



MY HOME. MY EARTH.®

KB Home Sustainability Report

May 2009



KB Home Sustainability Report Purpose and Structure

The purpose of this *KB Home Sustainability Report* is to provide a public update to our first report published in July 2008. Our goal is to share our progress toward the vision and commitments outlined in that report in order to foster further discussion and engagement with all our stakeholders on the complex issues of sustainability. We will also identify our accomplishments and challenges and include a summary of our goals for 2009.

All information, including financial data provided in this report, is for operations for our fiscal year ended November 30, 2008, unless otherwise noted.

In developing this report, we followed the Global Reporting Initiative (GRI) Guidelines, which provide an increased level of accountability and transparency, and are considered by many environmental experts to be the current standard framework for sustainability reporting. A full accounting of the GRI indicators addressed and more information on GRI's guidelines can be found in the Global Reporting Initiative Index of Indicators at the end of this report.

We intend to issue periodic updates on our progress with respect to these indicators and to refine and enhance our data gathering and measurement systems. As we publish future editions, we will strive to increase the level and depth of information and analysis provided, including more comprehensive greenhouse gas emission analyses.

What Is “Environmentally Friendly”?

Throughout this report we use the term environmentally friendly to describe our sustainability initiatives.

We define environmentally friendly as reducing the negative impact on our environment and increasing positive change in the protection of our Earth and its resources.

We seek to minimize the Company's carbon footprint by conserving natural resources, reducing waste in our construction processes, and building energy- and resource-efficient new homes that should reduce the carbon footprint of our homeowners.

We are also committed to educating our employees, trade partners and homebuyers on the importance of environmentally friendly building practices.

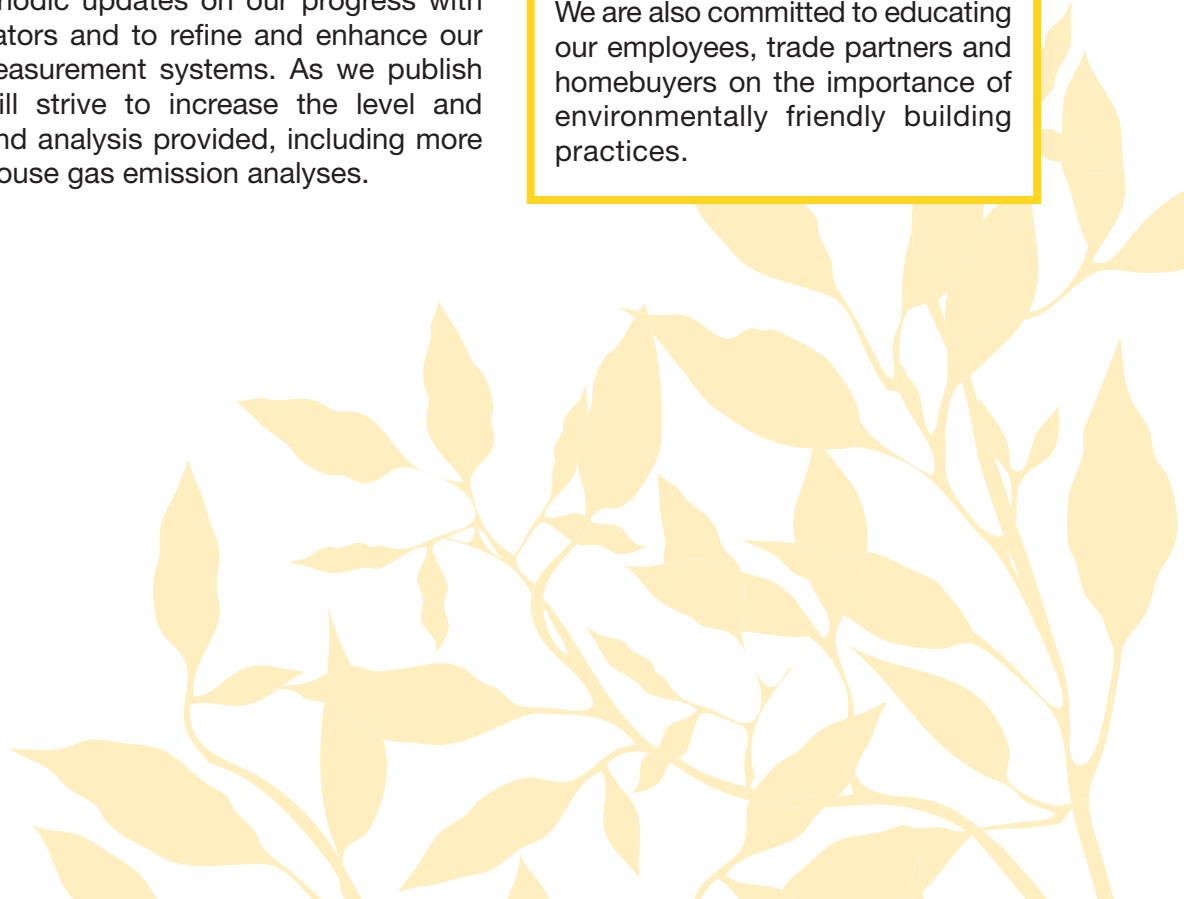
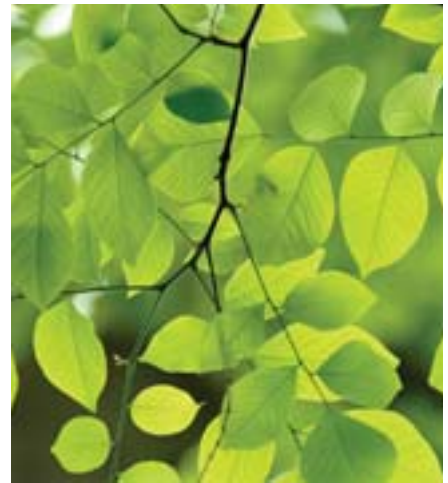




Table of Contents



A Message from KB Home President and Chief Executive Officer	4
Our Vision for Sustainability	5
KB Home Overview	6
<i>My Home. My Earth.</i> ® Commitments and 2008 Results	10
Environmental Responsibility	16
ENERGY STAR® and KB Home's Commitment to Energy Efficiency	18
Product Transformation	22
Consumer Environmental Education	30
KB Home Operations Carbon Footprint	33
GROW: Get Rid of Waste	36
Economic Responsibility	43
Social Responsibility	46
<i>My Home. My Earth.</i> 2009 Priorities and Actions	55
Global Reporting Initiative Index of Indicators	58
Endnotes	60

A Message from KB Home President and Chief Executive Officer

In this *KB Home Sustainability Report*, KB Home marks the progress made over the past year as we pursue our vision of becoming a leading environmentally friendly national company.

KB Home has proudly built quality homes for more than fifty years, and we will continue helping future generations achieve their dream of homeownership. We believe that by making our business more sustainable, we are not only enhancing our ability to meet the continually evolving needs of our homebuyers, but are also creating a legacy of a better environment and an improved quality of life while improving our financial performance in the process.

That is why the principles of sustainability guide all aspects of how we conduct our business, from our office operations to our construction processes to helping us build new homes more efficiently, affordably and reliably while meaningfully decreasing our environmental impact. It is also why we are providing our customers with more environmentally friendly choices for their new homes, and why we are stepping up our commitment to educate buyers on how these features can save them money today and contribute to a cleaner and healthier planet.

One of the central meanings of sustainability is that there must be a balance between the needs of today and tomorrow, and that the choices we make now will be felt by our children and grandchildren. In recent years, we have seen a growing public recognition that this does not necessarily mean sacrifice; that, in fact, by acting responsibly toward the environment, we can achieve immediate and profound economic and social benefits. This is a field ripe for growth and innovation, and KB Home intends to continue to be an industry leader in developing new ways to build affordable, environmentally friendly new homes. So when we say that becoming more sustainable is “the right thing to do,” we believe it is right for the environment and for the generations to come, as well as for our employees, stockholders and business partners.

Sustainability is not simply a goal — it is a commitment to fundamental change. As you will read in this *KB Home Sustainability Report*, the changes we have already made at KB Home are significant and lasting, but we also recognize that there is still so much more we can do. We embrace that challenge as an opportunity, not only to continue bringing the joy and satisfaction of homeownership to more people, but also to build a company that makes a difference.

Sincerely,

A handwritten signature in black ink, reading "Jeff Mezger". The signature is fluid and cursive, with the first name "Jeff" and last name "Mezger" clearly legible.

Jeffrey T. Mezger
President and Chief Executive Officer



Our 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.



KB Home Overview



KB Home, one of the nation's leading homebuilders, has delivered hundreds of thousands of quality homes for families since its founding in 1957. The Company is distinguished by its Built to Order™ homebuilding approach, which gives homebuyers an unprecedented level of 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 was named the #1 homebuilder on FORTUNE® magazine's 2009 "World's Most Admired Companies" list. This marks the second year in a row and the third time in the past four years that KB Home has achieved the top ranking. The Company trades under the ticker symbol "KBH," and was the first homebuilder listed on the New York Stock Exchange.

KBnxt Operational Business Model and Built to Order Homebuying Process

KBnxt Operational Business Model. We operate under our core KBnxt operational business model, an innovative and highly efficient customer-driven approach that is distinctive in the homebuilding industry. We developed the KBnxt operational business model over a decade ago as a means of offering our buyers a Built to Order experience in the design of their homes, while shielding our company from the risks associated with speculative building.

This business model generates greater efficiencies through a disciplined, fact-based and process-driven approach to homebuilding that is founded on a constant and systematic assessment of consumer preferences and market opportunities. Key benefits are increased quality and a more efficient use of building materials to minimize waste.

Built to Order Experience. When purchasing a KB home, our homebuyers choose their homesite, floor plan, square footage, architectural style and structural options. They also visit one of our KB Home Studio premier design showrooms to choose additional interior design features, such as lighting, flooring, appliances and cabinets, to make their home truly their own from the ground up. This Built to Order approach effectively aligns homebuyers' preferences and budgets with our own need to exercise discipline and focus in all our business processes.

KB Home at a Glance

- Founded in 1957.
- Builder of quality new homes, including single-family homes, townhomes and condominiums.
- Focused on first-time, first move-up and active-adult homebuyers.
- Listed on the New York Stock Exchange under ticker symbol "KBH."
- Headquartered in Los Angeles, California.
- Operates 11 divisions in 8 states and 28 major markets nationwide.
- Unique KBnxt operational business model that is customer driven and provides our homebuyers with a Built to Order experience.

KB Home Recent Awards and Achievements



#1 Homebuilder on FORTUNE Magazine's 2009 "World's Most Admired Companies" List

We were recognized as FORTUNE magazine's World's Most Admired Homebuilder for 2009, reflecting our 2008 performance. This marks the second year in a row and the third time in the past four years that KB Home has achieved the top ranking.

National Housing Quality Certification

In 2008, KB Home became the first and only homebuilder to earn National Housing Quality (NHQ) Certification for all our operations nationwide from the NAHB Research Center, a subsidiary of the National Association of Home Builders. In 2009, we were recertified following a rigorous independent audit of our quality assurance systems.

Named #1 Green Homebuilder

In 2008, Calvert Investments, with support from the Boston College Institute for Responsible Investment, recognized KB Home's efforts in their 2007 survey of environmental practices of the 13 largest publicly traded U.S. homebuilders.

2009 Excellence in ENERGY STAR® Promotion Award

EPA announced that KB Home is the only national builder to receive the 2009 Excellence in ENERGY STAR Promotion Award in recognition of our ENERGY STAR qualified homes, which are inspected by EPA-certified Home Energy Raters who conduct on-site testing to verify that the new homes meet ENERGY STAR standards.

2008 ENERGY STAR Leadership in Housing Award

EPA recognized eight KB Home markets with a 2008 ENERGY STAR Leadership in Housing Award for building ENERGY STAR qualified homes: Austin, Dallas/Fort Worth, Houston, Las Vegas, Phoenix, Sacramento, San Antonio and Southern California. From 2001 to the end of 2008, we built over 48,000 ENERGY STAR qualified homes companywide that meet EPA's stringent energy efficiency standard.

ENERGY STAR Qualified Appliance Commitment

In 2008, we began including only ENERGY STAR qualified appliances in every home we build.



Environmental Commitment and Organizational Structure

We believe that the homebuilding industry has an opportunity to effect meaningful change in the impact of new-home construction on the environment and to reduce the carbon footprint of every new home, and we intend to meet that responsibility. We feel strongly that reducing Americans' overall environmental footprint is critical to maintaining and enhancing quality of life in our neighborhoods and communities. As a leading homebuilder, we have taken a prominent position on this issue with the hope that it will inspire change throughout our industry.

We are confident that a homebuilder whose homes are most associated with environmentally friendly practices—and the utility savings they bring—will have a significant advantage in the marketplace. That is why we have undertaken a major transformation of our home designs and building practices over the past few years to offer environmentally friendly homes at a price point that puts them within reach of more homebuyers. We then support our environmental commitment with an effective organizational structure that spans from our executive team to our operating divisions to harness the power of the entire Company in driving our sustainability strategies. (For details on our organizational structures, see “A Structure for Sustainability” on page 47.)

One National Brand, One Business

We operate nationwide under a single strong brand name and a consistent approach to our business that is distinct in the homebuilding industry and gives us a number of competitive advantages:

- Our Built to Order approach to homebuying gives homebuyers a level of design flexibility typically available only with high-end custom homes. Giving homebuyers the opportunity to personalize their new home to their lifestyle and budget differentiates KB Home from other builders and resale homes.
- We have achieved the position of the most recognized brand in homebuilding.
- We promote our business through innovative national promotions and partnerships. These include offering distinctive home designs and home products in partnership with some of the world's leading brands such as Martha Stewart and Disney.
- The quality of our homes is continually improved through consistent, predictable processes that also help to drive down the cost for homebuyers.



Corporate 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 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 2008 fiscal year were independent under the Board's independence standards. The Audit and Compliance Committee of the Company's Board of Directors also meets the independence requirements established by the Sarbanes-Oxley Act of 2002 and the New York Stock Exchange (NYSE).

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. Hard copies of our corporate governance principles and our Ethics Policy are available without charge through written requests to our Corporate Secretary.

Comments or questions for the KB Home Board of Directors, or any individual Board member, can be directed in care of our Corporate Secretary at KB Home, 10990 Wilshire Boulevard, Los Angeles, California 90024.



My Home. My Earth. Commitments and 2008 Results



We created our *My Home. My Earth.*® strategic environmental initiative to formalize our longstanding objective of becoming a leading environmentally friendly national company and to foster a company-wide culture of sustainability. The goals of *My Home. My Earth.* are to make the homes that we build more environmentally friendly and to make our business operations increasingly sustainable.

We identified five major commitments with which the entire KB Home organization is aligned, along with the specific actions we would take to support these commitments. Following is a chart of our progress since the publication of our first report in July 2008.

Commitment and Action

Progress

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

Establish a companywide standard that all homes will be fully compliant with today's ENERGY STAR® requirements beginning with new communities opening in 2009.



IMPLEMENTED

- All of our KB Home communities newly opening in 2009 and beyond will feature exclusively ENERGY STAR qualified homes.
- In 2009, we estimate that 50% of the homes we build will be ENERGY STAR qualified, with that figure growing to over 70% in 2010. This should significantly reduce the carbon footprint of each new KB home across the entire life cycle of the home.
- In recognition of this commitment, the Environmental Protection Agency (EPA) recently named KB Home as a 2009 Excellence in ENERGY STAR Promotion Award winner for its outstanding contributions to reducing greenhouse gas emissions, the only national homebuilder to receive this honor in 2009.
- Since 2001, we have built more than 48,000 ENERGY STAR qualified homes companywide.

For more information on our ENERGY STAR commitment, see pages 18–21.

Commitment and Action**Progress**

Construct all new homes utilizing low-VOC paint and low-VOC carpet beginning in 2009.

**IMPLEMENTED**

- We now exclusively offer low-VOC interior paint and low-VOC carpet at both the standard and optional upgrade levels in every KB home in every one of our divisions nationwide.

Develop a marketing program to promote the consumer benefits of *My Home. My Earth.* options.

**IMPLEMENTED**

- We developed a consumer-focused *My Home. My Earth.* website to provide homebuyers with comprehensive information on all of our environmentally friendly standard features and optional products, as well as with tips for reducing the carbon footprint of their everyday living in their homes. The website can be accessed at kbhome.com/myhomemyearth.
- We continued to develop the *My Home. My Earth.* companywide marketing campaign in 2008, including point-of-purchase marketing, advertising materials, collateral and e-marketing. Our message to homebuyers focuses on how they can make their new home more environmentally friendly and save money on their utility bills at the same time.
- We created a dedicated *My Home. My Earth.* area in every one of our KB Home Studios to showcase environmentally friendly products and upgrades. Displays include clear consumer benefit and affordability messages.
- We also held consumer “Green Events” at our communities and KB Home Studios in a number of divisions, working with our trade partners and local utility companies to educate homebuyers about the full range of environmentally friendly options available to them.

Commitment and Action

Increase consumer selections for *My Home. My Earth.* options and continue to offer new environmentally friendly products.

Progress**IMPLEMENTED**

- We increased our consumer education and marketing about environmentally friendly options. From the *My Home. My Earth.* section on kbhome.com to our sales office materials to the area of our Studios dedicated to environmental products, we ensure that our prospective homebuyers are informed about the environmental benefits of a new KB home.
- As a result, an increasing number of buyers selected these types of options in 2008. For example:
 - The percentage of KB homebuyers selecting optional ENERGY STAR qualified refrigerators more than doubled in 2008 over 2007.
 - We installed over 18,800 ENERGY STAR qualified appliances, both standard and optional, across the Company, including refrigerators, dishwashers and clothes washers.
 - Twice as many buyers chose upgraded carpet with recycled content compared to 2007.
 - More than half of our buyers companywide selected optional radiant barrier roofing.
- We also added WaterSense® labeled toilets and bathroom sink faucets to our option selections (see below for details).

For more information on consumer option selections, see page 20.

Implement additional programs and products to reduce water consumption in the homes and communities that we build.

**IMPLEMENTED**

- In 2008, we introduced WaterSense labeled toilets and bathroom sink faucets to our line of *My Home. My Earth.* environmentally friendly options and continue to expand our commitment to this EPA water-efficiency designation, which recognizes products that provide significant water savings.
- We supported these product introductions with training for our KB Home Studio consultants and held internal sales programs to encourage adoption of these products, resulting in a successful launch.
- As part of our ongoing process of value engineering our homes for greater materials efficiency, we have redesigned our standard plumbing systems in The Open Series™ homes to create shorter runs that reduce wasted water and increase hot-water performance time.

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

Conduct a companywide audit by department in 2008 to provide a benchmark and identify opportunities to minimize waste at jobsites and offices.

**IMPLEMENTED**

- In 2008, we launched a companywide internal waste review, which we call GROW: Get Rid of Waste.
- In Phase I, our divisions across the Company conducted thorough self-assessments of their office operations and submitted nearly 900 potential action items on how to reduce KB Home's consumption of energy, water, paper and office supplies.
- Based on these action items, we published a set of 10 GROW standards in early 2009, with each standard to be implemented at every business unit in 2009 as a minimum performance requirement. Additional standards will be identified on a quarterly basis until all priority action items have been implemented.
- Each business unit has identified a GROW liaison who is responsible for tracking and reporting progress against the action items and standards.
- Phase II will expand into construction waste on our jobsites, including tracking, reporting and reducing the volume and costs of waste to reduce or divert landfill mass.

For more information on the GROW waste review, see pages 36–39.

Complete a thorough review and establish a standardized compilation of material takeoffs for new architectural plans in 2008.

**IMPLEMENTED**

- We have partnered with an outside expert to complete material takeoffs on all of our plans and are field verifying them at construction to validate quantities. (Material takeoffs are detailed estimates of the amount of materials needed for each home design. These estimates allow us to maximize efficiency and minimize waste.)

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

Establish a National Advisory Board to advise senior executives on companywide and national efforts in 2009.

ONGOING

- We are currently recruiting members for the KB Home National Advisory Board and anticipate having it fully up and running in 2009.

Commitment and Action**Progress**

Establish local Community Advisory Boards (CABs) in every division in the Company where it is appropriate to the size of the business by the end of 2009.

ONGOING

- We currently have CABs established in four of our 11 operating divisions: Northern California, Southern California, North Carolina and Central Florida. All four CABs were active in 2008.
- We believe it is important to have CABs established in every one of our major divisions. In 2009, as we continue to strive to meet this goal, we will launch CABs in a minimum of two additional divisions.

Appoint a member of the KB Home Board of Directors to provide leadership and guidance for the Company's sustainability efforts.

**IMPLEMENTED**

- KB Home Board member Kenneth M. Jastrow, II, advises on our sustainability strategy.

For more information on the organizational structure we've created to support our sustainability commitment, see page 47.

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

Launch a comprehensive *My Home. My Earth.* internal awareness program in 2008.

**IMPLEMENTED**

- In 2008, we launched a comprehensive internal awareness and training effort to ensure that every KB Home employee was aligned with our *My Home. My Earth.* initiative and our commitment to environmentally friendly homebuilding.

For more information on our internal awareness program, see pages 46–49.

Achieve 100% training and certification of employees on *My Home. My Earth.* in 2008.

**IMPLEMENTED**

- In 2008, 99% of our employees were certified in our *My Home. My Earth.* training program. The training program ensures that every member of the KB Home team is aware of our sustainability commitments and the actions we are taking to meet them.

For more information on this training, please see pages 50–51.

Commitment and Action**Progress**

Share environmental vision and commitments with key national business partners at our national conference, solicit their ideas and have them complete *My Home. My Earth.* training.

**IMPLEMENTED**

- The focus of KB Home's 2008 Strategic Partners Conference was on sustainability and creating buy-in with our partners to help us achieve our sustainability goals.
- We reviewed our sustainability objectives and priorities with our partners and gathered their feedback, as well as identified potential new environmentally friendly materials, features and products that could be incorporated into the homes we build.

For more information on our Strategic Partners Conference, see pages 48–49.

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

Develop key performance indicators for sustainability, as well as the systems for measuring them.

**IMPLEMENTED**

- In 2008, we began to systematize our key performance indicators, implementing a scorecard to measure and track the adoption of *My Home. My Earth.* programs and achieve 100% compliance on the companywide measures.
- Changes to processes and systems are underway in order to more effectively track and report metrics in areas such as electricity, water, paper and jobsite waste reduction, as well as our overall carbon footprint.

Publicly update our progress regarding our sustainability commitments and actions.

**IMPLEMENTED**

- This *KB Home Sustainability Report*, issued less than a year after our first report, is intended to provide a public update, including our specific progress on the actions to which we committed in that report.
- In addition, becoming a leading environmentally friendly home-builder is a central strategy for our organization and is a key message in all of our company communications to consumers, trade partners, community partners, government officials, the media and investors.

Continue to engage in open discussions with stakeholders on meaningful issues and to gather their perspectives on potential solutions and policies.

ONGOING

- We regularly engage with community groups and government officials to address issues that impact both the community and our business.
- We consult with a number of recognized governmental agencies, nongovernmental organizations and key experts to solicit their input on sustainability topics, including U.S. Environmental Protection Agency, the Natural Resources Defense Council, The Nathan Cummings Foundation and InterfaceRAISE.



Environmental Responsibility



KB Home is committed to finding innovative ways to continually reduce the environmental and carbon footprint of both our operations and our homebuyers' day-to-day living in the homes we build.

Since releasing our first *KB Home Sustainability Report* last year, much has happened that has changed the landscape within which our sustainability initiatives have operated. Most notably, economic conditions have further deteriorated and are expected to remain challenging for the near-term. Like many other companies, we have reconsidered our priorities as a result of these conditions.

However, due to our firm belief in sustainability, our commitment to our *My Home. My Earth.*® environmental initiative has been unwavering.

These goals have not varied because we value this opportunity to make significant changes that are good not only for our planet, but for our customers, the communities in which we build and our business. We have escalated our efforts, and the initial results show both lower costs and increased sales of optional products and our new array of environmentally friendly homes, The Open Series™, demonstrating that we are executing the right strategy for the right reasons.

Reducing KB Home's Carbon Footprint

KB Home's carbon reduction effort is multifaceted and encompasses every aspect of our business, from our offices and construction operations to building energy-efficient homes that will continue to deliver returns for many years to come.

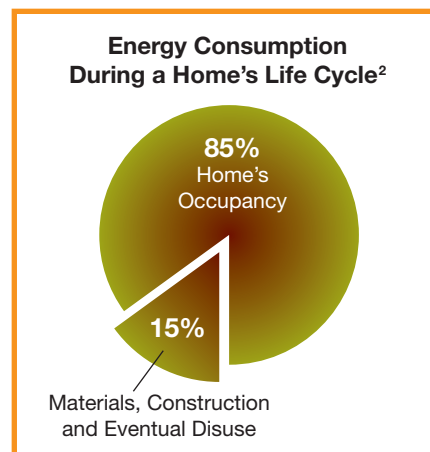
The major components of our carbon reduction effort are our:

- **Commitment to energy efficiency and to building exclusively ENERGY STAR® qualified homes in newly opened communities.** The savings are approximately 2.6 metric tons of greenhouse gases annually for every home we build (see pages 18–21).
- **Continual product transformation and value engineering.** Our latest efforts resulted in a new group of flexible and affordable energy-efficient homes, The Open Series™ (see pages 22–29).
- **GROW internal waste review initiative.** Currently this initiative targets reducing the amount of electricity and water we consume in our operations (see pages 36–37).
- **Trade partner relationships.** This leverage helps to ensure we are using the most energy-efficient and environmentally friendly products possible (see pages 35 and 48–49).
- **Built to Order™ experience.** This allows our buyers to choose environmentally friendly options from our line of *My Home. My Earth.* environmentally friendly products (see page 20).
- **Efforts to estimate annual greenhouse gas emissions.** This helps establish trend lines and drives our actions toward further reductions (see pages 33–34).

For more information on how we measure and report on the carbon footprint of our operations, see pages 33–35.

While KB Home's carbon reduction efforts are wide-ranging, energy efficiency is a high priority, both because of its direct link to climate change and its ability to reduce the real costs impacting the affordability of homeownership. Approximately 85% of the energy consumed during the entire life cycle of a home—including the initial raw material extraction, manufacturing and construction—comes from day-to-day living. This gives KB Home a significant opportunity to reduce the carbon footprint of our business by providing energy-efficient features and educating our homebuyers about how to conserve energy over the entire lifetime of their homes. Every day we are making a difference as we build more efficient homes and help create a more environmentally friendly housing supply.

In this section, we provide significant background and information on several key levers in achieving our sustainability goals.



The Impact of Housing on Climate Change

Approximately 17% of greenhouse gases emitted in the United States in 2007 came from people living their day-to-day lives in their homes.¹

Approximately 85% of the total energy consumption during the entire life cycle of a home stems from the energy used during home occupancy.²

New homes built to today's standard building and energy codes are up to 30% more energy efficient than homes built as recently as the 1990s.³

For ENERGY STAR qualified homes, the reduction in energy consumption could be as much as 45%, making a major impact on the home's carbon footprint.

EPA recently named KB Home as a 2009 Excellence in ENERGY STAR Promotion Award winner, the only national homebuilder to receive this award in 2009.

ENERGY STAR and KB Home's Commitment to Energy Efficiency



ENERGY STAR: A Name Homebuyers Trust

According to a recent survey by Whirlpool Corporation, nearly three in four American consumers actively seek out the U.S. EPA's ENERGY STAR when shopping for household appliances and 84% of consumers say they value energy efficiency over water—and time—savings when it comes to choosing an appliance.⁴

KB Home has been a partner in the ENERGY STAR for Homes program since 2001 and has been recognized by EPA as an ENERGY STAR leader in the homebuilding industry.

- Recently, EPA announced that KB Home has been recognized with the prestigious 2009 Excellence in ENERGY STAR Promotion Award for our outstanding commitment to energy-efficient construction and environmental protection, the only national homebuilder to receive this honor in 2009.
- KB Home was selected from more than 12,000 organizations that participate in the ENERGY STAR program to receive this award.
- In 2008, KB Home received ENERGY STAR Leadership in Housing awards in eight markets across the U.S.: Austin, Dallas/Fort Worth, Houston, Las Vegas, Phoenix, Sacramento, San Antonio and Southern California.

ENERGY STAR Qualified Homes

KB Home's ENERGY STAR qualified homes are designed for maximum energy efficiency from the ground up. To earn the ENERGY STAR, these homes must meet stringent criteria from EPA. Many of these features are built into the design and construction of the home, including high-performance windows and effective insulation in the walls and attic to reduce heat transfer, as well as tight construction and ducts to seal the home. Each ENERGY STAR qualified home also includes ENERGY STAR qualified appliances and programmable thermostats, as well as efficient heating and cooling equipment that further reduces energy use.

In our first *KB Home Sustainability Report*, we committed to building exclusively ENERGY STAR qualified homes beginning with all new communities opening in January 2009 and after. We were the first major homebuilder to take such comprehensive action in support of this well-established and rigorous energy efficiency standard.

What are ENERGY STAR qualified homes?

Developed by the U.S. Environmental Protection Agency and the U.S. Department of Energy to provide guidelines for energy-efficient technologies, ENERGY STAR is the most widely recognized energy efficiency standard and an important quality mark for consumers.

Only a home that meets rigorous criteria and passes an independent third-party inspection can earn the ENERGY STAR qualified designation. The independent inspections by EPA-certified Home Energy Raters are a critical component of the ENERGY STAR program and set it apart from other energy rating programs. These inspections provide homebuyers peace of mind knowing that their home has earned the ENERGY STAR.⁵

According to EPA estimates, a household living in an ENERGY STAR qualified home, compared to a standard new home:

- Consumes 15% less energy.
- Reduces greenhouse gas emissions by 2.6 metric tons per year (equivalent to 5,813 pounds).
- Saves about \$447 on utility bills annually.⁶

We have a long history of building ENERGY STAR qualified homes. The percentage of our homes that are built to this exacting standard has grown from 1% of our home deliveries in 2001, the year we began working with ENERGY STAR for Homes, to 37% in 2008. One-third of our divisions built every one of their new homes to this standard in 2008, and only one of our divisions did not build at least some ENERGY STAR qualified homes.

In 2009, we began building only ENERGY STAR qualified homes in newly opened communities. As we close out existing communities that are not ENERGY STAR qualified, we project that over 70% of homes delivered will be fully ENERGY STAR qualified in 2010.



Making a Positive Impact on Greenhouse Gas Reductions

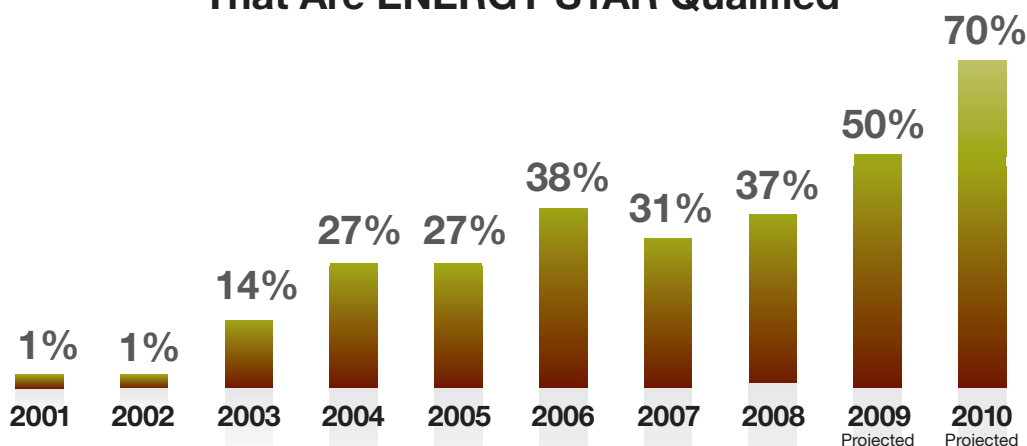
From 2001 through 2008, KB Home built 59,454 highly energy-efficient homes, 48,000 of which were ENERGY STAR qualified.

According to EPA formulas, these homes reduce greenhouse gas emissions by more than 150,000 metric tons annually when compared to homes built to standard building and energy efficiency codes, making a positive impact on the carbon footprint of our company and our homebuyers' day-to-day living in the homes we build.

This annual reduction is estimated to be equivalent to removing over 28,500 cars from our roads each year and saves our homeowners a combined total of up to \$26 million per year on utility bills.⁷



Percentage of Homes Built by KB Home That Are ENERGY STAR Qualified



In 2007, some of our divisions participated in alternative energy efficiency programs from local utilities and other entities, temporarily reducing our overall percentage of ENERGY STAR qualified homes. In 2008, KB Home made a companywide commitment to ENERGY STAR, bringing this percentage back up to approximately previous peak levels.

ENERGY STAR Qualified Appliances

In 2008, we began installing only ENERGY STAR qualified appliances in our newly built homes. These appliances incorporate advanced technologies that use 10–50% less energy and water than standard models.⁸ By offering exclusively ENERGY STAR qualified appliances for all of our standard and optional choices, we are creating incremental energy savings with every home we sell. In 2008 alone, we estimate that installing ENERGY STAR qualified appliances rather than standard models reduced CO₂ emissions by up to 448 metric tons—equivalent to removing approximately 2,140 cars from our roads for a year—and reduced water consumption by up to 21 million gallons of water, and natural gas by over 17,000 MMBtu. In the process, we estimate that our homeowners saved nearly \$465,000 on their utility bills.¹⁰

Additional ENERGY STAR Qualified Products

A number of ENERGY STAR qualified products are included in our homes as standard features. In addition, we offer our homebuyers the opportunity to select further ENERGY STAR qualified upgrades to make their new KB home even more environmentally friendly. Standard and optional choices include:

- Whirlpool appliances
- Sea Gull Lighting fixtures and fans
- Carrier programmable thermostats
- Therma-Tru entry doors
- Energy-efficient windows
- Radiant barrier roofing and increased insulation



Environmentally Friendly *My Home. My Earth. Products and Features*

Our Built to Order homebuying experience allows our homebuyers to choose from a full range of *My Home. My Earth.* environmentally friendly options available at our KB Home Studio. These fall into four categories:

- **Energy Efficiency** options that help conserve energy or generate energy from renewable sources.
- **Water Wise** options that help conserve water.
- **Inside Environment** options that help promote cleaner indoor air and water quality or are antigermicidal.
- **Sustainable Sources** options that contain recycled, recyclable or renewable materials.

A detailed list of the many *My Home. My Earth.* options we offer in each of these categories can be found on page 17 of our July 2008 *KB Home Sustainability Report*. We continually assess growth opportunities in this part of our business using sales data, demographic trends and information on new products from our partners.





Over 50% of the homes we build in 2009 will be ENERGY STAR qualified, a key differentiator for prospective homebuyers.

“By adopting a rigorous set of sustainability principles companywide, KB Home delivers a top-down ‘brand promise’ across all divisions of high-performance sustainable homes backed by building science. We are extremely grateful for KB Home’s commitment to ENERGY STAR.”

Sam Rashkin
U.S. Environmental Protection Agency
National Director, ENERGY STAR for Homes

Product Transformation

One aspect of our KBnxt operating business model is the continual refinement of our product to ensure that it is aligned with what homebuyers want. As the housing market dramatically changed over the past few years, we saw an opportunity to innovate and build homes that reflect the way homebuyers want to live today, rather than simply waiting for the market to rebound. This product transformation is a key strategic driver for us going forward, significantly advancing our environmental commitments, as well as our economic and social ones.

Value Engineering and Materials Usage

A key focus of our effort has been to value engineer virtually every home design across our company to ensure we are utilizing materials with maximum efficiency, and minimizing our consumption of natural resources. This has reduced our cost to build while also reducing the carbon footprint of the homes we build over their life cycle. We have been able to pass these savings along to our homebuyers in the form of reduced home prices. We have also introduced smaller home designs at lower price points in many of our communities in order to put homeownership within reach of more people.

The Open Series

In the course of our multifaceted product transformation, we saw an opportunity to create an array of flexible and energy-efficient home designs that offer buyers greater overall value than competing resales, foreclosures and other new homes. We call these innovative new designs The Open Series.[™]

We challenged ourselves to design homes that felt and functioned like larger homes, with space concentrated in living areas and a high number of bedrooms, while increasing affordability and gaining all the benefits of building to today's high standards for efficiency. The Open Series homes are specifically designed to compete effectively with foreclosures on price, while offering homebuyers a quality Built to Order and highly energy-efficient new home customized to their needs.

In the past, the environmental friendliness of a home was not a key priority for the general market of homebuyers and was not something many homebuyers could afford or were willing to pay for. Today, attitudes have changed, driven by both environmental and economic priority shifts. As we have begun rolling out these new home designs across the country, we have seen customers respond to the affordability, energy efficiency, smart design, flexibility and choice offered by The Open Series. These homes demonstrate that you can live well in a smaller, more efficient home without sacrificing functionality, quality or lifestyle, while reducing your impact on the environment and saving money on energy bills.

Making a Difference with Every Home We Build

The product transformation we have undergone can make a lasting impact on the carbon footprint of the homes we build. In one example, where we compared a 4-bedroom home from The Open Series with one of our 4-bedroom home designs from just a few years ago, the data shows that day-to-day living in The Open Series home creates approximately 8,000 pounds less CO₂ per year. That's equivalent to removing an average car from the road for over eight months per year — each and every year.

As we expand our rollout of The Open Series and other new home designs, we are creating a legacy of environmentally friendly homes that have the potential to make a difference for decades to come.

For details on this example comparison and the energy efficiency of The Open Series home designs, see page 29.

Features of The Open Series Homes

The Open Series is designed to give a home with a smaller footprint all the functionality of a larger, more costly home, combined with impressive flexibility and energy efficiency.

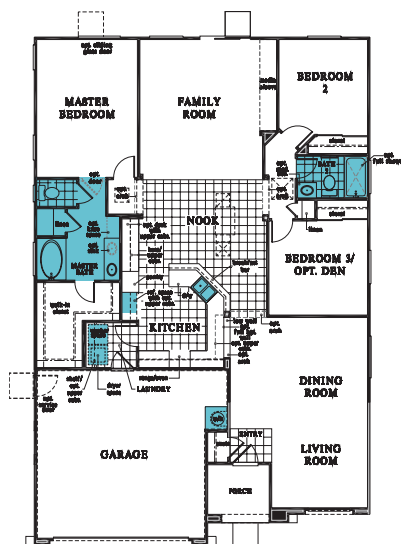
- Square footage is concentrated in the rooms that our surveys tell us buyers value most, such as kitchens, great rooms and bedrooms.
- The equivalent living space of a larger home, including the number of bedrooms and bathrooms, is offered in a reduced footprint.
- Homebuyers are given tremendous flexibility to customize, often including flex spaces that can be adapted to each homeowner's needs. Buyers can add up to 40% more square footage to the home on the same homesite, in the form of additional bedrooms, multiuse spaces and more.
- Nonfunctional space such as hallways and entryways are minimized.
- Homes are designed around a fixed core that reduces material usage and cost, and increases quality.
- Standard cabinet sizes, drywall lengths and window sizes are used, minimizing waste and reducing costs.
- All homes from The Open Series built in newly opened communities in 2009 and beyond will be fully ENERGY STAR qualified.

Reengineered Plumbing

Sometimes the simplest changes can have enormous impact. As we were value engineering our home designs, we had an opportunity to reduce the length of plumbing pipe that we use and to standardize our plumbing design for increased quality. By designing our homes with the kitchens and baths concentrated in one area of the house, we vastly reduced the length and complexity of the required plumbing runs.

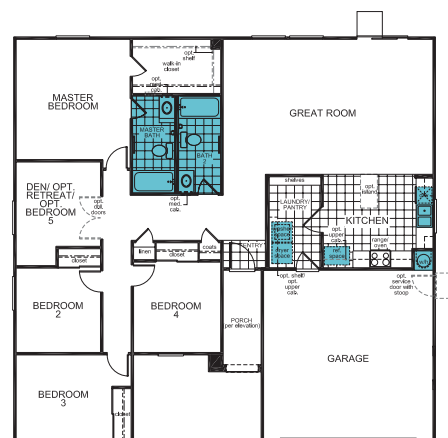
This not only conserves natural resources such as copper, but also reduces the cost to build the home, which we can pass on to our homebuyers in the form of lower prices. In addition, homebuyers save water, energy and time waiting for hot water to arrive to faucet or shower because of the shorter length of plumbing runs.

The example below demonstrates what a difference centralizing plumbing can make. In the older design, plumbing is located in five different areas of the house, while the new design requires only two.



OLDER DESIGN

1,852 sq. ft.



NEW DESIGN

1,771 sq. ft.



The focus on efficient design built into every home in The Open Series means a family can live comfortably in a home that feels and functions like a much larger home. At the same time, The Open Series provides benefits across the spectrum of sustainability, from environmental to economic to social.

Environmental Benefits of The Open Series

- Smaller homes not only require less energy to heat and cool, but also reduce the usage of both renewable and nonrenewable resources in constructing the home.
- Beyond the reduction in size, homes are designed to minimize the use of materials by:
 - Locating kitchens and bathrooms back-to-back in centralized locations, which means shorter pipes and reduced usage of copper (a nonrenewable resource).
 - Utilizing wall panels, engineered flooring systems and roof trusses to minimize lumber waste and increase efficiency and quality. Roof trusses also transfer more of the weight to exterior walls, allowing for more open space and room flexibility in the interior.
- All newly opened communities in 2009 and beyond will be built to earn the ENERGY STAR, reducing energy consumption and utility bills by as much as 45% more than a home built just a decade ago.
- The home's carbon footprint is significantly reduced through a combination of greater energy and materials efficiency, and reduced square footage, thus conserving natural resources.

Economic Benefits of The Open Series

- Less materials used means reduced cost to build and shorter build cycles, key advantages in today's fast-changing housing market.
- A KB home has a distinct competitive advantage compared to other new and resale homes, particularly foreclosures.
- The new home designs reduce the overall cost of homeownership to the consumer through significant energy savings.
- Homebuyers can choose from our line of affordably priced, environmentally friendly *My Home. My Earth.* options.

Social Benefits of The Open Series

- Affordable pricing puts homeownership within reach of more families.
- The Open Series homes can be built closer to established employment centers, thereby reducing commute times and improving quality of life for our homeowners. We are able to do this because the reduced cost of building these homes offsets the typically higher land prices in these areas.
- There is an opportunity for community design that incorporates more open space, such as parks and walking trails, and/or larger yards that provide additional outdoor living opportunities.
- Large common living spaces promote increased family time.

Case Study: Older KB Home Design vs. The Open Series Home Design

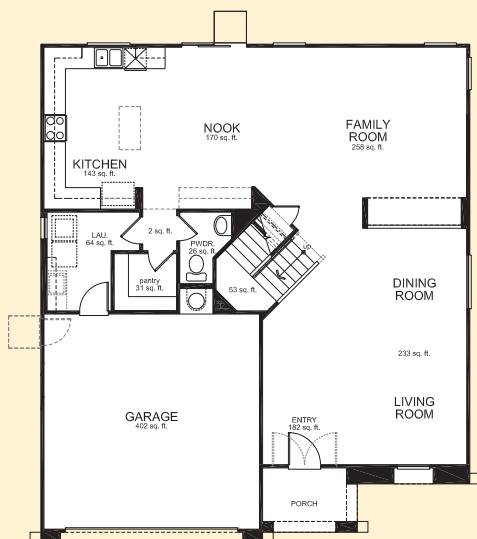
To demonstrate the impact of this product shift we are making across the Company, we compared one of our new home designs from The Open Series, currently selling at our Bonita Canyon community in Fontana, California, with a similar home that was one of our most popular home designs at this same community in 2005, near the housing market peak. The difference is apparent and broad, with clear impact across the three major areas of sustainability: environmental, economic and social.

The Evolution of Our Product at a Southern California Community Bonita Canyon (formerly Bonita Ridge), Fontana, California – 2005 vs. 2009

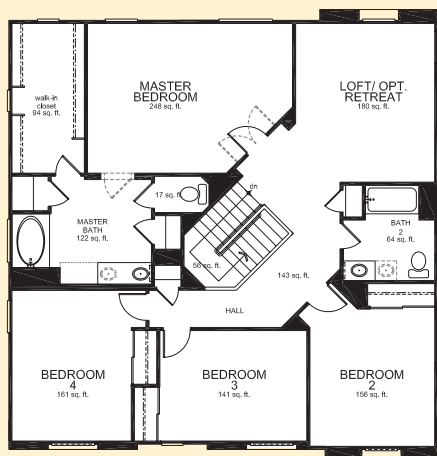
OLDER: Plan 2788

2,788 sq. ft., 4 bedrooms, 2.5 baths

One of our best-selling plans in 2005, this home was designed when buyers were looking for larger homes with luxury features.



FIRST FLOOR

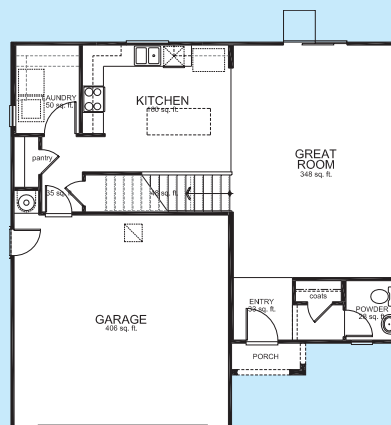


SECOND FLOOR

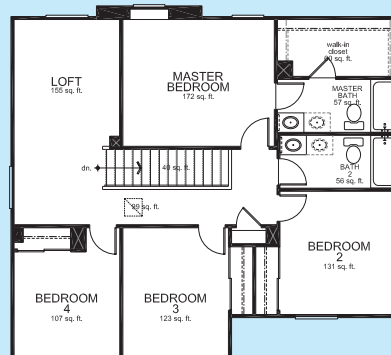
NEW: The Open Series Plan 1896

1,896 sq. ft., 4 bedrooms, 2.5 baths

This home design retains the best of the previous plan, while adapting it to the preferences of today's buyers. It substantially reduces the overall size of the home—and its price—while putting space where buyers want it most. It is also fully ENERGY STAR qualified to reduce utility bills and the homeowner's carbon footprint at the same time.



FIRST FLOOR



SECOND FLOOR

The Evolution of Our Product at Bonita Canyon in Fontana, California (continued)

These two homes are identical in function—both are two-story homes with the same number of bedrooms and bathrooms but the new design maximizes livability:

- In the older design, much of the square footage was taken up by a central staircase that did not add to the functionality of the home, but created a number of large, unusable “plan voids.”
- In the new design, the staircase placement allows for added square footage in living space.
- The older design includes a much larger upstairs hallway, again without adding to the livability.
- The new plan opens up the central living area into a single great room, which is what most contemporary homebuyers prefer, rather than a series of more formal living spaces that don’t reflect how people live today.



HOME SPECIFICATIONS	OLDER: Plan 2788	NEW: The Open Series Plan 1896
Square footage	2,788 sq. ft.	1,896 sq. ft.
Bedroom count	4 bedrooms	4 bedrooms
Bathroom count	2.5 bathrooms	2.5 bathrooms
Stories	2-story home	2-story home
Base price	\$482,990 (2005)	\$249,990 (2009)
Example monthly payment with an FHA fixed-rate loan*	\$3,340 ^a	\$1,720 ^b

Most homebuyers, particularly first-time homebuyers, are not looking for a particular square footage; they are concerned with functionality, such as the number of bedrooms and bathrooms. If we can provide the same livability in a smaller space—and at a lower price—while also increasing energy efficiency and providing an environmentally friendly option, we believe most homebuyers will make that choice.

Putting Homeownership within Reach of More Families

With an example \$1,720^b monthly mortgage payment on a 30-year FHA fixed-rate loan (including principal, interest, taxes and insurance), we are typically competitive with local rental prices. This draws additional first-time homebuyers into the market and competes with resales, foreclosures and other new homes.

* [a-b] Example monthly payment assumes a sales price of a) \$482,990; b) \$249,990 and includes principal, interest, taxes, insurance and estimated private mortgage insurance premium only; any other fees such as HOA not included. Scenario assumes borrower qualifies for an FHA 30-year fixed rate mortgage loan of a) \$474,242; b) \$245,462 with interest rate and APR of a) 5.000% / 5.031%; b) 4.875% / 4.934% and pays 3.50% down payment. Scenario assumes the buyer has good credit, sets up a tax & insurance escrow account, provides full documentation, and pays estimated closing costs of 3% of the loan amount. Rates effective 4/28/09 and subject to change without notice. This offer subject to underwriting guidelines and is available only for owner-occupied homes. Advertised monthly payment is only available through KB Home Mortgage, LLC. However, financing may be obtained through any other lender.



The Evolution of Our Product at Bonita Canyon in Fontana, California (continued)

What is powerful about this product innovation is that we are not asking our buyers to pay a premium for an environmentally friendly home or to sacrifice anything in terms of functionality and livability. The Open Series home is a beautiful, well-designed home that appeals to the general market of homebuyers while also delivering a more environmentally friendly product at an affordable price with substantial energy savings. By focusing on the needs and desires of a broad range of homebuyers, including first-time and move-up, we are able to widen the market for environmentally friendly homebuilding and make a more meaningful impact from a sustainability standpoint.

HOME DESIGN	OLDER: Plan 2788	NEW: The Open Series Plan 1896
Specs	2,788 sq. ft., 4 bdrm., 2.5 bath	1,896 sq. ft., 4 bdrm., 2.5 bath
Design Efficiency	Home is less efficiently designed, with major functions, including plumbing and mechanical systems, having longer runs Large “plan voids” create dead, unusable spaces	Efficient design centralizes functions and minimizes plumbing and mechanical runs Plan creates spaciousness and more visibility from kitchen, great room and stairs
Room size	Living area is broken up into numerous rooms, including little-used formal living and dining rooms	Kitchen, bedrooms and closets are similar in size to the older design
Entry	Long entryway runs nearly to the back of the house	Entry hallway is minimized to put more square footage into functional areas
Staircases	Angled staircase requires substantial nonfunctional hall space upstairs	Simplified staircase design takes up less space

The Evolution of Our Product at Bonita Canyon in Fontana, California (continued)

MATERIALS USAGE	OLDER: Plan 2788	NEW: The Open Series Plan 1896
Lumber utilized	163 sheets of OSB board 6,563 linear feet of studs 114 linear feet of headers	126 sheets of OSB board 4,309 linear feet of studs 82 linear feet of headers 33% overall reduction
Roofing materials utilized	22 squares of roofing material 26.67 squares underlayment	16 squares of roofing material 19.33 squares underlayment 27% overall reduction
Concrete utilized	21.03 cubic yards	15.07 cubic yards 28% overall reduction
Construction waste	Construction waste may be discarded without considering reuse or recycling Staircase requires labor- and material-intensive custom framing	Plan takeoffs and value engineering measures are field-verified to reduce waste Design leverages the use of preconstructed wall panels and wood trusses for improved quality and less waste
Cabinetry	Field-built cabinets with large layouts create potential waste	Standard-size modular cabinets create less waste

HOME FEATURES	OLDER: Plan 2788	NEW: The Open Series Plan 1896
Lighting packages	May not be energy-efficient	Energy-efficient
Interior paint	Low-VOC standard in California only	Low-VOC now standard companywide for improved indoor environment
Carpet	Made of low-VOC materials in California only	Low-VOC recyclable carpet now standard companywide
Thermostat	Programmable thermostats in California only	Standard programmable thermostats for optimal heating and cooling now standard companywide
Heating and cooling system	R-22 refrigerants in HVAC system can contribute to ozone depletion	Puron refrigerants in our HVAC systems are more environmentally friendly
Toilets	Standard toilets not low-flow	Low-flow toilets now standard to save water and lower utility bills
Landscaping	Not water wise	California Friendly landscaping options are more water wise

The Evolution of Our Product at Bonita Canyon in Fontana, California (continued)

ENERGY EFFICIENCY*	OLDER: Plan 2788	NEW: The Open Series Plan 1896
Actual Home Energy Rating System (HERS) score (lower scores indicate greater efficiency) ¹²	96 HERS Index— Not ENERGY STAR qualified	83 HERS Index— ENERGY STAR qualified
Electricity usage per year ¹²	9,696 kilowatt hours	6,307 kilowatt hours 35% reduction
Gas usage per year ¹²	707 therm	469 therm 34% reduction
Gas and electric utilities approximate cost per year ¹³	\$2,324	\$1,524 \$800 savings
Greenhouse gas emissions	23,202 lbs./year	15,199 lbs./year 8,003 lbs. CO₂ reduction/year, equivalent to removing an average car from the road for over 8 months/year

*Based on the reduction in the size of the home combined with the increased efficiency of an ENERGY STAR qualified home.

The Benefits of ENERGY STAR Qualified Appliances¹⁰

The appliances in the older home design were not ENERGY STAR qualified unless optional upgrades were purchased, while today KB Home offers exclusively ENERGY STAR qualified appliances at both the standard and optional levels. Comparing these two home designs, the environmental and economic benefits of ENERGY STAR qualified appliances is clear.

Annual energy and water usage for average operations of a dishwasher, refrigerator and clothes washer: **

	<u>Non-ENERGY STAR</u>	<u>ENERGY STAR</u>	<u>Savings</u>
Electricity	1,016 kWh	812 kWh	20% reduction
Gas	49 therm	27 therm	45% reduction
Water	14,058 gallons	6,650 gallons	53% reduction

**Refrigerators and clothes washers are optional appliances.

Consumer Environmental Education

Consumer education is the cornerstone of our commitment to environmentally friendly homebuilding because promoting the benefits for both the environment and the homebuyer's bottom line is essential to increasing consumer adoption of more sustainable home products and practices. That is why our homebuyers see and hear messages about the consumer benefits of our homes through our:

- Website
- Email campaigns
- Print and broadcast advertising
- Sales office displays and signage
- Brochures and other collateral materials
- Community and model home signage
- Community events
- KB Home Studio displays and signage



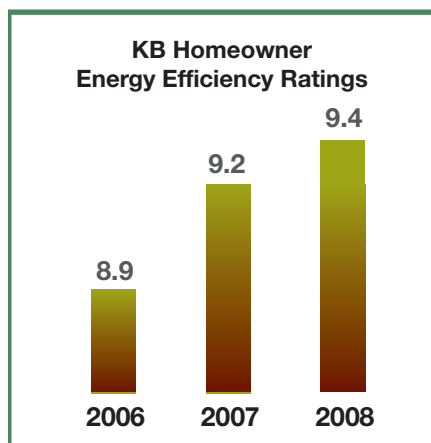
Environmental Education Events

In 2008, we held a number of environmental education events for current and prospective KB homebuyers at our communities and KB Home Studios around the country. The goal was to educate homebuyers about the environmentally friendly features and advantages of a new KB home. We used these events to communicate the stringent criteria of the ENERGY STAR program and how it can benefit homeowners and the environment, and to promote the full range of *My Home, My Earth*. environmentally friendly products and features available at the KB Home Studio. These environmental education events provided a focused opportunity to bring together a number of stakeholders, including:

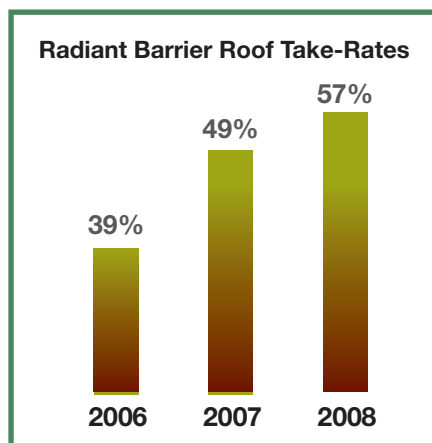
- Trade partners and vendors to demonstrate products, explain benefits and answer questions.
- Local utility companies to discuss energy efficiency programs, rebate opportunities and more.
- KB Home Studio consultants and KB Home sales counselors to answer detailed questions about KB Home's environmental commitment, as well as specifics about home designs and communities.
- Local government officials and community groups to discuss environmental opportunities.

Consumer Attitudes Are Changing

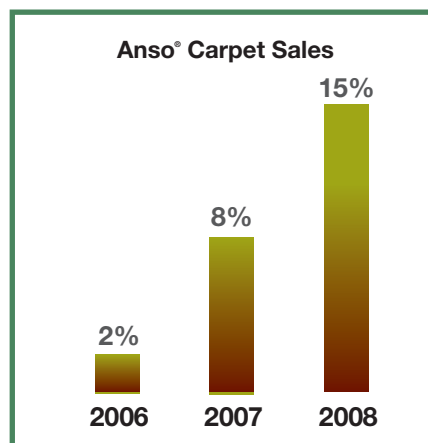
Our homebuyers respond when we provide comprehensive information on exactly how environmentally friendly features and products can reduce the overall cost of homeownership:



We measure KB homeowners' perceptions of the energy efficiency of their new homes as part of our customer satisfaction surveys. We have seen a strong increase in their ratings over the past few years as we have increased our consumer education.



The percentage of our buyers choosing radiant barrier roofing has increased by nearly 50% in the last two years. This roofing saves up to 17% on monthly energy bills and prevents up to 97% of the sun's heat from entering a home's attic in the summer.



Since we began focusing on consumer education about Shaw Anso carpet, which contains recycled content, sales have grown from 2% of all Shaw carpets installed in 2006 to 15% in 2008.

Homeowner Orientation

Every new KB homeowner receives a comprehensive homeowner orientation to educate them about the benefits, operation and maintenance requirements for features throughout their new KB home, including proper use and maintenance to conserve energy and water over the life of the home, and to promote better indoor air quality. The orientation also provides a final quality checkpoint for the homeowner, and for us to ensure that their new home meets their expectations. Features reviewed include:

- HVAC, thermostat and air filters
- Appliances
- Water heater
- Windows and screens
- Lighting
- Landscaping and irrigation system (if applicable)

Lowering the Cost of Homeownership: One Homeowner's Story

The story of Debbie Swank, a KB homeowner in our Austin division, illustrates just how sustainability and affordability can go hand-in-hand.

Her first home was a 2,420-square-foot ENERGY STAR qualified KB home, where she paid an average of \$120 monthly for utilities during the peak summer months.

She next moved to another home of exactly the same size, which she purchased from another builder and which was not ENERGY STAR qualified. She was shocked to find that her utility bill for the exact same size home jumped to \$400 a month.

About a year ago, she moved into a new 3,000-square-foot KB home and was amazed to find her utility bill was only \$190 a month, while her square footage had increased substantially. That means she will save approximately \$2,500 on her energy costs every year.

While results from other homeowners could differ, this homeowner's experience demonstrates the real impact that energy efficiency can make on affordability, and how critical homebuyer education is to assisting buyers in making the best decisions.



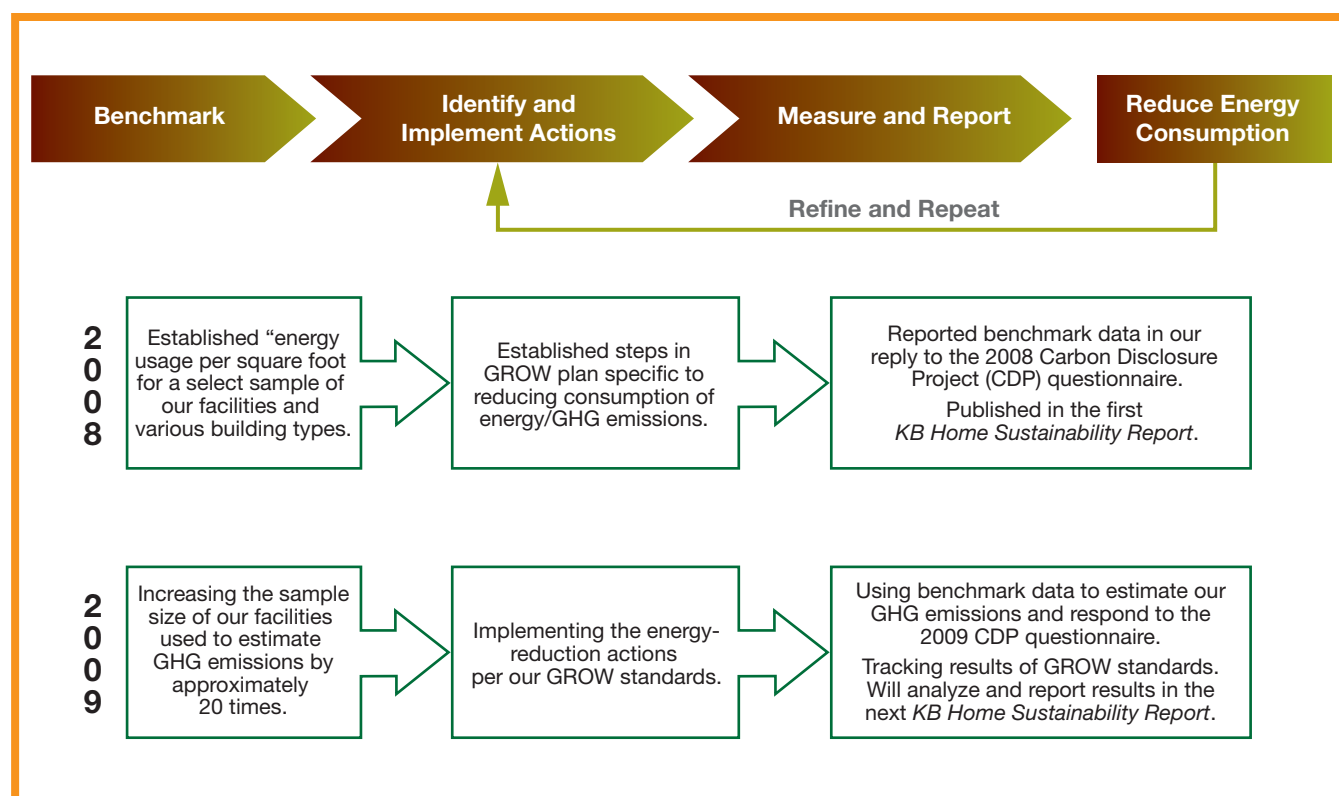
KB Home Operations Carbon Footprint

Estimating the greenhouse gas (GHG) emissions, or carbon footprint, of the facilities and processes we own or operate in a business as complex as ours is a challenging process, but one we think is important to measuring our progress against our sustainability goals. In addition, by measuring our footprint, we increase awareness of this key metric throughout our organization.

Using the Greenhouse Gas Protocol established by the World Resources Institute (WRI) and World Business Council for Sustainable Development (WBCSD) for consistent greenhouse gas accounting and reporting, we have identified a number of sources of emissions across our business, including:

- The operation of our headquarters, division offices and other office facilities.
- The operation of our KB Home Studios, the showrooms near our communities where homebuyers personalize their homes.
- The use of model homes, sales offices and sales/construction trailers at our communities.
- The business travel of our employees—both local and national.
- The materials and products selected from suppliers by both our company and our homebuyers.
- The work of our trade partners in building homes.

Carbon Footprint Assessment Process Map



2007 Sample Benchmark for Annual Energy Usage and Greenhouse Gas Emissions

In our first sustainability report, we established a benchmark of our energy use per square foot and GHG emissions based on an illustrative sample of the different types of our facilities around the country in 2007:

Location	Size (sq. ft.)	Energy Usage (kBtu/sq. ft.)	National Avg. Energy Usage by Building Type (kBtu/sq. ft.)	GHG Emissions (metric tons CO ₂)
Corporate Headquarters, Los Angeles, California	73,825	66	88 ¹⁴	670
South Carolina Division Office, Charleston, South Carolina	13,343	79	88 ¹⁴	197
KB Home Studio, Charleston, South Carolina	6,900	122	94 ¹⁵	153
Model Home #1, Fairlawn at Foxbank Plantation, Moncks Corner, South Carolina	2,599	59	—	26.8
Model Home #2 with Integrated Sales Office, Fairlawn at Foxbank Plantation, Moncks Corner, South Carolina	2,476	62	—	27.4

Establishing a Companywide Benchmark for 2008

The benchmarking sample done for 2008 was only a first step in working toward measuring the total carbon footprint of our Company's operations. In accordance with our sustainability commitments, we are in the process of estimating our carbon footprint for 2008 operations. This data will be used as a baseline against which to measure ourselves as we move forward with our comprehensive carbon reduction initiatives and will enable us to substantiate specific savings. We are using the energy-use-per-square-foot (energy intensity) benchmarks we established last year, as well as additional benchmarks, and applying them to the total square footage of all our facilities and production homes. We anticipate completing this analysis in 2009 for inclusion in our reply to the Carbon Disclosure Project 2009 questionnaire.

Carbon Calculations for 2009 and Beyond

For 2009, we have established a more refined and broader sampling protocol to use in calculating our carbon footprint as we seek to continually refine how we capture and measure this important data. This change in methodology will create a sample that is approximately 20 times larger and will improve the accuracy of our GHG estimates. The broader sample will include the following facilities:

Corporate offices	One facility per state
Division offices	One facility per division
KB Home Studio	One facility per division
Model homes	Representative sample per division
Trailers and Production homes*	Representative sample per division

* homes under construction, from start of construction to the close of home

Carbon Reduction Actions and Commitments

In 2008, we took the following actions, which helped us reduce our carbon footprint and will also help reduce the carbon footprint of our customers over the life cycle of their homes:

- Built all homes using ENERGY STAR qualified appliances.
- Increased the percentage of our homes that are ENERGY STAR qualified.
- Enhanced our centralized scheduling process to further coordinate the work of our construction trade partners and reduce truck trips to jobsites.
- Used KBU iLab (see page 39) to reduce business travel for internal meetings and training.
- Responded to Carbon Disclosure Project (CDP 6) questionnaire.
- Launched our GROW internal waste review to raise awareness among employees and provide specific waste reduction standards.

In 2009, our carbon footprint reduction commitments are to:

- Complete the Carbon Disclosure Project 2009 questionnaire to provide a more comprehensive assessment of our greenhouse gas emissions.
- Increase the percentage of our homes that are ENERGY STAR qualified.
- Implement action plans to reduce electricity usage at corporate and division offices as well as on-site operations, including model homes, sales offices, KB Home Studios and administrative offices.
- Continue to install energy-reducing options and products in the homes that we build (such as the programmable thermostats that are included in all homes).
- Further increase our education of consumers on ways to reduce the carbon footprint of their homes.
- Align ourselves with partners who share our commitment to sustainability.

Building Sustainable Partnerships

We work with some of the highest quality, most-established suppliers in our industry, to provide us with the materials and products we use to build our homes. When selecting suppliers, we look for companies that share our commitment to sustainability and will be valued colleagues as we strive to be a leader in bringing a new level of environmental focus to the homebuilding industry.

Many of our suppliers have established sustainability initiatives of their own, including:

- | | |
|-------------------------------|---------------------------|
| • Whirlpool Corporation | • Mannington Mills |
| • Sherwin-Williams | • DuPont |
| • Shaw Industries | • Carrier |
| • Masco Builder Cabinet Group | • Temple-Inland |
| • Armstrong | • Moen |
| • LP Building Products | • Wilsonart International |

Just recently, Sea Gull Lighting and Whirlpool Corporation were recognized by EPA with their 2009 ENERGY STAR Sustained Excellence in Energy Management Award for their continued commitment to produce innovative, energy-efficient products that reduce harmful greenhouse gas emissions.

GROW: Get Rid of Waste

An essential component of our efforts to measure and reduce our carbon footprint is the companywide internal waste review we launched in 2008, which we call GROW: Get Rid of Waste. It is based on our belief that eliminating waste from our operations is an area of significant opportunity for our business. It is also part of the comprehensive review we have undertaken to identify how to maximize our use of resources, minimize waste and reduce the carbon footprint of our operations.



The GROW review targeted several areas of focus, including our offices, where we consume electricity, water, paper and office supplies, and our jobsites, where we consume natural resources in the construction of our homes. KB Home's Environmental Leadership Team agreed to launch company-wide waste reviews during 2008 in order to systematically begin reducing our consumption of natural resources. This ongoing process is broken out into short-term, mid-term and long-term goals for both our offices and our jobsites. Simultaneously, our accounting teams are collecting, benchmarking and tracking our actual consumption of resources in our offices and jobsites along with associated costs so that we may report our progress over time.

How We Define "Waste"

We define waste as the use of any resource in a way that does not directly add value to our homes or to the experience of homeownership.

Phase I

Phase I included identifying opportunities to reduce the consumption and waste of energy, water, paper and office supplies in every business unit. To kick off this new initiative, every KB Home employee received a reusable water bottle to serve as a daily reminder of the importance of reducing waste.

Each department submitted its GROW review findings and action plans in December 2008, which identified nearly 900 potential action items, including:

- Electricity – 236 action items
- Office supplies – 34 action items
- Paper – 301 action items
- Water – 130 action items
- General – 40 action items
- New ideas – 147 action items

After the action plans were collected, our Environmental Task Force reviewed, catalogued and prioritized every line item for common practices to be standardized companywide. As a next step, we published a set of 10 GROW standards in February 2009, with each standard to be implemented at every business unit as a minimum performance requirement. These standards were reviewed and approved by our Environmental Leadership Team, and new standards will be added on a quarterly basis until all priority action items have been implemented.



Each business unit has identified a GROW liaison who is responsible for tracking and reporting progress against the action items and standards. Updates to action items will be submitted quarterly.

As a result of Phase I, among the simple steps we have taken that will add up to big change are:

Eliminating Bottled Water. Through our GROW review, we learned that in our corporate offices alone we consumed over 51,000 plastic water bottles in 2007. In 2008, we distributed reusable, environmentally friendly KB Home water bottles to everyone in the office. We estimate that this simple change reduced our carbon footprint by approximately 5.8 metric tons of CO₂ annually, which EPA calculates as equivalent to planting 148 tree seedlings and growing them for 10 years.⁹

To make an even greater impact, we distributed the same reusable water bottles to every team member across the Company. Then, in Q1 2009, we published our first set of GROW standards companywide, which includes a requirement to cease purchasing individual plastic bottles of water and replace them with filtered water systems in division offices, Studios and, where appropriate, sales offices. As of April 2009, 80% of our offices had implemented this new standard.

Unplugging Display Refrigerators. KB Home has approximately 550 refrigerators on display in our model homes and KB Home Studios. Historically, these refrigerators have been plugged in and are operating even though they are not used for food storage. For model homes, our new GROW standards provide a guideline for unplugging all water heaters and refrigerators, and programming thermostats to heat and cool only during business hours. In addition, refrigerators displayed in our KB Home Studios will have their cooling feature turned off.

We estimate that unplugging the refrigerators alone will reduce our annual energy consumption by 297,550 kWh (per EPA's Residential Refrigerator Savings Calculator for ENERGY STAR qualified refrigerators), which is equivalent to reducing our carbon footprint by over 200 metric tons of CO₂.¹⁰

Sharing Printers. A recent computer hardware inventory showed that we have in excess of 600 desktop printers assigned for individual use across the Company. Our target is to remove approximately 50% of these printers from our office environment in 2009. Our GROW standards include a requirement to eliminate personal printers (except where needed for employees who deal with confidential information in departments such as HR, Finance or Legal) and allow only one shared printer for each work group or area. As of April 2009, 73% of our offices had implemented this new standard.

EPA estimates that a typical desktop printer in an office environment consumes 30 kWh of electricity annually. Eliminating half of our desktop printers will translate into an annual reduction in energy consumption of 9,000 kWh, which is equivalent to reducing our carbon footprint by an additional 6.3 metric tons of CO₂.¹¹ Additionally, reducing the number of printers available will support our goal of reducing paper consumption by driving new behaviors such as electronic file sharing in lieu of printing.

Installing Rain Sensors. A rain sensor is a switching device connected to an automatic irrigation system and activated by rainfall, which causes the system to shut down. One of our GROW 2009 standards requires that we install rain sensors for irrigation systems in unsold inventory homes, model homes, office buildings and sales offices, and ensure that settings for time and duration are not contributing to evaporation or excess runoff.

We will continue to build on these initial efforts in reducing our consumption of energy, water, paper and office supplies as we move forward with additional phases of GROW.

Phase II

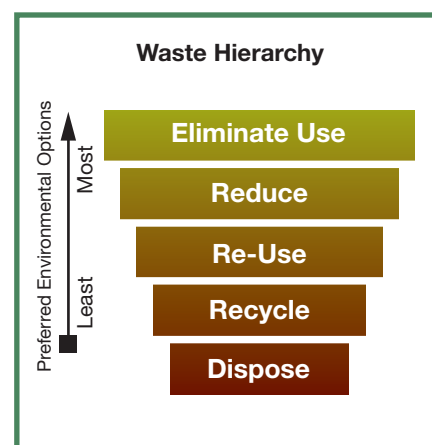
Phase II will expand into construction waste management, specifically focusing on reducing the mass of materials such as lumber, sheetrock and shingles that is shipped to landfills. Future phases will take us deeper and wider within our business. Each phase will be launched independently with its own documentation and guidelines.

Our objectives in Phase II are to:

1. Define and implement standard practices to track, report and reduce the volume and costs of waste on our jobsites in order to reduce and/or divert landfill mass.
2. Better understand the composition of our waste stream and create division-level action plans to reduce, reuse and recycle our high-volume materials such as lumber, sheetrock and shingles.
3. Identify and improve other areas of waste on the jobsite such as theft and subcontractor/homeowner waste.

Waste Hierarchy

There are many forms of reducing waste, but we recognize that not all of them are environmentally equal. In all of our GROW efforts, we utilize the waste hierarchy shown here to evaluate our options. While we are proud of our improvements in recycling, we strive to focus our actions on reducing overall consumption at the top line of the waste hierarchy in order to make maximum impact.



Office Sustainability

We continually strive to minimize the environmental impact of our corporate and division offices. These efforts are an important component of our overall commitment to sustainable development.

Some of our longstanding practices include:

- Recycling cell phones, computers and other electronic equipment (e-waste) through our cell phone supplier and a third-party electronics recycling service provider. We also donate computers and other electronics to charitable organizations.
- Putting a priority on recycled content in our office supply purchases.
- Recycling paper through a third-party service provider.
- Reducing the need to print architectural plans and other construction documents that we and our trade partners use for project management, by making these documents available on-demand electronically.
- Replacing extensive travel with Internet-based "virtual" meetings.
- Printing our Annual Report, Form 10-K, Proxy Statement and many of our marketing materials on paper certified by the Forest Stewardship Council (FSC) and utilizing soy-based ink.

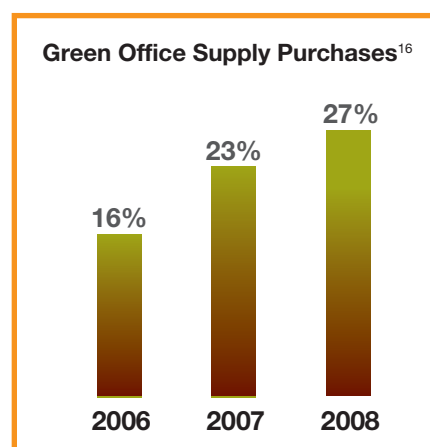
As part of our GROW waste reduction initiative, we are expanding on these efforts in 2009 and expect to report on additional initiatives and results in our next sustainability report and other public updates.

Office Supplies

We purchase the majority of our office supplies from a vendor that has a “green” line of materials. According to their records, 27% of our purchases were from the green line in 2008, up from 23% in 2007 and 16% in 2006.¹⁶

Paper Recycling

We have established recycling programs in the majority of our offices. While we are not currently tracking the results of local recycling programs, we do have reports from our national confidential paper shredding service provider, who recycles the paper after shredding. The table below shows the impact of the paper they shredded and recycled on our behalf.



The Impact of KB Home's Shredded Paper Recycling¹⁷

	2006	2007	2008
Recycled paper (office grade)	52,008 pounds	56,440 pounds	148,940 pounds
Paper material weight	26 tons	28 tons	74 tons
Trees saved	442 trees	479 trees	1,266 trees
Water saved	183,028 gallons	197,540 gallons	521,290 gallons
Air pollution avoided	15,602 pounds	16,932 pounds	44,682 pounds
Landfill reduction	78 cubic yards	84 cubic yards	223 cubic yards
Electricity saved	106,616 kW/hrs.	115,702 kW/hrs.	305,327 kW/hrs.
Oil saved	11,961 gallons	12,981 gallons	34,256 gallons

In-Person vs. Virtual Meetings

We have significantly limited the number of in-person company meetings in an effort to reduce the cost of travel, lodging and event expenditures, and to reduce our use of fossil fuel for transporting employees to meetings.

We continue to use a virtual meeting system, branded “KBU iLab.” This in-house technology platform allows all departments and work groups to hold virtual meetings in several online rooms simultaneously, and greatly decreases the money and time previously spent by KB Home employees traveling to meetings and training sessions. In 2008, nearly 2,000 hours of meetings were hosted on KBU iLab. Through the use of our KBU iLab technology in the years ahead, we hope to further reduce the amount of fossil fuel our company consumes. Less travel means lower greenhouse gas emissions and less climate impact.

Operational Efficiencies

Increasing operational efficiencies at our divisions and communities across the country is a significant opportunity for our business to reduce waste, preserve natural resources and increase our use of recycled materials in order to drive down costs and significantly reduce our company's carbon footprint. We are committed to continually increasing our awareness of the environmental impact of our construction activities and taking measurable steps to reduce that impact.

Homebuilding Principles

Increasing the efficiency of our construction processes is an integral part of our KBnxt operational business model, which also supports more sustainable building practices.

Among the core homebuilding principles we follow are:

- Build homes in the most efficient, skilled and cost-effective manner we can, offering our homebuyers value and choice at an affordable price.
- Continually enhance our construction methods and our selection and use of building materials and other resources.
- Work closely with our suppliers to ensure they continue to adhere to our improving standards.
- Regularly review and, where possible, refine our home designs and community development plans to improve efficiency, thereby reducing the use of natural materials and the cost of our construction operations.
- Continually improve building cycle times to reduce the number of trips to the jobsite and increase customer satisfaction with delivery time.
- Promote the adoption of new technologies, materials and construction techniques by helping to develop, or by participating in, various programs with government agencies and nongovernmental organizations.

Some of our operational efficiencies include:

Use of Building Materials with Recycled Content

In the majority of our markets, we utilize building materials made with recycled content, including:

- Cellulose insulation made from recycled newspapers, which has improved performance and diverts waste from landfills.
- Engineered wood products such as finger-jointed studs and trim materials that are created from recycled lumber. In laboratory tests, engineered wood products have proven to be stronger than products made from natural wood.

Efficient Use of Building Materials

We strive to use building materials in the most efficient means possible, driving down waste and costs:

- In 2008, over 90% of our homes were built with preconstructed panels, up from 65% in 2007. These panels are produced in a controlled off-site environment utilizing standard shapes and sizes that produce stronger, more airtight homes, which means better insulation and lower utility bills. Use of these panels also improves construction site conditions by reducing injury risk, noise and air pollution.
- 100% of our homes have preengineered roof trusses, which reduce the use of larger framing members that require large trees to be cut.
- Floor systems for two-story homes are primarily constructed of manufactured “I” joists, which reduce the use of large framing members.
- We use oriented strand board (OSB), which is made from wood chip, rather than traditional plywood and truss joists, reducing the need for large framing members.
- Two-thirds of our divisions now incorporate recycling into their standard site processes, including reusing materials on site, separating recyclable construction waste and diverting it away from landfills, and/or working with our trade partners to ensure they remove or recycle waste they generate on site.

Natural Resource Preservation

We seek to minimize the impact of the homes we build on natural resources, by:

- Requiring our lumber suppliers to provide us with wood that is not sourced from endangered forests or is certified by recognized sustainable forestry management programs, such as the Forest Stewardship Council program (FSC).
- Partnering with the Southern Nevada Water Authority and the Southern Nevada Home Builders Association to create the first Water Smart home, which saves up to 75,000 gallons of water per year compared to homes built in the 1990s.¹⁸ Since 2005, we have built 6,800 Water Smart homes in the greater Las Vegas area.
- Using water-wise landscaping, which includes plants that are native to the local environment and/or require little or no watering, in the vast majority of our divisions.
- Encouraging tree preservation in the design of our communities. In Austin, Texas, we have changed street layouts and requested zoning variances to encourage tree preservation. In San Antonio, Texas, we follow the City of San Antonio’s comprehensive tree ordinance, even in surrounding areas where it exceeds county requirements. We won the award for Most Improved Developer from Scenic San Antonio for striking a responsible balance between building quality, affordably priced homes and protecting heritage trees and other natural landmarks in the area.

“This report is a significant accomplishment, and indicative of KB Home’s leadership position in the homebuilding industry—in particular its support of sourcing lumber from FSC-Certified Well-Managed forests and not from endangered wildlands such as America’s roadless national forests.”

Debbie Hammel
Senior Resource Specialist, NRDC Land Market Initiative
Natural Resources Defense Council

Complying with Environmental Laws and Regulations

We are committed to complying with our obligations under applicable environmental laws and regulations. Yet, despite our best efforts, on occasion we might not meet the expectations held by the government agencies that enforce those laws and regulations.

In May 2008, we and several other homebuilders entered into Consent Decrees with EPA resulting from alleged violations of certain storm water requirements. As part of the Consent Decree, we paid a civil penalty of approximately \$1.2 million and agreed to implement certain storm water pollution management practices.

We are committed to protecting the environment by complying with storm water laws related to the production of new homes. All KB Home communities execute and maintain a strict Storm Water Pollution Prevention Plan (SWPPP), as required by EPA. To support the execution and maintenance of these SWPPP plans, all of our construction superintendents complete SWPPP training within the first 30 days of employment as part of their new-hire training program.

As part of our commitment to protecting the environment against storm water pollution, in 2008 we launched a training module that provides learners with information on implementing and maintaining SWPPP programs along with examples and case studies to reinforce the appropriate execution of these plans. 100% of employees required to complete this training did so in 2008, including:

- Chief Executive Officer
- Regional presidents
- Division presidents
- Executive vice presidents at each division
- Forward planners at each division
- Operations department personnel at each division
- Land development department personnel at each division
- Land acquisitions department personnel at each division
- Purchasing department personnel at each division
- Legal department attorneys

To ensure continued compliance with this policy and training, we have staff who audit the storm water pollution management practices at our construction sites and train our team. This includes two workplace compliance managers who audit every KB Home division biannually and visit a number of jobsites unannounced to inspect conditions.



Economic Responsibility



Part of being a leader in sustainability is building a business that will be successful not only today, but for generations to come. At KB Home, we strive to create long-term growth and financial performance by creating high-quality, affordably priced homes for our customers, meaningful work for our employees and economic value to our stockholders.

This section presents a snapshot of the economic performance indicators we view as most relevant to our sustainability effort. It also details our focus on keeping homeownership attainable and on the role of product responsibility and customer satisfaction in our organization. Finally, it outlines some of the possible opportunities and risks associated with climate change that we believe have the potential to impact our business.

Detailed 2008 operational results and additional information about our financial performance and business operations, including discussion of the material risk factors to and the materials driver of our performance, 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>.

2008 Operational Results

The nation's economic crisis intensified as 2008 progressed, with housing values at the epicenter. The rapid flood of foreclosures into the housing market magnified the significant supply-demand imbalance, further accelerating price declines. At the same time, a deep recession, triggered in large part by the sudden loss of homeowner equity, tightening credit markets and sharply rising unemployment eroded consumer confidence, discouraging major purchases and depressing home sales to their lowest levels in more than 25 years.

This deteriorating housing environment had a significant impact on our business in 2008. We saw substantial declines in most of our key financial metrics, including revenues, homes delivered and backlog. Housing price declines reached record levels in many of our key markets and called for us to revalue many of our assets. While our performance improved over 2007, our net loss was still substantial. Given the ongoing instability in the financial, credit and employment markets, it is difficult to predict exactly when we can expect a sustained housing recovery.

We are acting aggressively to mitigate the effects of this turbulent economic environment, restore profitability and help ensure that KB Home emerges from this prolonged downturn a better, stronger company. We are committed to taking comprehensive action to continually improve our business to meet the needs of today's market.

While we expect 2009 to be a transition year in many ways, as we continue adjusting our business to today's market realities, we believe our results will increasingly reflect the positive impact of the initiatives we launched or accelerated in 2008. Our balance sheet is strong, and we maintain our focus on generating cash. We are a leaner, more efficient company that acts with speed and purpose, and we are building innovative new homes that effectively compete in today's housing environment. We operate in markets with very attractive long-term growth prospects and have preserved our capability to grow in those markets when the time is right.

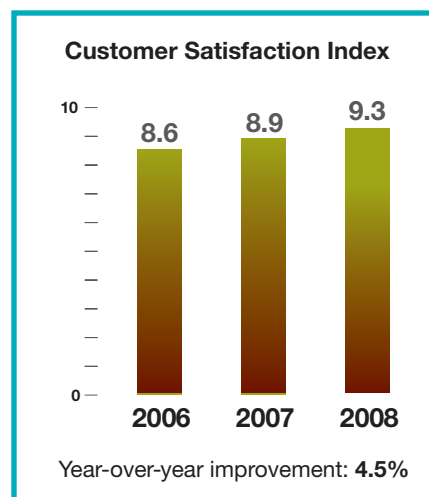
For over a half century, KB Home has built its success on understanding the needs of homebuyers. Among our core customer values are:

- **Keeping Homeownership Attainable.** We are proud to focus on the needs of first-time, first-move-up and active-adult homebuyers by providing high-quality, affordable new homes that keep the American Dream alive.
- **Homebuyer Involvement.** We believe in keeping our homebuyers informed and involved during the construction process. They are able to inspect the progress and quality of the construction of their new homes during the framing inspection, drywall inspection and homeowner orientation.
- **Customer Satisfaction Standards.** KB Home's 100% Complete/100% Satisfied Customer Service Standards ensure that all homeowner needs are addressed before, during and after any sale of a home. We are committed to delivering each home 100% complete and on time. If any final touch-ups or outstanding items are identified during the homeowner orientation, our internal standard is to ensure that they are corrected before we hand over the keys to our customer.

Customer Satisfaction Ratings

An independent third party follows up with our homebuyers approximately 30 days after closing to obtain feedback on their experiences so that we can continuously improve our service to our customers. Typically, about 57% of our new homeowners respond to this survey.

Our customer satisfaction ratings continued to rise and in 2008 reached their highest levels ever. Every customer satisfaction indicator that we track internally improved. Overall, we achieved an average score of 9.3 out of a possible 10 points, as shown in the table at right.



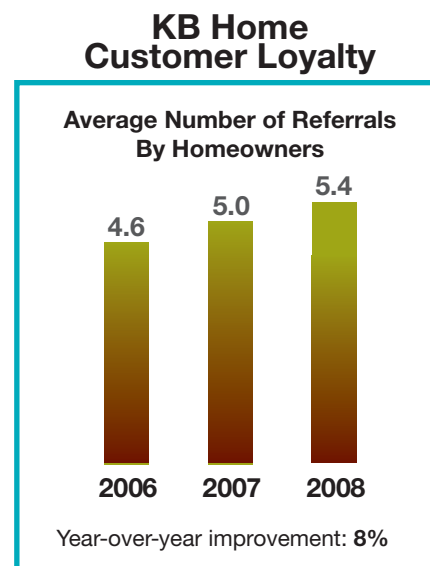
In addition, we follow up with our homeowners regularly during their first two years of ownership to address and resolve any issues that may arise. Our focus on customer satisfaction has enabled us to achieve extraordinary results in customer loyalty and very few outstanding warranty claims. It has also made referrals from existing KB homeowners one of the leading sources of new sales, a strong competitive advantage. On average, our homeowners recommend KB Home to at least five of their friends or family members following their home purchase.

Potential Economic Impact of Climate Change

As we noted in our first sustainability report, increasing consumer awareness and demand for products that are environmentally friendly present clear opportunities for all businesses, and the homebuilding industry in particular. But these factors also present potential economic risks. We are committed to continuing to evaluate both the opportunities and the costs of operating a more sustainable business.

The potential economic risks arising from the anticipated impacts of climate change that we have currently identified include:

- **Regulatory Changes.** Predictions of the impact of climate change are driving local, state and federal regulatory changes, and can directly or indirectly curtail development and/or significantly increase the costs of building homes through zoning restrictions, building codes, remediation or preservation requirements or other mandates. Some municipalities have already established “green” design and construction standards for new public buildings and for commercial or multifamily buildings over a certain size.
- **Water Use Restrictions.** Restrictions on water use are already quite common in many areas, and there may be federal greenhouse gas legislation or regulation in the next few years. In addition, climate changes affect precipitation patterns and water availability, which may impact new development opportunities.
- **Prohibitive Living Costs.** The effects of climate change and potential regulatory actions may also increase living costs generally, limiting the population of potential future homebuyers.
- **Capital Availability.** These conditions may also negatively impact the availability of capital for real estate development.



Social Responsibility



Fulfilling the American Dream of homeownership for thousands of KB homebuyers across the U.S. means much more than building homes. It means creating neighborhoods and fostering strong communities where we build. In this section, we detail our initiatives and programs that formalize this partnership with our communities and stakeholders.

Community Partnership

To broaden our understanding of the context in which our business operates and the priorities of our local communities, we interact with a number of diverse interest groups and organizations, and with governmental and nongovernmental organizations such as the National Resources Defense Council (NRDC) and The Nathan Cummings Foundation. The perspectives that we gain in this interaction are important to both our company and our trade partners in developing the types of innovative policies, programs, technology solutions and partnerships required to create long-term sustainability.

Infrastructure Development

We don't just build homes, we build communities. We believe part of our responsibility as a developer of new neighborhoods is to play an active role in the communities in which we build to improve the overall quality of life. In building many of our communities, we also make infrastructure improvements or develop parks, trails or schools that are for general public use, not just for KB homeowners. In 2008, as a part of our community development, we created 18 new parks totaling more than 50 acres, as well as walking trails, a bike path and a fire station, all for public benefit. We also paid approximately \$35 million in school fees in 2008 to support the development of new schools that serve not only KB homeowners, but also families in surrounding areas.

Creating a Company Culture of Sustainability

In 2008, one of the major messages throughout our entire organization was on the importance of sustainability, not just for the environment, but for our business, our homeowners and our employees. To ensure that the entire Company is aligned with this goal, in the past year we implemented communication programs, internal training and a companywide waste review.

At a difficult time in our industry and for our company, having a common purpose and a positive goal has been a great motivator for our entire team. Rather than waiting for the market to come back to us, we are proactively reinventing our company for a new generation of homebuyers and their needs. We have made a number of difficult decisions this year, including winding down operations in a number of markets and significantly reducing our workforce in order to respond to the economic environment, but this common purpose and positive goal have helped our entire team to keep our eye on the long-term potential we can create together.



A Structure for Sustainability

A number of organizational structures 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.
- **Environmental Leadership Team.** A group of key executives convenes on a regular basis to discuss sustainability strategy, participate in educational sessions that look beyond our own industry, and create buy-in with leaders across all of our operating regions and major functions of the Company. These include the regional presidents who oversee our operating divisions, several division presidents, and the senior vice presidents leading most of our major functions, including architecture, KB Home Studio, purchasing and accounting.
- **Environmental Task Force.** Environmental sustainability remains the area where we believe we can have the greatest impact. To drive strategic decisions and implementation across the Company, we have assembled an Environmental Task Force that includes leadership from major functional areas of the Company, including Architecture, Purchasing, KB Home Studio, Sales and Marketing, Legal and Government Affairs and KB University. The Task Force convenes monthly and is chaired by a senior vice president, who is a 26-year veteran of the Company.
- **GROW Liaisons.** As part of our companywide GROW waste review (see pages 36–39), we have identified GROW liaisons in every major division in the Company. These liaisons are responsible for implementing our GROW programs throughout each department and reporting back to the companywide GROW Project Manager with input and ideas, and with all-important results.

Stakeholder Outreach and Education

Creating meaningful organizational change takes more than the creation of an environmental initiative; it requires us to build 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 our larger network of key stakeholders.

In 2008, we undertook several major internal educational initiatives and actions to help us move toward achieving the culture of sustainability we know is essential to our success.

Stakeholder Engagement

We work closely with a variety of stakeholders at the national and 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

Executive Buy-In

Many of the opportunities to reduce our environmental impact and increase protection of natural resources occur at the local division and community levels, so we wanted to ensure that executives in our operating regions and divisions across the Company understood the opportunity sustainability presents for our business and our customers. In creating our own vision of sustainability for KB Home, we also wanted to challenge ourselves to look beyond the borders of our own industry for inspiration from best-in-class sustainable companies.

In June 2008, the 12 KB Home executives on our Environmental Leadership Team held an offsite environmental forum facilitated by InterfaceRAISE, LLC, the sustainability consulting arm of Interface, Inc., the world's largest manufacturer of modular carpet and a recognized global leader in sustainability. During the two-day session, KB Home leaders spent time at the Interface retail and manufacturing facilities, and learned firsthand about the company's sustainability efforts and how they are integrated into every aspect of their operations.

A number of ideas and goals for our *My Home. My Earth.*® environmental initiative were developed at this forum, and our Environmental Leadership Team members returned to their own operations with a new level of commitment to sustainability and a deeper understanding of the opportunities it presents for our business and our customers.

Strategic Partners Conference

Our strategic partners are an essential part of our business, and their buy-in and ideas are essential to our sustainability goals. Many of our national suppliers bring expertise in their own areas of construction and home-related products. In addition, since many of these partners also work with other homebuilders, we have an opportunity to seed change within the industry.

The focus of KB Home's 2008 national Strategic Partners Conference was on sustainability. Among the key activities were hearing from a noted environmental speaker, reviewing our sustainability objectives and priorities with our partners, gathering their feedback and identifying potential new environmentally friendly materials, features and products that could be incorporated into the homes we build.

We also presented Sustainability Partnership Awards to four KB Home trade partners whose environmentally friendly products have made an exceptional contribution to our strategic environmental initiative. The recipients were The Sherwin-Williams Company (low-VOC interior paint), Whirlpool Corporation (ENERGY STAR® qualified appliances), Carrier Corporation (Puron® refrigerant-based HVAC systems and programmable thermostats) and Masco Corporation (kitchen cabinets made from sustainable materials).

Community Advisory Boards

In a number of our operating divisions, we have created Community Advisory Boards (CABs) as a formal structure for gathering the perspectives and ideas of our stakeholders on our business and the needs of the local community. The CABs are comprised of community leaders and experts in their fields who provide insight and “ear to the ground” feedback about local housing, transportation, social, environmental and quality-of-life issues. The objective of each CAB is to obtain unfiltered feedback on how we are doing in shaping the physical environment of a community, as well as to better understand the needs of local citizens.

We currently have CABs in our North Carolina, Northern California, Central Florida and Southern California divisions.

These dialogues have been so successful that we have committed to expanding this program. In addition to local CABs, in 2009 we are establishing a National Advisory Board, to provide input on our efforts companywide. We also believe it is important to have CABs established in every one of our major divisions, and in 2009 we will launch CABs in a minimum of two additional divisions as we continue to strive to meet this goal.

Our National Advisory Board Vision

As KB Home strives to extend the practice of sustainability throughout our organization and advance our commitment to serve the communities of which we are a part, we will draw together a panel of leaders who are nationally recognized for their expertise in disciplines such as the environment, economics, finance, government, housing, community planning and social responsibility.

We will look to this panel to challenge us and guide us in our quest to make the dream of homeownership affordable and available while minimizing the impact of our business and homes on the environment, increasing positive change in the protection of our Earth and its resources, and creating neighborhoods that offer improved quality of life.

These recognized leaders will give us insight into emerging problems, trends and solutions, and help us develop a vision for neighborhoods that will be a strong community asset for generations to come. We will seek candid and strategic guidance, and our senior management will listen carefully to this advice. The guidance we receive will help maintain the vitality of our company as an integral participant in the life of the communities in which we build.

Training

A company's success depends on motivating and engaging its employees behind a common mission and strategy so that their interests and the company's are aligned. Creating a satisfying and safe workplace where employees can develop their talents and contribute to their full potential is essential to a productive work environment. In a year in which our entire industry faced significant challenges in the marketplace, we have attempted to maintain our high standards in this area. This section details some of our policies, programs and practices in employee training, ethics, health and safety, as well as changes in our workforce during 2008.



Learning is a way of life for all of our employees. KB University (KBU), our internal, intranet-based training, development and knowledge-sharing system, offers new and seasoned employees alike a wide range of self-directed and web-based tutorials ranging from sales fundamentals to model home merchandising to customer satisfaction and much more. Access to KBU is available 24/7, and employees can use KBU to get the latest Company news, take online training or manage their KB Home benefits. This commitment to ongoing training fosters employees who are well-prepared to make meaningful and satisfying contributions to our business.

Key to this education focus is ensuring that our employees are knowledgeable about our environmentally friendly features and products, and can clearly communicate their benefits to our homebuyers. That is why employee training was a major emphasis for our organization in 2008 and will continue to be in 2009.

In 2008, 99% of KB Home employees completed our interactive *My Home. My Earth.* training and certification program. This training ensures that every member of the KB Home team is aware of our sustainability commitments and the actions we are taking in order to achieve them. It also helps to educate our employees on the positive impact we can have on the lives of our homeowners for years to come by making our homes more efficient in every respect, from household energy consumption to our use of both renewable and nonrenewable raw materials in building each home. It is an important step in aligning our entire team behind our goals. Going forward, every team member will be required to recertify annually in this training.

In addition, our Studio consultants, who work directly with our homebuyers to assist them in selecting all the features in their new Built to Order home, completed specific training designed to equip them with expertise to make them confident proponents of our *My Home. My Earth.* environmentally friendly options and products. 96% of our Studio consultants completed our interactive *My Home. My Earth.* for Product training and certification program, and 99% of our Studio consultants completed our ENERGY STAR Homes for Studio training and certification program.

In 2008, while we introduced new mandatory annual training, including the *My Home. My Earth.* module, our overall number of both certifications and training hours per employee was reduced from 2007. This was due primarily to the reduction in the number of new hires and to our greater reliance on experienced team members. Most of the training for these seasoned employees was in recertifications rather than initial training as they had already completed our extensive Orientation Course, thus lowering the number of required training hours.

Average Certifications Average Training Hours

	2005	2006	2007	2008
Certifications Per Employee	32	41	46	36
Training Hours Per Employee	24	31	35	27

All employees are required to recertify annually on four training modules that represent the core of our business:

- KBnxt Operational Business Model
- Ethics Policy
- 100% Complete/100% Satisfied Standards
- *My Home. My Earth.* – Building a Sustainable Future Together

These modules and certification tests are updated each year to reflect the most recent content, standards and policies. The following table shows the certification completion statistics for each of these modules from 2006 through 2008.

Annual Core Training

Training Module	2006 Cert. Rate	2007 Cert. Rate	2008 Cert. Rate
KBnxt White Papers	91%	92%	98%
Ethics Policy	95%	100%	100%
100% Complete/100% Satisfied	89%	94%	99%
<i>My Home. My Earth.</i>	N/A	N/A	99%

Support Beyond the Workplace

In 2008, KB Home expanded its employee benefits to include the Employee Assistance and Life Events Program (EAP). The EAP is a tool that has been developed to ease the pressures we can feel as a result of day-to-day work and life experiences, emergencies and unexpected events. The goal is to assist both KB Home and our employees in attaining the highest quality of health, well-being and overall productivity possible.

This program offers consultation, support, information and planning, as well as diagnostic services and referrals to local professional resources. It also offers educational materials online regarding work/life topics such as caregiving, daily living and working smarter, with advice or referrals available in areas such as legal consultation, parenting, child care, senior care, identity theft and more. The program is strictly confidential and available 24 hours a day, 7 days a week to all our employees.

Ethics

Our Ethics Policy reflects our commitment to operate in an ethical manner, with integrity and in compliance with applicable laws and regulations. This written policy also establishes principles to guide actions and decisions in everyday business situations. Our constant focus on values, integrity and ethics is applied at every level of our company. All employees are required to certify to the Ethics Policy within 30 days of hire and must recertify annually. Vendors and contractors must acknowledge receipt and understanding of the Ethics Policy and renew their acknowledgement of the Ethics Policy on an annual basis.

Potential violations of the ethics policy can be anonymously and confidentially reported on the KB Home Ethics Policy hotline at (800) 304-0657 or through our reporting website at kbhome.ethicspoint.com.

Health and Safety

We are committed to providing all of our employees with a safe and healthy work environment. It is the duty of all employees, including management, to work safely. Training is an essential component of KB Home's Safety and Injury/Illness Prevention Program. All new construction employees are required to complete 28 separate health and safety training modules within the first 90 days of employment. Categories include:

- Accident Investigation
- Electrical Safety
- Creating Safe Workplaces
- General Safety and Health
- Personal Safety
- Power Tools Safety
- Safe Work Practices and Hazard Communication

Total 2008 Employee Injuries by Region

West	13
Southwest	3
Central	16
Southeast	13
TOTAL	45

In 2008, our employees completed 2,125 safety certifications. Furthermore, several of our divisions participate in a voluntary enforcement program with the Occupational Safety and Health Administration (OSHA) that promotes effective workplace safety beyond OSHA standards. Our focus and commitment to safety training are reflected in our low rate of injury. In 2008, our employees had 45 reported injuries.

Workforce Changes

Significant and ongoing changes in the homebuilding marketplace over the last several years have required us to continue to make a number of difficult decisions. In 2008, this included further workforce reductions through both attrition and layoffs to meet the reduced demand for new homes and maintain the economic sustainability of our organization. KB Home employees are not party to any collective bargaining agreements.

Workforce Impact in a Shifting Market

	2006	2007	2008
Employees*	5,191	3,177	1,643
Delivered Homes**	32,124	23,743	12,438

*Employee figures are for calendar year (January 1 through December 31).

**Delivered homes are for KB Home fiscal year (December 1 through November 30).

Philanthropy and Volunteering

Our philanthropic initiatives across the country support a number of community needs through targeted donations of materials and services, as well as employee volunteer efforts.

To help ensure that our charitable efforts effectively address specific local needs, each division is responsible for its own local contributions, volunteer time and in-kind donations based on the local needs and the division's business operations.

Below are some examples of our philanthropic activities in 2008.

Building in Time of Need

- Our Colorado division renovated an historic building in Denver for the Denver Children's Advocacy Center, a local organization that counsels abused children and assists the Denver Police Department with forensic investigations in abuse cases. We are also working with the Advocacy Center to plan and renovate a second building.
- Our Central Florida division provided project management for the construction of the Harbor House children's center, the only shelter for victims of domestic violence in Orange County, Florida.
- Employees and trade partners at our North Carolina division participated in improvements to a local homeless shelter.

Providing the Comforts of Home

- Our Las Vegas division donated furniture from our model homes to A Lift Up, an organization that supplies furniture to veterans in need.
- Our North Carolina division donated model home furniture to a number of organizations, including Wake Interfaith Hospitality Network, which provides support services to the homeless; Housing for Hope, a homeless shelter; Holly Springs II Apartments, which provides senior citizen housing; and The Dubois Center, a community organization for disadvantaged individuals.
- Our Central Texas division donated model home furniture to several organizations, including SafePlace, a battered woman's shelter, and Vincare Services, which provides transitional housing for single homeless mothers.
- Our San Antonio division donated model home furniture to the SAMMinistries homeless shelter and furnishings to a wounded Iraq War veteran and her family for their new KB home.
- Our Northern California division donated model home furnishings to Senior Housing Solutions.
- KB Home Corporate worked with our trade partner, Armstrong World Industries, Inc., to donate and install new flooring at a local transitional housing complex for formerly homeless families, Westwood Transitional Village.

Investing in Our Communities

- Our Arizona division participated in the United Way's Days of Caring school renovation project.
- Our San Antonio team volunteered over 700 hours to community projects in 2008, donating backpacks and school supplies to foster children and at-risk students, donating and preparing food boxes for the San Antonio Food Bank, and participating in wiping out graffiti across the city.
- Our Northern California division continued to partner with the Golden State Warriors basketball team to build community basketball courts.

Giving in Time of Need

- Our Las Vegas division donated 25 computers to the Delta Academy so they could set up a computer room for special needs students.
- Our North Carolina division distributed 1,500 books to benefit low-income families.
- Our Southern California division supported domestic violence shelters in the Antelope Valley and Santa Clarita Valley.
- Our Houston division donated model home furnishings and computers valued at more than \$140,000 to a number of community organizations in 2008, including Northwest Assistance Ministries, First Metropolitan Church Infant Development Center, Madge Bush Transitional Housing, Literacy Advance of Houston and the Houston Independent School District.
- KB Home Southern California employees and their families volunteered at The Painted Turtle summer camp facility. The Painted Turtle is a nonprofit organization that serves children with life-threatening illnesses.

Environmental Stewardship

- Our Central Texas division participated in a number of community service projects to clean up and landscape public areas and parks, including tree planting with the City of San Antonio, landscaping and trash pickup at the Medina River Natural Area and the annual San Antonio River Basura Bash, and trash pickup through the Adopt-a-Highway program.
- KB Home Corporate has been a longtime supporter of TreePeople, whose mission is to bring nature to our urban environments. In 2008, we supported their technology program with a donation of 15 computers.



Our KB Home San Antonio employees participating in a citywide tree planting.



KB Home Southern California employees and their families volunteering at The Painted Turtle summer camp facility.



KB Home employees participating in a community graffiti wipeout.

My Home. My Earth. 2009 Priorities and Actions



In 2009, we will continue to support our five sustainability commitments with specific goals and measures. Below are a number of actions that we have identified as priorities for 2009 and beyond:

Commitment and Actions

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

- Ensure that all homes in newly opened communities are ENERGY STAR® qualified.
- Continue to focus on adding environmentally friendly products to the homes that we build and the options we offer.
 - Launch *My Home. My Earth.*® option packages with our Built to Order™ approach to increase consumer adoption of environmentally friendly choices and help buyers reduce their carbon footprint.
 - Add four additional new environmentally friendly products in 2009 to the standard features built into every new KB home.
 - Introduce at least four new optional products in 2009 that will help to increase energy efficiency, reduce water consumption, increase indoor air quality or are made with sustainable sources.
- Implement water usage reduction programs in 100% of our divisions in 2009.
- Deliver 50% of our homes companywide in 2009 from The Open Series™, bringing an affordable, environmentally friendly option to first-time and other general-market homebuyers to reduce their carbon footprint and energy usage.

Commitment and Actions**2. Utilize our history of innovation and our process-driven approach to reduce waste and use of natural resources throughout our organization.**

- Fully implement Phase I GROW: Get Rid of Waste standards in 100% of all KB Home divisions and the corporate office as a minimum performance requirement for reducing the use of paper, electricity, water and office supplies. Measure and internally report progress quarterly.
- Implement Phase II of our GROW: Get Rid of Waste initiative by analyzing our construction waste stream and creating division-level action plans and companywide standards to eliminate, reduce, reuse and recycle our high-volume building materials. Measure and internally report progress quarterly.
- Partner with suppliers to reduce waste in packaging and product delivery and identify potential best practices for a larger rollout.

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

- Launch our first National Advisory Board, which will focus on development, environmental, community and social issues.
- In addition to convening regular meetings in our existing divisional Community Advisory Boards (CABs), implement CABs in a minimum of two more divisions as we strive to meet our goal of establishing them in every one of our major divisions.

Commitment and Actions

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

- Launch new educational displays in every one of our sales offices nationwide to focus on the benefits of energy efficiency offered in all KB homes.
- Launch new, detailed ENERGY STAR consumer benefits training with 100% certification for all team members in sales, Studio, construction, customer service and purchasing during 2009.
- Update KB Home's *My Home. My Earth.* training to reflect our current commitments and actions, with 100% of KB Home team members trained and certified during 2009.
- Identify how we can leverage the sustainability programs of our trade partners to reduce the impact of our own operations and increase benefits to our homeowners.

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

- Continue to report on sustainability efforts to the Board of Directors, employees and stakeholders, and refine the methodology used for scorecards and calculations.
- Continue to measure the Company's carbon footprint and implement actions to minimize greenhouse gas emissions from both our operations and our homes.

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 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. 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

Indicator	Description	Location
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ENVIRONMENTAL

EN6	Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives.	pages 18–20, page 29
EN12	Description of significant impacts of activities products and services on biodiversity.	page 17
EN26	Initiatives to mitigate environmental impacts of products and services.	page 16

ECONOMIC

EC1	Economic value generated and distributed.	10-K
EC2	Financial implications and other risks and opportunities due to climate change.	page 45
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind or pro bono engagement.	page 46

SOCIAL PERFORMANCE: SOCIETY

SO1	Nature, scope and effectiveness of any programs and practices that assess and manage the impacts of operations on communities.	page 49
SO3	Percentage of employees trained in organization's anticorruption policies and procedures.	pages 51–52

SOCIAL PERFORMANCE: LABOR PRACTICES & DECENT WORK

LA1	Total workforce by employment type, employment contract and region.	page 52
LA4	Percentage of employees covered by collective bargaining agreements.	page 52
LA7	Rates of injury by region.	page 52
LA10	Average hours of training per year per employee by category.	page 51

SOCIAL PERFORMANCE: PRODUCT RESPONSIBILITY

PR3	Type of product and service information required by procedures.	page 44
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	pages 44–45

GRI Profile Indicators

Indicator	Description	Location
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STRATEGY AND ANALYSIS

1.1	CEO statement about relevance of sustainability to the organization and its strategy.	page 4
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ORGANIZATIONAL PROFILE

2.1	Name of the organization.	page 6
2.2	Primary products and services.	page 6
2.3	Operational structure of the organization.	page 9
2.4	Location of organization's headquarters.	page 61
2.5	Countries where the organization operates.	page 6
2.6	Nature of ownership and legal form.	10-K, proxy statement
2.7	Markets served.	page 6, 10-K
2.8	Scale of the reporting organization.	10-K
2.9	Significant changes during the reporting period.	page 43
2.10	Awards received in the reporting period.	page 7

REPORT PARAMETERS

3.1	Reporting period.	page 2
3.2	Date of most recent previous report.	page 2
3.3	Reporting cycle.	page 2
3.4	Contact point for questions regarding the report.	page 61
3.5	Process for defining report content.	page 2
3.6	Boundary of the report.	page 2
3.7	Limitations on the scope of the report.	page 2
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations and other entities.	page 2
3.9	Data measurement.	page 2
3.10	Explanation of the effect of any restatements of information provided in earlier reports, and the reasons for such restatement.	N/A
3.11	Significant changes from previous reporting periods.	pages 10–15
3.12	Table of GRI Standard Disclosures.	page 58

GOVERNANCE, COMMITMENTS AND ENGAGEMENT

4.1	Governance structure of the organization.	page 9
4.2	Indication of whether Chair of the highest governance body is also an executive officer.	page 9
4.3	Board structure and independence of members.	page 9
4.4	Mechanisms for providing recommendations to highest governing body.	page 9
4.14	Stakeholder groups engaged by the organization.	page 48
4.15	Basis for identification and selection of stakeholders.	pages 46–47
4.16	Approaches to stakeholder engagement.	pages 47–49

Endnotes

1. U.S. EPA, "Inventory of U.S. Gas Greenhouse Gas Emission and Sinks 1990–2007," Table ES-8: Greenhouse Gas Emissions by Economic Sector with Electricity-Related Emissions Distributed (Tg CO₂ Eq.), April 15, 2009.
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7. Calculated using EPA ENERGY STAR templates.
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Data from the Pacific Institute on metric tons of CO₂ produced in the manufacturing of these bottles.
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<http://www.epa.gov/solar/energy-resources/calculator.html>.
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11. Energy consumption reductions calculated using the EPA Printer Savings Calculator.
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12. Home energy comparison (Plan 1896 compared to Plan 2788, in Climate Zone 10) was done using REM/Rate v12.61, which is an approved Residential Energy Analysis and Rating Software by RESNET: Residential Energy Services Network. Analysis performed by Energy Inspectors, HERS provider to KB Home's divisions in CA, NV and AZ. Greenhouse gas emissions estimate was based on EPA's 2007 and 2008 national gas and electricity emission factors (116.97 lbs CO₂/MMBtu and 1.54 lbs CO₂/kWh).
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17. Iron Mountain "Green Paper Reports" for KB Home, 2006–2008.
18. Southern Nevada Water Authority, "Water Smart Home."
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Comments

We welcome your comments and questions regarding this report and invite you to contact us at myhome.myearth@kbhome.com.

KB Home
10990 Wilshire Boulevard
Los Angeles, California 90024
888-KB-HOMES kbhome.com

