

ABERDEEN AUSTRALIA EQUITY FUND INC  
Form N-CSR  
January 07, 2016

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 <sup>nd</sup> Floor Philadelphia, PA 19103
Name and address of agent for service:	Ms. Andrea Melia Aberdeen Asset Management Inc. 1735 Market Street 32 <sup>nd</sup> Floor Philadelphia, PA 19103
Registrant's telephone number, including area code:	800-522-5465
Date of fiscal year end:	October 31
Date of reporting period:	October 31, 2015

**Item 1 Reports to Stockholders** The Report to Shareholders is attached herewith.



## 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 rules, the amount applicable to the Fund and character 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 Section 19 of 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 income, expenses and 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, 2015 consisted of 33% net investment income, 18% net realized gains and 49% tax return of capital.

In January 2016, 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 2015 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](http://www.computershare.com/buyaberdeen).

## Letter to Shareholders (unaudited)

### Dear Shareholder,

We present this Annual Report covers the activities of Aberdeen Australia Equity Fund, Inc. (the Fund) for the fiscal year ended October 31, 2015. 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.

### Total Return Performance

The Fund's total return, based on net asset value (NAV) net of fees, was -14.9% for the fiscal year ended October 31, 2015 and 7.0% per annum since inception, assuming the reinvestment of dividends and distributions, compared to the October 31, 2015 annual return of -19.4%, in U.S. Dollar terms, for the S&P/ASX 200 Accumulation Index (ASX 200) the Fund's benchmark. The Fund's total return for the fiscal year ended October 31, 2015 and per annum since inception is based on the reported NAV on each period end.

### Share Price & NAV

For the one year ended October 31, 2015, based on market price, the Fund's total return was -20.6%, assuming reinvestment of dividends and distributions. The Fund's share price decreased by 29.9% over the one year from \$7.95 on October 31, 2014 to \$5.57 on October 31, 2015. The Fund's share price on October 31, 2015 represented a discount of 10.3% to the NAV per share of \$6.21 on that date, compared with a discount of 3.9% to the NAV per share of \$8.27 on October 31, 2014.

### 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 2015, the Board of Directors of the Fund (the Board) determined the rolling distribution rate to be 10% for the 12-month period commencing with the distribution payable in March 2015. 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 9, 2015, the Fund announced that it will pay on January 12, 2016, a distribution of US \$0.18 per share to all shareholders of record as of December 31, 2015.

### 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, 2015, the Fund repurchased 64,497 shares.

### Portfolio Holdings Disclosure

The Fund's complete schedule of portfolio holdings for the second and fourth quarters of each Fiscal year is included in the Fund's semi-annual and annual report to shareholders. 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 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 1-800-522-5465.

### Proxy Voting

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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 1-800-522-5465; and (ii) on the SEC's website at <http://www.sec.gov>.

### Unclaimed Share Accounts

Please be advised that abandoned or unclaimed property laws for certain states require financial organizations to transfer (escheat) unclaimed property (including Fund shares) to the state. Each state has its own definition of unclaimed property, and Fund shares could be considered unclaimed property due to account inactivity (e.g., no owner-generated activity for a certain period), returned mail (e.g., when mail sent to a shareholder is returned to the Fund's transfer

<sup>1</sup> The S&P/ASX 200 index is a market-capitalization weighted and float-adjusted stock market index of Australian stocks listed on the Australian Securities Exchange from Standard & Poor's. Indexes are unmanaged and have been provided for comparison purposes only. No fees or expenses are reflected. You cannot invest directly in an index.

Aberdeen Australia Equity Fund, Inc.

## Letter to Shareholders (unaudited) (concluded)

agent as undeliverable), or a combination of both. If your Fund shares are categorized as unclaimed, your financial advisor or the Fund's transfer agent will follow the applicable state's statutory requirements to contact you, but if unsuccessful, laws may require that the shares be escheated to the appropriate state. If this happens, you will have to contact the state to recover your property, which may involve time and expense. For more information on unclaimed property and how to maintain an active account, please contact your financial advisor or the Fund's transfer agent.

### Investor Relations Information

As part of Aberdeen's commitment to shareholders, I invite you to visit the Fund on the web at [www.aberdeeniab.com](http://www.aberdeeniab.com). From this page, you can view monthly fact sheets, portfolio manager commentary, distribution and performance information, updated daily fact sheets courtesy of Morningstar®, portfolio charting and other timely data.

Enroll in our email services and be among the first to receive the latest closed-end fund news, announcements of upcoming fund manager webcasts, films and other information. In addition, you can receive electronic versions of important Fund documents including annual reports, semi-annual reports, prospectuses, and proxy statements. Sign-up today at [www.aberdeen-asset.us/aam.nsf/usclosed/email](http://www.aberdeen-asset.us/aam.nsf/usclosed/email).

Please take a look at Aberdeen's award-winning Closed-End Fund Talk Channel, where a series of fund manager webcasts and short films are posted. Visit Aberdeen's Closed-End Fund Talk Channel at [www.aberdeen-asset.us/aam.nsf/usclosed/aberdeentv](http://www.aberdeen-asset.us/aam.nsf/usclosed/aberdeentv).

Contact us

Visit us: <http://www.aberdeen-asset.us/cef> or [www.aberdeeniab.com](http://www.aberdeeniab.com);

Watch us: [www.aberdeen-asset.us/aam.nsf/usclosed/aberdeentv](http://www.aberdeen-asset.us/aam.nsf/usclosed/aberdeentv);

Email us: [InvestorRelations@aberdeen-asset.com](mailto:InvestorRelations@aberdeen-asset.com); or

Call us: 1-800-522-5465 (toll free in the U.S.)

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 communications from Aberdeen.

Yours sincerely,

/s/ Christian Pittard

**Christian Pittard**

President

**All amounts are U.S. Dollars unless otherwise stated.**





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## Report of the Investment Manager (unaudited)

### Market/economic review

Australian equities recorded negative returns for the 12-month period ended October 31, 2015, with gains in the first half giving way to a global sell-off on the back of Beijing's unexpected yuan devaluation and worries that the slowing Chinese economy would hurt growth prospects across the world. Also depressing market sentiment was the plunge in iron ore prices, which subsequently recovered some lost ground, as well as a banking sector sell-off as lenders were hamstrung by slowing loan growth, narrowing margins and large capital raises. Meanwhile, the U.S. Federal Reserve's deliberation over the normalization of interest rates added to overall uncertainty, even though the Australian dollar had depreciated against its U.S. counterpart on earlier expectations of an interest rate hike. Towards the end of the review period, however, Australian equities were buoyed by China's sixth interest-rate cut in 2015, as well as on hopes of further easing of monetary policy in Europe and Japan.

In economic news, consumer and business confidence improved, although business conditions appeared to worsen. The nation's unemployment rate fell to 5.9% in October, and consumer prices rose by less than expected in the third quarter of 2015. Home sales fell in September because of restrictive credit conditions, whereas leading economic indicators dipped marginally in August, pointing to persistent downside risks to growth. The Reserve Bank of Australia maintained its benchmark interest rate at a record low of 2%.

Investors generally viewed the federal budget as positive for small businesses and households. Malcolm Turnbull ousted Tony Abbott as leader of the Liberal Party and was sworn in as prime minister, the fifth leadership change in as many years.

### Fund performance review

At the stock level, the most notable contributors to Fund performance for the reporting period included Resmed Inc., a developer and manufacturer of medical equipment for sleep-disorder breathing conditions. The company delivered positive results over the period as it gained market share with its innovative and market-leading product offering. Fund performance also was bolstered by the position in integrated communications service provider Singapore Telecommunications, as its shares performed well ahead of its de-listing from the Australian Securities Exchange. We exited the position ahead of its de-listing. Finally, the Fund's holding in Australian Securities Exchange operator ASX Ltd. also benefited performance. We like the company's quasi-monopoly in equity securities, strong market proposition in derivatives and fixed-income securities, and advanced computer systems for both trading and settlement.

Conversely, the Fund's lack of exposure to Macquarie Group hindered performance relative to the benchmark as the diversified financial services company benefited from the low interest-rate environment, the weaker Australian dollar, better trading conditions in investment banking, buoyant equity markets and greater fees from its asset management division. Management upgraded its earnings forecast for the full 2015 fiscal year as operating leverage began to have a positive impact across its businesses. The Fund's holdings in BHP Billiton and Rio Tinto also detracted from performance as shares of the miners moved lower over the period amid the continued slide in iron ore prices. However, both companies reported generally positive results during the period, achieving production growth as well as better expense and capital efficiencies. In the first half of the reporting period, Rio Tinto announced a higher-than-expected share buyback and a 12% increase in its full-year 2014 dividend early in the reporting period attributable to its solid free cash-flow generation. BHP Billiton also maintained a progressive dividend policy, although we think that it may be subject to a review by management. We believe that both miners remain committed to expense- and capital-management initiatives in an effort to improve shareholder value.

Regarding Fund activity over the period, as mentioned earlier, we sold Singapore Telecom ahead of its de-listing from the Australian Securities Exchange; mining and industrial services company Orica, which faced longer-term challenges in its core Australian market, given weak demand and potential for significant margin pressure; and infrastructure company Worley Parsons on our expectations that it may face notable margin pressure for an extended period, as weak oil prices compel its oil and gas sector clients to slash capital spending. We also continued to reduce the exposure to retailer Woolworths, given our ongoing concerns over the operating environment and its internal restructure.

Conversely, we initiated a holding in Adelaide Brighton, as we believe that it has a dominant positions in cement and lime businesses across Australia, backed by a robust balance sheet with the potential for future capital management. We also established a new position in Amcor, a leading global maker of integrated packaging and related services. After monitoring the company's management for some time, we grew

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comfortable with its measured approach to growth. We also like the company's market-leading position and strong relative returns relative to those of its peers. Additionally, we initiated holdings in Brambles, given the steady cash flow from its core pallet business and growth from its reusable plastic containers segment, and in Telstra, Australia's largest telecommunication services provider, given its dominant market position and its new

Aberdeen Australia Equity Fund, Inc.

## Report of the Investment Manager (unaudited) (concluded)

National Broadband Network deal with the federal government. We also received the Fund's allocation of shares in miner South32, in the spin-off from BHP Billiton, and subsequently added to the position, as we believe that it has an attractive portfolio of assets, cost-savings potential and an appealing valuation. We also increased the position in property development company Scentre because we feel that it has a relatively attractive valuation, as well as in Incitec Pivot, a maker of fertilizers, industrial explosives and chemicals, as future cash-flow generation from its Louisiana plant will not only enhance its operations, but also may provide for capital management in the longer term, in our opinion.

### Outlook

We anticipate that global market volatility may continue over the next 12 months, driven mainly by macroeconomic events and sovereign geopolitical concerns. Specifically for Australian equities, however, we remain cautiously optimistic as lower interest rates spur consumption and the labor market stabilizes. Following the recent reporting season, we believe that the balance sheets of the Fund's holdings remain in solid shape, with many having taken the difficult decisions to cut costs ahead of this economic transition. In our view, political uncertainty and consumer and corporate confidence remain the key risks. We think that greater privatization and infrastructure spending may stimulate the economy, supported by an upward revision in the government's capital expenditure plans for 2016.

### Aberdeen Asset Management Asia Limited

Aberdeen Australia Equity Fund, Inc.

## Total Investment Returns (unaudited)

The following table summarizes the average annual 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, 2015.

	1 Year	3 Years	5 Years	10 Years
Net Asset Value (NAV)	-14.9%	-4.9%	-1.9%	4.6%
Market Value	-20.6%	-9.5%	-5.8%	2.5%
Benchmark	-19.4%	-3.0%	0.5%	5.7%

*Aberdeen Asset Management Inc. has entered into an agreement with the Fund to limit investor relations services fees, without which performance would be lower. See Note 3 in the Notes to Financial Statements. Returns represent past performance. Total investment return at NAV is based on changes in the NAV of Fund shares and assumes reinvestment of dividends and distributions, if any, at market prices pursuant to the Fund's dividend reinvestment program sponsored by the Fund's transfer agent. All return data at NAV includes fees charged to the Fund, which are listed in the Fund's Statement of Operations under Expenses. The Fund's total return is based on the reported NAV on each annual period end. 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 sponsored by the Fund's transfer agent. 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 at [www.aberdeeniaf.com](http://www.aberdeeniaf.com) or by calling 800-522-5465.*

*The net operating expense ratio excluding fee waivers based on the fiscal year ended October 31, 2015 was 1.45%. The net operating expense ratio net of fee waivers based on the fiscal year ended October 31, 2015 was 1.45%.*

Aberdeen Australia Equity Fund, Inc.

## Portfolio Composition (unaudited)

The following table summarizes the composition of the Fund's portfolio, in Standard & Poor's Global Industry Classification Standard (GICS) sectors, expressed as a percentage of net assets. As of October 31, 2015, the GICS structure consists of 10 sectors, 24 industry groups, 67 industries and 156 subindustries. 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 ASX 200. As of October 31, 2015, the Fund did not have more than 25% of its assets invested in any industry group.

As of October 31, 2015, the Fund held 97.4% of its net assets in equities, 1.0% in a short-term investment and 1.6% in other assets in excess of liabilities.

### Asset Allocation by Sector

Top Sectors	Percentage of Net Assets
Financials	38.9%
Materials	20.0%
Health Care	13.6%
Utilities	8.0%
Energy	5.3%
Telecommunication Services	4.2%
Consumer Staples	3.9%
Consumer Discretionary	1.9%
Industrials	1.6%
Other	2.6%
	100.0%

## Top Ten Equity Holdings (unaudited)

The following were the Fund's top ten holdings as of October 31, 2015:

Name of Security	As a Percentage of Net Assets
BHP Billiton PLC London Listing	6.4%
CSL Ltd.	6.3%
Commonwealth Bank of Australia	6.3%
Rio Tinto PLC London Listing	6.1%
ASX Ltd.	5.8%
Westpac Banking Corp. Ltd.	5.2%

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Westfield Corp., REIT	4.8%
AMP Ltd.	4.5%
AGL Energy Ltd.	4.5%
Telstra Corp. Ltd.	4.3%

Aberdeen Australia Equity Fund, Inc.

## Portfolio of Investments

As of October 31, 2015

Shares	Description	Value (US\$)
<b>LONG-TERM INVESTMENTS 97.4% (a)</b>		
<b>COMMON STOCKS 97.4%</b>		
<b>CONSUMER DISCRETIONARY 1.9%</b>		
980,500	Tatts Group Ltd.	\$ 2,752,978
<b>CONSUMER STAPLES 3.9%</b>		
439,200	Coca-Cola Amatil Ltd.	2,842,168
154,425	Woolworths Ltd.	2,645,488
		<b>5,487,656</b>
<b>ENERGY 5.3%</b>		
143,500	Caltex Australia Ltd.	3,212,430
208,200	Woodside Petroleum Ltd.	4,366,569
		<b>7,578,999</b>
<b>FINANCIALS 38.9%</b>		
1,590,100	AMP Ltd.	6,449,142
282,900	ASX Ltd.	8,270,237
310,400	Australia & New Zealand Banking Group Ltd.	6,003,226
164,661	Commonwealth Bank of Australia	8,940,757
853,800	Medibank Pvt Ltd.	1,432,372
518,200	QBE Insurance Group Ltd.	4,850,736
1,753,400	Scentre Group	5,142,950
938,300	Westfield Corp.	6,807,478
329,200	Westpac Banking Corp. Ltd.	7,332,603
		<b>55,229,501</b>
<b>HEALTH CARE 13.6%</b>		
79,800	Cochlear Ltd.	5,036,435
134,700	CSL Ltd.	8,953,543
281,173	Healthscope Ltd.	538,296
841,700	ResMed, Inc.	4,780,974
		<b>19,309,248</b>
<b>INDUSTRIALS 1.6%</b>		
317,000	Brambles Ltd.	<b>2,334,380</b>
<b>MATERIALS 20.0%</b>		
728,100	Adelaide Brighton Ltd.	2,162,692
408,800	Amcor Ltd.	3,948,519
567,100	BHP Billiton PLC - London Listing	9,064,539
1,296,100	Incitec Pivot Ltd.	3,619,415
236,200	Rio Tinto PLC - London Listing	8,608,362
936,300	South32 Ltd. - London Listing (b)	962,567
		<b>28,366,094</b>
<b>TELECOMMUNICATION SERVICES 4.2%</b>		
1,579,200	Telstra Corp. Ltd.	<b>6,050,931</b>
<b>UTILITIES 8.0%</b>		
535,700	AGL Energy Ltd.	6,352,680
4,876,900	AusNet Services	5,001,917
		<b>11,354,597</b>
	<b>Total Long-Term Investments 97.4% (cost \$156,680,859)</b>	<b>138,464,384</b>

See Notes to Financial Statements.





## Portfolio of Investments (concluded)

As of October 31, 2015

Par Amount	Description	Value (US\$)
<b>SHORT-TERM INVESTMENT 1.0%</b>		
\$1,382,000	Repurchase Agreement, Fixed Income Clearing Corp., 0.00% dated 10/30/2015, due 11/02/2015 in the amount of \$1,382,000 collateralized by U.S. Treasury Notes, 2.00%-2.25%, maturing 11/15/2024-02/15/2025; total market value of \$1,414,313	\$ 1,382,000
	<b>Total Short-Term Investment 1.0% (cost \$1,382,000)</b>	<b>1,382,000</b>
	<b>Total Investments 98.4% (cost \$158,062,859) (c)</b>	<b>139,846,384</b>
	Other Assets in Excess of Liabilities 1.6%	2,220,556
	<b>Net Assets 100.0%</b>	<b>\$ 142,066,940</b>

- (a) Fair Valued Security. Fair Values are determined pursuant to procedures approved by the Fund's Board of Directors. See Note 2(a) of the accompanying Notes to Financial Statements.
- (b) Non-income producing security.
- (c) See accompanying Notes to Financial Statements for tax unrealized appreciation/depreciation of securities.

See Notes to Financial Statements.

Aberdeen Australia Equity Fund, Inc.

## Statement of Assets and Liabilities

As of October 31, 2015

<b>Assets</b>	
Investments, at value (cost \$156,680,859)	\$ 138,464,384
Repurchase agreement, at value (cost \$1,382,000)	1,382,000
Foreign currency, at value (cost \$2,358,941)	2,340,783
Cash	882
Receivable for investments sold	92,793
Prepaid expenses in connection with the at-the-market stock offering	175,128
Prepaid expenses and other assets	45,605
<b>Total assets</b>	<b>142,501,575</b>
<b>Liabilities</b>	
Payable for investments purchased	202,465
Investment manager fees payable (Note 3)	128,290
Administration fee payable (Note 3)	11,280
Investor relations fees payable (Note 3)	11,123
Accrued Expenses	81,477
<b>Total liabilities</b>	<b>434,635</b>
<b>Net Assets</b>	<b>\$ 142,066,940</b>
<b>Composition of Net Assets:</b>	
Common stock (par value \$0.01 per share) (Note 5)	\$ 228,740
Paid-in capital in excess of par	139,550,638
Distributions in excess of net investment income	(4,325,454)
Accumulated net realized loss from investment transactions	(568,348)
Net unrealized appreciation on investments	8,897,332
Accumulated net realized foreign exchange gains	25,417,602
Net unrealized foreign exchange loss	(27,133,570)
<b>Net Assets</b>	<b>\$ 142,066,940</b>
Net asset value per share based on 22,874,020 shares issued and outstanding	\$ 6.21
Amounts listed as are \$0 or round to \$0.	

See Notes to Financial Statements.

Aberdeen Australia Equity Fund, Inc.

## Statement of Operations

For the Year Ended October 31, 2015

### Net Investment Income

#### Income

Dividends (net of foreign withholding taxes of \$59,598)	\$ 7,243,579
Interest and other income	33,620
	<b>7,277,199</b>

#### Expenses

Investment management fee (Note 3)	1,468,336
Directors' fees and expenses	230,795
Investor relations fees and expenses (Note 3)	150,902
Administration fee (Note 3)	133,524
Insurance expense	85,011
Reports to shareholders and proxy solicitation	74,402
Independent auditors' fees and expenses	63,750
Custodian's fees and expenses	37,186
Transfer agent's fees and expenses	28,113
Legal fees and expenses	21,488
PA franchise tax expense	13,425
Miscellaneous	116,155
Total operating expenses before reimbursed/waived expenses	2,423,087
Less: Investor relations fee waiver (Note 3)	(5,986)
Net expenses	<b>2,417,101</b>

**Net Investment Income** **4,860,098**

### Net Realized/Unrealized Gain/(Loss) from Investments and Foreign Currency Related Transactions:

#### Net realized gain/(loss) from:

Investment transactions	1,287,123
Foreign currency transactions	(466,628)
	<b>820,495</b>

#### Net change in unrealized appreciation/(depreciation) on:

Investments	(16,014,624)
Foreign currency translation	(18,208,628)
	<b>(34,223,252)</b>

Net realized and unrealized (loss) from investments and foreign currency related transactions (33,402,757)

**Net Decrease in Net Assets Resulting from Operations** **\$ (28,542,659)**

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

See Notes to Financial Statements.

Aberdeen Australia Equity Fund, Inc.

## Statements of Changes in Net Assets

	For the Year Ended October 31, 2015	For the Year Ended October 31, 2014
<b>Increase/(Decrease) in Net Assets</b>		
<b>Operations:</b>		
Net investment income	\$ 4,860,098	\$ 5,352,944
Net realized gain/(loss) from investment transactions	1,287,123	(4,802,154)
Net realized loss from foreign currency transactions	(466,628)	(536,036)
Net change in unrealized appreciation/(depreciation) on investments	(16,014,624)	3,401,530
Net change in unrealized appreciation/(depreciation) on foreign currency translation	(18,208,628)	(8,849,968)
<b>Net decrease in net assets resulting from operations</b>	<b>(28,542,659)</b>	<b>(5,433,684)</b>
<b>Distributions to Shareholders from:</b>		
Net investment income	(6,159,911)	(7,259,285)
Net realized gains	(3,406,150)	
Tax return of capital	(9,231,269)	(13,748,178)
Net decrease in net assets from distributions	(18,797,330)	(21,007,463)
<b>Common Stock Transactions:</b>		
Proceeds from the at-the-market stock offering (Note 5)		3,144,579
Expenses in connection with the at-the-market stock offering (Note 5)		(22,115)
Repurchase of common stock resulting in the reduction of 64,497 and 0 shares of common stock, respectively (Note 6)	(377,196)	
Change in net assets from common stock transactions	(377,196)	3,122,464
Change in net assets resulting from operations	(47,717,185)	(23,318,683)
<b>Net Assets:</b>		
Beginning of year	189,784,125	213,102,808
<b>End of year (including distributions in excess of net investment income of (\$4,325,454) and (\$1,481,927), respectively)</b>	<b>\$ 142,066,940</b>	<b>\$ 189,784,125</b>
Amounts listed as are \$0 or round to \$0.		

See Notes to Financial Statements.

Aberdeen Australia Equity Fund, Inc.

## Financial Highlights

	For the Fiscal Years Ended October 31,				
	2015	2014	2013	2012	2011
<b>Per Share Operating Performance<sup>(a)</sup>:</b>					
Net asset value, beginning of year	\$8.27	\$9.44	\$9.98	\$10.17	\$11.58
Net investment income	0.21	0.23	0.27	0.34	0.39
Net realized and unrealized gains/(losses) on investments and foreign currencies	(1.45)	(0.48)	0.20	0.54	(0.68)
Total from investment operations	(1.24)	(0.25)	0.47	0.88	(0.29)
Distributions from:					
Net investment income	(0.27)	(0.32)	(0.34)	(0.71)	(0.52)
Net realized gains	(0.15)		(0.43)	(0.37)	(0.44)
Tax return of capital	(0.40)	(0.60)	(0.24)		(0.18)
Total distributions	(0.82)	(0.92)	(1.01)	(1.08)	(1.14)
Impact of expenses in connection with the at-the-market stock offering (Note 5)				0.01	(0.09)
Impact from at-the-market stock offering (Note 5)					0.11
Net asset value, end of year	\$6.21	\$8.27	\$9.44	\$9.98	\$10.17
Market value, end of year	\$5.57	\$7.95	\$10.71	\$10.38	\$10.31
<b>Total Investment Return Based on<sup>(b)</sup>:</b>					
Market value	(20.61%)	(17.52%)	13.33%	11.83%	(10.51%)
Net asset value	(14.91%)	(2.65%)	3.89% <sup>(c)</sup>	9.00% <sup>(c)</sup>	(3.19%)
<b>Ratio to Average Net Assets/Supplementary Data:</b>					
Net assets, end of year (000 omitted)	\$142,067	\$189,784	\$213,103	\$225,235	\$229,616
Average net assets (000 omitted)	\$166,905	\$199,956	\$220,475	\$218,950	\$244,946
Net operating expenses, net of fee waivers	1.45%	1.48%	1.41%	1.33%	1.34%
Net operating expenses, excluding fee waivers	1.45%				
Net investment income	2.91%	2.68%	2.80%	3.46%	3.43%
Portfolio turnover	20%	13%	15%	21%	30%

(a) Based on average shares outstanding.

(b) Total investment return based on market value is calculated assuming that shares of the Fund's common stock were purchased at the closing market price as of the beginning of the period, dividends, capital gains and other distributions were reinvested as provided for in the Fund's dividend reinvestment plan and then sold at the closing market price per share on the last day of the period. The computation does not reflect any sales commission investors may incur in purchasing or selling shares of the Fund. The total investment return based on the net asset value is similarly computed except that the Fund's net asset value is substituted for the closing market value.

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

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, 2015

### 1. Organization

Aberdeen Australia Equity Fund, Inc. (the Fund) is a non-diversified closed-end 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 normally 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). 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. As a fundamental policy, at least 65% of the Fund's total assets must be invested in companies listed on the Australian Stock Exchange Limited (ASX). Aberdeen Asset Management Asia Limited, the Fund's investment manager (AAMAL or the Investment Manager), uses the following criteria in determining if a company is tied economically to Australia: 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. 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 conform to 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 values its securities at current market value or fair value, consistent with regulatory requirements. Fair value is defined in the Fund's valuation and liquidity procedures as the price that could be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants without a compulsion to contract 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 subject to application, when appropriate, of valuation factors described in the paragraph below. 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 price 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. Closed-end funds and exchange-traded funds (ETFs) are valued at the market price of the security at the Valuation Time. A security using any of these pricing methodologies is determined to be a Level 1 investment.

Foreign equity securities that are traded on foreign exchanges that close prior to the Valuation Time are valued by applying valuation factors to the last sale price or the mean price as noted above. Valuation factors are provided by an independent pricing service provider approved by the Board. These valuation factors are used when pricing the Fund's portfolio holdings to estimate market movements between the time foreign markets close and the time the Fund values such foreign securities. These valuation factors are based on inputs such as depositary receipts, indices, futures, sector indices/ETFs, exchange rates, and local exchange opening and closing prices of each security. When prices with the application of valuation factors are utilized, the value assigned to the foreign securities may not be the same as quoted or published prices of the securities on their primary markets. A security that applies a valuation factor is determined to be a Level 2 investment because the exchange-traded price has been adjusted. Valuation factors are not utilized if the independent pricing service provider is unable to provide a valuation factor or if the valuation factor falls below a predetermined threshold; in such case, the security is determined to be a Level 1



investment.

In the event that a security's market quotations are not readily available or are deemed unreliable (for reasons other than because the foreign exchange on which they trade closed before the Valuation Time), the security is valued at fair value as determined by the Fund's Pricing Committee, taking into account the relevant

Aberdeen Australia Equity Fund, Inc.

## Notes to Financial Statements *(continued)*

October 31, 2015

factors and surrounding circumstances using valuation policies and procedures approved and established by the Board. 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.

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, Level 2 measurements to valuations based upon significant observable inputs, including adjusted quoted prices in active markets for identical assets, and Level 3 measurements to valuations based upon unobservable inputs that are significant to the valuation. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, for example, the risk inherent in a particular valuation technique used to measure fair value including a pricing model and/or the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable. 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. 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. The three-level hierarchy of inputs is summarized below:

Level 1 quoted prices in active markets for identical investments;

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).

The following is a summary of the inputs used as of October 31, 2015 in valuing the Fund's investments at fair value. The inputs or methodologies 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:

<b>Investments, at Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Long-Term Investments	\$	\$ 138,464,384	\$	\$ 138,464,384
Short-Term Investment		1,382,000		1,382,000
<b>Total</b>	<b>\$</b>	<b>\$ 139,846,384</b>	<b>\$</b>	<b>\$ 139,846,384</b>

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 fiscal year ended October 31, 2015, there were no transfers between Levels 1, 2 or 3. For the fiscal year ended October 31, 2015, there were no significant changes to the fair valuation methodologies.

### **b. Repurchase Agreements:**

The Fund may enter into repurchase agreements under the terms of a Master Repurchase Agreement. 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

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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. Under the Master Repurchase Agreement, if the counterparty defaults and the value of

the collateral declines, or if bankruptcy proceedings are commenced with respect to the counterparty of the repurchase agreement, realization of the collateral by the Fund may be delayed or limited. Repurchase agreements are subject to contractual netting arrangements with the counterparty, Fixed Income Clearing Corp. For additional information on the Fund's repurchase agreement, see the Portfolio of Investments. The Fund held a repurchase agreement of \$1,382,000 as of October 31, 2015. The value of the related collateral exceeded the value of the repurchase agreement at October 31, 2015.

### **c. 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.

Aberdeen Australia Equity Fund, Inc.

## Notes to Financial Statements (continued)

October 31, 2015

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 current daily rates of exchange at the Valuation Time; and
- (ii) purchases and sales of investment securities, income and expenses at the relevant rates 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 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.

### **d. Security Transactions, Investment Income and Expenses:**

Security 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 and corporate actions are recorded generally on the ex-date, except for certain dividends and corporate actions which may be recorded after the ex-date, as soon as the Fund acquires information regarding such dividends or corporate actions. Interest income and expenses are recorded on an accrual basis.

### **e. 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.

### **f. Federal Income Taxes:**

The Fund, for U.S. federal income purposes is comprised of a separately identifiable unit called a Qualified Business Unit ( QBU ) (see section 987 of the Internal Revenue Code of 1986, as amended (the IRC )). The Fund has operated with a QBU for U.S. federal income purposes since 1989. The home office is designated as the United States and the QBU is Australia with a functional currency of the Australian dollar. The

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securities held within the Fund reside within either the QBU or the home office depending on certain factors including geographic region. As an example, the majority of the Fund's Australian securities reside within the Australian QBU. When sold, the Australian dollar denominated securities within the Australian QBU generate capital gain/loss but not currency gain/loss, because the QBU's functional currency is Australian dollar.

IRC section 987 states that currency gain/loss is generated when money is repatriated from a QBU to the home office. The currency gain/loss would result from the difference between the current exchange rate and the average exchange rate for the year during which money was originally contributed to the QBU from the home office. Based on the QBU structure, there may be sizable differences in the currency gain/loss recognized for U.S. federal income tax purposes and what is reported within the financial statements under GAAP. Additionally, the Fund's composition of the distributions to shareholder is calculated based on U.S. federal income tax requirements whereby currency gain/loss is characterized income and distributed as such. As of the Fund's fiscal year-end, the calculation of the composition of distributions to shareholders is finalized and reported in the Fund's annual report to shareholders.

Aberdeen Australia Equity Fund, Inc.

## Notes to Financial Statements (continued)

October 31, 2015

The Fund intends to 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 of 1986, as amended, 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.

### g. Foreign Withholding Tax:

Dividend and interest income from non-U.S. sources received by the Fund are generally subject to non-U.S. withholding taxes. In addition, the Fund may be subject to capital gains tax in certain countries in which it invests. The above taxes may be reduced or eliminated under the terms of applicable U.S. income tax treaties with some of these countries. The Fund accrues such taxes when the related income is earned.

### 3. Agreements and Transactions with Affiliates

#### a. Investment Manager and Investment Adviser:

Aberdeen Asset Management Asia Limited 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 responsibility for the placement of orders with, brokers and dealers to execute portfolio transactions on behalf of the Fund.

Pursuant to the management agreement, the Fund pays the Investment Manager a fee, payable monthly by the Fund, at the following annual rates: 1.10% of the Fund's average weekly Managed Assets up to \$50 million, 0.90% of the Fund's average weekly Managed Assets between \$50 million and \$100 million and 0.70% of the Fund's average weekly 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 paid \$374,411 to the Investment Adviser, with respect to the Fund, during the fiscal year ended October 31, 2015.

#### 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 by the Fund, 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 \$1.5 billion, and 0.06% of the Fund's average weekly Managed Assets in excess of \$1.5 billion. For the fiscal year ended October 31, 2015, AAMI earned \$133,524 from the Fund for administration services.

#### c. Investor Relations:

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

Pursuant to the terms of the Investor Relations Services Agreement, AAMI provides, among other things, objective and timely information to shareholders based on publicly-available information; provides information efficiently through the use of technology while offering shareholders immediate access to knowledgeable investor relations representatives; develops and maintains effective communications with investment professionals from a wide variety of firms; creates and maintains investor relations communication materials such as fund manager interviews,

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films and webcasts, published white papers, magazine and articles and other relevant materials discussing the Fund's investment results, portfolio positioning and outlook; develops and maintains effective communications with large institutional shareholders; responds to specific shareholder questions; and reports activities and results to the Board and management detailing insight into general shareholder sentiment.

For the fiscal year ended October 31, 2015, the Fund incurred fees of approximately \$149,875 for investor relations services. Effective January 1, 2015, a portion of these fees are capped at 5 basis points of the Fund's Average Net Assets per annum. For the fiscal year ended October 31, 2015, AAMI waived \$5,986 in investor relations fees. Investor relations fees and expenses in the Statement of Operations include certain out-of-pocket expenses.

#### **4. Investment Transactions**

Purchases and sales of investment securities (excluding short-term securities) for the fiscal year ended October 31, 2015, were \$32,672,762 and \$47,295,209, respectively.

#### **5. Capital**

The authorized capital of the Fund is 30 million shares of \$0.01 par value common stock. As of October 31, 2015, there were 22,874,020 shares of common stock issued and outstanding.

Aberdeen Australia Equity Fund, Inc.

## Notes to Financial Statements (continued)

October 31, 2015

In October 2013, the Fund filed a shelf registration statement with the SEC, which permits the Fund to issue up to \$130 million in shares of common stock through one or more public offerings, including at-the-market offerings ( ATM offerings), provided that the registration statement is updated and certain performance conditions are met over a three year period. Shares are offered through ATM offerings only when market conditions are considered favorable. Such shares would only be issued when the premium to net asset value is greater than the costs associated with the transaction. Any proceeds raised would be used for investment purposes. In accordance with the terms of a sales agreement, the Fund may offer and sell up to 3,250,000 of its shares, par value \$0.01 per share, from time to time through JonesTrading Institutional LLC as its agent for the offer and sale of the shares. For the fiscal year ended October 31, 2015, there were 0 shares sold through ATM offerings. For the fiscal year ended October 31, 2015 and the fiscal year ended October 31, 2014, offering costs of \$0 and \$178,400 were capitalized as a prepaid expense, respectively. When shares are sold, a portion of the cost attributed to those shares will be charged to paid-in capital. These costs are noted on the Statement of Changes in Net Assets. Upon expiration of this shelf registration statement in October 2016, any remaining prepaid offering costs relating to this registration statement will be expensed to the Fund.

### 6. Open Market Repurchase Program

On March 1, 2001, the Board approved a stock repurchase program. The Board amended the program on December 12, 2007. 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. The Fund reports repurchase activity on the Fund's website on a monthly basis. For the fiscal years ended October 31, 2015 and October 31, 2014, the Fund repurchased 64,497 and 0 shares, respectively, through this program.

### 7. Portfolio Investment Risks

#### a. Risks Associated with Foreign Securities and Currencies:

Investments in securities of foreign issuers carry certain risks not ordinarily associated with investments in securities of U.S. issuers. These risks include future political and economic developments, and the possible imposition of exchange controls or other foreign governmental laws and restrictions. In addition, with respect to certain countries, there is the possibility of expropriation of assets, confiscatory taxation, and political or social instability or diplomatic developments, which could adversely affect investments in those countries.

Certain countries also may impose substantial restrictions on investments in their capital markets by foreign entities, including restrictions on investments in issuers of industries deemed sensitive to relevant national interests. These factors may limit the investment opportunities available and result in a lack of liquidity and high price volatility with respect to securities of issuers from developing countries. Foreign securities may also be harder to price than U.S. securities.

#### b. Focus Risk:

The Fund may have elements of risk not typically associated with investments in the United States due to focused investments in a limited number of countries or regions subject to foreign securities or currencies risks. Such focused investments may subject the Fund to additional risks resulting from political or economic conditions in such countries or regions and the possible imposition of adverse governmental laws or currency exchange restrictions could cause the securities and their markets to be less liquid and their prices to be more volatile than those of comparable U.S. securities.

#### c. Sector Risk

To the extent that a Fund has a significant portion of its assets invested in securities of companies conducting business in a broadly related group of industries within an economic sector, the Fund may be more vulnerable to unfavorable developments in that economic sector than funds that invest more broadly.



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In particular, being invested heavily in the financial sector may make the Fund vulnerable to risks and pressures facing companies in that sector, such as regulation, consolidation, interest rate changes and general economic conditions.

### 8. Contingencies

In the normal course of business, the Fund may provide general indemnifications pursuant to certain contracts and organizational documents. The Fund's maximum exposure under these arrangements is dependent on future claims that may be made against the Fund, and therefore, cannot be estimated; however, based on experience, the risk of loss from such claims is considered remote.

### 9. Tax Information

The U.S. federal income tax basis of the Fund's investments and the net unrealized appreciation as of October 31, 2015 were as follows:

	<b>Net</b>		
	<b>Unrealized</b>		
<b>Tax Basis of Investments</b>	<b>Appreciation</b>	<b>Depreciation</b>	<b>Appreciation</b>
\$136,774,245	\$ 18,100,627	\$ (15,028,488)	\$ 3,072,139

Aberdeen Australia Equity Fund, Inc.

## Notes to Financial Statements (continued)

October 31, 2015

The tax character of distributions paid during the fiscal years ended October 31, 2015 and October 31, 2014 was as follows:

	October 31, 2015	October 31, 2014
Distributions paid from:		
Ordinary Income	\$ 6,159,911	\$ 7,259,285
Net long-term capital gains	3,406,150	
Tax return of capital	9,231,269	13,748,178
<b>Total tax character of distributions</b>	<b>\$ 18,797,330</b>	<b>\$ 21,007,463</b>

As of October 31, 2015, the components of accumulated earnings on a tax basis were as follows:

Undistributed ordinary income net	\$
Undistributed long-term capital gains net	
Total undistributed earnings	\$
Capital loss carryforward	*
Other currency gains	25,417,602
Other temporary differences	(19,759)
Unrealized appreciation/(depreciation) securities	3,072,139**
Unrealized appreciation/(depreciation) currency	(26,182,420)
<b>Total accumulated earnings/(losses) net</b>	<b>\$ 2,287,562</b>

\* On October 31, 2015, the Fund utilized its capital loss carryforward of \$5,181,527. Under the Regulated Investment Company Modernization Act of 2010, the Fund will be permitted to carry forward capital losses incurred in taxable years beginning after December 22, 2010 for an unlimited period. However, any losses incurred during those future taxable years will be required to be utilized prior to the losses incurred in pre-enactment taxable years. As a result of this ordering rule, pre-enactment capital loss carryforwards may be more likely to expire unused. Additionally, post-enactment capital losses that are carried forward will retain their character as either short-term or long-term capital losses rather than being considered all short term as under previous law.

\*\* 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, security spinoff, differing treatments for foreign currencies, and the tax deferral of wash sales.

GAAP requires that certain components of net assets be adjusted to reflect permanent differences between financial and tax reporting. Accordingly, the table below details the necessary reclassifications, which are a result of permanent differences primarily attributable to foreign currency transactions and the sale of stock of passive foreign investment companies, security spinoff and distribution redesignation. These reclassifications have no effect on net assets or net asset values per share.

Accumulated Net Investment Income/(Loss)	Accumulated Net Realized Foreign Exchange Loss	Accumulated Net Realized Gain from Investment Transactions
\$ (1,543,714)	\$ (6,152,674)	\$ 7,696,388

Aberdeen Australia Equity Fund, Inc.

## Notes to Financial Statements (concluded)

October 31, 2015

### 10. Recent Accounting Pronouncements

In June 2014, the Financial Accounting Standards Board issued guidance to improve the financial reporting of repurchase agreements and other similar transactions. The guidance includes expanded disclosure requirements for entities that enter into repurchase agreements and similar transactions accounted for as secured borrowings. The guidance is effective for financial statements with fiscal years beginning on or after December 15, 2014 and interim periods within those fiscal years. Management is evaluating the impact, if any, of this guidance on the Fund's financial statement disclosures.

### 11. Subsequent Events

Management has evaluated the need for disclosures and/or adjustments resulting from subsequent events through the date the financial statements were issued. Based on this evaluation, the following disclosures and/or adjustments were required to the financial statements as of October 31, 2015.

On December 9, 2015, the Fund announced that it will pay on January 12, 2016 a distribution of \$0.18 per share to all shareholders of record as of December 31, 2015.

Aberdeen Australia Equity Fund, Inc.

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of

Aberdeen Australia Equity Fund, Inc.:

We have audited the accompanying statement of assets and liabilities, including the portfolio of investments, of the Aberdeen Australia Equity Fund, Inc. (the Fund ), as of October 31, 2015, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the five-year period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits 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 and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of October 31, 2015, by

correspondence with the custodian, brokers, or by other appropriate auditing procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the Fund as of October 31, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the five-year period then ended, in conformity with U.S. generally accepted accounting principles.

Philadelphia, Pennsylvania

December 29, 2015

Aberdeen Australia Equity Fund, Inc.

## Federal Tax Information: Dividends and Distributions (unaudited)

The following information is provided with respect to the distributions paid by the Aberdeen Australia Equity Fund, Inc. during the fiscal year ended October 31, 2015:

Payable	Total Cash	Long-Term Capital	Tax Return of Capital	Net Ordinary Dividend	Foreign Taxes Paid <sup>(1)</sup>	Gross Ordinary Dividend	Qualified Dividends <sup>(2)</sup>	Foreign Source Income
<b>Date</b>	<b>Distribution</b>	<b>Gain</b>	<b>Capital</b>	<b>Dividend</b>	<b>Paid<sup>(1)</sup></b>	<b>Dividend</b>	<b>Dividends<sup>(2)</sup></b>	<b>Income</b>
1/12/15	0.220000	0.000000	0.000000	0.220000	0.000755	0.220755	0.044323	0.044323
3/30/15	0.210000	0.020482	0.140978	0.048540	0.001843	0.050383	0.048540	0.048540
6/29/15	0.200000	0.065735	0.134265	0.000000	0.000000	0.000000	0.000000	0.000000
9/28/15	0.190000	0.148909	0.127551	0.000000	0.000000	0.000000	0.000000	0.000000

- (1) The foreign taxes paid represent taxes incurred by the Fund on interest received 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.

## Supplemental Information (unaudited)

### Board of Directors Consideration of Management and Advisory Agreements

At an in-person meeting of the Board of Directors (the Board) of Aberdeen Australia Equity Fund, Inc. (IAF or the Fund) held on September 8, 2015, the Board, including a majority of the Directors who are not considered to be interested persons of the Fund (the Independent Directors) under the Investment Company Act of 1940, as amended (the 1940 Act), approved for an annual period the continuation of the Fund's management agreement with Aberdeen Asset Management Asia Limited (the Investment Manager) and the investment advisory agreement among the Fund, the Investment Manager and Aberdeen Asset Management Limited (the Investment Adviser). Collectively, the Investment Manager and the Investment Adviser are referred to herein as the Advisers and the aforementioned agreements with the Advisers are referred to as the Advisory Agreements. The Investment Adviser is an affiliate of the Investment Manager.

In considering whether to approve the renewal of the Fund's Advisory Agreements, the Board reviews a variety of information provided by the Advisers relating to IAF, the Advisory Agreements and the Advisers, including comparative performance, fee and expense information and other information regarding the nature, extent and quality of services provided by the Advisers under their respective Advisory Agreements. The materials provided to the Board generally include, among other items: (i) information on the investment performance of the Fund and the performance of peer groups of funds and the Fund's performance benchmarks; (ii)

information on the Fund's advisory fees and other expenses, including information comparing the Fund's expenses to those of a peer group of funds and information about any applicable expense limitations and fee breakpoints; (iii) information about the profitability of the Advisory

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Agreements to the Advisers; (iv) a report prepared by the Advisers in response to a request submitted by the Independent Directors' independent legal counsel on behalf of such Directors; and (v) a memorandum from the Independent Directors' independent legal counsel on the responsibilities of the Board in considering for approval the investment advisory arrangements under the 1940 Act and Maryland law. The Board, including the Fund's Independent Directors, also considered other matters such as: (i) the Advisers' financial results and financial condition; (ii) the Fund's investment objective and strategies; (iii) the Advisers' investment personnel and operations; (iv) the procedures employed to determine the value of the Fund's assets; (v) the allocation of the Fund's brokerage, if any, including, if applicable, allocations to brokers affiliated with the Advisers and the use, if any, of soft commission dollars to pay Fund expenses and to pay for research and other similar services; (vi) the resources devoted to, and the record of compliance with, the Fund's investment policies and restrictions, policies on personal securities transactions and other compliance policies; and (vii) possible conflicts of interest. Throughout the process, the Board was afforded the opportunity to ask questions of and request additional materials from the Advisers.

In addition to the materials requested by the Directors in connection with their annual consideration of the continuation of the Advisory

Aberdeen Australia Equity Fund, Inc.

## Supplemental Information (unaudited) (continued)

Agreements, the Directors received materials in advance of each regular quarterly meeting of the Board that provided information relating to the services provided by the Advisers.

The Independent Directors were advised by separate independent legal counsel throughout the process. The Independent Directors also consulted in executive sessions with counsel to the Independent Directors regarding consideration of the renewal of the Advisory Agreements. The Directors also considered the recommendation of the Board's Contract Review Committee, consisting solely of the Board's Independent Directors, that the Advisory Agreements be renewed. In considering whether to approve the continuation of the Advisory Agreements, the Board, including the Independent Directors, did not identify any single factor as determinative. Individual Directors may have evaluated the information presented differently from one another, giving different weights to various factors. Matters considered by the Board, including the Independent Directors, in connection with its approval of the continuation of the Advisory Agreements included the factors listed below.

*The nature, extent and quality of the services provided to the Fund under the Advisory Agreements.* The Directors considered the nature, extent and quality of the services provided by the Advisers to the Fund and the resources dedicated to the applicable Fund by the Advisers. The Board considered, among other things, the Advisers' investment experience. 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 Board also considered the background and experience of the Advisers' senior management personnel and the qualifications, background and responsibilities of the portfolio managers primarily responsible for the day-to-day portfolio management services for the Fund. The Board also considered the allocation of responsibilities among the Advisers. In addition, the Board considered the financial condition of the Advisers and whether they had the financial wherewithal to provide a high level and quality of service to the Fund.

The Board also considered that they receive information on a regular basis from the Fund's Chief Compliance Officer regarding the Advisers' compliance policies and procedures. The Board also considered the Advisers' risk management processes. The Board considered the Advisers' brokerage policies and practices. Management reported to the Board on, among other things, its business plans and changes. The Board reviewed and assessed the quality of the services the Fund received from the Advisers throughout the year, and that the Board received detailed portfolio review and performance reports through Board meetings, discussion and reports during the preceding year.

After reviewing these and related factors, the Board concluded that they were satisfied with the nature, quality and extent of the services provided and supported the renewal of the applicable Advisory Agreements.

*Investment performance of the Fund and the Advisers.* The Board received and reviewed with management, among other performance data, information compiled by Strategic Insight Mutual Fund Research and Consulting, LLC ( "SI"), an independent third-party provider of investment company data as to the Fund's total return, as compared to the funds in the Fund's Morningstar category (the "Morningstar Group"). The Board also received performance information from management that compared the Fund's return to comparable non-U.S. investment companies in its Lipper category.

The Board received and considered information for each of the last five fiscal years regarding the Fund's total return on a gross and net basis and relative to the Fund's benchmark, the Fund's share performance and premium/discount information and the impact of foreign currency movements on the Fund's performance. The Board also received and reviewed information as to the Fund's total return for each of the last five fiscal years as compared with the total returns of its respective Morningstar Group average, and other comparable Aberdeen-managed funds and segregated accounts. The Board considered management's discussion of the factors contributing to differences in performance, including differences in the investment strategies of each of these other funds and accounts. The Board also reviewed information as to the Fund's discount/premium ranking relative to its Morningstar Group. The Board took into account management's discussion of the Fund's performance.

*Fees and expenses.* The Board reviewed with management the effective annual management fee rate paid by the Fund to the Investment Manager for investment management services. Additionally, the Board received and considered information compiled at the request of the Fund by SI, comparing the Fund's effective annual management fee rate with the fees paid by a peer group consisting of other comparable closed-end funds (each such group, a "Peer Group"). The Board also took into account the management fee structure, including that management fees for the Fund were based on the Fund's total managed assets. The Board also considered that the compensation paid to the Investment Adviser is paid by the Investment Manager, and, accordingly that the retention of the Investment Adviser does not increase the fees or expenses otherwise incurred



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by the Fund's shareholders. The Board also considered information about the Investment Adviser's fees, including the amount of the management fees retained by the Investment Manager after payment of the advisory fees. The Board

Aberdeen Australia Equity Fund, Inc.

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## Supplemental Information (unaudited) (concluded)

also received information from management regarding the fees charged by the Advisers to other U.S. and non-U.S. clients investing primarily in an asset class similar to that of the Fund. The Board considered the fee comparisons in light of the differences in resources and costs required to manage the different types of accounts.

The Board also took into account management's discussion of the Fund's expenses, including the factors that impacted the Fund's expenses.

*Economies of Scale.* The Board took into account management's discussion of the Fund's management fee structure. The Board determined that the management fee structure was reasonable and reflects economies of scale being shared between the Fund and the Advisers. This determination was based on various factors, including that the Fund's management fee schedule provides breakpoints at higher asset levels and how the Fund's management fee compares relative to its Peer Group at higher asset levels.

The Directors also considered other factors, which included but were not limited to the following:

the effect of any market and economic volatility on the performance, asset levels and expense ratios of the Fund.  
whether the Fund has operated in accordance with their investment objectives and the Fund's record of compliance with their investment restrictions, and the compliance programs of the Advisers. The Directors also considered the compliance-related resources the Advisers and their affiliates were providing to the Fund.

so-called "fallout benefits" to the Advisers and their affiliates, such as reputational and other indirect benefits. The Directors considered any possible conflicts of interest associated with these fallout and other benefits, and the reporting, disclosure and other processes in place to disclose and monitor such possible conflicts of interest.

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Based on their evaluation of all factors that they deemed to be material, including those factors described above, and assisted by the advice of independent counsel, the Directors, including the Independent Directors, concluded that renewal of the Advisory Agreements would be in the best interest of the Fund and its shareholders. Accordingly, the Board, including the Board's Independent Directors voting separately, approved the Fund's Advisory Agreements for an additional one-year period.

Aberdeen Australia Equity Fund, Inc.

## Management of the Fund (unaudited)

The names of the Directors and Officers of the Fund, their addresses, years of birth, 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 Adviser 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.

As of October 31, 2015

Name, Address and Year of Birth	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
<b><u>Interested Director</u></b>					
<b>Hugh Young**</b> Aberdeen Asset Management Asia Limited 21 Church Street #01-01 Capital Square Two Singapore 049480  Year of Birth: 1958	Class II Director	Term expires 2017; Director since 2001	Mr. Young has been a member of the Executive Management Committee and Director of Aberdeen Asset Management PLC since 1991 and 2011, respectively. He has been Managing Director of Aberdeen Asset Management Asia Limited since 1991.	2	None
<b><u>Independent Directors</u></b>					
<b>P. Gerald Malone</b> 48 Barmouth Road London SW18 2DP United Kingdom  Year of Birth: 1950	Class II Director	Term expires 2017; Director since 2008	Mr. Malone is, by profession, a solicitor of some 39 years standing. He has served as a Minister of State in the United Kingdom Government. Mr. Malone currently serves as Independent Chairman of a London based oil services company and in addition, is Chairman of a privately owned pharmaceutical company. He is Chairman of the Board of Trustees of Aberdeen Funds and Chairman of the Board of Directors of Aberdeen Asia-Pacific Income Fund, Inc. and Aberdeen Global Income Fund, Inc.	27	None
<b>Neville J. Miles</b> 142 Martins Lane Knockrow	Chairman of the Board; Class I Director	Term expires 2016; Director since 1996	Mr. Miles is, and has been for over 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.	27	None

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NSW 2010 Australia

Year of Birth: 1946

<b>William J. Potter</b>	Class III Director	Term expires 2018; Director since 1985	Mr. Potter has been Chairman of Meredith Financial Group (investment management) since 2004, a Director of Alexandria Bancorp (international banking and trustee services) since 1989, and a Director of National Foreign Trade Council (international trade) since 1983.	3	None
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c/o Aberdeen Asset

Management Inc.,

1735 Market Street

32<sup>nd</sup> Floor

Philadelphia, PA 19103

Year of Birth: 1948

<b>Peter D. Sacks</b>	Class II Director	Term expires 2017; Director since 1999	Mr. Sacks has been a Director and Founding Partner of Toron AMI International Asset Management (investment management) since 1988. He is also a Director and Investment Advisory Committee member of several private and public sector funds in Canada	27	None
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c/o Aberdeen Asset

Management Inc.,

1735 Market Street,

32<sup>nd</sup> Floor

Philadelphia, PA 19103

Year of Birth: 1945

Aberdeen Australia Equity Fund, Inc.

## Management of the Fund (unaudited) (continued)

Name, Address and Year of Birth	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
<b>Moritz Sell</b> c/o Aberdeen Asset Management Inc., 1735 Market Street, 32nd Floor Philadelphia, PA 19103 Year of Birth: 1967	Class I Director	Term expires 2016; Director since 2004	Mr. Sell currently serves as a Principal at Edison Holdings GMBH (commercial real estate and venture capital) (since October 2015). In addition Mr. Sell serves as a Senior Advisor for Markston International LLC, an independent investment manager (since January 2014). Mr. Sell was a director and market strategist of Landesbank Berlin AG (banking) and its predecessor, now holding company, Landesbank Berlin Holding AG (formerly named Bankgesellschaft Berlin AG) from 1996 to July 2013.	3	None
<b>John T. Sheehy</b> B.V. Murray and Company 666 Goodwin Avenue Suite 300 Midland Park, NJ 07432 Year of Birth: 1942	Class III Director	Term expires 2018; Director since 1985	Mr. Sheehy has been a Senior Managing Director of B.V. Murray and Company (investment banking) since 2001 and Director of Macquarie AIR-serv Holding, Inc. (automotive services) from 2006 to 2013. He was a Managing Member of Pristina Capital Partners, LLC (water purification technology development) from 2007 to 2011, a Director of Smarte Carte, Inc. (airport services) from 2007 until 2010, and Managing Member of The Value Group LLC (venture capital) from 1997 to 2009.	27	None

\* Aberdeen Asia-Pacific Income Fund, Inc., Aberdeen Global Income Fund, Inc., Aberdeen Chile Fund, Inc., Aberdeen Israel Fund, Inc., Aberdeen Indonesia Fund, Inc., Aberdeen Latin America Equity Fund, Inc., Aberdeen Emerging Markets Smaller Company Opportunities Fund, Inc., the Aberdeen Funds, Aberdeen Investment Funds, Aberdeen Singapore Fund, Inc., Aberdeen Japan Equity Fund, Inc., Aberdeen Greater China Fund, Inc., The Asia-Tigers Fund, Inc. and The India Fund, Inc. have the same Investment Manager and Investment Adviser as the Fund, or an investment adviser that is affiliated with the Investment Manager and Investment Adviser and may thus be deemed to be part of the same Fund Complex as the Fund.

\*\* 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.

**Management of the Fund** (unaudited) (continued)

**Information Regarding Officers who are not Directors**

Name, Address and Year of Birth	Position(s) Held With the Fund	Term of Office* and Length of Time Served	Principal Occupation(s) During Past Five Years
Jeffrey Cotton**			