

ABERDEEN AUSTRALIA EQUITY FUND INC
Form N-CSR
January 04, 2013

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:	1735 Market Street, 32 nd Floor Philadelphia, PA 19103
Name and address of agent for service:	Ms. Andrea Melia Aberdeen Asset Management Inc. 1735 Market Street 32 nd Floor Philadelphia, PA 19103
Registrant's telephone number, including area code:	866-839-5205
Date of fiscal year end:	October 31
Date of reporting period:	October 31, 2012

Item 1 Reports to Stockholders

Managed Distribution Policy (unaudited)

The Board of Directors of the Fund has authorized a managed distribution policy (MDP) 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. With each distribution, the Fund will issue a notice to shareholders and an accompanying press release which will provide detailed information regarding the amount and composition of the distribution and other information required by the Fund's MDP exemptive order. The Fund's Board of Directors may amend or terminate the MDP at any time without prior notice to shareholders; however, at this time, there are no reasonably foreseeable circumstances that might cause the termination of the MDP. You should not draw any conclusions about the Fund's investment performance from the amount of distributions or from the terms of the Fund's MDP.

Distribution Disclosure Classification (unaudited)

The Fund'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. Under the Investment Company Act of 1940, as amended (the 1940 Act), the Fund is required to indicate the sources of certain distributions to shareholders. The 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, 2012, consisted of 65% net investment income and 35% net realized long-term capital gains.

In January 2013, 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 2012 calendar year.

Dividend Reinvestment and Direct Stock Purchase Plan (unaudited)

Computershare Trust Company, N.A., the Fund's transfer agent, sponsors and administers a Dividend Reinvestment and Direct Stock Purchase Plan (the Plan), which is available to shareholders.

The Plan allows registered stockholders and first time investors to buy and sell shares and automatically reinvest dividends and capital gains through the transfer agent. This is a cost-effective way to invest in the Fund.

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Please note that for both purchases and reinvestment purposes, shares will be purchased in the open market at the current share price and cannot be issued directly by the Fund.

For more information about the Plan and a brochure that includes the terms and conditions of the Plan, please call Computershare at 1-800-647-0584 or visit www.computershare.com/buyaberdeen.

Letter to Shareholders (unaudited)

December 5, 2012

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, 2012. 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. Its secondary objective is current income, which is expected to be derived primarily from dividends and interest on Australian corporate and governmental securities.

Change in Investment Policy

The Fund invests primarily in equity securities of Australian companies. As reported in the January 13, 2012 press release and as previously disclosed in the Fund's April 30, 2012 Semi-Annual Report, effective March 14, 2012, the Board approved a change to the Fund's 80% non-fundamental policy. The Fund continues to invest in Australian equities but has greater flexibility to invest in Australian companies that are not listed on the Australian Stock Exchange Limited (ASX). Under the revised policy, the Fund invests 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, but only 65% of its assets must be invested in ASX-listed companies.

In addition, the Board approved changes to the criteria used for determining whether a company is an Australian Company for purposes of the Fund's 80% investment policy. Australian Companies are defined as companies that are tied economically to Australia. In determining whether an equity security is tied economically to Australia, the manager considers several criteria. The changes to the criteria are: (i) the criteria of the security being listed on S&P/Australian Stock Exchange Limited ASX 200 Accumulation Index was eliminated; (ii) listing on the ASX is one of several criteria to consider in classifying an issuer as an Australian Company; and (iii) whether a majority of an issuer's assets are located in Australia or a majority of an issuer's revenues are derived from Australian sources was added to the criteria. Upon effectiveness of the change, the criteria for determining whether a company is tied economically to Australia is whether the company: (i) is a constituent of the ASX; (ii) has its headquarters located in Australia; (iii) pays dividends on its stock in Australian dollars; (iv) has its accounts audited by Australian auditors; (v) is subject to Australian taxes levied by the Australian Taxation Office; (vi) holds its annual general meeting in Australia; (vii) has common stock/ordinary shares and/or other principal class of securities registered with Australian regulatory authorities for sale in Australia; (viii) is incorporated in Australia; or (ix) has a majority of its assets located in Australia or a majority of its revenues derived

from Australian sources. Certain of these criteria can be considered on their own in determining whether a company is tied economically to Australia, while others are only considered in combination with other criteria.

Total Return Performance

The Fund's total return, based on net asset value (NAV), was 8.9% for the year ended October 31, 2012 and 8.5% per annum since inception, assuming the reinvestment of dividends and distributions, compared to the October 31, 2012 annual return of 7.8%, in U.S. Dollar terms, for the S&P/ASX 200 Accumulation Index (ASX 200), the Fund's benchmark. The Fund's annual total return is based on the reported NAV on October 31, 2012.

Share Price and NAV

The Fund's share price increased by 0.7% over the year, from \$10.31 on October 31, 2011 to \$10.38 on October 31, 2012. The Fund's share price on October 31, 2012 represented a premium of 4.0% to the NAV per share of \$9.98 on that date, compared with a premium of 1.4% to the NAV per share of \$10.17 on October 31, 2011.

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 2012, the Board of Directors of the Fund (the Board) determined the

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rolling distribution rate to be 10% for the 12-month period commencing with the distribution payable in April 2012. This policy will be subject to regular review by the Board. The distributions will be made from current income, supplemented by realized capital gains and, to the extent necessary, paid-in capital, which is a non-taxable return of capital.

On December 11, 2012, the Fund announced that it will pay on January 11, 2013, a distribution of US \$0.25 per share to all shareholders of record as of December 31, 2012.

Open Market Repurchase Program

The Fund's policy is generally to buy back Fund shares on the open market when the Fund trades at certain discounts to NAV. During the fiscal year ended October 31, 2012 and fiscal year ended October 31, 2011, the Fund did not repurchase any shares.

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 Form N-Q filings are available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's

Aberdeen Australia Equity Fund, Inc.

Letter to Shareholders (unaudited) (concluded)

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 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 most recent twelve months ended June 30 is available by August 30 of the relevant year: (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

As part of our ongoing commitment to provide additional, timely information to investors, including Fund performance and investment strategy, we would like to highlight the monthly fact sheets including fund manager commentary, which are posted to the Fund's website at www.aberdeeniaf.com. Also, there are daily updates of share price, NAV and details of distributions. If you have any questions in relation to this information or suggestions on how to improve it further, we would be delighted to hear from you.

Please contact Aberdeen Asset Management Inc. by:

Calling toll free at 1-866-839-5205 in the United States;

Emailing InvestorRelations@aberdeen-asset.com;

Visiting Aberdeen Closed-End Fund Center at <http://www.aberdeen-asset.us/aam.nsf/usClosed/home>;

Visiting www.aberdeeniaf.com.

For additional information on Aberdeen's family of closed-end funds, we invite you to visit our Closed-End Investor Center at www.aberdeen-asset.us/cf.

From the site you will also be able to review Fund performance, download literature and sign up for email services. The site houses topical information about the funds, including fact sheets from Morningstar® that are updated daily, tools that permit you to conduct performance charting and timely information from our fund managers, among other data. When you enroll in our online email services, we can ensure that you are among the first to know about Aberdeen's latest closed-end fund news and receive alerts regarding upcoming fund manager web casts, films and other information.

Included within this report is a reply card with postage paid envelope. Please complete and mail the card if you would like to be added to our enhanced email service and receive future communication from Aberdeen.

Yours sincerely,

Christian Pittard

President

All amounts are U.S Dollars unless otherwise stated.

Aberdeen Australia Equity Fund, Inc.

2

Report of the Investment Manager (unaudited)

Economic Review

The first quarter of the Fund's fiscal year ended October 31, 2012, got off to a relatively flat start with the S&P/ASX 200 Accumulation Index (ASX 200), the Fund's benchmark, rising by 0.25%. One of the notable events for the quarter was the Reserve Bank of Australia cutting interest rates for the first time since April 2009 twice by 0.25%, leaving the cash rate at 4.25%. These reductions were primarily a result of worries concerning the debt crisis in Europe with bond yields in Italy rising to over 7.00%, although they eased towards the end of the quarter, and the prime ministers of both Italy and Greece resigning. In Europe, the European Central Bank reduced interest rates by another 0.25%. In the United States, the Federal Reserve indicated that interest rates were likely to remain low until 2014. Australian resource shares were impacted by concerns regarding a slowdown in the Chinese economy, but bounced back in January 2012 on a recovery in prices. At the end of the quarter, the Australian Dollar remained strong, buying 1.06 U.S. Dollar. The Utility sector was the strongest during the quarter and Consumer Discretionary was the weakest.

During the second quarter of the Fund's fiscal year, the ASX returned 2.49% with some wide divergence in sector performances. The best performing sector was Healthcare with a positive return of 14.90%, contrasted with Materials which returned (4.00)%. February is reporting season in Australia and earnings reports were generally mixed with analysts reducing their forward forecasts and companies commented on the negative effect of the strong Australian Dollar on their results. Despite these reports, the Fund did see some increased dividend pay-outs from some of its holdings. The Reserve Bank of Australia left interest rates unchanged over the quarter. One of the features affecting the Australian share market was the very subdued level of turnover compared to the prior year, an example February turnover was some 27.00% below the same time in 2011.

For the quarter ended July 31, 2012, the ASX 200 declined by 0.94%, as worries regarding the continuing decline of the European fiscal situation impacted stock market sentiment. Worries regarding the possible exit of Greece from the Euro, rising bond yields on Spanish debt and in Asia concern regarding slowing growth in China (albeit from high levels) impacted too. As a result, in May 2012 the Reserve Bank of Australia cut interest rates by 0.50% to 3.75% and this was followed by a further 0.25% cut in June 2012. In the same month China cut rates for the first time in a number of years, followed by a further cut in July 2012. Also in May 2012, the Australian Dollar fell against the U.S. Dollar, touching \$0.97, but recovered to end at \$0.0105 by the end of July 2012. The Telecommunications sector was the best performer for the quarter ended July 31, 2012 and Materials sector performed the poorest, declining by 14.30%.

The final quarter of the fiscal year was more positive with the ASX 200 up 5.91%. August is another reporting month in Australia and generally most results were in line with expectations and yet again pleasingly the Fund saw some decent but selective dividend increases from some of its holdings. Any comments from management accompanying results tended to be couched in cautionary terms. Stock market volumes remained low with October 2012's turnover rate down 24.00% from 2011. In October 2012, the Reserve Bank of Australia cut interest rates a further 0.25%, citing a slowdown in the mining sector and weakening global growth, so ending the Fund's fiscal year at 3.00%. In the United States during the quarter, the Federal Reserve indicated it would buy mortgage debt until the unemployment rate reduced. In Europe Standard & Poor's downgraded Spain's credit weighting to just above non-investment grade. The best performing sector was Information Technology and the worst performer was Utilities, which was slightly negative. The Australian Dollar ended the fiscal year against the U.S. Dollar at \$0.0138.

Aberdeen Asset Management Asia Limited

Aberdeen Australia Equity Fund, Inc.

Portfolio Composition (unaudited)

October 31, 2012

The following chart summarizes the composition of the Fund's portfolio, in industry classification standard sectors, expressed as a percentage of net assets. 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 ASX 200. As of October 31, 2012, the Fund did not have more than 25% of its assets invested in any industry group. The sectors, as classified by S&P's Global Industry Classification Standard Sectors, are comprised of several industry groups.

As of October 31, 2012, the Fund held 96.5% of its net assets in equities, 1.5% in a short-term investment and 2.0% in other assets in excess of liabilities.

Asset Allocation as of October 31, 2012

by Standard & Poor's Global Industry Classification Standard Sectors

Top Ten Equity Holdings (unaudited)

October 31, 2012

The following were the Fund's top ten holdings as of October 31, 2012:

Name of Security	Percentage of Net Assets
BHP Billiton PLC London Listing	10.0%
Woolworths Ltd.	7.1%
Rio Tinto PLC London Listing	6.9%
Commonwealth Bank of Australia	6.6%
Australia & New Zealand Banking Group Ltd.	6.3%
QBE Insurance Group Ltd.	6.2%
Westfield Group Ltd.	4.6%
SP AusNet	4.0%
Westpac Banking Corp. Ltd.	4.0%
AGL Energy Ltd.	4.0%

Aberdeen Australia Equity Fund, Inc.

Average Annual Returns (unaudited)

October 31, 2012

The following table summarizes Fund performance compared to the S&P/ASX 200 Accumulation Index (ASX 200), the Fund's benchmark, for the 1-year, 3-year, 5-year and 10-year periods as of October 31, 2012.

	1 Year	3 Years	5 Years	10 Years
Net Asset Value (NAV)	8.9%	6.7%	(1.1%)	14.4%
Market Value	11.8%	6.8%	0.0%	16.9%
Benchmark	7.8%	8.4%	(1.3%)	15.7%

Returns represent past performance. Total investment return at net asset value is based on changes in the net asset value of Fund shares and assumes reinvestment of dividends and distributions, if any, at market prices pursuant to the Fund's dividend reinvestment program. Total investment return at market value is based on changes in the market price at which the Fund's shares traded on the NYSE MKT during the period and assumes reinvestment of dividends and distributions, if any, at market prices pursuant to the Fund's dividend reinvestment program. The Fund's annual total return is based on the reported NAV on October 31, 2012. Because the Fund's shares trade in the stock market based on investor demand, the Fund may trade at a price higher or lower than its NAV. Therefore, returns are calculated based on both market price and NAV. **Past performance is no guarantee of future results.** The performance information provided does not reflect the deduction of taxes that a shareholder would pay on distributions received from the Fund. The current performance of the Fund may be lower or higher than the figures shown. The Fund's yield, return, market price and NAV will fluctuate. Performance information current to the most recent month-end is available by calling 866-839-5205.

The net operating expense ratio is 1.33%.

Aberdeen Australia Equity Fund, Inc.

Portfolio of Investments

As of October 31, 2012

Shares	Description	Value (US\$)
LONG-TERM INVESTMENTS 96.5%*		
COMMON STOCKS 96.5%		
CONSUMER DISCRETIONARY 3.5%		
1,262,000	David Jones Ltd.	\$ 3,492,828
1,551,200	Tatts Group Ltd.	4,505,178
		7,998,006
CONSUMER STAPLES 9.6%		
407,900	Coca-Cola Amatil Ltd.	5,690,928
520,100	Woolworths Ltd.	15,864,023
		21,554,951
ENERGY 3.5%		
122,600	Woodside Petroleum Ltd.	4,371,451
135,200	WorleyParsons Ltd.	3,457,312
		7,828,763
FINANCIALS 36.4%		
1,778,100	AMP Ltd.	8,459,745
537,650	Australia & New Zealand Banking Group Ltd.	14,183,877
286,100	Australian Stock Exchange Ltd.	8,809,071
246,850	Commonwealth Bank of Australia	14,782,737
1,018,100	QBE Insurance Group Ltd.	13,909,225
943,800	Westfield Group Ltd.	10,432,871
701,960	Westfield Retail Trust	2,254,043
342,200	Westpac Banking Corp. Ltd.	9,047,052
		81,878,621
HEALTH CARE 5.1%		
62,450	Cochlear Ltd.	4,612,038
139,950	CSL Ltd.	6,902,428
		11,514,466
INFORMATION TECHNOLOGY 3.2%		
807,250	Computershare Ltd.	7,269,825
MATERIALS 23.7%		
700,850	BHP Billiton PLC - London Listing	22,463,090
1,323,400	Incitec Pivot Ltd.	4,334,514
240,700	Newcrest Mining Ltd.	6,638,491
170,100	Orica Ltd.	4,430,900
310,900	Rio Tinto PLC - London Listing	15,531,448
		53,398,443
TELECOMMUNICATION SERVICES 3.5%		
2,966,300	Singapore Telecommunications Ltd.	7,810,750
UTILITIES 8.0%		
594,500	AGL Energy Ltd.	8,965,530
8,303,000	SP AusNet	9,134,649
		18,100,179
	Total Long-Term Investments 96.5% (cost \$186,812,334)	217,354,004

See Notes to Financial Statements.

Aberdeen Australia Equity Fund, Inc.

Portfolio of Investments (concluded)

As of October 31, 2012

Par		Value
Amount	Description	(US\$)
SHORT-TERM INVESTMENT 1.5%		
\$ 3,440,000	Repurchase Agreement, State Street Bank & Trust Co., 0.15% dated 10/31/2012, due 11/01/2012 in the amount of \$3,440,014 collateralized by U.S. Treasury Note, maturing 8/31/18; total market value of \$3,510,500	\$ 3,440,000
	Total Short-Term Investment 1.5% (cost \$3,440,000)	3,440,000
	Total Investments 98.0% (cost \$190,252,334)	220,794,004
	Other Assets in Excess of Liabilities 2.0%	4,440,698
	Net Assets 100.0%	\$ 225,234,702

* Security valued at fair value utilizing fair value model in accordance with valuation policies approved by the Board of Directors. See Note 2 of the accompanying Notes to Financial Statements.

See Notes to Financial Statements.

Aberdeen Australia Equity Fund, Inc.

Statement of Assets and Liabilities

As of October 31, 2012

Assets	
Investments, at value (cost \$186,812,334)	\$ 217,354,004
Repurchase agreement, at value (cost \$3,440,000)	3,440,000
Foreign currency, at value (cost \$4,399,449)	4,438,151
Cash	457
Interest and dividends receivable	99,817
Prepaid expenses in connection with the at-the-market stock offering	152,559
Prepaid expenses	45,236
Total assets	225,530,224
Liabilities	
Investment management fees payable (Note 3)	167,431
Administration fees (Note 3)	16,044
Investor relations fees payable (Note 3)	13,142
Other	98,905
Total liabilities	295,522
Net Assets	\$ 225,234,702
Composition of Net Assets:	
Common stock (par value \$.01 per share)	\$ 225,741
Paid-in capital in excess of par	164,921,111
Distributions in excess of net investment income	(1,287,616)
Accumulated net realized gain from investment transactions	234,039
Net unrealized appreciation on investments	11,109,520
Accumulated net realized foreign exchange gains	30,559,411
Net unrealized foreign exchange gains	19,472,496
Net Assets	\$ 225,234,702
Net asset value per common share based on 22,574,121 shares issued and outstanding	\$ 9.98(a)

(a) The NAV shown differs from the reported NAV on October 31, 2012 due to financial statement rounding and/or financial statement adjustments.

See Notes to Financial Statements.

Aberdeen Australia Equity Fund, Inc.

Statement of Operations

For the Year Ended October 31, 2012

Net Investment Income

Income

Dividend income (net of foreign withholding taxes of \$76,655)	\$ 10,388,291
Interest and other income	109,958
	10,498,249

Expenses

Investment management fee (Note 3)	1,832,649
Administration fee (Note 3)	175,160
Directors' fees and expenses	294,364
Investor relations fees and expenses (Note 3)	156,215
Reports to shareholders and proxy solicitation	106,878
Insurance expense	103,887
Independent auditors' fees and expenses	58,400
Legal fees and expenses	50,863
Custodian's fees and expenses	46,023
Transfer agent's fees and expenses	29,573
Miscellaneous	61,380
Total expenses	2,915,392

Net investment income	7,582,857
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Realized and Unrealized Gains/(Losses) on Investments and Foreign Currencies

Net realized gain/(loss) from:

Investment transactions	19,758,990
Foreign currency transactions	(38,938)
	19,720,052

Net change in unrealized appreciation/(depreciation) on:

Investments	6,177,944
Foreign currency translation	(13,634,382)
	(7,456,438)

Net gain from investments and foreign currencies	12,263,614
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Net Increase in Net Assets Resulting from Operations	\$ 19,846,471
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See Notes to Financial Statements.

Aberdeen Australia Equity Fund, Inc.

Statements of Changes in Net Assets

	For the Year Ended October 31, 2012	For the Year Ended October 31, 2011
Increase/(Decrease) in Net Assets		
Operations:		
Net investment income	\$ 7,582,857	\$ 8,400,931
Net realized gain from investment transactions	19,758,990	23,509,543
Net realized loss from foreign currency transactions	(38,938)	(78,187)
Net change in unrealized appreciation/depreciation on investments	6,177,944	(39,509,184)
Net change in unrealized appreciation/depreciation on foreign currency translation	(13,634,382)	897,323
Net increase/(decrease) in net assets resulting from operations	19,846,471	(6,779,574)
Distributions to Shareholders from:		
Net investment income	(15,968,371)	(11,407,825)
Net realized gains	(8,411,680)	(9,817,561)
Tax return of capital		(3,898,244)
Net decrease in net assets from distributions	(24,380,051)	(25,123,630)
Common Stock Transactions:		
Proceeds from the secondary stock offering (Note 5)		31,250,000
Proceeds from the at-the-market stock offering (Note 5)		9,050,999
Expenses in connection with the secondary stock offering		(1,753,771)
Expenses in connection with the at-the-market stock offering (Note 5)	152,559	(201,098)
Change in net assets from common stock transactions	152,559	38,346,130
Change in net assets resulting from operations	(4,381,021)	6,442,926
Net Assets:		
Beginning of year	229,615,723	223,172,797
End of year (including distributions in excess of net investment income of (\$1,287,616) and (\$5,079,344), respectively)	\$ 225,234,702	\$ 229,615,723
Amounts listed as	are \$0 or round to \$0.	

See Notes to Financial Statements.

Aberdeen Australia Equity Fund, Inc.

Financial Highlights

	For the Year Ended October 31,				
	2012	2011	2010	2009	2008
Per Share Operating Performance^(a):					
Net asset value, beginning of year	\$10.17	\$11.58	\$10.96	\$8.37	\$18.53
Net investment income	0.34	0.39	0.32	0.29	0.51
Net realized and unrealized gains/(losses) on investments and foreign currencies	0.54	(0.68)	1.31	3.34	(8.83)
Total from investment operations	0.88	(0.29)	1.63	3.63	(8.32)
Distributions from:					
Net investment income	(0.71)	(0.52)	(0.50)	(0.31)	(0.24)
Net realized gains	(0.37)	(0.44)	(0.06)		(0.84)
Tax return of capital		(0.18)	(0.45)	(0.73)	(0.76)
Total distributions	(1.08)	(1.14)	(1.01)	(1.04)	(1.84)
Offering cost on common stock	0.01	(0.09)			
Impact of shelf offering		0.11			
Net asset value, end of year	\$9.98	\$10.17	\$11.58	\$10.96	\$8.37
Market value, end of year	\$10.38	\$10.31	\$12.70	\$11.40	\$8.60
Total Investment Return Based on^(b):					
Market value	11.83%	(10.51%)	21.62%	50.76%	(45.57%)
Net asset value	9.00% ^(c)	(3.19%)	15.35%	48.92%	(47.83%)
Ratio to Average Net Assets/Supplementary Data:					
Net assets, end of year (000 omitted)	\$225,235	\$229,616	\$223,173	\$210,866	\$160,886
Average net assets (000 omitted)	\$218,950	\$244,946	\$211,324	\$163,795	\$282,702
Net operating expenses	1.33%	1.34%	1.39%	1.73%	1.26%
Net investment income	3.46%	3.43%	2.91%	3.41%	3.46%
Portfolio turnover	21%	30%	11%	16%	22%

(a) Based on average shares outstanding.

(b) Total investment return is calculated assuming a purchase of common stock on the opening of the first day and a sale on the closing of the last day of each period reported. Dividends and distributions, if any, 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.

(c) The total return shown above includes the impact of financial statement rounding of the NAV per share.

Amounts listed as are \$0 or round to \$0.

See Notes to Financial Statements.

Aberdeen Australia Equity Fund, Inc.

Notes to Financial Statements

October 31, 2012

1. Organization

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. Its secondary objective is current income, which is expected to be derived primarily from dividends and interest on Australian corporate and governmental securities. The Fund invests 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 companies tied economically to Australia (each an Australian Company), and at least 65% of its total assets in equity securities, consisting of common stock, preferred stock and convertible stock, listed on the Australian Stock Exchange Limited (ASX). This 80% investment policy is a non-fundamental policy of the Fund and may be changed by the Fund's Board of Directors (the Board) upon 60 days prior written notice to shareholders. The Board established the following criteria for determining whether a company is tied economically to Australia for purposes of the 80% test (and therefore an Australian Company), whether the company (i) is a constituent of the ASX; (ii) has its headquarters located in Australia, (iii) pays dividends on its stock in Australian Dollars; (iv) has its accounts audited by Australian auditors; (v) is subject to Australian taxes levied by the Australian Taxation Office; (vi) holds its annual general meeting in Australia; (vii) has common stock/ordinary shares and/or other principal class of securities registered with Australian regulatory authorities for sale in Australia; (viii) is incorporated in Australia; or (ix) has a majority of its assets located in Australia or a majority of its revenues are derived from Australian sources. In addition to its non-fundamental 80% investment policy, the Fund has a fundamental policy to invest at least 65% of its total assets in equity securities, consisting of common stock, preferred stock and convertible preferred stock listed on the ASX. There can be no assurance that the Fund will achieve its investment objective.

2. Summary of Significant Accounting Policies

The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statements. The policies are in conformity with accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses for the period. Actual results could differ from those estimates. The accounting records of the Fund are maintained in U.S. Dollars and the U.S. Dollar is used as both the functional and reporting currency. However, the Australian Dollar is the functional currency for U.S. federal tax purposes.

(a) Security Valuation:

The Fund is required to value its securities at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Equity securities that are traded on an exchange are valued at the last quoted sale price on the principal exchange on which the security is traded at the Valuation Time. The Valuation Time is as of the close of regular trading on the New York Stock Exchange (usually 4:00 p.m. Eastern Time). In the absence of a sale price, the security is valued at the mean of the bid/ask quoted at the close on the principal exchange on which the security is traded. Securities traded on NASDAQ are valued at the NASDAQ official closing price. A security using any of these pricing methodologies is determined as a Level 1 investment.

Foreign equity securities that are traded on foreign exchanges that close prior to the Valuation Time are valued by applying fair valuation factors to the last sale price. Fair valuation factors are provided by an independent pricing service provider. If the pricing service is unable to provide a valuation factor, or if the valuation factor falls below a predetermined threshold, the security is valued at the last sale price and classified as a Level 1 investment. A security that applies a fair valuation factor is generally a Level 2 investment.

In the event that a security's market quotations are not readily available or are deemed unreliable, the fair value of a security is determined by the Fund's Pricing Committee, taking into account the relevant factors and surrounding circumstances. A security that has been fair valued by the Pricing Committee may be classified as Level 2 or 3 depending on the nature of the inputs.

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In accordance with the authoritative guidance on fair value measurements and disclosures under GAAP, the Fund discloses the fair value of its investments using a three-level hierarchy that classifies the inputs to valuation techniques used to measure the fair value. The hierarchy assigns Level 1 measurements to valuations based upon unadjusted quoted prices in active markets for identical assets and Level 3 measurements to valuations based upon unobservable inputs that are significant to the valuation. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability, which are based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The three-tier hierarchy of inputs is summarized below:

Level 1 quoted prices in active markets for identical investments;

Aberdeen Australia Equity Fund, Inc.

Notes to Financial Statements (continued)

October 31, 2012

Level 2 other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk); or

Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments).

A financial instrument's level within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. A summary of standard inputs is listed below:

Security Type	Standard Inputs
Foreign equities utilizing a fair valuation factor	Fair value of market and/or sector indices, futures, depository receipts, ETFs, exchange rates, and historical opening and closing prices of each security

The following is a summary of the inputs used as of October 31, 2012 in valuing the Fund's investments carried at fair value. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Please refer to the Portfolio of Investments for a detailed breakout of the security types:

Investments	Level 1	Level 2	Level 3	Total
Long-Term Investments	\$	\$ 217,354,004	\$	\$ 217,354,004
Short-Term Investment		3,440,000		3,440,000
Total Investments	\$	\$ 220,794,004	\$	\$ 220,794,004

Amounts listed as are \$0 or round to \$0.

For movements between the levels within the fair value hierarchy, the Fund has adopted a policy of recognizing transfers at the end of each period. During the year ended October 31, 2012, there were no transfers between fair value measurement levels. For the year ended October 31, 2012, there have been no significant changes to the fair valuation methodologies.

(b) Repurchase Agreements:

The Fund may enter into repurchase agreements. 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 interest. The repurchase price generally equals the price paid by the Fund plus interest negotiated on the basis of current short-term rates. 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 counterparty defaults and the value of the collateral declines or if bankruptcy proceedings are commenced with respect to the counterparty of the security, realization of the collateral by the Fund may be delayed or limited. The Fund held a repurchase agreement of \$3,440,000 as of October 31, 2012.

(c) Restricted Securities:

Restricted securities are privately-placed securities whose resale is restricted under U.S. securities laws. The Fund may invest in restricted securities, including unregistered securities eligible for resale without registration pursuant to Rule 144A and privately-placed securities of U.S. and non-U.S. issuers offered outside the U.S. without registration pursuant to Regulation S under the Securities Act of 1933, as amended (the 1933 Act). Rule 144A securities may be freely traded among certain qualified institutional investors, such as the Fund, but resale of such securities in the U.S. is permitted only in limited circumstances.

(d) Foreign Currency Translation:

Foreign securities, currencies, and other assets and liabilities denominated in foreign currencies are translated into U.S. Dollars at the exchange rate of said currencies against the U.S. Dollar, as of the Valuation Time, as provided by an independent pricing service approved by the Board.

Foreign currency amounts are translated into U.S. Dollars on the following basis:

(i) market value of investment securities, other assets and liabilities at the exchange rates at the current daily rates of exchange; 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 from changes in the foreign exchange rates due to the fluctuations in the market prices of the 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 exchange gain/(loss) is realized from sales and maturities of portfolio securities, sales of foreign currencies, settlement of securities transactions, dividends, interest and foreign withholding taxes recorded on the Fund's books. Net unrealized foreign exchange appreciation/(depreciation) includes changes in the value of portfolio securities and other assets and liabilities arising as a result of changes in the exchange rate. The net realized and unrealized foreign exchange gain/(loss) shown in the composition of net assets

Aberdeen Australia Equity Fund, Inc.

Notes to Financial Statements (continued)

October 31, 2012

represents foreign exchange gain/(loss) 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 U.S. Dollar. Generally, when the U.S. Dollar rises in value against foreign currency, the Fund's investments denominated in that currency will lose value because its currency is worth fewer U.S. Dollars; the opposite effect occurs if the U.S. Dollar falls in relative value.

(e) Security Transactions, Investment Income and Expenses:

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 except for certain dividends on foreign securities, which are recorded as soon as the Fund is informed after the ex-dividend date. Interest income is recorded on an accrual basis. Expenses are recorded on an accrual basis.

(f) Distributions:

The Fund has a managed distribution policy to pay distributions from net investment income supplemented by net realized foreign exchange gains, net realized short-term capital gains and return of capital distributions, if necessary, on a quarterly basis. The managed distribution policy is subject to regular review by the Board. The Fund will also declare and pay distributions at least annually from net realized gains on investment transactions and net realized foreign exchange gains, if any. Dividends and distributions to shareholders are recorded on the ex-dividend date.

Dividends and distributions to shareholders are determined in accordance with federal income tax regulations, which may differ from GAAP. These differences are primarily due to differing treatments for foreign currencies, loss deferrals and recognition of market discount and premium.

(g) Federal Income Taxes:

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. federal tax purposes.

The Fund intends to qualify or continue to qualify as a regulated investment company by complying with the provisions available to certain investment companies, as defined in Subchapter M of the Internal Revenue Code, and to make distributions of net investment

income and net realized capital gains sufficient to relieve the Fund from all, or substantially all, federal income taxes. Therefore, no federal income tax provision is required. Since tax authorities can examine previously filed tax returns, the Fund's U.S. federal and state tax returns for each of the four fiscal years up to the most recent fiscal year ended October 31 are subject to such review.

(h) Earnings Credits:

The Fund's custodial arrangements include a provision to reduce its custodial fees by the amount of earnings credits recognized on cash deposits in demand deposit accounts.

3. Agreements and Transactions with Affiliates

(a) Investment Manager and Investment Adviser:

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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 Manager and the Investment Adviser are wholly-owned subsidiaries 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 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 is 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 \$451,097 to the Investment Adviser with respect to the Fund during the fiscal year ended October 31, 2012.

(b) Fund Administration:

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 fee rate of 0.08% of the Fund's average weekly Managed Assets up to \$500 million, 0.07% of the Fund's average weekly Managed Assets between \$500 million and

Aberdeen Australia Equity Fund, Inc.

Notes to Financial Statements (continued)

October 31, 2012

\$1.5 billion, and 0.06% of the Fund's average weekly Managed Assets in excess of \$1.5 billion.

(c) Investor Relations:

Under the terms of an Investor Relations Services Agreement, AAMI serves as the Fund's investor relations services provider.

Pursuant