

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)	