



Annual Report 2006-2007



Holding Corporations Accountable to People and the Environment

Large oil corporations are reporting record-breaking profits, often amounting to billions of dollars each quarter. Yet this profit comes at enormous cost: local economies ruined, fragile ecosystems damaged, and ancient cultures lost forever. In spite of the cost, oil companies are speeding up the development of increasingly fragile ecosystems, such as the Arctic, that are already feeling the brunt of global warming.

We're working side-by-side with community members around the Pacific Rim to hold governments and corporate giants like Shell accountable for the damage they're causing. We litigate in courtrooms alongside indigenous groups. We travel with engineers as they trudge along muddy pipeline routes to document construction violations. We strategize with fishermen about how to promote sustainable economies while protecting both their livelihoods and the environment.

Not only are we building coalitions with a broad range of allies, we're facilitating connections across the globe. For example, we're bringing the stories of Shell's broken promises in the Russian Far East to Alaska Native communities, increasing pressure on corporations to act responsibly from the ground up. And we're connecting scientists in Russia with European courts and international lending institutions to pressure corporations from the top down.

At home in California, we're garnering support for our work and the work of our partners. Environmentalists, labor unions, community leaders, and policy-makers are speaking out against new fossil fuels and advocating for clean energy and community health. We're sharing the stories of grassroots environmental groups, like those in China, that are wading through mangroves and bringing school children on field trips to raise awareness on environmental issues. By magnifying local voices both at home and abroad, Pacific Environment and our partners are able to achieve fantastic victories!

Dear Friends,

The last year has seen tremendous growth and achievement for Pacific Environment. Our newer Alaska, China, and California Programs are truly blossoming after laying fundamental groundwork over the past few years. We've also seen the fruition of years of informing the public, educating banks, and documenting violations as Sakhalin-II has become an international example of how not to build an oil and gas project.

As we move forward, we are overcoming challenges to supporting our partners as political and resource extraction pressures present new obstacles to our work on the ground. Furthermore, oil companies, driven by record-breaking profits, are aggressively pushing into more remote and pristine regions of the world.

With the support of our community, Pacific Environment will continue to take on these large challenges and successfully work to protect the Pacific Rim's wildlife and wild places. Thank you for your support. Our victories are truly a product of your commitment to our mission!

Sincerely,
David Gordon
Executive Director

Alaska Program

Our Alaska Program works with remote and indigenous communities to protect Alaska's rich marine ecosystems. Over the last year, the Alaska Program successfully engaged fishermen, oil spill experts, and Arctic whalers in the fight against opening Bristol Bay and the Arctic Ocean to oil and gas exploration and drilling. We brought the stories of community members from Sakhalin Island to Alaska, exposing the negative environmental and social impacts caused by Shell and other companies around the world. With our partners, we elicited national scrutiny on the government's plan to lease the Arctic for drilling, began our campaign to stop Shell's plan to drill in the Beaufort Sea, and worked to increase protections for right whale, polar bear, and walrus habitat. Pacific

Environment also helped launch the Shipping Safety Partnership and served on a joint federal and state effort to prevent oil spills and improve spill response plans in the Aleutian Islands.



California Program

Over the past year, the California Program increased pressure on the state to keep its clean energy promise and listen

to the concerns of local communities. Our California Program engaged community members across the West Coast in the battle against liquefied natural gas (LNG), turning out thousands of community members to town hall meetings, state commissioner meetings, and days of action. Working with the coalition members of Ratepayers for Affordable Clean Energy (RACE), we elevated the debate over LNG. Now newspapers, government officials, and community members are questioning the need for LNG in California as well as challenging the myth of 'clean LNG.' Working with our partners in the RACE Coalition, we've successfully blocked three damaging LNG proposals based on safety and public health concerns, possible violations of California's new greenhouse gas laws, and unproven need. Now we are turning to promoting faster development of renewable energy sources.



Pacific Environment protects the living environment of the Pacific Rim by promoting grassroots activism, strengthening communities, and reforming international policies.



China Program

Pacific Environment's China Program supports on-the-ground responses to China's plethora of environmental problems while networking groups together to strengthen China's emerging environmental movement. Over the past year, we have battled water pollution and illegal trade in coral, shark, and other threatened species through our direct support of grassroots organizations. Our small grants program, launched just a year ago, started with \$50,000 granted to 12 groups, and we secured funding to double the amount of grants in the next year. We held a water pollution conference, allowing environmental leaders from throughout China to share their experiences and develop effective strategies. We prepared a legal handbook explaining citizen rights to serve communities facing severe environmental crises. Finally, we leveraged coverage in TIME, Asia Geographic, Radio Free Asia, and elsewhere to raise awareness of the civil response to China's environmental crisis.

Responsible Finance Campaign

Complementing the grassroots work of our partners, our Responsible Finance Campaign applies pressure on the international financial institutions that fund potentially devastating oil and gas megaprojects. Our work on Sakhalin Island culminated in a remarkable turn of events in fall 2006. The Russian government halted construction on Sakhalin-II—the world's largest oil and gas project—citing environmental violations. Even more surprisingly, Shell sold the controlling share of the project to Russia's state gas company, Gazprom. The takeover by Gazprom transformed the project into an example of what not to do for oil and gas companies. We also strengthened transparency standards in host country agreements to allow communities to learn what is included in the fine print of back-room deals made between governments and transnational companies.

Finally, we were thrilled when our Sakhalin campaign was recognized by our peers with a "BENNY" award as one of the best corporate campaigns of the year!



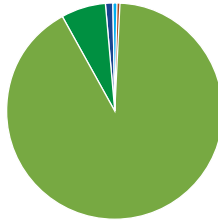
Russia Program

Our Russia Program continued its groundbreaking efforts to support one of the most vibrant environmental movements around the world. Despite facing a new Russian law restricting non-profit activities and a bureaucracy hostile to civil society, Pacific Environment and our partners continued to gain impressive victories. We finalized a victory re-routing the Siberia-Pacific Pipeline away from Lake Baikal and endangered Amur leopard habitat. We assessed and publicized environmental risks from the pipeline's new route as well as highlighted threats from another proposed gas pipeline to China through the Altai's Ukok Plateau—a UNESCO World Heritage Site. To support our colleagues in Kamchatka, we promoted a sustainable salmon economy and made sure that Canadian and Korean oil companies were aware of local opposition to seismic testing inside a protected wetland in Kamchatka. Meanwhile, our grants program sent over \$500,000 to support dozens of Russian organizations.

2006-2007 FINANCIAL STATEMENT

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

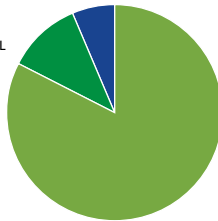
- GRANTS
- CONTRIBUTIONS
- INTEREST INCOME
- GAINS (LOSSES) ON
- PROGRAM SERVICE FEES



SUPPORT AND REVENUE:

Grants	\$1,974,002
Contributions	\$106,932
Interest Income	\$39,859
Gains (Losses) on Investments	\$707
Program Service Fees	\$941
TOTAL	\$2,122,441

- PROGRAM SERVICES
- SUPPORT: MANAGEMENT AND GENERAL
- SUPPORT: DEVELOPMENT



EXPENSES:

Program Services	\$1,562,718
Support: Management and General	\$161,915
Support: Development	\$78,994
TOTAL	\$1,803,627

Staff

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Many thanks to the staff who left Pacific Environment in the last year for other pursuits:

Jennifer Castner
Amy Metzendorf

Sara Moore
Michael O'Heaney

* Term ended in 2007.

FOUNDATION, CORPORATE AND GOVERNMENT SUPPORT:

Alaska Conservation Foundation
Annenberg Foundation
Anonymous
Community Foundation Silicon Valley
Corporate Ethics International
Earth Share of California
Ford Foundation
Foundation for Russian American Economic Cooperation
Give Something Back
Global Greengrants Fund
Cisco Systems employee matching gifts
Goldman Environmental Foundation
Richard and Rhoda Goldman Fund
Grassroots Foundation
I Do Foundation
Lawrence Foundation
L.P. Brown Foundation
Marisla Foundation
McKenzie River Gathering Fund
Gordon and Betty Moore Foundation
Charles Stewart Mott Foundation
National Endowment for Democracy
Oak Foundation
The Ocean Foundation
Open Society Institute
Open World Leadership Institute
The Pew Charitable Trusts
Revenue Watch Institute
Rockefeller Brothers Fund
Sigrid Rausing Trust
The California Endowment
The Laurie Foundation
Tiffany & Co. Foundation
Trust for Mutual Understanding
United Way of the Bay Area
Wallace Genetic Foundation
Wallace Global Fund
Weeden Foundation
WestWind Foundation
World Wildlife Fund

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Michele Affronte
Deborah and Michael Aiona
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