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Investing in Russia from “friendly” countries

Navigating risks or unlocking opportunities



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Introduction

Dear Colleagues,

Amid a complex and changing geopolitical landscape, Russia's regulatory environment is shifting rapidly, creating uncertainties for foreign investors. Despite these challenges, Russia remains attractive due to its abundant natural resources, strategic location, and large domestic market, offering significant opportunities for growth in energy, minerals, agriculture, and more.

While some investors have withdrawn from Russia due to sanctions, others see potential and seek guidance on entering the market. Questions around the distinctions between "friendly" and "unfriendly" investors and the regulatory hurdles are ever more pressing.

This overview outlines the key market opportunities, options for entry, and legal considerations for investing in Russia.

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Economic potential and
the scope for integration
and development

Key takeaway

Many sectors in Russia – such as technology, energy, agriculture, automotive, manufacturing, healthcare, etc., – are experiencing growth and development supported by government policies focused on economic diversification and reducing reliance on foreign supplies. These industries present promising opportunities for investors seeking fresh avenues of expansion and profit potential, especially through the localization of production facilities and establishing a stable presence in Russia.

While, in most cases, foreign investors of “unfriendly” origins have exited the Russian market, this dynamic has created new opportunities for “friendly” investors, as well as for local market participants aiming to expand their distribution chains far beyond Russia.



At present, many Russian industries are experiencing development and growth, offering the potential for valuable expansion opportunities and increased margins for investors.

In these areas, foreign investors can contribute greatly by providing advanced expertise and technologies, sharing international best practices to enhance local standards, facilitating knowledge integration through partnerships, and investing in the development of infrastructure:

1**Technology & IT**

Russia's tech sector is growing in software, cybersecurity, AI, and fintech, with domestic solutions expanding in critical infrastructure.

2**Energy Sector**

Russia's traditional oil and gas base is diversifying with renewables and infrastructure modernization.

3**Agriculture & Food Processing**

Modern techniques, export focus, and large-scale irrigation projects are key priorities, supported by government funding.

4**Auto & Manufacturing**

Growth in electronics, machinery, and automotive sectors continues, with significant increases in car and truck deliveries.

5**Pharmaceuticals & Healthcare**

Significant growth in vaccine production, biotech, and healthcare services.

These and many other industries are supported by government policies aimed at diversifying the economy and fostering further market growth, with a focus on meeting customer demands. Such

initiatives create a **favorable environment for innovation and growth** across a variety of sectors.

Therefore, investors seeking new opportunities in the market might consider investing in these industries, including software development, renewable energy, agritech, biotech, pharmaceuticals, healthcare services, and other sectors aligned with the government's development strategies. By doing so, they can capitalize on the ongoing economic reforms and the expanding market potential driven by supportive state policies and advancements in industry.

Let us analyze the options for setting up presence in Russia.

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What are the options
for gradual return and
building a local presence?

Key takeaway

Given the evolving regulatory landscape, there are several options for “friendly” foreign investors to establish their presence in the Russian market.



*Setting up a **branch or representative office** is quick and straightforward but has certain legal and economic drawbacks with the parent company assuming full liability for the activity of its subdivision. Additionally, there is a risk of tax exposure vis-à-vis permanent establishment status.*



*Establishing a **new legal entity** or **investing in an existing one** represents a more streamlined process but requires thorough due diligence and active involvement in managerial affairs and control over the Russian asset.*



The distribution model allows for revenue generation without creating a local entity, though it necessitates careful structuring of logistics, contracts, and payment channels, all while ensuring full compliance with Russian legislation.

Determining which option is most suitable largely depends on your long-term goals, capabilities, investment volume, and other such factors.

1

Branch or representative office

Differences between a branch and a representative office from the commercial standpoint

A representative office is a subdivision that solely represents the interests of the legal entity and does not engage in independent business activities. In contrast, a branch can perform all or part of the legal entity's functions, including entering into contracts and conducting business operations. The primary difference is that a representative office operates in a limited capacity, while a branch is authorized to carry out full commercial activities.



Regulatory formalities to comply with

The establishment of either type of subdivision is not subject to clearance under the countersanctions regulations, and Russian legislation does not impose requirements such as authorized capital or the number of participants thereupon. However, it is necessary to have a registered physical office in Russia with a lease agreement.



Drawbacks

Technically, establishing a subdivision in Russia takes more time, involves higher state duties payable exclusively to the federal budget, as electronic registration is not possible, and entails more stringent compliance obligations compared to establishing a new company in Russia.



Benefits

Opening a branch or representative office allows investors to launch operations in Russia quickly and predictably. This option minimizes regulatory risks from the start and helps establish a presence without complex approval procedures. It offers a practical way to begin working with a local team and build relationships with authorities and partners.



Strategic considerations

Limited activities vs. full operations

- **Representative office:** suitable for purely non-commercial, promotional, or liaison roles.
 - **Branch:** appropriate for full-scale business operations, including sales and signing contracts.
-

Regulatory and compliance aspects

- No countersanctions clearance required.
 - No minimum authorized capital or participant restrictions.
-

Establishment process & timing

- Longer setup time due to the registration of a physical office and manual procedures.
 - Higher state duties when compared with the registration of a new legal entity in Russia.
-

Operational flexibility

- A branch offers greater operational independence and revenue-generating capabilities.
 - Representative offices are limited in scope, being largely confined to representation.
-

Legal & tax risks

- Both forms entail compliance obligations; branches may fall under higher regulatory scrutiny.

- No electronic registration option, adding procedural complexity.
 - The parent company bears full legal and financial responsibility for all the activities and obligations of the subdivision.
 - Be aware that the subdivision may be classified as a permanent establishment by the tax authorities. The status of a permanent establishment subjects the subdivision to the same corporate income tax obligations as a Russian legal entity.
-

Cost & resource considerations

- Higher initial costs for registration and duties for branches.
 - Simpler, quicker setup for representative offices if only representation is needed.
-

Strategic fit

- Choose a representative office for market research, promotion, or liaison roles.
- Opt for a branch if full commercial activity and operational control are desired long-term.

2

Establishment of a new company or acquisition of the shares of existing entity

New company vs investing in an existing one

Establishing a new company in Russia – either as a Limited Liability Company (LLC) or a Joint Stock Company (JSC) – based on the planned number of shareholders, future activities, and management structure, offers greater independence and operational flexibility for growth with the most streamlined establishment regulatory

process. This approach facilitates direct engagement with clients and simplifies local financial management. It is a more robust long-term solution for foreign investors aiming to expand their presence or strengthen their position in the Russian market, although certain legal, operational, and financial challenges may still arise.

Alternatively, acquiring an existing business can enable quicker market entry, as investors purchase operational companies, assets, and established teams. However, this route requires thorough due diligence to assess the company's financial health, legal disputes or claims, and overall history – ensuring informed decision-making and avoiding unforeseen liabilities.



Regulatory formalities

Importantly, establishing a new company or acquiring an existing one from “friendly” investors is not subject to countersanctions regulations, unlike such transactions involving “unfriendly” investors.



Drawbacks

The establishment of a new company or acquisition of an existing one results in the investor's subjection to the full scope of Russian corporate, tax, and currency control legislation. This creates a requirement to establish and maintain corresponding systems for accounting, reporting, and legal support.



Benefits

This structure grants the investor complete strategic and operational command over all business activities, from pricing and marketing to sales strategy. It enables the direct retention of operational profits in full and provides a formal mechanism for their repatriation as dividends. The investor gains ownership rights over the local physical assets, contracts, and intellectual property, building tangible equity in the market. Establishing a formal legal entity signals a serious, long-term commitment, significantly enhancing credibility

with clients, partners, and the regulatory authorities. Ultimately, it creates a stable platform that offers the highest degree of strategic flexibility for scaling operations and adapting the business model.



Strategic considerations

Long-term growth & market presence

- Establishing a new company (LLC or JSC) provides greater independence, operational flexibility, and scalability for future expansion in Russia.
 - Suitable for investors seeking to build or strengthen a long-term presence.
-

Speed of market entry

- Acquiring an existing business allows for faster entry into the Russian market with immediate operational assets and team presence.
 - Suitable for investors prioritizing quick deployment over long-term independence.
-

Due diligence & risk management

- Acquisition requires comprehensive due diligence to evaluate financial health, legal risks, disputes, and company history – reducing the risk of unforeseen liabilities.
- Goes beyond historical performance to scrutinize tax compliance, audit findings, and potential hidden liabilities for a complete assessment of the target's fiscal health.

Legal & regulatory environment

- Establishing a new company or acquiring one from “friendly” investors is not subject to countersanctions regulation, offering a clearer legal pathway than engaging with “unfriendly” investors.
-

Operational control & flexibility

- Establishing a new entity offers full control over governance, management, and strategic decisions.
 - Acquisition provides immediate operational capabilities but may involve challenges in integration and compliance.
-

Cost & resource implications

- Setting up a new company involves higher initial costs and a longer setup time but offers more tailored control.
 - Acquisition may be more cost-effective in the short term but requires careful due diligence to ensure value and mitigate risks.
-

Strategic fit

- Set up a new company for long-term strategic development, brand building, and local operational independence.
- Opt for acquisition when rapid market presence, operational assets, and team integration are priorities.

3

Distribution

Supplies to Russia and the distribution network

Under Russian legislation, there are no significant obstacles or restrictions for foreign investors to establish a supply and distribution network in Russia. An initial, low-commitment market

entry strategy can be implemented by bypassing the need to establish a formal legal entity. Instead, “friendly” investors may set up a local presence and facilitate direct supply through intermediary arrangements such as authorized distributors, licensees, or franchise agreements. This approach allows businesses to maintain a commercial foothold in the Russian market and generate revenue with minimal upfront commitments.

However, it is important to consider Russia’s existing legal provisions, including antitrust regulations, when operating in Russia and selling products to Russian consumers. Compliance with these regulations is essential to avoid potential legal issues and ensure smooth market operations.



Regulatory formalities to comply with

Payments under commercial contracts (such as the sale of goods or the provision of services) are not restricted by Russian law, including the applicable countersanctions regulations, regardless of whether the investor is considered “friendly” or “unfriendly”.



Drawbacks

The distribution model involves a partnership-based approach where the investor relies on a third party for key commercial functions. As a result, there is less direct influence over day-to-day operations, pricing decisions, and customer engagement, which requires a well-structured agreement and careful partner management. Moreover, scrutiny from the banks involved in operations and wiring funds to and from Russia cannot be entirely avoided, which may lead to overcompliance issues and unexpected delays in transborder payments.



Benefits

The distribution model enables swift and resource-efficient market entry. It minimizes initial capital expenditure and streamlines the launch by circumventing the administrative procedures inherent

to the other options. The model allocates primary operational responsibilities to the local partner. This allows the investor to leverage the distributor's existing market knowledge, client network, and commercial infrastructure to achieve market presence without the need for significant internal investment in these areas.



Strategic considerations

Low-commitment entry approach

- Utilizes intermediary arrangements (distributors, licensees, franchisees) to enter the market with minimal upfront investment.
 - This allows rapid market testing and revenue generation while assessing long-term commitment levels.
-

Legal and regulatory compliance

- Ensures adherence to Russian legislation, especially antitrust laws, to avoid any legal implications or disputes.
 - Conduct thorough legal due diligence to understand the restrictions and obligations associated with distribution arrangements.
-

Market presence without a formal entity

- Establish a local presence through trusted partners rather than starting off by creating a subsidiary, reducing exposure and operational complexity.
- This facilitates flexibility and easier adjustment based on the market response.

*Antitrust
and legislative
considerations*

- Be aware of and comply with antitrust and other imperative Russian regulations to prevent practices that could be penalized.
 - Structure agreements carefully to avoid issues with the regulatory authorities, counterparties and customers in future.
-

*Relationship
management*

- Develop strong relationships with local distributors or licensees who understand the market dynamics and legal landscape.
 - Regular monitoring and compliance checks are essential to maintain smooth, lawful operations.
 - Evaluate your counteragents in advance: their history, financial and legal background, position in the markets, and GR aspects.
-

*Long-term
strategic planning*

- Use the initial low-commitment approach as a stepping stone toward deeper market engagement, including the potential establishment of formal legal entities if justified.
 - Evaluate market performance periodically to identify any need for direct investment or expansion.
-

Risk mitigation

- Anticipate and plan for legal, regulatory, or market risks associated with indirect supply arrangements.
- Analyze tax requirement and structure your commercial activities as per your needs within the existing legal framework.
- Draft all commercial contracts in strict compliance with the requirements of public law, avoiding unjustified resale price maintenance, territorial allocations, or customer restrictions without proper reasonable economic justification.

- Incorporate contractual safeguards and compliance protocols to minimize legal exposure.
- Explore and adopt alternative export/import payment schemes to bypass SWIFT restrictions.
- Continuously monitor all transactions and counterparties to identify and mitigate regulatory risks.

As illustrated, each form of presence entails its own advantages and disadvantages. Nevertheless, each may be affected by the application of countersanction restrictions established in Russia in response to actions by “unfriendly” states. The following section is dedicated to an analysis of this potential impact.

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Impact of Countersanctions on Foreign “Friendly” Investors

Regulatory Distinctions of the latter
from “Unfriendly” Investors

In our experience, there is currently a certain negative sentiment stemming from a skeptical perception of investing in Russia due to the prevailing restrictive measures. However, as will be demonstrated in the analysis below, this skepticism is largely misplaced, as the regulatory framework places almost all constraints on “unfriendly” investors. Thus, in contrast to the latter, “friendly” ones face far fewer restrictions and thus have many more opportunities to invest.

The table below outlines the key restrictions and limitations applicable to “unfriendly” and “friendly” investors within the framework of the countersanctions regulation.

As may be seen, in the overwhelming majority of cases, the countersanctions restrictions do not apply to transactions or operations with “friendly” investors. Note, however, that if specific claims under an obligation have been assigned by “unfriendly” investors to friendly ones, such claims will generally also be subject to restrictions.

¹ It should be noted that, as a general rule, the definition of “unfriendly” investors includes not only individuals and legal entities of unfriendly states, but also persons from other jurisdictions that are controlled by them.



Indicates that the transaction/operation requires approval of the Sub-Commission of the Government Commission for Control over Foreign Investments in the Russian Federation (or other state authorities in specific cases) under countersanctions rules.



Indicates that the transaction/operation is not subject to any restrictions.

Transaction/operation

Foreign “unfriendly” investors

Foreign “friendly” investors

Payment from a Russian person to a foreign person in RUB under a loan agreement



Payment from a Russian person to a foreign person in foreign currency under a loan agreement



In practice, the prospects for obtaining approval for a payment in favor of a “friendly” investor are significantly higher

Dividend distribution / allocation of profit in excess of RUB 10 mln or equivalent in foreign currency



Issues of bank compliance not excluded

Foundation of a legal entity in Russia: clearance obligations



Transactions entailing the direct and/ or indirect establishment, alteration, termination, or encumbrance of rights of ownership, use, and/or disposal of participatory interests in Russian LLCs



Transactions entailing the direct and/ or indirect establishment, alteration, termination, or encumbrance of rights of ownership, use, and/or disposal of shares in Russian JSCs



Acquisition of real estate by a foreign person



Acquisition / licensing of IP rights / payment of royalties



Restrictions to (1) license agreements concluded by Russian persons (as licensees) and foreign “unfriendly” investors (as right holders) and (2) agreements on the acquisition by a Russian person of IP-rights owned by a foreign “unfriendly” investor

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Recommendations
and points to consider

Given the current geopolitical conditions, investment in Russia inherently entails both challenges and benefits, with the latter, in our view, being of predominant significance in aggregate.

Challenges

Regulatory and legal risks

Rapid changes in legislation, the expansion of foreign sanctions, risks of secondary sanctions, and evolving tax policies can impact investments, for instance, there is an increase in value added tax (VAT) starting from January 01, 2026. Despite this increase, the Russian VAT rate remains moderate in comparison with other countries.

Geopolitical tensions

Political instability and international relations may affect market stability and access, creating uncertainty for the planning of business activity.

Currency fluctuations

Volatility in RUB can impact returns and investment strategies.

Operational difficulties

Differences in business practices and logistical issues can complicate operations. From a practical standpoint, there are difficulties in finding a bank which could assist in providing payments under the contracts with Russian counterparties due to risks of secondary sanctions and an enhanced system of KYC checking.

Benefits / Opportunities for Profit

Market potential

Russia's large consumer base and resource-rich economy offer opportunities across various sectors, which may offer an assurance of profitability.

Growing sectors

Software development, renewable energy, agritech, biotech, pharmaceuticals, healthcare services, and other sectors are emerging with significant growth potential.

Strategic position

Russia's geographic location provides a gateway to Eurasian markets, which may be more profitable amid geopolitical tensions.

While investing in Russia involves navigating complex risks, it can also offer profitable opportunities for those boasting thorough market research, risk management strategies, and local partnerships. It is essential for investors to stay informed about the legal and geopolitical developments and to consider local expertise when entering the market. For risk mitigation, it is advisable to prepare a detailed step-by-step plan, covering major hurdles and possibilities to overcome them.

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Action plan for considering
investments in Russia
and deciding on the form
of local presence

Recognizing that determining investment feasibility in Russia is contingent upon a multitude of case-specific factors and circumstances, we have developed an action plan that can be utilized to perform a high-level assessment of investment advisability for the different modes of market entry.

1

Market and Regulatory Analysis

- Assess the current political and economic environment, including the countersanctions and their implications.
- Review the applicable laws, regulations, and restrictions for foreign investors, including the distinction between “friendly” and “unfriendly” investors.
- Identify key industry-specific regulations and licensing requirements.
- Conduct comprehensive industry-specific market studies to understand the current demand levels.
- Analyze the opportunities for investment and demand in the markets.
- Identify key consumer segments, their preferences, and unmet needs.
- Analyze the recent trends, technological advancements, and emerging sectors within the market.

2

Competitor and Supply Chain Assessment

- Map out the existing competitors, their market share, and their product/service offerings.
- Identify areas where competitors are underperforming or not present.

- Evaluate the supply chain dynamics to find bottlenecks or inefficiencies.
-

3

Define Investment Objectives and Strategy

- Clarify short-term and long-term goals for entering the Russian market.
 - Decide on the scope of operations: distribution, manufacturing, R&D, or a combination thereof.
 - Evaluate one's risk appetite considering the countersanctions and geopolitical factors.
-

4

Evaluate the Entry Options and Local Presence Structures

- Independent Legal Entity (e.g., LLC, JSC): Full control, but higher setup costs and compliance obligations.
 - Representative Office: Limited activities, primarily marketing and liaison functions.
 - Partnerships/Distributors: Lower investment, leveraging local expertise.
 - Franchise or Licensing Agreements: For brand or technology transfer with minimal direct involvement.
-

5

Conduct Due Diligence

- Verify the legal, financial, and reputational aspects of all potential partners or local entities.

- Assess the potential legal and operational risks.
-

6

Planning for Legal and Regulatory Compliance

- Prepare documentation aligned with Russian laws.
 - Plan for antitrust and other regulatory considerations.
 - Draft clear and comprehensive agreements delineating roles, responsibilities, and expectations to minimize misunderstandings and disputes.
-

7

Develop an Investment Roadmap

- Outline steps for registration, licensing, and establishing the chosen form of presence.
 - Schedule timelines and resource allocation.
 - Identify key milestones and decision points.
 - Onboard trusted legal advisors to lead you through the process.
-

8

Risk Mitigation and Contingency Planning

- Establish compliance protocols to adhere to sanctions and countermeasures.
- Monitor the ongoing updates to the regulations and countersanctions.

9

Implementation and Monitoring

- Complete registration and setup procedures promptly.
- Build relationships with local authorities and partners.
- Regularly review your compliance status and adjust strategies as needed.
- Incorporate measures within agreements to protect intellectual property rights and safeguarding proprietary information and trademarks.
- Implement mechanisms for the continual oversight and evaluation of partners' performance to ensure compliance and identify issues early.
- Update existing contracts or formulate new ones to establish reliable supply channels in the Russian market, utilizing alternative methods such as direct deliveries and franchising
- Modify commercial agreements to reflect changes in delivery structures, ensuring compliance with public law, including antitrust law.

10

Review and Decision-Making

- Constantly evaluate the investment's performance and legal environment.
- Decide whether to expand, modify, or divest based on operational experience and future developments.

We trust that this update provides valuable insights for the benefit of your business considerations. If your Colleagues would like to subscribe to our newsletters or regulatory updates, please feel free to share the [subscription link](#). For further guidance on Crisis Management, Economic Sanctions, or Compliance, or to discuss specific legal and strategic aspects relevant to your operations, please reach out to us. We would be pleased to provide tailored materials or arrange a discussion.

Sincerely,
ALRUD Law firm

ALRUD



Maxim Alekseyev

Senior Partner

malekseyev@alrud.com



Vassily Rudomino

Senior Partner, Advocate

vrudomino@alrud.com



German Zakharov

Partner

gzakharov@alrud.com



Ksenia Tarkhova

Senior Associate

ktarkhova@alrud.com



Ruslana Karimova

Senior Associate

rkarimova@alrud.com



alrud.com

info@alrud.com

+7 495 234 96 92

Lesnaya st., 7, 12th fl., Moscow, Russia