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July 13, 2009

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EXECUTIVE SUMMARY

The state gas monopoly Naftogaz has become a hot topic in recent weeks, as its bills mount, while its solvency is far from sound. The national budget deficit, the inflation rate and execution of the IMF memorandum of agreement -- not to mention dozens of political promises -- are all heavily dependant upon Naftogaz's fate. The main question concerns the future of the company: Will Naftogaz go bankrupt at last, or are there deeper motives for prolonging its agony?"

Naftogaz was initially created, ten years ago, to be an ordinary for-profit firm. The company consolidated the gas market, and centralized financial flows. Many people close to ruling parties got rich from Naftogaz operations in those times. But the political and economic situation changed after 2004, damaging the Naftogaz model, based on cheap gas imports from Russia.

Although Naftogaz has been gradually losing its value as a business, the monopoly has grown interesting as a political project.>>>

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