

ABERDEEN AUSTRALIA EQUITY FUND INC
Form N-CSR
January 07, 2011

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:	Aberdeen Asset Management Inc. 1735 Market Street 32 nd Floor Philadelphia, PA 19103
Name and address of agent for service:	Ms. Andrea Melia Aberdeen Asset Management Inc. 1735 Market Street 32 nd Floor Philadelphia, PA 19103
Registrant's telephone number, including area code:	866-839-5205
Date of fiscal year end:	October 31
Date of reporting period:	October 31, 2010

Item 1 Reports to Stockholders

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Aberdeen Australia Equity Fund, Inc.

Annual Report

October 31, 2010

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

Managed Distribution Policy

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.

Letter to Shareholders (unaudited)

December 10, 2010

Dear Shareholder,

We present this Annual Report which covers the activities of Aberdeen Australia Equity Fund, Inc. (the Fund) for the year ended October 31, 2010. The Fund's principal investment objective is long-term capital appreciation through investment primarily in equity securities of Australian companies listed on the Australian Stock Exchange Limited. The Fund's secondary investment objective is current income.

Net Asset Value Performance

The Fund's total return based on net asset value (NAV) was 15.4% for the year ended October 31, 2010, assuming reinvestment of distributions, compared with 13.4% in U.S. dollar terms, for the S&P/ASX 200 Accumulation Index.

Share Price Performance

The Fund's share price increased 11.4% over the year, from \$11.40 on October 31, 2009 to \$12.70 on October 31, 2010. The Fund's share price on October 31, 2010 represented a premium of 9.7% to the NAV per share of \$11.58 on that date, compared with a premium of 4.0% to the NAV per share of \$10.96 on October 31, 2009. At the date of this letter, the share price was \$12.33, representing a premium of 4.1% to the NAV per share of \$11.84.

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 2010, the Board of Directors determined the rolling distribution rate to be 10% for the 12 month period commencing with the distribution payable in April 2010. This policy will be subject to regular review by the Fund's Board of Directors. The distributions will be made from current income, supplemented by realized capital gains and, to the extent necessary, paid-in capital.

On December 8, 2010, the Board of Directors authorized a quarterly distribution of 28 cents per share, payable on January 14, 2011 to all shareholders of record as of December 30, 2010.

Secondary Offering

On December 9, 2010, the Fund announced the pricing of a public offering of its shares of common stock. The Fund agreed to sell a total of 2,500,000 shares of common stock (exclusive of 375,000 shares of common stock that the underwriters may purchase pursuant to a 45-day option to cover over-allotments) at a price of \$12.50 per share. Net proceeds of the offering were approximately

\$30 million and were used to make additional portfolio investments that are consistent with the Fund's investment objectives and policies. The offering closed on December 14, 2010.

Portfolio Holdings Disclosure

The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington D.C. Information about the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. The Fund makes the information on Form N-Q available to shareholders on the Fund's website or upon request and without charge by calling Investor Relations toll-free at 1-866-839-5205.

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Proxy Voting

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities, and information regarding how the Fund voted proxies relating to portfolio securities during the twelve months ended June 30, 2010, is available: (i) upon request and without charge by calling Investor Relations toll-free at 1-866-839-5205; and (ii) on the SEC's website at <http://www.sec.gov>.

Dividend Reinvestment and Direct Stock Purchase Plan

As part of a broad effort to enhance available services to Shareholders, we are pleased to announce the availability of a Dividend Reinvestment and Direct Stock Purchase Plan (the "Plan") that is sponsored and administered by Computershare Trust Company, N.A., the Fund's transfer agent. 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.

The new Plan has similar features to the previous Dividend Reinvestment Plan that was administered by The Bank of New York Mellon, the Fund's former transfer agent, but it also offers some enhancements that enable investors to purchase initial shares through the Plan as a new investor, authorize recurring monthly purchases through the automatic investment feature and purchase shares over the Internet at www.computershare.com/aberdeen or by check.

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

Aberdeen Australia Equity Fund, Inc.

Letter to Shareholders (unaudited) (concluded)

Investor Relations Information

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

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

For information about the Aberdeen Closed-End Funds, please visit our Closed-End Investor Center at www.aberdeen-asset.us/cef.

From the site you will also be able to review performance, download literature and sign up for email services. The site houses most topical information about the funds, including fact sheets from Morningstar that are updated daily and monthly manager reports. If you sign up for our email service online, we can ensure that you are among the first to know about Aberdeen's latest closed-end fund news.

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,

Christian Pittard

President

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

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.

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

Therefore, the exact amount of distributable income for each fiscal year can only be determined as of the end of the Fund's fiscal year,

October 31. Under the U.S. Investment Company Act of 1940, the Fund is required to indicate the sources of certain distributions to shareholders. This estimated distribution composition may vary from quarter to quarter because it may be materially impacted by future realized gains and losses on securities and fluctuations in the value of the currencies in which Fund assets are denominated.

The distributions for the fiscal year ended October 31, 2010, consisted of 49% of net investment income, 6% of net realized long-term capital gains and 45% return of paid-in capital.

In January 2011, 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 2010 calendar year.

Aberdeen Australia Equity Fund, Inc.

Report of the Investment Manager (unaudited)

Economic Review

The Fund's total return based on net asset value (NAV) was 15.4% for the year ended October 31, 2010, assuming re-investment of distributions, compared with 13.4%, in U.S. dollar terms, for the S&P/ASX 200 Accumulation Index (the benchmark).

In the first quarter of the Fund's financial year, the market got off to a weak start with the benchmark declining by 2.6%, influenced partly by two 25 basis point interest rate hikes by the Reserve Bank of Australia (RBA), leaving rates at 3.75%. Australia was one of the first developed countries to commence rate increases subsequent to the Global Financial Crisis (GFC) as employment data showed positive trends, as compared to other developed nations where the opposite held true. Between August 2009 and November 2009 employment grew by nearly 100,000. As a comparison, over the same period U.S. non-farm payrolls fell by 260,000. Towards the end of 2009 calendar year, M&A activity re-commenced; first with AMP Ltd. bidding for AXA Asia Pacific, followed by a higher subsequent bid from National Australia Bank. This latter bid was finally rejected by the Australian Competition and Consumer Commission (the competition regulator in Australia) towards the end of the Fund's financial year and still awaits the potential development of a fresh bid by AMP.

During the second quarter of the financial year the Fund's benchmark returned 11.6%, a very strong performance. Both February and March 2010 exhibited positive stock market performance, but April showed a small decline. February in Australia is predominantly the month in which a large proportion of the companies report on the first six months of trading up to end of December. This particular reporting period was characterized by earnings slightly ahead of expectations but any guidance by management on outlook was muted or cautious. In the U.S., the Federal Reserve continued to indicate that interest rates were likely to stay low for a considerable period. In contrast the RBA twice increased rates in the quarter, ending April at 4.25% and May at 4.5%. Australian banks indicated that loan loss risks were alleviating and this provided some enthusiasm for the sector. The Australian Dollar appreciated against the U.S. Dollar by around 3%, but appreciated by almost 9% against the Euro, as worries about the

state of Greece, and some of the other Southern European countries, impacted the Euro zone.

In the quarter ending July 2010, the commencement of the second half of the Fund's financial year, the market reversed a significant proportion of the gains of the second quarter, with the benchmark declining 8.5%. Early in the quarter, the market was blind-sided by the announcement of a proposed Resource Super Profits Tax (RSPT) in Australia. The impact of this proposal was a sell-off of resource stocks and the Australian Dollar, with the latter falling by almost 9% against the U.S. Dollar. Towards the end of June, Australia experienced a bout of political upheaval, with the Prime Minister Kevin Rudd stepping down to be replaced by Julia Gillard, the first female Prime Minister of Australia. A federal election was also announced for August.

Ahead of the next reporting season, the market saw a number of downgrades to expectations for some companies. A revised version of the RSPT was announced- a Mineral Resource Rent Tax-which was generally received by relief within the resource sector, although the details of its implementation have yet to be finalized.

In the final quarter of the Fund's financial year, the market recouped the losses of the previous quarter, giving a double figure return over the three months. The quarter was also characterized by a further strengthening of the Australian Dollar against the U.S. Dollar, rising by over 10%, just shy of parity. The federal election in August left neither of the major parties with an overall majority in the lower house, but subsequently Prime Minister Julia Gillard was able to form a government with the support of Green and Independent MPs, albeit with only a slender majority. Resources had a strong quarter on the back of strong base metal prices and the watering down of the initial RSPT proposals. August reporting season was slightly better than expectations, with decent dividend increases from some companies, but any guidance or outlook statements were guarded or cautious. The RBA left interest rates unchanged during the quarter, although employment data remained strong. Towards the end of October, the Australian Stock Exchange (held in the portfolio) announced an agreed bid for it from the Singapore Stock Exchange at a significant premium, although this must clear a number of regulatory hurdles before it can proceed.

Portfolio Composition (unaudited)

The following chart summarizes the composition of the Fund's portfolio, in industry classification standard sectors, expressed as a percentage of net assets. An industry classification standard sector can include more than one industry group. The Fund may invest between 25% and 35% of its total assets in the securities of any one industry group if, at the time of investment, that industry group represents 20% or more of the S&P/ASX 200 Accumulation Index. As of October 31, 2010, the Fund did not have more than 25% of its assets invested in any industry group. The financial industry sector is comprised of several groups.

As of October 31, 2010, the Fund held 96.3% of its net assets in equities, 0.4% in a short-term investment and 3.3% in other assets in excess of liabilities.

Asset Allocation as of October 31, 2010

by Standard & Poor's Global Industry Classification Standard Sectors

Top Ten Equity Holdings (unaudited)

The following were the Fund's top ten holdings as of October 31, 2010:

Name of Security	Percentage of Net Assets
BHP Billiton Ltd.	12.8%
QBE Insurance Group Ltd.	7.3%
Rio Tinto Ltd.	6.9%
Commonwealth Bank of Australia	6.3%
Woolworths Ltd.	5.6%
Westpac Banking Corp. Ltd.	5.4%
Australia & New Zealand Banking Group Ltd.	5.2%
Westfield Group Ltd.	4.5%
AGL Energy Ltd.	4.3%
Woodside Petroleum Ltd.	4.1%

Aberdeen Australia Equity Fund, Inc.

Portfolio of Investments

As of October 31, 2010

Shares	Description	Value (US\$)
LONG-TERM INVESTMENTS 96.3%		
COMMON STOCKS 96.3%		
CONSUMER DISCRETIONARY 6.9%		
329,000	Billabong International Ltd.*	\$ 2,621,774
1,447,685	David Jones Ltd.*	6,743,132
2,502,800	Tattersall s Ltd.*	6,129,497
		15,494,403
CONSUMER STAPLES 10.1%		
2,404,200	Goodman Fielder Ltd.*	3,495,417
1,539,440	Metcash Ltd.*	6,590,338
448,600	Woolworths Ltd.*	12,453,556
		22,539,311
ENERGY 4.1%		
213,401	Woodside Petroleum Ltd.*	9,125,687
FINANCIALS 29.9%		
477,950	Australia & New Zealand Banking Group Ltd.*	11,660,419
213,015	Australian Stock Exchange Ltd.*	7,760,998
911,470	AXA Asia Pacific Holdings Ltd.*	4,853,796
292,655	Commonwealth Bank of Australia*	14,068,876
968,310	QBE Insurance Group Ltd.*	16,287,561
546,000	Westpac Banking Corp. Ltd.*	12,157,759
		66,789,409
HEALTH CARE EQUIPMENT & SERVICES 3.4%		
286,690	Ramsay Health Care Ltd.*	4,399,015
309,420	Sonic Healthcare Ltd.*	3,301,223
		7,700,238
INDUSTRIALS 2.0%		
121,000	Leighton Holdings Ltd.*	4,354,207
INFORMATION TECHNOLOGY 1.5%		
343,565	Computershare Ltd.*	3,411,361
MATERIALS 23.6%		
693,780	BHP Billiton Ltd.*	28,667,867
1,116,890	Incitec Pivot Ltd.*	4,089,701
179,260	Orica Ltd.*	4,429,458
190,420	Rio Tinto Ltd.*	15,496,827
		52,683,853
PROPERTY 4.5%		
822,650	Westfield Group Ltd.*	10,005,385
TELECOMMUNICATION SERVICES 3.5%		
3,289,200	Singapore Telecommunications Ltd.*	7,793,534
UTILITIES 6.8%		
609,935	AGL Energy Ltd.*	9,630,329
6,075,860	SP AusNet*	5,525,675
		15,156,004

Total Long-Term Investments	96.3% (cost \$138,394,797)	215,053,392
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See Notes to Financial Statements.

Aberdeen Australia Equity Fund, Inc.

Portfolio of Investments (concluded)

As of October 31, 2010

Par Amount	Description	Value (US\$)
SHORT-TERM INVESTMENT 0.4%		
\$851,000	Time Deposit, State Street Bank & Trust Co., 0.01%, due 11/01/10	\$ 851,000
Total Short-Term Investment 0.4% (cost \$851,000)		851,000
Total Investments 96.7% (cost \$139,245,797)		215,904,392
Other Assets in Excess of Liabilities 3.3%		7,268,405
Net Assets 100.0%		\$ 223,172,797

* Fair Valued Security; countries with a Fair Value designation indicate all its securities are Fair Valued. Fair Values are determined pursuant to procedures approved by the Board of Directors.
See Notes to Financial Statements.

Aberdeen Australia Equity Fund, Inc.

Statement of Assets and Liabilities

As of October 31, 2010

Assets

Investments, at value (cost \$139,245,797)	\$ 215,904,392
Foreign currency, at value (cost \$7,278,567)	7,257,020
Cash	844
Interest and dividends receivable	349,323
Prepaid expenses and other assets	39,345
Total assets	223,550,924

Liabilities

Investment management fees payable	187,173
Administration fees	17,916
Other	173,038
Total liabilities	378,127

Net Assets	\$ 223,172,797
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Composition of Net Assets:

Common stock (par value \$.01 per share)	\$ 192,776
Paid-in capital in excess of par	130,353,631
Distributions in excess of net investment income	(1,995,667)
Accumulated net realized gain on investment transactions	2,514,129
Net unrealized appreciation on investments	44,440,760
Accumulated net realized foreign exchange gains	15,457,613
Net unrealized foreign exchange gains	32,209,555
Net Assets	\$ 223,172,797
Net asset value per common share based on 19,277,602 shares issued and outstanding	\$ 11.58

See Notes to Financial Statements.

Aberdeen Australia Equity Fund, Inc.

Statement of Operations

For the Year Ended October 31, 2010

Net Investment Income

Income	
Dividend income (net of foreign withholding taxes of \$105,718)	\$ 8,885,946
Interest	215,745
	9,101,691
Expenses	
Investment management fee	1,779,272
Directors' fees and expenses	231,942
Legal fees and expenses	190,685
Administration fee	171,844
Investor relations fees and expenses	133,945
Reports to shareholders and proxy solicitation	119,746
Insurance expense	107,977
Custodian's fees and expenses	61,912
Independent auditors' fees and expenses	58,062
Transfer agent's fees and expenses	39,249
Miscellaneous	48,285
Total expenses	2,942,919
Net investment income	6,158,772
Realized and Unrealized Gains/(Losses) on Investments and Foreign Currencies	
Net realized gain/(loss) on:	
Investment transactions	8,794,249
Foreign currency transactions	1,626,246
	10,420,495
Net change in unrealized appreciation/(depreciation) on:	
Investments	6,231,484
Foreign currency translation	8,486,348
	14,717,832
Net gain on investments and foreign currencies	25,138,327
Net Increase in Net Assets Resulting From Operations	\$ 31,297,099
See Notes to Financial Statements.	

Aberdeen Australia Equity Fund, Inc.

Statements of Changes in Net Assets

	For the Year Ended October 31, 2010	For the Year Ended October 31, 2009
Increase/(Decrease) in Net Assets		
Operations:		
Net investment income	\$ 6,158,772	\$ 5,578,553
Net realized gain (loss) from investment transactions	8,794,249	(1,159,539)
Net realized gain/(loss) foreign currency transactions	1,626,246	(599,383)
Net change in unrealized appreciation/(depreciation) from investments	6,231,484	20,754,670
Net change in unrealized appreciation/(depreciation) on foreign currency translation		