of the common areas and model home complexes of our new home communities. Offer these systems as an option at the KB Home Studio.

PROGRESS

PARTIALLY COMPLETED

• EPA issued their specifications for weather-based irrigation systems in November 2011.

• Currently, KB Home is working to line up suppliers to complete this goal in 2012.

2011 GOAL

Explore efficient hot water delivery systems for potential use in all KB homes.

PROGRESS

COMPLETED

• We have evaluated the plumbing systems, requirements and techniques necessary for including efficient hot water delivery systems in our homes. Use of these systems can help homeowners save money and conserve water.

• Our in-house architecture team is preparing plans with greater focus on the location of the hot water heater in relation to the kitchen and baths to enhance efficiency. Also, we often include plumbing layouts in our construction drawings that are designed to increase the efficiency of hot water delivery systems in our homes.

Water Efficiency and Conservation

• Reduce the water consumed by our homeowners in their day-to-day living in newly constructed KB homes.

• Reduce the amount of fresh water consumed in the operation of our business and help to further protect water resources.

2011 GOAL

Expand on our industry leadership in building homes to EPA’s WaterSense® specification by building more communities that meet WaterSense standards. Continue to partner with EPA to increase consumer awareness of the importance of water-efficient new homes and the WaterSense program.

PROGRESS

COMPLETED

• In 2011, we built 97 WaterSense labeled new homes, the most by any single builder in the nation. Homes were completed in KB Home communities in our Northern California, Central Texas and Central Florida divisions.

• While consumer awareness for the need to conserve water is growing, it is often as prominent as energy conservation. Therefore, KB Home has taken on the important goal to increase awareness and educate consumers, as well as our industry peers. In 2011, we took a variety of approaches to doing this:

• Three of the high-profile net-zero energy model homes we built in 2011 were also WaterSense labeled, providing increased visibility to our partnership with the program for both professionals and consumers.

• KB Home partnered with U.S. EPA and local elected officials for an educational event with students at KB Home’s Springwood community in Roseville, Calif., where the first WaterSense labeled homes in the nation were built.

• KB Home representatives participated in a panel discussion on WaterSense, led by U.S. EPA officials, at the 2011 WaterSmart conference in Las Vegas.

2011 GOAL

Introduce weather-based irrigation systems for potential use in all KB homes.

PROGRESS

PARTIALLY COMPLETED

• EPA issued their specifications for weather-based irrigation systems in November 2011.

• Currently, KB Home is working to line up suppliers to complete this goal in 2012.

2011 GOAL

Explore efficient hot water delivery systems for potential use in all KB homes.

PROGRESS

COMPLETED

• We have evaluated the plumbing systems, requirements and techniques necessary for including efficient hot water delivery systems in our homes. Use of these systems can help homeowners save money and conserve water.

• Our in-house architecture team is preparing plans with greater focus on the location of the hot water heater in relation to the kitchen and baths to enhance efficiency. Also, we often include plumbing layouts in our construction drawings that are designed to increase the efficiency of hot water delivery systems in our homes.
KB HOME CELEBRATES WATERSENSE® LABELED HOMES

After building the first homes in the nation to the U.S. Environmental Protection Agency’s WaterSense labeled specifications in late 2010, KB Home continued to make a splash in 2011 with a local community event at its Springwood community in Roseville, CA. that highlighted the incredible water-saving benefits of these homes. Springwood is the first community of all WaterSense labeled homes in the U.S.

During this educational event, area schoolchildren, local officials and media watched as a huge dump truck-load of blue schoolyard dodgeballs were spilled out, symbolizing the amount of water a WaterSense labeled home saves in less than one week. WaterSense homes can save a family of four up to 50,000 gallons of water annually, both inside and out, compared to a typical American home, enough to fill five residential swimming pools.

This event helped raise awareness of the importance of water conservation in our day-to-day living.

WATER SMART HOMES IN LAS VEGAS

Water conservation is a way of life in the Las Vegas valley. KB Home makes it easy to enjoy a sustainable lifestyle by building all of its Las Vegas–area homes to the Southern Nevada Water Authority’s Water Smart standards at no extra cost to homebuyers. On average, these homes use 49% less water than past traditional homes, according to a 2010 study by SNWA. Since becoming the first major homebuilder to join the Water Smart New Homes program in 2005, KB Home has built approximately 8,000 Water Smart homes, which together are estimated to save over 1.5 million gallons of water every single day.

Building Science Innovation

- Increase the efficiency of our homes through continued improvement in our construction practices and materials.
- Investigate, create and pilot innovative new techniques and products that advance building science and our ability to provide earth-conscious, energy-efficient new homes.

2011 GOAL
Build a net-zero energy “concept home” in every division to demonstrate the latest ideas and products to the homebuying public and other stakeholders.

PROGRESS
PARTIALLY COMPLETED
- The KB Home GreenHouse®: An Idea Home Created with Martha Stewart debuted in January 2011 at the International Builders’ Show in Orlando, Florida. It was KB Home’s first net-zero energy home.
- In September 2011, KB Home opened its first ZeroHouse 2.0 model homes, showcasing a new net-zero energy home design option that may eliminate homebuyers’ monthly electricity charges entirely. Homebuyers can choose a fully net-zero design, or they can choose to incorporate select features that can increase the energy efficiency of their new home. These options are currently available in select communities in Tampa, San Antonio, Austin, Las Vegas, Denver, Houston and Southern California.
- The national rollout of ZeroHouse 2.0 to more KB Home communities is planned to continue through 2012. We plan to evaluate the frequency of selection of ZeroHouse 2.0 options by buyers in all markets where they are currently available. For the value proposition of a fully net-zero home to be attractive to more of our buyers, we recognize that total costs of this option must be reduced. We are in a position to leverage our scale and work with our supplier partners on this opportunity.

2011 GOAL
Continue to add new environmentally conscious products as standard or optional in all KB homes.

PROGRESS
COMPLETED
- KB Home in 2011 made Owens Corning EcoTouch® insulation standard in its new homes and PV solar power systems standard features in select communities.
- Also in 2011, we made the following new environmentally conscious options available to homebuyers through our KB Home Studios: new, more efficient appliances from Whirlpool®, recycled content flooring from Shaw®, and LED lighting choices from Sea Gull®.
2011 GOAL
Improve the energy efficiency of the average KB home by 10%.

PROGRESS
COMPLETED
• Our average national Home Energy Rating System (HERS) index score at end of 2010 was 78, and at the end of 2011 it was 70, an improvement of over 10%.
• KB Home achieved this goal in part due to our continued company-wide participation in the ENERGY STAR® for New Homes program. In 2011, we worked to prepare for a transition to a new set of standards for this program, known as ENERGY STAR Version 3. These new standards require homes to be even more energy efficient than in the past and also extend beyond energy efficiency to require additional quality construction details, HVAC system performance improvements and better indoor air quality.

2011 GOAL
Expand solar projects at KB Home with the goal of making solar more affordable and attainable for homebuyers.

PROGRESS
COMPLETED
• In March 2011, KB Home announced a major new initiative to provide solar power systems as a standard feature in 10 of our Southern California communities. We later expanded this popular program, and as of the date of this report, over 80% of our Southern California communities include solar power as a standard or optional feature. In 2011, over 300 homes were built with solar power systems as a standard feature in this division.
• Solar power systems have also been available as options in select KB Home communities in our Colorado, Northern California, Las Vegas and Central Texas divisions.

ENERGY STAR® QUALIFIED HOMES
KB Home builds all of its new homes to the rigorous ENERGY STAR guidelines. Last year, the cumulative number of ENERGY STAR qualified homes built by KB Home since 2000 reached over 68,000. In one year, families living in those ENERGY STAR qualified homes could save more than $33 million on their utility bills, while avoiding greenhouse gas emissions equivalent to those from 33,000 vehicles, according to EPA estimates.

KB HOME OFFERS SOLAR POWER SYSTEMS AS A STANDARD FEATURE
One of KB Home’s long-term sustainability goals has been to find ways to harness the power of the sun to help pay the energy bills of our homebuyers, while keeping our homes affordably priced for today’s value-conscious consumers. We took a major step toward this goal in 2011 with the rollout of an incredible program that made solar power a standard feature of our homes in 29 KB Home communities throughout Southern California. We recently expanded this popular program to our Central Florida division as well.

Consistent with our approach of incorporating sustainable products that will provide economic benefits to our customers in the form of lower energy bills without substantial upfront costs, we have worked closely with our suppliers to make solar power systems available at a level of affordability unique to KB Home. Buyer response has been very positive, and we continue to explore ways to expand this initiative to more markets in the future.

According to our primary solar power systems supplier, SunPower®, the environmental benefits of the more than 300 homes we built with its systems in Southern California in 2011 are equivalent to planting over 2,400 acres of trees or removing more than 2,000 cars from the road for one year.

FACES OF SUSTAINABILITY
“In shopping for a new house, we were attracted to KB Home’s Monterey at Otay Ranch community because they allowed us to customize our new home to our liking. Additionally, they included solar panels as a standard feature on the home, which made our decision to buy even easier. We have been living in our new solar home for nearly a year now and the monthly savings on energy costs keep adding up!”

Jorge Rocha and wife, KB homeowners since May 2011

R. Rex Parris, Mayor of the City of Lancaster, California
Based on the favorable response to the net-zero energy KB Home GreenHouse® built for the January 2011 International Builders’ Show, KB Home decided to build and showcase more net-zero energy model homes that are designed to generate as much energy as they consume. Thus began the nationwide rollout of ZeroHouse 2.0, an exciting net-zero energy home option for buyers that KB Home can offer in a turnkey way through our Built to Order process, and can potentially eliminate buyers’ monthly electricity charges entirely.

KB Home’s approach to the challenge of bringing a practical net-zero home to the market was to “reduce before we produce.” For example, the home design we built as a ZeroHouse 2.0 model home in Austin would typically have a HERS score of 74, when constructed to our ENERGY STAR qualified standard. To get to the net-zero energy level, we first engineered the home to consume as little energy as possible, including features such as increased insulation and high-efficiency heating and cooling equipment. This brought the home’s HERS score down to 47. We then added a solar power system to bring the HERS score all the way down to zero. In addition to avoiding a near-zero electric bill, the home is also estimated to avoid the emission of 5.7 tons of carbon dioxide (CO2) annually.

These model homes are now featured in select communities in Tampa, Southern California, Colorado, Las Vegas, San Antonio, Austin and Houston—with more openings expected throughout 2012. We see KB Home’s ZeroHouse 2.0 as the home of the future, available today.

FACES OF SUSTAINABILITY

“A lot of work goes into designing and building a home that has the potential to reduce the owner’s monthly energy bills to next to nothing, especially here in Texas. But KB Home has made it possible with ZeroHouse 2.0.”

Shasta Bruce, Senior Purchasing Agent in KB Home’s Central Texas Division

Waste Reduction

• Continue to find new ways to reduce waste in our corporate and division offices.
• Continue to reduce job site waste in order to minimize the environmental impact of our construction operations.

2011 GOAL
Increase the number of new-home communities in which we recycle job site waste by 10%.

2011 GOAL
Challenge our Job Site Waste Reduction Leaders to further reduce waste in corporate and division offices with new company-wide requirements as part of our Get Rid of Waste (GROW) initiative.

2011 GOAL
Drive 100% participation to complete quarterly waste reduction action plans and continue working toward establishing company-wide job site waste reduction standards.

PROGRESS

PROGRESS

PROGRESS

• Based on the Waste Estimator tool KB Home rolled out in all of its divisions in 2010, we increased the number of new-home communities in which we recycle job site waste by 20%.

• KB Home evaluated establishing new company-wide requirements, and decided a division-by-division approach would be more meaningful at the present time, based on the diverse nature and size of our division operations and local recycling resources available.

• Some company-wide initiatives to reduce office waste include implementing an electronic process for our vendor contracts that will eliminate unnecessary printing that can add up to 1,000 pages or more per week for each division office. We have also begun working on adding functionality to our payroll system to generate online direct deposit statements rather than bi-weekly paper statements, which can save approximately 28,800 sheets of paper per year.
KB HOME’S SUPPLIER RELATIONSHIPS ENHANCE SUSTAINABILITY EFFORTS

Many of KB Home’s achievements in the realm of sustainability are due in part to our strong relationships with our outstanding trade partners and suppliers. The passion and commitment of many of our partners to sustainability mirrors our own, and without them, we simply could not do what we do every day to deliver high quality, energy-efficient and affordable KB homes to our customers across the country.

Our supplier initiatives include everything from sourcing environmentally conscious products for our homes to ensuring that our supply chain is delivering those products to our communities as efficiently as possible. For example, we are proud to work with a number of suppliers that have teamed up with U.S. Environmental Protection Agency as a SmartWay Transport Partner in order to improve their fuel efficiency, enhance environmental performance and increase supply chain sustainability. These companies include: Kohler® Company; Mannington Mills, Inc.; Masco Corporation; Owens Corning®; Stanley Black & Decker®; Whirlpool® Corporation; and others.

FACES OF SUSTAINABILITY

“Through challenging times in homebuilding, KB Home has never wavered from their commitment to building the right home with the right energy- and water-saving features for homebuyers.”
Kellene Safis, Regional Sales Director, Central States, Whirlpool Corporation

FACES OF SUSTAINABILITY

“Implementing and maintaining sustainable practices on our job sites continues to be a focus for KB Home’s Colorado division. We keep a watchful eye over our sub-contractors to ensure minimal waste goes to landfills by optimizing opportunities for recycling. For example, 90% of all drywall waste is reprocessed into fill that is biodegradable.”
Daneil Hensley, Vice President of Operations and Job Site Waste Reduction Leader, KB Home Colorado

FEBRUARY 2011

The KB Home Energy Performance Guide®, or EPG®, is introduced during a media and investor tour in New York City. By the end of the month, EPG labels are displayed in all KB Home model homes nationwide.

MARCH 2011

• KB Home is ranked the #1 homebuilder in FORTUNE® Magazine’s list of the World’s Most Admired Companies, making the list for the seventh consecutive year. The company also ranks first among homebuilders in the subcategories of innovation, people management and social responsibility and global competitiveness.
• U.S. Environmental Protection Agency (EPA) recognizes KB Home with a 2011 ENERGY STAR® Sustained Excellence Award, the agency’s highest honor.
• A major solar power initiative is launched in KB Home’s Southern California division, with all homes in 10 communities offering solar power systems as a standard feature.

APRIL 2011

• For KB Home, Earth Day is also EPG Day—Everybody Put on Green® Day, EPG Day was designed to raise awareness of KB Home’s Energy Performance Guide and other industry-leading sustainability initiatives.
• KB Home’s 2010 Sustainability Report is released on Earth Day, April 22, 2011. The company remains the only national homebuilder to publish a broad scale annual sustainability report.

MAY 2011

• For the fourth consecutive year, KB Home is the only builder to earn the prestigious National Housing Quality (NHQ) Certified Builder designation from the NAHB Research Center for all of its operations nationwide.
• The first WaterSense® labeled homes in the country, built by KB Home in 2010 at its Springwood community in Roseville, California, are celebrated and recognized by the City of Roseville and a group of local students during a special community event.

JUNE 2011

U.S. EPA honors KB Home with a company-record twelve 2011 ENERGY STAR Leadership in Housing Awards.

MAY 2011 (cont.)

• Primera Terra, KB Home’s first community of LEED® Platinum certified homes, and one of the largest such communities in the state of California, opens in Playa Vista. The community is honored with a 2011 LEED for Homes Award from the United States Green Building Council (USGBC), a Best in American Living Award from the NAHB and a Best Multi-Family Residential Project of the Year Award from Engineering News Record California and McGraw Hill Publishing.
KB Home intends to build upon progress made over the last five years to move our My Home. My Earth® sustainability initiatives forward in 2012. Our goals for 2012 are centered upon: Consumer Benefits and Awareness; Energy Efficiency and Building Science Innovation; Water Efficiency and Conservation; and Waste Reduction. All of these key areas of focus support our vision for sustainability as they serve to minimize the impact of our business and homes on the environment.

2011 SUSTAINABILITY AWARDS AND MILESTONES

**JULY 2011**
- The City of Lancaster and KB Home partner to open Arroyo, the first community in the Antelope Valley region of Southern California to offer solar power systems as a standard feature.
- Martha Stewart and KB Home open the 11th community of homes with designs inspired by Stewart’s personal residences. In addition to being stylish and comfortable, the homes built at Mabel Bridge in Orlando, FL are ENERGY STAR qualified.

**AUGUST 2011**
- KB Home’s Northern California division, expanding its presence in the Bay Area, announces the opening of 10 new communities. All new homes built in these communities will be ENERGY STAR qualified and GreenPoint Rated.

**SEPTEMBER 2011**
- The nationwide rollout of KB Home’s Zer House 2.0, a line of net-zero energy home options, begins with the opening of showcase model homes in Tampa, San Antonio and Austin. The Texas homes receive the 2012 Builders Challenge Maximized Energy Performance Award from the U.S. Department of Energy.

**OCTOBER 2011**
- U.S. EPA names KB Home a 2011 WaterSense Partner of the Year. The company is the first homebuilder to ever receive this honor.
- KB Home announces partnership with Build San Antonio Green® (BSAG) and commits to building all new KB homes in San Antonio to the BSAG Certification standards. BSAG later honors KB Home’s Central Texas division with a Leadership and Outstanding Commitment Award during its 10th Anniversary Celebration.

**DECEMBER 2011**
- KB Home’s solar power initiative expands to now include 29 of its Southern California communities that offer solar power systems as a standard feature.
- The rollout of ZeroHouse 2.0 continues with the opening of KB Home’s first net-zero energy home in Southern California. Additional ZeroHouse 2.0 openings are planned in Denver, Las Vegas and Houston during the first two months of 2012.

**2012 My Home. My Earth® Goals**

KB Home intends to build upon progress made over the last five years to move our My Home. My Earth® sustainability initiatives forward in 2012. Our goals for 2012 are centered upon: Consumer Benefits and Awareness; Energy Efficiency and Building Science Innovation; Water Efficiency and Conservation; and Waste Reduction. All of these key areas of focus support our vision for sustainability as they serve to minimize the impact of our business and homes on the environment.
CONSUMER BENEFITS AND AWARENESS
- Communicate the environmental and financial value associated with a more sustainable home by demonstrating to consumers how KB homes can provide better quality, better comfort, better durability, and more energy and water savings compared to a typical resale home.
- Train and certify all KB Home staff on the features and benefits of an ENERGY STAR® qualified home so that they can better communicate them to our homebuyers, real estate professionals and others.
- Continue using KB Home’s proprietary Energy Performance Guide® to quantify the potentially lower total cost of homeownership of a new KB home. Train and certify all sales teams on effective ways to communicate the EPG® message to homebuyers.
- Continue KB Home’s nationwide rollout of our ZeroHouse 2.0 net-zero energy options.

ENERGY EFFICIENCY AND BUILDING SCIENCE INNOVATION
- Further improve all our homes built in 2012 by incorporating the new ENERGY STAR Version 3 standards covering energy efficiency and a wide range of products and construction techniques such as:
  - Complete thermal enclosure systems with comprehensive air sealing, quality insulation and high-performance windows designed to deliver improved comfort and lower utility bills.
  - High-efficiency heating, ventilating and cooling systems.
  - Comprehensive water management systems to protect roofs, walls and foundations from moisture damage.
  - Energy-efficient lighting and appliances to help keep utility bills low, while providing performance and durability.
- Further improve the indoor air quality of our homes by using zero-VOC interior paint.
- Continue to provide solar power systems as a standard or optional feature of KB homes in select markets and explore new value propositions that could facilitate offering solar power systems on more KB homes.
- Provide an energy monitoring system in every home as a standard feature in order to increase homeowners’ awareness of their energy consumption starting with electricity. This can result in additional energy conservation by up to 10%.

WASTE REDUCTION
- Reduce job site waste across our operations by 10%.
- Reduce energy consumption in our model homes by 5%.
- Reduce paper use in our division and corporate offices by 10%.
- Adopt a new reward/recognition program for employees who find new ways to reduce waste in our offices as part of our ongoing GROW (Get Rid of Waste) initiative.

WATER EFFICIENCY AND CONSERVATION
- Continue our leadership in building WaterSense® labeled new homes by constructing more of these homes in communities across our markets. Also, evaluate consumers’ interest in WaterSense labeled new homes when offered as an option at the KB Home Studio.
- Further improve the water efficiency of our homes by incorporating two new products that are at least 10% more water efficient.
- Expand upon the low water usage landscaping standards we have adopted in our model home complexes.

2012 My Home. My Earth.® Goals
Social and Charitable Contributions

As a homebuilder, we feel strongly about the basic need for all people to have access to adequate shelter. As a result, much of our charitable giving centers around shelter-related causes and assistance for children and their families, including both in-kind donations of labor and furnishings as well as the gift of volunteer time. In addition, KB Home supports causes that help to improve quality of life for all the residents of the areas in which we build, including quality education and medical care, as well as the critical issue of access to food. Following are some examples of our social and charitable activities in 2011:

**SHELTER**
- Our Colorado division donated approximately $15,000 of model home furniture to the Volunteers of America in order to furnish a home in Denver serving women veterans in need.
- Our Northern California division donated three full Disney® Dream Room children’s bedroom sets worth approximately $5,000 to three families whose children have been long-term patients of Children’s Hospital and Research Center.
- Our Southern California division donated $2,500 as a Diamond-level sponsor of Habitat for Humanity Inland Valley’s Annual Golf Tournament. The division also made a donation to Project Touch, an organization dedicated to preventing and ending homelessness in Riverside County.

**CHILDREN & FAMILIES**
- Our Central Texas division has sponsored and participated in the NFL Alumni Golf Classic for nine consecutive years, an event that has raised more than $100,000 annually for the Center for Child Protection in Austin.
- Our Central Texas division donated more than 1,500 school backpacks in Austin and San Antonio through the San Antonio Hispanic Chamber of Commerce and local nonprofits in 2011. In particular, KB Home employees provided more than 100 backpacks filled with school supplies to the community of Bastrop for children whose families lost their homes during the summer’s wildfires.
- Our Las Vegas division donated the volunteer hours of its employees several times throughout the year to local food bank Three Square’s “Back Packs for Kids” Program, which assembles bags of weekend food for children in need. The program is currently distributing more than 7,200 bags a week to more than 275 schools in our community.
- Our Northern California division donated over $6,000 in landscaping labor and materials costs to four families in need as part of Keller Williams® Realty’s annual RED Day, dedicated to renewing, energizing and donating to local communities.
- Our Central Texas division sponsored the 8th Annual Wishes for Children Charity Golf Classic, benefitting Rancho Daracitas, a safe-haven and group home for victims of child abuse or neglect. The division also made a cash donation to the Boys and Girls Club of Anaheim.
- Our Central Texas division donated approximately 100 boxes of cereal to Irma’s Angels, a nonprofit that helps provide meals to needy families during the winter holiday break.
- Our Southern California division donated $500 to St. Jude’s Hospital.

**FOOD & MEDICAL CARE**
- Our Houston division donated 528 pounds of food to the Houston Food Bank and $3,000 cash to the Red Cross of Texas.
- Our Central Texas division participated in five on-site blood drives benefitting the South Texas Blood and Tissue Center.
- Our Central Texas division donated approximately 100 boxes of cereal to Irma’s Angels, a nonprofit that helps provide meals to needy families during the winter holiday break.
- Our Las Vegas division made a $500 cash donation to St. Jude’s Hospital.
- Our Southern California division donated $500 to Stater Bros. Charities’ 4th Annual Believe Walk that benefits organizations in the Inland Empire that support cancer patients and their families.

**MEETING OTHER LOCAL NEEDS**
- Our Northern California division donated $5,000 to the City of Lincoln to help make the community’s annual Fourth of July fireworks show a reality.
- Our Central Texas division for eight years has contributed to the city-wide Project Cool program, which delivers fans to seniors during the hot Texas summer.
- Our Central Texas division participated in the San Antonio River Foundation’s annual Basura Bash for the sixth year. This effort is designed to clean rivers, creeks and drainage channels throughout the city.
- Our Houston division gave a $5,000 cash donation to the local Salvation Army.
- Our Central Florida and Southern California divisions made cash donations to local schools during educational ZeroHouse 2.0 events at KB Home communities. The amounts donated represented the energy cost savings a homeowner would enjoy in a new ZeroHouse 2.0 in the local market.

TREND TO WATCH: MULTIGENERATIONAL HOUSING

Families are getting closer than ever as a trend of multigenerational housing is taking hold across the country. According to U.S. Census Bureau data, the number of multigenerational households, defined as those with three or more generations living together under one roof, grew 30% from 2000 to 2010.

KB Home’s Built to Order™ homebuilding experience is naturally suited to accommodate this growing trend, as buyers have the opportunity to customize the floor plan, layout and number of bedrooms and baths in their new home. For example, we are seeing increased demand for dual master suites (two large bedrooms each with their own attached bath) to accommodate parents living with their adult children.

**Built to Order** also makes it easy and affordable for buyers to accommodate the needs of their multigenerational family with Universal Design options. More buyers have been requesting these features in their homes, whether it is for an elderly, ill or disabled family member, or an injured veteran coming home. Some of the popular Universal Design requests include: shower grab bars; wider doorways; roll-in showers; shower seats; raised toilet seats; front door ramps; hand-held showerheads; lever faucets; lever door hardware; and front-loading washer/dryers.

The design flexibility of KB Home’s Built to Order process provides an affordable option for meeting the needs of America’s multigenerational households.
Sustainability Performance Overview

Organizational Profile and Governance

KB HOME OVERVIEW

As one of the nation’s leading homebuilders, we have built and delivered over half a million homes since our founding in 1957. We are distinguished by our Built to Order™ homebuilding approach, which gives homeowners a tremendous level of production-scale customization at an affordable price. KB Home’s award-winning homes and communities meet the needs of first-time homebuyers with flexible designs that also appeal to move-up buyers and active adults. Headquartered in Los Angeles, KB Home operates 12 divisions in nine states and 32 major markets nationwide.

KB Home was named the #1 Homebuilder in FORTUNE® magazine’s 2011 list of the World’s Most Admired Companies and also ranked #1 among homebuilders in the subcategories of innovation, people management, social responsibility and global competitiveness. The Company trades under the ticker symbol “KBH,” and was the first homebuilder listed on the New York Stock Exchange (NYSE).

GOVERNANCE

Our business is conducted under the direction of our President and Chief Executive Officer with the oversight of our Board of Directors, which is chaired by a Non-Executive Chairman of the Board. Each member of our Board of Directors is elected annually by our stockholders to oversee the management of our business and to assure that the interests of our stockholders are met. To support this goal, we believe that a substantial majority of our Board members should be independent. With the exception of our President and Chief Executive Officer, all Board members who served during our 2011 fiscal year were independent under the Board’s independence standards.

Our Board of Directors has adopted Corporate Governance Principles that provide the framework within which we conduct our business and pursue our strategic goals. In addition, all of our Board members and employees are expected to follow the highest ethical standards when representing KB Home’s interests, and must abide by our Ethics Policy. We also maintain an Ethics Policy hotline (800-304-0657) and reporting website (kbhome, ethicspoint.com), administered by an independent third party to ensure maximum confidentiality and neutrality. Our Corporate Governance Principles and Ethics Policy are available on our website at www.kbhome.com/investor/corporategovernance. Print copies of our corporate governance principles and our Ethics Policy are available without charge by written request to our Corporate Secretary.

In addition, comments or questions for the KB Home Board of Directors, or any individual Board member, can be directed in care of our Corporate Secretary to KB Home, 10990 Wilshire Boulevard, Los Angeles, CA 90024.

STAKEHOLDER ENGAGEMENT

Creating meaningful organizational change takes more than the creation of an environmental initiative; it requires us to build and sustain buy-in for the value of this commitment at every level of the organization and leverage the combined experience, creativity and dedication of the entire KB Home team. In a business that depends as heavily as ours does on a network of suppliers at both the national and local levels, as well as on the goodwill of our community partners and other nongovernmental organizations, it is essential to create that buy-in within a larger network of key stakeholders.

We work closely with a variety of stakeholders at the national and our divisional levels, including:

• homeowners
• potential homebuyers
• stockholders and potential investors
• employees
• organizations that represent local communities and neighborhoods
• elected officials, governmental regulators, planners and other public officials
• environmental groups and other nongovernmental organizations
• suppliers and trade partners

In addition to informal stakeholder engagement, we actively seek input from stakeholders through our National Advisory Board, which is described in further detail on page 31. KB Home also has six local Community Advisory Boards in place across our 12 divisions. Since our focus in 2011 was on national sustainability policies, however, we were primarily engaged with our National Advisory Board for guidance during this period.

PUBLIC POLICY PARTICIPATION

We believe actively participating in the public policymaking process is an important aspect of being a responsible member of the communities in which we build and necessary to appropriately pursue our business goals. To this end, we engage with public officials and other policymakers at all levels of government in discussions about issues that affect homeownership.

We make contributions to candidates for public office, irrespective of political party affiliation, and to certain ballot initiatives. We support candidates who understand the homebuilding process and champion the broadening of homeownership opportunities. We support ballot initiatives that enhance community development and services—primarily bond measures for schools, parks, transportation, water and environmental protection.

We are committed to complying with all laws that apply to the making and public reporting of political campaign contributions. Contributions to federal campaigns are made only by the KB Home American Dream Political Action Committee. We contribute to state and local campaigns only as permitted by applicable law.

Our senior executive for government and public affairs oversees our participation in the public policymaking process.

There is an internal management approval process in place for political campaign contributions and a reporting process to our Board of Directors’ Nominating and Corporate Governance Committee.

In 2011, the KB Home American Dream Political Action Committee contributed $5,500 to candidates for Congressional offices and campaign committees. These contributions were reported to the Federal Election Commission and can be found on its website at www.fec.gov.
THE SAVE ACT
One piece of legislation that is of great importance to our industry and the advancement of housing sustainability initiatives is the SAVE Act, which seeks to recognize the value of energy efficiency in the appraisal and mortgage underwriting processes of a new or existing home purchase. This is a bipartisan effort that is currently gaining support in Congress.

This legislation would require home appraisals to reflect the value that energy-efficient features add to a home. It would also require underwriting standards to reflect a home’s expected energy costs in the debt-to-income qualifying ratio of a homebuyer. This would help encourage buyers to look for energy-saving features when shopping for a new home.

The SAVE Act is currently supported by the Leading Builders of America, a group in which KB Home is an active member.

In 2011, we contributed $21,059 to campaigns for state and local offices in California, Colorado and Nevada. The California contributions can be found on the California Secretary of State’s website at www.cal-access.ss.ca.gov.

We are also members in various trade associations in our markets, primarily to establish business connections with local building industry companies. From time to time, we obtain services from these trade associations, including local marketing studies, signage and advertising placements, and continuing education or training classes. Some of these trade associations automatically allocate a portion of the fees we pay for membership dues and services to use for their own independent political activities, and we do not monitor or control how these automatic allocations are used. To the extent we are informed of such automatic allocations by trade associations to which we pay fees of more than $50,000 in a fiscal year, we will publicly report the total amount automatically allocated. In our 2011 fiscal year, there were two such trade associations—the California Building Industry Association and the Building Industry Association of the Bay Area. Based solely on their reports to us, these two trade associations automatically allocated an aggregate total of $75,000.

SUSTAINABILITY OVERSIGHT STRUCTURE
We have a number of governance structures that are specifically tasked with driving our sustainability strategies and actions throughout our entire organization:

• Board of Directors Oversight. The Board of Directors supports sustainability as an important corporate goal. Board member Kenneth M. Jastrow, II, serves as the advisor on sustainability matters.

• National Advisory Board. As discussed above, national, recognized leaders meet twice yearly with KB Home to discuss recommendations related to sustainability and other issues.

• Environmental Leadership Team. A group of key executives convenes on a regular basis to discuss sustainability strategies, craft and refine company policies and initiatives, and create buy-in with leaders across all of our operating regions and major functions of the Company.

• Job Site Waste Reduction Leaders. As part of our company-wide focus on waste reduction, we have identified a Job Site Waste Reduction Leader in every major division in the Company. These liaisons are responsible for implementing our waste reduction programs throughout each department and reporting back to the company-wide group with input and ideas as well as results.

CARBON FOOTPRINT REPORTING
KB Home has been publishing carbon footprint measurement information since the release of our inaugural 2007 Sustainability Report. In 2009, we significantly expanded our methodology for capturing and reporting this data (explained in detail in our 2009 Sustainability Report), and we intend to continue to report on it as a normal course of business. Undertaking this effort requires significant dedication of employee resources that demonstrates our commitment to accuracy and transparency in this important area, particularly in this resource-challenged time for homeowners.

We remain committed to leading the homebuilding industry not only in our sustainability actions and initiatives, but also in the transparency of our sustainability reporting and carbon footprint disclosure.

2011 BUSINESS CLIMATE
Despite the difficult housing market conditions in our 2011 fiscal year, we believe we achieved strong results in a number of key areas of our business.

• Increased Sales and Selling Prices. We generated higher year-over-year net orders for the first time in two years, with a 39% year-over-year increase in the second half of 2011, and our overall average selling price in 2011 increased by 5% compared to the prior year.

• Improved Deliveries and Revenues. We produced consecutive increases in deliveries and revenues in each of the second, third and fourth quarters of 2011, with a 4% year-over-year increase in deliveries and a 6% year-over-year increase in revenues in the fourth quarter.

• Reduced Expenses and Debt. Our selling, general and administrative expense ratio improved sequentially in each of the second, third and fourth quarters of 2011. In total, in 2011, we reduced expenses by $41.6 million and lowered our outstanding debt by nearly $200 million.

• Positioned for Profitability. With our improved revenues and cost discipline, we moved toward profitability during 2011, achieving fourth quarter net income of $13.9 million and cumulative second-half net income of $4.3 million.

• Larger Backlog and Growth Platform for 2012. On a year-over-year basis, in 2011, we increased the number of homes in our backlog by 61%, and our backlog value increased by 74%. We also opened 123 new home communities, creating a larger operational footprint for future revenue generation.

Detailed operational results for fiscal 2011 and prior years, as well as additional information about our financial performance and business operations, including discussion of the material risk factors, are available in the reports we file with the U.S. Securities and Exchange Commission, which can be found on our website at http://www.kbhome.com/investor, or at http://www.sec.gov.

KB HOME NATIONAL ADVISORY BOARD
In 2009, KB Home established a National Advisory Board comprised of nationally recognized leaders in such areas as environment, economy, government, finance, housing, community planning and social responsibility. Members of the KB Home National Advisory Board come from a diverse group of organizations, including the U.S. Department of Energy, American Association of Retired Persons, Natural Resources Defense Council, Climate Prosperity Project, Inc., California Alliance for Jobs and National Association of Latino Elected and Appointed Officials, as well as academic institutions. This esteemed group meets two times each year to discuss the following objectives: the need to balance home availability and affordability while minimizing intrusion into the natural environment; the reduction in water and energy usage; the preservation of non-renewable resources; and the creation of livable neighborhoods.

KB Home listens intently to the views of these independent experts as we plan the neighborhoods that will make up America’s towns for generations to come.

KB Home’s National Advisory Board assists the company in ensuring that we are meeting our goals of creating livable neighborhoods, helping to protect the environment and making homeownership accessible to more American families.
Environmental Performance

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<tr>
<td><strong>ENERGY EFFICIENCY</strong></td>
<td></td>
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</tr>
<tr>
<td>Number of ENERGY STAR® qualified homes delivered</td>
<td>7,467</td>
<td>4,716</td>
<td>5,258</td>
<td>6,631</td>
<td>5,477</td>
</tr>
<tr>
<td>Percentage of total homes delivered that were ENERGY STAR qualified</td>
<td>31%</td>
<td>38%</td>
<td>62%</td>
<td>90%</td>
<td>98%</td>
</tr>
<tr>
<td>Percentage of KB Home divisions building at least some homes to ENERGY STAR specifications</td>
<td>83%</td>
<td>91%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Number of ENERGY STAR® qualified appliances installed (relative to total annual deliveries)</td>
<td>Began tracking in 2008.</td>
<td>18,804 (against 12,418 deliveries)</td>
<td>12,718 (against 8,498 deliveries)</td>
<td>11,290 (against 7,546 deliveries)</td>
<td>9,929 (against 5,672 deliveries)</td>
</tr>
<tr>
<td>KB homeowner satisfaction ratings on energy efficiency of their KB home from a 12-month post closing survey on a scale of 0–100% satisfaction</td>
<td>Began tracking in 2010.</td>
<td>Began tracking in 2010.</td>
<td>Began tracking in 2010.</td>
<td>91.9%</td>
<td>92.5%</td>
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| **WATER CONSERVATION** |        |        |        |        |        |
| Number of KB homes built to EPHS new WaterSense® specifications (construction commenced in late 2008) | N/A    | N/A    | N/A    | 11     | 97     |
| Number of Water Smart homes built (Las Vegas market only, in conjunction with the Southern Nevada Water Authority) | 1,964  | 881    | 393    | 521    | 412    |
| Number of EPHS WaterSense labeled fixtures installed in KB homes | N/A    | 154 lavatory faucets | 468 toilets | 15,890 lavatory faucets | 15,360 toilets | 10,966 lavatory faucets | 2,026 toilets | 241 showerheads | 18,240 lavatory faucets | 14,500 toilets | 12,700 showerheads (est.) |

| **MY HOME. MY EARTH® OPTIONAL PRODUCTS AND UPGRADES** |        |        |        |        |        |
| Total number of My Home. My Earth optional upgrades installed. These include appliances, HVAC equipment, radiant barrier roofing, WaterSense labeled fixtures, ENERGY STAR qualified doors and low-e windows. | Began tracking in 2009. | Began tracking in 2009. | 21,010 (against 8,488 deliveries) | 23,155 (against 7,346 deliveries) | 18,412 (against 5,812 deliveries) |

| **WASTE REDUCTION AND RECYCLING** |        |        |        |        |        |
| Percentage of KB homes built with preconstructed panels, which help to minimize waste, increase durability and are constructed offshore for greater precision. Using these panels results in more airtight homes that are better insulated, helping to reduce energy bills. | 65%    | 90%    | 90%    | 100%   | 100%   |
| Percentage of KB Home communities incorporating recycling into their standard job site processes | Began tracking in 2009. | Began tracking in 2009. | 44%    | 71%    | 91%    |

| **MY HOME. MY EARTH® OFFICE SUSTAINABILITY PRACTICES** | FY2007 | FY2008 | FY2009 | FY2010 | FY2011 |
| Number of meeting hours hosted on iLab (virtual meeting system to minimize air and car travel for training, meetings and events) | Began tracking in 2008. | 1,934  | 1,978  | 1,665  | 1,708  |
| Recycled paper (office grade) processed through our national service provider, which reduces the paper going to the landfill. We also track the paper recycling activities at our offices. | 56,440 lbs. | 149,560 lbs. | 72,390 lbs. | 467,979 lbs. | 158,129 lbs. |
| Water saving as a result of paper recycling program | 479 liters | 1,266 liters | 615 liters | 3,978 liters | 1,344 liters |
| Waste saved as a result of paper recycling program | 197,540 gallons | 321,290 gallons | 253,365 gallons | 1,637,925 gallons | 553,451 gallons |
| Oil saved as a result of paper recycling program | 9,336 gallons | 17,692 gallons | 16,540 gallons | 53,420 gallons | 13,930 gallons |
| Electricity saved as a result of paper recycling program | 115,702 kWh | 315,267 kWh | 148,400 kWh | 959,356 kWh | 324,144 kWh |
| Oil saved as a result of paper recycling program | 12,981 gallons | 34,256 gallons | 16,650 gallons | 107,635 gallons | 36,370 gallons |

| **GREENHOUSE GAS EMISSIONS ESTIMATE** | FY2007 | FY2008 | FY2009 | FY2010 | FY2011 |
| Carbon Disclosure Project questionnaire completed and submitted for the fiscal year impact | Yes | Yes | Yes | Yes | Invited to submit answers to questionnaire. |
| Estimated greenhouse gas emission for KB Home operations (CO₂e in metric tons) | Data not available for comprehensive emissions estimate. | 42,204 metric tons | 20,296 metric tons | 17,015 metric tons | 14,549 metric tons |
| Estimated greenhouse gas emission from construction activity-related intensity (CO₂e in metric tons per delivered home) | Data not available for comprehensive emissions estimate. | 0.0000139 | 0.000127 | 0.000107 | 0.000111 |
| Estimated greenhouse gas emission activity-related intensity (CO₂e in metric tons per delivered home) | Data not available for comprehensive emissions estimate. | 2.4 | 2.4 | 2.3 | 2.5 | (3,659 metric tons/1,523 homes) |

Note: Increase in 2010 was primarily due to our Northern California division recycling over 11,500 boxes of archived documents in 2010. Division reduced their document storage by 97% by cut costs and improve efficiency.
### Economic Performance

**Note:** Below are key financial and overall customer satisfaction performance indicators. Additional operational results for fiscal 2011 and prior years, as well as additional information about our financial performance and business operations, including discussion of the material risk factors, are available in the periodic and other reports we file with the U.S. Securities and Exchange Commission, which can be found on our website at www.kbhome.com/investor, or at www.sec.gov.

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<td><strong>FINANCIAL</strong></td>
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<tr>
<td>Total revenue (in thousands)</td>
<td>$6,416,526</td>
<td>$3,033,936</td>
<td>$1,824,850</td>
<td>$1,589,996</td>
<td>$1,315,866</td>
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<tr>
<td>Net income/loss (in thousands)</td>
<td>($929,414)</td>
<td>($976,131)</td>
<td>($809,360)</td>
<td>($178,764)</td>
<td></td>
</tr>
<tr>
<td>Number of homes delivered</td>
<td>23,743</td>
<td>12,438</td>
<td>8,480</td>
<td>7,346</td>
<td>5,812</td>
</tr>
<tr>
<td>Net orders</td>
<td>19,490</td>
<td>8,374</td>
<td>8,341</td>
<td>6,556</td>
<td>6,022</td>
</tr>
<tr>
<td>Backlog – units</td>
<td>6,322</td>
<td>2,269</td>
<td>2,126</td>
<td>1,336</td>
<td>2,156</td>
</tr>
<tr>
<td>Backlog – value (in thousands)</td>
<td>$1,498,835</td>
<td>$521,386</td>
<td>$263,794</td>
<td>$618,950</td>
<td></td>
</tr>
<tr>
<td>Average selling price</td>
<td>$261,600</td>
<td>$236,400</td>
<td>$207,100</td>
<td>$214,500</td>
<td>$224,600</td>
</tr>
<tr>
<td>Housing gross margin</td>
<td>(5.7%)</td>
<td>(1.7%)</td>
<td>6.5%</td>
<td>17.4%</td>
<td>13.4%</td>
</tr>
<tr>
<td><strong>CUSTOMER SATISFACTION</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer satisfaction index (from a 30-day post-closing survey on a scale of 1–10)</td>
<td>8.9</td>
<td>9.3</td>
<td>9.3</td>
<td>9.5</td>
<td>9.5</td>
</tr>
</tbody>
</table>

### Social Performance

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>STAKEHOLDER AND COMMUNITY INVOLVEMENT</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of Community Advisory Boards</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>National Advisory Board</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Infrastructure development – approximate school-related fees paid</td>
<td>Began tracking in 2008.</td>
<td>$35 million</td>
<td>$25 million</td>
<td>$21 million</td>
<td>$30 million</td>
</tr>
<tr>
<td><strong>EMPLOYEES, TRAINING AND LABOR PRACTICES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of full-time employees</td>
<td>3,556</td>
<td>1,892</td>
<td>1,446</td>
<td>1,346</td>
<td>1,204</td>
</tr>
<tr>
<td>Number of collective bargaining agreements with employees</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Employee injuries – West region</td>
<td>6</td>
<td>13</td>
<td>13</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Employee injuries – Southwest region</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Employee injuries – Central region</td>
<td>5</td>
<td>16</td>
<td>16</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Employee injuries – Southeast region</td>
<td>7</td>
<td>13</td>
<td>3</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Average online training certifications per employee</td>
<td>46</td>
<td>36</td>
<td>17</td>
<td>14</td>
<td>12</td>
</tr>
<tr>
<td>Average online training hours per employee</td>
<td>35</td>
<td>27</td>
<td>13</td>
<td>11</td>
<td>10</td>
</tr>
<tr>
<td>Annual core training certification rate – KBnxt White Papers</td>
<td>92% (new hires only)</td>
<td>99% (new hires only)</td>
<td>96% (new hires only)</td>
<td>97% (new hires only)</td>
<td>91% (new hires only)</td>
</tr>
<tr>
<td>Annual core training certification rate – Ethics Policy</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>99%</td>
</tr>
<tr>
<td>Annual core training certification rate – 100% Complete/100% Satisfied</td>
<td>94%</td>
<td>99%</td>
<td>98%</td>
<td>97%</td>
<td>92% (new hires only)</td>
</tr>
<tr>
<td>Annual core training certification rate – My Home. My Earth.™</td>
<td>N/A</td>
<td>99%</td>
<td>95% (new hires only)</td>
<td>97% (new hires only)</td>
<td></td>
</tr>
<tr>
<td>Annual core training certification rate – Who We Are</td>
<td>6,874</td>
<td>2,125</td>
<td>210</td>
<td>200</td>
<td>20</td>
</tr>
</tbody>
</table>
Global Reporting Initiative Index of Indicators

The Global Reporting Initiative (GRI) is a multistakeholder organization founded in 1997 to increase transparency in sustainability reporting by providing a framework to measure and report economic, environmental and social performance to a diverse range of stakeholders. This report was prepared based on the Global Reporting Initiative’s 2006 G3 Sustainability Reporting Guidelines. These guidelines are considered to be the current international standard for sustainability reporting, allowing organizations to present a balanced view of their operations.

Please reference the following tables to locate this data more easily in the report. “10K” refers to our 2011 Annual Report on Form 10-K for the fiscal year ended November 30, 2011. GRI has not verified the contents of this report, nor does it take a position on the reliability of information reported herein. For more information on GRI Guidelines, visit http://www.globalreporting.org.

### GRI Performance Indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Description</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>ENV6</td>
<td>Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives.</td>
<td>pages 6–7, 12, 15–18, 24, 10-K</td>
</tr>
<tr>
<td>EN16</td>
<td>Total direct and indirect greenhouse gas emissions by weight.</td>
<td>page 33</td>
</tr>
<tr>
<td>EN26</td>
<td>Initiatives to mitigate environmental impacts of products and services.</td>
<td>pages 24–25</td>
</tr>
</tbody>
</table>

### ECONOMIC

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>EC1</td>
<td>Economic value generated and distributed.</td>
</tr>
<tr>
<td>EC2</td>
<td>Financial implications and other risks and opportunities due to climate change.</td>
</tr>
<tr>
<td>EC8</td>
<td>Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind or pro bono engagement.</td>
</tr>
</tbody>
</table>

### SOCIAL PERFORMANCE: SOCIETY

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>S01</td>
<td>Nature, scope and effectiveness of any programs and practices that assess and manage the impacts of operations on communities.</td>
</tr>
<tr>
<td>S03</td>
<td>Percentage of employees trained in organization’s anti-corruption policies and procedures.</td>
</tr>
<tr>
<td>S05</td>
<td>Public policy positions and participation in public policy development and lobbying.</td>
</tr>
</tbody>
</table>

### SOCIAL PERFORMANCE: LABOR PRACTICES & DECENT WORK

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>LA1</td>
<td>Total workforce by employment type, employment contract and region.</td>
</tr>
<tr>
<td>LA4</td>
<td>Percentage of employees covered by collective bargaining agreements.</td>
</tr>
<tr>
<td>LA7</td>
<td>Rates of injury by region.</td>
</tr>
<tr>
<td>LA10</td>
<td>Average hours of training per year per employee by category.</td>
</tr>
</tbody>
</table>

### SOCIAL PERFORMANCE: PRODUCT RESPONSIBILITY

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>PR3</td>
<td>Type of product and service information required by procedures.</td>
</tr>
<tr>
<td>PR5</td>
<td>Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.</td>
</tr>
</tbody>
</table>

### GRI Profile Indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Description</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>STRATEGY AND ANALYSIS</td>
<td>CEO statement about relevance of sustainability to the organization and its strategy.</td>
<td>page 5</td>
</tr>
</tbody>
</table>

### ORGANIZATIONAL PROFILE

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Description</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1</td>
<td>Name of the organization.</td>
<td>page 28</td>
</tr>
<tr>
<td>2.2</td>
<td>Primary products and services.</td>
<td>page 28</td>
</tr>
<tr>
<td>2.3</td>
<td>Operational structure of the organization.</td>
<td>page 28, 10-K</td>
</tr>
<tr>
<td>2.4</td>
<td>Location of organization’s headquarters.</td>
<td>pages 28, 38</td>
</tr>
<tr>
<td>2.5</td>
<td>Countries where the organization operates.</td>
<td>page 6, 10-K</td>
</tr>
<tr>
<td>2.6</td>
<td>Nature of ownership and legal form.</td>
<td>page 28, 10-K</td>
</tr>
<tr>
<td>2.7</td>
<td>Markets served.</td>
<td>page 31, 10-K</td>
</tr>
<tr>
<td>2.8</td>
<td>Scale of the reporting organization.</td>
<td>page 31, 10-K</td>
</tr>
<tr>
<td>2.9</td>
<td>Significant changes during the reporting period.</td>
<td>pages 21–22</td>
</tr>
<tr>
<td>2.10</td>
<td>Awards received in the reporting period.</td>
<td>pages 21–22</td>
</tr>
</tbody>
</table>

### REPORT PARAMETERS

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Description</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1</td>
<td>Reporting period.</td>
<td>page 4</td>
</tr>
<tr>
<td>3.2</td>
<td>Date of most recent previous report.</td>
<td>page 4</td>
</tr>
<tr>
<td>3.3</td>
<td>Reporting cycle.</td>
<td>page 4</td>
</tr>
<tr>
<td>3.4</td>
<td>Contact point for questions regarding the report.</td>
<td>page 38</td>
</tr>
<tr>
<td>3.5</td>
<td>Process for defining report content.</td>
<td>page 4</td>
</tr>
<tr>
<td>3.6</td>
<td>Boundary of the report.</td>
<td>page 4</td>
</tr>
<tr>
<td>3.7</td>
<td>Limitations on the scope of the report.</td>
<td>page 4</td>
</tr>
<tr>
<td>3.8</td>
<td>Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations and other entities.</td>
<td>page 4</td>
</tr>
<tr>
<td>3.9</td>
<td>Data measurement.</td>
<td>page 4</td>
</tr>
<tr>
<td>3.10</td>
<td>Explanation of the effect of any restatements of information provided in earlier reports, and the reasons for such restatement.</td>
<td>N/A</td>
</tr>
<tr>
<td>3.11</td>
<td>Significant changes from previous reporting periods.</td>
<td>N/A</td>
</tr>
<tr>
<td>3.12</td>
<td>Table of GRI Standard Disclosures.</td>
<td>page 36</td>
</tr>
</tbody>
</table>

### GOVERNANCE, COMMITMENTS AND ENGAGEMENT

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Description</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1</td>
<td>Governance structure of the organization.</td>
<td>page 28, 10-K or proxy</td>
</tr>
<tr>
<td>4.2</td>
<td>Indication of whether Chair of the highest governance body is also an executive officer.</td>
<td>page 28</td>
</tr>
<tr>
<td>4.3</td>
<td>Board structure and independence of members.</td>
<td>page 28, 10-K or proxy</td>
</tr>
<tr>
<td>4.4</td>
<td>Mechanisms for providing recommendations to highest governing body.</td>
<td>page 28</td>
</tr>
<tr>
<td>4.14</td>
<td>Stakeholder groups engaged by the organization.</td>
<td>page 29</td>
</tr>
<tr>
<td>4.15</td>
<td>Basis for identification and selection of stakeholders.</td>
<td>pages 28</td>
</tr>
<tr>
<td>4.16</td>
<td>Approaches to stakeholder engagement.</td>
<td>pages 29–31</td>
</tr>
</tbody>
</table>