

ABERDEEN AUSTRALIA EQUITY FUND INC  
Form N-Q  
September 28, 2011

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM N-Q**

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS**

**OF REGISTERED MANAGEMENT INVESTMENT COMPANY**

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:	1-866-839-5205
Date of fiscal year end:	October 31
Date of reporting period:	July 31, 2011

**Item 1 Schedule of Investments**

**Portfolio of Investments (unaudited)**

As of July 31, 2011

Shares	Description	Value (US\$)
<b>LONG-TERM INVESTMENTS - 97.5%</b>		
<b>COMMON STOCKS - 97.5%</b>		
<b>CONSUMER DISCRETIONARY - 5.8%</b>		
2,255,530	David Jones Ltd.*	\$ 7,420,666
2,744,415	Tattersall s Ltd.*	6,997,158
		<b>14,417,824</b>
<b>CONSUMER STAPLES - 10.3%</b>		
2,870,370	Goodman Fielder Ltd.*	2,831,363
1,138,010	Metcash Ltd.*	5,196,669
599,345	Woolworths Ltd.*	17,731,847
		<b>25,759,879</b>
<b>ENERGY - 2.8%</b>		
168,085	Woodside Petroleum Ltd.*	<b>7,082,607</b>
<b>FINANCIALS - 30.0%</b>		
1,042,410	AMP Ltd.*	5,213,574
655,180	Australia & New Zealand Banking Group Ltd.*	14,975,587
258,295	Australian Stock Exchange Ltd.*	8,471,994
301,205	Commonwealth Bank of Australia*	16,287,726
1,047,410	QBE Insurance Group Ltd.*	18,849,855
488,815	Westpac Banking Corp. Ltd.*	10,944,574
		<b>74,743,310</b>
<b>HEALTH CARE EQUIPMENT &amp; SERVICES - 2.5%</b>		
32,850	Cochlear Ltd.*	2,556,141
107,350	CSL Ltd.*	3,618,936
		<b>6,175,077</b>
<b>INDUSTRIALS - 3.2%</b>		
338,200	Leighton Holdings Ltd.*	<b>7,856,237</b>
<b>INFORMATION TECHNOLOGY - 2.9%</b>		
811,330	Computershare Ltd.*	<b>7,298,384</b>
<b>MATERIALS - 24.7%</b>		
586,055	BHP Billiton Ltd.*	26,797,685
1,175,100	Incitec Pivot Ltd.*	5,090,512
171,900	Newcrest Mining Ltd.*	7,496,062
217,385	Orica Ltd.*	6,126,007
183,805	Rio Tinto Ltd.*	16,103,601
		<b>61,613,867</b>

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**PROPERTIES - 4.3%**

941,130	Westfield Group Ltd.*	8,222,618
884,460	Westfield Retail Trust*	2,367,743

**10,590,361**

**TELECOMMUNICATION SERVICES - 3.8%**

3,414,710	Singapore Telecommunications Ltd.*	<b>9,435,665</b>
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**UTILITIES - 7.2%**

735,025	AGL Energy Ltd.*	11,448,909
6,335,565	SP AusNet*	6,395,548

**17,844,457**

**Total Long-Term Investments - 97.5%**

<b>(cost \$178,225,416)</b>		<b>242,817,668</b>
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See Notes to Portfolio of Investment

Aberdeen Australia Equity Fund, Inc.

**Portfolio of Investments (unaudited) (concluded)**

As of July 31, 2011

Par Amount	Description	Value (US\$)
<b>SHORT-TERM INVESTMENT - 0.7%</b>		
\$1,671,000	Repurchase Agreement, State Street Bank & Trust Co., 0.01% dated 07/29/2011, due 8/01/11 in the amount of \$1,671,001, collateralized by U.S. Treasury Note, maturing 3/31/14; total market value of \$1,708,744	\$ 1,671,000
<b>Total Short-Term Investment - 0.7%</b>		
(cost \$1,671,000)		<b>1,671,000</b>
<b>Total Investments - 98.2%</b>		
(cost \$179,896,416)		<b>244,488,668</b>
Other Assets in Excess of Liabilities - 1.8%		4,497,436
<b>Net Assets - 100.0%</b>		<b>\$ 248,986,104</b>

\* Fair Valued Security. Fair Values are determined pursuant to procedures approved by the Board of Directors.

**Tax Cost of Investments**

The United States federal income tax basis of the Registrant's investments and unrealized appreciation as of July 31, 2011 were as follows:

Tax Cost Basis	Appreciation	Depreciation	Net Unrealized Appreciation
\$190,126,632	\$ 60,107,221	\$ (7,495,443)	\$ 52,611,778

**Asset Allocation as of July 31, 2011**

by Standard & Poor's Global Industry Classification Standard Sectors

See Notes to Portfolio of Investment

Aberdeen Australia Equity Fund, Inc.

**Notes to Portfolio of Investments (Unaudited)**

July 31, 2011

**(a) Security Valuation:**

Securities for which market quotations are readily available are valued at current market value as of the Valuation Time. The Valuation Time is as of the close of regular trading on the New York Stock Exchange (usually 4:00 p.m. Eastern Time). Equity securities are valued at the last quoted sale price. Effective January 1, 2011, if there is no sale price available, the last quoted mean price provided by an independent pricing service approved by the Board of Directors (the Board) is used. Prior to January 1, 2011, if there was no sale price, the last quoted bid price provided by an independent pricing service was used. Securities traded on NASDAQ are valued at the NASDAQ official closing price. Management has concluded there is no significant effect on the value of the portfolio due to the change in methodology. Prices are taken from the primary market or exchange on which each security trades. Investment companies are valued at net asset value as reported by such company.

Most securities listed on a foreign exchange are valued at the last sale price at the close of the exchange on which the security is principally traded or by application of a valuation factor by an independent pricing service to the last sales price as further discussed below. 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.

Debt and other fixed-income securities (other than short-term obligations) are valued at the last quoted bid price and/or by using a combination of daily quotes and matrix evaluations provided by an independent pricing service, the use of which has been approved by the Board. In the event such quotes are not available from such pricing agents, then the security may be priced based on bid quotations from broker-dealers. Short-term debt securities of sufficient credit quality such as commercial paper and U.S. Treasury Bills having a remaining maturity of 60 days or less at the time of purchase, are valued at amortized cost, which approximates fair value.

Securities for which market quotations are not readily available, or for which an independent pricing service does not provide a value or provides a value that does not represent fair value in the judgment of the Fund's investment adviser or designee, are valued at fair value under procedures approved by the Board. In addition, fair value determinations are required for securities whose value is affected by a significant event that materially affects the value of a domestic or foreign security which occurs subsequent to the time of the close of the principal market on which such domestic or foreign security trades and before the Valuation Time (i.e., a subsequent event). Typically, this will involve events occurring after the close of a foreign market on which a security trades and before the next Valuation Time.

The Fund's equity securities that are traded on a foreign exchange or market which closes prior to the Fund's Valuation Time are fair valued by an independent pricing service. The fair value of each such security generally is calculated by applying a valuation factor provided by the independent pricing service to the last sales price for that security. If the pricing service is unable to provide a fair value for a security, the security will continue to be valued at the last sale price at the close of the exchange on which it is principally traded, subject to adjustment by the Fund's Pricing Committee. When the fair value prices are utilized, the value assigned to the foreign securities may not be the quoted or published prices of the securities on their primary markets.

For the period ended July 31, 2011, other than described above, there have been no significant changes to the valuation procedures approved by the Board.

The Fund is required to disclose information regarding the fair value measurements of the Fund's assets and liabilities. Fair value is defined as the price that the Fund would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market for the investment. The disclosure requirements utilize a three-tier hierarchy to maximize the use of observable market data, minimize the use of unobservable inputs and establish classification of fair value measurements for disclosure purposes. 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 such 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

**Notes to Portfolio of Investments (unaudited) (continued)**

July 31, 2011

reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability, which are based on the best information available in the circumstances.

The three-tier 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, credit risk, etc.)

Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)  
The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The Fund uses valuation techniques to measure fair value that are consistent with the market approach and/or income approach, depending on the type of security and the particular circumstance. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable securities. The income approach uses valuation techniques to discount estimated future cash flows to present value. The following is a summary of the inputs used to value the Fund's investments as of July 31, 2011:

<b>Investments</b>	<b>Level 1*</b>	<b>Level 2*</b>	<b>Level 3</b>
Equity Investments	\$	\$ 242,817,668	\$
Short-Term Investment		1,671,000	
<b>Total Investments</b>	<b>\$</b>	<b>\$ 244,488,668</b>	<b>\$</b>

\* Westfield Retail Trust with a fair value of \$2,367,743 transferred from Level 1 to Level 2 during the period. During the period ended July 31, 2011, there were no significant changes to the fair valuation methodologies.

**(b) Repurchase Agreements:**

The Fund may enter into repurchase agreements. 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 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. If the counterparty defaults and the value of the collateral declines or if bankruptcy proceedings are commenced with respect to the counterparty of the security, realization of the collateral by the Fund may be delayed or limited. The Fund held a repurchase agreement of \$1,671,000 as of July 31, 2011.

**(c) Foreign Currency Translation:**

Australian dollar 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; and

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- (ii) purchases and sales of investment securities, income and expenses at the rate 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

Aberdeen Australia Equity Fund, Inc.



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**Notes to Portfolio of Investments (unaudited) (continued)**

July 31, 2011

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) Forward Foreign Currency Exchange Contracts:**

A forward foreign currency exchange contract ( forward contract ) involves an obligation to purchase and sell a specific currency at a future date at a price set at the time of the contract. The Fund may enter into forward contracts in connection with security transactions or to hedge the U.S. Dollar value of portfolio securities denominated in Australian Dollars. The forward contract is marked-to-market daily and the change in market value is recorded by the Fund as unrealized appreciation or depreciation. Forwards prices are received daily from an independent pricing provider. When the forward contract is closed, the Fund records a realized gain or loss equal to the difference between the value at the time it was opened and the value at the time it was closed. These unrealized and realized gains and losses are reported on the Statement of Operations. The Fund could be exposed to risks if the counterparties to the contracts are unable to meet the terms of their contracts and from unanticipated movements in exchange rates. The forward contract is marked-to-market daily and the change in market value is recorded by the Fund as unrealized appreciation or depreciation. Forwards prices are received daily from an independent pricing provider. When the forward contract is closed, the Fund records a realized gain/(loss) equal to the difference between the value at the time it was opened and the value at the time it was closed. These unrealized and realized gains/(losses) are reported on the Statement of Operations. The Fund could be exposed to risks if the counterparties to the contracts are unable to meet the terms of their contracts and from unanticipated movements in exchange rates. There were no forward contracts outstanding as of July 31, 2011.

**(e) Security Transactions and Investment Income:**

Securities 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 is recorded on the ex-dividend date except for certain dividends on foreign securities, which are recorded as soon as the Fund is informed after the ex-dividend date. Interest income is recorded on an accrual basis. Expenses are recorded on an accrual basis.

**(f) Distributions:**

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 determined the rolling distribution rate to be 10% for the 12 month period commencing with the distribution payable in April 2011. This policy is subject to regular review by the Board. Under the policy, distributions will be made from current income, supplemented by realized capital gains and, to the extent necessary, paid-in capital.

On an annual basis, the Fund intends to distribute its net realized capital gains, if any, by way of a final distribution to be declared during the calendar quarter ending December 31. 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.

**(g) Federal Income Taxes:**

For federal income and excise tax purposes, substantially all of the Fund's transactions are accounted for using the Australian dollar as the functional currency. Accordingly, only realized currency gains/(losses) resulting from the repatriation of Australian Dollars into U.S. Dollars are recognized for U.S. federal tax purposes.

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The Fund intends to qualify or 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, and to make distributions of net investment

Aberdeen Australia Equity Fund, Inc.

**Notes to Portfolio of Investments (unaudited) (continued)**

July 31, 2011

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.

Management of the Fund has concluded that there are no significant uncertain tax positions that would require recognition in the financial statements. 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 period ended October 31, 2010 are subject to such review.

**(h) Subsequent Events**

Management has evaluated the need for disclosures and/or adjustments resulting from subsequent events through the date the report was issued. Based on this evaluation, no disclosures or adjustments were required to the report as of July 31, 2011.

Aberdeen Australia Equity Fund, Inc.

**Item 2 Controls and Procedures**

- (a) It is the conclusion of the Registrant's principal executive officer and principal financial officer that the effectiveness of the Registrant's current disclosure controls and procedures (such disclosure controls and procedures having been evaluated within 90 days of the date of this filing) provide reasonable assurance that the information required to be disclosed by the Registrant has been recorded, processed, summarized and reported within the time period specified in the Commission's rules and forms and that the information required to be disclosed by the Registrant has been accumulated and communicated to the Registrant's principal executive officer and principal financial officer in order to allow timely decisions regarding required disclosure.
  
- (b) There have been no changes in the Registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the Investment Company Act of 1940, as amended) that occurred during the Registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

**Item 3 Exhibits.**

- (a) Certifications required pursuant to Rule 30a-2(a) under the Investment Company Act of 1940, as amended, are filed as Exhibit 99.CERT.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Aberdeen Australia Equity Fund, Inc.

By: */s/ Christian Pittard*  
Christian Pittard,

President of Aberdeen Australia Equity

Fund, Inc.

Date: September 29, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: */s/ Christian Pittard*  
Christian Pittard,

President of Aberdeen Australia Equity

Fund, Inc.

Date: September 29, 2011

By: */s/ Andrea Melia*

Andrea Melia,  
Treasurer of Aberdeen Australia Equity

Fund, Inc.

Date: September 29, 2011