

ABERDEEN AUSTRALIA EQUITY FUND INC
Form N-CSR
January 07, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number: 811-04438

Exact name of registrant as specified in charter: Aberdeen Australia Equity Fund, Inc.

Address of principal executive offices: 800 Scudders Mill Road,
Plainsboro,
New Jersey 08536

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Name and address of agent for service: Mr. Alan Goodson
Aberdeen Asset Management Inc.
1735 Market Street
37th Floor
Philadelphia, PA 19103

Registrant's telephone number, including area code: 866-839-5205

Date of fiscal year end: 10/31/07

Date of reporting period: 10/31/07

Item 1 Reports to Stockholders

07

Invests primarily in equity securities of Australian companies listed on the Australian Stock Exchange Limited.

Aberdeen Australia Equity Fund, Inc.

Annual Report

October 31, 2007

Letter to Shareholders

December 17, 2007

Dear Shareholder,

We present this Annual Report which covers the activities of Aberdeen Australia Equity Fund, Inc. (the Fund) for the year ended October 31, 2007. The Fund's principal investment objective is long-term capital appreciation through investment primarily in equity securities of Australian companies listed on the Australian Stock Exchange Limited. The Fund's secondary investment objective is current income.

Net Asset Value Performance

The Fund's total return based on net asset value (NAV) was 53.9% for the year ended October 31, 2007, assuming reinvestment of distributions, compared with 56.0%, in U.S. dollar terms, for the S&P/ASX 200 Accumulation Index.

Share Price Performance

The Fund's share price increased 30.4% over the year, from \$14.00 on October 31, 2006 to \$18.25 on October 31, 2007. The Fund's share price on October 31, 2007 represented a discount of 1.5% to the NAV per share of \$18.53 on that date, compared with a premium of 5.7% to the NAV per share of \$13.25 on October 31, 2006. At the date of this letter, the share price was \$16.87, representing a premium of 1.1% to the NAV per share of \$16.69.

Managed Distribution Policy

The Fund has a managed distribution policy of paying quarterly distributions at an annual rate, set once a year, that is a percentage of the rolling average of the Fund's prior four quarter-end net asset values. In March 2007, the Board of Directors determined the rolling distribution rate to be 10% for the 12 month period commencing with the distribution payable in April 2007. This policy will be subject to regular review by the Fund's Board of Directors. The distributions will be made from current income, supplemented by realized capital gains and, to the extent necessary, paid-in capital.

On December 12, 2007, the Board of Directors authorized a quarterly distribution of 40 cents per share, payable on January 11, 2008 to all shareholders of record as of December 31, 2007.

Portfolio Holdings Disclosure

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 about the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. The Fund makes the information on Form N-Q available to shareholders on the Fund's

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website or upon request and without charge by calling Investor Relations toll-free at 1-866-839-5205.

Proxy Voting

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities, and information regarding how the Fund voted proxies relating to portfolio securities during the twelve months ended June 30, 2007, is available: (i) upon request and without charge by calling Investor Relations toll-free at 1-866-839-5205; and (ii) on the SEC's website at <http://www.sec.gov>.

Investor Relations Information

For information about the Fund, daily updates of share price, NAV and details of recent distributions, please contact Aberdeen Asset Management Inc. by:

Calling toll free at 1-866-839-5205 in the United States,
E-mailing InvestorRelations@aberdeen-asset.com, or
Visiting the website at www.aberdeeniaf.com.

For information about the Aberdeen Group, visit the Aberdeen website at www.aberdeen-asset.com.

Yours sincerely,

Martin Gilbert

President

All amounts are U.S. dollars unless otherwise stated.

Aberdeen Australia Equity Fund, Inc.

Your Board's policy is to provide investors with a stable distribution rate. Each quarterly distribution will be paid out of current income, supplemented by realized capital gains and, to the extent necessary, paid-in capital.

The Fund is subject to U.S. corporate, tax and securities laws. Under U.S. tax accounting rules, the amount of distributable income for each fiscal period depends on the actual exchange rates during the entire year between the U.S. dollar and the currencies in which Fund assets are denominated and on the aggregate gains and losses realized by the Fund during the entire year.

Therefore, the exact amount of distributable income for each fiscal year can only be determined as of the end of the Fund's fiscal year, October 31. However, under the U.S. Investment Company Act of 1940, the Fund may be required to indicate the sources of certain distributions to shareholders. This estimated distribution composition may vary from quarter to quarter because it may be materially impacted by future realized gains and losses on securities and fluctuations in the value of the currencies in which Fund assets are denominated.

The distributions for the fiscal year ended October 31, 2007 consisted of 35% net investment income and 65% realized capital gains.

In January 2008, a Form 1099-DIV will be sent to shareholders, which will state the amount and composition of distributions and provide information with respect to their appropriate tax treatment for the 2007 calendar year.

Aberdeen Australia Equity Fund, Inc.

Dividend Reinvestment and Cash Purchase Plan

We invite you to participate in the Fund's Dividend Reinvestment and Cash Purchase Plan (the **Plan**), which allows you to automatically reinvest your distributions in shares of the Fund's common stock at favorable commission rates. Distributions made under the Plan are taxable to the same extent as are cash distributions. The Plan also enables you to make additional cash investments in shares of at least \$100 per transaction, with a maximum of \$10,000 per month, and an aggregate annual limit of \$120,000. Under this arrangement, The Bank of New York Mellon Corporation (formerly The Bank of New York) (the **Plan Agent**) will purchase shares for you on the American Stock Exchange or otherwise on the open market on or before the investment date. The investment date is the 15th day of each month, but if such date is not a business day, the preceding business day.

As a Participant in the Plan, you will benefit from:

Automatic reinvestment the Plan Agent will automatically reinvest your distributions, allowing you to gradually grow your holdings in the Fund;

Lower cost shares are purchased on your behalf under the Plan at low brokerage rates. Brokerage on share purchases is currently 2 cents per share;

Convenience the Plan Agent will hold your shares in non-certificated form and will provide a detailed plan account statement of your holdings at the end of each month.

To request a brochure containing information on the Plan, together with an enrollment form, please contact the Plan Agent:

The Bank of New York Mellon Corporation

Shareholder Relations Department

P.O. Box 11258

Church Street Station

New York, NY 10286

or call toll free at 1-800-432-8224.

Aberdeen Australia Equity Fund, Inc.

Portfolio Composition

The following chart summarizes the composition of the Fund's portfolio, in industry classification standard sectors, expressed as a percentage of net assets. An industry classification standard sector can include more than one industry group. The Fund may invest between 25% and 35% of its total assets in the securities of any one industry group if, at the time of investment, that industry group represents 20% or more of the S&P/ASX 200 Accumulation Index. As of October 31, 2007, the Fund did not have more than 25% of its assets invested in any industry group. The financial industry sector is comprised of several groups.

As of October 31, 2007, the Fund held 96.5% of its net assets in equities and 3.5% in other assets in excess of liabilities.

Aberdeen Australia Equity Fund, Inc.

Top Ten Equity Holdings

The following were the Fund's top ten holdings as of October 31, 2007:

| Name of Security | Percentage of Net Assets |
|---|---------------------------------|
| BHP Billiton Limited | 10.6% |
| Rio Tinto Limited | 8.3% |
| QBE Insurance Group Limited | 7.0% |
| Westpac Banking Corporation Limited | 6.8% |
| Australia & New Zealand Banking Group Limited | 6.7% |
| Westfield Group Limited | 4.8% |
| Woolworths Limited | 4.8% |
| Commonwealth Bank of Australia Limited | 4.7% |
| Woodside Petroleum Limited | 4.5% |
| Suncorp-Metway Limited | 3.9% |

Aberdeen Asset Management Asia Limited

December 2007

Aberdeen Australia Equity Fund, Inc.

Aberdeen Australia Equity Fund, Inc.

Financial Statements

As of October 31, 2007

Portfolio of Investments

As of October 31, 2007

| Shares | Description | Value (US\$) |
|--|---|-------------------|
| LONG-TERM INVESTMENTS 96.5% | | |
| COMMON STOCKS 96.5% | | |
| CAPITAL GOODS 1.8% | | |
| 460,000 | Bradken Limited | \$ 6,258,155 |
| CONSUMER DISCRETIONARY 9.4% | | |
| 501,000 | Billabong International Limited | 6,978,453 |
| 1,395,000 | Fairfax Media Limited | 6,127,947 |
| 963,500 | TABCORP Holdings Limited | 13,893,887 |
| 1,629,000 | Tattersall s Limited | 6,325,539 |
| 33,325,826 | | |
| CONSUMER STAPLES 10.7% | | |
| 3,167,273 | Goodman Fielder Limited | 6,164,066 |
| 1,126,000 | Lion Nathan Limited | 9,683,867 |
| 1,171,000 | Metcash Limited | 5,067,996 |
| 549,000 | Woolworths Limited | 17,018,877 |
| 37,934,806 | | |
| ENERGY 4.5% | | |
| 335,000 | Woodside Petroleum Limited | 16,143,980 |
| FINANCIALS 33.9% | | |
| 855,000 | Australia & New Zealand Banking Group Limited | 23,850,367 |
| 183,000 | Australian Stock Exchange Limited | 9,726,284 |
| 549,000 | Bendigo Bank Limited | 7,107,735 |
| 294,000 | Commonwealth Bank of Australia | 16,756,561 |
| 827,000 | QBE Insurance Group Limited | 24,908,715 |
| 742,000 | Suncorp-Metway Limited | 13,945,507 |
| 848,500 | Westpac Banking Corporation Limited | 24,015,040 |
| 120,310,209 | | |
| HEALTH CARE EQUIPMENT & SERVICES 0.9% | | |
| 328,000 | Ramsay Health Care Limited | 3,228,203 |
| INDUSTRIALS 5.1% | | |
| 143,250 | Leighton Holdings Limited | 8,257,479 |
| 246,000 | Wesfarmers Limited | 10,017,460 |
| 18,274,939 | | |
| INFORMATION TECHNOLOGY 0.6% | | |
| 266,750 | Computershare Limited | 2,113,650 |
| MATERIALS 18.9% | | |
| 878,000 | BHP Billiton Limited | 37,510,936 |
| 288,500 | Rio Tinto Limited | 29,410,402 |
| 66,921,338 | | |

See Notes to Financial Statements.

Aberdeen Australia Equity Fund, Inc.

Portfolio of Investments (concluded)

As of October 31, 2007

| Shares | Description | Value (US\$) |
|--|---|-----------------------|
| LONG-TERM INVESTMENTS (continued) | | |
| PROPERTY 4.8% | | |
| 843,500 | Westfield Group Limited | \$ 17,041,352 |
| TELECOMMUNICATION SERVICES 2.4% | | |
| 1,536,888 | Telecom Corporation of New Zealand Limited | 5,056,302 |
| 788,500 | Telstra Corporation Limited | 3,419,873 |
| | | 8,476,175 |
| UTILITIES 3.5% | | |
| 593,000 | AGL Energy Limited | 6,622,229 |
| 4,789,000 | SP Ausnet | 5,769,666 |
| | | 12,391,895 |
| | Total Investments 96.5% (cost \$167,096,700) | 342,420,528 |
| | Other assets in excess of liabilities 3.5% | 12,549,681 |
| | Net Assets 100.0% | \$ 354,970,209 |

See Notes to Financial Statements.

Aberdeen Australia Equity Fund, Inc.

Statement of Assets and Liabilities

As of October 31, 2007

Assets

| | |
|---|--------------------|
| Investments, at value (cost \$167,096,700) | \$ 342,420,528 |
| Foreign currency, at value (cost \$10,467,761) | 10,857,327 |
| Cash | 636,153 |
| Receivable for investments sold | 1,768,962 |
| Receivable for reimbursement of offering costs (Note 7) | 93,718 |
| Dividends and interest receivable | 29,108 |
| Other assets | 71,592 |
| Total assets | 355,877,388 |

Liabilities

| | |
|--|----------------|
| Payable for investments purchased | 409,376 |
| Investment management fee payable | 241,787 |
| Administration fee payable | 12,266 |
| Accrued expenses and other liabilities | 243,750 |
| Total liabilities | 907,179 |

| | |
|-------------------|-----------------------|
| Net Assets | \$ 354,970,209 |
|-------------------|-----------------------|

Composition of Net Assets

| | |
|--|-----------------------|
| Common Stock (par value \$.01 per share) | \$ 191,558 |
| Paid-in capital in excess of par | 165,935,806 |
| Distributions in excess of net investment income | (3,346,450) |
| Accumulated net realized gains on investment transactions | 10,668,550 |
| Net unrealized appreciation on investments | 133,033,215 |
| Accumulated net realized foreign exchange gains | 5,791,977 |
| Net unrealized foreign exchange gains | 42,695,553 |
| Net Assets | \$ 354,970,209 |
| Net asset value per common share based on 19,155,758 shares issued and outstanding | \$ 18.53 |

See Notes to Financial Statements.

Aberdeen Australia Equity Fund, Inc.

Statement of Operations

For the Year Ended October 31, 2007

Net Investment Income

Income

| | |
|---|---------------|
| Dividends (net of foreign withholding taxes of \$269,911) | \$ 10,621,705 |
| Interest | 553,999 |
| Income from securities loaned, net | 160,007 |
| | 11,335,711 |

Expenses

| | |
|--|-----------|
| Investment management fee | 2,286,243 |
| Legal fees and expenses | 906,842 |
| Custodian's fees and expenses | 240,421 |
| Directors' fees and expenses | 230,250 |
| Insurance expense | 117,374 |
| Administration fee | 113,500 |
| Reports to shareholders and proxy solicitation | 110,891 |
| Independent auditors' fees and expenses | 82,870 |
| Investor relations fees and expenses | 79,176 |
| Transfer agent's fees and expenses | 35,138 |
| Excise tax | 9,212 |
| Miscellaneous | 66,581 |
| Total expenses | 4,278,498 |
| Reimbursement of excise tax (Note 6) | (9,212) |
| Reimbursement of costs by shareholder and administrator (Note 7) | (189,495) |
| Net expenses | 4,079,791 |
| Net investment income | 7,255,920 |

Realized and Unrealized Gains on Investments and Foreign Currencies

| | |
|---|-----------------------|
| Net realized gain on: | |
| Investment transactions | 21,618,820 |
| Foreign currency transactions | 7,420,923 |
| | 29,039,743 |
| Net change in unrealized appreciation on: | |
| Investments | 64,153,593 |
| Foreign currency translations | 28,258,224 |
| | 92,411,817 |
| Net gain on investments and foreign currencies | 121,451,560 |
| Net Increase in Net Assets Resulting From Operations | \$ 128,707,480 |

See Notes to Financial Statements.

Aberdeen Australia Equity Fund, Inc.

Statements of Changes in Net Assets

| | For the Year Ended October 31, 2007 | For the Year Ended October 31, 2006 |
|---|---|---|
| Increase in Net Assets | | |
| Operations | | |
| Net investment income | \$ 7,255,920 | \$ 6,930,884 |
| Net realized gain on investments transactions | 21,618,820 | 16,987,814 |
| Net realized gain on foreign currency transactions | 7,420,923 | 5,618,853 |
| Net change in unrealized appreciation on investments | 64,153,593 | 19,316,908 |
| Net change in unrealized appreciation/(depreciation) on foreign currency translation | 28,258,224 | (309,640) |
| Net increase in net assets resulting from operations | 128,707,480 | 48,544,819 |
| Distributions to shareholders from: | | |
| Net investment income | (9,948,183) | (8,064,605) |
| Realized capital gains | (18,208,002) | (15,156,776) |
| Total decrease in net assets from distributions to shareholders | (28,156,185) | (23,221,381) |
| Common Stock Transactions | | |
| Reinvestment of dividends resulting in the issuance of 61,637 and 65,611 shares of common stock, respectively | 966,485 | 824,718 |
| Proceeds from the offering of common stock (Note 5) | 31,150,000 | |
| Expenses in connection with offering of common stock | (1,285,591) | |
| Payment by shareholder of short-swing profit | | 19,036 |
| Total increase in net assets from common stock transactions | 30,830,894 | 843,754 |
| Total increase in net assets resulting from operations | 131,382,189 | 26,167,192 |
| Net Assets | | |
| Beginning of year | 223,588,020 | 197,420,828 |
| End of year (including distributions in excess of net investment income of (\$3,346,450) and (\$1,833,137), respectively) | \$ 354,970,209 | \$ 223,588,020 |

See Notes to Financial Statements.

Aberdeen Australia Equity Fund, Inc.

Financial Highlights

| | For the Year Ended October 31, 2007 |
|---|--|
| Per Share Operating Performance⁽¹⁾: | |
| Net asset value, beginning of year | \$13.25 |
| Net investment income | 0.39 |
| Net realized and unrealized gains on investments and foreign currencies | 6.47 |
| Total from investment operations | 6.86 |
| Distributions from: | |
| Net investment income | (0.53) |
| Realized capital gains | (0.98) |
| Tax return of capital | |
| Total distributions | (1.51) |
| Payment by shareholder of short-swing profit | |
| Offering costs on common stock | (0.07) |
| Increase resulting from Fund share repurchase | |
| Net asset value, end of year | \$18.53 |
| Market value, end of year | \$18.25 |
| Total Investment Return Based on⁽²⁾: | |
| Market value | 43.46% |
| Net asset value | 53.91% |
| Ratio to Average Net Assets/Supplementary Data: | |
| Net assets, end of year (000 omitted) | \$354,970 |
| Average net assets (000 omitted) | \$283,749 |
| Net expenses | 1.44% |
| Expenses without reimbursement | 1.51% |
| Net investment income | 2.56% |
| Portfolio turnover | 30% |

(1) Based on average shares outstanding.

(2) Total Investment return is calculated assuming a purchase of common stock on the first day and a sale on the last day of each period reported. Dividends and distributions are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Total investment return does not reflect brokerage commissions.

(3) Less than \$0.005 per share.

See Notes to Financial Statements.

Aberdeen Australia Equity Fund, Inc.

| | For the Year Ended October 31, | | | |
|-----------|--------------------------------|-----------|--|-----------|
| 2006 | 2005 | 2004 | | 2003 |
| \$11.75 | \$10.64 | \$9.38 | | \$6.84 |
| 0.41 | 0.37 | 0.28 | | 0.12 |
| 2.47 | 1.79 | 1.76 | | 2.58 |
| 2.88 | 2.16 | 2.04 | | 2.70 |
| (0.48) | (0.51) | (0.30) | | (0.10) |
| (0.90) | (0.54) | (0.36) | | (0.07) |
| (1.38) | (1.05) | (0.78) | | (0.17) |
| (3) | | | | |
| | | | | 0.01 |
| \$13.25 | \$11.75 | \$10.64 | | \$9.38 |
| \$14.00 | \$12.99 | \$10.25 | | \$8.40 |
| 20.09% | 38.98% | 32.53% | | 50.40% |
| 25.66% | 21.11% | 23.19% | | 40.69% |
| \$223,588 | \$197,421 | \$178,551 | | \$157,419 |
| \$209,507 | \$194,946 | \$166,284 | | \$128,662 |
| 1.45% | 1.48% | 1.75% | | 2.55% |
| 1.55% | 1.48% | 1.75% | | 2.55% |
| 3.31% | 3.21% | 2.85% | | 1.66% |
| 16% | 28% | 23% | | 32% |

Aberdeen Australia Equity Fund, Inc.

Notes to Financial Statements

Aberdeen Australia Equity Fund, Inc. (the Fund) is a closed-end, non-diversified management investment company incorporated in Maryland on September 30, 1985. The Fund's principal investment objective is long-term capital appreciation through investment primarily in equity securities of Australian companies listed on the Australian Stock Exchange Limited. The Fund's secondary investment objective is current income. In order to comply with a rule adopted by the Securities and Exchange Commission under the Investment Company Act of 1940 regarding fund names, the Board of Directors has adopted an investment policy that, for as long as the name of the Fund remains Aberdeen Australia Equity Fund, Inc., it shall be the policy of the Fund normally to invest at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in equity securities, consisting of common stock, preferred stock and convertible stock, of Australian companies listed on the Australian Stock Exchange Limited. For these purposes, Australian companies means companies that are tied economically to Australia. This 80% investment policy is a non-fundamental policy of the Fund and may be changed by the Board of Directors upon 60 days prior written notice to shareholders.

1. Accounting Policies

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

Basis of Presentation:

The financial statements of the Fund are prepared in accordance with accounting principles generally accepted in the United States of America using the United States dollar as both the functional and reporting currency. However, the Australian dollar is the functional currency for Federal tax purposes (see Taxes on page 16).

Securities Valuation:

The Fund's Board of Directors has adopted Pricing and Valuation Procedures (the Procedures) to be used in determining the value of the assets held by the Fund. In accordance with the Procedures, investments are stated at value. Investments for which market quotations are readily available are valued at the last trade price on the date of determination as obtained from a pricing source. If no such trade price is available, such investments are valued at the quoted bid price or the mean between the quoted bid and asked price on the date of determination as obtained from a pricing source.

Short-term securities which mature in more than 60 days are valued at current market quotations. Short-term securities which mature in 60 days or less are valued at amortized cost, which approximates market value.

Securities for which market quotations are not readily available (including investments which are subject to limitations as to their sale) are to be valued at fair value. As a general rule, whether or not the Fund is required to fair value price an asset is dependent on the ready availability of current market quotes or, even if readily available, the reliability of such quotes. Any assets for which market quotations are not readily available or for which available prices are not reliable, shall be determined in a manner that most fairly reflects the asset's (or group of assets) fair value (i.e., the amount that the Fund might reasonably expect to receive for the asset upon its current sale) on the valuation date, based on a consideration of all available information.

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The Procedures provide that in certain instances, including without limitation, if there is a stale price for a portfolio security, in an emergency situation, or if a significant event occurs after the close of trading of a portfolio security, but before the calculation of the Fund's net asset value, the security may be valued at its fair value.

Repurchase Agreements:

In connection with transactions in repurchase agreements with U.S. financial institutions, it is the Fund's policy that its custodian/counterparty segregate the underlying collateral securities, the value of which exceeds the principal amount of the repurchase transaction, including accrued

Aberdeen Australia Equity Fund, Inc.

Notes to Financial Statements (continued)

interest. To the extent that any repurchase transaction exceeds one business day, the collateral is valued on a daily basis to determine its adequacy. If the seller defaults and the value of the collateral declines or if bankruptcy proceedings are commenced with respect to the seller of the security, realization of the collateral by the Fund may be delayed or limited. There were no repurchase agreements outstanding as of October 31, 2007.

Foreign Currency Translation:

Australian dollar (A\$) amounts are translated into United States dollars (US\$) on the following basis:

- (i) market value of investment securities, other assets and liabilities at the exchange rates at the end of the reporting period; and
- (ii) purchases and sales of investment securities, income and expenses at the rate of exchange prevailing on the respective dates of such transactions.

The Fund isolates that portion of the results of operations arising as a result of changes in the foreign exchange rates from the fluctuations arising from changes in the market prices of securities held at the end of the reporting period. Similarly, the Fund isolates the effect of changes in foreign exchange rates from the fluctuations arising from changes in the market prices of portfolio securities sold during the reporting period.

Net realized exchange gains/(losses) include realized foreign exchange gains/(losses) from sales and maturities of portfolio securities, sales of foreign currencies, currency gains/(losses) realized between the trade and settlement dates on securities transactions, the difference between the amounts of dividends, interest and foreign withholding taxes recorded on the Fund's books and the US\$ equivalent amounts actually received or paid. Net unrealized foreign exchange appreciation/(depreciation) include changes in the value of portfolio securities and other assets and liabilities arising as a result of changes in the exchange rate. Accumulated net realized and unrealized foreign exchange gains/(losses) shown in the composition of net assets represent foreign exchange gains/(losses) for book purposes that may not have been recognized for tax purposes.

Foreign security and currency transactions may involve certain considerations and risks not typically associated with those of domestic origin, including unanticipated movements in the value of the foreign currency relative to the US\$.

Securities Transactions and Net Investment Income:

Securities transactions are recorded on the trade date. Realized and unrealized gains/(losses) from security and currency transactions are calculated on the identified cost basis. Dividend income is recorded on the ex-dividend date and interest income is recorded on an accrual basis. Expenses are recorded on an accrual basis.

Forward Foreign Currency Exchange Contracts:

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A forward foreign currency exchange contract (FX) involves an obligation to purchase and sell a specific currency at a future date, which may be any fixed number of days from the date of the contract agreed upon by the parties, at a price set at the time of the contract. The FX is marked-to-market daily and the change in market value is recorded by the Fund as unrealized appreciation or depreciation. When the FX is closed, the Fund records a realized gain or loss equal to the difference between the value at the time it was opened and the value at the time it was closed. These instruments may involve market risk and credit risk. These risks arise from unanticipated movements in the value of the foreign currencies involved in the transaction and from the potential inability of counterparties to meet the terms of their contracts. There were no FXs outstanding as of October 31, 2007.

Aberdeen Australia Equity Fund, Inc.

Notes to Financial Statements (continued)

Securities Lending:

The Fund's investment policies permit the Fund to lend to banks and broker-dealers, portfolio securities with an aggregate market value of up to one-third of the Fund's total assets when it deems advisable. Pursuant to a securities lending agreement (Agreement) between the Fund and State Street Bank and Trust Company (State Street) that was in effect through June 30, 2007, any loans made under the Agreement were to be secured by collateral (consisting of any combination of U.S. currency and securities issued or guaranteed by the U.S. government or its agencies, or irrevocable bank letters of credit) in an amount at least equal (on a daily marked-to-market basis) to the current market value of the securities loaned. The Board of Directors determined that it was in the best interest of the shareholders to terminate this program and this agreement was terminated on June 30, 2007.

Distributions:

The Fund has a managed distribution policy of paying quarterly distributions at an annual rate, set once a year, that is a percentage of the rolling average of the Fund's prior four quarter-end net asset values. In March 2007, the Board of Directors determined the rolling distribution rate to be 10%, for the 12 month period commencing with the distribution payable in April 2007. This policy is subject to regular review by the Fund's Board of Directors. Under the policy, distributions will be made from current income, supplemented by realized capital gains and, to the extent necessary, paid-in capital.

On an annual basis, the Fund intends to distribute its net realized capital gains, if any, by way of a final distribution to be declared during the calendar quarter ending December 31. Dividends and distributions to shareholders are recorded on the ex-dividend date.

Income distributions and capital and currency gains distributions are determined in accordance with income tax regulations which may differ from accounting principles generally accepted in the United States of America. These differences are primarily due to differing treatments for foreign currencies.

Recent Accounting Pronouncements:

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN 48) entitled *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*. FIN 48 prescribes the minimum recognition threshold a tax position must meet in connection with accounting for uncertainties in income tax positions taken or expected to be taken by an entity including mutual funds before being measured and recognized in the financial statements. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Fund will adopt FIN 48 during the fiscal 2008 year and the impact on the Fund's financial statements, if any, is currently being assessed.

In addition, in September 2006, Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157), was issued and is effective for fiscal years beginning after November 15, 2007. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The Fund will adopt SFAS 157 during the fiscal 2009 year and the impact on the Fund's financial statements is currently being assessed.

Taxes:

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For Federal income and excise tax purposes, substantially all of the Fund's transactions are accounted for using the Australian dollar as the functional currency. Accordingly, only realized currency gains/(losses) resulting from the repatriation of Australian dollars into U.S. dollars are recognized for U.S. tax purposes.

No provision has been made for United States of America Federal income taxes because it is the

Aberdeen Australia Equity Fund, Inc.

Notes to Financial Statements (continued)

Fund's policy to meet the requirements of the United States Internal Revenue Code applicable to regulated investment companies and to distribute substantially all of its taxable income to shareholders.

Reclassification of Capital Accounts:

U.S. generally accepted accounting principles require that certain components of net assets be adjusted to reflect permanent differences between financial and tax reporting. Accordingly, during the current year ended October 31, 2007, \$1,108,987 has been reclassified from accumulated net realized gain on investment transactions to distributions in excess of net investment income and \$69,963 has been reclassified from accumulated net realized foreign exchange losses to distributions in excess of net investment income as a result of permanent differences primarily attributable to foreign currency transactions and gains from the sale of stock of passive foreign investment companies. These reclassifications have no effect on net assets or net asset values per share.

Use of Estimates:

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

2. Agreements

Aberdeen Asset Management Asia Limited (the Investment Manager) serves as investment manager to the Fund and Aberdeen Asset Management Limited (the Investment Adviser) serves as investment adviser to the Fund, pursuant to a management agreement and an advisory agreement, respectively. The Investment Adviser is an indirect, wholly-owned subsidiary of the Investment Manager, which is a direct, wholly-owned subsidiary of Aberdeen Asset Management PLC.

The Investment Manager makes investment decisions on behalf of the Fund on the basis of recommendations and information furnished to it by the Investment Adviser, including the selection of, and responsibility for the placement of orders with, brokers and dealers to execute portfolio transactions on behalf of the Fund.

The management agreement provides the Investment Manager with a fee, payable monthly, at the following annual rates: 1.10% of the Fund's average weekly Managed Assets up to \$50 million, 0.90% of Managed Assets between \$50 million and \$100 million and 0.70% of Managed Assets in excess of \$100 million. Managed Assets are defined in the management agreement as net assets plus the amount of any borrowings for investment purposes.

The Investment Manager pays fees to the Investment Adviser for its services rendered. The Investment Manager informed the Fund that it paid \$546,796 to the Investment Adviser during the year ended October 31, 2007.

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Aberdeen Asset Management Inc. (AAMI), an affiliate of the Investment Manager and the Investment Adviser, is the Fund's Administrator, pursuant to an agreement under which AAMI receives a fee, payable monthly, at an annual rate of 0.04% of the Fund's average weekly net assets computed based on the net asset value applicable to the shares of common stock and the amount of any borrowings for investment purposes. On November 1, 2007, a new fee arrangement becomes effective under which AAMI receives a fee, payable monthly, at an annual rate of 0.085% of the Fund's average weekly Managed Assets up to \$600 million and 0.06% of the Fund's average weekly Managed Assets in excess of \$600 million. Managed Assets are defined as net assets plus the amount of any borrowings for investment purposes. Historically, the fund accounting fees have been paid by the Fund but effective with the new fee arrangement, AAMI will assume responsibility for payment of the fund accounting fees. The total expenses of the Fund will not be

Aberdeen Australia Equity Fund, Inc.

Notes to Financial Statements (continued)

impacted by this change as it is a reclassification from custody fees to administration fees.

Under terms of an Investor Relations Services Agreement, AAMI serves as the Fund's investor relations services provider. This agreement provides AAMI with a monthly retainer fee of \$5,000 plus out-of-pocket expenses. During the year ended October 31, 2007, the Fund incurred fees of approximately \$61,600 for the services of AAMI. Investor relations fees and expenses in the Statement of Operations include certain out-of-pocket expenses.

3. Portfolio Securities

Purchases and sales of investment securities, other than short-term investments, for the year ended October 31, 2007 aggregated \$88,948,385 and \$83,172,703, respectively.

4. Tax Information

The tax character of distributions paid during the fiscal years ended October 31, 2007 and October 31, 2006 was as follows:

| | October 31, 2007 | October 31, 2006 |
|-----------------------------------|----------------------|----------------------|
| Distributions paid from: | | |
| Ordinary income | \$ 15,418,703 | \$ 8,586,262 |
| Net long-term capital gains | 12,737,482 | 14,635,119 |
| Total taxable distribution | \$ 28,156,185 | \$ 23,221,381 |

As of October 31, 2007, the components of accumulated earnings on a tax basis were as follows:

| | |
|--|-----------------------|
| Undistributed ordinary income net | \$ |
| Undistributed long-term capital gains net | 10,691,728 |
| Total undistributed earnings | \$ 10,691,728 |
| Capital loss carryforward | |
| Unrealized appreciation/(depreciation) net | 178,151,117* |
| Total accumulated earnings/(losses) net | \$ 188,842,845 |

* The difference between book-basis and tax-basis unrealized appreciation/(depreciation) is attributable to: the realization for tax purposes of unrealized gains on investments in passive foreign investment companies, differing treatments for foreign currencies, and the tax deferral of wash sales.

The United States federal income tax basis of the Fund's investments and net unrealized appreciation as of October 31, 2007 were as follows:

| Tax Cost Basis | Appreciation | Depreciation | Net Unrealized |
|----------------|--------------|--------------|-------------------|
|----------------|--------------|--------------|-------------------|

| | | | |
|---------------|---------------|-------------|--------------------------------------|
| \$213,341,247 | \$134,711,348 | \$5,632,067 | Appreciation \$129,079,281 |
|---------------|---------------|-------------|--------------------------------------|

Aberdeen Australia Equity Fund, Inc.

Notes to Financial Statements (concluded)

5. Capital

There are 30 million shares of \$0.01 par value common stock authorized. At October 31, 2007, there were 19,155,758 shares issued and outstanding.

On March 1, 2001, the Board of Directors approved a stock repurchase program. The stock repurchase program allows the Fund to repurchase up to 10% of its outstanding common stock in the open market during any 12 month period if and when the discount to NAV is at least 10%. For the year ended October 31, 2007 and the fiscal year ended October 31, 2006, the Fund did not repurchase any shares through this program.

On December 15, 2006, as a result of the public offering of additional shares of the Fund's common stock, the Fund issued 2,225,000 shares of common stock at a price of \$14.00 per share.

Based upon filings with the Securities and Exchange Commission, on December 3, 2007, Landesbank Berlin AG (LB), a wholly-owned subsidiary of Landesbank Berlin Holding AG (formerly named Bankgesellschaft Berlin AG), was the beneficial owner of 2,539,541 shares of common stock (constituting approximately 13.3% of the Fund's shares then outstanding).

6. Reimbursement of Excise Tax by Sub-Administrator and Accounting Agent

In January 2007, it was determined that the Fund incurred an excise tax liability of \$9,212. This liability was incurred due to a clerical error in calculating the calendar year-end distribution requirement. Princeton Administrators, LLC, the sub-administrator, and State Street New Jersey, the accounting agent, agreed to reimburse the Fund for this liability.

7. Reimbursement of Costs by Shareholder and Administrator

In 2007, the Fund filed a registration statement with the Securities and Exchange Commission (the 2007 Registration Statement), covering 2,592,641 shares of the Fund's common stock then owned by LB. The 2007 Registration Statement was declared effective on September 14, 2007. The expenses in connection with the preparation and filing of the 2007 Registration Statement were paid by the Fund and then reimbursed by LB or AAMI. The expenses related to the 2007 Registration Statement are included within the Statement of Operations in the applicable expense category and the aggregate reimbursement is reported separately. LB and AAMI reimbursed \$60,000 and \$129,495, respectively.

8. Subsequent Event

Subsequent to October 31, 2007, the Fund declared a quarterly distribution of 40 cents per share, payable on January 11, 2008 to shareholders of record on December 31, 2007.

Aberdeen Australia Equity Fund, Inc.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of

Aberdeen Australia Equity Fund, Inc.

In our opinion, the accompanying statement of assets and liabilities, including the portfolio of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Aberdeen Australia Equity Fund, Inc. (the Fund) at October 31, 2007, the results of its operations 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 five years in the period then ended, 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, 2007 by correspondence with the custodian, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

New York, New York

December 21, 2007

Aberdeen Australia Equity Fund, Inc.

Federal Tax Information: Dividends and Distributions (unaudited)

The following information is provided with respect to the per-share distributions paid by the Fund during the fiscal year ended October 31, 2007:

| Payable Date | Total Cash Distribution | Long-Term Capital Gain | Net Ordinary Dividend | Foreign Taxes Paid⁽¹⁾ | Gross Ordinary Dividend | Qualified Dividends⁽²⁾ | Foreign Source Income | Short-Term Capital Gain Dividends for Non-U.S. Residents⁽³⁾ |
|---------------------|--------------------------------|-------------------------------|------------------------------|---|--------------------------------|--|------------------------------|---|
| 01/12/07 | 0.320000 | 0.320000 | 0.000000 | 0.000000 | 0.000000 | 0.000000 | 0.000000 | 0.000000 |
| 01/12/07 | 0.160000 | 0.156686 | 0.003314 | 0.000038 | 0.003352 | 0.003352 | 0.003352 | 0.000000 |
| 04/13/07 | 0.330000 | 0.000000 | 0.330000 | 0.005055 | 0.335055 | 0.194589 | 0.197300 | 0.000000 |
| 07/13/07 | 0.340000 | 0.000000 | 0.340000 | 0.005208 | 0.345208 | 0.200485 | 0.203278 | 0.153007 |
| 10/12/07 | 0.360000 | 0.227118 | 0.132882 | 0.002036 | 0.134918 | 0.078356 | 0.079447 | 0.132881 |

(1) The foreign taxes paid represent taxes incurred by the Fund from foreign sources. Foreign taxes paid may be included in taxable income with an offsetting deduction from gross income or may be taken as a credit for taxes paid to foreign governments. You should consult your tax advisor regarding the appropriate treatment of foreign taxes paid.

(2) The Fund hereby designates the amount indicated above or the maximum amount allowable by law.

(3) Represents the amount eligible for exemption from U.S. withholding tax for nonresident aliens and foreign corporations.

Aberdeen Australia Equity Fund, Inc.

Supplemental Information (unaudited)

Considerations in Approving Renewal of Management Agreement and Investment Advisory Agreement (collectively Agreements)

In September 2007, at an in-person meeting, the Board of Directors, including all of the Directors who are not parties to the Agreements or interested persons (as defined in the Investment Company Act of 1940, as amended) of any such party (Independent Directors), considered and approved the renewal of the Agreements for an additional term of twelve months. At this meeting, the Directors reviewed an extensive report prepared by the Investment Manager and the Investment Adviser (collectively, the Advisers) in response to a request submitted by the Independent Directors' independent legal counsel on behalf of such Directors, and discussed this report with representatives of the Advisers. The Independent Directors also consulted in executive session with counsel to the Independent Directors regarding the renewal of the Agreements. The Directors also considered the recommendation of the Contract Review Committee of the Board (the Committee), consisting solely of Independent Directors, that the Agreements be renewed, noting that the Committee had discussed, in executive session with independent counsel, the nature, extent and quality of the management and advisory services provided to the Fund by the Advisers, the level of the management and advisory fees, the costs of the services provided and the profits realized by the Advisers, the Fund's expense ratio, its relative and absolute performance, any economies of scale with respect to the management of the Fund, any ancillary benefits received by the Advisers and their affiliates as a result of their relationship with the Fund, and various other matters included within the report of the Advisers. Given the fact that (i) all management fees payable by the Fund are payable only to the Investment Manager, and the Investment Manager pays a portion of those fees to the Investment Adviser, an affiliated entity which is under common ownership by Aberdeen Asset Management PLC, and (ii) the Investment Manager and the Investment Adviser use a team approach to the making of investment decisions, the Board of Directors did not separately consider the renewal of the Management Agreement and the Investment Advisory Agreement, but rather viewed the Investment Manager and the Investment Adviser as providers of a unified service. However, the Board was provided, and did consider, information as to the services provided by each of the Investment Manager and the Investment Adviser, the fees payable by the Fund to the Investment Manager and by the Investment Manager to the Investment Adviser and, as noted below, certain pro-forma estimates as to the profitability of each in respect of their services to the Fund. The Board's consideration of investment performance, expenses and economies of scale, as further discussed below, was focused at the Fund level without any separate attribution of those factors to the Investment Manager and the Investment Adviser given the impracticalities inherent in attempting any such attribution.

In approving (or, in the case of the Committee, recommending) the renewal of the Agreements, the Committee, the Independent Directors and the entire Board of Directors, concluded that:

The effective annual management fee rate paid by the Fund to the Investment Manager for investment management services was within a reasonable range relative to the effective advisory fee rates of a comparison group consisting of a twelve-fund category of closed-end Pacific region equity funds compiled by Strategic Insight (SI) at the request of the Fund (the Peer Group). The SI data (computed based on average managed assets for the six months ended April 30, 2007) indicated that the Fund's effective management fee rate of 0.809% was the second lowest of the Peer Group whose fees ranged from 0.317% to 1.236% and also below the Peer Group's median and average fee rates of 1.086% and 1.001%, respectively. The Committee, the Independent Directors and the Board assumed that the SI compilation of funds represented a reasonably comparable group and that the compilation provided a reasonably reliable general indication of relative fees. Additionally, the Committee, the Independent

Aberdeen Australia Equity Fund, Inc.

Supplemental Information (unaudited) (continued)

Directors and the Board noted that the Fund's effective management fee rate was within a reasonable range of the effective management fee rates of 0.625% and 0.90% paid to the Investment Adviser by two Australian-domiciled funds that invest principally in Australian equity securities. However, the funds are not subject to the same investment restrictions or diversification requirements and the Committee, the Independent Directors and the Board determined that the absence of this additional complexity could justify a lower fee.

They were satisfied with the nature, quality and extent of services provided by the Advisers. In reaching this conclusion, the Committee, the Independent Directors and the Board reviewed, among other things, the Advisers' investment experience, including the positive growth and development of their Far East operations as well as the Aberdeen Group's global activities, especially in North America, the emerging markets and their growing capabilities in Australia. The Committee, the Independent Directors and the Board received information regarding the Advisers' compliance with applicable laws and SEC and other regulatory inquiries or audits of the Fund and the Advisers. The Committee, the Independent Directors and the Board also considered the background and experience of the Advisers' senior management and the qualifications, background and responsibilities of the portfolio managers primarily responsible for the day-to-day portfolio management services for the Fund. In addition to the other elements noted, the Committee, the Independent Directors and the Board considered the Fund's absolute and relative performance and its expense ratio, all of which they found to have a direct bearing on a determination of the quality of the advisory services provided. The Committee, the Independent Directors and the Board also noted that the Board reviewed and assessed the quality of the services the Fund receives from the Advisers throughout the year, and received detailed portfolio review and performance reports on a regular basis. Based on these materials, they determined that the advisory services provided were extensive in nature and of high quality.

The Committee, the Independent Directors and the Board noted that, over the long term the Fund experienced above-average investment performance, based on an analysis of total return, as compared to the funds within the Fund's Morningstar Category (the Morningstar Group). The Committee, the Independent Directors and the Board received and considered information regarding the Fund's total return in US dollar terms for each of the last five fiscal years on a gross and net basis and relative to the Fund's benchmark, the Fund's share performance and premium/discount information during the same period and the impact of foreign currency movements on the Fund's performance in U.S. dollar terms.

The Committee, the Independent Directors and the Board also received and reviewed information as to the Fund's total return (with the Fund ranking 4th out of 20 for the three month period ended April 30, 2007, 5th out of 18 for the one year period ended April 30, 2007, 7th out of 18 for the three year period ended April 30, 2007, and 6th out of 18 for the five year period ended April 30, 2007). The Fund's total return for the year ended April 30, 2007 (after deducting fees and expenses) was 29.11%, compared with 30.40% and 30.96% for the Australian-domiciled funds for the same period. The Committee, the Independent Directors and the Board further reviewed information as to the Fund's discount/premium ranking relative to the Morningstar Group. The SI data indicated that for each of the calendar years ended 2002 through 2006 and the six months ended June 30, 2007, the Fund's discount/premium ranking ranged from 1st to 12th out of the 20 funds in the Morningstar Group. For the year to date period ended June 30, 2007, the Fund's discount/premium ranking was 1st out of the 20 funds in the Morningstar Group. The Committee, the Independent Directors and the Board concluded that the overall performance results supported re-approval of the Agreements.

Aberdeen Australia Equity Fund, Inc.

Supplemental Information (unaudited) (concluded)

The Fund's expense ratio of 1.608% based on average net assets for the six months ended April 30, 2007 was above the average of the expense ratios of funds in the Peer Group and ranked 7th lowest out of the 13 funds in the Peer Group. The Committee, the Independent Directors, and the Board concluded that the overall expense structure supported re-approval of the Agreements.

Any potential economies of scale were being shared between the Fund and the Advisers in an appropriate manner. This determination was based on factors including that the Fund's management fee schedule provided breakpoints at higher asset levels, and that profitability of the Investment Manager and the Investment Adviser were determined to be reasonable based upon the Board's review of the Peer Group data and other information provided to the Committee and the Board.

In light of the costs of providing investment management and advisory services to the Fund, the profits that the Advisers received, individually and on an aggregate basis (based on certain pro-forma estimates), with respect to providing investment management and advisory services to the Fund were reasonable, and any ancillary benefits received by the Advisers and their affiliates as a result of their relationship with the Fund were reasonable. The Committee, the Independent Directors and the Board considered the profitability levels in light of their collective commercial experience and business judgment, and also considered that the level of profitability was within the range that courts in the past had found to be acceptable when considering the propriety of investment advisory fees paid by registered investment companies.

As noted above, the Board reviewed detailed materials received from the Advisers as part of the renewal process. The Board also regularly reviews and assesses the quality of the services the Fund receives throughout the year. In this regard, the Board reviews reports of the Advisers at least in each of its regular quarterly meetings, which include, among other things, a portfolio review and Fund performance reports.

In considering the Agreements, the Committee, the Independent Directors and the Board did not identify any factor as all-important or all-controlling and instead considered these factors collectively in light of the Fund's surrounding circumstances. After considering the above-described factors and based on the deliberations and its evaluation of the information provided to it, the Committee, the Independent Directors and the Board concluded that approval of the renewal of the Agreements was in the best interest of the Fund and its shareholders. Accordingly, the Board, and the Independent Directors voting separately, unanimously approved the renewal of the Agreements.

Aberdeen Australia Equity Fund, Inc.

Dividend Reinvestment and Cash Purchase Plan (unaudited)

Shareholders may elect to have all distributions automatically reinvested in Fund shares pursuant to the Plan. Generally, shareholders who do not participate in the Plan will receive distributions in cash paid by check in United States dollars mailed directly to the shareholders of record (or if the shares are held in street or other nominee name, then to the nominee) by the Plan Agent. A shareholder whose shares are held by a broker or nominee that is unable to participate in the Plan may request to have his shares re-registered in his own name to participate in the Plan.

The Plan Agent serves as agent for the shareholders in administering the Plan. Distributions payable to Plan participants will be promptly invested. If the Fund declares a distribution payable in stock to shareholders who are not Plan participants, then Plan participants will receive that distribution in newly issued shares of the Fund's common stock on identical terms and conditions.

In every other case, Plan participants will receive shares on the following basis: if on payable date, the market price of the Fund's common stock plus any applicable brokerage commission is equal to or exceeds the net asset value per share, Plan participants will receive newly-issued shares of the Fund's common stock valued at the greater of net asset value per share or 95% of the then-current market price. If, on the other hand, the net asset value per share plus any brokerage commission exceeds the market price at such time, the Plan Agent will buy shares of common stock in the open market. If the market price plus any applicable brokerage commission, exceeds net asset value per share as last determined before the Plan Agent has completed its purchases, the Plan Agent will suspend making open market purchases and shall invest the balance available in newly-issued shares valued at the greater of the net asset value or 95% of the then-current market value. All reinvestments are in full and fractional shares carried to four decimal places.

There is no direct charge to participants for reinvesting distributions, except for brokerage commissions. The Plan Agent's fees for the handling of the reinvestment of distributions are paid by the Fund. There will be no brokerage commissions charged with respect to shares issued directly by the Fund. However, each participant will pay a pro-rata share of brokerage commissions incurred with respect to the Plan Agent's open market purchases. Purchases and sales may be made through a broker affiliated with the Plan Agent. The automatic reinvestment of distributions does not relieve participants of any federal income tax that may be payable on such distributions.

The Plan also allows participants to make voluntary cash investments by sending additional funds by a check drawn on a U.S. bank, in U.S. dollars, payable to the Plan Agent. Additional voluntary cash investments must be in an amount of at least \$100 with a maximum of \$10,000 per month with an aggregate annual limit of \$120,000 for the purchases of shares on the open market. Voluntary cash investments will be invested on or before the 15th day of the month, and in no event more than 45 days after such date except where temporary curtailment or suspension of purchases is necessary to comply with applicable provisions of the federal securities laws. Cash investments may be commingled with the Funds held by the Plan Agent for other shareholders of the Fund, and the average price (including brokerage commissions) of all shares purchased by the Plan Agent will be the price per share allocated to each participant. In the event a participant's voluntary cash investment check is returned unpaid for any reason, the participant will be charged a \$20.00 return fee.

Participants in the Plan may withdraw some or all of their shares from the Plan upon written notice or pursuant to telephonic procedures established by the Plan Agent and will receive stock certificates for all full shares. The Plan Agent will convert any fractional shares to cash at the then current market price, less a sales fee, and send a check to the participant for the proceeds. The sales fee payable will be the lesser of \$10 or the net proceeds from the sale of the fractional shares. If the fees and

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commissions exceed the proceeds from the sale of a fractional share, participants will receive a transaction advice instead of a check. There is no sales fee in the case of issuance of a certificate for all full shares. If by giving proper

Aberdeen Australia Equity Fund, Inc.

Dividend Reinvestment and Cash Purchase Plan (unaudited) (concluded)

notice to the Plan Agent, participants request cash, the Plan Agent will sell the shares and send the participant the proceeds less a sales fee of \$10 plus brokerage commissions of \$0.10 per share.

The Fund or the Plan Agent reserves the right to amend or terminate the Plan either in full or partially upon 90 days written notice to shareholders of the Fund.

All correspondence concerning the Plan should be directed to the Plan Agent, The Bank of New York, Mellon Corporation Shareholder Relations Department, P.O. Box 11258, Church Street Station, New York, NY 10286, or by calling 1-800-432-8224.

Aberdeen Australia Equity Fund, Inc.

Management of the Fund (unaudited)

The names of the Directors and officers of the Fund, their addresses, ages, and principal occupations during the past five years are provided in the tables below. Directors that are deemed interested persons (as that term is defined in Section 2(a)(19) of the Investment Company Act of 1940, as amended) of the Fund, the Investment Manager or Investment Advisor are included in the table below under the heading Interested Directors. Directors who are not interested persons as described above are referred to in the table below under the heading Independent Directors.

Board of Directors Information

| Name, Address and Age | Position(s) Held With the Fund | Term of Office and Length of Time Served | Principal Occupation(s) During Past Five Years | Number of Funds in Fund Complex* Overseen by Director | Other Directorships Held by Director |
|---|--------------------------------|--|---|---|--------------------------------------|
| Interested Directors | | | | | |
| Moritz Sell** | Class I Director | Term expires 2010; Director since 2004 | Mr. Sell has been a director, market strategist of Landesbank Berlin Holding AG (banking) and its predecessor, now holding company, Landesbank Berlin AG (formerly named Bankgesellschaft Berlin AG) since 1996. He also served as a Director of the France Growth Fund from 2000 until 2004. | 1 | |
| Landesbank Berlin 628 East 20 th St. #8D New York, NY 10009 | | | | | |
| Age: 40 | | | | | |

Aberdeen Australia Equity Fund, Inc.

Management of the Fund (unaudited) (continued)

| Name, Address and Age | Position(s) Held With the Fund | Term of Office and Length of Time Served | Principal Occupation(s) During Past Five Years | Number of Funds in Fund Complex* Overseen by Director | Other Directorships Held by Director |
|---|--------------------------------------|---|---|--|---|
| <p>Hugh Young ***</p> <p>Aberdeen Asset Management Asia Limited 21 Church Street #01-01 Capital Square Two Singapore 049480</p> <p>Age: 49</p> | Class II Director | Term expires 2008; Director since 2001 | <p>Mr. Young was a Director of Aberdeen Asset Management PLC, parent company of the Fund's Investment Manager and Investment Adviser, from 1991 to 2002 and is currently a member of the Executive Management Committee of Aberdeen Asset Management PLC. He has been Managing Director of Aberdeen Asset Management Asia Limited, the Fund's Investment Manager, since 1991. Mr. Young also served as a Director of Aberdeen Asset Managers (C.I.) Limited (the Fund's former Investment Manager) from 2000 to June 2005 and a Director of the Investment Adviser since 2000. From 2001 to February 2004, Mr. Young was President of the Fund and of Aberdeen Asia-Pacific Income Fund, Inc. and Aberdeen Global Income Fund, Inc.</p> | 1 | |
| <u>Independent Directors</u> | | | | | |
| <p>Anthony E. Aaronson</p> <p>116 South Anita Avenue Los Angeles, CA 90049</p> <p>Age: 70</p> | Class I Director | Term expires 2010; Director since 1985 | <p>Mr. Aaronson has been a textile agent for over ten years, representing Asian and European textile mills.</p> | 2 | Aberdeen Asia-Pacific Income Fund, Inc. |

Aberdeen Australia Equity Fund, Inc.

Management of the Fund (unaudited) (continued)

| Name, Address and Age | Position(s) Held With the Fund | Term of Office and Length of Time Served | Principal Occupation(s) During Past Five Years | Number of Funds in Fund Complex* Overseen by Director | Other Directorships Held by Director |
|--|---|---|--|--|--|
| David L. Elsum, A.M. c/o Aberdeen Asset Management Asia Limited 21 Church Street #01-01 Capital Square Two Singapore 049480 Age: 70 | Class II Director | Term expires 2008; Director since 1985 | Mr. Elsum was Chairman of Queen Victoria Market and Melbourne Wholesale Fish Market, both wholly-owned by the City of Melbourne, from 1996 to October 2007. For a period in excess of five years, he has served as a non-executive director of Aberdeen Leaders, Ltd., a listed Australian investment company. He is also a member of the Essential Services Commission Appeals Panel in Victoria, Australia, and has served as an adviser to the City of Port Phillip and the State of Victoria since 2004. | 3 | Aberdeen Asia-Pacific Income Fund, Inc.; Aberdeen Global Income Fund, Inc. |
| Neville J. Miles c/o Ballyshaw Pty. Ltd. 62 Caledonia Street Paddington NSW 2021 Australia Age: 61 | Chairman of the Board, Class I Director | Term expires 2010; Director since 1996 | Mr. Miles is, and has been for a period in excess of ten years, Chairman of Ballyshaw Pty. Ltd. (share trading, real estate development and investment). He also is a non-executive director of a number of Australian companies. Mr. Miles served as Chief Executive Officer of Pulse International Pty. Ltd. (financial transaction processing) from 2004 through 2006. | 3 | Aberdeen Asia-Pacific Income Fund, Inc.; Aberdeen Global Income Fund, Inc. |

Aberdeen Australia Equity Fund, Inc.

Management of the Fund (unaudited) (continued)

| Name, Address and Age | Position(s) Held With the Fund | Term of Office and Length of Time Served | Principal Occupation(s) During Past Five Years | Number of Funds in Fund Complex* Overseen by Director | Other Directorships Held by Director |
|---|--------------------------------|--|--|---|--|
| <p>William J. Potter</p> <p>c/o Aberdeen Asset Management Asia Limited</p> <p>21 Church Street #01-01</p> <p>Capital Square Two</p> <p>Singapore 049480</p> <p>Age: 59</p> | Class III Director | Term expires 2009; Director since 1985 | Mr. Potter has been Chairman of Robert Meredith & Co. Inc. (investment management) since 2004. He was President of Kingsdale Capital Markets (USA) Inc. (private placement broker) from 2004 through June 2005, and President of Ridgewood Group International Ltd. (international consulting and merchant banking company) from 1996 to 2004. | 3 | Aberdeen Asia-Pacific Income Fund, Inc.; Aberdeen Global Income Fund, Inc. |
| <p>Peter D. Sacks</p> <p>c/o Aberdeen Asset Management Asia Limited</p> <p>21 Church Street #01-01</p> <p>Capital Square Two</p> <p>Singapore 049480</p> <p>Age: 62</p> | Class II Director | Term expires 2008; Director since 1999 | Mr. Sacks has been Managing Partner of Toron Capital Markets, Inc. (investment management) since 1988. | 3 | Aberdeen Asia-Pacific Income Fund, Inc.; Aberdeen Global Income Fund, Inc. |
| <p>John T. Sheehy</p> <p>B.V. Murray and Company</p> <p>560 Sylvan Avenue</p> <p>Englewood Cliffs,</p> <p>NJ 07632</p> | Class III Director | Term expires 2009; Director since 1985 | Mr. Sheehy has been Senior Managing Director of B.V. Murray and Company (investment banking) since 2001, and Managing Member of The Value Group LLC (venture capital) since 1997. | 3 | Aberdeen Asia-Pacific Income Fund, Inc.; Aberdeen Global Income Fund, Inc. |

Age: 65

- * Aberdeen Asia-Pacific Income Fund, Inc. and Aberdeen Global Income Fund, Inc. have the same Investment Manager and Investment Adviser as the Fund, and may thus be deemed to be part of the same Fund Complex as the Fund.
- ** Mr. Sell is deemed to be an interested person because he was appointed as a Director as the representative of Landesbank Berlin Holding AG, the owner of approximately 13.3% of the outstanding shares of the Fund's common stock as of December 3, 2007.
- *** Mr. Young is deemed to be an interested person because of his affiliation with the Fund's Investment Manager and Investment Adviser.

Aberdeen Australia Equity Fund, Inc.

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Management of the Fund (unaudited) (continued)

Information Regarding Officers who are not Directors

The names of the officers of the Fund who are not Directors, and their addresses, ages and principal occupations during the past five years, are provided in the table below:

| Name, Address and Age | Position(s) Held With the Fund | Term of Office* and Length of Time Served | Principal Occupation(s) During Past Five Years |
|--|--------------------------------|---|--|
| Martin J. Gilbert Aberdeen Asset Management PLC 10 Queen s Terrace Aberdeen, Scotland AB10 1YG | President** | Since 2004 | Chief Executive and an Executive Director of Aberdeen Asset Management PLC; (since 1983); President of the Fund, and of Aberdeen Asia-Pacific Income Fund, Inc. and Aberdeen Global Income Fund, Inc. (since February 2004); Chairman of the Board of the Fund and of Aberdeen Asia-Pacific Income Fund, Inc. from 2001 to September 2005); Director of Aberdeen Asset Management Asia Limited (since 1991); Director of Aberdeen Asset Management Limited (since 2000) and Director of Aberdeen Asset Managers (C.I.) Limited (from 2000 to June 2005); Director (since 1995) and President (from 1995 to October 2006) of Aberdeen Asset Management Inc. (the Fund s Administrator). |
| Age: 52 Mark Daniels Aberdeen Asset Management Limited Level 6 201 Kent Street Sydney, NSW 2000 Australia | Vice President | Since 2005 | Head of Australian Equities of the Aberdeen Group (asset management group consisting of subsidiaries of Aberdeen Asset Management PLC) (since 2005); Fund Manager of Aberdeen Asset Managers Limited (affiliate of the Fund s Investment Manager and Investment Adviser) (from 1990 to 2005). |
| Age: 52 Beverly Hendry Aberdeen Asset Management Inc. Las Olas Place 300 | Vice President*** | Since 2003 | Director (since 1995), Vice President, Managing Director, Latin American operations (from October 2005) and Chief Executive Officer (from 1995 to October 2005) of Aberdeen Asset Management Inc.; Director of Aberdeen Asset Managers (C.I.) Limited (from 2001 to June 2005); Member of Executive Management Committee (since 2002) and Executive Director (from 1991 to 2002) of Aberdeen Asset Management PLC. |

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S.E. 2nd Street Suite 820

Fort Lauderdale,

FL 33301

Age: 54

Christian Pittard

Vice President
and Assistant
Secretary**

Since 2001

Director and Vice President (since 2006), Chief Executive Officer (from October 2005 to September 2006) and employee (since June 2005) of Aberdeen Asset Management Inc.; Member of Executive Management Committee of Aberdeen Asset Management PLC (since August 2005); Managing Director of Aberdeen Asset Managers (C.I.) Limited (from 2000 to June 2005); Managing Director of Aberdeen Private Wealth Management Limited (affiliate of the Fund's Investment Manager and Investment Adviser) (from 2000 to May 2005); Managing Director of Aberdeen Asset Managers Jersey Limited (affiliate of the Fund's Investment Manager and Investment Adviser) (from 1999 to November 2005).

Aberdeen Asset

Management Inc.

1735 Market Street

37th Floor

Philadelphia, PA 19103

Age: 34

Aberdeen Australia Equity Fund, Inc.

Management of the Fund (unaudited) (concluded)

| Name, Address and Age | Position(s) Held With the Fund | Term of Office* and Length of Time Served | Principal Occupation(s) During Past Five Years |
|--|--------------------------------|---|---|
| Andrew Smith Aberdeen Asset Management Inc. 1735 Market Street 37th Floor Philadelphia, PA 19103 Age: 39 | Vice President Compliance** | Since 2007 | Director and Chief Financial Officer (since October 2005) and Vice President (from 2000 to October 2005) of Aberdeen Asset Management Inc. |
| Alan Goodson Aberdeen Asset Management Inc. 1735 Market Street 37th Floor Philadelphia, PA 19103 Age: 33 | Secretary and Treasurer** | Since 2005 | Vice President and Secretary (since October 2005) and employee (since June 2005) of Aberdeen Asset Management Inc.; Head of Finance (from 2000 to May 2005) and Company Secretary (from 2001 to May 2005) of Aberdeen Private Wealth Management Limited; Finance Director and Company Secretary of Aberdeen Asset Managers Jersey Limited (from 2002 to November 2005); Company Secretary of Aberdeen Asset Managers (C.I.) Limited (from 2001 to June 2005). |

* Officers hold their positions with the Fund until a successor has been duly elected and qualifies. Officers are generally elected annually at the meeting of the Board of Directors next following the annual meeting of stockholders. The officers were last elected on June 13, 2007.

** Messrs. Gilbert, Pittard, Smith and Goodson hold the same position(s) with Aberdeen Asia-Pacific Income Fund, Inc. and Aberdeen Global Income Fund, Inc., both of which may be deemed to be a part of the same Fund Complex as the Fund.

*** Mr. Hendry serves as Assistant Treasurer of Aberdeen Global Income Fund, Inc. and Vice President of Aberdeen Asia-Pacific Income Fund, Inc., which may be deemed to be part of the same Fund Complex as the Fund.

Aberdeen Australia Equity Fund, Inc.

Corporate Information

Directors

Neville J. Miles, *Chairman*

Anthony E. Aaronson

David L. Elsum

William J. Potter

Peter D. Sacks

Moritz Sell

John T. Sheehy

Hugh Young

Officers

Martin Gilbert, *President*

Mark Daniels, *Vice President*

Beverley Hendry, *Vice President*

Christian Pittard, *Vice President and Assistant Secretary*

Andrew Smith, *Vice President Compliance*

Alan Goodson, *Treasurer and Secretary*

Donald C. Burke, *Assistant Treasurer*

Andrea L. Melia, *Assistant Treasurer*

Timothy Sullivan, *Assistant Treasurer*

Sander M. Bieber, *Assistant Secretary*

Investment Manager

Aberdeen Asset Management Asia Limited

21 Church Street

#01-01 Capital Square Two

Singapore 049480

Investment Adviser

Aberdeen Asset Management Limited

Level 6, 201 Kent Street

Sydney, NSW 2000, Australia

Administrator

Aberdeen Asset Management Inc.

1735 Market Street, 37th Floor

Philadelphia, PA 19103

Custodian

State Street Bank and Trust Company

One Heritage Drive

North Quincy, MA 02171

Transfer Agent

The Bank of New York Mellon Corporation

Shareholder Relations Department

P.O. Box 11258

Church Street Station

New York, NY 10286

1-800-432-8224

Independent Registered Public Accounting Firm

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PricewaterhouseCoopers LLP

300 Madison Avenue

New York, NY 10017

Legal Counsel

Dechert LLP

1775 I Street, N.W.

Washington, DC 20006

Investor Relations

Aberdeen Asset Management Inc.

1735 Market Street, 37th Floor

Philadelphia, PA 19103

1-866-839-5205

InvestorRelations@aberdeen-asset.com

Aberdeen Asset Management Asia Limited

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940 that the Fund may purchase, from time to time, shares of its common stock in the open market

Shares of Aberdeen Australia Equity Fund, Inc. are traded on the American Stock Exchange under the symbol IAF . Information about the Fund s net asset value and market price is available at www.aberdeeniaf.com

This report, including the financial information herein, is transmitted to the shareholders of Aberdeen Australia Equity Fund, Inc. for their general information only. It does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person. Past performance is no guarantee of future returns.

Item 2 Code of Ethics.

- (a) As of October 31, 2007, the Registrant had adopted a Code of Ethics that applies to its principal executive officer, principal financial officer or persons performing similar functions.

- (b) For purposes of this Item, the term Code of Ethics means written standards that are reasonably designed to deter wrongdoing and promote:
 - (1) Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

 - (2) Full, fair, accurate, timely, and understandable disclosure in reports and documents that a registrant files with, or submits to, the Commission and in other public communications made by the Registrant;

 - (3) Compliance with applicable governmental laws, rules, and regulations;

 - (4) The prompt internal reporting of violations of the code to an appropriate person or persons identified in the code; and

 - (5) Accountability for adherence to the code.

- (c) During the period covered by this report, there were no material changes to the Code of Ethics referred to in 2(b) above.
- (d) During the period covered by this report, there were no waivers to the provisions of the Code of Ethics referred to in 2(b) above.
- (e) Not applicable.
- (f) A copy of the Code of Ethics has been filed with this Form N-CSR as Item 12(a)(1). Copies of the Code of Ethics may be requested free of charge by calling toll free on 1-866-839-5205.

Item 3 Audit Committee Financial Expert.

The Board of Directors of the Registrant has designated David Elsum, Peter Sacks and John Sheehy as Audit Committee Financial Experts. Mr. Elsum, Mr. Sacks and Mr. Sheehy are all considered by the Board to be independent directors as interpreted under this Item 3.

Item 4 Principal Accountant Fees and Services.

(a) (d) Below is a table reflecting the fee information requested in Items 4(a) through (d):

| Fiscal | (a) | (b) | (c) ¹ | (d) |
|------------------|------------|--------------------|------------------|----------------|
| Year Ended | Audit Fees | Audit-Related Fees | Tax Fees | All Other Fees |
| October 31, 2007 | \$ 110,300 | Nil | \$ 7,250 | Nil |
| October 31, 2006 | \$ 90,000 | Nil | \$ 6,700 | Nil |

¹ The Tax Fees are for the completion of the Registrant's federal and state tax returns.

(e) Below are the Registrant's Pre-Approval Policies and Procedures:

- (1) Audit Committee Pre-Approval Policies and Procedures

Refer to Exhibit A.

- (2) None of the services described in each of paragraphs (b) through (d) of this Item involved a waiver of the pre-approval requirement by the Audit Committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

(f) Not applicable

(g) Non-Audit Fees

**Fiscal Year
Ended**

**Fiscal Year
Ended**

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| | October 31, 2007 | October 31, 2006 |
|---------------------------------|------------------|------------------|
| Registrant | \$ 14,500 | \$ 13,400 |
| Registrant's Investment Manager | Nil | Nil |

- (h) The Registrant's Audit and Valuation Committee of the Board of Directors has considered whether the provision of non-audit services that were rendered to the Registrant's investment adviser (not including any subadviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by, or under common control with the investment adviser that provides ongoing services to the Registrant that were not pre-approved pursuant to paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X is compatible with maintaining the principal accountant's independence and has concluded that it is.

Item 5 Audit Committee of Listed Registrants.

- (a) 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, as amended.

For the fiscal year ended October 31, 2007, the audit committee members were:

David Elsum

Peter D. Sacks

John T. Sheehy

- (b) Not applicable.

Item 6 Schedule of Investments.

Included as part of the Report to Shareholders filed under Item 1 of this Form N-CSR.

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

Pursuant to the Registrant's Proxy Voting Policy and Procedures, the Registrant has delegated responsibility for its proxy voting to its Investment Manager and Investment Adviser, provided that the Registrant's Board has the opportunity to periodically review the Investment Manager's and Investment Adviser's proxy voting policies and material amendments thereto. The Registrant's Board of Directors most recently ratified the proxy voting policies of the Investment Manager and Investment Adviser in March 2006.

The proxy voting policies of the Registrant are referenced Exhibit B and Investment Manager and Investment Adviser are referenced Exhibit C.

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

(a)

(1) The information in the table below is as of October 31, 2007

| Individual & Position | Services Rendered | Past Business Experience |
|---|---|---|
| Hugh Young BA (Hons) (Commenced 1985) | Responsible for overseeing Asian and Australian equities portfolio management. | Established Aberdeen Asia in 1992 as the Aberdeen Group's Asia-Pacific headquarters and is the Managing Director of Singapore-based Aberdeen Asset Management Asia Limited. |
| Managing Director [Singapore] Peter Hames BA (Economics/Accountancy) (Commenced 1989) | Heads up management of Asia-Pacific equities portfolios. | Joined the Aberdeen London office in 1990 and is the Director of the Fund Investment Manager. |
| Director, Head of Equities [Singapore] Mark Daniels BEc (Transferred to Aberdeen Sydney February 2005) | Director of Aberdeen Sydney and Head of Australian Equities. Oversees management of Australian equities portfolios. | From 1990 to 2005 focused on UK equities and closed-end funds. In 2005, Mark became head of Australian equities of the Aberdeen Group. |
| Director of Aberdeen Sydney and Head of Australian Equities Michelle Casas BCom/BAppFin (Commenced May 2004) | Responsible for Australian equities portfolio management. | Joined the Australian equities team in the Sydney office in 2004. |
| Fund Manager Natalie Tam BCom (Acct and Finance) (Commenced May 2005) | Responsible for Australian equities portfolio management. | Joined the Australian equities team in the Sydney office in 2005. |
| Fund Manager | | |

(2)

| Name of Portfolio Manager | Registered Investment | | Pooled Investment Vehicle | | Other Accounts | |
|---------------------------|-----------------------|----------|---------------------------|-------------|-------------------|-------------|
| | Company Managed by | | Managed by | | Managed by | |
| | Portfolio Manager | | Portfolio Manager | | Portfolio Manager | |
| | Number of | FUM | Number of | FUM | Number of | FUM |
| Accounts | USD(\$M) | Accounts | USD(\$M) | Accounts | USD(\$M) | |
| Hugh Young | 1 | \$ 64.6 | 40 | \$ 21,118.0 | 90 | \$ 23,360.2 |
| Peter Hames | 1 | \$ 64.6 | 40 | \$ 21,118.0 | 90 | \$ 23,360.2 |
| Mark Daniels | 0 | \$ 0 | 4 | \$ 1,356.5 | 3 | \$ 201.8 |
| Michelle Casas | 0 | \$ 0 | 4 | \$ 1,356.5 | 3 | \$ 201.8 |
| Natalie Tam | 0 | \$ 0 | 4 | \$ 1,365.5 | 3 | \$ 201.8 |

Total Assets are as of October 31, 2007 and have been translated into U.S. dollars at a rate of £1.00 = \$2.0774.

There are 8 accounts (with assets under management totaling approximately \$2.6 billion) with respect to which part of the advisory fee is based on the performance of the account. The investment strategies of these eight accounts are significantly different from that of the Fund, so the performance fee should not create any material conflict between that of the Portfolio Manager (and consequently, the Investment Adviser) and the interest of the Fund.

- (3) The Aberdeen Group recognizes the need to provide a competitive compensation package in order to attract and retain high calibre staff. In addition to an attractive base salary and performance-related bonus, investment professionals also receive a competitive benefits package and participation in a company-wide stock ownership plan. Key executives participate in a substantial stock option plan, as well as cash-backed and equity-backed long-term incentive plans. The Portfolio Manager does not receive compensation from additional sources. In addition, the Portfolio Manager receives no difference in compensation between work done for Registered or other accounts. A description of the various compensation plans is provided below:

Executive Share Option Plan. The Aberdeen Group has an executive share option plan. Options are granted based on an assessment of the individual's expected contribution to future Aberdeen Group performance. Options are granted for no consideration. Options granted may only be exercised if the Aberdeen Group's Remuneration Committee is satisfied that the prescribed performance criteria are met. The criteria have been chosen as being reflective of success in the industry sector within which the Aberdeen Group operates. The criteria have also been deemed to be appropriate in order to achieve the goal of delivering good returns to clients and shareholders alike.

Share Incentive Plan. The Share Incentive Plan is intended to encourage ownership of shares of Aberdeen PLC by employees of the Aberdeen Group, and is available to all executive directors and employees of the Aberdeen Group, thus aligning their interests with those of the shareholders. All executive directors and employees who have been employed for a minimum period of 12 months may participate in the Share Incentive Plan.

Pension. The Aberdeen Group offers a contributory money purchase pension plan to which the employer's contribution is 15% of basic salary and the employee contributes 5%. Once an employee becomes a member of the Aberdeen Group's pension plan, the Aberdeen Group will provide life insurance coverage that provides death-in-service benefits.

Deferred Bonus. During 2003, the Aberdeen Group implemented a deferred bonus plan designed to encourage the retention of certain key employees identified as critical to the Aberdeen Group's achievement of its long-term goals. An employee benefit trust was established and funded for the purpose of paying potential awards under this plan. Deferred payments made in the form of cash bonuses were paid to qualifying employees over a three year period from 2004 to 2006.

Long Term Incentive Plan (LTIP). The LTIP is administered by an independent professional trustee. Under the LTIP, an award made by the trustee to an eligible participant may take one of the following two forms:

1. The right to acquire a specified number of shares. The number of shares which may be acquired will be determined by the performance of the Aberdeen Group over the relevant measurement period; or
2. The acquisition of shares by a participant at the time the award is made. The participant's ownership of any shares is contingent upon the satisfaction of the Aberdeen Group's performance targets.

In each case, the rules of the LTIP will ensure that the participant does not acquire ownership of the relevant shares until the end of the measurement period and then only to the extent that the performance targets have been satisfied.

Performance is reviewed on a formal basis once a year and this review influences individual staff members' subsequent remuneration. The review process looks at all of the ways in which an individual has contributed to the organization, and specifically, in the case of investment managers, to the investment team. Discretionary bonuses are based on a combination of the team and the individual's performance, as well as industry comparatives and the Aberdeen Group's performance as a whole. The weighting of these factors varies and overall participation in team meetings, generation of original research ideas and contribution to presenting the team externally are also contributory factors. Discretionary bonuses generally range from 10% to 50% of a portfolio manager's annual salary; equity incentives could provide a substantially greater part of compensation over the longer term (3 years or more).

(4)

(a)

| Individual | Dollar Range of Equity Securities in the Registrant Beneficially owner by the Portfolio Manager as of October 31, 2007 |
|-------------------|---|
| Hugh Young | \$10,001-\$50,000 |
| Peter Hames | \$0 |
| Mark Daniels | \$0 |
| Michelle Casas | \$0 |
| Natalie Tam | \$0 |

(b) Not applicable.

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

REGISTRANT PURCHASES OF EQUITY SECURITIES

| Period | (a) | (b) | (c) | (d) |
|--|----------------------------------|------------------------------|---|---|
| | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ¹ | Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs ¹ |
| November 1, 2006 through, November 30, 2006 | 0 | 0 | 0 | 1,686,912 |
| December 1, 2006 through December 31, 2006 | 0 | 0 | 0 | 1,909,412 |
| January 1, 2007 through January 31, 2007 | 0 | 0 | 0 | 1,911,492 |
| February 1, 2007 through February 28, 2007 | 0 | 0 | 0 | 1,911,492 |
| March 1, 2007 through March 31, 2007 | 0 | 0 | 0 | 1,911,492 |
| April 1, 2007 through April 30, 2007 | 0 | 0 | 0 | 1,912,897 |
| May 1, 2007 through May 31, 2007 | 0 | 0 | 0 | 1,912,897 |
| June 1, 2007 through June 30, 2007 | 0 | 0 | 0 | 1,912,897 |
| July 1, 2007 through July 31, 2007 | 0 | 0 | 0 | 1,914,239 |
| August 1, 2007 through August 31, 2007 | 0 | 0 | 0 | 1,914,239 |
| September 1, 2007 through September 30, 2007 | 0 | 0 | 0 | 1,914,239 |
| October 1, 2007 through October 31, 2007 | 0 | 0 | 0 | 1,915,576 |
| Total | 0 | 0 | 0 | |

¹ The Fund's stock repurchase program was announced on March 19, 2001 and allows the Fund to repurchase up to 10% of its outstanding common stock in the open market during any 12 month period if and when the discount to net asset value is at least 10%.

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

During the period ended October 31, 2007, there were no material changes to the policies by which shareholders may recommend nominees to the Fund's Board.

Item 11- Controls and Procedures.

- (a) It is the conclusion of the Registrant's principal executive officer and principal financial officer that the effectiveness of the Registrant's current disclosure controls and procedures (such disclosure controls and procedures having been evaluated within 90 days of the date of this filing) provide reasonable assurance that the information required to be disclosed by the Registrant has been recorded, processed, summarized and reported within the time period specified in the Commission's rules and forms and that the information required to be disclosed by the Registrant has been accumulated and communicated to the Registrant's principal executive officer and principal financial officer in order to allow timely decisions regarding required disclosure.
- (b) There have been no changes in the Registrant's internal control over financial reporting 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) Code of Ethics pursuant to Item 2(f) of this Form N-CSR.
- (a)(2) Certifications pursuant to Rule 30a-2(a) under the Investment Company Act of 1940, as amended.
- (a)(3) Not applicable.
- (b) Certifications pursuant to Rule 30a-2(b) under the Investment Company Act of 1940, as amended.

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.

Aberdeen Australia Equity Fund, Inc.

By: */s/ Martin Gilbert*
Martin Gilbert,

President of

Aberdeen Australia Equity Fund, Inc.

Date: December 21, 2007

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/ Martin Gilbert*
Martin Gilbert,

President of

Aberdeen Australia Equity Fund, Inc.

Date: December 21, 2007

By: */s/ Alan Goodson*
Alan Goodson,

Treasurer of

Aberdeen Australia Equity Fund, Inc.

Date: December 21, 2007

EXHIBIT LIST

12(a)(1) Code of Ethics

A Registrant's Audit Committee Pre-Approval Policies and Procedures

B Registrant's Proxy Voting Policies

C Investment Manager's and Investment Adviser's Proxy Voting Policies

12(a)(2) Rule 30a-2(a) Certifications

12(b) Rule 30a-2(b) Certifications