OCTOPUS

TITAN VCT 3 PLC

ANNUAL REPORT & ACCOUNTS

FOR THE YEAR ENDED 31 OCTOBER 2010

Company Registration Number 06523078

FINANCIAL HEADLINES

(3.4)% Net asset value (NAV) return for the year to 31 October 2010

96.7p NAV at 31 October 2010

12 New qualifying investments in the year amounting to £3.4 million

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SHAREHOLDER INFORMATION AND CONTACT DETAILS

Financial Calendar

The Company's financial calendar is as follows

30 March 2011	– Annual General Meeting
June 2011	– Half-yearly results to 30 April 2011 published
February 2012	– Annual results for the year to 31 October 2011 announced, Annual Report and financial statements published

Share Price

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

	Ordinary shares
TIDM/EPIC code	OTV3
Latest share price (9 February 2011)	85 0p per share

Buying and Selling Shares

The Company's ordinary shares can be bought and sold in the same way as any other company quoted on the London Stock Exchange via a stockbroker There may be tax implications in respect of all or part of your holdings, so shareholders should contact their independent financial adviser if they have any queries

Octopus Titan VCT 3 operates a policy of buying its own shares for cancellation as they become available The Company is, however, unable to buy back shares directly from Shareholders If you are considering selling your shares or trading in the secondary market, please contact our broker, Matrix Corporate Capital ('Matrix')

Matrix is able to provide details of close periods (when the Company is prohibited from buying in shares) and details of the price at which the Company has bought in shares Matrix can be contacted as follows

Chris Lloyd
0203 206 7176 chris lloyd@matrixgroup co uk

Paul Nolan
0203 206 7177 paul nolan@matrixgroup co uk

SHAREHOLDER INFORMATION AND CONTACT DETAILS (continued)

Notification of Change of Address

Communications with shareholders are mailed to the registered address held on the share register In the event of a change of address or other amendment this should be notified to the VCT's registrar, Capita Registrars, as well as Octopus Investments under the signature of the registered holder Their contact details are provided on page 62

Other Information for Shareholders

Previously published Annual Reports and Half-yearly Reports are available for viewing on the Investment Manager's website at www octopusinvestments com by navigating to Services, Investor Services, Venture Capital Trusts, Octopus Titan VCT 3 All other statutory information will also be found there

Warning to Shareholders

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

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

If you are in any doubt about the veracity of an unsolicited phone call, please call either the Company, or the Registrar, at the numbers provided at the back of this report

ABOUT OCTOPUS TITAN VCT 3 PLC

Octopus Titan VCT 3 plc ('Titan 3', 'the Company' or 'the VCT') is a venture capital trust (VCT) which aims to provide shareholders with attractive tax-free dividends and long-term capital growth by investing in a diverse portfolio of predominately unquoted companies. The Company is managed by Octopus Investments Limited ('Octopus' or 'Investment Manager').

Titan 3 was incorporated on 4 March 2008 and raised over £20 0 million through an Offer for Subscription Titan 3 invests primarily in unquoted smaller UK companies and aims to deliver absolute returns on its investments

Further details of the VCT's progress are discussed in the Chairman's Statement and Investment Manager's Review on pages 5 to 19

On 31 August 2010 the VCT changed its Registered Office from 8 Angel Court, London EC2R 7HP to 20 Old Bailey, London EC4M 7AN

Venture Capital Trusts (VCTs)

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

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

Titan 3 has been provisionally approved as a VCT by HM Revenue & Customs (HMRC) In order to maintain its approval the Company must comply with certain requirements on a continuing basis By the end of the Company's third accounting period at least 70% of the Company's investments must comprise 'qualifying holdings' (as defined in the legislation) of which at least 30% must be in eligible ordinary shares A 'qualifying holding' consists of up to £1 million invested in any one year in new shares or securities in an unquoted UK company (or companies listed on AIM) which is carrying on a qualifying trade and whose gross assets do not exceed a prescribed limit at the time of investment The definition of a 'qualifying trade' excludes certain activities such as property investment and development, financial services and asset leasing The Company will continue to ensure its compliance with these qualification requirements

FINANCIAL SUMMARY

	As at 31 October 2010	As at 31 October 2009
Net assets (£'000s)	**19,607**	20,290
Return on ordinary activities after tax (£'000s)	**(683)**	1,204
Net asset value per share (NAV)	**96 7p**	100 1p

CHAIRMAN'S STATEMENT

I am pleased to present the annual results for the year ended 31 October 2010

Performance

During the year there was a decrease in net asset value (NAV) from 100 1p to 96 7p This decrease was partly due to the normal running costs of the VCT giving rise to a revenue loss of £241,000, and partly due to a small reduction in fair value of the OEICs, which had seen significant uplifts in 2009 (see below) The currently prevailing low rates of interest have meant that very little interest income has been received to offset the running costs of the VCT

At the balance sheet date of 31 October 2010, the VCT was invested in 21 unquoted companies and one AIM-quoted company The focus is to continue to invest in a broad range of unquoted smaller UK companies with the potential for high growth in order to generate capital growth over the long-term By value, 39 2% of the VCT's net assets were in unquoted investments, 1 4% in AIM-quoted investments and 27 3% in Octopus OEICS, leaving 32 1% in cash or cash equivalents

Investment Portfolio

The VCT made twelve new investments during the year totalling £3 4 million, in addition to seven follow-on investments amounting to £1 6 million Our investments are discussed in more detail in the Investment Manager's Review on pages 7 to 19 You will see that we have continued to add to the portfolio with investments in companies covering a diverse range of activities In the case of Zoopla, we have been able to recognise another significant uplift in value following the initial investment made in 2009, and we have also increased the value of the investment in Nature Delivered (trading as Graze), both reflecting subsequent funding rounds at increased values Inevitably, we have had to make a reduction in fair value in respect of five investments where the original business plans and milestones have been delayed or where there is uncertainty over whether they will be achieved We continue to adopt a prudent approach to the valuation of investments, but we are generally encouraged by the performance of the portfolio at this relatively early stage in its development, and the diverse range of investments held by the VCT

Open Ended Investment Companies (OEICs)

After significant uplifts in the valuation of the two Octopus OEICs in the prior year, this year has seen a reduction in the overall value of the investments The Absolute UK Equity Fund decreased in value by 16% whilst the UK Micro Cap Growth Fund increased by approximately 1% Although the Absolute UK Equity Fund reduction was significant in the year to 31 October 2010, the value remained 13% above cost at the year end and has increased further since that date The Board continues to monitor these funds and believes it remains a sensible strategy to maintain part of our non-qualifying portfolio in these OEICs, as set out in the original prospectus Further details of these OEICs may be found at www octopusinvestments com where monthly factsheets are available

Investment Strategy

As the VCT moves closer to achieving its initial investment targets in qualifying companies, your Board will continue to review the investment strategy in respect of the non-qualifying portfolio and specifically how we invest our cash resources As envisaged in the VCT's prospectus, between 15% and 25% of the VCT will be retained for liquidity and follow-on investments in the existing portfolio As our portfolio of unquoted companies matures, we will find that some companies may require further rounds of investment but these investments may not be qualifying for VCT purposes (for instance in situations where the company now employs more than 50 people) Your Board believes that there will be circumstances where it will be in our shareholders' interests to continue to invest, not least to avoid dilution Since this was not set out clearly in

CHAIRMAN'S STATEMENT (continued)

our prospectus, we have sought to further clarify the investment strategy and added a second paragraph to the Non-Qualifying section as set out on page 23 of the Directors' Report

We intend that the remainder of our cash reserves will continue to be invested in Octopus managed OEICS and lower risk, readily realisable investments

VCT Qualifying Status

PricewaterhouseCoopers LLP provides the Board and Investment Manager with advice concerning ongoing compliance with HMRC rules and regulations concerning VCTs The Board has been advised that Titan 3 is compliant with the conditions laid down by HMRC for maintaining provisional approval as a VCT

A key requirement now is to achieve the 70% qualifying investment level prior to 31 October 2011 As at 31 October 2010, 40 4% of the portfolio, as measured by HMRC rules, was invested in VCT qualifying investments In view of the current investment activity, the Board continues to be confident that the 70% target will be met by the required date Investments in a further three companies have been made since the year end and several follow-on investments into the existing portfolio are planned by mid 2011 Additionally, the pipeline of quality investment opportunities is encouraging

Annual General Meeting

The VCT's Annual General Meeting will take place on 30 March 2011 at 11 30 a m I look forward to welcoming you to the meeting which will be held at the offices of Octopus Investments Limited, at 20 Old Bailey, London EC4M 7AN

Outlook

Economic recovery is still in a very early phase and the environment in which portfolio companies are operating remains fragile Ongoing uncertainty, exacerbated by the change in government and the associated spending review, has caused some businesses to delay investment decisions and to react cautiously to unpredictable growth prospects

It is anticipated that growth in the first half of the next financial year will be weak Whilst we do not expect interest rates to change significantly over the next six months, banks remain reluctant to lend However, this should not have a significant impact on our early stage portfolio companies, which rely predominately on equity capital for their funding

Your Board is generally pleased with the overall progress being made by the portfolio and remains confident that the VCT is on track to meet its investment objectives and produce returns for shareholders that are consistent with the objectives of the VCT The recession has led to some delay in the portfolio companies accomplishing their ambitions but we remain cautiously optimistic However, it is likely that the NAV will continue to track downwards before the profitable realisation of investments is achieved in the medium term The Board does not propose to declare a dividend before profitable realisations are achieved

Octopus has recently launched Octopus Titan VCT 5 plc giving the Titan VCT family even greater presence in the marketplace which it believes will continue to be an advantage in terms of attracting quality investment opportunities

Mark Hawkesworth
Chairman
9 February 2011

INVESTMENT MANAGER'S REVIEW

Personal Service

At Octopus, we focus on both managing your investments and keeping you informed throughout the investment process We are committed to providing our investors with regular and open communication Our updates are designed to keep you informed about the progress of your investment. During this time of economic upheaval, we consider it particularly important to be in regular contact with our investors and are working hard to manage your money in the current climate

Octopus Investments Limited was established in 2000 and has a strong commitment to both smaller companies and to VCTs We currently manage 17 VCTs, including this VCT, and manage over £300m in the VCT sector Octopus has over 180 employees and has been voted as 'Best VCT Provider of the Year' by the financial adviser community for the last four years

Investment Policy Summary

The investment approach of Titan 3 is not designed to deliver a return that is measured against a stock market index Instead, the focus of Titan 3 is on generating absolute returns over the medium-term In order to achieve this goal, the VCT focuses on providing early stage, development and expansion funding to predominantly unquoted companies with a typical deal size of £0 25 million to £1 million

Investment Strategy

The investee companies are those that we believe have great potential but need some financial support to realise it. Each company that we target has the potential to create a large business by taking a relatively modest market share We are particularly interested in businesses that address current market trends and aim to create a balanced investment portfolio spanning multiple industries and business sectors

We expect that the portfolio of holdings built by Titan 3 will encompass investments in 20-30 predominantly unquoted companies, with a focus on the environmental, technology, media, telecoms and consumer lifestyle and wellbeing sectors It is envisaged that, at the end of the three year initial investment period, 75-85% of the proceeds of the Offer will be invested in a range of Qualifying Investments with 15-25% retained for liquidity and follow-on investments The cash reserves will be invested in a combination of cash, Open Ended Investment Companies (OEICs)* managed by Octopus and money market securities managed by third party specialists

Liquidity will be maintained in the VCT to ensure that adequate resources are available to support further portfolio funding needs as they arise The environment has remained challenging for smaller companies, which have felt the effects of the credit squeeze combined with the economic slowdown As well as seeing reductions in banking facilities, small companies also find themselves under pressure from suppliers who want to be paid earlier, customers who delay payments and weaker trading conditions The resulting pressure on cash will remain, even as the economy recovers, due to increasing working capital requirements We are therefore monitoring carefully all the portfolio companies to ensure that they not only control costs but also take advantage of some of the opportunities that occur in these circumstances We have sought to further support those companies that we believe have strong growth potential but need some financial support to realise it. Each company that we target is expected to have unique selling points and be capable of growing to a size that will make it attractive for acquisition by a larger company or will enable it to float on the stock market.

*Titan 3 has invested in two OEICs managed by Octopus, the CF Octopus Absolute UK Equity Fund and the CF Octopus UK Micro Cap Growth Fund

INVESTMENT MANAGER'S REVIEW (continued)

Portfolio Review

As at 31 October 2010 the NAV stood at 96 7p, compared to 100 1p at 31 October 2009, this represents a negative return of 3 4% The period showed satisfactory performance in the Qualifying Investments that the VCT holds and a slightly disappointing period for the Non-Qualifying OEIC holdings with a reduction in value of 16% in the Absolute UK Equity Fund, offset slightly by a rise of 1% in the UK Micro Cap Growth Fund

At 31 October 2010, Titan 3 held 40 4% in Qualifying Investments from an HMRC perspective and we are continuing to work with each portfolio business as they develop their propositions in their respective markets As Investment Manager, it is our intention to take those businesses in which we have invested a small amount of money as a first investment, and invest further as they meet or exceed the initial milestone objectives we agreed with them This can be demonstrated through the further investments in Calastone, True Knowledge and Graze

Since the balance sheet date, Titan 3 has invested £367,000 into Diverse Energy, a company focusing on the infrastructure of energy for global telecommunications, £450,000 into 1OCMS, an interactive merchandising platform and £500,000 into Vega-Chi, an electronic multilateral trading facility This has brought the total portfolio to 25 current trading businesses in qualifying holdings In addition a further Non-Qualifying Investment of £296,000 has been invested into Zoopla and a Qualifying Investment of £246,000, £18,500 and £133,332 has been made into Semafone, Skills Market, and Money Workout respectively At 31 January 2011, the VCT held 50 1% in Qualifying Investments from an HMRC perspective

Outlook

At the time of writing, we are looking to make a number of follow-on investments to support the current portfolio It is encouraging to note the uplift in prices on stock markets in recent months This is filtering through to smaller listed businesses, although this has yet to have a dramatic effect on prices for unquoted businesses This, combined with the current increase in activity in mergers and acquisitions, is an encouraging indicator for the economy and for small trading businesses However, we have not yet seen a significant uptick in the number of small businesses being listed on the stock market Assuming this general trend continues, it is a positive one for the future of high growth businesses as this area of the market tends to lag the listed business market. We do need to remain mindful of the impact the austerity measures being put in place by the UK Government will have on the UK consumer There is also a concern that a rise in the level of inflation will in turn cause interest rates to rise which could have an adverse knock on effect on the economy

Overall, the environment provides a great opportunity for businesses like those in the Titan 3 portfolio to take advantage of Their size enables them to move quickly to adapt and respond to market conditions resulting in greater market share Whilst the current market is not without its challenges, which a number of our portfolio businesses are facing at the moment, it still enables us to be cautiously optimistic about the future for small high growth businesses in general and our investment strategy specifically

If you have any questions on any aspect of your investment, please call one of the team on 0800 316 2347

Alex Macpherson

Octopus Investments Limited
9 February 2011

Investment Portfolio

Qualifying investments	Sector	Investment cost as at 31 October 2010 (£'000)	Movement in valuation 31 October 2010 (£'000)	Fair value at 31 October 2010 (£'000)	% equity held by Titan 3	% equity held by all funds managed by Octopus
Zoopla Limited	Media	373	709	1,082	2.1%	14.2%
True Knowledge Limited	Media	927	–	927	4.5%	44.9%
Nature Delivered Limited (Graze)	Consumer lifestyle & wellbeing	798	55	853	6.9%	27.1%
Calastone Limited	Technology	520	–	520	5.0%	34.1%
Mi-Pay Limited	Telecommunications	429	–	429	5.8%	24.8%
AQS Holdings Limited	Environmental	421	–	421	5.6%	26.5%
UltraSoC Technologies Limited	Technology	361	–	361	10.0%	55.6%
Phase Vision Limited	Technology	400	(50)	350	12.2%	52.6%
Surrey Nanosystems Limited	Technology	320	–	320	5.8%	31.2%
Elonics Limited	Technology	305	–	305	3.1%	19.5%
Executive Channel Limited	Media	300	–	300	4.8%	32.2%
PrismaStar Inc	Media	300	–	300	4.5%	30.0%
e-Therapeutics plc	Consumer lifestyle & wellbeing	284	(6)	278	0.3%	8.8%
Bowman Power Limited	Environmental	275	–	275	2.7%	17.9%
GetOptics Limited	Consumer lifestyle & wellbeing	361	(90)	271	7.5%	34.8%
Metrasens Limited	Consumer lifestyle & wellbeing	268	–	268	4.5%	25.4%
Michelson Diagnostics Limited	Consumer lifestyle & wellbeing	248	–	248	4.4%	28.1%
Money Workout Limited	Technology	312	(156)	156	6.9%	33.5%
Semafone Limited	Telecommunications	114	–	114	2.8%	41.5%
Skills Market Limited	Technology	155	(50)	105	2.7%	12.3%
TouchType Limited	Telecommunications	53	–	53	1.5%	8.0%
Phasor Solutions Limited	Technology	50	(25)	25	0.9%	31.2%
Total qualifying investments		**7,574**	**387**	**7,961**		
Money market securities		6,165	–	6,165		
OEICs		4,248	1,096	5,344		
Cash at bank		159	–	159		
Total investments		**18,146**	**1,483**	**19,629**		
Net current assets				(22)		
Total net assets				**19,607**		

INVESTMENT MANAGER'S REVIEW (continued)

Valuation Methodology

Initial measurement

Financial assets are measured at fair value The initial best estimate of fair value of a financial asset that is either quoted or not quoted in an active market is the transaction price (i e cost)

Subsequent measurement

Further funding rounds are a good indicator of fair value and this measure is used where appropriate Subsequent adjustment to the fair value of unquoted investments can be made using sector multiples based on information as at 31 October 2010, where applicable In some cases the multiples can be compared to equivalent companies, especially where a particular sector multiple does not appear appropriate It is currently industry norm to discount the quoted earnings multiple to reflect the lack of liquidity in the investment, there being no ready market for our holding Typically the discount is 30% but this can be increased where the relevant multiple appears too high A lower discount would also be possible if an investment was close to an exit event

In accordance with the International Private Equity and Venture Capital (IPEVC) valuation guidelines investments made within 12 months are usually kept at cost unless performance indicates that fair value has changed

Quoted investments are valued at market bid price No discounts are applied If you would like to find out more regarding the IPEVC valuation guidelines, please visit their website at www privateequityvaluation com

Sector Analysis

Total Qualifying Investments by Book Cost

Total Qualifying Investments by Value

INVESTMENT MANAGER'S REVIEW (continued)

Review of Investments

During the year, Titan 3 made twelve new investments amounting to £3 4 million and seven follow-on investments The AIM-quoted and unquoted investments are in ordinary shares with full voting rights as well as loan note securities

Quoted and unquoted investments are valued in accordance with the accounting policy set out on page 47, which takes account of current industry guidelines for the valuation of venture capital portfolios and is compliant with IPEVC valuation guidelines and current financial reporting standards The valuations listed are a reflection of the total investment i e both the equity and loan note elements

Listed below are details of the VCT's 10 largest investments by value

Zoopla Limited

Zoopla co uk is an award-winning online property information service and community website, presenting information on house pricing, free valuation estimates, for sale listings, and local community information Zoopla has become the UK's leading website for house prices and value data, as it provides the most comprehensive source of residential property market information It is also the UK's most active property community Following the acquisition of PropertyFinder from News International Ltd and REA Group approximately a year ago, Zoopla launched estate agent listings on a pay-for-performance basis and expects to become the premier UK website for those interested in the property market. We encourage you to view the website at www zoopla.co uk

As previously reported the company recently signed another transformational deal working with three of the UK's four largest estate agent groups and now the three estate agency CEOs sit on the Zoopla board During the last quarter the company undertook its first advertising campaign on national TV This proved very successful and as a result the businesses decided to raise some further funds in order to increase the level of awareness the company has in the UK This round of financing was completed by the current investors led by Atlas Ventures and Octopus A second burst of television advertising commenced in January 2011 as the company seeks significant growth in 2011

Initial investment date	January 2009	
Cost	£373,204	
Valuation	£1,082,008 (latest funding round)	
Equity held	2 1%	
Equity held by all funds managed by Octopus	14 2%	
Last submitted audited accounts	31 December 2009	
Turnover	£1,160,153	
Loss before interest & tax	(£2,864,126)	Further information can be
Net assets.	£699,922	found at www zoopla co uk

INVESTMENT MANAGER'S REVIEW (continued)

True Knowledge Limited

True Knowledge has developed an Internet search engine website that answers questions Finding information on the Internet currently involves a process of trial and error, hoping that the search engine retrieves the information you are looking for True Knowledge has devised technology that resolves this fundamental problem by operating along a more intuitive system It intelligently answers questions asked on any topic in plain English It can be used just like a conventional search engine, but users can also add knowledge directly to it There are currently nearly 250 million facts in the database, which is being continually expanded

The company continues to grow exponentially in unique users per month and revenues In November 2010, the number of unique users grew to 5 2 million This growth is largely the result of acquiring more data, publishing questions and answers, and enabling Google, and other search companies, to index them The company has automated many of the processes associated with accessing data and publishing questions and answers This should enable the business to continue its rapid growth, with the expectation that the number of unique users will grow at least two fold in the next six months

Revenue growth over the last six months has been on average 20%, and the company is now exploring various techniques to earn more revenues from the growing number of unique users In the meantime the company will be undertaking a further round of funding, in which Octopus will feature prominently

Initial investment date	July 2008	
Cost	£926,804	
Valuation	£926,804 (latest funding round)	
Equity held	4 5%	
Equity held by all funds managed by Octopus	44 9%	
Last submitted accounts	31 January 2010 (abbreviated)	Further information can be
Net assets	(£104,707)	found at www trueknowledge com

Nature Delivered Limited (trading as Graze)

Graze is the first UK company to deliver healthy and nutritionally balanced food by post straight to the home or office The company was founded in April 2007 and has a growing customer base that regularly place orders via its website Graze's snack boxes cost only £3 49 and are sent by Royal Mail for next day delivery The Graze product range includes over 100 products to choose from, all free from artificial colourings, flavourings and preservatives Customers can also place orders for personalised boxes, specifically tailored to meet their tastes, dietary and nutritional requirements Graze promotes a varied and balanced diet through facilitating the intake of a wide variety of small portions of natural, high energy foods throughout the day Its boxes contain up to four portions of dried fruit, bread, olives and vegetables, in line with the National Health Service's recognised 'five-a-day' scheme Its product is in tune with customer needs and the demands of modern living, as people become ever more conscious of health and convenience The company's sales continue to grow ahead of budget

Initial investment date	June 2009	
Cost	£797,627	
Valuation	£852,306 (latest funding round)	
Equity held:	6 9%	
Equity held by all funds managed by Octopus	27 1%	
Last submitted accounts	31 December 2009 (abbreviated)	Further information can be
Net assets	£1,371,320	found at www graze com

INVESTMENT MANAGER'S REVIEW (continued)

Calastone Limited

Calastone is the UK's only independent transaction service for the mutual fund industry It enables buyers and sellers of mutual funds on different platforms to communicate orders electronically, by providing a universal message communication and 'translation' service – the 'Calastone Transaction Network'(CTN) This is being welcomed in an industry which has not previously been able to invest in the real-time exchange of information between participants Orders are commonly communicated by fax or telephone with a high level of manual re-keying and manual error correction Calastone's 'translation' service means that neither the transmitter nor receiver need to purchase additional technology or change their existing systems

Calastone is moving quickly to own the space and therefore seeks to sign up distributors and their counterparties, the fund providers (or their third party administrators) Progress is excellent in both dimensions as demonstrated by the fact that clients are now calling in and asking to join CTN The board believes the company is experiencing beneficial network effects where the existing distributors are encouraging fund providers to join the CTN and vice versa

Internally the focus is now on streamlining processes so that distributors and fund providers can be made operationally faster driving up transaction volumes and thereby growing its revenues rapidly

Over the last period growth has continued at Calastone with new client sign ups to the core offering and to the newly launched additional services such as settlement and custodian Calastone has also started to sign up its initial clients from the Luxembourg office which was opened earlier in 2010 and the company expects to see continued growth in Europe as we move into 2011

Initial investment date	October 2008	
Cost	£520,266	
Valuation	£520,266 (latest funding round)	
Equity held	5 0%	
Equity held by all funds managed by Octopus	34 1%	
Last submitted accounts	30 September 2009 (abbreviated)	Further information can be
Net assets	£482,635	found at www calastone com

Mi-Pay Limited

Mi-Pay was founded in 2004 with the objective of establishing itself as a leading processor of payments for the fast-emerging mobile money sector The service enables customers to 'top-up' their pre-paid mobile phone directly online, or via their mobile phone, rather than using indirect brand channels such as PayPoint or bank ATMs Benefits of the direct service include cost reductions for mobile network operators and a more personal engagement with customers, removing the anonymity of customer relationships and allowing for substantial improvements in customer retention

Mi-Pay continues to make progress in a very dynamic and fast moving market, most recently agreeing terms with several tier one European, Middle Eastern and African mobile operators to provide its direct top up service Mi-Pay was also delighted to appoint Allan Jakobsen as CEO in August 2010

Initial investment date	February 2010	
Cost	£429,153	
Valuation	£429,153 (latest funding round)	
Equity held	5 8%	
Equity held by all funds managed by Octopus	24 8%	
Last submitted audited group accounts	31 December 2009	
Turnover.	£1,736,649	
Loss before tax	(£2,082,813)	Further information can be
Net assets:	(£1,065,558)	found at www mi-pay com

INVESTMENT MANAGER'S REVIEW (continued)

AQS Holdings Limited

Soil Xchange is a subsidiary of AQS, which is a waste management business focusing on soil stabilisation and remediation by means of a proprietary process and equipment Soil Xchange's aim is to create strategic hubs across the UK, specifically with the objective of taking in hazardous soil and waste, and exchanging it for recycled, clean soil, using AQS' market leading soil remediation knowledge and equipment, the 'Eco Warrior'

Soil Xchange's first hub has now been opened in East London and negotiations are underway in respect of the second London hub, as well as further hubs in the North East and North West England The company is also in discussions to licence its technology to a business that would deploy a similar hub roll-out strategy across Australia.

Initial investment date	February 2010	
Cost.	£421,000	
Valuation.	£421,000 (latest funding round)	
Equity held	5 6%	
Equity held by all funds managed by Octopus	26 5%	
Last submitted audited group accounts	31 March 2010	
Turnover	£6,952,822	
Loss before tax	(£418,617)	Further information can be
Net assets	£3,400,647	found at www soilxchange co uk

UltraSoC Technologies Limited

UltraSoC Technologies is a pioneering company developing advanced debugging technology for the embedded electronic systems increasingly used in many everyday products from cars to mobile phones

UltraSoC was spun-out from the Universities of Essex and Kent in 2008 after being founded by Cambridge entrepreneur Dr Karl Heeks and Professor Klaus McDonald-Maier, Research Director at the University of Essex's School of Computer Science and Electronic Engineering

The company is developing UltraDebug, an advanced debugging technology for multiple processor systems used to debug the application software that delivers the functionality and performance in many modern embedded electronic systems

Initial investment date.	October 2010	
Cost.	£361,431	
Valuation.	£361,431 (latest funding round)	
Equity held	10 0%	
Equity held by all funds managed by Octopus	55 6%	
Last submitted accounts	31 December 2009 (abbreviated)	Further information can be
Net assets	£174,013	found at www ultrasoc com

INVESTMENT MANAGER'S REVIEW (continued)

Phase Vision Limited

Phase Vision is a manufacturer of optical inspection solutions for high speed, three dimensional shape measurements with micro-scale accuracy It has developed (and patented) a unique optical approach to the measurement of very large (>100cm) industrial items with free-form or curved surfaces, such as ship propellers and aircraft wings to tighten manufacturing tolerances, increase throughput and reduce waste Phase Vision's metrology solutions are more cost efficient than current laser processes, and accurately measure mechanical systems to micron level, thus providing superior performance Phase Vision's systems use a fringe projection approach and comprise of one or more projector/camera units that project, and image, patterns of light onto the object to be measured Sophisticated algorithms are then used to accurately calculate the dimension of the object. Phase Vision's clients include some of the biggest names in the automotive, aerospace, chemical and medical device engineering sectors The market for large scale measurement with micro-scale accuracy is estimated to be worth around £2 billion per year, with growth of around 6% per annum

Phase Vision raised £800k in August 2010 from its present shareholders This was to give the management time to build up the sales pipeline to achieve the sales revenues that had fallen behind due to late completion of a saleable product and the underperformance of the sales team Real progress is being made in building the pipeline through cold calling, with appointments being made, leading to firm proposals

Initial investment date	May 2009
Cost:	£399,776
Valuation	£349,781 (latest funding round)
Equity held	12 2%
Equity held by all funds managed by Octopus	52 6%
Last submitted audited accounts	31 March 2010
Turnover	£104,341
Loss before tax	(£852,213)
Net assets	£145,682

Further information can be found at www phasevision com

INVESTMENT MANAGER'S REVIEW (continued)

Surrey NanoSystems Limited

Surrey NanoSystems (SNS) is engaged in developing nanoelectronics materials and processes to support the continued scaling of semiconductor devices The company is conducting innovative research into nanomaterial growth at temperatures compatible with mainstream microchip fabrication The Company has already made significant advances in developing practical techniques for fabricating interconnection vias and novel materials for inter-layer insulation – key challenges on the semiconductor industry's roadmap as process geometries shrink.

The target semiconductor segment remains buoyant, with major vendors continuing to place emphasis on technology development programmes to secure competitive advantage

Restructuring of the business to focus on technology development has been completed as has initial commissioning of all equipment shipped to date Non Disclosure Agreements (NDAs) have been executed with European and US production equipment suppliers, companies which already have a significant position in the target sector, with the opportunity to grow market share Progress has also been made with patenting, including an application being granted in China, a major step forward In addition, the NanoGrowth and NanoSoft trademarks were registered to SNS in Europe

SNS has also moved forward with its commercialisation strategy, identifying existing equipment suppliers as the target recipients of its technology, enabling them to take a leading position in the circa $300 million insulating material tool market

Initial investment date	July 2009
Cost.	£319,770
Valuation	£319,770 (latest funding round)
Equity held	5 8%
Equity held by all funds managed by Octopus	31 2%
Last submitted accounts	30 June 2009 (abbreviated)
Net assets	(£415,311)

Further information can be found at www surreynanosystems com

Elonics Limited

Elonics is a semiconductor company specialising in the design and development of multi-band radio frequency integrated circuit products Founded in 2003 and based in Livingston, United Kingdom, Elonics has developed an innovative radio frequency architecture called DigitalTune that is the foundation for a family of silicon tuners for television and radio

Elonics' innovative technology allows manufacturers to design high performance consumer electronics products with unrivalled performance, power consumption and low system cost Elonics' first product family is the E4000 series of silicon tuner solutions targeted at the reception of multi-standard digital TV and radio

Initial investment date	September 2010
Cost.	£305,349
Valuation	£305,349 (latest funding round)
Equity held	3 1%
Equity held by all funds managed by Octopus	19 5%
Last submitted accounts	31 December 2009
Net assets	(£507,024)

Further information can be found at www elonics com/index.do

INVESTMENT MANAGER'S REVIEW (continued)

How Octopus creates and delivers value for the shareholders of Octopus Titan VCT 3 plc

Titan 3 focuses on providing early stage, development and expansion funding to predominantly unquoted companies with a typical deal size of £0 25 million to £1 million, in aggregate from the five Titan VCTs managed by Octopus The focus is on establishing a portfolio of qualifying investments in companies that have the potential to achieve a high level of profitability through the combination of

- Scalability The potential to deliver services to significant numbers of new customers at very low incremental cost and to generate repeat sales from customers
- Scope The ability to expand into complimentary areas by leveraging customer and/or distributor relationships, new product development or brand positioning
- Pricing power An ability to charge high and defensible prices for its products or services as a result of having intellectual property rights, a strong brand and/or a dominant position in a market niche

The Investment Manager looks to identify opportunities where the people involved – the entrepreneur, management team, investors, advisers and any other significant stakeholders – have a proven record of success Although the Fund has the ability to invest across a wide range of industries, the focus will be on several principal sectors

- environment
- technology
- media
- telecoms
- consumer lifestyle and wellbeing

The key differentiator, and competitive advantage, of Titan 3 is the Octopus Investor Group This is made up of more than 100 highly successful entrepreneurs and business people, including ex-FTSE Chairmen and Chief Executives, who provide support and guidance to the portfolio companies and co-invest their own money alongside the Octopus Titan VCTs

Investment Process

The Investment Manager follows a multi-stage process prior to making Qualifying Investments in unquoted companies

Initial Screening

If the initial review of the business plan is positive, a meeting is held with the management team of the business in order to assess the team in terms of its ability to achieve the objectives set out in the business plan The proposition is then discussed and reviewed with the other members of the Octopus team and a decision is taken as to whether to continue discussions with the company with a view to making an investment

Due Diligence

Prior to making an investment, due diligence is carried out on the potential investee company The due diligence process includes a review of the investee company's technology, discussions with customers and suppliers, competitive analysis, assessment of the capabilities of the management team and financial analysis In addition, the Octopus investment team is supported by the Octopus Venture Partners – a group of over 100 entrepreneurs and business experts including a number of ex-FTSE chairmen and chief executives The Octopus Venture Partners may be involved at an early stage in the investment decision making process, involving members with relevant industry experience as part of the initial due diligence and may they go on to invest alongside Octopus in investee companies

Additionally, Octopus also draws on professional input from lawyers, accountants and other specialists as required in order to conduct the due diligence and draw up the required legal documentation in order to complete an investment

Post-Investment Monitoring

Octopus will usually appoint at least one representative to the board of each investee company The majority of the investments are expected to be held for approximately five years There may, however, be opportunities to exit profitably on shorter timescales The Investment Manager will conduct a regular review of the portfolio, during which each investee company will be assessed in terms of its commercial and financial progress, its strategic positioning, requirement for further capital, progress towards an eventual exit and its current and prospective valuation As each company matures, the exit considerations become more specific, with a view to establishing a definitive action plan in order to achieve a successful sale of the investment Throughout the cycle of an investment the Investment Manager will remain proactive in determining the appropriate time and route to exit It is expected that the majority of exits will be by means of a trade sale

DETAILS OF DIRECTORS

Mark Hawkesworth (Non-Executive Chairman – Age 60)

Mark retired as an investment partner at Nova Capital Management Limited in January 2010, having spent more than 25 years in the private equity industry Prior to joining Nova, he was a senior partner at Baring Private Equity Partners and also spent 12 years at Lazard Mark originally trained as an electrical engineer and spent his early career working for international engineering companies such as Taylor Woodrow, Trafalgar House and BICC/Balfour Beatty Mark is currently an adviser to a small corporate advisory firm called XMS Capital Limited which specialises in the energy sector, and is a Member of Council of the University of Bath

Tim Lebus (Non-Executive Director – Age 59)

Tim is a partner at Duke Street, a leading private equity company which specialises in investing into established mid-market UK and French businesses Prior to joining Duke Street in 2001, Tim worked for more than 20 years as an investment banker, most recently as Managing Director in the Financial Sponsor group at Deutsche Bank Tim previously practised as a barrister in London and as a corporate lawyer in New York and holds a degree in Law from the University of Cambridge He is a director of Bibby Line Group Limited

Chris Hulatt (Non-Executive Director – Age 34)

Chris Hulatt is chief financial officer and co-founder of Octopus He has particular responsibility for finance, compliance and risk management He oversaw the transfer of three VCTs from Close Brothers to Octopus in August 2008 and is responsible for analysing acquisition opportunities He sits on the investment committees of a number of funds managed by Octopus and is also a director of four other VCTs managed by Octopus Chris has a first class MA in Pharmacology from the University of Cambridge and is a Chartered Financial Analyst

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 31 October 2010

This report has been prepared by the Directors in accordance with the requirements of s415 of the Companies Act 2006 The Company's independent auditor is required by law to report on whether the information given in the Directors' Report (including the Business Review) is consistent with the financial statements The auditor's opinion is included in their report on pages 38 and 39

Principal Activity and status

The principal activity of the Company is to invest in a diversified portfolio of UK unquoted smaller companies in order to generate capital growth over the long-term as well as an attractive tax-free dividend stream The Company has been granted provisional approval as a VCT by HMRC

In order to maintain approved status, the Company must comply on a continuing basis with the provisions of s280A of the Income Tax Act 2007 Within the third accounting period, the Company is required to hold at least 70% of its investments (as defined in the legislation) in VCT 'qualifying holdings', of which at least 30% must comprise eligible ordinary shares

For this purpose, a VCT 'qualifying holding' consists of up to £1 million invested in any one year in new shares or securities of a UK AIM-quoted company or unquoted company which is carrying on a qualifying trade, and whose gross assets and number of employees at the time of investment do not exceed a prescribed limit. The definition of 'qualifying trade' excludes certain activities such as property investment and development, financial services and asset leasing

Investment company status was revoked on 20 January 2010

The Directors are required by the Articles of Association to propose an Ordinary Resolution at the Company's Annual General Meeting in 2019 that the Company should continue as a VCT for a further five year period and at each fifth subsequent Annual General Meeting thereafter If any such Resolution is not passed, the Directors shall within four months convene a general meeting to consider the proposals for the reorganisation or winding-up of the Company

Review of Business Activities

The Directors are required by s417 of the Companies Act 2006 to include a Business Review to shareholders The Business Review is set out below and also includes the Chairman's Statement on pages 5 and 6, and the Investment Manager's Review on pages 7 to 19 by reference

The purpose of this review is to provide shareholders with a snapshot 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 used to measure performance

The following events occurred between the balance sheet date and the signing of these financial statements

- On 5 November 2010 a further £12,500 was invested into Skills Market Limited
- On 30 November 2010 a further £6,000 was invested into Skills Market Limited
- On 7 December 2010 a new investment of £367,000 was made into Diverse Energy Limited
- On 9 December 2010 a further £296,000 was invested into Zoopla Limited
- On 22 December 2010 a further £246,000 was invested into Semafone Limited
- On 24 December 2010 a new investment of £450,000 was made into Curlet (UK) Limited (10CMS)
- On 27 January 2011 a further £116,666 was invested into Money Workout Limited
- On 28 January 2011 a new investment of £500,000 was made into Vega-Chi Limited
- On 4 February 2011 a further £16,666 was invested into Money Workout Limited

DIRECTORS' REPORT (continued)

Performance and Key Performance Indicators

As a VCT, Titan 3's objective is to provide shareholders with an attractive income and capital return by investing its funds in a broad spread of unquoted UK companies which meet the relevant criteria for VCTs

The Board expects the Investment Manager to deliver a performance which meets the twin objectives of providing investors with attractive returns from a portfolio of investments, and maximising tax-free income for shareholders The key performance indicators (KPIs) in meeting these objectives are net asset value and the performance of dividends paid, which when combined give net asset value total return Additional key performance indicators reviewed by the Board include the discount of the share price relative to the net asset value and the total expense as a proportion of shareholders' funds The total running costs in the period, as defined in the prospectus, were 3 0% of the Company's net assets, below the annual limit of 3 2%

A record of some of the indicators is detailed on the first page entitled Financial Headlines Additional comments are provided in the Chairman's Statement discussing the performance of the Company over the current year

The Board assesses the performance of the Investment Manager in meeting the Company's objectives against the KPIs highlighted above

Clearly, when making investments in unquoted companies at an early stage of their development, some are likely to disappoint, but investing the funds raised in high growth companies with the potential to become market leaders creates an environment of improved return for shareholders The growth of these companies is largely dependent on continuing the existing levels of corporate spending The current volatile economic environment could adversely affect corporate spending patterns, which would in turn have a negative impact on the development of the investee companies

Performance, measured by the change in NAV and total return per share, is also measured against the FTSE Small-Cap index This is shown in the graph on page 35 in the Directors' Remuneration Report. This index has been adopted as an informal benchmark. Investment performance, cash returned to shareholders and share price are also measured against the Company's peer group of the other generalist VCTs

The Chairman's Statement, on pages 5 and 6, includes a review of the Company's activities and future prospects, further details are also provided within the Investment Manager's Review on pages 7 to 19

Results

	Year ended 31 October 2010 £'000	Year ended 31 October 2009 £'000
Net return attributable to shareholders	**(683)**	1,204

Objective and Investment Policy

The investment approach of the Company is not designed to deliver a return that is measured against a stock market index, as most funds are Instead, the focus is on generating absolute returns over the medium-term In order to achieve this, the Fund will focus on providing early stage, development and expansion funding to unquoted companies with a typical deal size of £0 25 million to £1 million It is expected that the portfolio of holdings that will be built will encompass investments in 20-30 unquoted companies, predominantly focussed within the environment, technology, media, telecoms and consumer lifestyle and well-being sectors

The Directors control the overall risk of the portfolio by ensuring that the Company has exposure to a diversified range of companies from a number of different sectors In order to limit the risk to the portfolio that is derived from any particular investment, no more than 10% of the amount invested by shareholders in the Company will be invested in any one unquoted company (including both Qualifying and Non-Qualifying Investments) Further details of the of the Company's risk management policies are provided in note 15 to the financial statements

Non-Qualifying Investments

An active approach is being taken to manage the cash prior to investing in Qualifying Companies Specifically, the cash is invested in a range of money market securities and up to 30% of the amount invested by shareholders in Octopus Titan 3 is invested in other funds managed by Octopus, including the CF Octopus Absolute UK Equity Fund and the CF Octopus UK Micro Cap Growth Fund By investing a small proportion of its assets into these other funds, some exposure to a broad range of smaller and medium-sized companies will be gained

The Company may also make Non-Qualifying Investments where the Investment Manager believes that the risk/return profile is consistent with the overall objective of the Company, which may include, from time to time, making a small number of investments or further investments in companies which meet the profile of a Qualifying Investment but would otherwise not be a Qualifying Investment

Qualifying Investments

During its first three years the Company will invest in a range of Qualifying Investments

At the end of the three year initial investment period, the Fund is expected to have the following investment profile

- 75-85% Qualifying Investments, primarily in unquoted companies
- 15-25% in cash, money market securities and funds managed by Octopus and other Non-Qualifying Investments

The Company will not borrow money for the purposes of making investments The investment decisions made must adhere to the HMRC qualification rules as stated above The Directors will continually monitor the investment process and ensure compliance with the investment policy

In considering a prospective investment in a company, particular regard will be made to

- evidence of high margin products capable of addressing fast-growing markets,
- the company's ability to sustain a competitive advantage,
- the strength of the management team,
- the existence of proprietary technology; and
- the company's prospects of being sold or floated, usually within three to five years

A review of the investment portfolio and of market conditions during the period is included in the Chairman's Statement and Investment Manager's Review

No material changes may be made to the Company's investment policy described above without the prior approval of shareholders by the passing of an Ordinary Resolution

VCT regulation

Compliance with required rules and regulations is considered with all investment decisions made The company is further monitored on a continual basis to ensure compliance The main criteria to which the company must adhere include

- at least 70% of investments must be made in qualifying shares or securities,
- at least 30% of the 70% of Qualifying Investments must be invested into ordinary shares with no preferential rights (from April 2011 this will change to 70% for new investments),
- no single investment made can exceed 15% of the total company value, and
- a minimum of 10% of each Qualifying Investment must be in ordinary shares with no preferential rights

DIRECTORS' REPORT (continued)

Principal Risks, Risk Management and Regulatory Environment

The Board carries out a regular review of the risk environment in which the Company operates The main areas of risk identified by the Board are as follows

VCT qualifying status risk the Company is required at all times to observe the conditions laid down in the Income Tax Act 2007 for the maintenance of approved VCT status The loss of such approval could lead to the Company losing its exemption from corporation tax on capital gains, to investors being liable to pay income tax on dividends received from the Company and, in certain circumstances, to investors being required to repay the initial income tax relief on their investment

The Investment Manager keeps Titan 3's VCT qualifying status under continual review and reports to the Board regularly throughout the year The Board has also retained PricewaterhouseCoopers LLP to undertake an independent VCT status monitoring role

Investment risk the majority of the Company's investments will be small- and medium-sized companies which are VCT qualifying holdings, which by their nature entail a higher level of risk and lower liquidity than investments in large quoted companies

The Directors and the Investment Manager aim to limit the risk attached to the portfolio as a whole by careful selection and timely realisation of investments, by carrying out rigorous due diligence procedures and by maintaining a wide spread of holdings in terms of financing stage, industry sector and geographical location The Board reviews the investment portfolio with the Investment Manager on a regular basis

Financial risk as most of the Company's investments involve medium- to long-term commitment and are relatively illiquid, the Directors consider that it is inappropriate to finance the Company's activities through borrowing Accordingly, they seek to maintain a proportion of the Company's assets in cash or cash equivalents in order to be in a position to take advantage of new investment opportunities

The Company has very little exposure to foreign currency risk and does not enter into derivative transactions The Company has cash deposits which are held on the balance sheet of HSBC Bank plc and in cash funds managed by BlackRock Inc The risk of loss to this cash is deemed to be extremely low due to the historical credit ratings and a current Standard & Poor's rating of AA for HSBC Bank plc and AAA for BlackRock Inc Inadequate controls might lead to misappropriation of assets Inappropriate accounting policies might lead to mis-posting or breaches of regulations

Regulatory the Company is required to comply with the Companies Act, 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

Reputational inadequate or failed controls might result in breaches of regulation or loss of shareholder trust

Internal control risk the Board reviews annually the system of internal controls, financial and non-financial, operated by the Company and the Investment Manager These include controls designed to ensure that the Company's assets are safeguarded and that proper accounting records are maintained

Competitive Risk retention of key personnel within Octopus is vital to the success of the Company Incentives to the Investment Manager's key staff are continuously monitored

Due to the nature of the Company, environmental, social and employee issues do not apply and therefore no disclosures in respect of these have been included in the Directors' Report.

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 ngorously the pnnciples detailed in the 'Turnbull' guidance Details of the Company's internal controls are contained in the Corporate Governance section on pages 29 to 33

Further details of the Company's risk management policies are provided in note 15 to the financial statements

Directors

The Directors of the Company dunng the year and their interests (in respect of which transactions are notifiable under Disclosure and Transparency Rule 3 1 2R) in the issued ordinary shares of 10p are shown in the table below

	31 October 2010	31 October 2009
Mark Hawkesworth	**10,550**	10,550
Tim Lebus	**10,550**	10,550
Chris Hulatt	**10,500**	10,500

All of the Directors' shares are held beneficially There have been no changes in the Directors' share interests between 31 October 2010 and the date of this report

Mark Hawkesworth and Chris Hulatt retire by rotation and, being eligible, offer themselves for re-election The Board has considered provisions A 7 2 of the Combined Code 2008 and believe that Mr Hawkesworth and Mr Hulatt continue to be effective and demonstrate commitment to their roles They, therefore, recommend their re-election at the forthcoming Annual General Meeting

Brief biographical notes on the Directors are given on page 20

Directors' and Officers' Liability Insurance

The Company has, as permitted by s233 of the Companies Act 2006, maintained insurance cover on behalf of the Directors and Company Secretary indemnifying them against certain liabilities which may be incurred by them in relation to the Company, and this has been disclosed in accordance with s236 of the Companies Act 2006

Whistleblowing

The Board has considered and implemented arrangements in accordance with the Combined Code's recommendations, to encourage staff of the Investment Manager or Secretary of the Company to raise concerns, in confidence, within their organisation about possible improprieties in matters of financial reporting or other matters It is therefore satisfied that adequate arrangements are in place to allow an independent investigation, and follow on action where necessary, to take place within the organisation

Management

Octopus Investments Limited acts as Investment Manager to the Company The principal terms of the Company's management agreement with Octopus are set out in Notes 3 and 18 to the financial statements The Investment Manager also provides secretarial, administrative and custodian services to the Company

The Company has in place an agreement with Octopus Investments to act as Investment Manager which is central to the ability of the Company to continue in business There are no other contracts which are deemed to be essential to the business of the Company

As required by the Listing Rules, the independent Directors confirm that, in their opinion, the continuing appointment of Octopus as Investment Manager is in the best interest of the shareholders as a whole In reaching this conclusion the Directors have taken into account the performance of the investment portfolio, the ability of the Investment Manager to produce satisfactory investment performance in the future

With the exception of Chris Hulatt, no Director has an interest in any contract to which the Company is a party Chris Hulatt is a Director of Octopus Investments Limited Details of the fees paid to Octopus Investments in respect of services provided are detailed in note 18 to the financial statements

DIRECTORS' REPORT (continued)

Liquid resources (being cash, OEICs and money market securities) are held in accounts and funds managed by HSBC Bank plc, BlackRock Inc and Octopus Investments Limited

The Company has established a performance incentive scheme whereby the Investment Manager is entitled to an annual performance-related incentive fee in the event that certain performance criteria are met, commencing at the end of the 2011 financial period Further details of this scheme are disclosed within note 18 to the financial statements No performance fee was payable at 31 October 2010 and given the current economic climate, the Directors do not anticipate that the criteria will be met in the short to medium term

It should be noted that there is no formal Management Engagement Committee as matters of this nature are dealt with by the independent Non-Executive Directors

Share Issues and Open Offers

There are no open offers and no shares were issued in the year

Share Buy Backs and Redemptions

No buy backs were made during the year

Share Capital, Rights Attaching to the Shares and Restrictions on Voting and Transfer

The Company's ordinary share capital as at 31 October 2010 is 20,268,149 ordinary shares of 10p each

Subject to any suspension or abrogation of rights pursuant to relevant law or the Company's Articles of Association, the ordinary shares confer on their holders the following principal rights

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

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

(c) the right to receive notice of and to attend and speak and vote in person or by proxy at any general meeting of the Company

On a show of hands every member present or represented and voting has one vote and on a poll every member present or represented and voting has one vote for every share of which that member is the holder, the appointment of a proxy must be received not less than 48 hours before the time of the holding of the relevant meeting or adjourned meeting or, in the case of a poll taken otherwise than at or on the same day as the relevant meeting or adjourned meeting, be received after the poll has been demanded and not less than 24 hours before the time appointed for the taking of the poll

These rights can be suspended If a member, or any other person appearing to be interested in shares held by that member, has failed to comply within the time limits specified in the Company's Articles of Association with a notice pursuant to s793 of the Companies Act 2006 (notice by Company requiring information about interests in its shares), the Company can until the default ceases suspend the right to attend and speak and vote at a general meeting and if the shares represent at least 0 25% of their class the Company can also withhold any dividend or other money payable in respect of the shares (without any obligation to pay interest) and refuse to accept certain transfers of the relevant shares Shareholders, either alone or with other shareholders, have other rights as set out in the Company's Articles of Association and in company law

A member may choose whether his shares are evidenced by share certificates (certificated shares) or held in electronic (uncertificated) form in CREST (the UK electronic settlement system) Any member may transfer all or any of his shares, subject, in the case of certificated shares, to the rules set out in the Company's Articles of Association or in the case of uncertificated shares to the regulations governing the operation of CREST (which allow the Directors to refuse to register a transfer as therein set out), the transferor remains the holder of the shares until the name of the transferee is entered in the register of members The Directors may refuse to register a transfer of certificated shares in favour of more than four persons jointly or where there is no adequate evidence of ownership or the transfer is not duly stamped (if so required) The Directors may also refuse to register a share transfer if it is in respect of a certificated share which is not fully paid up or on which the Company has a lien provided that, where the share transfer is in respect of any share admitted to the Official List maintained by the UK Listing Authority, any such discretion may not be exercised so as to prevent dealings taking place on an open and proper basis, or if in the opinion of the Directors (and with the concurrence of the UK Listing Authority) exceptional circumstances so warrant, provided that the exercise of such power will not disturb the market in those shares Whilst there are no squeeze-out and sell-out rules relating to the shares in the Company's Articles of Association, shareholders are subject to the compulsory acquisition provisions in s974 to s991 of the Companies Act 2006

Appointment and Replacement of Directors

A person may be appointed as a Director of the Company by the shareholders in general meeting by Ordinary Resolution (requiring a simple majority of the persons voting on the relevant resolution) or by the Directors, no person, other than a Director retiring by rotation or otherwise, shall be appointed or reappointed a Director at any general meeting unless he is recommended by the Directors or, not less than seven nor more than 42 clear days before the date appointed for the meeting, notice is given to the Company of the intention to propose that person for appointment or re-appointment in the form and manner set out in the Company's Articles of Association Each Director who is appointed by the Directors (and who has not been elected as a Director of the Company by the members at a general meeting held in the interval since his appointment as a Director of the Company) is to be subject to election as a Director of the Company by the members at the first Annual General Meeting of the Company following his appointment At each Annual General Meeting of the Company one third of the Directors for the time being, or if their number is not three or an integral multiple of three the number nearest to but not exceeding one-third, are to be subject to re-election

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

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

Powers of the Directors

Subject to the provisions of the Companies Act, the Memorandum and Articles of Association of the Company and any directions given by shareholders by Special Resolution, the Articles of Association specify that the business of the Company is to be managed

DIRECTORS' REPORT (continued)

by the Directors, who may exercise all the powers of the Company, whether relating to the management of the business or not In particular the Directors may exercise on behalf of the Company its powers to purchase its own shares to the extent permitted by shareholders

International Financial Reporting Standards

As the Company is not part of a group it is not mandatory for it to comply with International Financial Reporting Standards The Company does not anticipate that it will voluntarily adopt International Financial Reporting Standards in the short term However, in accordance with the "Future of UK GAAP" project, as a publicly accountable entity, the Company will be required to report under full IFRS when this is implemented This is not expected to have a significant impact upon the balances included within the financial statements, but will give rise to significant changes in presentational information and disclosures

Creditor Payment Policy

The Company's payment policy for the forthcoming financial year is to agree terms of payment before business is transacted and to settle accounts in accordance with those terms The Company does not follow any code or standard with regard to creditor payment practice At 31 October 2010 there were £nil trade creditors (2009 £nil)

Environmental Policy

The company always makes full effort to conduct its business in a manner that is responsible to the environment This responsibility is always maintained in investment decisions where possible

Going Concern

The Company's business activities and the factors likely to affect its future performance and position are set out in the Chairman's Statement and Investment Manager's Review on pages 5 to 19 Further details on the management of financial risk may be found in note 15 to the Financial Statements

The Board receives regular reports from the Investment Manager and the Directors have a reasonable expectation that the VCT has adequate resources to continue in operational existence for the foreseeable future Thus, as no material uncertainties leading to significant doubt about going concern have been identified, it is appropriate to continue to adopt the going concern basis in preparing the financial statements

Substantial Shareholdings

As at the date of this report, no disclosures of major shareholdings had been made to the Company under Disclosure and Transparency Rule 5 (Vote Holder and Issuer Notification Rules)

Annual General Meeting

The notice convening the 2011 Annual General Meeting of the Company and a form of proxy in relation to the meeting can each be found at the end of this document

Independent Auditor

Grant Thornton UK LLP offer themselves for reappointment as auditor A Resolution to re-appoint Grant Thornton UK LLP as auditor and to authorise the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting

Directors' Authority to Allot Shares, to disapply Pre-Emption Rights

The authority proposed under Resolution 6 is required so that the Directors may offer existing shareholders the opportunity to add to their investment or to offer potential shareholders an opportunity to invest in the Company in a tax-efficient manner without the Company having to incur substantial costs Any consequent modest 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, in part, to purchase ordinary shares in the market

Resolution 6 renews the Directors' authority to allot ordinary shares This would enable the Directors until March 2011 to allot up to 2,026,815 ordinary shares (representing approximately 10% of the Company's issued share capital as at 31 October 2010)

Resolution 7 renews and extends the Directors' authority to allot equity securities for cash without pre-emption rights applying in certain circumstances This Resolution would 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 by way of an offer to existing shareholders, or re-issuing shares out of Treasury up to a maximum of 2,026,815 ordinary shares (representing approximately 10% of the Company's issued share capital as at 31 October 2010) 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

Directors' Authority to Make Market Purchase of its Own Shares

The authority proposed under Resolution 8 is required so that the Directors may make purchases of up to approximately 5% of the Company's issued share capital and Resolution 8 seeks renewal of such authority until the next Annual General Meeting (or the expiry of 15 months, 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 in force as at the date of purchase 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

Corporate Governance

The Board of Octopus Titan VCT 3 plc has considered the principles and recommendations of the Association of Investment Companies Code of Corporate Governance (AIC Code) by reference to the Association of Investment Companies Corporate Governance Guide for Investment Companies (AIC Guide)

The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the 2008 Combined Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company The Board considers that reporting against principles and recommendations of the AIC Code, by reference to the AIC Guide (which incorporates the Combined Code), will provide better information to shareholders

The Company is committed to maintaining high standards in corporate governance The Directors consider that the Company has, throughout the year under review, complied with the provisions set out in the 2008 Combined Code on Corporate Governance with the exceptions set out in the Compliance Statement on pages 32 and 33

Board of Directors

The Company has a Board of three non-executive Directors, two of whom are considered to be independent Chris Hulatt is not considered to be independent due to his role as a Director of the Company's Investment Manager, Octopus Investments Limited The Board meets regularly on a quarterly basis, and on other occasions as required, to review the investment performance and monitor compliance with the investment policy laid down by the Board

The Board has a formal schedule of matters specifically reserved for its decision which include

- the consideration and approval of future developments or changes to the investment policy, including risk and asset allocation,
- consideration of corporate strategy;
- approval of the appropriate dividend to be paid to the shareholders,

DIRECTORS' REPORT (continued)

- the appointment, evaluation, removal and remuneration of the Manager,
- the performance of the Company, including monitoring of the discount of the NAV and the share price, and
- monitoring shareholder profiles and considering shareholder communications

The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda, and has no involvement in the day to day business of the Company He facilitates the effective contribution of the Directors and ensures that they receive accurate, timely and clear information and that they communicate effectively with shareholders

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

The Company's Articles of Association and the schedule of matters reserved to the Board for decision provide that the appointment and removal of the Company Secretary is a matter for the full Board

During the year the following were held

	Full Board meetings held	No of meetings attended	Audit Committee meetings held	Audit Committee meetings attended
Mark Hawkesworth	4	4	2	2
Tim Lebus	4	4	2	2
Chris Hulatt	4	4	2	N/A

Additional meetings were held as required to address specific issues including considering recommendations from the Investment Manager and share repurchases A brief biographical summary of each Director is given on page 20

The Company's Articles of Association require that one third of Directors should retire by rotation each period and seek re-election at the Annual General Meeting, and that Directors appointed by the Board should seek re-appointment at the next Annual General Meeting All Directors are required to submit themselves for re-election at the end of the first period and at least every third period thereafter This practice was followed during the year under review

	Date of Original Appointment	Due date for Re-election
Mark Hawkesworth	17/03/2008	AGM 2011
Chris Hulatt	04/03/2008	AGM 2011
Tim Lebus	17/03/2008	AGM 2012

The Board has appointed two committees to make recommendations to the Board in specific areas

Audit Committee

Tim Lebus (Chairman)
Mark Hawkesworth

The Audit Committee, chaired by Tim Lebus, consists of two independent Directors The Audit Committee believes Mr Lebus possesses appropriate and relevant financial experience as per the requirements of the Combined Code The Board considers that the members of the Committee are independent and have collectively the skills and experience required to discharge their duties effectively

The Audit Committee's terms of reference include the following roles and responsibilities

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

The Committee reviews its terms of reference and its effectiveness annually and recommends to the Board any changes required as a result of the review The terms of reference are available on request from the Company Secretary The Committee meets twice per period and has direct access to Grant Thornton UK LLP, the Company's external auditor The Audit Committee has reviewed the non-audit services provided by the external auditor and does not believe they are sufficient to influence their independence or objectivity

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

In respect of the year ended 31 October 2010, the Audit Committee discharged its responsibilities by

- reviewing and approving the external auditor's terms of engagement and remuneration,
- reviewing the external auditor's plan for the audit of the Company's financial statements, including identification of key risks and confirmation of auditor independence,
- reviewing Octopus Ventures Limited's statement of internal controls in relation to the Company's business and assessing the effectiveness of those controls in minimising the impact of key risks,
- reviewing periodic reports on the effectiveness of Octopus Investments Limited's compliance procedures,
- reviewing the appropriateness of the Company's accounting policies,
- reviewing the Company's annual and interim financial results prior to Board approval, and
- reviewing the external auditor's detailed reports to the Committee on the annual financial statements

Nomination Committee

Mark Hawkesworth (Chairman)
Tim Lebus

The Nomination Committee considers the selection and appointment of Directors and makes recommendations to the Board as to the level of Directors' fees

DIRECTORS' REPORT (continued)

It has not yet been necessary for the Committee to meet and so terms of reference will be agreed if and when appropriate The Board does not have a separate remuneration committee as the Company has no employees or executive Directors Detailed information relating to the remuneration of Directors is given in the Directors' Remuneration Report

Internal Control

The Directors have overall responsibility for keeping under review the effectiveness of the Company's systems of internal controls The purpose of these controls is to ensure that proper accounting records are maintained, the Company's assets are safeguarded and the financial information used within the business and for publication is accurate and reliable, such a system can only provide reasonable and not absolute assurance against material misstatement or loss The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve the business objectives The Board regularly reviews financial results and investment performance with its Investment Manager

Octopus identifies the investment opportunities for the consideration of the Board who ultimately makes the decision whether to proceed with that opportunity Octopus monitors the portfolio of investments and makes recommendations to the Board in terms of suggested disposals and further acquisitions

Octopus is engaged to carry out the accounting function and retains physical custody of the documents of title relating to unquoted investments Octopus regularly reconciles the client asset register with the physical documents

The Directors confirm that they have established a continuing process throughout the year and up to the date of this report for identifying, evaluating and managing the significant potential risks faced by the Company and have reviewed the effectiveness of the internal control systems As part of this process an annual review of the internal control systems is carried out in accordance with the Financial Reporting Council guidelines for internal control

Internal control systems include the production and review of monthly bank reconciliations and management accounts All outflows made from the VCT's accounts require the authority of two signatories from Octopus The VCT is subject to a full annual audit whereby the auditor is the same auditor as other VCTs managed by the Investment Manager Further to this, the Audit Partner has open access to the Directors of the VCT and the Investment Manager is subject to regular review by the Octopus Compliance Department

Financial Risk Management Objectives and Policies

The Company is exposed to the risks arising from its operational and investment activities Further details can be found in note 15 to the Financial Statements

Relations with Shareholders

Shareholders have the opportunity to meet the Board at the Annual General Meeting In addition to the formal business of the Annual General Meeting, the Board is available to answer any questions a shareholder may have

The Board is also happy to respond to any written queries made by shareholders during the course of the year and can be contacted at 20 Old Bailey, London EC4M 7AN Alternatively, the team at Octopus is happy to answer any questions you may have and can be contacted on 0800 316 2396

Compliance Statement

The Listing Rules require the Board to report on compliance with the 48 Combined Code provisions throughout the accounting period The preamble to the Combined Code does, however, acknowledge that some provisions may have less relevance for investment companies With the exception of the limited items outlined below, the Company has complied throughout the accounting year to 31 October 2010 with the provisions set out in the Combined Code 2008

1 New Directors do not receive a full, formal and tailored induction on joining the Board Such matters are addressed on an individual basis as they arise

2 Due to the size of the Board and the nature of the Company's business, a formal performance evaluation process for the Board, its committees, the individual Directors and the Chairman has not been put in place or a formal evaluation been undertaken Specific performance issues are dealt with as they arise

3 The Company has two independent Directors, Mark Hawkesworth, and Tim Lebus, as defined by the Combined Code issued in 2008 Chris Hulatt holds directorships of other companies with the same Investment Manager and with the Investment Manager itself The Board considers that all Directors have sufficient experience to be able to exercise proper judgement within the meaning of the Combined Code

4 The Company does not have a Chief Executive Officer or senior independent Director The Board does not consider this necessary for the size of the Company

5 The Company conducts a formal review as to whether there is a need for an internal audit function However, the Directors do not consider that an internal audit would be an appropriate control for a VCT

6 The non-executive Directors do not have service contracts, whereas the recommendation is for fixed term renewable contracts

7 The Company has no major shareholders so shareholders are not given the opportunity to meet any new non-executive Directors at a specific meeting other than the Annual General Meeting

8 The Company does not have a remuneration committee given the size of the Company and as such the whole board deals with any matters of this nature

By order of the Board

Celia L Whitten FCIS
Company Secretary
9 February 2011

DIRECTORS' REMUNERATION REPORT

Introduction

This report is submitted in accordance with chapter 6 of Part 13 of the Companies Act 2006, in respect of the year ended 31 October 2010 An Ordinary Resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting

The Company's auditor, Grant Thornton UK LLP, is required to give its opinion on certain information included in this report, this comprises the Directors' emoluments section below only Their report on these and other matters is set out on pages 38 and 39

Consideration by the Directors of Matters Relating to Directors' Remuneration

The Board as a whole considers Directors' remuneration and has not appointed a separate committee in this respect The Board has not sought advice or services from any person in respect of its consideration of Directors' remuneration during the period (although the Directors expect from time to time to review the fees against those paid to the Boards of Directors of other VCTs)

Statement of the Company's Policy on Directors' Remuneration

The Board consists entirely of non-executive Directors, who meet at least four times a year and on other occasions as necessary, to deal with the important aspects of the Company's affairs Directors are appointed with the expectation that they will serve for, at least, a period of three periods All Directors retire at the first General meeting after election and thereafter one third of all Directors are subject to retirement by rotation at subsequent Annual General Meetings Re-election will be recommended by the Board but is dependent upon shareholder vote

Each Director received a letter of appointment which is subject to termination by the Director or the Company on three months' notice in writing None of the Directors is entitled to compensation payable upon early termination of their contract other than in respect of any unexpired notice period

The Company's policy is that the fees payable to the Directors should reflect the time spent by the Board on the Company's affairs and the responsibilities borne by the Directors They should be sufficient to attract candidates of high calibre to be recruited The policy is for the Chairman of the Board to be paid higher fees than the other Directors in recognition of his more onerous role The policy is to review these rates from time to time, although such review will not necessarily result in any changes Due to the nature of the Company there are no employees other than the Directors and therefore no such issues when determining the Directors' remuneration

The Company's policy is for the Directors to be remunerated in the form of fees, payable quarterly in arrears The fees are not specifically related to the Directors' performance, either individually or collectively There are no service contracts, long-term incentive schemes, share option schemes or pension schemes in place The Board is also entitled to be repaid all reasonable travelling, subsistence and other expenses incurred by them respectively whilst conducting their duties as Directors, however no other remuneration or compensation was paid or payable by the Company during the year to any of the current Directors

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 Investment Manager through the investment management agreement.

The graph below compares the NAV total return and Share Price total return of Titan 3 over the period from July 2008 to October 2010, with the total return from a notional investment in the FTSE Small-Cap index over the same period (all rebased to 100p) This index is considered to be the most appropriate broad equity market index for comparative purposes The Directors wish to point out that VCTs are not able to make qualifying investments in companies quoted on the Main Market in their observance of the VCT rules

Net asset value and share price total return since launch against the FTSE Small-Cap Index total return

DIRECTORS' REMUNERATION REPORT (continued)

Directors' Emoluments (Information Subject to Audit) Amount of each Director's emoluments

The annual rate for the Chairman and non-executive Directors is £20,000 and £15,000 per annum respectively However, for the year ended 31 October 2009, the Directors received remuneration in respect of their services provided in both that year and the preceding period Therefore, the total remuneration received in the course of the years ended 31 October 2010 and 31 October 2009 was as follows

	Year ended 31 October 2010 £	Year ended 31 October 2009 £
Mark Hawkesworth (Chairman)	**20,000**	29,000
Tim Lebus	**15,000**	24,000
Chris Hulatt (paid to Octopus Investments)	**15,000**	20,000
Total	**50,000**	73,000

By Order of the Board

Celia L Whitten FCIS
Company Secretary
9 February 2011

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company for that period Under that law the Directors have elected to prepare financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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 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 the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

In so far as each of the Directors are aware

- there is no relevant audit information of which the Company's auditor is unaware, and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information

To the best of my 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 or loss of the Company; and
- the management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces

The financial statements are published at www octopusinvestments com, a website maintained by Octopus Investments The maintenance and integrity of the website is, so far as it relates to the Company, the responsibility of Octopus Investments The work carried out by the auditor does not involve considerations of the maintenance and integrity of the website and, accordingly, the auditor accepts no responsibility for any changes that have occurred to the accounts since they were originally presented on the website Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the accounts differ from legislation in other jurisdictions

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

On Behalf of the Board

Mark Hawkesworth
Chairman
9 February 2011

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF OCTOPUS TITAN VCT 3 PLC

We have audited the financial statements of Octopus Titan VCT 3 plc for the year ended 31 October 2010 which comprise the income statement, the reconciliation of movements in shareholders' funds, the balance sheet, the cash flow statement, and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom 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 auditors

As explained more fully in the Directors' Responsibility Statement set out on page 37, 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/apb/scope/private/cfm

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 October 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom 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, and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

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

Under the Listing Rules, we are required to review

- the Directors' Statement, set out on page 28, in relation to going concern,
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review, and
- certain elements of the report to the shareholders by the Board on directors' remuneration

Grant Thornton UK LLP

Tracey James
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Oxford
9 February 2011

INCOME STATEMENT

		Year to 31 October 2010		
		Revenue	Capital	Total
	Notes	£'000	£'000	£'000
Fixed asset investment holding gains	9		287	287
Current asset investment holding losses	11	–	(427)	(427)
Other income	2	150	–	150
Investment management fees	3	(101)	(302)	(403)
Other expenses	4	(290)	–	(290)
Return on ordinary activities before tax		(241)	(442)	(683)
Taxation on return on ordinary activities	6	–	–	–
Return on ordinary activities after tax		(241)	(442)	(683)
Earnings per share – basic and diluted	7	(1 2)p	(2 2)p	(3 4)p

- The 'Total' column of this statement is the profit and loss account of the Company, the supplementary revenue return and capital return columns have been prepared under guidance published by the Association of Investment Companies
- All revenue and capital items in the above statement derive from continuing operations
- The Company has only one class of business and derives its income from investments made in shares and securities and from bank and money market funds

The Company has no recognised gains or losses other than the results for the year as set out above

The accompanying notes form an integral part of the financial statements

	Notes	Year to 31 October 2009 Revenue £'000	Capital £'000	Total £'000
Fixed asset investment holding gains		–	100	100
Current asset investment holding gains		–	1,546	1,546
Other income	2	73	–	73
Investment management fees	3	(64)	(190)	(254)
Other expenses	4	(261)	–	(261)
Return on ordinary activities before tax		(252)	1,456	1,204
Taxation on return on ordinary activities	6	–	–	–
Return on ordinary activities after tax		(252)	1,456	1,204
Earnings per share – basic and diluted	7	(1 9)p	10 6p	8 7p

- The 'Total' column of this statement is the profit and loss account of the Company, the supplementary revenue return and capital return columns have been prepared under guidance published by the Association of Investment Companies
- All revenue and capital items in the above statement derive from continuing operations
- The Company has only one class of business and derives its income from investments made in shares and securities and from bank and money market funds

The Company has no recognised gains or losses other than the results for the period as set out above

The accompanying notes form an integral part of the financial statements

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Year ended 31 October 2010 £'000	Year ended 31 October 2009 £'000
Shareholders' funds at start of year	**20,290**	3,844
Return on ordinary activities after tax	**(683)**	1,204
Issue of equity (net of expenses)	**–**	15,242
Shareholders' funds at end of year	**19,607**	20,290

The accompanying notes form an integral part of the financial statements

BALANCE SHEET

		As at 31 October 2010		As at 31 October 2009	
	Notes	**£'000**	**£'000**	£'000	£'000
Fixed asset investments*	9		**7,961**		2,717
Current assets					
Debtors	10	**59**		12	
Money market securities and other deposits*	11	**11,509**		17,164	
Cash at bank		**159**		499	
		11,727		17,675	
Creditors amounts falling due within one year	12	**(81)**		(102)	
Net current assets			**11,646**		17,573
Net assets			**19,607**		20,290
Called up equity share capital	13	**2,027**		2,027	
Share premium		**–**		17,155	
Special distributable reserve	14	**17,155**		–	
Capital reserve – (losses) on disposals	14	**(506)**		(204)	
– holding gains	14	**1,482**		1,622	
Revenue reserve	14	**(551)**		(310)	
Total equity shareholders' funds			**19,607**		20,290
NAV per share	8		**96 7p**		100 1p

*Held at fair value through profit and loss

The statements were approved by the Directors and authorised for issue on 9 February 2011 and are signed on their behalf by

Mark Hawkesworth

Chairman

Company No 06523078

The accompanying notes form an integral part of the financial statements

CASH FLOW STATEMENT

	Notes	Year to 31 October 2010 £'000	Year to 31 October 2009 £'000
Net cash outflow from operating activities		**(611)**	(356)
Capital expenditure and financial investment			
Purchase of fixed asset investments	9	**(4,957)**	(2,417)
Management of Liquid resources			
Purchase of current asset investments	11	**(4,617)**	(20,198)
Disposal of current asset investments		**9,845**	5,060
Financing			
Issue of shares		**–**	16,017
Redemption of preference shares		**–**	(50)
Share issue expense		–	(775)
Decrease in cash resources at bank		**(340)**	(2,719)

The accompanying notes form an integral part of the financial statements

RECONCILIATION OF RETURN BEFORE TAXATION TO CASH FLOW FROM OPERATING ACTIVITIES

	Year to 31 October 2010 £'000	Year to 31 October 2009 £'000
Return on ordinary activities before tax	**(683)**	1,204
Gain on valuation of fixed asset investments	**(287)**	(100)
Loss/(gain) on valuation of current asset investments	**427**	(1,546)
(Increase)/decrease in debtors	**(47)**	28
(Decrease)/increase in creditors	**(21)**	58
Outflow from operating activities	**(611)**	(356)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	Year to 31 October 2010 £'000	Year to 31 October 2009 £'000
Decrease in cash resources at bank	**(340)**	(2,719)
Movement in current asset investments	**(5,655)**	15,138
Gain on valuation of current asset investments	**–**	1,546
Opening net funds	**17,663**	3,698
Net funds at 31 October	**11,668**	17,663

Net funds at 31 October comprised

	Year to 31 October 2010 £'000	Year to 31 October 2009 £'000
Cash at bank	**159**	499
OEICs	**5,344**	5,770
Money market funds	**6,165**	11,394
Net funds at 31 October	**11,668**	17,663

The accompanying notes form an integral part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. **Principal Accounting Policies**

Basis of accounting

The financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments, and in accordance with UK Generally Accepted Accounting Practice (UK GAAP), and the Statement of Recommended Practice (SORP) 'Financial Statements of Investment Trust Companies' (revised 2009)

The principal accounting policies have remained unchanged from those set out in the Company's 2009 Annual Report and financial statements A summary of the principal accounting policies is set out below

The Company presents its income statement in a three column format to give shareholders additional detail of the performance of the Company, split between items of a revenue or capital nature

The preparation of the financial statements requires Management to make judgements and estimates that affect the application of policies and reported amounts of assets, liabilities, income and expenses Estimates and assumptions mainly relate to the fair valuation of the fixed asset investments particularly unquoted investments Estimates are based on historical experience and other assumptions that are considered reasonable under the circumstances The estimates and the assumptions are under continuous review with particular attention paid to the carrying value of the investments

Capital valuation policies are those that are most important to the depiction of the Company's financial position and that require the application of subjective and complex judgements, often as a result of the need to make estimates about the effects of matters that are inherently uncertain and may change in subsequent periods The critical accounting policies that are declared will not necessarily result in material changes to the financial statements in any given period but rather contain a potential for material change The main accounting and valuation policies used by the Company are disclosed below Whilst not all of the significant accounting policies require subjective or complex judgements, the Company considers that the following accounting policies should be considered critical

The Company has designated all fixed asset investments as being held at fair value through profit and loss, therefore all gains and losses arising from investments held are attributable to financial assets held at fair value through profit and loss Accordingly, all interest income, fee income, expenses and investment gains and losses are attributable to assets designated as being at fair value through profit or loss

Current asset investments comprising money market funds and deposits are held for trading and are therefore automatically classified as fair value through profit or loss

Investments are regularly reviewed to ensure that the fair values are appropriately stated Quoted investments are valued in accordance with the bid-price on the relevant date, unquoted investments are valued in accordance with current IPEVC valuation guidelines, although this does rely on subjective estimates such as appropriate sector earnings multiples, forecast results of investee companies, asset values of subsidiary companies and liquidity or marketability of the investments held

Although the Company believes that the assumptions concerning the business environment and estimate of future cash flows are appropriate, changes in estimates and assumptions could require changes in the stated values This could lead to additional changes in fair value in the future

1 **Principal Accounting Policies (continued)**

Investments

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

These investments will be managed and their performance evaluated on a fair value basis in accordance with a documented investment strategy and information about them has to be provided internally on that basis to the Board Accordingly as permitted by FRS 26, the investments will be designated as fair value through profit and loss ('FVTPL') on the basis that they qualify as a group of assets managed, and whose performance is evaluated- on a fair value basis in accordance with a documented investment strategy The Company's investments are measured at subsequent reporting dates at fair value

In the case of investments quoted on a recognised stock exchange, fair value is established by reference to the closing bid price on the relevant date or the last traded price, depending upon convention of the exchange on which the investment is quoted This is consistent with the IPEVC valuation guidelines

In the case of unquoted investments, fair value is established by using measures of value such as the price of recent transactions, earnings multiple and net assets This is consistent with IPEVC valuation guidelines

Gains and losses arising from changes in fair value of investments are recognised as part of the capital return within the income statement and allocated to the capital reserve – holding gains/(losses)

In the preparation of the valuations of assets the Directors are required to make judgements and estimates that are reasonable and incorporate their knowledge of the performance of the investee companies

Current asset investments

Current asset investments comprise money market funds, bonds and OEICs and are designated as FVTPL. Gains and losses arising from changes in fair value of investments are recognised as part of the capital return within the Income Statement and allocated to the capital reserve – gains/(losses) on disposal

The current asset investments are all invested with the Company's cash manager and are readily convertible into cash at the choice of the Company The current asset investments are held for trading, are actively managed and the performance is evaluated on a fair value basis in accordance with a documented investment strategy Information about them has to be provided internally on that basis to the Board

Income

Investment income includes interest earned on bank balances and money market securities and includes income tax withheld at source Dividend income is shown net of any related tax credit.

Dividends receivable are brought into the accounts on the ex-dividend date Fixed returns on debt and money market securities are recognised on a time apportionment basis so as to reflect the effective interest rate, provided there is no reasonable doubt that payment will be received in due course

Expenses

All expenses are accounted for on an accruals basis Expenses are charged wholly to revenue with the exception of the investment management fee, which is charged 25% to the revenue account and 75% to the capital reserve to reflect, in the Directors' opinion, the expected long-term split of returns in the form of income and capital gains respectively from the investment portfolio

The transaction costs incurred when purchasing or selling assets are written off to the Income Statement in the period that they occur

NOTES TO THE FINANCIAL STATEMENTS (continued)

Revenue and capital

The revenue column of the Income Statement includes all income and revenue expenses of the Company The capital column includes gains and losses on disposal and holding gains and losses on investments Gains and losses arising from changes in fair value of investments are recognised as part of the capital return within the income statement.

Taxation

Corporation tax payable is applied to profits chargeable to corporation tax, if any, at the current rate The tax effect of different items of income/gain and expenditure/loss is allocated between capital and revenue return on the 'marginal' basis as recommended in the SORP

Deferred tax is recognised on an undiscounted basis in respect of all timing differences that have originated but not reversed at the balance sheet date or where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less tax This is with the exception that deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Cash and liquid resources

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market Liquid resources comprise term deposits of less than one year (other than cash), government securities, investment grade bonds and investments in money market managed funds, as well as OEICs

Loans and receivables

The Company's loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method

Financing strategy and capital structure

FRS 29 'Financial Instruments Disclosures' comprises disclosures relating to financial instruments

We define capital as shareholders' funds and our financial strategy in the medium term is to manage a level of cash that balances the risks of the business with optimising the return on equity The Company currently has no borrowings nor does it anticipate that it will drawdown any borrowing facilities in the future to fund the acquisition of investments

The company does not have any externally imposed capital requirements

Financial instruments

During the course of the year, the Company held non-current asset investments, shares in OEICs (open ended investment companies), money market funds and cash deposits The Company holds financial assets that comprise investments in unquoted companies and qualifying loans The carrying value for all financial assets and liabilities is fair value

1 **Principal Accounting Policies (continued)**

Dividends

Dividends payable are recognised as distributions in the financial statements when the Company's liability to make payment has been established This liability is established for interim dividends when they are paid, and for final dividends when they are approved by the shareholders

2. **Income**

	Year to 31 October 2010 £'000	Year to 31 October 2009 £'000
Money market funds and OEICs	**56**	60
Loan note interest	**94**	–
Dividends – qualifying quoted	**–**	13
	150	73

3 **Investment Management Fees**

	Year to 31 October 2010			Year to 31 October 2009		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee	**101**	**302**	**403**	64	190	254

For the purposes of the revenue and capital columns in the income statement, the management fee has been allocated 25% to revenue and 75% 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

Octopus Investments provides investment management and accounting and administration services to the Company under a management agreement which runs for a period of five accounting periods with effect from 21 July 2008 and may be terminated at any time thereafter by not less than 12 months' notice given by either party No compensation is payable in the event of terminating the agreement by either party, if the required notice period is given The fee payable, should insufficient notice be given, will be equal to the fee that would have been paid should continuous service be provided, or the required notice period was given The basis upon which the management fee is calculated is disclosed within note 18 to the financial statements

NOTES TO THE FINANCIAL STATEMENTS (continued)

4 Other Expenses

	Year to 31 October 2010 £'000	Year to 31 October 2009 £'000
Directors' remuneration	**53**	73
Fees payable to the Company's auditor for the audit of the financial statements	**9**	7
Fees payable to the Company's auditor for other services – tax compliance	**2**	2
Legal and professional expenses	**3**	5
Accounting and administration services	**71**	53
Trail Commission	**106**	49
Other expenses	**46**	72
	290	261

Total annual running costs are capped at 3 2% of net assets (excluding irrecoverable VAT) For the year to 31 October 2010 the running costs, as defined in the prospectus, were 3 0% of net assets (2009 2 7%)

5. Directors' Remuneration

	Year to 31 October 2010 £'000	Year to 31 October 2009 £'000
Directors' emoluments		
Mark Hawkesworth (Chairman)	**20**	28
Tim Lebus	**15**	21
Chris Hulatt (paid to Octopus Investments Limited)	**15**	24
	50	73

None of the Directors received any other remuneration or benefit from the Company during the year The Company has no employees other than non-executive Directors The average number of non-executive Directors in the year was three (2009 three)

6. Tax on Ordinary Activities

The corporation tax charge for the year was £nil (2009 £nil)

Factors affecting the tax charge for the current year

The current tax charge for the period differs from the standard rate of corporation tax in the UK of 28% (2009 28%)

The differences are explained below

Current tax reconciliation

	Year to 31 October 2010 £'000	Year to 31 October 2009 £'000
(Loss)/gain on ordinary activities before tax	**(683)**	1,204
Current tax at 28% (2009 28%)	**(191)**	337
Income not taxable for tax purposes	**(51)**	(467)
Expenses not deductible for tax purposes	**62**	–
Unrelieved tax losses	**180**	130
Total current tax charge	**–**	–

Excess management charges of £1,184,000 (2009 £542,000) have been carried forward at 31 October 2010 and are available for offset against future taxable income subject to agreement with HMRC The Company has not recognised the deferred tax asset of £332,000 (2009 £152,000) in respect of these excess management charges

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

7 Earnings per Share

The total, revenue and capital earnings per share are based on 20,268,149 (31 October 2009 13,746,520) ordinary shares, being the weighted average number of ordinary shares in issue during the year

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

8. Net Asset Value per Share

The calculation of NAV per share as at 31 October 2010 is based on 20,268,149 (31 October 2009 20,268,149) ordinary shares in issue at that date

9 Fixed Asset Investments

Effective from 1 November 2009, the Company adopted the amendment to FRS 29 regarding financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. Fixed Asset Investments (continued)

Level 1 quoted prices in active markets for identical assets and liabilities The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date A market is regarded as active if quoted prices are readily and regularly available, and those prices represent actual and regularly occurring market transactions on an arm's length basis The quoted market price used for financial assets held is the current bid price These instruments are included in level 1 and comprise AIM-listed investments classified as held at fair value through profit or loss

Level 2 the fair value of financial instruments that are not traded in an active market is determined by using valuation techniques These valuation techniques maximise the use of observable data where it is available and rely as little as possible on entity-specific estimates If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2 The Company held no such investment in the current or prior year

Level 3 the fair value of financial instruments that are not traded in an active market (for example investments in unquoted companies) is determined by using valuation techniques such as earnings multiples If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3

There has been one transfer between these classifications in the year (2009 none) The change in fair value for the current and previous year is recognised through the income statement

All items held at fair value through profit or loss were designated as such upon initial recognition Movements in investments at fair value through profit or loss during the year to 31 October 2010 are summarised below and in note 11

9 Fixed Asset Investments (continued)

	Level 1 AIM-quoted investments		Level 3 Unquoted investments		Total investments
	Equity £'000	Loan £'000	Equity £'000	Loan £'000	£'000
Valuation and net book amount.					
Book cost as at 1 November 2009	–	–	1,709	908	2,617
Cumulative revaluation	–	–	100	–	100
Valuation at 1 November 2009	–	–	1,809	908	2,717
Movement in the year					
Purchases at cost	–	–	4,957	–	4,957
Transfer between levels	60	225	(60)	(225)	–
Loan converted to equity	–	–	188	(188)	–
Revaluation in year	(6)	–	269	24	287
Valuation at 31 October 2010	54	225	7,163	519	7,961
Book cost at 31 October 2010	60	225	6,795	495	7,575
Revaluation to 31 October 2010	(6)	–	368	24	386
Valuation at 31 October 2010	54	225	7,163	519	7,961

Level 3 valuations include assumptions based on non-observable market data, such as discounts applied either to reflect fair value of financial assets held at the price of recent investment, or, in the case of unquoted investments, to adjust earnings multiples The sensitivity of these valuations to a reasonable possible change in such assumptions is given in note 15 Further details in respect of the methods and assumptions applied in determining the fair value of the investments are described in the Investment Manager's Review and within the principal accounting policies in note 1

At 31 October 2010 and 31 October 2009 there were no commitments in respect of investments approved by the manager but not yet completed

NOTES TO THE FINANCIAL STATEMENTS (continued)

10 Debtors

	31 October 2010 £'000	31 October 2009 £'000
Trade debtors	**5**	–
Prepayments	**8**	8
Accrued income	**46**	4
	59	12

11 Current Asset Investments

Current asset investments at 31 October 2010 comprised money market funds and OEICs

	£'000	£'000
Valuation and net book amount		
Book cost as 1 November 2009		
– Money market funds	11,394	
– OEICs	4,248	
		15,642
Revaluation as at 1 November 2009		
– OEICs	1,522	
		1,522
Valuation as at 1 November 2009		17,164
Purchase at cost		
– Money market funds	4,617	
		4,617
Disposal proceeds		
– Money market funds	(9,845)	
		(9,845)
Revaluation in the year		
– OEICs	(427)	
		(427)
Valuation as at 31 October 2010		**11,509**
Book cost as 1 November 2010		
– Money market funds	6,165	
– OEICs	4,248	
		10,413
Revaluation as at 1 November 2010		
– OEICs	1,096	
		1,096
Valuation as at 31 October 2010		**11,509**

11 Current Asset Investments (continued)

All current asset investments held at the year end sit with the level 1 hierarchy for the purposes of FRS 29

Level 1 money market funds Level 1 valuations are based on quoted prices (unadjusted) in active markets for identical assets or liabilities The valuation of money market funds at 31 October 2010 was £11,509,000 (2009 £17,164,000)

12. Creditors Amounts Falling Due Within One Year

	31 October 2010 £'000	31 October 2009 £'000
Accruals	**79**	93
Other creditors	**2**	9
	81	102

13 Share Capital

	31 October 2010 £'000	31 October 2009 £'000
Authorised		
50,000,000 ordinary shares of 10p	**5,000**	5,000
Allotted and fully paid up		
20,268,149 (2009 20,268,149) ordinary shares of 10p (fully paid)	**2,027**	2,027

The capital of the Company is managed in accordance with its investment policy with a view to the achievement of its investment objective as set on page 22 The Company is not subject to any externally imposed capital requirements

The Company did not issue any shares in the year (2009 16,099,585)

NOTES TO THE FINANCIAL STATEMENTS (continued)

14 Reserves

	Share premium £'000	Special distributable reserve £'000	Capital reserve gains/(losses) on disposal £'000	Capital reserve holding gains/(losses) £'000	Revenue reserve £'000
As at 1 November 2009	17,155	–	(204)	1,622	(310)
Return on ordinary activities after tax	–	–	–	–	(241)
Management fees allocated as capital expenditure	–	–	(302)	–	–
Holding losses	–	–	–	(140)	–
Share premium account cancellation	(17,155)	17,155	–	–	–
Balance as at 31 October 2010	–	17,155	(506)	1,482	(551)

When the Company revalues its investments during the period, any gains or losses arising are credited/charged to the income statement Changes in fair value of investments held are then transferred to the 'capital reserve – holding gains/(losses) 'When an investment is sold, any balance held on the 'capital reserve – holding gains/(losses)' is transferred to the 'capital reserve – gains/(losses) on disposal' as a movement in reserves

Following the Company's petition, the Companies Court ordered that the special resolution passed by the shareholders on 14 October 2009 to effect the cancellation of the share premium account be confirmed The order relating to the same was duly registered by the Registrar of Companies on 25 November 2009

The purpose of the special distributable reserve was to create a reserve which will be capable of being used by the Company to pay dividends and for the purpose of making repurchases of its own shares in the market with a view to narrowing the discount to net asset value at which the Company's ordinary shares trade In the event that the capital reserve gains/(losses) on disposal do not have sufficient funds to pay dividends, these will be paid from the special distributable reserve

15 Financial Instruments and Risk Management

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

Classification of financial instruments

The company held the following categories of financial instruments, all of which are included in the balance sheet at fair value, at 31 October 2010

	31 October 2010 £000	31 October 2009 £000
Assets at fair value through profit or loss		
Investments	**7,961**	2,717
Current asset investments	**11,509**	17,164
Total	**19,470**	19,881
Loans and receivables		
Cash at bank	**159**	499
Accrued income	**51**	4
Total	**210**	503
Liabilities at amortised cost		
Accruals and other creditors	**81**	102
Total	**81**	102

Fixed asset investments (see note 9) are valued at fair value Unquoted investments are carried at fair value as determined by the directors in accordance with current venture capital industry guidelines The fair value of all other financial assets and liabilities is represented by their carrying value in the balance sheet

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

Market risk

The Company's strategy for managing investment risk is determined with regard to the Company's investment objective, as outlined on page 22 The management of market risk is part of the investment management process and is a central feature of venture capital investment The Company's portfolio is managed with regard to the possible effects of adverse price movements and, with the objective of maximising overall returns to shareholders Investments in unquoted companies, by their nature, usually involve a higher degree of risk than investments in companies quoted on a recognised stock exchange, though the risk can be mitigated to a certain extent by diversifying the portfolio across business sectors and asset classes The overall disposition of the Company's assets is regularly monitored by the Board

NOTES TO THE FINANCIAL STATEMENTS (continued)

15 Financial Instruments and Risk Management (continued)

Details of the Company's investment portfolio at the balance sheet date are set out on pages 9 and 17 An analysis of investments between debt and equity instruments is given in note 9

39 2% (2009 13 4%) by value of the Company's net assets comprises investments in unquoted companies held at fair value The valuation methods used by the Company include the application of a price/earnings ratio derived from listed companies with similar characteristics, and consequently the value of the unquoted element of the portfolio can be indirectly affected by price movements on the London Stock Exchange A 10% overall increase in the valuation of the unquoted investments at 31 October 2010 would have increased net assets and the total return for the period by £796,100 (2009 £271,700) An equivalent change in the opposite direction would have reduced net assets and the total return for the period by the same amount

59 4% (2009 84 6%) by value of the Company's net assets comprises of OEICs and money market securities held at fair value A 10% overall increase in the valuation of the OEICs and money market securities at 31 October 2010 would have increased net assets and the total return for the year by £1,151,000 (2009 £1,716,000) An equivalent change in the opposite direction would have reduced net assets and the total return for the year by the same amount

Interest rate risk

Some of the Company's financial assets are interest-bearing As a result, the Company is exposed to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates

Fixed rate

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

	As at 31 October 2010			As at 31 October 2009		
	Total fixed rate portfolio by value £'000	**Weighted average interest rate %**	**Weighted average time for which rate is fixed in years**	Total fixed rate portfolio by value £'000	Weighted average interest rate %	Weighted average time for which rate is fixed in years
Fixed-rate investments in unquoted companies	225	12%	3 5	–	n/a	n/a
	225	12%	3 5	–	n/a	n/a

Due to the relatively short period to maturity of the fixed rate investments held within the portfolio, it is considered that an increase or decrease of 1% in interest rates as at the reporting date would not have had a significant effect on the Company's net assets or total return for the year

15 Financial Instruments and Risk Management (continued)

Floating rate

The Company's floating rate investments comprise cash held on interest-bearing deposit accounts and, where appropriate, within interest bearing money market securities The benchmark rate which determines the rate of interest receivable on such investments is the bank base rate, which was 0 5% (2009 0 5%) at 31 October 2010 The amounts held in floating rate investments at the balance sheet date were as follows

	31 October 2010 £000	31 October 2009 £000
Floating-rate investments in unquoted companies	**495**	–
Cash on deposit & money market funds	**6,324**	11,892
	6,819	11,892

A 1% increase in the base rate would increase income receivable from these investments and the total return for the year by £68,000 (2009 £119,000)

Credit risk

There were no significant concentrations of credit risk to counterparties at 31 October 2010 By cost, no individual investment exceeded 11 0% (2009 14 6%) of the Company's net assets at 31 October 2010

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

At 31 October 2010 the Company's financial assets exposed to credit risk comprised the following

	31 October 2010 £000	31 October 2009 £000
Fixed-rate investments in unquoted companies	**225**	–
Floating-rate investments in unquoted companies	**495**	–
Cash on deposit & money market funds	**6,324**	11,892
Accrued dividends and interest receivable	**43**	–
	7,087	11,892

Credit risk relating to listed money market securities is mitigated by investing in a portfolio of investment instruments of high credit quality, comprising securities issued by the UK Government and major UK companies and institutions Credit risk relating to loans to and preference shares in unquoted companies is considered to be part of market risk

Bankruptcy or insolvency of a custodian could cause the Company's rights with respect to securities held by a custodian to be delayed or limited

Credit risk arising on the sale of investments is considered to be small due to the short settlement and the contracted agreements in place with the settlement lawyers

The Company's interest-bearing deposit and current accounts are maintained with HSBC Bank plc and BlackRock Inc

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. Financial Instruments and Risk Management (continued)

Liquidity risk

The Company's financial assets include investments in unquoted equity securities which are not traded on a recognised stock exchange and which generally may be illiquid They may also include investments in AIM-quoted companies, which by their nature, involve a higher degree of risk than investments on the main market As a result, the Company may not be able to realise some of its investments in these instruments quickly at an amount close to their fair value in order to meet its liquidity requirements, or to respond to specific events such as deterioration in the creditworthiness of any particular issuer

The Company's liquidity risk is managed on a continuing basis by the Investment Manager in accordance with policies and procedures laid down by the Board The Company's overall liquidity risks are monitored on a quarterly basis by the Board

The Company maintains sufficient investments in cash and readily realisable securities to pay accounts payable and accrued expenses At 31 October 2010 these investments were valued at £11,668,000 (2009 £17,663,000)

16 Post Balance Sheet Events

The following events occurred between the balance sheet date and the signing of these financial statements

- On 5 November 2010 a further £12,500 was invested into Skills Market Limited
- On 30 November 2010 a further £6,000 was invested into Skills Market Limited
- On 7 December 2010 a new investment of £367,000 was made into Diverse Energy Limited
- On 9 December 2010 a further £296,000 was invested into Zoopla Limited
- On 22 December 2010 a further £246,000 was invested into Semafone Limited
- On 24 December 2010 a new investment of £450,000 was made into Curlet (UK) Limited (10CMS)
- On 27 January 2011 a further £116,666 was invested into Money Workout Limited
- On 28 January 2011 a new investment of £500,000 was made into Vega-Chi Limited
- On 4 February 2011 a further £16,666 was invested into Money Workout Limited

17 Contingencies, Guarantees and Financial Commitments

Provided that intermediary continues to act for a shareholder and the shareholder continues to be the beneficial owner of the shares, intermediaries will be paid an annual trail commission of 0 5% of the initial net asset value Trail commission of £106,000 was paid during the year (2009 £49,000) and there was £nil outstanding at the year end

There were no further contingencies, guarantees or financial commitments as at 31 October 2010

18 Related Party Transactions

Chris Hulatt, a non-executive Director of Octopus Titan VCT 3 plc, is a Director of Octopus Investments Limited Octopus Titan VCT 3 plc has employed Octopus Investments throughout the year as Investment Manager Octopus Titan VCT 3 plc has paid Octopus Investments £403,000 (2009 £255,000) in the year as a management fee and there is £nil outstanding at the balance sheet date The management fee is payable quarterly in advance and is based on 2 0% of the net asset value calculated at annual intervals as at 31 October

Octopus Investments Limited also provides accounting, administrative and company secretarial services to the Company, payable quarterly in advance for a fee of 0 3% of the net asset value calculated at annual intervals as at 31 October During the year £71,000 (2009 £53,000) was paid to Octopus Investments and there is £nil outstanding at the balance sheet date, for the accounting and administrative services

In addition, Octopus Investments is entitled to performance related incentive fees The incentive fees are designed to ensure that there are significant tax-free dividend payments made to Shareholders as well as strong performance in terms of capital and income growth, before any performance related incentive fee payment is made Therefore, only if by the end of a financial period (commencing no earlier than close of the 2011 financial period), declared distributions per Share have reached 40p in aggregate and if the Performance Value at that date exceeds 130p per Share, a performance incentive fee equal to 20% of the excess of such Performance Value over 100p per Share will be payable to Octopus

If, on a subsequent financial year end, the Performance Value of Octopus Titan 3 falls short of the Performance Value on the previous financial year end, no incentive fee will arise If, on a subsequent financial period end, the performance exceeds the previous best Performance Value of Octopus Titan 3, the Investment Manager will be entitled to 20% of such excess in aggregate

No performance fee has been recognised for the year ended 31 October 2010 on the basis that the directors do not believe that the necessary criteria will be met in the foreseeable future, and therefore the amount of any possible obligation is not material

DIRECTORS AND ADVISERS

Board of Directors
Mark Hawkesworth (Chairman)
Tim Lebus
Chris Hulatt

Company Number
Registered in England & Wales
No 06523078

Secretary and Registered office
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Matrix Corporate Capital LLP
1 Vine Street
London
W1J 0AH

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Octopus Titan VCT 3 plc will be held at 20 Old Bailey, London EC4M 7AN on 30 March 2011 at 11 30 a.m for the following purposes

ORDINARY BUSINESS

1 To receive and adopt the financial statements for the year to 31 October 2010 and the directors' and auditor's reports thereon

2 To approve the Directors' Remuneration Report

3 To re-elect Mark Hawkesworth as a Director

4 To re-elect Chris Hulatt as a Director

5 To re-appoint Grant Thornton UK LLP as auditor of the Company and to authorise the Directors to determine their remuneration

SPECIAL BUSINESS

To consider and if thought fit, pass Resolution 6 as an Ordinary Resolution and Resolutions 7 and 8 as Special Resolutions

6 AUTHORITY TO ALLOT RELEVANT SECURITIES

THAT the Directors be and are generally and unconditionally authorised in accordance with s551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company up to a maximum nominal amount of £202,681 (representing approximately 10% of the ordinary share capital in issue at today's date) such authority to expire at the later of the conclusion of the Company's next Annual General Meeting following the passing of this Resolution and the expiry of 15 months from the passing of the relevant Resolution (unless previously revoked, varied or extended by the Company in a general meeting but so that such authority allows the Company to make offers or agreements before the expiry thereof, which would or might require relevant securities to be allotted after the expiry of such authority)

7 EMPOWERMENT TO MAKE ALLOTMENTS OF EQUITY SECURITIES

TO empower the Directors pursuant to s571 of the Companies Act 2006 to allot or make offers or agreements to allot equity securities (as defined in s560(1) of the said Act) for cash pursuant to the authority referred to in Resolution 6 as if s561 (1) of the said Act did not apply to any such allotments and so that

(a) reference to allotment in this Resolution shall be construed in accordance with s560(2) of the said Act, and

(b) the power conferred by this Resolution shall enable the Company to make any offer or agreement before the expiry of the said power which would or might require equity securities to be allotted after the expiry of the said power and the Directors may allot equity securities in pursuance of such offer or agreement notwithstanding the expiry of such power

And this power, unless previously varied, revoked or renewed, shall come to an end at the conclusion of the next Annual General Meeting of the Company following the passing of this Resolution or, if earlier, on the expiry of 15 months from the passing of this Resolution

NOTICE OF ANNUAL GENERAL MEETING (continued)

8 AUTHORITY TO MAKE MARKET PURCHASES

THAT the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of s693(4) of the Act) of ordinary shares of 10p each in the Company ('ordinary shares') provided that

(a) the maximum number of ordinary shares so authorised to be purchased shall not exceed 5% of the present issued ordinary share capital of the Company;

(b) the minimum price which may be paid for an ordinary share shall be 10p,

(c) the maximum price, exclusive of expenses, which may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Ordinary share is contracted to be purchased,

(d) the authority conferred comes to an end at the conclusion of the next Annual General Meeting of the Company or upon the expiry of 15 months from the passing of this Resolution, whichever is the later, and

(e) that the Company may enter into a contract to purchase its ordinary shares under this authority prior to the expiry of this authority which would or might be completed wholly or partly after the expiry of this authority

By Order of the Board

20 Old Bailey
London
EC4M 7AN

Celia L Whitten FCIS
Company Secretary
9 February 2011

NOTES

a) A member entitled to attend and vote at the Annual General Meeting may appoint one or more proxies to attend and vote on his or her behalf A proxy need not be a member

b) A form of proxy is enclosed which, to be effective, must be completed and delivered to the registrars of the Company **(Capita Registrars, (PXS), 34 Beckenham Road, Beckenham, Kent BR3 4TU)** so as to be received by no later than 48 hours before the time the Annual General Meeting is scheduled to begin The completion and return of the form of proxy will not affect the right of a member to attend and vote at the Annual General Meeting

c) As an alternative to returning this hard-copy proxy form by post, you can appoint a proxy by sending this proxy form by fax to Octopus Investments Limited on 020 7657 3338 For the proxy appointment to be valid, your appointment must be received by Octopus Investments Limited in such time as it can be transmitted to the registrars of the Company so as to be received no later than 48 hours before the time appointed for the meeting or 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 Capita Registrars will not be liable for any proxy forms rendered illegible by means of fax transmission

d) Copies of the Directors' Letters of Appointment and the Register of Directors' Interests in the ordinary shares of the Company, kept in accordance with the Listing Rules, will be available for inspection at the registered office of the Company during usual business hours on any weekday from the date of this notice until the Annual General Meeting, and at the place of that meeting for at least 15 minutes prior to the commencement of the meeting until its conclusion

PROXY FORM

OCTOPUS TITAN VCT 3 PLC

Annual General Meeting – 30 March 2011 at 11.30 a.m.

I/We

(BLOCK CAPITALS PLEASE)

of

being a member of Octopus Titan VCT 3 plc, hereby appoint the Chairman of the meeting or,

Name of Proxy Number of Shares

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 30 March 2011, notice of which was sent to shareholders with the Directors' Report and the accounts for the year ended 31 October 2010, and at any adjournment thereof The proxy will vote as indicated below in respect of the resolutions set out in the notice of meeting

Please indicate by ticking the box if this proxy appointment is one of multiple appointments being made

For the appointment of more than one proxy, please refer to the explanatory note 4 overleaf

Resolution number		FOR	AGAINST	WITHHELD
ORDINARY BUSINESS				
1	To receive, consider and adopt the financial statements for the year ended 31 October 2010			
2	To approve the Directors' Remuneration Report			
3	To re-elect Mark Hawkesworth as a Director			
4	To re-elect Chris Hulatt as a Director			
5	To re-appoint Grant Thornton UK LLP as auditor and authorise the Directors to agree their remuneration			
SPECIAL BUSINESS				
6	To authorise the Directors to allot shares under s551 of the Companies Act 2006 (Ordinary Resolution)			
7	To disapply s561 of the Companies Act 2006 and allot shares on a non-rights issue basis (Special Resolution)			
8	To authorise the Directors to make market purchases of its own shares (Special Resolution)			

Signed Dated 2011

If you are unable to attend the AGM and wish to pass on any comments to the Board, please use the box below (NB Please provide a telephone contact number)

NOTES

1 To be valid the proxy form must be received by the Registrars of Octopus Titan VCT 3 plc at **Capita Registrars, (PXS), 34 Beckenham Road Beckenham, Kent BR3 4TU** no later than 48 hours before the commencement of the meeting. If delivering by courier please use the full address of Capita set out in the Notice

2 Where this form of proxy is executed by a corporation it must be either under its seal or under the hand of an officer or attorney duly authorised

3 Every holder has the right to appoint some other person(s) of their choice who need not be a shareholder as his proxy to exercise all or any of his rights to attend speak and vote on their behalf at the meeting. If you wish to appoint a person other than the Chairman please insert the name of your chosen proxy holder in the space provided If the proxy is being appointed in relation to less than your full voting entitlement, please enter next to the proxy holders name the number of shares in relation to which they are authorised to act as your proxy If left blank your proxy will be deemed to be authorised in respect of your full voting entitlement (or if this proxy form has been issued in respect of a designated account for a shareholder the full voting entitlement for that designated account)

4 To appoint more than one proxy you may photocopy this form Please indicate 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 The 'Vote Withheld option is provided to enable you to abstain on any particular resolution However it should be noted that a 'Vote Withheld is not a vote in law and will not be counted in the calculation of the proportion of the votes For and Against a resolution

6 If the proxy form is signed and returned without any indication as to how the proxy shall vote the proxy will exercise his/her discretion as to whether and how he/she votes.

7 Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001 entitlement to attend and vote at the meeting and the number of votes which may be cast thereat will be determined by reference to the Register of Members of the Company at 6.00 p.m. on the day which is two days before the day of the meeting or adjourned meeting Changes to entries on the Register of Members after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting

8 The address on the envelope containing this notice is how your address appears on the Register of Members If this information is incorrect please ring the Registrar's helpline on 0871 664 0300 (calls cost 10p per minute plus network extras lines are open 8 30 a.m – 5 30 p.m. Monday – Friday) to request a change of address form)

9 The completion and return of this form will not preclude a member from attending the meeting and voting in person.

PLEASE RETURN USING ADDRESSED ENVELOPE SUPPLIED