

# **THE SHAW GROUP INC.**

## **Principles on Corporate Governance**

**(revised as of November 2, 2007)**

The Board of Directors of The Shaw Group Inc. (the “Company”) believes that its primary responsibility is to provide effective governance over the Company’s affairs in an effort to promote the long-term successful performance of the Company. The Board of Directors has established the following principles to provide guidance in fulfilling such responsibilities.

The Board intends to review these principles from time to time, and make such changes thereto as they deem desirable, in their discretion. The fundamental premise of these principles, however, shall be the independent nature of the Board and the overriding duty of the Board to the Company’s shareholders.

### **A. Role of the Directors**

The basic responsibility of the Board of Directors is to exercise their business judgment to act in what they reasonably believe to be in the best interests of the Company and its shareholders. In discharging that responsibility, directors should be entitled to rely on the honesty and integrity of the Company’s senior executives and its outside advisors and auditors. The Board shall also be entitled to have the Company purchase reasonable directors’ and officers’ liability insurance on their behalf, to the benefits of indemnification to the fullest extent permitted by law and the Company’s articles of incorporation, by-laws and any indemnification agreements, and to exculpation as provided by state law and the Company’s articles of incorporation.

In representing the Company’s shareholders, the Board’s primary functions are:

- Reviewing and approving periodically long-term strategic and business plans and monitoring corporate performance against such plans;
- Evaluating the performance of the Chief Executive Officer and taking appropriate action, including removal, when warranted;
- Selecting, evaluating and fixing the compensation of senior management of the Company and establishing policies regarding the compensation of other members of management;
- Reviewing succession plans and management development programs for members of senior management;
- Adopting policies of corporate conduct, including compliance with applicable laws and regulations and maintenance of accounting, financial and other controls, and reviewing the adequacy of compliance systems and controls;

- Evaluating periodically the overall effectiveness of the Board as well as evaluating, selecting and recommending an appropriate slate of nominees for election as director; and
- Deciding on matters of corporate governance.

## **B. Board Selection, Composition and Independence**

Members of the Board shall be persons of integrity, with a proven record of accomplishments and recognized business stature, who will bring a diversity of perspectives to the Board. The Board has responsibility for reviewing its membership on a regular basis to assure that it possesses appropriate skills and characteristics.

### *(1) Membership Criteria*

Board members should possess such attributes and experience as are necessary to provide a broad range of personal characteristics including management skills, experience in areas relevant to the Company's businesses, and a willingness to speak one's mind. Directors selected should be able to commit the requisite time for preparation and attendance at regularly scheduled Board and Board committee meetings, as well as be able to participate in other matters necessary to good corporate governance. Board members may not be Board members on more than four public company Boards.

### *(2) Inside and Outside Directors*

A majority of the Board shall be composed of independent directors. An explanation of the independence standard used by the Company is attached as Appendix A to these Principles on Corporate Governance.

#### *(a) Committee Member Independence*

All members of the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee shall be independent directors.

#### *(b) Former Chief Executive and other Senior Officers*

If the Chief Executive Officer or another senior officer resigns or tenders a resignation to the Company, he or she should simultaneously tender a resignation from the Board. The full Board will consider and decide upon the resignation.

#### *(c) Change of Outside Director's Current Position*

The Board does not believe that directors who either retire from or change the position they held when they were initially elected to the Board should necessarily resign from the Board. There will, however, in such circumstances be an opportunity for the Board, through the Nominating and Corporate Governance Committee, to review the continued appropriateness of Board membership of such directors.

(d) Employee Directors

The Chief Executive Officer of the Company shall be a member of the Board of Directors and the Board may choose to elect additional senior officer(s) to the Board.

(3) *Board Leadership*

The Board does not have a policy on whether the role of the Chief Executive Officer and Chairman of the Board should be separate.

(4) *Lead Director*

The Board has determined that it is appropriate to designate an independent director to serve as a Lead Director. The Lead Director position will be held by the Committee chairperson of the Nominating & Governance Committee or as may be otherwise decided by the Board by majority vote.

The duties of the Lead Director are as follows:

- (1) Preside as leader at (a) executive sessions of the Independent board members (b) any Board meetings where the Chairman is not present;
- (2) Assist the Chairman with preparation of the agenda for Board meetings and committee meetings including needed information and schedule;
- (3) Request to the CEO on behalf of any Board member that information from the company which the member requests;
- (4) Serve as liaison with the Chairman and Chief Executive Officer on behalf of Board members;
- (5) Assist the Chairman with the Board evaluation process;
- (6) Assist the Board members with the recommendation of any independent experts the Board desires to retain;
- (7) Lead the yearly evaluation of the CEO and individual Board Members; and
- (8) Assist Board Members in communication with members of the Company's management.

### **C. Board Operation and Structure**

(1) *Executive Sessions of Outside Directors*

Outside directors (those not employed by the Company) shall meet privately in regular sessions during the year. Those sessions shall be lead by the Lead Director. The Lead Director will brief the Chief Executive Officer regarding the executive sessions discussions.

(2) *Board Performance Assessment*

The Board will maintain formal mechanisms to annually assess its contribution in governing the Company in order to enhance its performance. The use of surveys to query individual directors about their observations and recommendations is encouraged. Results of the assessment will also be used in evaluating skills and attributes desired in potential director candidates.

(3) *Term limits; Retirement Age*

The Board has not established term limits. The Board believes long term, experienced directors provide continuity of leadership, perspective and understanding of the complex businesses of the Company. The Board has not established a mandatory retirement age for directors.

(4) *Board Compensation Review*

Senior management will periodically review the level of the Company's director compensation in relation to director compensation of companies of comparable size, industry and complexity and report their findings to the Compensation Committee. Changes to compensation, if any, should come upon the recommendation of the Compensation Committee, but with full discussion and concurrence by the Board. The Board, however, recognizes that independence questions may be raised in the event director compensation exceeds what is customary, if the Company makes substantial charitable contributions to organizations with which a director is affiliated, or if the Company enters into consulting contracts with (or provides other indirect forms of compensation to) a director or an organization with which the director is affiliated.

(5) *Board Orientation and Continuing Education*

A thorough understanding of the Company's business is required to enable a director to make a substantial contribution to the Board. Accordingly, all new directors must participate in an orientation program developed by the Company after their election to the Board. This orientation program will include presentations by senior management to familiarize new directors with the Company's strategic plans, its significant financial, accounting and risk management issues, its compliance programs, its Code of Corporate Conduct, its principal officers, and its internal and independent auditors. In addition, the orientation program will include visits to Company headquarters and, to the extent practical, certain of the Company's significant facilities. All other directors are also invited to attend the orientation program. The Nominating and Corporate Governance Committee may develop a policy on requiring that directors engage in appropriate continuing education programs, at the Company's expense.

(6) *Board Interaction with Third Parties*

Interactions with institutional investors, the press or other third parties is best handled by designated management representatives and the Chief Executive Officer. Directors should refer inquiries to one of the designated individuals.

(7) *Director Share Ownership*

Outside directors should own a reasonable number of shares of the Company's common stock. This ownership is encouraged through the 2005 Non-Employee Director Stock Incentive Plan.

(8) *Evaluation of Individual Board Members*

The members of the Board will evaluate each other yearly. The Board members will complete a form for each member anonymously and all will be turned into the Secretary of the Company who shall create a summary of results for each Board member. Each Board member shall review his or her evaluation summary and shall have the right to dispute in writing any comments or evaluations made about him or her. The results of the evaluations shall be reported to the Nominating and Governance Committee who may decide to ask a Board member to improve performance, obtain training or take other action if deemed necessary or reasonable.

(9) *Training of Board Members*

The members of the Board will be required to attend an ISS accredited or similar training program at least once every twenty four months.

**D. Meeting Procedure**

(1) *Selection of Items for Board Agenda*

The Chairman of the Board establishes the Board agenda for Board meetings. Agenda items include those items required for necessary corporate governance and operational oversight such as strategic plans and budgets. All directors are encouraged to suggest topics for the agenda.

(2) *Board Material Distributed in Advance*

Information and materials that are important to the Board's understanding of the agenda items and business related topics will be distributed sufficiently in advance of the meeting to permit prior review. Management should structure material provided to the Board to assure it is concise and to the point. Highly confidential or sensitive matters may be presented and discussed without prior distribution of background material. It is desired that material be distributed one calendar week prior to the Board meeting.

(3) *Board Meeting Frequency and Schedule*

Board meetings shall be held at least quarterly. Scheduled meetings shall be determined sufficiently in advance to accommodate directors' calendars. Telephonic and special meetings shall be held as necessary.

(4) *Annual Corporate Strategy Meeting*

The Company's strategic plan and operating budget shall be discussed by the Board at least once a year at an extended meeting.

(5) *Board Presentations and Management Attendees*

Management presentations and participation are encouraged to allow directors to gain additional understanding and insight into the Company's businesses and related issues, and to obtain exposure to high potential senior managers. In addition, selected management representatives will function as liaisons for each of the Board committees for which they have subject matter expertise.

**E. Board Leadership and Relationship to Senior Management**

(1) *Selection of Chairman and Chief Executive Officer*

The Board of Directors is responsible for selecting the Chairman of the Board and the Chief Executive Officer. The Board will make this selection in the manner and utilizing the criteria it feels best serves the Company. The Chief Executive Officer is accountable to the Board for the overall performance of the Company.

(2) *Board Involvement with regard to Compensation Matters for the Chief Executive Officer and other Senior Management*

The Board will be provided with a thorough annual review with respect to compensation matters for the Chief Executive Officer, Chief Operating Officer (if applicable), Chief Financial Officer, General Counsel and Division Presidents. The Board will be apprised with respect to compensation actions for the remaining corporate officers.

(3) *Formal Evaluation of Chief Executive Officer*

The Compensation Committee will perform an annual evaluation and set objectives for the Chief Executive Officer's performance. The evaluation will include objective criteria including business performance, accomplishment of long-term goals and development of management succession plans and such other matters deemed pertinent to performance. The Chief Executive Officer will be provided with specific goals for the ensuing year. The full Board shall be apprised annually of such matters. (One director shall be selected to meet with the Chief Executive Officer to review the evaluative process.) Results of the annual evaluation will affect the Chief Executive's annual compensation.

(4) *Succession Planning*

The Chief Executive Officer, working with the Board and the Nominating and Corporate Governance Committee, is responsible for developing and maintaining a process for succession planning with respect to the position of Chief Executive Officer and other corporate key officers and advising the Board. The Chief Executive Officer will report annually to the Board on

succession planning for the Chief Executive Officer and senior management positions, including a discussion of assessments, leadership development plans and other relevant factors.

(5) *Management Development*

Management development programs for senior level positions should be discussed regularly with the Board by the Chief Executive Officer or his designee.

(6) *Board Access to Management and Independent Advisors*

Board members shall have access to the Company's management through the Lead Director. The foregoing notwithstanding, this requirement shall not impede the reporting requirements of the Internal Audit Vice President to the Chairman of the Audit Committee.. Board members should use discretion to assure that such contact is not distracting to the business operations of the Company, and that any written contact shall be copied to the Chief Executive Officer.

Any Board member or committee requests for information or for agenda items for meetings shall be routed through the Lead Director and the Chairman of the Board.

The Board and each committee also have the power to hire independent legal, financial or other advisors as they may deem necessary, without consulting or obtaining the approval of any officer of the Company in advance.

The Board welcomes regular attendance at each Board meeting of senior officers of the Company. If the Chief Executive Officer wishes to have additional Company personnel attendees on a regular basis, this suggestion should be brought to the Board for approval.

(7) *Prohibition Against Loans to Directors and Executive Officers*

In accordance with the applicable requirements of the Securities and Exchange Commission, the Company will not, directly or indirectly, extend or maintain personal loans to or for the benefit of any of its directors or executive officers.

**F. Board Committees**

(1) *Number, Structure and Jurisdiction of Committees*

There are currently four standing committees: Compensation, Audit, Nominating and Corporate Governance and Executive. The Board will at all times maintain the Compensation, Audit, Nominating and Corporate Governance committees. Other committees may be established from time to time by a resolution passed by the majority of the Board. Jurisdiction and duties and responsibilities for each Committee is described in the respective Committee charter.

The Board and each Committee have the power to hire independent legal, financial or other advisors as they may deem necessary, without consulting or obtaining the approval of any officer of the Company in advance.

(2) *Independence of Committee Members*

Members of the Audit, Compensation and Nominating and Corporate Governance Committees shall be independent directors under the criteria established by the New York Stock Exchange. Committee members will be appointed by the Board upon recommendation of the Nominating and Corporate Governance Committee with consideration of the desires of individual directors.

(3) *Committee Agendas*

The Chairman of each Committee, in consultation with the Committee members, will determine the frequency and length of the Committee meetings consistent with any requirements set forth in the Committee's charter. The Chair of each Committee, in consultation with the Chief Executive Officer, Corporate Secretary and management liaison establishes the Committee agenda.

(4) *Assignment and Rotation of Committee Members*

Committee chairs and membership should be rotated periodically to provide fresh points of view. Committee chairs and members will be reviewed and approved by the full Board.

(5) *Frequency and Length of Committee Meetings*

The Committee chair, in consultation with committee members, the Chief Executive Officer and the management liaison, will set the frequency and length of Committee meetings.

**G. Policy on Shareholder Approval of Stock Option Plans**

Shareholders should be given an opportunity to vote on all stock option plans, except employment induced options, option plans acquired through mergers and tax-qualified plans such as ESOPs and 401(k) plans. The foregoing approval policy shall not apply to non-shareholder approved plans that were in existence on the effective date of these Principles on Corporate Governance.

## APPENDIX A

A director should not qualify as “independent” for purposes of the foregoing governance principles unless:

- (a) The Board of Directors affirmatively determines that the director has no material relationship\* with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company);
- (b) Three years shall have elapsed since the termination of employment with the Company of any director who is a former Company employee;
- (c) Three years shall have elapsed since the director received more than \$100,000 per year in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service);
- (d) Three years shall have elapsed since the end of any affiliation, employment or auditing relationship between a director and a present or former internal or external auditor of the Company;
- (e) The director is not, and in the past three years has not been, part of an interlocking directorate in which an executive officer of the Company serves on the compensation committee of another company that employs the director; and
- (f) With regard to any director who is an executive officer or an employee, or whose immediate family member is an executive officer, of a company that makes payments to, or receives payments from, the Company for property or services in an amount which, in any single fiscal year, exceeds the greater of \$1 million or 2% of such other company’s consolidated gross revenues, three years shall have elapsed since all payments fell below such threshold.

Each of the above mentioned standards containing a three-year “look back” provision will be phased in by applying a one-year “look back” between the date of adoption of these standards and November 4, 2004. The three-year “look backs” will begin to apply from and after November 4, 2004.

Directors with immediate family members in the latter five categories must likewise be subject to the three year “cooling off” period for determining their independence.

\* The basis for the Board’s determination that a relationship is not material should be disclosed in the Company’s annual proxy statement.