

ABERDEEN AUSTRALIA EQUITY FUND INC  
Form N-CSR  
January 09, 2017

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, 2016

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



## Managed Distribution Policy (unaudited)

The Board of Directors of Aberdeen Australia Equity Fund, Inc. (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, 2016 consisted of 23% net investment income, 13% net realized gains and 63% tax return of capital.

In January 2017, 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 2016 calendar year.

## Dividend Reinvestment and Direct Stock Purchase Plan (unaudited)

Computershare Trust Company, N.A. (Computershare), 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 purchase 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 which covers the activities of Aberdeen Australia Equity Fund, Inc. (the Fund) for the fiscal year ended October 31, 2016. 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 10.9% for the fiscal year ended October 31, 2016 and 7.2% per annum since inception, assuming the reinvestment of dividends and distributions, compared to the October 31, 2016 annual return of 13.2%, 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, 2016 and per annum since inception is based on the reported NAV on each financial reporting period end.

### Share Price & NAV

For the fiscal year ended October 31, 2016, based on market price, the Fund's total return was 12.9%, assuming reinvestment of dividends and distributions. The Fund's share price decreased by 0.2% over the one-year period from \$5.57 on October 31, 2015 to \$5.56 on October 31, 2016. The Fund's share price on October 31, 2016 represented a discount of 8.7% to the NAV per share of \$6.09 on that date, compared with a discount of 10.3% to the NAV per share of \$6.21 on October 31, 2015.

### 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 2016, 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 2016. 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, 2016, the Fund announced that it will pay on January 11, 2017, a distribution of U.S.\$0.16 per share to all shareholders of record as of December 30, 2016.

### 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, 2016, the Fund repurchased 131,694 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 ASX 200 is a market-capitalization weighted and float-adjusted stock market index of Australian stocks listed on the Australian Securities Exchange from S&P Global Ratings. Indexes are unmanaged and have been provided for comparison purposes only. No fees or expenses are reflected. You cannot invest directly in an index.

## 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, we invite you to visit the Fund on the web at [www.aberdeeniaf.com](http://www.aberdeeniaf.com). Here, you can view monthly fact sheets, quarterly commentary, distribution and performance information, updated daily data courtesy of Morningstar®, portfolio charting and other Fund literature.

Enroll in our email services today and be among the first to receive the latest closed-end fund news, announcements, videos and 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-assets.us/aam.nsf/usclosed/email](http://www.aberdeen-assets.us/aam.nsf/usclosed/email).

For your convenience, included within this report is a reply card with a postage paid envelope. Please take a minute to complete this card if you would like to be added to our enhanced email services from Aberdeen.

Contact Us:

Visit: [www.cef.aberdeen-asset.us](http://www.cef.aberdeen-asset.us)

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

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

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

Yours sincerely,

/s/ Christian Pittard

**Christian Pittard**

President

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

Aberdeen Australia Equity Fund, Inc.

## Report of the Investment Manager (unaudited)

### Market/economic review

Australian equities rose amid bouts of volatility over the 12-month period ended October 31, 2016. Global stock markets declined early in the period when commodity prices plummeted and the U.S. Federal Reserve (Fed) raised its benchmark interest rate for the first time in a decade, and again in June when the UK voted to leave the European Union (Brexit). However, market sentiment recovered quickly in both instances. Meanwhile, investors reacted positively as central banks in Japan and parts of Europe unexpectedly imposed negative interest rates in an effort to combat low inflation and boost spending, while persistent deflationary pressures forced the Fed to maintain an accommodative monetary policy stance. The end of the period saw investors' anxiety rise again, ahead of a nail-biting finish to the U.S. presidential election in early November. Republican Donald Trump subsequently won the election on November 8, garnering a majority of electoral votes in the race against his Democratic Party opponent, former U.S. Secretary of State Hillary Clinton.

Oil prices fluctuated throughout the 12-month reporting period, in tandem with ongoing speculation over a production cap by the Organization of the Petroleum Exporting Countries (OPEC) members. In Australia, investors heaved a sigh of relief after the incumbent Liberal-National party won the federal election by a slim margin. However, we think this result could mean that the new government will struggle to pass budget changes, which could potentially affect business and consumer confidence. Consequently, S&P Global Ratings<sup>1</sup> downgraded Australia's credit outlook to negative in July. Separately, the Australian market was bolstered when the Reserve Bank of Australia cut interest rates by 0.25% in a bid to boost the economy with accommodative monetary policy.

### Fund performance review

The largest detractor from Fund performance for the reporting period was diversified mining services provider Incitec Pivot, as its profits were hampered by lackluster fertilizer and gas prices, despite record production at its facilities. The Fund's holding in QBE Insurance weighed on performance as it posted weak results due to a deterioration in its core Australian operations. The Brexit<sup>2</sup> vote also

had a negative impact on the company's business due to its substantial exposure to the UK. The Fund's position in private hospital operator Healthscope also detracted from performance. The company's shares fell after it reported significantly weaker-than-expected business volumes driven by negative investor sentiment across the industry, which we believe is transitory.

Conversely, the Fund's holding in Australian Securities Exchange, the primary Australian national stock exchange and equity derivatives market, was a significant contributor to performance for the reporting period. The company's shares rose after it reported solid trading volumes for its 2016 fiscal year. The holding in hearing implant specialist Cochlear also boosted Fund performance, as the company's results for its 2016 fiscal year exceeded expectations. This was attributable to its growing market share, robust product offering, as well as sales force changes that should continue into 2016. Finally, the Fund's position in Rio Tinto enhanced performance, as the miner benefited from a rally in iron-ore prices, which bolstered shipment volumes.

Over the reporting period, we exited the position in QBE Insurance given our concerns about management's visibility and ability to influence the operating performance of the business. As we noted previously, QBE recently delivered weak results due to deterioration in its core Australian operations, following an increase in frequency and severity of large individual claims. We initiated holdings in diversified financial services company Perpetual Ltd., as we believe that it has an attractive valuation. In our opinion, Perpetual has a proven management team, solid performance across its strategies, and a robust balance sheet.

### Outlook

We anticipate that global markets will remain cautious in light of the unexpected U.S. election result, which initially rattled financial markets in a reactionary sell-off. Until there is greater clarity on President-elect Trump's policies, we think that it is difficult to predict the impact on the U.S. dollar and the Fed's monetary policy, and more turmoil is expected in coming months. We think that oil prices likely will remain in the doldrums, with OPEC members showing few signs of achieving consensus on reducing output.

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- <sup>1</sup> S&P Global Ratings (S&P) credit ratings express the agency's opinion about the ability and willingness of an issuer, such as a corporation or state or city government, to meet its financial obligations in full and on time. Typically, ratings are expressed as letter grades that range, for example, from AAA to D to communicate the agency's opinion of relative level of credit risk. Ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.
- <sup>2</sup> Brexit is an abbreviation of British exit, which refers to the June 23, 2016 referendum by British voters to exit the European Union.

Aberdeen Australia Equity Fund, Inc.

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

We believe that the Australian economy still faces headwinds, but we are optimistic, as it remains supported by an accommodative monetary policy and a steady unemployment rate. While we have yet to see an upswing in any large-scale infrastructure or capital expenditures that have been discussed for some time, they should help support domestic growth when implemented, in our view. At

the corporate level, certain industries, including banks and supermarkets, flagged a tough outlook in their recent results. Conversely, we are becoming more bullish on miners, which we feel have seen the worst in this commodity cycle, although the sector remains heavily dependent on Chinese policy.

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, 2016.

	1 Year	3 Years	5 Years	10 Years
Net Asset Value (NAV)	10.9%	-2.8%	0.8%	3.4%
Market Value	12.9%	-9.6%	-1.3%	1.9%
Benchmark	13.2%	-3.4%	2.2%	4.2%

*Aberdeen Asset Management Inc. ( AAMI ), the Fund's administrator, has entered into an agreement with the Fund to limit investor relations services fees, without which total return 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 dividend reinvestment program. 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 financial reporting 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 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, 2016 was 1.65%. The net operating expense ratio, net of fee waivers based on the fiscal year ended October 31, 2016 was 1.64%.*

Aberdeen Australia Equity Fund, Inc.

## Portfolio Composition (unaudited)

The following table summarizes the composition of the Fund's portfolio, in S&P Global Industry Classification Standard (GICS) sectors, expressed as a percentage of net assets. As of October 31, 2016, the GICS structure consists of 11 sectors, 24 industry groups, 68 industries and 157 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, 2016, the Fund did not have more than 25% of its assets invested in any industry group.

As of October 31, 2016, the Fund held 97.9% of its net assets in equities, 1.4% in a short-term investment and 0.7% in other assets in excess of liabilities.

### Asset Allocation by Sector

Top Sectors	As a Percentage of Net Assets
Financials*	35.6%
Materials	19.8%
Health Care	15.2%
Utilities	7.7%
Energy	6.7%
Telecommunication Services	5.0%
Consumer Staples	3.4%
Consumer Discretionary	3.1%
Industrials	1.4%
Other assets in excess of liabilities	2.1%
	100.0%

\* As of October 31, 2016, the Fund's holdings in the Financials sector consisted of five industries: Banks (15.7%), Real Estate Investment Trust (8.2%), Capital Markets (7.2%), Diversified Financial Services (3.0%) and Insurance (1.5%).

## Top Ten Equity Holdings (unaudited)

The following were the Fund's top ten holdings as of October 31, 2016:

Name of Security	As a Percentage of Net Assets
Westpac Banking Corp. Ltd.	6.1%
CSL Ltd.	6.0%
Commonwealth Bank of Australia	5.8%
Rio Tinto PLC - London Listing	5.8%

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ASX Ltd.	5.7%
Telstra Corp. Ltd.	5.0%
AGL Energy Ltd.	4.9%
BHP Billiton PLC London Listing	4.7%
Westfield Corp.	4.5%
Woodside Petroleum Ltd.	4.1%

Aberdeen Australia Equity Fund, Inc.

## Portfolio of Investments

As of October 31, 2016

Shares	Description	Industry	Value (US\$)
<b>LONG-TERM INVESTMENTS 97.9%(a)</b>			
<b>COMMON STOCKS 97.9%</b>			
<b>AUSTRALIA 84.5%</b>			
657,800	Adelaide Brighton Ltd.	Construction Materials 1.9%	\$ 2,672,569
465,400	AGL Energy Ltd.	Multi-Utilities 4.9%	6,779,724
463,000	Amcor Ltd.	Containers & Packaging 3.7%	5,167,847
1,211,727	AMP Ltd.	Diversified Financial Services 3.0%	4,201,923
220,000	ASX Ltd.	Capital Markets 5.7%	7,869,645
3,428,800	AusNet Services	Electric Utilities 2.8%	3,905,603
249,900	Australia & New Zealand Banking Group Ltd.	Banks 3.8%	5,276,740
226,600	Brambles Ltd.	Commercial Services & Supplies 1.4%	1,983,951
155,800	Caltex Australia Ltd.	Oil, Gas & Consumable Fuels 2.6%	3,626,593
373,800	Coca-Cola Amatil Ltd.	Beverages 2.0%	2,708,100
48,150	Cochlear Ltd.	Health Care 3.4%	4,678,317
143,100	Commonwealth Bank of Australia	Banks 5.8%	7,966,503
107,750	CSL Ltd.	Biotechnology 6.0%	8,221,924
2,394,700	Healthscope Ltd.	Health Care Providers & Services 2.9%	4,017,065
1,493,200	Incitec Pivot Ltd.	Chemicals 2.4%	3,339,645
1,070,200	Medibank Pvt Ltd.	Insurance 1.5%	2,096,649
59,400	Perpetual Ltd.	Capital Markets 1.5%	2,039,661
1,596,700	Scentre Group	Real Estate Investment Trusts (REIT) 3.7%	5,110,294
936,300	South32 Ltd. London Listing	Metals & Mining 1.3%	1,806,581
1,377,700	Tatts Group Ltd.	Hotels, Restaurants & Leisure 3.1%	4,246,835
1,825,400	Telstra Corp. Ltd.	Diversified Telecommunication Services 5.0%	6,903,559
928,700	Westfield Corp.	Real Estate Investment Trusts (REIT) 4.5%	6,276,036
365,000	Westpac Banking Corp. Ltd.	Banks 6.1%	8,440,601
265,400	Woodside Petroleum Ltd.	Oil, Gas & Consumable Fuels 4.1%	5,681,149
109,100	Woolworths Ltd.	Food & Staples Retailing 1.4%	1,957,931
			<b>116,975,445</b>
<b>UNITED KINGDOM 10.5%</b>			
432,900	BHP Billiton PLC London Listing	Metals & Mining 4.7%	6,509,545
228,572	Rio Tinto PLC London Listing	Metals & Mining 5.8%	7,948,662
			<b>14,458,207</b>
<b>UNITED STATES 2.9%</b>			
675,900	ResMed, Inc.	Health Care 2.9%	4,024,227
<b>Total Long-Term Investments 97.9% (cost \$142,222,132)</b>			<b>135,457,879</b>

See Notes to Financial Statements.

Aberdeen Australia Equity Fund, Inc.



## Portfolio of Investments (concluded)

As of October 31, 2016

Shares	Description	Value (US\$)
<b>SHORT-TERM INVESTMENT 1.4%</b>		
<b>UNITED STATES 1.4%</b>		
\$1,980,446	State Street Institutional U.S. Government Money Market Fund (b)	\$ 1,980,446
	<b>Total Short-Term Investment 1.4% (cost \$1,980,446)</b>	<b>1,980,446</b>
	<b>Total Investments 99.3% (cost \$144,202,578) (c)</b>	<b>137,438,325</b>
	Other Assets in Excess of Liabilities 0.7%	974,691
	<b>Net Assets 100.0%</b>	<b>\$ 138,413,016</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) Registered investment company advised by State Street Global Advisors.
- (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, 2016

<b>Assets</b>	
Investments, at value (cost \$142,222,132)	\$ 135,457,879
Short-term investments, at value (cost \$1,980,446)	1,980,446
Foreign currency, at value (cost \$1,113,679)	1,116,737
Cash	2,824
Interest receivable	248
Other receivables	40,064
Prepaid expenses and other assets	45,371
<b>Total assets</b>	<b>138,643,569</b>
<b>Liabilities</b>	
Investment manager fees payable (Note 3)	110,087
Investor relations fees payable (Note 3)	10,985
Administration fee payable (Note 3)	9,677
Accrued expenses	99,804
<b>Total liabilities</b>	<b>230,553</b>
<b>Net Assets</b>	<b>\$ 138,413,016</b>
<b>Composition of Net Assets:</b>	
Common stock (par value \$0.01 per share) (Note 5)	\$ 227,423
Paid-in capital in excess of par	129,173,074
Distributions in excess of net investment income	(2,867,230)
Accumulated net realized loss from investment transactions	(213,423)
Net unrealized appreciation on investments	12,417,507
Accumulated net realized foreign exchange gains	18,854,367
Net unrealized foreign exchange loss	(19,178,702)
<b>Net Assets</b>	<b>\$ 138,413,016</b>
Net asset value per share based on 22,742,326 shares issued and outstanding	\$ 6.09
See Notes to Financial Statements.	

Aberdeen Australia Equity Fund, Inc.

## Statement of Operations

For the Year Ended October 31, 2016

### Net Investment Income

#### Income

Dividends (net of foreign withholding taxes of \$48,872)	\$ 5,676,204
Interest and other income	72,496
	<b>5,748,700</b>

#### Expenses

Investment management fee (Note 3)	1,285,665
Director fees and expenses	245,667
Offering costs expense (Note 5)	175,128
Investor relations fees and expenses (Note 3)	146,678
Administration fee (Note 3)	112,647
Insurance expense	85,393
Reports to shareholders and proxy solicitation	81,069
Independent auditor fees and expenses	63,750
Custodian fees and expenses	30,039
Transfer agent fees and expenses	28,367
Legal fees and expenses	23,738
Miscellaneous	49,085
Total operating expenses before reimbursed/waived expenses	2,327,226
Less: Investor relations fee waiver (Note 3)	(14,128)
Net expenses	<b>2,313,098</b>

**Net Investment Income** **3,435,602**

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

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

Investment transactions	(2,858,366)
Foreign currency transactions	258,731
	<b>(2,599,635)</b>

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

Investments	3,520,175
Foreign currency translation	7,954,868
	<b>11,475,043</b>

Net realized and unrealized gain from investments and foreign currency related transactions 8,875,408

**Net Increase in Net Assets Resulting from Operations** **\$ 12,311,010**

See Notes to Financial Statements.

Aberdeen Australia Equity Fund, Inc.

## Statements of Changes in Net Assets

	For the Year Ended October 31, 2016	For the Year Ended October 31, 2015
<b>Increase/(Decrease) in Net Assets</b>		
<b>Operations:</b>		
Net investment income	\$ 3,435,602	\$ 4,860,098
Net realized gain/(loss) from investment transactions	(2,858,366)	1,287,123
Net realized gain/(loss) from foreign currency transactions	258,731	(466,628)
Net change in unrealized appreciation/(depreciation) on investments	3,520,175	(16,014,624)
Net change in unrealized appreciation/(depreciation) on foreign currency translation	7,954,868	(18,208,628)
<b>Net increase/(decrease) in net assets resulting from operations</b>	<b>12,311,010</b>	<b>(28,542,659)</b>
<b>Distributions to Shareholders from:</b>		
Net investment income	(3,551,190)	(6,159,911)
Net realized gains	(2,034,863)	(3,406,150)
Tax return of capital	(9,680,440)	(9,231,269)
Net decrease in net assets from distributions	(15,266,493)	(18,797,330)
<b>Common Stock Transactions:</b>		
Repurchase of common stock resulting in the reduction of 131,694 and 64,497 shares of common stock, respectively (Note 6)	(698,441)	(377,196)
Change in net assets from common stock transactions	(698,441)	(377,196)
Change in net assets resulting from operations	(3,653,924)	(47,717,185)
<b>Net Assets:</b>		
Beginning of year	142,066,940	189,784,125
<b>End of year (including distributions in excess of net investment income of (\$2,867,230) and (\$4,325,454), respectively)</b>	<b>\$ 138,413,016</b>	<b>\$ 142,066,940</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,				
	2016	2015	2014	2013	2012
<b>Per Share Operating Performance<sup>(a)</sup>:</b>					
Net asset value, beginning of year	\$6.21	\$8.27	\$9.44	\$9.98	\$10.17
Net investment income	0.15	0.21	0.23	0.27	0.34
Net realized and unrealized gains/(losses) on investments and foreign currencies	0.40	(1.45)	(0.48)	0.20	0.54
Total from investment operations	0.55	(1.24)	(0.25)	0.47	0.88
Distributions from:					
Net investment income	(0.16)	(0.27)	(0.32)	(0.34)	(0.71)
Net realized gains	(0.09)	(0.15)	(0.60)	(0.43)	(0.37)
Tax return of capital	(0.42)	(0.40)	(0.60)	(0.24)	(0.24)
Total distributions	(0.67)	(0.82)	(0.92)	(1.01)	(1.08)
Impact of expenses in connection with the at-the-market stock offering (Note 5)					0.01
Impact from at-the-market stock offering (Note 5)					
Net asset value, end of year	\$6.09	\$6.21	\$8.27	\$9.44	\$9.98
Market value, end of year	\$5.56	\$5.57	\$7.95	\$10.71	\$10.38
<b>Total Investment Return Based on<sup>(b)</sup>:</b>					
Market value	12.92%	(20.61%)	(17.52%)	13.33%	11.83%
Net asset value	10.94%	(14.91%)	(2.65%)	3.89% <sup>(c)</sup>	9.00% <sup>(c)</sup>
<b>Ratio to Average Net Assets/Supplementary Data:</b>					
Net assets, end of year (000 omitted)	\$138,413	\$142,067	\$189,784	\$213,103	\$225,235
Average net assets (000 omitted)	\$140,809	\$166,905	\$199,956	\$220,475	\$218,950
Net operating expenses, net of fee waivers	1.64% <sup>(d)</sup>	1.45%	1.48%	1.41%	1.33%
Net operating expenses, excluding fee waivers	1.65% <sup>(d)</sup>	1.45%	1.48%	1.41%	1.33%
Net investment income	2.44%	2.91%	2.68%	2.80%	3.46%
Portfolio turnover	15%	20%	13%	15%	21%

(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.

(d) The expense ratio includes a one-time expense associated with the October 2013 shelf offering costs attributable to the registered but unsold shares expiring in October 2016.

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

See Notes to Financial Statements.

Aberdeen Australia Equity Fund, Inc.



## Notes to Financial Statements

October 31, 2016

### 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.

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 similar 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.

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

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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.

Aberdeen Australia Equity Fund, Inc.

## Notes to Financial Statements (continued)

October 31, 2016

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.

Short-term investments are comprised of cash and cash equivalents invested in short-term investment funds which are redeemable daily. The Fund sweeps available cash into the State Street Institutional U.S. Government Money Market Fund, a government money market fund pursuant to Rule 2a-7 under the Investment Company of 1940, as amended, which has elected to qualify as a government money market fund pursuant to Rule 2a-7 under the 1940 Act and has an objective to maintain a \$1.00 per share net asset value

(NAV), which is not guaranteed. Registered investment companies are valued at their net asset value as reported by such company. Generally, these investment types are categorized as Level 1 investments.

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 factors and surrounding circumstances using valuation policies and procedures approved and established by the Board. A security that has been fair valued by the Fund's Pricing Committee may be classified as Level 2 or Level 3 depending on the nature of the inputs.

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, 2016 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:

Investments, at Value	Level 1	Level 2	Level 3	Total
Long-Term Investments	\$	\$ 135,457,879	\$	\$ 135,457,879
Short-Term Investment	1,980,446			1,980,446
<b>Total</b>	<b>\$ 1,980,446</b>	<b>\$ 135,457,879</b>	<b>\$</b>	<b>\$ 137,438,325</b>

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

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For movements between the Levels within the fair value hierarchy, the Fund has adopted a policy of recognizing transfers at the end of each fiscal period. During the fiscal year ended October 31, 2016, there were no transfers between Levels 1, 2 or 3. For the fiscal year ended October 31, 2016, there were no significant changes to the fair valuation methodologies.

### **b. Foreign Currency Translation:**

Foreign securities, currencies, and other assets and liabilities denominated in foreign currencies are translated into U.S. Dollars at the exchange rate of said currencies against the U.S. Dollar, as of the

Valuation Time, as provided by an independent pricing service approved by the Board.

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

- (i) market value of investment securities, other assets and liabilities at the exchange rates at the current daily rates of exchange 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.

Aberdeen Australia Equity Fund, Inc.

## Notes to Financial Statements *(continued)*

October 31, 2016

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. Gener