UNITED MICROELECTRONICS CORP
Form 20-F
April 18, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

¨ **Registration statement pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934**
or

x **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2015

or

¨ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from __________ to __________

or

¨ **Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
Date of event requiring this shell company report __________

Commission file number 001-15128

United Microelectronics Corporation

(Exact Name of Registrant as Specified in its Charter)

Taiwan, Republic of China

(Jurisdiction of Incorporation or Organization)

No. 3 Li-Hsin Road II, Hsinchu Science Park,

Hsinchu City, Taiwan, Republic of China

(Address of Principal Executive Offices)

Chitung Liu, +886-2-2658-9168, chitung_liu@umc.com,

8F, No. 68, Section 1, Neihu Road., Taipei 11493, Taiwan R.O.C.

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
American Depositary Shares, as evidenced by American Depositary Receipts, each representing 5 Common Shares	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the Issuer s classes of capital or common stock as of the close of the period covered by the annual report.

12,758,132,915 Common Shares of Registrant issued as of December 31, 2015 (including 333,814,200 treasury shares)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No x

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ¨ International Financial Reporting Standards as issued by the International Accounting Standards Board x Other ¨

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ¨ Item 18 ¨

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ¨ No x

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UNITED MICROELECTRONICS CORPORATION

FORM 20-F ANNUAL REPORT

FISCAL YEAR ENDED DECEMBER 31, 2014

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SUPPLEMENTAL INFORMATION

The references to United Microelectronics , we , us , our , our company and the Company in this annual report r United Microelectronics Corporation and its consolidated subsidiaries, unless the context suggests otherwise. The references to Taiwan and R.O.C. refer to Taiwan, Republic of China. The references to China and PRC refer to People s Republic of China. The references to shares and common shares refer to our common shares, par value NT$10 per share, and ADSs refers to our American depositary shares, each representing five common shares. The ADSs are issued under the Deposit Agreement, dated as of October 21, 2009, as amended, supplemented or modified from time to time, among United Microelectronics, JPMorgan Chase Bank, N.A. and the holders and beneficial owners from time to time of American Depositary Receipts issued thereunder. The references to TIFRSs refers to the Taiwan International Financial Reporting Standards as issued by the Financial Supervisory Commission in the Republic of China, IFRSs refers to International Financial Reporting Standards as issued by the International Accounting Standards Board, or IASB, R.O.C. GAAP refers to the generally accepted accounting principles in the Republic of China, and U.S. GAAP refers to the generally accepted accounting principles in the United States. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

We publish our financial statements in New Taiwan dollars, the lawful currency of the R.O.C. In this annual report, NT$ and NT dollars mean New Taiwan dollars, $, US$ and U.S. dollars mean United States dollars, ¥ means Yen, RMB¥ means Renminbi and means EURO.

FORWARD-LOOKING STATEMENTS IN THIS ANNUAL REPORT MAY NOT BE REALIZED

Our disclosure and analysis in this annual report contain or incorporate by reference some forward-looking statements. Our forward-looking statements contain information regarding, among other things, our financial condition, future expansion plans and business strategy. We have based these forward-looking statements on our current expectations and projections about future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. Although we believe that these expectations and projections are reasonable, such forward-looking statements are inherently subject to risks, uncertainties and assumptions about us, including, among other things:

- our dependence on frequent introduction of new product services and technologies based on the latest developments;
- the intensely competitive semiconductor, communications, consumer electronics and computer industries and markets;
- risks associated with our international business activities;
- our dependence on key personnel;
- general economic and political conditions, including those related to the semiconductor, communications, consumer electronics and computer industries;

natural disasters, such as earthquakes and droughts, which are beyond our control;

possible disruptions in commercial activities caused by natural and human-induced disasters, and outbreaks of contagious diseases;

fluctuations in foreign currency exchange rates;

additional disclosures we make in our previous and future Form 20-F annual reports and Form 6-K periodic reports to the U.S. Securities and Exchange Commission, or the U.S. SEC; and

those other risks identified in the Item 3. Key Information-D. Risk Factors section of this annual report.

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The words may , will , is/are likely to , anticipate , believe , estimate , expect , intend , plan and similar ex intended to identify a number of these forward-looking statements. We do not and will not undertake the obligation to update or revise any forward-looking statements contained in this annual report whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this annual report might not occur and our actual results could differ materially from those anticipated in these forward-looking statements.

GLOSSARY

ASIC	Application Specific Integrated Circuit. A custom-designed integrated circuit that performs specific functions which would otherwise require a number of off-the-shelf integrated circuits to perform.
BCD	Bipolar- Complementary Metal Oxide Semiconductor (CMOS)- Double Diffused Metal Oxide Semiconductor (DMOS). An integrated circuit and is one of the most important components for power management integration circuits.
BSI-CSI	Back-Side Illuminated CMOS Image Sensor, which is recently used for mobile product image sensor with better performance and thinner chip.
Cell	Semiconductor structure in an electrical state which can store a bit of information, mainly used as the building block of memory array.
Die	A piece of a semiconductor wafer containing the circuitry of an unpackaged single chip.
DRAM	Dynamic Random Access Memory. A type of volatile memory product that is used in electronic systems to store data and program instructions. It is the most common type of RAM and must be refreshed with electricity hundreds of times per second or else it will fade away.
eFlash	Embedded Flash Nonvolatile Memory. Used for most SoC (System-on-Chip) applications and has faster speed and enhanced security.
eHV	Embedded High Voltage Device. Used for Liquid Crystal Display (LCD) driver circuit to drive LCD devices.
EUV Lithography	Extreme Ultraviolet Lithography.
FinFET	Fin Field-Effect Transistor.
FPGA	Field Programmable Gate Array. A programmable integrated circuit.
Integrated Circuit	Entire electronic circuit built on a single piece of solid substrate and enclosed in a small package. The package is equipped with leads needed to electrically integrate the integrated circuit with a larger electronic system. Monolithic and hybrid integrated circuits are distinguished by the type of substrate used.
Interconnect	The conductive path made from copper or aluminum that is required to achieve connection from one circuit element to the other circuit elements within a circuit.
Mask or Photomask	A piece of glass on which an integrated circuit circuitry design is laid out.

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Memory	A group of integrated circuits that a computer uses to store data and programs, such as ROM, RAM, DRAM and SRAM.
Micron	A unit of spatial measurement that is one-millionth of a meter.
Nanometer	A unit of spatial measurement that is one-billionth of a meter.
PC	Personal computer.
RAM	Random Access Memory. A type of volatile memory forming the main memory of a computer where applications and files are run.
ROM	Read-Only Memory. Memory that is programmed by the manufacturer and cannot be changed. Typically, ROM is used to provide start-up data when a computer is first turned on.
Scanner	A photolithography tool used in the production of semiconductor devices. This camera-like step-and-scan tool projects the image of a circuit from a master image onto a photosensitized silicon wafer.
Semiconductor	A material with electrical conducting properties in between those of metals and insulators. Essentially, semiconductors transmit electricity only under certain circumstances, such as when given a positive or negative electric charge. Therefore, a semiconductor s ability to conduct can be turned on or off by manipulating those charges and this allows the semiconductor to act as an electric switch. The most common semiconductor material is silicon, used as the base of most semiconductor chips today because it is relatively inexpensive and easy to create.
SoC	System-on-Chip. A chip that incorporates functions currently performed by several chips on a cost effective basis.
SOI	Silicon-On-Insulator. Silicon wafer consisting of a thin layer of oxide, on top of which semiconductor devices are built.
SRAM	Static Random Access Memory. A type of volatile memory product that is used in electronic systems to store data and program instructions. Unlike the more common DRAM, it does not need to be refreshed.
Transistor	Tri-terminal semiconductor device in which input signal (voltage or current depending on the type of transistor) controls output current. An individual circuit that can amplify or switch electric current. This is the building block of all integrated circuits.
Volatile memory	Memory products which lose their data content when the power supply is switched off.
Wafer	Thin, round, flat piece of silicon that is the base of most integrated circuits.
8-inch wafer equivalents	Standard unit describing the equivalent amount of 8-inch wafers produced after conversion, used to quantify levels of wafer production for purposes of comparison. Figures of 8-inch wafer equivalents are derived by converting the number of wafers of all dimensions (e.g., 6-inch, 8-inch and 12-inch) into their equivalent figures for 8-inch wafers. 100 6-inch wafers are equivalent to 56.25 8-inch wafers. 100 12-inch wafers are equivalent to 225 8-inch wafers.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The selected consolidated balance sheets data as of December 31, 2014 and 2015 and the selected consolidated statements of comprehensive income data for the years ended December 31, 2013, 2014 and 2015 are derived from our audited consolidated financial statements included elsewhere in this annual report. In accordance with the requirements of the Taiwan Financial Supervisory Commission, or FSC, beginning on January 1, 2013, we have adopted Taiwan-IFRSs, which is translated and published by Accounting Research and Development Foundation, or ARDF, referred to as TIFRSs for reporting our annual and interim consolidated financial statements in the R.O.C. At the same time, we have adopted IFRSs as issued by the IASB for our annual reports on Form 20-F with the U.S. SEC beginning with the year ended December 31, 2013. However, since January 1, 2013, we only prepare our interim unaudited quarterly financial statements under TIFRSs, which are furnished to the SEC on Form 6-K. The selected consolidated balance sheet data as of January 1, 2012, December 31, 2012 and 2013 and the selected consolidated statements of comprehensive income data for the year ended December 31, 2012 are derived from our audited consolidated financial statements not included in this annual report.

In accordance with rule amendments adopted by the U.S. SEC for foreign private issuers reporting under IFRSs, we are not required to provide reconciliations to U.S. GAAP in this annual report following our adoption of IFRSs.

The selected financial data set forth below should be read in conjunction with Item 5. Operating and Financial Review and Prospects and our consolidated financial statements and the notes to those statements included in this annual report.

	Years Ended December 31,				
	2012	2013	2014	2015	
	NT$	NT$	NT$	NT$	US$
	(in millions, except per share and per ADS data)				
Consolidated Statements of Comprehensive Income Data					
Net operating revenues	115,675	123,812	140,012	144,830	4,417
Operating costs	(96,365)	(100,249)	(108,159)	(113,061)	(3,448)

Gross profit	19,310	23,563	31,853	31,769	969
Operating expenses	(15,697)	(19,406)	(21,238)	(19,969)	(609)
Net other operating income and expenses	(2,791)	(125)	(539)	(964)	(29)
Operating income	822	4,032	10,076	10,836	331
Non-operating income and expenses	5,473	10,309	3,496	2,833	86
Income from continuing operations before income tax	6,295	14,341	13,572	13,669	417
Income tax expense	(2,146)	(2,257)	(3,125)	(1,028)	(31)
Net income	4,149	12,084	10,447	12,641	386
Total other comprehensive income (loss), net of tax	(6,381)	198	6,069	(1,065)	(32)
Total comprehensive income (loss)	(2,232)	12,282	16,516	11,576	354
Net income attributable to:					
Stockholders of the parent	6,094	12,609	11,109	13,254	404
Non-controlling interests	(1,945)	(525)	(662)	(613)	(18)
Total comprehensive income (loss) attributable to:					
Stockholders of the parent	(281)	12,796	17,035	12,251	374
Non-controlling interests	(1,951)	(514)	(519)	(675)	(20)

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	Years Ended December 31,				
	2012	2013	2014	2015	
	NT$	NT$	NT$	NT$	US$
	(in millions, except per share and per ADS data)				
Earnings per share: (1)					
Basic	0.49	1.02	0.90	1.07	0.03
Diluted (2)	0.46	0.96	0.89	1.02	0.03
Common shares used in earnings per share calculation:					
Basic	12,464	12,346	12,334	12,336	12,336
Diluted (2)	13,289	13,150	12,719	13,171	13,171
Earnings per ADS equivalent:					
Basic	2.44	5.11	4.50	5.37	0.16
Diluted (2)	2.32	4.82	4.44	5.10	0.16

	As of January 1,	As of December 31,				
	2012	2012	2013	2014	2015	
	NT$	NT$	NT$	NT$	NT$	US$
	(in millions, except per share data)					
Consolidated Balance Sheets Data						
Total assets	279,336	281,214	293,914	310,648	335,354	10,227
Total liabilities	69,780	79,526	84,270	90,309	110,502	3,370
Stockholders equity	209,556	201,688	209,644	220,339	224,852	6,857
Capital stock (3)	130,845	129,521	126,946	127,303	127,581	3,891
Dividends declared per share (4)	1.11	0.50	0.40	0.50	0.55	0.02

	Years ended December 31,				
	2012	2013	2014	2015	
	NT$	NT$	NT$	NT$	US$
	(in millions)				
Segment Data					
Net operating revenues					
Wafer fabrication	108,624	116,782	129,449	141,145	4,305
New business	7,051	7,030	10,563	3,685	112
Net income (loss) (5)					
Wafer fabrication	6,177	12,761	12,350	13,620	415
New business	(5,583)	(2,583)	(2,546)	(1,962)	(60)

(1) Earnings per share is calculated by dividing net income by the weighted-average number of common shares outstanding during the year.

(2) Diluted securities include convertible bonds, employee stock options and employees compensation, if any.

(3) Changes to the number of the capital common shares are primarily caused by the share-based payment transactions and the cancellation of treasury stocks, if any.

(4) Dividends declared per share are in connection with earnings and accumulated additional paid-in capital.

(5) There are adjustments primarily consisted of intragroup elimination entries and GAAP difference adjustments.

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Currency Translations and Exchange Rates

In portions of this annual report, we have translated New Taiwan dollar amounts into U.S. dollars for the convenience of readers. The rate we used for the translations was NT$32.79 = US$1.00, which was the noon buying rate as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2015. The translation does not mean that New Taiwan dollars could actually be converted into U.S. dollars at that rate. The following table shows the noon buying rates for New Taiwan dollars expressed in New Taiwan dollar per US$1.00. On April 8, 2016, the noon buying rate was NT$32.40 to US$1.00.

	Average (1)	High	Low	At Period-End
2011	29.38	30.67	28.50	30.27
2012	29.56	30.28	28.96	29.05
2013	29.73	30.20	29.93	29.83
2014	30.38	31.80	29.85	31.60
2015	31.80	33.17	30.37	32.79
October	32.44	32.81	31.92	32.46
November	32.62	32.87	32.43	32.53
December	32.79	33.01	32.53	32.79
2016 (through April 8)	33.00	33.74	32.16	32.40
January	33.43	33.74	33.14	33.43
February	33.24	33.51	32.95	33.22
March	32.59	33.09	32.16	32.18
April (through April 8)	32.38	32.44	32.26	32.40

Source: Federal Reserve Statistical Release, Board of Governors of the Federal Reserve System.

(1) Determined by averaging the rates on the last business day of each month during the relevant period for annual periods, and by averaging the rates on each business day for monthly periods.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Our business and operations are subject to various risks, many of which are beyond our control. If any of the risks described below actually occurs, our business, financial condition or results of operations could be seriously harmed.

Risks Related to Our Business and Financial Condition

Any global systemic political, economic and financial crisis or catastrophic natural disasters (as well as the indirect effects flowing therefrom) could negatively affect our business, results of operations, and financial condition.

In recent times, several major systemic economic and financial crises and natural disasters negatively affected global business, banking and financial sectors, including the semiconductor industry and markets. These types of crises cause turmoil in global markets that often result in declines in electronic products sales from which we generate our income through our goods and services. In addition, these crises may cause a number of indirect effects such as undermining the ability of our customers to remain competitive when faced with the financial and economic challenges created by insolvent countries and companies still struggling to survive in the wake of these crises. For example, there could be in the future knock-on effects from these types of crises on our business, including significant decreases in orders from our customers; insolvency of key suppliers resulting in product delays; inability of customers to obtain credit to finance purchases of our products; customer insolvencies; and counterparty failures negatively impacting our treasury operations. Any future systemic political, economic or financial crises or catastrophic natural disasters (as well as the indirect effects flowing from these crises or disasters) could cause revenues for the semiconductor industry as a whole to decline dramatically, and if the economic conditions or financial condition of our customers were to deteriorate, additional accounting related allowances may be required in the future and such additional allowances could increase our operating expenses and therefore reduce our operating income and net income. Thus, any future global economic crisis or catastrophic natural disaster (and their indirect effects) could materially and adversely affect our results of operations.

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In 2009, we established a 100% owned subsidiary, UMC New Business Investment Corporation, or NBI, to focus on investments in the solar energy, and light emitting diodes, or LED, light source module design, epi wafer manufacturing, and packaging. In recent years, the growth of solar energy and LED industries is adversely affected by the on-going anti-subsidy and anti-dumping investigations from various regions, the combination of an increase in supply coupled with a decrease in the availability of government subsidies and the decrease in the price of international crude oil resulted in an excess of supply in the solar energy and LED industries and negative pressure on the pricing. As a result, we recognized impairment for our investments in these industries made through NBI. If the solar energy and LED industries continue to encounter significant downturns or significant reductions of government subsidies, our investments made through NBI will be adversely affected which could adversely affect our results of operations.

The seasonality and cyclical nature of the semiconductor industry and periodic overcapacity make us particularly vulnerable to significant and sometimes prolonged economic downturns.

The semiconductor industry has historically been highly cyclical and, at various times, has experienced significant downturns. Since most of our customers operate in semiconductor-related industries, variations in order levels from our customers can result in volatility in our revenues and earnings. Because our business is, and will continue to be, largely dependent on the requirements of semiconductor companies for our services, downturns in the semiconductor industry will lead to reduced demand for our services.

Our net operating revenues are also typically affected by seasonal variations in market conditions that contribute to the fluctuations of the average selling price of semiconductor services and products. The seasonal sales trends for semiconductor services and products closely mirror those for consumer electronics, communication and computer sales. We generally experience seasonal lows in the demand for semiconductor services and products during the first half of the year, primarily as a result of inventory correction by our customers. Any change in the general seasonal variations, which we cannot anticipate, may result in materially adverse effects on our revenues, operations and businesses.

Our operating results fluctuate from quarter to quarter, which makes it difficult to predict our future performance.

Our revenues, expenses and results of operations have varied significantly in the past and may fluctuate significantly from quarter to quarter in the future due to a number of factors, many of which are beyond our control. Our business and operations have at times in the past been negatively affected by, and are expected to continue to be subject to the risk of the following factors:

- the seasonality and cyclical nature of both the semiconductor industry and the markets served by our customers;
- our customers adjustments in their inventory;
- the loss of a key customer or the postponement of orders from a key customer;
- the rescheduling and cancellation of large orders;

our ability to obtain equipment, raw materials, electricity, water and other required utilities on a timely and economic basis;

outbreaks of contagious diseases, including but not limited to severe acute respiratory syndrome, avian flu, swine flu and Zika virus;

environmental events, such as fires and earthquakes, or industrial accidents; and

technological changes.

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Due to the factors noted above and other risks discussed in this section, many of which are beyond our control, you should not rely on quarter-to-quarter comparisons to predict our future performance. Unfavorable changes in any of the above factors may seriously harm our business, financial condition and results of operations. In addition, our operating results may be below the expectations of public market analysts and investors in some future periods. In this event, the price of the common shares or ADSs may underperform or fall.

A decrease in demand for or selling prices of communication devices, consumer electronics and computer goods may decrease the demand for our services and reduce our margins.

Our customers generally use the semiconductors produced in our fabs in a wide variety of applications. We derive a significant percentage of our operating revenues from customers who use our manufacturing services to make semiconductors for communication devices, consumer electronics, PCs and other computers. The semiconductor industry experienced several downturns due to recent major financial crises and natural disasters. These downturns resulted in a reduced demand for our services and hence decreased our revenues and earnings. Any significant decrease in the demand for communication devices, consumer electronics, PCs or other computers may further decrease the demand for our services. In addition, if the average selling price of communication devices, consumer electronics, PCs or other computers decline significantly, we will be pressured to further reduce our selling prices, which may reduce our revenues and, therefore, reduce our margins significantly. As demonstrated by downturns in demand for high technology products in the past, market conditions can change rapidly, without apparent warning or advance notice. In such instances, our customers will experience inventory buildup and/or difficulties in selling their products and, in turn, will reduce or cancel orders for wafers from us. The timing, severity and recovery of these downturns cannot be predicted accurately or at all. When they occur, our business, profitability and price of the common shares and ADSs are likely to suffer.

Overcapacity in the semiconductor industry may reduce our revenues, earnings and margins.

The prices that we can charge our customers for our services are significantly related to the overall worldwide supply of integrated circuits and semiconductor products. The overall supply of semiconductor products is based in part on the capacity of other companies, which is outside of our control. For example, in light of the current market conditions, some companies, including our largest competitors, have announced plans to increase capacity expenditures significantly. We believe such plans, if carried out as planned, will increase the industry-wide capacity and are likely to result in overcapacity in the future. In periods of overcapacity, if we are unable to offset the adverse effects of overcapacity through, among other things, our technology and product mix, we may have to lower the prices we charge our customers for our services and/or we may have to operate at significantly less than full capacity. Such actions could reduce our margin and weaken our financial condition and results of operations. We cannot give any assurance that an increase in the demand for foundry services in the future will not lead to overcapacity in the near future, which could materially adversely affect our revenues, earnings and margins.

Any problem in the semiconductor outsourcing infrastructure can adversely affect our net operating revenues and profitability.

Many of our customers depend on third parties to provide mask tooling, assembly and test services. If these customers cannot timely obtain these services on reasonable terms, they may not order any foundry services from us. This may significantly reduce our net operating revenues and negatively affect our profitability.

We may be unable to implement new technologies as they become available, which may result in the decrease of our profitability and the loss of customers and market share.

The semiconductor industry is developing rapidly and the related technology is constantly evolving. If we do not anticipate the technology evolution and rapidly adopt new and innovative technology, we may not be able to produce sufficiently advanced services at competitive prices. There is a risk that our competitors may adopt new technology before we do, resulting in our loss of market share. If we are unable to begin offering advanced services and processes on a competitive and timely basis, we may lose customers to our competitors providing similar technologies, which may cause our net operating revenues to decline unless we can replace lost customers with new customers. In addition, the market prices for advanced technology and services tend to fall over time. As a result, if we are unable to offer new advanced services and processes on a competitive and timely basis, we need to decrease the prices that we set for our existing services and processes, which would have a negative effect on our profitability. We also depend upon the introduction of new technologies on a timely basis in order to benefit from the relatively higher prices such new technologies offer in the earlier stages of their life cycles. If we are unable to introduce new technologies on a timely and competitive basis, we may not be able to benefit from the relatively higher prices for new technologies, and our average selling price and profits would decrease accordingly.

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We may be unable to provide leading technology to our customers if we lose the support of our technology partners.

Enhancing our manufacturing process technologies is critical to our ability to provide services for our customers. We intend to continue to advance our process technologies through internal research and development and alliances with other companies. Although we have an internal research and development team focused on developing new and improved semiconductor manufacturing process technologies, we are also dependent on some of our technology partners to advance certain process technology portfolios. In addition, we currently have patent cross-licensing agreements with several companies, including International Business Machines Corporation, or IBM. Some mask and equipment vendors also supply our technology development teams with masks and equipment needed to develop more advanced processing technologies. If we are unable to continue any of our joint development arrangements, patent cross-licensing agreements and other agreements, on mutually beneficial economic terms, if we re-evaluate the technological and economic benefits of such relationships, if we are unable to enter into new technology alliances and arrangements with other leading and specialty semiconductor companies, or if we fail to secure masks and equipment from our vendors in a timely manner sufficient to support our ongoing technology development, we may be unable to continue providing our customers with leading edge mass-producible process technologies and may, as a result, lose important customers, which would have a materially adverse effect on our businesses, results of operations and financial condition.

In addition, some of our customers rely upon third-party vendors, or intellectual property vendors, for the intellectual property they embed into their designs. Although we work and collaborate with intellectual property vendors with respect to such matters, there can be no guarantee that we will be successful or that the vendors will deliver according to our requirements or the needs of our customers. Failures to meet the targets or to deliver on a timely basis could cause customers to cancel orders and/or shift capacity to other suppliers.

Our business may suffer if we cannot compete successfully in our industry.

The worldwide semiconductor foundry industry is highly competitive. We compete with dedicated foundry service providers such as Taiwan Semiconductor Manufacturing Company Limited, Semiconductor Manufacturing International (Shanghai) Corporation and Globalfoundries Inc., as well as the foundry operation services of some integrated device manufacturers, such as IBM, Intel, Samsung Electronics, or Samsung, and Toshiba Corporation, or Toshiba. Integrated device manufacturers principally manufacture and sell their own proprietary semiconductor products, but may also offer foundry services. Other competitors such as DongbuAnam Semiconductor, Grace Semiconductor Manufacturing Corp., X-FAB Semiconductors Foundries AG and Silterra Malaysia Sdn. Bhd. have initiated efforts to expand and develop substantial additional foundry capacity. New entrants and consolidations in the foundry business, such as the acquisition of Chartered Semiconductor by Globalfoundries in 2009, are likely to initiate a trend of competitive pricing and create potential overcapacity in legacy technology. Some of our competitors have greater access to capital and substantially greater production, research and development, marketing and other resources than we do. As a result, these companies may be able to compete more aggressively over a longer period of time than we can.

The principal elements of competition in the wafer foundry market include:

- technical competence;

time-to-volume production and cycle time;

time-to-market;

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- research and development quality;
- available capacity;
- manufacturing yields;
- customer service and design support;
- price;
- management expertise; and
- strategic alliances.

Our ability to compete successfully also depends on factors partially outside of our control, including product availability, intellectual property, including cell libraries that our customers embed in their product designs, and industry and general economic trends.

We may not be able to implement our planned growth if we are unable to obtain the financing necessary to fund the substantial capital expenditures we expect to incur.

Our business and the nature of our industry require us to make substantial capital expenditures leading to a high level of fixed costs. The costs of facilities, tools and equipment to make semiconductors with advanced technology continue to rise, with each generation typically significantly more expensive than the larger-in-size more mature technologies which preceded. We expect to incur significant capital expenditures in connection with our growth plans. These capital expenditures will be made in advance of any additional sales to be generated by new or upgraded fabs as a result of these expenditures. Given the fixed-cost nature of our business, we have in the past incurred, and may in the future incur, operating losses if our revenues do not adequately offset our capital expenditures. Additionally, our actual expenditures may exceed our planned expenditures for a variety of reasons, including changes in:

- our growth plan;
- our process technology;
- our research and development efforts and patent license arrangements;
- market conditions;

- interest rates;
- exchange rate fluctuations; and
- prices of equipment.

We cannot assure you that additional financing will be available on satisfactory terms, if at all. If adequate funds are not available on satisfactory terms, we may be forced to curtail our expansion plans or delay the deployment of our services, which could result in a loss of customers and limit the growth of our business.

We depend on a small number of customers for a significant portion of our net operating revenues and any loss of these customers would result in significant declines in our net operating revenues.

We have been largely dependent on a small number of customers for a substantial portion of our business. In 2015, our top ten customers accounted for 57.3% of our net operating revenues. We expect that we will continue to depend upon a relatively limited number of customers for a significant portion of our net operating revenues. We cannot assure you that our net operating revenues generated from these customers, individually or in the aggregate, will reach or exceed historical levels in any future period. Loss or cancellation of business from significant changes in scheduled deliveries to, or decreases in the prices of services sold to any of these customers could significantly reduce our net operating revenues.

Our customers generally do not place purchase orders far in advance, which makes it difficult for us to predict our future revenues, adjust production costs and allocate capacity efficiently on a timely basis. In addition, due to the cyclical nature of the semiconductor industry, our customers purchase orders have varied significantly from period to period. As a result, we do not typically operate with any significant backlog, except in periods of extreme capacity shortage such as that experienced in late 2009 and early 2010. The lack of significant backlog and the unpredictable length and timing of semiconductor cycles make it difficult for us to forecast our revenues in future periods. Moreover, our expense levels are based in part on our expectations of future revenues, and we may be unable to adjust costs in a timely manner to compensate for revenue shortfalls. We expect that in the future our net operating revenues in any quarter will continue to be substantially dependent upon purchase orders received in that quarter.

Moreover, the increasing trend in mergers and acquisitions activities in the semiconductor industry could decrease total available customer base, which could potentially result in a loss of customers.

Our inability to obtain, preserve and defend intellectual property rights could harm our competitive position.

Our ability to compete successfully and achieve future growth will depend, in part, on our ability to protect our proprietary technology and to secure critical processing technology that we do not own at commercially reasonable terms. We cannot assure you that in the future we will be able to independently develop, or secure from any third party, the technology required for upgrading our production facilities or for meeting our customer needs. Our failure to successfully obtain such technology may seriously harm our competitive position.

Our ability to compete successfully also depends on our ability to operate without infringing on the proprietary rights of others. We have no means of knowing what patent applications have been filed in the United States or in certain other countries until months after they are filed. The semiconductor industry, because of the complexity of the technology used and the multitude of patents, copyrights and other overlapping intellectual property rights, is characterized by frequent litigation regarding patent, trade secret and other intellectual property rights. It is common for patent owners to assert their patents against semiconductor manufacturers. We have received from time to time communications from third parties asserting patents that cover certain of our technologies and alleging infringement of intellectual property rights of others, and we expect to continue to receive such communications in the future. See Item 4. Information on the Company B. Business Overview Litigation for more details of our ongoing litigation. In the event any third party was to make a valid claim against us or against our customers, we could be required to:

- seek to acquire licenses to the infringed technology which may not be available on commercially reasonable terms, if at all;

- discontinue using certain process technologies, which could cause us to stop manufacturing certain semiconductors;

- pay substantial monetary damages; and/or

- seek to develop non-infringing technologies, which may not be feasible.

Any one of these developments could place substantial financial and administrative burdens on us and hinder our business. Litigation, which could result in substantial expenses for us and diversion of our resources, may also be necessary to enforce our patents or other intellectual property rights or to defend us or our customers against claimed infringement of the rights of others. If we fail to obtain necessary licenses or if litigation relating to patent infringement or other intellectual property matters occurs, it could hurt our reputation as a technology leader in our industry and prevent us from manufacturing particular products or applying particular technologies, which could reduce opportunities to generate revenues.

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Our operations and business will suffer if we lose one or more of our key personnel without adequate replacements.

Our future success to a large extent depends on the continued services of our Chairman and key executive officers. We do not carry key person insurance on any of our personnel. If we lose the services of any of our Chairman or key executive officers, it could be difficult to find and integrate replacement personnel in a short period of time, which could harm our operations and the growth of our business.

We may have difficulty attracting and retaining skilled employees, who are critical to our future success.

The success of our business depends upon attracting and retaining experienced executives, engineers and other employees to implement our strategy. The competition for skilled employees is intense. We expect demand for personnel in Taiwan to increase in the future as new wafer fabrication facilities and other businesses are established in Taiwan. We also expect demand for experienced personnel in other locations to increase significantly as our competitors establish and expand their operations. Some of our competitors are willing to offer better compensation than that we do to our executives, engineers and other employees. We do not have long-term employment contracts with any of our employees. If we were unable to retain our existing personnel or attract, assimilate and recruit new experienced personnel in the future, it could seriously disrupt our operations and delay or restrict the growth of our business.

Our transactions with affiliates and stockholders may hurt our profitability and competitive position.

We have provided foundry services to several of our affiliates and stockholders. We currently do not provide any preferential treatment to any of these affiliates and stockholders. However, we may in the future reserve or allocate our production capacity to these companies if there is a shortage of foundry services in the market to enable these companies to maintain their operations and/or to protect our investments in them. This reservation or allocation may reduce our capacity available for our other customers, which may damage our relationships with other customers and discourage them from using our services. This may hurt our profitability and competitive position.

If we fail to maintain an effective system of internal control over financial reporting, we may be unable to accurately report our financial results or prevent fraud, and investor confidence in our company may be adversely affected.

We are required to comply with the R.O.C and the U.S. securities laws and regulations in connection with internal controls. As a public company in the United States, our management is required to assess the effectiveness of our internal control over financial reporting using the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), or the COSO criteria, as required by Section 404 of the Sarbanes-Oxley Act of 2002.

However, although effective internal controls can provide reasonable assurance with respect to the preparation and fair presentation of financial statements, they may not prevent or detect misstatements because of their inherent limitations, including the possibility of human error, the circumvention or overriding of controls, fraud or corruption. If we fail to maintain the adequacy of our internal controls, our business and operating results could be harmed, we could fail to meet our reporting obligations, and there could be a material adverse effect on the market price of our common shares and ADSs.

The trend of adopting protectionist measures in certain countries, including the United States, could have a material adverse impact on our results of operations and financial condition.

Governments in the United States, PRC and certain other countries have implemented fiscal and monetary programs to stimulate economic growth as a result of the recent economic downturn, and many of these programs include protectionist measures that encourage the use of domestic products and labor. Recent policy developments by the governments in China and elsewhere also suggest an increased unwillingness to allow international companies to invest in or acquire local businesses. Since many of our direct customers and other downstream customers in the supply chain are located in or have operations in the countries where protectionist measures were adopted, such protectionist measures may have a material adverse effect on demand for our manufacturing services.

Any future outbreak of contagious diseases may materially and adversely affect our business and operations, as well as our financial condition and results of operations.

Any future outbreak of contagious diseases, including but not limited to Zika virus, Ebola virus, avian or swine influenza or severe acute respiratory syndrome, may disrupt our ability to adequately staff our business and may generally disrupt our operations. If any of our employees is suspected of having contracted any contagious disease, we may under certain circumstances be required to quarantine such employees and the affected areas of our premises. Therefore, we may have to temporarily suspend part of or all of our operations. Furthermore, any future outbreak may restrict the level of economic activities in affected regions, including Taiwan, and affect the willingness and ability of our employees and customers to travel, which may also adversely affect our business and prospects. As a result, we cannot assure you that any future outbreak of contagious diseases would not have a material adverse effect on our financial condition and results of operations.

Currency fluctuations could increase our costs relative to our revenues, which could adversely affect our profitability.

More than half of our net operating revenues are denominated in currencies other than New Taiwan dollars, primarily in U.S. dollars. On the other hand, more than half of our costs of direct labor, raw materials and overhead are incurred in New Taiwan dollars. Although we hedge a portion of the resulting net foreign exchange position through the use of foreign exchange spot transactions, or currency forward contracts, we are still affected by fluctuations in foreign exchange rates among the U.S. dollar, the New Taiwan dollar and other currencies. Any significant fluctuation in exchange rates may impact on our financial condition and the U.S. dollar value of the ADSs and the U.S. dollar value of any cash dividends we distributed, which could have a corresponding effect on the market price of the ADSs.

Risks Relating to Manufacturing

Our manufacturing processes are highly complex, costly and potentially vulnerable to impurities and other disruptions that can significantly increase our costs and delay product shipments to our customers.

Our manufacturing processes are highly complex, require advanced and costly equipment and are continuously being modified to improve manufacturing yields and product performance. Impurities or other difficulties in the manufacturing process or defects with respect to equipment or supporting facilities can lower manufacturing yields, interrupt production or result in losses of products in process. As system complexity has increased and process technology has become more advanced, manufacturing tolerances have been reduced and requirements for precision have become even more demanding. Although we have been enhancing our manufacturing capabilities and efficiency, from time to time we have experienced production difficulties that have caused delivery delays and quality control problems, as is common in the semiconductor industry. In the past we have encountered the following problems:

- capacity constraints due to changes in product mix or the delayed delivery of equipment critical to our production, including scanners, steppers and chemical stations;
- construction delays during expansions of our clean rooms and other facilities;
- difficulties in upgrading or expanding existing facilities;

manufacturing execution system or automatic transportation system failure;

- unexpected breakdowns in our manufacturing equipment and/or related facilities;
- changing or upgrading our process technologies;
- raw materials shortages and impurities; and
- delays in delivery and shortages of spare parts and in maintenance for our equipment and tools.

Should these problems repeat, we may suffer delays in delivery and/or loss of business and revenues. In addition, we cannot guarantee that we will be able to increase our manufacturing capacity and efficiency in the future to the same extent as in the past.

Our profit margin may substantially decline if we are unable to continuously improve our manufacturing yields, maintain high capacity utilization and optimize the technology mix of our silicon wafer production.

Our ability to maintain our profitability depends, in part, on our ability to:

- maintain high capacity utilization, which is defined as the ratio of the wafer-out quantity of 8-inch wafer equivalents divided by our estimated total 8-inch equivalent capacity in a specified period. The estimated capacity figures may vary depending upon equipment delivery schedules, pace of migration to more advanced processing technologies and other factors affecting production ramp-ups;
- maintain or improve our manufacturing yields, which is defined as the percentage of usable devices manufactured on a wafer; and
- optimize the technology mix of our production by increasing the number of wafers manufactured by utilizing different processing technologies.

Our manufacturing yields directly affect our ability to attract and retain customers, as well as the price of our services. Our capacity utilization affects our operating results because a large percentage of our operating costs are fixed. Our technology mix affects utilization of our equipment and process technologies, as well as the prices we can charge, either of which can affect our margins. If we are unable to continuously improve our manufacturing yields, maintain high capacity utilization or optimize the technology mix of our wafer production, our profit margin may substantially decline.

We may have difficulty in ramping up production in accordance with our schedule, which could cause delays in product deliveries and decreases in manufacturing yields.

As is common in the semiconductor industry, we have from time to time experienced difficulties in ramping up production at new or existing facilities or effecting transitions to new manufacturing processes. As a result, we have suffered delays in product deliveries or reduced manufacturing yields. We may encounter similar difficulties in connection with:

the migration to more advanced process technologies, such as 45/40 and 28-nanometer and more advanced process technology;

the joint development with vendors for more powerful tools (both in production and inspection) needed in the future to meet advanced process technology requirements; and

the adoption of new materials in our manufacturing processes.

We may face construction delays, interruptions, infrastructure failure and delays in upgrading or expanding existing facilities, or changing our process technologies, any of which might adversely affect our production schedule. Our failure to achieve our production schedule could delay the time required to recover our investments and seriously affect our profitability.

Our production schedules could be delayed and we may lose customers if we are unable to obtain raw materials and equipment in a timely manner.

We depend on our suppliers for raw materials. To maintain competitive manufacturing operations, we must obtain from our suppliers, in a timely manner, sufficient quantities of quality materials at acceptable prices. Although we source our raw materials from several suppliers, a small number of these suppliers account for a substantial amount of our supply of raw materials because of the consistent quality of their products. For example, in 2014 and 2015, we purchased a majority of our silicon wafers from five makers, Shin-Etsu Handotai Corporation, or Shin-Etsu, Siltronic AG, SunEdison Corporation, Sumco Group (including Sumco Corporation and Formosa Sumco Technology Corporation) and GlobalWafers. We may have long-term contracts with most of our suppliers if necessary. From time to time, our suppliers have extended lead time or limited the supply of required materials to us because of capacity constraints. Consequently, from time to time, we have experienced difficulty in obtaining the quantities of raw materials we need on a timely basis.

In addition, from time to time we may reject materials that do not meet our specifications, resulting in declines in output or manufacturing yields. We cannot assure you that we will be able to obtain sufficient quantities of raw materials and other supplies in a timely manner. If the supply of materials is substantially diminished or if there are significant increases in the costs of raw materials, we may be forced to incur additional costs to acquire sufficient quantities of raw materials to sustain our operations, which may increase our marginal costs and reduce profitability.

We also depend on a limited number of manufacturers and vendors that make and maintain the complex equipment we use in our manufacturing processes. We also rely on these manufacturers and vendors to improve our technology to meet our customers demands as technology improves. In periods of unpredictable and highly diversified market demand, the lead time from order to delivery of this equipment can be as long as six to twelve months. If there are delays in the delivery of equipment or in the availability or performance of necessary maintenance, or if there are increases in the cost of equipment, it could cause us to delay our introduction of new manufacturing capacity or technologies and delay product deliveries, which may result in the loss of customers and revenues.

We may be subject to the risk of loss due to fire because the materials we use in our manufacturing processes are highly flammable.

We use highly flammable materials such as silane and hydrogen in our manufacturing processes and may therefore be subject to the risk of loss arising from fires. The risk of fire associated with these materials cannot be completely eliminated. We maintain insurance policies to reduce losses caused by fire, including business interruption insurance. While we believe that our insurance coverage for damage to our property and business interruption due to fire is consistent with semiconductor industry practice, our insurance coverage is subject to deductibles and self-insured retention and may not be sufficient to cover all of our potential losses. If any of our fabs were to be damaged or cease operations as a result of a fire, it would temporarily reduce manufacturing capacity and reduce revenues.

We and many of our customers and suppliers are vulnerable to natural disasters and other events outside of our control, which may seriously disrupt our operations.

Most of our assets and many of our customers and suppliers are located in certain parts of Taiwan. Our operations and the operations of our customers and suppliers are vulnerable to earthquakes, floods, droughts, power losses and similar events that affect the locations of our operations. The occurrence of any of these events could interrupt our services and cause severe damages to wafers in process, or cause significant business interruptions. Although we maintain property damage and business interruption insurance for such risks, there is no guarantee that future damages or business loss from earthquakes will be covered by such insurance, that we will be able to collect from our insurance carriers, should we choose to claim under our insurance policies, or that such coverage will be sufficient. In addition, our manufacturing facilities have occasionally experienced insufficient power supplies, and our operations have been disrupted.

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Our operations may be delayed or interrupted and our business could suffer if we violate environmental, safety and health, or ESH, regulations.

The semiconductor manufacturing process requires the use of various gases, chemicals, hazardous materials and other substances such as solvents and sulfuric acid which may have an impact on the environment. We are always subject to ESH regulations, and a failure to manage the use, storage, transportation, emission, discharge, recycling or disposal of raw materials or to comply with these ESH regulations could result in (i) regulatory penalties, fines and other legal liabilities, (ii) suspension of production or delays in operation and capacity expansion, (iii) a decrease in our sales, (iv) an increase in pollution cleaning fees and other operation costs, or (v) damage to our public image, any of which could harm our business. In addition, as ESH regulations are becoming more comprehensive and stringent, we may incur a greater amount of capital expenditures in technology innovation and materials substitution in order to comply with such regulations, which may adversely affect our results of operations.

Climate change may negatively affect our business.

There is increasing concern that climate change is occurring and may have dramatic effects on human activity without aggressive remediation steps. A modest change in temperature would result in increased coastal flooding, changing precipitation patterns and increasing risk of extinction for the world s species. Public expectations for reductions in greenhouse gas emissions could result in increased energy, transportation and raw material costs.

Scientific examination of, political attention to and rules and regulations on issues surrounding the existence and extent of climate change may result in an increase in the cost of production due to increase in the prices of energy and introduction of energy or carbon tax. Various regulatory developments have been introduced that focus on restricting or managing emissions of carbon dioxide, methane and other greenhouse gases. Enterprises may need to purchase at higher costs emission credits, new equipment or raw materials with lower carbon footprints. These developments and further legislation that is likely to be enacted could affect our operations negatively. Changes in environmental regulations, such those on the use of perfluorinated compounds, could increase our production costs, which could adversely affect our results of operation and financial condition.

In addition, more frequent droughts and floods, extreme weather conditions and rising sea levels could occur due to climate change. The impact of such changes could be significant as most of our factories are located in islands including Taiwan, Singapore and Xiamen in Fujian Province in China. For example, transportation suspension caused by extreme weather conditions could harm the distribution of our products. Similarly, our operations depend upon adequate supplies of water, and extended or serious droughts may affect our ability to obtain adequate supplies of water and threaten our production. We cannot predict the economic impact, if any, of disasters or climate change.

Disruptions in the international trading environment may seriously decrease our international sales.

A substantial portion of our net operating revenues is derived from sales to customers located in countries other than the countries where our fabs are located. In 2013, we operated fabs in Taiwan, Singapore, Japan and China. In 2014 and 2015, we operated fabs in Taiwan, Singapore and China. For the years ended December 31, 2013, 2014 and 2015, we generated approximately 30.1%, 42.6% and 47.5% of our net operating revenues, respectively, from other than the countries where our fabs are located. We expect sales to customers from countries outside of Taiwan, Singapore and China will continue to represent a significant portion of our net operating revenues. The success and profitability of our international activities depend on certain factors beyond our control, such as general economic conditions, labor conditions, political stability, tax laws, import duties and foreign exchange controls of the countries in which we sell our products, and the political and economic relationships between these countries. As a result, our manufacturing services will continue to be vulnerable to disruptions in the international trading environment, including adverse changes in foreign government regulations, political unrest and international economic downturns.

These disruptions in the international trading environment affect the demand for our manufacturing services and change the terms upon which we provide our manufacturing services overseas, which could seriously decrease our international sales.

Political, Economic and Regulatory Risks

We face substantial political risks associated with doing business in Taiwan, particularly due to the tense relationship between the R.O.C. and the People s Republic of China, or the PRC, that could negatively affect the value of your investment.

Our principal executive offices and most of our assets and operations are located in Taiwan. Accordingly, our business, financial condition and results of operations and the market price of our common shares and the ADSs may be affected by changes in R.O.C. governmental policies, taxation, inflation or interest rates and by social instability and diplomatic and social developments in or affecting Taiwan which are outside of our control. Taiwan has a unique international political status. Since 1949, Taiwan and the Chinese mainland have been separately governed. The PRC claims that it is the sole government in China and that Taiwan is part of China. Although significant economic and cultural relations have been established between the R.O.C. and the PRC in the past few years, such as the adoption of the Economic Cooperation Framework Agreement and memorandum regarding cross-strait financial supervision, we cannot assure you that relations between the R.O.C. and PRC will not become strained again. For example, the PRC government has refused to renounce the use of military force to gain control over Taiwan and, in March 2005, passed an Anti-Secession Law that authorized non-peaceful means and other necessary measures should Taiwan move to gain independence from the PRC. Past developments in relations between the R.O.C. and the PRC have on occasions depressed the market prices of the securities of companies in the R.O.C. Such initiatives and actions are commonly viewed as having a detrimental effect to reunification efforts between the R.O.C. and the PRC. Relations between the R.O.C. and the PRC and other factors affecting military, political or economic conditions in Taiwan could materially and adversely affect our financial condition and results of operations, as well as the market price and the liquidity of our securities.

Our business depends on the support of the R.O.C. government, and a decrease in this support may increase our labor costs and decrease our income after tax.

The R.O.C. government has been very supportive of technology companies. For instance, the R.O.C. s labor laws and regulations permit employees of semiconductor companies to work shifts of 10 hours each day on a two-days-on, two-days-off basis and do not require these employees to be unionized. We cannot assure you, however, that these labor laws and regulations will not be changed adversely against us in the future.

We, like many R.O.C. technology companies, have benefited from substantial tax incentives provided by the R.O.C. government. Among the incentives broadly enjoyed by R.O.C. technology companies, various tax benefits granted under Chapter 2 and Article 70-1 of the Statute for Upgrading Industries expired on December 31, 2009. Despite the fact that we can still enjoy the tax holidays for the relevant investment plans approved by R.O.C. tax authority until 2020 under the grandfather clause of the Statute for Upgrading Industries, if more incentives are curtailed or eliminated, our net income may decrease significantly.

Our future tax obligations may adversely affect our profitability.

The R.O.C. government enacted the R.O.C. Income Basic Tax Act, also known as the Alternative Minimum Tax Act , or the AMT Act, which became effective on January 1, 2006 to impose an alternative minimum tax and to remedy the currently excessive tax incentives for individuals and businesses. Alternative minimum tax, or AMT, is a supplemental tax which is payable if the income tax payable pursuant to the R.O.C. Income Tax Act is below the minimum amount prescribed under the AMT Act. For the purpose of calculating the AMT, the taxable income defined under the AMT Act includes most income that is exempted from income tax under various legislations, such as those providing tax holidays and investment tax credits.

For businesses, the income that previously enjoyed tax-exemption privileges under relevant tax regulations, such as Act for the Establishment and Administration of the Science Parks and Statute for Upgrading Industries, will be subject to the AMT system for the calculation of business taxpayers aggregate incomes. The AMT rate for business entities was 10% prior to 2013 and has increased to 12% since 2013. Under the AMT Act, a company will be subject to a 12% AMT if its annual taxable income under the Statute exceeds NT$0.5 million. However, the AMT Act grandfathered certain tax exemptions granted prior to the enactment of the AMT. For example, businesses who already qualified for five-year tax holidays and obtained the applicable permission issued by the competent authority before December 31, 2005 may continue to enjoy such tax incentives, and the income exempted thereunder will not to be added to the taxable income for calculating the AMT, so long as the construction of their investment projects breaks ground within one year from January 1, 2006 and was completed within three years from the day immediately following their receipts of the applicable permission issued by the competent authority. As the tax exemption periods expire or in the event of an increase in other taxable income subject to the AMT Act, it may adversely impact our net income after tax.

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Compliance with laws such as the U.S. Conflict Minerals Law may affect our ability or the ability of our suppliers to purchase raw materials at an effective cost.

Many industries rely on materials which are subject to regulations concerning certain minerals sourced from the Democratic Republic of Congo, or the DRC, or adjoining countries, including: Sudan; Uganda; Rwanda; Burundi; United Republic of Tanzania; Zambia; Angola; Congo; and Central African Republic. These minerals are commonly referred to as conflict minerals. Conflict minerals which may be used in our industry or by our suppliers include Columbite-tantalite (derivative of tantalum [Ta]), Cassiterite (derivative of tin [Sn]), gold [Au], Wolframite (derivative of tungsten [W]), and Cobalt [Co]. Under present U.S. regulations, we and our customers are required to survey and disclose whether our processes or products use or rely on conflict materials. On August 22, 2012, the U.S. SEC adopted the final rule for disclosing the use of conflict minerals that require companies similar to us to make a report in a type and format similar to Form SD to disclose the use of conflict materials on an annual basis on or prior to May 31 each year. Our first report was filed on May 31, 2014. In order to comply with the aforementioned rules and regulations promulgated by the U.S. SEC, we will continue to verify the relevant information with our vendors and file the required report. Although we expect that we and our vendors will be able to comply with the requirements of the U.S. Conflict Minerals law and any new related regulations promulgated by the U.S. SEC, we cannot assure you that we will be able to gather all the information required to comply with such regulations. While we believe our suppliers do not rely on such conflict materials, we cannot assure you that we will continue to be able to obtain adequate supplies of materials needed in our production from supply chains outside the DRC and adjoining countries. The failure to obtain necessary information or to maintain adequate supplies of materials from supply chains outside the DRC and adjoining countries may delay our production, increasing the risk of losing customers and business.

Similarly, many jurisdictions have promulgated regulations with the intention to deter disregard and contempt for human rights within supply chains. Although our own operations comply with the relevant requirements under the laws of the jurisdictions where we have operations, possible violation by our suppliers may not be known to us and beyond our control. While we believe our suppliers comply with applicable human rights requirements, there can be no guarantee that they will continue to do so, or that we will be able to obtain the necessary information on their activities to comply with whatever future requirements may be enacted.

Data security and data privacy considerations and regulations may adversely affect our operations.

Our operations depend upon reliable and uninterrupted information technology services, including the integrity of our web-based and electronic customer service systems. Although we have put in place what we believe are reasonable precautions to prevent accidental and/or malicious disruption of these services, there can be no assurance that our preventive measures will preclude failure of the information technology, web-based and electronic customer service systems upon which our business depends. Disruption of these systems could adversely affect our ability to manufacture and to serve our customers.

In addition, in the course of our operations, we receive confidential information from and about our customers, vendors, partners and employees. Although we take what we believe are reasonable precautions to protect such information from disclosure to or interruption, there are no guarantees our precautions will prevent accidental or malicious access to such information. In the event of such access, our reputation could be adversely affected, customers and others may hesitate to entrust us with their confidential information, which would negatively affect our operations, and we would incur costs to remedy the breach.

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Moreover, many jurisdictions have proposed regulations concerning data privacy. Although we have taken measures to comply with existing law and regulations in this regard, future laws may impose requirements that make our operations more expensive and/or less efficient. In addition, should we experience a breakdown in our systems or failure in our precautions that results in a violation of such regulations, we may suffer adverse customer reaction and face governmental penalties.

Risks Related to the Common Shares and ADSs and Our Trading Markets

Restrictions on the ability to deposit common shares into our ADS program may adversely affect the liquidity and price of the ADSs.

The ability to deposit common shares into our ADS program is restricted by R.O.C. law. Under current R.O.C. law, no person or entity, including you and us, may deposit common shares into our ADS program without specific approval of the R.O.C. FSC except for the deposit of the common shares into our ADS program and for the issuance of additional ADSs in connection with:

(1) distribution of share dividends or free distribution of our common shares;

(2) exercise of the preemptive rights of ADS holders applicable to the common shares evidenced by ADSs in the event of capital increases for cash; or

(3) delivery of our common shares which are purchased in the domestic market in Taiwan directly by the investor or through the depositary or are already in the possession of the investor to the custodian for deposit into our ADS program, subject to the following conditions: (a) the re-issuance is permitted under the deposit agreement and custody agreement, (b) the depositary may accept deposit of those common shares and issue the corresponding number of ADSs with regard to such deposit only if the total number of ADSs outstanding after the issuance does not exceed the number of ADSs previously approved by the R.O.C. FSC, plus any ADSs issued pursuant to the events described in (1) and (2) above and (c) this deposit may only be made to the extent previously issued ADSs have been withdrawn.

As a result of the limited ability to deposit common shares into our ADS program, the prevailing market price of our ADSs on the NYSE may differ from the prevailing market price of the equivalent number of our common shares on the Taiwan Stock Exchange.

Holders of our ADSs will not have the same proposal or voting rights as the holders of our common shares, which may affect the value of your investment.

Except for treasury common shares and common shares held by our subsidiaries which meet certain criteria provided under the R.O.C. Company Act, each common share is generally entitled to one vote and no voting discount will be applied. However, except as described in this annual report and in the deposit agreement, holders of our ADSs will not be able to exercise voting rights attached to the common shares evidenced by our ADSs on an individual basis. Holders of our ADSs will appoint the depositary or its nominee as their representative to exercise the voting rights attached to the common shares represented by the ADSs. The voting rights attached to the common shares evidenced by our ADSs must be exercised as to all matters brought to a vote of stockholders collectively in the same manner.

Moreover, holders of the ADSs do not have individual rights to propose any matter for stockholders votes at our stockholders meetings. However, holders of at least 51% of the ADS outstanding at the relevant record date may request the depositary to submit to us one proposal per year for consideration at our annual ordinary stockholders meeting, provided that such proposal meets certain submission criteria and limitations, including the language and the length of the proposal, the time of submission, the required certification or undertakings, and the attendance at the annual ordinary stockholders meeting. A qualified proposal so submitted by the depositary will still be subject to review by our board of directors and there is no assurance that the proposal will be accepted by our board of directors for inclusion in the agenda of our annual ordinary stockholders meeting. Furthermore, if we determine, at our discretion, that the proposal submitted by the depositary does not qualify, we have no obligation to notify the depositary or to allow the depositary to modify such proposal.

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Furthermore, if holders of at least 51% of the ADSs outstanding at the relevant record date instruct the depositary to vote in the same manner regarding a resolution, including election of directors, the depositary will appoint our Chairman, or his designee, to represent the ADS holders at the stockholders meetings and to vote the common shares represented by the ADSs outstanding in the manner so instructed. If by the relevant record date the depositary has not received instructions from holders of ADSs holding at least 51% of the ADSs to vote in the same manner for any resolution, then the holders will be deemed to have instructed the depositary to authorize and appoint our Chairman, or his designee, to vote all the common shares represented by ADSs at his sole discretion, which may not be in your interest.

The rights of holders of our ADSs to participate in our rights offerings may be limited, which may cause dilution to their holdings.

We may from time to time distribute rights to our stockholders, including rights to acquire our securities. Under the deposit agreement, the depositary will not offer those rights to ADS holders unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act or exempt from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or underlying securities or to endeavor to cause such a registration statement to be declared effective. Accordingly, holders of our ADSs may be unable to participate in our rights offerings and may experience dilution in their holdings.

Changes in exchange controls that restrict your ability to convert proceeds received from your ownership of ADSs may have an adverse effect on the value of your investment.

Your ability to convert proceeds received from your ownership of ADSs depends on existing and future exchange control regulations of the Republic of China. Under the current laws of the Republic of China, an ADS holder or the depositary, without obtaining further approvals from the R.O.C. Central Bank of China, or the CBC, or any other governmental authority or agency of the Republic of China, may convert NT dollars into other currencies, including U.S. dollars, in respect of:

- the proceeds of the sale of common shares represented by ADSs or received as share dividends with respect to the common shares and deposited into the depositary receipt facility; and

- any cash dividends or distributions received from the common shares represented by ADSs.

In addition, the depositary may also convert into NT dollars incoming payments for purchases of common shares for deposit in the depositary receipt facility against the creation of additional ADSs. If you withdraw the common shares underlying your ADSs and become a holder of our common shares, you may convert into NT dollars subscription payments for rights offerings. The depositary may be required to obtain foreign exchange approval from the CBC on a payment-by-payment basis for conversion from NT dollars into foreign currencies of the proceeds from the sale of subscription rights of new common shares. Although it is expected that the CBC will grant approval as a routine matter, required approvals may not be obtained in a timely manner, or at all.

Under the Republic of China Foreign Exchange Control Law, the Executive Yuan of the Republic of China may, without prior notice but subject to subsequent legislative approval, impose foreign exchange controls or other restrictions in the event of, among other things, a material change in international economic conditions.

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Our public stockholders may have more difficulty protecting their interests than they would as stockholders of a U.S. corporation.

Our corporate affairs are governed by our articles of incorporation and bylaws governing R.O.C. corporations. The rights of our stockholders to bring stockholders suits against us or our board of directors under R.O.C. law are much more limited than those of the stockholders of U.S. corporations. Therefore, our public stockholders may have more difficulty protecting their interests in connection with actions taken by our management, members of our board of directors or controlling stockholders than they would as stockholders of a U.S. corporation. Please refer to Item 10. Additional Information B. Memorandum and Articles of Association Rights to Bring Stockholders Suits included elsewhere in this annual report for a detailed discussion of the rights of our stockholders to bring legal actions against us or our directors under R.O.C. law.

Holders of our ADSs will be required to appoint several local agents in Taiwan if they withdraw common shares from our ADS program and become our stockholders, which may make ownership burdensome.

Non-R.O.C. persons wishing to withdraw common shares represented by their ADSs from our ADS program and hold our common shares represented by those ADSs are required to, among other things, appoint a local agent or representative with qualifications set forth by the applicable R.O.C. laws and regulations to open a securities trading account with a local brokerage firm, pay R.O.C. taxes, remit funds and exercise stockholders rights. In addition, the withdrawing holders are also required to appoint a custodian bank or a securities firm with qualifications set forth by the R.O.C. FSC to hold the securities in safekeeping, make confirmations, settle trades and report all relevant information, in which the securities firm is appointed as the custodian, the payments shall be held in safekeeping in a special account opened in a bank approved by the R.O.C. FSC. Without making this appointment and opening of the accounts, the withdrawing holders would not be able to subsequently sell our common shares withdrawn from a depositary receipt facility on the Taiwan Stock Exchange. Under R.O.C. law and regulations, except under limited circumstances, PRC persons are not permitted to withdraw the common shares underlying the ADSs or to register as a stockholder of our company. Under the Regulations Governing Securities Investment and Futures Trading in Taiwan by Mainland Area Investors promulgated by the R.O.C. Executive Yuan on April 30, 2009, as amended, only qualified domestic institutional investors, or QDIIs and limited entities or individuals, are permitted to withdraw the common shares underlying the ADSs, subject to compliance with the withdrawal relevant requirements, and only QDIIs, and limited entities or individuals who meet the qualification requirements set forth therein are permitted to own common shares of an R.O.C. company listed for trading on the Taiwan Stock Exchange or the Taipei Exchange, provided that among other restrictions generally applicable to investments made by PRC persons, their shareholdings are subject to certain restrictions as set forth in the abovementioned regulations and that such mainland area investors shall apply for a separate approval if their investment, individually or in aggregate, amounts to or exceeds 10 percent of the common shares of any R.O.C. listing company.

You may not be able to enforce a judgment of a foreign court in the R.O.C.

We are a company limited by shares incorporated under the R.O.C. Company Act. Most of our assets and most of our directors, executive officers and experts named in the registration statement are located in Taiwan. As a result, it may be difficult for you to enforce judgments obtained outside Taiwan upon us or such persons in Taiwan. We have been advised by our R.O.C. counsel that any judgment obtained against us in any court outside the R.O.C. arising out of or relating to the ADSs will not be enforced by R.O.C. courts if any of the following situations shall apply to such final judgment:

the court rendering the judgment does not have jurisdiction over the subject matter according to R.O.C. law;

the judgment or the court procedure resulting in the judgment is contrary to the public order or good morals of the R.O.C.;

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the judgment was rendered by default, except where the summons or order necessary for the commencement of the action was legally served on us within the jurisdiction of the court rendering the judgment within a reasonable period of time or with judicial assistance of the R.O.C.; or

judgments of the R.O.C. courts are not recognized in the jurisdiction of the court rendering the judgment on a reciprocal basis.

We may be considered a passive foreign investment company, which could result in adverse U.S. federal income tax consequences for U.S. investors.

We do not believe that we were a passive foreign investment company, or PFIC, for 2015 and we do not expect to become one in the future, although there can be no assurance in this regard. Based upon the nature of our business activities, we may be classified as a PFIC for U.S. federal income tax purposes. Such characterization could result in adverse U.S. federal income tax consequences to you if you are a U.S. investor.

For example, if we are a PFIC, our U.S. investors may become subject to increased tax liabilities under U.S. federal income tax laws and regulations and will become subject to burdensome reporting requirements. The determination of whether or not we are a PFIC is made on an annual basis and will depend on the composition of our income and assets from time to time. Specifically, for any taxable year we will be classified as a PFIC for U.S. federal income tax purposes if either (i) 75% or more of our gross income in a taxable year is passive income or (ii) the average percentage of our assets (which includes cash) by value in a taxable year which produce or are held for the production of passive income is at least 50%. The calculation of the value of our assets will be based, in part, on the quarterly market value of common shares and ADSs, which is subject to change. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend the cash we have raised in prior offerings. See Taxation U.S. Federal Income Tax Considerations For U.S. Persons Passive Foreign Investment Company.

The trading price of the common shares and ADSs may be adversely affected by the general activities of the Taiwan Stock Exchange and U.S. stock exchanges, the trading price of our common shares, increases in interest rates and the economic performance of Taiwan.

Our common shares are listed on the Taiwan Stock Exchange. The trading price of our ADSs may be affected by the trading price of our common shares on the Taiwan Stock Exchange and the economic performance of Taiwan. The Taiwan Stock Exchange is smaller and, as a market, more volatile than the securities markets in the United States and some European countries. The Taiwan Stock Exchange has experienced substantial fluctuations in the prices and volumes of sales of listed securities, and there are currently limits on the range of daily price movements on the Taiwan Stock Exchange. The Taiwan Stock Exchange is particularly volatile during times of political instability, such as when the relationship between Taiwan and the PRC becomes tense. Moreover, the Taiwan Stock Exchange has experienced disturbance caused by market manipulation, insider trading and payment defaults, and the government of Taiwan has from time to time intervened in the stock market by purchasing stocks listed on the Taiwan Stock Exchange. The recurrence of these or similar events could deteriorate the price and liquidity of our common shares and ADSs.

The market price of the ADSs may also be affected by general trading activities on the U.S. stock exchanges, which recently have experienced significant volatility with respect to trading prices of technology companies. Fluctuation in interest rates and other general economic conditions may also influence the market price of the ADSs.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Our legal and commercial name is United Microelectronics Corporation, commonly known as UMC . We were incorporated under the R.O.C. Company Law as a company limited by shares in May 1980 and our common shares were listed on the Taiwan Stock Exchange in 1985. Our principal executive office is located at No. 3 Li-Hsin Road II, Hsinchu Science Park, Hsinchu, Taiwan, Republic of China, and our telephone number is 886-3-578-2258. Our Internet website address is www.umc.com. The information on our website does not form part of this annual report. Our ADSs have been listed on the NYSE under the symbol UMC since September 19, 2000.

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We are one of the world s largest independent semiconductor foundries and a leader in semiconductor manufacturing process technologies. Our primary business is the manufacture, or fabrication , of semiconductors, sometimes called chips or integrated circuits , for others. Using our own proprietary processes and techniques, we make chips to the design specifications of our many customers. Our company maintains a diversified customer base across industries, including communication devices, consumer electronics, computer, and others, while continuing to focus on manufacturing for high growth, large volume applications, including networking, telecommunications, internet, multimedia, PCs and graphics. We sell and market mainly wafers which in turn are used in a number of different applications by our customers. Percentages of our gross wafer sales derived from our products used in communication devices, consumer electronics, computer and other applications were 54.3%, 27.6%, 11.9% and 6.2%, respectively, in 2015.

We focus on the development of leading mass-producible manufacturing process technologies. We were among the first in the foundry industry to go into commercial operation with such advanced capabilities as producing integrated circuits with line widths of 0.25, 0.18, 0.15, 0.13 micron and 90, 65, 45/40, 28, 14 and 10 nanometer. Advanced technologies have enabled electronic products, especially in relation to communication, consumer and computer products, to integrate their functions in new and innovative methods. Networking capabilities have allowed electronic products such as computers, tablets, cell phones, televisions, PDAs, CD-ROMs and digital cameras to communicate with each other to exchange information. More powerful semiconductors are required to drive multimedia functions (e.g., processing visual data) and to resolve network bandwidth issues. At the same time, the trend toward personal electronic devices has resulted in products that are becoming physically smaller and consume less power. Process technology must also shrink the volumes of products aggressively to cater to this trend of integrating multiple functions, reducing the size of components needed for operation and lowering IC power consumption. Dedicated semiconductor foundries need to achieve this process improvement and at the same time develop multiple process technologies to satisfy the varying needs of communication, consumer and computer products. We believe our superior process technologies will enable us to continue to offer our customers significant performance benefits for their products, faster time-to-market production, cost savings and other competitive advantages.

We provide high quality service based on our performance. In today s marketplace, we believe it is important to make available not only the most manufacturable processes, but also the best solutions to enable customers to design integrated circuits that include entire systems on a chip. Through these efforts, we intend to be the foundry solution for SoC customer needs. To achieve this goal, we believe it is necessary to timely develop and offer the intellectual property and design support that customers need to ensure their specific design blocks work with the other design blocks of the integrated circuit system in the manner intended. Accordingly, we have a dedicated intellectual property and design support team which focuses on timely development of the intellectual property and process specific design blocks our customers need in order to develop products that operate and perform as intended. Our design service team actively cooperates with our customers and vendors of cell libraries and intellectual property offerings to identify, early in the product/market cycle, the offerings needed to ensure that these coordinated offerings are available to our customers in silicon verified form in a streamlined and easy-to-use manner. As a result, we are able to ensure the timely delivery of service offerings from the earliest time in the customer design cycle, resulting in a shorter time-to-volume production. We also provide our customers with real-time online access to their confidential production data, resulting in superior communication and efficiency. We further address our customers needs using our advanced technology and proven methodology to achieve fast cycle time, high yield, production flexibility and close customer communication. For example, we select and configure our clean rooms and equipment and develop our processes to maximize the flexibility in meeting and adapting to rapidly changing customer and industry needs. As a result, our cycle time, or the period from customer order to wafer delivery, and our responsiveness to customer request changes are among the fastest in the dedicated foundry industry. We also provide high quality service and engineering infrastructure.

Our production capacity is comparable to that of certain largest companies in the semiconductor industry, and we believe our leading edge and high volume capability is a major competitive advantage.

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Our technology and service have attracted two principal types of foundry industry customers: fabless design companies and integrated device manufacturers. Fabless design companies design, develop and distribute proprietary semiconductor products but do not maintain internal manufacturing capacity. Instead, these companies depend on outside manufacturing sources. Integrated device manufacturers, in contrast, traditionally have integrated internally all functions manufacturing as well as design, development, sales and distribution.

Our primary customers, in terms of our sales revenues, include premier integrated device manufacturers, such as Texas Instruments, Intel Mobile and STMicroelectronics, and leading fabless design companies, such as Xilinx, Broadcom, MediaTek, Realtek, Qualcomm and Novatek. In 2015, our company s top ten customers accounted for 57.3% of our net operating revenues. We believe our success in attracte="margin:0in 0in .0001pt;">

7.05%

12/1/2027

745

728,237

7.50%

11/6/2033

120

120,600

7.58%

9/15/2025

555

577,200

7.69%

6/15/2025

900

947,250

7.75%

7/15/2036

525

528,938

Priory Group Ltd. (a)

7.00%

2/15/2018

GBP

3,500

5,864,433

Tenet Healthcare Corp.:

6.88%

11/15/2031

$

2,475

2,178,000

8.00%

8/1/2020

3,000

3,266,250

8.13%

4/1/2022

(a)

525

574,875

14,785,783

Hotels, Restaurants & Leisure 8.1%

Boyd Gaming Corp.

9.00%

7/1/2020

1,946

2,096,815

Caesars Entertainment Operating Co, Inc.:

9.00%

2/15/2020

6,215

5,826,563

	11.25%	6/1/2017		
		4,750		
		4,738,125		
Gala Electric Casinos PLC (a)	11.50%	6/1/2019	GBP	1,800
		3,188,670		
The Unique Pub Finance Co. PLC	5.66%			

6/30/2027

2,444

3,810,393

19,660,566

Household Durables 3.1%

K Hovnanian Enterprises, Inc. (a)	9.13%	11/15/2020	$ 7,000	7,630,000

Independent Power Producers & Energy Traders 0.8%

Ameren Energy Generating Co.:

6.30%

4/1/2020

260

202,800

7.00%

4/15/2018

1,350

1,147,500

7.95%

6/1/2032

650

507,000

1,857,300

Industrial Conglomerates 0.8%

Edgen Murray Corp. (a)

8.75%

11/1/2020

1,660

1,917,300

Insurance 3.4%

American International Group, Inc.:

8.00%

5/22/2038

(a)

EUR

3,000

4,720,894

8.18%

5/15/2058

$

3,000

3,697,500

8,418,394

Internet Software & Services 0.8%

BMC Software Finance, Inc. (a)

8.13%

7/15/2021

1,000

1,057,500

EarthLink, Inc.

7.38%

6/1/2020

800

794,000

1,851,500

See Accompanying Notes to Financial Statements.

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Avenue Income Credit Strategies Fund

Schedule of Investments (continued)

October 31, 2013

Security Description	Coupon	Maturity	Principal Amount (000)	Value
IT Services 0.3%				
First Data Corp. (a)	11.75%	8/15/2021	$ 625	$ 635,937
Machinery 0.2%				
Milacron LLC / Mcron Finance Corp. (a)	7.75%	2/15/2021	460	480,700
Marine 2.2%				
Navios Maritime Acquisition Corp. / Navios Acquisition Finance US, Inc. (a)	8.13%	11/15/2021	450	454,500
Navios Maritime Holdings, Inc. / Navios Maritime Finance II US, Inc.	8.13%	2/15/2019	4,807	4,879,105
				5,333,605
Media 8.9%				
Clear Channel Communications, Inc.	11.25%	3/1/2021	8,150	8,751,062
Clear Channel Worldwide Holdings, Inc.	7.63%	3/15/2020	3,500	3,736,250
Gibson Brands, Inc. (a)	8.88%	8/1/2018	2,875	3,004,375
Univision Communications, Inc.:				
	7.88%	11/1/2020(a)	3,000	3,330,000
	8.50%	5/15/2021(a)	2,500	2,768,750
				21,590,437
Metals & Mining 2.1%				
Schmolz + Bickenbach Luxembourg SA (a)	9.88%	5/15/2019	EUR 3,475	5,190,025
Multiline Retail 2.4%				
JC Penney Corp, Inc.	5.65%	6/1/2020	$ 7,650	5,708,812
The Neiman Marcus Group, Inc. (a)	8.00%	10/15/2021	150	153,563
				5,862,375
Oil, Gas & Consumable Fuels 8.1%				
Connacher Oil and Gas Ltd. (a)	8.50%	8/1/2019	4,000	2,760,000
Halcon Resources Corp.:				
	8.88%	5/15/2021	6,300	6,559,875
	9.25%	2/15/2022(a)	3,458	3,665,480
Midstates Petroleum Co, Inc. / Midstates Petroleum Co. LLC	10.75%	10/1/2020	3,380	3,650,400
Murray Energy Corp. (a)	8.63%	6/15/2021	800	856,000
Penn Virginia Resource Partners LP / Penn Virginia Resource Finance Corp. II	8.38%	6/1/2020	2,000	2,220,000
				19,711,755
Personal Products 2.7%				
Ontex IV (a)	7.50%	4/15/2018	EUR 4,560	6,544,119
Pharmaceuticals 0.2%				
Pinnacle Merger Sub, Inc. (a)	9.50%	10/1/2023	$ 400	422,000
Road & Rail 2.2%				
Jack Cooper Finance Co. (a)	9.25%	6/1/2020	320	342,400
Jack Cooper Holdings Corp. (a)	9.25%	6/1/2020	4,675	5,002,250
				5,344,650
Software 1.5%				
Infor US, Inc.	9.38%	4/1/2019	3,250	3,672,500
Specialty Retail 1.1%				
CDW LLC / CDW Finance Corp.	8.50%	4/1/2019	2,500	2,768,750
Textiles, Apparel & Luxury Goods 1.9%				
Quiksilver, Inc. / QS Wholesale, Inc.:				
	7.88%	8/1/2018(a)	520	556,400
	10.00%	8/1/2020(a)	1,040	1,136,200
Takko Luxembourg 2 SCA (a)	9.88%	4/15/2019	EUR 2,160	2,940,070

4,632,670

See Accompanying Notes to Financial Statements.

Avenue Income Credit Strategies Fund

Schedule of Investments (continued)

October 31, 2013

Security Description	Coupon	Maturity	Principal Amount (000)			Value
Wireless Telecommunication Services 3.7%						
Arqiva Broadcast Finance PLC (a)	9.50%	3/31/2020	GBP	3,375	$	5,912,033
NII International Telecom Sarl (a)	11.38%	8/15/2019	$	3,350		3,182,500
						9,094,533
TOTAL CORPORATE BONDS & NOTES (Cost $261,536,799)						273,752,686
SENIOR LOANS 15.3% (c)						
Containers & Packaging 2.6%						
Clondalkin Aquisition B.V. 2nd Lien Term Loan (d)	10.00%	11/30/2020		6,600		6,402,000
Diversified Telecommunication Services 2.5%						
Tyrol Acquisitions 2 SAS 2nd Lien Term Loan (d)	5.88%	7/28/2016	EUR	4,803		6,183,359
Electric Utilities 0.8%						
Astoria Generating Company Acquisitions Term Loan (d)	8.50%	10/26/2017	$	1,975		2,024,375
Energy Equipment & Services 2.2%						
Stallion Oilfield Services, Ltd. Term Loan B (d)	8.00%	6/19/2018		5,219		5,316,775
Food Products 1.6%						
Cucina Acquisition Limited 2nd Lien Term Loan D PIK (d)	3.74%	3/12/2017	GBP	2,475		3,769,992
Household Products 2.3%						
KIK Custom Products, Inc. 2nd Lien Term Loan (d)	9.50%	10/29/2019	$	5,600		5,468,008
Media 2.0%						
Tech Finance & Co. SCA Term Loan B (d)	7.25%	7/10/2020		4,938		4,956,016
Multiline Retail 0.6%						
Hudson s Bay Company 2nd Lien Term Loan (d)	7.25%	10/7/2021		1,500		1,539,375
Oil, Gas & Consumable Fuels 0.7%						
Panda Temple II Power, LLC Term Loan B (d)	7.25%	3/28/2019		1,620		1,660,500
TOTAL SENIOR LOANS (Cost $36,763,070)						37,320,400
CONVERTIBLE BONDS 2.2%						
Machinery 0.5%						
Meritor, Inc. (a)	7.88%	3/1/2026		1,045,000		1,263,144
Thrifts & Mortgage Finance 1.7%						
MGIC Investment Corp. (a)	9.00%	4/1/2063		3,625,000		4,089,453
TOTAL CONVERTIBLE BONDS (Cost $5,090,525)						5,352,597
TOTAL LONG-TERM INVESTMENTS 129.9% (Cost $303,390,394)						316,425,683
SHORT-TERM INVESTMENTS 6.7%						
REPURCHASE AGREEMENT 6.7%						
State Street Repurchase Agreement, dated 10/31/13, due 11/1/13 at 0.01%, collateralized by Government National Mortgage Association obligation maturing 3/20/28, market value $16,770,456 (repurchase proceeds $16,441,086)				16,441		16,441,081
TOTAL SHORT-TERM INVESTMENTS 6.7% (Cost $16,441,081)						16,441,081
TOTAL INVESTMENTS 136.6% (Cost $319,831,475)						332,866,764
				Shares		
EQUITY SOLD SHORT (4.1)%						
Index (4.1)%						

iShares iBoxx Investment Grade Corporate Bond ETF	(85,969)	(9,903,629)
TOTAL EQUITY SOLD SHORT (4.1)% (Proceeds $9,784,804)		(9,903,629)
OTHER ASSETS & LIABILITIES (32.5)%		(79,362,259)
NET ASSETS 100.0%		$ 243,600,876

See Accompanying Notes to Financial Statements.

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Avenue Income Credit Strategies Fund

Schedule of Investments (continued)

October 31, 2013

Percentages are calculated as a percentage of net assets as of October 31, 2013.

(a) Securities exempt from registration under Rule 144a of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, to Qualified Institutional Investors as defined in Rule 144a promulgated under the Securities Act of 1933, as amended.

(b) Perpetual maturity.

(c) Interest rates on Senior Loans may be fixed or may float periodically. On floating rate Senior Loans, the interest rates typically are adjusted based on a base rate plus a premium or spread over the base rate. The base rate usually is a standard inter-bank offered rate, such as a LIBOR, the prime rate offered by one or more major U.S. banks, or the certificate of deposit rate or other base lending rates used by commercial lenders. Floating rate Senior Loans adjust over different time periods, including daily, monthly, quarterly, semi-annually or annually.

(d) Variable Rate Security. Rate shown is rate in effect at October 31, 2013.

PIK Payment in Kind

PLC Public Limited Company

SCA Societe en Commandite par Actions

Geographic Allocation of Investments:

Country	**Percentage of Net Assets**		**Value**
United States (Includes Short-Term Investments)	75.9%	$	184,970,096
United Kingdom	16.5		40,255,941
France	8.8		21,377,909
Luxembourg	6.3		15,259,320
Canada	6.2		15,037,991
Greece	4.3		10,433,605
Norway	3.7		9,163,125
Germany	3.6		8,799,913
Belgium	2.7		6,544,119
Netherlands	2.6		6,402,000
Switzerland	2.1		5,190,025
Sweden	2.1		5,042,125
Ireland	1.8		4,390,595
Total Investments	136.6%	$	332,866,764
United States (securities sold short)	(4.1)		(9,903,629)
Total Securities Sold Short	(4.1)%	$	(9,903,629)

The geographic allocation is based on where Avenue Capital Management II L.P., the (Investment Adviser), believes the country of risk to be. Country of risk is traditionally the country where the majority of the company s operations are based or where it is headquartered.

See Accompanying Notes to Financial Statements.

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Avenue Income Credit Strategies Fund

Schedule of Investments (continued)

October 31, 2013

Forward Foreign Currency Contracts:

Settlement Date		Amount		Value		In Exchange for U.S. $		Net Unrealized Appreciation (Depreciation)	Counterparty
Forward Foreign Currency Contracts to Buy:									
11/07/2013	CAD	1,578,375	$	1,513,584	$	1,515,395	$	(1,811)	State Street Bank and Trust Co.
11/07/2013	EUR	37,707,087		51,197,110		51,239,428		(42,318)	State Street Bank and Trust Co.
11/07/2013	GBP	12,441,126		19,947,643		19,934,659		12,984	State Street Bank and Trust Co.
								(31,145)	
Forward Foreign Currency Contracts to Sell:									
02/07/2014	CAD	1,578,375		1,510,095		1,511,484		1,389	State Street Bank and Trust Co.
11/07/2013	CAD	1,578,375		1,513,583		1,529,284		15,701	State Street Bank and Trust Co.
02/07/2014	EUR	35,047,797		47,593,061		47,649,723		56,662	State Street Bank and Trust Co.
11/07/2013	EUR	37,707,087		51,197,109		49,925,632		(1,271,477)	State Street Bank and Trust Co.
02/07/2014	GBP	11,860,642		19,003,495		19,030,281		26,786	State Street Bank and Trust Co.
11/07/2013	GBP	12,441,126		19,947,644		19,047,409		(900,235)	State Street Bank and Trust Co.
								(2,071,174)	
	Total						**$**	**(2,102,319)**	

CAD Canadian Dollar

EUR Euro Currency

GBP Great British Pound

See Accompanying Notes to Financial Statements.

Avenue Income Credit Strategies Fund

Statement of Assets and Liabilities

October 31, 2013

Assets		
Investments in securities of unaffiliated issuers, at value (cost $319,831,475)	$	332,866,764
Cash collateral held at broker		14,305,484
Receivable for investments sold		11,427,220
Interest receivable unaffiliated issuers		6,610,570
Prepaid expenses		28,621
Foreign currency, at value (cost $24,623)		24,596
Total Assets		365,263,255
Liabilities		
Payable for line of credit		95,000,000
Payable for investments purchased		13,969,488
Securities sold short, at value (proceeds of $9,784,804)		9,903,629
Net unrealized depreciation on open forward foreign currency contracts		2,102,319
Accrued investment advisory fee		426,754
Interest payable		79,825
Accrued Trustee s fees and expenses		3,217
Accrued expenses		177,147
Total Liabilities		121,662,379
Net Assets	$	243,600,876
Net Assets Consist of:		
Common shares, $0.001 par value, unlimited number of shares authorized, 13,074,072 shares issued and outstanding	$	13,074
Paid in capital		227,747,776
Undistributed net investment income		2,264,678
Accumulated net realized gain on investments, forward foreign currency contracts, foreign currency transactions and swap contracts		2,982,800
Net unrealized appreciation (depreciation) on investments, forward foreign currency contracts and foreign currency translations		10,592,548
Net Assets	$	243,600,876
Net Asset Value Per Common Share		
$243,600,876 divided by 13,074,072 common shares outstanding	$	18.63

See Accompanying Notes to Financial Statements.

Avenue Income Credit Strategies Fund

Statement of Operations

For the year ended October 31, 2013

Investment Income		
Interest income unaffiliated issuers	$	23,226,853
Interest income on securities of affiliated issuers (Note 5)		19,118
Total Investment Income		23,245,971
Expenses		
Investment Advisory fee		3,591,292
Interest expense and commitment fee		882,470
Professional fees		285,726
Fund Accounting and Custody fees		165,808
Administration fees		149,004
Dividend expense on securities sold short		102,754
Insurance expense		97,282
Shareholder reporting expenses		71,546
Trustee s fees and expenses		71,326
Loan servicing fees		9,975
Transfer agent fees		9,121
Other expenses		94,737
Total expenses		5,531,041
Expenses recouped by Investment Adviser		125,210
Net Expenses		5,656,251
Net Investment Income		17,589,720
Realized and Unrealized Gain (Loss) on Investments, Forward Foreign Currency Contracts, Securities Sold Short, Foreign Currency Transactions and Swap Contracts:		
Net realized gain (loss) on:		
Investments in securities of unaffiliated issuers		3,929,339
Investments in securities of unaffiliated issuers sold short		(201,067)
Investments in securities of affiliated issuers		(764,545)
Forward foreign currency contracts		(2,356,142)
Foreign currency transactions		(70,133)
Swap contracts		10,394
		547,846
Net change in unrealized appreciation (depreciation) on:		
Investments in securities of unaffiliated issuers		7,566,602
Investments in securities of unaffiliated issuers sold short		(118,825)
Investments in securities of affiliated issuers		851,788
Forward foreign currency contracts		407,651
Foreign currency translations		(226,532)
Swap contracts		242,454
		8,723,138
Net realized and unrealized gain on investments, forward foreign currency contracts, securities sold short, foreign currency transactions and swap contracts		9,270,984
Net increase in net assets resulting from operations	$	26,860,704

See Accompanying Notes to Financial Statements.

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Avenue Income Credit Strategies Fund

Statement of Changes In Net Assets

		Year Ended October 31, 2013		Year Ended October 31, 2012
Increase in Net Assets from Operations:				
Net investment income	$	17,589,720	$	13,289,391
Net realized gain (loss) on investments, forward foreign currency contracts, foreign currency transactions and swap contracts		547,846		3,237,532
Net change in unrealized appreciation (depreciation) on investments, forward foreign currency contracts, securities sold short, foreign currency translations and swaps		8,723,138		14,880,001
Net increase in net assets resulting from operations		26,860,704		31,406,924
Distributions to Shareholders from:				
Net investment income		(15,549,479)		(12,791,435)
Net realized gains		(564,183)		
Total distributions to shareholders		(16,113,662)		(12,791,435)
From Beneficial Interest Transactions:				
Proceeds from sale of Common Shares (net of offering costs of $384,499 and $406,747, respectively)		51,792,372		35,788,588
Reinvestment of distributions		70,707		
Net increase in net assets from beneficial interest transactions		51,863,079		35,788,588
Net increase in net assets during the year		62,610,121		54,404,077
Net assets at beginning of year		180,990,755		126,586,678
Net assets, end of year (including undistributed net investment income of $2,264,678 and $377,913, respectively)	$	243,600,876	$	180,990,755

See Accompanying Notes to Financial Statements.

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Avenue Income Credit Strategies Fund

Statement of Cash Flows

For the year ended October 31, 2013

Cash Flows used in Operating Activities		
Net increase in net assets from operations	$	26,860,704
Adjustments to reconcile net increase in net assets from operations to net cash provided by operating activities:		
Investments purchased		(301,518,428)
Investments sold and principal repayments		233,390,797
Increase in short-term investments, excluding foreign government securities		(12,069,259)
Net amortization/accretion of premium (discount)		(155,283)
Increase in Cash held at broker		(13,555,484)
Increase in interest receivable		(2,239,668)
Net change in unrealized (appreciation) depreciation on forward foreign currency transactions		(407,651)
Increase in prepaid expenses and other assets		(1,591)
Increase in accrued interest expense		64,617
Increase in payable to affiliate for investment adviser fee		169,964
Decrease in payable to affiliate for Trustees fees		(6,093)
Decrease in accrued expenses		(120,093)
Proceeds from investments sold short		26,317,587
Payments for repurchase of investments sold short		(17,383,850)
Net change in unrealized (appreciation) depreciation from swaps		(242,454)
Net change in unrealized (appreciation) depreciation from investments		(8,299,565)
Net realized gain from investments		(2,963,727)
Net cash used in operating activities		(72,159,477)
Cash Flows from Financing Activities		
Net Proceeds from sale of shares during rights offering		51,792,372
Proceeds from shares issued through dividend reinvestment		70,707
Distributions paid to shareholders		(16,113,662)
Proceeds from secured borrowings		36,000,000
Net cash flows from financing activities		71,749,417
Net decrease in cash*		(410,060)
Cash at beginning of year1		434,656
Cash at end of year1	$	24,596

1 Balance includes foreign currency, at value.

* Includes net change in unrealized appreciation (depreciation) on foreign currency of $ 226,532.

Supplemental disclosure of cash flow information:		
Cash paid for interest and fees on borrowings:	$	817,953

See Accompanying Notes to Financial Statements.

Avenue Income Credit Strategies Fund

Financial Highlights

Selected data for a share outstanding throughout each period

	Year Ended October 31, 2013	Year Ended October 31, 2012	For the period January 27, 2011*- October 31, 2011
Net asset value, beginning of period	$ 18.46	$ 17.22	$ 19.101
Income (loss) from investment operations:			
Net investment income2	1.56	1.51	1.01
Net realized and unrealized gain (loss)	1.02	2.13	(1.94)
Total from investment operations	2.58	3.64	(0.93)
Distributions to shareholders from:			
Net investment income	(1.39)	(1.46)	(0.91)
Net realized gains	(0.05)		
Total distributions	(1.44)	(1.46)	(0.91)
Capital Share Transactions			
Dilutive effect on net asset value as a result of rights offering	(0.93)	(0.90)	
Offering costs charged to paid-in-capital	(0.04)	(0.04)	(0.04)
Net asset value, end of period	$ 18.63	$ 18.46	$ 17.22
Market value, end of period	$ 17.20	$ 18.22	$ 16.40
Total return on net asset value3	9.29%6	16.94%5	(5.12)%4
Total return on market value3	2.23%6	21.19%5	(13.71)%4
Net assets, end of period (in 000 s)	$ 243,601	$ 180,991	$ 126,587
Ratio of expenses to average net assets	2.70%	2.50%	2.50%7
Ratio of expenses to average net assets excluding interest expense, commitment fee and loan servicing fees	2.27%	2.12%	2.09%7
Ratio of net investment income to average net assets	8.40%	8.61%	7.28%7
Ratios before expense limitation:			
Ratio of expenses to average net assets	2.64%	2.77%	3.00%7
Ratio of net investment income to average net assets	8.46%	8.34%	6.78%7
Portfolio turnover rate	89%	60%	56%4
Loans Outstanding, End of Year (000s)	$ 95,000	$ 59,000	$ 43,000
Asset Coverage per $1,000 unit of senior indebtedness8	$ 3,564	$ 4,068	$ 3,944

* Commencement of operations.

1 Net asset value, (N.A.V.), at beginning of period reflects the deduction of the underwriters discount of $0.90 per share from the $20.00 offering price.

2 Per share amounts have been calculated using average shares outstanding.

3 Total market value return is computed based upon the New York Stock Exchange market price of the Fund s shares and excludes the effects of brokerage commissions. Total net asset value return measures the changes in value over the period indicated, taking into account dividends as reinvested. Dividends and distributions are assumed for purposes of these calculations to be reinvested at prices obtained under the Fund s dividend reinvestment plan.

4 Not annualized.

5 Includes dilution (net of offering costs) of approximately $0.94 to N.A.V. per share resulting from the Fund s transferrable rights offering, which expired on March 23, 2012. In connection with such offering, the Fund issued 2,450,466 additional common shares at a subscription price per share below the then-current N.A.V. per share of the Fund.

6 Includes dilution (net of offering costs) of approximately $0.97 to N.A.V. per share resulting from the Fund s transferrable rights offering, which expired on May 17, 2013. In connection with such offering, the Fund issued 3,268,518 additional common shares at a subscription price per share below the then-current N.A.V. per share of the Fund.

7 Annualized.

8 Calculated by subtracting the Fund s total liabilities (not including borrowings) from the Fund s total assets and dividing by the total number of senior indebtedness units, where one unit equals $1,000 of senior indebtedness.

See Accompanying Notes to Financial Statements.

Avenue Income Credit Strategies Fund

Notes to Financial Statements

October 31, 2013

1. Organization

Avenue Income Credit Strategies Fund (the Fund) is a Delaware statutory trust registered under the Investment Company Act of 1940, as amended (the 1940 Act), as a non-diversified, closed-end management investment company. The Fund s primary investment objective is to seek a high level of current income, with a secondary objective of capital appreciation. The Fund commenced operations on January 27, 2011.

2. Significant Accounting Policies

The following is a summary of significant accounting policies of the Fund in preparation of the financial statements.

SECURITY VALUATION The net asset value (NAV) per Common Share is generally determined daily by State Street Bank and Trust Company (State Street) as of the close of the regular trading session on the New York Stock Exchange (NYSE) on the days the NYSE is open for business. The NAV per share of the Common Shares is determined by calculating the total value of the Fund s assets (the value of the securities, plus cash and/or other assets, including interest accrued but not yet received), deducting its total liabilities (including accrued expenses and liabilities), and dividing the result by the number of Common Shares outstanding of the Fund.

Corporate Bonds and Notes (including convertible bonds) and unlisted equities are valued using an evaluated quote provided by an independent pricing service. Evaluated quotes provided by the pricing service may be determined without exclusive reliance on quoted prices, and may reflect appropriate factors such as institutional-size trading in similar groups of securities, developments related to specific securities, dividend rate, yield, quality, type of issue, coupon rate, maturity, individual trading characteristics and other market data. Short-term debt securities purchased with a remaining maturity of sixty days or less are generally valued at amortized cost, which approximates market value.

Senior Loans are valued using an evaluated quote provided by an independent pricing service. Evaluated quotes provided by the pricing service may be determined without exclusive reliance on quoted prices, and may reflect appropriate factors such as ratings, tranche type, industry, company performance, spread, individual trading characteristics, institutional-size trading in similar groups of securities and other market data.

Credit default swaps are valued using a pricing service, or, if the pricing service does not provide a value, by quotes provided by the selling dealer or financial institution.

Equity securities listed on a U.S. Stock Exchange are valued at the latest quoted sales price on valuation date. Securities listed on a foreign exchange are valued at their closing price.

Where reliable market quotes are not readily available, loans and debt obligations are valued, where possible, using independent market indicators provided by independent pricing sources approved by the Board of Trustees of the Fund (the Board). Any investment and other assets or liabilities for which current market quotations are not readily available are valued at fair value as determined in good faith in accordance with procedures established by the Board.

Forward foreign currency contracts are valued using quoted foreign exchange rates. Foreign securities and currencies are valued in U.S. dollars, based on foreign currency exchange rate quotations supplied by a third party pricing service. If events materially affecting the price of foreign portfolio securities occur between the time when their price was last determined on such foreign securities exchange or market and the time when the Fund s net asset value was last calculated, such securities may be valued at their fair value as determined in good faith in accordance with procedures established by the Board.

Avenue Income Credit Strategies Fund

Notes to Financial Statements (continued)

October 31, 2013

SECURITY TRANSACTIONS AND INVESTMENT INCOME Investment transactions for financial statement purposes are accounted for on a trade date basis. Realized gains and losses on investments sold are determined on the basis of identified cost. Interest income is determined on the basis of coupon interest accrued using the effective interest method which adjusts for amortization of premiums and accretion of discounts. For those issuers who are not paying in full, interest is only recognized if amounts are reasonably estimable and collectable. Discounts or premiums on debt securities purchased are accreted or amortized, respectively, to interest income over the lives of the respective securities, subject to collectability.

FEDERAL INCOME TAXES The Fund has elected to be treated as, and intends to continue to qualify as a regulated investment company by qualifying with the requirements of Subchapter M of the Internal Revenue Code applicable to regulated investment companies and distributing substantially all of its ordinary income and long-term capital gains, if any, each year. Accordingly, no provision for U.S. federal income or excise taxes is required in the financial statements.

SENIOR LOANS The Fund purchases assignments of, and participations in, senior secured floating rate and fixed rate loans (Senior Loans) originated, negotiated and structured by a U.S. or foreign commercial bank, insurance company, finance company or other financial institution (the Agent) for a lending syndicate of financial institutions (the Lender). When purchasing an assignment, the Fund typically succeeds to all the rights and obligations under the loan of the assigning Lender and becomes a lender under the credit agreement with respect to the debt obligation purchased. Assignments may, however, be arranged through private negotiations between potential assignees and potential assignors, and the rights and obligations acquired by the purchaser of an assignment may differ from, and be more restricted than, those held by the assigning Lender. A participation typically results in a contractual relationship only with the institution participating out the interest, not with the borrower. In purchasing participations, the Fund generally will have no right to enforce compliance by the borrower with the terms of the loan agreement or any rights of setoff against the borrower, and the Fund may not directly benefit from the collateral supporting the debt obligation in which it has purchased the participation. As a result, the Fund will be exposed to the credit risk of both the borrower and the institution selling the participation.

FOREIGN CURRENCY TRANSLATION Investment valuations, other assets, and liabilities initially expressed in foreign currencies are translated each business day into U.S. dollars based upon current exchange rates. Purchases and sales of foreign investment securities and income and expenses denominated in foreign currencies are translated into U.S. dollars based upon currency exchange rates in effect on the respective dates of such transactions. Recognized gains or losses on investment transactions attributable to changes in foreign currency exchange rates are recorded for financial statement purposes as net realized gains and losses on investments. That portion of unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed.

FORWARD FOREIGN CURRENCY CONTRACTS The Fund may enter into forward foreign currency contracts for the purchase or sale of a specific foreign currency at a fixed price on a future date. The Fund may enter into such forward contracts for hedging purposes. The forward foreign currency contracts are adjusted by the daily exchange rate of the underlying currency and any gains or losses are recorded as unrealized until such time as the contracts have been closed. Risks may arise upon entering these contracts from the potential inability of counterparties to meet the terms of their contracts and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar. In addition, these contracts may involve market risk in excess of the unrealized appreciation (depreciation) reflected in the Fund s Statement of Assets and Liabilities. It is the Fund s policy to net the unrealized appreciation and depreciation amounts for the same counterparty.

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Avenue Income Credit Strategies Fund

Notes to Financial Statements (continued)

October 31, 2013

CREDIT DEFAULT SWAPS A credit default swap is an agreement between two parties to exchange the credit risk of a particular issuer or reference entity. In a credit default swap transaction, a buyer pays periodic fees in return for payment by the seller which is contingent upon an adverse credit event occurring in the underlying issuer or reference entity. The seller collects periodic fees from the buyer and profits if the credit of the underlying issuer or reference entity remains stable or improves while the swap is outstanding, but the seller in a credit default swap contract would be required to pay an agreed upon amount to the buyer (which may be the entire notional amount of the swap) in the event of an adverse credit event in the reference entity. A buyer of a credit default swap is said to buy protection whereas a seller of a credit default swap is said to sell protection.

Swaps generally do not involve the delivery of securities, other underlying assets or principal. Accordingly, the risk of loss with respect to swaps is limited to the net amount of payments that the Fund is contractually obligated to make. However, because some swap agreements have a leverage component, adverse changes in the value or level of the underlying asset, reference rate, or index can result in a loss substantially greater than the amount invested in the swap itself. If the other party to a swap defaults, the Fund s risk of loss consists of the net amount of payments that the Fund is contractually entitled to receive and could be in excess of the amounts recognized on the Fund s Statement of Assets and Liabilities.

Credit default swap agreements on corporate issuers involve one party making a stream of payments to another party in exchange for the right to receive a specified return in the event of a default or other credit event. If a credit event occurs and cash settlement is not elected, a variety of other deliverable obligations may be delivered in lieu of the specific referenced obligation. The ability to deliver other obligations may result in a cheapest to deliver option (the buyer of protection s right to choose the deliverable obligation with the lowest value following a credit event). The Fund uses credit default swaps on corporate issuers to provide a measure of protection against defaults of the issuers (i.e., to reduce risk where the Fund owns or has exposure to the referenced obligation) or to take an active long or short position with respect to the likelihood of a particular issuer s default.

Implied credit spreads, represented in absolute terms, utilized in determining the market value of credit default swap agreements on corporate or sovereign issues as of period end are disclosed in the Schedule of Investments and serve as an indicator of the current status of the payment/performance risk and represent the likelihood or risk of default for the credit derivative. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to be made to enter into the agreement. Therefore, higher spreads would indicate a greater likelihood that a seller will be obligated to perform (i.e., make payment) under the swap contract. Wider credit spreads and increasing market values, in absolute terms when compared to the notional amount of the swap, represent a deterioration of the referenced entity s credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

The maximum potential amount of future payments (undiscounted) that the Fund as a seller of protection could be required to make under a credit default swap agreement would be an amount equal to the notional amount of the agreement. These potential amounts would be partially offset by any recovery values of the respective referenced obligations, upfront payments received upon entering into the agreement, or net amounts received from the settlement of buy protection credit default swap agreements entered into by the Fund for the same referenced entity or entities.

OTC (Over the Counter) swap payments received or made at the beginning of the measurement period are reflected as such and represent payments made or received upon entering into the swap agreement to compensate for differences between the stated terms of the swap agreement and prevailing market conditions

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Avenue Income Credit Strategies Fund

Notes to Financial Statements (continued)

October 31, 2013

(credit spreads, interest rates, and other relevant factors). These upfront payments are amortized to realized gains or losses over the life of the swap or recorded as realized gains or losses on the Fund s Statement of Operations upon termination or maturity of the swap. A liquidation payment received or made at the termination of the swap is recorded as realized gain or loss on the Fund s Statement of Operations. Net periodic payments received or paid by the Fund are included as part of realized gains or losses on the Fund s Statement of Operations. Changes in market value, if any, are reflected as a component of net changes in unrealized appreciation/depreciation on the Fund s Statement of Operations. The Fund segregates assets in the form of cash or liquid securities in an amount equal to the notional amount of the credit default swaps of which it is the seller. The Fund segregates assets in the form of cash or liquid securities in an amount equal to any unrealized depreciation of the credit default swaps of which it is the buyer, marked to market on a daily basis.

Certain swap contracts may be centrally cleared (centrally cleared swaps), whereby all payments made or received by the Fund pursuant to the contract are with a central clearing party (CCP) rather than the original counterparty. The CCP guarantees the performance of the original parties to the contract. For centrally cleared swaps, the daily change in valuation is recorded as a receivable or payable for variation margin and settled in cash with the CCP daily. Upfront payments or receipts, if any, are recorded as other assets or other liabilities, respectively, and amortized over the life of the swap contract as realized gains or losses. For financial reporting purposes, unamortized upfront payments, if any, are netted with unrealized appreciation or depreciation on swap contracts to determine the market value of swaps. Upon entering into centrally cleared swaps, the Fund is required to deposit with the CCP, either in cash or securities, an amount equal to a certain percentage of the notional amount (initial margin), which is subject to adjustment. Credit default swap transactions involve certain risks, including the risk that the seller may be unable to fulfill the transaction. In the case of centrally cleared swaps, counterparty risk is minimal due to protections provided by the CCP. At October 31, 2013 the Fund had no swap contracts outstanding.

SHORT SALES The Fund may engage in short sales. A short sale is a transaction in which the Fund sells an instrument that it does not own in anticipation that the market price will decline. To deliver the securities to the buyer, the Fund arranges through a broker to borrow the securities and, in so doing, the Fund becomes obligated to replace the securities borrowed at their market price at the time of replacement. When selling short, the Fund intends to replace the securities at a lower price and therefore, profit from the difference between the cost to replace the securities and the proceeds received from the sale of the securities. When the Fund makes a short sale, the proceeds it receives from the sale will be held on behalf of a broker until the Fund replaces the borrowed securities. The Fund may have to pay a premium to borrow the securities and must pay any dividends or interest payable on the securities until they are replaced. The Fund s obligation to replace the securities borrowed in connection with a short sale will be secured by collateral deposited with the broker that consists of cash and/or liquid securities. In addition, the Fund will place in a segregated account an amount of cash and/or liquid securities equal to the difference, if any, between (i) the market value of the securities sold at the time they were sold short, and (ii) any cash and/or liquid securities deposited as collateral with the broker in connection with the short sale. Short sales involve certain risks and special considerations. If the Fund incorrectly predicts that the price of the borrowed security will decline, the Fund will have to replace the securities with securities with a greater value than the amount received from the sale. As a result, losses from short sales differ from losses that could be incurred from a purchase of a security, because losses from short sales may be unlimited, whereas losses from purchases can equal only the total amount invested.

REPURCHASE AGREEMENTS The Fund may engage in repurchase agreements with broker-dealers, banks and other financial institutions to earn incremental income on temporarily available cash which would otherwise

Avenue Income Credit Strategies Fund
Notes to Financial Statements (continued)
October 31, 2013

be uninvested. A repurchase agreement is a short-term investment in which the purchaser (i.e., the Fund) acquires ownership of a security and the seller agrees to repurchase the obligation at a future time and set price, thereby determining the yield during the holding period. Such agreements are carried at the contract amount, which is considered to represent fair value. It is the Fund s policy that the value of collateral pledged (the securities received), which consists primarily of U.S. government securities and those of its agencies or instrumentalities, is not less than the repurchase price and is held by the custodian bank for the benefit of the Fund until maturity of the repurchase agreement. Repurchase agreements involve certain risks, including bankruptcy or other default of a seller of a repurchase agreement.

UNFUNDED LOAN COMMITMENTS The Fund may enter into certain credit agreements all or a portion of which may be unfunded. The Fund is obligated to fund these commitments at the borrower s discretion. These commitments are disclosed in the accompanying Schedule of Investments. At October 31, 2013, the Fund had no outstanding unfunded loan commitments.

INDEMNIFICATIONS In the normal course of business, the Fund enters into general business contracts that contain a variety of representations and warranties and which provide general indemnifications. The Fund s maximum exposure under these arrangements is unknown. However, the Fund expects the risk of material loss to be remote and no amounts have been recorded for such arrangements.

BASIS OF PREPARATION AND USE OF ESTIMATES These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), which require the use of estimates and assumptions by the Investment Adviser that affect the reported amounts and disclosures in these financial statements. Actual amounts and results could differ from these estimates, and such differences could be material.

STATEMENT OF CASH FLOWS The cash amount shown in the Statement of Cash Flows of the Fund is the amount included in the Fund s Statement of Assets and Liabilities and represents the cash (including foreign currency) on hand at State Street, the Fund s custodian.

INTEREST EXPENSE Interest expense primarily relates to the Fund s participation in a revolving credit facility. Interest expense is recorded as incurred.

3. Distributions

The Fund intends to make regular monthly distributions of net investment income to holders of Common Shares (Common Shareholders). The Fund expects to pay its Common Shareholders annually all or substantially all of its investment company taxable income. In addition, at least annually, the Fund intends to distribute all or substantially all of its net capital gains, if any. Distributions from net realized gains for book purposes may include short-term capital gains which are ordinary income for tax purposes. Distributions to Common Shareholders are recorded on the ex-dividend date. The amount of distributions from net investment income and net realized capital gains are determined in accordance with federal income tax regulations, which may differ from GAAP. These book-tax differences are considered either temporary or permanent in nature. To the extent these differences are permanent in nature, such amounts are reclassified within the capital accounts based on their federal income tax treatment. Temporary differences do not require reclassification. To the extent distributions exceed current and accumulated earnings and profits for federal income tax purposes they are reported to shareholders as return of capital.

Avenue Income Credit Strategies Fund

Notes to Financial Statements (continued)

October 31, 2013

4. Investment Advisory and Administration Agreements

Under an advisory agreement, Avenue Capital Management II, L.P., the Fund s Investment Adviser, an affiliate of Avenue Capital Group, will receive an annual fee, payable monthly, in an amount equal to 1.25% of the Fund s average daily Managed Assets. Managed Assets means the total assets of the Fund (including any assets attributable to money borrowed for investment purposes, including proceeds from (and assets subject to) reverse repurchase agreements, any credit facility and any issuance of preferred shares or notes) minus the sum of the Fund s accrued liabilities (other than Fund liabilities incurred for the purpose of leverage). Other entities advised by the Investment Adviser and its affiliates may have investments in the issuers held by the Fund.

At an in person meeting held on December 13, 2012 the Board unanimously approved the amendment and restatement of the currently effective Letter Agreement (an Expense Limitation Agreement) between the Fund and the Investment Adviser, dated as of December 8, 2011, to extend the term of such Expense Limitation Agreement through and including February 28, 2014. At a special telephonic meeting held on April 12, 2013, the Board unanimously voted to further extend the term of the Expense Limitation Agreement through and including April 30, 2014. Under the Expense Limitation Agreement, the Investment Adviser has contractually agreed to reimburse the Fund so that the Fund s Other Expenses (as such term is used in the Fund s registration statement on Form N-2) are limited to 0.50% (per year of the Fund s average daily net assets attributable to Common Shares, through and including April 13, 2014, (excluding (i) interest, taxes, brokerage commissions and expenditures capitalized in accordance with generally accepted accounting principles, (ii) portfolio transactions and investment related expenses and (iii) extraordinary expenses not incurred in the ordinary course of the Fund s business). The Fund may repay any such reimbursement from the Investment Adviser if, within three years of the reimbursement, the Fund could repay the Investment Adviser without causing the Fund s total Other Expenses to exceed 0.50% (per year of the Fund s average daily net assets attributable to Common Shares of the Fund) for the fiscal year in which such repayment would occur when such amount repaid to the Investment Adviser is included in the Fund s total Other Expenses. Thus, until those amounts are repaid, the Fund and the Common Shareholders will not enjoy any benefit of any reduced expenses. For the year ended October 31, 2013, the year ended October 31, 2012 and the period ended October 31, 2011, the expense reductions that remain as of October 31, 2013 subject to reimbursement, including any fee waivers were as follows:

Subject to repayment dates		
October 31, 2016	**October 31, 2015**	**October 31, 2014**
$	$414,490	$376,966*

* After repayment of $125,210 to the Investment Adviser during the year ended October 31, 2013

Under the terms of the Expense Limitation Agreement, if the Fund s expense ratio declines sufficiently, the Fund may be liable to the Investment Adviser to repay such reimbursed amounts until (i) no later than October 31, 2014, in the case of amounts reimbursed during the first fiscal year, (ii) no later than October 31, 2015, in the case of amounts reimbursed during the second fiscal year, and (iii) no later than October 31, 2016, in the case of amounts reimbursed during the current fiscal year, as of October 31, 2013.

State Street provides, or arranges for the provision of certain administrative services for the Fund, including preparing certain reports and other documents required by federal and/or state laws and regulations. State Street also provides legal administration services, including corporate secretarial services and preparing regulatory filings. For administration related services, State Street receives an annual fee, plus certain out-of-pocket expenses.

The Fund has also contracted with State Street to provide custody, fund accounting and transfer agent services to the Fund. Custody, fund accounting and transfer agent fees are payable monthly based on assets held in

Avenue Income Credit Strategies Fund

Notes to Financial Statements (continued)

October 31, 2013

custody, investment purchases and sales activity and other factors, plus reimbursement for certain out-of-pocket expenses. In addition, the Fund has entered into repurchase agreements and foreign currency transactions with State Street during the period.

5. Related Party Transactions

No shareholder, to the knowledge of the Fund, other than (i) Morgan Stanley and Morgan Stanley Smith Barney LLC (together, MS) and (ii) First Trust Portfolios L.P., First Trust Advisors L.P. and The Charger Corporation (together, First Trust), beneficially owned more than five percent of the Fund s Common Shares. On June 10, 2013, MS filed an amended beneficial ownership report on Schedule 13G with the SEC stating that as of May 31, 2013 it beneficially owned 1,484,601 Common Shares. On February 12, 2013, First Trust filed a beneficial ownership report on Schedule 13G with the SEC stating that as of December 31, 2012 it beneficially owned 2,192,385 Common Shares. Based on the share amounts shown in this filing, the holdings held by First Trust (assuming the percentage remained constant post rights offering) represented approximately 22.4%, of the Fund s October 31, 2013 net assets.

Affiliates of the Fund may have lending, brokerage, underwriting, or other business relationships with issuers of securities in which the Fund invests. Morgan Stanley, the global financial services firm, owns an indirect, non-controlling minority interest in Avenue Capital Group. During the period, the Fund acquired securities through unaffiliated broker-dealers which were part of underwriting groups in which Morgan Stanley participated.

A summary of the Fund s transactions in securities of affiliated issuers (as defined in the 1940 Act) of the Fund for the year ended October 31, 2013 is as follows:

Name of Issuer	Principal Amount (000) Held at October 31, 2012	Gross Purchases and Additions Principal Amount (000)	Gross Sales and Reductions Principal Amount (000)	Principal Amount (000) Held at October 31, 2013	Value at October 31, 2013	Investment Income November 1, 2012-October 31, 2013	Realized Gain (Loss)	Change in Unrealized Appreciation (Depreciation)
Travelodge Hotels (Full Moon Holding Co. 6 Ltd.) Term Loan	GBP 3,385		GBP (3,385)			$19,118	$(764,545)	$(851,788)

6. Purchases and Sales of Investments

Purchases and sales of investments, other than short-term obligations and including maturities and principal repayments on Senior Loans, aggregated $310,167,531 and $242,914,612 respectively, for the year ended October 31, 2013.

7. Share Transactions

The Fund is authorized to issue an unlimited number of common shares of beneficial interest at par value $0.001 per common share.

On February 10, 2012 the Fund s Board of Trustees approved a transferable rights offering (the 2012 Offer) which entitled the Fund s common shareholders of record as of February 24, 2012 (2012 Record Date Shareholders) to one transferable right for each common share held, entitling 2012 Record Date Shareholders to purchase one newly issued share of common stock for every three rights held. The 2012 Offer commenced on February 24, 2012 and expired on March 23, 2012. The 2012 Offer was over-subscribed. The actual subscription price pursuant to the 2012 Offer was $15.31 per common share for the Fund, and was calculated based on a

Avenue Income Credit Strategies Fund

Notes to Financial Statements (continued)

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formula equal to 90% of the average of the last reported sales price of a common share of the Fund on the New York Stock Exchange on the expiration date of the 2012 Offer and on each of the four preceding trading days. Shareholders exercised rights to purchase 2,450,466 shares with an aggregate net asset value of $44,672,035. The net asset value for each of the Fund s common shares was reduced by $0.94 for the Fund as a result of the 2012 Offer, which includes the effect of dealer manager commissions and offering costs. The details of the 2012 Offer are as follows:

Settlement Date	Price	Shares	Amount
March 13, 2012*	$15.74	100,000	$ 1,574,100
March 20, 2012*	15.27	50,000	763,650
March 22, 2012*	15.17	119,312	1,810,440
March 23, 2012**	15.31	2,181,154	33,393,468
Gross Proceeds		2,450,466	37,541,658
Commissions			(1,407,812)
Trading Profits			61,489
Net Proceeds			36,195,335
Offering Costs (charged against Paid in Capital)			(406,747)
			$ 35,788,588

* Rights converted to newly issued shares prior to the expiration of the Offer. Trading profits realized by UBS Securities LLC, the deal manager, were reimbursed to the Fund and treated as additional proceeds.

** Expiration date.

On April 12, 2013 the Fund s Board of Trustees approved a transferable rights offering (the 2013 Offer) which entitled the Fund s common shareholders of record as of April 22, 2013 (2013 Record Date Shareholders) to one transferable right for each common share held, entitling 2013 Record Date Shareholders to purchase one newly issued share of common stock for every three rights held. The 2013 Offer commenced on April 22, 2013 and expired on May 17, 2013. The 2013 Offer was over-subscribed. The actual subscription price on expiration date pursuant to the 2013 Offer was $16.55 per common share for the Fund, and was calculated based on a formula equal to 90% of the average of the last reported sales price of a common share of the Fund on the New York Stock Exchange on the expiration date of the 2013 Offer and on each of the four preceding trading days. Shareholders exercised rights to purchase 3,268,518 shares with an aggregate net asset value of $63,681,544. The net asset value for each of the Fund s common shares was reduced by $0.97 for the Fund as a result of the 2013 Offer, which includes the effect of dealer manager commissions and offering costs. The details of the 2013 Offer are as follows:

Settlement Date	Price	Shares	Amount
May 6, 2013*	$17.06	117,366	$ 2,002,733
May 9, 2013*	16.78	168,134	2,820,616
May 13, 2013*	16.54	114,796	1,898,955
May 15, 2013*	16.60	160,204	2,658,746
May 16, 2013*	16.46	75,000	1,234,575

May 17, 2013**	16.55	2,633,018	43,576,448
Gross Proceeds		3,268,518	54,192,073
Commissions			(2,032,202)
Trading Profits			17,000
Net Proceeds			52,176,871
Offering Costs (charged against Paid in Capital)			(384,499)
			$ 51,792,372

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* Rights converted to newly issued shares prior to the expiration of the Offer. Trading profits realized by UBS Securities LLC, the deal manager, were reimbursed to the Fund and treated as additional proceeds.

** Expiration date.

Avenue Income Credit Strategies Fund

Notes to Financial Statements (continued)

October 31, 2013

Transactions in Common Shares were as follows:

	Year Ended October 31, 2013	Year Ended October 31, 2012
Sale of Shares	3,268,518	2,450,466
Shares issued through dividend reinvestment	3,688	
Net increase	**3,272,206**	**2,450,466**

8. Federal Tax Information

As of October 31, 2013, the Fund had no uncertain tax positions that would require financial statement recognition, de-recognition, or disclosure. The Fund s federal tax return filings for the years ended October 31, 2013, and October 31, 2012, and the period ended October 31, 2011 remain subject to examination by the Internal Revenue Service for a period of three years.

For the year ended October 31, 2013, permanent book tax differences related to foreign currency gains and losses, and reclassification of credit default swap income were identified and reclassified among the components of the Fund s net assets as follows:

Paid-in Capital	Undistributed Net Investment Income	Accumulated Net Realized Gain
$	$(153,476)	$153,476

The tax character of distributions declared for the years ended October 31, 2013 and October 31, 2012 were as follows:

	October 31, 2013	October 31, 2012
Distributions declared from:		
Ordinary income*	$16,113,662	$12,791,435

* For tax purposes short-term capital gains distributions, if any, are considered ordinary income distributions.

As of October 31, 2013, the components of distributable earnings (accumulated losses) and unrealized appreciation (depreciation) on a tax basis were as follows:

Undistributed Ordinary Income	Undistributed Long-Term Capital Gains	Net Unrealized Appreciation*
$3,192,082	$0	$12,668,157

* The differences between book-basis and tax-basis net unrealized appreciation are primarily due to wash sales and forward contracts being marked to market.

The cost and unrealized appreciation (depreciation) of investments of the Fund at October 31, 2013, as determined on a federal income tax basis, were as follows:

Aggregate cost of investments	**$**	**319,977,011**
Gross unrealized appreciation	$	17,360,230
Gross unrealized (depreciation)		(4,351,652)
Net unrealized appreciation on investments	**$**	**13,008,578**
Net unrealized (depreciation) on securities sold short		**(118,825)**
Net unrealized appreciation	**$**	**12,889,753**

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Avenue Income Credit Strategies Fund

Notes to Financial Statements (continued)

October 31, 2013

9. Derivative Instruments & Hedging Activities

The Fund is subject to foreign exchange risk in the normal course of pursuing its investment objectives. Because the Fund holds foreign currency denominated investments, the value of these investments and related receivables and payables may change due to future changes in foreign currency exchange rates. To hedge against this risk, the Fund used forward foreign currency contracts.

At October 31, 2013, the fair value of derivative instruments whose primary underlying risk exposure is foreign exchange risk at October 31, 2013 was follows:

	Fair Value	
Derivative	**Asset Derivative1**	**Liability Derivative1**
Forward foreign currency contracts	$113,522	$(2,215,841)

1 Statement of Assets and Liabilities location: Net unrealized depreciation on open forward foreign currency contracts

The effect of derivative instruments on the Statement of Operations whose primary underlying risk exposure is foreign exchange risk for the year ended October 31, 2013 was as follows:

	Realized Gain (Loss) on Derivatives Recognized in Income1	**Change in Unrealized Appreciation (Depreciation) on Derivatives Recognized in Income2**
Forward foreign currency contracts	$(2,356,142)	$407,651

1 Statement of Operations location: Net realized loss Forward foreign currency contracts

2 Statement of Operations location: Net change in unrealized appreciation (depreciation) Forward foreign currency contracts

The average volume of forward foreign currency contracts bought and sold measured at each month end during the year ended October 31, 2013 was approximately $33,726,000 and $98,108,000, respectively.

The Fund is subject to credit risk in the normal course of pursuing its investment objectives. The Fund enters into credit default swap contracts to manage its credit risk, to gain a particular exposure to a credit risk, or to enhance return.

The effect of derivative instruments on the Statement of Operations whose primary underlying risk exposure is issuer default risk for the year ended October 31, 2013 was as follows:

	Realized Gain (Loss) on Derivatives Recognized in Income1	Change in Unrealized Appreciation (Depreciation) on Derivatives Recognized in Income2
Credit default swaps	$10,394	$242,454

1 Statement of Operations location: Net realized gain on Swap contracts.

2 Statement of Operations location: Net change in unrealized (depreciation) on swap contracts.

The average notional amount of swap contracts outstanding during the year ended October 31, 2013 was approximately $0 and $769,000 for Buy and Sell Protection, respectively.

Avenue Income Credit Strategies Fund

Notes to Financial Statements (continued)

October 31, 2013

10. Revolving Credit Facility

On March 8, 2013, the Fund renewed a senior secured revolving credit facility agreement (the Credit Agreement) with the Bank of Nova Scotia that allows it to borrow up to $65,000,000, and to use the borrowings to make additional investments in the ordinary course of the Fund s business and for general business purposes of the Fund. On April 22, 2013, the amount allowed to be borrowed under the Credit Agreement was increased to $122,000,000 after receiving approval from the Board. The loan is secured by a fully perfected first priority lien on all assets of the Fund capable of being pledged. Interest is charged at a rate equal to LIBOR for the applicable interest period plus a spread. There is a commitment fee for the unused portion on the facility. Commitment fees for the year ended October 31, 2013 totaled $17,019 and are included in the interest expense and commitment fee line item in the Statement of Operations. At October 31, 2013, the Fund had borrowings outstanding under the Credit Agreement of $95,000,000 at an interest rate of 1.076%. For the year ended October 31, 2013, the average borrowings under the Credit Agreement and the average interest rate were $77,994,521 and 1.098%, respectively.

11. Principal Risks

CONFLICTS OF INTEREST RISK Because the Investment Adviser manages assets for other investment companies, pooled investment vehicles and/or other accounts (including institutional clients, pension plans and certain high net worth individuals), certain conflicts of interest are present. For instance, the Investment Adviser receives fees from certain accounts that are higher than the fees received from the Fund, or receives a performance-based fee on certain accounts. In those instances, the Investment Adviser has an incentive to favor the higher and/or performance-based fee accounts over the Fund. In addition, a conflict of interest exists to the extent the Investment Adviser has proprietary investments in certain accounts or where the portfolio manager or other employees of the Investment Adviser have personal investments in certain accounts. The Investment Adviser has an incentive to favor these accounts over the Fund. Because the Investment Adviser manages accounts that engage in short sales of (or otherwise take short positions in) securities or other instruments of the type in which the Fund invests, the Investment Adviser could be seen as harming the performance of the Fund for the benefit of the accounts taking short positions, if such short positions cause the market value of the securities to fall. The Investment Adviser has adopted trade allocation and other policies and procedures that it believes are reasonably designed to address these and other conflicts of interest. These policies and procedures will have the effect of foreclosing certain investment opportunities for the Fund from time to time.

Conflicts of interest may arise where the Fund and other funds advised by the Investment Adviser or its affiliates (Avenue funds) simultaneously hold securities representing different parts of the capital structure of a stressed or distressed issuer. In such circumstances, decisions made with respect to the securities held by one Avenue fund may cause (or have the potential to cause) harm to the different class of securities of the issuer held by other Avenue funds (including the Fund). For example, if such an issuer goes into bankruptcy or reorganization, becomes insolvent or otherwise experiences financial distress or is unable to meet its payment obligations or comply with covenants relating to credit obligations held by the Fund or by the other Avenue funds, such other Avenue funds may have an interest that conflicts with the interests of the Fund. If additional financing for such an issuer is necessary as a result of financial or other difficulties, it may not be in the best interests of the Fund to provide such additional financing, but if the other Avenue funds were to lose their respective investments as a result of such difficulties, the Investment Adviser may have a conflict in recommending actions in the best interests of the Fund. In such situations, the Investment Adviser will seek to act in the best interests of each of the Avenue funds (including the Fund) and will seek to resolve such conflicts in accordance with its compliance procedures.

Avenue Income Credit Strategies Fund

Notes to Financial Statements (continued)

October 31, 2013

In addition, the 1940 Act limits the Fund s ability to enter into certain transactions with certain affiliates of the Investment Adviser. As a result of these restrictions, the Fund may be prohibited from buying or selling any security directly from or to any portfolio company of a fund managed by the Investment Adviser or one of its affiliates. Nonetheless, the Fund may under certain circumstances purchase any such portfolio company s loans or securities in the secondary market, which could create a conflict for the Investment Adviser between the interests of the Fund and the portfolio company, in that the ability of the Investment Adviser to recommend actions in the best interest of the Fund might be impaired. The 1940 Act also prohibits certain joint transactions with certain of the Fund s affiliates (which could include other Avenue funds), which could be deemed to include certain types of investments, or restructuring of investments, in the same portfolio company (whether at the same or different times). These limitations may limit the scope of investment opportunities that would otherwise be available to the Fund. The Board has approved various policies and procedures reasonably designed to monitor potential conflicts of interest. The Board will review these policies and procedures and any conflicts that may arise.

In the course of managing the Avenue funds or otherwise, the Investment Adviser or its respective members, officers, directors, employees, principals or affiliates may come into possession of material, non-public information. The possession of such information may limit the ability of the Fund to buy or sell a security or otherwise to participate in an investment opportunity. Situations may occur where the Fund could be disadvantaged because of the investment activities conducted by the Investment Adviser for other clients, and the Investment Adviser will not employ information barriers with regard to its operations on behalf of its registered and private funds, or other accounts. In certain circumstances, employees of the Investment Adviser may serve as board members or in other capacities for portfolio or potential portfolio companies, which could restrict the Fund s ability to trade in the securities of such companies.

MARKET AND INTEREST RATE RISK Market risk is the possibility that the market values of securities owned by the Fund will decline. The values of fixed income securities tend to fall as interest rates rise, and such declines tend to be greater among fixed income securities with longer remaining maturities. Market risk is often greater among certain types of fixed income securities, such as zero coupon bonds which do not make regular interest payments but are instead bought at a discount to their face values and paid in full upon maturity. As interest rates change, these securities often fluctuate more in price than securities that make regular interest payments and therefore subject the Fund to greater market risk than a fund that does not own these types of securities. The values of adjustable, variable or floating rate income securities tend to have less fluctuation in response to changes in interest rates, but will have some fluctuation particularly when the next interest rate adjustment on such security is further away in time or adjustments are limited in number or degree over time. The Fund has no policy limiting the maturity of credit obligations it purchases. Such obligations often have mandatory and optional prepayment provisions and because of prepayments, the actual remaining maturity of loans and debts may be considerably less than their stated maturity. Obligations with longer remaining maturities or durations generally expose the Fund to more market risk. When-issued and delayed delivery transactions are subject to changes in market conditions from the time of the commitment until settlement. This may adversely affect the prices or yields of the securities being purchased. The greater the Fund s outstanding commitments for these securities, the greater the Fund s exposure to market price fluctuations. Interest rate risk can be considered a type of market risk.

LEVERAGE RISK The Fund may utilize leverage to seek to enhance the yield of the Fund by borrowing. There are risks associated with borrowing in an effort to increase yield and distributions to Common Shareholders, including that the costs of the financial leverage may exceed the income from investments made

Avenue Income Credit Strategies Fund

Notes to Financial Statements (continued)

October 31, 2013

with such leverage, the likelihood of greater volatility of the net asset value and market price of, and distributions on, the Common Shares, and that the fluctuations in the interest rates on the borrowings may affect the yield and distributions to Common Shareholders. There can be no assurance that the Fund s leverage strategy will be utilized or that, if utilized, it will be successful.

RISKS ASSOCIATED WITH FOREIGN INVESTMENTS Investing in securities issued by companies whose principal business activities are outside the United States may involve significant risks not present in domestic investments. For example, there is generally less publicly available financial and other information about foreign companies, particularly those not subject to the disclosure and reporting requirements of the U.S. securities laws. Certain foreign issuers are generally not bound by uniform accounting, auditing, and financial reporting requirements and standards of practice comparable to those applicable to domestic issuers. Investments in foreign securities also involve the risk of possible adverse changes in investment or exchange control regulations, expropriation or confiscatory taxation, limitation on the removal of funds or other assets of the Fund, political or financial instability or diplomatic and other developments which could affect such investments. Foreign securities markets, while growing in volume and sophistication, are generally not as developed as those in the United States, and securities of some foreign issuers (particularly those located in developing countries) may be less liquid and more volatile than securities of comparable U.S. companies. In general, there is less overall governmental supervision and regulation of foreign securities markets, broker-dealers and issuers than in the United States. In recent years, the risks of investing in certain foreign securities have increased dramatically as a result of the ongoing European debt crisis which began in Greece and has begun to spread throughout various other European countries. These debt crises and the ongoing efforts of governments around the world to address these debt crises have also resulted in increased volatility and uncertainty in the United States and the global economy and securities markets, and it is impossible to predict the effects of these or similar events in the future on the United States and the global economy and securities markets or on the Fund s investments, though it is possible that these or similar events could have a significant adverse impact on the value and risk profile of the Fund.

CREDIT RISK Credit risk refers to the possibility that the issuer of a security will be unable to make timely interest payments and/or repay the principal on its debt. Because the Fund may invest, without limitation, in securities that are below investment grade, the Fund is subject to a greater degree of credit risk than a fund investing primarily in investment grade securities. Lower-grade securities are more susceptible to non-payment of interest and principal and default than higher-grade securities and are more sensitive to specific issuer developments or real or perceived general adverse economic changes than higher-grade securities. Loans and debt obligations of stressed issuers (including those that are in covenant or payment default) are subject to a multitude of legal, industry, market, economic and governmental forces that make analysis of these companies inherently difficult. Obligations of stressed issuers generally trade significantly below par and are considered speculative. The repayment of defaulted obligations is subject to significant uncertainties. Defaulted obligations might be repaid only after lengthy workout or bankruptcy proceedings or result in only partial recovery of cash payments or an exchange of the defaulted obligation for other debt or equity securities of the issuer or its affiliates, which may in turn be illiquid or speculative. In any investment involving stressed obligations, there exists the risk that the transaction involving such debt obligations will be unsuccessful, take considerable time or will result in a distribution of cash or a new security or obligation in exchange for the stressed obligations, the value of which may be less than the Fund s purchase price of such debt obligations. Furthermore, if an anticipated transaction does not occur, the Fund may be required to sell its investment at a loss. However, investments in equity securities obtained through debt restructurings or bankruptcy proceedings may be illiquid and thus difficult or impossible to sell.

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RISKS OF SENIOR LOANS There is less readily available and reliable information about most Senior Loans than is the case for many other types of instruments, including listed securities. Senior Loans are not listed on any national securities exchange or automated quotation system and as such, many Senior Loans are illiquid, meaning that the Fund may not be able to sell them quickly at a fair price. To the extent that a secondary market does exist for certain Senior Loans, the market is more volatile than for liquid, listed securities and may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods. The market for Senior Loans could be disrupted in the event of an economic downturn or a substantial increase or decrease in interest rates, resulting in fluctuations in the Fund s net asset value and difficulty in valuing the Fund s portfolio of Senior Loans. Senior Loans, like most other debt obligations, are subject to the risk of default. Default in the payment of interest or principal on a Senior Loan will result in a reduction of income to the Fund, a reduction in the value of the Senior Loan and a potential decrease in the Fund s net asset value.

RISKS OF SHORT SALES The Fund may engage in short sales. A short sale is a transaction in which the Fund sells an instrument that it does not own in anticipation that the market price will decline. To deliver the securities to the buyer, the Fund arranges through a broker to borrow the securities and, in so doing, the Fund becomes obligated to replace the securities borrowed at their market price at the time of replacement. When selling short, the Fund intends to replace the securities at a lower price and therefore, profit from the difference between the cost to replace the securities and the proceeds received from the sale of the securities. When the Fund makes a short sale, the proceeds it received from the sale will be held on behalf of a broker until the Fund replaces the borrowed securities. The Fund may have to pay a premium to borrow the securities and must pay any dividends or interest payable on the securities until they are replaced. The Fund s obligation to replace the securities borrowed in connection with a short sale will be secured by collateral deposited with the broker that consists of cash and/or liquid securities. In addition, the fund will place in a segregated account an amount of cash and/or liquid securities equal to the difference, if any, between (i) the market value of the securities sold at the time they were sold short, and (ii) any cash and/or liquid securities deposited as collateral with the broker in connection with the short sale. Short sales involve certain risks and special considerations. If the Fund incorrectly predicts that the price of the borrowed security will decline, the Fund will have to replace the securities with securities with a greater value than the amount received from the sale. As a result, losses from short sales differ from losses that could be incurred from a purchase of a security, because losses from short sales may be unlimited, whereas losses from purchases can equal only the total amount invested.

RISKS OF SWAPS The Fund may enter into swap transactions, including credit default, total return, index and interest rate swap agreements, as well as options thereon, and may purchase or sell interest rate caps, floors and collars. Such transactions are subject to market risk, risk of default by the other party to the transaction (i.e., counterparty risk), risk of imperfect correlation and manager risk and may involve commissions or other costs. Swaps generally do not involve delivery of securities, other underlying assets or principal. Accordingly, the risk of loss with respect to swaps generally is limited to the net amount of payments that the Fund is contractually obligated to make, or in the case of the other party to a swap defaulting, the net amount of payments that the Fund is contractually entitled to receive. The swap market has grown substantially in recent years with a large number of banks and investment banking firms acting both as principals and as agents utilizing standardized swap documentation. Caps, floors and collars are more recent innovations for which standardized documentation has not yet been fully developed and, accordingly, they are less liquid than swaps. If the Investment Adviser is incorrect in its forecast of market values, interest rates, currency exchange rates or counterparty risk, the investment performance of the Fund would be less favorable than it would have been if these investment techniques were not used.

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Notes to Financial Statements (continued)

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The Fund is party to International Swaps and Derivatives Association, Inc. Master Agreements (ISDA Master Agreements) with select counterparties that govern transactions, over-the-counter derivatives and foreign exchange contracts entered into by the Fund and those counterparties. The ISDA Master Agreements contain provisions for general obligations, representations, agreements, collateral and events of default or termination. Events of termination include conditions that may entitle counterparties to elect to terminate early and cause settlement of all outstanding transactions under the applicable ISDA Master Agreement. Any election to terminate early could be material to the financial statements of the Fund.

12. Fair Value Measurements

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, under current market conditions. GAAP establishes a hierarchy that prioritizes the inputs to valuation methods giving the highest priority to readily available unadjusted quoted prices in an active market for identical assets (Level 1) and the lowest priority to significant unobservable inputs (Level 3) generally when market prices are not readily available or are unreliable. Based on the valuation inputs, the securities or other investments are tiered into one of three levels. Changes in valuation methods may result in transfers in or out of an investment s assigned level:

- Level 1 Prices are determined using quoted prices in an active market for identical assets.
- Level 2 Prices are determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk, yield curves, loss severities, default rates, discount rates, volatilities and others.
- Level 3 Prices are determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the Fund s own assumptions about the factors market participants would use in determining fair value of the securities or instruments and would be based on the best available information.

The valuation techniques used by the Fund to measure fair value during the year ended October 31, 2013 maximized the use of observable inputs and minimized the use of unobservable inputs.

The following are certain inputs and techniques that the Fund generally uses to evaluate how to classify each major category of assets and liabilities for Level 2 and Level 3, in accordance with GAAP.

Corporate Bonds & Notes Corporate bonds and notes are generally comprised of two main categories: investment grade bonds and high yield bonds. Investment grade bonds are valued by independent pricing services using various inputs and techniques, which include broker-dealer quotations, active market trading levels, recently executed transactions in securities of the issuer or comparable issuers, and option adjusted spread models that include base curve and spread curve inputs. Adjustments to individual bonds can be applied to recognize trading differences compared to other bonds issued by the same issuer. High yield bonds are valued by independent pricing services based primarily on broker-dealer quotations from relevant market makers and recently executed transactions in securities of the issuer or comparable issuers. To the extent that these inputs are observable, the values of corporate bonds and notes are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

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Notes to Financial Statements (continued)

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Senior Loans Senior loans are valued using inputs which include broker-dealer quotes or quotes received from independent pricing services that take into account quotes received from broker-dealers or other market sources pertaining to the issuer or security. The Fund may also engage a third party appraiser or other valuation techniques, as described in the private equity section above, to value these securities. Inputs may include quoted prices for similar investments in active markets, interest rates, coupon rates, yield curves, option adjusted spreads, default rates, credit spreads and other unique security features in order to estimate the relevant cash flows which is then discounted to calculate fair values. To the extent that these inputs are observable, the values of senior loans are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

Forward Foreign Currency Contracts Forward foreign currency contracts are valued by independent pricing services using various inputs and techniques, which include broker-dealer quotations, actual trading information and foreign currency exchange rates gathered from leading market makers and foreign currency exchange trading centers throughout the world. To the extent that these inputs are observable, the values of forward foreign currency contracts are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

The following is a summary of the tiered valuation input levels, as of October 31, 2013. The Schedule of Investments includes disclosure of each security type by category and/or industry. The level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities. Because of the inherent uncertainties of valuation, the values reflected in the financial statements may materially differ from the value received upon actual sale of those investments.

Investment Securities in an Asset Position	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Other Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Corporate Bonds and Notes	$	$ 273,752,686	$	$ 273,752,686
Senior Loans		21,831,633	15,488,767	37,320,400
Convertible Bonds		5,352,597		5,352,597
Repurchase Agreements		16,441,081		16,441,081
Total Asset Position	**$**	**$ 317,377,997**	**$ 15,488,767**	**$ 332,866,764**
Investments in a Liability Position				
Securities Sold Short	(9,903,629)			(9,903,629)
Forward Foreign Currency Contracts*		(2,102,319)		(2,102,319)
Total Liability Position	**$ (9,903,629)**	**$ (2,102,319)**	**$**	**$ (12,005,948)**

* Other financial instruments such as forward foreign currency contracts are valued at the unrealized appreciation/(depreciation) of the instrument.

Quantitative Information about Level 3 Fair Value Inputs

	Fair Value At 10/31/13	Valuation Technique	Unobservable Input	Range
Senior Loans	$15,488,767	Third Party Vendor	Vendor Quotes	$97 - $152

The Investment Adviser has established a Valuation Committee (the Committee) which is responsible for overseeing the pricing and valuation of all securities held in the Fund. The Committee operates under pricing and valuation policies and procedures established by the Fund and approved by the Board, including pricing policies which set forth the mechanisms and processes to be employed on a daily basis to implement these policies and

Avenue Income Credit Strategies Fund

Notes to Financial Statements (continued)

October 31, 2013

procedures. In particular, the pricing policies describe how to determine market quotations for securities and other instruments. The Committee s responsibilities include: 1) fair value and liquidity determinations (and oversight of any third parties to whom any responsibility for fair value and liquidity determinations is delegated), and 2) regular monitoring of the Fund s pricing and valuation policies and procedures and modification or enhancement of these policies and procedures (or recommendation of the modification of these policies and procedures) as the Committee believes appropriate. The Committee is also responsible for monitoring the implementation of the pricing policies by the Fund and third parties which perform certain pricing functions in accordance with the pricing policies. The Investment Adviser is responsible for the oversight of the third party on a day-to-day basis. The Committee and the Investment Adviser perform a series of activities to provide reasonable assurance of the accuracy of prices including: 1) periodic vendor due diligence meetings, review of methodologies, new developments and processes at vendors, 2) daily comparison of security valuation versus prior day for all securities that exceeded established thresholds, and 3) daily review of unpriced, stale, and variance reports with exceptions reviewed by and the Committee.

The following is a reconciliation of Level 3 assets for which significant unobservable inputs were used to determine fair value:

	Investments in Senior Loans	Total
Balance as of October 31, 2012	**$**	**$**
Cost of purchases	16,666,476	16,666,476
Proceeds from sales	(1,644,258)	(1,644,258)
Transfers to Level 3		
Transfers from Level 3		
Accrued discount (premium)	2,377	2,377
Realized gains (losses)	6,718	6,718
Change in net unrealized appreciation (depreciation)*	457,454	457,454
Balance as of October 31, 2013	**15,488,767**	**$ 15,488,767**
Change in net unrealized appreciation (depreciation) on Investments still held as of October 31, 2013*	**$ 457,454**	**$ 457,454**

* Amount is included in the related amount on investments in the Statement of Operations.

During the year ended October 31, 2013, there were no transfers between investment levels.

For information related to geographical and industry categorization of investments and types of derivative contracts held, please refer to the Schedule of Investments.

13. Other

On March 17, 2011, the Board approved a share repurchase program for the Fund. Under the repurchase program, the Fund is authorized to make open market purchases of its Common Shares as a measure to reduce any discount from net asset value in the market price of the Common Shares. The program authorizes the Fund to repurchase up to 10% of its outstanding Common Shares in any calendar year. The Fund is not required to make any such repurchases and there can be no assurances that it will. There also can be no assurances that any such repurchases would have the effect of reducing any discount from net asset value in the market price of the Common Shares. The Fund s ability to make repurchases will also be subject to regulatory requirements and to

Avenue Income Credit Strategies Fund

Notes to Financial Statements (continued)

October 31, 2013

the Fund s ability to liquidate portfolio investments to raise cash for such repurchases. For the years ended October 31, 2013 and October 31, 2012, the Fund did not make any share repurchases.

14. Recently Issued Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update No. 2011-11, Disclosures About Offsetting Assets and Liabilities , which requires enhanced disclosures that will enable users to evaluate the effect or potential effect of netting arrangements on an entity s financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. The amendments are effective for fiscal years beginning on or after January 1, 2013. The Fund s management is currently evaluating the effect that the guidance may have on its financial statements.

In June 2013, the FASB issued ASU 2013-08 Financials Services Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements, which sets forth a new approach for determining whether a public or private company is an Investment Company and sets certain measurement and disclosure requirements for an Investment Company. The amendments are effective for fiscal years beginning on or after December 15, 2013. An entity regulated under the 1940 Act would automatically qualify as an Investment Company for accounting purposes under Topic 946 and thus the Fund s management believes the release will have no impact to the Fund.

15. Subsequent Events

Management has evaluated events occurring subsequent to the date of the Statement of Assets and Liabilities through the date the financial statements were issued. No matters requiring adjustment to, or disclosure, in the financial statements were noted.

The Fund declared the following dividends subsequent to October 31, 2013:

Declaration Date	Amount Per Share	Record Date	Payable Date	Type
November 8, 2013	$0.12	November 18, 2013	November 29, 2013	Income
December 2, 2013	$0.12	December 12, 2013	December 16, 2013	Income
December 20, 2013	$0.22	December 31, 2013	January 14, 2014	Income
December 20, 2013	$0.069	December 31, 2013	January 14, 2014	S.T. Capital Gain

On December 12, 2013, the Fund and the Investment Adviser amended and restated the current Expense Limitation Agreement to extend the term through February 28, 2015.

Avenue Income Credit Strategies Fund

Report of Independent Registered Public Accounting Firm

To the Board of Trustees and Shareholders of the Avenue Income Credit Strategies Fund:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations, of changes in net assets and of cash flows and the financial highlights present fairly, in all material respects, the financial position of Avenue Income Credit Strategies Fund (the Fund) at October 31, 2013, the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as financial statements) are the responsibility of the Fund s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at October 31, 2013 by correspondence with the custodian, agent banks and brokers, and the application of alternative auditing procedures where securities purchased confirmations had not been received, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
New York, New York
December 27, 2013

Avenue Income Credit Strategies Fund

October 31, 2013 (unaudited)

Proxy Information. The policies and procedures used to determine how to vote proxies relating to securities held by the Fund are available without charge, upon request, by calling (877) 525-7330, and on the website of the Securities and Exchange Commission (the SEC) at http://www.sec.gov. Information regarding how the Fund voted proxies relating to portfolio securities during the most recent twelve-month period ended June 30 is available by August 31 of each year without charge, upon request, by calling (877) 525-7330, or on the Fund s website at http://www.avenuecapital.com and on the SEC s website at http://www.sec.gov.

Quarterly Portfolio Holdings. The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Fund s Forms N-Q are available on the SEC s website at http://www.sec.gov and may be reviewed and copied at the SEC s Public Reference Room in Washington, D.C. Information on the operation of the SEC s Public Reference Room may be obtained by calling 1-800-SEC-0330. The Fund s Forms N-Q are also available on the Fund s website at http://www.avenuecapital.com.

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that the Fund may purchase at market prices from time to time its Common Shares in the open market.

Avenue Income Credit Strategies Fund

October 31, 2013 (unaudited)

Annual Meeting of Shareholders. On May 16, 2013, the Fund held its Annual Meeting of Shareholders (the Meeting) to consider and vote on the proposal set forth below. The following votes were recorded:

Proposal: The election of a Class II Trustee to the Board of Trustees for a term of three years to expire at the 2016 annual meeting of Shareholders, or special meeting in lieu thereof, and until her successor has been duly elected and qualified.

Election of Julie Dien Ledoux as a Class II Trustee of the Fund

	Shares Voted	Percentage of Shares Voted
For	9,182,937	97%
Withheld	286,017	3%

The terms of office of Joel Citron, Darren Thompson and Randolph Takian, the remaining members of the Board of Trustees, continued after the Meeting.

Avenue Income Credit Strategies Fund

Summary of Dividend Reinvestment Plan (unaudited)

The Fund offers a Dividend Reinvestment Plan (the Plan) pursuant to which distributions of dividends and all capital gains on Common Shares are automatically reinvested in additional Common Shares, unless a Common Shareholder specifically elects to receive cash by providing the required notice to the Plan Agent. Common Shareholders whose shares are held in the name of a broker or other nominee may have distributions reinvested only if such a service is provided by the broker or the nominee or if the broker or the nominee permits participation in the Plan.

State Street Bank and Trust Company, as plan agent (the Plan Agent), serves as agent for the Common Shareholders of the Fund in administering the Plan. All Common Shareholders are deemed to be participants in the Plan unless they specifically elect not to participate.

If the Fund declares an income dividend or a realized capital gains distribution payable either in the Fund s shares or in cash, as shareholders may have elected, non-participants in the Plan will receive cash and participants in the Plan will receive shares. If the market price per share (plus expected commissions) on the valuation date equals or exceeds net asset value per share on that date, the Fund will issue new shares to participants at net asset value unless the net asset value is less than 95% of the market price on the valuation date, in which case, shares will be issued at 95% of the market price. With respect to Common Shares credited to a participant s account at a price below the current market price, all or a portion of the amount of the discount from such market price may be taxable to the participant as ordinary income. The valuation date will be the dividend or distribution payment date or, if that date is not a trading day on the exchange on which the Fund s shares are then listed, the next preceding trading day. If the net asset value per share exceeds the market price per share (plus expected commissions) at such time, the Plan Agent s broker will buy the Fund s shares in the open market, or elsewhere, with the cash in respect of the dividend or distribution, for the participants account on, or shortly after, the payment date. For purposes of such purchases, the Plan Agent may use an affiliated or unaffiliated broker.

In the event of a market discount on the dividend or distribution payment date, the Plan Agent s broker will have up to 30 days after such payment date to invest the dividend or distribution amount in Common Shares acquired in open-market purchases. If, before the Plan Agent s broker has completed its open-market purchases, the market price of a Common Share (plus expected commissions) exceeds the net asset value per Common Share, the average per Common Share purchase price paid by the Plan Agent s broker may exceed the net asset value of the Fund s Common Shares, resulting in the acquisition of fewer Common Shares than if the distribution had been paid in newly issued Common Shares on the payment date. Therefore, the Plan provides that if the Plan Agent s broker is unable to invest the full dividend or distribution amount in open-market purchases during the purchase period or if the market discount shifts to a market premium during the purchase period, the Plan Agent s broker will cease making open-market purchases and will invest the uninvested portion of the dividend or distribution amount in newly issued Common Shares.

The Plan Agent maintains all Common Shareholders accounts in the Plan and furnishes written confirmation of all transactions in the accounts, including information needed by Common Shareholders for tax records. Common Shares in the account of each Plan participant will be held by the Plan Agent on behalf of the Plan participant, and each Common Shareholder proxy will include those Common Shares purchased or received pursuant to the Plan.

The Plan Agent will forward all proxy solicitation materials to participants and vote proxies for Common Shares held pursuant to the Plan in accordance with the instructions of the participants.

Avenue Income Credit Strategies Fund

Summary of Dividend Reinvestment Plan (unaudited) (continued)

In the case of Common Shareholders such as banks, brokers or nominees that hold Common Shares for others who are the beneficial owners, the Plan Agent will administer the Plan on the basis of the number of Common Shares certified from time to time by the record Common Shareholder s name and held for the account of beneficial owners who participate in the Plan. A shareholder who holds his shares through a broker or other nominee will only be eligible to participate in the Plan if it is permitted by such broker or nominee. Such shareholders will not necessarily participate automatically in the Plan, and must contact their broker or nominee for more information.

There will be no brokerage charges to Common Shareholders with respect to Common Shares issued directly by the Fund as a result of dividends or distributions payable either in Common Shares or in cash. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent s open-market purchases in connection with the reinvestment of dividends or distributions.

Common Shareholders participating in the Plan may receive benefits not available to Common Shareholders not participating in the Plan. If the market price (plus commissions) of the Fund s Common Shares is above their net asset value, participants in the Plan will receive Common Shares of the Fund at less than they could otherwise purchase them and will have Common Shares with a cash value greater than the value of any cash distribution they would have received on their Common Shares. If the market price plus commissions is below the net asset value, participants will receive distributions in Common Shares with a net asset value greater than the per Common Share value of any cash distribution they would have received on their Common Shares. However, there may be insufficient Common Shares available in the market to make distributions in Common Shares at prices below the net asset value. Also, since the Fund does not redeem its Common Shares, the price on resale may be more or less than the net asset value.

The automatic reinvestment of dividends and distributions does not relieve participants of any income tax that may be payable on such dividends and distributions.

You may obtain additional information about the Plan by calling (877) 525-7330 or by writing to the Plan Agent at State Street Bank and Trust Company, 200 Clarendon Street, 16th Floor, Boston, MA 02116.

Common Shareholders may terminate their participation in the Plan at any time by calling (877) 525-7330 or by writing to the Plan Agent at the address listed above. Such termination will be effective immediately if the participant s notice is received and processed by the Plan Agent not less than three business days prior to any dividend or distribution payment date; otherwise such termination will be effective the first trading day after the payment for such dividend or distribution with respect to any subsequent dividend or distribution. Common Shareholders of the Fund may again elect to participate in the Plan at any time by calling (877) 525-7330 or by writing to the Plan Agent at the address listed above.

The Plan may be terminated by the Plan Agent or the Fund upon notice in writing mailed to participants at least 30 days prior to any record date for the payment of any dividend or distribution by the Fund. Upon any termination described in the paragraph, shares will be held by the Plan Agent in non-certificated form in the name of the participant. If a participant elects by notice to the Plan Agent in writing or by telephone (as described above) in advance of such termination to have the Plan Agent sell part or all of the participant s Common Shares and to remit the proceeds to the participant, the Plan Agent is authorized to deduct brokerage commissions for such transaction from the proceeds. To sell such shares, the Plan Agent may use an affiliated or unaffiliated broker.

Upon 90 days   notice to Plan participants, the Fund and the Plan Agent reserve the right to amend or supplement the terms and conditions of the Plan.

Avenue Income Credit Strategies Fund

Trustees and Officers

The business and affairs of the Fund are managed under the direction of the Board and the Fund s officers appointed by the Board. The tables below list the Trustees and officers of the Fund and their present positions and principal occupations during the past five years. The business address of the Fund, its Board members and officers and the Investment Adviser is 399 Park Avenue, 6th Floor, New York, NY 10022, unless specified otherwise below. The term Fund Complex includes each of the registered investment companies advised by the Investment Adviser or its affiliates as of the date of this Annual Report. Trustees serve three year terms or until their successors are duly elected and qualified. Officers are annually elected by the Trustees.

The Fund s Statement of Additional Information includes additional information about the Trustees and is available, without charge, upon request by calling 1-877-525-7330.

Interested Trustee(1)(2)

Name, Age and Address	Position(s) with the Fund	Term of Office and Length of Service	Principal Occupation(s) During Past Five Years and Other Relevant Experience	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Last Five Years
Randolph Takian (39) 399 Park Avenue, 6th Floor New York, NY 10022	President, Chief Executive Officer and Trustee	Since October 2010	President, Chief Executive Officer and Trustee of Avenue Mutual Funds Trust (since March 2012); Senior Managing Director and Head of Traditional Asset Management of Avenue Capital Group (since 2010); President and Principal Executive Officer of certain open-end and closed-end funds advised by Morgan Stanley Investment Management, Inc. (MSIM) or an affiliated person of MSIM (2008-2010); President and Chief Executive Officer of Morgan Stanley Services Company Inc. (2008-2010); Managing Director and Head of Americas distribution, product and marketing for MSIM (2009-2010); Head of Liquidity and Bank Trust business (2008-2010) and the Latin American Franchise (July 2008-2010) at MSIM, Managing Director, Director and/or Officer of MSIM and various entities affiliated with MSIM. Formerly, Head of Retail and Intermediary business, Head of Strategy and Product Development for the Alternatives Group and Senior Loan Investment Management.	2	Board Member and member of Executive Committee of Lenox Hill Neighborhood House, a non-profit.

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Avenue Income Credit Strategies Fund

Trustees and Officers (continued)

Independent Trustees(1)

Name, Age and Address	Position(s) with the Fund	Term of Office and Length of Service	Principal Occupation(s) During Past Five Years and Other Relevant Experience	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held During the Last Five Years
Joel Citron (51) 399 Park Avenue, 6th Floor New York, NY 10022	Trustee	Since December 2010	Chairman of the Board of Trustees of Avenue Mutual Funds Trust (since May 2012); Chief Investment Officer/Managing Member of TAH Management/TAH Capital Partners, a private investment management firm (since 2009), and CEO of Tenth Avenue Holdings, a related holding company (since 2008); Managing Partner of Jove Partners, a hedge fund and private equity firm (2006-2008); CEO of Jovian Holdings, a privately held investment and operating company (2002-2008).	2	Chairman of Tenth Avenue Commerce, an e-commerce company (since 2010); Director of Communications Capital Group, LLC (since 2009); Director of Attivio, Inc., a software company (since 2009), Director of Symbius Medical, LLC, a medical service provider (since 2007); Chairman of Oxigene Inc., a biotech company (2001-2009); Chairman of Oasmia AB, a Swedish publicly traded biotech company since 2011; President of the Board of The Heschel School; Chairman of the Board of Trustees of Kivunim, a program in international Jewish education; Board of Councilors Member of Shoah Foundation at the University of Southern California.
Darren Thompson (50) 399 Park Avenue, 6th Floor New York, NY 10022	Trustee	Since December 2010	Trustee of Avenue Mutual Funds Trust (since May 2012); Managing Member, RailField Partners, LLC (private investment and advisory firm) (since 2012); Self Employed Consultant (since 2010); Executive of American Express Company (2010); Chief Financial Officer of Revolution Money, Inc., a payment network (now a subsidiary of American Express Company) (2006-2010).	2	
Julie Dien Ledoux (44) 399 Park Avenue, 6th Floor New York, NY 10022	Trustee	Since December 2010	Trustee of Avenue Mutual Funds Trust (since May 2012); Analyst and Portfolio Manager of Avenue Capital Group (1998-2007)	2	Board Member and on the Executive Committee of Treadwell Farms Historic District Association, f/k/a East Sixties Property Owners Association, a non-profit neighborhood

group.

Avenue Income Credit Strategies Fund

Trustees and Officers (continued)

Principal Officers who are not Trustees

Name, Age and Address	**Position(s) with the Fund**	**Term of Office and Length of Service**	**Principal Occupation(s) During Past Five Years**
Stephen M. Atkins (48) 399 Park Avenue, 6th Floor New York, NY 10022	Treasurer and Chief Financial Officer	Since September 2012	Treasurer and Chief Financial Officer of Avenue Mutual Funds Trust (since September 2012); Controller of Avenue Capital Group, an investment management firm (since December 2010); Formerly with Morgan Stanley Investment Management Co., Inc., (1996-2010), most recently as an Executive Director (2003-2010).
Jeffery J. Gary (51) 399 Park Avenue, 6th Floor New York, NY 10022	Vice President	Since September 2012	Vice President & Portfolio Manager of Avenue Mutual Funds Trust (since May 2012); Senior Portfolio Manager of Avenue Capital Group (since 2012); Portfolio Manager of Third Avenue Management LLC (2009-2010); Portfolio Manager of Blackrock Financial (2003-2008).
Ty Oyer (42) 399 Park Avenue, 6th Floor New York, NY 10022	Secretary	Since December 2010	Secretary of Avenue Mutual Funds Trust (since May 2012); Deputy Chief Compliance Officer (since January 2011) and Compliance Manager (since 2008) of Avenue Capital Group, an investment management firm; Compliance Officer of D.B. Zwirn & Co., an investment management firm (2007-2008).
Eric Ross (44) 399 Park Avenue, 6th Floor New York, NY 10022	Chief Compliance Officer	Since December 2010	Chief Compliance Officer of Avenue Mutual Funds Trust (since May 2012); Chief Compliance Officer of Avenue Capital Group, an investment management firm (since 2006).

(1) Independent Trustees are those Trustees who are not interested persons (as defined in Section 2(a)(19) of the 1940 Act) of the Fund, and Interested Trustees are those Trustees who are interested persons of the Fund.

(2) Mr. Takian is an Interested Trustee due to his employment with the Investment Adviser.

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Rev. 11/2013

FACTS	**WHAT DOES Avenue Income Credit Strategies Fund (the Fund) DO WITH YOUR PERSONAL INFORMATION?**
Why?	Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.
What?	The types of personal information we collect and share depend on the product or service you have with us. This information can include: Social Security Number and transaction history Risk tolerance and investment experience Income and assets When you are *no longer* our customer, we continue to share your information as described in this notice.
How?	All financial companies need to share customers personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers personal information; the reasons the Fund chooses to share; and whether you can limit this sharing.

Reasons we can share your personal information	Does the Fund share?	Can you limit this sharing?
For our everyday business purposes such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus	Yes	No
For our marketing purposes to offer our products and services to you	Yes	No
For joint marketing with other financial companies	No	We don t share
For our affiliates everyday business purposes information about your transactions and experiences	No	We don t share
	No	We don t share

For our affiliates everyday business purposesinformation about your creditworthiness		
For nonaffiliates to market to you	No	We don t share

Questions?	Call 212-878-3500 or go to www.avenuecapital.com

Page 2	

Who we are	
Who is providing this notice?	Avenue Income Credit Strategies Fund (the Fund)
What we do	
How does the Fund protect my personal information?	To product your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings. We restrict access to your non-public personal information to those employees who need to know that information.
How does the Fund collect my personal information?	We collect your personal information, for example, when you Provide contact information or provide account information Open an account or Purchase or sell shares Make a wire transfer
Why can t I limit all sharing?	Federal law gives you the right to limit only sharing for affiliates everyday business purposes information about your creditworthiness affiliates form using your information not market to you sharing for nonaffiliates to market to you State laws and individual companies may give you additional rights to limit sharing.

Definitions	
Affiliates	Companies related by common ownership or control. They can be financial and nonfinancial companies. *The term affiliates include the Fund s investment adviser, Avenue Capital Management II, L.P.*
Nonaffiliates	Companies not related by common ownership or control. They can be financial and nonfinancial companies.

	The Fund does not share with nonaffiliates so they can market to you.
Joint marketing	A formal agreement between nonaffiliated financial companies that together market financial products or services to you. *The Fund does not jointly market.*

Other Important Information
In the event that you hold shares of the Fund through a financial intermediary, including, but not limited to, a broker-dealer, bank or trust company, the privacy policy of your financial intermediary will govern how your nonpublic personal information will be shared with non-affiliated third parties by that entity.

Avenue Income Credit Strategies Fund
399 Park Avenue - 6th Floor
New York, NY 10022

Investment Adviser

Avenue Capital Management II, L.P.

399 Park Avenue, 6th Floor

New York, New York 10022

Administrator and Custodian

Avenue Income Credit Strategies Fund

ANNUAL REPORT
October 31, 2013

State Street Bank and Trust Company

200 Clarendon Street

Boston, Massachusetts 02116

Dividend Paying Agent, Transfer Agent and Registrar

State Street Bank and Trust Company

200 Clarendon Street

Boston, Massachusetts 02116

Legal Counsel

Dechert LLP

1095 Avenue of the Americas

New York, New York 10036

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP

300 Madison Avenue

New York, New York 10017

Item 2. Code of Ethics

(a) As of the end of the period covered by this report, the Avenue Income Credit Strategies Fund (hereinafter referred to as the Fund or Registrant) has adopted a code of ethics that applies to the Registrant s principal executive and senior financial officers pursuant to the Sarbanes-Oxley Act of 2002 (Code of Ethics).

(b) Not applicable.

(c) During the period covered by this report, no substantive amendments were made to the Code of Ethics.

(d) During the period covered by this report, the Registrant did not grant any waivers, including any implicit waivers, from any provision of the Code of Ethics.

(e) Not applicable.

(f) The Code of Ethics is attached hereto as Exhibit 12(a)(1).

Item 3. Audit Committee Financial Expert

(a)(1) The Board of Trustees of the Registrant (the Board) has determined that the Registrant has at least one Board member serving on the Audit Committee that possesses the attributes identified in Instructions 2(b) of Item 3 to Form N-CSR to qualify as an audit committee financial expert.

(2) Mr. Darren Thompson is the Registrant s audit committee financial expert. The Board also determined that Mr. Thompson is not an interested person of the Registrant as that term is defined in Section 2(a)(19) of the Investment Company Act of 1940, as amended (the 1940 Act).

Item 4. Principal Accountant Fees and Services

(a) Audit Fees - For the fiscal year ended October 31, 2013, PricewaterhouseCoopers LLP, the Fund s independent registered public accounting firm (PwC or the Auditor), billed the Fund aggregate fees of US$97,800 for professional services rendered for the audit of the Fund s annual financial statements and review of financial statements included in the Fund s annual report to shareholders.

For the fiscal year ended October 31, 2012, PwC, billed the Fund aggregate fees of US$85,000 for professional services rendered for the audit of the Fund s annual financial statements and review of financial statements included in the Fund s annual report to shareholders.

(b) Audit-Related Fees - For the fiscal year ended October 31, 2013, PwC billed the Fund US$30,000 for assurances and related services that are reasonably related to the performance of the audit or review of the Fund s financial statements and are not reported under Item 4(a) above.

For the fiscal year ended October 31, 2012, PwC billed the Fund US $30,000 for assurances and related services that are reasonably related to the performance of the audit or review of the Fund s financial statements and are not reported under Item 4(a) above.

(c) Tax Fees - For the fiscal year ended October 31, 2013, PwC billed the Fund aggregate fees of US$10,100 for professional services rendered for tax compliance, tax advice, and tax planning. The nature of the services comprising the Tax Fees was the review of the Fund s income tax returns and excise tax calculations.

For the fiscal year ended October 31, 2012, PwC billed the Fund aggregate fees of US$9,500 for professional services rendered for tax compliance, tax advice, and tax planning. The nature of the services comprising the Tax Fees was the review of the Fund s income tax returns and excise tax calculations.

(d) All Other Fees - For the fiscal year ended October 31, 2013, PwC did not bill the Fund for fees other than for the services reported in paragraphs (a) through (c) of this Item.

For the fiscal year ended October 31, 2012, PwC did not bill the Fund for fees other than for the services reported in paragraphs (a) through (c) of this Item.

(e)(1) Audit Committee Pre-Approval Policies and Procedures - The Fund s Audit Committee has adopted, and the Fund s Board has approved an Audit and Non-Audit Services Preapproval Policy (the Policy), which is intended to comply with Regulation S-X Rule 2-01, and sets forth guidelines and procedures to be followed by the Fund when retaining the Auditor to perform audit-related services, tax services and other non-audit services. This Policy permits such services to be pre-approved in one of two ways: (1) pursuant to a general pre-approval (General Pre-Approval), or (2) pursuant to specific pre-approval (Specific Pre- Approval). Unless a type of service provided by the Auditor and the maximum estimated fees therefor has received General Pre-Approval, it will require Specific Pre-Approval by the Audit Committee.

(e)(2) All of the audit and tax services included in Items 4(b) through (d) above for the fiscal years ended October 31, 2012 and October 31, 2013 were pre-approved by the Audit Committee pursuant to the Policy.

There were no services included in Items 4(b) through (d) above that were approved by the Audit Committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

(f) Not applicable.

(g) For the fiscal year ended October 31, 2013, PwC billed aggregate non-audit fees of US$3,969,723 to Avenue Capital Management II, L.P. (the Adviser) and to other entities controlling, controlled by or under common control with the Adviser.

For the fiscal year ended October 31, 2012, PwC billed aggregate non-audit fees of US$3,276,119 to the Adviser and to other entities controlling, controlled by or under common control with the Adviser.

(h) The Audit Committee considered the non-audit services rendered to the Adviser as disclosed in paragraph (g) of this Item 4 in light of the Policy and determined that they were compatible with maintaining PwC s independence.

Item 5. Audit Committee of Listed Registrants

The Registrant has a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934 (the Exchange Act) and is comprised of the following members:

Darren Thompson

Joel Citron

Julie Dien Ledoux

Item 6. Schedule of Investments

(a) Schedule of Investments in securities of unaffiliated issuers as of the close of the reporting period is included as part of Item 1 of this Form N-CSR.

(b) Not applicable.

Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.

Proxy Voting Policies and Procedures of the Registrant and the Adviser are attached hereto as Exhibit 12(a)(4).

Item 8. Portfolio Managers of Closed-End Management Investment Companies.

(a)(1) Information pertaining to the portfolio manager of the Registrant, as of October 31, 2013 is set forth below.

The individual noted below is primarily responsible for the day-to-day management of the Fund s assets.

Portfolio Manager of the Adviser

Jeffrey Gary is the Portfolio Manager for the Avenue Income Credit Strategies Fund and Avenue Strategies Fund, a series of Avenue Mutual Funds Trust. Mr. Gary is responsible for directing the investment activities of the Avenue Enhanced Credit Strategy. Prior to joining Avenue Capital Group in 2011, Mr. Gary was a Portfolio Manager at Third Avenue Management, LLC, where he launched the Focused Credit mutual fund in 2009, a differentiated credit fund which invested in performing, stressed and distressed high yield bonds and bank loans. Prior to that, Mr. Gary was a Portfolio Manager at BlackRock financial, which he joined in 2003, and was head of the high yield and distressed investment team which managed approximately $17 billion in assets in various mutual funds and institutional accounts.

Mr. Gary received a B.S. in Accounting from Penn State University (1984) and an M.B.A. from Northwestern University s Kellogg School of Management (1991).

(a)(2) Other Accounts Managed as of October 31, 2013:

Type of Accounts	Number of Accounts	Total Assets ($ in millions)	Advisory Fee Based on Performance Number of Accounts	Advisory Fee Based on Performance Total Assets
Jeffrey Gary				
Registered Investment Companies	1	$ 640.0	0	0
Other Pooled Accounts	3	$ 470.3	3	$ 470.30
Other Accounts	0	0	0	0

Potential Conflicts of Interest of the Adviser

When investing in credit obligations, the Fund may invest in the same securities or other credit obligations in which other accounts managed by the Adviser, including private funds, also invest. In order, among other things, to attempt to mitigate potential conflicts and seek to maintain a portfolio with the risk/return characteristics that the Fund believes to be appropriate for closed-end investment company investors, the Fund will adhere to a policy pursuant to which, at the time an investment is made by the Fund, the Fund s portfolio will have no more than 20% overlap, on a market value basis, at the security specific level with the portfolio securities held by the private funds (in the aggregate) advised by the Adviser or its affiliates (the Avenue private funds) (i.e., no more than 20% of the Fund s portfolio securities will be identical to the securities held by the Avenue private funds in the aggregate) (the 20% overlap limit). The 20% overlap limit will be measured as the percentage of:

(a) the aggregate market value of the specific securities in the Fund that are owned by, and overlap at the security specific level with, the Avenue private funds (in the aggregate), divided by

(b) the market value of the Fund s Managed Assets.

Investment opportunities appropriate for both the Fund and the Avenue private funds generally will be allocated between the Fund and the Avenue private funds in a manner that the Adviser believes to be fair and equitable under the circumstances, in accordance with the Adviser s trade allocation policies. The application of the 20% overlap limit may result in the Fund being unable to make investments that it otherwise would have made, which could negatively affect the performance of the Fund.

However, to the extent that the Fund exceeds the foregoing limit other than due to a transaction by the Fund (e.g., appreciation or depreciation of certain assets in the Fund or an acquisition by one or more Avenue private funds), the Fund will not be required to sell any of its holdings but will be precluded from acquiring any additional securities that the Avenue private funds currently hold. Notwithstanding the foregoing, the Fund will be permitted to convert, exchange or exercise any security it currently holds and participate in any rights offerings or other offerings available to holders of securities currently held in its portfolio regardless of whether such transaction would be in excess of the foregoing 20% overlap limit. The 20% overlap limit does not limit the amount the Fund may invest in credit obligations of an entity or group of affiliated entities in which the Avenue private funds invest through credit obligations different from those held by the Fund.

The Fund will be subject to certain additional risk factors.

Because the Adviser manages assets for other investment companies, pooled investment vehicles and/or other accounts (including institutional clients, pension plans and certain high net worth individuals), certain conflicts of interest are present. For instance, the Adviser receives fees from certain accounts that are higher than the fees received from the Fund, or receives a performance-based fee on certain accounts. In those instances, the Adviser has an incentive to favor the higher and/or performance-based fee accounts over the Fund. In addition, a conflict of interest exists to the extent the Adviser has proprietary investments in certain accounts or where the portfolio manager or other employees of the Adviser have personal investments in certain accounts. The Adviser has an incentive to favor these accounts over the Fund. Because the Adviser manages accounts that engage in short sales of (or otherwise take short positions in) securities or other instruments of the type in which the Fund invests, the Adviser could be seen as harming the performance of the Fund for the benefit of the accounts taking short positions, if such short positions cause the market value of the securities to fall. The Adviser has adopted trade allocation and other policies and procedures that it believes are reasonably designed to address these and other conflicts of interest. These policies and procedures will have the effect of foreclosing certain

investment opportunities for the Fund from time to time. The 20% overlap limit, discussed above, may have the same effect.

The Adviser manages assets for accounts other than the Fund, including private funds. The Adviser also currently serves as investment adviser to a registered, open-end management investment company, the Avenue Mutual Funds Trust, including its series, Avenue Credit Strategies Fund. The expected risk and return profile for the Fund is generally lower than for most of the other Avenue funds. The Fund may invest in the same credit obligations as the Avenue funds, although their investments may include different obligations of the same issuer. For example, the Fund might invest in Senior Loans issued by a borrower and one or more Avenue Funds might invest in the borrower s junior debt. In addition, the Adviser also manages certain accounts (including CLOs) that invest in certain types of credit obligations in which the Fund may also invest. Investment opportunities appropriate for both the Fund and another Avenue fund generally will be allocated between the Fund and the other Avenue Fund in a manner that the Adviser believes to be fair and equitable under the circumstances, in accordance with the Adviser s trade allocation policies.

Conflicts of interest may arise where the Fund and other Avenue funds simultaneously hold securities representing different parts of the capital structure of a stressed or distressed issuer. In such circumstances, decisions made with respect to the securities held by one Avenue fund may cause (or have the potential to cause) harm to the different class of securities of the issuer held by other Avenue funds (including the Fund). For example, if such an issuer goes into bankruptcy or reorganization, becomes insolvent or otherwise experiences financial distress or is unable to meet its payment obligations or comply with covenants relating to credit obligations held by the Fund or by the other Avenue funds, such other Avenue funds may have an interest that conflicts with the interests of the Fund. If additional financing for such an issuer is necessary as a result of financial or other difficulties, it may not be in the best interests of the Fund to provide such additional financing, but if the other Avenue funds were to lose their respective investments as a result of such difficulties, the Adviser may have a conflict in recommending actions in the best interests of the Fund. In such situations, the Adviser will seek to act in the best interests of each of the Avenue funds (including the Fund) and will seek to resolve such conflicts in accordance with its compliance policies and procedures.

In addition, the 1940 Act limits the Fund s ability to enter into certain transactions with certain affiliates of the Adviser. As a result of these restrictions, the Fund may be prohibited from buying or selling any security directly from or to any portfolio company of a fund managed by the Adviser or one of its affiliates. Nonetheless, the Fund may under certain circumstances purchase any such portfolio company s loans or securities in the secondary market, which could create a conflict for the Adviser between the interests of the Fund and the portfolio company, in that the ability of the Adviser to recommend actions in the best interest of the Fund might be impaired. The 1940 Act also prohibits certain joint transactions with certain of the Fund s affiliates (which could include other Avenue funds), which could be deemed to include certain types of investments, or restructuring of investments, in the same portfolio company (whether at the same or different times). These limitations may limit the scope of investment opportunities that would otherwise be available to the Fund. The Board has approved policies and procedures reasonably designed to monitor potential conflicts of interest. The Board will review these procedures and any conflicts that may arise.

Although the professional staff of the Adviser will devote as much time to the management of the Fund as the Adviser deems appropriate to perform their duties in accordance with the investment advisory agreement and in accordance with reasonable commercial standards, the professional staff of the Adviser may have conflicts in allocating their time and services among the Fund and other Avenue funds. The Adviser and its affiliates are not restricted from forming additional investment funds, from entering into other investment advisory relationships or from engaging in other business activities, even though such activities may be in competition with the Fund and/or may involve substantial time and resources of the

Adviser and its professional staff. These activities could be viewed as creating a conflict of interest in that the time and effort of the members of the Adviser and its officers and employees will not be devoted exclusively to the business of the Fund but will be allocated between the business of the Fund and the management of the assets of other clients of the Adviser.

The Adviser or its respective members, officers, directors, employees, principals or affiliates may come into possession of material, non-public information. The possession of such information may limit the ability of the Fund to buy or sell a security or otherwise to participate in an investment opportunity. Situations may occur where the Fund could be disadvantaged because of the investment activities conducted by the Adviser for other clients, and the Adviser will not employ information barriers with regard to its operations on behalf of its registered and private funds, or other accounts. In certain circumstances, employees of the Adviser may serve as board members or in other capacities for portfolio or potential portfolio companies, which could restrict the Fund s ability to trade in the securities of such companies.

(a)(3) Portfolio Manager Compensation as of October 31, 2013:

The Adviser s financial arrangements with its portfolio managers, its competitive compensation and its career path emphasis at all levels reflect the value senior management places on key resources. Compensation may include a variety of components and may vary from year to year based on a number of factors. The principal components of compensation include a base salary and a bonus.

Base Compensation. Generally, portfolio managers receive base compensation based on their individual seniority and/or their position with the firm.

Bonus. Mr. Gary also receives additional compensation based on a percentage of the Adviser s net profits derived from the Fund, to begin accruing after the Adviser has recouped its start-up cost associated with the Fund.

(a)(4) Dollar Range of Securities Owned as of October 31, 2013:

Portfolio Manager	**Dollar Range of Equity Securities Held in Registrant (1)**	
Jeffrey Gary	$	0

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(1) Beneficial Ownership is determined in accordance with Section 16a-1(a)(2) of the Securities Exchange Act of 1934, as amended

(b) Not applicable.

Item 9. Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers.

No such purchases were made by or on behalf of the Registrant during the period covered by this report.

Item 10. Submission of Matters to a Vote of Security Holders.

There were no material changes to the procedures by which shareholders may recommend nominees to the Registrant s Board of Trustees during the period covered by this report.

Item 11. Controls and Procedures.

(a) The Registrant s principal executive officer and principal financial officer have concluded that the Registrant s disclosure controls and procedures (as defined in Rule 30a-3(c) under the 1940 Act are effective as of a date within 90 days of the filing date of this report, based on the evaluation of these controls and procedures required by Rule 30a-3(b) under the 1940 Act and Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, as amended.

(b) There was no change in the Registrant s internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Registrant s internal control over financial reporting.

Item 12. Exhibits

(a)(1) The Code of Ethics is attached hereto in response to Item 2(f).

(a)(2) The certifications required by Rule 30a-2(a) of the 1940 Act are attached hereto.

(a)(3) No written solicitations to purchase securities under Rule 23c-1 under the 1940 Act were sent or given during the period covered by this report by or on behalf of the Registrant to ten or more persons.

(a)(4) Proxy Voting Policies and Procedures of the Registrant and its Adviser are attached hereto in response to Item 7.

(b) The certifications required by Rule 30a-2(b) of the 1940 Act and Section 906 of the Sarbanes-Oxley Act of 2002 are attached hereto.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Avenue Income Credit Strategies Fund

By: /s/ Randolph Takian
Randolph Takian
Trustee, Chief Executive Officer and President (Principal Executive Officer)

Date: January 8, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/ Randolph Takian
Randolph Takian
Trustee, Chief Executive Officer and President (Principal Executive Officer)

By: /s/ Stephen M. Atkins
Stephen M. Atkins
Treasurer and Chief Financial Officer (Principal Financial Officer)

Date: January 8, 2014