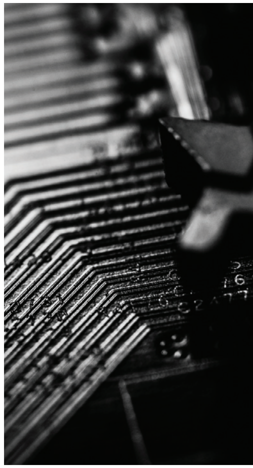
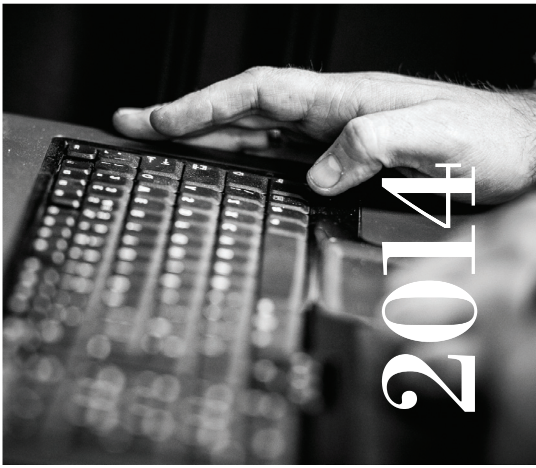
Northern 3 VCT PLC

Half-yearly financial report
30 September 2014





nvm
private equity

Northern 3 VCT PLC is a Venture Capital Trust (VCT) managed by NVM Private Equity Limited.

It invests mainly in unquoted venture capital holdings and aims to provide high long-term tax-free returns to shareholders through a combination of dividend yield and capital growth.

Contents

Financial summary

	Six months ended 30 September 2014	Six months ended 30 September 2013	Year ended 31 March 2014
Net assets	**£70.3m**	£50.1m	£71.3m
Net asset value per share	**105.5p**	104.5p	108.9p
Return per share			
Revenue	**1.3p**	1.4p	2.1p
Capital	**(1.1)p**	1.9p	8.4p
Total	**0.2p**	3.3p	10.5p
Dividend declared in respect of the period	**2.0p**	2.0p	5.5p
Cumulative return to shareholders since launch			
Net asset value per share	**105.5p**	104.5p	108.9p
Dividends paid per share*	**47.4p**	41.9p	43.9p
Net asset value plus dividends paid per share	**152.9p**	146.4p	152.8p
Mid-market share price at end of period	**95.75p**	92.25p	97.00p
Share price discount to net asset value	**9.2%**	11.7%	10.9%
Tax-free dividend yield (based on mid-market share price)	**5.7%**	6.0%	5.7%

*Excluding interim dividend not yet paid

Key dates

Half-yearly results announced
11 November 2014

Shares quoted ex dividend
4 December 2014

Record date for interim dividend
5 December 2014

Interim dividend paid
16 January 2015

Half-yearly management report

for the six months ended 30 September 2014

Our company's balance sheet remains strong and we hope that performance in the second half of the year will benefit from some profitable realisations.

Results and dividend

The unaudited net asset value (NAV) per share at 30 September 2014, after deducting the 2013/14 final dividend of 3.5p per share which was paid in July, was 105.5p (31 March 2014 108.9p). The return per share as shown in the income statement, before deducting the final dividend, was 0.2p compared with 3.3p in the six month period ended 30 September 2013.

Investment income for the period was £1.3 million, compared with £1.1 million in the corresponding period last year. The revenue return per share, based on the increased number of shares in issue, was slightly lower at 1.3p (corresponding period 1.4p).

Your board has declared an unchanged interim dividend of 2.0p per share, which will be paid on 16 January 2015 to shareholders on the register at the close of business on 5 December 2014. It remains our objective to maintain an annual dividend of at least 5.5p per share.

Investments

The past six months have seen a high level of new investment activity in the venture capital portfolio. The following holdings were added during the period:

- **Accumuli** (£490,000) – IT security and risk management specialist, Basingstoke (AIM-quoted)
- **Hayward Tyler** (£515,000) – manufacturer of electric motors and pumps, Luton (AIM-quoted)
- **Arnlea Holdings** (£1,138,000) – developer of asset management software for the oil and gas industry, Aberdeen
- **Agilitas Holdings** (£1,448,000) – provider of outsourced IT inventory management services, Nottingham
- **Fresh Approach (UK) Holdings** (£1,286,000) – creative events manager, Manchester
- **MSQ Partners** (£1,477,000) – marketing and communications agency group, London

Proceeds from investment sales and repayments amounted to £3.7 million, generating a realised gain of £0.2 million compared with 31 March 2014 carrying values. The AIM-quoted investment in **Pilat Media Global** was acquired by SintecMedia through an agreed bid, producing proceeds of £1.6 million compared with our original cost of £0.6 million. **Tinglobal Holdings** raised new equity funding from a strategic trade investor and was able to repay £1.6 million of loan stock. **Altacor** and **Mantis Deposition Holdings**, both of which had been written down in value at 31 March 2014 after periods of disappointing performance, were sold for aggregate proceeds of £0.4 million. There are good prospects of some exits in the second half of the financial year.

The AIM portfolio showed no overall gain or loss in the period, compared with a 12% fall in the AIM market index. Our managers continue to seek suitable opportunities for new investment.

Shareholder issues

As a result of the success of the company's £20 million public share offer in the 2013/14 tax year, cash balances are presently healthy and we have the option of withdrawing funds from the listed equity and fixed-income portfolios if necessary. The board has reviewed projected future cash requirements in the light of new investment activity and potential realisations of existing investments, and has concluded that it would not be appropriate to raise further funds by launching a share issue in the 2014/15 tax year.

James Ferguson *Chairman*

We have maintained our policy of being prepared to buy back the company's shares in the market at a 10% discount to NAV. In the half year under review a total of 150,000 shares, equivalent to 0.2% of the issued share capital, was repurchased at an average price of 98p.

Earlier this year the opportunity was extended to shareholders to receive communications from the company electronically rather than by paper copy. The option remains open to any other shareholders who wish to join the scheme.

VCT qualifying status

The company has continued to comply with the conditions laid down by HM Revenue & Customs for the maintenance of approved venture capital trust status. Our managers monitor the position closely and the board also receives regular reports from our taxation advisers at PricewaterhouseCoopers LLP.

VCT legislation and regulation

We have previously reported on the Government's proposals to introduce restrictions on investors who sell shares in a VCT within the period six months before and after subscribing for shares in the same VCT, and to restrict the ability of VCTs to pay dividends to shareholders out of distributable reserves created by cancelling the share premium arising where new shares are allotted after 6 April 2014. The 2014 Finance Act containing the relevant legislation duly received Royal Assent in July 2014.

The Government has recently undertaken a consultation exercise on the future of VCTs and other tax-advantaged investment schemes, against the background of a European Commission review of the rules relating to state aid for businesses in member countries, which in the UK includes VCTs. The outcome of this review is awaited; we hope that there will be no significant change in the positioning of VCTs as an important part of the UK government's strategy for supporting small and medium-sized enterprises.

The Commission's Alternative Investment Fund Managers Directive (AIFMD) is now part of UK law. The Directive regulates the management of alternative investment funds, including venture capital funds such as VCTs. The directors have appointed the company's existing manager, NVM Private Equity, as our AIFM for the purposes of the Directive with effect from May 2014.

Prospects

The UK stock market has made little progress over the half year, reflecting concerns over the global economic outlook as well as uncertainty as to the outcome of the impending general election. Our managers have a full workload as they seek to maintain the required rate of new investment as well as helping existing portfolio companies implement their strategic plans. Our company's balance sheet remains strong and we hope that performance in the second half of the year will benefit from some profitable realisations.

On behalf of the Board

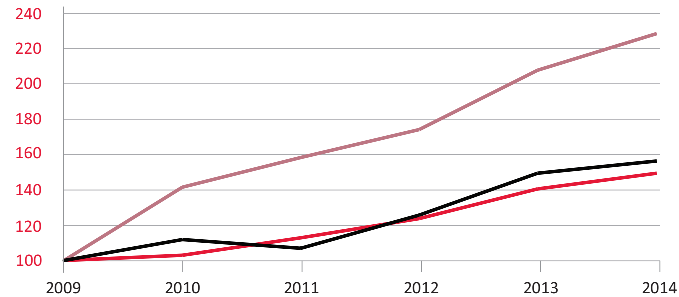
James Ferguson
Chairman

11 November 2014

Five year performance

Comparative return to shareholders (assuming dividends re-invested)

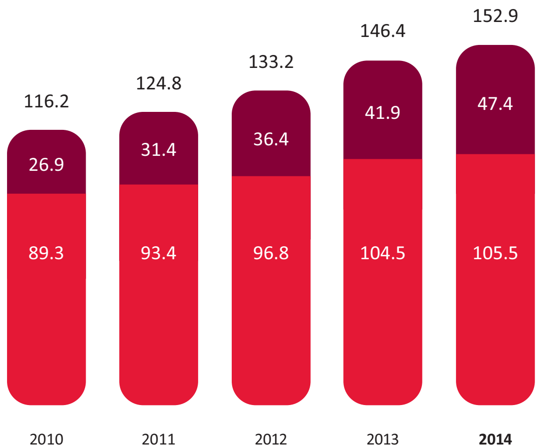
Five years to 30 September 2014 (30 September 2009 = 100)



Northern 3 VCT NAV total return
Northern 3 VCT share price total return
UK equity market index total return

Net asset value and cumulative dividends per share

As at 30 September (pence per share)



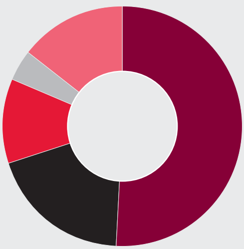
Cumulative dividends paid
Net asset value per share

Investment portfolio

as at 30 September 2014

	Cost £000	Valuation £000	% of net assets by value
Fifteen largest venture capital investments			
Kerridge Commercial Systems	1,537	6,744	9.6
Advanced Computer Software Group*	1,036	4,357	6.2
Volumatic Holdings	2,096	2,308	3.3
IDOX*	600	2,043	2.9
Silverwing	1,272	1,852	2.6
Wear Inns	1,406	1,767	2.5
Buoyant Upholstery	1,294	1,565	2.2
Control Risks Group Holdings	746	1,534	2.2
MSQ Partners	1,477	1,477	2.1
Agilitas Holdings	1,448	1,448	2.1
No 1 Traveller	1,441	1,441	2.1
Fresh Approach (UK) Holdings	1,286	1,286	1.8
Optilan Group	1,125	1,169	1.7
Intuitive Holding	1,293	1,159	1.6
Arnlea Holdings	1,138	1,138	1.6
	19,195	**31,288**	**44.5**
Other venture capital investments	18,467	17,855	25.4
Total venture capital investments	**37,662**	**49,143**	**69.9**
Listed equity investments	7,477	8,166	11.6
Listed interest-bearing investments	2,911	2,917	4.2
Total fixed asset investments	**48,050**	**60,226**	**85.7**
Net current assets		10,034	14.3
Net assets		**70,260**	**100.0**

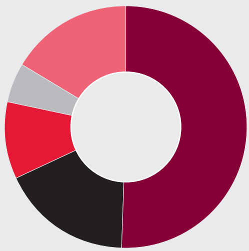
*Quoted on AIM



30 September 2014

Asset allocation

30 September 2014		30 September 2013
50.7%	Venture capital – unquoted	50.7%
19.3%	Venture capital – quoted	17.6%
11.6%	Listed equity	10.2%
4.2%	Listed interest-bearing	5.3%
14.2%	Cash and short term deposits	16.2%



30 September 2013

Income statement

(unaudited) for the six months ended 30 September 2014

	Six months ended 30 September 2014		
	Revenue £000	Capital £000	Total £000
Gain on disposal of investments	–	97	97
Movements in fair value of investments	–	(369)	(369)
	–	(272)	(272)
Income	1,328	–	1,328
Investment management fee	(184)	(551)	(735)
Other expenses	(185)	–	(185)
Return on ordinary activities before tax	959	(823)	136
Tax on return on ordinary activities	(113)	113	–
Return on ordinary activities after tax	846	(710)	136
Return per share	1.3p	(1.1)p	0.2p
Dividends paid/proposed in respect of the period	1.0p	1.0p	2.0p

- The total column of this statement is the profit and loss account of the company. The supplementary revenue return and capital return columns have been prepared under guidance published by the Association of Investment Companies.
- There are no recognised gains or losses other than those disclosed in the income statement.
- All items in the above statement derive from continuing operations.

Reconciliation of movements in shareholders' funds

(unaudited) for the six months ended 30 September 2014

	Six months ended 30 September 2014 £000
Equity shareholders' funds at 1 April 2014	71,297
Return on ordinary activities after tax	136
Dividends recognised in the period	(2,322)
Net proceeds of share issues	1,296
Shares purchased for cancellation	(147)
Equity shareholders' funds at 30 September 2014	70,260

Six months ended 30 September 2013			Year ended 31 March 2014		
Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
–	623	623	–	1,254	1,254
–	563	563	–	4,382	4,382
–	1,186	1,186	–	5,636	5,636
1,100	–	1,100	2,006	–	2,006
(130)	(391)	(521)	(283)	(1,181)	(1,464)
(173)	–	(173)	(357)	(15)	(372)
797	795	1,592	1,366	4,440	5,806
(102)	102	–	(202)	202	–
695	897	1,592	1,164	4,642	5,806
1.4p	1.9p	3.3p	2.1p	8.4p	10.5p
1.0p	1.0p	2.0p	1.8p	3.7p	5.5p

Six months ended 30 September 2013 £000	Year ended 31 March 2014 £000
50,556	50,556
1,592	5,806
(1,686)	(2,999)
100	18,671
(496)	(737)
50,066	71,297

Balance sheet

(unaudited) as at 30 September 2014

	30 September 2014 £000	30 September 2013 £000	31 March 2014 £000
Fixed assets			
Investments	60,226	47,459	58,443
Current assets			
Debtors	223	217	288
Cash and deposits	9,979	9,139	13,568
	10,202	9,356	13,856
Creditors (amounts falling due within one year)	(168)	(6,749)	(1,002)
Net current assets	10,034	2,607	12,854
Net assets	70,260	50,066	71,297
Capital and reserves			
Called-up equity share capital	3,329	2,395	3,275
Share premium	1,235	3,314	–
Capital redemption reserve	17	511	10
Capital reserve	52,489	34,362	55,264
Revaluation reserve	12,176	8,598	12,049
Revenue reserve	1,014	886	699
Total equity shareholders' funds	70,260	50,066	71,297
Net asset value per share	105.5p	104.5p	108.9p

Cash flow statement

(unaudited) for the six months ended 30 September 2014

	Six months ended 30 September 2014 £000	Six months ended 30 September 2013 £000	Year ended 31 March 2014 £000
Net cash (outflow)/inflow from operating activities	(361)	(198)	391
Taxation			
Corporation tax paid	–	–	–
Financial investment			
Purchase of investments	(7,694)	(5,603)	(15,437)
Sale/repayment of investments	5,639	3,862	7,162
Net cash outflow from financial investment	(2,055)	(1,741)	(8,275)
Equity dividends paid	(2,322)	(1,686)	(2,999)
Net cash outflow before financing	(4,738)	(3,625)	(10,883)
Financing			
Issue of ordinary shares	1,330	112	19,122
Share issue expenses	(34)	(12)	(451)
Share subscriptions held pending allotment	–	6,643	–
Purchase of ordinary shares for cancellation	(147)	(496)	(737)
Net cash inflow from financing	1,149	6,247	17,934
(Decrease)/increase in cash and deposits	(3,589)	2,622	7,051
Reconciliation of return before tax to net cash flow from operating activities			
Return on ordinary activities before tax	136	1,592	5,806
Gain on disposal of investments	(97)	(623)	(1,254)
Movements in fair value of investments	369	(563)	(4,382)
Decrease/(increase) in debtors	65	24	(47)
(Decrease)/increase in creditors	(834)	(628)	268
Net cash (outflow)/inflow from operating activities	(361)	(198)	391

Analysis of movement in net funds	1 April 2014 £000	Cash flows £000	30 September 2014 £000
Cash and deposits	13,568	(3,589)	9,979

Notes to the financial statements

(unaudited) for the six months ended 30 September 2014

1 The financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments, and in accordance with UK Generally Accepted Accounting Practice (UK GAAP). Where presentational guidance set out in the Statement of Recommended Practice (SORP) "Financial Statements of Investment Trust Companies", revised in January 2009, is consistent with the requirements of UK GAAP, the directors have sought to prepare the financial statements on a consistent basis compliant with the recommendations of the SORP.

2 The calculation of return per share is based on the return on ordinary activities after tax for the six months ended 30 September 2014 and on 66,269,375 (2013 48,202,080) ordinary shares, being the weighted average number of shares in issue during the period.

3 The calculation of net asset value per share is based on the net assets at 30 September 2014 divided by the 66,575,347 (2013 47,895,561) ordinary shares in issue at that date.

4 The proposed interim dividend of 2.0p per share for the year ending 31 March 2015 will be paid on 16 January 2015 to shareholders on the register at the close of business on 5 December 2014.

5 The unaudited half-yearly financial statements for the six months ended 30 September 2014 do not constitute statutory financial statements within the meaning of Section 434 of the Companies Act 2006, have not been reviewed or audited by the company's independent auditor and have not been delivered to the Registrar of Companies. The comparative figures for the year ended 31 March 2014 have been extracted from the audited financial statements for that year, which have been delivered to the Registrar of Companies. The auditor's report on those financial statements (i) was unqualified, (ii) did not include any reference to matters to which the auditor drew attention by way of emphasis without qualifying the report and (iii) did not contain a statement under Section 498(2) or (3) of the Companies Act 2006. The half-yearly financial statements have been prepared on the basis of the accounting policies set out in the annual financial statements for the year ended 31 March 2014.

6 Each of the directors confirms that to the best of their knowledge the half-yearly financial statements have been prepared in accordance with the Statement "Half-yearly financial reports" issued by the UK Accounting Standards Board and the half-yearly financial report includes a fair review of the information required by (a) DTR 4.2.7R of the Disclosure Rules and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year, and (b) DTR 4.2.8R of the Disclosure Rules and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period, and any changes in the related party transactions described in the last annual report that could do so.

7 Copies of this half-yearly report have been sent to shareholders and are available to the public at the company's registered office and on the NVM Private Equity Limited website, www.nvm.co.uk.

Risk management

The board carries out a regular review of the risk environment in which the company operates. The principal risks and uncertainties identified by the board are as follows:

Investment risk: many of the company's investments are in small and medium-sized unquoted and AIM-quoted companies which are VCT qualifying holdings and which by their nature entail a higher level of risk and lower liquidity than investments in large quoted companies. The directors aim to limit the risk attaching to the portfolio as a whole by careful selection, close monitoring and timely realisation of investments, by carrying out rigorous due diligence procedures and by maintaining a wide spread of holdings in terms of financing stage and industry sector. The board reviews the investment portfolio with the manager on a regular basis.

Financial risk: as most of the company's investments involve a medium- to long-term commitment and are relatively illiquid, the directors consider that it is inappropriate to finance the company's activities through borrowing except on an occasional short-term basis. Accordingly they seek to maintain a proportion of the company's assets in cash or cash equivalents in order to be in a position to take advantage of new unquoted investment opportunities. The company has very little direct exposure to foreign currency risk and does not enter into derivative transactions.

Economic risk: events such as economic recession or general fluctuation in stock markets and interest rates may affect the valuation of investee companies and their ability to access adequate financial resources, as well as affecting the company's own share price and discount to net asset value.

Stock market risk: some of the company's venture capital investments are quoted on the London Stock Exchange or AIM and will be subject to market fluctuations upwards and downwards. External factors such as terrorist activity can negatively impact stock markets worldwide. In times of adverse sentiment there can be very little, if any, market demand for shares in the smaller companies quoted on AIM.

Credit risk: the company holds a number of financial instruments and cash deposits and is dependent on the counterparty discharging their commitment. The directors review the counterparties to these instruments and cash deposits in addition to ensuring there is no undue concentration of credit risk with any one counterparty.

Liquidity risk: the company's investments may be difficult to realise. The fact that a stock is quoted on AIM does not guarantee its liquidity and there may be a large spread between bid and offer prices. Unquoted investments are not traded on a recognised stock exchange and are inherently illiquid.

Legislative and regulatory risk: in order to maintain its approval as a VCT, the company is required to comply with current VCT legislation in the UK as well as the European Commission's state aid rules. Changes to the UK legislation or the state aid rules in the future could have an adverse effect on the company's ability to achieve satisfactory investment returns whilst retaining its VCT approval. The board and the manager monitor legislative and regulatory developments and where appropriate seek to make representations either directly or through the relevant trade bodies.

Internal control risk: the board regularly reviews the system of internal controls, both financial and non-financial, operated by the company and the manager. These include controls designed to ensure that the company's assets are safeguarded and that proper accounting records are maintained.

VCT qualifying status risk: the company is required at all times to observe the conditions laid down in the Income Tax Act 2007 for the maintenance of approved VCT status. The loss of such approval could lead to the company losing its exemption from corporation tax on capital gains, to investors being liable to pay income tax on dividends received from the company and, in certain circumstances, to investors being required to repay the initial income tax relief on their investment. The manager keeps the company's VCT qualifying status under continual review and reports to the board on a quarterly basis. The board has also retained PricewaterhouseCoopers LLP to undertake an independent VCT status monitoring role.

Company information

Directors
James Ferguson (Chairman)
Chris Fleetwood
Tim Levett
John Waddell

Secretary
Christopher Mellor FCA MCSI

Registered office
Time Central
32 Gallowgate
Newcastle upon Tyne NE1 4SN

T 0191 244 6000
E n3vct@nvm.co.uk
www.nvm.co.uk

Investment manager
NVM Private Equity Limited
Time Central
32 Gallowgate
Newcastle upon Tyne NE1 4SN

Registrars
Equiniti Limited
Aspect House
Spencer Road
Lancing BN99 6DA

Equiniti shareholder helpline:
0800 028 2349

Northern 3 VCT PLC
Time Central
32 Gallowgate
Newcastle upon Tyne NE1 4SN

T 0191 244 6000
E n3vct@nvm.co.uk

www.nvm.co.uk

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