

# *Northern 3 VCT PLC*

Annual report and financial statements

**31 March 2016**



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

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.

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# Financial summary

<b>Year ended 31 March:</b>	<b>2016</b>	<b>2015</b>
<b>Net assets</b>	<b>£67.0m</b>	<b>£71.2m</b>
<b>Net asset value per share</b>	<b>102.2p</b>	<b>107.2p</b>
<b>Return per share</b>		
Revenue	2.1p	2.5p
Capital	8.3p	1.4p
Total	10.4p	3.9p
<b>Dividend per share for the year</b>		
First interim dividend	2.0p	2.0p
Second interim (special) dividend	5.0p	10.0p
Proposed final dividend	3.5p	3.5p
Total	10.5p	15.5p
<b>Cumulative return to shareholders since launch</b>		
Net asset value per share	102.2p	107.2p
Dividends paid per share*	64.9p	49.4p
Net asset value plus dividends paid per share	167.1p	156.6p
<b>Mid-market share price at end of year</b>	<b>95.75p</b>	<b>96.75p</b>
<b>Share price discount to net asset value</b>	<b>6.3%</b>	<b>9.7%</b>
<b>Tax-free dividend yield (based on mid-market share price at the end of the year)</b>		
Including special dividend	11.0%	16.0%
Excluding special dividend	5.7%	5.7%

\*Excluding second interim and proposed final dividends payable 15 July 2016

## Key dates

Results announced  
17 May 2016

Shares quoted ex dividend  
16 June 2016

Record date for second  
interim and final dividends  
17 June 2016

Annual general meeting  
6 July 2016, 3.00pm, Muckle LLP,  
Time Central, 32 Gallowgate,  
Newcastle upon Tyne NE1 4BF

Second interim and final  
dividends paid  
15 July 2016

# Chairman's statement

*Your board and manager are confident that the foundations which have been established over the past 15 years give us a good basis to meet the challenges ahead.*

I am pleased to report on another productive year for our company. The investment portfolio has performed well and a number of satisfactory sales were completed, from both unquoted and AIM-quoted holdings.

## Results and dividend

The NAV per share at 31 March 2016, after deducting dividends totalling 15.5p which were paid during the year, was 102.2p compared with 107.2p as at 31 March 2015. The total return per share for the year as shown in the income statement was 10.4p (last year 3.9p), equivalent to 9.7% of the opening NAV. Net realised and unrealised capital gains for the year totalled £6.8 million, reflecting sales made during the year and the generally positive performance achieved by portfolio companies.

Your directors' policy is to set the annual dividend at a level which is sustainable taking one year with another, seeking to smooth out the inevitable fluctuations in annual results. Since 2012 it has been our objective to maintain the annual dividend at 5.5p per share, and we now propose an unchanged final dividend of 3.5p in respect of the year ended 31 March 2016, maintaining the total recurring dividend for the year at the target level of 5.5p. We have also decided to recognise the healthy inflow of sales proceeds during the year by declaring a special dividend of 5.0p per share, which takes the total payable in respect of the year to 10.5p.

The special dividend will take the form of a second interim dividend for the year ended 31 March 2016, which will be paid on 15 July 2016 to shareholders on the register on 17 June 2016. The proposed final dividend of 3.5p per share will, subject to approval by shareholders at the annual general meeting, be paid on the same date, making a total payment of 8.5p per share.

We announced in January 2016 that the company's dividend investment scheme, which was suspended in July 2015 because of the uncertainty surrounding the Government's review of the VCT legislation, was reinstated with immediate effect. The scheme enables shareholders to re-invest their dividends in new ordinary shares in the company, with the benefit of the tax reliefs available on new subscriptions to VCTs. Further information about the scheme is included in a separate letter sent to shareholders with the annual report.

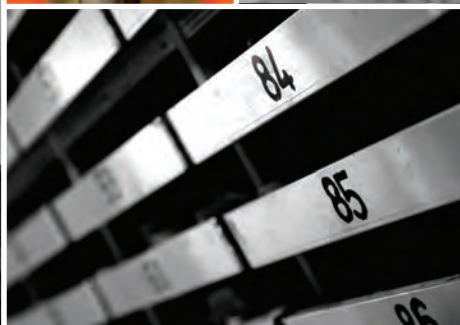
Your directors attach a high priority to maintaining a strong flow of tax-free dividends to shareholders. At this stage it is difficult to gauge the likely impact on future investment returns of the recent VCT rule changes, and we will keep the company's dividend policy under regular review.

## Investment portfolio

The past six months have seen a lull in new unquoted investment activity, as the market began to come to terms with the new VCT investment parameters and HM Revenue & Customs seemingly struggled to process investment clearance applications on a timely basis. Satisfactory exits were achieved from the investments in Kitwave One, Control Risks Group Holdings, Tinglobal Holdings and Direct Valeting.

In the AIM-quoted portfolio, new investments were made in Gear4music (Holdings) and Vislink. The investments in Accumuli, Nationwide Accident Repair Services and Jelf Group were all sold at a profit as a result of agreed bids. The number of VCT-qualifying new issues on AIM has remained low and under the new VCT rules we are now prohibited from acquiring any further holdings in the secondary market, so it seems likely that the number of AIM investments in the portfolio will reduce further in the medium term. This is regrettable as AIM-quoted investments have made a useful contribution to the company's performance in recent years.





*James Ferguson* Chairman

## Shareholder issues

12 months ago we reduced, from 10% to 5%, the discount to NAV at which the company offers to buy back its shares in the market. The number of shares re-purchased during the year ended 31 March 2016 was 820,000, compared with 500,000 during the preceding year.

The company's most recent public offer of new shares took place in the 2013/14 financial year, almost three years ago, when £20 million was raised. The proceeds of that share issue, together with the substantial amounts realised from successful investment sales, have been more than sufficient to meet subsequent new investment requirements. Your directors are conscious that many shareholders would like to have the opportunity to make a further investment in the company, and the possibility of further share offers will be kept under review.

## VCT qualifying status

The company has continued to meet the qualifying conditions laid down by HM Revenue & Customs for maintaining its approval as a VCT. The board reviews the company's compliance position on a regular basis with the manager. Philip Hare & Associates LLP (formerly Robertson Hare LLP) continues to act as independent adviser to the company on VCT taxation matters.

## VCT legislation

Shareholders will no doubt be aware that the Finance Act (No 2) 2015, which became law in November 2015, made some radical changes to the legislation defining investments qualifying under the VCT scheme. We understand that the Government's intention is to make the VCT scheme more compliant with the European Commission's State aid rules. VCTs investment is now to be focused on "growth and development" funding for relatively immature businesses, whilst transactions involving ownership change, such as management buyouts, are prohibited. The new measures apply to all funds raised by VCTs in the past as well as the proceeds of future share issues.

There is widespread agreement that the change in investment emphasis is likely to result in future returns from VCT portfolios becoming more volatile, with a greater proportion of investments which carry high risk but also potentially high reward. Northern 3 VCT is unlikely to prove an exception to this but we are encouraged by the fact that our manager NVM has a strong record in early-stage investment, and is building up its investment resource to meet the new requirements.

A resolution will be proposed at the annual general meeting to amend the wording of the company's investment policy, so as to conform with the revised VCT qualifying investment requirements.

## Outlook

We are entering into an interesting phase in the development of the VCT sector, and inevitably there is some uncertainty as to how the new rules will be interpreted and whether those VCTs which have built strong performance records will continue to thrive under the altered regime. Your board and manager are confident that the foundations which have been established over the past 15 years give us a good basis to meet the challenges ahead.

James Ferguson  
Chairman

17 May 2016

# Directors and advisers

## James Ferguson BA (Chairman)

aged 68, was chairman and managing director of Stewart Ivory Limited from 1989 until 2000. He is chairman of Value & Income Trust plc, The Monks Investment Trust PLC, North American Income Trust plc and The Scottish Oriental Smaller Companies Trust plc, a non-executive director of The Independent Investment Trust plc and a former deputy chairman of the Association of Investment Companies. He was appointed to the board in 2001 and became chairman in 2009.

## Chris Fleetwood BA FCA

aged 64, is managing partner of io solutions (e-business strategy advisers), a non-executive director of NCFE Limited and a governor of Teesside University. He was formerly chairman of Darlington Building Society and group chief executive of Whessoe plc. He was appointed to the board in 2001.

## Tim Levett MBA

aged 67, is executive chairman of NVM Private Equity LLP, which he co-founded in 1988. He is a non-executive director of Northern Venture Trust PLC and several unquoted companies. He was appointed to the board in 2001.

## John Waddell FRSE

aged 60, was until 2015 chief executive of Archangel Investors Limited a Scottish based syndicate of individual private investors and sits on the boards of four unquoted companies. He also advises two early stage funds. He was appointed to the board in 2007.

## Secretary and registered office

Christopher Mellor FCA MCSI  
Time Central  
32 Gallowgate  
Newcastle upon Tyne NE1 4SN  
Telephone: 0191 244 6000  
Fax: 0191 244 6001  
E-mail: n3vct@nvm.co.uk

## Registered number

4280530

## Investment manager

NVM Private Equity LLP  
Time Central  
32 Gallowgate  
Newcastle upon Tyne NE1 4SN

## Investment adviser

Speirs & Jeffrey Limited  
50 George Square  
Glasgow G2 1EH

## Independent auditor

KPMG LLP  
Saltire Court  
20 Castle Terrace  
Edinburgh EH1 2EG

## Taxation advisers

Philip Hare & Associates LLP  
4-6 Staple Inn  
London WC1V 7QH

## Solicitors

King & Wood Mallesons LLP  
10 Queen Street Place  
London EC4R 1BE

## Stockbrokers

Panmure Gordon (UK) Limited  
One New Change  
London EC4M 9AF

## Bankers

Barclays Bank PLC  
Barclays House  
5 St Ann's Street  
Newcastle upon Tyne NE1 3DX

## Registrars

Equiniti Limited  
Aspect House  
Spencer Road  
Lancing BN99 6DA  
Shareholder helpline: 0800 028 2349

# Shareholder information

*The trust invests mainly in unquoted venture capital holdings.*

## The company

Northern 3 VCT PLC is a Venture Capital Trust (VCT) launched in September 2001. The company invests mainly in unquoted venture capital holdings, with its remaining assets invested in a portfolio of listed equity investments and bank deposits.

Northern 3 VCT PLC is managed by NVM Private Equity LLP (NVM), an independent specialist firm of venture capital managers based in Newcastle upon Tyne, Reading and Manchester. NVM also acts as manager of three other listed investment companies, Northern Investors Company PLC, Northern Venture Trust PLC and Northern 2 VCT PLC, and two limited partnerships, NV1 LP and NV2 LP. NVM has a total of over £260 million under management.

The company is a member of the Association of Investment Companies (AIC).

## Venture Capital Trusts

Venture Capital Trusts were introduced by the Chancellor of the Exchequer in the November 1994 Budget, the relevant legislation being contained in the Finance Act 1995. VCTs are intended to provide a means whereby private individuals can invest in small unquoted trading companies in the UK, with an incentive in the form of a range of tax benefits. With effect from 6 April 2006, the benefits to eligible investors include:

- income tax relief at up to 30% on new subscriptions of up to £200,000 per tax year, provided the shares are held for at least five years;
- exemption from income tax on dividends paid by VCTs (such dividends may include the VCT's capital gains as well as its income); and
- exemption from capital gains tax on disposals of shares in VCTs.

Subscribers for shares in VCTs between 6 April 2004 and 5 April 2006 were entitled to income tax relief at 40% rather than 30% and the shares had to be held for at least three years rather than five years. Prior to 6 April 2004, subscribers for shares in VCTs were entitled to income tax relief at 20% and could also obtain capital gains deferral relief. Capital gains deferred by pre-6 April 2004 subscriptions are not affected by the subsequent changes in VCT tax reliefs.

In order to maintain approved status, a VCT must comply on a continuing basis with the provisions of Section 274 of the Income Tax Act 2007; in particular, the company is required at all times to hold at least 70% of its investments (as defined in the legislation) in VCT-qualifying holdings, of which at least 30% (70% for funds raised after 5 April 2011) must comprise eligible ordinary shares. For this purpose a "VCT-qualifying holding" is an investment in new shares or securities of a UK unquoted company (which may be quoted on AIM) which is carrying on a qualifying trade, and whose gross assets and number of employees at the time of investment do not exceed prescribed limits.

The definition of "qualifying trade" excludes certain activities such as property investment and development, financial services and asset leasing. The Finance Act (No 2) 2015 contained a number of significant changes to the VCT rules for new investments, designed to secure approval of the VCT scheme by the European Commission. In future a company whose trade is more than seven years old (ten years for 'knowledge intensive' companies) will not qualify for VCT investment unless it has previously received State aided risk finance in the past seven (or ten) years, or the new investment exceeds 10% of the total turnover for the past five years and the funds are used for new products and/or geographical markets; there will be a lifetime limit of £12 million (£20 million for 'knowledge intensive' companies) on the amount of State aid funding receivable by a company; and VCT funds may not be used by a company to acquire shares in another company or to acquire a business. The rules apply to qualifying and non-qualifying investments, and a breach of the requirements may lead to a loss of VCT status.

## Financial calendar

The company's financial calendar for the year ending 31 March 2017 is as follows:

### November 2016

Half-yearly financial report for the six months ending 30 September 2016 published

### January 2017

Interim dividend paid

### May 2017

Final dividend and results for year ending 31 March 2017 announced

### June 2017

Annual report and accounts published

### July 2017

Annual general meeting; final dividend paid

## Share price

The company's share price is carried daily in the Financial Times, the Daily Telegraph, the Newcastle Journal and The Herald. The company's FTSE Actuaries classification is "Investment Companies – VCTs".

A range of shareholder information is provided on the internet at [www.shareview.co.uk](http://www.shareview.co.uk) by the company's registrars, Equiniti Limited, including details of shareholdings, indicative share prices and information on recent dividends (see page 4 for contact details for Equiniti Limited).

Share price information can also be obtained via the NVM website at [www.nvm.co.uk](http://www.nvm.co.uk).

## Dividend investment scheme

The company operates a dividend reinvestment scheme, giving shareholders the option of reinvesting their dividends in new shares in the company with the benefit of the tax reliefs currently available to VCT subscribers. Information about the dividend reinvestment scheme can also be obtained from the company secretary (see page 4 for contact details).

## Electronic communications

The company continues to provide the option to shareholders to receive communications from the company electronically rather than by paper copy. Shareholders who wish to join the scheme, which is operated by the company's registrars, Equiniti Limited, should visit [www.shareview.co.uk](http://www.shareview.co.uk), register for a Shareview portfolio and select 'Email' as their preferred method of delivery of company communications.

# Strategic report

*The company's objective is to provide high long-term tax-free returns to investors through a combination of dividend yield and capital growth.*

This report has been prepared by the directors in accordance with the requirements of Section 414 of the Companies Act 2006. The company's independent auditor is required by law to report on whether the information given in the strategic report is consistent with the financial statements. The auditor's report is set out on pages 26 and 27.

## Objectives and investment policy

The company's objective is to provide high long-term tax-free returns to investors through a combination of dividend yield and capital growth. The company invests primarily in unquoted UK manufacturing and service businesses which meet the managers' key criteria of good value, growth potential, strong management and ability to generate cash.

The company's investment policy has been designed to enable the company to comply with the VCT qualifying conditions set out within the shareholder information on page 5.

The directors intend that the long-term disposition of the company's assets will be approximately 80% in a portfolio of VCT-qualifying unquoted and AIM investments and 20% in other investments selected with a view to producing an enhanced return while avoiding undue capital volatility, to provide a reserve of liquidity which will maximise the company's flexibility as to the timing of investment acquisitions and disposals, dividend payments and share buy-backs.

Within the VCT-qualifying portfolio investments will be structured using various listed and unlisted investment instruments, including ordinary and preference shares, loan stocks and convertible securities, to achieve an appropriate balance of income and capital growth, having regard to the VCT legislation. This portfolio will be diversified by investing in a broad range of VCT-qualifying industry sectors and by holding investments in companies at different stages of maturity in the corporate development cycle. The normal investment holding period will be in the range from three to seven years.

Up to approximately 10% by value of the company's investments may be in early stage companies with high growth potential.

The directors expect that no single investment would normally represent in excess of 3% of the company's total assets at the time of acquisition. However shareholders should be aware that the company's VCT-qualifying investments are held with a view to long-term capital growth as well as income and will often have limited marketability; as a result it is possible that individual holdings may grow in value to the point where they represent a significantly higher proportion of total assets prior to a realisation opportunity being available. Investments will normally be made using the company's equity shareholders' funds and it is not intended that the company will take on any long-term borrowings.

A resolution to approve an updated investment policy, taking account of the revised VCT legislation as set out within the shareholder information on page 5, will be proposed at the annual general meeting to be held on 6 July 2016, details of which are set out in a separate circular.

The company is entitled to participate pro rata to net assets in all investment opportunities developed by NVM Private Equity LLP (NVM) and regularly invests alongside other funds managed by NVM, enabling the funds together to undertake investment commitments in any one investee company, including non-State aided funds, of up to approximately £8 million. Under a co-investment scheme introduced in 2006, NVM executives are required to invest personally alongside the funds in each new investee company on a predetermined basis.

## Investment management

NVM has acted as the company's investment manager since inception. NVM has an experienced team of venture capital executives based in its offices in Newcastle upon Tyne, Reading and Manchester and currently has over £260 million under management.

The board's management engagement committee reviews the terms of NVM's appointment as investment manager on a regular basis. Further information about the terms of the management agreement with NVM and the remuneration payable to NVM is set out in the directors' report on pages 16 and 17 and in Note 3 to the financial statements.

## Overview of the year

During the year under review Northern 3 VCT achieved a total return to ordinary shareholders, before dividends, of 10.4p per share, equivalent to 9.7% of the opening net asset value per share of 107.2p.

The net cash invested in the venture capital portfolio during the year was £4.3 million, additional investments of £11.8 million less sale proceeds of £7.5 million. Portfolio cash flow over the past five years is summarised in Table 1.

The movement in total net assets and net asset value per share is summarised in Table 2.

After taking account of other cash flows, including dividend payments of £10.3 million, the company's total cash balances decreased in the year by £12.1 million to £8.6 million. In addition the company holds listed equity investments valued at £7.5 million, down from £8.5 million at 31 March 2015.





**Table 1: Venture capital portfolio cash flow**

Year ended 31 March	New investment £000	Disposal proceeds £000	Net inflow/ (outflow) £000
2012	3,658	3,888	230
2013	5,794	6,771	977
2014	9,289	4,458	(4,831)
2015	11,167	20,356	9,189
2016	11,796	7,484	(4,312)
<b>Total</b>	<b>41,704</b>	<b>42,957</b>	<b>1,253</b>

**Table 2: Movements in net assets and net asset value per share**

	£000	Pence per ordinary share
<b>Net asset value at 31 March 2015</b>	<b>71,155</b>	<b>107.2</b>
Net revenue (investment income less revenue expenses and tax)	1,388	2.1
Capital surplus arising on investments:		
Realised net gains on disposals	1,796	2.7
Movements in fair value of investments	5,037	7.7
Management expenses allocated to capital account (net of tax relief)	(1,385)	(2.1)
<b>Total return for the year as shown in income statement</b>	<b>6,836</b>	<b>10.4</b>
Proceeds of issue of new shares (net of expenses)	–	–
Shares re-purchased for cancellation	(754)	0.1
<b>Net movement for the year before dividends</b>	<b>6,082</b>	<b>10.5</b>
<b>Net asset value at 31 March 2016 before dividends recognised</b>	<b>77,237</b>	<b>117.7</b>
Dividends recognised in the financial statements for the year	(10,273)	(15.5)
<b>Net asset value at 31 March 2016</b>	<b>66,964</b>	<b>102.2</b>

## Dividends

The directors have declared and proposed dividends totalling 10.5p per share in respect of the year, comprising a 2.0p revenue dividend and a 8.5p capital distribution.

## Investment portfolio

During the year ended 31 March 2016, ten new holdings were added to the venture capital portfolio at a cost of £11.3 million. The portfolio at 31 March 2016 comprised 50 holdings with an aggregate value of £51.2 million.

A summary of the venture capital holdings at 31 March 2016 is given on page 11, with information on the fifteen largest investments on pages 12 to 15.

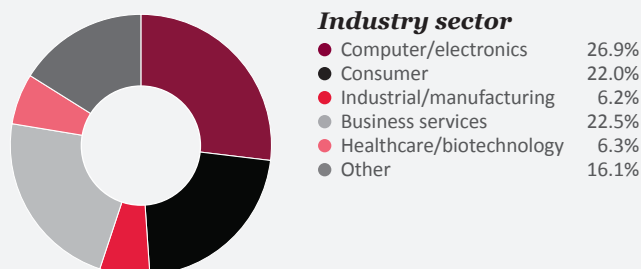
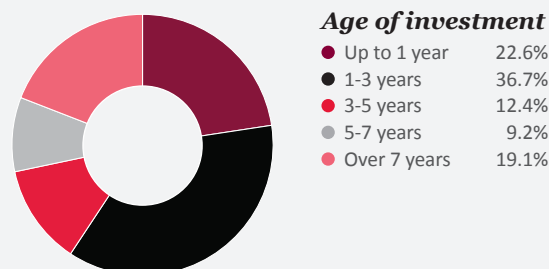
## New investments

The new investments completed during the year were:

- **Love Saving Group (£1,017,000)** – business-to-business energy comparison and procurement service, Bolton.
- **Entertainment Magpie Group (£1,360,000)** – re-commerce website for pre-owned entertainment media and electronic items, Manchester.
- **Gear4music (Holdings) (£151,000)** – AIM-quoted online retailer of musical instruments and music equipment, York.
- **Vislink (£564,000)** – AIM-quoted provider of video capture and transmission solutions, Hemel Hempstead.

In addition £8,250,000 was invested in six companies (**Graza, Hunley, Oceanos, Saluda, Seawise and Turbinia**) each of which is seeking to acquire a trading business in the coming months.

# Strategic report *continued*



## Investment realisations

Details of investment sales during the year are given in Note 9 on page 36. The most significant realisations (original cost or sales proceeds in excess of £0.5 million) are summarised in Table 3. The realisations in the year achieved a surplus of £2.1 million in excess of the carrying value at 31 March 2015.

**Kitwave One** was sold for initial proceeds of £2.2 million in a secondary buyout financed by Pricoa Capital Group and Allstate Investments.

**Control Risks Group Holdings** was acquired by an employee ownership trust with cash proceeds totalling £1.5 million.

AIM-quoted **Jelf** and **Accumuli** were both the subject of recommended bids which produced cash proceeds of £0.6 million and £0.7 million respectively.

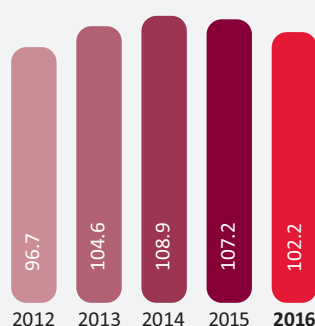
## Portfolio review

The pie charts above show the composition of the venture capital portfolio at 31 March 2016 by value according to maturity, industry sector, financing stage and whether quoted or unquoted.

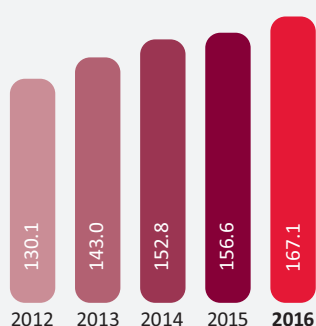
The portfolio has performed well during the year with **Buoyant Upholstery**, **MSQ Partners Group** and **Lineup Systems** all reporting good results. **Axial Systems Holdings** and **Cawood Scientific** made significant progress. **Fresh Approach (UK) Holdings**, **Arnlea Holdings** and **Kirton Group** continued to suffer from difficult market conditions.

Table 3: Significant investment realisations

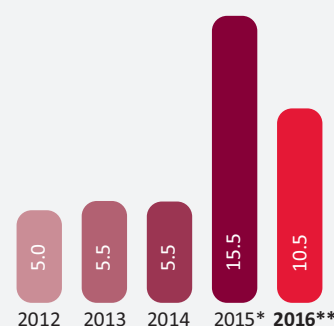
Company	Date of original investment	Original cost £000	Sales proceeds £000	Realised surplus/ (deficit) £000
Accumuli – recommended bid	2014	490	700	210
Control Risk Group Holdings – outright sale	2011	746	1,461	715
Crantock Bakery – partial write-off	2002	743	–	(743)
Jelf – recommended bid	2011	179	604	425
Kitwave One – outright sale	2011	1,001	2,244	1,243
Tinglobal Holdings – outright sale	2011	260	694	434



Net asset value (p)

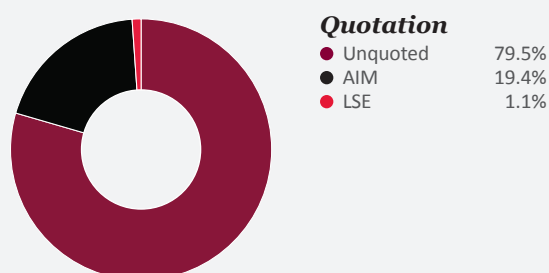
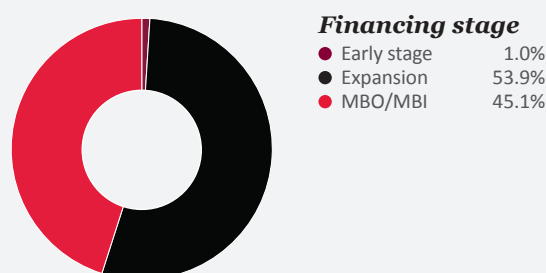


Net asset value plus cumulative dividends paid per share (p)



Dividend per share (p)

\*2015 includes 10.0p special dividend  
\*\*2016 includes 5.0p special dividend



## Valuation policy

Unquoted investments are valued in accordance with the accounting policy set out on page 32, which takes account of current industry guidelines for the valuation of private equity portfolios. Provision against cost is made where an investment is under-performing significantly. Where valuations are based on company earnings, audited historic results will be taken into account along with more recent unaudited information and projections where these are considered sufficiently reliable.

As at 31 March 2016 the number of private equity investments falling into each valuation category was as shown in Table 4.

## Key performance indicators

The directors regard the following as the key indicators pertaining to the company's performance:

**Net asset value and total return to shareholders:** the charts on the bottom of the page opposite show the movement in net asset value and total return (net asset value plus cumulative dividends) per share over the past five financial years.

**Dividend distributions:** the charts on the bottom of this page and the page opposite show the dividends (including proposed final dividends) declared in respect of each of the past five financial years and on a cumulative basis since inception.

**Ongoing charges:** the charts at the bottom of this page show total annual running expenses as a percentage of the average net assets attributable to shareholders for each of the past five financial years.

**Maintenance of VCT qualifying status:** the directors believe that the company has at all times since inception complied with the VCT qualifying conditions laid down by HM Revenue & Customs.

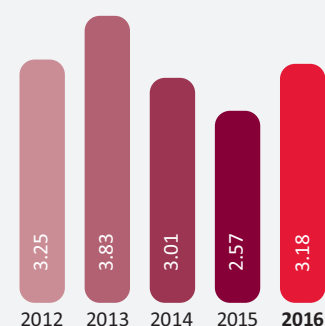
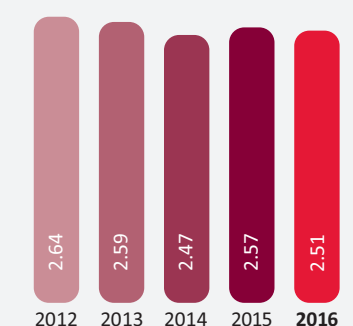
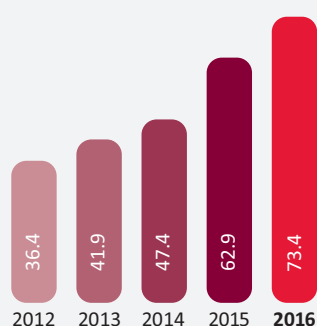
## Risk management

The board carries out a regular and robust review of the risk environment in which the company operates. The principal risks and uncertainties identified by the board which might affect the company's business model and future performance, and the steps taken with a view to their mitigation, are as follows:

**Investment and liquidity 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. **Mitigation:** 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 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.

Table 4: Investment valuation by category

Category	Number of investments	Valuation £000	% of portfolio by value
Unquoted investments at directors' valuation			
Earnings/revenue multiple	19	28,984	56.6
Original cost	8	10,787	21.1
Original cost less provision	5	907	1.8
Quoted investments at bid price			
Listed on London Stock Exchange	1	569	1.1
Quoted on AIM	17	9,910	19.4
<b>Total</b>	<b>50</b>	<b>51,157</b>	<b>100.0</b>



# Strategic report *continued*

**Financial risk:** most of the company's investments involve a medium- to long-term commitment and many are relatively illiquid.

**Mitigation:** 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.

**Mitigation:** the company invests in a diversified portfolio of investments spanning various industry sectors, and maintains sufficient cash reserves to be able to provide additional funding to investee companies where appropriate.

**Stock market risk:** some of the company's 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 smaller companies quoted on AIM. **Mitigation:** the company's quoted investments are actively managed by specialist managers and the board keeps the portfolio under ongoing review.

**Credit risk:** the company holds a number of financial instruments and cash deposits and is dependent on the counterparties discharging their commitment. **Mitigation:** the directors review the creditworthiness of the counterparties to these instruments and cash deposits and seek to ensure there is no undue concentration of credit risk with any one party.

**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, which reflects 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. **Mitigation:** The board and the manager monitor political developments and where appropriate seek to make representations either directly or through relevant trade bodies.

**Internal control risk:** the company's assets could be at risk in the absence of an appropriate internal control regime. **Mitigation:** 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.

**Mitigation:** the manager keeps the company's VCT qualifying status under continual review and its reports are reviewed by the board on a quarterly basis. The board has also retained Philip Hare & Associates LLP to undertake an independent VCT status monitoring role.

## Additional disclosures required by the Companies Act

The company has no employees during the year and all the directors are male.

As an externally managed investment company, the company is not directly responsible for any greenhouse gas emissions.

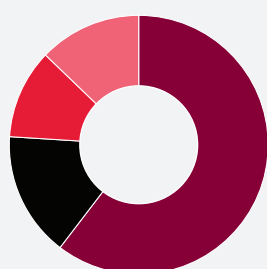
## Future prospects

The company has a strong reserve of liquidity and a portfolio of investments which continue to deliver broadly positive results. Our manager is adapting to the Government's new restrictions on VCT-qualifying investments and we are cautiously optimistic about the flow of new opportunities.

By order of the Board

C D Mellor  
Secretary

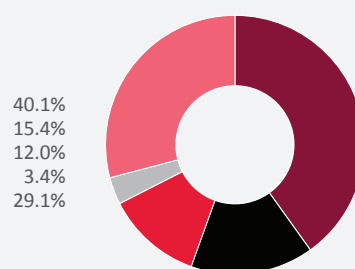
17 May 2016



31 March 2016

### Asset Allocation

- Venture capital – unquoted
- Venture capital – AIM quoted
- Listed equity
- Listed interest-bearing
- Cash and short term deposits



31 March 2015

# Investment portfolio

as at 31 March 2016

	Cost £000	Valuation £000	% of net assets by value
<b>Fifteen largest private equity investments (see pages 12 to 15)</b>			
Buoyant Upholstery	1,294	3,119	4.7
IDOX*	600	2,476	3.7
Lineup Systems	974	2,470	3.7
MSQ Partners Group	1,478	2,275	3.4
Axial Systems Holdings	1,293	2,147	3.2
No 1 Traveller	1,894	2,063	3.1
Silverwing	1,272	1,954	2.9
Entertainment Magpie Group	1,360	1,830	2.7
Volumatic Holdings	1,762	1,695	2.5
Wear Inns	1,406	1,681	2.5
It's All Good	1,131	1,642	2.4
CloserStill Group	1,520	1,520	2.3
Agilitas IT Holdings	1,448	1,469	2.2
Biological Preparations Group	1,915	1,412	2.1
Cawood Scientific	825	1,375	2.1
	<b>20,172</b>	<b>29,128</b>	<b>43.5</b>
<b>Other private equity investments</b>			
Graza	1,375	1,375	2.1
Hunley	1,375	1,375	2.1
Oceanos	1,375	1,375	2.1
Saluda	1,375	1,375	2.1
Seawise	1,375	1,375	2.1
Turbinia	1,375	1,375	2.1
Optilan Group	1,125	1,290	1.9
Sinclair Pharma*	957	1,254	1.9
Love Saving Group	1,017	1,017	1.5
Eckoh*	528	765	1.1
Arleigh Group	22	753	1.1
Eco Animal Health Group*	497	748	1.1
Ideagen*	541	720	1.1
Haystack Dryers	1,284	692	1.0
Vectura Group**	247	569	0.8
Intuitive Holding	1,293	557	0.8
Brady*	732	540	0.8
Hayward Tyler*	515	540	0.8
Arnlea Holdings	1,138	510	0.8
Cello Group*	349	497	0.7
Netcall*	546	480	0.7
Lanner Group	331	410	0.6
Adept Telecom*	236	377	0.6
CityFibre Infrastructure Holdings*	496	360	0.5
Nasstar*	202	333	0.5
Vislink*	564	310	0.5
Collagen Solutions*	271	232	0.3
Kirton Group	892	199	0.3
Gentronix	397	198	0.3
Fresh Approach (UK) Holdings	1,286	150	0.2
Gear4music (Holdings)*	151	144	0.2
Synectics*	171	129	0.2
Summit Corporation*	122	5	—
Crantock Bakery	103	—	—
S&P Coil Products	24	—	—
<b>Total private equity investments</b>	<b>44,459</b>	<b>51,157</b>	<b>76.4</b>
Listed equity investments	7,337	7,538	11.3
<b>Total fixed asset investments</b>	<b>51,796</b>	<b>58,695</b>	<b>87.7</b>
Net current assets		8,269	12.3
<b>Net assets</b>		<b>66,964</b>	<b>100.0</b>

\* Quoted on AIM

\*\* Listed on London Stock Exchange



# Fifteen largest private equity investments

## Buoyant Upholstery

Cost	£1,294,000
Valuation	£3,119,000
Basis of valuation	Earnings multiple
Equity held	9.9% (NVM funds total 54.0%)
Business/location	Manufacturer of upholstered sofas and chairs, Nelson
History	Management buy-out financing in July 2013, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT, NV1 LP
Income in year	Dividends £119,000, loan stock interest £93,000

### Audited financial information:

Year ended 27 September	2015 £m	2014* £m
Sales	53.6	59.7
Operating profit	5.2	5.0
Profit before tax	3.1	2.8
Profit after tax	2.3	2.0
Net assets	5.5	3.3

\*15 month period

## IDOX

Cost	£600,000
Valuation	£2,476,000
Basis of valuation	Bid price (AIM)
Equity held	1.4% (NVM funds 2.4%)
Business/location	Developer of software products for document, content and information management, London
History	Holding acquired through a share placing on AIM in 2007
Other NVM funds investing	Northern Venture Trust
Income in year	Dividends £37,000

### Audited financial information:

Year ended 31 October	2015 £m	2014 £m
Sales	62.6	60.7
Operating profit	16.0	13.5
Profit before tax	9.8	7.6
Profit after tax	7.8	5.8
Net assets	53.6	48.6

## Lineup Systems

Cost	£974,000
Valuation	£2,470,000
Basis of valuation	Revenue multiple
Equity held	17.4% (NVM funds total 52.2%)
Business/location	Multi-channel advertising and media software, London
History	Development capital financing, December 2011, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT
Income in year	Dividends nil, loan stock interest £44,000

### Audited financial information:

Year ended 31 March	2015 £m	2014 £m
Sales	5.4	4.4
Operating (loss)	–	(0.4)
(Loss) before tax	(0.1)	(0.1)
(Loss) after tax	(0.1)	(0.5)
Net (liabilities)	(0.3)	(0.2)

## MSQ Partners Group

Cost	£1,478,000
Valuation	£2,275,000
Basis of valuation	Earnings multiple
Equity held	7.2% (NVM funds total 38.8%)
Business/location	Marketing and communications agency group, London
History	Management buy-out financing in July 2014, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT, NV2 LP
Income in year	Dividends nil, loan stock interest £130,000

### Audited financial information:

Year ended 28 February	2015* £m
Sales	64.0
Operating profit	0.4
(Loss) before tax	(0.6)
(Loss) after tax	(1.2)
Net (liabilities)	(0.4)

\*9 month period

Note: "Operating profit" is defined as earnings before interest, tax and amortisation of goodwill.

## Axial Systems Holdings

Cost	£1,293,000
Valuation	£2,147,000
Basis of valuation	Earnings multiple
Equity held	13.3% (NVM funds total 58.9%)
Business/location	Supplier of distributed network management solutions, Maidenhead
History	Management buy-out from private ownership, March 2008, led by NVM Private Equity
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT
Income in year	Dividends nil, loan stock interest £49,000

### Audited financial information:

Year ended 31 December	2015 £m	2014 £m
Sales	20.0	18.3
Operating profit	1.1	1.0
Profit before tax	0.2	–
(Loss) after tax	–	(0.1)
Net assets	0.6	0.5

## No 1 Traveller

Cost	£1,894,000
Valuation	£2,063,000
Basis of valuation	Earnings multiple
Equity held	9.1% (NVM funds total 44.9%)
Business/location	Operator of airport lounges and related services, London
History	Growth capital investment in March 2014, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT, NV1 LP
Income in year	Nil

### Audited financial information:

Year ended 31 December	2014* £m
Sales	10.7
Operating loss	(1.5)
(Loss) before tax	(2.1)
(Loss) after tax	(2.1)
Net assets	1.4

## Silverwing

Cost	£1,272,000
Valuation	£1,954,000
Basis of valuation	Earnings multiple
Equity held	10.2% (NVM funds total 47.4%)
Business/location	Developer of non-destructive testing solutions for the oil and gas industry, Swansea
History	Management buy-out financing in August 2012, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT, NV1 LP
Income in period	Dividends nil, loan stock interest £89,000

### Audited financial information:

Year ended 31 December	2014	2013* £m
Sales	7.8	11.9
Operating profit	1.5	2.7
Profit before tax	1.0	1.6
Profit after tax	0.6	1.3
Net assets	3.5	2.9

\*18 month period

## Entertainment Magpie Group

Cost	£1,360,000
Valuation	£1,830,000
Basis of valuation	Earnings multiple
Equity held	8.2% (NVM funds total 36.1%)
Business/location	Re-commerce website for pre-owned entertainment media and electronic items, Manchester
History	Management buy-out, September 2015, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT, NV2 LP
Income in period	Nil

### Audited financial information:

First audited accounts will be for the period ending 31 May 2016.

# Fifteen largest private equity investments

## continued

### Volumatic Holdings

Cost	£1,762,000
Valuation	£1,695,000
Basis of valuation	Earnings multiple
Equity held	16.9% (NVM funds total 50.7%)
Business/location	Manufacturer of intelligent cash handling equipment, Birmingham
History	Management buy-out financing in March 2012, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT
Income in year	Dividends nil, loan stock interest £135,000

#### Audited financial information:

Year ended 31 March	2015 £m	2014 £m
Sales	5.1	8.1
Operating profit	0.4	2.0
(Loss)/profit before tax	(0.6)	0.9
(Loss)/profit after tax	(0.6)	0.6
Net assets	2.2	2.8

### Wear Inns

Cost	£1,406,000
Valuation	£1,681,000
Basis of valuation	Earnings multiple
Equity held	6.4% (NVM funds total 23.9%)
Business/location	Owner of managed public houses, Newcastle upon Tyne
History	Acquisition capital financing in February 2006, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT
Income in year	Dividends nil, loan stock interest £120,000

#### Audited financial information:

Year ended 31 March	2015 £m	2014 £m
Sales	13.2	13.5
Operating profit	1.3	1.4
(Loss) before tax	(0.3)	(0.2)
(Loss) after tax	(0.3)	(0.2)
Net assets	0.9	1.1

### It's All Good

Cost	£1,131,000
Valuation	£1,642,000
Basis of valuation	Earnings multiple
Equity held	9.8% (NVM funds total 30.2%)
Business/location	Manufacturer of premium savoury snack products, Gateshead
History	Growth capital investment in February 2014, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT
Income in year	Dividends nil, loan stock interest £102,000

#### Audited financial information:

Year ended 31 December	2014 £m	2013 £m
Sales	8.7	1.2
Operating profit/(loss)	0.4	(0.6)
(Loss) before tax	–	(0.7)
Profit/(loss) after tax	0.2	(0.7)
Net (liabilities)	(0.2)	(0.8)

### CloserStill Group

Cost	£1,520,000
Valuation	£1,520,000
Basis of valuation	Cost
Equity held	1.0% (NVM funds total 3.1%)
Business/location	Promoter of international business-to-business events, London
History	Secondary buy-out from private equity ownership, March 2015, led by Inflexion Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT
Income in year	Nil

#### Audited financial information:

First audited accounts will be for the period ended 31 December 2015

Note: "Operating profit" is defined as earnings before interest, tax and amortisation of goodwill.

## Agilitas IT Holdings

Cost	£1,448,000
Valuation	£1,469,000
Basis of valuation	Earnings multiple
Equity held	12.5% (NVM funds total 55.3%)
Business/location	Provider of outsourced IT inventory management services, Nottingham
History	Management buy-out financing in June 2014, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT, NV2 LP
Income in year	Dividends nil, loan stock interest £83,000

### Audited financial information:

Year ended 31 March	2015* £m
Sales	5.8
Operating profit	0.2
(Loss) before tax	(0.4)
(Loss) after tax	(0.3)
Net assets	0.5

\*11 month period

## Biological Preparations Group

Cost	£1,915,000
Valuation	£1,412,000
Basis of valuation	Earnings multiple
Equity held	14.4% (NVM funds total 47.5 %)
Business/location	Developer and supplier of products based on microbial, antimicrobial, plant extract and enzyme technology, Cardiff
History	Management buy-out financing in March 2015, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT
Income in year	Dividends £19,000, loan stock interest £154,000

### Audited financial information:

First audited accounts will be for the period ended 31 December 2015

## Cawood Scientific

Cost	£825,000
Valuation	£1,375,000
Basis of valuation	Earnings multiple
Equity held	9.1% (NVM funds total 45.6%)
Business/location	Laboratory services for land-based industries, Bracknell/Cawood
History	Management buy-out financing in December 2010, led by NVM Private Equity
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT
Income in year	Dividends nil, loan stock interest £59,000

### Audited financial information:

Year ended 31 March	2015 £m	2014 £m
Sales	10.1	9.3
Operating profit	1.2	1.5
Profit before tax	0.2	0.6
Profit after tax	0.2	0.4
Net assets	1.9	1.8



# Directors' report

*The directors have managed the affairs of the company with the intention of maintaining its status as an approved venture capital trust.*

The directors present their report and the audited financial statements for the year ended 31 March 2016.

## Activities and status

The directors have managed the affairs of the company with the intention of maintaining its status as an approved venture capital trust for the purposes of Section 274 of the Income Tax Act 2007. The directors consider that the company was not at any time up to the date of this report a close company within the meaning of Chapter 2 of Part 10 of the Corporation Tax Act 2010. The company's registered number is 4280530.

The directors are required by the articles of association to propose an ordinary resolution at the company's annual general meeting in 2019 that the company should continue as a venture capital trust for a further five year period, and at each fifth subsequent annual general meeting thereafter. If any such resolution is not passed, the directors shall within four months convene an extraordinary general meeting to consider proposals for the reorganisation or winding-up of the company.

## Corporate governance

The statement on corporate governance set out on pages 20 to 24 is included in the directors' report by reference.

## Results and dividend

The return on ordinary activities after tax for the year of £6,836,000 has been transferred to reserves.

The second interim and final dividends for the year ended 31 March 2015 totalling 13.5p and an interim dividend of 2.0p per share in respect of the year ended 31 March 2016 were paid during the year at a cost of £10,273,000 and have been charged to reserves.

The directors have declared a second interim dividend of 5.0p and propose a final dividend of 3.5p per share for the year ended 31 March 2016. Subject to approval of the final dividend at the annual general meeting, the second interim and final dividends will be paid on 15 July 2016 to shareholders on the register on 17 June 2016.

## Provision of information to auditors

Each of the directors who held office at the date of approval of this directors' report confirms that, so far as he is aware, there is no relevant audit information of which the company's auditor is unaware and that he has taken all the steps that he could reasonably be expected to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

## Going concern

After making the necessary enquiries, the directors believe that it is appropriate to continue to apply the going concern basis in preparing the financial statements.

## Statement of long-term viability

As required by the AIC Code of Corporate Governance, the directors have assessed the prospects of the company over the three year period to March 2019, taking into account the company's current position and principal risks, and have concluded that there is a reasonable expectation that the company will be able to continue in operation over the period and meet its liabilities as they fall due over that period. The directors consider that for the purpose of this exercise it is not practical or meaningful to look forward over a period of more than three years. In making their assessment the directors have taken into account the principal risks and their mitigation identified in the strategic report on page 10, the nature of the company's business, including its substantial reserve of cash and near-cash investments, the potential of its venture capital portfolio to generate future income and capital proceeds and the ability of the directors to minimise the level of cash outflows should this be necessary.

## Directors

None of the directors has a contract of service with the company and, except as mentioned below under the heading "Management", no contract or arrangement subsisted during or at the end of the year in which any director was materially interested and which was significant in relation to the company's business.

## Directors' and officers' liability insurance

The company has, as permitted by the Companies Act 2006, maintained insurance cover on behalf of the directors and secretary indemnifying them against certain liabilities which may be incurred by any of them in relation to the company.

## Management

NVM Private Equity (NVM) has acted as investment adviser and manager to the company since incorporation. The principal terms of the company's management agreement with NVM are set out in Note 3 to the financial statements. Mr T R Levett, who is a director of Northern 3 VCT, is also a partner in NVM.

The management engagement committee carries out a regular review of the terms of NVM's appointment with a view to ensuring that NVM's remuneration is set at an appropriate level, having regard to the nature of the work carried out and general market practice.

As required by the Listing Rules, the directors confirm that in their opinion the continuing appointment of NVM as investment manager on the terms agreed is in the interests of the company's shareholders as a whole. In reaching this conclusion the directors have taken into account the long-term performance of the investment portfolio and the efficient and effective service provided by NVM to the company.

## Remuneration receivable by NVM

The remuneration receivable by NVM and its executives by virtue of NVM's management agreement with Northern 3 VCT comprises the following:

### Remuneration payable by Northern 3 VCT

**Basic management fee:** NVM is entitled to receive a basic annual management fee equivalent to 2.06% of net assets, calculated half-yearly as at 31 March and 30 September. In the year ended 31 March 2016 the basic annual management fee was £1,416,000 (preceding year: £1,458,000).





**Performance-related management fee:** NVM is entitled to receive an annual performance-related management fee equivalent to 14.2% of the total return in excess of a formula-driven hurdle rate, details of whose composition are set out in Note 3 to the financial statements. The hurdle rate for the year ended 31 March 2016 was 5.82% (preceding year: 5.78%). The performance-related management fee for the year ended 31 March 2016 was £468,000 (preceding year: nil).

**Accounting and secretarial fee:** NVM provides accounting, administrative and secretarial services to the company for a fee of £52,000 per annum, linked to the movement in the RPI. The fee payable in respect of the preceding year was £51,000.

Under current tax legislation the fees paid by the company to NVM are not subject to VAT. The total annual running costs of the company, including the basic management fee and the accounting and secretarial fee but excluding the performance-related management fee, are capped at 2.9% of average net assets and any excess will be refunded to the company by way of a reduction in NVM's basic management fee. The annual running costs of the company for the year ended 31 March 2016 were equivalent to 2.51% of average net assets (preceding year: 2.57%).

#### Remuneration payable by investee companies

Under the management agreement, NVM is entitled to receive fees from investee companies in respect of the arrangement of investments and the provision of non-executive directors and other advisory services. NVM is responsible for paying the due diligence and other costs incurred in connection with proposed investments which for whatever reason do not proceed to completion.

In the year ended 31 March 2016 the arrangement fees receivable by NVM from investee companies which were attributable to investments made by Northern 3 VCT amounted to £71,000 (preceding year: £225,000), and directors' and monitoring fees amounted to £272,000 (preceding year: £249,000).

#### Executive co-investment scheme

Since 2006 the company has, together with the other funds managed by NVM, participated in a co-investment scheme with the objective of enabling NVM to recruit, retain and incentivise its key investment executives. Under the scheme, executives are required to invest personally (and on the same terms as the company and other funds managed by NVM) in the ordinary share capital of every unquoted investee company in which the company invests.

The shares held by executives can only be sold at such time as the funds managed by NVM sell their shares, any prior ranking loan notes or preference shares held by the funds having been repaid. The executives participating in the scheme subscribe jointly for 5.0% of the ordinary shares available to the NVM funds, except in the case of ungeared investments comprising only ordinary shares, where the proportion is 1.0%. At 31 March 2016 NVM executives held investments in 35 investee companies acquired at a total cost of £879,000, of which £224,000 was attributable to investments made by Northern 3 VCT.

#### Share capital – purchase of shares

During the year the company purchased for cancellation 820,000 of its own shares, representing 1.2% of the called-up share capital of the company at the beginning of the year, for a consideration of £754,000. Purchases were made in line with the company's policy of purchasing available shares at a discount to net asset value. At the 2015 annual general meeting shareholders authorised the company to purchase in the market up to 6,635,339 ordinary shares (equivalent to approximately 10% of the then issued ordinary share capital) at a minimum price of 5p per share and a maximum price per share of not more than 105% of the average market value for the ordinary shares in the company for the five business days prior to the date on which the ordinary shares were purchased.

As at 31 March 2016 this authority remained effective in respect of 5,815,339 shares; the authority will lapse at the conclusion of the 2016 annual general meeting of the company on 6 July 2016.

#### Fixed assets

Movements in fixed asset investments during the year are set out in Note 8 to the financial statements.

#### Annual general meeting

Notice of the 2016 annual general meeting to be held on 6 July 2016 is set out in a separate circular to shareholders along with explanatory comments on the resolutions.

#### Substantial shareholdings

No disclosures of major shareholdings had been made to the company under Disclosure and Transparency Rule 5 (Vote Holder and Issuer Notification Rules) as at the date of this report.

#### Independent auditor

KPMG LLP have indicated their willingness to continue as auditor of the company and resolutions to re-appoint them and to authorise the directors to fix their remuneration will be proposed at the annual general meeting.

By order of the Board

C D Mellor  
Secretary

17 May 2016

# Directors' remuneration report

*The board currently comprises four directors, all of whom are non-executive.*

This report has been prepared by the directors in accordance with the requirements of Section 410 of the Companies Act 2006. A resolution to approve the directors' remuneration report will be proposed at the annual general meeting on 6 July 2016.

The company's independent auditor, KPMG LLP, is required to give its opinion on certain information included in this report, as indicated below. The auditor's report on these and other matters is set out on pages 26 and 27.

## Directors' remuneration policy

The company is required by the Companies Act 2006 to seek shareholders' approval of the directors' remuneration policy at least every three years, or in the event of a change in the policy if sooner. The directors' remuneration policy has remained unchanged since it was approved by shareholders at the annual general meeting held on 16 July 2014 and, unless there is a change in the policy, it is the current intention of the directors that a resolution for the approval of the directors' remuneration policy will next be considered at the annual general meeting to be held in July 2017.

The board currently comprises four directors, all of whom are non-executive. The board does not have a separate remuneration committee, as the company has no employees or executive directors. The board has established a nomination committee, chaired by Mr J G D Ferguson and comprising all the directors, which meets annually (or more frequently if required) to consider the selection and appointment of directors and to make recommendations to the board as to the level of directors' fees. The board has not retained external advisers in relation to remuneration matters but has access to information about directors' fees paid by other companies of a similar size and type. No views which are relevant to the formulation of the directors' remuneration policy have been expressed to the company by shareholders, whether at a general meeting or otherwise.

The board considers that directors' fees should reflect the time commitment required and the high level of responsibility borne by directors, and should be broadly comparable to those paid by similar companies. It is not considered appropriate that directors' remuneration should be performance-related, and none of the directors is eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits in respect of their services as non-executive directors of the company. (Mr T R Levett, who is a partner in NVM Private Equity, has an interest in the co-investment scheme referred to in the directors' report on page 17.)

The articles of association place an overall limit (currently £100,000 per annum) on directors' remuneration. The articles of association provide that directors shall retire and be subject to re-election at the first annual general meeting after their appointment and that any director who was not appointed or reappointed at one of the preceding two annual general meetings shall retire and be subject to re-election at each annual general meeting. None of the directors has a service contract with the company. On being appointed or re-elected, directors receive a letter from the company setting out the terms of their appointment and their specific duties and responsibilities. A director's appointment may be terminated on three months' notice being given by the company and in certain other circumstances. A director who ceases to hold office is not entitled to receive any payment other than accrued fees (if any) for past services.

## Directors' remuneration for the year ended 31 March 2016 (audited information)

The fees paid to individual directors in respect of the years ended 31 March 2016 and 31 March 2015, which represent the entire remuneration payable to directors, are shown in Table 1.

## Directors' share interests (audited information)

The interests of the directors of the company (including the interests of their connected persons) in the issued ordinary shares of the company, at the beginning and end of the year and at the date of this report are shown in Table 2.

All of the directors' share interests were held beneficially.

The company has not set out any formal requirements or guidelines to directors concerning their ownership of shares in the company.

## Relative importance of spend on pay

As the company has no employees, the directors do not consider it appropriate to present a table comparing remuneration paid to employees with distributions to shareholders.

## Company performance

The graph opposite compares the total return (assuming re-investment of all dividends) to shareholders in the company over the five years ended 31 March 2016 with the total return from a notional investment in a broad UK equity market index.

## Statement of voting at annual general meeting

At the annual general meeting on 17 July 2015 the resolutions to approve the directors' remuneration report for the year ended 31 March 2015 was approved unanimously.

## Statement by the chairman of the nomination committee

The directors' fees payable by the company were set at £22,500 per annum for the chairman and £17,500 per annum for other directors with effect from 1 April 2015. In accordance with the directors' remuneration policy, directors' fees were reviewed by the nomination committee during its meeting on 15 February 2016, when it was recommended that fees should remain the same for the year to 31 March 2017.

J G D Ferguson  
Chairman of  
the Nomination  
Committee

17 May 2016

Table 1: Directors' fees

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
J G D Ferguson (Chairman)	22,500	22,000
C J Fleetwood	17,500	17,000
T R Levett	—	—
J M O Waddell	17,500	17,000
<b>Total</b>	<b>57,500</b>	<b>56,000</b>

Mr T R Levett waived his entitlement to directors' fees in respect of both years.

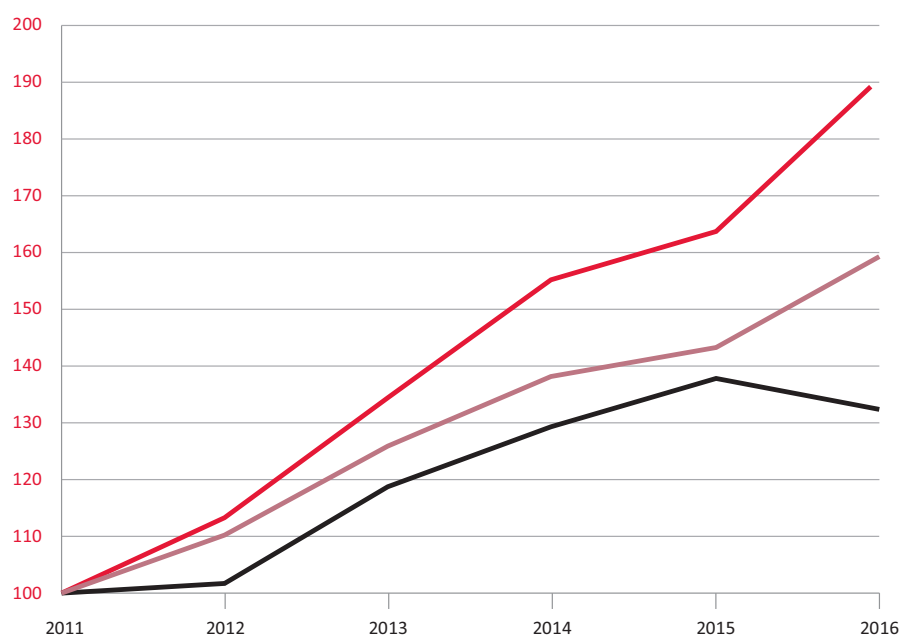


Table 2: Directors' interests in ordinary shares

	17 May 2016	31 March 2016	31 March 2015
J G D Ferguson (Chairman)	469,329	469,329	469,329
C J Fleetwood	55,305	55,305	55,305
T R Levett	238,148	238,148	238,148
J M O Waddell	7,283	7,283	7,283

## Return to shareholders in Northern 3 VCT PLC

Five years to 31 March 2016 (March 2011= 100)



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

# Corporate governance

*The company is committed to maintaining high standards in corporate governance.*

The board of Northern 3 VCT PLC has considered the principles and recommendations of the Association of Investment Companies Code of Corporate Governance (AIC Code) by reference to the related Association of Investment Companies Corporate Governance Guide for Investment Companies (AIC Guide). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the company. The AIC Code can be viewed at [www.theaic.co.uk/aic-code-of-corporate-governance-o](http://www.theaic.co.uk/aic-code-of-corporate-governance-o).

The board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide better information to shareholders.

The company is committed to maintaining high standards in corporate governance and during the year ended 31 March 2016 complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code, except as set out below.

The UK Corporate Governance Code includes provisions relating to the role of the chief executive, executive directors' remuneration and the need for an internal audit function. For the reasons set out in the AIC Guide, and in the preamble to the UK Corporate Governance Code, the board considers these provisions are not relevant to the position of Northern 3 VCT PLC, which is an externally managed venture capital trust. The company has therefore not reported further in respect of these provisions.

## Board of directors

The company has a board of four non-executive directors, the majority of whom are considered to be independent of the company's investment manager, NVM Private Equity LLP (NVM). The board meets regularly on a quarterly basis, and on other occasions as required. The board is responsible to shareholders for the effective stewardship of the company's affairs and has a formal schedule of matters specifically reserved for its decision which include:

- consideration of long-term strategic issues;
- valuation of the unquoted investment portfolio; and
- ensuring the company's compliance with good practice in corporate governance matters.

A brief biographical summary of each director is given on page 4.

The chairman, Mr J G D Ferguson, leads the board in the determination of its strategy and in the achievement of its objectives. The chairman is responsible for organising the business of the board, ensuring its effectiveness and setting its agenda, and has no involvement in the day to day business of the company. He facilitates the effective contribution of the directors and ensures that they receive accurate, timely and clear information and that they communicate effectively with shareholders.

The board has established a formal process, led by the chairman, for the annual evaluation of the performance of the board, its principal committees and individual directors. The directors are made aware on appointment that their performance will be subject to regular evaluation. The performance of the chairman is evaluated by a meeting of the other board members under the leadership of Mr C J Fleetwood.

The company secretary, Mr C D Mellor, is responsible for advising the board through the chairman on all governance matters. All of the directors have access to the advice and services of the company secretary, who has administrative responsibility for the meetings of the board and its committees. Directors may also take independent professional advice at the company's expense where necessary in the performance of their duties. As all of the directors are non-executive, it is not considered appropriate to identify a member of the board as the senior non-executive director of the company.

The company's articles of association and the schedule of matters reserved to the board for decision provide that the appointment and removal of the company secretary is a matter for the board.

The company's articles of association require that one third of the directors should retire by rotation each year and seek re-election at the annual general meeting, and that directors newly appointed by the board should seek re-appointment at the next annual general meeting. The board complies with the requirement of the Combined Code that all directors are required to submit themselves for re-election at least every three years.

## Independence of directors

The board regularly reviews the independence of its members and is satisfied that the company's directors are independent in character and judgement and there are no relationships or circumstances which could affect their objectivity (with the exception of Mr T R Levett who is a partner in NVM, the company's investment manager).





The AIC Code recommends that where a director has served for more than nine years, the board should state its reasons for believing that the individual remains independent. The board is of the view that a term of service in excess of nine years is not in itself prejudicial to a director's ability to carry out his/her duties effectively and from an independent perspective; the nature of the company's business is such that individual directors' experience and continuity of board membership can significantly enhance the effectiveness of the board as a whole. Accordingly it is not considered appropriate to require directors who have served for more than nine years to seek annual re-election. Nevertheless the board acknowledges that periodic refreshment of its membership is desirable.

## Board committees

The board has appointed three standing committees to make recommendations to the board in specific areas. The board does not have a separate remuneration committee, as the company has no employees or executive directors. Detailed information relating to the remuneration of directors is given in the directors' remuneration report on pages 18 and 19.

## Audit Committee

During the year the audit committee comprised:

Mr C J Fleetwood (Chairman)  
Mr J G D Ferguson  
Mr J M O Waddell

The audit committee's terms of reference include the following roles and responsibilities:

- monitoring and making recommendations to the board in relation to the company's published financial statements and other formal announcements relating to the company's financial performance;
- monitoring and making recommendations to the board in relation to the valuation of the company's unquoted investments;

- monitoring and making recommendations to the board in relation to the company's internal control (including internal financial control) and risk management systems;
- periodically considering the need for an internal audit function;
- making recommendations to the board in relation to the appointment, re-appointment and removal of the external auditor and approving the remuneration and terms of engagement of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- monitoring the extent to which the external auditor is engaged to supply non-audit services; and
- ensuring that the investment manager has arrangements in place for the investigation and follow-up of any concerns raised confidentially by staff in relation to the propriety of financial reporting or other matters.

The committee reviews its terms of reference and its effectiveness annually and recommends to the board any changes required as a result of the review. The terms of reference are available on request from the company secretary and on the NVM website, [www.nvm.co.uk](http://www.nvm.co.uk). The audit committee meets three times per year and has direct access to KPMG LLP, the company's external auditor. The board considers that the members of the committee are independent and have collectively the skills and experience required to discharge their duties effectively, and that the chairman of the committee meets the requirements of the UK Corporate Governance Code as to recent and relevant financial experience.

The company does not have an independent internal audit function as it is not deemed appropriate given the size of the company and the nature of the company's business. However, the committee considers annually whether there is a need for such a function and if so would recommend this to the board.

During the year ended 31 March 2016 the audit committee discharged its responsibilities by:

- reviewing and approving the external auditor's terms of engagement, remuneration and independence;
- reviewing the external auditor's plan for the audit of the company's financial statements, including identification of key risks;
- reviewing NVM's statement of internal controls operated in relation to the company's business and assessing the effectiveness of those controls in minimising the impact of key risks;
- reviewing periodic reports on the effectiveness of NVM's compliance procedures;
- reviewing the appropriateness of the company's accounting policies;
- reviewing the company's draft annual financial statements and half-yearly results statement prior to board approval, including the proposed fair value of investments as determined by the directors;
- reviewing the external auditor's detailed reports to the committee on the annual financial statements;
- considering the effectiveness of the external audit process; and
- recommending to the board and shareholders the reappointment of KPMG LLP as the independent auditor of the company.



# Corporate governance continued

The key areas of risk that have been identified and considered by the audit committee in relation to the business activities and financial statements of the company are as follows:

- valuation and existence of unquoted investments; and
- compliance with HM Revenue & Customs conditions for maintenance of approved venture capital trust status.

These issues were discussed with the investment manager and the auditor at the pre-year end audit planning meeting and at the conclusion of the audit of the financial statements.

**Valuation of unquoted investments:** the investment manager and the auditor confirmed to the audit committee that the investment valuations had been carried out consistently with prior periods and in accordance with published industry guidelines, taking account of the latest available information about investee companies and current market data. The audit committee reviewed the estimates and judgements made in the investment valuations and was satisfied that they are appropriate.

**Venture capital trust status:** the investment manager confirmed to the audit committee that the conditions for maintaining the company's status as an approved venture capital trust had been complied with throughout the year. The position was also reviewed by Philip Hare & Associates LLP in its capacity as adviser to the company on taxation matters.

The investment manager and auditor confirmed to the audit committee that they were not aware of any material misstatements. Having reviewed the reports received from the manager and auditor, the audit committee is satisfied that the key areas of risk and judgement have been appropriately addressed in the financial statements and that the significant assumptions used in determining the value of assets and liabilities have been properly appraised and are sufficiently robust. The committee considers that KPMG LLP has carried out its duties as auditor in a diligent and professional manner.

As part of the review of auditor effectiveness and independence, KPMG LLP has confirmed that it is independent of the company and has complied with applicable auditing standards. KPMG LLP together with its predecessor KPMG Audit Plc has held office as auditor for 14 years; in accordance with professional guidelines the engagement partner is rotated after at most five years, and the current director has served for one year. Having completed its review the audit committee is satisfied that KPMG LLP remained effective and independent in carrying out its responsibilities up to the date of signing this report. The audit committee is satisfied that KPMG LLP is independent and that it would not be appropriate to put the audit appointment out to tender at the present time. Under impending UK legislation, listed companies will in the future be subject to mandatory rotation of auditors. The last period for which KPMG LLP will be permitted to act as auditor of the company will be the year ending 31 March 2023.

## Nomination Committee

During the year the nomination committee comprised:

Mr J G D Ferguson (Chairman)  
Mr C J Fleetwood  
Mr T R Levett  
Mr J M O Waddell

The nomination committee considers the selection and appointment of directors and makes annual recommendations to the board as to the level of directors' fees. The committee monitors the balance of skills, knowledge and experience offered by board members, and satisfies itself that they are able to devote sufficient time to carry out their role efficiently and effectively. When recommending new appointments to the board the committee draws on its members' extensive business experience and range of contacts to identify suitable candidates; the use of formal advertisements and external consultants is not considered cost-effective given the company's size. New directors are provided with briefing material relating to the company, its investment managers and the venture capital industry as well as to their own legal responsibilities as directors. The committee has written terms of reference which are reviewed annually and are available on request from the company secretary and on the NVM website, [www.nvm.co.uk](http://www.nvm.co.uk).

## Management Engagement Committee

During the year the management engagement committee comprised:

Mr J G D Ferguson (Chairman)  
Mr C J Fleetwood  
Mr J M O Waddell

The management engagement committee undertakes a periodic review of the performance of the investment manager, NVM, and of the terms of the management agreement including the level of fees payable and the length of the notice period. The principal terms of the agreement are set out in Note 3 to the financial statements on page 33.

Following the latest review by the committee, the board concluded that the continuing appointment of NVM was in the interests of the company and its shareholders as a whole. NVM has demonstrated its commitment to and expertise in venture capital investment over an extended period, as a result of which the company has established a consistent long-term performance record. NVM has also performed its company secretarial and accounting duties efficiently and effectively.

## Attendance at board and committee meetings

Table 1 sets out the number of formal board and committee meetings held during the year ended 31 March 2016 and the number attended by each director compared with the maximum possible attendance.

## Corporate responsibility

The board aims to ensure that the company takes a positive approach to corporate responsibility, in relation both to itself and to the companies it invests in. This entails maintaining a responsible attitude to ethical, environmental, governance and social issues, and the encouragement of good practice in investee companies. The board seeks to avoid investing in companies which do not operate within relevant ethical, environmental and social legislation or otherwise fail to comply with appropriate industry standards.

**Table 1: Directors' attendance at meetings**

	Board	Audit committee	Nomination committee	Management engagement committee
<b>Number of meetings held</b>	<b>6</b>	<b>3</b>	<b>1</b>	<b>1</b>
Attendance (actual/possible):				
J G D Ferguson (Chairman)	6/6	3/3	1/1	1/1
C J Fleetwood	6/6	3/3	1/1	1/1
T R Levett	6/6	N/A	1/1	N/A
J M O Waddell	6/6	3/3	1/1	1/1



## Investor relations

In fulfilment of the chairman's obligations under the UK Corporate Governance Code, the chairman gives feedback to the board on issues raised with him by shareholders with a view to ensuring that members of the board develop an understanding of the views of shareholders about their company. The board recognises the value of maintaining regular communications with shareholders. Formal reports are sent to shareholders at the half-year and year-end stages, and an opportunity is given to shareholders at the annual general meeting to question the board and the investment manager on matters relating to the company's operation and performance. The manager holds an annual VCT investor seminar to which shareholders are invited. Proxy voting figures for each resolution are announced at general meetings and are made available publicly following the relevant meeting.

Further information can also be obtained via the NVM website at [www.nvm.co.uk](http://www.nvm.co.uk).

## Internal control

The directors have overall responsibility for ensuring that there are in place robust systems of internal control, both financial and non-financial, and for reviewing their effectiveness. The purpose of the internal financial controls is to ensure that proper accounting records are maintained, the company's assets are safeguarded and the financial information used within the business and for publication is accurate and reliable; such a system can provide only reasonable and not absolute assurance against material misstatement or loss. The board regularly reviews financial performance and results with the investment manager. Responsibility for accounting and secretarial services has been contractually delegated to NVM under the management agreement.

NVM has established its own system of internal controls, which is subject to continuing review and updating, in relation to these matters. The internal control system is regularly reviewed by the board and no material weaknesses have been identified as a result of this review.

Non-financial internal controls include the systems of operational and compliance controls maintained by the investment manager in relation to the company's business as well as the management of key risks as referred to in the section headed "Risk management" below.

The directors confirm that by means of the procedures set out above, and in accordance with "Internal Controls: Guidance for Directors on the Combined Code", published by the Institute of Chartered Accountants in England and Wales, they have established a continuing process for identifying, evaluating and managing the significant potential risks faced by the company and have reviewed the effectiveness of the internal control systems. This process has been in place throughout and subsequent to the accounting period under review.

## Risk management

Risk management is discussed in the strategic report on pages 9 and 10.

## Share capital, rights attaching to the shares and restrictions on voting and transfer

As at 31 March 2016 65,533,399 ordinary shares were in issue (as at that date none of the issued shares were held by the company as treasury shares). Subject to any suspension or abrogation of rights pursuant to relevant law or the company's articles of association, the shares confer on their holders (other than the company in respect of any treasury shares) the following principal rights:

(a) the right to receive out of profits available for distribution such dividends as may be agreed to be paid (in the case of a final dividend in an amount not exceeding the amount recommended by the board as approved by shareholders in general meeting or in the case of an interim dividend in an amount determined by the board). All dividends unclaimed for a period of 12 years after having become due for payment are forfeited automatically and cease to remain owing by the company;

(b) the right, on a return of assets on a liquidation, reduction of capital or otherwise, to share in the surplus assets of the company remaining after payment of its liabilities pari passu with the other holders of ordinary shares; and

(c) the right to receive notice of and to attend and speak and vote in person or by proxy at any general meeting of the company. On a show of hands every member present or represented and voting has one vote and on a poll every member present or represented and voting has one vote for every share of which that member is the holder; the appointment of a proxy must be received not less than 48 hours before the time of the holding of the relevant meeting or adjourned meeting or, in the case of a poll taken otherwise than at or on the same day as the relevant meeting or adjourned meeting, be received after the poll has been demanded and not less than 24 hours before the time appointed for the taking of the poll.

These rights can be suspended. If a member, or any other person appearing to be interested in shares held by that member, has failed to comply within the time limits specified in the company's articles of association with a notice pursuant to Section 793 of the Companies Act 2006 (notice by company requiring information about interests in its shares), the company can until the default ceases suspend the right to attend and speak and vote at a general meeting and if the shares represent at least 0.25% of their class the company can also withhold any dividend or other money payable in respect of the shares (without any obligation to pay interest) and refuse to accept certain transfers of the relevant shares.

Shareholders, either alone or with other shareholders, have other rights as set out in the company's articles of association and in the Companies Act 2006.

# Corporate governance continued

A member may choose whether his shares are evidenced by share certificates (certificated shares) or held in electronic (uncertificated) form in CREST (the UK electronic settlement system). Any member may transfer all or any of his shares, subject in the case of certificated shares to the rules set out in the company's articles of association or in the case of uncertificated shares to the regulations governing the operation of CREST (which allow the directors to refuse to register a transfer as therein set out); the transferor remains the holder of the shares until the name of the transferee is entered in the register of members. The directors may refuse to register a transfer of certificated shares in favour of more than four persons jointly or where there is no adequate evidence of ownership or the transfer is not duly stamped (if so required). The directors may also refuse to register a share transfer if it is in respect of a certificated share which is not fully paid up or on which the company has a lien provided that, where the share transfer is in respect of any share admitted to the Official List maintained by the UK Listing Authority, any such discretion may not be exercised so as to prevent dealings taking place on an open and proper basis, or if in the opinion of the directors (and with the concurrence of the UK Listing Authority) exceptional circumstances so warrant, provided that the exercise of such power will not disturb the market in those shares. Whilst there are no squeeze-out and sell out rules relating to the shares in the company's articles of association, shareholders are subject to the compulsory acquisition provisions in Sections 974 to 991 of the Companies Act 2006.

## Amendment of articles of association

The company's articles of association may be amended by the members of the company by special resolution (requiring a majority of at least 75% of the persons voting on the relevant resolution).

## Appointment and replacement of directors

A person may be appointed as a director of the company by the shareholders in general meeting by ordinary resolution (requiring a simple majority of the persons voting on the relevant resolution) or by the directors; no person, other than a director retiring by rotation or otherwise, shall be appointed or reappointed a director at any general meeting unless he is recommended by the directors or, not less than seven nor more than 42 clear days before the date appointed for the meeting, notice is given to the company of the intention to propose that person for appointment or re-appointment in the form and manner set out in the company's articles of association.

Each director who is appointed by the directors (and who has not been elected as a director of the company by the members at a general meeting held in the interval since his appointment as a director of the company) is to be subject to election as a director of the company by the members at the first annual general meeting of the company following his appointment. At each annual general meeting of the company one third of the directors for the time being, or if their number is not three or an integral multiple of three the number nearest to but not exceeding one third, are to be subject to re-election.

The Companies Act 2006 allows shareholders in general meeting by ordinary resolution (requiring a simple majority of the persons voting on the relevant resolution) to remove any director before the expiration of his or her period of office, but without prejudice to any claim for damages which the director may have for breach of any contract of service between him or her and the company.

A person also ceases to be a director if he or she resigns in writing, ceases to be a director by virtue of any provision of the Companies Act, becomes prohibited by law from being a director, becomes bankrupt or is the subject of a relevant insolvency procedure, or becomes of unsound mind, or if the board so decides following at least six months' absence without leave or if he or she becomes subject to relevant procedures under the mental health laws, as set out in the company's articles of association.

## Powers of the directors

The company's articles of association specify that, subject to the provisions of the Companies Act 2006 and articles of association of the company and any directions given by shareholders by special resolution, the business of the company is to be managed by the directors, who may exercise all the powers of the company, whether relating to the management of the business or not, except where the Companies Act 2006 or the articles of association of the company otherwise require. In particular the directors may exercise on behalf of the company its powers to purchase its own shares to the extent permitted by shareholders. Authority was given at the company's 2015 annual general meeting to make market purchases of up to 6,635,339 ordinary shares at any time up to the 2016 annual general meeting and otherwise on the terms set out in the relevant resolution, and authority is being sought at the annual general meeting to be held on 6 July 2016 as set out in a separate circular.

By order of the Board

C D Mellor  
Secretary

17 May 2016



# Directors' responsibilities statement

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a directors' report, strategic report, directors' remuneration report and corporate governance statement that complies with that law and those regulations.

The company's financial statements are published on the NVM Private Equity LLP (NVM) website, [www.nvm.co.uk](http://www.nvm.co.uk). The maintenance and integrity of this website is the responsibility of NVM and not the company. The work carried out by KPMG LLP as independent auditor of the company does not involve consideration of the maintenance and integrity of the website and accordingly it accepts no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website should be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdiction.

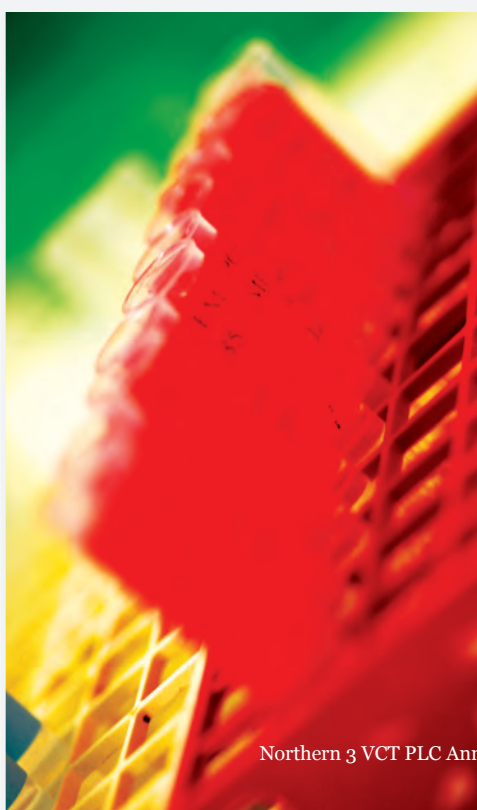
The directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the company;
- the annual report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy; and
- the directors' report and strategic report includes a fair review of the development, position and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that the company faces.

By order of the Board

C D Mellor  
Secretary

17 May 2016



# Independent auditor's report

## To the members of Northern 3 VCT PLC

### Opinions and conclusions arising from our audit

#### 1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Northern 3 VCT PLC for the year ended 31 March 2016 set out on pages 28 to 41. In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### 2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements, the risk of material misstatement that had the greatest effect on our audit was as follows:

**Valuation of unquoted investments £40.7m (2015: £28.6m):** Refer to pages 21 and 22 (audit committee section of the corporate governance statement), page 32 (accounting policy) and pages 28 to 41 (financial disclosures).

**The risk:** 60.2% (2015: 40.1%) of the company's total assets (by value) is held in investments where no quoted market price is available. Unquoted investments are measured at fair value, which is established in accordance with the International Private Equity and Venture Capital Valuation Guidelines by using measurements of value such as prices of recent orderly transactions, earnings multiples, and net assets. There is a significant risk over the valuation of these investments and this is the key judgemental area that our audit focused on. We note that there were no changes to the risk included in this report compared to the prior year, relating to valuation of unquoted investments.

**Our response:** Our procedures included:

- documentation and assessment of the design and implementation of the investment valuation processes and controls in place;
- assessment of investment realisations in the period, comparing actual sales proceeds to prior year end valuations to understand the reasons for significant variances and determine whether they are indicative of bias or error in the company's approach to valuations;
- challenging the investment manager on key judgements affecting investee company valuations in the context of observed industry best practice and the provisions of the International Private Equity and Venture Capital Valuation Guidelines. In particular, we challenged the appropriateness of the valuation basis selected as well as the underlying assumptions, such as discount factors, and the choice of benchmark for earnings multiples. We compared key underlying financial data inputs to external sources, investee company audited accounts and management information as applicable. We challenged the assumptions around sustainability of earnings based on the plans of the investee companies and whether these are achievable, and we obtained an understanding of existing and prospective investee company cashflows to understand whether borrowings can be serviced or whether refinancing may be required. Where a recent transaction had been used to value a holding, we obtained an understanding of the circumstances surrounding the transaction and whether it was considered to be on an arms-length basis and suitable as an input into a valuation. Our work included consideration of events which occurred subsequent to the year end up until the date of this audit report;
- attending the year-end audit committee meeting where we assessed the effectiveness of the audit committee's challenge and approval of unlisted investment valuations; and
- consideration of the appropriateness, in accordance with relevant accounting standards, of the disclosures in respect of unlisted investments and the effect of changing one or more inputs to reasonably possible alternative valuation assumptions.

#### 3. Our application of materiality and an overview of the scope of our audit

The materiality for the financial statements as a whole was set at £675,840 (2015: £1,430,000), determined with reference to a benchmark of total assets, of which it represents 1%, reflecting industry consensus levels (2015: 2%).

We report to the audit committee any corrected and uncorrected identified misstatements exceeding £33,790 (2015: £71,500), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the company was undertaken to the materiality level specified above and was all performed at the head office of the manager, NVM Private Equity LLP, in Newcastle upon Tyne.

#### 4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.



## 5. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the directors' statement of long-term viability on page 16, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the company's continuing in operation over the three years to 2019; or
- the disclosures in Note 1 to the financial statements concerning the use of the going concern basis of accounting.

## 6. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy; or
- the audit committee section of the corporate governance statement does not appropriately address matters communicated by us to the audit committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statements, set out on page 16, in relation to going concern and longer-term viability; and
- the part of the corporate governance statement on pages 20 to 24 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

## Scope of report and responsibilities

As explained more fully in the directors' responsibilities statement set out on page 25, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate). This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at [www.kpmg.com/uk/auditscopeukco2014a](http://www.kpmg.com/uk/auditscopeukco2014a), which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

**Philip Merchant**  
(Senior Statutory Auditor)  
for and on behalf of KPMG LLP,  
Statutory Auditor  
Chartered Accountants  
Saltire Court  
20 Castle Terrace  
Edinburgh EH1 2EG

17 May 2016

# Income statement

for the year ended 31 March 2016

	Notes	Revenue £000	Year ended 31 March 2016		Revenue £000	Year ended 31 March 2015	
			Capital £000	Total £000		Capital £000	Total £000
Gain on disposal of investments	8	–	1,796	1,796	–	3,429	3,429
Movements in fair value of investments	8	–	5,037	5,037	–	(1,693)	(1,693)
		–	6,833	6,833	–	1,736	1,736
Income	2	2,201	–	2,201	2,676	–	2,676
Investment management fee	3	(354)	(1,530)	(1,884)	(364)	(1,094)	(1,458)
Other expenses	4	(314)	–	(314)	(376)	–	(376)
<b>Return on ordinary activities before tax</b>		<b>1,533</b>	<b>5,303</b>	<b>6,836</b>	<b>1,936</b>	<b>642</b>	<b>2,578</b>
Tax on return on ordinary activities	5	(145)	145	–	(261)	261	–
<b>Return on ordinary activities after tax, being total comprehensive income</b>		<b>1,388</b>	<b>5,448</b>	<b>6,836</b>	<b>1,675</b>	<b>903</b>	<b>2,578</b>
<b>Return per share</b>	7	<b>2.1p</b>	<b>8.3p</b>	<b>10.4p</b>	<b>2.5p</b>	<b>1.4p</b>	<b>3.9p</b>
<b>Dividends paid/proposed in respect of the year</b>	6	<b>2.0p</b>	<b>8.5p</b>	<b>10.5p</b>	<b>2.5p</b>	<b>13.0p</b>	<b>15.5p</b>

- The total column of this statement is the statement of total comprehensive income of the company prepared in accordance with Financial Reporting Standards ("FRS"). The supplementary revenue return and capital return columns have been prepared in accordance with the Statement of Recommended Practice issued in November 2014 by the Association of Investment Companies ("AIC SORP").
- 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.
- The accompanying notes are an integral part of this statement.

# Balance sheet

as at 31 March 2016

	Notes	31 March 2016 £000	31 March 2015 £000
<b>Fixed assets</b>			
Investments	8	58,695	50,371
<b>Current assets</b>			
Debtors	12	252	255
Cash and cash equivalents		8,637	20,726
		8,889	20,981
<b>Creditors (amounts falling due within one year)</b>	13	(620)	(197)
<b>Net current assets</b>		8,269	20,784
<b>Net assets</b>		66,964	71,155
<b>Capital and reserves</b>			
Called-up equity share capital	14	3,277	3,318
Share premium	15	1,348	1,348
Capital redemption reserve	15	76	35
Capital reserve	15	54,452	62,884
Revaluation reserve	15	6,899	2,393
Revenue reserve	15	912	1,177
<b>Total equity shareholders' funds</b>		66,964	71,155
<b>Net asset value per share</b>	16	102.2p	107.2p

● The accompanying notes are an integral part of this statement.

The financial statements on pages 28 to 41 were approved by the directors on 17 May 2016 and are signed on their behalf by:

**J G D Ferguson**  
Director

**C J Fleetwood**  
Director

# Statement of changes in equity

for the year ended 31 March 2016

Year ended 31 March 2016		Non-distributable reserves				Distributable reserves	
	Notes	Called up share capital £000	Share premium £000	Capital redemption reserve £000	Revaluation reserve £000	Capital reserve £000	Revenue reserve £000
<b>At 1 April 2015</b>		3,318	1,348	35	2,393	62,884	1,177
Return on ordinary activities after tax		–	–	–	4,506	942	1,388
Net proceeds of share issues	14	–	–	–	–	–	–
Re-purchase of shares	14	(41)	–	41	–	(754)	–
Dividends recognised	6	–	–	–	–	(8,620)	(1,653)
<b>At 31 March 2016</b>		3,277	1,348	76	6,899	54,452	912

Year ended 31 March 2015		Non-distributable reserves				Distributable reserves	
		Called up share capital £000	Share premium £000	Capital redemption reserve £000	Revaluation reserve £000	Capital reserve £000	Revenue reserve £000
<b>At 1 April 2014</b>		3,275	–	10	12,049	55,264	699
Return on ordinary activities after tax		–	–	–	(9,656)	10,559	1,675
Net proceeds of share issues		68	1,348	–	–	–	–
Re-purchase of shares		(25)	–	25	–	(482)	–
Dividends recognised		–	–	–	–	(2,457)	(1,197)
<b>At 31 March 2015</b>		3,318	1,348	35	2,393	62,884	1,177

● The accompanying notes are an integral part of this statement.

# Statement of cash flows

for the year ended 31 March 2016

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
<b>Cash flows from operating activities:</b>		
Return on ordinary activities before tax	6,836	2,578
Adjustments for:		
Gain on disposal of investments	(1,796)	(3,429)
Movement in fair value of investments	(5,037)	1,693
Decrease in debtors	3	33
Increase/(decrease) in creditors	423	(805)
<b>Net cash inflow from operating activities</b>	<b>429</b>	<b>70</b>
<b>Cash flows from investing activities:</b>		
Purchase of investments	(12,320)	(12,986)
Sale/repayment of investments	10,829	22,794
<b>Net cash (outflow)/inflow from investing activities</b>	<b>(1,491)</b>	<b>9,808</b>
<b>Cash flows from financing activities:</b>		
Issue of shares	–	1,463
Share issue expenses	–	(47)
Repurchase of ordinary shares for cancellation	(754)	(482)
Dividends paid on ordinary shares	(10,273)	(3,654)
<b>Net cash outflow from financing activities</b>	<b>(11,027)</b>	<b>(2,720)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(12,089)</b>	<b>7,158</b>
Cash and cash equivalents at beginning of year	20,726	13,568
<b>Cash and cash equivalents at end of year</b>	<b>8,637</b>	<b>20,726</b>



# Notes to the financial statements

for the year ended 31 March 2016

## 1. Accounting policies

A summary of the principal accounting policies, all of which have been consistently applied throughout the year and the preceding year, is set out below.

### (a) Basis of accounting

The financial statements have been prepared under FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” and in accordance with the Statement of Recommended Practice “Financial Statements of Investment Trust Companies”, issued by the Association of Investment Companies in November 2014 (AIC SORP).

FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” came into effect for accounting periods beginning on or after 1 January 2015. An assessment of the impact of adopting FRS 102 has been carried out and no restatement of balances as at the transition date, 1 April 2015, or comparative figures in the income statement or balance sheet is considered necessary. The company has early adopted “Amendments to FRS 102 – Fair value hierarchy disclosures” issued by the Financial Reporting Council in March 2016.

The financial statements are prepared in sterling which is the functional currency of the company and rounded to the nearest £000.

The financial statements have been prepared on a going concern basis.

### (b) Valuation of investments

Purchases and sales of investments are recognised in the financial statements at the date of transaction (trade date).

The company’s investments have been designated by the directors as fair value through profit or loss at the time of acquisition and are measured at subsequent reporting dates at fair value. In the case of investments quoted on a recognised stock exchange, fair value is established by reference to the closing bid price on the relevant date or the last traded price, depending on the convention of the exchange on which the investment is quoted. In the case of unquoted investments, fair value is established in accordance with industry guidelines (International Private Equity and Venture Capital Valuation) by using measurements of value such as price of recent transaction, earnings multiple and net assets; where no reliable fair value can be estimated using such techniques, unquoted investments are carried at cost subject to provision for impairment where necessary.

Gains and losses arising from changes in fair value of investments are recognised as part of the capital return within the income statement and allocated to the revaluation reserve. Transaction costs attributable to the acquisition or disposal of investments are charged to capital return within the income statement.

Those venture capital investments that may be termed associated undertakings are carried at fair value as determined by the directors in accordance with the company’s normal policy and are not equity accounted as required by the Companies Act 2006. The directors consider that, as these investments are held as part of the company’s portfolio with a view to the ultimate realisation of capital gains, equity accounting would not give a true and fair view of the company’s interests in these investments. Quantification of the effect of this departure is not practicable. Carrying investments at fair value is specifically permitted under FRS 102 (section 14.4B), where venture capital entities hold investments as part of a portfolio.

### (c) Income

Dividends receivable on quoted equity shares are brought into account on the ex-dividend date. Dividends receivable on unquoted equity shares are brought into account when the company’s right to receive payment is established and there is no reasonable doubt that payment will be received. Fixed income returns on non-equity shares and debt securities are recognised on an effective interest rate basis, provided there is no reasonable doubt that payment will be received in due course.

### (d) Expenses

All expenses are accounted for on an accruals basis. Expenses are charged to revenue return within the income statement except that:

- expenses which are incidental to the acquisition or disposal of an investment are allocated to capital return as incurred; and
- expenses are split and allocated partly to capital return where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated, and accordingly the basic element of the investment management fee has been allocated 25% to revenue return and 75% to capital return, in order to reflect the directors’ expected long-term view of the nature of the investment returns of the company. The performance-related element of the investment management fee has been charged 100% to capital return.

### (e) Revenue and capital

The revenue column of the income statement includes all income and revenue expenses of the company. The capital column includes realised and unrealised gains and losses on investments and that part of the investment management fee which is allocated to capital return.

### (f) Taxation

UK corporation tax payable is provided on taxable profits at the current rate. The tax charge for the year is allocated between revenue return and capital return on the “marginal basis” as recommended in the SORP.

Provision is made for deferred taxation on all timing differences calculated at the current rate of tax relevant to the benefit or liability.

### (g) Dividends payable

Dividends payable are recognised as distributions in the financial statements when the company’s liability to make payment has been established.

### (h) Provisions

A provision is recognised in the balance sheet when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. No provision is established where a reliable estimate of the obligation cannot be made. Provisions are allocated to revenue or capital depending on the nature of the circumstances.

### (i) Capital reserve

The following are accounted for in the capital reserve: gains or losses on the realisation of investments; realised and unrealised exchange differences of a capital nature; the cost of repurchasing ordinary shares, including stamp duty and transaction costs; and other capital charges and credits charged to this account in accordance with the above policies.

### (j) Revaluation reserve

Changes in the fair value of investments are dealt with in this reserve.

### (k) Significant estimates and judgements

Disclosure is required of judgements and estimates made by management in applying the accounting policies that have a significant effect on the financial statements. The area involving a higher degree of judgement and estimates is in the valuation of unquoted investments as explained in Note 1(b).

## 2. Income

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Franked investment income:		
Unquoted companies	269	146
Quoted companies	542	549
Interest receivable:		
Bank deposits*	31	54
Loans to unquoted companies	1,354	1,896
Listed interest-bearing investments	5	31
	<b>2,201</b>	<b>2,676</b>

\* Denotes income arising from investments not designated as fair value through profit or loss at the time of acquisition.

## 3. Investment management fee

	Year ended 31 March 2016			Year ended 31 March 2015		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Investment management fee:						
Basic	354	1,062	1,416	364	1,094	1,458
Performance-related	–	468	468	–	–	–
	<b>354</b>	<b>1,530</b>	<b>1,884</b>	<b>364</b>	<b>1,094</b>	<b>1,458</b>

NVM Private Equity (NVM) provides investment management and secretarial services to the company under an agreement dated 24 September 2001, which may be terminated at any time by not less than twelve months' notice being given by either party.

NVM receives a basic management fee, payable quarterly in advance, at the rate of 2.06% per annum of net assets calculated half-yearly as at 31 March and 30 September. NVM also provides administrative and secretarial services to the company for a fee of £52,000 per annum (linked to the movement in the RPI). This fee is included in other expenses (see Note 4).

NVM is also entitled to receive a performance-related management fee equivalent to 14.2% of the amount, if any, by which the total return in each financial year (expressed as a percentage of opening net asset value) exceeds a performance hurdle. The hurdle is a composite rate based on 7% on average long-term investments and the higher of base rate and 3% on average cash and near-cash investments during the year. Following a period in which net assets decline, a "high water mark" will apply to the calculation of the performance-related fee but will be then adjusted downwards to the extent that a positive return is achieved in the following financial year. The performance-related management fee is subject to an overall cap of 2.25% of net assets. Any performance related element of the investment management fee is charged 100% to capital return.

The total running costs of the company, excluding performance-related management fees and any irrecoverable VAT thereon, are capped at 2.9% of its net assets and NVM has agreed that any excess will be refunded by way of a reduction in its fees.

## 4. Other expenses

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Administrative and secretarial services	52	51
Directors' remuneration	58	56
Auditor's remuneration – audit services	19	22
– non-audit services	1	1
Legal and professional expenses	33	27
Share issue promoter's commission	22	97
Irrecoverable VAT	24	27
Other expenses	105	95
	<b>314</b>	<b>376</b>

Information on directors' remuneration is given in the directors' remuneration report on pages 18 and 19.

# Notes to the financial statements continued

for the year ended 31 March 2016

## 5. Tax on return on ordinary activities

	Revenue £000	Year ended 31 March 2016 Capital £000	Total £000	Revenue £000	Year ended 31 March 2015 Capital £000	Total £000
<b>(a) Analysis of charge/(credit) for the year</b>						
UK corporation tax payable/(recoverable) on the return for the year	145	(145)	–	261	(261)	–
<b>(b) Tax reconciliation</b>						
Return on ordinary activities before tax	1,533	5,303	6,836	1,936	642	2,578
Return on ordinary activities multiplied by the standard rate of UK corporation tax of 20% (2015 21%)	307	1,061	1,368	407	135	542
Effect of:						
UK dividends not subject to tax	(162)	–	(162)	(146)	–	(146)
Capital returns not subject to tax	–	(359)	(359)	–	(720)	(720)
Unrealised adjustments to fair value	–	(1,007)	(1,007)	–	356	356
Increase/(decrease) in surplus management expenses	–	160	160	–	(32)	(32)
Current tax charge/(credit) for the year	145	(145)	–	261	(261)	–

### (c) Factors which may affect future tax charges

The company has not recognised a deferred tax asset in respect of surplus management expenses carried forward of £1,919,000 (31 March 2015 £1,119,000), as the company may not generate sufficient taxable income in the foreseeable future to utilise these expenses. There is no other unprovided deferred taxation.

Approved venture capital trusts are exempt from tax on capital gains within the company. Since the directors intend that the company will continue to conduct its affairs so as to maintain its approval as a venture capital trust, no current or deferred tax has been provided in respect of any capital gains or losses arising on the revaluation or disposal of investments.

A reduction in the UK corporation tax rate from 20% to 19% with effect from 1 April 2017 was announced during the year. The Government has announced its intention to further reduce the UK corporation tax rate to 17% by 1 April 2020.

## 6. Dividends

	Revenue £000	Year ended 31 March 2016 Capital £000	Total £000	Revenue £000	Year ended 31 March 2015 Capital £000	Total £000
<b>(a) Recognised as distributions in the financial statements for the year</b>						
Previous year's second interim dividend	–	6,635	6,635	–	–	–
Previous year's final dividend	995	1,327	2,322	531	1,791	2,322
Current year's first interim dividend	658	658	1,316	666	666	1,332
	1,653	8,620	10,273	1,197	2,457	3,654
<b>(b) Paid and proposed in respect of the year</b>						
First interim paid – 2.0p (2015 2.0p) per share	658	658	1,316	666	666	1,332
Second interim declared – 5.0p (2015 10.0p) per share	–	3,277	3,277	–	6,635	6,635
Final proposed – 3.5p (2015 3.5p) per share	655	1,638	2,293	995	1,326	2,321
	1,313	5,573	6,886	1,661	8,627	10,288

The revenue dividends paid and proposed in respect of the year form the basis for determining whether the company has complied with the requirements of Section 274 of the Income Tax Act 2007 as to the distribution of investment income.

## 7. Return per share

The calculation of the return per share is based on the return on ordinary activities after tax for the year of £6,836,000 (2015 £2,578,000) and on 65,999,656 (2015 66,416,764) shares, being the weighted average number of shares in issue during the year.

## 8. Investments

All investments are designated as fair value through profit or loss on initial recognition, therefore all gains and losses arise on investments designated at fair value through profit or loss.

FRS 102 requires an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The company has early adopted "Amendments to FRS 102 – Fair value hierarchy disclosures" issued by the Financial Reporting Council in March 2016. The fair value hierarchy shall have the following classifications:

- Level 1 – unadjusted quoted prices in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable (ie developed using market data) for the asset or liability, either directly or indirectly.
- Level 3 – inputs are unobservable (ie for which market data is unavailable) for the asset or liability.

	31 March 2016 £000	31 March 2015 £000
<b>Level 1</b>		
Quoted venture capital investments	10,478	10,929
Listed equity investments	7,538	8,528
Listed interest-bearing investments	–	2,407
<b>Level 2</b>		
None	–	–
<b>Level 3</b>		
Unquoted venture capital investments	40,679	28,507
	58,695	50,371

Movements in investments during the year are summarised as follows:

	Venture capital – unquoted Level 3 £000	Venture capital – quoted Level 1 £000	Listed equity Level 1 £000	Listed interest -bearing Level 1 £000	Total £000
Book cost at 1 April 2015	29,601	7,967	8,006	2,404	47,978
Fair value adjustment as at 1 April 2015	(1,094)	2,962	522	3	2,393
Fair value at 1 April 2015	28,507	10,929	8,528	2,407	50,371
Movements in the year:					
Purchases at cost	10,522	1,274	524	–	12,320
Disposals – proceeds	(5,855)	(1,629)	(941)	(2,404)	(10,829)
– net realised gains/(losses) on disposal	1,832	232	(265)	(3)	1,796
Movements in fair value	5,673	(328)	(308)	–	5,037
Fair value at 31 March 2016	40,679	10,478	7,538	–	58,695
Comprising:					
Book cost at 31 March 2016	36,734	7,725	7,337	–	51,796
Unrealised appreciation at 31 March 2016	3,945	2,753	201	–	6,899
	40,679	10,478	7,538	–	58,695
Equity shares	14,295	10,478	7,538	–	32,311
Preference shares	291	–	–	–	291
Interest-bearing securities	26,093	–	–	–	26,093
	40,679	10,478	7,538	–	58,695

The gains and losses included in the above table have all been recognised in the income statement on page 28.

# Notes to the financial statements continued

for the year ended 31 March 2016

## 8. Investments *continued*

FRS 102 requires disclosure, by class of financial instrument, if the effect of changing one or more inputs to reasonably possible alternative assumptions would result in a significant change to the fair value measurement. The information used in determination of the fair value of Level 3 investments is chosen with reference to the specific underlying circumstances and position of each investee company. On that prudent basis the directors consider that the impact of changing one or more of the inputs to reasonably possible alternative assumptions would be unlikely to increase or decrease the fair value of Level 3 investments by more than 5%. See Note 17 for details of the impact this would have on the financial statements.

At 31 March 2016 there were commitments totalling £1,369,000 (31 March 2015 £8,248,000) in respect of investments approved by the manager but not yet completed.

## 9. Investment disposals

Disposals of venture capital investments during the year were as follows:

	Original cost £000	Carrying value at 31 March 2015 £000	Disposal proceeds £000	Realised gain/(loss) against carrying value £000
Accumuli – recommended bid	490	616	700	84
Arleigh Group – loan stock redemption	159	159	159	–
Control Risks Group Holdings – outright sale	746	1,534	1,461	(73)
Crantock Bakery – partial write-off	743	–	–	–
Direct Valeting – outright sale	43	290	361	71
Jelf – recommended bid	179	498	604	106
Kerridge Commercial Systems – deferred sales proceeds	–	–	319	319
Kitwave One – outright sale	1,001	1,238	2,244	1,006
Lanner Group – loan stock redemption	144	139	144	5
North East Property & Investments – outright sale	180	–	63	63
Nationwide Accident Repair Services – recommended bid	290	283	325	42
Tinglobal Holdings – outright sale	260	330	694	364
Volumatic Holdings – loan stock redemption	333	333	333	–
Warmseal Windows (Newcastle) – administration	339	–	7	7
Others	–	–	70	70
	4,907	5,420	7,484	2,064

## 10. Unquoted investments

The cost and carrying value of material investments in unquoted companies held at 31 March 2016 are shown below. For this purpose any investment included in the table of the fifteen largest venture capital investments on page 11, or in the corresponding table in the previous year's annual report, is regarded as material.

	31 March 2016		31 March 2015	
	Total cost £000	Carrying value £000	Total cost £000	Carrying value £000
<b>Buoyant Upholstery</b>				
Ordinary shares	132	1,957	132	806
Loan stock	1,162	1,162	1,162	1,162
	1,294	3,119	1,294	1,968
<b>Lineup Systems</b>				
Ordinary shares	174	1,670	174	174
Loan stock	800	800	800	800
	974	2,470	974	974
<b>MSQ Partners Group</b>				
Ordinary shares	182	979	181	454
Loan stock	1,296	1,296	1,296	1,296
	1,478	2,275	1,477	1,750



## 10. Unquoted investments *continued*

	31 March 2016		31 March 2015	
	Total cost £000	Carrying value £000	Total cost £000	Carrying value £000
<b>Axial Systems Holdings</b>				
Ordinary shares	219	1,073	219	–
Loan stock	1,074	1,074	1,074	945
	1,293	2,147	1,293	945
<b>No 1 Traveller</b>				
Ordinary shares	158	327	158	–
Loan stock	1,736	1,736	1,283	1,078
	1,894	2,063	1,441	1,078
<b>Silverwing</b>				
Ordinary shares	162	844	162	608
Loan stock	1,110	1,110	1,110	1,110
	1,272	1,954	1,272	1,718
<b>Entertainment Magpie Group</b>				
Ordinary shares	402	872	–	–
Loan stock	958	958	–	–
	1,360	1,830	–	–
<b>Volumatic Holdings</b>				
Ordinary shares	216	149	216	148
Loan stock	1,546	1,546	1,880	1,880
	1,762	1,695	2,096	2,028
<b>Wear Inns</b>				
Ordinary shares	293	527	293	404
Loan stock	1,113	1,154	1,113	1,154
	1,406	1,681	1,406	1,558
<b>It's All Good</b>				
Ordinary shares	115	626	115	169
Loan stock	1,016	1,016	1,016	1,016
	1,131	1,642	1,131	1,185
<b>CloserStill Group</b>				
Ordinary shares	1	1	1	1
Preference shares	291	291	291	291
Loan stock	1,228	1,228	1,228	1,228
	1,520	1,520	1,520	1,520
<b>Agilitas IT Holdings</b>				
Ordinary shares	196	217	196	196
Loan stock	1,252	1,252	1,252	1,252
	1,448	1,469	1,448	1,448
<b>Biological Preparations Group</b>				
Ordinary shares	195	–	195	195
Preference shares	308	–	308	308
Loan stock	1,412	1,412	1,412	1,412
	1,915	1,412	1,915	1,915

# Notes to the financial statements *continued*

for the year ended 31 March 2016

## 10. Unquoted investments *continued*

	31 March 2016		31 March 2015	
	Total cost £000	Carrying value £000	Total cost £000	Carrying value £000
<b>Cawood Scientific</b>				
Ordinary shares	95	645	—	—
Loan stock	730	730	—	—
	825	1,375	—	—
<b>Control Risks Group Holdings</b>				
Ordinary shares	—	—	746	1,534
<b>Kitwave One</b>				
Ordinary shares	—	—	103	340
Loan stock	—	—	898	898
	—	—	1,001	1,238
<b>Optilan Group</b>				
Ordinary shares	179	265	179	148
Loan stock	946	1,025	946	1,025
	1,125	1,290	1,125	1,173

Additional information relating to material investments in unquoted companies is given on pages 12 to 15.

## 11. Significant interests

There are no shareholdings in companies where the company's holding at 31 March 2016 represents (1) more than 20% of the allotted equity share capital of any class, (2) more than 20% of the total allotted share capital or (3) more than 20% of the assets of the company itself.

## 12. Debtors

	31 March 2016 £000	31 March 2015 £000
Prepayments and accrued income	252	255

## 13. Creditors (amounts falling due within one year)

	31 March 2016 £000	31 March 2015 £000
Accruals and deferred income	620	197

## 14. Called-up equity share capital

	31 March 2016 £000	31 March 2015 £000
Allotted and fully paid: 65,533,399 (2015 66,353,399) ordinary shares of 5p	3,277	3,318

The capital of the company is managed in accordance with its investment policy with a view to the achievement of its investment objective, as set out on page 6. The company is not subject to externally imposed capital requirements.

During the year the company repurchased 820,000 shares for cancellation at a cost of £754,000.

## 15. Reserves

	Share premium £000	Capital redemption reserve £000	Capital reserve £000	Revaluation reserve £000	Revenue reserve £000
At 1 April 2015	1,348	35	62,884	2,393	1,177
Shares purchased for cancellation	–	41	(754)	–	–
Realised on disposal of investments	–	–	1,796	–	–
Transfer on disposal of investments	–	–	531	(531)	–
Movements in fair value of investments	–	–	–	5,037	–
Management fee capitalised net of associated tax	–	–	(1,385)	–	–
Revenue return on ordinary activities after tax	–	–	–	–	1,388
Dividends recognised in the year	–	–	(8,620)	–	(1,653)
At 31 March 2016	1,348	76	54,452	6,899	912

At 31 March 2016 distributable reserves amounted to £55,565,000 (31 March 2015 £64,586,000), comprising the capital reserve, the revenue reserve and that part of the revaluation reserve relating to holding gains/losses on readily realisable equity investments.

## 16. Net asset value per share

The calculation of net asset value per share as at 31 March 2016 is based on net assets of £66,964,000 (2015 £71,155,000) divided by the 65,533,399 (2015 66,353,399) ordinary shares in issue at that date.

## 17. Financial instruments

The company's financial instruments comprise equity and interest-bearing investments, cash balances and liquid resources including debtors and creditors. The company holds financial assets in accordance with its investment policy of investing mainly in a portfolio of VCT-qualifying unquoted and AIM-quoted securities whilst holding a proportion of its assets in cash or near-cash investments in order to provide a reserve of liquidity.

Fixed asset investments (see Note 8) are valued at fair value. For quoted investments this is either bid price or the latest traded price, depending on the convention of the exchange on which the investment is quoted. Unquoted investments are carried at fair value as determined by the directors in accordance with current venture capital industry guidelines. The fair value of all other financial assets and liabilities is represented by their carrying value in the balance sheet.

In carrying on its investment activities, the company is exposed to various types of risk associated with the financial instruments and markets in which it invests. The most significant types of financial risk facing the company are market risk, credit risk and liquidity risk. The company's approach to managing these risks is set out below together with a description of the nature and amount of the financial instruments held at the balance sheet date.

### Market risk

The company's strategy for managing investment risk is determined with regard to the company's investment objective, as outlined in the strategic report on page 6. The management of market risk is part of the investment management process and is a central feature of venture capital investment. The company's portfolio is managed in accordance with the policies and procedures described in the corporate governance statement on pages 20 to 24, having regard to the possible effects of adverse price movements, with the objective of maximising overall returns to shareholders. Investments in unquoted companies, by their nature, usually involve a higher degree of risk than investments in companies quoted on a recognised stock exchange, though the risk can be mitigated to a certain extent by diversifying the portfolio across business sectors and asset classes. The overall disposition of the company's assets is monitored by the board on a quarterly basis.

Details of the company's investment portfolio at the balance sheet date are set out on page 11. An analysis of investments between debt and equity instruments is given in Note 8.

26.9% (31 March 2015 27.3%) by value of the company's net assets comprises equity securities listed on the London Stock Exchange or quoted on AIM. A 5% movement in the bid price of these securities as at 31 March 2016 would have changed net assets and the total return for the year by £901,000 (31 March 2015 £973,000).

60.7% (31 March 2015 40.1%) by value of the company's net assets comprises investments in unquoted companies held at fair value. The valuation methods used by the company include the application of a price/earnings ratio derived from listed companies with similar characteristics, and consequently the value of the unquoted element of the portfolio can be indirectly affected by price movements on the London Stock Exchange. A 5% movement in the valuation of the unquoted investments at 31 March 2016 would have changed net assets and the total return for the year by £2,034,000 (31 March 2015 £1,425,000).

# Notes to the financial statements *continued*

for the year ended 31 March 2016

## 17. Financial instruments *continued*

### Interest rate risk

Some of the company's financial assets are interest-bearing, of which some are at fixed rates and some variable. As a result, the company is exposed to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates.

#### (a) Fixed rate investments

The table below summarises weighted average effective interest rates for the company's fixed rate interest-bearing financial instruments:

	31 March 2016			31 March 2015		
	Total fixed rate portfolio £000	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Total fixed rate portfolio £000	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Listed fixed-interest investments	—	0.0%	—	451	0.8%	0.2
Fixed-rate investments in unquoted companies	6,387	9.3%	3.5	4,170	10.8%	4.6
	6,387			4,621		

Due to the relatively short period to maturity of the fixed rate investments held within the portfolio, it is considered that an increase or decrease of 25 basis points in interest rates as at the reporting date would not have had a significant effect on the company's net assets or total return for the year.

#### (b) Floating rate investments

The company's floating rate investments comprise floating-rate loans to unquoted companies, listed floating rate notes and cash held in interest-bearing deposit accounts. The benchmark rate which determines the rate of interest receivable on such investments is the UK bank base rate, which was 0.5% at 31 March 2016 (31 March 2015 0.5%). The amounts held in floating rate investments at the balance sheet date were as follows:

	31 March 2016 £000	31 March 2015 £000
Floating rate loans to unquoted companies	19,706	16,921
Listed floating-rate investments	—	1,956
Interest-bearing deposit accounts	8,637	20,726
	28,343	39,603

### Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the company. The investment manager and the board carry out a regular review of counterparty risk. The carrying values of financial assets represent the maximum credit risk exposure at the balance sheet date.

At 31 March 2016 the company's financial assets exposed to credit risk comprised the following:

	31 March 2016 £000	31 March 2015 £000
Listed fixed-interest investments	—	451
Listed floating rate notes	—	1,956
Fixed-rate investments in unquoted companies	6,387	4,170
Floating rate loans to unquoted companies	19,706	16,921
Interest-bearing deposit accounts	8,637	20,726
Accrued dividends and interest receivable	236	240
	34,966	44,464

## 17. Financial instruments *continued*

Credit risk relating to loans to and preference shares in unquoted companies is considered to be part of market risk.

Those assets of the company which are traded on recognised stock exchanges are held on the company's behalf by third party custodians (nominee companies of Brewin Dolphin Limited or Speirs & Jeffrey Limited in the case of quoted equity securities). Bankruptcy or insolvency of a custodian could cause the company's rights with respect to securities held by the custodian to be delayed or limited.

Credit risk arising on transactions with brokers relates to transactions in quoted securities awaiting settlement. Risk relating to unsettled transactions is considered to be low due to the short settlement period involved and the high credit quality of the brokers used. The board further mitigates the risk by monitoring the quality of service provided by the brokers.

The company's interest-bearing deposit accounts are maintained with major UK clearing banks.

There were no significant concentrations of credit risk to counterparties at 31 March 2016 or 31 March 2015. No individual investment exceeded 9.4% of the company's net assets at 31 March 2016 (31 March 2015 11.6%).

### **Liquidity risk**

The company's financial assets include investments in unquoted equity securities which are not traded on a recognised stock exchange and which generally may be illiquid. As a result, the company may not be able to realise some of its investments in these instruments quickly at an amount close to their fair value in order to meet its liquidity requirements, or to respond to specific events such as a deterioration in the creditworthiness of any particular issuer.

The company's liquidity risk is managed on a continuing basis by the investment manager in accordance with policies and procedures laid down by the board. The company's overall liquidity risks are monitored on a quarterly basis by the board.

The company maintains sufficient investments in cash and readily realisable securities to pay accounts payable and accrued expenses. At 31 March 2016 these investments were valued at £8,637,000 (31 March 2015 £23,132,000).

## 18. Contingencies

The company had no contingent liabilities at 31 March 2016 or 31 March 2015.

At 31 March 2016 contingent assets not recognised in the financial statements in respect of potential deferred proceeds from the sale of investee companies amounted to approximately £346,000 (31 March 2015 £406,000). The extent to which these amounts will become receivable in due course is dependent on future events.



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