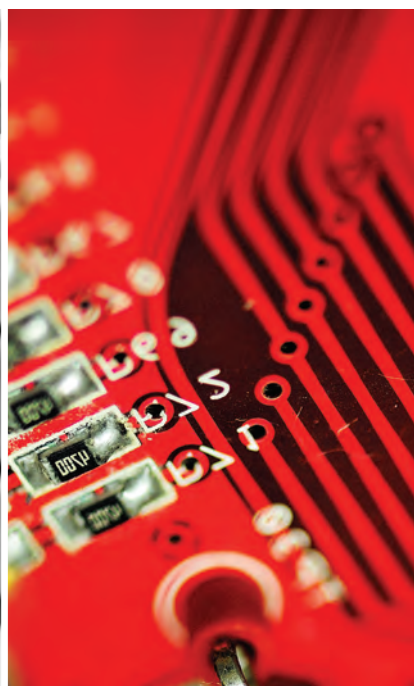


Northern 3 VCT PLC

Annual report and financial statements

31 March 2017



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

Year ended 31 March:	2017	2016
Net assets	£69.9m	£67.0m
Net asset value per share	106.2p	102.2p
Return per share		
Revenue	2.6p	2.1p
Capital	12.0p	8.3p
Total	14.6p	10.4p
Dividend per share for the year		
First interim dividend	2.0p	2.0p
Second interim (special) dividend	5.0p	5.0p
Proposed final dividend	3.5p	3.5p
Total	10.5p	10.5p
Cumulative return to shareholders since launch		
Net asset value per share	106.2p	102.2p
Dividends paid per share*	75.4p	64.9p
Net asset value plus dividends paid per share	181.6p	167.1p
Mid-market share price at end of year	101.00p	95.75p
Share price discount to net asset value	4.9%	6.3%
Tax-free dividend yield (based on mid-market share price at the end of the year)		
Including special dividend	10.4%	10.3%
Excluding special dividend	5.4%	5.7%

*Excluding second interim and proposed final dividends payable 21 July 2017

Key dates

Results announced
12 June 2017

Shares quoted ex dividend
22 June 2017

Record date for second interim
and final dividend
23 June 2017

Annual general meeting
13 July 2017, 12.00 noon
Muckle LLP, Time Central, 32 Gallowgate,
Newcastle upon Tyne NE1 4BF

Second interim and final
dividend paid
21 July 2017

Chairman's statement

Northern 3 VCT is well positioned to meet the challenges presented both by the new VCT investment regime and by the recent changes and current uncertainties on the wider political and economic scene.

The company made good progress during the past year against a background of global political and economic uncertainty, with the added complication of major changes in the VCT legislation.

Results and dividend

The NAV per share at 31 March 2017, after deducting dividends totalling 10.5p which were paid during the year, was 106.2p compared with 102.2p as at 31 March 2016. The total return per share for the year as shown in the income statement was 14.6p (last year 10.4p), equivalent to 14.3% of the opening NAV. These strong results reflect another creditable performance across the investment portfolio. Northern 3 VCT has continued to outperform by a comfortable margin the NAV total return index for the generalist VCT sector published by the Association of Investment Companies.

The directors' policy is to pay a dividend which is sustainable from one year to another, smoothing out the fluctuations in annual results. Since 2012, this has resulted in an objective of maintaining the annual dividend at 5.5p per share.

In the light of the results for the year ended 31 March 2017 we propose an unchanged final dividend of 3.5p in respect of the year, which together with the interim dividend of 2.0p paid in January takes us to our target of 5.5p. In addition to this, we have again decided to recognise the strong generation of cash from investment sales by declaring a special dividend of 5.0p per share, so that the total payable in respect of the year will be 10.5p.

The special dividend will take the form of a second interim dividend for the year ended 31 March 2017, which will be paid on 21 July 2017 to shareholders on the register on 23 June 2017. The proposed final dividend will, subject to approval by shareholders at the annual general meeting, be paid on the same date.

The company's dividend investment scheme, under which dividends can be re-invested in new ordinary shares free of dealing costs and with the benefit of the tax reliefs available on new VCT share subscriptions, continues to operate. Shareholders who wish to join the scheme or amend their current participation in the scheme may obtain an updated scheme mandate form from NVM's website at www.nvm.co.uk.

Investment portfolio

During the past year seven new VCT-qualifying investments have been completed at a total cost of £5.6 million. Shareholders will be aware that last year the Government introduced radical changes to the parameters for VCT-qualifying investments, as a result of which management buyouts have been removed from the permitted range and investment activity is instead focussed on earlier-stage companies requiring capital for the development of new products and markets. We are still coming to terms with some of the detailed implications, as are HM Revenue & Customs whose advance clearance system for new investments has been subject to unacceptably long delays. Our manager, however, currently reports an encouraging level of new investment prospects, and has strengthened its investment team to address the changes in the investment requirements.

Cash proceeds from sales of investments in the unquoted venture capital portfolio totalled £10.6 million, with satisfactory exits from Silverwing, Arleigh Group and Cawood Scientific. Shortly after the year end a further £2.8 million was received from the sale of Optilan Group.

The portfolio of AIM-quoted investments performed well and some profits were taken on a rise in the share prices of IDOX and Gear4music (Holdings).



James Ferguson Chairman

Shareholder issues

In February 2017 we raised £4.3 million of new capital through a top-up offer of ordinary shares, launched in conjunction with similar offers by Northern Venture Trust and Northern 2 VCT. The offer was rapidly subscribed by existing Northern VCT shareholders, and we naturally regret the disappointment felt by unsuccessful applicants. The resulting new shares were allotted on 3 April 2017 and therefore do not form part of the issued capital shown in our 31 March 2017 accounts. The possibility of future share issues will be kept under review, and will depend on the rate of new investments and realisations from the existing portfolio.

The company has maintained its policy of buying back its own shares in the market, where necessary to maintain market liquidity, at a discount of 5% to NAV. During the year 730,000 shares, equivalent to approximately 1.1% of the opening share capital, were re-purchased for cancellation at an average cost of 96p per share.

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 continues to act as independent adviser to the company on VCT taxation matters.

VCT legislation

The recent changes to the VCT legislation were in part a response to restrictions contained in the European Commission's State aid rules, but it is apparent that the UK Government is also seeking to bring about some changes in direction. In November 2016 the Government announced its Patient Capital Review, with a remit to identify barriers to access to long-term finance for growing firms in the UK and to assess what changes in government policy may be needed to improve the supply of funding. It is to be hoped that this exercise takes due note of the significant role which VCTs have played, and continue to play, in the provision of growth capital to the smaller companies whose future development is so important to the well-being of the UK economy.

Outlook

Northern 3 VCT is well positioned to meet the challenges presented both by the new VCT investment regime and by the recent changes and current uncertainties on the wider political and economic scene.

James Ferguson
Chairman

12 June 2017

Directors and advisers

James Ferguson BA (Chairman)

aged 69, 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 65, 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 Whesoe plc. He was appointed to the board in 2001.

Tim Levett MBA

aged 68, 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 61, was until 2015 chief executive of Archangel Investors Limited, a Scottish based syndicate of individual private investors, and sits on the boards of three unquoted companies. He also advises two early stage funds and was previously a director of Noble Grossart Limited. 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

Listed 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

Reed Smith LLP
Broadgate Tower
20 Primrose Street
London EC2A 2RS

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 interest bearing and 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.

Northern 3 VCT is a member of the Association of Investment Companies (AIC).

Venture Capital Trusts

Venture Capital Trusts (VCTs) were introduced by the Chancellor of the Exchequer in the November 1994 Budget, the relevant legislation now being contained in the Income Tax Act 2007. 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, a VCT is required at all times to hold at least 70% by value of its investments (as defined in the legislation) in qualifying holdings, of which at least 30% (70% for funds raised after 5 April 2011) must comprise eligible ordinary shares. For this purpose a "qualifying holding" is an investment in new shares or securities of an unquoted company (which may however be quoted on AIM) which has a permanent establishment in the UK, 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 (No 2) Act 2015 contained a number of significant changes to the VCT rules for investments completed after its introduction, 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 only qualify for VCT investment if 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 2018 is as follows:

November 2017

Half-yearly financial report for six months ending 30 September 2017 published

January 2018

Interim dividend paid

May 2018

Final dividend and results for year ending 31 March 2018 announced

June 2018

Annual report and accounts published

July 2018

Annual general meeting; final dividend paid

Share price

The company's share price is carried daily in the Financial Times, the Daily Telegraph and the Newcastle Journal. 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 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.

Dividend investment scheme

The company operates a dividend investment 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 investment 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, 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 and directors' 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-quoted 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 are 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. The portfolio is 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 is in the range from three to seven years.

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 are normally made using the company's equity shareholders' funds and it is not intended that the company will take on any long-term borrowings.

The company is entitled to participate pro rata to net assets in all investment opportunities developed by NVM and regularly invests alongside other funds managed by NVM. 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 14.6p per share, equivalent to 14.3% of the opening net asset value per share of 102.2p. The movement in total net assets and net asset value per share is summarised in Table 2.

Total income from investments was £2.6 million, compared with £2.2 million in the preceding year. The increase reflected the recognition of £0.5 million of arrears of loan stock interest due from Optilan Group, which was received in April 2017. The basic investment management fee payable to NVM remained at the same level as the previous year, but the strong investment performance resulted in an increased performance-related management fee of £889,000 (preceding year £468,000).

The net cash realised from the venture capital portfolio during the year was £5.7 million, comprising sale proceeds of £11.3 million less additional investments of £5.6 million. Portfolio cash flow over the past five years is summarised in Table 1.

After taking account of other cash flows, including dividend payments of £6.9 million, the company's total cash balances increased in the year by £3.2 million to £11.8 million. In addition the company holds listed equity investments valued at £8.4 million, up from £7.5 million at 31 March 2016.



Table 1: Venture capital portfolio cash flow

Year ended 31 March	New investment £000	Disposal proceeds £000	Net cash inflow/(outflow) £000
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)
2017	5,620	11,324	5,704
Total	43,666	50,393	6,727

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

	£000	Pence per ordinary share
Net asset value at 31 March 2016	66,964	102.2
Net revenue (investment income less revenue expenses and tax)	1,692	2.6
Capital surplus arising on investments:		
Realised net gains on disposals	1,775	2.7
Movements in fair value of investments	7,785	11.8
Management expenses allocated to capital account (net of tax relief)	(1,677)	(2.5)
Total return for the year as shown in income statement	9,575	14.6
Proceeds of issue of new shares (net of expenses)	925	(0.1)
Shares re-purchased for cancellation	(701)	–
Net movement for the year before dividends	9,799	14.5
Net asset value at 31 March 2017 before dividends recognised	76,763	116.7
Dividends recognised in the financial statements for the year	(6,871)	(10.5)
Net asset value at 31 March 2017	69,892	106.2

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 2017, seven new holdings were added to the venture capital portfolio at a cost of £5.6 million. The portfolio at 31 March 2017 comprised 53 holdings with an aggregate value of £54.3 million.

A summary of the venture capital holdings at 31 March 2017 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:

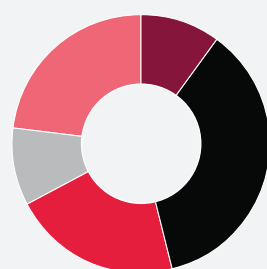
- **MyParcelDelivery Holdings (£761,000)** – parcel delivery comparison website, Manchester
- **Lending Works (£608,000)** – peer-to-peer lending platform, London
- **AVID Technology Group (£632,000)** – electrification and intelligent control of engine ancillaries, thermal management systems and hybrid systems, Cramlington
- **Rockar (£773,000)** – E-commerce and fulfilment platform for the new car sales industry, York
- **Customs Connect Group (£1,242,000)** – import duty consultancy, Manchester
- **Channel Mum (£644,000)** – online multi-channel video blog community network for parents of young children, London
- **Intelling Group (£958,000)** – communications specialist providing customer support solutions, Manchester

Following the recent changes in the VCT legislation, the focus of new investment activity has moved away from management buy-out transactions towards growth finance for earlier-stage businesses. A satisfactory rate of new investment was achieved, although there has been concern at ongoing delays in the system for obtaining advance assurance as to the VCT-qualifying status of new investments from HM Revenue & Customs.

Investment realisations

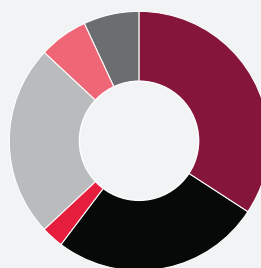
Details of investment sales during the year are given in Note 9 on page 36. The most significant disposals (original cost or sales proceeds in excess of £0.5 million) are summarised in Table 3 on page 8. The three principal realisations from the unquoted portfolio in the year generated sales proceeds of £5.3m and a surplus of £1.2 million in excess of the carrying value at 31 March 2016.

Strategic report *continued*



Age of investment

Up to 1 year	9.9%
1-3 years	35.8%
3-5 years	22.1%
5-7 years	9.4%
Over 7 years	22.8%



Industry sector

Computer/electronics	34.4%
Consumer	26.0%
Industrial/manufacturing	2.7%
Business services	23.9%
Healthcare/biotechnology	6.3%
Other	6.7%

Arleigh Group was acquired by the NASDAQ-quoted LKQ Corporation and **Silverwing** was sold to the Canadian group Eddyfi, whilst **Cawood Scientific** was the subject of a secondary management buy-out. In addition, a total of £4.6 million was received during the year on redemption at par value of loan notes issued by **Turbinia**, **Seawise**, **Oceanos**, **Saluda** and **Hunley**. Shortly after the year end, in April 2017, a further substantial exit was completed with the sale of **Optilan Group** in another secondary buy-out transaction.

In the AIM-quoted portfolio, the investment in **Gear4music (Holdings)** increased sharply in value and the bulk of the holding was sold during the year for approximately three times the original cost.

Portfolio review

The pie charts above show the composition of the venture capital portfolio at 31 March 2017 by value according to maturity, industry sector, financing stage and whether quoted or unquoted.

A number of companies in the portfolio have been affected by external factors such as the continuing weakness in the oil and gas sector and the uncertainty caused by the EU referendum result. However the portfolio has on the whole performed satisfactorily and this is reflected in the positive investment return achieved during the year. **Entertainment Magpie Group** and **No 1 Lounges** both achieved excellent results and are now the most highly valued holdings. Our investment valuation policy remains cautious particularly where companies are performing behind expectations.

The portfolio of listed equity investments has produced a satisfactory income yield and capital performance during the year.

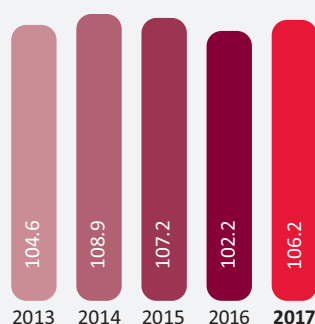
Valuation policy

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.

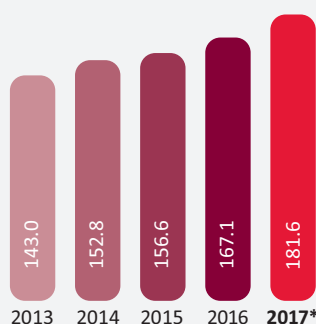
As at 31 March 2017 the number of venture capital investments falling into each valuation category was as shown in Table 4.

Table 3: Significant investment realisations

Company	Date of original investment	Original cost £000	Sales proceeds £000	Realised surplus £000
Silverwing – trade sale	2012	1,272	2,207	935
Arleigh Group – trade sale	2014	22	865	843
Cawood Scientific – secondary buyout	2010	825	2,225	1,400

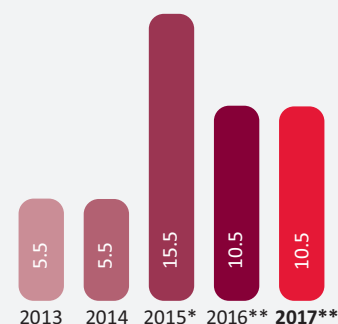


Net asset value (p)



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

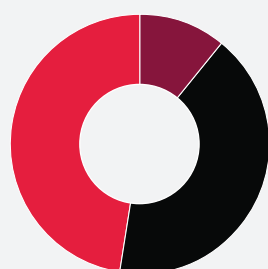
*excludes dividends announced but not yet paid



Dividend per share (p)

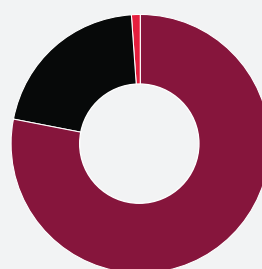
*includes 10.0p special dividend

**includes 5.0p special dividend



Financing stage

Early stage	10.9%
Expansion	41.8%
MBO/MBI	47.3%



Quotation

Unquoted	78.2%
AIM	20.8%
LSE	1.0%

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 at 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 at 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

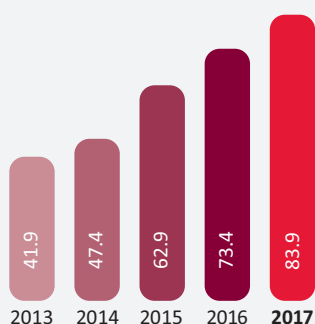
The board carries out a regular and robust review of the risk environment in which the company operates.

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:

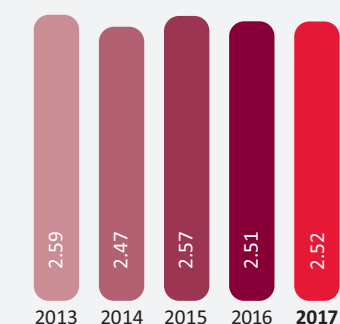
Investment and liquidity risk: many of the company's investments are in small and medium-sized unquoted and AIM quoted companies which are VCT qualifying holdings, and which by their nature entail a higher level of risk and lower liquidity than investments in large quoted companies. **Mitigation:** the 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

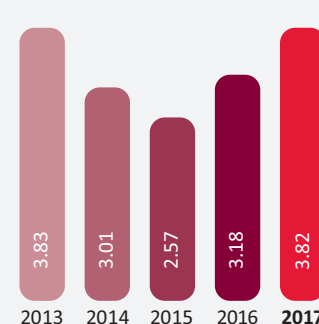
Category	Number of investments	Valuation £000	% of portfolio by value
Unquoted investments at directors' valuation			
Earnings/revenue multiple	17	30,971	57.0
Original cost	13	10,174	18.7
Original cost less provision	5	1,284	2.4
Quoted investments at bid price			
Listed on London Stock Exchange	1	534	1.0
Quoted on AIM	17	11,306	20.9
Total	53	54,269	100.0



Cumulative dividends per share (p)



Ongoing charges excluding performance fees (% of average net assets)



Ongoing charges including performance fees (% of average net assets)

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, exchange rates 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 had 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.

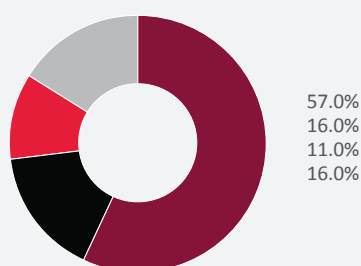
Future prospects

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

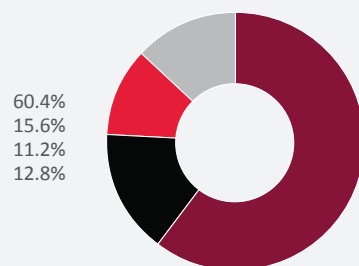
12 June 2017



31 March 2017

Asset allocation

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



31 March 2016

Investment portfolio

as at 31 March 2017

	Cost £000	Valuation £000	% of net assets by value
Fifteen largest venture capital investments (see pages 12 to 15)			
Entertainment Magpie Group	1,360	4,657	6.7
No 1 Lounges	1,748	3,511	5.0
IDOX*	530	3,060	4.4
Optilan Group	1,125	2,751	3.9
MSQ Partners Group	1,478	2,628	3.8
Buoyant Upholstery	1,294	2,518	3.6
Lineup Systems	974	2,470	3.5
Volumatic	1,595	1,678	2.4
It's All Good	1,131	1,656	2.4
Agilitas IT Holdings	1,448	1,625	2.3
Wear Inns	1,406	1,589	2.2
CloserStill Group	1,520	1,520	2.2
Axial System Holdings	1,293	1,463	2.1
Biological Preparations Group	1,915	1,412	2.0
Graza	1,375	1,375	2.0
	20,192	33,913	48.5
Other venture capital investments			
Customs Connect Group	1,242	1,242	1.8
Ideagen*	541	1,170	1.7
Sinclair Pharma*	957	1,155	1.6
Eco Animal Health Group*	497	1,115	1.6
Love Saving Group	1,017	1,017	1.5
Intelling Group	958	958	1.4
Intuitive Holding	1,293	846	1.2
Rockar	773	773	1.1
Myparceldelivery Holdings	761	761	1.1
Brady*	732	750	1.1
Cello Group*	349	673	1.0
Eckoh*	528	663	0.9
Channel Mum	644	644	0.9
AVID Technology Group	632	632	0.9
Netcall*	546	605	0.9
Haystack Dryers	1,284	546	0.8
Adept Telecom*	236	537	0.8
Vectura Group**	247	534	0.8
Arnlea Holdings	1,138	510	0.7
Saluda	454	454	0.6
Oceanos	454	454	0.6
Turbinia	454	454	0.6
Seawise	454	454	0.6
Hunley	454	454	0.6
Lanner Group	299	399	0.6
Lending Works	608	376	0.5
Cityfibre Infrastructure Holdings*	496	352	0.5
Nasstar*	202	343	0.5
Hayward Tyler*	515	306	0.4
Fresh Approach (UK) Holdings	1,286	208	0.3
Kirton	892	199	0.3
Gentronix	397	198	0.3
Synectics*	171	182	0.3
Collagen Solutions*	271	173	0.2
Gear4music (Holdings)*	42	161	0.2
Pebble Beach Systems Group*	564	48	0.1
Summit Corporation*	122	10	—
S&P Coil Products	24	—	—
Total venture capital investments	42,726	54,269	77.6
Listed equity investments	7,867	8,448	12.1
Total fixed asset investments	50,593	62,717	89.7
Net current assets		7,175	10.3
Net assets		69,892	100.0

* Quoted on AIM

** Listed on London Stock Exchange

Fifteen largest venture capital investments

Entertainment Magpie Group

Cost	£1,360,000
Valuation	£4,657,000
Basis of valuation	Earnings multiple
Equity held	8.6% (NVM funds total 38.2%)
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 year	Dividends nil, loan stock interest £145,000

Audited financial information:

Period ended 31 May	2016* £m
Sales	52.6
Operating profit	1.3
Loss before tax	(0.2)
Loss after tax	(0.2)
Net assets	1.5

*8 month period

No 1 Lounges

Cost	£1,748,000
Valuation	£3,511,000
Basis of valuation	Earnings multiple
Equity held	7.9% (NVM funds total 38.7%)
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	Dividends nil, loan stock interest £146,000

Audited financial information:

Year ended 31 December	2015 £m	2014* £m
Sales	16.4	10.7
Operating loss	(1.3)	(1.5)
Loss before tax	(1.9)	(2.2)
Loss after tax	(1.9)	(2.2)
Net (liabilities)/assets	(0.3)	1.3

*11 month period

IDOX

Cost	£530,000
Valuation	£3,060,000
Basis of valuation	Bid price (AIM)
Equity held	1.1% (NVM funds 1.9%)
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 £43,000

Audited financial information:

Year ended 31 October	2016 £m	2015 £m
Sales	76.7	62.6
Operating profit	20.3	16.0
Loss before tax	13.0	9.8
Loss after tax	11.8	7.8
Net assets	65.2	53.6

Optilan Group

Cost	£1,125,000
Valuation	£2,751,000
Basis of valuation	Earnings multiple
Equity held	9.0% (NVM funds total 37.1%)
Business/location	Telecommunications systems integrator, Coventry
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 £542,000

Audited financial information:

Year ended 30 June	2015 £m	2014 £m
Sales	33.3	34.9
Operating profit	3.1	3.1
Profit before tax	1.5	1.7
Profit after tax	2.4	1.8
Net assets	3.3	0.7

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

MSQ Partners Group

Cost	£1,478,000
Valuation	£2,628,000
Basis of valuation	Earnings multiple
Equity held	7.2% (NVM funds total 38.7%)
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 29 February	2016 £m	2015* £m
Sales	83.1	59.5
Operating profit	2.7	1.0
Profit/(loss) before tax	0.4	(0.7)
Profit/(loss) after tax	0.8	(1.3)
Net assets/(liabilities)	0.6	(0.5)

*7.5 month period

Buoyant Upholstery

Cost	£1,294,000
Valuation	£2,518,000
Basis of valuation	Earnings multiple
Equity held	11.8% (NVM funds total 64.9%)
Business/location	Manufacturer of upholstered furniture, 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 nil, loan stock interest £116,000

Audited financial information:

Year ended 2 October	2016 £m	2015 £m
Sales	51.7	53.6
Operating profit	4.9	5.2
Profit before tax	3.0	3.1
Profit after tax	2.2	2.3
Net assets	6.7	5.5

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 £33,000

Audited financial information:

Year ended 30 June	2016 £m	2015 £m
Sales	7.3	5.4
Operating loss	0.2	–
Loss before tax	–	(0.1)
Profit/(loss) after tax	0.1	(0.1)
Net liabilities	(0.2)	(0.3)

Volumatic Holdings

Cost	£1,595,000
Valuation	£1,678,000
Basis of valuation	Earnings multiple
Equity held	16.9% (NVM funds total 50.7%)
Business/location	Manufacturer of intelligent cash handling equipment, Coventry
History	Management buy-out, 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 £122,000

Audited financial information:

Year ended 31 March	2016 £m	2015 £m
Sales	4.9	5.1
Operating profit	0.4	0.4
Loss before tax	(0.5)	(0.6)
Loss after tax	(0.4)	(0.6)
Net assets	1.8	2.2

Fifteen largest venture capital investments

It's All Good

Cost	£1,131,000
Valuation	£1,656,000
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 £100,000

Audited financial information:

Year ended 31 December	2015 £m	2014 £m
Sales	12.2	8.7
Operating profit	1.1	0.4
Profit before tax	0.7	–
Profit after tax	0.7	0.2
Net assets/(liabilities)	0.4	(0.2)

Agilitas IT Holdings

Cost	£1,448,000
Valuation	£1,625,000
Basis of valuation	Earnings multiple
Equity held	11.9% (NVM funds total 56.0%)
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 £101,000

Audited financial information:

Year ended 31 March	2016 £m	2015* £m
Sales	7.2	5.8
Operating profit	0.6	0.3
Loss before tax	(0.2)	(0.4)
Loss after tax	(0.2)	(0.3)
Net assets	0.5	0.7

*11 month period

Wear Inns

Cost	£1,406,000
Valuation	£1,589,000
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	2016 £m	2015 £m
Sales	13.6	13.2
Operating profit	1.2	1.3
Loss before tax	(0.4)	(0.3)
Loss after tax	(0.5)	(0.3)
Net assets	3.9	4.6

CloserStill Group

Cost	£1,520,000
Valuation	£1,520,000
Basis of valuation	Earnings multiple
Equity held	1.0% (NVM funds total 3.2%)
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	Dividends nil, loan stock interest £55,000

Audited financial information:

Year ended 31 December	2016 £m	2015* £m
Sales	36.5	28.5
Operating profit	0.6	0.8
Loss before tax	(18.8)	(16.0)
Loss after tax	(17.7)	(15.1)
Net assets	146.5	155.7

*10 month period

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

Axial Systems Holdings

Cost	£1,293,000
Valuation	£1,463,000
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 £48,000

Audited financial information:

Year ended 31 May	2016 £m	2015 £m
Sales	27.4	20.0
Operating profit	1.7	1.1
Profit before tax	0.8	0.2
Profit after tax	0.5	–
Net assets	1.0	0.6

Biological Preparations Group

Cost	£1,915,000
Valuation	£1,412,000
Basis of valuation	Earnings multiple
Equity held	14.1% (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 £23,000, loan stock interest £192,000

Audited financial information:

Year ended 31 December	2016 £m	2015* £m
Sales	5.4	4.4
Operating profit	0.3	0.2
Loss before tax	(1.1)	(0.9)
Loss after tax	(1.0)	(1.0)
Net (liabilities)/assets	(0.6)	0.4

*15 month period

Graza

Cost	£1,375,000
Valuation	£1,375,000
Basis of valuation	Cost
Equity held	23.7% (NVM funds total 93.4%)
Business/location	Holding company seeking VCT qualifying trade, Newcastle upon Tyne
History	Investment in April 2015, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT
Income in year	Nil

Audited financial information:

N/A



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 2017.

Activities and status

The principal activity of the company during the year was the making of long-term equity and loan investments, mainly in unquoted companies.

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 £9,575,000 has been transferred to reserves.

The second interim and final dividends for the year ended 31 March 2016 totalling 8.5p and an interim dividend of 2.0p per share in respect of the year ended 31 March 2017 were paid during the year at a cost of £6,871,000 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 2017. Subject to approval of the final dividend at the annual general meeting, the second interim and final dividends will be paid on 21 July 2017 to shareholders on the register on 23 June 2017.

Provision of information to auditor

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 on 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 2020, 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 pages 9 and 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 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 an equity 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 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 2017 the basic annual management fee was £1,416,000 (preceding year: £1,416,000).



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 2017 was 6.2% (preceding year: 5.8%). The performance-related management fee for the year ended 31 March 2017 was £889,000 (preceding year £468,000).

Accounting and secretarial fee: NVM provides accounting, administrative and secretarial services to the company for a fee of £53,000 per annum, linked to the movement in the RPI. The fee payable in respect of the preceding year was £52,000.

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 2017 were equivalent to 2.52% of average net assets (preceding year: 2.51%).

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 2017 the arrangement fees receivable by NVM from investee companies which were attributable to investments made by Northern 3 VCT amounted to £143,000 (preceding year: £71,000), and directors' and monitoring fees amounted to £255,000 (preceding year: £272,000).

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 2017 NVM executives held investments in 40 investee companies acquired at a total cost of £953,000, of which £262,000 was attributable to investments made by Northern 3 VCT.

Share capital – purchase of shares

During the year the company purchased for cancellation 730,000 of its own shares, representing 1.1% of the called-up share capital of the company at the beginning of the year, for a consideration of £701,000. Purchases were made in line with the company's policy of purchasing available shares at a discount to net asset value. At the 2016 annual general meeting shareholders authorised the company to purchase in the market up to 6,533,339 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 2017 this authority remained effective in respect of 5,803,339 shares; the authority will lapse at the conclusion of the 2017 annual general meeting of the company on 13 July 2017.

Share capital – issue of shares

During the year the company issued 994,571 new ordinary shares for a cash consideration of £951,000 pursuant to the company's dividend investment scheme.

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 2017 annual general meeting to be held on 13 July 2017 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

12 June 2017

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 and statement of the directors' remuneration policy will be proposed at the annual general meeting on 13 July 2017.

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 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 an equity partner in NVM, 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 re-appointed 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 2017 (audited information)

The fees paid to individual directors in respect of the years ended 31 March 2017 and 31 March 2016, 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, 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 2017 with the total return from a broad UK equity market index over the same period.

Statement of voting at annual general meeting

At the annual general meeting on 6 July 2016 the resolutions to approve the directors' remuneration report for the year ended 31 March 2016 was approved by a show of hands. 97.8% of the proxy votes received in relation to the resolution were either for or discretionary.

Statement by the chairman of the nomination committee

The directors' fees payable by the company remained at £22,500 per annum for the chairman and £17,500 per annum for other directors for the year ended 31 March 2017. In accordance with the directors' remuneration policy, directors' fees were reviewed by the nomination committee during its meeting on 28 March 2017, when it was recommended that fees should be increased to £25,000 per annum for the chairman and £20,000 per annum for other directors with effect from 1 April 2017, to reflect inflation and the requirements of the respective roles.

By order of the Board

J G D Ferguson
Chairman of
the Nomination
Committee

12 June 2017

Table 1: Directors' fees

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
J G D Ferguson (Chairman)	22,500	22,500
C J Fleetwood	17,500	17,500
T R Levett	—	—
J M O Waddell	17,500	17,500
Total	57,500	57,500

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

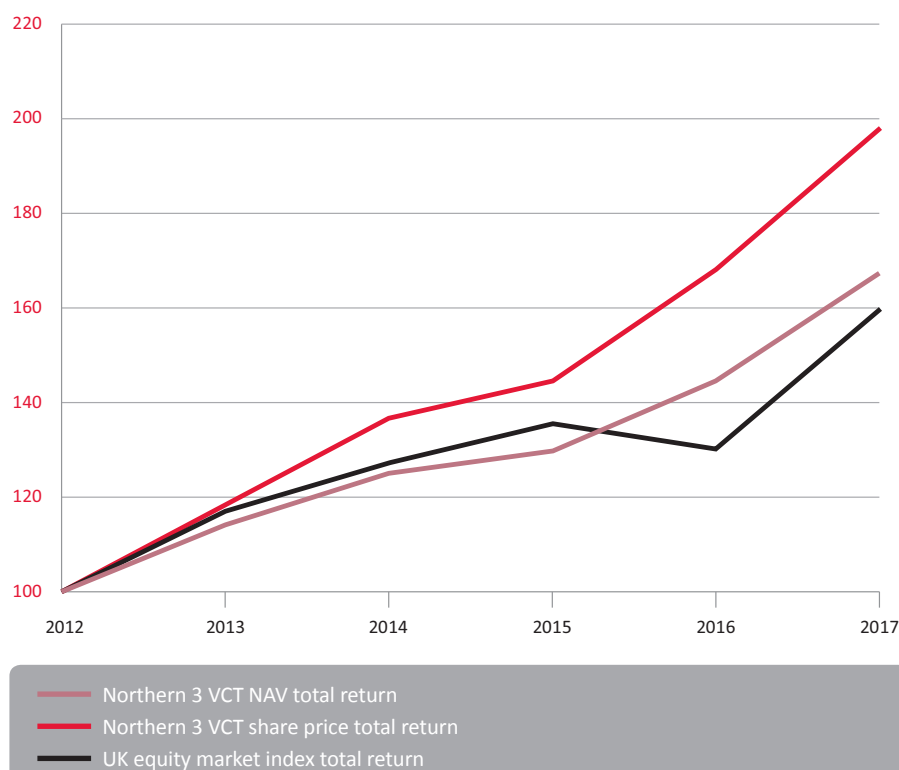


Table 2: Directors' interests in ordinary shares

	12 June 2017	31 March 2017	31 March 2016
J G D Ferguson (Chairman)	556,374	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	13,635	8,094	7,283

Return to shareholders in Northern 3 VCT PLC

Five years to 31 March 2017 (March 2012= 100)



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-0.

The board considers that reporting in accordance with 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 2017 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 in person or by conference call quarterly, 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 an equity 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 director's 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 regular 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. The audit committee ordinarily 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 2017 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 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 two years. 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.

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 substantive board and committee meetings held during the year ended 31 March 2017 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
Number of meetings held	6	3	1	1
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.

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 2017 65,767,970 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, any director who was not appointed or re-appointed at one of the preceding two annual general meetings shall retire and 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 2016 annual general meeting to make market purchases of up to 6,533,339 ordinary shares at any time up to the 2017 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 13 July 2017 as set out in a separate circular.

By order of the Board

C D Mellor
Secretary

12 June 2017

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 year.

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 strategic report, directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the directors in respect of the annual report and financial statements for the year ended 31 March 2017

We confirm that to the best of our knowledge:

- taken as a whole, the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company; and
- the strategic report and directors' report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that they face.

We consider 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.

By order of the Board

C D Mellor
Secretary

12 June 2017



Independent auditor's report

To the members of Northern 3 VCT PLC only

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 2017 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 2017 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; and
- 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 (unchanged from 2016):

Valuation of unquoted investments – (£42.43 million; 2016: £40.68 million) –
Refer to page 21 (audit committee section of the corporate governance statement), page 32 (accounting policy) and pages 28 to 41 (financial disclosures).

The risk: Subjective valuation – 56% 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.

Our response: Our procedures included:

- Control design: Documenting and assessing the design and implementation of the investment valuation processes and controls;
- Control observation: Attending the year-end audit committee meeting where we assessed the effectiveness of the audit committee's challenge and approval of unlisted investment valuations;
- Historical comparisons: 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;
- Methodology choice: In the context of observed industry best practice and the provisions of the International Private Equity and Venture Capital Valuation Guidelines, we challenged the appropriateness of the valuation basis selected;
- Our valuations experience: Challenging the investment manager on key judgements affecting investee company valuations, 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 cash flows to understand whether borrowings can be serviced or whether refinancing may be required. Our work included consideration of events which occurred subsequent to the year end up until the date of this audit report;
- Comparing valuations: Where a recent transaction has 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.
- Assessing transparency: Consideration of the appropriateness, in accordance with relevant accounting standards, of the disclosures in respect of unquoted 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

Materiality for the financial statements as a whole was set at £743,000 (2016: £675,840) determined with reference to a benchmark of total assets, of which, it represents 1% (2016: 1%).

We report to the audit committee any corrected or uncorrected identified misstatements exceeding £37,000 (2016: £33,790), 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 the directors' report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the strategic report and the directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

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 31 March 2020; or
- the disclosures in note 1 of 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; or
- a corporate governance statement has not been prepared by the company.

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 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. 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, 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

12 June 2017

Income statement

for the year ended 31 March 2017

	Notes	Revenue £000	Year ended 31 March 2017		Revenue £000	Year ended 31 March 2016	
			Capital £000	Total £000		Capital £000	Total £000
Gain on disposal of investments	8	–	1,775	1,775	–	1,796	1,796
Movements in fair value of investments	8	–	7,785	7,785	–	5,037	5,037
		–	9,560	9,560	–	6,833	6,833
Income	2	2,626	–	2,626	2,201	–	2,201
Investment management fee	3	(354)	(1,951)	(2,305)	(354)	(1,530)	(1,884)
Other expenses	4	(306)	–	(306)	(314)	–	(314)
Return on ordinary activities before tax		1,966	7,609	9,575	1,533	5,303	6,836
Tax on return on ordinary activities	5	(274)	274	–	(145)	145	–
Return on ordinary activities after tax		1,692	7,883	9,575	1,388	5,448	6,836
Return per share	7	2.6p	12.0p	14.6p	2.1p	8.3p	10.4p
Dividends paid/proposed in respect of the year	6	2.0p	8.5p	10.5p	2.0p	8.5p	10.5p

- The total column of this statement is the statement of total comprehensive income of the company prepared in accordance with FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”. The supplementary revenue return and capital return columns have been prepared in accordance with the Statement of Recommended Practice “Financial Statements of Investment Trust Companies and Venture Capital Trusts” issued in November 2014 and updated in January 2017 with consequential amendments 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 2017

	Notes	31 March 2017 £000	31 March 2016 £000
Fixed assets			
Investments	8	62,717	58,695
Current assets			
Debtors	12	652	252
Cash and cash equivalents		11,811	8,637
		12,463	8,889
Creditors (amounts falling due within one year)	13	(5,288)	(620)
Net current assets		7,175	8,269
Net assets		69,892	66,964
Capital and reserves			
Called-up equity share capital	14	3,290	3,277
Share premium	15	2,223	1,348
Capital redemption reserve	15	113	76
Capital reserve	15	50,850	54,452
Revaluation reserve	15	12,124	6,899
Revenue reserve	15	1,292	912
Total equity shareholders' funds		69,892	66,964
Net asset value per share	16	106.2p	102.2p

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

The financial statements on pages 28 to 41 were approved by the directors on 12 June 2017 and are signed on their behalf by:

J G D Ferguson
Director

Statement of changes in equity

for the year ended 31 March 2017

Notes	Non-distributable reserves				Distributable reserves		Total
	Called up share capital £000	Share premium £000	Capital redemption reserve £000	Revaluation reserve £000	Capital reserve £000	Revenue reserve £000	£000
At 1 April 2016	3,277	1,348	76	6,899	54,452	912	66,964
Return on ordinary activities after tax	–	–	–	5,225	2,658	1,692	9,575
Dividends paid 6	–	–	–	–	(5,559)	(1,312)	(6,871)
Net proceeds of share issues 14	50	875	–	–	–	–	925
Shares purchased for cancellation 14	(37)	–	37	–	(701)	–	(701)
At 31 March 2017	3,290	2,223	113	12,124	50,850	1,292	69,892

Notes	Non-distributable reserves				Distributable reserves		Total
	Called up share capital £000	Share premium £000	Capital redemption reserve £000	Revaluation reserve £000	Capital reserve £000	Revenue reserve £000	£000
Year ended 31 March 2016							
At 1 April 2015	3,318	1,348	35	2,393	62,884	1,177	71,155
Return on ordinary activities after tax	–	–	–	4,506	942	1,388	6,836
Dividends paid 6	–	–	–	–	(8,620)	(1,653)	(10,273)
Net proceeds of share issues 14	–	–	–	–	–	–	–
Shares purchased for cancellation 14	(41)	–	41	–	(754)	–	(754)
At 31 March 2016	3,277	1,348	76	6,899	54,452	912	66,964

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

Statement of cash flows

for the year ended 31 March 2017

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Cash flows from operating activities:		
Return on ordinary activities before tax	9,575	6,836
Gain on disposal of investments	(1,775)	(1,796)
Movements in fair value of investments	(7,785)	(5,037)
(Increase)/decrease in debtors	(400)	3
Increase in creditors	387	423
Net cash inflow from operating activities	2	429
Cash flows from investing activities:		
Purchase of investments	(6,856)	(12,320)
Sale/repayment of investments	12,394	10,829
Net cash inflow/(outflow) from investing activities	5,538	(1,491)
Cash flows from financing activities:		
Issue of ordinary shares	951	–
Share issue expenses	(26)	–
Share subscriptions held pending allotment	4,281	–
Purchase of ordinary shares for cancellation	(701)	(754)
Equity dividends paid	(6,871)	(10,273)
Net cash outflow from financing activities	(2,366)	(11,027)
Increase/(decrease) in cash and cash equivalents	3,174	(12,089)
Cash and cash equivalents at beginning of year	8,637	20,726
Cash and cash equivalents at end of year	11,811	8,637

Notes to the financial statements

for the year ended 31 March 2017

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 and Venture Capital Trusts" issued in November 2014 and updated in January 2017 with consequential amendments by the Association of Investment Companies ("AIC SORP").

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 and 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 the International Private Equity and Venture Capital Valuation guidelines 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 in the valuation of unquoted investments as explained in Note 1(b).

2. Income

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Investment income:		
Dividends from unquoted companies	18	269
Dividends from quoted companies	575	542
Interest receivable:		
Bank deposits*	7	31
Loans to unquoted companies	2,026	1,354
Listed interest bearing investments	–	5
	2,626	2,201

* 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 2017			Year ended 31 March 2016		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Investment management fee:						
Basic	354	1,062	1,416	354	1,062	1,416
Performance-related	–	889	889	–	468	468
	354	1,951	2,305	354	1,530	1,884

NVM Private Equity (NVM) provides investment management, secretarial and administrative 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 £53,000 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. The hurdle rate for the year ended 31 March 2017 was 6.2% (year ended 31 March 2016: 5.8%).

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 2017 £000	Year ended 31 March 2016 £000
Administrative and secretarial services	52	52
Directors' remuneration	58	58
Auditor's remuneration – audit services	19	19
– non-audit services	1	1
Legal and professional expenses	31	33
Share issue promoter's commission	45	22
Irrecoverable VAT	37	24
Other expenses	63	105
	306	314

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 2017

5. Tax on return on ordinary activities

	Revenue £000	Year ended 31 March 2017 Capital £000	Total £000	Revenue £000	Year ended 31 March 2016 Capital £000	Total £000
(a) Analysis of charge/(credit) for the year						
UK corporation tax payable/(recoverable) on the return for the year	274	(274)	–	145	(145)	–
(b) Tax reconciliation						
Return on ordinary activities before tax	1,966	7,609	9,575	1,533	5,303	6,836
Return on ordinary activities multiplied by the standard rate of UK corporation tax of 20% (2016 20%)	393	1,522	1,915	307	1,061	1,368
Effect of:						
UK dividends not subject to tax	(119)	–	(119)	(162)	–	(162)
Capital returns not subject to tax	–	(355)	(355)	–	(359)	(359)
Movements in fair value of investments not subject to tax	–	(1,557)	(1,557)	–	(1,007)	(1,007)
Increase in surplus management expenses	–	116	116	–	160	160
Tax charge/(credit) for the year	274	(274)	–	145	(145)	–

(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 £2,498,000 (31 March 2016 £1,919,000), 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

6. Dividends

	Revenue £000	Year ended 31 March 2017 Capital £000	Total £000	Revenue £000	Year ended 31 March 2016 Capital £000	Total £000
(a) Recognised as distributions in the financial statements for the year						
Previous year's second interim dividend	–	3,267	3,267	–	6,635	6,635
Previous year's final dividend	653	1,633	2,286	995	1,327	2,322
Current year's first interim dividend	659	659	1,318	658	658	1,316
	1,312	5,559	6,871	1,653	8,620	10,273
(b) Paid and proposed in respect of the year						
First interim paid – 2.0p (2016 2.0p) per share	659	659	1,318	658	658	1,316
Second interim declared – 5.0p (2016 5.0p) per share	–	3,290	3,290	–	3,277	3,277
Final proposed – 3.5p (2016 3.5p) per share	658	1,645	2,303	655	1,638	2,293
	1,317	5,594	6,911	1,313	5,573	6,886

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 £9,575,000 (2016 £6,836,000) and on 65,796,762 (2016 65,999,656) 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 2017 £000	31 March 2016 £000
Level 1		
Quoted venture capital investments	11,840	10,478
Listed equity investments	8,448	7,538
Level 3		
Unquoted venture capital investments	42,429	40,679
	62,717	58,695

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	Total £000
Book cost at 1 April 2016	36,734	7,725	7,337	51,796
Fair value adjustment as at 1 April 2016	3,945	2,753	201	6,899
Fair value at 1 April 2016	40,679	10,478	7,538	58,695
Movements in the year:				
Purchases at cost	5,620	–	1,236	6,856
Disposals – proceeds	(10,587)	(738)	(1,069)	(12,394)
– net realised gains/(losses) on disposal	1,555	158	62	1,775
Movements in fair value	5,162	1,942	681	7,785
Fair value at 31 March 2017	42,429	11,840	8,448	62,717
Comprising:				
Book cost at 31 March 2017	35,179	7,547	7,867	50,593
Fair value adjustment at 31 March 2017	7,250	4,293	581	12,124
	42,429	11,840	8,448	62,717
Equity shares	18,724	11,840	8,448	39,012
Preference shares	1,773	–	–	1,773
Interest-bearing securities	21,932	–	–	21,932
	42,429	11,840	8,448	62,717

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 2017

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 2017 there were no commitments (31 March 2016 commitments totalling £1,369,000) 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 2016 £000	Disposal proceeds £000	Realised gain/(loss) against carrying value £000
Silverwing – outright sale	1,272	1,954	2,207	253
Arleigh Group – sale of shares	22	753	865	112
Kitwave One – deferred sales proceeds	–	–	153	153
Gear4music (Holdings) – partial disposal of holding	108	203	333	130
Crantock Bakery – outright sale	103	–	150	150
IDOX – partial disposal of holding	70	377	405	28
Cawood Scientific – outright sale	825	1,375	2,225	850
Turbinia – loan note redemption	921	921	921	–
Seawise – loan note redemption	921	921	921	–
Oceanos – loan note redemption	921	921	921	–
Saluda – loan note redemption	921	921	921	–
Hunley – loan note redemption	921	921	921	–
Others	344	344	381	37
	7,349	9,611	11,324	1,713

10. Unquoted investments

The cost and carrying value of material investments in unquoted companies held at 31 March 2017 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.

	Total cost £000	31 March 2017 Carrying value £000	Total cost £000	31 March 2016 Carrying value £000
Entertainment Magpie Group				
Ordinary shares	402	3,699	402	872
Loan stock	958	958	958	958
	1,360	4,657	1,360	1,830
No 1 Lounges				
Ordinary shares	157	1,920	158	327
Loan stock	1,591	1,591	1,736	1,736
	1,748	3,511	1,894	2,063
Optilan Group				
Ordinary shares	179	1,726	179	265
Loan stock	946	1,025	946	1,025
	1,125	2,751	1,125	1,290
MSQ Partners Group				
Ordinary shares	182	1,332	182	979
Loan stock	1,296	1,296	1,296	1,296
	1,478	2,628	1,478	2,275

10. Unquoted investments *continued*

	Total cost £000	31 March 2017 Carrying value £000	Total cost £000	31 March 2016 Carrying value £000
Buoyant Upholstery				
Ordinary shares	132	1,356	132	1,957
Loan stock	1,162	1,162	1,162	1,162
	1,294	2,518	1,294	3,119
Lineup Systems				
Ordinary shares	174	1,670	174	1,670
Loan stock	800	800	800	800
	974	2,470	974	2,470
Volumatic Holdings				
Ordinary shares	216	299	216	149
Loan stock	1,379	1,379	1,546	1,546
	1,595	1,678	1,762	1,695
It's All Good				
Ordinary shares	115	640	115	626
Loan stock	1,016	1,016	1,016	1,016
	1,131	1,656	1,131	1,642
Agilitas IT Holdings				
Ordinary shares	196	373	196	217
Loan stock	1,252	1,252	1,252	1,252
	1,448	1,625	1,448	1,469
Wear Inns				
Ordinary shares	205	–	205	–
Preference shares	88	435	88	527
Loan stock	1,113	1,154	1,113	1,154
	1,406	1,589	1,406	1,681
CloserStill Group				
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
Axial Systems Holdings				
Ordinary shares	219	389	219	1,073
Loan stock	1,074	1,074	1,074	1,074
	1,293	1,463	1,293	2,147
Biological Preparations Group				
Ordinary shares	195	–	195	–
Preference shares	308	–	308	–
Loan stock	1,412	1,412	1,412	1,412
	1,915	1,412	1,915	1,412
Graza				
Ordinary shares	132	132	132	132
Preference shares	322	322	322	322
Loan stock	921	921	921	921
	1,375	1,375	1,375	1,375

Notes to the financial statements *continued*

for the year ended 31 March 2017

10. Unquoted investments *continued*

	Total cost £000	31 March 2017 Carrying value £000	Total cost £000	31 March 2016 Carrying value £000
Silverwing				
Ordinary shares	–	–	162	844
Loan stock	–	–	1,110	1,110
	–	–	1,272	1,954
Cawood Scientific				
Ordinary shares	–	–	95	645
Loan stock	–	–	730	730
	–	–	825	1,375

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

11. Significant interests

Details of shareholdings in those companies where the company's holding at 31 March 2017 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, are given below. All of the companies named are incorporated in Great Britain.

	Class of shares (nominal value £0.0001 unless stated)	Number held	Proportion of class held
Graza	Ordinary	131,243	23.7%
Hunley	Ordinary	131,243	23.7%
Oceanos	Ordinary	131,243	23.7%
Saluda	Ordinary	131,243	23.7%
Seawise	Ordinary	131,243	23.7%
Turbinia	Ordinary	131,243	23.7%

12. Debtors

	31 March 2017 £000	31 March 2016 £000
Prepayments and accrued income	652	252

13. Creditors (amounts falling due within one year)

	31 March 2017 £000	31 March 2016 £000
Accruals and deferred income	1,007	620
Share subscriptions held pending allotment	4,281	–
	5,288	620

14. Called-up equity share capital

	31 March 2017 £000	31 March 2016 £000
Allotted and fully paid: 65,797,970 (2016 66,353,399) ordinary shares of 5p	3,290	3,277

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 issued 994,571 ordinary shares of 5p for cash at an average premium of 90.6p per share pursuant to the dividend investment scheme. 730,000 shares were purchased for cancellation at a cost of £701,000.

15. Reserves

	Share premium £000	Capital redemption reserve £000	Capital reserve £000	Revaluation reserve £000	Revenue reserve £000
At 1 April 2016	1,348	76	54,452	6,899	912
Premium on issue of ordinary shares	901	—	—	—	—
Share issue expenses	(26)	—	—	—	—
Shares purchased for cancellation	—	37	(701)	—	—
Realised on disposal of investments	—	—	1,775	—	—
Transfer on disposal of investments	—	—	2,560	(2,560)	—
Movements in fair value of investments	—	—	—	7,785	—
Management fee charged to capital net of associated tax	—	—	(1,677)	—	—
Revenue return on ordinary activities after tax	—	—	—	—	1,692
Dividends recognised in the year	—	—	(5,559)	—	(1,312)
At 31 March 2017	2,223	113	50,850	12,124	1,292

At 31 March 2017 distributable reserves amounted to £52,723,000 (31 March 2016 £55,565,000), 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 2017 is based on net assets of £69,892,000 (2016 £66,964,000) divided by the 65,797,970 (2016 66,353,399) ordinary shares in issue at that date.

17. Financial instruments

The company's financial instruments comprise equity and fixed-interest 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.

Notes to the financial statements *continued*

for the year ended 31 March 2017

17. Financial instruments *continued*

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.

29.0% (31 March 2016 26.9%) by value of the company's net assets comprises equity securities listed on regulated stock exchanges. A 5% increase in the bid price of these securities as at 31 March 2017 would have increased net assets and the total return for the year by £1,014,000 (31 March 2016 £901,000); a corresponding fall would have reduced net assets and the total return for the year by the same amount.

60.7% (31 March 2016 60.7%) 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% increase in the value price of these securities as at 31 March 2017 would have increased net assets and the total return for the year by £2,121,000 (31 March 2016 £2,034,000); a corresponding fall would have reduced net assets and the total return for the year by the same amount.

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:

	Total fixed rate portfolio £000	Weighted average interest rate %	31 March 2017 Weighted average period for which rate is fixed Years	Total fixed rate portfolio £000	Weighted average interest rate %	31 March 2016 Weighted average period for which rate is fixed Years
Fixed-rate investments in unquoted companies	9,145	9.5%	4.0	6,387	9.3%	3.5

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 and cash held in interest-bearing deposit accounts. The benchmark rate which determines the rate of interest receivable is the UK bank base rate for interest bearing deposit accounts, which was 0.25% at 31 March 2017 (31 March 2016 0.5%) and the LIBOR three month GBP rate for floating rate loans to unquoted companies, which was 0.34% at 31 March 2017 (31 March 2016 0.49%). The amounts held in floating rate investments at the balance sheet date were as follows:

	31 March 2017 £000	31 March 2016 £000
Floating rate loans to unquoted companies	12,787	19,706
Interest-bearing deposit accounts	11,811	8,637
	24,598	28,343

17. Financial instruments *continued*

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 2017 the company's financial assets exposed to credit risk comprised the following:

	31 March 2017 £000	31 March 2016 £000
Fixed-rate investments in unquoted companies	9,145	6,387
Floating rate loans to unquoted companies	12,787	19,706
Interest-bearing deposit accounts	11,811	8,637
Accrued dividends and interest receivable	635	236
	34,378	34,966

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). 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 2017 or 31 March 2016.

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 2017 these investments were valued at £20,259,000 (31 March 2016 £16,175,000).

18. Contingencies

At 31 March 2017 contingent assets not recognised in the financial statements in respect of potential deferred proceeds from the sale of investee companies amounted to approximately £157,000 (31 March 2016 £346,000). The extent to which these amounts will become receivable in due course is dependent on future events.

The company had no contingent liabilities at 31 March 2017 or 31 March 2016.

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