



KB
HOME

2013

SUSTAINABILITY REPORT



ABOUT KB HOME

KB Home is one of the largest and most recognized homebuilding companies in the United States and has constructed new homes in 190 communities nationwide during its most recent fiscal year. In 2013, KB Home built more than 7,100 homes in 40 major markets across 10 states. Since our founding in 1957, we have delivered the American Dream to over 555,000 families. KB Home's signature *Built to Order*[™] approach means that construction on a new KB home typically doesn't start until a buyer has signed a contract and selected the homesite, floor plan, and numerous interior and exterior options to make the home their own. With a focus on providing the best combination of quality and value to first-time, move-up and active adult homebuyers, KB Home delivers a semi-custom homebuying experience at an affordable price. New KB homes are not only *Built to Order*, they are also built with our sustainability initiatives firmly in mind, with a wide variety of highly water- and energy-efficient and other environmentally conscious features and products available as standard or as options to our homebuyers.

KB Home Sustainability Report Purpose and Structure

The 2013 KB Home Sustainability Report is our seventh annual public report and follows our most recent report published on Earth Day in April 2013. In this report, we quantify our accomplishments and challenges in 2013 and seek to foster continued discussion and engagement with all of our stakeholders on the complex issues surrounding sustainability.

All information provided in this report, including financial data, is for our fiscal year ended November 30, 2013, unless otherwise noted. We also highlight in this report our top goals and priorities for 2014 and beyond. We fully intend to do our best to achieve these objectives, subject to shifts in the business climate.

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

We are committed to conveying our progress and goals in future sustainability reports, and pursuing sustainable practices where possible as an integral component of KB Home's business.

KB HOME'S VISION FOR SUSTAINABILITY

To become a leading environmentally conscious national company by engaging the talents of our employees and trade partners, to utilize 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 to consumers.

KB Home's Guiding Principles for Sustainability

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

- Offer environmentally friendly and affordably priced homes, products and features that minimize our homeowners' carbon footprint and energy usage, conserve natural resources, and create more sustainable homes and communities.
- Utilize our history of innovation and our process-driven approach to reduce waste and natural resource usage throughout our organization.
- Be an active and responsible member of the communities in which we operate.
- Be an environmental educator for all our employees, homebuyers and business partners regarding home energy conservation and environmental sustainability.
- Maintain our standards of transparency and corporate citizenship by publicly reporting on the progress in and challenges to our sustainability efforts.

A MESSAGE FROM KB HOME'S PRESIDENT AND CHIEF EXECUTIVE OFFICER

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

Welcome to our seventh annual sustainability report. We are releasing our report on Earth Day for the third year in a row, to underscore the importance of protecting the environment. We strive every day to find ways to reduce our carbon footprint, and limit the natural resources we consume. Through our actions over the last seven years, we have made steady progress in building homes that are more environmentally friendly, and still affordable, which is good for our planet, and good for our customers. By helping us sell more homes, it is good for our stockholders as well. We believe integrating sustainable practices into our business is the right thing to do, and we continue to expand our efforts in this vital area.

Since embarking on our sustainability journey, we have focused our efforts in four areas: energy efficiency, water conservation, consumer awareness and waste reduction. We seek to lower the environmental impact of each of our homes by reducing energy consumption, which also helps lower the total cost of homeownership for our customers. We have lowered energy consumption, as measured by our average HERS Index Score, for six consecutive years. New KB homes delivered today are on average 65% more energy efficient than a typical resale home and 35% more efficient than a typical new home. Water is one of our most precious and limited natural resources, and we continue to improve our product and design features to enhance water conservation. Today, we install WaterSense® features as standard, which saves up to 30,000 gallons of water per year in each home as compared to typical resale homes.

We have been educating the public about the environmental benefits and cost savings from energy and water conservation in multiple ways, from our Energy Performance Guide® (EPG®) and ZeroHouse 2.0 programs, to participating in industry conferences and utilizing our growing social media presence. Our engineering design process is focused on eliminating waste up front, and building the most efficient homes at the highest quality standards. We also utilize recycled materials wherever possible, minimize and track waste on our job sites, and motivate our trade partners and suppliers to do the same. These efforts have reduced our carbon footprint, and we are committed to further reductions in the future.

Within our Sustainability Report, you will find detailed accounts of our accomplishments in all four focus areas during 2013. Highlights of some of our accomplishments for the year include:

- We introduced the Wiser™ Home Management System as a standard feature in all new homes. Wiser empowers homeowners to monitor and control their real-time energy usage remotely. A recent survey found that homeowners who receive real-time feedback about their energy usage save as much as 12% annually. Wiser provides a platform for a connected smart home that can control additional features such as remote lighting, and a smart thermostat that adjusts a home's temperature during periods of peak energy demand. Wiser provides us the flexibility to integrate future smart home technologies as they become available.
- We added a built-in USB port in the kitchen of every home. The port eliminates the need for an adapter for charging electronic devices and conserves energy by automatically shutting down when charging is complete.
- We took advantage of our leadership position in corporate sustainability to partner with other companies in promoting energy efficient features and options. Whirlpool® chose KB Home as the first homebuilder to introduce its line of smart kitchen appliances, which can be programmed to run energy-intensive tasks at off-peak hours, and even send a text message if the refrigerator door is left open.

- We teamed with Ford Motor Company® to demonstrate how a smart home interacts with smart transportation, using new technologies such as an electric vehicle charging station that is powered by renewable energy from the home's solar panels. In the evening, the car can, in turn, provide power to assist in running the house.



- Speaking of solar, we delivered 1,025 homes with solar power systems in 2013, our most in a single year. We have now delivered 2,400-plus solar homes since 2011, offsetting the production of more than 6,200 tons of carbon dioxide, which is the equivalent of removing 942 cars from the road every year.
- Over the last several months, we showcased our newest water-saving technologies, including a first-of-its kind greywater recycling system, which reuses water from other parts of the home for landscape irrigation; a water-recycling dishwasher; and a hot water heat recovery system. These innovations are in addition to our WaterSense® Labeled and WaterSmart home programs, as well as the standard WaterSense fixtures we install in every KB home. The more than 19,000 homes with these features, which we have delivered since 2007, save a combined 3 million gallons of water every day.

For KB Home, sustainability extends beyond our energy and water initiatives to making a difference in our communities. We strive to take a leadership role in each of our served markets through participation in programs that educate consumers on the benefits of energy and water efficiency. These programs highlight the positive impact an efficient home can have on the conservation of natural resources and utility costs. We also support charitable organizations that improve the quality of life of local residents, and advocate for responsible land development and residential construction policies that minimize the impact on the planet and its natural resources. During our land acquisition process, we take into consideration the existing native trees and shrubs in our land planning, in order to preserve as many as possible on the property. We also include landscaping as part of our development to leave new communities with more trees, plants and green space than when we started.

We have made substantial progress in our sustainability journey, and I am very proud of our results thus far. Through our leadership efforts and technological advancement, items like the Wiser Home Management System that were expensive prototypes or even unheard of seven years ago are now standard features in our homes. Our commitment to using WaterSense fixtures, meanwhile, helps to conserve the most vital natural resource. As the pace of innovation in sustainable practices continues to accelerate, we intend to expand our leadership position in this critical area. This year's report captures many of our recent successes and challenges along our sustainability journey, and I look forward to sharing further accomplishments in the year ahead.

Jeffrey A. Mezger

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Las Vegas, Nevada



2013

THE YEAR IN SUSTAINABILITY AT KB HOME

KB Home's 2012 Sustainability Report outlined a number of goals for 2013 in four primary areas:

- > **Energy Efficiency and Building Science Innovation**
- > **Water Efficiency and Conservation**
- > **Consumer Benefits and Awareness**
- > **Waste Reduction**

Over the course of the report, we will highlight our progress made against these goals, identifying key accomplishments, challenges and programs underway in these four areas.

Before detailing the results of our sustainability efforts, we would like to share an objective assessment of our efforts based on some of the accolades we have received for our work in 2013. Though accolades and awards are not the reason we pursue our sustainability goals, we sincerely appreciate when others take the time to recognize us.

AWARDS AND RECOGNITION

ENERGY LEADERSHIP

ENERGY STAR® Partner of the Year – Sustained Excellence Award 2014

- four consecutive years



First Homebuilder ENERGY STAR Partner of the Year – Climate Communications

- for raising awareness of the positive effects energy efficiency can have on the environment

Recipient of 17 ENERGY STAR Certified Homes Market Leader Awards

WATER LEADERSHIP

WaterSense® 2013 Builder Partner of the Year

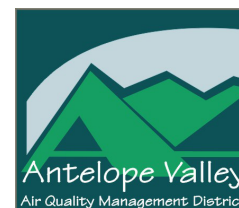
- first and only homebuilder to receive designation
- three consecutive years



KB Home's Bay Area division was named the Community Builder of the Year by Build It Green™. KB Home is a member of Build It Green.



Department of Energy's 2013 Housing Innovation Awards Challenge Home Winner for our San Marcos ZeroHouse 2.0 in the Production Builder category.



KB Home's Southern California division was honored with the Antelope Valley Air Quality Management District's William J. "Pete" Knight Achievement in Reducing Emissions Award, otherwise known as the AIRE Award.



KB Home's Las Vegas division won Green Builder of the Year at the Southern Nevada Home Builders Association's 2014 Silver Nugget Awards for excellence in homebuilding. KB Home is a member of the Association.



Winner of 2014 RESNET President's Award for delivering the most homes with a HERS Index Score below 55 and the award for the Lowest HERS Index Score for a Production Builder, with a HERS Index Score of 42.



We are the first and only national homebuilder to receive Home Innovation Research Lab's "Home Innovation Quality" Certification across all divisions, and have done so for six consecutive years.

2013 PROGRESS REPORT SUMMARY



ENERGY EFFICIENCY AND BUILDING SCIENCE INNOVATION

- Improve the energy efficiency of our homes by at least 3% in 2013 in order to achieve an average HERS Index Score of 66.
- Expand on our successful solar power initiatives by exploring broader usage of renewable energy, including installation of solar power systems in new markets or with new product lines and demonstration of other types of renewable energy.
- Introduce at least three new energy-efficient components as either a standard or optional feature in all new KB homes. Test and measure the results of at least two emerging building technologies or techniques.
- Coordinate a cost-effective transition to the new Title-24 energy code requirements in California, which will be required of all new California residential construction in 2014.

WATER EFFICIENCY AND CONSERVATION

- Maintain our leadership in building WaterSense® Labeled new homes by introducing WaterSense certification to new markets.
- Demonstrate use of a greywater recycling system and conduct research to determine if such a product can be added to the KB Home Studio. Introduced at ZeroHouse 2.0 model home in February 2014.
- Update and expand water-efficient product options at the KB Home Studio.

CONSUMER BENEFITS AND AWARENESS

- Provide a Wiser™ Home Management System in all our new homes so homeowners can track their energy consumption and discover opportunities to reduce consumption.
- Implement new tools for employees to use to raise awareness about the importance of water conservation and communicate the money-saving benefits of water efficiency.
- Introduce an educational campaign about the importance of keeping storm water clean.
- Expand sustainability-related content on KB Home's website, kbhome.com.
- Showcase sustainable lifestyle choices at our communities and at the KB Home Studio.

WASTE REDUCTION

- Reduce job site waste by 10% through challenging trade partners to reduce their own waste.
- Lessen the estimated environmental impact of our sales offices and model homes by reducing paper use in our sales offices and energy consumption in our model homes by an additional 2%.
- Increase internal awareness and excitement for waste reduction, particularly in our division and corporate offices, by encouraging “paperless” procedure improvements and recognizing employees with the GROW Wall of Fame program.



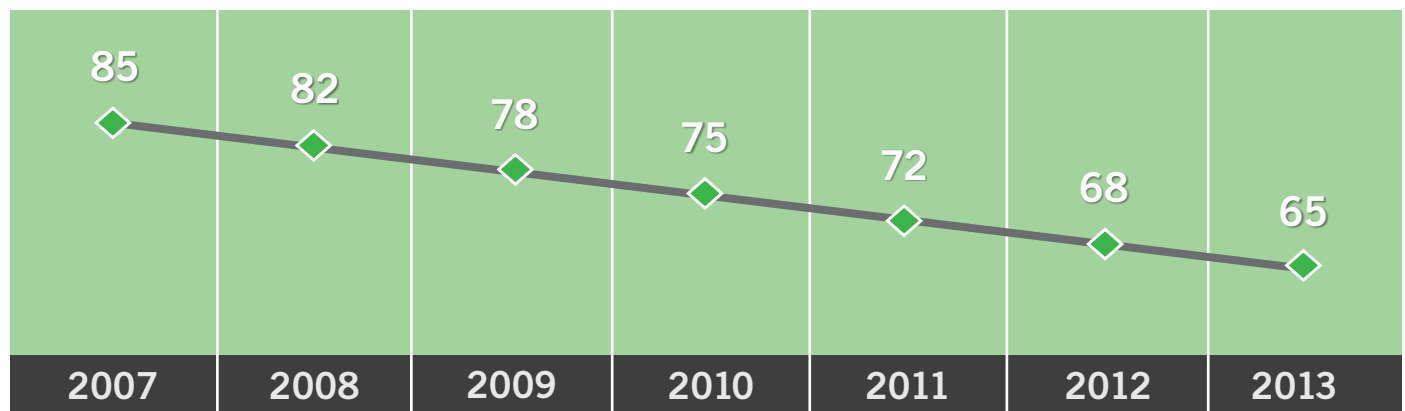
ENERGY EFFICIENCY AND BUILDING SCIENCE INNOVATION

Continuing to Lower the Cost of Homeownership

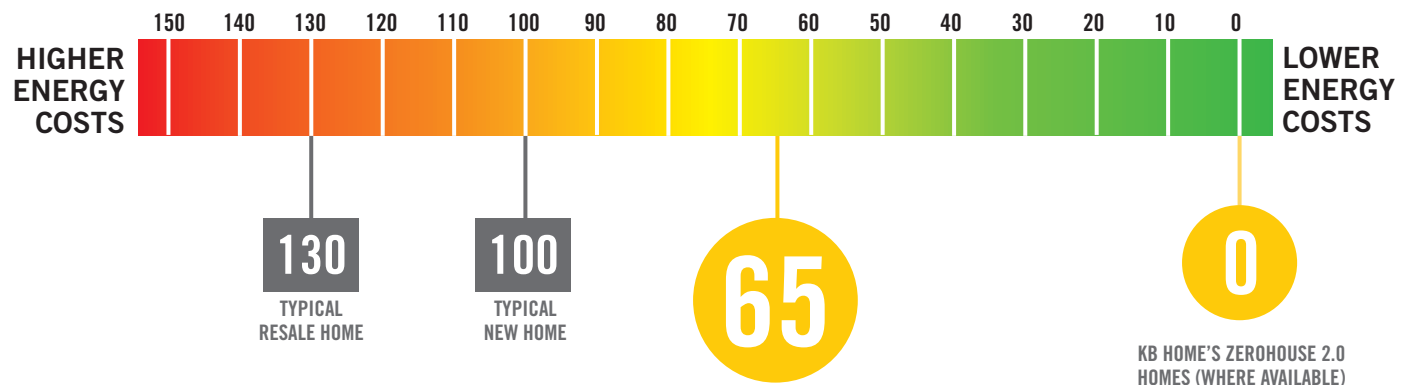
Maximizing a home's energy efficiency can lead to significant savings on utility bills and is one of the main ways we strive to lower the total cost of homeownership for our customers. We measure the energy efficiency of every home we build with a Home Energy Rating System (HERS) Index Score that is assigned upon inspection by a third-party certified home energy rater from the Residential Energy Services Network (RESNET). HERS Index Scores range from below 0 to above 150 (the lower the better) and provide a way to compare a home's energy efficiency performance to that of other homes. We have successfully lowered our average HERS Index Score for the last six years. With this progress, we believe we are well positioned to stay ahead of the higher efficiency requirements for residential construction anticipated to go into effect across our markets over the next several years.

We calculate our average annual HERS Index Score by tracking scores for every home we deliver as opposed to a sampling formula. While the average HERS Index Score for a new KB Home in 2013 was 65, earning us the President's Award from RESNET for delivering 570 homes with a HERS Index Score of 55 or less.

CONTINUOUS IMPROVEMENT IN AVERAGE HERS INDEX SCORE



RESNET HOME ENERGY RATINGS INDEX



KB HOME'S AVERAGE IN 2013
65% more energy efficient
than a typical resale home

WHY IT MATTERS: More than 85% of the total energy consumption during a home's life cycle stems from the energy used during a home's occupancy, creating a significant opportunity for KB Home, as a builder, to incorporate features and materials that will help homeowners reduce energy consumption for the life span of the home. We are committed to serving as a market leader in testing, utilizing, refining, and advocating for alternate means of energy production in order to lessen reliance on the natural resources traditionally used to generate electricity.

ENERGY STAR by the Numbers

ENERGY STAR® is KB Home's national platform for home certification. Since we joined the ENERGY STAR program in 2000, maintaining ENERGY STAR standards has been a keystone of our commitment to energy efficiency. This means every KB home has been designed and built to standards well above most other homes on the market today and includes many energy-efficient features to enhance comfort and durability, save money and conserve natural resources. Over the last two decades, KB Home has been one of the leading builders of ENERGY STAR certified homes. In 2013, we continued to build all new KB homes to U.S. EPA's new, more rigorous ENERGY STAR Version 3.0 standards.

7,000+ ENERGY STAR homes built by KB Home in 2013

Nearly
9,700
ENERGY STAR
certified
appliances
installed in 2013

The nearly 82,000 homes
offset the greenhouse
gas emissions of
29,000
passenger vehicles
in 2013

Nearly
82,000
ENERGY STAR homes built
by KB Home since 2000

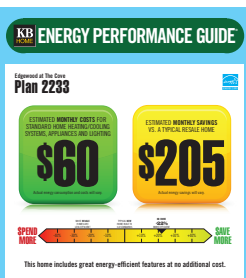
17 ENERGY STAR Certified Homes Market
Leader Awards in 2013 and 2014

4 Consecutive Partner of the Year
Sustained Excellence Awards

1ST Builder Partner of the Year –
Climate Communications

**\$24
MILLION**
saved on utility bills in 2013 by
homeowners living in those nearly
82,000 ENERGY STAR homes

ENERGY STAR partner
for more than 14 years



THE POWER OF 10 Edgewood at the Cove San Jacinto, CA

- 2,233 sq. ft. ENERGY STAR certified home
- 2.3 kW solar power system

Savings in 10 Years:

\$24,000 energy bills savings
+ \$3,000 water bills savings

\$27,000 total
est. utility bills savings

Flexing Our Solar Muscles

KB HOME AND SUNPOWER: A POWERFUL PARTNERSHIP

KB Home continues to be a leader in offering residential solar power systems. In 2013, we delivered the most solar-powered homes in California of any builder and completed the most solar homes for the company in a single year. We currently offer solar as a standard or optional feature in more than 120 communities in California, Texas, Colorado and Arizona.

As solar energy technology continues to evolve and improve, we plan to bring these enhancements to our homebuyers. Through our partnership with SunPower®, we piloted their latest technological advancement in solar panel efficiency, the X series. These higher efficiency panels allowed KB to achieve increased power output using the same amount of roof space as the standard E series panel. Looking forward, we plan to offer these panels in more communities as the product becomes available in greater volumes.

Nearly **\$1.9 MILLION**
in estimated annual electric bill savings for
homeowners living in solar-powered KB homes

2,400+
homes built with solar power
systems since 2011

14% of KB homes delivered in 2013 included solar power systems
(1,025 solar homes delivered in FY2013)

According to SunPower, the solar
power capacity of all systems
installed on KB homes totals over
5.8 MEGAWATTS,
which are expected to produce
9.3 MILLION
kilowatt hours annually

58
KB Home
communities in
Southern California
where solar power
was or is being offered
as a standard feature

Systems installed offset the
production of more than
6,200 TONS
of carbon dioxide, which
is equivalent to removing
942 passenger vehicles
from the road annually



Eastvale, California

Reaching for Higher Performance

Wrap it Up!

Controlling the energy usage of appliances and heating and cooling systems is the most impactful way to trim utility bills. But energy efficiency should never come at the expense of comfort. In fact, keeping the hot or cool air from escaping is another meaningful way to lower the total cost of homeownership. A complete thermal enclosure system of high performance insulation and a radiant barrier roof lining – standard features in all KB homes – reduce heat transfer, lowering the need for additional heating or cooling of interior spaces.



As a forward-looking company, KB Home is always exploring different approaches and technologies that can lower the average HERS scores of our new homes and make them more energy efficient. In 2013, KB Home installed a new insulation technology in its ZeroHouse 2.0 home in San Marcos, California: a high performance attic solution designed and manufactured by Owens Corning® that delivers improved thermal performance and higher durability at an affordable cost. The performance of this new technology is being independently monitored by the Oak Ridge National Laboratory, a leading energy research lab, to confirm its effectiveness and potential future use.

More Savings from Intelligent Efficiency

In April of 2013, KB Home introduced the Wiser™ Home Management System from Schneider Electric, which empowers homeowners to monitor and control their energy usage. The Wiser system, a standard feature in all new KB homes, enables homeowners to track energy consumption on a home computer or remotely from a mobile device and maximize their home's energy efficiency by reducing or shifting energy use during peak times. Optional upgrades to the Wiser system include a Wiser thermostat that can be controlled remotely and smart plugs that allow homeowners to control energy consumption of single items like appliances or computers. KB Home is the first builder to include the Wiser system in its new homes.

Wiser empowers homeowners to take greater control of their energy usage. According to studies reported by the American Council for an Energy-Efficient Economy (ACEEE), homeowners who receive real-time feedback about their electric usage can potentially save as much as 12% in energy costs annually.



FACES OF SUSTAINABILITY

"Owens Corning is excited to be working so closely with KB Home, combining our building science and innovation capabilities to deliver market-leading sustainable solutions that improve thermal performance, comfort, durability, safety and total life cycle environmental impact."

Frank O'Brien-Bernini, VP and Chief Sustainability Officer, Owens Corning



WATER EFFICIENCY AND CONSERVATION

WHY IT MATTERS: Reducing water consumption can also lower the cost of homeownership and help conserve one of the planet's most important but limited resources. Using less water also helps lower energy and water bills. With prices for water expected to increase due to distribution and infrastructure issues in some areas, drought and other climate change impacts, those cost savings could become more substantial in the future.

Making Sense...And Cents from WaterSense®

WaterSense is an EPA program that “seeks to protect our nation’s water supply by offering people simple ways to use less water” and is the platform used by KB Home to help customers lower the total cost of homeownership through savings on both their water and energy bills. We have partnered with WaterSense since 2009 to help homeowners make smart water choices and maintain high environmental standards. KB Home features a wide array of WaterSense Labeled fixtures as standard or optional features in every home we build.

The Homebuilding Industry’s Leader in Water Efficiency

For the third year in a row, KB Home was the only builder to be recognized as a 2013 WaterSense Partner of the Year. We have also built the most WaterSense Labeled new homes in the country. To earn the WaterSense label, a new home must adhere to stringent criteria for indoor and outdoor water use, and the builder must educate the homeowner on optimizing water usage in the home. While our production of WaterSense Labeled homes declined in 2013 due to the closeout of several communities featuring these homes, we plan to increase our volume this year as we open several new communities offering WaterSense Labeled homes. In our Las Vegas division, we have built the most homes to the Water Smart certification standards, a program similar to WaterSense created by the Southern Nevada Water Authority.

Nearly
9,700
WaterSmart and WaterSense
Labeled homes built since 2005

158,000
WaterSense fixtures
installed since 2008

\$300
annual savings in
standard KB home
with WaterSense
Labeled fixtures

Gallons of water conserved everyday
by these homes and fixtures together:

3 MILLION



\$600
annual savings
in WaterSense
Labeled KB home



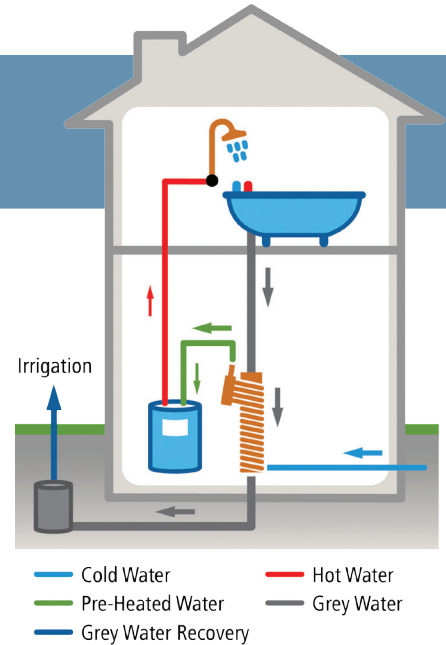
Pioneering Water Recycling at “Double ZeroHouse”

Our ZeroHouse 2.0 homes showcase both energy-saving technologies and systems as well as cutting edge water-saving features. Our ZeroHouse 2.0 home in San Marcos, California features a Moen MotionSense™ kitchen faucet that activates water flow from hand motions. The home was also constructed with pre-plumbing that can support a greywater recycling system. Our ZeroHouse 2.0 home in Lancaster, California goes even further, offering a complete greywater recycling system from Australia’s Nexus eWater that takes advantage of new standards in the California plumbing code. The revised code, which went into effect in January 2014, allows greywater to serve as an “alternate water source for non-potable applications” like irrigation and flushing toilets.

We view greywater as an integrated system in the home that promotes both water savings through recycling of greywater for irrigation and energy savings by recovering heat from drain hot water through a Power-Pipe from Renewability as shown in the diagram to the right. The Nexus eWater system is capable of recycling up to 200 gallons of water daily for a family of four – as much as 70,000 gallons annually in a desert climate like Lancaster – more than enough to irrigate the home’s drought-tolerant landscape with water completely recycled on-site. We believe the system will be a major step forward in residential water efficiency.

Also installed in the Double ZeroHouse is a first-of-its-kind water recycling dishwasher model from Whirlpool®’s KitchenAid brand.

The KitchenAid dishwasher with the AquaSense™ Recycling System uses up to 33% less water than its most efficient dishwashers without the system. At the end of a load’s final rinse cycle, three quarts of water are diverted to a storage tank and mixed with a half-quart of fresh water for the pre-rinse cycle of the next load. The process repeats at the end of each load of dishes. On average, the dishwasher uses just 1.95 gallons of water per load. As with many new, cutting-edge products, the AquaSense recycling system is an expensive option today, but we expect the price will come down as it is adopted on a larger scale in the future.



Greywater recycling combined with drought tolerant landscaping allow the ZeroHouse 2.0 model home in Lancaster to consume a net-zero amount of energy and zero fresh water for irrigation, thus making it a “Double ZeroHouse.” The recycling system shown below treats greywater, then stores it for irrigation.



CONSUMER BENEFITS AND AWARENESS

Our Smart Homes Put Connectivity and Energy Savings at Homebuyers' Fingertips

KB Home's smart home technologies, energy-efficient benefits and appeal to a new generation of wired consumers were featured prominently in the media throughout the year. An August broadcast on Los Angeles television station *KTLA* and a December story in the *Los Angeles Times* highlighted the many energy-efficient and home automation options that are now possible in a KB home, including:

The Wiser™ home management system empowers homeowners to remotely monitor and control their energy usage. Wiser is directly linked to the home's electrical panel and measures electric power consumption. Homeowners can then access consumption data in realtime via a web-based portal and set goals for consumption to help save money on monthly energy bills and reduce their home's impact on the environment.

Wiser is also the platform for additional home automation features such as remote lighting, security, appliance and door lock control as well as heating and cooling control via a Wiser smart thermostat that adjusts temperatures based on peak energy demand.

Other state-of-the-art features include:

- A USB outlet in the kitchen that allow smartphones, tablets and other mobile devices to be plugged directly into the wall. The outlet automatically shuts down when charging is complete to limit excess energy usage and electric costs.
- Electric vehicle charging stations are an option that can accommodate hybrid and all-electric vehicles.

KB Home was selected this past year by Whirlpool® to exclusively launch its 6th Sense Live™ smart appliance technology as an option in our KB Home Studios. Whirlpool 6th Sense Live appliances can be operated remotely from computers and mobile devices and when used in conjunction with Wiser, enable homeowners to track energy consumption in realtime and receive energy-saving alerts, like when the refrigerator door is left open, to further optimize energy efficiency.

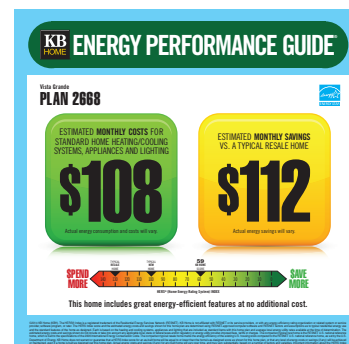
We introduced 6th Sense Live refrigerators and dishwashers in Southern California in 2013 and expect to make them available across all our markets in 2014. Smart washers and dryers will also be added as Studio options in the near future.



Energy Costs: How Low Can You Go?

An easy way to measure the energy savings and lower cost of homeownership in a KB home is through our proprietary Energy Performance Guide® (EPG®). Introduced in 2011, the EPG label provides an estimate of the monthly energy costs of an as-designed new KB home as well as an estimate of the monthly energy cost savings compared to a typical resale home and enables homebuyers to see the potential savings from buying an energy-efficient KB home.

Our homeowners currently save an average of \$1,000 per year on energy bills compared to typical resale home, which leads to greater housing affordability. Our introduction of EPG was transformative in the housing industry, motivating more than 250 builders to market their homes' HERS Index Scores to consumers.



ZeroHouse 2.0: Smart Home Meets Smart Transportation



Companies team up on energy efficiency
KB Home, Ford Motor look to appeal to buyers

In 2013, the nationwide rollout of our ZeroHouse 2.0 homes continued on to San Marcos and Lancaster, California. ZeroHouse 2.0 achieves a full net-zero energy level of efficiency by using advanced building techniques and more efficient ENERGY STAR certified products to reduce energy requirements as well as produce energy from a solar power system to bring the home to net-zero status.

In addition to achieving superior levels of energy efficiency and net-zero energy status, our ZeroHouse 2.0 homes are proving grounds for new technologies, techniques and other sustainable products, like water-efficient features and recycled materials.

At our San Marcos ZeroHouse 2.0 model home, KB Home teamed up with Ford Motor Company to promote Ford's MyEnergi Lifestyle.™ The April event provided a showcase for smart appliances, solar power systems and electric-powered vehicles, and demonstrated how families can save money and reduce their environmental impact by leveraging some of the latest in smart home technologies. The San Marcos ZeroHouse 2.0 model home features an electric-vehicle charging station and other cutting-edge home automation and energy-efficient technologies that help put our homeowners in control of their energy usage.

Researchers at Georgia Tech estimate that by switching to a MyEnergi Lifestyle that includes plug-in solar energy vehicles and smart home technology – home features available in KB Home ZeroHouse 2.0 homes as well as options that can be added in the KB Home Studio – to reduce energy usage of major energy-consuming devices and shift energy



usage to less expensive periods, families can cut energy costs by up to 60 percent and save more than 9,000 kg of CO₂ (a 55% reduction). If every home in the U.S. were to implement these energy-saving technologies, it would be the equivalent of taking all the homes in California, New York and Texas – 32 million homes – off the power grid.

FACES OF SUSTAINABILITY

"We applaud KB Home for the environmental leadership and performance achieved by its ZeroHouse 2.0 model home. KB Home's extensive sustainability initiatives have already led to the construction of thousands of solar-powered homes and millions of dollars in energy savings for its customers. The cooperation of KB Home and businesses like it will be instrumental as we continue the important work of building a better, more energy-efficient California."

David Hochschild, California Energy Commissioner



ZeroHouse 2.0: A Lab for the Latest Energy and Home Technologies

Our ZeroHouse 2.0 homes provide a real-life working laboratory to educate and inspire homebuyers and increase their awareness of all the possibilities of energy and water efficiency and home automation. With each opening of our ZeroHouse 2.0 homes, we take the opportunity to increase understanding in the marketplace for what we believe will one day become standard for new homes.

Students from San Marcos High School participated in the April 2013 San Marcos ZeroHouse 2.0 event that promoted Ford's MyEnergi Lifestyle. The students learned firsthand about the potential energy savings from living in a ZeroHouse 2.0 home. At the event, KB Home made a cash donation to the school equivalent to a year's worth of energy savings from the ZeroHouse 2.0 home compared to a resale home of the same size.

KB Home also provided a demonstration of the latest energy and water-efficient systems and construction approaches at its Lancaster Double ZeroHouse 2.0 to a group of students in technical degree programs at the University of Antelope Valley.



College students tour the Double ZeroHouse in Lancaster, California

FACES OF SUSTAINABILITY

"We are often asked how we differentiate the builders, and KB Home's conference definitely highlighted their focus on energy savings. In fact, the property tour... was largely focused on their homes' efficiency with conserving energy and water."

Susan Berliner, J.P. Morgan credit analyst, "KB Home: Takeaways from Conference"



Supporting the Future at Solar Decathlon

KB Home displayed its support of innovative, energy friendly housing as a contributing sponsor of the Department of Energy's 2013 Solar Decathlon in Irvine, California. The decathlon, held for the first time outside of Washington, D.C., challenged teams from U.S. and international colleges to design and operate solar-powered homes that are cost-effective, energy-efficient and attractive. KB Home, which donated \$15,000 to the event, was introduced to several new ideas in the Solar Decathlon village that we will investigate further as part of our research and development efforts. The decathlon also provided a great opportunity to build awareness of solar energy in a market where we build a significant number of solar homes.

Below, visitors line up to tour the house built by students from Middlebury College. The team's exterior solar path replaces the traditional rooftop array to create an exterior walkway shaded by solar panels.

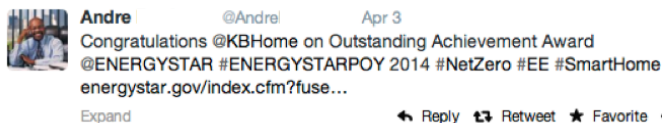


(Credit: Stefano Paltera/U.S. Department of Energy Solar Decathlon)

Empowering Homeowners Through Social Media

ENERGY STAR® Twitter Party

We participated in an ENERGY STAR Twitter party in which KB homeowners tweeted about their energy savings.



"Home Sweet KB Home" Blog

KB Home launched the blog, "Home Sweet KB Home." Accessible via www.kbhome.com, it regularly posts entries on how to utilize the latest cutting-edge energy, water and tech features in our new homes as well as sustainability awards and recognition.



"Summer Savings Sweepstakes"

To promote the value of our ENERGY STAR certified new homes, we invited satisfied homeowners to "brag" about their ENERGY STAR certified home energy cost savings on Facebook. We encouraged KB homeowners and other homeowners to share their monthly energy bills and how they wanted to spend their savings this year. Participants' energy bills were posted on KB Home's Facebook wall, and they could also choose to share their entry with friends on their own wall. A randomly selected winner received \$1,500.

During 2013, we nearly doubled the number of "Likes" for our Facebook page, allowing us to reach even more individuals with sustainability messages and information.



David

I received congratulations from Nevada Electric Energy Company because my 1772 sq. ft. KB home used much less energy than most of the similar homes in my area matching my home energy profile, i.e., my monthly cost was \$103 vs \$220 for average home. Good job, KB!!

WASTE REDUCTION

WHY IT MATTERS: Homebuilding requires the use of a range of materials and natural resources. KB Home endeavors to utilize sustainably sourced or recycled content products whenever possible, but we find it equally important to focus on eliminating waste. By managing inventory levels to limit excess materials and keeping job sites clear of waste, we can contain collateral environmental consequences like additional transportation costs to dispose of surplus inventory. Reducing waste and conserving natural resources in our own operations is beneficial to our company performance, as well as the environment.

Small Steps Lead to Big Waste Reductions

In 2013, KB Home continued to take a multi-faceted approach to reducing waste company-wide that also enlisted the participation of our trade partners to minimize waste on job sites. We focused primarily on reducing waste from both new-home construction as well as business operations at the corporate and division levels.

We continue to make strides in reducing paper waste across the company, from electronic pay stubs and supplier payments to increased digital marketing to the roll-out of digital smart boards with touch screens in all sales offices and KB Home Studios.

We are also making great progress toward our goal of decreasing job site waste by 10%. The reductions are being achieved through a combination of a more efficient supply chain where we strive to order no more than is needed on site and work with our trade partners to keep job sites clean. Whirlpool®, for example, delivers appliances to our homes in their own trucks then takes back their own boxes once installation is complete.

In addition to physical waste reduction, KB Home is enhancing the energy savings in our more than 800 model homes through the use of energy-efficient features like high efficiency lighting, Wiser™ smart thermostats and upgraded HVAC systems. After reducing electricity consumption by 5% in 2012, we reduced electricity use by an additional 4% in 2013. These efforts not only save money but also reduce our carbon footprint and provide a good demonstration for homebuyers on how to be energy efficient.



Wall to Wall All Over Again

KB Home partners with Shaw® to offer environmentally responsible carpeting in our new homes. In the last three years, we have purchased approximately 3 million square yards of Shaw's Cradle to CradleSM Silver Certified carpet products, which are made with highly durable Nylon 6 fiber. All of these products are fully recyclable where available and many contain recycled content. C2C products are also made with the safest raw materials and are produced in manufacturing plants that efficiently use energy and water.

Cradle to Cradle carpet products, when replaced, can be diverted from landfills and processed at Shaw's Evergreen Nylon Recycling facility.

FACES OF SUSTAINABILITY

"KB Home's extensive use of Shaw's Cradle to Cradle certified carpet and hardwood flooring in the homes it builds illustrates the company's commitment to human and environmental health. We applaud the KB Home team for its focus on building homes that are not only Built to Order,[™] but built with the future in mind."

Bridgett Luther, President of the Cradle to Cradle Product Innovation Institute



WHERE WE'RE GOING:

2014 SUSTAINABILITY FOCUS

Our sustainability efforts are geared toward protecting the environment by limiting ours and our customers' consumption of natural resources. By building energy- and water-efficient homes that are affordable, we are lessening our environmental impact while also lowering the total cost of homeownership for our customers. KB homeowners are the most direct recipients of our sustainability efforts and their behaviors have the most influence on the carbon footprint each home generates. This is one of the main reasons we are motivated to increase awareness of the benefits of energy- and water-efficient living to as many potential homebuyers as possible. Our education campaigns strive to inform our customers on how they can reap longer-term results and how much their choice of a home and day-to-day living habits can impact our planet.

INTRODUCING



eDIFFERENCE

To enhance our efforts to educate consumers on the importance of sustainability, demonstrate the specific features we offer in every one of our new homes, promote environmentally responsible living and help homebuyers lower their total cost of homeownership, we are introducing eDIFFERENCE™

eDIFFERENCE is a powerful system of energy, water, environmental and building efficiency working behind the scenes in every KB home to save homeowners money and reduce their impact on the environment.

Going forward, eDIFFERENCE will also shape and guide our broad sustainability goals in the areas of energy efficiency, water conservation, healthy living environments and smart home technology. We believe focusing on these four consumer-driven elements of sustainability in every home we build, while continuing our mission of educating homebuyers, raising awareness of sustainability issues and reducing waste in our operations, create a strong foundation for the future. We anticipate that eDIFFERENCE will enable us to increase the impact we have on homebuyers, stockholders, employees, suppliers, trade partners, peer homebuilders and communities in which we do business.



**ENERGY
EFFICIENT**



**WATER
WISE**



**HEALTHY
HOME**



**SMART
SYSTEMS**

FUTURE GOALS

We anticipate that eDIFFERENCE will enable KB Home to expand our efforts and step up the impact we have on homebuyers, stockholders, employees, suppliers, trade partners, builder peers and the markets that we serve.



ENERGY EFFICIENCY



Continue to increase the energy efficiency of our homes by aiming for an average HERS Index Score of 55 in four years or less, a 10-point improvement from our current energy efficiency level.



Focus our efficiency improvements on insulation, heating, ventilation, cooling and duct systems, and water heaters. Also continue to expand on our solar/photovoltaic offerings.



WATER CONSERVATION



Expand leadership in building WaterSense® Labeled new homes by introducing them to new markets and growing our volume of these homes in existing markets



Advance use of greywater recycling system and other water recycling systems from successful demonstration to wider implementation in new homes. Continue to raise awareness of the energy-water nexus through additional demonstrations of such technologies as greywater heat recovery systems.



HEALTHY HOME



KB homes incorporate a combination of construction, materials, and equipment that will work together to deliver what we believe will be a healthier home. We will continue to focus on products that contribute to better indoor air quality.



Offer the option of a garden plot as part of new home landscaping to promote locally sourced produce.



SMART SYSTEMS



Expand intelligent efficiency initiatives by exploring the newest home automation technologies, components and systems that we can offer as a standard feature or option at KB Home Studio.



Demonstrate battery storage systems with smart software for surplus solar power, which give homeowners the option to use stored energy versus buying from the power grid.



Waste is a double negative for sustainability: it consumes additional materials and if not recycled, consumes space in landfills. In addition, waste costs us money that could be better spent in positive ways.

Acknowledging the negative impact of waste, we will continue on our current initiatives of driving toward a waste-free supply chain by ordering more accurate quantities of products. We will also continue to encourage suppliers to use more recycled materials in their products or make their products recyclable at the end of their useful life (Cradle to Cradle) as well as reduce the packaging of their products.

Continue to reduce energy and water consumption in our model homes, which should reduce our utility expenses and our operational carbon footprint.

SOCIAL AND CHARITABLE CONTRIBUTIONS

As a company whose primary business is building homes and creating communities, we focus our charitable giving on shelter-related causes and assistance for children and their families. Efforts in many of our divisions also serve to improve quality of life for all the residents of the areas in which we build, including work with area schools, medical care providers and food pantries. Following are some examples of our social and charitable activities in 2013:

SHELTER

- Our Carolinas division donated over \$100,000 worth of office furniture to Haven of Rest Ministries in Anderson, SC.
- Our Tampa division participated in the Mistletoe Charity Ball to benefit the Charlotte County Homeless Coalition Foundation.
- Our Sacramento division donated \$1,500 to HomeAid Sacramento to support the construction of housing shelters.
- Our Colorado division donated \$1,000 as a sponsor of HomeAid Colorado.

CHILDREN AND FAMILIES

- Our Colorado division donated \$5,000 to the Denver Children's Advocacy Center, an organization that works to improve the lives of children traumatized by sexual abuse and violence through prevention, education and direct services.
- Our Tampa division participated in a Toys for Tots® drive and Trick or Treat Street for area youth.
- To support National Education Week, our Tampa division sponsored a teacher appreciation breakfast at Riverview High School and also donated KB Home bags and supplies at the school's open house.



- Our Carolinas division collected donations for a Toys for Tots drive.
- In support of children with learning disabilities, our Carolinas division donated \$500 to the Anuraag Foundation.
- Our Southern California division donated \$10,000 to the Orange County United Way® in support of the children's program.
- Our Central Texas division donated 250 backpacks to Child Protective Services in San Antonio to meet the needs of school-age foster children placed in CPS's care. An additional 100 backpacks were supplied to Communities in School, a non-profit dedicated to keeping kids in school and improving graduation rates, in partnership with the San Antonio Hispanic Chamber of Commerce.
- Our Houston division donated \$5,000 to the Fountain of Praise Epiphany Benefit Concert that provided holiday gifts to children.

FOOD AND MEDICAL CARE

- Our Houston division volunteered at the Houston Food Bank throughout the holiday season, collecting food donations and participating in a fundraising call-a-thon.
- The marketing team in our Los Angeles headquarters sorted and packed canned goods for the Westside Food Bank.
- For the 9th year in a row, employees in our Central Texas division supported Irma's Angels, a non-profit that helps provide meals to needy students and their families during the winter holiday break. Division employees donated more than 100 boxes of cereal to the organization's annual food drive and packed more than 700 boxes of donations.
- Our Carolinas division continued their support of the The Food Bank of Eastern and Central North Carolina with a monetary donation.
- Central Texas division employees participated in on-site blood drives benefitting the South Texas Blood and Tissue Center.

Continued on page 24 >

MEETING OTHER LOCAL NEEDS

- For the 10th straight year, our Central Texas division contributed to San Antonio's city-wide Project Cool program, which delivers fans to senior citizens during the hot Texas summer. To date, the division has donated about 7,000 fans to the program.
- Our Southern California division made cash donations to local schools during educational ZeroHouse 2.0 events at the KB Home community in San Marcos. The amounts donated represented the energy cost savings a homeowner would enjoy in a new ZeroHouse 2.0 in the local market.



KB Home Donates Time and Talent at San Fernando Rescue Mission



KB Home's Tom DiPrima in one of the bedrooms he and a team of KB Home volunteers renovated at the San Fernando Rescue Mission



KB Home believes everyone deserves a safe place to call home, and we were proud to lend our skills and expertise to the San Fernando Valley Rescue Mission on a recent project just north of our Los Angeles headquarters in Northridge, California. The San Fernando Valley Rescue Mission works to provide emergency food, shelter and clothing to families in need and partnered with KB Home's Southern California team to create a unique "model home" that will serve to help fund the construction of a 90-bed "Home Again" family homeless shelter in Northridge.

From an initial request by the mission for paint and furniture, more than a dozen employees of KB Home, subcontractors and suppliers instead contributed 1,000 hours of their time and talents in 2013 to fully rehab a four-bedroom, two-story duplex that showcases the mission's vision for its new facility. KB Home's decorators staged each of the home's four bedrooms to highlight the varied clientele served by the mission: single mothers with infants, single male veterans with children, intact families and single mothers with school-aged children.

"KB Home is a shining example of what corporate citizenship can and should be," said Wade Trimmer, Executive Director of the San Fernando Valley Rescue Mission, who worked closely with Tom DiPrima, Executive Vice President, KB Home Southern California division on the ambitious renovation project.

SUSTAINABILITY PERFORMANCE OVERVIEW

Organizational Profile and Governance

KB Home Overview

KB Home is one of the largest and most recognized homebuilding companies in the United States, constructing new homes in 190 communities nationwide during its most recent fiscal year. In 2013, KB Home built more than 7,100 homes in 40 major markets across 10 states. Since our founding in 1957, we have delivered the American Dream to over 555,000 families. KB Home's signature *Built to Order*[™] approach means that construction on a new KB home typically doesn't start until a buyer has signed a contract and selected the homesite, floor plan and numerous interior and exterior options to make the home their own. With a focus on providing the best combination of quality and value to first-time, move-up and active adult homebuyers, KB Home delivers a semi-custom homebuying experience at an affordable price. New KB homes are not only *Built to Order*, they are also built with our sustainability initiatives firmly in mind, with a wide variety of highly water- and energy-efficient and other environmentally conscious features and products available as standard or as options to our homebuyers.

The Company trades under the ticker symbol "KBH" and was the first homebuilder listed on the New York Stock Exchange (NYSE).

Governance

Our business is conducted under the direction of our President and Chief Executive Officer with the oversight of our Board of Directors, which is chaired by a Non-Executive Chairman of the Board. Each member of our Board of Directors is elected by our stockholders to oversee the management of our business and to ensure 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 2013 fiscal year were independent under the Board's independence standards.

Our Board of Directors has adopted Corporate Governance Principles that provide the framework within which we conduct our business and pursue our strategic goals. In addition, all of our Board members and employees are expected to follow the highest ethical standards

when representing KB Home's interest, 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 possible confidentiality and neutrality. Our Corporate Governance Principles and Ethics Policy are available on our website at www.kbhome.com/investor/corporategovernance. Print copies of our Corporate Governance Principles and our Ethics Policy are available without charge through written requests to our Corporate Secretary. In addition, comments or questions for the KB Home Board of Directors, or any individual Board member, can be directed in care of our Corporate Secretary at KB Home, 10990 Wilshire Blvd., Los Angeles, CA 90024.

Stakeholder Engagement

Driving significant organizational change requires more than simply establishing an environmental initiative; it compels us to advocate for and build consensus in supporting 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 business and trade partners at both the national and local levels, as well as on the goodwill of our community partners and other non-governmental organizations, it is essential to create that consensus within our larger network of key stakeholders.

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 non-governmental organizations
- suppliers and trade partners

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SUSTAINABILITY PERFORMANCE OVERVIEW

In addition to informal stakeholder engagement, we actively seek input from stakeholders through our National Advisory Board, which is described in further detail on page 27.

Public Policy Participation

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

In fiscal year 2013, we contributed \$47,563 to campaigns for state and local offices and ballot propositions in California, Florida and Nevada. The California contributions can be found on the California Secretary of State's website at www.cal-access.ss.ca.gov.

We are also members of various trade associations in our markets in order to establish business relationships with building industry companies. From time to time, we obtain services from these trade associations, including local marketing studies, signage and advertising placements, and continuing education or training classes. Some of these trade associations allocate a portion of the fees we pay for membership dues and services to use for their own

“ We believe that becoming an active participant in the development of public policy is an important aspect of being a responsible member of the communities in which we build and necessary to appropriately pursue our business goals.

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

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

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

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

In 2013, the KB Home American Dream Political Action Committee contributed \$6,000 to candidates for Congressional offices and campaign committees. These contributions were reported to the Federal Election Commission and can be found on its website at www.fec.gov.

independent political activities, and we do not monitor or control how these allocations are used. To the extent we are informed of such allocations by trade associations to which we pay fees of more than \$50,000 in a fiscal year, we will report the total amount automatically allocated. In our 2013 fiscal year, there were six such trade associations. Based solely on their reports to us, these six trade associations allocated an aggregate total of \$216,128.40 of our paid fees to their own independent political activities.

We continued to support passage of the SAVE Act in Congress, which would improve appraisal and mortgage underwriting of energy efficient homes.

We worked with various groups and with the California Energy Commission to protect the New Solar Homes Partnership administered by the California Energy Commission. KB Home is one of the largest participants in this program, which helps homebuyers by reducing the cost of solar panels on new homes.

In 2013, we were also an active member in BICEP (Business for Innovative Climate and Energy Policy), a project of the organization CERES (Coalition for Environmentally Responsible Economics), a leading non-governmental organization that promotes energy efficiency, conservation, and renewable generation in America. BICEP's corporate partners work together to advance environmental sustainability, particularly on matters of energy.

Sustainability Oversight Structure

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

- *Board of Directors Oversight.* The Board of Directors supports sustainability as an important corporate goal. Board member Kenneth M. Jastrow, II, serves as the advisor on sustainability matters.
- *National Advisory Board.* Established in 2009, the National Advisory Board is comprised of nationally recognized leaders in such areas as environment, economy, government, finance, housing, community planning, and social responsibility. This group meets twice yearly with KB Home to discuss recommendations related to sustainability and other issues.
- *Environmental Leadership Team.* A group of key executives convenes on a regular basis to discuss sustainability strategies, craft and refine company policies and initiatives, and create buy-in with leaders across all of our operating regions and major functions of the Company.

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

Carbon Footprint Reporting

KB Home has been publishing carbon footprint measurement information since the release of our inaugural 2007 Sustainability Report. In 2009, KB Home significantly expanded our methodology for capturing and reporting this data (explained in detail in our 2009 Sustainability Report), and we intend to continue to report on it as a normal course of business. Although undertaking this effort requires significant dedication of employee resources, it is a core part of our commitment to accuracy and transparency in this important area.

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

Austin, Texas



2013 Business Results

KB Home returned to profitability during its 2013 fiscal year and made significant progress across its key financial metrics.

- **Full Year Profitability.** KB Home generated net income of \$40 million, or 46 cents per diluted share, its first full-year profit since 2006 and an improvement of \$99 million compared to a net loss in 2012.
- **Increased Revenue and Deliveries.** Revenues grew to \$2.1 billion, an increase of 34% over 2012, as a result of increases in both homes delivered and the average selling price of those homes.
- **Improved Operating Margin.** Operating margin improved by more than 550 basis points to 4.4%. This improvement resulted from an increase in adjusted housing gross profit margin of 490 basis points as well as a 300 basis point reduction in the ratio of selling, general and administrative expenses to housing revenues.
- **Growth in Backlog.** At year-end, the value of homes in backlog was \$682 million, an increase of 10% over 2012.
- **Increased Average Selling Price.** KB Home's average selling price for the year rose 18% to \$292,000. This increase is attributable to our regional mix of sales, our strategic repositioning into more desirable submarkets, our selling more homes with larger average square footage, and a general improvement in housing market conditions. We achieved this industry-leading year-over-year increase in average selling price while maintaining one of the highest sales rates per community in the industry.
- **Stockholder Return.** For the 2013 fiscal year, KB Home posted a 23% total stockholder return, including reinvested dividends.

Detailed operational results for fiscal 2013 and prior years, as well as additional information about our financial performance and business operations, including discussions of the material risk factors, are available in the reports we file with the U.S. Securities and Exchange Commission, which can be found on our website at <http://www.kbhome.com/investor> or at <http://www.sec.gov>.



Orlando, Florida

ENVIRONMENTAL PERFORMANCE

Performance Indicator	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
ENERGY EFFICIENCY							
Number of ENERGY STAR® certified homes delivered	7,467	4,736	5,258	6,631	5,677	6,207	7,078
Percentage of total homes delivered that were ENERGY STAR certified	31%	38%	62%	90%	98%	99%	99%
Percentage of KB Home divisions building at least some homes to ENERGY STAR specifications	83%	91%	100%	100%	100%	100%	100%
Number of ENERGY STAR certified appliances installed (relative to total annual deliveries)	Began tracking in 2008.	18,804 (against 12,438 deliveries)	12,718 (against 8,488 deliveries)	13,292 (against 7,346 deliveries)	9,929 (against 5,812 deliveries)	9,065 (against 6,282 deliveries)	9,695 (against 7,145 deliveries)
KB homeowner satisfaction ratings on energy efficiency of their KB home (from a 12-month post closing survey on a scale of 0–100% satisfaction)	Began tracking in 2010.	Began tracking in 2010.	Began tracking in 2010.	91.9%	92.5%	93.1%	92.8%
WATER CONSERVATION							
Number of KB homes built to EPA's new WaterSense® specifications (construction commenced in late 2010)	N/A	N/A	N/A	11	97	85	61
Number of Water Smart homes built (Las Vegas market only; in conjunction with the Southern Nevada Water Authority)	1,964	881	393	521	412	438	503
Number of EPA WaterSense labeled fixtures installed in KB homes	N/A	154 lavatory faucets 486 toilets	15,189 lavatory faucets 1,260 toilets	19,096 lavatory faucets 2,026 toilets 241 showerheads	18,240 lavatory faucets 14,500 toilets (est.) 12,200 showerheads (est.)	22,500 lavatory faucets 18,100 toilets 13,700 showerheads (all est.)	23,500 lavatory faucets 20,000 toilets 15,000 showerheads (all est.)
MY HOME. MY EARTH.® OPTIONAL PRODUCTS AND UPGRADES							
Total number of <i>My Home. My Earth.</i> optional upgrades installed. These include appliances, HVAC equipment, radiant barrier roofing, WaterSense labeled fixtures, ENERGY STAR qualified doors and low-E windows.	Began tracking in 2009.	Began tracking in 2009.	21,010 (against 8,488 deliveries)	23,155 (against 7,346 deliveries)	18,412 (against 5,812 deliveries)	20,039 (against 6,282 deliveries)	33,582 (against 7,145 deliveries)
WASTE REDUCTION AND RECYCLING							
Percentage of KB homes built with preconstructed panels, which help to minimize waste, increase durability and are constructed offsite for greater precision. Using these panels results in more airtight homes that are better insulated, helping to reduce energy bills.	65%	90%	90%	100%	100%	98%	85% (est.)
Percentage of KB Home communities incorporating recycling into their standard job site processes.	Began tracking in 2009.	Began tracking in 2009.	44%	71%	91%	64%	70% (est.)

ENVIRONMENTAL PERFORMANCE

Performance Indicator	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
OFFICE SUSTAINABILITY PRACTICES Percentage of office supplies purchased that are earth conscious	23%	27%	26%	33%	29%	22%	15%
Number of meeting hours hosted on iLab (virtual meeting system to minimize air and car travel for training, meetings and events)	Began tracking in 2008.	1,934	1,978	1,665	1,708	1,533	1,988
Recycled paper (office grade) processed through our national service provider, which recycles the paper after shredding. This service provider also calculated the environmental benefits in the related rows below. This figure does not include the recycling programs we have established in the majority of our local offices. <i>Note: Increase in 2010 was primarily due to our Northern California division recycling over 11,500 boxes of archived documents in 2010. Division reduced their document storage by 50% to cut costs and improve efficiency.</i>	56,440 lbs.	148,940 lbs.	72,390 lbs.	467,979 lbs.	158,129 lbs.	94,703 lbs.	123,637 lbs.
Trees saved as a result of paper recycling program	479	1,266	615	3,978	1,344	805	1,051
Water saved as a result of paper recycling program	197,540 gallons	521,290 gallons	253,365 gallons	1,637,925 gallons	553,451 gallons	331,459 gallons	432,728 gallons
Air pollution avoided as a result of paper recycling program	16,932 lbs.	44,682 lbs.	21,717 lbs.	14,039 lbs.	4,743 lbs.	2,841 lbs.	3,709 lbs.
Landfill reduction as a result of paper recycling program	84 cubic yards	223 cubic yards	109 cubic yards	702 cubic yards	237 cubic yards	142 cubic yards	185 cubic yards
Electricity saved as a result of paper recycling program	115,702 kWh	305,327 kWh	148,400 kWh	959,356 kWh	324,164 kWh	191,140 kWh	253,455 kWh
Oil saved as a result of paper recycling program	12,981 gallons	34,256 gallons	16,650 gallons	107,635 gallons	36,370 gallons	21,782 gallons	28,436 gallons
GREENHOUSE GAS EMISSIONS ESTIMATE Carbon Disclosure Project questionnaire completed and submitted for the fiscal year impact	Yes	Yes	Yes	Yes	Yes	Planning to submit data in 2014.	Planning to submit data in 2014.
Estimated greenhouse gas emission for KB Home operations (CO ₂ e in metric tons)	Data not available for comprehensive emissions estimate.	42,204 metric tons	20,296 metric tons	17,015 metric tons	14,549 metric tons	13,468 metric tons	14,092 metric tons
Estimated greenhouse gas emission from intensity per delivered home, based on the methodology identified by the Carbon Disclosure Project	Data not available for comprehensive emissions estimate.	0.0000139 (42,204 metric tons/ US \$3,033,936,000 total revenue)	0.0000112 (20,296 metric tons/ US \$1,824,850,000 total revenue)	0.0000107 (17,015 metric tons/ US \$1,589,996,000 total revenue)	0.0000111 (14,549 metric tons/ US \$1,315,866,000 total revenue)	0.0000086 (13,468 metric tons/ US \$1,560,115,000 total revenue)	0.0000068 (14,092 metric tons/ US \$2,084,978,000 total revenue)
Estimated greenhouse gas emission activity-related intensity (CO ₂ e in metric tons per delivered home)	Data not available for comprehensive emissions estimate.	3.4 (42,204 metric tons/ 12,438 homes)	2.4 (20,296 metric tons/ 8,488 homes)	2.3 (17,015 metric tons/ 7,346 homes)	2.5 (14,549 metric tons/ 5,812 homes)	2.1 (13,468 metric tons/ 6,282 homes)	2.0 (14,092 metric tons/ 7,145 homes)

ECONOMIC PERFORMANCE

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

Performance Indicator	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
FINANCIAL							
Total revenue (in thousands)	\$6,416,526	\$3,033,936	\$1,824,850	\$1,589,996	\$1,315,866	\$1,560,115	\$2,084,978
Net income/loss (in thousands)	(\$929,414)	(\$976,131)	(\$101,784)	(\$69,368)	(\$178,768)	(\$58,953)	\$39,963
Number of homes delivered	23,743	12,438	8,488	7,346	5,812	6,282	7,145
Net orders	19,490	8,274	8,341	6,556	6,632	6,703	7,125
Backlog – units	6,322	2,269	2,126	1,336	2,156	2,577	2,577
Backlog – value (in thousands)	\$1,498,835	\$521,386	\$422,496	\$263,794	\$458,950	\$618,626	\$682,489
Average selling price	\$261,600	\$236,400	\$207,100	\$214,500	\$224,600	\$246,500	\$291,700
Housing gross margin	(5.7%)	(7.1%)	6.5%	17.4%	13.4%	14.9%	16.7%
CUSTOMER SATISFACTION							
Customer satisfaction index (from a 30-day post-closing survey on a scale of 1–10)	8.9	9.3	9.5	9.5	9.5	9.4	9.2
Customer recommendation rating (from a 30-day post-closing survey on a scale of 1–10)	Began tracking in 2010.	Began tracking in 2010.	Began tracking in 2010.	9.5	9.5	9.4	9.1

SOCIAL PERFORMANCE

Performance Indicator	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
STAKEHOLDER AND COMMUNITY INVOLVEMENT							
National Advisory Board	No	No	Yes	Yes	Yes	Yes	Yes
Infrastructure development – approximate school-related fees paid	Began tracking in 2008.	\$35 million	\$25 million	\$21 million	\$20 million	\$22 million	\$26 million
EMPLOYEES, TRAINING AND LABOR PRACTICES							
Number of full-time employees	3,556	1,892	1,446	1,346	1,204	1,172	1,422
Number of collective bargaining agreements with employees	0	0	0	0	0	0	0
Employee injuries – West region	6	13	13	6	7	4	8
Employee injuries – Southwest region	3	3	3	1	3	1	1
Employee injuries – Central region	5	16	3	5	2	14	5
Employee injuries – Southeast region	7	13	3	4	1	1	6
Average online training certifications per employee <i>Note: Decline is due in large part to our lower numbers of new employees, who are required to complete a large number of certifications as part of our new-hire orientation.</i>	46	36	17	14	12	12	17
Average online training hours per employee <i>Note: Decline is due in large part to lower numbers of new employees, who are required to complete more hours of training as part of our new-hire orientation. In addition to online training and certifications, we conduct on-site field training of employees that is not reflected in these numbers.</i>	35	27	13	11	10	12	13
Annual core training certification rate – KBnxt White Papers <i>Note: As of 2010, required for new hires only.</i>	92%	98%	96%	97% (new hires only)	91% (new hires only)	90% (new hires only)	83% (new hires only)
Annual core training certification rate – Ethics Policy	100%	100%	100%	100%	99%	99%	98%
Annual core training certification rate – 100% Complete/100% Satisfied <i>Note: As of 2010, required for new hires only.</i>	94%	99%	98%	97%	92% (new hires only)	97% (new hires only)	100% (new hires only)
Annual core training certification rate – My Home. My Earth.® <i>Note: As of 2010, required for new hires only.</i>	N/A	99%	99%	95% (new hires only)	93% (new hires only)	83% (new hires only)	85% (new hires only)
Number of safety certifications <i>Note: Required for new hires only; has significantly declined due to lower numbers of new employees in relevant positions.</i>	6,874	2,125	210	200	20	235	894

GLOBAL REPORTING INITIATIVE INDEX OF INDICATORS

The Global Reporting Initiative (GRI) is a multi-stakeholder 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 GRI's 2006 G3 Sustainability Reporting Guidelines. These guidelines are considered to be the current international standard for sustainability reporting, allowing organizations to present a balanced view of their operations.

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

GRI Performance Indicators

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 8–13, 16–19, 22
EN16	Total direct and indirect greenhouse gas emissions by weight.	page 30
EN26	Initiatives to mitigate environmental impacts of products and services.	pages 8–9, 20–22

ECONOMIC

EC1	Economic value generated and distributed.	page 31; 10-K
EC2	Financial implications and other risks and opportunities due to climate change.	10-K
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind or pro bono engagement.	page 32

SOCIAL PERFORMANCE: SOCIETY

SO1	Nature, scope and effectiveness of any programs and practices that assess and manage the impacts of operations on communities.	pages 23–24, 26
SO3	Percentage of employees trained in organization's anti-corruption policies and procedures.	page 32
SO5	Public policy positions and participation in public policy development and lobbying.	pages 26

SOCIAL PERFORMANCE: LABOR PRACTICES & DECENT WORK

LA1	Total workforce by employment type, employment contract and region.	page 32
LA4	Percentage of employees covered by collective bargaining agreements.	page 32
LA7	Rates of injury by region.	page 32
LA10	Average hours of training per year per employee by category.	page 32

SOCIAL PERFORMANCE: PRODUCT RESPONSIBILITY

PR3	Type of product and service information required by procedures.	pages 10–12, 14, 16
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	page 31

GLOBAL REPORTING INITIATIVE INDEX OF INDICATORS

GRI Profile Indicators

Indicator	Description	Location
STRATEGY AND ANALYSIS		
1.1	CEO statement about relevance of sustainability to the organization and its strategy.	page 4
ORGANIZATIONAL PROFILE		
2.1	Name of the organization.	pages 2, 25
2.2	Primary products and services.	page 2, 25
2.3	Operational structure of the organization.	page 25; 10-K
2.4	Location of organization's headquarters.	page 25
2.5	Countries where the organization operates.	page 25
2.6	Nature of ownership and legal form.	10-K
2.7	Markets served.	page 25; 10-K
2.8	Scale of the reporting organization.	page 27; 10-K
2.9	Significant changes during the reporting period.	page 28; 10-K
2.10	Awards received in the reporting period.	pages 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
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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.	N/A
3.12	Table of GRI Standard Disclosures.	page 33
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4.1	Governance structure of the organization.	page 25; 10-K or proxy
4.2	Indication of whether Chair of the highest governance body is also an executive officer.	page 25
4.3	Board structure and independence of members.	page 25; 10-K or proxy
4.4	Mechanisms for providing recommendations to highest governing body.	page 25
4.14	Stakeholder groups engaged by the organization.	page 25
4.15	Basis for identification and selection of stakeholders.	pages 25
4.16	Approaches to stakeholder engagement.	pages 26–27

Georgetown, Texas



Orlando, Florida



Summerlin, Nevada



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

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