



Executive Compensation and Governance Overview



For the first time at our annual meeting, our shareholders will vote on a non-binding resolution to approve the compensation of our executive officers, commonly referred to as the “say on pay” proposal. We want you to be confident that we have a solid pay for performance program, we are dedicated to business integrity and we will work with you, the owners of our company, to make The Shaw Group Inc. the company that we want it to be.



Pay for Performance Philosophy:

As is our standard practice, last year we set aggressive financial and other goals for the company, but we fell considerably short of our targets. Thus, we did not award management incentive performance bonuses, and almost all of our named executive officers saw a reduction in year-over-year compensation. This outcome is consistent with our history of annual incentive compensation being earned only if specific goals are achieved and the value realized, if any, for long-term equity awards being commensurate with the performance of our stock. This underscores our commitment to pay for performance.

For 2012, we strengthened our pay for performance philosophy. We changed our long-term incentive awards so that 50 percent of these awards are now performance-based, measured by total shareholder return.

Corporate Governance:

Our goal is to continue developing and maintaining a good governance strategy to maximize long-term performance and respond effectively if revisions are needed to address evolving best practices and changing regulatory requirements. Accordingly, our governance strategy as described in the proxy statement is to ensure that the company continues to:

- Attract and maintain high caliber directors, executives and employees.
- Manage operational and financial risk to maximize performance.
- Bolster the company’s financial performance and competitiveness as we provide solutions in an increasingly competitive and complex world.

Governance and Compensation Highlights:

Consistent with our goal to develop and maintain good governance strategy, in the past two years, we have implemented the following:

- Our corporate governance principles subject executive officers to minimum stock ownership guidelines of six times (for our CEO) and two and one-half times (for other executive officers) their base salary.
- In fiscal year 2011, we did not amend or enter into any executive officer employment agreements containing future guaranteed annual incentive compensation payments.



- We limited personal use of corporate aircraft by executive officers. Personal use must be paid in advance by the executive officer, except to ensure the safety of the CEO.
- We eliminated additional compensation to cover the cost of taxes assessed, if any, on perquisites. No new or amended employment agreements in fiscal year 2011 included excise tax gross-up provisions, and we have amended certain executive employment agreements to remove the excise tax group-up provisions.
- Our board committed that over a three-year period, we would achieve a burn rate of less than 1.95 percent of weighted average common shares outstanding.
- Equity awards now have a minimum vesting of no less than three years.
- Our board determined that an independent director who either retires from or changes the professional position held when initially elected to the board shall notify our board of the change and offer to resign. Our Nominating & Corporate Governance Committee will recommend whether the member resigns or continues to serve, and the member shall follow the recommendation.
- We modified one of our named executive officer's employment agreement to remove the excise tax gross-up provision and eliminated his previously guaranteed annual incentive compensation starting in fiscal year 2012.

We continue to review our compensation policies and guidelines, and in 2012:

- We modified our long-term incentive award program to include 50 percent of the reward with a total shareholder return performance measure.
- We amended our CEO's employment agreement to remove the tax gross-up provisions and added a net best provision in connection with termination payments upon a change in control.
- The company converted a \$15 million, plus accumulated interest, deferred compensation award that was owed to our CEO to a Supplemental Executive Retirement Plan (SERP). There are no changes in the economics or timing of payments as part of this conversion. The conversion to a SERP is fully compliant with Section 409A of the Internal Revenue Code and eliminates prior misperceptions associated with the language in his employment agreement regarding the deferred compensation award and non-compete provision. We believe that our CEO's SERP is market competitive for company-provided retirement benefits for long-service CEOs, including founders, of similarly-sized companies. Additionally, our CEO's non-compete provision remains in place.

Shareholder Focus:

Our number one goal is to create long-term value for our shareholders. Through our pay for performance program, we are striving to align the interests of our corporate management with the interests of our shareholders. We take seriously our obligation to our shareholders and look forward to a continued and open dialogue.

This summary highlights information contained in the proxy statement. It does not contain all of the information you should consider and should be read along with the more detailed information in the proxy statement before voting.

