BARONSMEAD

Baronsmead VCT 3 plc

2012

Annual report & accounts
for the year ended
31 December 2012

Contents

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 very wary of any unsolicited advice, offers to buy shares at a discount or offers for free company reports.

Please note that it is very unlikely that either the Company or the Company Registrar, Computershare, 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 either the Company or the Registrar at the numbers provided on page 62.

www.baronsmeadvct3.co.uk

If you have sold or otherwise transferred all of your shares in Baronsmead VCT 3 plc, please forward this document and the accompanying form of proxy as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was, or is being, effected, for delivery to the purchaser or transferee.

Investment Objective

Baronsmead VCT 3 is a tax efficient listed company which aims to achieve long-term investment returns for private investors.

Investment policy

- To invest primarily in a diverse portfolio of UK growth businesses, whether unquoted or traded on AIM.
- Investments are made selectively across a range of sectors in companies that have the potential to grow and enhance their value.

Full details of the Company's published investment policy and risk management are contained in the Report of the Directors on pages 20 to 23.

Dividend policy

The Board of Baronsmead VCT 3 has the objective to maintain a minimum annual dividend level of around 4.5p per ordinary share if possible, but this depends primarily on the level of realisations achieved and cannot be guaranteed. There will be variations in the amount of dividends paid year on year. Since launch, the average annual tax-free dividend paid to shareholders (including the proposed final dividend of 4.5p) has been 5.9p per ordinary share (equivalent to a pre-tax return of 7.9p per ordinary share for a higher rate taxpayer). For shareholders who received up front tax reliefs, their returns would have been higher.

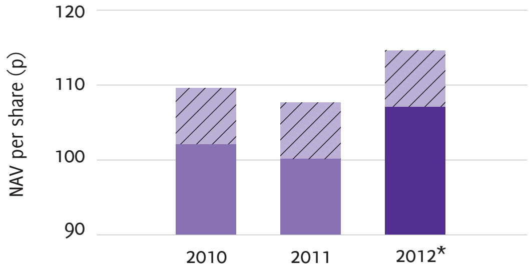
Shareholder choice

The Board wishes to provide shareholders with a number of choices that enable them to utilise their investment in Baronsmead VCT 3 in ways that best suit their personal investment and tax planning and in a way that treats all shareholders equally.

- **Fund raising** | From time to time the Company seeks to raise additional funds by issuing new shares at a premium to the latest published net asset value to account for issue costs. In December 2012, the Company's offer for subscription raised £5.0 million (£4.7 million net).
- **Dividend Reinvestment Plan** | The Company offers a Dividend Reinvestment Plan which enables shareholders to purchase additional shares through the market in lieu of cash dividends. Approximately 260,000 shares were bought in this way during the year to 31 December 2012.
- **Buy back of shares** | From time to time the Company buys its own shares through the market in accordance with its share price discount policy. The Board has undertaken a review of this policy and will seek to maintain a mid share price discount of approximately 5 per cent. to net asset value. This constitutes a revision to the Company's previous policy of buying back shares through the market at an approximate 10 per cent. discount to the latest published net asset value. Further details are provided in the Chairman's Statement. In the year to 31 December 2012, 1,306,897 shares were bought back representing 2 per cent. of the shares in issue at 31 December 2012 at an average price which represented a 9 per cent. discount to the latest published net asset value.
- **Secondary market** | The Company's shares are listed on the London Stock Exchange and can be bought using a stockbroker or authorised share dealing service in the same way as shares of any other listed company. Approximately 305,000 shares were bought by investors in the Company's existing shares in the year to 31 December 2012.

Financial Headlines

Net asset value per share

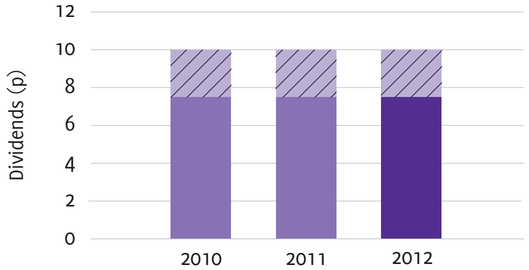


* includes proposed 4.5p dividend.

Net asset value ("NAV") per share increased 14.4 per cent. to 114.6p in the twelve months ended 31 December 2012, before deduction of the interim dividend.

+14.4%

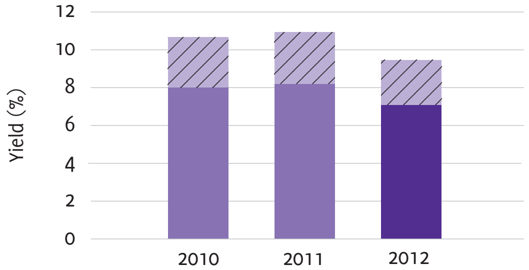
Dividends in the year



Dividends totalled 7.5p for the year to 31 December 2012, including the proposed final dividend of 4.5p.

7.5p

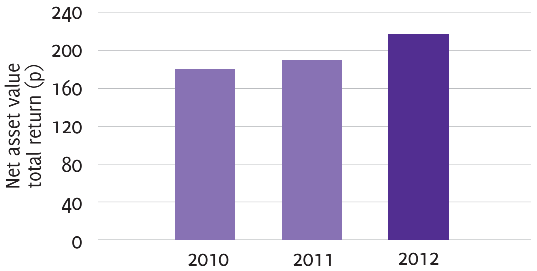
Annual dividend yield



Net annual dividend yield of 7.1 per cent. and gross annual yield of 9.5 per cent.

7.1%

Net asset value total return

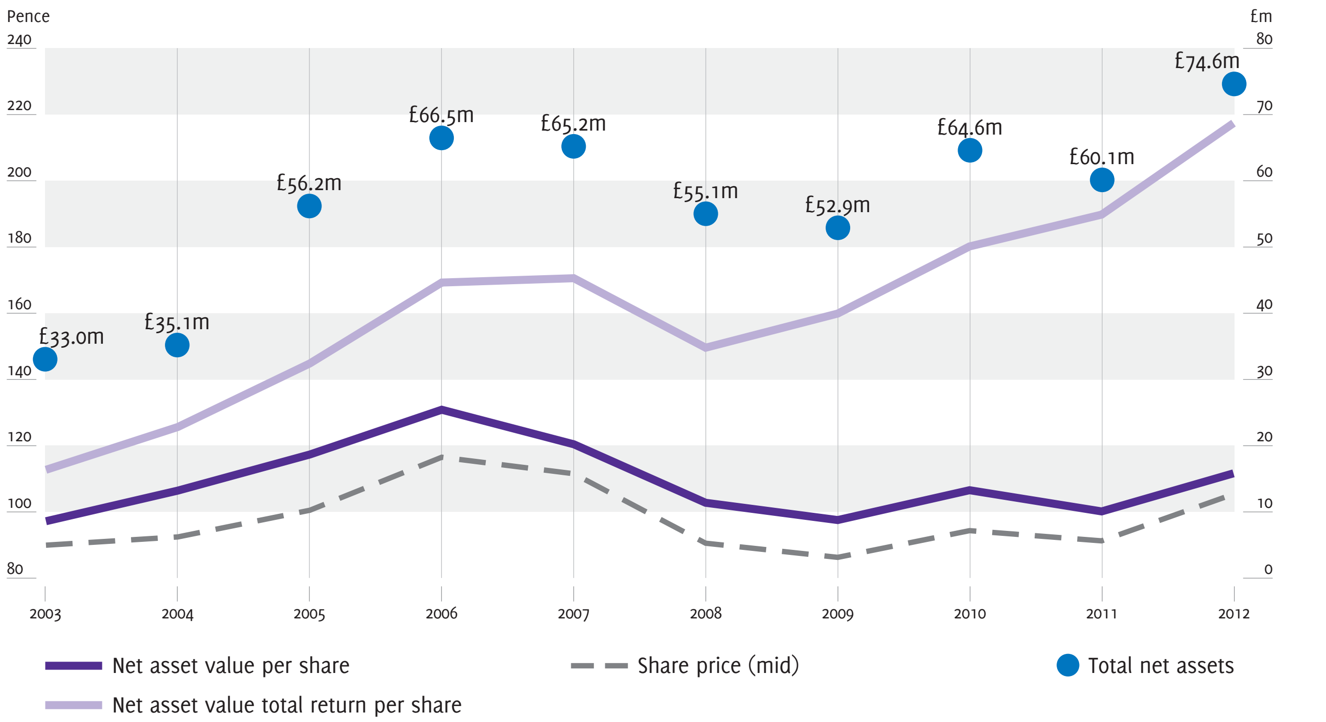


NAV total return to shareholders for every 100.0p invested at launch.

217.4p

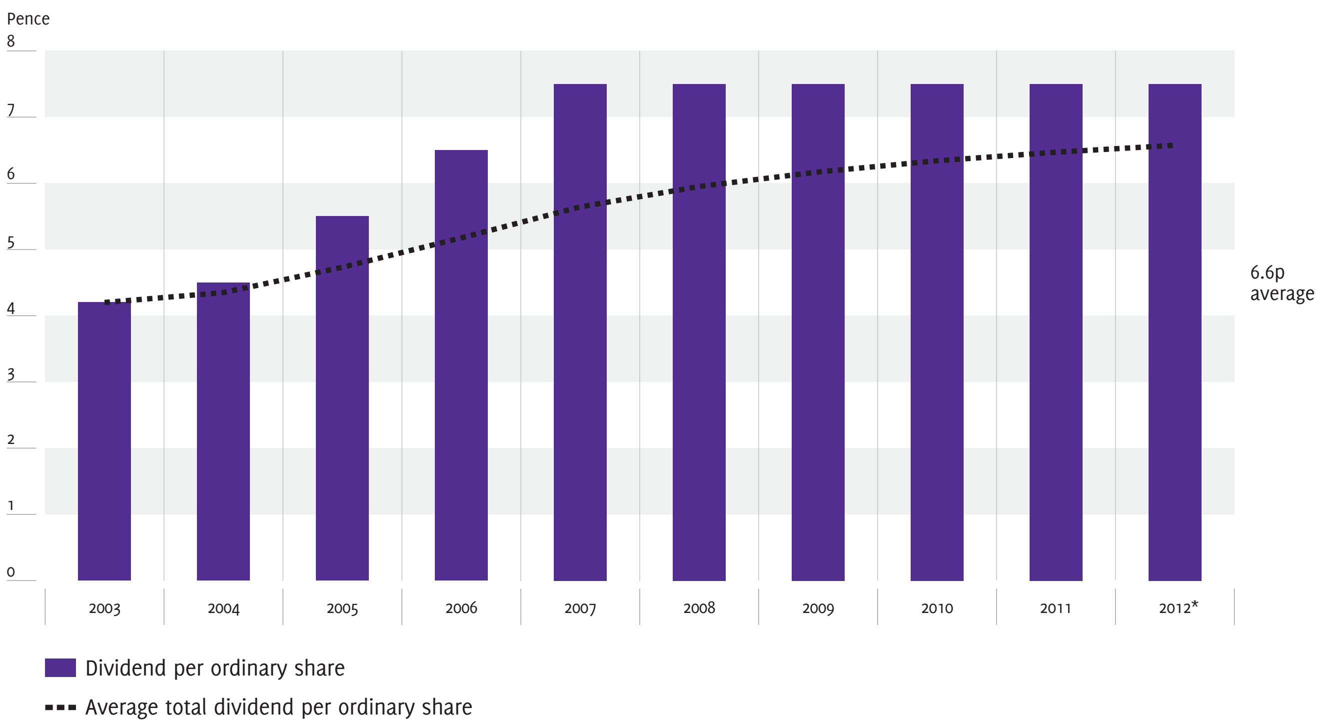
Performance Summary

Performance Record in the last ten years



Source: ISIS EP LLP

Dividend History in the last ten years

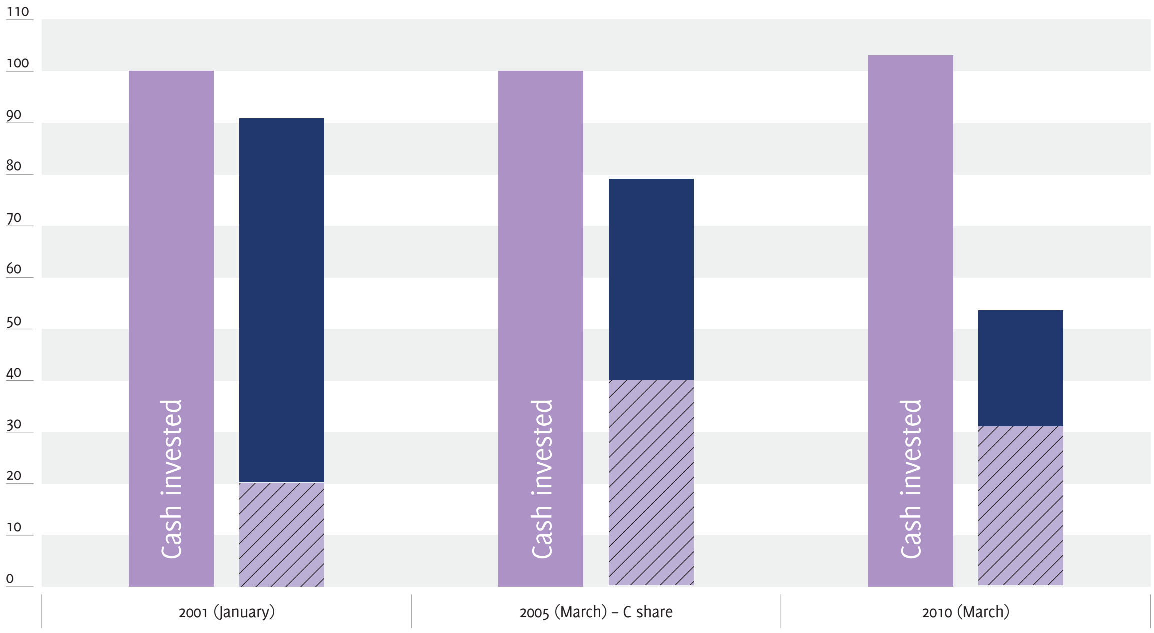


Source: ISIS EP LLP

* Includes proposed final dividend of 4.5p.

Performance Summary

Cash Returned to Shareholders by date of investment



	2001 (January)	2005 (March) – C share	2010 (March)
Net annual yield	**7.4%**	**8.3%**	**11.2%**
Gross equivalent yield	**9.9%**	**11.1%**	**15.0%**

Cash invested (p) — Income tax reclaim (p) — Cumulative dividends (p)*

Source: ISIS EP LLP

* Includes proposed final dividend of 4.5p.

Chairman's Statement

This Chairman's Statement forms part of the Report of the Directors.

Anthony Townsend Chairman

In the year to 31 December 2012 the Net Asset Value ("NAV") before payment of dividends grew by 14.5p per share representing an increase of 14.4 per cent. A final dividend of 4.5p per share is proposed resulting in total dividends of 7.5p per share for the year which will be paid predominantly out of profits generated from successful portfolio realisations in recent years.

INVESTMENT PERFORMANCE

The change in the NAV per share over the year is summarised in the table below:

	Pence per ordinary share
NAV as at 1 January 2012 Valuation uplift (14.44 per cent.)	**100.16** 14.46
	114.62
Interim dividend paid on 21 September 2012 Proposed final dividend of 4.5p, payable after shareholder approval, on 15 April 2013	(3.0) (4.5)
NAV as at 31 December 2012 assuming final dividend paid	**107.12**

We are pleased with the consistent performance of the portfolio despite the poor economic environment since 2008. For instance, over the past three years the Company's top ten investments as at 31 December 2012, representing 52 per cent. of the portfolio by value, have generated an average annual growth of 17 per cent. in sales and 15 per cent. in profits. The number of jobs created by these portfolio companies has been significant with the top ten investments now employing some 2,500 people, an increase of 22 per cent. over the last year. This helps to validate the wider aims of the VCT legislation which are to assist in generating growth in the UK economy. Overall, our portfolio of 67 companies remains in good health with 85 per cent. demonstrating steady to strong growth.

This strong performance has resulted in a steady flow of successful realisations which has enabled the Company to maintain a consistent annual dividend of 7.5p since 2007, which is tax free for qualifying shareholders. This dividend equates to an annual tax free dividend yield of 7.1 per cent. on the mid share price of 105.4p at 31 December 2012. Over the year, the valuations of the unquoted and AIM portfolios increased by 8 and 38 per cent. respectively. The largest gains came from the AIM investments in IDOX and Independent Living Services Limited, which increased in value by £3.12 million and £2.03 million respectively as a result of significantly better trading results.

LONGER TERM PERFORMANCE AND BENEFIT OF THE VCT TAX RELIEFS

The Company's policy of investing in a diverse portfolio of established and profitable companies capable of strong growth aims to generate consistent returns over the long term.

The NAV total return over the past ten years has been 206.3p for each 100p invested by Baronsmead VCT 3 compared with the sector average of 172.9p for VCT generalists over the same period (source AIC). Assuming the final dividend is approved, founder shareholders will have received dividends totalling 70.8p per share compared to the initial net cost of 80.0p per share, after taking account of the maximum initial VCT income tax relief of 20 per cent. of amounts invested in new VCT shares that was available to qualifying investors in 2001. These dividends are tax free for qualifying investors.

Chairman's Statement

SHAREHOLDER CHOICE

The Company raised gross proceeds of £4.1 million (£3.9 million net) in February 2012 by way of a top up share offer. A further offer for subscription by way of a prospectus launched in November 2012 raised its target of £5.0 million (£4.7 million net) proceeds by 21 December 2012. In deciding how much to raise during 2012 the Directors considered the level of cash that will be required by the Company for investment over the next few years as well as the need to maintain sufficient liquidity to pay dividends and cover annual running costs.

Since inception the Board has, as a service to shareholders, maintained a buy back policy of acquiring shares through the market at a discount to NAV of approximately 10 per cent. Each year the level of shares bought back by the Company is relatively low. (For instance in the past three financial years the Company has bought back an annual average of 2 per cent. of the shares in issue at the financial year end). In addition, the results of the shareholder survey carried out in October 2012 confirmed that a significant majority of our shareholders intend to hold their shares for the long term. As a result, in November 2012 the Directors decided that in order to enable those shareholders who do wish to sell their shares to achieve a return closer to net asset value they would in future seek to buy back shares at a 5 per cent. discount to NAV. This should also improve the price of the Company's shares for ongoing shareholders and increase their attractiveness.

This discount control policy will be kept under review based on the number of shares bought back over the next 12 months and may therefore be subject to revision. The buying back of shares will depend on market conditions at the time and will only happen when the Directors believe any such purchase would be in the best interests of shareholders as a whole.

OUTLOOK

As anticipated in my half-yearly report the continued scarcity of bank debt in the UK and concerns regarding the stability of the European Union have resulted in both uncertain and slower growth for the UK economy.

Against this unpromising backdrop there has been steady progress across many of our portfolio companies as witnessed by the 'top ten' investees showing increases in turnover and profits. The relatively low levels of debt in the companies concerned should ensure that our investments are more resilient if trading conditions continue to be difficult.

We therefore view the next year with a mixture of caution and optimism as we continue to believe that good quality companies of the size in which we invest can prosper even in the current tough environment. We are fortunate that the investment manager ISIS has a strong track record of partnering with such companies and has the experience and knowledge to support them along a growth path.

ANNUAL GENERAL MEETING

I look forward to seeing as many shareholders as possible at our 12th Annual General Meeting which will be held this year on Wednesday 10 April 2013 at the Plaisterers' Hall, One London Wall, EC2Y 5JU at 10:30 am. The AGM will be followed by presentations from the Manager and one of our investee companies. Following these presentations we would be delighted if you could join us for a light lunch.

Anthony Townsend
Chairman
15 February 2013

Manager's Review

Andrew Garside

Sheenagh Egan

Michael Probin

Considering the ongoing uncertainty during the period under review in the national and European economies, the progress made by the Company's investees is creditable. Overall, the portfolio has performed very well including a number of significant gains by a number of quoted shareholdings.

PORTFOLIO REVIEW

Overview

The net assets of £75 million were invested as follows:

Asset class	NAV	% of NAV	Number of investees	Annual return %
Unquoted	37,084,000	50	25	8
Quoted	22,641,000	30	42	38
Wood Street Microcap	4,525,000	6	33	18
Cash and near cash	10,312,000	14		

During the year in total there were;

- New investments of £7.2 million in six new companies and eight follow ons;
- Divestments of £3.0 million from nine investments and a partial loan note realisation.

Each quarter the direction of general trading and profitability of all investee companies is recorded so that the Board can monitor the overall health and trajectory of the portfolio. At 31 December 2012, 85 per cent. of the 67 companies in the portfolio were progressing steadily or better.

Unquoted Private Equity

The unquoted portfolio has again performed well and there has been a steady increase in unquoted values of 8 per cent. The unquoted portion of the portfolio is valued using a consistent process every three months which the Board oversees and approves. Almost all of the value creation in unquoted investments has come from operational improvements (revenue and margin growth), rather than financial leverage.

The sale of TVC to the Economist Group realised £1.3 million in March 2012.

Quoted (AIM traded and other listed investments)

There has also been a significant uplift in the quoted portfolio of 38 per cent. partially reflecting a positive re-rating of the small cap sector in the first quarter of 2012. This recovery has been helpful to the quoted portfolio following several years of headwinds from a challenging AIM market environment and weak share prices.

Manager's Review

The largest contributor to the uplift in the quoted portfolio was IDOX, a supplier of document management software to the UK local government, and global engineering sectors. The IDOX share price appreciated by 125 per cent. during the period aided by a combination of good organic growth and accretive acquisitions which led to successive earnings forecast upgrades.

Over the three years to 31 December 2012, the approach in quoted investments has been to concentrate on making fewer AIM investments and becoming a more engaged shareholder where possible and appropriate. This has taken time to implement as only a small minority of AIM companies qualify for VCT purposes. The average size by value of the AIM & Listed investments in the portfolio in December 2009 was £271,000 but this had increased by 99 per cent. to £539,000 by December 2012.

Due to the significant uplift in the AIM and listed portfolio of £6.3 million during the year, the opportunity was taken to divest seven investments, mainly in legacy companies that were valued below cost, largely to reduce the tail of older and poorer performing investments. Of these, three were sold through trade sales (Clarity Commerce Solutions, Prologic and Stagecoach Theatre Arts), one through a market sale (The Real Good Food Company) and three written off (Colliers International UK, Music Festivals and Adventis Group). Proceeds from these seven divestments totalled £0.7 million. This represented an overall uplift in recognised value during the year of £0.2 million but a loss against cost of £1.5 million. Some profits were taken from the investment in IDOX, with 11 per cent. of the holding sold for £593,000 realising a profit of £475,000 against cost.

Wood Street

Wood Street Microcap Investment Fund ("Wood Street") was established by ISIS in May 2009 to provide flexibility for the Baronsmead VCTs to invest in generally larger and more liquid non VCT qualifying AIM and Small Cap opportunities. During the year, a further investment of £1 million was made into Wood Street. The Manager receives no additional fee for managing this fund. At 31 December 2012, Baronsmead VCT 3 had invested £3.5 million through Wood Street into a portfolio of 33 companies, valued at £4.5 million. Wood Street generated a positive return of 18 per cent. over the year.

Liquid assets (cash and near cash)

Baronsmead VCT 3 had cash and near cash resources of approximately £10 million at the year-end. This asset class is conservatively managed to take minimal or no capital risk.

In addition, investments within the Wood Street fund are expected to be relatively more liquid than other investments as covered in the section above. This gives the Manager the possibility of realising cash from Wood Street should this ever be required to supplement liquid assets.

Unquoted Investments

During the year £5.2 million was invested in 6 unquoted companies including three new companies seeking acquisitions of which one was used to make the investment in Impetus Holdings described below. Three new unquoted investments were;

- Happy Days Consultancy, a children's nursery business, is based in the South West of the UK. The business has 17 sites already and the investment will help accelerate growth in new sites. This is a sector that the Manager has invested in before with a successful investment in Kidsunlimited which was realised in 2008.
- Pho Holdings is a group of traditional Vietnamese restaurants based in London. The Pho sites are informal, fast casual environments, specialising in Vietnam's national dish of Pho, a tasty and nutritious noodle soup. Pho was awarded 'Best Emerging Concept' at this year's Retailer of the Year Awards. The first Pho location opened on St. John Street, Clerkenwell, London, in June 2005 and the group now has a total of seven sites across London and the South East. The new investment enables the team to open new sites, but with each site retaining a unique and independent feel.

Manager's Review

- Impetus Holdings is a specialist business consultancy, supplying Sales and After Sales support services to the automotive industry. The business delivers a diverse range of programmes and projects for Vehicle Manufacturers, with much of their work taking place within Dealerships and National Sales Companies. Impetus Automotive has achieved strong growth in recent years with revenues increasing by 50 per cent. since 2010. Clients include VW, Land Rover, Audi, Toyota, BMW, Citroën, Fiat, Ford and Jaguar. Approximately 15 per cent. of work is delivered outside of the UK. The investment by ISIS will support the business in its continued expansion into new markets, building on the strong presence established in the UK and further development of new services to clients.

Top Ten investments

The average investment value of the top ten companies held by Baronsmead VCT 3 is £3.1 million per company. Because these investments are normally held by the other four Baronsmead VCTs, the total managed by ISIS in each investee is significantly larger than this, which enables ISIS to dedicate significant resource to manage each investment and their progress. The top ten investees employ some 2,500 people, which is an increase of 22 per cent. over the last year. Their turnover and profits had also grown by some 15 per cent. annually for the last three years. In this year's Annual Report, each of the top ten companies are described in more detail on pages 14 to 18.

Investment Management

ISIS continues to invest in its skills and capacity with over 40 of its total team of 60 devoted to investment management activities across all its investing activities. Its focus is on generating strong investment returns from its portfolio through a mixture of intelligent investment selection and hands on portfolio management. Its ability to select good investments owes much to its in depth sector research and specialisation and to its strong origination team that help the team to generate proprietary deal flow.

Its investments are supported from the outset by an experienced internal value enhancement team together with a panel of proven Operating Partners that work exclusively with ISIS to assist management teams to deliver both strategic development and operational efficiencies. Both have enabled ISIS to build a strong track record of producing consistent returns from its unquoted investments.

ISIS has pursued a strategy of sector specialisation over the past fourteen years and in that time its executives have developed in-depth knowledge of these sectors and valuable networks of contacts which have enabled it to capitalise on opportunities that have presented themselves in an ever changing environment. Its key sectors are:

- Business Services
- Financial Services
- Consumer Markets
- Healthcare & Education
- Technology, Media & Telecommunications

OUTLOOK

A number of commentators believe that the UK economy is unlikely to experience significant growth in the near future. At this stage of the recovery, this is hard to dispute and it is a fair working assumption for investors.

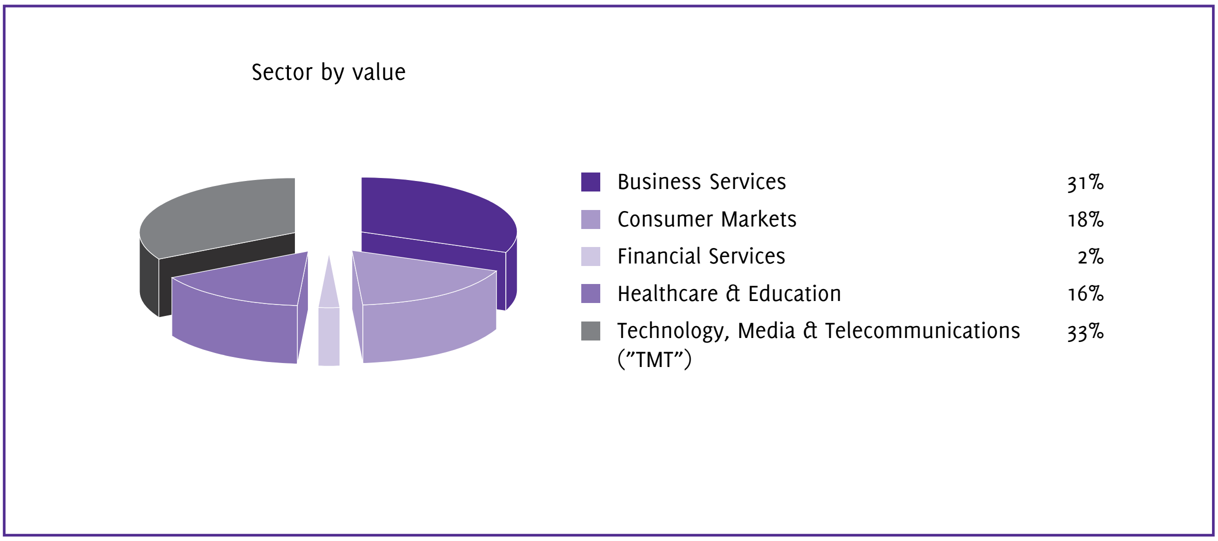
However many of our portfolio companies and their management teams are now more experienced at handling the economic uncertainties including managing their growth and operations in a tougher environment than in previous decades. Low bank borrowings within the portfolio give them robust financial structures.

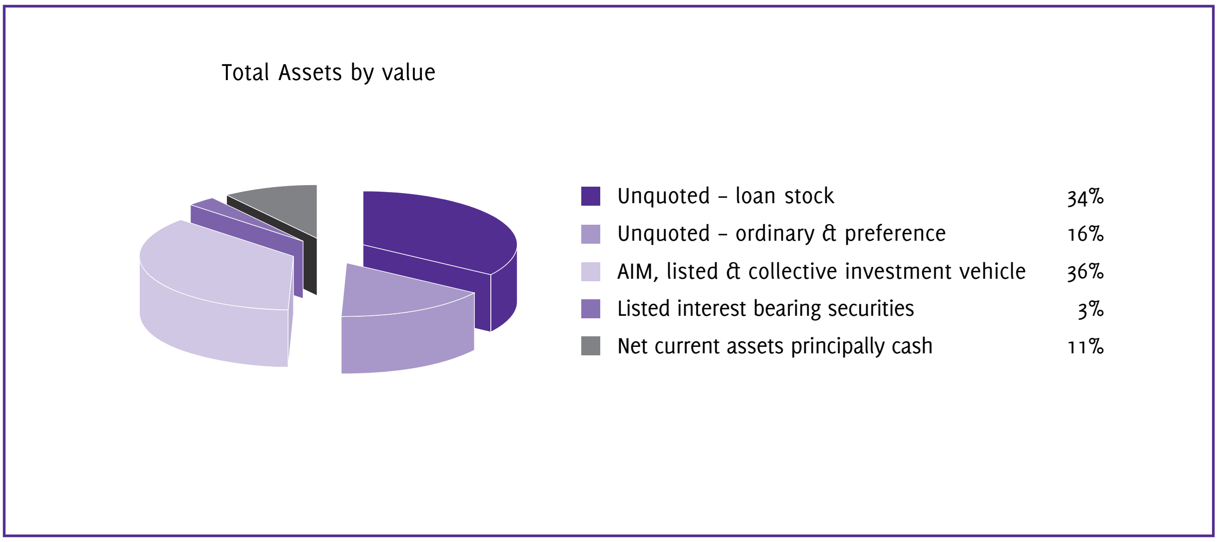
ISIS is an active investment manager who works with our investee to help them to grow revenue and earnings whilst continuing to enhance customer service and build resilient businesses with good momentum. Our intention is to seek out the best opportunities where growth is driven by innovation and gaining market share through differentiation rather than relying on favourable economic growth. We continue to be confident that good levels of performance can be maintained despite the ongoing challenging environment.

ISIS EP LLP
Investment Manager
15 February 2013

Summary Investment Portfolio

Investment Classification at 31 December 2012





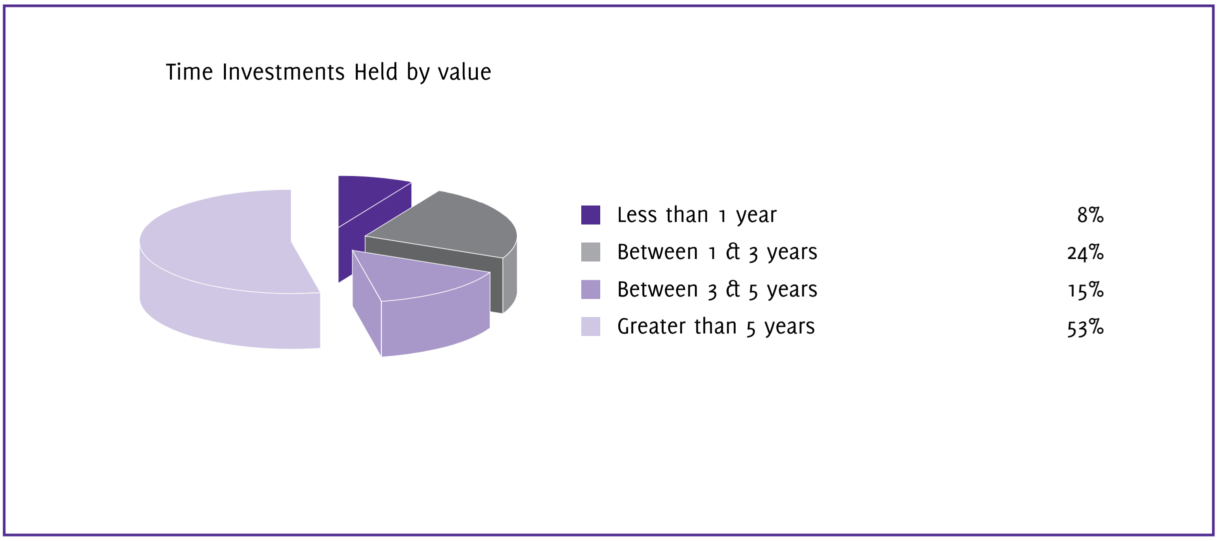


Table of Investments and Realisations

Investments in the year

Company	Location	Sector	Activity	Book cost £'000
Unquoted investments				
New				
Impetus Holdings Limited	London	Business Services	Automotive consultancy and outsourced service provider	1,057
Consumer Investment Partners Limited†	London	Consumer Markets	Company seeking to acquire businesses in the consumer markets sector	1,000
Riccal Investments Limited‡	London	Business Services	Company seeking to acquire businesses in the business services sector	1,000
Pho Holdings Limited	London	Consumer Markets	Restaurant group specialising in Vietnamese street food	987
Happy Days Consultancy Limited	Newquay	Healthcare & Education	Provider of nursery based childcare in Cornwall & Plymouth across 16 settings	833
Follow on				
Crew Clothing Holdings Limited	London	Consumer Markets	Multi-channel clothing retailer	360
Total unquoted investments				**5,237**
AIM-traded & listed investments				
New				
Zattikka plc	London	TMT*	Online games development	316
Follow on				
Dods (Group) plc	London	TMT*	Political information and communication	678
Hangar8 plc	Oxford	Business Services	Business jet management	344
Tangent Communications plc	London	Business Services	Digital direct marketing	215
Accumuli plc	Salford	TMT*	Managed IT security	132
Inspired Energy plc	Kirkham	Business Services	Energy procurement consultancy services	100
Electric Word plc	London	TMT*	Business to business publisher	80
Driver Group plc	Rossendale	Business Services	Dispute resolution	60
Total AIM-traded & listed investments				**1,925**
Collective investment vehicle				
Follow on				
Wood Street Microcap Investment Fund				1,000
Total collective investment vehicle				**1,000**
Total investments in the year				**8,162**

* Technology, Media & Telecommunications ("TMT").

† Formerly named Ingleby (1887) Limited.

‡ Formerly named Ingleby (1885) Limited.

Table of Investments and Realisations

Realisations in the year

Company		First investment date	31 December 2011 valuation £'000	Realised profit/(loss) this period £'000	Overall multiple return
Unquoted realisations					
TVC Group Limited	Full trade sale	Jul 08	1,298	26	1.1
MLS Limited	Loan repayment	Jul 06	417	0	1.0
Total unquoted realisations			**1,715**	**26**	
AIM-traded & listed realisations					
IDOX plc	Market sale	Jan 09	357	236	5.0
Stagecoach Theatre Arts plc	Full trade sale	Feb 01	153	140	0.7
Real Good Food Company (The) plc	Full market sale	Dec 03	160	65	0.4
Prologic plc	Full trade sale	Jun 04	103	48	0.5
Clarity Commerce Solutions plc	Full trade sale	Oct 09	29	3	0.6
Colliers International UK plc	Written off	Jul 01	4	(4)	0.0
Adventis Group plc	Written off	Jun 04	10	(9)	0.0
Music Festivals plc	Written off	Jun 11	87	(87)	0.0
Total AIM-traded & listed realisations			**903**	**392**	
Total realisations in the year			**2,618**	**418†**	

† Proceeds of £8,000 were also received in respect of Getting Personal Limited, which had been sold in the year ended 31 December 2011.

Creating Shareholder Value

HOW ISIS CREATES AND REALISES VALUE FOR THE SHAREHOLDERS OF BARONSMEAD VCT 3 PLC

Access to an attractive, diverse portfolio

Baronsmead VCT 3 plc gives shareholders access to a diverse portfolio of growth businesses, both unquoted private equity and AIM-traded companies.

Each business has already demonstrated profitable success from its business model before investment to provide a degree of stability and foundation from which to build. Each business is led by entrepreneurial management teams that are aspiring to achieve above average growth from attractive and differentiated market positions.

The Manager's approach to investing

The Manager, ISIS, aspires to select the best opportunities and has a distinctive selection criteria based on;

- Businesses that demonstrate elements of market leadership in their niche
- Management teams that can develop and deliver profitable and sustained growth
- The company being able to be an attractive asset appealing to a range of buyers at the appropriate time to exit

In order to ensure there is a strong pipeline of opportunities, ISIS invests in sector knowledge and networks. It then undertakes significant pro-active marketing to interesting unquoted targets in preferred sectors. This is building a database of businesses that are keen to maintain a relationship with ISIS ahead of possible investment opportunities.

ISIS as an influential shareholder

For unquoted private equity investments, ISIS is an involved shareholder and representatives of the Manager join the investee board. The role of ISIS is to ensure that strategy is clear, the business plan is well thought through and the management resources are in place to deliver profitable growth. The intention is to build on the initial platform and grow the business so that it can become an attractive target able to be either sold or floated in the medium term.

The investment strategy for AIM-traded companies has increasingly focused on taking more influential stakes through the collective shareholdings of the Baronsmead family of VCTs.

Ten Largest Investments

The top ten investments by current value at 31 December 2012 illustrate the diversity and size of investee companies within the portfolio. This financial information is taken from publicly available information published at Companies House, which has been audited by the auditors of the investee companies.

1

IDOX PLC

London

All ISIS EP LLP managed funds	
First investment:	May 2002
Total cost:	£2,460,000
Total equity held:	7.51%

Baronsmead VCT 3 only	
Cost:	£920,000
Valuation:	£5,184,000
Valuation basis:	Traded Price
% of equity held:	2.80%

Year ended 31 October	2011 £million	2010 £million
Revenue:	38.6	31.3
EBITA:	9.5	7.5
Net Assets:	34.4	31.0
No of employees:	363	332

www.investors.idoxgroup.com

(Source: IDOX Plc, Directors' Report and Financial Statements 31 October 2011)

IDOX group is a leading software and information management solutions provider. These deliver seamless integration and automation from consumer websites through to document storage. In the private sector, its engineering information management software combines McLaren and CTSpace, who are leaders in their markets.

The Baronsmead VCTs first invested in IDOX in 2002, approximately two years after the company floated on AIM. Over the last decade IDOX has shown strong growth through a combination of organic growth and acquisition, and is now seeking to diversify from its core local authority markets into the private sector to become a leading player in industries like oil, gas and pharmaceuticals.

2

NEXUS VEHICLE HOLDINGS LIMITED

Leeds

All ISIS EP LLP managed funds	
First investment:	February 2008
Total cost:	£9,500,000
Total equity held:	56.00%

Baronsmead VCT 3 only	
Cost:	£2,368,000
Valuation:	£4,768,000
Valuation basis:	Earnings Multiple
% of equity held:	12.32%

Year ended 30 September	2011 £million	2010 £million
Revenue:	38.3	33.5
EBITA:	4.3	4.0
Net Assets:	1.7	0.8
No of employees:	90	73

www.nexusrental.co.uk

(Source: Nexus Vehicle Holdings Limited, Report and Financial Statements 30 September 2011)

Nexus enables corporate users to source all their vehicle rental needs from one source – a highly efficient and cost effective online based process. The service is provided using its proprietary system, IRIS, an advanced web based IT tool that is highly regarded in the industry. It offers fast access to a large range of rental fleets and enables customers to benefit from the buying scale of Nexus.

Vehicle rental in the UK represents a large market and Nexus is gaining market share through its innovative approach. Two acquisitions have also added to the growth of Nexus.

EBITA: Earnings before interest, tax and amortisation

Ten Largest Investments

3

CABLECOM NETWORKING HOLDINGS LIMITED

Clevedon

All ISIS EP LLP managed funds	
First investment:	May 2007
Total cost:	£5,600,000
Total equity held:	48.00%
Baronsmead VCT 3 only	
Cost:	£1,381,000
Valuation:	£4,328,000
Valuation basis:	Earnings Multiple
% of equity held:	10.56%

Year ended 30 September	2011 £million	2010 £million
Revenue:	12.2	8.2
EBITA:	1.4	0.9
Net Assets:	0.3	0.5
No. of employees:	61	52

www.cablecomnetworking.co.uk

(Source: CableCom Networking Holdings Limited, Report and Financial Statements 30 September 2011)

Cablecom is a leader in the provision of IT and communication managed services to accommodation blocks for the UK student and key worker sectors. Under term contracts, it manages the full range of communication services including broadband, telephony and TV at university sites. The business is also a provider of networking solutions to corporate clients.

Since investment, the proposition has been transformed by adding additional services such as a fully interactive web portal offering a wide range of services to both the accommodation owner and user. This is allowing Cablecom to capture a strong share of newly outsourced contracts.

4

INDEPENDENT LIVING SERVICES LIMITED

Aberdeen

All ISIS EP LLP managed funds	
First investment:	September 2005
Total cost:	£5,829,000
Total equity held:	65.68%
Baronsmead VCT 3 only	
Cost:	£1,599,000
Valuation:	£3,322,000
Valuation basis:	Earnings Multiple
% of equity held:	15.60%

Year ended 30 September	2011 £million	2010 £million
Revenue:	20.1	17.2
EBITA:	0.4	0.1
Net Liabilities:	(1.9)	(0.7)
No of employees:	1,468	1,254

www.ilsscotland.com

(Source: ILS Group Limited, Annual Report year ended 30 September 2011)

ILS is one of the largest independent providers of domiciliary care in Scotland, providing carers to support individuals to live independently in their own homes. The business has grown from its single base at the time of investment to now cover a significant part of the Scottish geography.

The market in Scotland is very fragmented and a significant volume of this type of care is provided by Local Authorities. ILS is well placed to benefit as some of this care is outsourced to the best private providers over time. The business has completed several acquisitions, expanding its footprint across Scotland.

EBITA: Earnings before interest, tax and amortisation

Ten Largest Investments

5

CREW CLOTHING HOLDINGS LIMITED

London

www.crewclothing.co.uk

All ISIS EP LLP managed funds	
First investment:	November 2006
Total cost:	£5,395,000
Total equity held:	25.51%

Baronsmead VCT 3 only	
Cost:	£1,344,000
Valuation:	£3,020,000
Valuation basis:	Earnings Multiple
% of equity held:	6.08%

Year ended 30 October	2011 £million	2010 £million
Revenue:	40.7	34.6
EBITA:	3.3	2.7
Net Assets:	5.7	3.8
No. of employees:	311	284

(Source: Crew Clothing Holdings Limited, Report and Financial Statements 30 October 2011)

Crew Clothing Co. is an English clothing brand with a wide range of active, outdoor and casual wear for men and women. Since it was founded in 1993, the brand has since evolved into the fast growing premium active and casual wear sectors, but retained its unique heritage and positioning. Today it is a well known, respected and aspirational clothing brand in the UK.

The business is a multi-channel retailer with its own significant retail estate, wholesale accounts and direct mail order channels. It is growing by expanding all these routes to market as the brand grows in presence.

6

KAFEVEND HOLDINGS LIMITED

Crawley

www.kafevend.co.uk

All ISIS EP LLP managed funds	
First investment:	October 2005
Total cost:	£5,024,000
Total equity held:	66.50%

Baronsmead VCT 3 only	
Cost:	£1,252,000
Valuation:	£2,956,000
Valuation basis:	Earnings Multiple
% of equity held:	15.79%

Year ended 30 September	2011 £million	2010 £million
Revenue:	18.4	15.6
EBITA:	1.9	2.0
Net Assets:	1.5	1.2
No of employees:	105	95

(Source: Kafevend Holdings Limited, Directors' Report and Financial Statements 30 September 2011)

Kafevend is a leading supplier of workplace refreshments and vending machines in the UK. The business offers a wide range of quality commercial coffee and vending machines for sale, rental and also an arrangement based on paying just for consumables. The revenues are predominantly recurring sales of consumables used in its installed base.

Kafevend is building a reputation as a quality supplier for UK companies of all sizes. The market is fragmented and the company is one of the few UK players with a true national presence and a network of engineers available at short notice to service clients.

EBITA: Earnings before interest, tax and amortisation

Ten Largest Investments

7

CSC (WORLD) LIMITED

Pudsey, Leeds

www.cscworld.com

All ISIS EP LLP managed funds	
First investment:	January 2008
Total cost:	£6,450,000
Total equity held:	40.03%

Baronsmead VCT 3 only	
Cost:	£1,606,000
Valuation:	£2,410,000
Valuation basis:	Earnings Multiple
% of equity held:	8.81%

Year ended 31 March	2012 £million	2011 £million
Revenue:	7.9	7.3
EBITA:	2.4	2.3
Net Liabilities:	(2.0)	(1.3)
No of employees:	59	58

(Source: Cobco 867 Limited, Financial Statements 31 March 2012)

CSC provides market leading software solutions for structural engineers, including structural analysis and modelling, steelwork and concrete design. The business has been developing innovative software and providing technical support to structural engineers for over 35 years. The software tools allow engineers to deliver complex solutions and with effective compliance back up.

The current customer base comprises companies in the UK, Ireland, USA, Asia, Australia and India. CSC is a business with strong growth prospects and with plans to continue international market development opportunities.

8

VALLDATA GROUP LIMITED

Melksham

www.valldata.co.uk

All ISIS EP LLP managed funds	
First investment:	January 2011
Total cost:	£6,475,000
Total equity held:	39.84%

Baronsmead VCT 3 only	
Cost:	£1,616,000
Valuation:	£1,754,000
Valuation basis:	Earnings Multiple
% of equity held:	8.76%

Year ended 31 March	2012 £million	2011 £million
Revenue:	7.1	6.3
EBITA:	0.8	0.9
Net Assets:	0.8	0.6
No of employees:	137	126

(Source: Valldata Services Limited, Directors Report and Financial Statements 31 March 2012)

Valldata is the UK's leading provider of outsourced donation processing and fulfilment services for the UK not-for-profit sector. Using its advanced technology and IT systems it manages over 8 million interactions with donors every year covering paper-based donation, donations via telephone and online services, and also manages the database updates for its customers. Investment in technology and infrastructure means it can typically process payments faster and at lower cost than a client could do in-house.

Many functions of this nature are undertaken in house by large charities and Valldata is growing as some of this work is outsourced.

EBITA: Earnings before interest, tax and amortisation

Ten Largest Investments

9

FISHER OUTDOOR LEISURE HOLDINGS LIMITED

St. Albans

www.fisheroutdoor.co.uk

All ISIS EP LLP managed funds	
First investment:	June 2006
Total cost:	£5,700,000
Total equity held:	44.00%

Baronsmead VCT 3 only	
Cost:	£1,423,000
Valuation:	£1,656,000
Valuation basis:	Earnings Multiple
% of equity held:	10.45%

Year ended 31 July	2011[2] £million	2010[1] £million
Revenue:	**43.6**	26.5
EBITA:	**2.7**	2.3
Net Assets:	**1.2**	1.4
No of employees:	**110**	96

(Source: Fisher Outdoor Leisure Holdings Limited, Directors' Report and Financial Statements 31 July 2011)

Fisher Outdoor Leisure is one of the UK's leading distributors of cycles and cycle accessories to retailers. Fisher's product range consists of over 30 exclusively distributed industry leading brands from international manufacturers which want Fisher's support for their brands. It also provides a strong range of service and spares products essential for the specialist cycle retailer and its own range of house brands.

Since investment in 2006, the business has grown on the back of significant investment in people and systems, and improving its services for its end customers. It is a key added value distributor within a buoyant end market.

[1] 12 month period ended 31 January 2010

[2] 18 month period ended 31 July 2011. The Company changed its year end from 31 January to 31 July

10

INSPIRED THINKING GROUP LIMITED

Birmingham

www.inspiredthinkinggroup.com

All ISIS EP LLP managed funds	
First investment:	May 2010
Total cost:	£3,200,000
Total equity held:	22.50%

Baronsmead VCT 3 only	
Cost:	£796,000
Valuation:	£1,571,000
Valuation basis:	Earnings Multiple
% of equity held:	4.95%

Year ended 31 August	2011 £ million	2010 £ million
Revenue:	**21.5**	12.9
EBITA:	**1.4**	1.0
Net Assets:	**0.8**	0.9
No. of employees:	**117**	96

(Source: Inspired Thinking Group Holdings Limited, Report of the Directors and Consolidated Financial Statements for the year ended 31 August 2011)

ITG provides services that help marketing departments to operate more efficiently. This includes outsourced print management services to major retailers and consumer facing businesses. ITG also owns and provides a workflow and content system called MediaCentre that enables their clients to gain tighter control over their marketing operations. The combined services are already saving some major retailers considerable sums within their marketing departments, enabling them to make fixed budgets more effective.

The ITG management team are known as experienced and innovative in this field and have been successful in winning large new accounts over time from blue chip clients.

EBITA: Earnings before interest, tax and amortisation

Board of Directors

As at 31 December 2012

Anthony Townsend (Chairman)

(Date of appointment 4 August 2009)

(age 65) has over 40 years experience in financial services and in industry. He is chairman of British & American Investment Trust plc, F&C Global Smaller Companies plc, Finsbury Growth & Income Trust plc and Miton Worldwide Growth Investment Trust plc, and a non-executive director of Hansa Capital Limited and the Worldwide Healthcare Trust plc. He was previously a director of Rea Brothers Group plc and was chairman of the Association of Investment Companies.

Andrew Karney

(Senior Independent Director)

(Date of appointment 10 January 2001)

(age 70) was deputy chairman and a shareholder of Language Line Limited in which Baronsmead VCT 3, was an investor. He is a trustee (formerly chairman) of Integrity Action, an international integrity reform non governmental organisation. He was previously a director of The Guardian Media Group plc, Guardian News and Media Limited, Integrated Micro Products plc and a number of unquoted companies. He was a founder director of Cable London plc and an executive director of Logica plc. He is also a chartered engineer.

Gillian Nott OBE

(Audit and Risk Committee Chairman)

(Date of appointment 10 January 2001)

(age 67) has in-depth understanding of private investors as chief executive of ProShare (1994–1999). Previously she was responsible for the private equity portfolio at BP and has been on the board of the FSA. She is currently a non-executive director of BlackRock Smaller Companies Trust plc, Martin Currie Global Portfolio Investment Trust plc and JP Morgan Russian Securities plc and is chairman of Witan Pacific Investment Trust plc as well as a deputy chairman of the Association of Investment Companies. She was also a director of Liverpool Victoria Friendly Society from May 2005 to May 2011. Gill is a non-executive director of Baronsmead VCT 2 and Baronsmead VCT 5.

Ian Orrock

(Date of appointment 21 October 2010)

(age 66) has wide experience having founded, developed and sold a number of businesses particularly focusing on the international media, technology and telecoms sectors, and has also worked at board level in quoted global organisations. He is currently a non-executive director of Henderson Private Equity Investment Trust Plc and is a director of a number of private companies.

As a fully listed Company, Baronsmead VCT 3 plc is required to comply with the Financial Reporting Council's UK Corporate Governance Code. This Code requires the Company to be headed by an effective Board of Directors who provide entrepreneurial leadership of the Company within a framework of prudent and effective controls.

The directors of a VCT and the investment manager are required under the listing rules and continuing obligations of the London Stock Exchange to have sufficient and satisfactory experience in the management of a portfolio of unquoted investments of the size and type in which the VCT proposes to invest. The Directors are all members of the Audit and Risk Committee, Management Engagement and Remuneration Committee and Nomination Committee.

Report of the Directors

The Chairman's Statement on pages 5 and 6 and the Corporate Governance Statement on pages 29 to 31 form part of the Report of the Directors.

Results and Dividends

The Directors present the twelfth Report and audited financial statements of the Company for the year ended 31 December 2012.

Ordinary Shares	£'000
Profit on ordinary activities after taxation	8,959
Interim dividend of 3.0p per ordinary share paid on 21 September 2012	(1,893)
Total dividends paid during the year	**(1,893)**

Subject to approval at the forthcoming Annual General Meeting the final proposal dividend in respect of the year ended 31 December 2012 of 4.5p per ordinary share will be paid on 15 April 2013 to shareholders recorded on the register on 1 March 2013.

Principal Activity and Status

The Company is registered in England as a Public Limited Company (Registration number 04115341). The Directors have managed and intend to continue to manage the Company's affairs in such a manner so as to comply with Section 274 of the Income Tax Act 2007 which grants approval as a VCT. A review of the Company's business during the year is contained in the Chairman's Statement and Manager's Review.

Business Review

The Business Review has been prepared in accordance with the requirements of Section 417 of the Companies Act 2006 and best practice. The purpose of this review is to provide shareholders with a summary setting out the business objectives of the Company, the Board's strategy to achieve those objectives, the risks faced, the regulatory environment and the key performance indicators ("KPIs") used to measure performance.

Strategy for achieving objectives

Baronsmead VCT 3 plc is a tax efficient company listed on the London Stock Exchange's main market for listed securities and aims to achieve long-term investment returns for private investors.

Investment Policy

The Company's investment policy is to invest primarily in a diverse portfolio of UK growth businesses, whether unquoted or traded on AIM. Investments are made selectively across a range of sectors in companies that have the potential to grow and enhance their value.

Investment securities

The Company invests in a range of securities including, but not limited to, ordinary and preference shares, loan stocks, convertible securities, and fixed interest bearing securities as well as cash. Unquoted investments are usually structured as a combination of ordinary shares and loan stocks, while AIM-traded investments are primarily held in ordinary shares. Pending investment in VCT qualifying and non-VCT qualifying unquoted, AIM-traded and other quoted securities (which may be held directly or indirectly through collective investment vehicles), cash is primarily held in interest bearing accounts, money market open ended investment companies ("OEICs"), UK gilts and treasury bills.

UK companies

Investments are primarily made in companies which are substantially based in the UK, although many of these investees may have some trade overseas.

VCT regulation

The investment policy is designed to ensure that the Company continues to qualify and is approved as a VCT by HM Revenue and Customs. Amongst other conditions, the Company may not invest more than 15 per cent. by value of its investments calculated in accordance with Section 278 of the Income Tax Act 2007 (as amended) ("VCT Value") in a single company or group of companies and must have at least 70 per cent. of its investments by VCT Value throughout the period in shares and securities comprised in qualifying holdings. At least 70 per cent. by VCT Value of qualifying holdings must be in "eligible shares", which are ordinary shares which have no preferential rights to assets on a winding up and no rights to be redeemed, but may have certain preferential rights to dividends. For funds raised before 6 April 2011, at least 30 per cent. by VCT Value of qualifying holdings must be in "eligible shares" which are ordinary shares which do not carry any rights to be redeemed or preferential rights to dividends or to assets on a winding up. At least 10 per cent. of each qualifying investment must be in "eligible shares".

The companies in which investments are made must have no more than £15 million of gross assets at the time of investment to be classed as a VCT qualifying holding.

Report of the Directors

Asset mix
The Company aims to be at least 90 per cent. invested, directly or indirectly, in VCT qualifying and non-qualifying growth businesses subject always to the quality of investment opportunities and the timing of realisations. It is intended that at least 75 per cent. of any funds raised by the Company will be invested in VCT qualifying investments. Non-VCT qualifying investments held in unquoted, AIM-traded and other quoted companies may be held directly or indirectly through collective investment vehicles.

Risk diversification and maximum exposures
Risk is spread by investing in a number of different businesses within different qualifying industry sectors using a mixture of securities. Generally no more than £2.5 million, at cost, is invested in the same company. The maximum the Company will invest in a single company (including a collective investment vehicle) is 15 per cent. of its investments by VCT value. The value of an individual investment is expected to increase over time as a result of trading progress and a continuous assessment is made of its suitability for sale.

Investment style
Investments are selected in the expectation that the application of private equity disciplines including an active management style for unquoted companies will enhance value and enable profits to be realised from planned exits.

Co-investment with other Baronsmead VCTs
The Company aims to invest in larger more mature unquoted and AIM-traded companies and to achieve this it invests alongside the other Baronsmead VCTs.

Management retention
The Manager's members and staff invest in unquoted investments alongside the Company. This scheme is in line with current practice of private equity houses and its objective is to attract, recruit and retain and incentivise the Manager's team and is made on terms which align the interests of Shareholders and the Manager.

Borrowing powers
The Company's policy is to use borrowing for short term liquidity purposes only up to a maximum of 25 per cent. of the Company's gross assets, as permitted by the Company's articles.

Management
The Board has delegated the management of the investment portfolio to the Manager. The Manager also provides or procures the provision of company secretarial, administrative, accounting and custodian services to the Company.

The Manager has adopted a 'top-down, sector-driven' approach to identifying and evaluating potential investment opportunities, by assessing a forward view of firstly the business environment, then the sector and finally the specific potential investment opportunity. Based on its research, the Manager has selected a number of sectors that it believes will offer attractive growth prospects and investment opportunities. Diversification is also achieved by spreading investments across different asset classes and making investments for a variety of different periods.

The Manager's Review on pages 7 to 9 provides a review of the investment portfolio and of market conditions during the year.

Principal risks, risk management and regulatory environment
The Board believes that the principal risks faced by the Company are:

Economic risk
Events such as a continuing economic recession and movement in interest rates could affect smaller companies' valuations. The Manager's strategy to invest in a diverse portfolio of companies seeks to mitigate this risk.

Regulatory risks
General changes in legislation, regulations or government policy could significantly influence the decisions of investors or impact upon the markets in which the Company invests and the status of the Company as a VCT.

– Loss of approval as a Venture Capital Trust – the Company must comply with Section 274 of the Income Tax Act 2007 which allows it to be exempted from capital gains tax on investment gains. Any breach of these rules may lead to the Company losing its approval as a VCT, qualifying shareholders who have not held their shares for the designated holding period having to repay the income tax relief they obtained and future dividends paid by the Company becoming subject to tax. The Company would also lose its exemption from corporation tax on capital gains.

Report of the Directors

- CP12/19 – as outlined in the Financial Services Authority consultation paper CP12/19, VCTs are potentially within the scope of proposed new regulations restricting the distribution of unregulated collective investment schemes and close substitutes to retail investors. Although the FSA has been receptive to concerns raised in response to the consultation paper, there is no certainty that VCTs will be excluded from the scope of the final regulations. However, if ultimately within scope, it is likely that such regulation would adversely affect the Company's ability to raise new funds in the future.
- The Alternative Investment Fund Managers Directive ("AIFMD") – The AIFMD, 2011/61/EU, entered into force on 21 July 2011. European Member States are required to implement the AIFMD into national law by 22 July 2013. The AIFMD seeks to regulate managers ("AIFMs") of alternative investment funds ("AIFs") which are marketed or managed in the EU. AIFs, such as the Company, may, subject to satisfying certain requirements, obtain authorisation as an internally managed AIF or appoint a third party manager, such as the Manager, to act as its AIFM. Depending on how the Directive is implemented, this could have cost implications for the Company. The Board and the Company's advisers will continue to monitor the progress and likely implications of the AIFMD.
- Regulatory – the Company is required to comply with the Companies Act 2006, the rules of the UK Listing Authority and United Kingdom Accounting Standards. Breach of any of these might lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report.

Investment and strategic risk
An inappropriate strategy, lack of good investment opportunities and increased competitiveness for deals, and poor asset allocation might lead to under performance and poor returns to shareholders. The Company's investment strategy is regularly reviewed by the Board and performance of the investment portfolio is considered at each meeting.

Credit risk
Cash management risk may occur by placing cash deposits with high risk institutions or not spreading cash effectively. The cash management strategy is set by the Board and the Investment Committee of the Manager approves all liquid asset investments. Due diligence is undertaken on the sponsor or manager of any non-government instruments invested in and this is updated on a regular basis to minimise the risk.

Competitive risk
Retention of key personnel of the Manager is vital to the success of the Company. The Manager provides appropriate incentive schemes and a career development strategy to ensure retention of key personnel.

Market risk
Investments in AIM-traded and unquoted companies, by their nature, involve a higher degree of risk than investment in companies traded on the main market. In particular, smaller companies often have limited product lines, markets or financial resources and may be dependent for their management on a smaller number of key individuals.

Liquidity risk
The Company's investments may be difficult to realise. The fact that a share is traded on AIM does not guarantee its liquidity. The spread between the buying and selling price of such shares may be wide and thus the price used for valuation may not be achievable.

Reputational risk
Inadequate or failed controls might result in breaches of regulations or loss of shareholder trust.

Operational risk
Failure of the Manager's and administrator's accounting systems or disruption to its business might lead to an inability to provide accurate reporting and monitoring. Internal controls reporting on all service providers is provided to the Board for review on a regular basis.

Financial risk
The Board has identified the Company's principal financial risks which are set out in the notes to the Financial Statements on pages 50 to 53. Inadequate controls might lead to misappropriation of assets. Inappropriate accounting policies might lead to misreporting or breaches of regulations.

Report of the Directors

The Board seeks to mitigate the internal risks by setting policy, regular review of performance, enforcement of contractual obligations and monitoring progress and compliance. In the mitigation and management of these risks, the Board applies rigorously the principles detailed in the FRC's "Internal Controls: Guidance to Directors". Details of the Company's internal controls are contained in the Corporate Governance section on page 31.

Performance and key performance indicators ("KPIs")

The Board expects the Manager to deliver a performance which meets the objective of achieving long term investment returns, including tax-free dividends, for private investors. A review of the Company's performance during the financial period, the position of the Company at the year end and the outlook for the coming year is contained within the Chairman's Statement on pages 5 and 6.

The Board assesses the performance of the Manager in meeting the Company's objective against the primary KPIs highlighted on pages 2 to 4 and 59 of the Report.

Issue and Buy-Back of Shares

Pursuant to a top-up offer in February 2012, the Company allotted 3,853,400 ordinary shares at a price of 107.30p representing 5.4 per cent. of the then issued share capital with an aggregate nominal value of £385,340 raising £4,135,000 of new funds in total. The terms of issue were set out in the Offer Document dated 12 January 2012 and the offer price was set on 20 February 2012.

As a result of an offer for subscription launched on 20 November 2012, the Company allotted a further 4,258,668 ordinary shares at a price of 117.40p representing 5.6 per cent. of the then issued share capital with an aggregate nominal value of £425,866.80 raising £5,000,000 of new funds in total. The terms of issue were set out in the Securities Note dated 20 November 2012 and the offer price was set on 21 December 2012.

During the period the Company bought back 1,306,897 ordinary shares with a nominal value of 10p to be held in treasury representing 1.7 per cent. of the issued share capital at a cost of £1,257,743. No shares were sold from treasury during the period. Shares will not be sold at a discount wider than the discount prevailing at the time the shares were initially bought back by the Company. The Company holds 8,929,214 ordinary shares in treasury, being the maximum number of ordinary shares held in treasury during the year, representing 11.8 per cent. of the issued share capital as at 15 February 2013.

Directors

Biographies of the Directors who served during the year and at the date of this report are shown on page 19.

As explained in more detail under Corporate Governance on pages 29 to 31 and in accordance with the provisions of the AIC Code of Corporate Governance, the Board has agreed that Directors who have held office for more than nine years will retire annually. Accordingly, as Mr A Karney and Mrs G Nott have held office for a period of more than nine years, they will retire by rotation at the forthcoming Annual General Meeting of the Company and, being eligible, offer themselves for re-election. Mrs G Nott who is a director of Baronsmead VCT 2 plc and Baronsmead VCT 5 plc is also required to seek annual re-election under the terms of the UKLA's Listing Rules.

Mr Orrock, who was elected at the Company's Annual General Meeting held in 2011, will in accordance with the Company's Articles of Association and the provisions of the AIC Code of Corporate Governance, retire at the forthcoming Annual General Meeting of the Company and, being eligible, offer himself for re-election.

The Board confirms that, following formal performance evaluations, the performance of each of the Directors continues to be effective and demonstrates commitment to the role. The Board believes that it is therefore in the best interests of shareholders that the retiring Directors be re-elected.

Report of the Directors

The interests of the Directors in the shares of the Company at the end of the current and prior year were as follows:

	31 December 2012	31 December 2011
	Ordinary 10p shares	Ordinary 10p shares
Anthony Townsend	**44,439**	7,609
Andrew Karney	**86,548**	82,709
Gillian Nott	**82,739**	55,900
Ian Orrock	**15,535**	–
Total shares held	**229,261**	146,218

There have been no changes in the holdings of the Directors between 31 December 2012 and 15 February 2013.

No Director has a service contract with the Company.

All Directors are members of the Audit and Risk, Management Engagement and Remuneration and Nomination Committees. With a relatively small Board, it is deemed both practical and proportionate to involve all the Directors in each committee.

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Companies Act 2006 Disclosure

In accordance with Schedule 7 of the Large and Medium Size Companies and Groups (Accounts and Reports) Regulations 2008 the Directors disclose the following information:

- the Company's capital structure and voting rights are summarised in Note 11, and there are no restrictions on voting rights nor any agreement between holders of securities that result in restrictions on the transfer of securities or on voting rights;
- there exist no securities carrying special rights with regard to the control of the Company;
- the Company does not have an employees' share scheme;
- the rules concerning the appointment and replacement of Directors, amendment of the Articles of Association and powers to issue or buy back the Company's shares are contained in the Articles of Association of the Company and the Companies Act 2006;
- there exist no agreements to which the Company is party that may affect its control following a takeover bid; and
- there exist no agreements between the Company and its Directors providing for compensation for loss of office that may occur because of a takeover bid.

The Board recognises the requirement under Section 417(5) of the Companies Act 2006 to detail information about environmental matters (including the impact of the Company's business on the environment), any Company employees and social and community issues; including information about any policies it has in relation to these matters and effectiveness of these policies. The Company has no employees and has limited direct impact on the environment. The Company aims to conduct itself responsibly, ethically and fairly.

Directors' Professional Development

When a new Director is appointed he or she is offered an induction programme that is arranged with the Manager. Directors are also provided on a regular basis with key information on the Company's policies, regulatory and statutory requirements and internal controls. Changes affecting directors' responsibilities are advised to the Board as they arise. Directors also regularly participate in industry seminars.

Directors' Indemnity

Directors' and officers' liability insurance cover is in place in respect of the Directors. The Company's Articles of Association provide, subject to the provisions of UK legislation, an indemnity for Directors in respect of costs which they may incur relating to the defence of any proceedings brought against them arising out of their positions as Directors, in which they are acquitted or judgement is given in their favour by the Court. Save for such indemnity provisions in the Company's Articles of Association and in the Directors' letters of appointment, there are no qualifying third party indemnity provisions.

Report of the Directors

Conflicts of Interest

The Directors have declared any conflicts or potential conflicts of interest to the Board of Directors which has the authority to approve such situations. The Company Secretary maintains the Register of Directors' Conflicts of Interests which is reviewed quarterly by the Board and when changes are notified. The Directors advise the Company Secretary and Board as soon as they become aware of any conflicts of interest. Directors who have conflicts of interest do not take part in discussions which relate to any of their conflicts.

Whistleblowing

The Board has considered the UK Corporate Governance Code's recommendations in respect of arrangements by which staff of the Manager or Secretary of the Company may, in confidence, raise concerns within their respective organisations about possible improprieties in matters of financial reporting or other matters. It has concluded that adequate arrangements are in place for the proportionate and independent investigation of such matters and, where necessary, for appropriate follow-up action to be taken within their respective organisations.

Management

ISIS EP LLP manages the investments for the Company. The liquid assets within the portfolio (being cash, gilts and other assets, which are not categorised as venture capital investments for the purpose of the FSA's rules) have been managed by FPPE LLP. This is a limited liability partnership, which is authorised and regulated by the FSA and which has the same controlling members as the Manager. The Manager has continued to act as the Manager of the Company and as the investment manager of the Company's illiquid assets (being all AIM-traded and other venture capital investments).

The Manager also provides or procures the provision of accounting, secretarial, administrative and custodian services to the Company. The management agreement may be terminated at any date by either party giving twelve months' notice of termination. Under the management agreement, the Manager receives a fee of 2.5 per cent. per annum of the net assets of the Company. If the management agreement is terminated, the Manager is only entitled to the management fees paid to it and any interest due on unpaid fees.

In addition, the Manager receives an annual secretarial and accounting fee that was initially fixed at £33,816 in 2006 and is revised annually to reflect the movement in RPI, plus a variable fee of 0.125 per cent. of the net assets of the Company which exceed £5 million. The annual fee was initially capped at £102,212 per annum and is also revised annually to reflect the movement in RPI.

Annual running costs are capped at 3.5 per cent. of the net assets of the Company (excluding any performance fee payable to the Manager and irrecoverable VAT), any excess being refunded by the Manager by way of an adjustment to its management fee. The running cost as at 31 December 2012 was 3.0 per cent.

During the year the Management Engagement and Remuneration Committee met to discuss and consider the continuing appointment of the Manager. The Committee reviewed and considered the agreements between the Company and the Manager and the Manager's performance and after careful consideration the Committee recommended to the Board that ISIS EP LLP should continue as Manager of the Company. It is the Board's opinion that the continuing appointment of ISIS EP LLP on the terms agreed is in the best interests of shareholders as a whole. The Board believes that the knowledge and experience accumulated by the Manager in the period since the launch of the first Baronsmead VCT in 1995 is reflected in processes which are designed to find, manage and realise good quality growth businesses.

Co-investment Scheme

The Co-investment Scheme was introduced in November 2004. Members of the Manager's investment team invest their own capital into a proportion of the ordinary shares of each and every unquoted investment made by the Baronsmead VCTs. The shares held by the members of the Co-investment Scheme in any portfolio company can only be sold at the same time as the investment held by the Baronsmead VCTs is sold. In addition, any prior ranking financial instruments, such as loan stock, held by the Baronsmead VCTs have to be repaid in full together with the agreed priority annual return before any gain accrues to the ordinary shares. This ensures that the Baronsmead VCTs achieve a good priority return before profits accrue to the Co-investment Scheme.

Report of the Directors

The Board is keen to ensure that the Manager continues to have one of the best investment teams in the VCT and private equity market place and considers the Scheme to be essential in order to attract, retain and incentivise the best talent. The Scheme is in line with current market practice in the private equity industry and the Board believes that it aligns the interests of the Manager with those of the Baronsmead VCTs since executives have to invest their own capital in every unquoted transaction and cannot decide selectively in which investments to participate. In addition the Co-investment only delivers a return after each VCT has realised a priority return built into the structure.

The executives participating in the Co-investment Scheme subscribe jointly for a proportion (currently 12 per cent.) of the ordinary shares available to the Baronsmead VCTs in each unquoted investment. The level of participation was increased from 5 per cent. in 2007 when the Manager's performance fee was reduced from 20 per cent. to its current level of 10 per cent.

Since the formation of the Scheme in 2004, 52 executives have invested a total of £696k in 32 companies. At 31 December 2012 nine of these investments have been realised generating proceeds of £81 million for the Baronsmead VCTs and £4.7 million for the co-investment scheme. For Baronsmead VCT 3 the average money multiple on these nine realisations was 2.3 times cost. Had the co-investment shares been held instead by the Baronsmead VCTs that money multiple would have been 2.4 times cost. Over the period of eight years (based upon the current number of shares in issue) this equates to approximately 1.8p a share.

Performance Incentive

A performance fee is payable to the Manager when the total return on net proceeds of the ordinary share offers exceeds 8 per cent. per annum (simple) on net funds raised. The performance fee payable in any one year is capped at 5 per cent. of net assets.

To the extent that the total return exceeds the threshold, a performance fee (plus VAT) will be paid to the Manager of 10 per cent. of excess performance. No performance fee was paid in 2011 and there is no performance fee payable for the year to 31 December 2012.

ISIS Equity Partners – Advisory Fees

During the year to 31 December 2012, ISIS EP LLP received net income of £96,550 (2011: £71,250) in connection with advisory fees and incurred abort fees of £59,382 (2011: £15,246) with respect to investments attributable to Baronsmead VCT 3.

VCT Status Adviser

The Company has retained PricewaterhouseCoopers LLP ('PwC') as its VCT Tax Status Advisers to advise it on compliance with VCT requirements. PwC reviews new investment opportunities, as appropriate, and reviews regularly the investment portfolio of the Company. PwC works closely with the Manager but reports directly to the Board.

Creditor Payment Policy

The Company's payment policy is to settle investment transactions in accordance with market practice and to ensure settlement of supplier invoices in accordance with stated terms. At 31 December 2012, there were no outstanding supplier invoices (2011: none).

Environment

The Company seeks to conduct its affairs responsibly and environmental factors are, where appropriate, taken into consideration with regard to investment decisions.

Substantial Interests

At 15 February 2013 the Company was not aware of any beneficial interest exceeding 3 per cent. of ordinary share capital in circulation.

Report of the Directors

Going Concern

After making enquires, and bearing in mind the nature of the Company's business and assets, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. In arriving at this conclusion the Directors have considered the liquidity of the Company and its ability to meet obligations as they fall due for a period of at least twelve months from the date that these financial statements were approved. As at 31 December 2012 the Company held cash balances & investments in interest bearing securities and Money Market Funds with a combined value of £5,728,000. Cash flow projections have been reviewed and show that the Company has sufficient funds to meet both its contracted expenditure and its discretionary cash outflows in the form of the share buy-back programme and dividend policy. The Company has no external loan finance in place and therefore is not exposed to any gearing covenants.

Annual General Meeting

A notice for the Annual General Meeting of the Company to be held at 10:30 am on Wednesday, 10 April 2013 at Plaisterers' Hall, One London Wall, London EC2Y 5JU is set out on pages 54 to 57. The following notes provide an explanation of Resolutions 7 to 12 which together with Resolutions 1 to 6, will be proposed at the meeting. Resolutions 1 to 9 will be proposed as ordinary resolutions requiring the approval of more than 50 per cent. of the votes cast at the meeting and Resolutions 10 to 12 will be proposed as special resolutions requiring the approval of 75 per cent. of the votes cast at the meeting. The Board considers that the resolutions to be put to the meeting are in the best interests of the Company and its shareholders as a whole. The Directors will be voting in favour of all the resolutions and the Board unanimously recommends that shareholders do so as well.

Auditors

KPMG Audit Plc have expressed their willingness to continue in office as auditors and Resolution 7 proposes their re-appointment for the forthcoming year. The authority proposed under Resolution 8 will authorise the Directors to determine the remuneration of the auditors.

Authority to Allot Shares and Disapplication of Pre-Emption Rights

The authority proposed under Resolution 9 will authorise Directors, until the fifth anniversary of the passing of the resolution, to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £3,340,135, representing 50 per cent. of the issued share capital (excluding treasury shares) as at the date of this document. Any consequent increase in the size of the Company will, in the opinion of the Directors, be in the interests of shareholders generally. Any issue proceeds will be available for investment in line with the Company's investment policy and may be used to purchase ordinary shares of the Company.

The Directors intend to use this authority for the purposes described below under Resolution 10.

Resolution 10 renews and extends, subject to the passing of Resolution 9, the Directors' authority to allot equity securities for cash without pre-emption rights applying in certain circumstances. This resolution will authorise the Directors, until the date falling 15 months after the date of the passing of the resolution or, if earlier, the conclusion of the next Annual General Meeting of the Company, to issue ordinary shares for cash without pre-emption rights applying of (i) up to an aggregate nominal amount representing 30 per cent. of the Company's issued share capital (excluding treasury shares) as at the date of the passing of the resolution pursuant to one or more offers for subscription, (ii) up to an aggregate nominal amount representing 10 per cent. of the issued share capital (excluding treasury shares) from time to time pursuant to a dividend reinvestment scheme (which may be at a discount to NAV) and (iii) up to an aggregate nominal amount representing 10 per cent. of the issued share capital (excluding treasury shares) from time to time (which may be at a discount to NAV) for allotments from time to time. This power will be exercised only if, in the opinion of the Directors, it would be in the best interests of shareholders as a whole.

Report of the Directors

Treasury Shares

The Company currently holds 8,929,214 ordinary shares in treasury representing 11.8 per cent. of the Company's issued ordinary shares. If Resolution 9 is passed, the Board will be authorised to reissue ordinary shares out of treasury through a dividend reinvestment scheme or at a discount to the prevailing NAV per ordinary share if the Board considers it in the best interests of the Company to do so. However, ordinary shares will never be re-issued out of treasury at a discount wider than the discount prevailing at the time the shares were initially bought back by the Company. The resolution will also allow the Company to issue shares out of treasury without pre-emption rights applying.

Currently there is a two way secondary market in the Company's shares. It is the Board's intention only to use the mechanism of re-issuing treasury shares when demand for the Company's shares is greater than the supply available in the market place. Although shares re-issued from treasury will not attract the 30 per cent. initial income tax relief, under existing tax legislation all further dividends will be tax-free and if these shares are subsequently sold no capital gains tax will be payable by qualifying shareholders.

Directors' Authority to Purchase Shares

The current authority of the Company to make market purchases of up to approximately 14.99 per cent. of its issued share capital expires at the end of the Annual General Meeting and Resolution 11 seeks renewal of such authority until the next Annual General Meeting (or the expiry of 15 months after the passing of the resolution, if earlier). The price paid for shares will not be less than the nominal value nor more than the maximum amount permitted to be paid in accordance with the rules of the UK Listing Authority. This power will be exercised only if, in the opinion of the Directors, a repurchase would be in the best interests of shareholders as a whole. Any shares repurchased under this authority will either be cancelled or held in treasury for future re-sale in appropriate market conditions.

Notice of General Meeting

The Board believes that it is in the best interests of shareholders of the Company to have the ability to call meetings on 14 days' clear notice should a matter require urgency. The Board is therefore proposing Resolution 12 to approve the reduction in the minimum notice period from 21 clear days to 14 clear days for all general meetings other than annual general meetings. The Directors do not intend to use less than 21 clear days' notice unless prompt action is required.

By Order of the Board,
ISIS EP LLP
Secretary
100 Wood Street
London EC2V 7AN

15 February 2013

Corporate Governance

This Corporate Governance Statement forms part of the Report of the Directors.

Corporate Governance Codes

Arrangements in respect of corporate governance, appropriate to a venture capital trust, have been made by the Board. The Board has considered the principles and recommendations of the Association of Investment Companies' Code of Corporate Governance issued in October 2010 ('AIC Code') by reference to the AIC Corporate Governance Guide for Investment Companies ('AIC Guide'). A copy of the AIC Code can be found at www.theaic.co.uk. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code issued by the Financial Reporting Council in June 2010 ('UK Code'), as well as setting out additional principles and recommendations on issues which are of specific relevance to the Company. A copy of the UK Code can be found at www.frc.org.uk.

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

Except as disclosed below, the Company complied throughout the period with the recommendations of the AIC Code and the relevant provisions of the UK Code. Since all the Directors are non-executive the provisions of the UK Code in respect of the role of the chief executive are not relevant to the Company and, likewise, the provisions of the UK Code relating to directors' remuneration are not relevant except in so far as they relate specifically to non-executive directors. For the reasons set out in the AIC Guide, and in the preamble to the UK Code, the Board considers that these provisions are not relevant to the Company, being an externally managed venture capital trust. The Company has therefore not reported further in respect of these provisions.

Directors

In view of the requirement in the Articles of Association that all Directors be subject to retirement by rotation, the Board considers that it is not appropriate for the Directors to be appointed for a specified term as recommended by principle 3 of the AIC Code and provision B.2.3 of the UK Code. However, the Board has agreed that each Director will retire and, if appropriate, seek re-election after each three years' service, and annually after serving on the Board for more than nine years.

The Board, of which Mr Townsend is Chairman, consists solely of non-executive Directors and Mr Karney is Senior Independent Director. All Directors are considered by the Board to be independent of the Company's Manager.

As explained earlier, Mrs Nott is a director of Baronsmead VCT 2 plc and Baronsmead VCT 5 plc, both of which are managed by ISIS EP LLP. The Board believes that appointments to other companies managed by ISIS EP LLP does not impede independence of character and judgement. The Board also does not consider that a Director's tenure reduces their ability to act independently. The Board believes that, as a whole, it comprises an appropriate balance of skills, experience and diversity of background and knowledge. It also believes that each Director is independent in character and judgement and that there are no relationships or circumstances which are likely to affect the judgement of any Director.

The Company has no executive Directors or employees.

Division of Responsibilities

A management agreement between the Company and its Manager, ISIS EP LLP, sets out the matters over which the Manager has authority and the limits above which Board approval must be sought. All other matters, including strategy, investment and dividend policies, approval of valuations, gearing, and corporate governance procedures, are reserved for the approval of the Board of Directors. The Board meets at least quarterly and receives full information about the Company's investment performance, assets, liabilities and other relevant information in advance of Board meetings. The Manager, in the absence of explicit instructions from the Board, is empowered to exercise discretion in the use of the Company's voting rights. All shareholdings are voted, where practicable, in accordance with the Manager's own corporate governance policy, which is to seek to maximise shareholder value by constructive use of votes at company meetings and by endeavouring to use its influence as an investor with a principled approach to corporate governance.

Corporate Governance

Committees

Throughout the period a number of committees have been in operation. The committees are the Audit and Risk Committee, the Management Engagement and Remuneration Committee and the Nomination Committee. The terms of reference of all the committees are available from the Company on request.

The Audit and Risk Committee, chaired by Mrs Nott, comprises the full Board and operates within clearly defined terms of reference. The duties of the Audit and Risk Committee include reviewing the annual and interim accounts, the system of internal controls, the terms of appointment of the auditors together with their remuneration, and ensuring that auditor objectivity and independence is safeguarded in the provision of non–audit services by the auditors. It meets at least twice yearly and provides a forum through which the auditors may report to the Board of Directors.

The Management Engagement and Remuneration Committee, chaired by Mr Townsend, comprises the full Board and reviews the remuneration and terms of appointment of the Manager and the Boards' fees. The recommendations of the AIC Code under Principle 5 state that the Chairman may be a member of, but not chair, the Management Engagement and Remuneration Committee. The Board, having considered the recommendations, believe that Mr Townsend remains the most suitable Director to chair the committee. When considering the chairmanship of the committee, the Board took account of factors including the size of the Board and the remit of the committee; which extends to the consideration of non-executive remuneration only. Matters relating to the remuneration of the Chairman are considered by the committee in the absence of the Chairman and under the leadership of the Senior Independent Director.

The Nomination Committee, chaired by Mr Townsend, comprises the full Board and is convened for the purpose of considering the appointment of additional Directors as and when considered appropriate. In considering appointments to the Board, the Nomination Committee takes into account the ongoing requirements of the Company and the need to have a balance of skills and experience within the Board.

Principle 7 of the AIC Code and Principle B.6 of the UK Code recommends that the Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. It is the Board's policy to evaluate the performance of the Board, Committees and individual Directors annually through an assessment process, led by the Chairman, with the performance of the Chairman being evaluated by the other Directors under the leadership of the Senior Independent Director. During this process the Directors considered each Director's independence and discussed performance during the year, the existing corporate governance arrangements and areas where the Board and individual Directors could develop.

All of the Directors meet quarterly to consider in detail the valuations of the unquoted investments in the Company's portfolio.

Individual Directors may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of their duties.

Corporate Governance

The table below sets out the number of Board and Committee meetings held during the year to 31 December 2012 and the number of meetings attended by each Director.

	Board of Directors (Quarterly) (4 meetings held)		Board of Directors (ad hoc) (2 meetings held)		Audit and Risk Committee (2 meetings held)		Management Engagement and Remuneration Committee (1 meeting held)		Nomination Committee (1 meeting held)	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
Anthony Townsend	4	4	2	0	2	2	1	1	1	1
Andrew Karney	4	4	2	1	2	2	1	1	1	1
Gillian Nott	4	4	2	2	2	2	1	1	1	1
Ian Orrock	4	4	2	1	2	2	1	1	1	1

Relations with Shareholders

The Company welcomes the views of shareholders and places great importance on communication with its shareholders. The Chairman and other Directors are available to meet shareholders if required. The Annual General Meeting of the Company provides a forum both formal and informal, for shareholders to meet and discuss issues with the Directors and Manager of the Company.

Details of the resolutions to be proposed at the forthcoming Annual General Meeting on 10 April 2013 can be found in the Notice of Meeting on pages 54 and 55. Shareholders seeking to communicate with the Board can do so by contacting the Investor Relations Manager in the first instance.

Internal Controls

The Board is responsible for the Company's system of internal controls and for reviewing its effectiveness. The Board has therefore established an ongoing process designed to meet the particular needs of the Company in managing the risks to which it is exposed. The process adopted is one whereby the Board identifies all of the risks to which the Company is exposed including, among others, market risk, investment risk, operational and regulatory risks which are recorded on a risk register. The controls employed to mitigate these risks are identified and the residual risks are rated taking into account the impact of the mitigating factors.

This register is updated at least twice a year and reports are produced to the board highlighting any material changes in the nature of each risk and where necessary corrective action taken. A formal annual review of the risks and related controls is carried out by the Audit and Risk Committee.

These procedures are designed to manage, rather than eliminate, risk and by their nature can provide reasonable, but not absolute, assurance against material misstatement or loss. The Board monitors the investment performance of the Company in comparison to a benchmark index and to comparable venture capital trusts at each Board meeting. The Board also reviews the Company's activities since the previous Board meeting to ensure that the Manager adheres to the agreed investment policy and approved investment guidelines and, if necessary, approve changes to such policy and guidelines.

The Board has reviewed the need for an internal audit function and has concluded that the systems and procedures employed by the Manager, provide sufficient assurance that a sound system of internal control, which safeguards shareholders' investment and the Company's assets, is maintained. An internal audit function, specific to the Company, is therefore considered unnecessary.

Directors' Remuneration Report

The Board has prepared this report, in accordance with the requirements of Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The law requires the Company's auditors, KPMG Audit Plc, to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such.

The auditors' opinion is included in the 'Independent Auditors' Report'.

Board of Directors and their Fees

The Board which is profiled on page 19 consists solely of independent non-executive Directors and is considered to be entirely independent. The Management Engagement and Remuneration Committee comprises all the Directors of the Company and is chaired by Mr Townsend. The Company has no executive Directors, but the Management Engagement and Remuneration Committee meets, at least annually, to review the remuneration and terms of appointment of the Manager and the level of the Board's fees, in accordance with the AIC Code of Corporate Governance. The Company Secretary provides information on comparative levels of directors fees to the Board in advance of each review.

The Management Engagement and Remuneration Committee (or Board) concluded following a review of the level of Directors' fees for the forthcoming year, that, to reflect the increase in the level and quality of work that the Directors were required to undertake, it was appropriate to increase the Directors' fees to £18,000 per annum, the Chairman of the Audit and Risk Committee's fees to £20,500 per annum and the Chairman's fee to £25,750 with effect from 1 January 2013.

Policy on Directors' Fees

The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other relevant venture capital trusts that are similar in size and have similar investment objectives and structures. Furthermore the level of remuneration should be sufficient to attract and retain the Directors needed to oversee properly the Company and to reflect the specific circumstances of the Company, the duties and responsibilities of the Directors and the value and amount of time committed to the Company's affairs. It is intended that this policy will continue for the year ending 31 December 2013 and subsequent years.

Directors' Service Contracts

It is the Board's policy that Directors do not have service contracts, but new Directors are provided with a letter of appointment. The terms of Directors' appointments provide that Directors should retire and be subject to election at the first Annual General Meeting after their appointment.

Directors are thereafter obliged to retire by rotation and, if willing, to offer themselves for re-election by shareholders at least every three years after that. In accordance with the AIC Code, Directors who have served on the Board for more than 9 years must offer themselves for re-election on an annual basis. There is no notice period and no provision for compensation upon early termination of appointment. Below is a table which sets out each Director's date of appointment and due date for re-election/election.

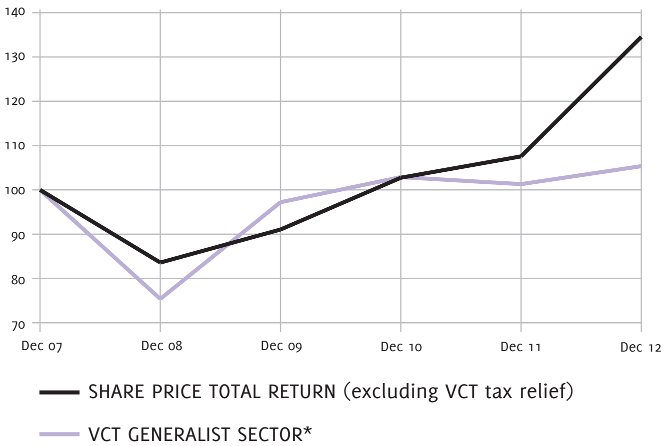
Director	Date of original appointment	Due date for re-election
Anthony Townsend	4 August 2009	AGM 2014
Andrew Karney	10 January 2001	AGM 2013
Gillian Nott	10 January 2001	AGM 2013
Ian Orrock	21 October 2010	AGM 2013

Directors' Remuneration Report

Company performance

The Board is responsible for the Company's investment strategy and performance, although the management of the Company's investment portfolio is delegated to the Manager through the management agreement, as referred to in the 'Report of the Directors'. The graph below compares, for the five years ended 31 December 2012, the percentage change over each period in the share price total return (assuming all dividends are reinvested) to shareholders compared to the share price total return of approximately 50 generalist VCTs *(Source: AIC)*. An explanation of the performance of the Company is given in the Chairman's Statement and Manager's Review.

Share Price and VCT Generalist Sector Share Price Total Return performance graph



*Source: AIC

Directors' Emoluments for the Year (Audited)

The Directors who served in the year received the following emoluments in the form of fees:

	Fees 2012 £	Fees 2011 £
Anthony Townsend	25,000	23,875
Andrew Karney	17,500	16,000
Gillian Nott	20,000	16,625
Ian Orrock	17,500	16,000
Total	80,000	72,500

Approved by the Board of Directors and signed by:

Anthony Townsend
Chairman of the Management Engagement and Remuneration Committee

15 February 2013

Statement of Directors' Responsibilities

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

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.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards ("UK GAAP") 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 disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report (including Business Review), 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, www.baronsmeadvct3.co.uk. Visitors to the website should be aware that 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 Financial Report

We confirm that to the best of our knowledge:

- 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 of the Company; and
- the Report of the Directors 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 it faces.

On behalf of the Board,
Anthony Townsend
Chairman

15 February 2013

Independent Auditor's Report

Independent Auditor's Report to the members of Baronsmead VCT 3 plc

We have audited the financial statements of Baronsmead VCT 3 plc for the period ended 31 December 2012 set out on pages 37 to 53. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 34, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/auditscopeukprivate.

Opinion on Financial Statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 29 to 31 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Independent Auditor's Report

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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' statement, set out on page 27, in relation to going concern;
- the part of the Corporate Governance Statement on pages 29 to 31 relating to the Company's compliance with the nine provisions of the June 2010 UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Catherine Burnet (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

15 February 2013

Income Statement

For the year ended 31 December 2012

	Notes	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000
Unrealised gains on investments	8	–	9,373	9,373	–	1,403	1,403
Realised gains on investments	8	–	426	426	–	1,824	1,824
Income	2	1,187	–	1,187	1,963	–	1,963
Investment management fee	3	(409)	(1,228)	(1,637)	(385)	(1,155)	(1,540)
Other expenses	4	(390)	–	(390)	(365)	–	(365)
Profit on ordinary activities before taxation		388	8,571	8,959	1,213	2,072	3,285
Taxation on ordinary activities	5	(25)	25	–	(244)	244	–
Profit on ordinary activities after taxation		363	8,596	8,959	969	2,316	3,285
Return per ordinary share:							
Basic	7	0.58p	13.67p	14.25p	1.61p	3.85p	5.46p

The 'Total' column of this statement is the profit and loss account of the Company.

All revenue and capital items in this statement derive from continuing operations.

No operations were acquired or discontinued in the year.

There are no recognised gains and losses other than those disclosed in the Income Statement therefore a separate statement of total recognised gains and losses has not been prepared.

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 December 2012

	Notes	2012 £'000	2011 £'000
Opening shareholders' funds		60,095	64,643
Profit for the year		8,959	3,285
Gross proceeds of share issues	11/12	9,135	–
Purchase and sale of shares for treasury	12	(1,260)	(613)
Expenses of share issue and buybacks	12	(474)	(6)
Dividends paid	6	(1,893)	(7,214)
Closing shareholders' funds		74,562	60,095

The accompanying notes are an integral part of these statements.

Balance Sheet

As at 31 December 2012

	Notes	2012 £'000	2011 £'000
Fixed assets			
Investments	8	**66,740**	59,312
Current assets			
Debtors	9	**5,261**	562
Cash at bank		**1,438**	683
Cash on deposit		**1,800**	–
		8,499	1,245
Creditors (amounts falling due within one year)	10	**(677)**	(462)
Net current assets		**7,822**	783
Net assets		**74,562**	60,095
Capital and reserves			
Called-up share capital	11	**7,573**	6,762
Share premium account	12	**22,866**	15,012
Capital redemption reserve	12	**10,862**	10,862
Capital reserve	12	**18,928**	24,262
Revaluation reserve	12	**13,649**	2,876
Revenue reserve	12	**684**	321
Equity shareholders' funds	13	**74,562**	60,095
Net asset value per share			
– Basic	13	**111.62p**	100.16p
– Treasury	13	**110.88p**	99.16p

The financial statements on pages 37 to 53 were approved by the Board of Directors on 15 February 2013 and were signed on its behalf by:

Anthony Townsend (Chairman)

The accompanying notes are an integral part of this balance sheet.

Cash Flow Statement

For the year ended 31 December 2012

	Notes	2012 £'000	2011 £'000
Operating activities			
Investment income received		1,337	1,787
Deposit interest received		7	3
Other income received		–	63
Investment management fees paid		(1,572)	(1,570)
Other cash payments		(378)	(357)
Net cash outflow from operating activities	15	(606)	(74)
Capital expenditure and financial investment			
Purchases of investments		(63,220)	(91,893)
Disposals of investments		65,620	99,215
Net cash inflow from capital expenditure and financial investment		2,400	7,322
Dividends			
Equity dividends paid	6	(1,893)	(7,214)
Net cash (outflow)/inflow before financing		(99)	34
Financing			
Gross proceeds of share issues		4,135	–
Purchase and sale of shares for treasury		(1,260)	(613)
Expenses on share issue and buybacks		(221)	(6)
Net cash inflow/(outflow) from financing		2,654	(619)
Increase/(decrease) in cash at bank and on deposit in the year		2,555	(585)
Reconciliation of net cash flow to movement in net cash at bank and on deposit			
Increase/(decrease) in cash at bank and on deposit		2,555	(585)
Opening cash at bank and on deposit		683	1,268
Closing cash at bank and on deposit	14	3,238	683

The accompanying notes are an integral part of this statement.

Notes to the Accounts

1. Accounting policies

(a) Basis of accounting

These financial statements have been prepared under UK Generally Accepted Accounting Practice ("UK GAAP") and in accordance with the Statement of Recommended Practice ("SORP") for investment trust companies and venture capital trusts issued by the Association of Investment Companies ("AIC") in January 2009, and on the assumption that the Company maintains VCT status.

The Company is no longer an investment company as defined by Section 833 of the Companies Act 2006, as investment company status was revoked on 4 February 2004 in order to permit the distribution of capital profits.

The principal accounting policies adopted are set out below.

Presentation of the Income Statement

In order to better reflect the activities of a VCT and in accordance with the SORP, supplementary information which analyses the income statement between items of a revenue and capital nature has been presented alongside the income statement.

Profit/(loss) on ordinary activities after taxation is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in Section 274 of the Income Tax Act 2007.

(b) Valuation of investments

Purchases or sales of investments are recognised at the date of transaction.

Investments are valued at fair value. For AIM traded, listed securities and collective investment vehicles this is either bid price or the last traded price, depending on the convention of the exchange on which the investment is traded.

In respect of unquoted investments, these are fair valued by the Directors using methodology which is consistent with the International Private Equity and Venture Capital Valuation ("IPEV") guidelines. This means investments are valued using an earnings multiple, which has a discount or premium applied which adjusts for points of difference to appropriate stock market or comparable transaction multiples. Alternative methods of valuation will include application of an arm's length third party valuation, a provision on cost or a net asset value basis.

Gains and losses arising from changes in the fair value of the investments are included in the income statement for the period as a capital item. Transaction costs on acquisition are included within the initial recognition and the profit or loss on disposal is calculated net of transaction costs on disposal.

(c) Income

Interest income on loan stock and dividends on preference shares are accrued on a daily basis. Provision is made against this income where recovery is doubtful. Where the terms of unquoted loan stocks only require interest or a redemption premium to be paid on redemption, the interest and redemption premium is recognised as income once redemption is reasonably certain. Until such date interest is accrued daily and included within the valuation of the investment.

Income from fixed interest securities and deposit interest is included on an effective interest rate basis.

Dividends on quoted shares are recognised as income on the date that the related investments are marked ex-dividend and where no dividend date is quoted, when the Company's right to receive payment is established.

(d) Expenses

All expenses are recorded on an accruals basis.

(e) Revenue/capital

The revenue column of the income statement includes all income and expenses. The capital column accounts for the realised and unrealised profit and loss on investments and the proportion of management fee charged to capital.

(f) Issue costs

Issue costs are deducted from the share premium account.

Notes to the Accounts

1. Accounting policies (continued)

(g) Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or the right to pay less, tax in future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences arising between the Company's taxable profits and its results as stated in the financial statements which are capable of reversal in one or more subsequent periods.

(h) Capital reserves

(i) *Capital Reserve*
Gains and losses on realisation of investments of a capital nature are dealt with in this reserve. Purchase of the Company's own shares to be either held in treasury or cancelled are also funded from this reserve. 75 per cent. of management fees are allocated to the capital reserve in accordance with the Board's expected split between long term income and capital returns.

(ii) *Revaluation Reserve*
Changes in fair value of unrealised investments, are dealt with in this reserve.

2. Income

	2012 £'000	2011 £'000
Income from investments†		
UK franked	**285**	281
UK unfranked	**820**	1,242
UK unfranked – reinvested	**29**	–
Redemption premium	**45**	374
	1,179	1,897
Other income‡		
Deposit interest	**8**	3
Other income	**–**	63
Total income	**1,187**	1,963
Total income comprises:		
Dividends	**285**	282
Interest	**902**	1,681
	1,187	1,963
Income from investments:		
AIM-traded & listed securities	**298**	309
Unquoted securities	**881**	1,588
	1,179	1,897

† All investments have been designated fair value through profit or loss on initial recognition, therefore all investment income arises on investments at fair value through profit or loss.

‡ Other income on financial assets not designated fair value through profit or loss.

Notes to the Accounts

3. Investment management fee

	2012 £'000	2011 £'000
Investment management fee	**1,637**	1,540
Performance fee	**–**	–
	1,637	1,540

For the purposes of the revenue and capital columns in the income statement, the management fee has been allocated 25 per cent. to revenue and 75 per cent. to capital, in line with the Board's expected long term return in the form of income and capital gains respectively from the Company's investment portfolio.

The management agreement may be terminated by either party giving twelve months notice of termination. The Manager, ISIS EP LLP, receives a fee of 2.5 per cent. per annum of the net assets of the Company, calculated and payable on a quarterly basis.

The Manager is entitled to a performance fee when the total return on net proceeds of the ordinary share offers exceeds 8 per cent. per annum (on a simple basis) on net funds raised. To the extent that the Total Return exceeds this threshold, a performance fee (plus VAT) will be paid to the Manager of 10 per cent. of the excess. The performance fee payable in any one year will be capped at 5 per cent. of the Shareholders' funds at the end of the calculation period. No performance fee is payable for the year ended 31 December 2012 (2011: £nil).

In addition, the Manager receives an annual secretarial and accounting fee that was initially fixed at £33,816 in 2006 and is revised annually to reflect the movement in RPI, plus a variable fee of 0.125 per cent. of the net assets of the Company which exceed £5 million. The annual fee was initially capped at £102,212 per annum and is also revised annually to reflect the movement in RPI. It is chargeable 100 per cent. to revenue.

Amounts payable to the Manager at the year end are disclosed in note 10.

4. Other expenses

	2012 £'000	2011 £'000
Directors' fees	**80**	73
Secretarial and accounting fees	**121**	113
Remuneration of the auditors and their associates:		
– audit	**21**	22
– other services supplied pursuant to legislation (interim review)	**5**	5
– other services supplied relating to taxation	**7**	9
Other	**156**	143
	390	365

The Chairman received £25,000 per annum (2011: £23,875) and the Audit Chairman received £20,000 per annum (2011: £16,625). Each of the other Directors received £17,500 per annum (2011: £16,000).

Charges for other services provided by the auditors in the year ended 31 December 2012 were in relation to the interim review and tax compliance work (including iXBRL). The Audit and Risk Committee reviews the nature and extent of non-audit services to ensure that independence is maintained. The Directors consider the auditors were best placed to provide these services.

All figures include VAT, where applicable. The Company is not registered for VAT.

Notes to the Accounts

5. Tax on ordinary activities
5a. Analysis of charge for the year

	2012 £'000	2011 £'000
UK corporation tax	–	–

The income statement shows the tax charge allocated between revenue and capital.

5b. Factors affecting tax charge for the year

The tax charge for the year is lower than the standard rate of corporation tax in the UK for a company. The differences are explained below:

	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000
Profit on ordinary activities before taxation	388	8,571	8,959	1,213	2,072	3,285
Corporation tax at a rate of 24.5 per cent. (2011: 26.5 per cent.)	95	2,100	2,195	321	549	870
Effect of:						
Non-taxable dividend income	(70)	–	(70)	(74)	–	(74)
Non-taxable investment gains	–	(2,401)	(2,401)	–	(855)	(855)
Marginal relief	–	–	–	(3)	3	–
Losses carried forward	–	276	276	–	59	59
Tax charge for the year (note 5a)	25	(25)	–	244	(244)	–

At 31 December 2012 the Company had surplus management expenses of £3,045,000 (2011: £1,856,000) which have not been recognised as a deferred tax asset. This is because the Company is not expected to generate taxable income in a future period in excess of the deductible expenses of that future period and, accordingly, the Company is unlikely to be able to reduce future tax liabilities through the use of existing surplus expenses. Due to the Company's status as a VCT, and the intention to continue meeting the conditions required to obtain approval in the foreseeable future the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

Notes to the Accounts

6. Dividends

	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000
Amounts recognised as distributions to equity holders in the year:						
For the year ended 31 December 2010						
– Final dividend of 4.5p per ordinary share paid on 8 April 2011	–	–	–	546	2,183	2,729
For the year ended 31 December 2011						
– Interim dividend of 3.0p per ordinary share paid on 29 September 2011	–	–	–	389	1,407	1,796
– Second interim dividend of 4.5p per ordinary share paid on 9 December 2011	–	–	–	597	2,092	2,689
For the year ended 31 December 2012						
– Interim dividend of 3.0p per ordinary share paid on 21 September 2012	–	1,893	1,893	–	–	–
	–	1,893	1,893	1,532	5,682	7,214

A final dividend of 4.5p per share is proposed.

In the 2011 financial year Baronsmead VCT 3 paid a second interim dividend in lieu of a final dividend which resulted in three dividend payments in that year.

7. Returns per share

The 14.25p return per ordinary share (2011: 5.46p return) is based on the net profit from ordinary activities after taxation of £8,959,000 (2011: £3,285,000 profit) and on 62,863,845 ordinary shares (2011: 60,112,945), being the weighted average number of shares in circulation during the year.

Notes to the Accounts

8. Investments

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

Financial Reporting Standard 29 'Financial Instruments: Disclosures' (the Standard) requires an analysis of investments valued at fair value based on the reliability and significance of the information used to measure their fair value. The level is determined by the lowest (that is the least reliable or independently observable) level of input that is significant to the fair value measurement for the individual investment in its entirety as follows:

- Level 1 – investments whose prices are quoted in an active market.
- Level 2 – investments whose fair value is based directly on observable current market prices or indirectly being derived from market prices.
- Level 3 – investments whose fair value is determined using a valuation technique based on assumptions that are not supported by observable current market prices or based on observable market data.

	2012 £'000	2011 £'000
Level 1		
Listed interest bearing securities	**2,490**	9,979
Investments traded on AIM	**20,833**	14,402
Investments listed on LSE	**1,808**	1,318
	25,131	25,699
Level 2		
Collective investment vehicle (Wood Street Microcap Investment Fund)	**4,525**	2,826
Level 3		
Unquoted investments	**37,084**	30,787
	66,740	59,312

	2012 £'000	2011 £'000
Equity shares	**38,946**	28,324
Loan notes	**25,226**	21,009
Preference shares	**78**	–
Fixed income securities	**2,490**	9,979
	66,740	59,312

Notes to the Accounts

8. Investments (continued)

	Level 1			Level 2	Level 3	
	Listed interest bearing securities £'000	Traded on AIM £'000	Listed on LSE £'000	Collective investment vehicle £'000	Unquoted £'000	Total £'000
Opening book cost	9,979	17,310	1,729	2,525	24,893	56,436
Opening unrealised (depreciation)/appreciation	–	(2,908)	(411)	301	5,894	2,876
Opening valuation	9,979	14,402	1,318	2,826	30,787	59,312
Movements in the year:						
Purchases at cost	55,087	1,925	–	1,000	5,237	63,249
Sales – proceeds	(62,576)	(1,295)	–	–	(1,749)	(65,620)
– realised gains on sales	–	392	–	–	34	426
Unrealised (losses)/gains realised during the year	–	(1,465)	–	–	65	(1,400)
Increase in unrealised appreciation	–	6,874	490	699	2,710	10,773
Closing valuation	**2,490**	**20,833**	**1,808**	**4,525**	**37,084**	**66,740**
Closing book cost	2,490	16,867	1,729	3,525	28,480	53,091
Closing unrealised appreciation	–	3,966	79	1,000	8,604	13,649
Closing valuation	**2,490**	**20,833**	**1,808**	**4,525**	**37,084**	**66,740**

During the year the Company incurred brokerage costs on purchases of £1,500 (2011: £1,800) and brokerage costs on sales of £2,100 (2011: £1,000) in respect of ordinary shareholder interests.

The gains and losses included in the above table have all been recognised in the income statement on page 37.

The Standard requires disclosure, by class of financial instruments, 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 the investee company. The portfolio has been reviewed and both downside and upside reasonable possible alternatives have been identified and applied to the valuation of each of the unquoted investments. Applying the downside alternatives the value of the unquoted investments would be £2.5 million or 6.8 per cent. lower. Using the upside alternative the value would be increased by £2.6 million or 7.0 per cent.

Notes to the Accounts

9. Debtors

	2012 £'000	2011 £'000
Prepayments and accrued income	**375**	562
Amounts due from fundraising	**4,886**	–
	5,261	562

10. Creditors (amounts falling due within one year)

	2012 £'000	2011 £'000
Management, performance, secretarial and accounting fees due to the Manager	**474**	405
Fundraising costs	**139**	–
Other creditors	**64**	57
	677	462

11. Called-up share capital

Allotted, called-up and fully paid: *Ordinary shares*	£'000
67,619,851 ordinary shares of 10p each listed at 31 December 2011	6,762
8,112,068 ordinary shares of 10p each issued during the year	811
75,731,919 ordinary shares of 10p each listed at 31 December 2012	**7,573**
7,622,317 ordinary shares of 10p each held in treasury at 31 December 2011	(762)
1,306,897 ordinary shares of 10p each repurchased during the year and held in treasury	(131)
8,929,214 ordinary shares of 10p each held in treasury at 31 December 2012	**(893)**
66,802,705 ordinary shares of 10p each in circulation at 31 December 2012	**6,680**

As at 15 February 2013 the Company's issued share capital was 75,731,919 ordinary shares of 10 pence each, of which 8,929,214 were held in treasury. The number of shares in circulation was 66,802,705 ordinary shares carrying one vote each.

The capital of the Company is managed in accordance with its investment policy, in pursuit of its investment objectives, both of which are detailed in the Report of the Directors on pages 20 and 21.

Notes to the Accounts

11. Called-up share capital (continued)

Treasury shares

The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 came into force on 1 December 2003 and allowed the Company to hold shares acquired by way of market purchase as treasury shares, rather than having to cancel them. Shareholders have previously approved a resolution permitting the Company to issue shares from treasury at a discount to the prevailing NAV if the Board considers it in the best interests of the Company to do so. However, treasury shares will not be sold at a discount wider than the discount prevailing at the time the shares were initially bought back by the Company. It is the Board's intention only to use the mechanism of reissuing treasury shares when demand for the Company's shares is greater than the supply available in the market place. Treasury shares would not be considered by HM Revenue & Customs to be new shares entitling the purchaser to initial income tax relief, and therefore shares are unlikely to be issued from treasury in the same year as a ''top up'' offer for subscription.

The Company does not have any externally imposed capital requirements. Where shares are bought back but not cancelled the issued share capital remains unchanged. The NAV is calculated by using the number of shares in issue less those bought back and held in treasury.

12. Reserves

	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revaluation reserve £'000	Revenue reserve £'000
At 31 December 2011	15,012	10,862	24,262	2,876	321
Gross proceeds of share issues	8,324	–	–	–	–
Purchase of shares for treasury	–	–	(1,260)	–	–
Expenses of share issue and buybacks	(470)	–	(4)	–	–
Reallocation of prior year unrealised gains	–	–	(1,400)	1,400	–
Realised gain on disposal of investments*	–	–	426	–	–
Net increase in value of investments*	–	–	–	9,373	–
Management fee capitalised*	–	–	(1,228)	–	–
Taxation relief from capital expenses*	–	–	25	–	–
Revenue profit on ordinary activities after taxation*	–	–	–	–	363
Dividends paid in the year	–	–	(1,893)	–	–
At 31 December 2012	**22,866**	**10,862**	**18,928**	**13,649**	**684**

At 31 December 2012, reserves distributable by way of dividend amounted to £19,612,000 (2011: £21,264,000), comprising the capital reserve and revenue reserve less the net unrealised loss on those level one investments whose prices are quoted in an active market and deemed readily realisable.

* The total of these items is £8,959,000 which agrees to the total profit on ordinary activities after taxation on page 37.

Notes to the Accounts

13. Net asset value per share

The net asset value per share and the net asset values attributable to the ordinary shares at the year end are calculated in accordance with their entitlements in the Articles of Association and were:

	Number of shares		Net asset value per share attributable		Net asset value attributable	
	2012 number	2011 number	**2012 pence**	2011 pence	**2012 £'000**	2011 £'000
Ordinary shares (basic)	**66,802,705**	59,997,534	**111.62**	100.16	**74,562**	60,095
Ordinary shares (treasury)	**75,731,919**	67,619,851	**110.88**	99.16	**83,971**	67,050

Basic net asset value per share is based on net assets at the year end, and on 66,802,705 (2011: 59,997,534) ordinary shares, being the respective number of shares in circulation at the year end.

The treasury net asset value per share as at 31 December 2012 included ordinary shares held in treasury valued at the mid share price of 105.38p at 31 December 2012 (2011: 91.25p).

14. Analysis of changes in cash

	2012 £'000	2011 £'000
Beginning of year	**683**	1,268
Net cash inflow/(outflow)	**2,555**	(585)
As at 31 December 2012	**3,238**	683

15. Reconciliation of profit on ordinary activities before taxation to net cash outflow from operating activities

	2012 £'000	2011 £'000
Profit on ordinary activities before taxation	**8,959**	3,285
Gains on investments	**(9,799)**	(3,227)
Decrease/(increase) in debtors	**187**	(101)
Increase/(decrease) in creditors	**76**	(31)
Income reinvested	**(29)**	–
Net cash outflow from operating activities	**(606)**	(74)

16. Contingencies, guarantees and financial commitments

At 31 December 2012 there were no contingent liabilities, guarantees or financial commitments of the Company.

17. Significant interests

There are no interests of 20 per cent. or more of any class of share capital in any underlying holdings in investee companies.

Further information on the significant interests is disclosed on page 26.

Notes to the Accounts

18. Financial instruments and associated risks

The Company's financial instruments comprise equity and fixed interest investments, cash balances and liquid resources. The Company holds financial assets in accordance with its investment policy to invest in a diverse portfolio of established and profitable UK unquoted companies and companies raising new share capital on AIM.

Fixed asset investments held (see note 8) are valued at fair value. For quoted securities this is either bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted. In respect of unquoted investments, these are valued at fair value by the Directors (using rules consistent with IPEV (International Private Equity and Venture Capital Valuation) guidelines). The fair value of all other financial assets and liabilities is represented by their carrying value in the Balance sheet.

The Company's investing activities expose it to various types of risk that are associated with financial instruments and markets in which it invests. The most important types of financial risk to which the Company is exposed are market risk, interest rate risk, credit risk and liquidity risk. The nature and extent of the financial instruments held at the balance sheet date and the risk management policies employed by the Company are discussed in notes 19 to 22.

19. Market risk

Market risk embodies the potential for both losses and gains and includes interest rate risk and price risk.

The Company's strategy on the management of investment risk is driven by the Company's investment objective as outlined in note 18. The management of market risk is part of the investment management process and is typical of private equity investment. The portfolio is managed in accordance with policies and procedures in place as described in more detail in the Report of the Directors on pages 20 to 22, with an awareness of the effects of adverse price movements through detailed and continuing analysis, with an objective of maximising overall returns to shareholders. Investments in unquoted stocks and AIM traded companies, by their nature, involve a higher degree of risk than investments in the main market. Some of that risk can be mitigated by diversifying the portfolio across business sectors and asset classes. The Company's overall market positions are monitored by the Board on a quarterly basis.

Details of the Company's investment portfolio at the balance sheet date are disclosed in the schedule of investments set out on pages 60 and 61. An analysis of investments between debt and equity instruments is disclosed in note 8.

41 per cent. (2011: 31 per cent.) of the Company's investments are listed on the London Stock Exchange, traded on AIM or invested through Wood Street Microcap Fund. A 5 per cent. increase in stock prices as at 31 December 2012 would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £1,358,000 (2011: £927,000); an equal change in the opposite direction would have decreased the net assets attributable to the Company's shareholders and the total profit for the year by an equal amount.

56 per cent. (2011: 52 per cent.) of the Company's investments are in unquoted companies held at fair value. Valuation methodology includes the application of earnings multiples derived from either listed companies with similar characteristics or recent comparable transactions. Therefore the value of the unquoted element of the portfolio may also be indirectly affected by price movements on the listed exchanges. A 5 per cent. increase in the valuations of unquoted investments at 31 December 2012 would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £1,854,000 (2011: £1,539,000); an equal change in the opposite direction would have decreased the net assets attributable to the Company's shareholders and the total profit for the year by an equal amount.

Notes to the Accounts

20. Interest rate risk

At 31 December 2012 £2,000,000 (2011: £6,799,000) fixed rate securities were held by the Company. As a result, the Company is exposed to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates. However the effect of these interest rate changes is not materially significant.

At 31 December 2012 £25,226,000 (2011: £21,009,000) fixed rate loan notes were held by the Company. The weighted average coupon rate for the loan note securities is 9.38 per cent. as at 31 December 2012 (2011: 9.34 per cent.). Due to the complexity of the instruments and uncertainty surrounding timing of redemption the weighted average time for which the rate is fixed has not been calculated.

The table below summarises weighted average effective interest rates for the other fixed interest-bearing financial instruments:

Fixed rate

	2012			2011		
	Total fixed rate portfolio £'000	Weighted average interest rate %	Weighted average time for which rate is fixed days	Total fixed rate portfolio £'000	Weighted average interest rate %	Weighted average time for which rate is fixed days
Fixed interest instruments	**2,000**	**0.12**	**21**	6,799	0.2	3

Floating rate

When the Company retains cash balances, the majority of cash is ordinarily held on interest bearing deposit accounts and, where appropriate, within an interest bearing money market open ended investment company ("OEIC"). The benchmark rate which determines the interest payments received on interest bearing cash balances is the bank base rate which was 0.5 per cent. as at 31 December 2012 (2011: 0.5 per cent.).

	2012 £'000	2011 £'000
Floating rate		
Floating rate instruments ("OEIC")	**490**	3,180
Cash at bank	**1,438**	683
Cash on deposit	**1,800**	–
	3,728	3,863

Notes to the Accounts

21. 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 has in place a monitoring procedure in respect of counterparty risk which is reviewed on an ongoing basis. The carrying amounts of financial assets represent the maximum credit risk exposure at the balance sheet date.

At the reporting date, the Company's financial assets exposed to credit risk amounted to the following:

	2012 £'000	2011 £'000
Investments in fixed interest instruments	**2,000**	6,799
Investments in floating rate instruments	**490**	3,180
Cash at bank	**1,438**	683
Cash on deposit	**1,800**	–
Interest, dividends and other receivables	**5,261**	562
	10,989	11,224

Credit risk arising on unquoted loan notes is considered in conjunction with the associated equity investment in the portfolio company.

Credit risk arising on fixed interest instruments is mitigated by investing in UK Government Stock.

Credit risk arising on floating rate instruments is mitigated by investing in money market open ended investment companies managed by BlackRock. Credit risk on unquoted loan stock held within unlisted investments is considered to be part of market risk as disclosed in note 19.

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered to be small due to the short settlement period involved and the high credit quality of the brokers used. The Board monitors the quality of service provided by the brokers used to further mitigate this risk.

All assets of the Company which are traded on a recognised exchange are held by JP Morgan Chase ("JPM"), the Company's custodian. The Board monitors the Company's risk by reviewing the custodian's internal controls reports as described in the Corporate Governance section on page 31.

The cash held by the Company is held by JPM and Lloyds TSB. The Board monitors the Company's risk by reviewing regularly the internal control reports of these banks. Should the credit quality or the financial position of either bank deteriorate significantly the Investment Manager will seek to move the cash holdings to another bank.

There were no significant concentrations of credit risk to counterparties at 31 December 2012 or 31 December 2011. No individual investment exceeded 6.9 per cent. of the net assets attributable to the Company's shareholders at 31 December 2012 (2011: 9.4 per cent.).

Notes to the Accounts

22. Liquidity risk

The Company's financial instruments include investments in unquoted companies which are not traded in an organised public market as well as AIM-traded equity investments both of which generally may be illiquid. As a result, the Company may not be able to liquidate quickly some of its investments in these instruments at an amount close to their fair value in order to meet its liquidity requirements, or to respond to specific events such as deterioration in the creditworthiness of any particular issuer.

The Company's liquidity risk is managed on an ongoing basis by the Investment Manager in accordance with policies and procedures as described in the Report of the Directors on page 22. 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 December 2012 these investments were valued at £5,728,000 (2011: £10,662,000).

23. Related parties

Related party transactions include Management, Secretarial, Accounting and Performance fees payable to the Manager, ISIS EP LLP, as disclosed in notes 3 and 4, and fees paid to the Directors as disclosed in note 4. In addition, the Manager operates a Co-Investment Scheme, detailed in the Report of the Directors on pages 25 and 26, whereby employees of the Manager are entitled to participate in certain unquoted investments alongside the Company.

Notice of Annual General Meeting

Notice is hereby given that the twelfth Annual General Meeting of Baronsmead VCT 3 plc will be held at Plaisterers' Hall, One London Wall, London EC2Y 5JU on Wednesday, 10 April 2013 at 10:30 a.m. for the purposes of considering and, if thought fit, passing the following resolutions, **Resolutions 1 to 9 being proposed as ordinary resolutions and Resolutions 10 to 12 being proposed as special resolutions:**

1. THAT the Report and Accounts for the year to 31 December 2012 be received.
2. THAT a final dividend of 4.5p per ordinary share be declared.
3. THAT the Directors' Remuneration Report for the year to 31 December 2012 be approved.
4. THAT Ian Orrock be re-elected as a Director of the Company.
5. THAT Andrew Karney be re-elected as a Director of the Company.
6. THAT Gillian Nott be re-elected as a Director of the Company.
7. THAT KPMG Audit Plc be re-appointed as independent auditor.
8. THAT the Directors of the Company be authorised to determine the remuneration of the auditor.
9. THAT, in substitution for all subsisting authorities to the extent unused, the Directors of the Company be and are hereby generally and unconditionally authorised, in accordance with section 551 of the Companies Act 2006, to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company ("Rights") up to an aggregate nominal amount of £3,340,135 during the period commencing on the passing of this resolution and expiring on the fifth anniversary of the date of the passing of this resolution (unless previously revoked, varied, renewed or extended by the Company in general meeting), but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require shares to be allotted or Rights to be granted after such expiry and the Directors of the Company shall be authorised to allot shares or grant Rights pursuant to any such offers or agreements as if the authority conferred by this resolution had not expired.
10. THAT, subject to the passing of Resolution 9 set out in the notice of this meeting and in substitution for all existing authorities to the extent unused, the Directors of the Company be and are hereby empowered, pursuant to sections 570 and 573 of the Companies Act 2006 (the "Act") to allot equity securities (as defined in section 560 of the Act) including the grant of rights to subscribe for or to convert any security into shares of the Company, for cash pursuant to the authority conferred by Resolution 9 set out in the notice of this meeting, and to sell equity securities held by the Company as treasury shares for cash, as if section 561(1) of the Act did not apply to any such allotment and sales of equity securities, provided that this power shall be limited to:

    (a) the allotment of equity securities up to an aggregate nominal amount representing 30 per cent. of the issued share capital of the Company (excluding treasury shares) as at the date of the passing of this resolution pursuant to one or more offers for subscription;

    (b) the allotment of equity securities up to an aggregate nominal amount representing 10 per cent. of the issued share capital of the Company (excluding treasury shares) from time to time which may be issued at a discount to NAV pursuant to any dividend reinvestment scheme operated by the Company; and

    (c) the allotment of equity securities (otherwise than pursuant to sub-paragraphs (a) and (b) above) up to an aggregate nominal amount representing 10 per cent. of the issued share capital of the Company (excluding treasury shares) from time to time which may be at a discount to NAV; and

Notice of Annual General Meeting

in each case where such proceeds of issue may be used to purchase shares in the Company and the power conferred by this resolution shall expire on the date falling 15 months after the date of the passing of this resolution (unless previously revoked, varied, renewed or extended by the Company in general meeting) or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2014, except that the Company may, before such expiry, make offers or agreements which would or might require equity securities to be allotted after such expiry and the Directors of the Company shall be authorised to allot equity securities pursuant to any such offers or agreements as if the power conferred by this resolution had not expired.

11. THAT, in substitution for the Company's existing authority to make market purchases, the Company be and hereby is empowered to make market purchases within the meaning of section 693(4) of the Companies Act 2006 (the "Act") of ordinary shares of 10p each in the capital of the Company ("Ordinary Shares") on such terms and in such manner as the Directors of the Company shall from time to time determine, provided that:

    (a) the aggregate number of Ordinary Shares which may be purchased shall not exceed 14.99 per cent. of the Company's Ordinary Shares in issue at the date of the Annual General Meeting, excluding any Ordinary Shares held in treasury (equivalent to 10,013,725 Ordinary Shares at 15 February 2013, the date of this Notice of Annual General Meeting);

    (b) the minimum price which may be paid for an Ordinary Share is the nominal value thereof of 10 pence;

    (c) the maximum price (exclusive of expenses) which may be paid for an Ordinary Share is an amount equal to the higher of (i) an amount equal to 105 per cent. of the average of the middle market quotation for an Ordinary Share taken from the London Stock Exchange daily official list for the five business days immediately preceding the day on which such Ordinary Share is to be purchased; and (ii) the amount stipulated by Article 5(1) of the Buyback and Stabilisation Regulation 2003;

    (d) the authority conferred by this resolution shall expire on the date falling 15 months after the date of the passing of this resolution or, if earlier, the conclusion of the Annual General Meeting to be held in 2014, unless such authority is renewed prior to such time; and

    (e) the Company may make a contract to purchase Ordinary Shares under the authority conferred by this resolution prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of such Ordinary Shares pursuant to such contract as if the authority conferred by this resolution had not expired.

12. THAT a general meeting (other than an annual general meeting) may be called on not less than 14 clear days' notice, provided that this authority shall expire at the conclusion of the next annual general meeting of the Company.

By Order of the Board

ISIS EP LLP
Secretary
15 February 2013

Registered Office:
100 Wood Street
London EC2V 7AN

Notice of Annual General Meeting

1. No Director has a service contract with the Company.
2. To be entitled to attend and vote at the meeting (and for the purposes of the determination by the Company of the number of votes they may cast), members must be registered in the Register of Members of the Company at 6:00 pm on 8 April 2013 (or in the event of any adjournment, 48 hours before the time of the adjourned meeting). Changes to the Register of Members of the Company after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
3. A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend, speak and vote on his or her behalf. A proxy need not also be a member, but must attend the meeting to represent you. Details of how to appoint the Chairman of the meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.
4. To appoint more than one proxy, an additional proxy form(s) may be obtained by contacting the Company's registrars, Computershare Investor Services PLC, helpline on 0870 889 3250 or you may photocopy the proxy form. Please indicate in the box next to the proxy holder's name, the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided, if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
5. A reply paid form of proxy is enclosed with Shareholders' copies of this document. To be valid, it should be lodged with the Company's registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ so as to be received not later than 10:30 am on 8 April 2013 or, 48 hours before the time appointed for any adjourned meeting or, in the case of a poll taken subsequent to the date of the meeting or adjourned meeting, so as to be received no later than 24 hours before the time appointed for taking the poll.
6. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that, if it is appointing more than one corporate representative, it does not do so in relation to the same shares. It is therefore no longer necessary to nominate a designated corporate representative.
7. Any person receiving a copy of this Notice as a person nominated by a member to enjoy information rights under section 146 of the Companies Act 2006 (a "Nominated Person") should note that the provisions in Notes 3 and 4 above concerning the appointment of a proxy or proxies to attend the meeting in place of a member, do not apply to a Nominated Person as only Shareholders have the right to appoint a proxy. However, a Nominated Person may have a right under an agreement between the Nominated Person and the member by whom he or she was nominated to be appointed, or to have someone else appointed, as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may have a right under such an agreement to give instructions to the member as to the exercise of voting rights at the meeting.
8. Nominated persons should also remember that their main point of contact in terms of their investment in the Company remains the member who nominated the Nominated Person to enjoy information rights (or, perhaps the custodian or broker who administers the investment on their behalf). Nominated Persons should continue to contact that member, custodian or broker (and not the Company) regarding any changes or queries relating to the Nominated Person's personal details and interest in the Company (including any administrative matter). The only exception to this is where the Company expressly requests a response from a Nominated Person.
9. Appointment of a proxy will not preclude a member from subsequently attending and voting at the meeting should the member subsequently decide to do so. A member can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form. The termination of the authority of a person to act as a proxy must be notified to the Company in writing. Amended instructions must be received by Computershare Investor Services PLC by the deadline for receipt of proxies.

   Should a member wish to appoint a proxy electronically, such proxy appointment must be registered electronically at www.eproxyappointment.com, so as to be received not later than 10:30 am on 8 April 2013 or 48 hours before the time appointed for any adjourned meeting or, in the case of a poll taken subsequent to the date of the meeting or adjourned meeting, so as to be received no later than 24 hours before the time appointed to take the poll. To vote electronically, you will be asked to provide the Control Number, Shareholder Reference Number (SRN) and PIN, details of which are contained in the personalised proxy form enclosed. This is the only acceptable means by which proxy instructions may be submitted electronically.
10. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by utilising the procedures described in the CREST manual, which is available to download from the Euroclear website (www.euroclear.com/CREST). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

Notice of Annual General Meeting

11. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST manual. The message must be transmitted so as to be received by the Issuer's agent (3 RA50) by the latest time for receipt of proxy appointments specified in note 5 above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST applications host) from which the Issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.
12. CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST system and timings.
13. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) of the Uncertificated Securities Regulations 2001.
14. As at 15 February 2013, being the latest practicable date prior to the printing of this notice, the Company's issued share capital consists of 75,731,919 Ordinary Shares of which 8,929,214 are held in Treasury. The total number of voting rights in the Company is 66,802,705.
15. A copy of this Notice of Annual General Meeting and the information required by Section 311A Companies Act 2006 is included on the Company's website, www.baronsmeadvct3.co.uk.
16. Section 319A of the Companies Act 2006 requires the Directors to answer any question raised at the Annual General Meeting which, relates to the business of the meeting, although no answer need be given (a) if to do so would interfere unduly with the preparation of the meeting or involve disclosure of confidential information; (b) if the answer has already been given on the Company's website; or (c) if it is undesirable in the best interests of the Company or the good order of the meeting. Members satisfying the thresholds in section 527 of the Companies Act 2006 can require the Company to publish a statement on its website setting out any matter relating to (a) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (b) any circumstances connected with an auditor of the Company ceasing to hold office since the last Annual General Meeting, that the members propose to raise at the meeting. The Company cannot require the members requesting the publication to pay its expenses. Any statement required to be placed on the website must also be sent to the Company's auditors no later than the time it makes the statement available on its website. The business which may be dealt with at the meeting includes any statement that the Company has been required to publish on its website. By attending the meeting, members and their proxies and representatives are understood by the Company to have agreed to receive any communications relating to the Company's shares made at the meeting.
17. Under sections 338 and 338A of the Companies Act 2006, members meeting the threshold requirements in those sections have the right to require the Company:

    (i) to give, to members of the Company entitled to receive notice of the meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting; and/or

    (ii) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in the business.

    A resolution may properly be moved or a matter may properly be included in the business unless:

    (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise);

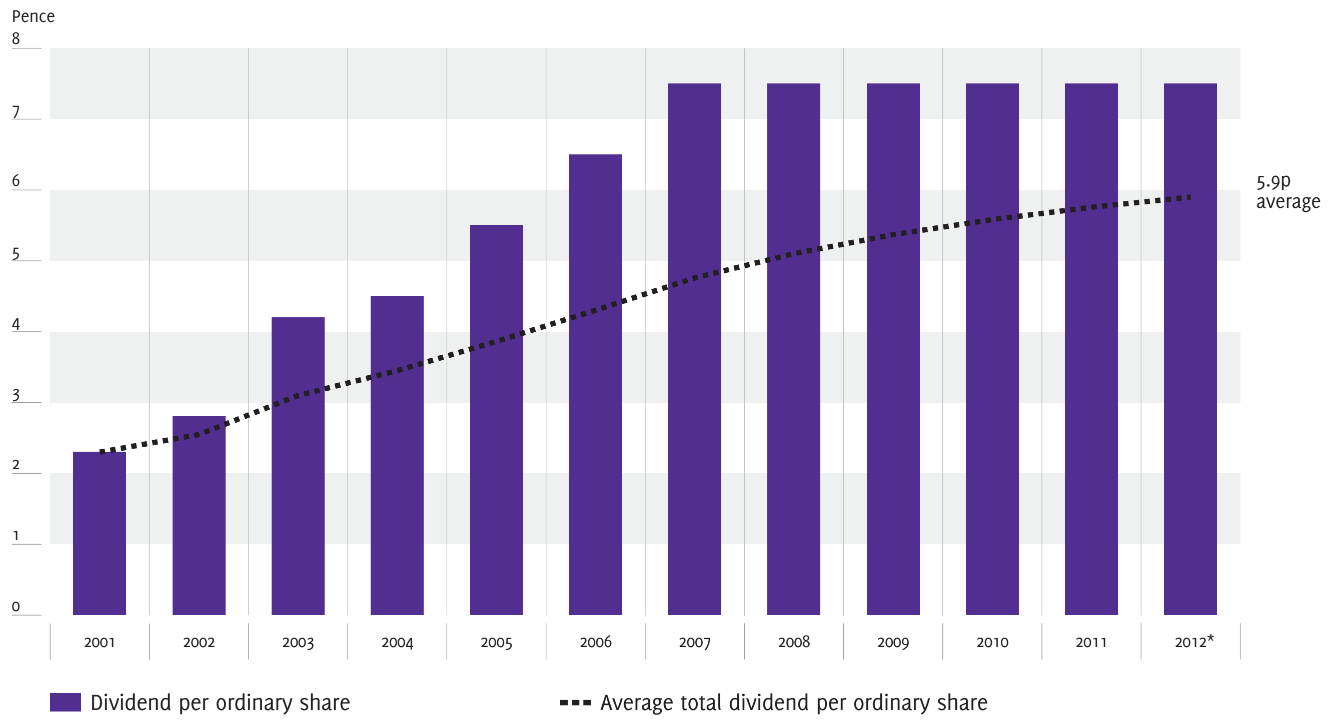
    (b) it is defamatory of any person; or

    (c) it is frivolous or vexatious.

    Such a request may be in hard copy form or in electronic form, and must identify the resolution of which notice is to be given or the matter to be included in the business, must be authorised by the person or persons making it, must be received by the Company not later than 26 February 2013, being the date six clear weeks before the meeting.
18. Any electronic address provided either in this Notice or in any related documents (including the proxy form) may not be used to communicate with the Company for any purposes other than those expressly stated.

Appendix

Dividend History Since Launch



Source: ISIS EP LLP

* Includes proposed final dividend of 4.5p.

Cash Returned to Shareholders

The table below shows the cash returned to shareholders dependent on their subscription cost, including their income tax reclaimed on subscription.

Year subscribed	Subscription price p	Income tax reclaim p	Net cash invested p	Cumulative dividends paid‡ p	Net annual yield* %	Gross equivalent yield† %
2001 (January)	100.0	20.0	80.0	70.8	7.4	9.9
2005 (March) – C share	100.0	40.0	60.0	39.1	8.3	11.1
2010 (March)	103.1	30.9	72.2	22.5	11.2	15.0

The total return could be higher for those shareholders who were able to defer a capital gain on subscription and the net sum invested may be less.

‡ Includes proposed final dividend of 4.5p.

* Net annual yield represents the cumulative dividends paid expressed as a percentage of the net cash invested.

† The gross equivalent yield if the dividends had been subject to the higher rate of tax on dividends (currently 32.5 per cent.). The gross equivalent yield based on additional rate of tax on dividends (42.5 per cent. in the tax year 2011/12 and 2012/13 and 37.5 per cent. from the 2013/14 tax year), has not been included. For those shareholders who earn over £150,000 per tax year and who would otherwise pay this additional rate of tax on dividends, the gross equivalent yield will be higher than the figures stated above.

Dividends paid to C shareholders post conversion have been adjusted by the conversion ratio (0.85642528).

Appendix

Performance Record Since Launch

Year ended 31 December	Total net assets £m	Ordinary share Net asset value p	Share price (mid) P	Net asset value total return* p	Total expense ratio %
2001	31.1	93.85	88.00	101.21	2.9
2002	32.1	94.85	85.50	105.35	3.3
2003	33.0	97.15	90.00	112.65	3.1
2004	35.1	106.38	92.50	125.64	3.5
2005	56.2	117.31	100.50	144.77	3.5
2006	66.5	130.77	116.50	169.27	3.4
2007	65.2	120.44	111.50	170.56	3.4
2008	55.1	102.72	90.50	149.56	3.0
2009	52.9	97.50	86.25	159.89	3.1
2010	64.6	106.60	94.25	180.19	3.0
2011	60.1	100.16	91.25	189.74	3.0
2012	**74.6**	**111.62**	**105.38**	**217.38**	**3.0†**

* Source: ISIS EP LLP and AIC.

† 31 December 2012 figure is based on the new AIC guidelines for the calculation of ongoing charges.

Dividends Paid Since Launch

Year ended 31 December	Ordinary share Revenue dividend p	Capital dividend p	**Total annual dividend p**	Cumulative dividends p	Average total annual dividend p
2001	2.30	–	**2.30**	2.30	2.30
2002	2.80	–	**2.80**	5.10	2.55
2003	2.20	2.00	**4.20**	9.30	3.10
2004	1.20	3.30	**4.50**	13.80	3.45
2005	2.00	3.50	**5.50**	19.30	3.86
2006	1.75	4.75	**6.50**	25.80	4.30
2007	2.30	5.20	**7.50**	33.30	4.76
2008	2.40	5.10	**7.50**	40.80	5.10
2009	1.20	6.30	**7.50**	48.30	5.37
2010	2.00	5.50	**7.50**	55.80	5.58
2011	1.65	5.85	**7.50**	63.30	5.75
2012*	**0.50**	**7.00**	**7.50**	**70.80**	**5.90**

* Includes proposed final dividend of 4.5p.

Appendix

Breakdown of Shareholdings

The shareholdings of ordinary shares as at 31 December 2012 (excluding shares held in Treasury) are analysed as follows:

	Ordinary shares			
Size of shareholding	Number of shareholders	Percentage of total number of shareholders	Number of shares	Percentage of shares
1 – 2,000	321	8.67	393,392	0.52
2,001 – 5,000	926	24.99	3,359,415	4.44
5,001 – 10,000	884	23.86	6,675,543	8.81
10,001 – 25,000	929	25.07	15,324,640	20.23
25,001 – 50,000	410	11.07	14,621,266	19.31
50,001 – 100,000	163	4.40	11,530,966	15.23
100,001 – 1,500,000	72	1.94	23,826,697	31.46
Total	**3,705**	**100.00**	**75,731,919**	**100.00**

Full Investment Portfolio

Company	Sector	Book cost £'000	31 December 2012 Valuation £'000	31 December 2011 Valuation £'000	% of net assets	% of Equity held by Baronsmead VCT 3 plc	% of Equity held by all funds#
Unquoted							
Nexus Vehicle Holdings Limited	Business Services	2,368	4,768	5,658	6.4	12.3	56.0
CableCom Networking Holdings Limited	TMT*	1,381	4,328	3,707	5.8	10.6	48.0
Independent Living Services Limited	Healthcare & Education	1,599	3,322	1,293	4.5	15.6	65.7
Crew Clothing Holdings Limited	Consumer Markets	1,344	3,020	2,676	4.1	6.1	25.5
Kafevend Holdings Limited	Consumer Markets	1,252	2,956	1,991	4.0	15.8	66.5
CSC (World) Limited	TMT*	1,606	2,410	1,940	3.2	8.8	40.0
Valldata Group Limited	Business Services	1,616	1,754	1,694	2.4	8.8	39.8
Fisher Outdoor Leisure Holdings Limited	Consumer Markets	1,423	1,656	1,777	2.2	10.5	44.0
Inspired Thinking Group Limited	Business Services	796	1,571	1,368	2.1	5.0	22.5
Independent Community Care Management Limited	Healthcare & Education	1,346	1,491	1,346	2.0	10.9	55.0
Impetus Holdings Limited	Business Services	1,057	1,057	–	1.4	7.8	39.3
Arcas Investments Limited	Business Services	1,000	1,000	1,000	1.3	9.6	48.6
Consumer Investment Partners Limited†	Consumer Markets	1,000	1,000	–	1.3	9.6	48.6
HealthTech Innovation Partners Limited	Healthcare & Education	1,000	1,000	1,000	1.3	9.6	48.6
Quest Venture Partners Limited	Business Services	1,000	1,000	1,000	1.3	9.6	48.6
Riccal Investments Limited^	Business Services	1,000	1,000	–	1.3	9.6	48.6
Pho Holdings Limited	Consumer Markets	987	987	–	1.3	5.5	28.0
MLS Limited	TMT*	93	956	1,043	1.3	5.3	22.5
Happy Days Consultancy Limited	Healthcare & Education	833	833	–	1.1	8.4	42.5
Playforce Holdings Limited	Business Services	1,033	512	512	0.7	9.7	44.0
Surgi C Limited	Healthcare & Education	1,102	350	650	0.5	13.3	57.5
Kidsunlimited Group Limited	Business Services	113	113	113	0.2	N/A	N/A
Carnell Contractors Limited	Business Services	941	0	0	0.0	##	##
Empire World Trade Limited	Business Services	1,297	0	321	0.0	‡	‡
Music Festivals plc Loan note	Consumer Markets	400	0	400	0.0	N/A	N/A
Xention Discovery Limited	Healthcare & Education	893	0	0	0.0	0.4	3.0
Total unquoted		**28,480**	**37,084**		**49.7**		

All funds managed by the same investment manager, ISIS EP LLP, including Baronsmead VCT 3.

* Technology, Media & Telecommunications ("TMT").

Following a restructuring and partial redemption the funds no longer hold equity in Carnell Contractors Limited.

‡ Following a restructuring, the effective ownership percentage is dependent on final exit proceeds.

† Formerly named Ingleby (1887) Limited.

^ Formerly named Ingleby (1885) Limited.

Appendix

Full Investment Portfolio

Company	Sector	Book cost £'000	31 December 2012 Valuation £'000	31 December 2011 Valuation £'000	% of net assets	% of Equity held by Baronsmead VCT 3 plc	% of Equity held by all funds#
AIM							
IDOX plc	TMT*	920	5,184	2,661	6.9	2.8	7.5
Netcall plc	TMT*	869	1,337	842	1.8	4.1	20.5
Murgitroyd Group plc	Business Services	319	1,173	791	1.6	3.0	6.0
Jelf Group plc	Financial Services	761	1,024	877	1.4	1.4	5.6
Escher Group Holdings plc	TMT*	614	885	564	1.2	1.9	9.7
Driver Group plc	Business Services	563	786	259	1.0	4.1	19.4
Dods (Group) plc	TMT*	1,219	649	105	0.9	4.2	20.1
Accumuli plc	TMT*	465	636	473	0.9	4.3	23.6
FFastFill plc	TMT*	314	612	448	0.8	0.9	5.9
Tasty plc	Consumer Markets	469	595	547	0.8	2.5	17.1
TLA Worldwide plc	Business Services	620	589	620	0.8	3.5	17.7
Vianet Group plc	Business Services	646	508	388	0.7	1.9	9.7
Anpario plc	Healthcare & Education	275	506	315	0.7	2.0	14.7
Tangent Communications plc	Business Services	483	495	175	0.7	2.0	10.3
Sinclair IS Pharma plc	Healthcare & Education	524	490	399	0.6	0.4	2.2
Hangar8 plc	Business Services	388	456	31	0.6	2.5	11.3
PROACTIS Holdings plc	TMT*	619	426	341	0.6	5.4	26.3
Inspired Energy plc	Business Services	300	405	217	0.5	2.4	11.8
EG Solutions plc	TMT*	375	379	256	0.5	3.1	14.2
Sanderson Group plc	TMT*	387	379	201	0.5	1.8	6.9
Electric Word plc	TMT*	696	366	312	0.5	5.2	28.2
Synectics plc	Business Services	296	352	261	0.5	0.6	2.1
GB Group plc	TMT*	150	341	176	0.4	0.3	1.7
Plastics Capital plc	Business Services	473	317	321	0.4	1.7	9.8
Paragon Entertainment Limited	Consumer Markets	200	300	425	0.4	3.1	17.3
Brady plc	TMT*	176	292	217	0.4	0.4	2.1
InterQuest Group plc	Business Services	310	265	298	0.4	1.7	6.8
Begbies Traynor Group plc	Financial Services	231	203	156	0.3	0.6	2.5
Ubisense Group plc	TMT*	130	165	137	0.2	0.3	1.6
Cohort plc	Business Services	179	144	119	0.2	0.3	1.4
Zattikka plc	TMT*	316	136	–	0.2	1.4	7.1
Tristel plc	Healthcare & Education	217	114	145	0.2	1.0	5.4
Aimshell Acquisitions plc	Business Services	400	96	77	0.1	3.1	12.3
STM Group plc	Financial Services	162	84	52	0.1	0.6	4.0
Active Risk Group plc	TMT*	159	54	125	0.1	1.1	5.6
Bglobal plc	Business Services	176	50	67	0.1	0.4	2.5
Green Compliance plc	Business Services	882	29	450	0.0	4.0	19.8
Zoo Digital Group plc	TMT*	584	11	8	0.0	0.2	0.6
Total AIM		**16,867**	**20,833**		**28.0**		
Listed							
Vectura Group plc	Healthcare & Education	771	1,343	900	1.8	0.5	1.3
Chime Communications plc	TMT*	369	396	293	0.5	0.2	0.8
Marwyn Management Partners plc	Financial Services	525	36	81	0.1	0.3	1.6
Marwyn Value Investors Limited	Financial Services	64	33	44	0.0	1.3	6.0
Total listed		**1,729**	**1,808**		**2.4**		
Listed interest bearing securities							
UK T-Bill 21/01/13		2,000	2,000	–	2.7		
BlackRock ICS plc – Institutional Sterling Liquidity Fund		490	490	1,590	0.6		
Total listed interest bearing securities		**2,490**	**2,490**		**3.3**		
Collective investment vehicle							
Wood Street Microcap Investment Fund		3,525	4,525	2,826	6.1		
Total collective investment vehicle		**3,525**	**4,525**		**6.1**		
Total investments		**53,091**	**66,740**		**89.5**		
Net current assets			**7,822**		**10.5**		
Net assets			**74,562**		**100.0**		

All funds managed by the same investment manager, ISIS EP LLP, including Baronsmead VCT 3.

* Technology, Media & Telecommunications ("TMT").

Shareholder Information and Contact Details

Shareholder Account Queries

The Registrar for **Baronsmead VCT 3** is Computershare Investor Services PLC ("Computershare").

The Registrar will deal with all of your queries with regard to your shareholder account, such as:

- Change of address
- Latest share price
- Your current share holding balance
- Your payment history, including any outstanding payments
- Your payment options (cheque, direct payment to your bank/building society account, reinvestment)
- Paper or electronic communications
- Request replacement cheques or share certificates (for which there may be additional administrative and other charges)

You can contact Computershare with your queries in several ways:

Telephone:	0870 889 3250 *(calls charged at geographical and national rates)*	• This is an automated self-service system • It is available 24 hours a day, 7 days a week • You should have your Shareholder Reference Number ("SRN") to hand, which is available on your share certificate and dividend tax voucher and which you should always keep confidential for security reasons • Press '0' if you wish to speak to someone • The Contact Centre in Bristol is available on UK business days between 8.30am – 5.00pm Monday to Friday
On-line:	**Investor Centre** www.investorcentre.co.uk	• Computershare's secure website, Investor Centre, allows you to manage your own shareholding online • You will need to register to use this service on the Investor Centre website • You should have your ("SRN") to hand, which is available on your share certificate and dividend tax voucher and which you should always keep confidential for security reasons
Email:	web.queries@computershare.co.uk	
Post:	Computershare Investor Services PLC The Pavilions Bridgwater Road Bristol BS99 6ZZ	

The **Baronsmead VCT 3** website is **www.baronsmeadvct3.co.uk**

The Investment Manager for **Baronsmead VCT 3** plc is **ISIS EP LLP** who can be contacted as follows:

Email: baronsmeadvcts@isisep.com
Telephone: 020 7506 5717
Facsimile: 020 7506 5718

Shareholder Information and Contact Details

Share Price

The Company's ordinary shares are listed on the London Stock Exchange. The mid-price of the Company's shares is given daily in the Financial Times in the Investment Companies section of the London Share Service. Share price information can also be obtained from the link on the Company's website and many financial websites.

Trading Shares

The Company's shares can be bought and sold in the same way as any other quoted company on the London Stock Exchange via a stockbroker. As buying and selling existing shares in VCTs is complex, Shareholders should seek to trade shares on a "best execution" basis if appropriate.

The marketmakers in the shares of Baronsmead VCT 3 plc are:

Panmure Gordon & Co	020 7886 2500
Singer Capital Markets Limited	020 3205 7500
Winterflood Securities Limited	020 3400 0251

Financial Calendar

10 April 2013	Twelfth Annual General Meeting
August 2013	Announcement of interim results and posting of half-yearly report
February 2014	Announcement of final results for year to 31 December 2013

Additional Information

The information provided in this report has been produced in order for shareholders to be informed of the activities of the Company during the period it covers. ISIS EP LLP does not give investment advice and the naming of companies in this report is not a recommendation to deal in them.

Baronsmead VCT 3 plc is managed by ISIS EP LLP which is authorised and regulated by the FSA. Past performance is not necessarily a guide to future performance. Stock markets and currency movements may cause the value of investments and the income from them to fall as well as rise and investors may not get back the amount they originally invested. Where investments are made in unquoted securities and smaller companies, their potential volatility may increase the risk to the value of, and the income from, the investment.

Secondary market in the shares of Baronsmead VCT 3 plc

The existing shares of the Company are listed on the London Stock Exchange and can be bought and sold using a stockbroker in the same way as shares of any other listed company.

Qualifying investors* who invest in the existing shares of the Company can benefit from:

- Tax free dividends
- Realised gains not subject to capital gains tax (although any realised losses are not allowable)
- No minimum holding period
- No need to include VCT dividends in annual tax returns

The UK tax treatment of VCTs is on a first in first out basis and therefore tax advice should be obtained before shareholders dispose of their shares and also if they deferred a capital gain in respect of new shares acquired prior to 6 April 2004.

* UK income tax payers, aged 18 or over, who acquire no more than £200,000 worth of VCT shares in a tax year.

Corporate Information

Directors

Anthony Townsend (Chairman)‡
Andrew Karney†
Gillian Nott OBE*
Ian Orrock

Secretary

ISIS EP LLP

Registered Office

100 Wood Street
London EC2V 7AN

Investment Manager

ISIS EP LLP
100 Wood Street
London EC2V 7AN
020 7506 5717

FPPE LLP (liquid assets only)
100 Wood Street
London EC2V 7AN

Registered Number

04115341

Registrars and Transfer Office

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Tel: 0870 889 3250

Auditors

KPMG Audit Plc
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EG

Solicitors

Norton Rose LLP
3 More London Riverside
London SE1 2AQ

VCT Status Adviser

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Website

www.baronsmeadvct3.co.uk

‡ Chairman of the Nomination Committee and Chairman of the Management Engagement and Remuneration Committee
† Senior Independent Director
* Chairman of the Audit and Risk Committee

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