

JCB

Unearthing a buried fortune at JCB

How Lord Bamford, head of the JCB excavator empire, channelled half a billion pounds through an obscure company, sparking legal action from his brother

BY TOM BERGIN

JCB UNEARTHING A FORTUNE

ROCESTER, ENGLAND, MARCH 25, 2015

A leading British industrialist and political donor has channelled more than half a billion pounds through an obscure company that isn't required to file financial accounts, a Reuters analysis of corporate filings shows.

Much of the money allegedly ended up being paid to the industrialist himself, according to claims in court documents.

Lord Anthony Bamford made the payments as head of the family-owned JCB group, which is one of the world's top makers of construction machinery. It has annual sales of sales of nearly 3 billion pounds (\$4.5 billion).

Bamford is one of Britain's best-known business leaders and a member of parliament. In the past five years he has given 2.6 million pounds to the Conservatives, the dominant party in Britain's ruling coalition, and in 2013 he became a Conservative member of the House of Lords, the upper chamber of the British parliament.

The peer has urged politicians to provide more incentives for companies to invest in manufacturing, and JCB group has a reputation for reinvesting more of its profits in developing new products than do listed companies with dividend-hungry shareholders. "JCB may be a global company, but first and foremost we're British and we invest heavily in Britain," Bamford was quoted as saying in 2013.

A Reuters study of JCB group accounts found that between 2001 and 2013, the group paid 577 million pounds to a separate company called JCB Research, which conducts research and development for JCB group. However, much of that money did not go to fund research, according to allegations in previously unpublished court documents.

Instead, according to a legal claim by Bamford's brother, large sums went to directors of JCB Research – including at least 130 million pounds to Bamford and his wife.

Until now JCB Research, based in



PREMIER VISIT: Prime Minister David Cameron giving a speech at JCB's headquarters in Rocester, central England, last November. **REUTERS/OLI SCARFF/POOL**. Cover: JCB's chairman, Lord Anthony Bamford, has made substantial donations to Cameron's Conservative party through a company called JCB Research. **NEWSCAST VIA JCB/HANDOUT**

“To keep detailed information on the company's trade secrets as private as possible.”

A spokesman for JCB group, explaining why its research arm is an unlimited company that does not file publicly available accounts

Staffordshire, central England, was widely seen as a business of modest size, best known for being the vehicle for Bamford's political donations. Its other finances have remained mysterious to outsiders.

The firm has only two shares, both owned by Bamford. Unlike JCB group, JCB Research is an independent unlimited company, which means it does not have to file accounts available for public scrutiny.

A spokesman for JCB group said: "Intellectual property has always been of the greatest importance to JCB group." He said JCB Research was structured as an unlimited company "to keep detailed

information on the company's trade secrets as private as possible."

When Reuters asked why JCB group had paid hundreds of millions of pounds to JCB Research, the spokesman initially said the payments were for research work. He later said some of the payments were for management services, including fees to directors. The directors include Bamford and his wife, Carole.

The spokesman for JCB declined to say how much money JCB Research paid its directors.

There is no suggestion that JCB or Bamford used the arrangements to minimise tax liabilities. Indeed, tax experts said Bamford may in fact have incurred more tax by paying himself partly via JCB Research than if he had received the money as dividends from JCB group. In return, however, he gained secrecy.

Limited companies, even if family-owned like JCB group, are required to disclose the total remuneration paid to their

directors. Independent unlimited companies do not have to do so.

However, Bamford's brother Mark, a director of JCB Research until 2011, voluntarily opened a window into the company when he brought a legal action in 2010. He disputed ownership of the company and how JCB Research had distributed millions of pounds to directors.

In publicly available but previously unreported court papers, Mark Bamford alleged that his brother had transferred more than 300 million pounds from JCB group to JCB Research between 2001 and 2008. Mark alleged that JCB Research had then paid more than 130 million pounds to Anthony Bamford and his wife between 2001 and 2008.

Mark Bamford also alleged that JCB Research provided a loan account to an unidentified director that at times exceeded 40 million pounds, according to the documents. It has not been publicly disclosed how much money JCB Research paid or may have lent to directors after 2008.

JCB Research was "a conduit for certain members of the Bamford family to extract value" from JCB group, according to Mark Bamford's legal claim.

In court documents, Anthony Bamford responded that JCB Research had paid senior executives of JCB group and members of the Bamford family. But he denied that JCB Research was used to extract value from JCB group.

Lawyers for Bamford said that details of Bamford's earnings from JCB were private and should remain so.

The dispute between the brothers was settled privately before it came to a full court hearing, and the allegations made by Mark Bamford were not proven or disproven. A spokesman for JCB and Anthony Bamford said the legal case "arose from a fraternal misunderstanding and has long since been amicably resolved."

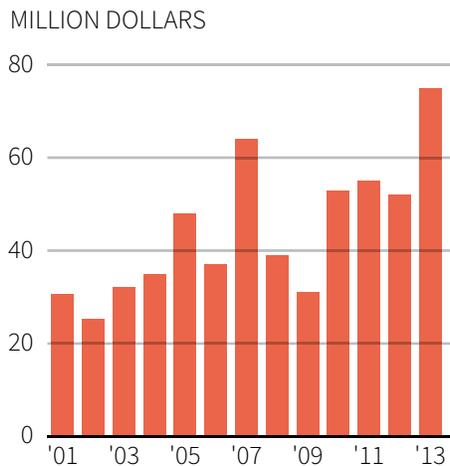
Mark Bamford also said the dispute had been settled amicably. He declined to



FLAGSHIP COMPANY: JCB is one of the world's top three manufacturers of construction equipment. The family-owned company says it invests heavily in research and development. REUTERS/DARREN STAPLES

Money flow

Payments from JCB group to JCB Research



Source: Reuters' analysis

comment further.

A spokesman for the Conservative Party had no comment on JCB Research but said: "All donations to the Conservative Party are properly and transparently declared to the Electoral Commission."

A FAMILY DISPUTE

Joseph Cyril Bamford, father of Anthony and Mark, started the JCB empire in a rented lock-up garage in 1945. In 1956 he established J.C. Bamford Excavators Ltd, which became famous for making bright yellow backhoe loaders. It remains the group's main operating company.

As the business grew, Joseph Bamford set up JCB Research in 1961 as a limited company. But in 1974 the whole group was restructured shortly before Anthony Bamford took over running the firm. Joseph Bamford moved to Switzerland and ownership of the business was shifted offshore.

JCB Research was re-incorporated as an unlimited company outside the main JCB group, with Joseph Bamford and his wife Marjorie owning the company's two shares, filings show.

Independent unlimited companies are rare, in part because the owners accept complete liability for the company's debts. Only 0.15 percent of companies incorporated in Britain are unlimited, a spokeswoman for Companies House said. An even smaller number are, like JCB Research, unlimited

and not owned or controlled by limited companies. They benefit from minimal reporting requirements.

Prem Sikka, professor of accounting at Essex University, described JCB Research as a “black box” because of its lack of transparency.

In court filings, Anthony Bamford said that the purpose of registering JCB Research as an unlimited company was “to preserve the confidentiality of payments made by JCB Research and in particular to shield details of the JCB group’s research programme and outlay from competitors.”

When the dispute between Anthony and Mark Bamford erupted in 2010, the media paid little attention. In an interview with London’s Evening Standard newspaper at the time, Anthony Bamford downplayed the case, saying: “It is essentially a dispute about jigger all.”

But court documents obtained by Reuters portray a family drama involving millions.

By then, Joseph and Marjorie Bamford were dead, and Anthony Bamford owned both shares in JCB Research. Mark Bamford claimed that he should have had the share that had been owned by his mother and that he had been deprived of it by Anthony.

Mark Bamford alleged that in 1997 Anthony had persuaded their mother, then aged nearly 80, to sign a “stock transfer” form, effectively giving up her stake in JCB Research. Mark Bamford alleged that after their mother died in 2003, Anthony Bamford transferred her share of JCB Research into his own name. That transfer gave Anthony Bamford complete ownership of the firm.

Anthony Bamford rejected the allegations. In documents outlining his defence, he said that he had put no pressure on his mother, and that she had signed away the right to her share in JCB Research because she wanted to “tidy up her financial affairs before she died.”



STALWART SUPPORTER: Lord Bamford has donated money to the Conservative party for many years. William Hague, former leader of the party, visited JCB headquarters during the 2001 election campaign. **REUTERS/STRINGER**

PRIVATE DEAL

Despite the hundreds of millions of pounds going through JCB Research, Anthony and Mark Bamford valued the company at less than 30,000 pounds for inheritance tax purposes after the death of their mother in 2003, according to the 2010 court documents.

The low valuation was because the company has few assets and makes no profit, according to JCB group. The research firm owns no patents, a spokesman for the group said.

Cash flow rather than capital value appears to have been Mark Bamford’s concern when he took legal action. In court filings, Mark asked for details of money Anthony and his family had received as a result of acquiring the share in JCB Research that had been owned by their mother. Mark Bamford sought to have this money paid to him, with interest.

Anthony Bamford denied any wrongdoing. In July 2011 both parties agreed to settle the case privately, and Mark Bamford

stood down as a director of both JCB Research and the main JCB group holding company, JCB Service.

Whatever the deal between the two brothers, Anthony Bamford remained the sole shareholder in JCB Research, according to corporate filings. Large sums of money continued to flow from JCB group into JCB Research. Between 2009 and 2013, JCB group paid 267 million pounds to JCB Research, a Reuters study of JCB accounts shows.

OFFSHORE TRUSTS

Anthony Bamford was first reported to be in line to become a member of the House of Lords in 2010, but in the final stages of the process was not nominated.

Bamford told the London Evening Standard that he withdrew because a source close to Prime Minister David Cameron had told Bamford that Her Majesty’s Revenue and Customs, the tax authority, had raised questions over his tax affairs. Bamford told



POMP AND POWER: Anthony Bamford became a Conservative member of the House of Lords, the upper chamber of the British parliament, in 2013. Members, seen here at the ceremonial opening of parliament, are appointed, not elected. **REUTERS/TOBY MELVILLE**

the newspaper his tax affairs had been all in order but that he thought “the best thing to do at that time was to withdraw.”

At the time, Bamford told the newspaper he was a UK taxpayer and paid large amounts of tax. JCB group, though, is ultimately controlled offshore by four discretionary trusts based in Bermuda, according to court documents and corporate filings. The beneficiaries of the trusts are Anthony and Mark Bamford and their families, according to court documents reviewed by Reuters.

That ownership means the Bamford brothers do not have to pay tax on dividends from JCB group, providing they don't bring the money back to Britain, accountants said. Any funds they do bring into the country would be taxed. Over the past four

years JCB group has paid an average of 59 million pounds a year in dividends.

JCB said all salaries paid by JCB Research are subject to income tax and social security payments in the normal way.

The scale and nature of executive pay have provoked comment on both sides of the political spectrum amid voters' concerns over inequality. In 2012, Prime Minister Cameron said it was “key” to have transparency on executive pay.

In 2013, Cameron did make Anthony Bamford a life peer. Under the rules of parliament, members of the House of Lords are required to declare any interests that “might reasonably be thought to influence their parliamentary actions.”

Bamford listed his directorships of numerous companies, including JCB

Research. But he failed to declare that he was the sole owner of the company. He did so after being approached about JCB Research by Reuters. His spokesman said that this “clerical error” had been corrected in the register at the House of Lords and thanked Reuters “for bringing this matter to our attention.”

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