

ABERDEEN AUSTRALIA EQUITY FUND INC
Form N-CSR
January 06, 2012

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, 2011

Item 1 Reports to Stockholders

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.

Distribution Disclosure Classification (unaudited)

The Fund's policy is to provide investors with a stable distribution rate. Each quarterly distribution will be paid out of current income, supplemented by realized capital gains and, to the extent necessary, paid-in capital.

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

Therefore, the exact amount of distributable income for each fiscal year can only be determined as of the end of the Fund's fiscal year, October 31. Under the U.S. Investment Company Act of 1940 (the 1940 Act), the Fund is required to indicate the sources of certain distributions to shareholders.

The estimated distribution composition may vary from quarter to quarter because it may be materially impacted by future realized gains and losses on securities and fluctuations in the value of currencies in which Fund assets are denominated.

The distributions for the fiscal year ended October 31, 2011, consisted of 45% net investments income, 39% net realized long-term capital gains and 16% return of capital.

In January 2012, 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 2011 calendar year.

Dividend Reinvestment and Direct Stock Purchase Plan

The Fund has a Dividend Reinvestment and Direct Stock Purchase Plan (the Plan), which is sponsored and administered by Computershare Trust Company, N.A., the Fund's transfer agent.

The Plan allows registered stockholders and first time investors to buy and sell shares and automatically reinvest dividends and capital gains through our 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.

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

Letter to Shareholders (unaudited)

December 8, 2011

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, 2011. 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 (3.2)% for the year ended October 31, 2011, and 8.4% per annum since inception, assuming reinvestment of dividends and distributions, compared with 4.3% in U.S. dollar terms, for the S&P/ASX 200 Accumulation Index (ASX).

Share Price Performance

The Fund's share price decreased 18.8% over the year, from \$12.70 on October 31, 2010 to \$10.31 on October 31, 2011. The Fund's share price on October 31, 2011 represented a premium of 1.4% to the NAV per share of \$10.17 on that date, compared with a premium of 9.7% to the NAV per share of \$11.58 on October 31, 2010. At the date of this letter, the share price was \$9.78, representing a premium of 0.9% to the NAV per share of \$9.69.

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 2011, 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 April 2011. 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 7, 2011, the Board authorized a quarterly distribution of \$0.29 per share, payable on January 13, 2012 to all shareholders of record as of December 30, 2011.

Portfolio Holdings Disclosure

The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Fund's Form N-Q filings are available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information about the operation of the Public Reference Room may be obtained by calling

1-800-SEC-0330. The Fund makes the information on Form N-Q available to shareholders on the Fund's website or upon request and without charge by calling Investor Relations toll-free at 1-866-839-5205.

Proxy Voting

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities, and information regarding how the Fund voted proxies relating to portfolio securities during the twelve months ended June 30, 2011, 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>.

Investor Relations Information

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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 more information about 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 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 will be 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

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 (3.2)% for the year ended October 31 2011, assuming the reinvestment of dividends and distributions, compared with 4.3%, in U.S. Dollar terms, for the S&P/ASX 200 Accumulation Index (ASX).

The first quarter of the Fund's fiscal year got off to a positive start with the benchmark increasing by 4.5%. During the quarter, the Reserve Bank of Australia raised interest rates by 25bps to 4.8%, in stark contrast to the situation in Europe and the United States where interest rates remained low. At the start of the calendar year, the states of both Queensland and Victoria in Australia were ravaged by severe flooding and the Australian Federal Government proposed a flood levy on all Australian citizens to help fund the massive reconstruction cost in flood hit areas. In New Zealand a huge earthquake decimated the second largest city Christchurch. Elsewhere investor focus was on the popular uprisings in Egypt and Tunisia which resulted in oil prices spiking. The Healthcare sector was the strongest performer over the quarter, followed by Telecom Services and Energy. The weakest sector was Consumer Discretionary, impacted by higher interest rates.

During the second quarter of the fiscal year, the Fund's benchmark returned 12.8%, with all sectors providing a positive return. Continued political unrest in the Middle East resulted in continuing high oil prices. In Australia, the reporting season was characterized by mixed news, but the Resources sector was buoyed by strong results on the back of high commodity prices and volume increases. The Australian Dollar (AUD) touched a new high against the United States Dollar (USD) at \$1.09 and commentary from companies with significant overseas earnings warned of the negative effects of this on their earnings. In March, the whole world was gripped with news and pictures out of Japan regarding the effects of the tsunami and the shutdown of the nuclear industry there. In Australia, this impacted uranium stocks negatively. The Australian Federal Government rejected a bid by the Singapore Stock Exchange for the ASX. Telecom Services was again the strongest sector, but was closely followed by Energy, Financials and Materials.

The quarter ended July 31, 2011 was in contrast to the previous quarter with the Fund's benchmark declining by 7.2%. Fiscal strains in both the Eurozone and in the U.S. weighed on world stock markets, as did weaker data from China, as the government there tried to dampen the economy. In Australia, the Resources sector continued to grow with industry citing concerns regarding the difficulty of labor shortages. This led to concerns regarding a two speed economy in Australia, with growth slowing in non-resource orientated states. Relatively high interest rates and worries regarding employment and the economy in Australia led to the savings rate going above 10% for the first time for a number of years. The AUD continued to appreciate against the USD, touching an all-time high of \$1.11. This strength led to a negative effect on the tourism industry, with overseas visitor numbers down significantly. Telecom Services and Utilities were the only positive sectors during the period with the Consumer Discretionary being the weakest, followed by Energy after a decline in the oil price.

During the quarter ended October 31, 2011, the Fund's benchmark declined by 4.6%. The Fund's benchmark for the previous three quarters was relatively flat. The AUD had a volatile quarter against the USD, declining in both August and September and then recovering in October to end at US\$ 1.05, still down from its high in July. The Australian reporting season in August was characterized by muted guidance by management, with explicit commentary regarding the effects of the strong AUD on trading. In August in the U.S., Congress passed a measure to raise Treasury borrowing limits, only for the rating agency Standard & Poor's to downgrade U.S. federal debt for the first time. Concerns regarding European sovereign continued to weigh on markets. Towards the end of the quarter better economic news regarding inflation in Australia led to heightened expectations of a possible interest rate cut before Christmas. The industrial relations climate blackened in Australia at the end of October with the management of the Australian national airline carrier Qantas grounding its entire fleet globally in order to get an outcome in its negotiations with the unions.

Aberdeen Australia Equity Fund, Inc.

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, 2011, the Fund did not have more than 25% of its assets invested in any industry group. The financial industry sector is comprised of several industry groups.

As of October 31, 2011, the Fund held 98.1% of its net assets in equities, 0.1% in a short-term investment and 1.8% in other assets in excess of liabilities.

Asset Allocation as of October 31, 2011

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, 2011:

Name of Security	Percentage of Net Assets
QBE Insurance Group Ltd.	7.8%
Commonwealth Bank of Australia	6.7%
Woolworths Ltd.	6.5%
Australia & New Zealand Banking Group Ltd.	6.3%
BHP Billiton Ltd.	5.9%
Rio Tinto PLC	5.3%
BHP Billiton PLC	4.3%
AGL Energy Ltd.	4.3%
Westpac Banking Corp. Ltd.	4.1%
Westfield Group Ltd.	3.7%

Aberdeen Australia Equity Fund, Inc.

Portfolio of Investments

As of October 31, 2011

Shares	Description	Value (US\$)
LONG-TERM INVESTMENTS 98.1%*		
COMMON STOCKS 98.1%		
CONSUMER DISCRETIONARY 6.4%		
2,255,530	David Jones Ltd.	\$ 7,962,384
2,744,415	Tattersall's Ltd.	6,676,913
		14,639,297
CONSUMER STAPLES 9.1%		
179,500	Coca-Cola Amatil Ltd.	2,317,138
825,000	Metcash Ltd.	3,610,297
599,345	Woolworths Ltd.	14,982,317
		20,909,752
ENERGY 3.1%		
184,800	Woodside Petroleum Ltd.	7,036,634
FINANCIALS 31.9%		
1,695,100	AMP Ltd.	7,556,864
642,500	Australia & New Zealand Banking Group Ltd.	14,518,193
258,295	Australian Stock Exchange Ltd.	8,293,473
301,205	Commonwealth Bank of Australia	15,472,909
1,159,500	QBE Insurance Group Ltd.	17,848,080
410,500	Westpac Banking Corp. Ltd.	9,526,157
		73,215,676
HEALTH CARE EQUIPMENT & SERVICES 3.2%		
47,800	Cochlear Ltd.	2,934,940
150,500	CSL Ltd.	4,532,904
		7,467,844
INDUSTRIALS 3.1%		
318,900	Leighton Holdings Ltd.	7,244,569
INFORMATION TECHNOLOGY 3.0%		
868,900	Computershare Ltd.	6,866,865
MATERIALS 23.4%		
348,905	BHP Billiton Ltd.	13,657,744
314,330	BHP Billiton PLC	9,898,087
1,175,100	Incitec Pivot Ltd.	4,256,371
222,100	Newcrest Mining Ltd.	7,849,413
217,385	Orica Ltd.	5,887,995
224,845	Rio Tinto PLC	12,163,869
		53,713,479
PROPERTIES 4.7%		
1,049,900	Westfield Group Ltd.	8,452,096
884,460	Westfield Retail Trust	2,357,081
		10,809,177
TELECOMMUNICATION SERVICES 2.9%		
2,620,715	Singapore Telecommunications Ltd.	6,712,088

See Notes to Financial Statements.

Portfolio of Investments (concluded)

As of October 31, 2011

Shares	Description	Value (US\$)
LONG-TERM INVESTMENTS (continued)		
UTILITIES 7.3%		
649,580	AGL Energy Ltd.	\$ 9,787,285
6,593,200	SP AusNet	6,874,638
		16,661,923
	Total Long-Term Investments 98.1% (cost \$187,351,214)	225,277,304
Par Amount		
SHORT-TERM INVESTMENT 0.1%		
\$112,000	Repurchase Agreement, State Street Bank & Trust Co., 0.01% dated 10/31/2011, due 11/01/11 in the amount of \$112,000 collateralized by U.S. Treasury Note, maturing 2/15/18; total market value of \$118,650	112,000
	Total Short-Term Investment 0.1% (cost \$112,000)	112,000
	Total Investments 98.2% (cost \$187,463,214)	225,389,304
	Other Assets in Excess of Liabilities 1.8%	4,226,419
	Net Assets 100.0%	\$ 229,615,723

* Fair Valued Security. 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, 2011

Assets

Investments, at value (cost \$187,351,214)	\$ 225,277,304
Repurchase agreement, at value (cost \$112,000)	112,000
Foreign currency, at value (cost \$3,995,617)	4,070,731
Cash	396
Dividends receivable	356,565
Prepaid expenses and other assets	153,441
Total assets	229,970,437

Liabilities

Investment management fees payable	153,750
Administration fees	14,659
Other	186,305
Total liabilities	354,714
Net Assets	\$ 229,615,723

Composition of Net Assets:

Common stock (par value \$.01 per share)	\$ 225,741
Paid-in capital in excess of par	164,768,552
Distributions in excess of net investment income	(5,079,344)
Accumulated net realized gain from investment transactions	16,282,894
Net unrealized appreciation on investments	4,931,576
Accumulated net realized foreign exchange gains	15,379,426
Net unrealized foreign exchange gains	33,106,878
Net Assets	\$ 229,615,723
Net asset value per common share based on 22,574,121 shares issued and outstanding	\$ 10.17

See Notes to Financial Statements.

Aberdeen Australia Equity Fund, Inc.

Statement of Operations

For the Year Ended October 31, 2011

Net Investment Income

Income

Dividend income (net of foreign withholding taxes of \$88,916)	\$ 11,547,173
Interest and other income	140,320
	11,687,493

Expenses

Investment management fee	2,014,625
Administration fee	195,957
Directors' fees and expenses	286,250
Legal fees and expenses	164,198
Investor relations fees and expenses	151,975
Reports to shareholders and proxy solicitation	108,475
Insurance expense	104,401
Custodian's fees and expenses	68,281
Independent auditors' fees and expenses	58,236
Transfer agent's fees and expenses	25,864
Miscellaneous	108,300
Total expenses	3,286,562

Net investment income **8,400,931**

Realized and Unrealized Gains/(Losses) on Investments and Foreign Currencies

Net realized gain/(loss) from:

Investment transactions	23,509,543
Foreign currency transactions	(78,187)
	23,431,356

Net change in unrealized appreciation/(depreciation) on:

Investments	(39,509,184)
Foreign currency translation	897,323
	(38,611,861)
Net loss from investments and foreign currencies	(15,180,505)
Net Decrease in Net Assets Resulting from Operations	\$ (6,779,574)

See Notes to Financial Statements.

Aberdeen Australia Equity Fund, Inc.

Statements of Changes in Net Assets

**For the
Year Ended
October 31, 2011**