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Press Advisory

For more information:

Doug Norlen, Pacific Environment +1 202 465 1650, dnorlen@pacificenvironment.org

David Gordon, Pacific Environment +1 510-541-5334, dkgordon@pacificenvironment.org

Dmitry Lisitsyn, Sakhalin Environment Watch, +7 4242 74 75 18, sakhalinwatch@yandex.ru

James Leaton, WWF-UK, +44 (0)1483 412513, +44 (0)7766 153974, jleaton@wwf.org.uk

Environmental Victory:

Sakhalin II Announces It Cannot Get Financing from US and UK Export Credit Agencies

Sakhalin Environment Watch, Pacific Environment, WWF and other groups celebrate Sakhalin Energy's abandoned attempt at public financing from the United States and the United Kingdom.

Late yesterday Sakhalin Energy Investment Company, Ltd. (Sakhalin Energy) told Dow Jones that it is withdrawing applications for hundreds of millions of dollars in public financing for the crisis-plagued Sakhalin II project from the US Export Import Bank (Ex-Im Bank) and the UK Export Credit Guarantee Department (ECGD). This announcement is a triumph for local environmental groups that have formed a coalition with national and international environmental organizations to block billions of dollars in public and private financing due to the chronic environmental impacts of the project. Sakhalin II, the world's largest integrated oil and gas project, located on and off-shore of Sakhalin Island in the Russian Far East, has been plagued by environmental problems, including threats to the critically endangered Western Gray Whales, damage to wild salmon spawning grounds, and negative impacts to indigenous and fishing cultures.

"We celebrate this tremendous victory," said Dmitry Lisitsyn, Chairman of Sakhalin Environment Watch. "Since its inception over a decade ago, Sakhalin II has committed severe environmental violations of these public banks' policies. Every day new negative impacts are being seen, including now in Aniva Bay, where project sedimentation is negatively impacting our local scallop fisheries."

Dow Jones reported that Sakhalin Energy's decision to withdraw financing was due to "serious concerns over possible delays" in financing. However, Sakhalin Energy's statement neglects to mention that for five years the company has been unable to secure billions of dollars in public and private financing due in large part to the company's failure to demonstrate compliance with banks' environmental policies. In 2007, the public European Bank for Reconstruction and Development withdrew its consideration for financing of Sakhalin II in large part because the project could not demonstrate environmental policy compliance.

"This announcement demonstrates that the Sakhalin II project's environmental problems are irreversible violations of the environmental standards of these public banks," said David Gordon, Executive Director of Pacific Environment.

In recent weeks, environmental organizations met with high level officials in Ex-Im Bank and other US agencies amidst widespread rumors within the government that Ex-Im Bank and possibly ECGD would cause the Sakhalin II application to be withdrawn as a way to avoid having to officially decline financing due in great part to environmental non-compliance.

"We are happy that Ex-Im Bank and ECGD ultimately did not support a project that would compromise the integrity of their environmental policies," said Doug Norlen, Policy Director, Pacific Environment. "But the banks had a responsibility to state their rejection publicly, rather than sneaking out the back door by asking Sakhalin Energy to withdraw its application."

The withholding of Ex-Im Bank and ECGD financing for Sakhalin II greatly increases the political, financial and reputational risks of any other bank that has, or is still considering financing for the controversial project, including the Royal Bank of Scotland, and the Japan Bank for International Cooperation, respectively. Also, the withholding of financing sends a strong message to oil companies seeking approval and financing for highly risky projects in the Arctic region.

"Shell's consistent failures on Sakhalin II provide a stark example of why oil companies shouldn't be allowed into vulnerable Arctic regions such as the US Bristol Bay and Chukchi Sea," said James Leaton, WWF.

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