

**Kaufman & Broad S.A.**

A French *Société Anonyme* capitalized at 5,792,065.24 euros  
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**INTERNAL RULES OF THE BOARD OF DIRECTORS**

**(updated February 13, 2009)**

## **Internal Rules of the Board of Directors**

The purpose of these regulations is to set out the rules for running the Board of Directors of the company as set out under Articles 10 to 16 of the Bylaws.

These rules are intended to guarantee, as required by the laws and regulations in force, effective participation of directors at Board meetings held via videoconferencing or telecommunications resources provided by law and the regulations, organize the frequency of Board meetings, verify attendance by directors, and specify the information obligations of the directors to the Board (multiple offices held, regulated agreements, and trading in securities of the company).

### **Article 1 - Powers**

The Board of Directors determines the business strategies of the company and ensures they are implemented.

Subject to the powers expressly granted at Shareholders' Meeting and within the scope of the company's purpose, the Board may review any matter related to the management of the Company and may transact business on any such matters.

In particular, the following operations are subject to the prior authorization or approval of the Board:

- any significant change in the business of the Company or any of its subsidiaries;
- any acquisition or disposal of an entity where the value of the undertaking is greater than €10 million, excluding the acquisition of an entity whose assets are land and/or buildings;
- Any indebtedness, other than credit facilities, bilateral lines of credit and authorized overdrafts;
- Annual budget;
- Three-year business plan.

and, generally, the Board shall review and make decisions on operations of strategic importance, after study by an ad hoc committee should there be one. In particular, any significant operation outside the strategy announced by the company must receive prior approval by the Board. The scope of application of this prior approval not only covers external acquisitions or disposals, but all significant investments in organic growth and internal company restructuring.

In its relations with third parties, the company is even bound by acts of the Board of Directors that do not fall under its corporate purpose, unless the company proves that the third party knew that the act went beyond the company purpose or that the third party could not have been unaware of it given the circumstances; publication of bylaws alone does not constitute sufficient proof in this regard.

The Board shall conduct controls and verifications it deems timely.

## **Article 2 – Members of the Board of Directors and Ethical Duties of a Director**

### 2.1 Members of the Board of Directors

There may be no more than three individual directors or permanent proxy of legal entities, over the age of 70, at the end of each Ordinary Shareholders' Meeting called to vote on the company's financial statements. Moreover, no individual director or permanent proxy of a legal entity may perform such duties after the age of 75.

Independent directors must make up at least one third of the members of the Board of Directors.

The criteria to be reviewed by the Compensation and Nominating Committee and the Board in order to qualify a director as independent are as follows:

- not be an employee or executive officer of the company, not be an employee or manager of its parent company or of one under its scope of consolidation, and not to have been so for the last five years;
- not be an executive officer of a company in which the company directly or indirectly has a directorship or in which an employee designated as such or an executive officer of the Company (currently or having been so for less than five years) has a directorship;
- the director may not be a customer, supplier, commercial bank or financing bank:
  - which is significant for the company or its group;
  - or for which the company or its group represents a significant portion of its business;

or be directly or indirectly related to one of these third parties.

- not have close family ties with an executive officer;
- not have been an auditor of the company within the past five years (Article L. 822-12 of the Commercial Code);
- not have been a director of the company for more than twelve years.

For each nomination or renewal to the Board, the Board of Directors shall review the candidates for director on the basis of the independence criteria described above.

The Board of Directors, on the recommendation of the Compensation and Nominating Committee, reviews the situation of each of its members on a case-by-case basis based on these criteria, takes a second look at it every year before publication of its annual report, and informs the shareholders in its annual report, and the Shareholders' Meeting at the time of the election of directors, of its findings.

## 2.2 Ethical duties of a director

Any director of the company must adhere to these obligations:

- Before accepting to take on his/her duties, the director must read the general and specific obligations for which he or she is responsible, including laws and regulations, the bylaws of the company, the Internal Rules of the Board of Directors (particularly Articles 14, 15, 16, 17 and 19) and the Charters of the Board Committees and any additions the Board may have added to them.
- Although a director is a shareholder, the director represents all shareholders and must act in all circumstances in the corporate interest of the company.
- A director must devote the necessary time and attention to his/her duties. In principle, a director must not hold more than five directorships in publicly traded companies (that are not part of the same group of companies), including the company and/or foreign companies, if he/she holds executive positions at one of those companies.
- A director must be diligent and attend all meetings of the Board and meetings of any committees to which he/she belongs.
- A director must be informed. For this purpose, he/she must request the information necessary to perform his/her duties from the Chairman of the Board in a timely manner.
- With respect to non-public information acquired in performance of his/her duties, a director must respect true professional secrecy which exceeds the simple obligation to be discrete stipulated by law and regulations.

### **Article 3 – Chairman of the Board of Directors and Vice Chairman**

The Board of Directors elects a Chairman from its members who must be an individual under the age of 70.

He/she may be elected for the entire term of office.

If the Chairman is temporarily unable to serve, dies or /her term is not renewed, the Board of Directors may delegate the mission to another director to serve as Chairman. In the event of temporary inability, this assignment is given for a limited period and may be renewed. In other cases, it is valid until the election of a new Chairman.

The Board of Directors may also elect a Vice Chairman from among its members.

### **Article 4 – Calling Board of Directors' Meetings**

The Board of Directors meets whenever the Company's interests so require, at least twice a year, either at the registered offices or at any other place indicated in the notice of meeting.

Directors are called by the Chairman to attend meetings of the Board by all methods: mail, telex, telegram, fax, email or verbally.

If the Board has not met for more than two months, then one-third of the Board Members may ask the Chairman to convene a meeting of the Board in order to review a specific agenda.

The Chief Executive Officer may also ask the Chairman to convene a meeting of the Board in order to review a specific agenda.

The Chairman is bound by the requests made under the preceding two paragraphs.

## **Article 5 - Rules governing the quorum, the method of representation and adoption of decisions by the Board**

Meetings of the Board of Directors are chaired by its Chairman. If the Chairman is absent, the meeting of the Board of Directors is chaired by the Vice-Chairman or, in the Vice-Chairman's absence, the Board of Directors shall, for such meeting, appoint one of its members, in order to chair the meeting.

The Board may validly deliberate only if at least one-half of the directors are present.

Decisions are made by a majority of the votes of the members present and represented.

The compensation of executive officers in senior management is business discussed by the Board outside their presence.

## **Article 6 - Validity of business transacted by videoconferencing or held via telecommunications**

### 6.1 Validity of business transacted

The directors participating in the Board meeting by videoconferencing or telecommunications which allow identification and guarantee effective participation, under the conditions set by law decree and these rules, shall be considered present for the purposes of calculating a quorum and a majority.

This provision does not apply to meetings of the Board of Directors for which the agenda includes the approval of annual financial statements, consolidated financial statements and the management report.

The attendance register for meetings of the Board of Directors must indicate participation of members by videoconferencing or telecommunications methods.

### 6.2 Using a videoconferencing service or telecommunications methods that transmit voice and image or at least the voice of the participants

Videoconferencing is a telecommunications method that allows several groups in different locations to meet by giving them the possibility of communicating almost simultaneously while viewing the participants in the meeting, through a sound link associated with a simultaneous and continuous transmission of a live image.

Setting up videoconferencing requires arranging the premises that offer an input, transmission and sound restitution system as well as one or more cameras, control and receiving screens.

To apply this rule, the Chairman of the Board of Directors shall use a videoconferencing service responsible for installing and managing the practical aspects of the meeting or meetings.

The Service selected must have the technical expertise and the equipment necessary for the installation and successful conduct of a meeting via videoconferencing.

The Service must provide:

- continuous flow of visual and sound data;
- security and confidentiality of the data transmitted;
- reliability of the equipment used and the technical personnel used for setting up and conducting the meetings;
- authentication of meeting participants;
- the effective performance of the missions of the service providers stipulated below.

The Chairman of the Board of Directors shall appoint, on the recommendation of the videoconferencing service, one or more services providers to ensure physical organization of the meeting and the management of the technical requirements of the meeting.

The Service Provider or Providers must all assist the Chairman while the meeting is being prepared, held and its minutes drawn up.

Under the instructions of the Chairman, the Service Provider shall record the business transacted or prepare a written copy thereof.

At the request of the Chairman, the Videoconferencing Service may preserve recordings of the business transacted of the Board of Directors.

The other telecommunication methods that may be used, including telephone conferencing, must meet the aforementioned technical criteria and ensure the Board meeting may be held properly in compliance with all legal and regulatory requirements.

## **Article 7 - Minutes**

The minutes of the meeting shall show the names of directors present, deemed present as defined by Article L. 225-37 of the Commercial Code, excused or absent.

The minutes shall indicate the presence or absence of persons called to the Board meeting pursuant to a legal requirement as well as the presence of any person who attended all or part of the meeting.

The minutes shall also show the occurrence of any technical incident relating to a videoconference when it disturbs the meeting.

## **Article 8 - Committees of the Board**

The Board may create one or more committees. The members of these committees are charged with studying the issues which the Board of the Chairman refers to them for review.

The Board committees may, in performing their assignments, contact the top management of the company after so informing the Chairman of the Board and are responsible for reporting on those meetings to the Board.

8.1. An audit committee was created by the Board of Directors. It has four members chosen from Board members, including at least one independent director based on independence criteria of the company. The committee is responsible for reviewing the documents submitted to the Board at closing periods for the annual and half-year financial statements. The auditors participate in meetings and the work of the audit committee.

For this purpose, the audit committee meets at least twice a year before the meeting of the Board, at the initiative of the Chairman.

In addition, the audit committee reviews the annual and half-year financial statements before any publication. Meetings may be held by videoconference or telephone conference calls.

8.2. A compensation and nominating committee was created by the Board of Directors. It has three members, including at least one independent director as per the criteria for independence adopted by the company and is chaired by an independent director. The mission of this committee is to assist the Board of Directors in determining compensation of executive officers, ensuring that compensation is consistent with their performance and company strategy. The Compensation and Nominating Committee is not a decision-making body. Its role is to prepare information to be used by the Board of Directors during its meetings when it considers matters that fall under the Committee's prerogative.

The Committee shall also provide the Board of Directors with an opinion on the general policy for awarding stock options and/or option plans prepared by the Group's Management, and recommend to the Board the award of stock options. In addition, the Committee shall make proposals to the Board concerning the overall and individual amount of directors the fees paid to directors, which shall take into account their assiduous attendance at Board and Board committee meetings.

Finally, this committee assists in the choice or renewal of the members of the Board of Directors and Board committees and in the selection of executive officers in senior management, should there be any.

## **Article 9 - Information from Board of Directors**

Each director shall receive all information required for performance of duties and may ask to receive any documents that are deemed useful.

A document on agenda items that need special analysis and study shall be sent out in a timely manner in advance of Board meetings whenever confidentiality requirements allow.

Directors shall also receive, between scheduled meetings, all useful information, including critical information, on events or transactions that are significant for company.

The Board shall be informed, at least once a year, of the major directions in which group's human resource, information systems and organizational policy are moving and shall periodically discuss them.

Directors (board members) may meet with the senior management of the company, including outside the presence of the executive officers who are in the top management. In this case, the latter shall be notified prior to such meetings.

## **Article 10 - Discretion Obligation**

Pursuant to Article 2.2 above, directors are bound by discretion with respect of confidential information. This obligation also applies to any person called to attend a meeting of the Board of Directors.

## **Article 11 - Evaluation of the Board of Directors**

At least once a year, the Board of Directors devotes one item on its agenda to evaluating how it is run.

A formal evaluation is conducted at least every three years with the assistance of an outside consultant. All directors are questioned individually, on the basis of a detailed questionnaire, for their assessment of how the Board is being run their suggestions for improving it.

Shareholders are informed every year in the annual report about these evaluations and what follow-up is needed, should any be needed.

## **Article 12 - Directors' Missions**

Directorships run for three years.

All individual directors must limit the number of directorships he or she has in other companies with headquarters in French territory to five, pursuant to Article L. 225-21 of the Commercial Code.



Directors agree to communicate all directorships and duties in any company in the reference document.

### **Article 13 – Regulated Agreements**

Each director agrees to inform the Chairman of the Board of any plan to enter into a regulated agreement as defined under Article L. 225-38 of the Commercial Code so as to allow consultation by the Board of Directors pursuant to this text.

Each director also agrees to inform the Chairman of the Board of any agreement bearing on day-to-day operations and performed under normal conditions that he or she may have entered into or in which he or she has an interest pursuant to Article L. 225-39 of the Commercial Code, within one month of its execution.

### **Article 14 – Shares owned personally**

Each director must own at least 250 shares during his or her term as board member.

### **Article 15 - Ethics of stock market transactions**

Each director or non-voting member of the board shall refrain from executing transactions involving securities of companies about which he or she has information, due to his or her duties, that has not yet been made public.

### **Article 16 - Trades in shares of the Company**

Directors shall refrain from trading on the securities market for the 30 calendar days prior to the company's publication of the quarterly, half-year and annual earnings.

Each director agrees to register or deposit the securities that he or she owns upon becoming a board member, or which are subsequently acquired, to inform the AMF of any purchase of new or existing shares or sale made, whether directly or through intermediaries, in securities of the Company, or any forward financial instruments related to such securities, within five days trading days after the transaction.

### **Article 17 - Conflicts of interest**

Any director affected, even potentially, by a conflict of interest, in particular because of any position held in another company, must disclose such conflict to the Board and must abstain from voting in any business regarding the matter. The Chairman may ask the member not to participate in discussing such business.

### **Article 18 - Directors' compensation**

Directors' fees are paid out to directors who have no position in the Kaufman & Broad Group for their mission as a board member. An amount set by the Board of Directors, taken from the directors' fees allocated to the Board as a whole, is paid to the members of the various committees who have no position in the Kaufman & Broad Group, based on their attendance of committee meetings.

### **Article 19 – Assiduous Attendance**

A director or non-voting member of the board shall devote the time necessary to his or her duties. If a director or non-voting member of the Board accepts a new term or changes professional positions, he or she shall so inform the Board.

The annual report shall indicate the attendance of directors at meetings of the Board and Board committees.

A director shall take care to attend Shareholders' Meetings.