
BACHELOR THESIS

Ms.
Olena Tisova

Interpipe Business Strategy on International Markets

Mittweida, 2016

Faculty: Industrial Engineering

BACHELOR THESIS

Interpipe Business Strategy on International Markets

Author:

Ms. Olena Tisova

Course of studies:

Business Administration

Seminar group:

BW10w1-B

First examiner:

Prof. Dr. rer. oec. Serge Velesco

Second examiner:

Alexandr Garkavij (MBA)

Submission:

Mittweida, 14.12.2016

Bibliographic Description:

Interpipe Business Strategy on International Markets

73 pages, Hochschule Mittweida, University of Applied Sciences,
Faculty of Industrial Engineering, Bachelor Thesis, 2016

Abstract

This bachelor thesis was executed for Interpipe company and it concentrates on its business strategy on international markets, especially on Middle Eastern pipes market. Choosing an inappropriate entry business strategy can lead to significant negative consequences, business strategy selection on international markets is one of the most critical decisions in international trade system. The theoretical framework of the bachelor thesis is provided in the second chapter, which was mainly collected by desktop studying. The theory review contains description of various foreign market strategies, methods and mechanisms of decision-making, levels and types of business environment. A combination of theories is adopted to facilitate the process of gathering the requested information. The third chapter contains information about Interpipe Company and its economic activity in the host country and abroad. General information about Interpipe Company, its current position, business development strategy for 2015-2016 years are presented. The situation on the pipes and wheels market in Ukraine during the period 2014-2015 was analyzed and on account of this the reasons of decline in profits and sales were deduced. Coincidentally the penetration forms of Interpipe Company to foreign countries were considered. In this regard the most successful entry forms are suggested to be accepted as the main key strategy of penetration to the international market. The fourth chapter provides the information about the certain approach of penetration of Interpipe Company to the Middle Eastern pipe market. The purpose is to increase the number of deliveries to oil and gas companies in this region and continue establishing of its relations with key agents and distributors. The project aims to elevate current position of the enterprise on Middle Eastern pipes market and adjust advantageous international relations for both counterparts. Data is collected from various sources, including: books and journals in the theoretical framework, newspapers, company's published reports, press releases, catalogues, bulletins, brochures, presentation, Internet resources etc. in the empirical study.

Index of Contents

Index of Contents	IV
List of Figures	VI
List of Tables	VII
List of Appendix	VIII
List of Abbreviations	IX
1. Introduction	1
1.1 Background	1
1.2 Problem examined.....	1
1.3 Objectives.....	2
1.4 Research Methods.....	2
1.5 Practical value of the thesis	2
1.6 Structure of the Thesis	3
2. Nature of Strategic Decision-making and Analysis of Company's Strategies to Entry into Foreign Markets	4
2.1 Levels of Strategic Decisions and Typology of Business Strategies.....	4
2.1.1 Typology of Strategies by Level of Strategic Decisions	4
2.1.2 Varieties of Functional Strategies of the Enterprise.....	6
2.1.3 Strategies for Enterprises of Different Industries	8
2.2 Strategic Analysis of the Business Environment.....	11
2.2.1 Levels and Types of Business Environment.....	11
2.2.2 Methods and Models for Strategic Environmental Diagnostics of the Company	12
2.2.3 Essence and Main Features of Competitive Advantages	15
2.3 International Market Entry Strategies of the Enterprise.....	17
2.3.1 Export.....	17
2.3.2 Contractual modes.....	18
2.3.3 Investment modes.....	20
3. Interpipe: Analysis of Activity on the Domestic and Foreign Markets.....	21
3.1 Ukrainian Pipes and Wheels Market: Current State and Prospects.....	21
3.2 General Information about Interpipe Company	23
3.2.1 Interpipe Market position in Ukraine and Abroad.....	23
3.2.2 Current Business Development Strategy of Interpipe Company	24

3.2.3 Analysis of Interpipe activity in 2014-2015	26
3.3 Strategic Analysis of the External and Internal Environment of Interpipe Company	32
3.3.1 SWOT-Analysis of Interpipe.....	32
3.3.2 PEST-Analysis of Interpipe	34
3.3.3 Identifying the Competitive Advantages of Interpipe	36
3.4 Entering of Interpipe Company on Foreign Markets	38
4. Penetration of Interpipe Company to the Middle Eastern Market.....	41
4.1 Middle East Market Overview	41
4.1.1 Business Environment.....	41
4.1.2 PEST-Matrix of Middle Eastern Environment.....	45
4.2 International Economic Activity of Interpipe Company on Middle Eastern Pipes Market....	51
4.2.1 Bilateral Relations between Ukraine and Middle East Countries	51
4.2.2 Interpipe Activity on Middle Eastern Pipes Market.....	52
4.3 Interpipe Projects Partnership	54
4.3.1 Pipe Solutions for Infrastructure Projects in Middle East Region	54
5. Summary	58
List of References.....	61
Appendix	64
Statement of Authorship	73

List of Figures

Figure 1: Characteristics of strategic decisions.....	4
Figure 2: Porter's generic strategies.....	5
Figure 3: Functional strategies of the enterprise.....	6
Figure 4: Strategies in mature industries.....	8
Figure 5: Nonprice competitive strategies.....	9
Figure 6: Determinants of competition intensity in declining industries.....	10
Figure 7: Strategy selection process in declining industries.....	10
Figure 8: The structure of the enterprise environment.....	11
Figure 9: Types of enterprise environment.....	12
Figure 10: Post SWOT-analysis of recommended strategies diagram.....	14
Figure 11: Classification of competitive advantages.....	16
Figure 12: Ukrainian pipe companies' production rates.....	21
Figure 13: Interpipe assets structure, 2014-2015.....	28
Figure 14: Interpipe liabilities structure, 2014-2015.....	29
Figure 15: Interpipe current and long-term liabilities structure, 2014-2015.....	29
Figure 16: Sales structure of Interpipe's pipe products, 2014-2015.....	38
Figure 17: Sales dynamics of Interpipe's pipe products, 2014-2015.....	39
Figure 18: Sales structure of Interpipe's wheel products, 2014-2015.....	39
Figure 19: Sales dynamics of Interpipe's wheel products, 2014-2015.....	40
Figure 20: The Middle East countries ranks on the ease of doing business, 2015.....	42
Figure 21: Oil and gas market of Iraq.....	50
Figure 22: Export of Ukrainian steel pipes to the Middle East countries.....	51
Figure 23: International trade between Ukraine and the Middle East countries.....	52
Figure 24: The volume of pipes exported by Interpipe to the Middle East region.....	53
Figure 25: The volume of main groups of pipes exported by Interpipe to the Middle East region.....	53

List of Tables

Table 1: Stages in the analysis of the enterprise environment.....	12
Table 2: SWOT-analysis of a company.....	13
Table 3: PEST-analysis of environment.....	15
Table 4: Pros and cons of different contractual modes types.....	19
Table 5: Pros and cons of different entry modes types.....	20
Table 6: Interpipe's Current Business Development Strategies.....	25-26
Table 7: Indicators of Interpipe company activity, 2014-2015.....	26-27
Table 8: Dynamics and structure of assets of Interpipe company, 2014-2015.....	27
Table 9: Dynamics and structure of liabilities of Interpipe company, 2014-2015.....	28
Table 10: Solvency ratios of Interpipe company.....	30
Table 11: Financial stability ratios of Interpipe company.....	30
Table 12: Assets turnover ratios of Interpipe company.....	31
Table 13: Capital turnover ratios of Interpipe company.....	31
Table 14: Profitability ratios of Interpipe company.....	32
Table 15: SWOT-analysis of Interpipe company.....	33
Table 16: PEST-analysis of Interpipe company in Ukraine.....	35
Table 17: Competitive advantages of Interpipe company on international market.....	36
Table 18: Summary of Doing Business indicators for Middle East countries.....	43
Table 19: Detailed PEST-analysis of Middle East countries.....	46-48
Table 20: Interpipe infrastructure projects in Middle East region.....	55

List of Appendix

Appendix: Consolidated Balance Sheet of Interpipe Company at 31.12.2014 and 31.12.2015; Consolidated Income Statement of Interpipe Company at 2014 and 2015.....	64
--	----

List of Abbreviations

AG	AktienGesellschaft
API	American Petroleum Institute
ASTM	American Society for Testing and Materials
CAD	Computer-Aided Design
CAM	Computer-Aided Manufacturing
ChTPZ	Chelyabinsk Tube Rolling Plant
CIS	Commonwealth of Independent States
CJSC	Closed Joint-Stock Company
DCFTA	Deep and Comprehensive Free Trade Area
e.g.	exempli gratia
EN (DIN)	Deutsches Institut für Normung e.V.
ERW	Electric Resistance Welded Pipes
etc.	et cetëra
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GmbH	Gesellschaft mit beschränkter Haftung
GOST	Standards CIS countries
HR	Human Resources
IAF	Islamic Action Front
ICT	Information and Communication Technology
ISIS	Islamic State of Iraq and Syria
IT	Information Technology
JSC	Joint-Stock Company
KLW	wheels brand of Interpipe company
LBO	Leveraged Buyout
LLC	Limited Liability Company
MENA	Middle East & North Africa
MNE	Multinational Enterprise
NAFTA	North American Free Trade Agreement

NBU	National Bank of Ukraine
NGO	Non-Governmental Organization
NMPP	Novomoskovsk Tube Rolling Plant
NTC	Nikopol Tube Rolling Plant
NTMK	Nizhny Tagil Iron and Steel Works
NTRP	Nyzhnyodniprotsky Tube Rolling Plant
OCTG	Oil country tubular goods
OIC	Organization of Islamic Cooperation
PA	Palestinian Authority
PSL	Process Safety Management
R&D	Research and Development
S&T	Science and Technology
SA	Société Anonyme
SME	Small and Medium-sized Enterprises
TMK	Pipe Metallurgical Company
TRS	Tube-Rolling Shop
UAE	United Arab Emirates
UAH	Ukraine Hryvnia
UN	United Nations
US	The United States of America
USD	United States dollar
USSR	Union of Soviet Socialist Republics
V&M	Vallourec & Mannesmann Tubes
v.	versus
VMP	Vyksunsky Metallurgical Plant
WOS	Wholly owned subsidiary
WTO	World Trade Organization

1. Introduction

1.1 Background

International trade has flourished over the years due to the many benefits it has offered to different countries across the globe. With the help of modern production techniques, highly advanced transportation systems, transnational corporations, outsourcing of manufacturing and services, and rapid industrialization, the international trade system is growing and spreading very fast.

The importance of foreign trade for the economic growth and welfare of a nation has been strongly advocated in the economic literature since Adam Smith's (1776) inquiry into the nature and causes of the wealth of nations. Export–import plays an important role in the Ukrainian relations with other countries, especially for the latter. One of the main industries for internationalization is production of pipes and wheels. The main domestic producer in this field is Interpipe Company.

A lot of Ukrainian researchers have been trying to come up with conceptual models that would help Interpipe Company go international, to decide which method of penetration is the most appropriate and what kind of organizational forms should be adapted to be able to manage the internationalization. In other ways, researchers have searched for the determinants, as well as looked into the strategies in which the company manages and conducts operations abroad.

In order to go international Interpipe Company must plan and organize its activities, as well as adjust these to the needs and opportunities of international markets. The aim is to become internationally competitive with a long-term perspective.

1.2 Problem examined

During the 2014-2015 pipe and wheel market in Ukraine was experiencing production shortfall and decrease in sales. Interpipe Company had faced a lot of problems connected with devaluation of the hryvna, the sharp decline of world oil and gas prices, as well as difficult economic relations with key enterprise's partner – Russia. To improve the position Interpipe Company passes prequalification, gains new quality standards and searches for the most successful ways of penetration to foreign markets.

To improve the situation on the Middle Eastern market Interpipe Company decided to increase the number of deliveries to oil and gas companies in this region and continue establishing of its relations with key agents and distributors. The project aims to elevate current position of the enterprise on Middle Eastern pipes market and adjust advantageous international relations for both counterparts.

The theoretical framework is based to a greater extent on the experience of famous Ukrainian, Russian, American and European economists.

Data is collected from various sources, including: books and journals in the theoretical framework, newspapers, company's published reports, press releases, catalogues, bulletins, brochures, presentation, Internet resources etc. in the empirical study.

1.3 Objectives

The goal of this research is to examine theoretical framework on the topic of international management and methods of penetration to foreign markets and to analyze international economic activity of Interpipe Company. The thesis is also targeted to find out the most appropriate entry models of Interpipe Company to the foreign markets and to present new business strategy which aim is to build a direct presence of the enterprise on Middle Eastern market.

To achieve this objective, the following tasks were determined:

- Definition of business strategy formation mechanisms, methods and instruments.
- Analyze of Ukrainian pipes and wheels market in 2014-2015.
- Define the competitive advantages of the enterprise; carry out SWOT and PEST analysis.
- Overview of the international penetration strategies of Interpipe Company to the foreign markets.
- Finding out the approach of establishing new business model in Middle East region and analyze of the Middle Eastern pipe market.

Object of research – penetration of Interpipe Company to the international market of pipes and wheels industry.

1.4 Research Methods

During the work process on this thesis, the following research methods were applied: comparative analysis and synthesis, functional and dynamic analysis, scientific abstractions, deduction and induction; systematization and generalization in international management determination; comparison and analysis of the characteristics and reasons for penetration of Interpipe Company to the foreign markets.

The information is based on company's published reports and presentations, available research data of the Ukrainian standards and acts and materials of the Ukrainian State Statistics Committee, the scientific works of domestic and foreign economic experts, the conference documentation, recommendations of international experts as well as the look-up and periodical literature.

1.5 Practical value of the thesis

The choice of entry mode is a critical decision for a company deciding to penetrate to the foreign market. In the thesis will be illustrated theoretical framework of famous economists who made a great contribution to the establishment and development of penetration forms. On the basis of

these models the business strategies of Interpipe Company will be analyzed. Obtained results and their novelty: different business approaches has been elaborated for the development of Ukrainian enterprises and their foreign activity, based on a comparison of a number of qualitative and quantitative factors. Area of possible practical application: detecting possible activities for the Ukrainian companies which are trying to enter the world market. Moreover, a new business strategy of increasing sales and outputs on Middle Eastern pipe market will be presented with detailed observation of core indicators of Interpipe activity in this region. The information can be used for the further development of international activity and establishment of direct presence of Interpipe Company abroad.

1.6 Structure of the Thesis

The theoretical framework of the bachelor thesis is provided in the second chapter, which was mainly collected by desktop studying. The theory review contains description of various foreign market strategies, methods and mechanisms of decision-making, levels and types of business environment. Different models like SWOT and PEST analysis, main features of competitive advantages and international market entry strategies of the enterprise are being described in the second chapter. Combination of theories is adopted to facilitate the process of gathering the requested information.

The third chapter contains information about Interpipe Company und it's economic activity in the host country and abroad. General information about Interpipe Company, its current position, business development strategy for 2015-2016 years are presented. The situation on the pipes and wheels market in Ukraine during the period 2014-2015 was analyzed and on account of this the reasons of decline in profits and sales were educed. Coincidentally the penetration forms of Interpipe Company to foreign countries were considered. In this regard the most successful entry forms are suggested to be accepted as the main key strategy of penetration to the international market.

The forth chapter provides the information about the certain approach of penetration of Interpipe Company to the Middle Eastern pipe market. The purpose is to increase the number of deliveries to oil and gas companies in this region and continue establishing of its relations with key agents and distributors. The project aims to elevate current position of the enterprise on Middle Eastern pipes market and adjust advantageous international relations for both counterparts. Data is collected from various sources, including: books and journals in the theoretical framework, newspapers, company's published reports, press releases, catalogues, bulletins, brochures, presentation, Internet resources etc. in the empirical study.

2. Nature of Strategic Decision-making and Analysis of Company's Strategies to Entry into Foreign Markets

2.1 Levels of Strategic Decisions and Typology of Business Strategies

2.1.1 Typology of Strategies by Level of Strategic Decisions

Strategic decisions are the decisions that are concerned with the whole environment in which the firm operates, the entire resources and the people who form the company and the interface between two.

Characteristics of strategic decisions are performed in the figure 1.

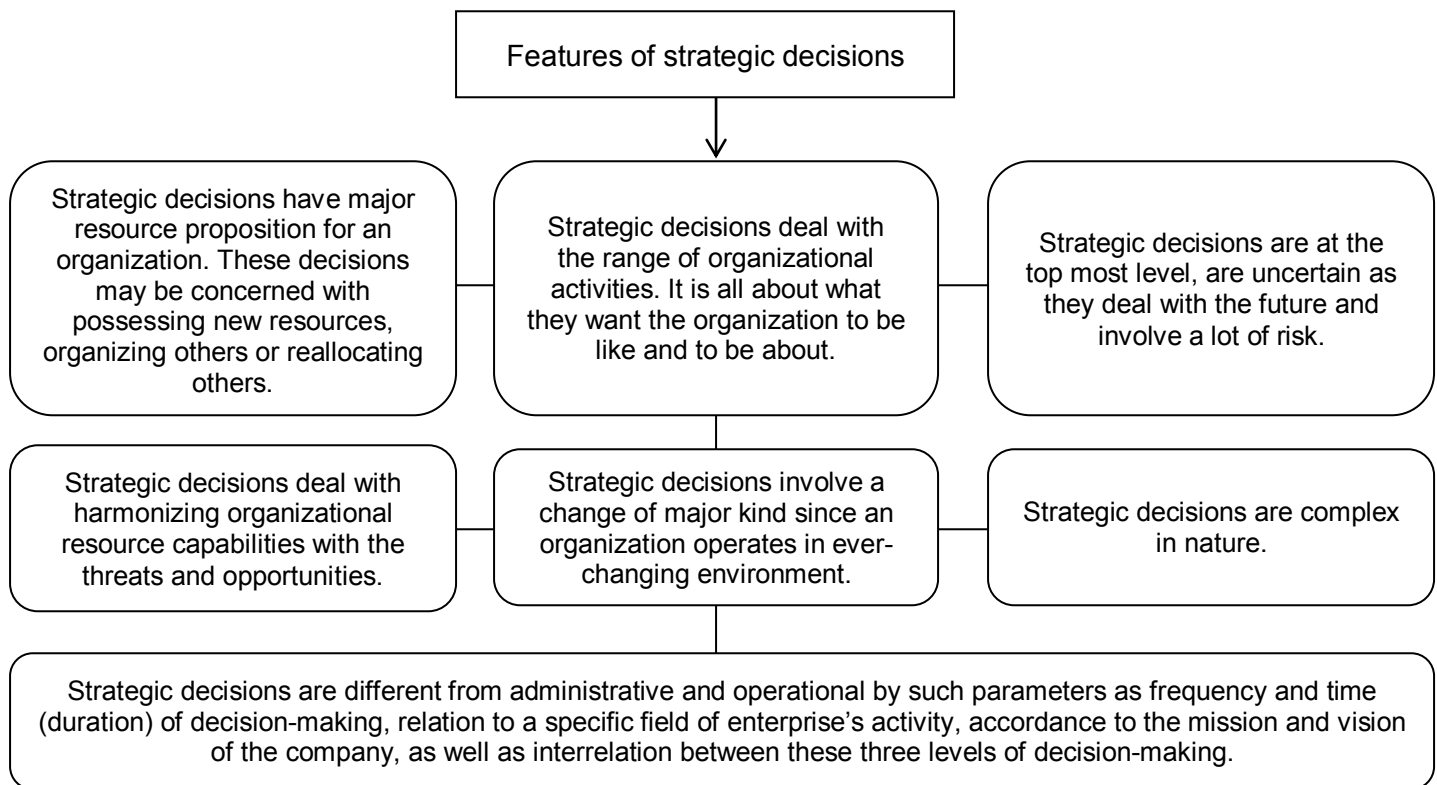


Figure 1: Characteristics of strategic decisions¹

In 1980 Michael Porter has described a category scheme consisting of three general types of strategies that are commonly used by businesses to achieve and maintain competitive advantage². These three genetic strategies are defined along two dimensions: strategic scope

¹ Ansoff I. (1989)

² Porter M. E. (1980)

and strategic strength (figure 2). Strategic scope is a demand-side dimension and looks at the size and composition of the market you intend to target. Strategic strength is a supply-side dimension and looks at the strength or core competency of the firm. In particular M. Porter identified two competencies that he felt were most important: product differentiation and product cost (efficiency).

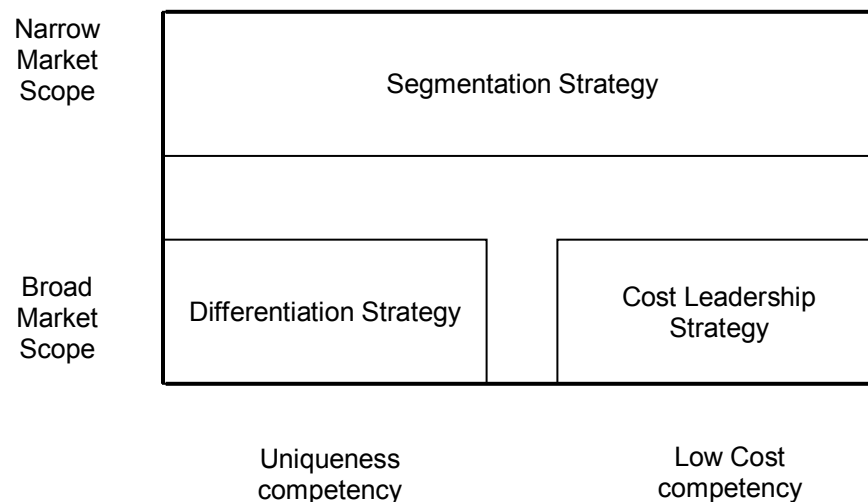


Figure 2: Porter's generic strategies³

M. Porter originally ranked each of the three dimensions (level of differentiation, relative product cost and scope of target market) as either low, medium or high, and juxtaposed them in a three dimensional matrix. That is, the category scheme was displayed as a 3 by 3 by 3 cube. But most of the 27 combinations were not viable.

Empirical research on the profit impact of marketing strategy indicated that firms with a high market share were often quite profitable, but so were many firms with low market share. The least profitable firms were those with moderate market share. This was sometimes referred to as the hole in the middle problem. Porter's explanation of this is that firms with high market share were successful because they pursued a cost leadership strategy and firms with low market share were successful because they used market segmentation to focus on a small but profitable market niche. Firms in the middle were less profitable because they did not have a viable generic strategy.

Porter suggested combining multiple strategies is successful in only one case. Combining a market segmentation strategy with a product differentiation strategy was seen as an effective way of matching a firm's product strategy (supply side) to the characteristics of your target market segments (demand side). But combinations like cost leadership with product differentiation were seen as hard (but not impossible) to implement due to the potential for conflict between cost minimization and the additional cost of value-added differentiation.

Since that time, empirical research has indicated companies pursuing both differentiation and low-cost strategies may be more successful than companies pursuing only one strategy.

Some commentators have made a distinction between cost leadership, that is, low cost strategies, and best cost strategies. They claim that a low cost strategy is rarely able to provide a

³ Porter M. E. (2006)

sustainable competitive advantage. In most cases firms end up in price wars. Instead, they claim a best cost strategy is preferred. This involves providing the best value for a relatively low price.

2.1.2 Varieties of Functional Strategies of the Enterprise

Every business unit develops functional strategies for each major department (figure 3).

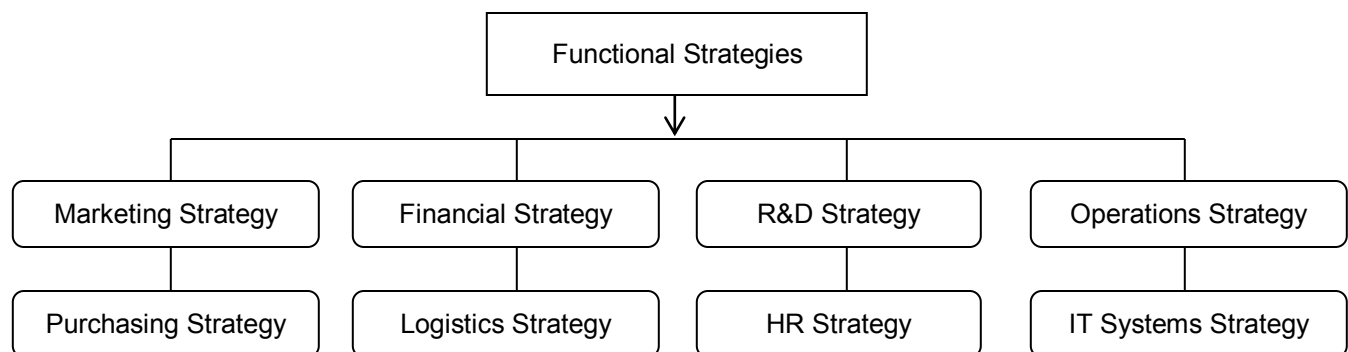


Figure 3: Functional strategies of the enterprise⁴

Considering the data which is represented in the figure 3, one of the important functional strategies of the enterprise is Marketing strategy. Mainly, it contains certain marketing mix issues which is called the 4 'P's' of marketing.

The first one of 4 'P's' of marketing is Product strategy. This strategy is about specifying the exact product or service to be offered (the choice between new or existing product; new or existing customers, etc.).

The second one of 4 'P's' of marketing is Promotion strategy. This strategy is about the way of the product or service is to be communicated to customers ("Push" – spend money on promotion and discounts to push products; "Pull" – spend money to build brand awareness so consumers will ask for it by name).

The third one of 4 'P's' of marketing is Channel or 'Place' strategy. This strategy is about selecting the method for distributing the product or service (the choice between distributing through dealer networks or through mass merchandisers; selling directly to consumers through own stores or through Internet, etc.).

The last one of 4 'P's' of marketing is Price strategy. This strategy is about establishing a price for the product or service (e.g. 'Skim pricing' (high) when you are a pioneer; 'Penetration pricing' (low) builds market shares; 'Dynamic pricing' (prices vary frequently) based on demand/availability).

The other important functional strategies of the enterprise are Financial management strategies:

1) Capital Acquisitions: debt leverages, stock sales and gains from operations (equity financing is preferred for related diversification; debt financing is preferred for unrelated diversification; LBOs make the acquired firm pay off the debt);

⁴ Aaker D. (2007)

2) Resource allocation: dividends, stock price and reinvestment (reinvestment earnings in fast-growing companies; keeping the stockholders contented with consistent dividends; use of stock splits (or reverses) to maintain high stock prices; tracking stock keeps interest in company, but doesn't allow takeover).

Talking about R&D strategies of the enterprise they can include following components:

1) Level of innovation: Pioneer (Leader) v. Copy Cat (Follower) which mean that technological leadership fits well with differentiation. A "follower" strategy makes sense with cost-leader strategies. In this case, the enterprise is about to consider if it better at finding applications and customer adaptations than actually inventing something really new;

2) Different types of R&D (basic, product, process);

3) Acquisition of technology: internally developed v. acquired from outside (technology 'Scouts'; Strategic Technology Alliance; acquire minority stake in promising high-tech ventures).

Next important functional strategies of the enterprise are Operations strategies:

1) Manufacturing location: internal production v. outsourcing; domestic plants v. international locations;

2) System layout: product v. process layouts (job shops v. mass production; job shop/ small batch production fits well with a differentiation strategy; continuous production/ dedicated transfer lines helps achieve cost leadership; use of robots and CAD/ CAM v. labor intense manufacturing; modular manufacturing and just-in-time delivery of subassemblies; continuous improvement systems, lower costs and increase quality).

The other important functional strategies of the enterprise are Purchasing strategies:

1) Sourcing components and suppliers;

2) Outsourcing (the enterprise buys everything): buying on the open market/ spot (prices fluctuate); long-term contracts with multiple suppliers (low bid); sole sourcing (only one supplier) improves quality; parallel sourcing (two suppliers) provides protection);

3) Backward integration (the enterprise has an ownership stake in the suppliers it uses): quasi-integration (minority ownership position in a supplier); tapered (produce some of what we need, but not all); full (produce all of our own needs);

4) Use of component inventories v. just-in-time supply delivery.

Next important functional strategies of the enterprise are Logistics strategies:

1) Type of materials transported: raw materials, suppliers and components; finished goods;

2) Best mode of transportation: air; rail; truck; barge;

3) Outsource transportation/ own transportation;

4) Contract with others: use multiple shippers v. just one; consider batch deliveries v. just-in-time arrangements;

5) Ownership in distribution chain: quasi; tapered; full.

The other important functional strategies of the enterprise are HR strategies:

1) Talent acquisition: recruit from outside v. internal development; require experienced, highly-skilled workers v. trainees; offer high wages and benefits v. mentoring and a career;

2) Work arrangements: individual jobs v. team positions; narrowly-defined jobs v. positions with discretion and autonomy; on-premises work v. telecommuting options;

3) Motivation and appraisal: extrinsic v. intrinsic reward systems; assessment for development v. assessment for rewards; incentives for ideas and originality v. incentives for conformity.

The last important functional strategies of the enterprise are IT systems strategies:

1) Worker productivity and connectivity: employees can be networked together across the globe; instant translation software for global firms; concept of 'Following the Sun Management' – passing projects on to the next team;

2) Sales and inventory management: Internet sales and development of customer database; instant sales reports allow immediate inventory reorders;

3) Shipping and tracking goods: proper software for stores addresses, prints, labels, etc.; tracking the progress of package shipment, etc.⁵

So there can be assumed that there are a lot of strategies that help the enterprise to get the certain share of the market and increase its sales and profit. The mentioned functional strategies are all important and have exclusive influence on the certain activity of the enterprise.

2.1.3 Strategies for Enterprises of Different Industries

Enterprise's strategies of different industries can be divided into several ones: strategies in fragmented industries, strategies in embryonic and growth industries, strategies in mature industries and strategies in declining industries.

So the first of the proposed strategies are strategies in fragmented industries. First of all, there should be mentioned that fragmented industry characteristics are:

- Localized markets with low entry barriers;
- Few economies of scale opportunities exist;
- High transportation costs for products;
- Focus strategies predominate (customer group, region).

Thus, competing in fragmented industries requires strategic consolidation by:

- Chaining (e.g. Wal-Mart);
- Franchising (e.g. McDonald's);
- Horizontal mergers (e.g. Dillard's);
- Using the Internet (e.g. eBay), etc.

Concerning strategies in embryonic and growth industries, there are three strategies for an innovator competing in a newly emerging market/ industry:

- 1) Developing and marketing the technology itself;
- 2) Developing and marketing the technology jointly with another company through a strategic alliance;
- 3) Licensing the technology to existing companies and let them develop the market.

Considering these three strategies in embryonic and growth industries there should be mentioned that an innovator's optimal choice of growth industry strategy depends on:

- Complementary assets the innovator has that can be used to exploit and market the innovation;
- High barriers to imitation by competitors (e.g. patents);
- The capability of competitors to quickly imitate the pioneering company.

Strategies in mature industries are presented in figure 4.

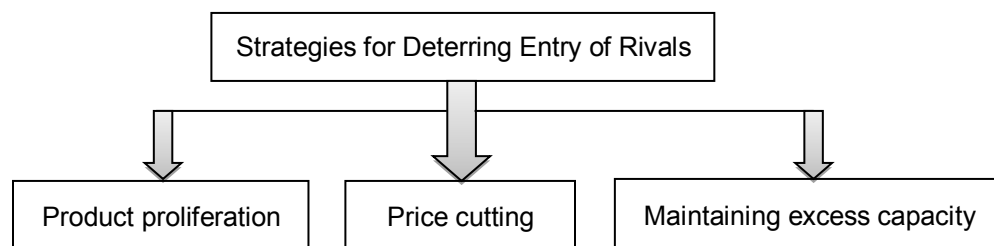


Figure 4: Strategies in mature industries

⁵ Hill C.W.L., Jones G.R. (1999)

Talking about strategies to manage rivalry in mature industries they can be the following:

- 1) Price signaling: leading competitors use prices changes to convey their intentions to other competitors;
- 2) Price leadership: one company sets the industry price and other competitors reference their prices to that price;
- 3) Nonprice competition: competition by any means other than price.

The four main nonprice competitive strategies are performed in the figure 5.

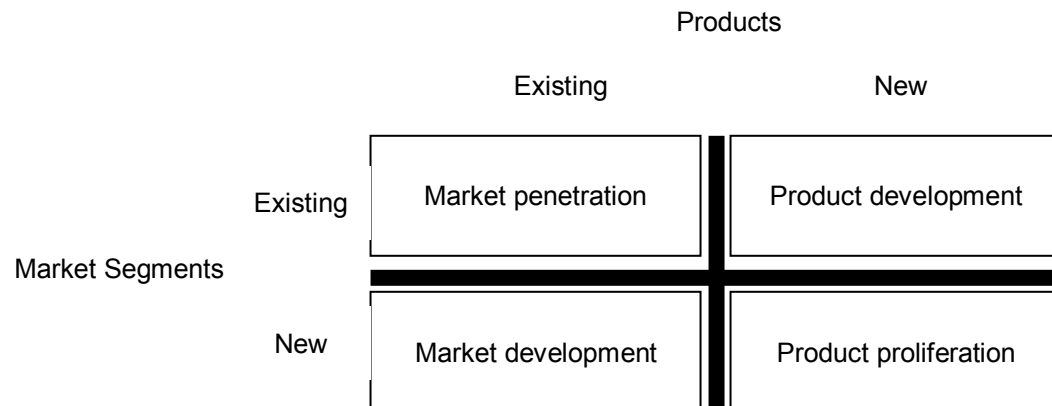


Figure 5: Nonprice competitive strategies⁶

From the data which is performed in the figure 5 there can be mentioned that Market penetration strategy of the enterprise is about to stay in current markets with existing products and the essence of this strategy includes the following:

- Increasing rate or purchasing/ consumption;
- Attracting rival's customers;
- Buying out rivals;
- Converting non-users into current users.

In turn, Market development strategy of the enterprise is about to find new markets for current products and the essence of this strategy includes the following:

- Entering new geographical markets;
- Finding new users for existing products;
- Finding new target markets.

Talking about Product development strategy of the enterprise, it's about to develop new products for existing markets and the essence of this strategy includes the following:

- Improving features;
- Improving such terms as quality/ reliability/ durability;
- Enhancing aesthetics/ Styling;
- Adding models.

At last, Diversification strategy of the enterprise is about to develop new products for new markets.

Concerning strategies in declining industries, there are four types of strategies:

- 1) Leadership strategy: a firm seeks to become dominant in the industry;

⁶ John A. Pearce, Richard B. Robinson (1997)

2) Niche strategy: an enterprise focuses on demand pockets declining more slowly than the industry as a whole;

3) Harvest strategy: a firm limits investment and optimizes cash flow;

4) Divestment strategy: a company exits the industry by selling out early to others, avoiding liquidation.

Factors that determine the intensity of competition in declining industries are represented in figure 6.

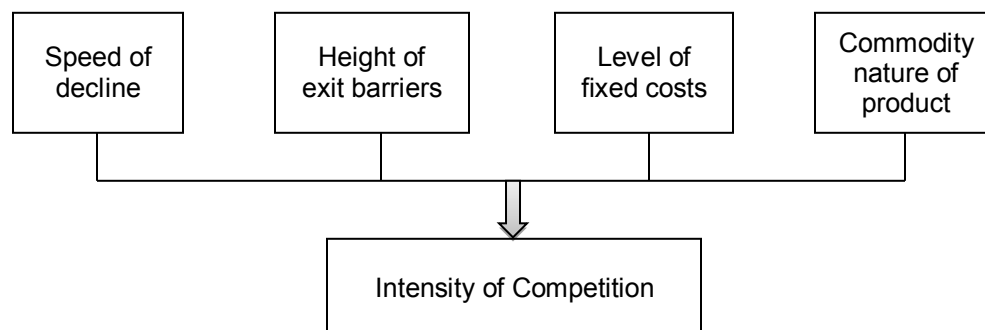


Figure 6: Determinants of competition intensity in declining industries⁷

Returning to the mentioned above strategies in declining industries, there also should be mentioned the strategy selection process in a declining industry (figure 7) which helps the enterprise to identify its position on the industry market and choose the proper strategy to deal with in the future.

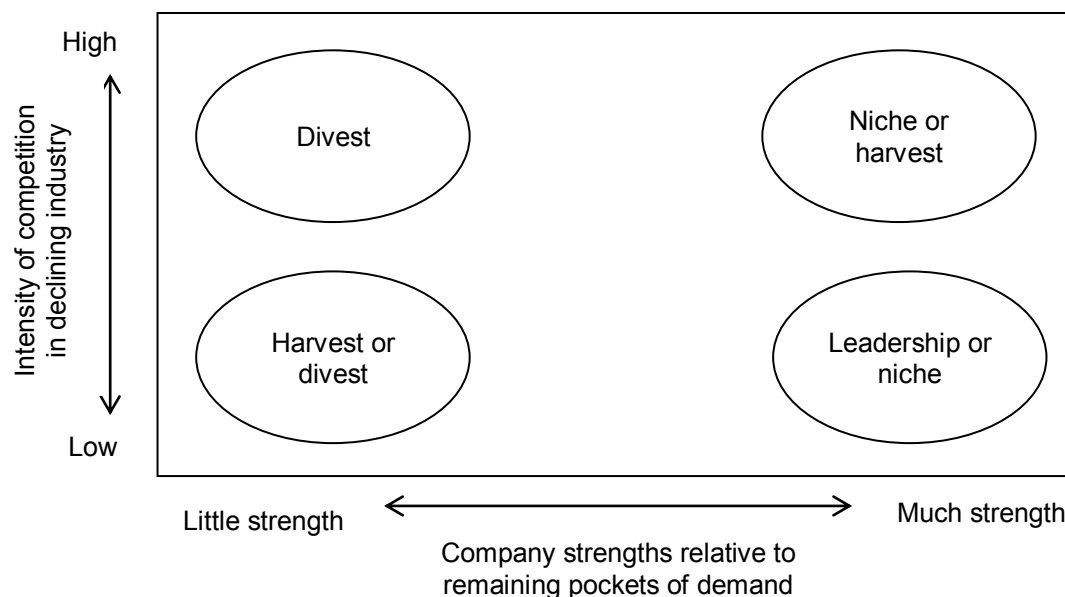


Figure 7: Strategy selection process in declining industries⁸

⁷ Bourgeois L.J., Irene M. Duhaime, Stimpert J.L. (1999)

⁸ Thompson A.A., Strickland A.J. (2003)

2.2 Strategic Analysis of the Business Environment

2.2.1 Levels and Types of Business Environment

Any enterprise exists and operates in a particular environment, and every of its action is possible only in the case if the environment allows it. The company is functioning in constant communication with the external environment, thereby being able to survive, because the external environment is a source of productive resources which are necessary for the formation and maintenance of the productive capacity of the enterprise. Environmental factors are uncontrollable by the company and its services. Influenced by events occurring outside the enterprise, in the external environment, managers have to change the internal organizational structure of the enterprise in order to adapt it to certain changing conditions. The structure of the enterprise environment is performed in figure 8.

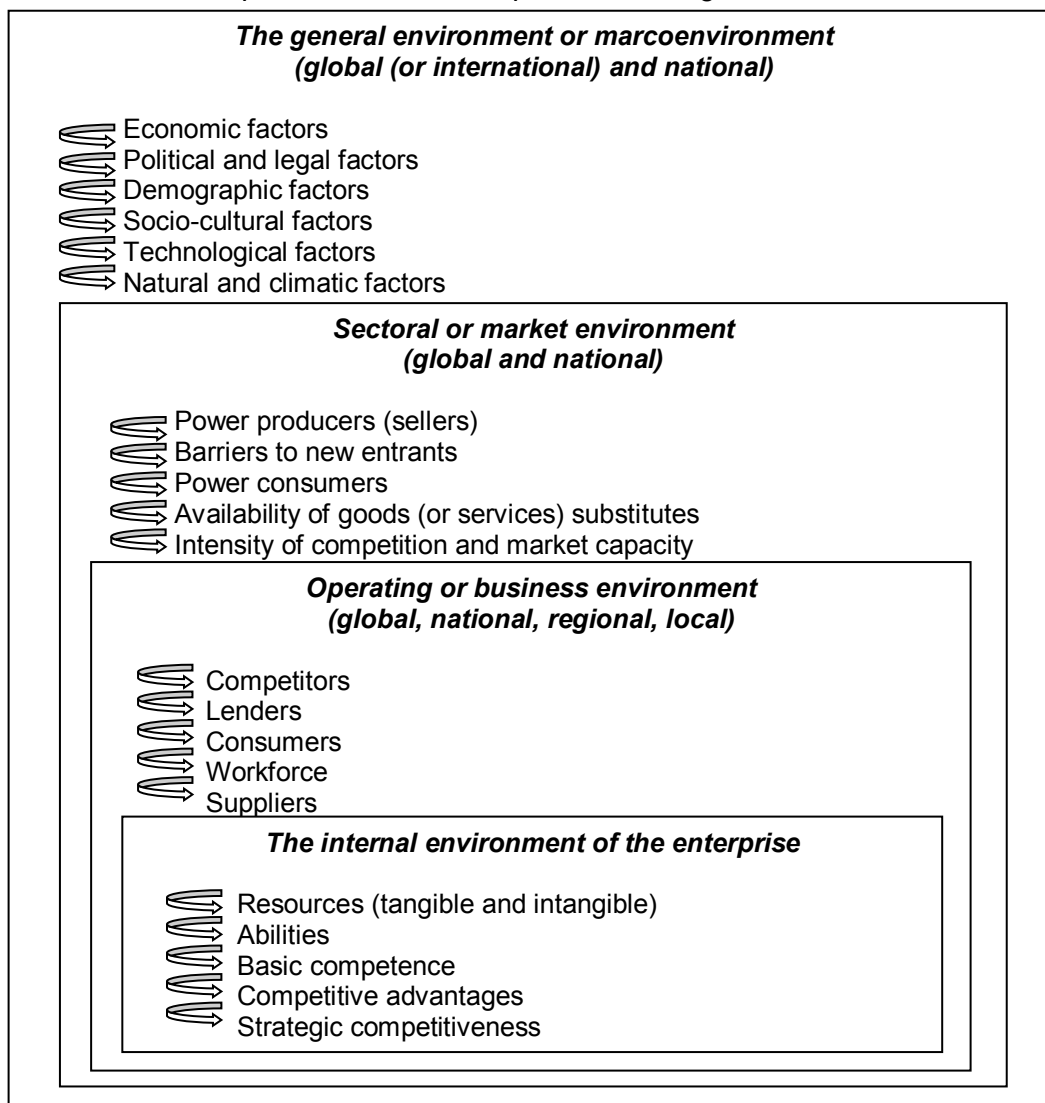


Figure 8: The structure of the enterprise environment⁹

⁹ Hussey D. (2001)

In order to timely identifying changes in the external environment, which directly affect the company's activity in the future, it is necessary to analyze the external environment of the enterprise, which, in turn, consists of several steps, which are represented in table 1.

Name of stage	Tasks
Scanning	Identification of early (weak) signal external changes and trends
Monitoring	Detection and significance of changes in environmental trends through a sequence of observations
Prognostication	Create a project of the expected results based on proven changes and trends
Rating	Determination of time and the importance of external changes in terms of their on the implementation of enterprise strategy and making appropriate management decisions

Table 1: Stages in the analysis of the enterprise environment

So the external environment of the enterprise includes all the conditions and factors that arise regardless of the enterprise's activity and have a significant impact on it. External factors are usually divided into two groups: factors of direct impact (microenvironment) and factors of indirect impact (macroenvironment). But, of course, the external environment can be divided into more detailed types, which represents the data from figure 9.

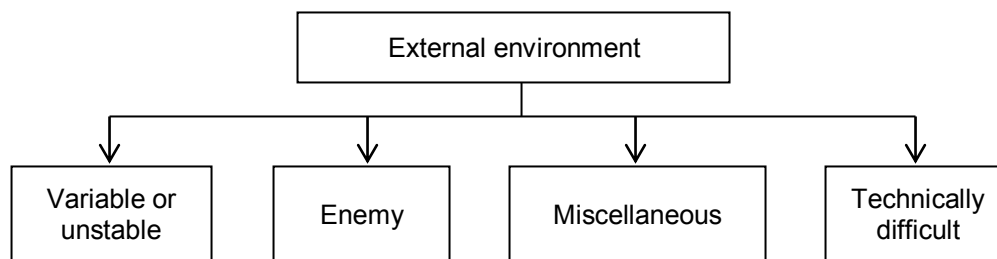


Figure 9: Types of enterprise environment

Thus, there should be mentioned that the enterprise should limit the negative impact of factors of external environment which especially have the most significant impact on its financial performance, and at the same time the firm should make better use of the favorable opportunities from the external environment.

2.2.2 Methods and Models for Strategic Environmental Diagnostics of the Company

2.2.2.1 SWOT-Analysis

The best-known method for analysis of the internal and external environment and assessment of competitiveness of the organization is SWOT-analysis (acronym of the initials of words Strengths, Weaknesses, Opportunities and Threats). It is based on the definition of strengths and

weaknesses of the organization, as well as the opportunities and threats, which allows evaluating the competitive potential of the company and range of strategic issues that the company will face in the future. The methodology of the SWOT analysis is widely known, because it is simple and universal.

In the list of strength and weaknesses, it is necessary to consider many factors, to be more precise, everything that can be of value for the company. There are number of obvious and objective points, which should be explored and described as follows: level of technology development, resource base, especially product, pricing and distribution policy, competitive position, customer value, etc.

List of opportunities and threats also includes environmental factors to which the company may not have a direct influence, but which, in turn, affect the business processes: policy economy, changes in legislation, socio-demographic factors, level of technology, etc.

The main stage of SWOT analysis is not statement of all the factors and their ranking in order of importance and the impact on the company's activity, but their combination, ability to see and find the connections between them and to draw conclusions.

Thus, the result of SWOT-analysis is a matrix of strategic actions:

- SO - actions to be performed in order to use strengths for increasing capacity of the company;
- WO - activities to be carried out, overcoming weaknesses and using presented opportunities;
- ST - activities that use the organization's strengths to avoid threats;
- WT - activities that minimize the weaknesses (table 2).

	Positive Strengths	Negative Weaknesses
Internal	<p>Advantages:</p> <ul style="list-style-type: none"> • Financial reserves, likely returns; • Accreditations, qualifications, certifications; • Competitive advantages. <p>Capabilities:</p> <ul style="list-style-type: none"> • Location and geography; • Innovative aspects; <p>Resources, Assets, People:</p> <ul style="list-style-type: none"> • Culture, attitudes, behavior; • Processes, systems, IT, communications; • Knowledge, experience. <p>Marketing, distribution, awareness</p>	<p>Lack of competitive strengths:</p> <ul style="list-style-type: none"> • Gaps in capabilities; • Disadvantage of position; • Weak brand name. <p>Financials:</p> <ul style="list-style-type: none"> • Cash flow; • High cost structure. <p>Vulnerabilities</p> <p>Timescales, deadlines and pressures;</p> <ul style="list-style-type: none"> • Reliability of data, plan, predictability; <p>Process and system, etc.:</p> <ul style="list-style-type: none"> • Management cover, succession; • Morale, commitment, leadership.
External	Opportunities	Threats
	<p>Market developments:</p> <ul style="list-style-type: none"> • Competitors vulnerabilities; • Niche target market; • New markets; • Unfulfilled customer needs; • New technologies; • Loosening of regulations; • Changing of international trade barriers. <p>Business and product development:</p> <ul style="list-style-type: none"> • Seasonal, weather, fashion influences; • Technology development and innovation; • Industry, lifestyle trends. 	<p>Environmental effects:</p> <ul style="list-style-type: none"> • Seasonal, weather effects; • Economy-home, abroad; • Political effects; • Legislative effects. <p>Market demand:</p> <ul style="list-style-type: none"> • New technologies, services, ideas; • IT developments; • Shifts in consumer tastes. <p>Obstacles:</p> <ul style="list-style-type: none"> • Sustainable financial backing; • Insurmountable weaknesses; • Competitor intentions; • New regulations; • Increased trade barriers.

Table 2: SWOT-analysis of a company¹⁰

¹⁰ Robinson, K.C., McDougall, P.P. (2001)

It should be noted, that filling of the table both with components of strategic potential and resources could significantly vary under changes in the economic situation in the country, changing the purpose of the company and other factors.

Taking into account the data mentioned above there should be specified the certain strategies (figure 10) that would be followed by the company by picking up the right cell gap in the table.

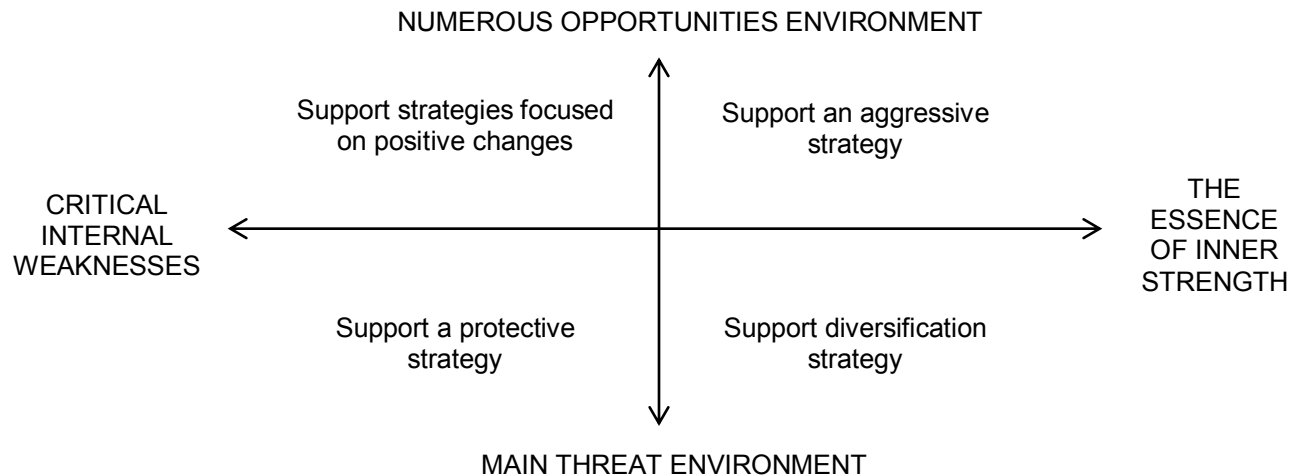


Figure 10: Post SWOT-analysis of recommended strategies diagram¹¹

2.2.2.2 PEST-Analysis

External environment of international business can be analyzed by PEST- (STEP-) analysis. PEST is an acronym for political, economic, social and technological factors that are used to assess the market organization or business unit. PEST-analysis - a useful tool for understanding the market position of the company, potential and direction of the business, which helps head of the company or the analyst to see the picture of external environment of the company, highlight the most important influencing factors.

- **Political** – the government regulations are assessed in terms of their ability to affect the business environment and trade markets. The main issues contain political stability, tax guidelines, trade regulations, safety regulations, and employment laws.
- **Economic** – this factor includes the economic issues that are bound to have an impact on the company. These factors are inflation, interest rates, economic growth, exchange rates and unemployment rate.
- **Social** – with this factor the socio-economic environment of its market can be analysed via elements like customer demographics, cultural limitations, lifestyle attitude, and education. With the help of social factors, a business can understand how consumer needs are formed and what brings them to the market for a purchase.

¹¹ Koch R. (2003)

- **Technological** – how technology can impact on a product or service. These factors include technological advancements, lifecycle of technologies, the role of the Internet, and the spending on technology research by the government (table 3).¹²

Political Factors <ul style="list-style-type: none">•Political stability,•Tax policy,•Employment laws,•Environmental regulations,•Trade restrictions and tariffs.	Economic Factors <ul style="list-style-type: none">•Economic growth,•Interest rates,•Exchange rates,•Inflation rate,•Unemployment rate.
Social Factors <ul style="list-style-type: none">•Health consciousness,•Population growth rate,•Age distribution,•Career attitudes,•Emphasis on safety.	Technological Factors <ul style="list-style-type: none">•R&D activity,•Automation,•Technology incentives,•Rate of technological change.

Table 3: PEST-analysis of environment

Methodology of STEP-environmental analysis gives the greatest result if the analysis is carried out on a regular basis using the same format. In this case, dynamics of indicators of factors and their impact on the enterprise are fixed. As a result, you can get so-called model of company reaction on the combination of macro environment factors.

To get the most out of a PEST analysis, businesses should understand each of the four factors. It is often used in collaboration with other analytical business tools like the SWOT analysis and Porter's Competitive Advantages to give a clear understanding of a situation and related internal and external factors.

2.2.3 Essence and Main Features of Competitive Advantages

Most researchers consider the competitive advantage from the standpoint of the consumer as a feature that gives them a significant advantage or benefit and tend to believe that the basis of competitive advantage must be consumer value, but in modern literature there is no clear definition of the nature of this concept.

Competitive advantages are those characteristics of the enterprise, qualitative or quantitative indicators of its market position, eventually providing the enterprise with revenues exceeding the industry average level and the corresponding revenues of competitors.

There are three groups of factors that provide competitive advantage:

- 1) Excellent quality which is a higher value to customers either by reducing their costs or by increasing the efficiency of the product. Such external competitive advantage of the firm provides increased market power that can force the market to pay a higher price.
- 2) Lower costs of the company due to high productivity.
- 3) Key competences – the specific skills or technologies that create unique value for consumers.

The detailed classification of competitive advantages is presented in figure 11.

M. Porter emphasizes that the source of competitive advantage of the company lies in the way its activities are carried out and reinforce each other. In order to ensure their successful coexistence, we need a clear strategy.

¹² PESTLE Analysis <http://pestleanalysis.com/pest-analysis/>

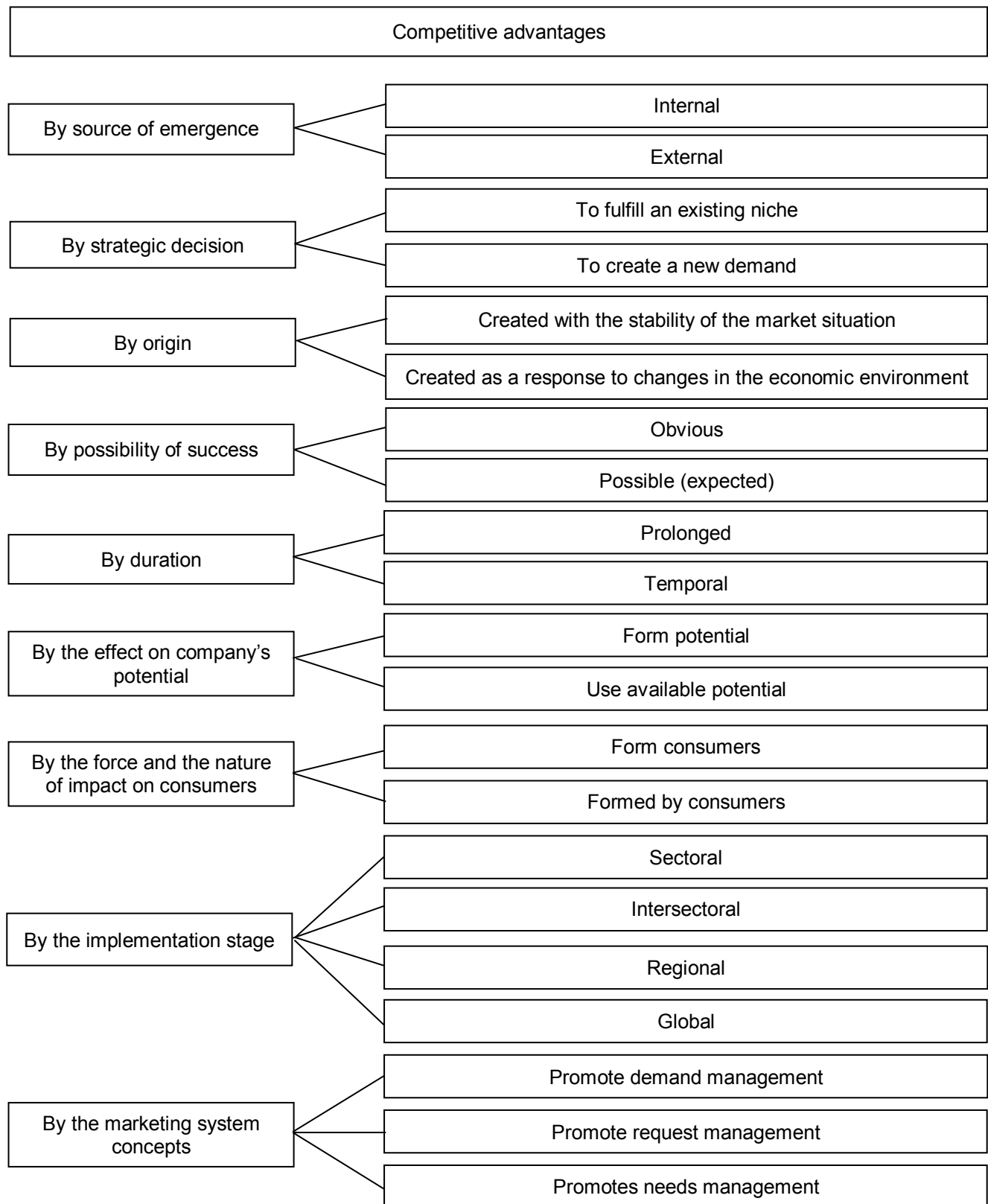


Figure 11: Classification of competitive advantages¹³

¹³ W. Chan Kim, Moborn R. (2008)

It is necessary to distinguish the concept of operational efficiency and strategy. Operational efficiency is the fulfillment of similar operations better than others. A strategic positioning is the implementation of new, other activities or similar activities, but in other ways.

Also Porter defines competitive advantage into 5 types:

- New technologies;
- New consumer demands or those requests that have changed;
- The emergence of a new segment of the industry, usually through development of new products;
- Changes in the cost or availability of component manufacturing;
- Changes in government regulation in areas such as standards, environmental protection, etc.

The main characteristics of competitive advantages are:

- Relativity (can be estimated only by comparing the characteristics affecting the efficiency sales);
- Attachment to scientific market conditions (product that has advantages in price for the same geographic market may not have this advantage elsewhere);
- Dependence on the effects of many uncontrollable heterogeneous factors (e.g. modern technology helps to create advantages in the design, quality, but may increase the price of the product due to high costs of acquisition).

Thus, competitive advantage is the presence of certain resources that make an enterprise more competitive with other companies that function/ may function in the same area.

The bases of competitive advantage are firm resources – technical, technological, human, financial, information, managerial, organizational, etc.

But the competitive advantage is not just the presence of these resources but, above all, effective use of all resources, their successful combination.

Therefore, an important focus is creating competitive advantage by developing an effective strategy which will be based on the unique positioning of the company, targeting the unique activities. That is what has to provide a long-term competitive advantage.

2.3 International Market Entry Strategies of the Enterprise

2.3.1 Export

According to Hollensen¹⁴ there are 3 different types of international market entries that the company can choose to perform:

- Export (doing business from home);
- Contractual modes (doing business with host partner) and
- Investment modes (doing business on your own).

Export modes are those modes that are at least risky (low financial investment and low management resource commitment). This connotes however the lowest level of control of foreign businesses. Additionally, companies involved in export have the greatest level of flexibility which allows the company to change or adopt its international strategy.

Contractual modes on the other side share control and risk with the host partner. Because control and risks are shared, the flexibility cannot be as high as in the case of exports, what is one drawback of this strategy.¹⁵

¹⁴ Hollensen et al. (2011)

¹⁵ Hill et al. (1990)

The highest level of commitment and risk is linked to investment modes. However, this strategy allows MNEs to have full control of their foreign operations and of course, to have profits for themselves.

Even though engaged with international markets, exporting is characterized by lowest amount of investment in those markets. The company uses this type of entry mode usually when it does not have international experience or simply chooses not to internationalize through other market entry strategies, because the only goal is to increase sales (and not market shares). Exporting is characterized by local production (in the country where the company operates) and then by exporting its products to international markets. The company can also choose to produce in other country if manufacturing costs are lower. Direct exporting means that the products are exported directly through the company whereas indirect exporting involves the third party and the company is not directly involved.

The practice of indirect exports is most common among companies that are just beginning their export activities. Firstly, it requires less capital investment. Company does not have to acquire abroad own vending department or establish network of contacts. Secondly, it is associated with a lower risk. International mediators are domestic trader exporters, domestic export agents or cooperative organizations, which contribute to this activity their specific professional knowledge, skills and services, and so the seller, as a rule, makes less mistakes.

In both cases, the company produces all its products in its own country. It can offer export in modified or unmodified form. The advantage of this strategy is that it requires minimal changes to the product range of the company, its structure, capital expenses and program of activities.

The main advantages of exporting are:

- allows a firm to enter the foreign market quickly;
- often involves less financial exposure;
- permits a firm to enter a foreign market gradually, and in this way allows it to assess local conditions and fine-tune its products to better suit the needs of the customers in the host country.

The disadvantages are:

- little control over marketing and distribution in the host country;
- can quickly lose market to other firms;
- in case of many goods, transportation costs may be high rendering the exported products too expensive for host markets.

2.3.2 Contractual modes

The strategy of licensing/ franchising or creating joint ventures is based on a combination of its efforts and business partner country in order to create production and marketing capacity. In contrast to the export, in the joint business partnership is formed, which results in certain power generated abroad.

In these entry modes the company gives the licensee/franchisee a right to use its proprietary (of course the payment is required). In franchising, the franchisor gives the right to the franchisee to use entire business concept. The franchisee has a close working relationship with franchisor (extension of a parent company). This is not the case in licensing because licensee holds the right to only some elements of the business.

In turn, joint venture is a partnership between two or more parties, who create a child company. This is one of the most common strategies if the company is not willing to take the risk on its own but rather to share it with the local partner.

The strategy of joint ventures requires choosing the best business system with foreign partners:

- Licensing; licensor makes arrangements with the licensee in the foreign market, offering the rights to use the manufacturing process, trademark, patent, trade secret, or some other value meaning in exchange for a fee or royalty;
- Contracting production, i.e. contracting with local manufacturers to produce goods;
- Contract management, i.e. company provides foreign partners with 'know-how' in the field of management, and that ensures the necessary capital;
- Joint ownership of the company: joint efforts of local and foreign capital investors to create a local business, which they own and operate together (table 4).

Company strategy for entering the foreign market, which provides the most complete involvement of its activities on it, is to put capital into creating their own enterprises abroad, which have two variants:

- Assembly enterprise (the last stage of the production cycle is transferred abroad);
- Production enterprise (when the entire production process is carried out abroad).

Type	Advantages	Disadvantages
Licensing	1) One of the easiest ways to enter foreign markets; 2) Licensor gets market entry with minimal risk; 3) Licensee does not have to start from nothing, immediately gets work experience, a well-known product and name.	1) Company has less control over the licensee, than on his newly established enterprises; 2) Company may create a competitor by itself.
Contracting production	1) Ability to expand its activities on international market more quickly, with less risk and with the prospect of entering into a partnership with a local manufacturer or buying his company.	1) Company controls production process less; 2) It is fraught with the loss of the related production of potential profits.
Contract management	1) Minimal risk and income from the very beginning of its activity.	1) To enter the foreign market the company should have an adequate staff of qualified managers; 2) Contract management for a while deprives companies the ability to expand their own company.
Joint-ownership venture	1) Company may not have enough financial, physical or managerial resources to implement project alone; 2) It's only one way the foreign government allows to enter the market of the country.	1) Partners belonging to different countries may differ in opinion on issues related to investment, marketing and other operating principles. ¹⁶

Table 4: Pros and cons of different contractual modes types

With the accumulation of experience of export performance and with sufficiently large volume of export market, production enterprises promise to bring clear benefits.

One of the benefits of this strategy is that company can save money due to cheaper labor or cheaper raw materials due to benefits provided by foreign governments to foreign investors, by reducing transportation costs, etc. Furthermore, by creating workplaces in the country-partner, company provides more favorable image in the country.

¹⁶ Doyle P. (1999)

2.3.3 Investment modes

Applying the strategy of direct investment, company establishes a deeper relationship with public authorities, customers, suppliers and distributors of the country, on the market, which it enters. This allows adapt their products to the local marketing environment in a better way.

Finally, an important feature of direct investment is that when company implements it, it retains complete control over their investments and, therefore, can develop such political attitudes in the field of production and marketing, which will meet its long-term objectives on an international scale.

The process of internationalization of the individual enterprise may be at different stages / levels of development and proceed in various forms of business activity abroad.

When deciding about entering the international market, it is necessary to take into account position of the company in domestic market, assess their competitive advantages, analyse environment and competition on this market.

Main advantages and disadvantages of key entry modes are represented in table 5.

Indirect exporting	Direct exporting	Licensing	Investment entry
Advantages			
Low start up costs	Low start up costs	Low transportation costs	Low production and transportation costs
Risk sharing	Full control	Risk sharing	High control
Demanding little market Knowledge	Marketing advantages	Demanding little market knowledge	Marketing advantages
International learning Experience	Full protection of Trademarks	Access to resources and local customers	Access to resources and local customers
Easy to stop	Easy to stop	No import restrictions	No import restrictions
Disadvantages			
High transportation Costs	High transportation Costs	Lack of control	High start up costs
Profit sharing	High risk	Profit sharing	High risk
Import restrictions	Needed market knowledge	Risk of creating a competitor	Needed market knowledge
	Import restrictions	Technology and trademark sharing	Long payback period
		Cannot use other entry mode during license	Difficult to quit

Table 5: Pros and cons of different entry modes types

Also talking about investment modes, there should be mentioned that WOSs are the highest investment modes and therefore performed by companies who want to be on their own in international market (full ownership).

Two ways of creating WOSs can be following:

- 1) Acquisition: taking over the local company;
- 2) Greenfield: building the new company.¹⁷

¹⁷ Saric N. (2014)

3. Interpipe: Analysis of Activity on the Domestic and Foreign Markets

3.1 Ukrainian Pipes and Wheels Market: Current State and Prospects

The important feature of pipe production in Ukraine is that fact that a long time ago this sector was created within the former single economic space in USSR, and it was focused on the need Russia and other republics first of all. As a result, Ukrainian pipe production now has a clear export orientation. Today, the total degree of Ukrainian pipe plants loading is about 30%, while more than 80% of their production is exported.

In the structure of domestic consumption the steel pipes in the fields of material production industries make up over 55% and below 45% for other areas of material sector. In the group of industries the largest share in the structure of consumption of steel pipes have such industries as mechanical engineering and metal - 36%, ferrous metallurgy - 25%, fuel and energy sector - 24%, all other industrial sectors - 15%. In the group of other sectors within the sphere of material production the most significant users of pipe products are construction industry, agriculture and transport, whose share in the structure of consumption is respectively 30%, 10% and 5%.¹⁸

The pipe production in Ukraine is represented by 8 specialized pipe enterprises that are concentrated in three eastern regions of Ukraine: Dnipropetrovsk, Donetsk and Lugansk.

The Ukrainian pipe companies' production rates are performed in figure 12.

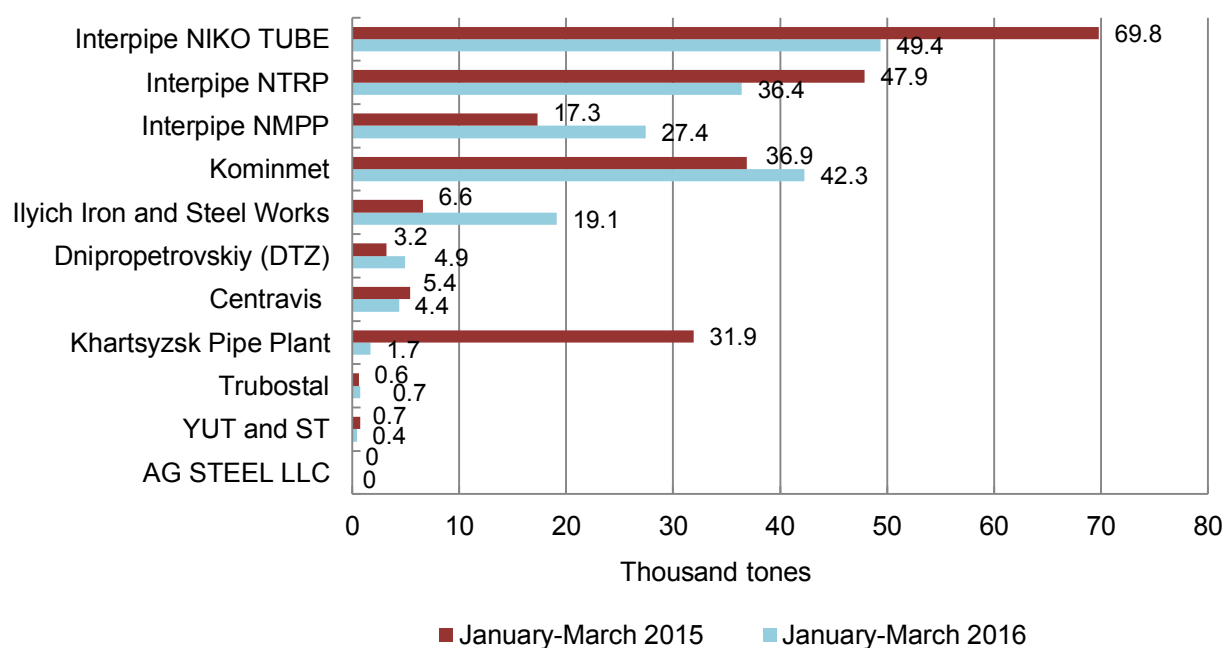


Figure 12: Ukrainian pipe companies' production rates¹⁹

¹⁸ Pruschkivskii V.G. (2013)

¹⁹ KyivPost, August 12, 2016

Regarding to the data which is represented in figure 12, there can be concluded that Ukrainian pipe manufactures saw a drop in production in the first quarter of 2016 compared to 2015, due to the fall in global steel and oil prices and consequent decrease in demand from the Russian market.

So Interpipe is an international vertically integrated steel pipe and railway wheel company which is in the TOP-10 world producers of seamless pipes and is the third largest manufacturer of solid-rolled railway wheels in the world. The company structure includes five industrial assets: NTRP, NMPP, NTC, Niko Tube and Interpipe Vtormet.²⁰

Also there should be mentioned that Interpipe's principal production companies are NTRP, NMPP, NTC and Niko Tube. NTRP is responsible for all of Interpipe's wheel production and also produces seamless pipes as well as some welded pipes, while NMPP concentrates on manufacturing welded pipes. Both NTC and Niko Tube produce seamless pipes.²¹

Interpipe's production facilities are located in the Dnepropetrovsk region, in the heart of Europe, close to highly-developed infrastructure and, in terms of logistics, well-connected to serve the fastest growing markets via the Black Sea ports.

The company's sales geography is well diversified. Interpipe supplies tubular and wheel products to clients from 80 different countries all around the world via its wide sales offices network, located in the key markets of the CIS, Middle East, North America and Europe.

Interpipe sells its wheel products to a diversified customer base, with 81 customers located in 24 countries. These include companies involved in oil and gas production and transportation, machinery-building enterprises, construction firms, manufacturers of fabricated metals, companies supplying water and gas pipelines, mining and power industry companies and other industrial and municipal firms.²²

The key directions of increasing pipe business sales volumes are the markets of North and South America, and MENA. As an attractive markets for the development of its wheel business Interpipe considers the region of North America and Europe.²³

Key market representative companies in the world are Interpipe Ukraine, Interpipe Europe SA, Interpipe M Russia, Interpipe Central Trade, GmbH Germany.

The current trends of Ukrainian pipe market are the following:

- the requirements of the Ukrainian pipe market are largely satisfied by domestic producers, with imports accounting for approximately 10 % of the total sales in 2015;
- in 2015 approximately 80% share in OCTG segment of Ukrainian market was covered by home companies. The remainder of this segment was highly fragmented and was primarily covered by non-Ukrainian producers;
- in 2015 the major competitor of Interpipe in seamless transportation line pipe segment was Ilyich Iron and Steel Works. The remainder of this segment was also highly fragmented and was primarily covered by non-Ukrainian producers;
- in 2015 the major competitors of Interpipe in seamless industrial pipe segment were Dnipropetrovskiy (DTZ) and CJSC Nikopolsky Steel Pipe Plant (YUT and ST);
- in 2015 the major competitors of Interpipe in special application seamless pipes segment were also DTZ, and YUT and ST;
- in 2015 Interpipe was a monopolist in steel segment of certain high margin products, such as rollers tubes and pipes for submerged pump stations and for boilers.²⁴

²⁰ Interpipe pipe plants will reduce the output of products in 2015 http://delo.ua/business/trubnye-zavody-interpajpa-v-2015-godu-snizjat-vypusk-produkcii-295725/?supdated_new=1469442922

²¹ Interpipe Annual Report of Financial Accounting Results (2007)

²² Interpipe – Steel and Seamless Pipes for the Mining Industry <http://www.mining-technology.com/contractors/cables/interpipe-europe/>

²³ About Interpipe company – <http://interpipe.biz/en/company/about>

²⁴ Interpipe Annual Report of Financial Accounting Results (2007)

Taking into account the most severe conditions of survival of steel industry in Ukraine, the basis for its further development should be extremely innovative way, involving the construction of new high-tech industries, which should be based on the creation of products with high added value. At the same time, the innovative development of the steel industry is impossible without the improvement of steel enterprises, which still have high investment attractiveness in technological, structural and organizational spheres of the production process. The new generation of enterprise can be more environmentally friendly, energy efficient and technologically advanced, with a high level of adaptation to market conditions and consumer needs.²⁵

3.2 General Information about Interpipe Company

3.2.1 Interpipe Market position in Ukraine and Abroad

Assessing the market position of Interpipe on the domestic manufacturers market there should be noted that the company is a leader in Ukraine among the producers of seamless pipes. Its share in the total volume of produced pipe products in Ukraine is about 18% (405 ths tons).²⁶

Talking about the company's market share in the railway wheels and tires segment, Interpipe is the only producer of railway wheels in Ukraine and the third largest wheel producer in the world. It is also the second largest producer of forged railway wheels in the world.²⁷

Also there should be mentioned that Interpipe is ambitious exporting company, whose sales in the world market increased by over 10% annually for the past five years. Worldwide market share of the company is above 4% and the share of manufactured wagon wheel is close to 13%.²⁸

Interpipe produces approximately 3,000 different sizes of pipes, which can be divided into four main categories by reference to usage: seamless OCTG (used for oil and gas exploration and production), transportation line pipes (used for oil and gas transportation), industrial pipes (used in a large variety of infrastructure and industrial applications) and special applications pipes (used in various applications by the machine-building, power and heat generation and petrochemical industries, among others).

Interpipe produces railway wheels and tyres of approximately 240 different designs. Its product line includes an extensive range of forged wheels used for freight cars, passenger carriages, locomotives and underground trains. Its wheel business also produces tyres for wheel sets used on locomotives, underground trains and trams.²⁹

What about the Interpipe's principal competitors in the international seamless pipe markets, they are the following:

- Tenaris, generally regarded as the world's largest supplier of seamless pipes, with a focus on oil and gas, energy and other industries. Tenaris has manufacturing facilities in Argentina, Venezuela, Mexico, Canada, Italy, Romania and Japan;
- V&M, a Franco-German venture with mills in Brazil, France, Germany and the US. V&M has a strong presence in the European market for seamless pipes for industrial use and a significant market share in the global market with customers primarily in Europe, the US, Brazil and the

²⁵ Besarab S.A. (2014)

²⁶ Annual Report of NTRP (2011)

²⁷ Interpipe Annual Report of Financial Accounting Results (2007)

²⁸ Our Technical Partners <http://www.finnergng.com/our-technical-partners/>

²⁹ Interpipe Annual Report of Financial Accounting Results (2007)

Middle East. V&M is an important competitor in the global OCTG market and in the market for special machinery pipes for use in power generation industry;

- Sumitomo, based in Japan, has established a strong position in the Far East and Middle East markets. It is internationally renowned for the high quality of its products and for its supply of high-alloy grade pipe products.

Also there should be mentioned that Interpipe also competes with the following seamless pipe producers based predominantly in Russia:

- TMK, based in Russia, is the largest manufacturer of steel pipes in Russia. TMK operates four pipe mills in Russia and one pipe mill in Romania, supplying its products primarily to major Russian oil and gas companies, as well as to international customers. TMK sells approximately 71.0% of its total output in Russia;

- ChTPZ Group, based in the Urals region of Russia, which includes JSC Chelyabinsk Tube Rolling Plant and JSC Pervouralsky Novotrubny Works, is one of the largest producers of steel pipes in Russia. ChTPZ Group sells approximately 90.0% of its total output domestically.

Talking about the global markets for railway wheels, there Interpipe's main competitors are the follows:

- Griffin Wheel Company ('Griffin'), the U.S.-based producer of railway wheels with additional production facilities in Canada. Griffin is the world's largest producer of railway wheels. But it's worth to be mentioned that Griffin only produces cast wheels and supplies its products mainly to the NAFTA countries;

- VMP, the world's second largest wheel producer. VMP is located in Russia and supplies approximately 85.0% of its products to the Russian domestic and to other CIS markets;

- Maanshan, the world's fourth largest wheel producer. Maanshan is located in China and primarily sells its products to the domestic Chinese market and also supplies its products to the US and India;

- NTMK, the world's fifth largest wheel producer. NTMK is located in Russia and focuses exclusively on the Russian domestic market.³⁰

3.2.2 Current Business Development Strategy of Interpipe Company

Interpipe's key strategic objectives are to diversify its geographical presence and product mix even more in order to enhance its position as a leading producer of pipes and wheels on such priority markets as Europe, North and South America, MENA. These regions are of strategic importance for the company's development, and that is why company intends to preserve the positive dynamics of pipe product sales at these markets in near future.³¹

The company intends to pursue this strategy by increasing its seamless pipe and wheel production, enhancing its product mix and decreasing its costs to improve its profit margins, expanding its global presence and working more closely with its customers to deliver higher value-added products and services.³²

In the pipe sector, Interpipe intends to focus principally on higher value-added seamless pipe products such as premium OCTG pipes and high quality steel billets. In addition, the company intends to increase its output of seamless special applications pipes for use in the energy sector and in machine building. Within the welded pipe market, it plans to concentrate on the realization

³⁰ Interpipe Annual Report of Financial Accounting Results (2007)

³¹ Interpipe Customer Bulletin #1(5), 2014

³² Interpipe Annual Report of Financial Accounting Results (2007)

of technologically sophisticated welded pipes namely sour service pipes for transportation of oil and gas for sale to export markets, which by the way is a new solution for oil and gas companies. In its wheels business, Interpipe plans to continue building on its success in the global markets by expanding its sales of company's new wheel brand KWL to the regions outside the CIS, while increasing its wheel production capacity by removing production bottlenecks and by making limited investments into finishing and quality control equipment for the production of higher value-added wheel products.³³

So Interpipe plans to achieve its overall strategic aims by:

- Expanding its pipe product mix;
- Strengthening own position in domestic, CIS and global markets; to focus on growth opportunities in MENA region, Europe, NAFTA countries, while expanding its presence in other than Russia CIS countries, in particular in Kazakhstan;
- Increasing the capacity and efficiency of its pipe and wheel production through a strategic investment program;
- Increasing vertical integration;
- Improving operational efficiency through the steady increase of its capacity levels while reducing per unit costs through implementation of a recently launched operational efficiency program at its principal production facilities, NTRP, NTC and Niko Tube;
- Focusing expansion of the welded pipes business.³⁴

In this way, Interpipe company is consistently implementing a lot of development strategies aimed on increasing the competitiveness of the products and strengthening the company's position on the key markets (table 6). There also should be mentioned that the company's main strategic directions are the introduction of new developments into production, equipment modernization, expansion of product mix, further enhancing of its quality, operational and consumer characteristics.³⁵

Sales Strategy	Economic Strategy
1) No deliveries to Russia because they have become unprofitable because of devaluation of the ruble and the anti-dumping duties. ³⁶	1) Reducing the amount of debt burden to a sustainable level; ³⁷ 2) Using of the 'just-in-time' approach regarding to inventory and finished products; 3) Using more effective and transparent procurement; 4) Managing to increase the payment discipline of the customers; 5) Carrying out timely payments to suppliers; 6) Consuming efficiently the metal in the manufacture of pipes and wheels; 7) Increasing energy efficiency. ³⁸
Investment Strategy	Technological Strategy
1) Implementing additional services and expanding of machining capacities; 2) Building new lines for wheel products on export markets; 3) Improving wheels finish-machining and increasing its	1) Lathes for increased output; 2) Finish machining of bore in the wheel hub for mounting of wheels; 3) Bore drilling of the disc for the installation of brakes disc; 4) Coating with operating covers; 5) Modernization of wheel control and acceptance stand; 6) Shot-blast machine; 7) New control measuring equipment. ⁴⁰

³³ Interpipe Customer Bulletin #1(5), 2014

³⁴ Interpipe Annual Report of Financial Accounting Results (2007)

³⁵ Besednov S.V. (2010)

³⁶ Ukrainian Interpipe stops export of pipes to Russia <http://uaposition.com/latest-news/ukrainian-interpipe-stops-export-of-pipes-to-russia/>

³⁷ Interpipe Industrial News (2015)

³⁸ Interpipe Company News <http://www.interpipe.biz/en/media/newsone/242/www.interpipe.biz>

capacity. ³⁹	
IT Strategy	HR Strategy
1) Building a unified IT system through uniting both production facilities and the managing company in a common information field. ⁴¹	1) Reduction of employees in order to bring the number of workers in the line with the actual production volume; ⁴² 2) Team of international experts aims to centralize the management of production, improve efficiency and to finish the production functions in accordance with the structure adopted by international companies; ⁴³ 3) Hiring young specialists without industrial experience but capable of training and self-development. ⁴⁴

Table 6: Interpipe's Current Business Development Strategies

The company's focus of efforts in 2016 is production efficiency increase. This task is entrusted to a team of production managers, invited to the Interpipe company from the world's leading pipe industry companies. Interpipe also continues to invest in expanding own production and developing new products.⁴⁵

3.2.3 Analysis of Interpipe activity in 2014-2015

The main sources of information for in-depth analysis of company's financial and economic activity are:

- Balance sheet (Form №1);⁴⁶
- Income Statement (Form №2)⁴⁶ (Appendix)⁴⁷.

The dynamics of certain data, namely the absolute levels of the company such as revenue from sales, cost of production and sales (cost), the results of implementation, retained earnings and net income for the period 2014-2015 is summarized in table 7.

Indicator	2014	2015	Deviation 2015/2014	
			Absolute	Relative
	Ths. USD			%
Net income from sale of products (goods, works, services)	348 162	347 282	(880)	99.75
Cost of sold products (goods, works, services)	(303 654)	(288 053)	(-15 601)	94.86
Gross: profit/ loss	44 508	59 229	14 721	133.08
Other operating income	211 430	238 468	27 038	112.79
Administrative expenses	(15 704)	(14 486)	(-1 218)	92.24
Selling expenses	(22 613)	(25 988)	(3 375)	114.93

⁴⁰ KLW customer newsletter #4, 2015

³⁹ KLW customer newsletter #4, 2015

⁴¹ Interpipe Industrial News (2015)

⁴² Interpipe Company News <http://www.interpipe.biz/en/media/newsone/242/www.interpipe.biz>

⁴³ KLW customer newsletter #4, 2015

⁴⁴ Ukraine: Interpipe hiring specialists with no experience <http://metallukraine.com/2016/07/12/ukraine-interpipe-hiring-specialists-with-no-experience.html>

⁴⁵ Interpipe Company News <http://www.interpipe.biz/en/media/newsone/242/www.interpipe.biz>

⁴⁶ Information database of issuers <http://smida.gov.ua/db/emitent/search>

⁴⁷ Consolidated financial statements data includes data of three plants: NTRP, NMPP and Interpipe Vtormet. Data concerning business activity of plants NTC and Niko Tube is not available; because of these companies have the form of Closed JSC.

Other operating expenses	(247 495)	(246 002)	(-1 493)	99.40
The financial results of operation activity: profit/ loss	(29 874)	11 221	41 095	37.56
Other financial income	0.6	0.1	(0.5)	16.67
Other income	1 555	3 283	1 728	211.13
Financial costs	(23 672)	(33 621)	(9 949)	142.03
Loss from equity	(6)	0	(-6)	0
Other expenses	(483)	(915)	(432)	189.44
Financial result before taxation: profit/ loss	(52 479)	(20 032)	(-32 447)	38.17
Expenses (income) from income tax	6 761	2 115	(4 646)	31.28
Net financial result: profit/ loss	(45 718)	(17 917)	(-27 801)	39.19

Table 7: Indicators of Interpipe company activity, 2014-2015

The data presented in table 7 shows that the company began to have a little less positive trend by decreasing the volume of its activities, such as a light reduction of net income from sales in 2015 compared to 2014 to 99.75%. But regarding to the gross profit the company has definitely a positive trend (to 133.08%). There is an increase of the net profit in 2015 (although its stays negative) to 39.19% (corresponds to -17 917 ths. USD).

The more detailed economic analysis of the enterprise is performed in table 8.

Indicator	2014	2015	Deviation 2015/2014	
			Absolute	Relative
	Ths. USD			%
Non-current assets	139 147	142 349	3 202	102.30
Intangible assets	222	288	66	129.73
Fixed assets	128 596	126 726	(1 870)	98.55
Current assets	306 701	408 624	101 923	133.23
Inventories	41 974	26 018	(15 956)	61.99
Receivables for goods, works, services	147 906	219 682	71 776	148.53
Accounts receivable	83 002	42 766	(40 236)	51.52
Cash and cash equivalents	4 201	1 282	(2 919)	30.52
Future expenses	86	39	(47)	45.35
Total	445 848	550 973	105 125	123.58

Table 8: Dynamics and structure of assets of Interpipe company, 2014-2015

Table 8 shows the data of the assets of the company and their changes for the last 2 year. In 2015 there was an increase of assets compared with 2014, the assets of the company increased by 23.58%. For the same period the non-current assets of the company increased by 2.3% and current assets increased by 33.23%. So the overall asset growth was mainly driven by an increase in current assets.

Also there was a growth in such indicators as intangible assets (29.73%) and receivables for goods, works, services (48.53%). So there should be concluded that the overall growth of non-current assets was driven by an increase in intangible assets and the growth of current assets was driven by an increase in receivables for goods, works, services. Looking through other indicators of company's assets there can be seen that there is a drop in fixed assets by 1.45%, inventories by 38.01%, accounts receivable by 48.48%, cash and cash equivalents by 69.48% and future expenses by 54.65%.

The structure of company's assets is presented in figure 13.

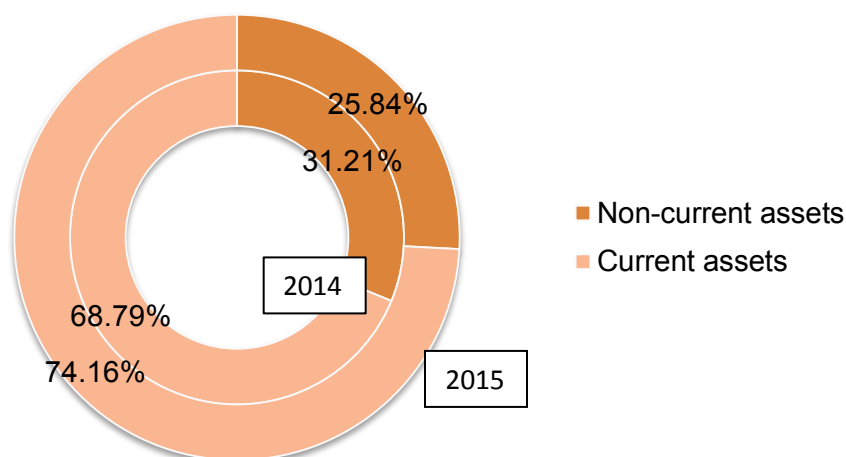


Figure 13: Interpipe assets structure, 2014-2015

The main share in the structure of company's assets in 2014 and 2015 takes current assets, and their share in 2015 increased by 5.37%. The share of non-current assets decreased respectively by 5.37% from 2014.

In table 9 there can be seen the liabilities of Interpipe company.

Indicator	2014	2015	Deviation 2015/2014	
			Absolute	Relative
	Ths. USD			%
Ownership capital	118 575	100 602	(17 973)	84.84
Registered (share) capital	8 265	8 265	0	0
Additional capital	7 001	6 935	(66)	99.06
Reserve capital	437	622	185	142.33
Undistributed profit (uncovered loss)	41 063	31 935	(9 128)	77.77
Long-term liabilities and provision	84 772	127 917	43 145	150.90
Deferred tax liabilities	185	0	(185)	0
Pension liabilities	1 117	1 170	53	104.75
Long-term provision	615	666	51	108.29
Current liabilities and provision	242 501	322 454	79 953	132.97
Short-term bank loans	52 065	84 914	32 849	163.09
Current payables	94 502	89 514	(4 988)	94.72
Current provision	988	1 375	387	139.17
Total	445 848	550 973	105 125	123.58

Table 9: Dynamics and structure of liabilities of Interpipe company, 2014-2015

Table 9 shows that the indicators of its ownership capital are positive. For the last 2 years company had positive indicators of the ownership capital. It means that the company has small amount of long term and current liabilities.

The structure of company's liabilities is presented in figure 14.

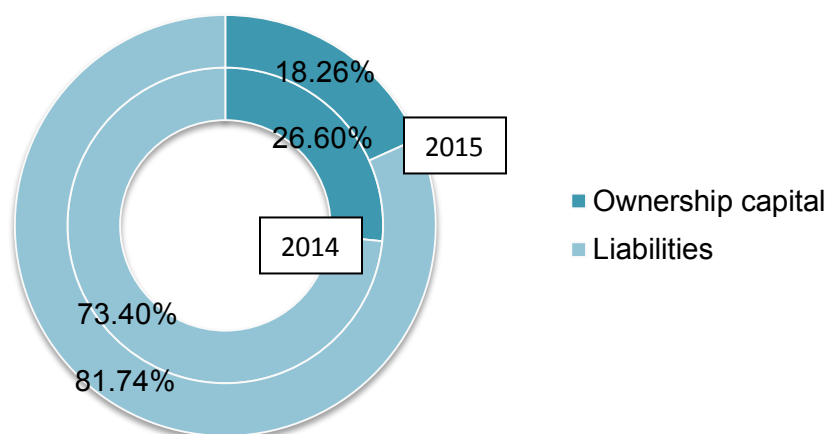


Figure 14: Interpipe liabilities structure, 2014-2015

The main share in the structure of company's overall liabilities in 2014 and 2015 takes liabilities, and their share in 2015 increased by 8.34%. The share of ownership capital decreased respectively by 8.34% from 2014.

The structure of company's current and long-term liabilities is presented in figure 15.

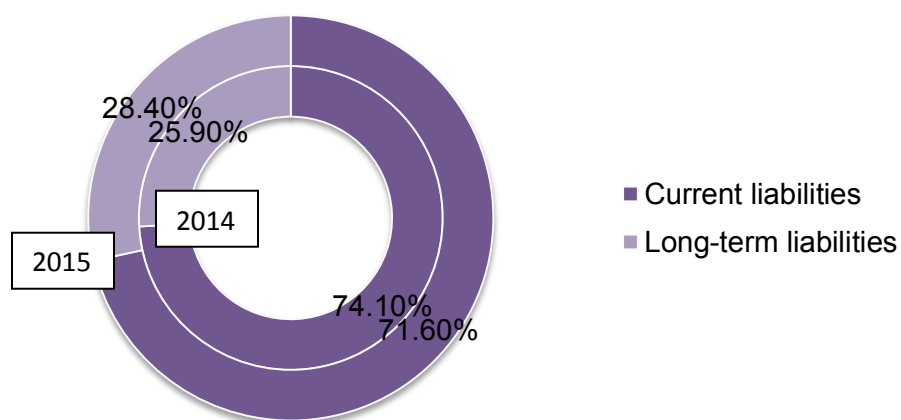


Figure 15: Interpipe current and long-term liabilities structure, 2014-2015

The main share in the structure of company's liabilities in 2014 and 2015 takes current liabilities, and their share in 2015 decreased by 2.5%. The share of long-term liabilities increased respectively by 2.5% from 2014.

The results of the financial state of the company are necessary for development of plans and forecasts of its financial recovery. The financial state of the company is forming as a result of all

kinds of its activities. Therefore, the assessment of the financial state can be made only with the help of complex, system of indicators which in detail and comprehensively characterize the economic situation of the company.

One of the key indicators of the assessment of the financial state of the company is solvency ratio indexes. They include current solvency ratio, fast solvency ratio, absolute solvency ratio, ratio of current accounts receivable and payable, ratio of current accounts receivable and payable of commercial agreements.

The results of solvency indicators' analysis of Interpipe company are given in table 10.

Indicator	2014	2015
1. The current solvency ratio	1.27	1.27
2. The fast solvency ratio	1.09	1.19
3. Absolute solvency ratio	0.004	0.004
4. Ratio of current accounts receivable and payable	2.73	4.22
5. Ratio of current accounts receivable and payable of commercial agreements	2.98	6.56

Table 10: Solvency ratios of Interpipe company

The current solvency ratio is within the normal range (1-3), which indicates that the debt on short-term (current) financial liabilities can be met by all current assets. The fast solvency ratio is sufficient (above 0.6); and shows the payment opportunities of the enterprise to repay current liabilities provided timely settlements with debtors. Absolute solvency ratio is below the theoretical normal range (0.2-0.3), indicating that the company will not be able to repay all short-term liabilities immediately, without waiting for payment of receivables and the realization of other assets. Ratio of current accounts receivables and payables shows that the company has more receivables than payables, which assumes that contractors do not pay for their bills. Ratio of current accounts receivables and payables of commercial agreements in 2014 and 2015 are more than 1, indicating that the company's receivables for products, goods, services are always higher than payables on long-term commitments on products, goods, services that, in turn, negatively affect the company's financial condition.

The results of financial stability indicators' analysis of Interpipe company are given in table 11.

Indicator	2014	2015
1. The financial autonomy ratio	0.27	0.18
2. The ratio of financing	2.76	4.48
3. The debt ratio	0.73	0.82
4. The long-term financial independence ratio	0.46	0.42
5. The current debt ratio	0.54	0.59
6. The agile equity ratio	-0.17	-0.42

Table 11: Financial stability ratios of Interpipe company

The financial autonomy ratio is less than the normal value (0.5) and characterizes the degree of enterprise's dependence on external borrowing. The value of the ratio of financing speaks about the negative trend in the enterprise's financial independence. The debt ratio theoretically exceeds normal value (0.5). The growth of this index leads to an increase in the proportion of borrowed funds in the financing of the enterprise. Thus, the value of this ratio reflects the fact that the company is currently still cannot completely abandon the loan capital and self-financing. The long-term financial independence ratio shows that the enterprise because of ownership equity and long-term liabilities began to lose some independence in dealing with its business transactions. The current debt ratio has upward trend, indicating that the financial activities of the

company is more related to its current liabilities. The agile equity ratio is negative, since the amount of equity capital of the enterprise during the reporting period is less than the sum of its fixed assets.

The results of business activity indicators' analysis of Interpipe company are given in table 12 and table 13.

Indicator	2014	2015
1. Ratio of assets turnover	0.87	0.70
2. Ratio of current assets turnover	1.35	0.97
3. Ratio of inventory turnover	7.61	8.47
4. Ratio of accounts receivable turnover	1.63	1.09
5. Turnover period of assets, days	211	262
6. Current assets turnover period, days	136	189
7. Turnover period of inventories, days	25	22
8. Turnover period of accounts receivables, days	113	168
9. The length of the operational cycle, days	138	190

Table 12: Assets turnover ratios of Interpipe company

Ratio of assets turnover has a downward trend, while the value of current assets turnover ratio confirms that each unit of current assets over the past 2 years brings less money per unit of the output. The value of inventory turnover ratio tends to increase, indicating that inventories of the enterprise reduced, which in turn has a positive effect on its financial condition. The value of accounts receivable turnover ratio tells about the relative value of the deterioration speed of receivables.

The coefficients from 5 till 9 in table 12 reflect the rate of turnover of the company's assets, which, in turn, depends on the organic composition of capital (the ratio of non-current and current assets). The greater the proportion of non-current capital in its total amount, the slower it rotates, and vice versa, with the increase in the proportion of total current assets accelerated capital turnover. Based on the values of these coefficients there can be said with certainty that the share of non-current capital in the total capital amount of the enterprise is not significant.

Indicator	2014	2015
1. Ratio of capital turnover	0.87	0.70
2. Ratio of ownership capital	2.45	3.17
3. Ratio of borrowed capital turnover	1.36	0.89
4. Ratio of accounts payable turnover	7.12	8.35
5. Ratio of bank loans turnover	5.50	5.50
6. Period of capital turnover, days	211	262
7. Period of ownership capital turnover, days	75	58
8. Period of borrowed capital turnover, days	135	206
9. Ratio of payables turnover, days	26	22
10. The length of the financial cycle, days	112	168

Table 13: Capital turnover ratios of Interpipe company

Ratio of capital turnover decreased, and the involved funds increased, which in turn reflects the negative trend on the enterprise. Ratio of borrowed capital turnover shows that the percentage of net income from the sale of goods, works, services, which must be withheld for payment of loans for the year decreased significantly. However, the funds raised for commercial transactions (contracts) that are subject to return, tend to rise, which indicates a high probability of the existence of progressive payable by the company. Ratio of bank loans turnover confirms that

percentage of the net income from the sale of goods, works, services, which will be deducted for the repayment of bank loans, remained stable.

The coefficients from 6 to 10 in table 13 reflect the rate of turnover of the company's liabilities, which also depends on the organic composition of capital (the ratio of equity and liabilities). The greater the share of liabilities in its total amount, the slower it rotates, and vice versa, with the increase in the proportion of total equity accelerated capital turnover. Based on the values of these coefficients there can be said with certainty that the share of both short- and long-term liabilities in the total capital amount of the enterprise is quite significant.

The results of profitability indicators' analysis of Interpipe company are given in table 14.

Indicator	2014	2015
1. Return on assets	-0.19	-0.11
2. Return on equity	-0.32	-0.16
3. Return on sale	-0.09	0.03
4. Return on current expenses	0.16	0.06

Table 14: Profitability ratios of Interpipe company

Return on assets indicator is negative, which means that interest payments this year were unable to overwhelm the financial enterprise result before tax, namely its loss. The negative value of return on equity indicator assumes that during the investigated period, the company received a loss instead of profit, but the modular value of the coefficient tells about sustainable attractiveness of the company as shows its level of the upper limit dividend payments. The value of return on sale indicator reflects the fact that in 2014 the company received a loss instead of profit and the overall efficiency of its economic activity began to decline. However, in 2015 the company's profit has overwhelmed its loss. Ratio on current expenditure indicator reflects the low efficiency of the current expenses of the enterprise, so at the moment the company is not able to recoup them, and shows that the amount of profit per unit of the enterprise's distribution costs is quite low.

3.3 Strategic Analysis of the External and Internal Environment of Interpipe Company

3.3.1 SWOT-Analysis of Interpipe

SWOT, which stands for strengths (S), weaknesses (W), opportunities (O) and threats (T), is an analytical framework that helps the company to face its greatest challenges and find its most promising new markets.

In a business context, the SWOT analysis enables enterprises to identify both internal and external influences. SWOT's primary objective is to help companies develop a full awareness of all the factors involved in a decision.

SWOT analyses are often used during strategic planning. They can serve as a precursor to any sort of company action, such as exploring new initiatives, making decisions about new policies, identifying possible areas for change, or refining and redirecting efforts midplan.

Performing a SWOT analysis is also great way to improve business operations.⁴⁸

⁴⁸ SWOT Analysis <http://www.businessnewsdaily.com/4245-swot-analysis.html>

The SWOT-analysis of Interpipe company is presented in table 15.

	Positive Strengths	Negative Weaknesses
Internal	<ul style="list-style-type: none"> • Products are certified for compliance with the standards of API 5L PSL 2, ASTM, EN (DIN), NF, GOST Accreditations, qualifications, certifications; • Wide range of products; • Quality-focused pipes and wheels producer; • Designing and producing steel pipes and wheels for special customer needs;⁴⁹ • Vertically integrated group of companies; • Establishment of the new equipment; • Focusing on the ongoing modernization. 	<ul style="list-style-type: none"> • High production costs; • Depreciation of the fixed assets; • Export dependence on the world market policy.
External	Opportunities <ul style="list-style-type: none"> • Introduction of new technology heat treatment of pipes for gas and water pipelines; • New solutions for oil and gas companies as sour service pipes; • New steel grades export steel; • Improving the production process control;⁵⁰ • Launch of steel billets sales;⁵¹ • Focus on individual demand;⁵² • Increasing prices for welded pipes; • Sales of large diameter pipes; • Ability to settle trade disputes through the WTO panel. 	Threats <ul style="list-style-type: none"> • Reducing the demand for Ukrainian pipes by oil companies in the CIS/ other countries; • Sharp rise in price of steel, which holds 85% in the structure of tubes companies' production costs; • Chinese manufactures forge the company's pipes; their tubes look better and they are cheaper; • Gaining a lot of claims on defects, wrong geometry, mistakes in marking and documents, etc.;⁵³ • Anti-dumping proceedings and other protective trade restrictions may limit export sales of company's products in important geographical markets; • Benefits from limitations on the export of scrap metal from Ukraine may be eliminated in the future; • Depending on the Ukrainian railway network for transportation of products and raw materials.⁵⁴

Table 15: SWOT-analysis of Interpipe company⁵⁵

Concerning the strengths points of the company which are performed in table 15, there should be mentioned that Interpipe's wide range of products allows the company to keep demand from oil companies in the CIS and other regions. High level of quality certification of products helps the company to keep demand from oil companies in the CIS and other regions. Also certified products enable the company to defend its market position in the fight against largest world

⁴⁹ Interpipe – Steel and Seamless Pipes for the Mining Industry <http://www.mining-technology.com/contractors/cables/interpipe-europe/>

⁵⁰ Interpipe Customer Bulletin #1(5), 2014

⁵¹ Interpipe Customer Bulletin #4, 2013

⁵² Interpipe Customer Bulletin #6, 2014

⁵³ Interpipe Industrial News (2015)

⁵⁴ Interpipe Annual Report of Financial Accounting Results (2007)

⁵⁵ SWOT-analysis of NMPP <https://www.weblancer.net/>

producers. At the same time a wide range of products at the expense of more profitable products sales permits the company to reduce the impact of a rise in price of steel.

Talking about the weaknesses points of the company which are performed in table 15, there should be mentioned that high cost of production can put most of the opportunity for the company to improve pipe prices. Also sales of large diameter pipes with high costs do not allow the company to keep a high level of profitability. The depreciation of the fixed assets is worsening the situation with the high cost of the company's rental. At the same time export dependence on the world market policy do not allow the company the full use of the increase in product prices and sales volumes of large diameter pipes.

Concerning the opportunities of the company which are performed in table 15, there should be mentioned that the introduction of new technology heat treatment of pipes for gas and water pipes due to investments can be made by the Interpipe group. The increase in profit margins by increasing prices for welded pipes can be reached by quality certificates. Also the sales of large diameter pipes can be possible with the certificate of having the investigation. At the same time the company can reach its strategic goals by launching new quality export products and focusing on individual demand. Regarding the company's export dependence on the world market policy it can be settled by the ability to regulate trade disputes through the WTO panel.

Talking about the threats of the company which are performed in table 15, there should be mentioned that high production costs can influence the company's activity by reducing the demand for Ukrainian pipes by oil companies in the CIS and other regions. The further rise in price of steel can influence the company's activity by increasing the cost of the pipes. Also gaining a lot of claims on defects, wrong geometry, mistakes in marking and documents, etc. and anti-dumping proceedings as other protective trade restrictions can influence the company's activity by decreasing the company's market share and export sales in important geographical markets.⁵⁶

Taking into account the data mentioned above in figure 10 about the specification of the certain strategies that would be followed by the company by picking up the right cell gap in the SWOT-analysis table, and the results performed in table 15, there should be recommended that the company needs to combine two strategies into hybrid one: to follow the diversification strategy in order to deal with its threats through its inner strengths; and at the same time to consider focusing on positive changes strategy in order to deal with its weaknesses through its inner strengths too.

3.3.2 PEST-Analysis of Interpipe

So PEST-analysis is a special marketing tool that was designed to detect policy (P), economic (E), social (S) and technology (T) aspects of the external environment that may affect the company's business development in particular, and the steel industry development strategy in general.

PEST-analysis contains policy study because policy regulates the power that defines the business environment of steel industry and obtaining of key resources for Interpipe company's operations. The main reason of economic study is creating a map of distribution of resources at the state level, which is the essential condition of steel industry development and Interpipe company in particular. Scientific and industrial potential of steel industry and public interest in it and Interpipe business activities are determined by the social component of PEST-analysis. Also an important factor of PEST-analysis is its technological component that identifies trends in

⁵⁶ SWOT-analysis of NMPP <https://www.weblancer.net/>

technological development of steel industry and Interpipe company in particular, which is often the cause of changes and losses of steel market and the emergence of new products through steel companies business activities.

The PEST-analysis of Interpipe company is presented in table 16.

Policy factor	Economic factor	Social factor	Technology factor
1. Political instability	1. Threateningly high inflation	1. Reduction of the working population	1. Export-oriented innovative activity of steel enterprises
2. Annexation of Crimea	2. Sharp rise and volatility of hryvna, exchange rate fluctuations	2. Decreasing the number of specialists and workers in the most industrialized regions	2. Complying with certification standards
3. War on the east of the country	3. High NBU discount rate, high interest (lending) rates of commercial banks	3. Underestimating the role of the pipe industry as the basis of economic and social security for the large part of the population	3. Improvement of existing technologies at the production process
4. Frequently changing regulations, taxation and accounting standards or practices	4. Low solvent demand of the domestic market	4. Reducing the attractiveness of having a job at the steel mills	4. High duration of implementing the technological innovations
5. Signing of DCFTA with EU and FTA with Canada	5. Crisis in the global economic and financial system	5. Low labor prestige in the industrial sector	5. Output of products with a high level of automation and intelligence technology of production
6. Reduction of trade with Russia	6. Volatility of oil prices	6. Media do not pay enough attention to the problems of metallurgy and modern progressive principles of the enterprises' activity of the industry	6. Significant deterioration of the active part of fixed assets
7. Necessity of complying with WTO rules in the legislative and regulatory activities on import-export	7. Lack of investment in the steel industry		
8. Privatization of metallurgical plants	8. High level of material- and energy consumption of manufactured products		

Table 16: PEST-analysis of Interpipe company in Ukraine

The results of PEST-analysis of steel industry in Ukraine and Interpipe company in particular can bring the following conclusions:

1) from the political factors: political instability because of the annexation of the Crimea and the war at the east of the country has a negative impact on international relations and trade with neighboring countries, especially Russia and other CIS countries; signing of serious legal

documents with other countries requires from Ukraine to perform a number of specific conditions for further convergence of certain economies; the possibility of government regulation lies only in a plane of support measures/ containment development and implementation;

2) from the economic factors: the development of the domestic market and increasing exports needed vigorous measures in forming of solvent sales market and taming the price chaos, rampant inflation and interest and exchange rates fluctuations on the market;

3) from the social factors: the need to raise the status of the domestic steel industry in the eyes of society, and thus create conditions for working among the engineering staff of professionals and workers;

4) from the technology factors: steel production is innovated and export oriented, which in turn contributes to increasing competition at the domestic and foreign markets of steel products, despite the large material, investment and time costs.

3.3.3 Identifying the Competitive Advantages of Interpipe

Competitive advantages of Interpipe company are presented in table 17.

Type of competitive advantage	Interpipe competitive advantage
Selection of market segmentation	Established player in the high growth market segment of pipe products for the oil and gas industry
Market position	Strong market position in the seamless pipe segment which has high barriers to entry
Exclusive products	Strong competitive advantages in the railway wheel business providing stable and highly attractive margins
Commercial network	Diversified customer base and developed sales structure
Production expanses	Low cost producer due to its favorable location in the steel making region of Ukraine
Type of business structure	Vertically integrated business
Human resources	Industry expertise and experienced management team
Volume of production	Potential to substantially increase production capacity

Table 17: Competitive advantages of Interpipe company on international market

Interpipe is well-positioned to take advantage of the growing demand within its key market segment of pipe products used in the oil and gas industry. The global pipe industry has shown strong growth in recent years, primarily due to the rise in global demand for hydrocarbons and the resulting increase in the production and exploration expenditure of oil and gas companies aiming to meet that demand, which has been further enhanced by overall GDP growth in the markets in which Interpipe operates. Interpipe's product portfolio is strongly focused on higher value-added, technologically sophisticated products for the production and transportation of oil and gas, including OCTG and transportation line pipes. In addition, the growth in other industries, such as power generation, machinery and construction has led to increased demand for Interpipe's industrial and special application pipe products.

In its pipe business, Interpipe's strategic focus is on seamless pipes for the oil and gas, power generation, machine building and other industries. Interpipe has a strong market position in the segment for seamless pipes, which has high barriers to entry namely small number of major international producers, high margins relative to welded pipes, capital intensive nature of production, high technological sophistication of production processes, regulatory and industrial certification, etc.

Demand for railway wheels worldwide is generally stable, driven by regular overhauls of existing rolling stock and by construction of new rolling stock. Interpipe's ability to produce various sizes of wheels at short notice allows it to adjust to demand for railway wheels in the local markets and to capture the peak demand levels providing an attractive and stable revenue stream. This flexibility in wheel production has been achieved without affecting the high quality of its wheel products which meet all major industry standards in terms of safety and reliability.

Interpipe exports a substantial portion of its products through its sales and distribution network to approximately 5,000 customers in 75 countries. Interpipe's geographically diversified export sales reduce its reliance on the Ukrainian or any other single market. Interpipe has a network of sales offices servicing the regions which are of strategic importance to Interpipe, including Russia, Kazakhstan, Europe and the US. Interpipe has also recently established a sales company in the UAE. So Interpipe's distribution network gives it greater control over the distribution and sale of its products and enables it to generate higher profit margins by identifying the markets which offer the best price for its products, while maintaining flexibility in marketing, pricing and managing inventory.

Ukraine is one of the lowest cost regions globally for the production of steel products, which provides Interpipe with a number of cost advantages over its international peers, such as:

- Low labor, gas and electricity costs. Ukraine has low labour costs and limited pension obligations as compared to the US and Western Europe. In addition, Interpipe believes that its gas and electricity costs are lower than its principal international competitors located in more developed countries with higher energy costs.
- Ready access to raw materials. Interpipe's production facilities are located in close proximity (40 to 200 kilometers) to its main domestic suppliers of pig iron, scrap metal, round billets and steel coils, thus reducing raw material transportation costs.
- Low transportation costs. Interpipe's production facilities are conveniently situated to rail, road, sea and river transportation, being close to the major rail junctions of Dnepropetrovsk, Novomoskovsk and Nikopol. Interpipe's facilities are within 1,000 kilometers of the EU border in a region with a well-developed road network. Interpipe's location enables it to promptly deliver its products by road directly to the premises of its principal customers in Europe. In addition, Interpipe's favorable proximity (250 to 400 kilometres) to the major international ports of the Black and Azov Seas, such as Odessa, Illychevsk, Berdyansk and Mariupol gives it the benefit of flexibility in choice of the mode of transportation for serving the customers located in the export markets. Through the river port of Dnepropetrovsk, Interpipe is also able to serve its customers located in its Mediterranean and Black Sea regions. Interpipe's favorable global location allows low-cost shipment of products to Interpipe's key export markets, enabling it to respond effectively to fluctuations in regional demand.

Interpipe has internal steel-making capabilities at its NTRP facility which supplies steel ingots for use in its seamless pipe and wheel production. In the production of wheels, these internal steel-making capabilities allow Interpipe to control the whole value-creating chain from steel production to the final product. As a result, Interpipe is able to achieve cost advantages by reducing the amount of semi-finished steel products purchased from third-party manufacturers. Having internal steel-making capabilities also enables Interpipe to have a greater degree of control over the quality of the steel used in its pipe and wheel making operations and enables Interpipe to meet individual customer's requirements in terms of the specific composition and properties of its products. Moreover, Interpipe sources all of its scrap metal requirements from a related party, with which it has a longstanding relationship, which provides Interpipe with greater stability of operations, better control of end-product quality and improved flexibility in the production process.

Interpipe was one of the first to capitalize on opportunities following Ukraine's transition to a market economy and has been operating in the Ukrainian pipe and wheel production industries

since the early 1990s. Members of Interpipe's senior management team combine strong commercial, technical and management skills and have been with the business on average for seven years. Interpipe's industry expertise and experienced management team enable it to capitalize on potential opportunities in the markets for steel pipes and wheels.

Interpipe has a substantial production capacity reserve, which can be utilized through limited capital expenditure in eliminating bottlenecks in the existing production process.⁵⁷

3.4 Entering of Interpipe Company on Foreign Markets

Companies entering new markets have to make important decisions regarding which entry mode to choose, which customers to serve and how to best satisfy them.⁵⁸ Interpipe is the Ukrainian industrial company, the manufacturer of pipes and wheels, which entering foreign markets with indirect export mode. The company's products are exported to more than 80 countries through a network of sales offices located in key markets of CIS, Middle East, North America and Europe.

In 2015 the share of exports in company's sales volume in tones reached 80%. But at the same time the volume of pipes and wheels production decreased by 29%, compared to 2014 and amounted to 600 ths tons (507 ths tons of pipe products, 93 ths tons of wheel products). It was caused by the lack of scrap metal: the plant stood without working processes for 63 days.

Structure of sales of pipe products in 2015 has changed significantly in comparison with 2014. The main markets have become Europe (22%), Middle East (17%), CIS (20%) and Ukraine (21%). In 2015 the traditional market of Russian Federation has consumed only 10% of produced pipes (in 2014 – 27%); the US – also 10% (in 2014 – 15%).

The structure of sales of Interpipe's pipe products in 2014-2015 is represented in figure 16.

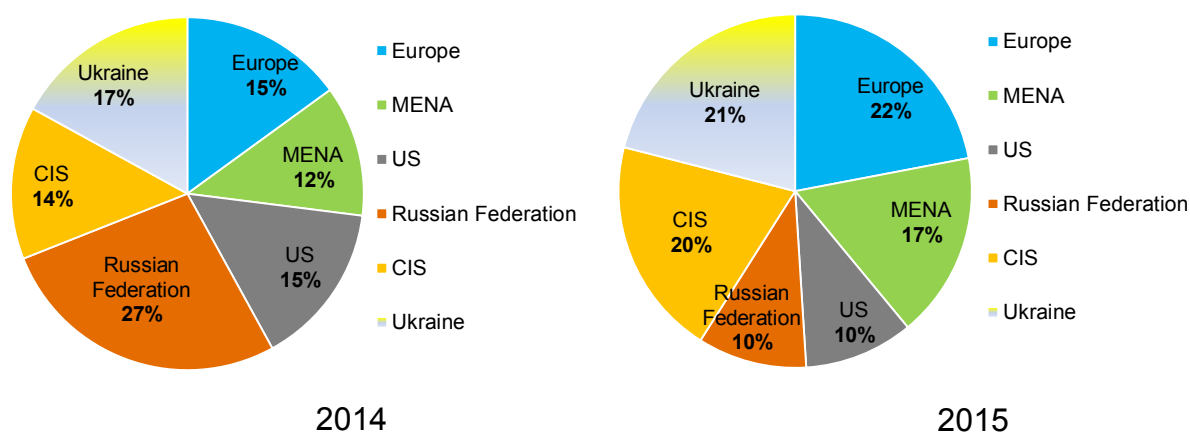


Figure 16: Sales structure of Interpipe's pipe products, 2014-2015

Concerning the data which is performed in figure 16, there should be mentioned that reducing of pipe products' sales volume was influenced by a number of external negative factors:

- sharp drop in sales of pipes in the Russian market;

⁵⁷ Interpipe Annual Report of Financial Accounting Results (2007)

⁵⁸ Saric N. (2014)

- reduction in demand for pipe products in the US due to low oil prices;
- reduction in oil production; and scrap metal shortage in the domestic market of Ukraine.

The product portfolio of Interpipe's pipe production for export consists of threaded pipe (casing and tubing), linear seamless and welded pipes, couplings, coupling blanks, premium connections, general pipes, shaped pipes and tubes for engineering.

The dynamics of sales of Interpipe's pipe products in 2014-2015 is represented in figure 17.

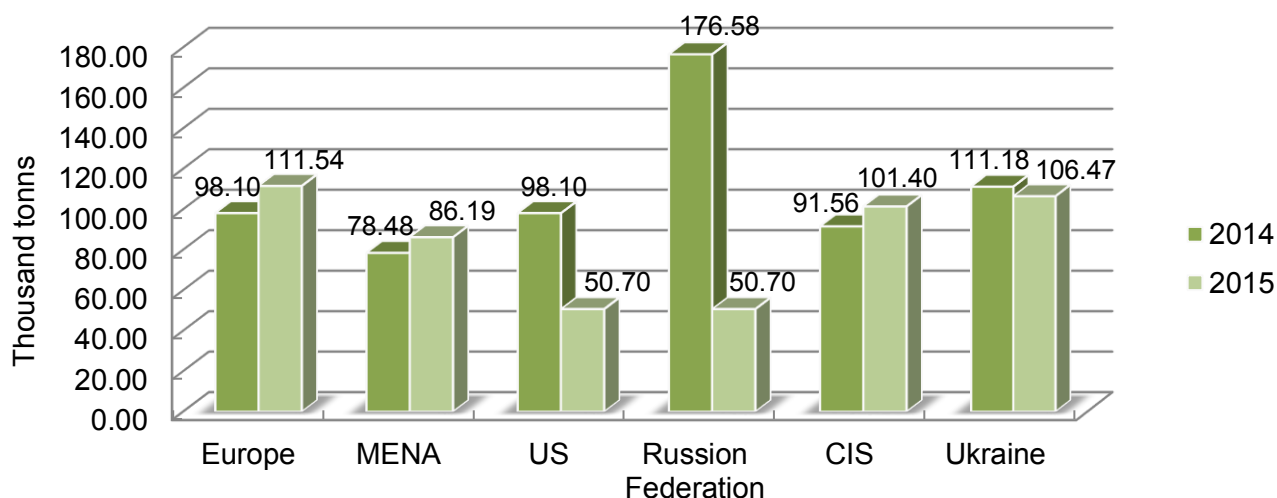


Figure 17: Sales dynamics of Interpipe's pipe products, 2014-2015

In 2015 in Interpipe wheel business the proportion of European deliveries has grown almost twice, which was amounted for 31% at the end of the year (2014 – 18%). The shipments to the US market, which were launched last year, were amounted for 8% of sales in the wheel structure. The Russian market has lost its dominant position, although it remains significant with a share of 35% (2014 – 48%). In 2015 Ukrainian market consumed 17% of the manufactured wheels (in 2014 – 27%).

The structure of sales of Interpipe's wheel products in 2014-2015 is represented in figure 18.

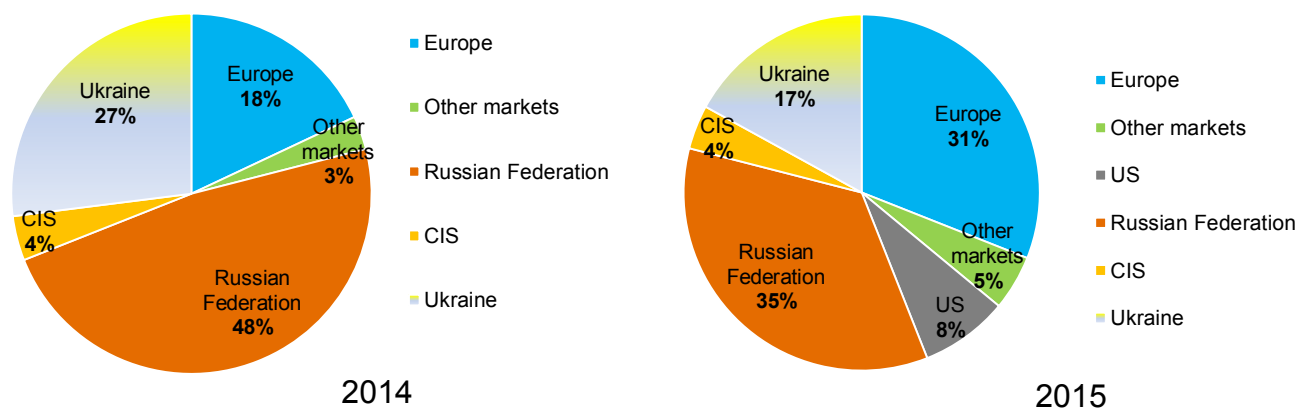


Figure 18: Sales structure of Interpipe's wheel products, 2014-2015

Concerning the data which is performed in figure 18, there should be mentioned that the sales of wheel products, along with scrap shortage, were negatively influenced by the actual stop car-building industry in Ukraine, as well as the lack of funds for the modernization of rolling stock in Ukrainian railway network (Ukrzaliznytsia).

Also there should be noted that the US market share increased to 8% because of KLV re-entering the US freight and the locomotive railway market with a wide range of products and engineering capacities in 2014.⁵⁹

The product portfolio of Interpipe's wheel production for export includes 240 standard sizes of rolled wheels, 80 sizes of tires for passenger and freight railway transport, metro and urban rail transport, rail axis.

The dynamics of sales of Interpipe's wheel products in 2014-2015 is represented in figure 19.

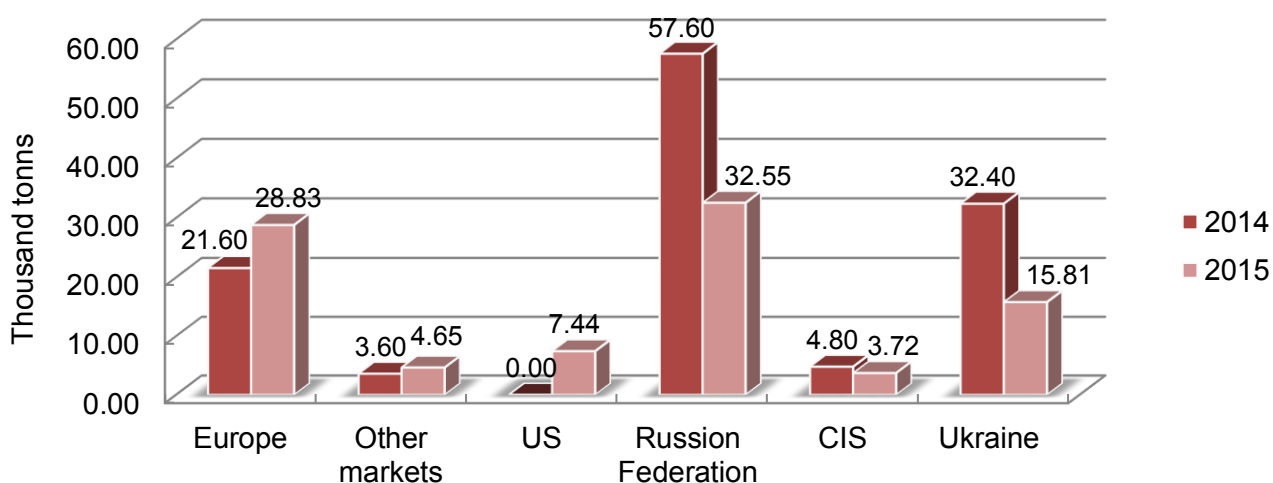


Figure 19: Sales dynamics of Interpipe's wheel products, 2014-2015

The amount of lost orders for finished products – both pipes and wheels – due to scrap shortage was estimated by the company of more than 100 thousand tons.⁶⁰

⁵⁹ KLV customer newsletter #4, 2015

⁶⁰ Interpipe Company News <http://www.interpipe.biz/en/media/newsone/242/> www.interpipe.biz

4. Penetration of Interpipe Company to the Middle Eastern Market

4.1 Middle East Market Overview

4.1.1 Business Environment

The Middle East is a geographic region that comprises Bahrain, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Palestinian Territories, Qatar, Saudi Arabia, Syria, UAE and Yemen.

Parts of the region have been hit by political instability in recent years, but continued economic growth and rapid population growth present some strong export opportunities for international SMEs.

The Middle East is strategically located between Europe and Asia, meaning it is well-placed to act as a trading hub for international companies operating there.

A lot of countries, including Ukraine, have a strong relationship with a number of markets in the Middle East; the most developed countries in the region are the strongest export partners all over the world.⁶¹

To describe the business environment of the Middle East countries there should be used the ease of doing business ranking. The ease of doing business ranking compares economies with one another: the distance to frontier score benchmarks economies with respect to regulatory best practice, showing the absolute distance to the best performance on each Doing Business indicator. Also the ease of doing business ranking can show how much the regulatory environment has changed relative to that in other economies.⁶²

Ranks which compare with other economies in the region and compare with the regional average are presented in figure 20.

So doing business index provides an aggregate ranking on the ease of doing business based on indicator sets that measure and benchmark regulations applying to domestic small to medium-size businesses through their life cycle.

Economies are ranked on their ease of doing business, from 1–189. A high ease of doing business ranking means the regulatory environment is more conducive to the starting and operation of a local firm. The rankings are determined by sorting the aggregate distance to frontier scores on 10 topics, each consisting of several indicators, giving equal weight to each topic.⁶³

The 10 topics included in the ranking of doing business are: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency.

The Middle East countries rankings on the each of topics included in the ease of doing business ranking and the distance to frontier scores are presented in table 18.

Regarding to the data represented in table 18, there should be mentioned that in order to reach performed indicators the Middle East countries did some reforms in each area of evaluation during 2014-2015 years.

⁶¹ What is the economic and political environment for doing business in the Middle East <https://www.efic.gov.au/education-and-tools/sme-information-series/exporting-to-the-middle-east/what-is-the-economic-and-political-environment-for-doing-business-in-the-middle-east/>

⁶² Doing Business 2016: Regional Profile (MENA), 2016

⁶³ Doing Business: Economy Rankings <http://www.doingbusiness.org/rankings>

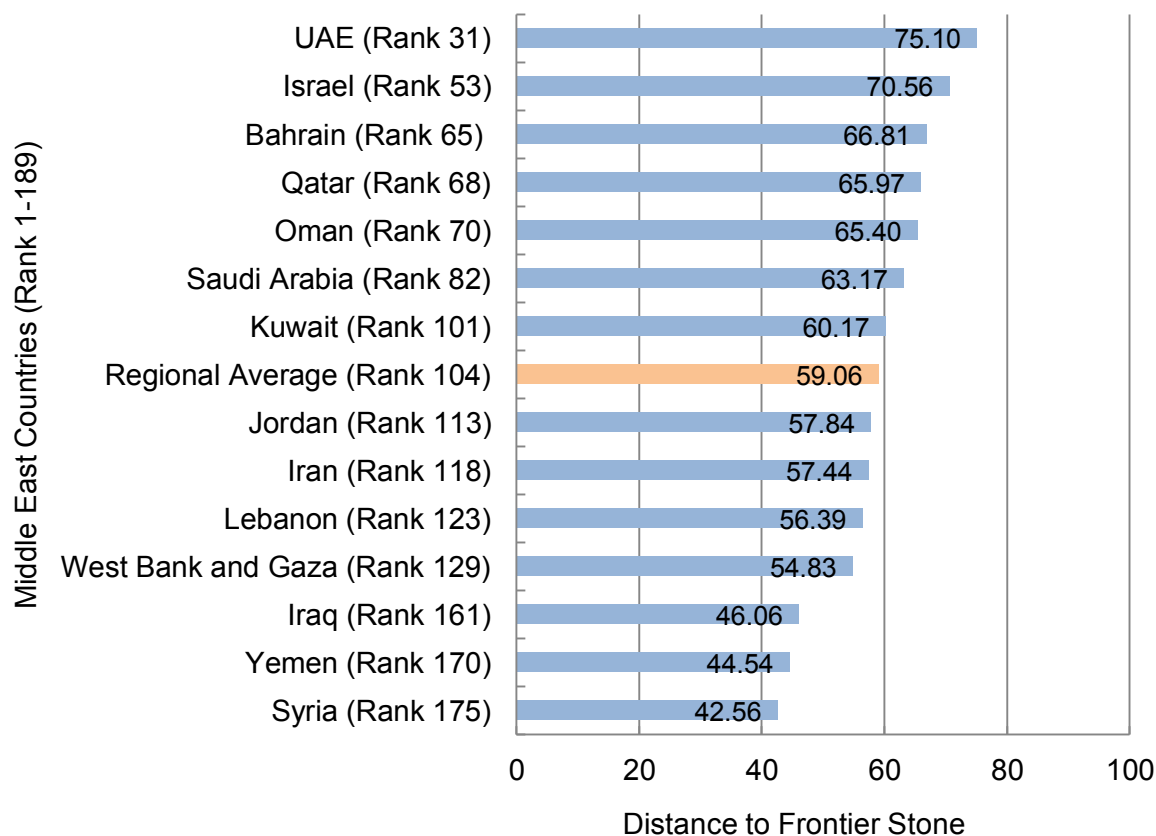


Figure 20: The Middle East countries ranks on the ease of doing business, 2015⁶⁴

Concerning the reforms the Middle East countries made in 2014, they are the following:

- Iran made starting a business easier by streamlining the name reservation and company registration procedures;
- Kuwait made starting a business more difficult by increasing the commercial license fee;
- Iran made getting electricity easier by eliminating the need for customers to obtain an excavation permit for electricity connection works;
- UAE made transferring property easier by introducing new service centers and a standard contract for property transactions;
- Bahrain made registering property easier by reducing the registration fee;
- UAE the credit bureau improved access to credit information by starting to exchange credit information with a utility;
- Bahrain improved access to credit information by approving the credit bureau's collection of data on firms;

⁶⁴ Doing Business 2016: Regional Profile (MENA), 2016

Doing Business Indicators		Middle East Countries													
		<i>Bahrain</i>	<i>Iran</i>	<i>Iraq</i>	<i>Israel</i>	<i>Jordan</i>	<i>Kuwait</i>	<i>Lebanon</i>	<i>Oman</i>	<i>Qatar</i>	<i>Saudi Arabia</i>	<i>Syria</i>	<i>UAE</i>	<i>West Bank and Gaza⁶⁵</i>	<i>Yemen</i>
Starting a Business	Rank (1-189)	140	87	154	56	88	148	114	149	109	130	127	60	170	152
	Score (0-100)	77.09	85.73	73.80	90.55	85.70	75.37	82.68	74.98	83.22	78.66	79.77	89.98	66.99	74.22
Dealing with Construction Permits	Rank (1-189)	9	69	147	96	103	133	130	46	8	17	189	2	162	89
	Score (0-100)	83.24	71.38	59.98	68.20	67.49	62.23	62.44	74.92	84.41	80.75	0	88.79	53.89	69.02
Getting Electricity	Rank (1-189)	77	88	106	91	56	128	116	60	111	24	120	4	75	150
	Score (0-100)	71.74	69.17	63.68	68.96	77.88	58.38	60.18	76.27	62.98	84.83	59.86	95.28	72.88	49.77
Registering Property	Rank (1-189)	25	91	117	127	98	68	103	33	28	31	136	10	95	83
	Score (0-100)	81.07	63.50	55.77	52.84	61.34	68.42	60.02	77.37	80.23	78.15	50.35	89.23	62.14	65.21
Getting Credit	Rank (1-189)	109	97	181	42	185	109	109	126	133	79	167	97	109	185
	Score (0-100)	40.00	45.00	5.0	65.00	0	40.00	40.00	35.00	30.00	50.00	15.00	45.00	40.00	0
Protecting Minority Investors	Rank (1-189)	111	150	115	8	163	66	134	134	122	99	88	49	144	122
	Score (0-100)	48.33	40.00	46.67	73.33	36.67	56.67	43.33	43.33	45.00	51.67	53.33	60.00	41.67	45.00
Paying Taxes	Rank (1-189)	8	123	59	103	52	11	45	10	1	3	119	1	56	135
	Score (0-100)	93.88	66.78	79.53	71.65	80.96	92.48	81.69	92.91	99.44	99.23	67.89	99.44	80.29	63.72
Trading across Borders	Rank (1-189)	85	167	178	58	50	149	147	69	119	150	173	101	84	189
	Score (0-100)	72.06	39.38	23.51	82.85	86.73	49.85	50.61	79.35	61.41	49.62	29.83	66.27	72.10	0
Enforcing Contracts	Rank (1-189)	101	62	122	77	126	58	135	70	112	86	157	18	90	129
	Score (0-100)	56.38	61.85	52.65	59.78	51.50	62.36	49.85	60.62	54.64	58.78	44.43	73.22	58.39	50.37
Resolving Insolvency	Rank (1-189)	85	140	189	29	146	122	134	105	51	189	157	91	189	151
	Score (0-100)	44.28	31.57	0	72.47	30.17	35.95	33.07	39.28	58.39	0	25.15	43.74	0	28.08

Table 18: Summary of Doing Business indicators for Middle East countries

⁶⁵ Palestinian Territories

- UAE strengthened minority investor protections by introducing additional approval requirements for related-party transactions and greater requirements for disclosure of such transactions to the stock exchange; by introducing a requirement that interested directors be held liable in a related-party transaction that is unfair or constitutes a conflict of interest; and by making it possible for shareholders to inspect the documents pertaining to a related-party transaction, appoint auditors to inspect the transaction and request a rescission of the transaction if it should prove to be unfair;
- Israel made paying taxes more costly for companies by increasing the profit tax rate;⁶⁶
- West Bank and Gaza made paying taxes easier for companies by introducing the option to make either 1 or 4 advance payments of corporate income tax;
- Jordan made trading across borders easier by improving infrastructure at the port of Aqaba;
- Yemen trading across borders became more difficult as a result of inefficient port operation.

Concerning the reforms the Middle East countries made in 2015, they are the following:

- Kuwait made starting a business easier by reducing the minimum capital requirement;
- UAE made dealing with construction permits easier by streamlining the process for obtaining the civil defense approval;
- West Bank and Gaza made dealing with construction permits easier by streamlining the process for obtaining the civil defense permit and for submitting the stamped concrete casting permit to the municipality;
- UAE made getting electricity easier by reducing the time needed to provide a connection cost estimate;
- Oman improved the regulation of outages by beginning to record data for the annual system average interruption duration index (SAIDI) and system average interruption frequency index (SAIFI);
- Lebanon made transferring property more complex by increasing the time required for property registration;
- Saudi Arabia made property transfers faster by introducing a new computerized system at the land registry;
- The credit registry in West Bank and Gaza began to distribute credit data from retailers and utility companies;
- UAE strengthened minority investor protections by barring a subsidiary from acquiring shares in its parent company and by requiring that a potential acquirer, upon reaching 50% or more of the capital of a company, make a purchase offer to all shareholders;
- Israel made paying taxes more costly for companies by increasing the corporate income tax rate, the rate for social security contributions paid by employers for the upper wage bracket and municipal taxes;⁶⁵
- Oman reduced the time for border compliance for both exporting and importing by transferring cargo operations from Sultan Qaboos Port to Sohar Port;
- Qatar reduced the time for border compliance for importing by reducing the number of days of free storage at the port and thus the time required for port handling;
- UAE made enforcing contracts easier by implementing electronic service of process, by introducing a new case management office within the competent court and by further developing the 'Smart Petitions' service allowing litigants to file and track motions online.⁶⁷

⁶⁶ Doing Business 2016: Economy Profile (Israel), 2016

⁶⁷ Doing Business 2016: Regional Profile (MENA), 2016

4.1.2 PEST-Matrix of Middle Eastern Environment

Middle East covers a diverse group of countries that each has unique political situations. A number of countries have experienced civil and political unrest in recent years, posing a possible threat to international businesses operating in affected countries. Any exporter considering entering a country affected by turmoil should conduct extensive research to understand the risks before entering the market.

Economic growth in countries within the region has been mixed in recent years. Generally, growth has slowed, with civil and political turmoil, and depressed commodity prices, weighing on growth rates across the region. With oil dominating the region's economy, a prolonged slump in the oil sector could continue to place pressure on the region's growth.⁶⁸

With regard to the social and technological factors that describe the current state of Middle East countries, they are heterogeneous in origin. Those Middle Eastern countries, which suffer from permanent political conflicts and instability of economy, have a low level of social security of the nation, and also do not have progressive development in the technological sphere. In contrast, the Middle East states, which are economic developed and have huge deposits of natural resources, have a proper level of social security of the population, as well as the high level of technology and innovation.

Detailed PEST-analysis of Middle East countries is presented in table 19.

So, from the table 19 data we can see that the most crucial point for Middle East countries is regulation of political and security instability. There should be mentioned that the civil war in Syria has intensified with over 100,000 killed and 2.5 million refugees, both internally displaced within Syria and in other countries. The war has brought mayhem to the neighborhood, particularly Lebanon, Turkey, Iraq, and Jordan. Israel is slowly getting drawn into the conflict given its ongoing confrontation with Iran and its surrogate Hezbollah. Also the scope for reaching common ground between Palestinian Territories and Israel on the fundamental issues of security, borders, settlements, and the status of Jerusalem and refugees, remains as deadlocked as ever. The refugees who have fled across the border have had negative impacts on host countries and it may take decades before they can return home. At that point, Syria, as we know it, may no longer exist.

Against this backdrop of diplomatic stalemate in ongoing conflicts, the economic and environmental challenges in the region continue to grow. There is increasing demand for scarce resources such as food, fresh water and land, while environmental change, particularly increased drought and rising sea levels, has forced millions of agricultural workers off their land in search of a better life, creating significant refugee problems. It is notable that Israel's latest long and expensive fence, built in the Sinai along the border with Egypt, is less focused on stopping terrorist infiltration and much more on stopping illegal migration from Africa.⁶⁹

Thus, there can be summarized that the economic, social and technological environment of the Middle East countries is highly depends on political factor which, in turn, is rapidly changeable and unpredictable, which, apparently, will have the same trend for the future several years.

⁶⁸ What is the economic and political environment for doing business in the Middle East
<https://www.efic.gov.au/education-and-tools/sme-information-series/exporting-to-the-middle-east/what-is-the-economic-and-political-environment-for-doing-business-in-the-middle-east/>

⁶⁹ Political, Economic, and Environmental Challenges in the Middle East
<http://www.transatlanticacademy.org/node/696>

Country	Policy factor	Economic factor	Social factor	Technology factor
Bahrain	<ol style="list-style-type: none"> 1) High bureaucracy level 2) Relatively not high corruption 3) Slight deteriorations in labor and trade freedom 4) Low freedom of information 5) Significant deterioration in security sphere 6) Political instability because of Shi'ite-led pro-democracy protesters 	<ol style="list-style-type: none"> 1) Regional financial hub 2) Increasing rate of GDP 3) Decreasing rate of inflation 4) Middle level of unemployment 5) Stable exchange rate 6) Business has massive dependence on the Islamic calendar 	<ol style="list-style-type: none"> 1) Growing workforce population 2) Most of the work labor are foreigners and non-nationals 3) Increasing flow of migrant workers 4) Most migrants are expatriates to improve standard of living 5) High quality of education 6) Attending school is mandatory, even for females 	<ol style="list-style-type: none"> 1) High level of access to worldwide network 2) Strong technological foundation 3) Developed system of mobile technology and wireless internet
Iran	<ol style="list-style-type: none"> 1) Political system is based on 1979 constitution 2) White revolution was for strengthening the foundation of the democratic regime and to maintain the economic links 3) Tax environment for foreign businesses is highly risky 	<ol style="list-style-type: none"> 1) Decreasing inflation rate 2) Increasing economic growth 2) Transition economy with large public sector and 50% of economy centrally planned 3) High unemployment rate 4) High jobless rate among women and youth 	<ol style="list-style-type: none"> 1) Country is religious and Islamic 2) Government and people are not working together because of Taliban is strengthening the base 3) The family is the basis of the social structure 4) Loyalty to the family comes before other social relationship, even business 	<ol style="list-style-type: none"> 1) Nanotechnology in fields to lower costs 2) IT companies collaborating to access the market 3) High invention and innovation rates 4) Existing of mechanization trend
Iraq	<ol style="list-style-type: none"> 1) Country relies on its oil industry to support its economy and government budget 2) Basic subdivisions are the regions and the governorates 3) Both regions and governorates are given broad autonomy with regions (e.g. control of internal security forces for the region such as police, security forces, and guards) 	<ol style="list-style-type: none"> 1) Largely state owned economy is subject by the oil sector, which provides more than 90% of government income and 80% of foreign exchange earnings 2) Oil is the main export and food, medicine, and manufactures are the main imports 	<ol style="list-style-type: none"> 1) Iraqi Muslims are split into two groups, the Sunnis and the Shias 2) Because of the fight between the Shia and Sunni Muslims, there has become the ISIS on the territory of the country 3) Government can direct NGO operations, so they are not permitted to function 	<ol style="list-style-type: none"> 1) Monopoly in telecom industry 2) Substantial setbacks in intellectual infrastructure 3) Higher education and research institutions are not fully operational 4) Technology are across most economic sectors, including the oil sector, is outdated
Israel	<ol style="list-style-type: none"> 1) Israel does not have peaceful relations with the Palestinian Authority 2) Israel operates under a parliamentary system as a democratic republic with universal suffrage 3) Legal system combines three legal traditions, English common law, civil law, and Jewish law 	<ol style="list-style-type: none"> 1) Intensive development of agricultural and industrial sectors led to self-sufficiency in food production 2) Currency is overvalued with very low investment flow potential 3) Strong FDI inflows 4) Strong tourism sector 5) High fiscal deficit 6) Risk of a mortgage crisis 	<ol style="list-style-type: none"> 1) The country's Law of Return grants all Jews and those of Jewish lineage the right to Israeli citizenship 2) Large numbers of migrant workers have settled in Israel 3) About 92% of Israelis live in urban areas 	<ol style="list-style-type: none"> 1) Development of solar energy 2) Leader in water technology 3) Innovation in water conservation techniques, substantial agricultural modernization, drip irrigation 4) Modern electric car infrastructure 5) Building of own satellites and launching own launchers
Jordan	<ol style="list-style-type: none"> 1) Country is a constitutional monarchy with an appointed government 2) It has over 30 political parties, but the only political party that plays a role in the legislature is the IAF 3) Founding member of the Arab League and the OIC 	<ol style="list-style-type: none"> 1) FTA with Turkey 2) Advanced status with the EU 3) Member of the Euro-Mediterranean free trade area 4) Strong business environment 5) High FDI inflow 6) Insufficient supplies of water, oil and other natural resources 7) High levels of budget deficit, public debt, poverty and unemployment 8) Remittances from Jordanian expatriates are a major source of foreign exchange 	<ol style="list-style-type: none"> 1) High birth rate 2) Population is growing faster than economic opportunities are 3) Rising food prices and poor living conditions 4) Best in the region health service 5) Over 70% of the population has medical insurance 	<ol style="list-style-type: none"> 1) Active domestic ICT market 2) Relatively high internet penetration rate 3) Contributes around 75% of all Arabic content on the web 4) Seeking US approval for the production of nuclear fuel from its uranium since 2010
Kuwait	<ol style="list-style-type: none"> 1) Constitutional monarchy with a parliamentary system of government 2) Government doesn't recognize political parties, but de facto there are several political parties 3) Officially recognizes civil law, that is a code law, but influence of Sharia is big in personal matters 	<ol style="list-style-type: none"> 1) Welfare economy with high salaries 2) Oil and natural gas contributes 59% to the total GDP 3) Moratorium on new hydrocarbon projects to conserve hydrocarbon reserves 4) Rising rate of FDI in sectors, such as mining, manufacturing, and financial 5) Increasing spending on R&D for developing new technologies for different industries 	<ol style="list-style-type: none"> 1) Highly attractive for immigrants 2) Immigrants are mainly working in private sector 3) Native Kuwaitis are occupied in public sector 4) Drastic social structure based on wealth and heredity 5) Social mobility is much inactive because of the cultural heritage, clannishness, and government initiatives 	<ol style="list-style-type: none"> 1) Does not produce any high-technological solutions 2) No renewable energy sources in use 3) Directing attention towards Inclusive Education 4) Largest shipping industries in the Persian Gulf region

Lebanon	<ul style="list-style-type: none"> 1) Lebanon is a parliamentary democracy, which implements a special system known as confessionalism 2) Government does not restrict foreign investment 3) Investment climate suffers from red tape, corruption, arbitrary licensing decisions, high taxes, tariffs, and fees, archaic legislation, and weak intellectual property rights 4) Government's intervention in foreign trade is minimal 5) Political and security instability in the Arab world, especially in Syria, has a negative impact on the domestic business and economic environment 	<ul style="list-style-type: none"> 1) Free-market economy which is dollarized 2) Strong laissez-faire commercial tradition 3) Economy is service-oriented 4) Main growth sectors include banking and tourism 5) Country has no restrictions on the movement of capital across its borders 6) High level of public debt 7) Large external financing needs 	<ul style="list-style-type: none"> 1) Confessionalism is intended to deter sectarian conflict and attempts to fairly represent the demographic distribution of the 18 recognized religious groups in government 2) High-ranking offices are reserved for members of specific religious groups 	<ul style="list-style-type: none"> 1) Small but diverse and dispersed S&T community embedded in 41 universities and higher education institutions and 6 rather small research centers 2) Private sector R&D is still very limited 3) Increasing number of private research institutes, also NGOs, that carry out studies
Oman	<ul style="list-style-type: none"> 1) Political instability/uncertainty is affecting the business a lot 2) Increasing bribery and misuse of public office 3) Legislative changes have enabled the freedom to establish labor unions in all firms and the right to bargain collectively 4) Oman has not ratified a number of core UN Human Rights Conventions and International Labor Organization Core Labor Standards 5) Freedom of the press is guaranteed, but restricted in practice 	<ul style="list-style-type: none"> 1) Major portion of GDP is provided by fossil fuel resources 2) Developing other sources of income, such as natural gas, tourism and industrialization 3) Inflation rate is very high 4) Corporate activity continues to be dominated by relatively few businesses 5) SME still face difficulties in accessing finance 	<ul style="list-style-type: none"> 1) Reducing illiteracy 2) Increasing rates of educational participation 3) Schools and universities are turning out graduates lacking in skills they need to succeed in employment 4) Percentage of young people who are both out-of-school and out-of-work is too high 5) The Basic Law prohibits discrimination on the basis of gender, origin, color, language, religion, sect, domicile, or social status 6) Female labor force participation rate is still low 7) Extensive social services, including insurance against old age, disability and death, maternity and health care 	<ul style="list-style-type: none"> 1) Increase in technology providers 2) Constant development of the technological infrastructure 3) Vast network of hard wired telephony solutions 4) Single broadcast media outlet, provided by the government, which also includes radio services 5) Half of the population has access to the Internet however this is heavily censored by the government
Palestinian Territories	<ul style="list-style-type: none"> 1) Arab country donors need to fulfill their financial commitments 2) Palestinians need to develop a coherent strategy and strengthen their existing institutions 3) Need for greater cooperation between the PA and Israel in order to resolve many of the constraints on growth, such as the restrictions relating to revenues, movement, investment, and exports 	<ul style="list-style-type: none"> 1) Unemployment is very high, particularly among the youth 2) Need to improve the investment environment, which requires greater freedom of movement in the PA and increased access to finance 3) Need for greater access to land, absence of restrictions on movement, lack of domestic production within the PA, and import bans 4) Need to establish greater trade and take advantage of FTAs with Arab countries 	<ul style="list-style-type: none"> 1) People living below the poverty line 2) Problem of inequality in the territories controlled by the Zionist regime 3) Discrimination on ethnic and religious grounds 4) Large number of migrants from Africa 	-
Qatar	<ul style="list-style-type: none"> 1) Emirate type government 2) Legal system is a mixture of civil law and Islamic law 3) No independent legislature 4) Political parties are forbidden 5) Government has ownership interests in several economic sectors, including oil and gases production, petrochemicals, and the steel and fertilizer industries 6) Expatriate residents are excluded, a lot of them are prevented from applying for citizenship 	<ul style="list-style-type: none"> 1) Significant expanding the non-hydrocarbon sector to maintain the GDP growth 2) Government spending investments on infrastructure and manufacturing sector 3) Infrastructure basically includes development spending of World Cup 2022 and manufacturing sector will drive non-oil sector growth alongside financial services, trade and tourism 	<ul style="list-style-type: none"> 1) Law and Islamic customs closely restrict the activities of women 2) Women are not allowed to obtain a driver's license without the permission of her husband 3) Sharia law governs inheritance and child custody matters and favors men 4) Growing numbers of woman are receiving government scholarships to study abroad 5) Some women work in education, medicine, and the media 	<ul style="list-style-type: none"> 1) Nanotechnology in fields to lower costs 2) IT companies collaborating to access the market 3) High invention and innovation rates 4) Existing of mechanization trend
Saudi Arabia	<ul style="list-style-type: none"> 1) Governed by Islamic laws 2) Politically stable environment 3) Undergoing political reforms are in a slower pace 4) Stability of government is threatened by the public sector corruption 5) Unbalanced relationship between the public and the private sectors 	<ul style="list-style-type: none"> 1) High unemployment rate among the youth 2) Economy is largely backed by its oil industry, which accounts for more than 95% of exports and 70% of government revenue 3) Share of the non-oil economy has been growing recently 4) High presence of income inequality 	<ul style="list-style-type: none"> 1) Educational policies are based on religious principles 2) Many colleges and universities emphasize curricula in sciences and technology, military studies, religion, and medicine 3) Institutes devoted to Islamic studies, in particular, abound 4) Women typically receive college instruction in segregated institutions 	<ul style="list-style-type: none"> 1) With the growing private sector, systems with advanced and innovative technologies are being installed 2) Modern high-technology arsenal makes country of densely armed nations 3) Technological updates

Syria	<p>Syrian meddling in Lebanon Support for terrorist groups The Muslim Brotherhood is becoming the most powerful opposition force Forging important links with secular opposition groups Strengthen the regime's position Civil war is ongoing</p>	<p>1) Economy is hobbled by a large state bureaucracy with a lot of difficulties, falling oil production, rising budget shortages, and inflation 2) Business environment is lacking transparency and efficiency 3) Labor market has been severely affected by the destructive conflicts 4) Inflation rate is high 5) Civil unrest is a major barrier to international trade and investment 6) Political uncertainty and repression have severely brought the financial system down 7) Central bank has imposed restrictions on the sale of foreign currency by banks to individuals</p>	<p>1) Water scarcity poses a major challenge for Syria's agricultural sector 2) Of Syria's seven aquifers, only two, near the Euphrates and coastal areas, carry surplus water</p>	<p>1) Dependent upon foreign assistance for advanced components and technologies 2) Conflict in Syria raises substantial proliferation and security concerns with regards to the security of Syria's weapons stockpiles 3) While civil war is ongoing it will be difficult for either party to substantiate missiles</p>
UAE	<p>1) Each of the 7 Emirates themselves have individual governmental organizations, allowing for flexible management across the country 2) Political conflicts with nearby countries about the ownership of oil reserves or land 3) Healthy trade relations with many countries across the globe</p>	<p>1) Exceptionally high GDP per capita 2) Very low unemployment rate 3) One of the highest amounts of FDI in the region</p>	<p>1) Inhabitants live comfortable lifestyles thanks to their well-paying jobs 2) Globalization is gradually resulting in a mix of many different cultures 3) Religion is an important matter in the area, which greatly affects society</p>	<p>1) Relatively young population is very tech-savvy 2) Companies leverage technology 2) Purchasing new equipment and being in the vanguard of technological development</p>
Yemen	<p>1) Government receives the vast majority of its revenue from oil taxes 2) Rampant corruption is limiting local reinvestments and driving away regional and international capital 3) Prolonged pretrial detention, judicial corruption, inefficiency, and executive interference undermine due process 4) Government and its security forces have been responsible for torture, inhumane treatment, and extrajudicial executions</p>	<p>1) Large proven reserves of natural gas 2) One of the poorest and least developed countries in the Arab World 3) High unemployment rate 4) Dwindling natural resources (very small oil reserves) 5) Increasing population growth 6) Economy depends heavily on the oil it produces 7) Foreign investments remain largely concentrated around the nation's hydrocarbon industry</p>	<p>1) Arbitrary arrests of citizens, especially in the south, as well as arbitrary searches of homes 2) Freedom of speech, the press, and religion are all restricted 3) High total fertility rate, at 4.45 children per woman</p>	<p>1) Government has committed to reduce illiteracy to less than 10% by 2025 2) Number of doctors is growing every year</p>

Table 19: Detailed PEST-analysis of Middle East countries

4.1.3 Penetration of Interpipe Company to Middle Eastern Market

The structure of Interpipe Company includes 8 trade companies located at the target markets. Interpipe Middle East, the office in UAE, Dubai, has been operating around 10 years, from 2006 till nowadays. It is a part of Tubular Sales Department for MENA and NAFTA.

In 2011 Interpipe implemented important changes to its sales structure in Middle East region. The change took it from a product application oriented organization, working independently on areas of pipe application, to a customer focused organization with closer cooperation with clients. The benefit of the changes is that instead of having two sales teams, the company has one sales team for the region. Thus, the customer makes an order for the whole necessary product range to one and the same manager. This is essential to enable us to respond quickly to enquiries, connect customers with our mills and to provide after sales service.⁷⁰

In 2013 Interpipe has launched a new program to support its distributors and agents in the company's key markets in the Middle East. Along with its partner companies, Interpipe carries out a number of activities and events for end customers of distributors, and develops individual promo products.

In 2013 Interpipe launched cooperation with Jordan. The company signed a distribution agreement with Al Omrania Company, which defined Al Omrania as the principal local representative of Interpipe in Jordan. The new agent would be involved in the distribution of Interpipe pipe products in Jordan and provision of services to end consumers in the region.

The pipe consumption on the Jordan market isn't so significant that's why many major pipe producers don't work there and concentrate only on big projects. Developing on multitude of such markets provides Interpipe with a stable sales growth in the Middle East region.⁷¹

The first step following the collaboration took place in the form of a seminar for 80 engineers and technical experts from construction companies in this region. The seminar provided a great opportunity for pipe consumers to learn more about Interpipe products and to discuss prospects of cooperation in construction and infrastructure projects in Jordan.

Interpipe's distribution support program was developed individually and included:

- Joint release of catalogues and leaflets;
- Interpipe's distributor labels and branded souvenirs;
- Promotional stands and product samples;
- Joint participation in exhibitions;
- Arrangement of the seminars and conferences for the end users.⁷²

Also Interpipe is strengthening its positions in Iraq. The 2014 year's obtainment of pre-qualification from the largest state-owned company S.O.C. (South Oil Company) has opened doors for Interpipe to work with the Ministry of Oil of the Republic of Iraq and oil producers of this region. One of the key stages of this collaboration consists of the arrangement of the conference for 100 representatives of the Ministry of Oil and the largest oil and gas companies.

During the course of the visit, Interpipe representatives conducted a series of key meetings with the Acting Minister of Oil of Iraq and the deputies, as well as with the management officials of a number of oil and gas companies. Iraq public officials expressed strong interest in the products which Interpipe has to offer, as one of the approved suppliers of pipe products for the state-owned oil companies.

The collaboration between the Ukrainian and Iraqi companies has a positive effect on the development of business relations between the countries. Interpipe also participated in the

⁷⁰ Interpipe Customer Bulletin № 2, 2012

⁷¹ Interpipe launches a cooperation with Jordan <http://me.interpipe.biz/media/news/1/51>

⁷² Interpipe Customer Bulletin #4, 2013

'4th Basra Oil and Gas Exhibition and Conference', where it conducted a number of meetings with S.O.C. and other players in the Southern Iraqi oil market.

Iraq is amongst the leading oil producers in the world. As such there is increasing demand for OCTG pipes, as well as pipes for pipelines. Successful cooperation with the Ministry of Oil and state oil companies in the Republic of Iraq are yet another milestone for Interpipe in its plans to build a stronger presence in the country.

Also there should be mentioned that to carry out the delivery of pipes to end-customers in Iraq, a producer must be included in the list of approved pipe suppliers at the Iraqi Ministry of Oil, as well as at each of the 15 major state-owned oil companies, controlling the extraction and transportation of petroleum products. Only after recommendations from the aforementioned companies, may a producer be registered and included to the list of suppliers for international oil companies, acting as contractors for the state-owned companies and immediate oil producers in the country (figure 21).⁷³

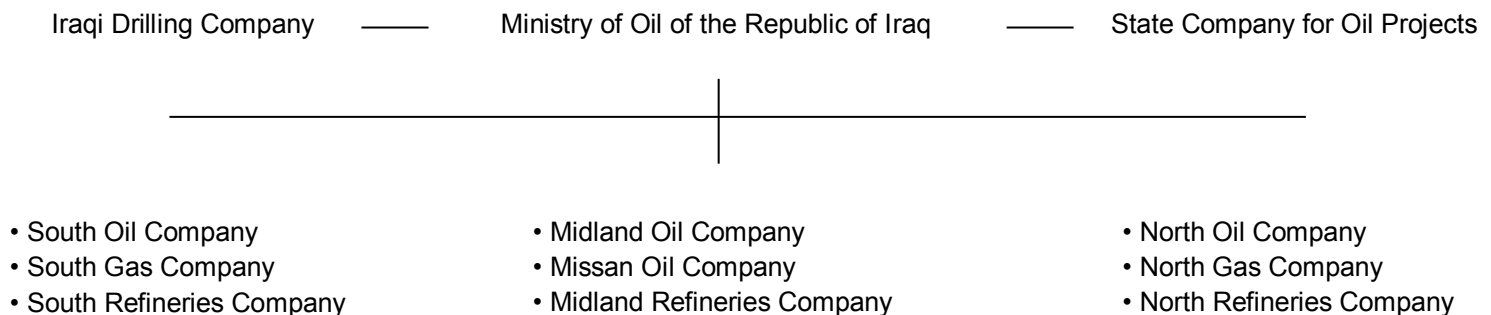


Figure 21: Oil and gas market of Iraq

In 2015 Interpipe registered its trademark in UAE. During 2016 Interpipe is focused on registration of trademarks in Saudi Arabia and Qatar.⁷⁴

Thus, Interpipe penetration to the Middle Eastern Market is realized by indirect export (using links with international agents and distributors), licensing (using registered trademarks), joint venture (using partnership with contractual parties) and WOSs (using own investments to create subsidiaries on international markets).

To ensure Interpipe's growth at the Middle East market, the company plans to increase sales to end-consumers and continues to develop strong relationships with key agents and distributors in the region. New support program will provide the partners with the necessary tools for more qualitative and effective service for end-consumers and therefore influence positively on the sales. Such cooperation helps the company to find common aims and tasks with its partners and collectively satisfy the real needs of end users.⁷⁵

⁷³ Interpipe Customer Bulletin #1(5), 2014

⁷⁴ Expert Pipe Solutions for Infrastructure Projects: Solutions for Chilled Water and Fire Fighting Systems, 2015

⁷⁵ Interpipe Customer Bulletin #4, 2013

4.2 International Economic Activity of Interpipe Company on Middle Eastern Pipes Market

4.2.1 Bilateral Relations between Ukraine and Middle East Countries

The importance of Ukraine's relations with the Middle East is defined by the role and place of this region in the modern system of international political, economic and security co-ordinates.

Mutual aspiration of Ukraine and Middle Eastern countries to promote relations is evidenced from their broad diplomatic presence: Ukraine has its Embassies in Jordan, Iraq, Israel, Kuwait, Lebanon, Qatar, Saudi Arabia, Syria, the United Arab Emirates, and the Representative Office of Ukraine functions in the Palestinian National Authority. Iraq, Israel, Kuwait, Lebanon, Palestine, Qatar, Saudi Arabia, Syria and the United Arab Emirates have established their Embassies in Kyiv.

Ukraine's interestedness in expanding trade and economic cooperation with the countries of the region is prompted by their relative geographic proximity, strong demand for Ukrainian products (mainly metals (figure 22) and agriculture, chemical industry and mechanical engineering), the possibility of diversification of energy sources, significant investment potential.

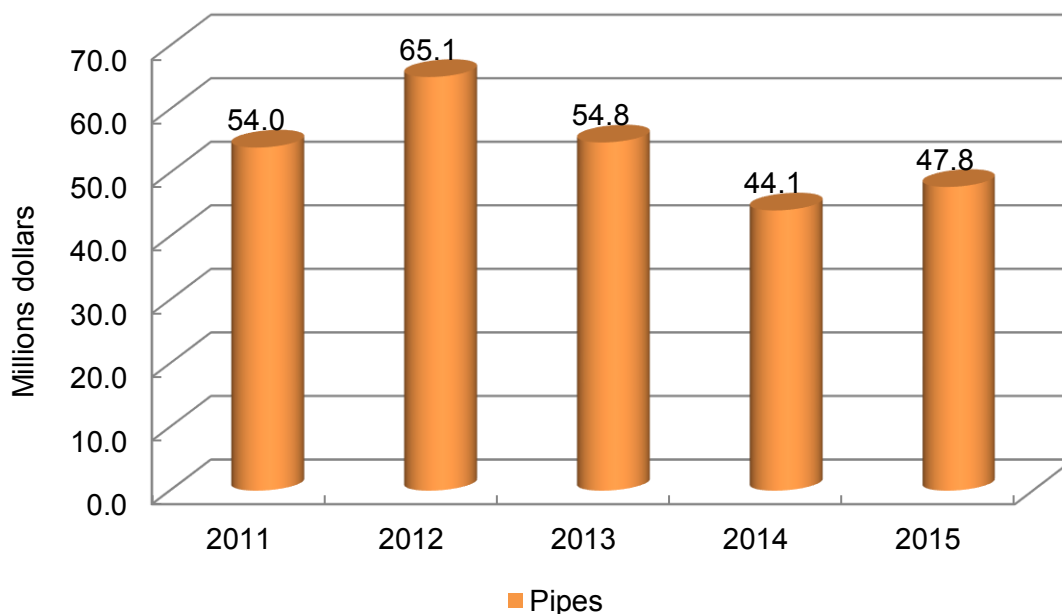


Figure 22: Export of Ukrainian steel pipes to the Middle East countries

Ukraine and countries in the region are also tied by human factor: thousands of Ukrainian nationals live in the Middle East, while thousands of students from Middle Eastern countries study at Ukrainian higher education institutions. Promotion of human contacts is facilitated by steps taken recently by Ukraine to liberalize visa regime for citizens of some countries in the region; in addition, visa regime with Israel was abolished in 2011. Direct flights are established between Ukraine and Jordan, Israel, Lebanon, and the UAE.

Recent events in the Middle East have led to a slowdown in the activity of political contacts and decline in Ukraine's trade with countries in the region (2011 – 6.7 bln USD, 2015 - 3.7 bln USD). In 2015 total trade turnover between Ukraine and countries in the region decreased by 26.3% and 87% of the trade is accounted for by the Ukrainian export (figure 23).

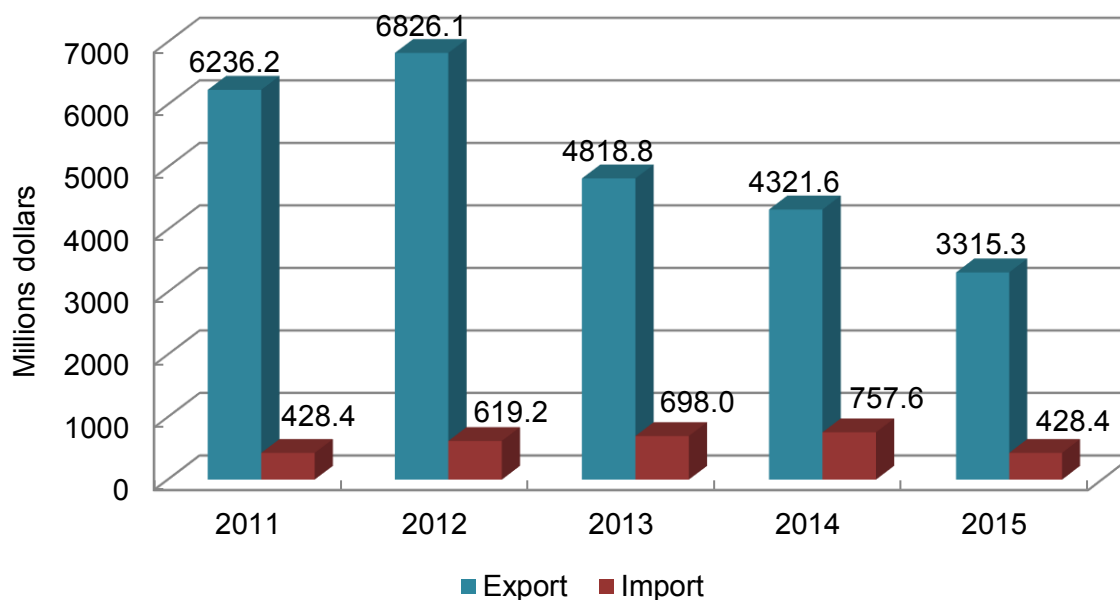


Figure 23: International trade between Ukraine and the Middle East countries

Hopefully, these phenomena are temporary, and the Middle East will continue to be one of the priority areas of mutually beneficial cooperation for Ukraine. Work aimed at removing trade barriers with countries in the region is intended to facilitate such relations. In particular, negotiations are underway on a free trade agreement with Israel; Ukraine has initiated contacts with the General Secretariat of the Cooperation Council for the Arab States of the Gulf, etc.⁷⁶

4.2.2 Interpipe Activity on Middle Eastern Pipes Market

Almost all Middle East countries are the consumers of Interpipe pipe production. The main consumers of Interpipe products in the region are Jordan, Kuwait, Qatar, Saudi Arabia and UAE. In the Middle East region the company has a diverse customer base covering the construction and oil and gas segments. The major distributors in UAE are an important route to market and important customers for Interpipe. Nowadays the company is in the process of developing long term supply agreements with some of these distributors.

Also the Middle East countries have their peculiarities of international activities which are lying in different special cultures and ways of doing business. The first thing Interpipe did on this market was adjusting its business approach to the needs of each country and customer in the region.⁷⁷ The volume of pipes exported by Interpipe to the Middle East region is presented in figure 24.

⁷⁶ Bilateral Cooperation: Ukraine – Middle East and Africa <http://mfa.gov.ua/en/about-ukraine/bilateral-cooperation/nest-africa>

⁷⁷ Interpipe Customer Bulletin № 2, 2012

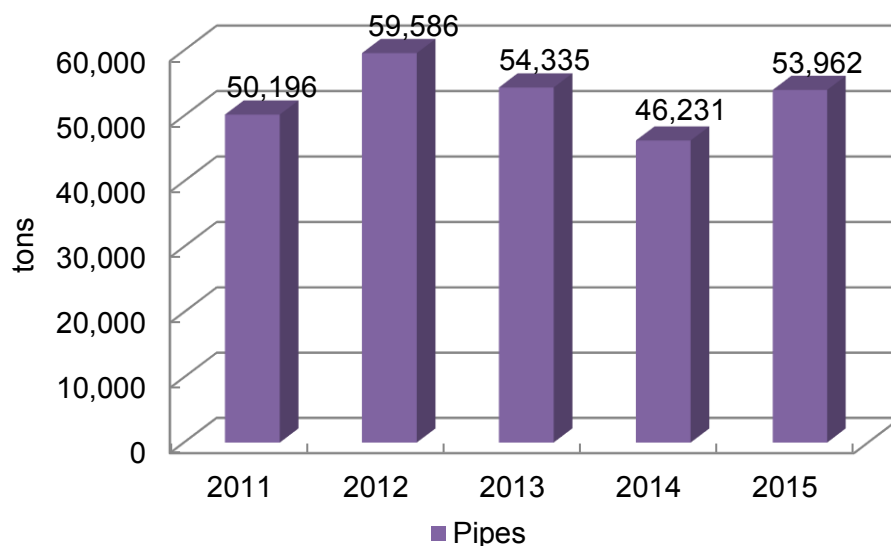


Figure 24: The volume of pipes exported by Interpipe to the Middle East region

The recent problems in Syria and the ongoing difficulties in Iran and Iraq had a dramatic effect on business in the region. The company saved the position in the segment of construction pipe. But lost volumes of sales in Iraq and some other countries because of the hostilities.⁷⁸ The volume of main groups of pipes exported by Interpipe to the Middle East region is presented in figure 25.

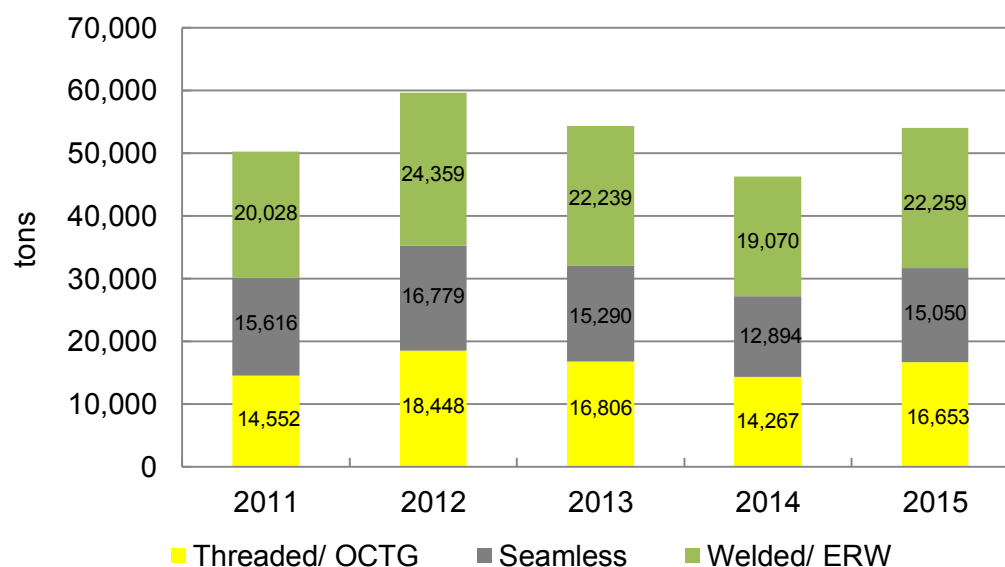


Figure 25: The volume of main groups of pipes exported by Interpipe to the Middle East region

⁷⁸ Interpipe Industrial News (2015)

Despite political instability in the region, the growth of the pipe market in the region in 2015 was ensured by active drilling in Iraq, Kuwait and Saudi Arabia. There should also be mentioned that the rise in numbers of active drilling rigs in the Middle East oil and gas sector is stable. The stable growth in oil extraction keeps up the great demand for oil and gas pipes and line pipes. The regional non-oil sector's development is also quite successful.

Due to the growing oil and gas production in the region an increase in the investments into infrastructure is expected, first of all, in Saudi Arabia and the United Arab Emirates, as well as other Middle East countries.

Active construction is expected in Saudi Arabia and UAE, ensuring the rise in the demand for general application pipes. At the same time the economic growth in the region keeps up the great demand for welded and seamless pipes.

The political situation in the region is still a risk factor, which may adversely affect the pipe consumption rates.⁷⁹

Also Interpipe maintained a strategic building segment and entered a new niche for it (pipes for firefighting systems) by obtaining a UL certificate. In 2017 a critical question for Interpipe company will remain the quality and development of new products in order to deeper penetration of the region. The company needs to regain the share of Chinese manufacturers who are actively forging Interpipe products.⁸⁰

For further development in the Middle East region, Interpipe company plans to raise its sales to final consumers, in particular, to increase the number of deliveries to oil and gas companies in Iraq, Iran, Jordan, Kuwait, Oman, Qatar, Saudi Arabia, etc. and will also continue the establishment of its relations with key agents and distributors.⁸⁰

4.3 Interpipe Projects Partnership

4.3.1 Pipe Solutions for Infrastructure Projects in Middle East Region

Interpipe has extensive experience in production of pipe products for civil construction, water and gas distribution applications, the production of fabricated metals and mechanical engineering use. The high profile projects, where Interpipe pipes are used, are presented in table 20.

In Jordan Interpipe has delivered seamless steel pipes according to ASTM A106 to international construction company Joint Venture of Consolidated Contractors Group S.A.L. (CCG), for the construction of the largest Oncological Center. This Oncological Center project is being implemented by CCG in cooperation with Haddadin Engineering Company for Contracting.

Interpipe pipes are used to lay a pipeline and a fire-fighting system at new buildings of King Hussein Oncological Center in the city of Amman. When this construction is over, this facility will become the largest clinic for cancer diseases' treatment in the Middle East, capable of receiving more than six-thousand patients a year.

In Kuwait Interpipe has produced and supplied seamless steel pipes for Bader Al Mulla & Bros Co. W.L.L. – the largest Kuwaiti construction company specializing in the erection of skyscrapers, specifically for the construction of the new National Bank of Kuwait, according to API 5L and ASTM A106. The 62-storied building with the height of approximately 300 m is scheduled to be completed in 2016. Interpipe pipes are used to lay air conditioning and water supply systems of the National Bank.

⁷⁹ Interpipe Customer Bulletin #4, 2013

⁸⁰ Interpipe Customer Bulletin #1(5), 2014

Country	Project	Interpipe participation
Jordan	King Hussein Cancer Center in Amman	Seamless steel pipes for a pipeline and a fire-fighting system at new buildings
Kuwait	National Bank	Seamless steel pipes for air conditioning and chilled water systems
	University Al-Shadadiyah	Seamless steel pipes for decked parking, shelters and ancillary buildings
Qatar	Lusail Multipurpose Hall	Structural steel for construction
	Souq Wakif	Seamless steel pipes for firefighting system
	Workers Hospital and Integrated Health Center	Chilled water and hot water systems
	Doha Metro Red Line South	Seamless steel pipes for line's air conditioning system
	Qrail Red Line	Seamless steel pipes for chilled water systems
	Doha Grand Park	Seamless steel pipes for firefighting systems
	Mall of Qatar	Seamless steel pipes for chilled water system
	Doha Land	Line pipes for chilled water and firefighting systems
	Doha Conventional Center Tower	Seamless steel pipes for chilled water system
	Doha World Trade Center	Seamless pipes for fuel system
	New Doha International Airport	Seamless pipes for construction of chilled water and firefighting systems
	Qatar Foundation	Line pipes for chilled water and firefighting systems
	State Audit Bureau Headquarters	Seamless pipes for firefighting system
	Internal Security Forces Camp in Duhail	Seamless pipes for chilled water systems
Saudi Arabia	King Fahd University of Petroleum and Minerals in Dhahran	Line pipes for construction
	King Faisal University in the city of Hofuf in Al-Hassa	Line pipes for chilled water air-conditioning system
	University of Dammam	Line pipes for chilled water air-conditioning system
	King Abdullah Financial District	Line pipes for the construction, firefighting and chilled water systems
	Holy Mosque	Line pipes for the construction, firefighting and chilled water systems
	King Abdulaziz International Airport	Line pipes for the construction, air conditioning and chilled water systems
	Hayat Mall	Line pipes for firefighting and chilled water systems
	Capital Market Authority Tower	Line pipes for firefighting and chilled water systems
	King Fahd Medical City	Line pipes for firefighting and chilled water systems
	Abraj Kudai Towers	Seamless pipes for chilled water systems
UAE	Discovery Gardens	Seamless pipes for chilled water systems
	Jumeirah Lake Towers: District Cooling Plants	Seamless pipes for chilled water systems
	Jumeirah Beach Residence	Seamless pipes for chilled water systems
	Etihad Towers	Seamless pipes for chilled water systems
	Yas Circuit	Seamless pipes for chilled water systems
	Modern Residential City	Seamless pipes for chilled water systems
	Bluwaters Island	Line pipes for chilled water systems
	Project of the future eco-city (Masdar)	Line pipes for construction

Table 20: Interpipe infrastructure projects in Middle East region

Also Interpipe has delivered seamless steel pipes for the Kuwait University construction project of Kharafi National contractor. Interpipe pipes are used for decked parking, shelters and ancillary buildings.⁸¹

In Qatar Interpipe has delivered structural steel for construction of Lusail Multipurpose Hall and seamless steel pipes for firefighting system of Souq Wakif.

⁸¹ Interpipe Construction Project Portfolio <http://me.interpipe.biz/clients/projects>

Interpipe supplied pipes for the chilled water systems of Workers Hospital and Integrated Health Centre in Qatar. Built-up area totals 61, 747 m² the hospital has capacity in 120 beds for workers and immigrants in Doha.⁸²

In June 2016 Interpipe produced pipes for a new construction project in Qatar for Petrofac Qatar customer. The volume of this order was 650 tons of seamless pipe line according to the requirements of API Spec 5L/ ASTM A106/ ASTM A53. This is the first delivery of seamless pipes for construction of an underground line in Qatar. At present Doha implements a project, called Doha Metro Red Line South, on construction of a new 14-km long underground line. It will consist of 5 stations, including one station to interchange with other lines. The company's products will be used for construction of the line's air conditioning system. Middle East construction market features an extremely tough competition; therefore, the company's task is to ensure timely and top-quality fulfillment of the partnership obligations to maintain the sales in the region at a stable level.⁸³

Also Interpipe has delivered seamless steel pipes for chilled water system of Qrail Re Line.

A two million square meter Grand Park in Qatar's capital complete with public swimming pools. Interpipe pipes were installed in the firefighting system in the underground parking complex.

Mall of Qatar is new huge shopping centre in Al Rayyan (160,000 m²) constructed as part of the country's preparation for the 2022 FIFA World Cup. Interpipe shipped seamless pipes, between 1" and 14", for a chilled water system in accordance with ASTM A53.

Interpipe supplied line pipes for chilled water and firefighting systems in the district Doha Land, Qatar. The products are produced in compliance with ASTM A53.

The Doha Convention Center Tower is a 551 m skyscraper currently under construction. It is shaped like a tapering and will house offices, apartments, a hotel and penthouse residences. At the very top, a private club will occupy a 60 m high glass cylinder. Chilled water system of building is constructed from Interpipe pipes.

Doha World Trade Center is a commercial office tower in the main business district area – stands 241 meters, and features 43 levels of office space, 4 floors of executive offices, 4 floors of car parking space. The tower also has a multi-purpose auditorium with 523 fixed seats, a multipurpose hall and 1,646 square meter conference rooms. Interpipe provided seamless pipes for fuel system.

The hub of Qatar Airways is a 22 km² facility located to the east of the Doha International Airport. Interpipe supplied seamless pipes according to ASTM for construction of chilled water and firefighting systems of New Airport.

Qatar Foundation for Education, Science and Community Development is a private, non-profit organization that supports and operates programs in three core mission areas: education, science and research, and community development. New firefighting and chilled water systems are constructed from Interpipe pipes.

State Audit Bureau Headquarters in Doha has three basement levels, a ground floor and 31 additional floors. Interpipe shipped seamless pipes for firefighting system in towers.

Internal Security Forces Camp in Duhail features a great number of buildings associated with military use and other additional facilities designed to provide support for both administrative and recreational activities. Interpipe has shipped seamless pipes for the chilled water systems.⁸⁴

In Saudi Arabia Interpipe has 8 delivered line pipes for the construction of a public university King Fahd University of Petroleum and Minerals. The University is located in Dhahran, Saudi

⁸² Expert Pipe Solutions for Infrastructure Projects: Solutions for Chilled Water and Fire Fighting Systems, 2015

⁸³ Interpipe Industrial News (2015)

⁸⁴ Expert Pipe Solutions for Infrastructure Projects: Solutions for Chilled Water and Fire Fighting Systems, 2015

Arabia. Among Saudi universities, its science and engineering programs are highly regarded. It has been ranked as the top university in the Arab world.

Also Interpipe has supplied the pipes for construction of a King Faisal University and University of Dammam in Saudi Arabia. Interpipe line pipes are used for chilled water air-conditioning system.

Interpipe has supplied pipe products for the construction of the new The King Abdullah Financial District (KAFD). KAFD is a new development under construction near King Fahad Road in the Asahafa area of Riyadh, Saudi Arabia being undertaken by the Rayadah Investment Corporation on behalf of the Pension Authority of the Kingdom of Saudi Arabia, consisting of 59 towers in an area of 1.6 million m². It will provide more than 3 million m² of space for various uses, 62,000 parking spaces and accommodation for 12,000 residents.

Interpipe has delivered line pipes for the construction of the largest mosque in the world – Holy Mosque. The current structure covers an area of 356,800 square meters including the outdoor and indoor praying spaces and can accommodate up to two million worshippers during the Hajj period, one of the largest annual gatherings of people in the world.⁸⁵

Interpipe has supplied steel pipes for international construction project for aviation in Saudi Arabia. Interpipe pipes are used for construction of King Abdulaziz International Airport (KAIA) in Jeddah of Vision-Electro Mechanical Company contractor. KAIA is located 19 km to the north of Jeddah, occupying an area of 15 km². It is the third largest, and busiest, airport in the country, and includes a royal terminal, facilities of Prince Abdullah Air Base for the Royal Saudi Air Force, and housing for airport staff. Interpipe supplied 2,500 tons of line pipes for a construction so far. The customer was fully satisfied with the pipe products and noted the high quality. Additional quantities are under order till the completion of this esteemed project.

Also Interpipe has supplied line pipes for firefighting and chilled water systems of such construction projects as Hayat Mall, Capital Market Authority Tower and King Fahd Medical City.

The two towers are a part of the 12 tower Abraj Kudai residential and commercial complex. The project with total built-up area of around 1.4 million m² consists of a large podium accommodating a shopping mall, restaurants, convention center and car parks. Interpipe has shipped seamless pipes, between 1" and 14", for chilled water systems since 2014.

In UAE Interpipe has supplied seamless pipes for chilled water systems of such construction projects as Discovery Gardens, Jumeirah Lake Towers: District Cooling Plants, Jumeirah Beach Residence, Etihad Towers, Yas Circuit and Modern Residential City.

Also Interpipe supplied line pipes according to ASTM A53/A108 for chilled water systems for the world's largest ferris wheel, Bluewaters Island, off the coast of Dubai's Jumeirah Beach Residence, which is starting to take shape on the 1.6 bn USD for development. The 210 meter-high Dubai Eye will overtake the new High Roller in Las Vegas (standing at 167.6 m) as the world's tallest such attraction.⁸⁶

Now Interpipe supplies the 500-km 8"-14" pipeline for construction of future eco-city (Masdar) by Future Energy Co. in Abu Dhabi, which is still in progress.⁸⁷

⁸⁵ Interpipe Construction Project Portfolio <http://me.interpipe.biz/clients/projects>

⁸⁶ Expert Pipe Solutions for Infrastructure Projects: GCC Region, 2016

⁸⁷ Interpipe Customer Bulletin No 3, 2013

5. Summary

Consequently, each company has its own reasons for penetration to the foreign markets, however, before entering the global market the company must consider all the 'pros' and 'cons' and also figure out the right business strategy on international markets. While deciding on the possibility to enter the international market, the position of the company in the domestic market should be considered, besides their competitive advantages should be estimated, the environment and the competition in this market should be analyzed as well as a program of financial management must be developed.

Developing the market entry strategy is a difficult process for enterprise entering a new foreign market. A number of important decisions have to be made during this process. The most popular models to explore the environment, strength and weaknesses, opportunities and threats, the main forces that influence on the company, are PEST, SWOT analysis, competitive advantages of Michael Porter which were presented in the second chapter.

There are various strategies for an enterprise to enter the international market, but the most widespread are: the export of goods, the establishment of joint ventures and direct investment.

The important feature of pipe production in Ukraine is that fact that a long time ago this sector was created within the former single economic space in USSR, and it was focused on the need Russia and other republics. As a result, Ukrainian pipe production now has a clear export orientation. Today, the total degree of Ukrainian pipe plants loading is about 30%, while more than 80% of their production is exported. The pipe production in Ukraine is represented by 8 specialized pipe enterprises that are concentrated in three eastern regions of Ukraine: Dnipropetrovsk, Donetsk and Lugansk. Interpipe is the Ukrainian industrial company, the manufacturer of pipes and wheels, which entering foreign markets with indirect export mode. The company's products are exported to more than 80 countries through a network of sales offices located in key markets of CIS, Middle East, North America and Europe. Also Interpipe is in the TOP-10 world producers of seamless pipes and is the third largest manufacturer of solid-rolled railway wheels in the world.

Interpipe's key strategic objectives are to diversify its geographical presence and product mix even more in order to enhance its position as a leading producer of pipes and wheels on such priority markets as Europe, North and South America, MENA. These regions are of strategic importance for the company's development, and that is why company intends to preserve the positive dynamics of pipe product sales at these markets in near future.

The company intends to pursue this strategy by increasing its seamless pipe and wheel production, enhancing its product mix and decreasing its costs to improve its profit margins, expanding its global presence and working more closely with its customers to deliver higher value-added products and services.

Also based on results of SWOT-analysis the company needs to combine two strategies into hybrid one in order to have a success in entering foreign markets: to follow the diversification strategy in order to deal with its threats through its inner strengths; and at the same time to consider focusing on positive changes strategy in order to deal with its weaknesses through its inner strengths too.

The results of PEST-analysis of Interpipe company show the influence on the company's business strategy on international markets: political (annexation of the Crimea, war at the east of the country, signing of serious legal documents with other countries, etc.); economic (price chaos, rampant inflation and interest, exchange rates fluctuations on the market, etc.); social (status of the domestic steel industry, creating conditions for working among the engineering staff of professionals and workers, etc.); and technological (innovated and export oriented production, large material, investment, time costs, etc.). However besides the internal and external environment that influence on the company's international business activity Interpipe has its own progressive competitive advantages of such types as selection of market segmentation (the company is established player in the high growth market segment of pipe products for the oil and gas industry); market position (Interpipe has strong market position in the seamless pipe segment which has high barriers to entry); exclusive products (the company has strong competitive advantages in the railway wheel business providing stable and highly attractive margins); commercial network (Interpipe has diversified customer base and developed sales structure); production expanses (the company is a low cost producer due to its favorable location in the steel making region of Ukraine); type of business structure (it's a vertically integrated business); human resources (there is industry expertise and experienced management team); and volume of production (Interpipe has potential to substantially increase production capacity).

The structure of Interpipe Company includes 8 trade companies located at the target markets. Interpipe Middle East, the office in UAE, Dubai, has been operating around 10 years, from 2006 till nowadays. It is a part of Tubular Sales Department for MENA and NAFTA.

In 2011 Interpipe implemented important changes to its sales structure in Middle East region. The change took it from a product application oriented organization, working independently on areas of pipe application, to a customer focused organization with closer cooperation with clients. The benefit of the changes is that instead of having two sales teams, the company has one sales team for the region. Thus, the customer makes an order for the whole necessary product range to one and the same manager. This is essential to enable us to respond quickly to enquiries, connect customers with our mills and to provide after sales service.

In 2013 Interpipe has launched a new program to support its distributors and agents in the company's key markets in the Middle East. Along with its partner companies, Interpipe carries out a number of activities and events for end customers of distributors, and develops individual promo products. Also that year Interpipe launched cooperation with Jordan and strengthened its positions in Iraq. In 2015 Interpipe registered its trademark in UAE. During 2016 Interpipe is focused on registration of trademarks in Saudi Arabia and Qatar.

Thus, Interpipe penetration to the Middle Eastern Market is realized by indirect export (using links with international agents and distributors), licensing (using registered trademarks), joint venture (using partnership with contractual parties) and WOSs (using own investments to create subsidiaries on international markets).

To ensure Interpipe's growth at the Middle East market, the company plans to increase sales to end-consumers and continues to develop strong relationships with key agents and distributors in the region. New support program will provide the partners with the necessary tools for more qualitative and effective service for end-consumers and

therefore influence positively on the sales. Such cooperation helps the company to find common aims and tasks with its partners and collectively satisfy the real needs of end users.

Almost all Middle East countries are the consumers of Interpipe pipe production. The main consumers of Interpipe products in the region are Jordan, Kuwait, Qatar, Saudi Arabia and UAE. In the Middle East region the company has a diverse customer base covering the construction and oil and gas segments. The major distributors in UAE are an important route to market and important customers for Interpipe. Nowadays the company is in the process of developing long term supply agreements with some of these distributors.

For further development in the Middle East region, Interpipe company also plans to raise its sales to final consumers, in particular, to increase the number of deliveries to oil and gas companies in Iraq, Iran, Jordan, Kuwait, Oman, Qatar, Saudi Arabia, etc. and will also continue the establishment of its relations with key agents and distributors.

List of References

Aaker D. (2007) Strategic marketing management, 2007

Ansoff I. (1989) Strategic Management, 1989

Besarab S.A. (2014) 'Small Businesses in the Steel Industry: Current Trends'. Electronic scientific Specialized Edition 'Effective Economy', 2014

Besednov S.V. (2010) 'Customer orientation – strategy of a modern successful company', 2010

Bourgeois L.J., Irene M. Duhaime, Stimpert J.L. (1999) Strategic Management. Concepts for managers, 1999

Doyle P. (1999) Management: Strategy and Tactics, 1999

Hill C.W.L., Jones G.R. (1999) Strategic management, 1999

Hill, Hwang & Kim, (1990) 'An Eclectic Theory of the Choice of International Entry Mode', Strategic Management Journal, Vol. 11, No. 2, 1990

Hollensen, S., Boyd, B., & Dyhr Ulrich, A. M. (2011). The Choice of Foreign Entry Mode in a Control Perspective. The IUP Journal of Business Strategy, 8(4), 2011

Hussey D. (2001) Strategy and Planning, 2001

John A. Pearce, Richard B. Robinson (1997) Formulation, implementation, and control of competitive strategy, 1997

Koch R. (2003) Strategy. How to Create and Use an Effective Strategy, 2003

KyivPost, vol. 21, issue 33, August 12, 2016

Michael E. Porter (1980) Competitive Strategy: Techniques for Analyzing Industries and Competitors: with a New Introduction, 1980

Michael E. Porter (2006) Competitive Strategy: Methodology of Analyzing Industries and Competitors, 2006

Pruschkivskii V.G. (2013) 'Character of cluster restructuring the regional industrial complex on the pipe industry example', 2013

Robinson, K.C., McDougall, P.P. (2001). 'Entry Barriers and New Venture Performance: a Comparison of Universal and Contingency Approaches'. Strategic Management Journal, Vol 22, Issue 6-7, 2001

Saric N. (2014) 'International Market Entry Strategies of Multinational Enterprises (MNEs) in Emerging Markets', 2014

Thompson A.A., Strickland A.J. (2003) Strategic Management: Concepts and Situation Analysis, 2003

W. Chan Kim, Moborn R. (2008) Blue Ocean Strategy, 2008

Annual Reports:

Annual Report of NTRP (2011)

Doing Business 2016: Regional Profile (MENA), 2016

Doing Business 2016: Economy Profile (Israel), 2016

Expert Pipe Solutions for Infrastructure Projects: GCC Region, 2016

Expert Pipe Solutions for Infrastructure Projects: Solutions for Chilled Water and Fire Fighting Systems, 2015

Interpipe Annual Report of Financial Accounting Results (2007)

Interpipe Customer Bulletin № 2, 2012

Interpipe Customer Bulletin No 3, 2013

Interpipe Customer Bulletin #4, 2013

Interpipe Customer Bulletin #1(5), 2014

Interpipe Customer Bulletin #6, 2014

Interpipe Industrial News (2015)

Interpipe KLV customer newsletter #4, 2015

Internet Resources:

About Interpipe company – <http://interpipe.biz/en/company/about>

Bilateral Cooperation: Ukraine – Middle East and Africa – <http://mfa.gov.ua/en/about-ukraine/bilateral-cooperation/nest-africa>

Doing Business: Economy Rankings – <http://www.doingbusiness.org/rankings>

Information database of issuers – <http://smida.gov.ua/db/emitent/search>

Interpipe Company News – <http://www.interpipe.biz/en/media/newsone/242/www.interpipe.biz>

Interpipe Construction Project Portfolio – <http://me.interpipe.biz/clients/projects>

Interpipe launches a cooperation with Jordan – <http://me.interpipe.biz/media/news/1/51>

Interpipe pipe plants will reduce the output of products in 2015 – http://delo.ua/business/trubnye-zavody-interpajpa-v-2015-godu-snizjat-vypusk-produkcii-295725/?supdated_new=1469442922

Interpipe – Steel and Seamless Pipes for the Mining Industry – <http://www.mining-technology.com/contractors/cables/interpipe-europe/>

Our Technical Partners – <http://www.finbergng.com/our-technical-partners/>

PESTLE Analysis – <http://pestleanalysis.com/pest-analysis/>

Political, Economic, and Environmental Challenges in the Middle East – <http://www.transatlanticacademy.org/node/696>

SWOT Analysis – <http://www.businessnewsdaily.com/4245-swot-analysis.html>

SWOT-analysis of NMPP – <https://www.weblancer.net/>

Ukraine: Interpipe hiring specialists with no experience – <http://metalukraine.com/2016/07/12/ukraine-interpipe-hiring-specialists-with-no-experience.html>

Ukrainian Interpipe stops export of pipes to Russia – <http://uaposition.com/latest-news/ukrainian-interpipe-stops-export-of-pipes-to-russia/>

What is the economic and political environment for doing business in the Middle East – <https://www.efic.gov.au/education-and-tools/sme-information-series/exporting-to-the-middle-east/what-is-the-economic-and-political-environment-for-doing-business-in-the-middle-east/>

Appendix

CONSOLIDATED BALANCE SHEET of INTERPIPE COMPANY⁸⁸ at 31.12.2014 (The statement of financial position)

Form № 1

Ths. USD

Assets	Line code	At the beginning of the reporting period	At the end of the reporting period
1	2	3	4
I. Non-current assets			
Intangible assets:	1000	187	222
initial cost	1001	495	563
Amortization	1002	308	341
Unfinished capital investments	1005	4 503	4 026
Fixed assets:	1010	137 536	128 596
initial cost	1011	173 544	173 211
Depreciation	1012	36 008	44 615
Investment property:	1015	0	0
initial cost	1016	0	0
Depreciation	1017	0	0
Long term biological assets:	1020	0	0
initial cost	1021	0	0
Amortization	1022	0	0
Long-term financial investments: which are accounted as a participation in equity of other companies	1030	6	0
other financial investments	1035	0	39
Long-term receivables	1040	20	11
Deferred tax assets	1045	61	6 253
Goodwill	1050	0	0
Goodwill on consolidation	1055	0	0
Deferred acquisition costs	1060	0	0
Remaining funds in centralized insurance reserve funds	1065	0	0
Other non-current assets	1090	0	0
Summary of part I	1095	142 313	139 147
II. Current assets			
Inventories	1100	37 827	41 974
Inventories	1101	3 510	1 484
Unfinished production	1102	2 071	3 659
Finished products	1103	140	87
Goods	1104	0.5	0.2
Current biological assets	1110	0	0

⁸⁸ Consolidated financial statements data includes data of three plants: NTRP, NMPP and Interpipe Vtormet. Data concerning business activity of plants NTC and Niko Tube is not available; because of these companies have the form of Closed JSC.

Deposits reinsurance	1115	0	0
Received bills	1120	0	0
Receivables for goods, works, services	1125	118 676	147 906
Accounts receivable: with advances issued	1130	40 435	68 483
with budget	1135	7 053	11 774
including income tax	1136	1 375	2 745
with accrued income	1140	0	0
with internal accounts	1145	0	0
Other current receivables	1155	1 267	26 930
Current financial investments	1160	0	0
Cash and cash equivalents	1165	1 111	4 201
Cash	1166	0	0
Accounts in banks	1167	0	0
Future expences	1170	2	86
Share of reinsurer in insurance reserves	1180	0	0
including in: reserves of long-term liabilities	1181	0	0
reserves of losses or reserves of allowance costs	1182	0	0
reserves for unearned premiums	1183	0	0
other insurance reserves	1184	0	0
Other current assets	1190	1 344	2 602
Summary of part II	1195	209 090	306 701
III. Non-current assets held for sale and disposal groups	1200	0	0
Balance	1300	351 403	445 848

Liabilities	Line code	At the beginning of the reporting period	At the end of the reporting period
1	2		4
I. Ownership capital			
Registered (share) capital	1400	8 265	8 265
Contributions to unregistered share capital	1401	0	0
Capital revaluation	1405	72 904	61 810
Additional capital	1410	7 065	7 001
Share premium	1411	0	0
Accumulated exchange difference	1412	0	0
Reserve capital	1415	437	437
Undistributed profit (uncovered loss)	1420	76 868	41 063
Unpaid capital (company debt)	1425	0	0
Excluded capital	1430	(25)	0
Other reserves	1435	0	0
Uncontrolled share	1490	(0.9)	(0.7)
Summary of part I	1495	165 513	118 575
III. Long-term liabilities and provision			
Deferred tax liabilities	1500	1 387	185

Pension liabilities	1505	1 143	1 117
Long-term bank loans	1510	3 080	0
Other long-term liabilities	1515	618	82 855
Long-term provision	1520	600	615
Long-term provision of personnel costs	1521	0	0
Targeted financing	1525	0	0
Charity help	1526	0	0
Insurance reserves, including:	1530	0	0
reserves of long-term liabilities (at the beginning of the reporting period)	1531	0	0
reserves of losses or reserves of allowance costs (at the beginning of the reporting period)	1532	0	0
reserves for unearned premiums (at the beginning of the reporting period)	1533	0	0
other insurance reserves (at the beginning of the reporting period)	1534	0	0
Investment contracts	1535	0	0
The prize fund	1540	0	0
Reserve on payment of jackpot	1545	0	0
Summary of part II	1595	6 828	84 772
III. Current liabilities and provision			
Short-term bank loans	1600	69 399	52 065
Issued bills	1605	0	0
Current payables:	1610	8 314	20 240
for long-term liabilities			
for goods, works, services	1615	48 132	49 701
accounts with budget	1620	512	494
including income tax	1621	31	0
accounts with insurance	1625	254	296
accounts with pay	1630	839	931
with advances received	1635	7 836	22 787
accounts with participants	1640	53	53
with internal accounts	1645	0	0
with insurance activity	1650	0	0
Current provision	1660	796	988
Future income	1665	0	0
Deferred commission income from reinsurers	1670	0	0
Other current liabilities	1690	42 896	94 946
Summary of part III	1695	179 062	242 501
IV. Liabilities associated with non-current assets held for sale and disposal groups	1700	0	0
V. Net asset value of private pension fund	1800	0	0
Balance	1900	351 403	445 848

CONSOLIDATED INCOME STATEMENT of INTERPIPE COMPANY⁸⁹ at 2014

(Statement of comprehensive income) Form № 2

I. Financial Results

Ths. USD

Article	Line code	During the reporting period	During the previous period
1	2	3	4
Net income from sale of products (goods, works, services)	2000	348 162	393 621
Net earned insurance premiums	2010	0	0
Subscribed premiums, gross amount	2011	0	0
Premiums transferred to reinsurance	2012	0	0
Change in provision for unearned premiums, gross amount	2013	0	0
Change share of reinsurers in reserve for unearned premiums	2014	0	0
Cost of sold products (goods, works, services)	2050	(303 654)	(349 616)
Net incurred losses on insurance payments	2070	0	0
Gross: profit	2090	44 508	44 005
Gross: loss	2095	0	0
Income (loss) from changes in reserves of long-term liabilities	2105	0	0
Income (loss) from changes in other insurance reserves	2110	0	0
Change in other insurance reserves, gross amount	2111	0	0
Change in reinsurers' share in other insurance reserves	2112	0	0
Other operating income	2120	211 430	110 479
Income from changes in value of assets that are measured at fair value	2121	0	0
Income from initial recognition of biological assets and agricultural products	2122	0	0
Income from the use of funds released from taxation	2130	0	0
Administrative expenses	2130	(15 704)	(16 130)
Selling expenses	2150	(22 613)	(21 341)
Other operating expenses	2180	(247 495)	(109 664)
Expenses from changes in value of assets that are measured at fair value	2181	0	0
Expenses on initial recognition of biological assets and agricultural products	2182	0	0
The financial results of operation activity: Profit	2190	0	7 349
The financial results of operation activity: Loss	2195	(29 874)	0
Income from equity	2200	0	0

⁸⁹ Consolidated financial statements data includes data of three plants: NTRP, NMPP and Interpipe Vtormet. Data concerning business activity of plants NTC and Niko Tube is not available; because of these companies have the form of Closed JSC.

Other financial income	2220	0.6	0.2
Other income	2240	1 555	1 879
Income from charitable assistance	2241	0	0
Financial costs	2250	(23 672)	(8 255)
Loss from equity	2255	(6)	(4)
Other expenses	2270	(483)	(12 575)
Profit (loss) from the effects of inflation on monetary items	2275	0	0
Financial result before taxation: profit	2290	0	0
Financial result before taxation: loss	2295	(52 479)	(11 606)
Expenses (income) from income tax	2300	6 761	3 907
Profit (loss) from discontinued operations after taxation:	2305	0	0
Net financial result: profit	2350	0	0
Net financial result: loss	2355	(45 718)	(7 699)

CONSOLIDATED BALANCE SHEET of INTERPIPE COMPANY⁹⁰ at 31.12.2015
(The statement of financial position)

Form № 1

Ths. USD

Assets	Line code	At the beginning of the reporting period	At the end of the reporting period
1	2	3	4
I. Non-current assets			
Intangible assets:	1000	222	288
initial cost	1001	563	667
Amortization	1002	341	379
Unfinished capital investments	1005	4 026	4 557
Fixed assets:	1010	128 596	126 726
initial cost	1011	173 211	185 212
Depreciation	1012	44 615	58 486
Investment property:	1015	0	0
initial cost	1016	0	0
Depreciation	1017	0	0
Long term biological assets:	1020	0	0
initial cost	1021	0	0
Amortization	1022	0	0
Long-term financial investments: which are accounted as a participation in equity of other companies	1030	0	0
other financial investments	1035	39	39
Long-term receivables	1040	11	4
Deferred tax assets	1045	6 253	10 735
Goodwill	1050	0	0

⁹⁰ Consolidated financial statements data includes data of three plants: NTRP, NMPP and Interpipe Vtormet. Data concerning business activity of plants NTC and Niko Tube is not available; because of these companies have the form of Closed JSC.

Goodwill on consolidation	1055	0	0
Deferred acquisition costs	1060	0	0
Remaining funds in centralized insurance reserve funds	1065	0	0
Other non-current assets	1090	0	0
Summary of part I	1095	139 147	142 349
II. Current assets			
Inventories	1100	41 974	26 018
Inventories	1101	1 484	3 142
Unfinished production	1102	3 659	3 097
Finished products	1103	87	182
Goods	1104	0.2	0
Current biological assets	1110	0	0
Deposits reinsurance	1115	0	0
Received bills	1120	0	0
Receivables for goods, works, services	1125	147 906	219 682
Accounts receivable: with advances issued	1130	68 483	31 930
with budget	1135	11 774	8 436
including income tax	1136	2 745	2 400
with accrued income	1140	0	0
with internal accounts	1145	0	0
Other current receivables	1155	26 930	114 915
Current financial investments	1160	0	0
Cash and cash equivalents	1165	4 201	1 282
Cash	1166	0	0
Accounts in banks	1167	0	0
Future expences	1170	86	39
Share of reinsurer in insurance reserves	1180	0	0
including in: reserves of long-term liabilities	1181	0	0
reserves of losses or reserves of allowance costs	1182	0	0
reserves for unearned premiums	1183	0	0
other insurance reserves	1184	0	0
Other current assets	1190	2 602	3 922
Summary of part II	1195	306 701	408 624
III. Non-current assets held for sale and disposal groups	1200	0	0
Balance	1300	445 848	550 973

Liabilities	Line code	At the beginning of the reporting period	At the end of the reporting period
1	2		4
I. Ownership capital			
Registered (share) capital	1400	8 265	8 265
Contributions to unregistered share capital	1401	0	0

Capital revaluation	1405	61 810	52 846
Additional capital	1410	7 001	6 935
Share premium	1411	0	0
Accumulated exchange difference	1412	0	0
Reserve capital	1415	437	622
Undistributed profit (uncovered loss)	1420	41 063	31 935
Unpaid capital (company debt)	1425	0	0
Excluded capital	1430	0	0
Other reserves	1435	0	0
Uncontrolled share	1490	(0.7)	(0.9)
Summary of part I	1495	118 575	100 602
III. Long-term liabilities and provision			
Deferred tax liabilities	1500	185	0
Pension liabilities	1505	1 117	1 170
Long-term bank loans	1510	0	0
Other long-term liabilities	1515	82 855	126 081
Long-term provision	1520	615	666
Long-term provision of personnel costs	1521	0	0
Targeted financing	1525	0	0
Charity help	1526	0	0
Insurance reserves, including:	1530	0	0
reserves of long-term liabilities (at the beginning of the reporting period)	1531	0	0
reserves of losses or reserves of allowance costs (at the beginning of the reporting period)	1532	0	0
reserves for unearned premiums (at the beginning of the reporting period)	1533	0	0
other insurance reserves (at the beginning of the reporting period)	1534	0	0
Investment contracts	1535	0	0
The prize fund	1540	0	0
Reserve on payment of jackpot	1545	0	0
Summary of part II	1595	84 772	127 917
III. Current liabilities and provision			
Short-term bank loans	1600	52 065	84 914
Issued bills	1605	0	0
Current payables:			
for long-term liabilities	1610	20 240	22 301
for goods, works, services	1615	49 701	33 476
accounts with budget	1620	494	2 403
including income tax	1621	0	11
accounts with insurance	1625	296	229
accounts with pay	1630	931	1 048
with advances received	1635	22 787	29 993
accounts with participants	1640	53	53
with internal accounts	1645	0	0
with insurance activity	1650	0	0
Current provision	1660	988	1 375

Future income	1665	0	0
Deferred commission income from reinsurers	1670	0	0
Other current liabilities	1690	94 946	146 651
Summary of part III	1695	242 501	322 454
IV. Liabilities associated with non-current assets held for sale and disposal groups	1700	0	0
V. Net asset value of private pension fund	1800	0	0
Balance	1900	445 848	550 973

CONSOLIDATED INCOME STATEMENT of INTERPIPE COMPANY⁹¹ at 2015

(Statement of comprehensive income) Form № 2

I. Financial Results

Ths. USD

Article	Line code	During the reporting period	During the previous period
1	2	3	4
Net income from sale of products (goods, works, services)	2000	347 282	348 162
Net earned insurance premiums	2010	0	0
Subscribed premiums, gross amount	2011	0	0
Premiums transferred to reinsurance	2012	0	0
Change in provision for unearned premiums, gross amount	2013	0	0
Change share of reinsurers in reserve for unearned premiums	2014	0	0
Cost of sold products (goods, works, services)	2050	(288 053)	(303 654)
Net incurred losses on insurance payments	2070	0	0
Gross: profit	2090	59 229	44 508
Gross: loss	2095	0	0
Income (loss) from changes in reserves of long-term liabilities	2105	0	0
Income (loss) from changes in other insurance reserves	2110	0	0
Change in other insurance reserves, gross amount	2111	0	0
Change in reinsurers' share in other insurance reserves	2112	0	0
Other operating income	2120	238 468	211 430
Income from changes in value of assets that are measured at fair value	2121	0	0
Income from initial recognition of biological assets and agricultural products	2122	0	0
Income from the use of funds released from taxation	2130	0	0
Administrative expenses	2130	(14 486)	(15 704)
Selling expenses	2150	(25 988)	(22 613)

⁹¹ Consolidated financial statements data includes data of three plants: NTRP, NMPP and Interpipe Vtormet. Data concerning business activity of plants NTC and Niko Tube is not available; because of these companies have the form of Closed JSC.

Other operating expenses	2180	(246 002)	(247 495)
Expenses from changes in value of assets that are measured at fair value	2181	0	0
Expenses on initial recognition of biological assets and agricultural products	2182	0	0
The financial results of operation activity: Profit	2190	11 221	0
The financial results of operation activity: Loss	2195	0	(29 874)
Income from equity	2200	0	0
Other financial income	2220	0.1	0.6
Other income	2240	3 283	1 555
Income from charitable assistance	2241	0	0
Financial costs	2250	(33 621)	(23 672)
Loss from equity	2255	0	(6)
Other expenses	2270	(915)	(483)
Profit (loss) from the effects of inflation on monetary items	2275	0	0
Financial result before taxation: profit	2290	0	0
Financial result before taxation: loss	2295	(20 032)	(52 479)
Expenses (income) from income tax	2300	2 115	6 761
Profit (loss) from discontinued operations after taxation:	2305	0	0
Net financial result: profit	2350	0	0
Net financial result: loss	2355	(17 917)	(45 718)

Statement of Authorship

I hereby certify this bachelor thesis presented here has been composed by myself and is the result of my own investigations, unless otherwise acknowledged in the text. All references and all sources of information have been specifically acknowledged. This thesis has not been submitted, either in part or whole, for a degree at this or any other University. This work has not been published.

Mittweida, 14th December 2016

Olena Tisova