



Unaudited half-yearly report for the six months ended 28 February 2017

Company number: 07744056

For UK investors only

Contents

About Octopus VCT 3 plc	1
Financial Summary	3
Chairman's Statement	4
Investment Portfolio	9
Directors' Responsibilities Statement	10
Condensed Income Statement	11
Condensed Balance Sheet	12
Condensed Statement of Changes in Equity	13
Condensed Cash Flow Statement	14
Condensed Notes to the Half-Yearly Report	15
Shareholder Information and Contact Details	17
Directors and Advisers	19

Financial Headlines

73.5p Net asset value (NAV) at 28 February 2017

20.0p Dividends paid since launch

93.5p Total Value (NAV plus cumulative dividends paid)

About Octopus VCT 3 plc

Octopus VCT 3 plc (“OVCT 3” the “Company”) is a venture capital trust (“VCT”) with a portfolio of investments in the renewable energy sector, with a particular focus on solar energy, where the Investment Manager, Octopus Investments (“Octopus”) believes that investments have been structured to achieve a sustained and reasonable level of predictable income.

OVCT 3 was incorporated on 17 August 2011 with the first allotment of equity being on 6 March 2012. The total amount raised by 18 May 2012 was £8.2 million. The Offer for new subscriptions for shares closed on 19 June 2012. Whilst OVCT 3 has the ability to invest in a variety of sectors and technologies, the focus has been in the renewable energy sector and, in particular, on solar energy.

Venture Capital Trusts (VCTs)

VCTs were introduced in the Finance Act 1995 to provide a means for private individuals to invest in unquoted companies in the UK. Subsequent Finance Acts have introduced changes to VCT legislation. The tax benefits currently available to eligible new investors in VCTs include:

- up to 30% up-front income tax relief;
- exemption from income tax on dividends paid; and
- exemption from capital gains tax on disposals of shares in VCTs.

OVCT 3 has been provisionally approved as a VCT by HM Revenue & Customs (“HMRC”). In order to maintain its approval the VCT must comply with certain requirements on a continuing basis. At least 70% of the VCT’s investments must comprise ‘qualifying holdings’ of which at least 70% must be in eligible Ordinary shares. A ‘qualifying holding’ consists of up to £5 million invested in any one year in new shares or securities in an unquoted company (or companies quoted on AIM) which is carrying on a qualifying trade and whose gross assets do not exceed a prescribed limit at the time of investment. The definition of a ‘qualifying trade’ excludes certain activities such as property investment and development, financial services and asset leasing. As at 28 February 2017, qualifying investments represented 89.9% of the Company’s portfolio. OVCT 3 will continue to monitor its compliance with these qualification requirements.

VCT Legislation

The 2015 Summer Budget introduced legislation designed to ensure that VCTs comply with changes to the EU State Aid rules. The legislation introduced new criteria which stipulate a lifetime cap on the total amount of State Aid investment a company can receive, the age of companies which are eligible for investment and specific requirements relating to the use of the funds raised. The Manager has reviewed the impact of the new legislation on the Company's investment strategy and has concluded that it expects there to be limited impact on the Company as a result of these changes.

Financial Summary

	Six months to 28 February 2017	Six months to 29 February 2016	Year to 31 August 2016
Net assets (£'000s)	6,061	6,443	6,605
Return on ordinary activities after tax (£'000s)	(132)	(212)	(49)
Net asset value per share ("NAV")	73.5p	78.1p	80.1p
Dividends paid since launch	20.0p	15.0p	15.0p
Total Value per share	93.5p	93.1p	95.1p

Chairman's Statement

I am pleased to present the half-yearly report for Octopus VCT 3 plc for the period ended 28 February 2017.

Performance

The power generating companies which together comprise the portfolio have been revalued to reflect current market conditions and the reduction in their revenue generating lives since inception. To date they have performed in line with expectations, and have made total distributions of £1,651,000 (equivalent to 20 pence per share) to the Company.

Due to the nature of the Company's investments, which have a planned 25 year life, the NAV is designed to fall to zero over the life of the Company. This is because the Company intends to pay annual dividends and the value of the investee solar companies reduces as their remaining years of operation decline over time. Because of this factor and others explained below the underlying NAV has decreased from 80.1 pence per share at 31 August 2016 to 73.5 pence per share at 28 February 2017, while the Total Value per share, including dividends paid to date of 20p stands at 93.5p (down from 95.1p at 31 August 2016).

The majority of the reduction in NAV over the last 6 months is directly attributable to the distribution of a 5p dividend to shareholders in February 2017. The remainder of the drop in NAV can be mainly attributed to the impact of the higher than expected running costs of the VCT as a result of the small size of the funds with the final adjustment reflecting the latest valuation of the assets during the period.

I am sorry to say that the targeted NAV of 90p at the five year point is not going to be achieved. The underlying solar assets have performed broadly in line with expectations, however shareholder returns have been lower than expected for two main reasons.

Firstly, there has been a significant fall in long term projected power prices since the original investment was made. As investors may remember, the solar company revenues are derived from two main sources:

- Government backed subsidies such as the FIT or ROCs
- Selling the wholesale electricity produced by the solar sites

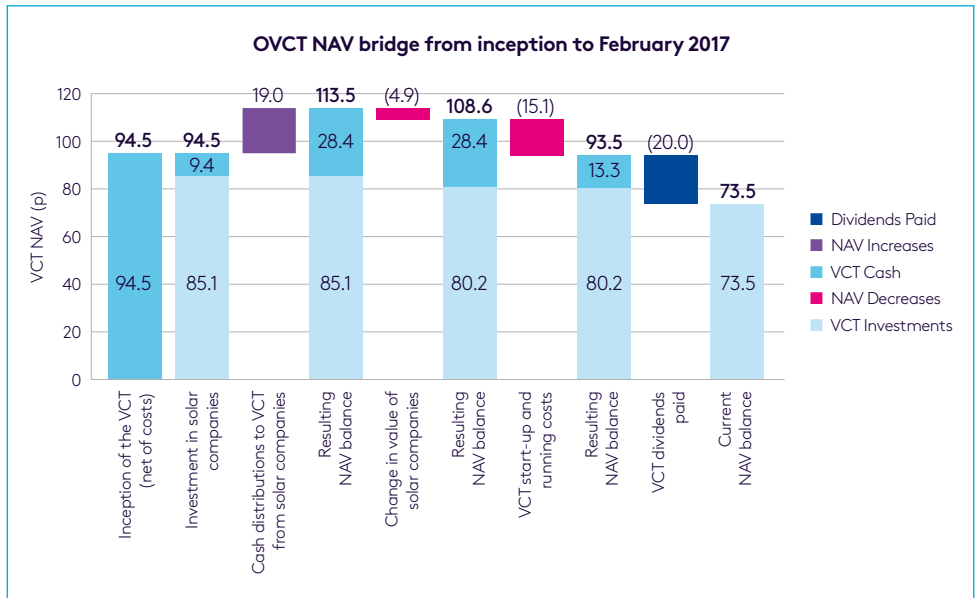
It is these wholesale electricity revenues, which represent around 40% of the solar site revenues that have been impacted heavily by the reduction in long term energy forecasts.

Secondly, the VCTs are smaller than anticipated at the time of launch. This small size has led to higher than anticipated running costs of the VCT wrapper as a percentage of its assets.

The VCTs are smaller than expected because the government reduced the subsidies available to renewable energy sites such as the ones held in OVCT 3 and OVCT 4 midway through the fundraising period. Despite the manager, Octopus Investments, reducing its annual management fee to encourage further investment, less money was raised than anticipated at the outset.

If forecast power prices do not recover, the continued payment of an annual dividend of 5p over the complete life of the Company is under threat. Forecast energy prices are volatile and this conclusion may therefore change over time, but the current future forecast of energy prices leads to a projection showing that the Company could pay an annual dividend in the region of circa 4p until the end of the investment horizon.

The chart below details the NAV movements since the commencement of operations August 2012:



Please see the table below for movements in NAV from 31 August 2016 to 28 February 2017, including dividends paid during the period.

NAV changes since August 2016

NAV at 31 August 2016	80.1p
Cash distributions from SolarCos	+2.6p
Revaluation of SolarCos	-2.8p
VCT running costs	-1.4p
Dividends paid	-5.0p
NAV at 28 February 2017	73.5p

Investment Policy and Portfolio

The Company is fully invested in seven companies, each containing an operational solar site. These sites have a range of capacities around 1MW and benefit from either the Feed in Tariff (FIT) or Renewable Obligations Certificates (ROCs), which form part of their revenue stream alongside the electricity they sell on the wholesale market.

The sites have been operating for over four years and have been performing satisfactorily as a portfolio since the start of operations. As mentioned in the Year End Financial Statements in August 2016, two sites in the portfolio have previously experienced a number of technical issues which have since been resolved. The work has now been completed and the sites are expected to generate revenue in line with their planned output.

The Company also holds a small portion of short term non-qualifying loans from which it earns interest. Within the period under review repayments were received in from Adala Solar (£88,750), Akycha Power (£26,250), Daubree Energy (£40,500), Debes Energy (£25,000), Delambre Energy (£12,500) and Lacaille Energy (£12,500), together with accrued interest.

Cash and Liquid Resources

Cash is held on deposit with HSBC. As the Company is fully invested the amount of cash held by the Company at the period end is modest. Cash is paid from the solar companies up to the Company as and when needed to fund expenditure or pay dividends and the Company therefore currently holds no other deposit accounts or money market funds.

Principal Risks and Uncertainties

Now that the Company owns a portfolio of fully operational assets the number of risks faced is reduced as the core construction phases have been completed. The key risks on the ongoing operations are:

- **Power Prices** – Revenues are derived from two sources; first, the Government backed subsidies such as the FIT or ROCs and secondly; from selling the wholesale electricity produced by the solar sites. The wholesale electricity revenues, which represent over 40% of the total revenues are variable and will be subject to market forces. The Investment Team uses industry recognised forecasts to predict the electricity prices for the life of the sites. It also mitigates price fluctuations in the short term via forward selling the electricity by Power Purchase Agreements (PPAs) to reduce income volatility. However, it should be noted that long term power price forecasts can rise and fall, and therefore can have an impact on the value or NAV of the underlying solar sites.
- **Site Technical Issues** – all sites are potentially vulnerable to unforeseen technical issues and, to the extent possible, all equipment is warranted to industry standard levels. In addition, each site has insurance in place so that, in the event of a fault occurring that causes the plant temporarily to cease operating and generating revenues, the insurance coverage can be invoked to claim for such losses.
- **Weather** – all forecasts are based on an assumed level of sunlight each year, but this does vary significantly year-on-year, with a concomitant effect on revenues. However, a prudent approach is taken in the revenue forecasting to reduce the likelihood of this occurring.
- **Site Market Value** – there are a number of drivers of the value of a solar site. Underlying assumptions are continually revised for macroeconomic changes (e.g. inflation), industry specific drivers (e.g. electricity price forecasts, business rates, embedded benefits) and track record of specific site performance.

VCT Qualifying Status

PricewaterhouseCoopers LLP provides the Board and Octopus, the Company's Investment Manager, with advice on the ongoing compliance with HMRC rules and regulations concerning VCTs. The Company's portfolio already exceeds the HMRC threshold which requires that 70% of the VCT's investments must comprise 'qualifying holdings' by the end of its third accounting period. As at 28 February 2017, qualifying investments represented 89.9% of the Company's portfolio. Octopus expects the required investment hurdle to be maintained.

Outlook

As it stands today and as highlighted in the annual report for the year ended 31 August 2016, the downward pressure on energy prices means that maintenance of the 5p per annum dividend and achieving the total return of 110p per share at the five year point is most unlikely. As a reminder, the 110p total return comprises of the sum of four annual dividends of 5p each and targeted NAV of the solar assets of 90p at the five year point (i.e. $5p \times 4 + 90p = 110p$).

The Board is mindful that investors will pass or have passed through their five year VCT qualifying period in 2017. Whilst the fund was established as a VCT with a 25 year limited life, the Board is aware that some investors may wish to realise their investment earlier, once outside their minimum five year VCT holding period.

Due to the sub-optimal size of the portfolio, the Company's ability to satisfy any such requests risks having a significant detrimental effect on the value for remaining shareholders. As such, the Board is currently considering options to provide an equitable liquidity solution for all, once all shareholders have passed through their five year VCT qualifying holding period. This may include an earlier, orderly wind up of the VCT through the sale of its assets and the return of capital to shareholders. More information will be provided to shareholders in due course.



Gregor Michie
Chairman
23 May 2017

Investment Portfolio

For full details on the underlying investments please refer to the Annual Report for the year ended 31 August 2016. The updated half yearly valuations for each investee company are detailed below:

Investments	Sector	Investment cost as at 28 February 2017 (£'000)	Total Movement in fair value since investment (£'000)	Fair Value as at 28 February 2017 (£'000)	Movement in fair value in the 6 months to 28 February 2017 (£'000)	% equity held by Octopus VCT 3 plc	% equity held by all funds managed by Octopus
Delambre Energy Limited	Solar	1,383	(174)	1,209	(115)	49.9	100
Huygens Energy Limited	Solar	1,202	(61)	1,141	(17)	49.9	100
Adala Solar Limited	Solar	771	57	828	2	49.9	100
Daubree Energy Limited	Solar	788	(29)	759	2	49.9	100
Akycha Power Limited	Solar	709	7	716	(48)	49.9	100
Debes Energy Limited	Solar	853	(146)	707	(38)	49.9	100
Lacaille Energy Limited	Solar	727	(58)	669	(20)	49.9	100
Fixed asset investments		6,433	(404)	6,029	(234)		
Cash at bank				60			
Debtors less creditors				(28)			
Total net assets				6,061			

All solar companies within the portfolio saw changes in valuations due to updated RPI assumptions and long term electricity prices. Assumptions in operating expenditure have also been reviewed and updated.

Director's Responsibilities Statement

We confirm that to the best of our knowledge:

- the half-yearly financial statements have been prepared in accordance with Financial Reporting Standard 104 'Interim Financial Reporting' issued by the Financial Reporting Council;
- the half-yearly report includes a fair review of the information required by the Financial Conduct Authority Disclosure and Transparency Rules, being:
 - an indication of the important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements;
 - a description of the principal risks and uncertainties for the remaining six months of the year; and
 - a description of related party transactions that have taken place in the first six months of the current financial year, that may have materially affected the financial position or performance of the Company during that period and any changes in the related party transactions described in the last annual report that could do so.

On behalf of the Board



Gregor Michie
Chairman
23 May 2017

Condensed Income Statement

	Six months to 28 February 2017			Six months to 29 February 2016			Year to 31 August 2016		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Loss on valuation of fixed asset investments	–	(234)	(234)	–	(233)	(233)	–	(95)	(95)
Investment Income	219	–	219	148	–	148	275	–	275
Investment management fees	(18)	(6)	(24)	(6)	(19)	(25)	(36)	(12)	(48)
Other expenses	(93)	–	(93)	(92)	–	(92)	(169)	–	(169)
Profit/(loss) on ordinary activities before tax	108	(240)	(132)	50	(252)	(202)	70	(107)	(37)
Taxation on profit/(loss) on ordinary activities	–	–	–	(10)	–	(10)	(12)	–	(12)
Profit/(loss) on ordinary activities after tax	108	(240)	(132)	40	(252)	(212)	58	(107)	(49)
Earnings per share – basic and diluted	1.3p	(2.9)p	(1.6)p	0.5p	(3.1)p	(2.6)p	0.7p	(1.3)p	(0.6)p

- The 'Total' column of this statement is the profit and loss account of the Company; the revenue return and capital return columns have been prepared under guidance published by the Association of Investment Companies.
- All revenue and capital items in the above statement derive from continuing operations.
- The Company has only one class of business and derives its income from investments made in shares and securities.
- The company has no other comprehensive income for the period.
- The accompanying notes are an integral part of the half-yearly report.

Condensed Balance Sheet

	As at 28 February 2017		As at 29 February 2016		As at 31 August 2016	
	£'000	£'000	£'000	£'000	£'000	£'000
Fixed asset investments		6,029		6,395		6,468
Current assets:						
Debtors	64		115		215	
Cash at bank	60		34		25	
	124		149		240	
Creditors: amounts falling due within one year	(92)		(101)		(103)	
Net current assets		32		48		137
Net assets		6,061		6,443		6,605
Called up equity share capital		82		82		82
Share Premium		99		99		99
Special Distributable Reserve		6,337		6,692		6,749
Capital Redemption Reserve		2		2		2
Capital Reserve Realised		(162)		(163)		(156)
Capital Reserve Unrealised		(405)		(309)		(171)
Revenue Reserve		108		40		-
Total equity shareholders' funds		6,061		6,443		6,605
Net asset value per share		73.5p		78.1p		80.1p

The statements were approved by the Directors and authorised for issue on 23 May 2017 and are signed on their behalf by:



Gregor Michie
Chairman
Company Number: 07744056

Condensed Statement of Changes in Equity

	Share Capital £'000	Share Premium £'000	Special distributable reserves £'000	Capital redemption reserve £'000	Capital reserve realised £'000	Capital reserve unrealised £'000	Revenue reserve £'000	Total £'000
As at 1 September 2015	82	99	7,104	2	(144)	(76)	-	7,067
Management fee allocated as capital expenditure	-	-	-	-	(19)	-	-	(19)
Current period losses on fair value of investments	-	-	-	-	-	(233)	-	(233)
Profit on ordinary activities after tax	-	-	-	-	-	-	40	40
Contributions by and distributions to owners								
Dividends paid	-	-	(412)	-	-	-	-	(412)
Balance as at 29 February 2016	82	99	6,692	2	(163)	(309)	40	6,443
As at 1 September 2015	82	99	7,104	2	(144)	(76)	-	7,067
Management fee allocated as capital expenditure	-	-	-	-	(12)	-	-	(12)
Current period losses on fair value of investments	-	-	-	-	-	(95)	-	(95)
Profit on ordinary activities after tax	-	-	-	-	-	-	58	58
Contributions by and distributions to owners								
Dividends paid	-	-	(355)	-	-	-	(58)	(413)
Balance as at 31 August 2016	82	99	6,749	2	(156)	(171)	-	6,605
Management fee allocated as capital expenditure	-	-	-	-	(6)	-	-	(6)
Current period losses on fair value of investments	-	-	-	-	-	(234)	-	(234)
Profit on ordinary activities after tax	-	-	-	-	-	-	108	108
Contributions by and distributions to owners								
Dividends paid	-	-	(412)	-	-	-	-	(412)
Balance as at 28 February 2017	82	99	6,337	2	(162)	(405)	108	6,061

Condensed Cash Flow Statement

	Six months to 28 February 2017 £'000	Six months to 29 February 2016 £'000	Year to 31 August 2016 £'000
Cash flows from operating activities			
Return on ordinary activities before tax	(132)	(202)	(37)
Adjustments for:			
Decrease/(increase) in debtors	151	(9)	(109)
(Decrease)/increase in creditors	(12)	14	34
Loss on valuation of fixed asset investments	234	233	95
Cash from operations	241	36	(17)
Income taxes paid	-	-	(19)
Net cash generated from operating activities	241	36	(36)
Cash flows from investing activities			
Receipt of loan note principal	206	317	381
Total cash flows from investing activities	206	317	381
Cash flows from financing activities			
Dividends paid	(412)	(412)	(413)
Total cash flows from financing activities	(412)	(412)	(413)
Increase/(decrease) in cash and cash equivalents	35	(59)	(68)
Opening cash and cash equivalents	25	93	93
Closing cash and cash equivalents	60	34	25
Cash and cash equivalents comprise			
Cash at bank	60	34	25
	60	34	25

Condensed Notes to the Half-Yearly Report

1. Basis of preparation

The unaudited half-yearly results which cover the six months to 28 February 2017 have been prepared in accordance with the Financial Reporting Council's (FRC) Financial Reporting Standard 104 Interim Financial Reporting (March 2015) and the Statement of Recommended Practice for Investment Companies issued by the Association of Investment Companies in November 2014.

2. Publication of non-statutory accounts

The unaudited half-yearly results for the six months ended 28 February 2017 do not constitute statutory accounts within the meaning of Section 415 of the Companies Act 2006.

3. Earnings per share

Earnings per share at 28 February 2017 are calculated on the basis of 8,245,592 shares (29 February 2016: 8,245,592 shares and 31 August 2016: 8,245,592 shares), being the weighted average number of Ordinary shares in issue during the period.

There are no potentially dilutive capital instruments in issue and therefore no diluted returns per share figures are relevant. The basic and diluted earnings per share are therefore identical.

4. Net asset value per share

Net asset value per share is based on net assets as at 28 February 2017 and 8,245,592 Ordinary shares in issue at that date (29 February 2016: 8,245,592 shares and 31 August 2016: 8,245,592 shares).

5. Dividends

A final dividend, for the year ended 31 August 2016, of 5.0 pence per share was paid on 10 February 2017 to all shareholders on the register on 13 January 2017.

6. Related Party Transactions

Katrina Shenton, a non-executive director of Octopus VCT 3 plc during the period ended 28 February 2017, was an employee of Octopus. Octopus VCT 3 plc paid Octopus £3,750 excluding VAT in the period for Katrina Shenton's Director's fees (29 February 2016: £3,750 and 31 August 2016: £7,500). However Katrina Shenton was not paid anything personally in the period as this was considered to be a normal part of her role as an Octopus employee.

Octopus provides investment management, administration & accounting services and company secretarial services to the Company under a management agreement. No compensation is payable in the event of terminating the agreement by either party if the required notice period is given. The fee payable, should insufficient notice be given, will be equal to the fee that would have been paid should continuous service be provided.

Octopus is entitled to receive an annual management fee of 1.25% of net funds raised. However, as the running costs for the fund are capped at 2.15% of the net funds raised, any excess will be met by Octopus through a reduction in its annual management fee. During the period to 28 February 2017, £24,000 was payable to Octopus in respect of management fees, of which £24,000 remained outstanding at the balance sheet date. During the period to 29 February 2016, £25,000 was payable to Octopus in respect of management fees, of which £25,000 remained outstanding at the balance sheet date. For the year to 31 August 2016, £48,000 was payable to Octopus, of which £nil remained outstanding at the balance sheet date.

Octopus is also entitled to receive an annual accounting and administration fee of 0.3% of net funds raised. During the period to 28 February 2017 £11,000 was paid to Octopus and there was £nil outstanding at the balance sheet date. During the comparative period to 29 February 2016, £11,000 was payable to Octopus and £nil remained outstanding. For the year to 31 August 2016, £22,000 was payable to Octopus and £nil remained outstanding at the balance sheet date.

In addition, Octopus also provides company secretarial services for an additional fee of £7,500 per annum. During the period to 28 February 2017 £3,750 was paid to Octopus and there was £nil outstanding at the balance sheet date. During the comparative period to 29 February 2016, £3,750 was payable to Octopus and £nil remained outstanding. For the year to 31 August 2016, £7,500 was payable to Octopus and £nil remained outstanding at the balance sheet date.

Octopus VCT 3 plc owns 49.9% of the equity in each of its investee companies, with Octopus VCT 4 plc also owning 49.9%. The remainder of the equity in each investee company is owned by OCS Services Limited, a wholly owned subsidiary of Octopus Capital Limited.

7. Other Information

Copies of this report are available from the registered office of the Company at 33 Holborn, London, EC1N 2HT.

Shareholder Information and Contact Details

Financial Calendar

The Company's financial calendar is as follows:

December 2017	Annual results for the year to 31 August 2017 announced; Annual Report and financial statements published
February 2018	Payment of final dividend

Share Price

The Company's share price can be found on various financial websites including www.londonstockexchange.com, with the following TIDM/EPIC code:

Ordinary shares	
TIDM/EPIC code	OCV3
Latest share price (22 May 2017)	53.5p per share

Notification of Change of Address

Communications with shareholders are mailed to the registered address held on the share register. In the event of a change of address or other amendment this should be notified to Computershare, under the signature of the registered holder or via the Computershare online share portal at: www-uk.computershare.com/investor/. Computershare's contact details are provided on page 19.

Other Information for Shareholders

Annual Reports and Half-Yearly Reports are available for viewing on the Investment Manager's website at www.octopusinvestments.com. All other statutory information will also be found there.

Warning to Shareholders

Many companies are aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. They can be very persistent and extremely persuasive. Shareholders are therefore advised to be wary of any unsolicited advice, offer to buy shares at a discount or offer for free company reports.

Please note that it is very unlikely that either Octopus or the Company's registrar would make unsolicited telephone calls to shareholders and that any such calls would relate only to official documentation already circulated to shareholders and never in respect of investment 'advice'.

If you are in any doubt about the veracity of an unsolicited phone call, please call Octopus on the number provided at the back of this report.

Directors and Advisers

Board of Directors

Gregor Michie (Chairman)
Ian Leaman
Katrina Shenton

Company Number

Registered in England & Wales
No. 07744056

Secretary and Registered Office

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(Calls are charged at the standard geographic rate and will vary by provider. Calls from outside the United Kingdom will be charged at the applicable international rate.)

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