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FIDELITY

(registered trademark)
MORTGAGE SECURITIES
PORTFOLIO
ANNUAL REPORT
JULY 31, 1994
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THIS REPORT AND THE FINANCIAL STATEMENTS CONTAINED HEREIN ARE SUBMITTED FOR THE GENERAL INFORMATION OF THE SHAREHOLDERS OF THE FUND. THIS REPORT IS NOT AUTHORIZED FOR DISTRIBUTION TO PROSPECTIVE INVESTORS IN THE FUND UNLESS PRECEDED OR ACCOMPANIED BY AN EFFECTIVE PROSPECTUS. MUTUAL FUND SHARES ARE NOT DEPOSITS OR OBLIGATIONS OF, OR GUARANTEED BY, ANY DEPOSITORY INSTITUTION. SHARES ARE NOT INSURED BY THE FDIC, THE FEDERAL RESERVE BOARD OR ANY OTHER AGENCY, AND ARE SUBJECT TO INVESTMENT RISK, INCLUDING THE POSSIBLE LOSS OF PRINCIPAL. NEITHER THE FUND NOR FIDELITY DISTRIBUTORS CORPORATION IS A BANK.

PRESIDENT'S MESSAGE

DEAR SHAREHOLDER:

The first half of the year has been an unsettling time for bond investors. The bond market declined after the Federal Reserve Board raised short-term interest rates from February through May. These rate hikes caused bond yields to rise and bond prices to fall. The board raised the rate again in August, and while nobody knows whether rates will continue to go up, this may be a good time to review the effect rising rates have on your bond fund investment, and consider how well your current bond fund holdings match your investment goals.

Most investors choose bond funds to generate income and to help diversify their investment portfolios. Despite the recent market downturn, bond mutual funds can still satisfy these needs. Where investors have felt the negative effect of rising rates is in the market value of their investment, which has eroded as bond prices have fallen. It's important to remember, however, that this loss in principal is only "on paper" until you sell your shares. That's why your investing time horizon is key.

If your time horizon is short - one year or less - you may want to consider shifting all or part of your bond fund investment into short-term investments.

If you don't need your money within the next year, staying in your bond fund may be the appropriate strategy for you. The longer your investing time frame, the better your chances of retaining your principal investment through periods of rising AND falling rates. For example, if you plan to use your money in one to two years, a short-term bond fund may be the right choice. If your time frame is two to four years, a fund with an intermediate length average maturity may be best. If you have a longer-term goal - say a child's college education that's 10 years away - you may be willing to ride out the bond market's peaks and valleys in exchange for the higher potential returns of a longer-term fund.

If you have questions, please call us at 1-800-544-8888. We would be happy to send you a Fidelity FundMatch kit, which can help you determine the mix of investments that is right for you. You might also find it convenient to set up

a regular investment plan using the Fidelity Automatic Account Builder. SM Periodic investment plans do not, of course, assure a profit, nor do they protect against a loss in a declining market.

We look forward to hearing from you.

Best regards,

Edward C. Johnson 3d

PERFORMANCE: THE BOTTOM LINE

There are several ways to evaluate a fund's historical performance. You can look at the total percentage change in value, the average annual percentage change, or the growth of a hypothetical \$10,000 investment. Each figure includes changes in a fund's share price, plus reinvestment of any dividends (or income) and capital gains (the profits the fund earns when it sells bonds that have grown in value). You can also look at the fund's income.

CUMULATIVE TOTAL RETURNS

PERIODS ENDED JULY 31, 1994	PAST 1 YEAR	PAST 5 YEARS	LIFE OF FUND
Mortgage Securities	3.13%	47.94%	138.10%
Salomon Brothers Mortgage Index	0.67%	51.01%	n/a
Average U.S. Mortgage Fund	-1.84%	42.14%	127.72%
Consumer Price Index	2.77%	19.29%	40.93%

CUMULATIVE TOTAL RETURNS show the fund's performance in percentage terms over a set period - in this case, one year, five years, or since the fund started on December 31, 1984. For example, if you invested \$1,000 in a fund

that had a 5% return over the past year, you would end up with \$1,050. To measure how the fund stacked up against its peers, you can compare these figures to the Salomon Brothers Mortgage Index - a broad measure of the performance of mortgage securities. You can also look at the average U.S. mortgage fund, which reflects the performance of 58 U.S. mortgage funds tracked by Lipper Analytical Services. These benchmarks include reinvested dividends and capital gains, if any. Comparing the fund's performance to the consumer price index helps show how your fund did compared to inflation.

AVERAGE ANNUAL TOTAL RETURNS

PERIODS ENDED JULY 31, 1994	PAST 1 YEAR	PAST 5 YEARS	LIFE OF FUND
Mortgage Securities	3.13%	8.15%	9.47%
Salomon Brothers Mortgage Index	0.67%	8.59%	n/a
Average U.S. Mortgage Fund	-1.84%	7.28%	8.95%
Consumer Price Index	2.77%	3.59%	3.64%

AVERAGE ANNUAL TOTAL RETURNS take the fund's actual (or cumulative) return and show you what would have happened if the fund had performed at a constant rate each year.

\$10,000 OVER LIFE OF FUND

	Mortgage Sec.	SB Mortgage Index (SB05)
12/31/84	10000.00	10000.00
01/31/85	10268.17	10239.00
02/28/85	10182.13	9998.38
03/31/85	10381.15	10262.34
04/30/85	10557.41	10500.43
05/31/85	10895.84	11110.50
06/30/85	11062.37	11307.16
07/31/85	11036.95	11272.11
08/31/85	11202.73	11475.00
09/30/85	11333.92	11603.52
10/31/85	11513.08	11894.77
11/30/85	11773.13	12227.83
12/31/85	11967.05	12566.54
01/31/86	12059.68	12615.55
02/28/86	12267.56	12963.73
03/31/86	12440.08	13154.30
04/30/86	12505.38	13258.22
05/31/86	12358.15	13006.31
06/30/86	12506.49	13194.91
07/31/86	12689.96	13454.85
08/31/86	12909.18	13719.91
09/30/86	12907.75	13740.49
10/31/86	13076.73	13927.36
11/30/86	13269.91	14215.65
12/31/86	13314.34	14255.46
01/31/87	13472.59	14465.01
02/28/87	13563.70	14598.09
03/31/87	13543.66	14576.19
04/30/87	13178.83	14147.65
05/31/87	13147.72	14102.38
06/30/87	13349.38	14340.71
07/31/87	13369.30	14395.21
08/31/87	13326.51	14330.43
09/30/87	12990.10	14000.83
10/31/87	13375.03	14460.05
11/30/87	13502.59	14663.94
12/31/87	13673.42	14834.04

01/31/88	14133.26	15409.60
02/29/88	14285.67	15594.52
03/31/88	14201.00	15479.12
04/30/88	14113.12	15383.15
05/31/88	14054.43	15349.31
06/30/88	14335.70	15734.57
07/31/88	14301.64	15685.80
08/31/88	14319.79	15718.74
09/30/88	14607.80	16092.84
10/31/88	14881.56	16459.76
11/30/88	14684.79	16224.38
12/31/88	14591.89	16140.02
01/31/89	14856.64	16443.45
02/28/89	14777.98	16318.48
03/31/89	14807.18	16323.38
04/30/89	15080.51	16610.67
05/31/89	15437.42	17155.50
06/30/89	15811.03	17591.25
07/31/89	16094.12	18008.16
08/31/89	15924.13	17743.44
09/30/89	15993.65	17867.64
10/31/89	16310.87	18285.75
11/30/89	16468.05	18483.23
12/31/89	16581.56	18586.74
01/31/90	16428.80	18452.91
02/28/90	16538.23	18528.57
03/31/90	16551.22	18604.54
04/30/90	16408.05	18431.52
05/31/90	16885.08	18991.83
06/30/90	17129.86	19305.20
07/31/90	17378.80	19633.39
08/31/90	17332.84	19472.39
09/30/90	17425.36	19630.12
10/31/90	17603.86	19836.24
11/30/90	17989.06	20278.58
12/31/90	18299.37	20613.18
01/31/91	18489.25	20914.13
02/28/91	18607.63	21047.98
03/31/91	18732.78	21201.63
04/30/91	18935.57	21422.13
05/31/91	19034.01	21606.36
06/30/91	19081.61	21630.13
07/31/91	19355.69	21995.68
08/31/91	19725.57	22398.20
09/30/91	20033.52	22828.24
10/31/91	20270.31	23179.80
11/30/91	20394.23	23339.74
12/31/91	20790.41	23836.88
01/31/92	20690.40	23593.74
02/29/92	20896.28	23815.52
03/31/92	20751.87	23710.73
04/30/92	20946.42	23926.50
05/31/92	21292.15	24371.53
06/30/92	21517.75	24668.87
07/31/92	21480.82	24866.22
08/31/92	21619.76	25201.91
09/30/92	21755.49	25395.97
10/31/92	21539.15	25182.64
11/30/92	21643.25	25285.89
12/31/92	21924.12	25594.38
01/31/93	22124.14	25947.58
02/28/93	22313.63	26186.30
03/31/93	22459.34	26343.41

04/30/93	22616.14	26522.55
05/31/93	22683.10	26644.55
06/30/93	22959.81	26903.01
07/31/93	23086.02	27013.31
08/31/93	23129.01	27124.06
09/30/93	23179.53	27148.47
10/31/93	23220.77	27238.06
11/30/93	23172.23	27189.04
12/31/93	23395.87	27392.95
01/31/94	23611.34	27669.62
02/28/94	23486.83	27498.07
03/31/94	23220.65	26818.87
04/30/94	23118.93	26649.91
05/31/94	23315.73	26740.52
06/30/94	23435.07	26673.67
07/31/94	23809.69	27193.80

\$10,000 OVER LIFE OF FUND: Let's say you invested \$10,000 in Fidelity Mortgage Securities Portfolio on December 31, 1984, when the fund started. As the chart shows, by July 31, 1994, the value of your investment would have grown to \$23,810 - a 138.10% increase on your initial investment. For comparison, look at how the Salomon Brothers Mortgage Index did over the same period. With dividends reinvested, the same \$10,000 investment would have grown to \$27,194 - a 171.94% increase.

UNDERSTANDING

PERFORMANCE

How a fund did yesterday is no guarantee of how it will do tomorrow. Bond prices, for example, move in the opposite direction of interest rates. In turn, the share price, return, and yield of a fund that invests in bonds will vary. That means if you sell your shares during a market downturn, you might lose money. But if you can ride out the market's ups and downs, you may have a gain.

(checkmark)

TOTAL RETURN COMPONENTS

YEARS ENDED JULY 31,

1994	1993	1992	1991	1990	
Dividend return	5.52%	6.73%	7.64%	8.83%	8.37%
Capital appreciation return	-2.39%	0.74%	3.34%	2.55%	-0.39%
Total return	3.13%	7.47%	10.98%	11.38%	7.98%

DIVIDEND returns and capital appreciation returns are both part of a bond fund's total return. A dividend return reflects the actual dividends paid by the fund. A capital appreciation return reflects both the amount paid by the fund to shareholders as capital gain distributions and changes in the fund's share price. Both returns assume the dividends or gains are reinvested.

DIVIDENDS AND YIELD

PERIODS ENDED JULY 31, 1994	PAST MONTH	PAST 6 MONTHS	PAST 1 YEAR
Dividends per share	4.72 (cents)	28.55 (cents)	58.81 (cents)

Annualized dividend rate	5.30%	5.47%	5.52%
30-day annualized yield	7.13%	-	-

DIVIDENDS per share show the income paid by the fund for a set period. If you annualize this number, based on an average share price of \$10.48 over the past month, \$10.53 over the past six months and \$10.66 over the past year, you can compare the fund's income over these three periods. The 30-day annualized YIELD is a standard formula for all funds based on the yields of the bonds in the fund, averaged over the past 30 days. This figure shows you the yield characteristics of the fund's investments at the end of the period. It also helps you compare funds from different companies on an equal basis.

FUND TALK: THE MANAGER'S OVERVIEW

MARKET RECAP

Rising interest rates and inflation concerns in the United States sparked a sharp sell-off in most worldwide bond markets from February through July 1994. Yields rose - and prices fell - on virtually all types of fixed-income investments. This contrasted sharply with 1993's environment of falling interest rates and few inflation worries. After reaching a low of 5.79% in October 1993, the bellwether 30-year Treasury bond yielded 7.39% by July 31, 1994. The Lehman Brothers Aggregate Bond Index - a broad measure of taxable bonds in the U.S. market - had a total return of 0.09% for the 12 months ended July 31, 1994. Even though refinancings slowed, mortgage-backed securities also suffered from rising rates. The Lehman Brothers mortgage index returned 0.53%. High-yield bonds fared somewhat better, thanks to credit quality enhancements due to the strengthening economy. The Merrill Lynch High Yield Master Index returned 4.42%. Most overseas bond markets took their cue from the sell-off in the U.S. The Salomon Brothers World Government Bond Index - a measure of bond market performance in developed nations - rose 5.72% for the 12 months, mainly on the strength of 1993's gains. Emerging market bonds were hit especially hard in 1994. The J.P. Morgan Emerging Markets Bond Index fell 3.45% during the 12 months

ended July 31.

An interview with Kevin Grant, Portfolio Manager of Fidelity Mortgage Securities Portfolio

Q. KEVIN, HOW DID THE FUND DO?

A. Very well, considering the severe correction that all bond markets suffered over the past six months. The fund had a total return of 3.13% for the 12 months ended July 31, 1994. That beat the average U.S. mortgage fund tracked by Lipper Analytical Services, which returned -1.84% during the same period. The fund also topped the performance of the Salomon Brothers Mortgage Index, which rose 0.67%.

Q. HOW SEVERE WAS THE MARKET DOWNTURN, AND HOW DID YOU REACT TO IT? (PHOTO_OF_PORTFOLIO_MANAGER)

A. When the Federal Reserve Board raised short-term interest rates from February through May, it was hoping to curb future inflation that could result from a strengthening economy. However, even the smallest threats of inflation triggered bond investors to sell. Although mortgage securities were not hit as hard as, say, Treasuries, there really was no place to hide. The silver lining, however, was that this type of market environment played right into the strength of the fund's investing style.

Q. WHICH IS . . .

A. A value-oriented approach. I use extensive quantitative analysis to help me find securities that are undervalued in the marketplace - those whose prices are very low relative to their potential for gains.

Q. CAN YOU GIVE US AN EXAMPLE?

A. Sure. Although they made up roughly 2% to 6% of the fund over the past six months, the fund's stake in derivative instruments known as interest-only strips (IOs) had a large positive impact on performance. These securities are essentially pieces of mortgages whose values are tied to mortgage interest payments. Because they tend to perform poorly when interest rates fall, these IOs were selling at very depressed prices when I bought them last fall. But I felt that the market would eventually have to begin pricing these instruments more fairly. In addition, interest rates appeared to be bottoming out. Well, when rates rose through the spring, the IOs nearly doubled in price, when the values of many of the fund's standard mortgage bonds were falling.

Q. DERIVATIVES HAVE BEEN IN THE NEWS A LOT LATELY. AREN'T THEY RISKY?

A. They can be. The values of the IOs I purchased were tied to the interest streams of bonds that were highly susceptible to prepayments because they backed mortgages that homeowners were most likely to refinance. However, I believed their low prices last fall already reflected the market's worst possible expectations about prepayments. In addition, I tried to offset that IO prepayment risk by keeping a sizable stake - about 45% of the fund on July 31 - in newer mortgage bonds with coupons below 8%, which carried very low prepayment risk. Also, IO's were extremely sensitive to changes in interest rates. If rates had fallen, they would have fared poorly. However, it's important to remember that had interest rates and bond yields fallen, the prices of the fund's standard mortgage bonds would have risen. I recently sold this batch of IOs because their risk/reward trade-off was no longer as compelling.

Q. HAVE YOU FOUND ANY OTHER UNDERVALUED SECTORS OF THE MORTGAGE MARKET?

A. Yes. Shareholders recently approved changes to the fund's investment policies that allow me to invest up to 35% of its assets in securities that are rated below investment grade. So far, I've invested about 2% of the fund in commercial real estate bonds. These are mortgages on malls and apartment buildings, for example. Again, these bonds appeared undervalued and have provided the fund with very attractive yields. However, because they are not backed by a third party, there is the risk that the issuer will fail to make the bond's principal and interest payments. To minimize some of that risk, I have recently invested in only those mortgages that Fidelity's research shows are on high quality real estate. Also, I invest in several properties, which helps limit the negative impact to the fund if any one issuer defaults.

Q. HAS YOUR VALUE-ORIENTED STYLE CARRIED OVER INTO THE FUND'S MORE

TRADITIONAL MORTGAGE BOND INVESTMENTS?

A. It has. For example, after interest rates rose this spring, I felt that the market had overpriced Ginnie Maes for an environment of slower prepayments. So I reduced the fund's stake until I felt that prices had fallen more in line with prepayment rates. I traded in and out of Ginnie Maes, Fannie Maes and Freddie Macs during the period, pinpointing bonds that I felt had the best potential for price gains.

Q. LET'S TALK ABOUT THE COMING SIX MONTHS. WHAT DO YOU FORESEE?

A. I'm excited about the possibilities within the mortgage market. Of course, no one knows which direction interest rates may go from here, but I feel that a choppy market - which we may well see going forward - will bode well for the fund. When rates rise - and bond prices fall - opportunities pop up to invest in undervalued securities. As long as I can successfully target those that the market has incorrectly underpriced, the fund's potential for above-average performance will continue.

FUND FACTS

GOAL: high current income
by investing at least 65% of
total assets in mortgage
securities

START DATE: December 31, 1984

SIZE: as of July 31, 1994,
more than \$365 million

MANAGER: Kevin Grant, since
August 1993; joined Fidelity in
1993

(checkmark)

KEVIN GRANT ON INVESTING IN DERIVATIVES:

"I have three hard and fast rules about investing in derivatives - financial instruments whose value is based on, or derived from, another security or an index of securities. First, the derivative's value must be tied to an underlying security that the fund would own anyway. I won't buy a derivative linked to soybean futures because this is not a soybean fund. Second, the derivative has to be a much cheaper way to own the underlying asset than to buy that asset outright. And third, I have to expect that over a reasonable period the market environment will change in such a way that investors will begin to price the derivative more fairly relative to its underlying asset - - causing its price to rise more than the underlying asset. Derivatives can carry risk beyond that of normal mortgage bonds. But I believe that by following these rules, I can add a lot of value to the fund with limited use of derivatives, while keeping risk under control."

(solid bullet) The fund's duration - a measure of its sensitivity to interest rate changes - rose from 2.4 years on January 31 to 3.9 years by July 31. A longer duration could make the fund's share price more volatile, however the fund's yield has increased in line with rising interest rates.

INVESTMENT CHANGES

COUPON DISTRIBUTION AS OF JULY 31, 1994

	% OF FUND'S INVESTMENTS	% OF FUND'S INVESTMENTS 6 MONTHS AGO
--	-------------------------	--------------------------------------

6 - 6.99%	4.8	23.7
7 - 7.99%	43.5	11.6
8 - 8.99%	3.7	10.9
9 - 9.99%	17.0	25.6
10 - 10.99%	9.5	3.6
11 - 11.99%	1.8	3.4
12 - 12.99%	2.6	2.4
13% and over	1.4	1.6

COUPON DISTRIBUTION SHOWS THE RANGE OF STATED INTEREST RATES ON THE FUND'S INVESTMENTS, EXCLUDING REPURCHASE AGREEMENTS.

AVERAGE YEARS TO MATURITY AS OF JULY 31, 1994

	7.2	6.5
--	-----	-----

Years

AVERAGE YEARS TO MATURITY SHOWS THE AVERAGE TIME UNTIL THE PRINCIPAL OF THE BONDS IN THE FUND IS EXPECTED TO BE REPAID, WEIGHTED BY DOLLAR AMOUNT.

DURATION AS OF JULY 31, 1994

	3.9	2.4
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Years

DURATION SHOWS HOW MUCH A BOND'S PRICE FLUCTUATES WITH CHANGES IN INTEREST RATES. IF RATES RISE 1%, FOR EXAMPLE, THE SHARE PRICE OF A FUND WITH A FIVE-YEAR DURATION WILL FALL ABOUT 5%.

ASSET ALLOCATION

AS OF JULY 31, 1994 AS OF JANUARY 31, 1994

Row: 1, Col: 1, Value: 15.7
Row: 1, Col: 2, Value: 10.3
Row: 1, Col: 3, Value: 40.0
Row: 1, Col: 4, Value: 34.0
Row: 1, Col: 1, Value: 17.2
Row: 1, Col: 2, Value: 5.9
Row: 1, Col: 3, Value: 40.0
Row: 1, Col: 4, Value: 34.9

Mortgage-backed

securities 74.0%
 CMOs and other
 mortgage related
 securities 10.3%
 Short-term
 investments 15.7%
 Mortgage-backed
 securities 74.9%
 CMOs and other
 mortgage related
 securities 7.9%
 Short-term
 investments 17.2%

ASSET ALLOCATION IN THE PIE CHARTS ARE BASED ON TOTAL PORTFOLIO INVESTMENT,
 RATHER THAN NET ASSETS.
 INVESTMENTS JULY 31, 1994

Showing Percentage of Total Value of Investment in Securities

U.S. GOVERNMENT AGENCY - MORTGAGE-BACKED SECURITIES - 74.0%
 PRINCIPAL VALUE
 AMOUNT (NOTE 1)

FEDERAL HOME LOAN MORTGAGE CORPORATION - 10.0%
 8%, 10/1/07 to 12/1/18 \$ 1,487,051 \$ 1,480,509 31340MSG
 8 1/4%, 12/1/08 943,408 945,040 31341EVS
 8 1/2%, 11/1/03 to 12/1/18 4,407,849 4,478,381 31340MV7
 9%, 7/1/13 to 9/1/20 19,394,765 20,235,541 31340CEM
 10%, 1/1/09 to 2/1/23 7,557,720 8,052,824 313401GN
 10 1/2%, 2/1/16 202,564 218,198 313401GN
 11 1/2%, 4/1/12 to 8/1/19 1,345,186 1,490,239 313941AL
 11 3/4%, 6/1/11 108,368 119,337 313941AL
 12 1/4%, 1/1/14 to 8/1/15 558,719 617,389 31341EQ4
 12 1/2%, 10/1/12 to 12/1/14 2,024,790 2,310,793 313401LR
 12 3/4%, 6/1/05 to 3/1/15 475,980 542,027 31340SJT
 13%, 1/1/11 to 12/1/14 3,447,969 3,969,479 31340NDL
 44,459,757

FEDERAL NATIONAL MORTGAGE ASSOCIATION - 31.5%
 5 1/2%, 11/1/08 to 5/1/09 49,994 43,901 31371ARA
 7%, 7/1/23 to 7/1/24 15,064,015 14,301,776 313615TX
 7 1/2%, 8/1/23 to 8/1/24 74,000,000 72,253,600 995009YF
 8%, 1/1/07 to 7/1/08 290,113 293,050 31360CY4
 8 1/4%, 1/1/13 266,713 269,210 31360RQD
 8 1/2%, 11/1/01 to 8/1/12 4,240,600 4,369,128 31360AL6
 8 3/4%, 11/1/08 to 7/1/09 503,332 519,482 31360EN7
 9%, 1/1/08 to 6/1/09 1,761,800 1,838,832 31362DWJ
 9 1/2%, 11/1/09 to 12/1/20 2,986,095 3,168,882 31360AAE
 10%, 10/1/02 to 11/1/21 24,231,895 26,024,705 31360YU3
 10 1/2%, 1/1/01 to 5/1/08 1,869,811 2,000,101 313605YY
 11%, 12/1/02 to 8/1/10 5,636,982 6,209,579 31360JBH
 12%, 4/1/15 to 3/1/17 3,579,945 4,044,617 31362TU2
 12 1/4%, 2/1/13 to 3/1/16 1,240,318 1,396,383 31360CQ3
 12 1/2%, 2/1/13 to 3/1/16 1,689,219 1,925,717 31360B5M
 12 3/4%, 8/1/13 to 7/1/15 781,551 889,020 31360CUB
 13 1/2%, 12/1/12 to 12/1/14 350,705 402,437 31360A6R
 14%, 5/1/12 to 11/1/14 191,770 221,975 31360AQY
 140,172,395

U.S. GOVERNMENT AGENCY - MORTGAGE-BACKED SECURITIES - CONTINUED
 PRINCIPAL VALUE
 AMOUNT (NOTE 1)

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION - 32.5%
 7%, 4/15/07 to 9/15/23 \$ 42,285,346 \$ 40,951,935 36203DRD
 7 1/2%, 12/15/16 to 8/15/24 65,238,387 63,371,580 36203BFV

8 1/2%, 8/15/16 to 8/15/22 4,005,079 4,097,280 362163H8
9%, 4/15/01 to 4/15/18 14,653,009 15,358,739 362050XW
9 1/2%, 8/15/09 to 11/15/19 6,038,078 6,429,894 362056ZG
9 1/2%, 7/15/20 to 8/15/20 (d) 2,000,000 2,123,120 36217U9L
9 1/2%, 8/15/20 (d)(e) 10,000,000 10,615,600 36217U9L
10 1/2%, 1/15/98 to 8/15/20 1,264,292 1,359,779 362091QJ
11 1/2%, 7/15/10 to 7/15/18 180,918 204,314 362071WF
13 1/2%, 10/15/14 37,400 43,572 362141CP
144,555,813

TOTAL U.S. GOVERNMENT AGENCY -
MORTGAGE-BACKED SECURITIES

(Cost \$328,368,253) 329,187,965
COLLATERALIZED MORTGAGE OBLIGATIONS - 3.6%
U.S. GOVERNMENT AGENCY - 3.2%

Federal Home Loan Mortgage Corp.:

Z bond series 1 class 1-Z, 9.30%, 4/15/19 9,709,728 9,952,471 31340YAE
Z bond series 9 class 9-Z, 9.05%, 8/15/19 4,294,149 4,358,561 31340YCG
14,311,032

PRIVATE ISSUER - 0.4%

Maryland National Bank pass thru series 1990-1 class A,
9 1/2%, 10/25/20 1,630,912 1,626,835 574112AA

TOTAL COLLATERALIZED MORTGAGE OBLIGATIONS

(Cost \$16,917,860) 15,937,867

COMMERCIAL MORTGAGE SECURITIES - 1.5%

CBA Mortgage Corp. commercial series 1993-C1 class E,
7.158%, 12/25/03 3,183,000 2,551,556 12478L9A

CS First Boston Mortgage Securities Corp.:

commercial series 1994-CFBI class D, 6.4769%, 1/25/28 3,731,000
3,023,276 126342AY

commercial series 1994-CFBI class F, 6.4769%,
1/25/28 (a) 1,390,393 884,637

TOTAL COMMERCIAL MORTGAGE SECURITIES

(Cost \$6,495,560) 6,459,469

COMPLEX MORTGAGE SECURITIES - 5.2%

PRINCIPAL VALUE

AMOUNT (NOTE 1)

INTEREST ONLY STRIPS - 5.2%

Federal National Mortgage Association:

series A class 2, 605%, 8/25/10 (c) \$ 95,728 \$ 1,388,063
trust 47, 10%, 10/25/18 (b) 8,612,107 2,669,753 31364HEX
trust 49, 10%, 2/25/19 (b) 5,854,459 1,814,883 31364HFB
trust 249, 6 1/2%, 10/25/23 (b) 48,767,419 17,617,230 31364HE8

TOTAL COMPLEX MORTGAGE SECURITIES

(Cost \$21,759,757) 23,489,929

REPURCHASE AGREEMENTS - 15.7%

MATURITY

AMOUNT

Investments in repurchase agreements

(U.S. Treasury obligations), in a

joint trading account at 4.23%

dated 7/29/94 due 8/1/94 \$ 69,767,584 69,743,000

TOTAL INVESTMENT IN SECURITIES - 100%

(Cost \$443,284,430) \$ 444,818,230

LEGEND

1. Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers. At the period end, the value of these securities amounted to \$884,637 or 0.2% of net assets.

2. Security represents the right to receive monthly interest payments on an underlying pool of mortgages. Principal shown is the par amount of the mortgage pool.

3. Security represents right to receive monthly interest payments on an

underlying pool of mortgages and the principal amount shown. Coupon reflects that the underlying pool of mortgages is larger than the principal to be received.

4. Security sold on a delayed delivery basis (see Note 2 of Notes to Financial Statements).

5. Security purchased on a delayed delivery basis (see Note 2 of Notes to Financial Statements).

INCOME TAX INFORMATION

At July 31, 1994, the aggregate cost of investment securities for income tax purposes was \$443,289,698. Net unrealized appreciation aggregated \$1,528,532, of which \$5,886,804 related to appreciated investment securities and \$4,358,272 related to depreciated investment securities. The fund hereby designates \$40,000 as a capital gain dividend for the purpose of the dividend paid deduction.

For the year ended July 31, 1994, the net realized loss on mortgage-backed security paydowns treated as ordinary income for income tax purposes was \$5,175,715.

The fund intends to elect to defer to its fiscal year ending July 31, 1995 \$4,447,200 of losses recognized during the period November 1, 1993 to July 31, 1994.

FINANCIAL STATEMENTS

STATEMENT OF ASSETS AND LIABILITIES

<TABLE>

<CAPTION>

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<C>

JULY 31, 1994

ASSETS

Investment in securities, at value (including repurchase agreements of \$69,743,000) (cost \$443,284,430) (Notes 1 and 2) - See accompanying schedule		\$ 444,818,230
--	--	----------------

Commitment to sell securities on a delayed delivery basis	\$ (12,738,720)	
---	-----------------	--

Receivable for securities sold on a delayed delivery basis	12,576,132	(162,588)
--	------------	-----------

Receivable for investments sold, regular delivery		28,195,923
---	--	------------

Cash		2,858,378
------	--	-----------

Interest receivable		2,553,358
---------------------	--	-----------

TOTAL ASSETS		478,263,301
--------------	--	-------------

LIABILITIES

Payable for investments purchased Regular delivery	101,231,844	
---	-------------	--

Delayed delivery	10,645,556	
------------------	------------	--

Payable for fund shares redeemed	31,994	
----------------------------------	--------	--

Dividends payable	273,571	
-------------------	---------	--

Accrued management fee	135,017	
------------------------	---------	--

Other payables and accrued expenses	144,569	
TOTAL LIABILITIES		112,462,551
NET ASSETS		\$ 365,800,750
Net Assets consist of (Note 1):		
Paid in capital		\$ 368,098,599
Distribution in excess of net investment income		(675,692)
Accumulated undistributed net realized gain (loss) on investments		(2,993,369)
Net unrealized appreciation (depreciation) on investments		1,371,212
NET ASSETS, for 34,559,840 shares outstanding		\$ 365,800,750
NET ASSET VALUE, offering price and redemption price per share (\$365,800,750 (divided by) 34,559,840 shares)		\$10.58

</TABLE>

STATEMENT OF OPERATIONS

<TABLE>

<CAPTION>

<S>

YEAR ENDED JULY 31, 1994

<C>

<C>

INVESTMENT INCOME		\$ 28,262,567
Interest		
EXPENSES		
Management fee (Note 4)	\$ 1,735,467	
Transfer agent fees (Note 4)	821,593	
Accounting fees and expenses (Note 4)	158,558	
Non-interested trustees' compensation	2,291	
Custodian fees and expenses	95,017	
Registration fees	27,721	
Audit	66,280	
Legal	3,053	
Interest (Note 5)	640	
Reports to shareholders	47,098	
Miscellaneous	5,403	
TOTAL EXPENSES		2,963,121
NET INVESTMENT INCOME		25,299,446

REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS (NOTES 1, 2 AND 3)		(6,701,766)
Net realized gain (loss) on investment securities		
Change in net unrealized appreciation (depreciation) on:		
Investment securities	(6,690,979)	
Delayed delivery commitments	(162,588)	(6,853,567)
NET GAIN (LOSS)		(13,555,333)
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS		\$ 11,744,113

</TABLE>

STATEMENT OF CHANGES IN NET ASSETS

<TABLE>

<CAPTION>

<S>

	<C> YEAR ENDED JULY 31, 1994	<C> YEAR ENDED JULY 31, 1993
INCREASE (DECREASE) IN NET ASSETS		
Operations	\$ 25,299,446	\$ 30,772,023
Net investment income		
Net realized gain (loss)	(6,701,766)	1,875,336
Change in net unrealized appreciation (depreciation)	(6,853,567)	(1,885,193)
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	11,744,113	30,762,166
Distributions to shareholders:		
From net investment income	(20,745,350)	(27,846,286)
From net realized gain	(1,532,937)	-
In excess of net realized gain	(1,074,645)	-
TOTAL DISTRIBUTIONS	(23,352,932)	(27,846,286)
Share transactions		
Net proceeds from sales of shares	75,437,490	73,434,694
Reinvestment of distributions	19,136,884	22,774,553
Cost of shares redeemed	(136,632,161)	(120,772,663)
Net increase (decrease) in net assets resulting from share transactions	(42,057,787)	(24,563,416)
TOTAL INCREASE (DECREASE) IN NET ASSETS	(53,666,606)	(21,647,536)
NET ASSETS		
Beginning of period	419,467,356	441,114,892

End of period (including under (over) distribution of net investment income of \$(675,692) and \$10,956,070, respectively) \$ 365,800,750 \$ 419,467,356

OTHER INFORMATION

Shares		
Sold	7,107,385	6,802,713
Issued in reinvestment of distributions	1,793,385	2,109,625
Redeemed	(12,806,427)	(11,183,805)
Net increase (decrease)	(3,905,657)	(2,271,467)

</TABLE>

FINANCIAL HIGHLIGHTS

<TABLE>

<CAPTION>

<S>

<C>	<C>	<C>	<C>	<C>
YEARS ENDED JULY 31,				
1994	1993	1992	1991	1990

SELECTED PER-SHARE DATA

Net asset value, beginning of period	\$ 10.910	\$ 10.830	\$ 10.480	\$ 10.220	\$ 10.260
Income from Investment Operations	.570A	.788	.808	.861	.896
Net investment income					
Net realized and unrealized gain (loss)	(.242)	(.007)	.313	.255	(.119)
Total from investment operations	.328	.781	1.121	1.116	.777
Less Distributions From net investment income	(.588)	(.701)	(.771)	(.856)	(.817)
From net realized gain on investments	(.040)	-	-	-	-
In excess of net realized gain on investments	(.030)	-	-	-	-
Total distributions	(.658)	(.701)	(.771)	(.856)	(.817)
Net asset value, end of period	\$ 10.580	\$ 10.910	\$ 10.830	\$ 10.480	\$ 10.220
TOTAL RETURN	3.13%	7.47%	10.98%	11.38%	7.98%

RATIOS AND SUPPLEMENTAL DATA

Net assets, end of period (in millions)	\$ 366	\$ 419	\$ 441	\$ 410	\$ 387
---	--------	--------	--------	--------	--------

Ratio of expenses to average net assets	.79%	.76%	.80%	.82%	.82%
Ratio of net investment income to average net assets	6.73%	7.18%	7.57%	8.39%	8.78%
Portfolio turnover rate	563%	278%	146%	209%	110%

</TABLE>

A THE AMOUNT SHOWN REFLECTS CERTAIN RECLASSIFICATIONS RELATED TO BOOK TO TAX DIFFERENCES (SEE NOTE 1 OF NOTES TO FINANCIAL STATEMENTS).

NOTES TO FINANCIAL STATEMENTS

For the period ended July 31, 1994

1. SIGNIFICANT ACCOUNTING POLICIES.

Fidelity Mortgage Securities Portfolio (the fund) is a fund of Fidelity Income Fund (the trust) and is authorized to issue an unlimited number of shares. The trust is registered under the Investment Company Act of 1940, as amended (the 1940 Act), as an open-end management investment company organized as a Massachusetts business trust. The following summarizes the significant accounting policies of the fund:

SECURITY VALUATION. Securities are valued based upon a computerized matrix system and/or appraisals by a pricing service, both of which consider market transactions and dealer-supplied valuations. Short-term securities maturing within sixty days are valued either at amortized cost or original cost plus accrued interest, both of which approximate current value. Securities for which market quotations are not readily available are valued at their fair value as determined in good faith under consistently applied procedures under the general supervision of the Board of Trustees.

INCOME TAXES. As a qualified regulated investment company under Subchapter M of the Internal Revenue Code, the fund is not subject to income taxes to the extent that it distributes all of its taxable income for its fiscal year. The schedule of investments includes information regarding income taxes under the caption "Income Tax Information."

INVESTMENT INCOME. Interest income, which includes accretion of original issue discount, is accrued as earned.

EXPENSES. Most expenses of the trust can be directly attributed to a fund. Expenses which cannot be directly attributed are apportioned between the funds in the trust.

DISTRIBUTIONS TO SHAREHOLDERS. Distributions are declared daily and paid monthly from net investment income. Distributions from realized gains, if any, are recorded on the ex-dividend date.

Income and capital gain distributions are determined in accordance with income tax regulations which may differ from generally accepted accounting principles. These differences are primarily due to differing treatments for paydown gains/losses on certain securities and losses deferred due to futures and options and excise tax regulations. The fund also utilized earnings and profits distributed to shareholders on redemption of shares as a part of the dividends paid deduction for income tax purposes. Permanent book and tax basis differences relating to shareholder distributions will result in reclassifications to paid in capital and may affect net investment income per share disclosed. Distributions in excess of net investment income may include temporary book and tax basis differences which will reverse in a subsequent period. Any taxable income or gain remaining at fiscal year end is distributed in the following year.

SECURITY TRANSACTIONS. Security transactions are accounted for as of trade date. Gains and losses on securities sold are determined on the basis of identified cost.

1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

CHANGE IN ACCOUNTING FOR DISTRIBUTIONS TO SHAREHOLDERS. Effective August 1, 1993, the fund adopted Statement of Position 93-2: Determination, Disclosure, and Financial Statement Presentation of Income, Capital Gain, and Return of Capital Distributions by Investment Companies. As a result, the fund changed the classification of distributions to shareholders to better disclose the differences between financial statement amounts and distributions determined in accordance with income tax regulations. Accordingly, amounts as of July 31, 1993 have been reclassified to reflect a decrease in paid in capital of \$356,945, a decrease in undistributed net investment income of \$11,010,141 and a decrease in accumulated net realized loss on investments of \$11,367,086.

2. OPERATING POLICIES.

REPURCHASE AGREEMENTS. The fund, through its custodian, receives delivery of the underlying securities, whose market value is required to be at least 102% of the resale price at the time of purchase. The fund's investment adviser, Fidelity Management & Research Company (FMR), is responsible for determining that the value of these underlying securities remains at least equal to the resale price.

JOINT TRADING ACCOUNT. Pursuant to an Exemptive Order issued by the Securities and Exchange Commission, the fund, along with other affiliated entities of FMR, may transfer uninvested cash balances into one or more joint trading accounts. These balances are invested in one or more repurchase agreements that mature in 60 days or less from the date of purchase, and are collateralized by U.S. Treasury or Federal Agency obligations.

DELAYED DELIVERY TRANSACTIONS. The fund may purchase or sell securities on a when-issued or forward commitment basis. Payment and delivery may take place a month or more after the date of the transaction. The price of the underlying securities and the date when the securities will be delivered and paid for are fixed at the time the transaction is negotiated. The fund may receive compensation for interest forgone in a delayed delivery transaction. The fund identifies securities as segregated in its custodial records with a value at least equal to the amount of the purchase commitment.

3. PURCHASES AND SALES OF INVESTMENTS.

Purchases and sales of securities, other than short-term securities, aggregated \$2,078,941,863 and \$2,113,870,227, respectively, of which U.S. government and government agency obligations aggregated \$2,055,149 and \$2,078,358,338, respectively.

4. FEES AND OTHER

TRANSACTIONS WITH AFFILIATES.

MANAGEMENT FEE. As the fund's investment adviser, FMR receives a monthly fee that is calculated on the basis of a group fee rate plus a fixed individual fund fee rate applied to the average net assets of the fund. The group fee rate is the weighted average of a series of rates and is based on the

4. FEES AND OTHER

TRANSACTIONS WITH AFFILIATES - CONTINUED

MANAGEMENT FEE - CONTINUED

monthly average net assets of all the mutual funds advised by FMR. The rates ranged from .14% to .37% for the period from August 1, 1993 to October 31, 1993 and .1325% to .3700% for the period from November 1, 1993 to July 31, 1994. In the event that these rates were lower than the contractual rates in effect during those periods, FMR voluntarily implemented the above rates for those periods as they resulted in the same or a lower management fee. The annual individual fund fee rate is .30%. For the period, the management fee was equivalent to an annual rate of .46% of average net assets.

The Board of Trustees has approved a new group fee rate schedule with rates ranging from .12% to .37%. Effective August 1, 1994, FMR voluntarily agreed to implement this new group fee rate schedule as it resulted in the same or

a lower management fee.

DISTRIBUTION AND SERVICE PLAN. Pursuant to the Distribution and Service Plan (the Plan), and in accordance with Rule 12b-1 of the 1940 Act, FMR or the fund's distributor, Fidelity Distributors Corporation (FDC), an affiliate of FMR, may use their resources to pay administrative and promotional expenses related to the sale of the fund's shares. Subject to the approval of the Board of Trustees, the Plan also authorizes payments to third parties that assist in the sale of the fund's shares or render shareholder

support services. FMR or FDC has informed the fund that payments made to third parties under the Plan amounted to \$11,828 for the period.

TRANSFER AGENT FEES. Fidelity Service Co. (FSC), an affiliate of FMR, is the fund's transfer, dividend disbursing and shareholder servicing agent. FSC receives fees based on the type, size, number of accounts and the number of transactions made by shareholders. FSC pays for typesetting, printing and mailing of all shareholder reports, except proxy statements. ACCOUNTING FEES. FSC maintains the funds' accounting records. The fee is based on the level of average net assets for the month plus out-of-pocket expenses.

5. BANK BORROWINGS.

The fund is permitted to have bank borrowings for temporary or emergency purposes to fund shareholder redemptions. The fund has established borrowing arrangements with certain banks. Under the most restrictive arrangement, the fund must pledge to the bank securities having a market value in excess of 220% of the total bank borrowings. The interest rate on the borrowings is the bank's base rate, as revised from time to time. The maximum loan and the average daily loan balances during the periods for which loans were outstanding amounted to \$6,700,000. The weighted average interest rate was 3.4%.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Trustees of Fidelity Income Fund and the Shareholders of Fidelity Mortgage Securities Portfolio:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operation and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Fidelity Mortgage Securities Portfolio (a fund of Fidelity Income Fund) at July 31, 1994, the results of its operations for the year then ended, the changes in its net assets and the financial highlights for the periods indicated in conformity with generally accepted accounting principles. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fidelity Mortgage Securities Portfolio's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities owned at July 31, 1994 by correspondence with the custodian and brokers, and the application of alternative auditing procedures where confirmations from brokers were not received, provide a reasonable basis for the opinion expressed above.

PRICE WATERHOUSE LLP

Boston, Massachusetts

September 6, 1994

DISTRIBUTIONS

The Board of Trustees of Fidelity Income Fund: Fidelity Mortgage Securities Portfolio voted to pay on September 6, 1994, to shareholders of record at the opening of business on September 2, 1994 a distribution of \$.05 derived from capital gains realized from sales of portfolio securities. .67% of the dividends distributed during the fiscal year was derived from interest on U.S. government securities which is generally exempt from state income tax. The fund will notify shareholders in January 1995 of the applicable percentage for use in preparing 1994 income tax returns.
TO CALL FIDELITY

FOR FUND INFORMATION AND QUOTES

The Fidelity Telephone Connection offers you special automated telephone services for quotes and balances. The services are easy to use, confidential and quick. All you need is a Touch Tone telephone.

YOUR PERSONAL IDENTIFICATION NUMBER
(PIN)

The first time you call one of our automated telephone services, we'll ask you

to set up your Personal Identification Number (PIN). The PIN assures that only you have automated telephone access to your account information.

Please have your Customer Number (T-account #) handy when you call -- you'll need it to establish your PIN. If you would ever like to change your PIN, just choose the "Change your Personal Identification Number" option when you call. If you forget your PIN, please call a Fidelity representative at 1-800-544-6666 for assistance.

(PHONE_GRAPHIC) (PHONE_GRAPHIC) MUTUAL FUND QUOTES*

1-800-544-8544

Just make a selection from this record-ed menu:

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For quotes on funds you own.

1.

For an individual fund quote.

2.

For the ten most frequently requested Fidelity fund quotes.

3.

For quotes on Fidelity Select Portfolios. (registered trademark)

4.

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5.

To speak with a Fidelity representative.

6.

(PHONE_GRAPHIC) (PHONE_GRAPHIC) MUTUAL FUND ACCOUNT

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Just make a selection from this record-ed menu:

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For balances on funds you own.

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For your most recent fund activity
(purchases, redemptions, and
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To change your Personal
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To speak with a Fidelity
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* WHEN YOU CALL THE QUOTES LINE, PLEASE REMEMBER THAT A FUND'S YIELD AND
RETURN WILL
VARY AND, EXCEPT FOR MONEY MARKET FUNDS, SHARE PRICE WILL ALSO VARY. THIS
MEANS THAT
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ASSURANCE THAT
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Boston, MA

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London, England

Fidelity Management & Research
Far East Inc. (FMR Far East)

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(registered trademark)
GINNIE MAE
PORTFOLIO
ANNUAL REPORT
JULY 31, 1994
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strategies.

PERFORMANCE	4	How the fund has done over time.
FUND TALK	7	The manager's review of fund performance, strategy and outlook.
INVESTMENT CHANGES	10	A summary of major shifts in the fund's investments over the past six months.
INVESTMENTS	11	A complete list of the fund's investments with their market values.
FINANCIAL STATEMENTS	13	Statements of assets and liabilities, operations, and changes in net assets, as well as financial highlights.
NOTES	17	Notes to the financial statements.
REPORT OF INDEPENDENT ACCOUNTANTS	20	The auditor's opinion.

THIS REPORT AND THE FINANCIAL STATEMENTS CONTAINED HEREIN ARE SUBMITTED FOR THE GENERAL INFORMATION OF THE SHAREHOLDERS OF THE FUND. THIS REPORT IS NOT AUTHORIZED FOR DISTRIBUTION TO PROSPECTIVE INVESTORS IN THE FUND UNLESS PRECEDED OR ACCOMPANIED BY AN EFFECTIVE PROSPECTUS. MUTUAL FUND SHARES ARE NOT DEPOSITS OR OBLIGATIONS OF, OR GUARANTEED BY, ANY DEPOSITORY INSTITUTION. SHARES ARE NOT INSURED BY THE FDIC, THE FEDERAL RESERVE BOARD OR ANY OTHER AGENCY, AND ARE SUBJECT TO INVESTMENT RISK, INCLUDING THE POSSIBLE LOSS OF PRINCIPAL. NEITHER THE FUND NOR FIDELITY DISTRIBUTORS CORPORATION IS A BANK.

PRESIDENT'S MESSAGE

DEAR SHAREHOLDER:

The first half of the year has been an unsettling time for bond investors. The bond market declined after the Federal Reserve Board raised short-term interest rates from February through May. These rate hikes caused bond yields to rise and bond prices to fall. The board raised the rate again in August, and while nobody knows whether rates will continue to go up, this may be a good time to review the effect rising rates have on your bond fund investment, and consider how well your current bond fund holdings match your investment goals.

Most investors choose bond funds to generate income and to help diversify their investment portfolios. Despite the recent market downturn, bond mutual funds can still satisfy these needs. Where investors have felt the negative effect of rising rates is in the market value of their investment, which has eroded as bond prices have fallen. It's important to remember, however, that this loss in principal is only "on paper" until you sell your shares. That's why your investing time horizon is key.

If your time horizon is short - one year or less - you may want to consider shifting all or part of your bond fund investment into short-term investments.

If you don't need your money within the next year, staying in your bond

fund may be the appropriate strategy for you. The longer your investing time frame, the better your chances of retaining your principal investment through periods of rising AND falling rates. For example, if you plan to use your money in one to two years, a short-term bond fund may be the right choice. If your time frame is two to four years, a fund with an intermediate length average maturity may be best. If you have a longer-term goal - say a child's college education that's 10 years away - you may be willing to ride out the bond market's peaks and valleys in exchange for the higher potential returns of a longer-term fund.

If you have questions, please call us at 1-800-544-8888. We would be happy to send you a Fidelity FundMatch kit, which can help you determine the mix of investments that is right for you. You might also find it convenient to set up

a regular investment plan using the Fidelity Automatic Account Builder.SM Periodic investment plans do not, of course, assure a profit, nor do they protect against a loss in a declining market.

We look forward to hearing from you.

Best regards,

Edward C. Johnson 3d

PERFORMANCE: THE BOTTOM LINE

There are several ways to evaluate a fund's historical performance. You can look at the total percentage change in value, the average annual percentage change, or the growth of a hypothetical \$10,000 investment. Each figure includes changes in a fund's share price, plus reinvestment of any dividends (or income) and capital gains (the profits the fund earns when it sells bonds that have grown in value). You can also look at the fund's income.

CUMULATIVE TOTAL RETURNS

PERIODS ENDED JULY 31, 1994	PAST 1 YEAR	PAST 5 YEARS	LIFE OF FUND
Ginnie Mae Portfolio	-0.63%	44.43%	107.17%
Salomon Brothers GNMA Mortgage Pass-Through Index	0.28%	51.15%	n/a
Average GNMA Fund	-0.80%	44.20%	n/a
Consumer Price Index	2.77%	19.29%	36.52%

CUMULATIVE TOTAL RETURNS show the fund's performance in percentage terms over a set period - in this case, one year, five years, or since the fund started on November 8, 1985. For example, if you invested \$1,000 in a fund that had a 5% return over the past year, you would end up with \$1,050. You can compare these figures to the Salomon Brothers GNMA Mortgage Pass-Through Index - a broad measure of GNMA performance. To measure how the fund stacked up against its peers you can compare it to the average GNMA fund, which reflects the performance of 48 GNMA funds tracked by Lipper Analytical Services. This benchmark includes reinvested dividends and capital gains, if any. Comparing the fund's performance to the consumer price index helps show how your fund did compared to inflation. (The CPI returns begin on the month end closest to the fund's start date.)

AVERAGE ANNUAL TOTAL RETURNS

PERIODS ENDED JULY 31, 1994	PAST 1 YEAR	PAST 5 YEARS	LIFE OF FUND
Ginnie Mae Portfolio	-0.63%	7.63%	8.70%
Salomon Brothers GNMA Mortgage Pass-Through Index	0.28%	8.61%	n/a

Average GNMA Fund	-0.80%	7.59%	n/a
Consumer Price Index	2.77%	3.59%	3.62%

AVERAGE ANNUAL TOTAL RETURNS take the fund's actual (or cumulative) return and show you what would have happened if the fund had performed at a constant rate each year.

\$10,000 OVER LIFE OF FUND

	GNMA Portfolio	SB GNMA Index
11/30/85	10000.00	10000.00
12/31/85	10380.25	10296.00
01/31/86	10428.54	10327.92
02/28/86	10673.66	10604.71
03/31/86	10889.17	10752.11
04/30/86	10969.85	10844.58
05/31/86	10753.34	10638.53
06/30/86	10917.30	10805.56
07/31/86	11081.37	11002.22
08/31/86	11328.10	11204.66
09/30/86	11300.82	11224.83
10/31/86	11473.85	11369.63
11/30/86	11688.87	11581.10
12/31/86	11724.24	11637.85
01/31/87	11879.82	11785.65
02/28/87	11976.44	11903.51
03/31/87	11934.24	11902.32
04/30/87	11528.78	11538.11
05/31/87	11466.03	11498.88
06/30/87	11637.75	11700.11
07/31/87	11642.10	11727.02
08/31/87	11568.43	11660.17
09/30/87	11242.34	11362.84
10/31/87	11616.99	11742.36
11/30/87	11708.79	11912.62
12/31/87	11859.79	12049.62
01/31/88	12261.98	12543.65
02/29/88	12380.62	12692.92
03/31/88	12355.56	12579.95
04/30/88	12247.30	12488.12
05/31/88	12203.07	12475.63
06/30/88	12464.18	12801.25
07/31/88	12420.30	12751.32
08/31/88	12437.96	12764.07
09/30/88	12686.02	13080.62
10/31/88	12907.75	13385.40
11/30/88	12776.77	13189.97
12/31/88	12709.49	13118.75
01/31/89	12911.67	13360.13
02/28/89	12844.78	13257.26
03/31/89	12859.90	13262.56
04/30/89	13110.92	13501.29
05/31/89	13444.49	13960.33
06/30/89	13805.76	14355.41
07/31/89	14034.96	14678.41
08/31/89	13902.68	14465.57
09/30/89	13935.61	14556.70
10/31/89	14233.25	14895.87
11/30/89	14370.26	15068.67
12/31/89	14469.39	15163.60
01/31/90	14310.83	15030.16
02/28/90	14393.97	15087.27
03/31/90	14422.17	15149.13
04/30/90	14260.03	14977.95

05/31/90	14715.41	15461.73
06/30/90	14922.21	15718.40
07/31/90	15159.50	15993.47
08/31/90	15120.64	15833.54
09/30/90	15214.38	15964.95
10/31/90	15382.64	16140.57
11/30/90	15728.61	16537.63
12/31/90	15988.72	16813.80
01/31/91	16190.01	17050.88
02/28/91	16255.35	17151.48
03/31/91	16368.63	17283.55
04/30/91	16489.89	17465.02
05/31/91	16615.06	17603.00
06/30/91	16635.10	17639.96
07/31/91	16881.74	17939.84

08/31/91	17182.79	18264.55
09/30/91	17436.15	18606.10
10/31/91	17673.45	18885.19
11/30/91	17768.26	19007.95
12/31/91	18157.93	19483.14
01/31/92	18007.33	19264.93
02/29/92	18199.79	19442.17
03/31/92	18092.65	19374.12
04/30/92	18247.34	19540.74
05/31/92	18550.06	19884.66
06/30/92	18757.68	20157.08
07/31/92	18848.72	20310.27
08/31/92	19057.14	20590.55
09/30/92	19194.15	20755.28
10/31/92	19039.00	20612.07
11/30/92	19136.58	20723.37
12/31/92	19374.43	20961.69
01/31/93	19630.15	21255.15
02/28/93	19804.60	21442.20
03/31/93	19913.03	21581.57
04/30/93	19981.19	21691.64
05/31/93	20095.79	21813.11
06/30/93	20292.70	22033.43
07/31/93	20399.31	22121.56
08/31/93	20450.04	22165.80
09/30/93	20451.21	22181.32
10/31/93	20521.13	22232.34
11/30/93	20402.67	22201.21
12/31/93	20558.65	22369.94
01/31/94	20790.03	22562.32
02/28/94	20594.31	22454.02
03/31/94	20077.15	21885.93
04/30/94	19916.58	21754.62
05/31/94	19934.34	21826.41
06/30/94	19866.94	21782.76
07/31/94	20270.17	22185.74

\$10,000 OVER LIFE OF FUND: Let's say you invested \$10,000 in Fidelity Ginnie Mae Portfolio on November 30, 1985, soon after the fund started. As the chart shows, by July 31, 1994, the value of your investment would have grown to \$20,270 - a 102.70% increase on your initial investment. For comparison, look at how the Salomon Brothers GNMA Mortgage Pass-Through

Index did over the same period. With dividends reinvested the same \$10,000 investment would have grown to \$22,186 - a 121.86% increase.

UNDERSTANDING

PERFORMANCE

How a fund did yesterday is no guarantee of how it will do tomorrow. Bond prices, for example, move in the opposite direction of interest rates. In turn, the share price, return, and yield of a fund that invests in bonds will vary. That means if you sell your shares during a market downturn, you might lose money. But if you can ride out the market's ups and downs, you may have a gain.

(checkmark)

TOTAL RETURN COMPONENTS

YEARS ENDED JULY 31,

1994	1993	1992	1991	1990	
Dividend return	5.24%	6.42%	7.80%	8.66%	8.49%
Capital appreciation return	-5.87%	1.81%	3.85%	2.70%	-0.48%
Total return	-0.63%	8.23%	11.65%	11.36%	8.01%

DIVIDEND returns and capital appreciation returns are both part of a bond fund's total return. A dividend return reflects the actual dividends paid by the fund. A capital appreciation return reflects both the amount paid by the fund to shareholders as capital gain distributions and changes in the fund's share price. Both returns assume the dividends or gains are reinvested.

DIVIDENDS AND YIELD

PERIODS ENDED JULY 31, 1994	PAST MONTH	PAST 6 MONTHS	PAST 1 YEAR
Dividends per share	5.72 (cents)	30.39 (cents)	58.16 (cents)
Annualized dividend rate	6.58%	5.86%	5.42%
30-day annualized yield	6.63%	-	-

DIVIDENDS per share show the income paid by the fund for a set period. If you annualize this number, based on an average share price of \$10.23 over the past month, \$10.45 over the past six months and \$10.73 over the past year, you can compare the fund's income over these three periods. The 30-day annualized YIELD is a standard formula for all funds based on the yields of the bonds in the fund, averaged over the past 30 days. This figure shows you the yield characteristics of the fund's investments at the end of the period. It also helps you compare funds from different companies on an equal basis.

FUND TALK: THE MANAGER'S OVERVIEW

MARKET RECAP

Rising interest rates and inflation concerns in the United States sparked a sharp sell-off in most

worldwide bond markets from February through July 1994. Yields rose - and prices fell - on virtually all types of fixed-income investments. This contrasted sharply with 1993's environment of falling interest rates and few inflation worries. After reaching a low of 5.79% in October 1993, the bellwether 30-year Treasury bond yielded 7.39% by July 31, 1994. The Lehman Brothers Aggregate Bond Index - a broad measure of taxable bonds in the U.S. market - had a total return of 0.09% for the 12 months ended July 31. Even though refinancings slowed, mortgage-backed securities also suffered from rising rates. The Lehman Brothers mortgage index returned 0.53%. High-yield bonds fared somewhat better, thanks to credit quality enhancements due to the strengthening economy. The Merrill Lynch High Yield Master Index returned 4.42%. Most overseas bond markets took their cue from the sell-off in the U.S. The Salomon Brothers World Government Bond Index - - a measure of bond market performance in developed nations - rose 5.72% for the 12 months, mainly on the strength of 1993's gains. Emerging market bonds were hit especially hard in 1994. The J.P. Morgan Emerging Markets Bond Index fell 3.45% during the 12 months ended July 31.

An interview with Robert Ives,
Portfolio Manager of Fidelity Ginnie Mae Portfolio
Q. BOB, HOW DID THE FUND DO?

A. The fund had a total return of -0.63% for the 12 months ended July 31, 1994. That topped the total return for the average GNMA fund tracked by Lipper Analytical Services, which was -0.80%. The Salomon Brothers Mortgage Pass-Through GNMA index rose 0.28% during the same period.

Q. WHAT'S THE LATEST ON THE MORTGAGE BOND MARKET?

A. After a bond market rally that lasted nearly three years, interest rates rose sharply from February through May of this year, which sent bond prices falling. The Federal Reserve Board raised short-term rates in an attempt to hold the line on future inflation that might result from a strengthening economy. But the mere threat of inflation led to a sharp sell-off in the bond markets. Although mortgage bond prices fell too, there was a silver lining in the rate rise. It served to slow the rate of prepayments, which had caused mortgage bonds to generally under-perform Treasuries when rates were falling.

Q. HOW DOES THE SLOWDOWN IN PREPAYMENTS HELP THE FUND?

A. Let me take a quick step back; a prepayment happens when the principal on a mortgage bond is paid to its holder before the bond matures. That

happens when a homeowner refinances an existing mortgage or moves. The problem is, once a bond is prepaid, the investor has to reinvest that money in a newer mortgage bond, usually at a lower interest rate. When a mortgage bond is sold in the marketplace, its price usually reflects an expected likelihood of prepayment. Over the past year, the fund avoided some of the detrimental effects of prepayments by investing in seasoned bonds. Their prices were low because investors felt that they were highly susceptible to prepayments, however these bonds experienced slow prepayments, which benefited the fund.

Q. WHAT DO YOU MEAN BY "SEASONED" BONDS?

A. Seasoning simply means the bonds have aged several years. Examples include Ginnie Maes with coupons in the 8% and 9% range, issued in the late 1980s. There may be many reasons why these homeowners never refinanced, but often they have low balances on their loans.

Q. DO PREPAYMENTS EVER HELP THE FUND?

A. Sometimes. Let's say I bought a discounted bond for \$900.00. If the bond is prepaid soon after, I'll get its par value of \$1000.00, and the fund has made \$100.00. I've already mentioned that some homeowners with seasoned mortgages might not be apt to refinance, but they are more likely to move than homeowners with newer mortgages. Now that refinancings have slowed, a larger percentage of prepayments occur because of moves. To that end, Fidelity's analysts help me by keeping close track of expected housing turnover rates nationwide. We search out discount bonds which we expect to have high prepayments.

Q. WHAT OTHER FACTORS AFFECTED THE FUND'S PERFORMANCE?

A. The fund had a small stake - 3.4% on January 31 - in collateralized mortgage obligations or CMOs, which did well. These are essentially pieces of mortgages. Investors divide the mortgage's principal and interest payments. I felt these instruments were undervalued in the marketplace due to investor confusion about expected prepayment rates. Eventually that prepayment risk became clearer and the value of the CMOs rose. While technically they may be considered derivatives because their value is tied to an underlying mortgage security, the CMOs that I bought carried a relatively low amount of risk. Lower, in fact, than their underlying mortgage bonds. I've since sold most of that investment, but the fund still had a 1.3% stake in CMOs at the end of July.

Q. WHICH INVESTMENTS DIDN'T WORK OUT AS PLANNED?

A. The fund had an 8.6% stake in 30-year Treasury bonds at the end of January. I made the investment because I felt that long-term interest rates had further room to fall. However, when the Fed raised short-term rates in February, long rates shot upward, causing the prices of these bonds to fall. I sold them pretty quickly, but they did dampen the fund's total return.

Q. WHAT'S ON THE HORIZON FOR THE FUND?

A. I think the bond market could go either way from here. Lately, we've been getting some mixed signals on economic growth and inflation, which has resulted in increased market volatility. Despite this uncertainty, the mortgage market looks better than it has in some time. If rates stabilize or even rise slowly, I think mortgage bonds are well-positioned to outperform comparable Treasuries.

FUND FACTS

GOAL: to provide high current income by investing primarily in GNMA securities

START DATE: November 8, 1985

SIZE: as of July 31, 1994, more than \$768 million

MANAGER: Robert Ives, since January 1993; manager, Spartan Ginnie Mae Fund, since January 1993; Fidelity Mortgage Securities Portfolio, January 1993 -

August 1993; institutional mortgage-backed funds, since May 1991; joined Fidelity in 1991 (checkmark)

BOB IVES ON DURATION:

"The fund's duration- a measure of its sensitivity to changes in interest rates - rose from 3.7 years to 4.9 years over the past six months. This was mostly due to the lengthening duration of the overall mortgage market. The high volume of refinancings that occurred as interest rates fell flooded the market with low coupon bonds which have longer durations. Also, as rates have risen and refinancings have slowed, the average mortgage bond has a longer life, and therefore, a longer duration.

"A longer duration could make the fund's share price more volatile in the months ahead. But it's important to keep two things in mind. First, the fund's duration was historically low over the past couple of years, and now we're returning to more typical levels. In addition, as rates have risen, so has the fund's yield, which may help offset future share price drops."

(solid bullet) The fund's stake in Ginnie Mae bonds has increased from 72.1% six months ago to 86.6% on July 31. When the fund sold its stake in Treasury bonds and some of its CMOs, the proceeds were reinvested in Ginnie Maes.

INVESTMENT CHANGES

COUPON DISTRIBUTION AS OF JULY 31, 1994

	% OF FUND'S INVESTMENTS	% OF FUND'S INVESTMENTS 6 MONTHS AGO
6 - 6.99%	6.6	10.3
7 - 7.99%	36.4	24.2
8 - 8.99%	20.4	24.8
9 - 9.99%	20.9	17.7
10 - 10.99%	5.1	7.2

11 - 11.99%	1.9	5.8
12 - 12.99%	2.3	2.2
13% and over	0.4	0.3

COUPON DISTRIBUTION SHOWS THE RANGE OF STATED INTEREST RATES ON THE FUND'S INVESTMENTS, EXCLUDING REPURCHASE AGREEMENTS.
 AVERAGE YEARS TO MATURITY AS OF JULY 31, 1994
 6 MONTHS AGO

Years 8.4 7.3

AVERAGE YEARS TO MATURITY SHOWS THE AVERAGE TIME UNTIL THE PRINCIPAL ON THE FUND'S BONDS IS EXPECTED TO BE REPAYED, WEIGHTED BY DOLLAR AMOUNT.
 DURATION AS OF JULY 31, 1994
 6 MONTHS AGO

Years 4.9 3.7

DURATION SHOWS HOW MUCH A BOND'S PRICE FLUCTUATES WITH CHANGES IN INTEREST RATES. IF RATES RISE 1%, FOR EXAMPLE, A BOND WITH A FIVE-YEAR DURATION WILL LOSE ABOUT 5% OF ITS VALUE.

ASSET ALLOCATION
 AS OF JULY 31, 1994 AS OF JANUARY 31, 1994

Row: 1, Col: 1, Value: 6.0
 Row: 1, Col: 2, Value: 2.5
 Row: 1, Col: 3, Value: 50.0
 Row: 1, Col: 4, Value: 42.7

Mortgage-related securities 83.9%
 U.S. government and agency obligations 8.6%
 Other 7.5%

Mortgage-related securities 92.7%
 U.S. government and agency obligations 1.3%
 Other 6.0%

Row: 1, Col: 1, Value: 7.5
 Row: 1, Col: 2, Value: 8.6
 Row: 1, Col: 3, Value: 40.0
 Row: 1, Col: 4, Value: 43.9

INVESTMENTS JULY 31, 1994

Showing Percentage of Total Value of Investment in Securities

U.S. GOVERNMENT AGENCY MORTGAGE-BACKED SECURITIES - 92.7%
 PRINCIPAL VALUE (NOTE 1)
 AMOUNT (000S) (000S)

FEDERAL HOME LOAN MORTGAGE CORPORATION - 4.7%
 8 1/2%, 2/1/04 to 5/1/17 \$ 2,161 \$ 2,203 313401GE
 9%, 6/1/10 to 4/1/21 7,620 8,019 31340TYU
 10%, 10/1/04 to 12/1/19 10,397 11,028 313401GG
 10 1/4%, 2/1/09 to 11/1/16 7,323 7,759 313401GK

10 1/2%, 11/1/17 1,082 1,166 313401GK
11 1/4%, 2/1/10 to 5/1/11 953 1,042 313401FZ
11 1/2%, 2/1/12 to 8/1/19 3,636 4,037 313401FZ
11 3/4%, 11/1/11 231 255 31290HGA
12%, 6/1/15 to 11/1/15 758 839 31290JPH
12 1/2%, 11/1/12 to 9/1/13 1,637 1,868 31290HGA
38,216

FEDERAL NATIONAL MORTGAGE ASSOCIATION - 1.4%

8 1/2%, 6/1/08 to 4/1/16 2,312 2,376 31360SYA
9%, 12/1/97 to 10/1/11 579 607 31360TTF
10%, 7/1/04 1,004 1,065
10 1/4%, 12/1/15 to 10/1/18 1,205 1,292 31360UXB
10 1/2%, 11/1/05 3,370 3,605 31360WQ2
11 1/2%, 1/1/01 to 9/1/15 1,357 1,514 31360U7K
12 1/2%, 10/1/15 562 641 31360VDB
14%, 11/1/12 to 10/1/14 160 185 31360VJ3
11,285

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION - 86.6%

6 1/2%, 9/15/23 to 12/15/23 43,714 39,602 36203QPF
6 1/2%, 8/15/24 (a) 15,000 13,594 36203QHA
7%, 11/15/07 to 2/15/24 143,912 136,696 36203QXH
7%, 8/15/24 (a) 8,000 7,518 36203QSS
7 1/2%, 5/15/17 to 11/15/23 144,699 140,540 36203Q2M
8%, 5/15/16 to 12/15/23 128,407 128,151 36203RE6
8%, 8/15/24 9,000 8,975 36203Q7G
8 1/2%, 12/15/05 to 7/15/17 8,772 8,996 36203RF3
8 1/2%, 8/15/22 13,950 14,251 36203RGJ
9%, 6/15/01 to 6/15/24 97,581 102,211 36203RK7
9 1/2%, 4/15/01 to 8/15/20 54,674 58,210 36203RNZ
10%, 10/15/00 to 12/15/18 12,509 13,488 36203RP3
10 1/2%, 5/15/98 to 1/15/16 1,962 2,109 36203RP7
11%, 2/15/10 to 12/15/15 1,365 1,516 36203RQF
11 1/4%, 7/15/13 to 1/15/16 1,019 1,124 36203RRF
11 1/2%, 3/15/10 to 9/15/18 4,745 5,362 36203RRF
11 3/4%, 1/15/16 198 220 36203QGV
12%, 12/15/99 to 5/15/15 2,726 3,083 36203RYL

U.S. GOVERNMENT AGENCY MORTGAGE-BACKED SECURITIES - CONTINUED

PRINCIPAL VALUE (NOTE 1)

AMOUNT (000S) (000S)

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION - CONTINUED

12 1/4%, 3/15/14 \$ 82 \$ 93
12 1/2%, 3/15/10 to 12/15/14 10,665 12,260 36203R3H
13%, 1/15/11 to 5/15/15 1,452 1,685 36203R4H
13 1/2%, 5/15/10 to 11/15/14 681 793 36203SG4
700,477

TOTAL U.S. GOVERNMENT AGENCY

MORTGAGE-BACKED OBLIGATIONS

(Cost \$759,154) 749,978

COLLATERALIZED MORTGAGE OBLIGATIONS - 1.3%

U.S. GOVERNMENT AGENCY - 1.3%

U.S. Dept. Veterans Affairs Vendee Mortgage Trust sequential pay

series1992-1 class 2- B, 7.75%, 9/15/10

(Cost \$10,227) 10,000 10,125 911760AG

REPURCHASE AGREEMENTS - 6.0%

MATURITY

AMOUNT

(000S)

Investments in repurchase agreements

(U.S. Treasury obligations), in a joint
trading account at 4.23% dated

7/29/94 due 8/1/94 \$ 48,770 48,753

TOTAL INVESTMENT IN SECURITIES - 100%

(Cost \$818,134) \$ 808,856

LEGEND

(a) Security purchased on a delayed delivery basis. Interest rate to be determined at settlement date (see Note 2 of Notes to Financial Statements).

INCOME TAX INFORMATION

At July 31, 1994, the aggregate cost of investment securities for income tax purposes was \$833,803,000. Net unrealized depreciation aggregated \$24,947,000, all of which related to depreciated investment securities. The fund hereby designates \$2,590,000 as a capital gain dividend for the purpose of the dividend paid deduction.

The fund has elected to defer to its fiscal year ending July 31, 1995, \$20,171,000 of losses recognized during the period November 1, 1993 to July 31, 1994.

FINANCIAL STATEMENTS

STATEMENT OF ASSETS AND LIABILITIES

<TABLE>

<CAPTION>

<S>

<C>

<C>

AMOUNTS IN THOUSANDS (EXCEPT FOR PER-SHARE AMOUNTS) JULY 31, 1994

ASSETS

Investment in securities, at value (including repurchase agreements of \$48,753) (cost \$818,134) (Notes 1 and 2) - See accompanying schedule		\$ 808,856
--	--	------------

Receivable for investments sold		3,696
---------------------------------	--	-------

Interest receivable		5,197
---------------------	--	-------

TOTAL ASSETS		817,749
--------------	--	---------

LIABILITIES

Payable to custodian bank	\$ 1,192	
---------------------------	----------	--

Payable for investments purchased: Regular delivery	25,200	
--	--------	--

Delayed delivery	20,842	
------------------	--------	--

Payable for fund shares redeemed	532	
----------------------------------	-----	--

Dividends payable	609	
-------------------	-----	--

Accrued management fee	292	
------------------------	-----	--

Other payables and accrued expenses	317	
-------------------------------------	-----	--

TOTAL LIABILITIES		48,984
-------------------	--	--------

NET ASSETS		\$ 768,765
------------	--	------------

Net Assets consist of (Note 1):

Paid in capital		\$ 812,991
-----------------	--	------------

Distributions in excess of net investment income		(608)
--	--	-------

Accumulated undistributed net realized gain (loss)		(34,340)
--	--	----------

on investments

Net unrealized appreciation (depreciation) on investments (9,278)

NET ASSETS, for 74,226 shares outstanding \$ 768,765

NET ASSET VALUE, offering price and redemption price per share (\$768,765 (divided by) 74,226 shares) \$10.36

</TABLE>

STATEMENT OF OPERATIONS

<TABLE>

<CAPTION>

<S> <C> <C>

AMOUNTS IN THOUSANDS YEAR ENDED JULY 31, 1994

INVESTMENT INCOME \$ 67,851
Interest

EXPENSES

Management fee (Note 4) \$ 3,992

Transfer agent fees (Note 4) 2,349

Accounting fees and expenses (Note 4) 303

Non-interested trustees' compensation 5

Custodian fees and expenses 240

Registration fees 34

Audit 51

Legal 7

Reports to shareholders 101

Miscellaneous 12

TOTAL EXPENSES 7,094

NET INVESTMENT INCOME 60,757

REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS (42,174)

(Notes 1 and 3)

Net realized gain (loss) on investment securities

Change in net unrealized appreciation (depreciation) on investment securities (24,038)

NET GAIN (LOSS) (66,212)

NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS \$ (5,455)

</TABLE>

STATEMENT OF CHANGES IN NET ASSETS

<TABLE> <CAPTION> <S> AMOUNTS IN THOUSANDS	<C> YEARS ENDED JULY 31,	<C>
	1994	1993
INCREASE (DECREASE) IN NET ASSETS		
Operations	\$ 60,757	\$ 69,222
Net investment income		
Net realized gain (loss)	(42,174)	16,513
Change in net unrealized appreciation (depreciation)	(24,038)	(10,388)
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	(5,455)	75,347
Distributions to shareholders	(46,661)	(58,428)
From net investment income		
From net realized gain	(16,166)	-
In excess of net realized gain	(5,195)	-
TOTAL DISTRIBUTIONS	(68,022)	(58,428)
Share transactions	219,226	307,342
Net proceeds from sales of shares		
Reinvestment of distributions	58,534	48,972
Cost of shares redeemed	(411,083)	(311,855)
Net increase (decrease) in net assets resulting from share transactions	(133,323)	44,459
TOTAL INCREASE (DECREASE) IN NET ASSETS	(206,800)	61,378
NET ASSETS		
Beginning of period	975,565	914,187
End of period (including under (over) distributions of net investment income of \$(608) and \$23,765, respectively)	\$ 768,765	\$ 975,565
OTHER INFORMATION		
Shares		
Sold	20,365	27,604
Issued in reinvestment of distributions	5,427	4,395
Redeemed	(38,221)	(28,022)
Net increase (decrease)	(12,429)	3,977

</TABLE>

FINANCIAL HIGHLIGHTS

<TABLE>

<CAPTION>

<S>

<C>

YEARS ENDED JULY 31,

<C>

<C>

<C>

<C>

1994

1993

1992

1991

1990

SELECTED PER-SHARE DATA

Net asset value, beginning of period	\$ 11.260	\$ 11.060	\$ 10.650	\$ 10.370	\$ 10.420
Income from Investment Operations Net investment income	.582A	.800	.833	.845	.891
Net realized and unrealized gain (loss)	(.650)	.083	.373	.288	(.099)
Total from investment operations	(.068)	.883	1.206	1.133	.792
Less Distributions From net investment income	(.582)	(.683)	(.796)	(.853)	(.842)
From net realized gain on investments	(.190)	-	-	-	-
In excess of net realized gain on investments	(.060)	-	-	-	-
Total distributions	(.832)	(.683)	(.796)	(.853)	(.842)
Net asset value, end of period	\$ 10.360	\$ 11.260	\$ 11.060	\$ 10.650	\$ 10.370
TOTAL RETURN	(.63)%	8.23%	11.65%	11.36%	8.01%

RATIOS AND SUPPLEMENTAL DATA

Net assets, end of period (in millions)	\$ 769	\$ 976	\$ 914	\$ 797	\$ 658
Ratio of expenses to average net assets	.82%	.80%	.80%	.83%	.83%
Ratio of net investment income to average net assets	7.03%	7.26%	7.73%	8.24%	8.71%
Portfolio turnover rate	303%	259%	114%	125%	96%

</TABLE>

A THE AMOUNT SHOWN REFLECTS CERTAIN RECLASSIFICATIONS RELATED TO BOOK TO TAX DIFFERENCES (SEE NOTE 1 OF NOTES TO FINANCIAL STATEMENTS).

NOTES TO FINANCIAL STATEMENTS

For the period ended July 31, 1994

1. SIGNIFICANT ACCOUNTING POLICIES.

Fidelity Ginnie Mae Portfolio (the fund) is a fund of Fidelity Income Fund (the trust) and is authorized to issue an unlimited number of shares. The trust is registered under the Investment Company Act of 1940, as amended (the 1940 Act), as an open-end management investment company organized as a Massachusetts business trust. The following summarizes the significant accounting policies of the fund:

SECURITY VALUATION. Securities are valued based upon a computerized matrix system and/or appraisals by a pricing service, both of which consider market transactions and dealer-supplied valuations. Short-term securities maturing within sixty days are valued either at amortized cost or original cost plus accrued interest, both of which approximate current value. Securities for which quotations are not readily available through the pricing service are valued at their fair value as determined in good faith under consistently applied procedures under the general supervision of the Board of Trustees.

INCOME TAXES. As a qualified regulated investment company under Subchapter M of the Internal Revenue Code, the fund is not subject to income taxes to the extent that it distributes all of its taxable income for its fiscal year. The schedule of investments includes information regarding income taxes under the caption "Income Tax Information."

INVESTMENT INCOME. Interest income, which includes accretion of original issue discount, is accrued as earned.

EXPENSES. Most expenses of the trust can be directly attributed to a fund. Expenses which cannot be directly attributed are apportioned between the funds in the trust.

DISTRIBUTIONS TO SHAREHOLDERS. Distributions are declared daily and paid monthly from net investment income. Distributions from realized gains, if any, are recorded on the ex-dividend date.

Income and capital gain distributions are determined in accordance with income tax regulations which may differ from generally accepted accounting principles. These differences are primarily due to differing treatments for mortgagebacked securities, futures transactions, and losses deferred due to wash sales and excise tax regulations. The fund also utilized earnings and profits distributed to shareholders on redemption of shares as a part of the dividends paid deduction for income tax purposes.

Permanent book and tax basis differences relating to shareholder distributions will result in reclassifications to paid in capital and may affect net investment income per share disclosed. Distributions in excess of net investment income may include temporary book and tax basis differences which will reverse in a subsequent period. Any taxable gain remaining at fiscal year

end is distributed in the following year.

1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

SECURITY TRANSACTIONS. Security transactions are accounted for as of trade date. Gains and losses on securities sold are determined on the basis of identified cost.

CHANGE IN ACCOUNTING FOR DISTRIBUTIONS TO SHAREHOLDERS. Effective August 1, 1993, the fund adopted Statement of Position 93-2: Determination, Disclosure, and Financial Statement Presentation of Income, Capital Gain, and Return of Capital Distributions by Investment Companies. As a result, the fund changed the classification of distributions to shareholders to better disclose the differences between financial statement amounts and distributions determined in accordance with income tax regulations.

Accordingly, amounts as of July 31, 1993 have been reclassified to reflect an increase in paid in capital of \$10,000, a decrease in undistributed net investment income of \$24,476,000 and a decrease in accumulated net realized loss on investments of \$24,466,000.

2. OPERATING POLICIES.

REPURCHASE AGREEMENTS. The fund, through its custodian, receives delivery of the underlying securities, whose market value is required to be at least 102% of the resale price at the time of purchase. The fund's investment adviser, Fidelity Management & Research Company (FMR), is responsible for determining that the value of these underlying securities remains at least equal to the resale price.

JOINT TRADING ACCOUNT. Pursuant to an Exemptive Order issued by the Securities and Exchange Commission, the fund, along with other registered investment companies having management contracts with FMR, may transfer uninvested cash balances into one or more joint trading accounts. These balances are invested in one or more repurchase agreements that mature in 60 days or less from the date of purchase, and are collateralized by U.S. Treasury or Federal Agency obligations.

DELAYED DELIVERY TRANSACTIONS.

The fund may purchase or sell securities on a when-issued or forward commitment basis. Payment and delivery may take place a month or more after the date of the transaction. The price of the underlying securities and the date when the securities will be delivered and paid for are fixed at the time the transaction is negotiated. The fund may receive compensation for interest forgone in a delayed delivery transaction. The fund identifies securities as segregated in its custodial records with a value at least equal to the amount of the purchase commitment.

3. PURCHASES AND SALES OF INVESTMENTS.

Purchases and sales of long-term U.S. government and government agency obligations aggregated \$2,603,015,000 and \$2,719,129,000, respectively.

4. FEES AND OTHER TRANSACTIONS WITH AFFILIATES.

MANAGEMENT FEE. As the fund's investment adviser, FMR receives a monthly fee that is calculated on the basis of a group fee rate plus a fixed individual fund fee rate applied to the average net assets of the fund. The group fee rate is the weighted average of a series of rates and is based on the monthly average net assets of all the mutual funds advised by FMR. The rates ranged from .14% to .37% for the period from August 1, 1993 to October 31, 1993 and .1325% to .3700% for the period from November 1, 1993 to July 31, 1994. In the event that these rates were lower than the contractual rates in effect during those periods, FMR voluntarily implemented the above rates, as they resulted in the same or a lower management fee. The annual individual fund fee rate is .30%. For the period, the management fee was equivalent to an annual rate of .46% of average net assets.

The Board of Trustees has approved a new group fee rate schedule with rates ranging from .12% to .37%. Effective August 1, 1994, FMR has voluntarily agreed to implement this new group fee rate schedule as it results in the same or a lower management fee.

DISTRIBUTION AND SERVICE PLAN. Pursuant to the Distribution and Service Plan (the Plan), and in accordance with Rule 12b-1 of the 1940 Act, FMR or the fund's distributor, Fidelity Distributors Corporation (FDC), an affiliate of FMR, may use their resources to pay administrative and promotional expenses related to the sale of the fund's shares. Subject to the approval of the Board of Trustees, the Plan also authorizes payments to third parties that assist in the sale of the fund's shares or render shareholder support services. FMR or FDC has informed the fund that payments made to third parties under the Plan amounted to \$85,000 for the period.

TRANSFER AGENT FEES. Fidelity Service Co. (FSC), an affiliate of FMR, is the transfer, dividend disbursing and shareholder servicing agent. FSC receives fees based on the type, size, number of accounts and the number of transactions made by shareholders. FSC pays for typesetting, printing and

mailing of all shareholder reports, except proxy statements.
ACCOUNTING FEES. FSC maintains
the fund's accounting records. The fee
is based on the level of average net assets for the month plus
out-of-pocket expenses.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Trustees of Fidelity Income Fund and the Shareholders of Fidelity
Ginnie Mae Portfolio:

In our opinion, the accompanying statement of assets and liabilities,
including the schedule of investments, and the related statements of
operations and of changes in net assets and the financial highlights
present fairly, in all material respects, the financial position of
Fidelity Ginnie Mae Portfolio, a fund of Fidelity Income Fund, at July
31, 1994, the results of its operations for the year then ended, the
changes in its net assets and the financial highlights for the periods
indicated in conformity with generally accepted accounting principles.
These financial statements and financial highlights (hereafter referred to
as "financial statements") are the responsibility of the Fidelity Ginnie
Mae Portfolio's management; our responsibility is to express an opinion on
these financial statements based on our audits. We conducted our audits of
these financial statements in accordance with generally accepted auditing
standards which require that we plan and perform the audit to obtain
reasonable assurance about whether the financial statements are free of
material misstatement. An audit includes examining, on a test basis,
evidence supporting the amounts and disclosures in the financial
statements, assessing the accounting principles used and significant
estimates made by management, and evaluating the overall financial
statement presentation. We believe that our audits, which included
confirmation of securities owned at July 31, 1994 by correspondence with
the custodian and brokers and the application of alternative auditing
procedures where confirmations from brokers were not received, provide a
reasonable basis for the opinion expressed above.

PRICE WATERHOUSE LLP
Boston, Massachusetts
September 2, 1994
DISTRIBUTIONS

The Board of Trustees of Fidelity Ginnie Mae Portfolio voted to pay on
September 6, 1994, to shareholders of record at the opening of business on
September 2, 1994 a distribution of \$.02 derived from capital gains
realized from sales of portfolio securities. A total of 1.72% of the
dividends distributed during the fiscal year were derived from interest on
U.S. Government securities which is generally exempt from state income tax.
TO WRITE FIDELITY

If more than one address is listed, please locate the address that is
closest to you. We'll give your correspondence immediate attention and send
you written confirmation upon completion of your request.

(LETTER_GRAPHIC) MAKING CHANGES
TO YOUR ACCOUNT
(such as changing name, address, bank, etc.)

Fidelity Investments
P.O. Box 770001
Cincinnati, OH 45277-0002

(LETTER_GRAPHIC) FOR NON-RETIREMENT
ACCOUNTS

BUYING SHARES
Fidelity Investments
P.O. Box 770001

Cincinnati, OH 45277-0003
OVERNIGHT EXPRESS
Fidelity Investments
100 Crosby Parkway - KP2C
Covington, KY 41015-4399
SELLING SHARES
Fidelity Investments
P.O. Box 193
Boston, MA 02210-0193
Fidelity Investments
P.O. Box 660602
Dallas, TX 75266-0602
Fidelity Investments
P.O. Box 30281
Salt Lake City, UT 84130-0281

OVERNIGHT EXPRESS
Fidelity Investments
Attn: Redemptions
World Trade Center
164 Northern Avenue
Boston, MA 02210

GENERAL CORRESPONDENCE
Fidelity Investments
P.O. Box 193
Boston, MA 02210-0193
(LETTER GRAPHIC) FOR RETIREMENT
ACCOUNTS

BUYING SHARES
Fidelity Investments
P.O. Box 770001
Cincinnati, OH 45277-0003

SELLING SHARES
Fidelity Investments
P.O. Box 660602
Dallas, TX 75266-0602
GENERAL CORRESPONDENCE
Fidelity Investments
P.O. Box 660602
Dallas, TX 75266-0602
TO CALL FIDELITY

FOR FUND INFORMATION AND QUOTES

The Fidelity Telephone Connection offers you special automated telephone services for quotes and balances. The services are easy to use, confidential and quick. All you need is a Touch Tone telephone.

YOUR PERSONAL IDENTIFICATION NUMBER
(PIN)

The first time you call one of our automated telephone services, we'll ask you

to set up your Personal Identification Number (PIN). The PIN assures that only you have automated telephone access to your account information.

Please have your Customer Number (T-account #) handy when you call --

you'll need it to establish your PIN. If you would ever like to change your PIN, just choose the "Change your Personal

Identification Number" option when you call. If you forget your PIN, please call a Fidelity representative at 1-800-544-6666 for assistance.

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1-800-544-8544

Just make a selection from this record-ed menu:

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For quotes on funds you own.

1.

For an individual fund quote.

2.

For the ten most frequently requested Fidelity fund quotes.

3.

For quotes on Fidelity Select Portfolios. (registered trademark)

4.

To change your Personal Identification Number (PIN).

5.

To speak with a Fidelity representative.

6.

(PHONE_GRAPHIC) (PHONE_GRAPHIC) MUTUAL FUND ACCOUNT

BALANCES 1-800-544-7544

Just make a selection from this record-ed menu:

PRESS

For balances on funds you own.

1.

For your most recent fund activity (purchases, redemptions, and dividends).

2.

To change your Personal Identification Number (PIN).

3.

To speak with a Fidelity representative.

4.

* WHEN YOU CALL THE QUOTES LINE, PLEASE REMEMBER THAT A FUND'S YIELD AND RETURN WILL

VARY AND, EXCEPT FOR MONEY MARKET FUNDS, SHARE PRICE WILL ALSO VARY. THIS MEANS THAT

YOU MAY HAVE A GAIN OR LOSS WHEN YOU SELL YOUR SHARES. THERE IS NO ASSURANCE THAT

MONEY MARKET FUNDS WILL BE ABLE TO MAINTAIN A STABLE \$1 SHARE PRICE; AN INVESTMENT IN

A MONEY MARKET FUND IS NOT INSURED OR GUARANTEED BY THE U.S. GOVERNMENT. TOTAL

RETURNS ARE HISTORICAL AND INCLUDE CHANGES IN SHARE PRICE, REINVESTMENT OF DIVIDENDS

AND CAPITAL GAINS, AND THE EFFECTS OF ANY SALES CHARGES. FOR MORE INFORMATION ON ANY

FIDELITY FUND INCLUDING MANAGEMENT FEES AND CHARGES, CALL 1-800-544-8888 FOR A FREE

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INVESTMENT ADVISER

Fidelity Management & Research

Company

Boston, MA

INVESTMENT SUB-ADVISERS

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U.K. Inc. (FMR U.K.)
London, England

Fidelity Management & Research
Far East Inc., (FMR Far East)
Tokyo, Japan

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Fidelity Distributors Corporation
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New York, NY

FIDELITY'S TAXABLE BOND FUNDS

Capital & Income
Ginnie Mae
Global Bond
Government Securities
Intermediate Bond
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Mortgage Securities
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Short-Intermediate Government
Short-Term Bond
Short-Term World Income
Spartan (registered trademark) Ginnie Mae
Spartan Government Income
Spartan High Income
Spartan Investment Grade Bond
Spartan Limited Maturity
Government
Spartan Long-Term Government Bond
Spartan Short-Intermediate
Government
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Exchanges/Redemptions 1-800-544-7777
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Product Information 1-800-544-8888
Retirement Accounts 1-800-544-4774
(8 a.m. - 9 p.m.)
TDD Service 1-800-544-0118
for the deaf and hearing impaired
(9 a.m. - 9 p.m. Eastern time)
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AUTOMATED LINES FOR QUICKEST SERVICE

SPARTAN(registered trademark)

(registered trademark)
LIMITED MATURITY GOVERNMENT
FUND
ANNUAL REPORT
JULY 31, 1994
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THIS REPORT AND THE FINANCIAL STATEMENTS CONTAINED HEREIN ARE SUBMITTED FOR THE GENERAL INFORMATION OF THE SHAREHOLDERS OF THE FUND. THIS REPORT IS NOT AUTHORIZED FOR DISTRIBUTION TO PROSPECTIVE INVESTORS IN THE FUND UNLESS PRECEDED OR ACCOMPANIED BY AN EFFECTIVE PROSPECTUS. MUTUAL FUND SHARES ARE NOT DEPOSITS OR OBLIGATIONS OF, OR GUARANTEED BY, ANY DEPOSITORY INSTITUTION. SHARES ARE NOT INSURED BY THE FDIC, THE FEDERAL RESERVE BOARD OR ANY OTHER AGENCY, AND ARE SUBJECT TO INVESTMENT RISK,

INCLUDING THE POSSIBLE LOSS OF PRINCIPAL. NEITHER THE FUND NOR FIDELITY DISTRIBUTORS CORPORATION IS A BANK. PRESIDENT'S MESSAGE

DEAR SHAREHOLDER:

The first half of the year has been an unsettling time for bond investors. The bond market declined after the Federal Reserve Board raised short-term interest rates from February through May. These rate hikes caused bond yields to rise and bond prices to fall. The board raised the rate again in August, and while nobody knows whether rates will continue to go up, this may be a good time to review the effect rising rates have on your bond fund investment, and consider how well your current bond fund holdings match your investment goals.

Most investors choose bond funds to generate income and to help diversify their investment portfolios. Despite the recent market downturn, bond mutual funds can still satisfy these needs. Where investors have felt the negative effect of rising rates is in the market value of their investment, which has eroded as bond prices have fallen. It's important to remember, however, that this loss in principal is only "on paper" until you sell your shares. That's why your investing time horizon is key.

If your time horizon is short - one year or less - you may want to consider shifting all or part of your bond fund investment into short-term investments.

If you don't need your money within the next year, staying in your bond fund may be the appropriate strategy for you. The longer your investing time frame, the better your chances of retaining your principal investment through periods of rising AND falling rates. For example, if you plan to use your money in one to two years, a short-term bond fund may be the right choice. If your time frame is two to four years, a fund with an intermediate length average maturity may be best. If you have a longer-term goal - say a child's college education that's 10 years away - you may be willing to ride out the bond market's peaks and valleys in exchange for the higher potential returns of a longer-term fund.

If you have questions, please call us at 1-800-544-8888. We would be happy to send you a Fidelity FundMatch kit, which can help you determine the mix of investments that is right for you. You might also find it convenient to set up

a regular investment plan using the Fidelity Automatic Account Builder. SM Periodic investment plans do not, of course, assure a profit, nor do they protect against a loss in a declining market.

We look forward to hearing from you.

Best regards,

Edward C. Johnson 3d

PERFORMANCE: THE BOTTOM LINE

There are several ways to evaluate a fund's historical performance. You can look at the total percentage change in value, the average annual percentage change, or the growth of a hypothetical \$10,000 investment. Each figure includes changes in a fund's share price, plus reinvestment of any dividends (or income) and capital gains (the profits the fund earns when it sells bonds that have grown in value), and the effect of the \$5 account closeout fee. If Fidelity had not reimbursed certain fund expenses, the fund's five year and life of fund returns would have been lower. You can also look at the fund's income.

CUMULATIVE TOTAL RETURNS

PERIODS ENDED JULY 31, 1994	PAST 1 YEAR	PAST 5 YEARS	LIFE OF FUND
Spartan Limited Maturity Government	0.56%	40.18%	55.68%

Lehman Brothers 1-3 Year Government Bond Index	2.21%	41.80%	n/a
Average Short U.S. Government Fund	0.18%	38.69%	n/a
Consumer Price Index	2.77%	19.29%	26.73%

CUMULATIVE TOTAL RETURNS show the fund's performance in percentage terms over a set period - in this case, one year, five years, or since the fund started on May 2, 1988. For example, if you invested \$1,000 in a fund that had a 5% return over the past year, you would end up with \$1,050. You can compare these figures to the Lehman Brothers 1-3 Year Government Bond Index - a broad measure of the performance of short-term government bonds. To measure how the fund stacked up against its peers, you can also look at the average short U.S. government fund, which reflects the performance of 117 funds tracked by Lipper Analytical Services. These benchmarks include reinvested dividends and capital gains, if any. Comparing the fund's performance to the consumer price index helps show how your fund did compared to inflation. (The CPI returns begin on the month end closest to the fund's start date.)

AVERAGE ANNUAL TOTAL RETURNS

PERIODS ENDED JULY 31, 1994	PAST 1 YEAR	PAST 5 YEARS	LIFE OF FUND
Spartan Limited Maturity Government	0.56%	6.99%	7.34%
Lehman Brothers 1-3 Year Government Bond Index	2.21%	7.23%	n/a
Average Short U.S. Government Fund	0.18%	6.74%	n/a
Consumer Price Index	2.77%	3.59%	3.86%

AVERAGE ANNUAL TOTAL RETURNS take the fund's actual (or cumulative) return and show you what would have happened if the fund had performed at a constant rate each year.

\$10,000 OVER LIFE OF FUND

\$15,820

\$15,585

\$10,000 OVER LIFE OF FUND: Let's say you invested \$10,000 in Spartan Limited Maturity Government Fund on May 31, 1988, shortly after the fund started. As the chart shows, by July 31, 1994, the value of your investment would have grown to \$15,585 - a 55.85% increase on your initial investment. This assumes you still own the fund on July 31, 1994, and therefore does not include the effect of the \$5 account closeout fee. For comparison, look at how the Lehman Brothers 1-3 Year Government Bond Index did over the same period. With dividends reinvested, the same \$10,000 investment would have grown to \$15,820 - a 58.20% increase.

UNDERSTANDING

PERFORMANCE

How a fund did yesterday is no guarantee of how it will do tomorrow. Bond prices, for example, move in the opposite direction of interest rates. In turn, the share price, return, and yield of a fund that invests in bonds will vary. That means if you sell your shares during a market

downturn, you might lose money. But if you can ride out the market's ups and downs, you may have a gain.
(checkmark)

TOTAL RETURN COMPONENTS

YEARS ENDED JULY 31,

1994	1993	1992	1991	1990	
Dividend return	5.22%	6.18%	6.98%	8.91%	8.48%
Capital appreciation return	-4.66%	1.77%	1.79%	1.50%	-1.01%
Total return	.56%	7.95%	8.77%	10.41%	7.47%

DIVIDEND returns and capital appreciation returns are both part of a bond fund's total return. A dividend return reflects the actual dividends paid by the fund. A capital appreciation return reflects both the amount paid by the fund to shareholders as capital gain distributions and changes in the fund's share price. Both returns assume the dividends or gains are reinvested. Capital appreciation and total returns include the effect of the \$5 account closeout fee.

DIVIDENDS AND YIELD

PERIODS ENDED JULY 31, 1994	PAST MONTH	PAST 6 MONTHS	PAST 1 YEAR
Dividends per share	4.66 (cents)	26.40 (cents)	53.04 (cents)
Annualized dividend rate	5.73%	5.48%	5.35%
30-day annualized yield	5.84%	n/a	n/a

DIVIDENDS per share show the income paid by the fund for a set period. If you annualize this number, based on an average share price of \$9.57 over the past month, \$9.71 over the past six months and \$9.92 over the past year, you can compare the fund's income over these three periods. The 30-day annualized YIELD is a standard formula for all funds based on the yields of the bonds in the fund, averaged over the past 30 days. This figure shows you the yield characteristics of the fund's investments at the end of the period. It also helps you compare funds from different companies on an equal basis.

FUND TALK: THE MANAGER'S OVERVIEW

MARKET RECAP

Rising interest rates and inflation concerns in the United States sparked a sharp sell-off in most worldwide bond markets from February through July 1994. Yields rose - and prices fell - on virtually all types of fixed-income investments. This contrasted sharply with 1993's environment of falling interest rates and few inflation worries. After reaching a low of 5.79% in October 1993, the bellwether 30-year Treasury bond yielded 7.39% by July 31, 1994. The Lehman Brothers Aggregate

Bond Index - a broad measure of taxable bonds in the U.S. market - had a total return of 0.09% for the 12 months ended July 31. Even though refinancings slowed, mortgage-backed securities also suffered from rising rates. The Lehman Brothers mortgage index returned 0.53%. High-yield bonds fared somewhat better, thanks to credit quality enhancements due to the strengthening economy. The Merrill Lynch High Yield Master Index returned 4.42%. Most overseas bond markets took their cue from the sell-off in the U.S. The Salomon Brothers World Government Bond Index - - a measure of bond market performance in developed nations - rose 5.72% for the 12 months, mainly on the strength of 1993's gains. Emerging market bonds were hit especially hard in 1994. The J.P. Morgan Emerging Markets Bond Index fell 3.45% during the 12 months ended July 31.

An interview with
Curt Hollingsworth, Portfolio
Manager of Spartan Limited
Maturity Government Fund

Q. CURT, HOW DID THE FUND PERFORM?

A. Slightly above average. I think the best way to measure the fund's performance is by its total return. This reflects interest payments, plus capital gains - which occur when the fund profits from selling bonds that have grown in value - and changes in share price. For the year ended July 31, 1994, the fund had a total return of 0.56%. According to Lipper Analytical Services, the average short-term government bond fund had a return of 0.18%.

Q. IT SOUNDS LIKE THE BOND MARKET HAD A TOUGH YEAR.

A. That's true. And it had an especially difficult past six months. Bond prices fell during this time for several reasons. First, the economy started growing more quickly and commodity prices began rising. This situation was bad news for bond investors because the improving economy increased concerns about inflation - which eats away at a bond's fixed interest payment. Another reason bond prices dropped was that worries about future inflation led the Federal Reserve Bank to raise short-term interest rates in February, March, April and May of 1994. In response, yields on short, intermediate and long-term Treasuries rose. During the past year, the yield on the five-year Treasury note increased from 5.15% to 6.73%. Keep in mind, bond yields and prices move in opposite directions. So the rise in yields meant a drop in bond prices.

Q. AND THE FUND'S PERFORMANCE
PRETTY CLOSELY MIRRORED THAT OF ITS
COMPETITORS . . .

A. It did, but the fund experienced ups and downs in performance. Because it was using a duration averaging strategy, the fund's duration was somewhat longer than that of its competitors. Duration is a way to measure how sensitive a bond is to changes in interest rates. The longer the average duration of the fund, the more its share price will move up as rates fall or down as rates rise. Since the fund's duration was longer than

other funds, it slightly underperformed the average fund for part of the period. Another reason the fund stumbled a bit was that it had a large stake in mortgage securities during the period. When interest rates rose, the durations of these mortgages lengthened, which made the fund's share price more volatile. However, the fund's performance improved later in the period because of good sector bets and security selection.

Q. WHAT'S YOUR STRATEGY NOW?

A. I'll continue to concentrate on sector weights and security selection. By sectors, I mean Treasuries; federal agency bonds; and mortgage securities, such as those issued by the Government National Mortgage Association (Ginnie Mae) and the Federal National Mortgage Association (Fannie Mae). My job is to determine the right mix of these sectors and adjust the mix as market conditions change. Security selection refers to our attempt to purchase the most attractively valued securities in each of these sectors.

Q. ON ANOTHER NOTE, IT LOOKS LIKE YOU SHIFTED MORE OF THE FUND INTO TREASURIES OVER THE PAST SIX MONTHS. WHY?

A. There were two reasons. First, yields on Treasuries were up more than yields on mortgage securities. The second reason was that short-term Treasuries offered much more attractive yields at the end of this period than they did six months ago thanks to the rise in interest rates.

Q. THINKING BACK OVER THE PAST SIX MONTHS, WOULD YOU CHANGE SOME OF YOUR INVESTMENT DECISIONS?

A. Yes. I wish the fund had maintained a shorter duration during the fourth quarter of 1993 and during the early part of 1994.

Q. LET'S SWITCH DIRECTION A BIT AND TALK ABOUT DERIVATIVES . . .

A. While the fund has the authority to use futures contracts or other derivatives, I haven't used them much because I've been able to implement my strategies without them. However, on July 31, the fund did have a 0.8% stake in collateralized mortgage obligations or CMOs and commercial mortgage securities, which are technically considered derivatives. These are more complicated types of mortgage-backed bonds that funds sometimes use instead of conventional mortgage securities. I should note that the effect of the fund's small investment in these securities on its performance was negligible.

Q. HOW DOES THE FUND LOOK GOING FORWARD?

A. Forecasting interest rates is extraordinarily difficult. However, I'm feeling fairly optimistic because I think that inflation will remain under control. Over the long haul, inflation is the single most important variable affecting bond market performance.

FUND FACTS

GOAL: to provide a high level of current income while preserving capital by investing primarily in U.S. government securities

START DATE: May 2, 1988

SIZE: as of July 31, 1994, more than \$1 billion

MANAGER: Curt Hollingsworth, since May 1988; manager, Spartan Long-Term Government Bond Fund, since October 1993; Fidelity Advisor Government

Investment Portfolio, since January 1992; Spartan Short-Intermediate Government Fund, since December 1992; Fidelity Short-Intermediate Government Fund, since

October 1991; Fidelity
Government Securities Fund,
since February 1990; joined
Fidelity in 1983
(checkmark)

CURT HOLLINGSWORTH ON YIELD
SPREAD:

"The fund can invest in U.S.
Treasuries and mortgage
securities. My job is to find a mix
of these two types of bonds that
will produce the best results. I try
to do this by looking at yield
spread - the difference
between the yield on Treasuries,
which usually pay the lowest
yields, and other types of bonds.
Usually I sell Treasuries and buy
mortgages when the yield
spread is wide, that is, when
mortgage securities yield much
more than Treasuries. On the
other hand, I generally sell
mortgages and buy Treasuries
when the yield spread is narrow,
that is, when mortgages yield
only a little more than
Treasuries. That's because the
small amount of extra yield isn't
worth the added risk inherent in
mortgage
securities.

"During the fourth quarter of
1993, yield spreads got very
wide. At that time the fund went
to 100% mortgages. More
recently, yield spreads have
tightened. So now the fund has
taken profits and sold many of
the mortgages."

DISTRIBUTIONS

13.5% of the dividends
distributed during the fiscal
year was derived from
interest on U.S. Government
securities, which is generally
exempt from state income
tax. The fund will notify
shareholders in January 1995
of the applicable percentage
for use in preparing 1994
income tax returns.

INVESTMENT CHANGES

COUPON DISTRIBUTION AS OF JULY 31, 1994

	% OF FUND'S INVESTMENTS	% OF FUND'S INVESTMENTS 6 MONTHS AGO
4 - 4.99%	0.3	-
5 - 5.99%	14.8	1.4

6 - 6.99%	1.9	3.2
7 - 7.99%	25.9	27.6
8 - 8.99%	8.3	21.0
9 - 9.99%	17.3	5.0
10 - 10.99%	4.5	2.5
11 - 11.99%	5.3	15.6
12 - 12.99%	15.6	12.9
13% and over	1.7	1.4

COUPON DISTRIBUTION SHOWS THE RANGE OF STATED INTEREST RATES ON THE FUND'S INVESTMENTS, EXCLUDING REPURCHASE AGREEMENTS.

AVERAGE YEARS TO MATURITY AS OF JULY 31, 1994

6 MONTHS AGO

Years 4.5 3.1

AVERAGE YEARS TO MATURITY SHOWS THE AVERAGE TIME UNTIL THE PRINCIPAL ON THE FUND'S BONDS IS EXPECTED TO BE REPAID, WEIGHTED BY DOLLAR AMOUNT.

DURATION AS OF JULY 31, 1994

6 MONTHS AGO

Years 2.7 2.6

DURATION SHOWS HOW MUCH A BOND'S PRICE FLUCTUATES WITH CHANGES IN INTEREST RATES. IF RATES RISE 1%, FOR EXAMPLE, A BOND WITH A FIVE-YEAR DURATION WILL LOSE ABOUT 5% OF ITS VALUE.

ASSET ALLOCATION

AS OF JULY 31, 1994 AS OF JANUARY 31, 1994

Row: 1, Col: 1, Value: 4.4

Row: 1, Col: 2, Value: 1.5

Row: 1, Col: 3, Value: 46.0

Row: 1, Col: 4, Value: 48.8

Mortgage-backed securities 74.3%

U.S. government and government agency obligations 16.2%

CMOs and other mortgage related securities 0.1%

Other 9.4%

Mortgage-backed securities 48.8%

U.S. government and government agency obligations 46.0%

CMOs and other mortgage related securities 0.8%

Short-term investments 4.4%

Row: 1, Col: 1, Value: 9.4

Row: 1, Col: 2, Value: 1.0

Row: 1, Col: 3, Value: 16.2

Row: 1, Col: 4, Value: 74.3

INVESTMENTS JULY 31, 1994

Showing Percentage of Total Value of Investment in Securities

U.S. GOVERNMENT AND GOVERNMENT AGENCY OBLIGATIONS - 46.0%

PRINCIPAL VALUE (NOTE 1)

AMOUNT (000S) (000S)

U.S. TREASURY OBLIGATIONS - 41.7%

7 3/8%, 5/15/96 \$ 41,500 \$ 42,518 912827TQ
7 1/4%, 11/15/96 89,700 91,858 912827UF
7 7/8%, 2/15/96 113,000 116,443 912827ZQ
5 1/8%, 3/31/98 144,700 138,325 912827K3
9 1/4%, 8/15/98 34,350 37,565 912827WN
426,709

U.S. GOVERNMENT AGENCY OBLIGATIONS - 4.3%

Agency for International Development

(guaranteed by U.S.government):

6%, 2/15/99 18,905 18,261 465139DS
5 3/4%, 3/15/00 6,750 6,356 465139AC
5 1/4%, 9/15/00 3,005 2,734 465139BY

Government Trust Ctfs.:

Class 1-C 9 1/4%, 11/15/01 14,080 15,365 383752CF
9.40%, 5/15/02 1,160 1,270 383752DP
43,986

TOTAL U.S. GOVERNMENT AGENCY OBLIGATIONS

(Cost \$471,136) 470,695

U.S. GOVERNMENT AGENCY - MORTGAGE-BACKED SECURITIES - 48.8%

FEDERAL HOME LOAN MORTGAGE CORPORATION - 9.1%

7 1/2%, 10/1/96 to 1/1/98 1,415 1,437 36215FGM
8%, 2/1/96 to 12/1/96 1,063 1,086 36215FJU
8 1/2%, 2/1/96 to 10/1/18 3,406 3,487 36215FJX
9%, 1/1/10 to 7/1/21 5,504 5,783 36215FLS
9 1/2%, 7/1/16 to 6/1/21 15,462 16,215 36215FNH
10%, 12/1/00 to 7/1/09 2,481 2,630 36215FNR
10 1/2%, 10/1/10 to 1/1/21 2,792 3,028 36215FN5
10 3/4%, 7/1/13 213 233 36215FPC
11%, 8/1/00 to 9/1/20 2,502 2,738 36215FR6
11 1/4%, 2/1/10 to 10/1/14 2,694 2,944 36215FZK
11 1/2%, 3/1/07 to 8/1/19 14,134 15,627 36215F4N
11 3/4%, 1/1/10 to 10/1/15 432 476 36215GCR
12%, 10/1/09 to 12/1/15 5,137 5,693 36215GDT
12 1/4%, 9/1/08 to 8/1/15 2,632 2,912 36215GEP
12 1/2%, 10/1/09 to 4/1/19 20,969 23,930 36215GMQ

U.S. GOVERNMENT AGENCY - MORTGAGE-BACKED SECURITIES - CONTINUED

PRINCIPAL VALUE (NOTE 1)

AMOUNT (000S) (000S)

FEDERAL HOME LOAN MORTGAGE CORPORATION - CONTINUED

12 3/4%, 2/1/10 to 8/1/11 \$ 342 \$ 390 36215GTG
13%, 9/1/10 to 5/1/17 2,334 2,687 36215GYK
13 1/4%, 11/1/10 to 12/1/14 382 438 36215G3K
13 1/2%, 11/1/10 to 10/1/14 676 782 36215G4L
13 3/4%, 10/1/14 44 50 36215G6K
14%, 11/1/12 to 4/1/16 286 331 36215G7J
14 1/2%, 12/1/10 to 9/1/12 184 213 36215HED
14 3/4%, 3/1/10 67 78 36215HX6
16 1/4%, 7/1/11 17 20 36215HYE
93,208

FEDERAL NATIONAL MORTGAGE ASSOCIATION - 12.2%

7%, 1/1/99 to 7/1/00 4,851 4,831 36215HYZ
7 1/2%, 2/1/99 to 5/1/00 2,885 2,917 36215HYZ
8%, 8/1/99 to 7/1/22 17,209 17,481 36215HYZ
8 1/2%, 1/1/98 to 12/1/22 11,751 12,102 36215HYZ
9%, 11/1/97 to 8/1/07 19,623 20,474 36215HYZ

10%, 7/1/04 to 10/1/04 3,827 4,061 36215HYZ
10 1/4%, 10/1/09 to 10/1/18 922 989 36215HYZ
10 1/2%, 4/1/01 to 11/1/05 9,507 10,170 36215HYZ
11%, 8/1/10 to 9/1/15 4,695 5,218 36215HYZ
11 1/4%, 11/1/10 to 1/1/16 3,557 3,943 36215HYZ
11 1/2%, 9/1/11 to 12/1/15 3,387 3,789 36215HYZ
11 3/4%, 7/1/13 to 4/1/14 456 510 36215HYZ
12%, 7/1/09 to 3/1/17 13,457 15,187 36215HYZ
12 1/4%, 4/1/09 to 6/1/15 3,216 3,622 36215HYZ
12 1/2%, 9/1/07 to 5/1/21 8,876 10,118 36215HYZ
12 3/4%, 10/1/11 to 6/1/15 2,652 3,017 36215HYZ
13%, 6/1/11 to 7/1/15 3,721 4,261 36215HYZ
13 1/4%, 9/1/11 to 9/1/13 1,286 1,469 36215HYZ
13 1/2%, 5/1/11 to 1/1/15 178 204 36215HYZ
14%, 9/1/10 to 12/1/14 320 370 36215HYZ
14 1/2%, 7/1/14 20 23 36215HYZ
15%, 4/1/12 35 40 36215HYZ

124,796

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION - 27.5%

6 1/2%, 12/15/23 4 3 36215HYZ
6 1/2%, 8/15/24 TBA (a) 1,400 1,269 36215HYZ
7 1/2%, 11/15/23 5,185 5,036 36215HYZ
8%, 9/15/06 to 9/15/23 50,990 50,962 36215HYZ
8 1/2%, 6/15/16 to 4/15/17 175 179 36215HYZ

U.S. GOVERNMENT AGENCY MORTGAGE-BACKED SECURITIES - CONTINUED

PRINCIPAL VALUE (NOTE 1)

AMOUNT (000S) (000S)

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION - CONTINUED

9%, 1/15/05 to 9/15/17 \$ 42,385 \$ 44,525 36215HYZ
9 1/2%, 6/15/09 to 8/15/24 33,455 35,577 36215HYZ
10%, 11/15/09 to 11/15/17 17,859 19,240 36215HYZ
10 1/2%, 10/15/11 to 7/15/17 5,314 5,808 36215HYZ
11%, 8/15/98 to 1/15/16 1,447 1,596 36215HYZ
11 1/2%, 3/15/10 to 5/15/19 14,684 16,591 36215HYZ
11 3/4%, 1/15/14 133 149 36215HYZ
12%, 1/15/13 to 6/15/15 1,345 1,533 36215HYZ
12 1/4%, 1/15/14 171 193 36215HYZ
12 1/2%, 4/15/10 to 4/15/19 79,950 91,918 36215HYZ
13%, 1/15/11 to 5/15/15 2,110 2,463 36215HYZ
13 1/4%, 9/15/13 to 10/15/14 661 750 36215HYZ
13 1/2%, 5/15/10 to 12/15/14 1,210 1,399 36215HYZ
13 3/4%, 8/15/14 to 9/15/14 74 85 36215HYZ
14%, 6/15/11 to 12/15/14 418 489 36215HYZ
15%, 7/15/11 to 9/15/12 684 812 36215HYZ
16%, 9/15/11 to 4/15/13 184 219 36215HYZ
17%, 12/15/11 17 21 36215HZL

280,817

TOTAL U.S. GOVERNMENT AGENCY -
MORTGAGE-BACKED SECURITIES

(Cost \$504,369) 498,821

COLLATERALIZED MORTGAGE OBLIGATIONS - 0.1%

U.S. GOVERNMENT AGENCY - 0.1%

Resolution Trust Corp. pass thru series 1991-11

class 6-A, 12.64%, 10/25/21 1,247 1,303 76116NHF

PRIVATE ISSUER - 0.0%

DLJ Acceptance Trust planned amortization class series 1989-1

Class F, 11%, 8/1/19 383 390 23321MAL

TOTAL COLLATERALIZED MORTGAGE OBLIGATIONS

(Cost \$1,759) 1,693

COMMERCIAL MORTGAGE SECURITIES - 0.7%

PRINCIPAL VALUE (NOTE 1)

AMOUNT (000S) (000S)

CS First Boston Mortgage Securities Corp. commercial series

1994-CFB1 class A-1 4.9875%, 1/25/28 \$ 2,984 \$ 2,989 126342AU

Resolution Trust Corp. commercial floater series 1992-C2

class A-2, 5.4375%, 10/25/21 (b) 4,161 4,232

TOTAL COMMERCIAL MORTGAGE SECURITIES

(Cost \$7,189) 7,221

REPURCHASE AGREEMENTS - 4.4%

MATURITY

AMOUNT

(000S)

Investment in repurchase agreements,

(U.S. Treasury obligations), in a

joint trading account at 4.23%

dated 7/29/94 due 8/1/94 \$ 44,913 \$ 44,897

TOTAL INVESTMENT IN SECURITIES - 100%

(Cost \$1,029,350) \$ 1,023,327

LEGEND

(a) Security sold on a delayed delivery basis (see Note 2 of Notes to Financial Statements).

(b) Coupon is inversely indexed to a floating interest rate multiplied by a specified factor. The price may be considerably more volatile than the price of a comparable fixed rate security. The rate shown is the rate at period end.

INCOME TAX INFORMATION

At July 31, 1994, the aggregate cost of investment securities for income tax purposes was \$1,030,438,000. Net unrealized depreciation aggregated \$7,111,000, of which \$3,614,000 related to appreciated investment securities and \$10,725,000 related to depreciated investment securities. The fund hereby designates \$29,000 as a capital gain dividend for the purpose of the dividend paid deduction.

The fund has elected to defer to its fiscal year ending July 31, 1995

\$47,440,000 of losses recognized during the period November 1, 1993 to July 31, 1994.

FINANCIAL STATEMENTS

STATEMENT OF ASSETS AND LIABILITIES

<TABLE>

<CAPTION>

<S>

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<C>

AMOUNTS IN THOUSANDS (EXCEPT PER SHARE AMOUNTS) JULY 31, 1994

ASSETS

Investment in securities, at value (including repurchase agreements of \$44,897) (cost \$1,029,350) (Notes 1 and 2) - See accompanying schedule \$ 1,023,327

Commitment to sell securities on a delayed delivery basis \$ (1,269)

Receivable for securities sold on a delayed delivery basis (Note 2) 1,278 9

Receivable for investments sold, regular delivery 1,669

Cash 28

Interest receivable 15,547

TOTAL ASSETS 1,040,580

LIABILITIES

Payable for investments purchased	19,076	
Payable for fund shares redeemed	2,089	
Dividends payable	743	
Accrued management fee	556	
TOTAL LIABILITIES		22,464
NET ASSETS		\$ 1,018,116
Net Assets consist of (Note 1):		
Paid in capital		\$ 1,076,105
Distributions in excess of net investment income		(3,544)
Accumulated undistributed net realized gain (loss) on investments		(48,431)
Net unrealized appreciation (depreciation) on investments		(6,014)
NET ASSETS, for 105,939 shares outstanding		\$ 1,018,116
NET ASSET VALUE, offering price and redemption price per share (\$1,018,116 (divided by) 105,939 shares)		\$9.61

</TABLE>

STATEMENT OF OPERATIONS

<TABLE>

<CAPTION>

<S>

<C>

<C>

AMOUNTS IN THOUSANDS YEAR ENDED JULY 31, 1994

INVESTMENT INCOME		\$ 104,661
Interest (Note 1)		
EXPENSES		
Management fee (Note 4)	\$ 8,474	
Non-interested trustees' compensation	8	
Interest (Note 5)	19	
TOTAL EXPENSES		8,501
NET INVESTMENT INCOME		96,160
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS (NOTES 1 AND 3)		(68,416)
Net realized gain (loss) on investment securities		
Change in net unrealized appreciation (depreciation) on:		
Investment securities	(19,494)	
Delayed delivery commitments	9	(19,485)

NET GAIN (LOSS) (87,901)

NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS \$ 8,259

</TABLE>

STATEMENT OF CHANGES IN NET ASSETS

<TABLE>

<CAPTION>

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AMOUNTS IN THOUSANDS

<C>

YEAR ENDED
JULY 31,
1994

<C>

YEAR ENDED
JULY 31,
1993

INCREASE (DECREASE) IN NET ASSETS

Operations	\$ 96,160	\$ 133,147
Net investment income		
Net realized gain (loss)	(68,416)	(8,178)
Change in net unrealized appreciation (depreciation)	(19,485)	1,723
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	8,259	126,692
Distributions to shareholders:		
From net investment income	(71,409)	(97,834)
From net realized gain	-	(8,578)
In excess of net realized gain	(31,339)	-
TOTAL DISTRIBUTIONS	(102,748)	(106,412)
Share transactions		
Net proceeds from sales of shares	379,642	772,524
Reinvestment of distributions	89,915	93,230
Cost of shares redeemed	(886,133)	(1,126,871)
Net increase (decrease) in net assets resulting from share transactions	(416,576)	(261,117)
TOTAL INCREASE (DECREASE) IN NET ASSETS	(511,065)	(240,837)
NET ASSETS		
Beginning of period	1,529,181	1,770,018
End of period (including under (over) distributed net investment income of \$(3,544) and \$64,376, respectively)	\$ 1,018,116	\$ 1,529,181
OTHER INFORMATION		
Shares		
Sold	37,868	75,607

Issued in reinvestment of distributions	8,997	9,112
Redeemed	(89,181)	(110,358)
Net increase (decrease)	(42,316)	(25,639)

</TABLE>

FINANCIAL HIGHLIGHTS

<TABLE>

<CAPTION>

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<C> YEARS ENDED JULY 31,	<C>	<C>	<C>	<C>	<C>
1994	1993	1992	1991	1990	

SELECTED PER-SHARE DATA

Net asset value, beginning of period	\$ 10.310	\$ 10.180	\$ 10.060	\$ 9.930	\$ 10.030
Income from Investment Operations	.470C	.872	.836	.853	.816
Net investment income					
Net realized and unrealized gain (loss)	(.410)	(.087)	.021	.142	(.100)
Total from investment operations	.060	.785	.857	.995	.716
Less Distributions From net investment income	(.540)C	(.605)	(.677)	(.845)	(.816)
From net realized gain on investments	-	(.050)	(.060)	(.020)	-
In excess of net realized gain on investment	(.220)	-	-	-	-
Total distributions	(.760)	(.655)	(.737)	(.865)	(.816)
Net asset value, end of period	\$ 9.610	\$ 10.310	\$ 10.180	\$ 10.060	\$ 9.930
TOTAL RETURN A, B	.57%	7.96%	8.78%	10.43%	7.49%

RATIOS AND SUPPLEMENTAL DATA

Net assets, end of period (in millions)	\$ 1,018	\$ 1,529	\$ 1,770	\$ 880	\$ 132
Ratio of expenses to average net assets	.65%	.65%	.61%	.50%	.83%
Ratio of expenses to average net assets before expense reductions	.65%	.65%	.65%	.69%	.83%

Ratio of net investment income to average net assets	7.37%	8.05%	8.24%	8.63%	8.28%
Portfolio turnover rate	391%	324%	330%	288%	270%

</TABLE>

A THE TOTAL RETURNS WOULD HAVE BEEN LOWER HAD CERTAIN EXPENSES NOT BEEN REDUCED DURING THE PERIODS SHOWN.

B TOTAL RETURNS DO NOT INCLUDE THE ACCOUNT CLOSEOUT FEE.

C THE AMOUNTS SHOWN REFLECT CERTAIN RECLASSIFICATIONS RELATED TO BOOK TO TAX DIFFERENCES (SEE NOTE 1 OF NOTES TO FINANCIAL STATEMENTS).

NOTES TO FINANCIAL STATEMENTS

For the period ended July 31, 1994

1. SIGNIFICANT ACCOUNTING POLICIES.

Spartan Limited Maturity Government Fund (the fund) is a fund of Fidelity Income Fund (the trust) and is authorized to issue an unlimited number of shares. The trust is registered under the Investment Company Act of 1940, as amended (the 1940 Act), as an open-end management investment company organized as a Massachusetts business trust. The following summarizes the significant accounting policies of the fund:

SECURITY VALUATION. Securities are valued based upon a computerized matrix system and/or appraisals by a pricing service, both of which consider market transactions and dealer-supplied valuations. Short-term securities maturing within sixty days are valued either at amortized cost or original cost plus accrued interest, both of which approximate current value. Securities for which market quotations are not readily available are valued at their fair value as determined in good faith under consistently applied procedures under the general supervision of the Board of Trustees.

INCOME TAXES. As a qualified regulated investment company under Subchapter M of the Internal Revenue Code, the fund is not subject to income taxes to the extent that it distributes all of its taxable income for its fiscal year. The schedule of investments includes information regarding income taxes under the caption "Income Tax Information."

INVESTMENT INCOME. Interest income, which includes accretion of original issue discount, is accrued as earned.

EXPENSES. Most expenses of the trust can be directly attributed to a fund. Expenses which cannot be directly attributed are apportioned between the funds in the trust.

DISTRIBUTIONS TO SHAREHOLDERS. Distributions are declared daily and paid monthly from net investment income. Distributions from realized gains, if any, are recorded on the ex-dividend date.

Income and capital gain distributions are determined in accordance with income tax regulations which may differ from generally accepted accounting principles. These differences are primarily due to differing treatments for mortgage-backed securities and losses deferred due to wash sales.

Permanent book and tax basis differences relating to shareholder distributions will result in reclassifications to paid in capital and may affect net investment income per share disclosed. Undistributed net investment income may include temporary book and tax income basis differences which will reverse in a subsequent period. Any taxable income or gain remaining at fiscal year end is distributed in the following year.

SECURITY TRANSACTIONS. Security transactions are accounted for as of trade date. Gains and losses on securities sold are determined on the basis of identified cost.

1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

CHANGE IN ACCOUNTING FOR DISTRIBUTIONS TO SHAREHOLDERS. Effective August

1,1993, the fund adopted Statement of Position 93-2: Determination, Disclosure, and Financial Statement Presentation of Income, Capital Gain, and Return of Capital Distributions by Investment Companies. As a result, the fund changed the classification of distributions to shareholders to better disclose the differences between financial statement amounts and distributions determined in accordance with income tax regulations. Accordingly, amounts as of August 1, 1993 have been reclassified to reflect a decrease in paid in capital of \$6,430,000, a decrease in undistributed net investment income of \$58,983,000 and a decrease in accumulated net realized (loss) on investments of \$65,413,000.

2. OPERATING POLICIES.

REPURCHASE AGREEMENTS. The fund, through its custodian, receives delivery of the underlying securities, whose market value is required to be at least 102% of the resale price at the time of purchase. The fund's investment adviser, Fidelity Management & Research Company (FMR), is responsible for determining that the value of these underlying securities remains at least equal to the resale price.

JOINT TRADING ACCOUNT. Pursuant to an Exemptive Order issued by the Securities and Exchange Commission (SEC), the fund, along with other affiliated entities of FMR, may transfer uninvested cash balances into one or more joint trading accounts. These balances are invested in one or more repurchase agreements that mature in 60 days or less from the date of purchase, and are collateralized by U.S. Treasury or Federal Agency obligations.

DELAYED DELIVERY TRANSACTIONS. The fund may purchase or sell securities on a when-issued or forward commitment basis. Payment and delivery may take place a month or more after the date of the transaction. The price of the underlying securities and the date when the securities will be delivered and paid for are fixed at the time the transaction is negotiated. The fund may receive compensation for interest forgone in a delayed delivery transaction. The fund identifies securities as segregated in its custodial records with a value at least equal to the amount of the purchase commitment.

3. PURCHASES AND SALES OF INVESTMENTS.

Purchases and sales of long-term U.S. government and government agency obligations aggregated \$4,933,820,000 and \$5,398,001,000, respectively.

4. FEES AND OTHER

TRANSACTIONS WITH AFFILIATES.

MANAGEMENT FEE. As the fund's investment adviser, Fidelity Management & Research Company (FMR) pays all expenses except the compensation of the non-interested Trustees and certain exceptions such as interest, taxes, brokerage commissions and extraordinary

4. FEES AND OTHER

TRANSACTIONS WITH AFFILIATES - CONTINUED

MANAGEMENT FEE - CONTINUED

expenses. FMR receives a fee that is computed daily at an annual rate of .65% of the fund's average net assets.

FMR also bears the cost of providing shareholder services to the fund. For the period, FMR or its affiliates collected certain transaction fees from shareholders which aggregated \$75,000.

DISTRIBUTION AND SERVICE PLAN. Pursuant to the Distribution and Service Plan (the Plan), and in accordance with Rule 12b-1 of the 1940 Act, FMR or the fund's distributor, Fidelity Distributors Corporation (FDC), an affiliate of FMR, may use their resources to pay administrative and promotional expenses related to the sale of the fund's shares. Subject to the approval of the Board of Trustees, the Plan also authorizes payments to third parties that assist in the sale of the fund's shares or render shareholder support services.

5. BANK BORROWINGS.

The fund is permitted to have bank borrowings for temporary or emergency purposes to fund shareholder redemptions. The fund has established borrowing arrangements with certain banks. Under the most restrictive

arrangement, the fund must pledge to the bank securities having a market value in excess of 220% of the total bank borrowings. The interest rate on the borrowings is the bank's base rate, as revised from time to time. The maximum loan and the average daily loan balances during the periods for which loans were outstanding amounted to \$23,526,000 and \$15,047,000, respectively. The weighted average interest rate was 3.54%.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Trustees of Fidelity Income Fund and the Shareholders of Spartan Limited Maturity Government Fund:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Spartan Limited Maturity Government Fund (a fund of Fidelity Income Fund) at July 31, 1994, the results of its operations for the year then ended, the changes in its net assets and the financial highlights for the periods indicated in conformity with generally accepted accounting principles. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Spartan Limited Maturity Government Fund's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities owned at July 31, 1994 by correspondence with the custodian and brokers and the application of alternative auditing procedures where confirmations from brokers were not received, provide a reasonable basis for the opinion expressed above.

PRICE WATERHOUSE LLP
Boston, Massachusetts
September 7, 1994
TO CALL FIDELITY

FOR FUND INFORMATION AND QUOTES

The Fidelity Telephone Connection offers you special automated telephone services for quotes and balances. The services are easy to use, confidential and quick. All you need is a Touch Tone telephone.

YOUR PERSONAL IDENTIFICATION NUMBER
(PIN)

The first time you call one of our automated telephone services, we'll ask you

to set up your Personal Identification Number (PIN). The PIN assures that only you have automated telephone access to your account information.

Please have your Customer Number (T-account #) handy when you call --

you'll need it to establish your PIN. If you would ever like to change your PIN, just choose the "Change your Personal

Identification Number" option when you call. If you forget your PIN, please call a Fidelity representative at 1-800-544-6666 for assistance.

(PHONE_GRAPHIC) (PHONE_GRAPHIC) MUTUAL FUND QUOTES*

1-800-544-8544

Just make a selection from this record-ed menu:

PRESS

For quotes on funds you own.

1.

For an individual fund quote.

2.

For the ten most frequently requested Fidelity fund quotes.

3.

For quotes on Fidelity Select Portfolios. (registered trademark)

4.

To change your Personal Identification Number (PIN).

5.

To speak with a Fidelity representative.

6.

(PHONE_GRAPHIC) (PHONE_GRAPHIC) MUTUAL FUND ACCOUNT

BALANCES 1-800-544-7544

Just make a selection from this record-ed menu:

PRESS

For balances on funds you own.

1.

For your most recent fund activity (purchases, redemptions, and dividends).

2.

To change your Personal Identification Number (PIN).

3.

To speak with a Fidelity representative.

4.

* WHEN YOU CALL THE QUOTES LINE, PLEASE REMEMBER THAT A FUND'S YIELD AND RETURN WILL

VARY AND, EXCEPT FOR MONEY MARKET FUNDS, SHARE PRICE WILL ALSO VARY. THIS MEANS THAT

YOU MAY HAVE A GAIN OR LOSS WHEN YOU SELL YOUR SHARES. THERE IS NO ASSURANCE THAT

MONEY MARKET FUNDS WILL BE ABLE TO MAINTAIN A STABLE \$1 SHARE PRICE; AN INVESTMENT IN

A MONEY MARKET FUND IS NOT INSURED OR GUARANTEED BY THE U.S. GOVERNMENT. TOTAL

RETURNS ARE HISTORICAL AND INCLUDE CHANGES IN SHARE PRICE, REINVESTMENT OF DIVIDENDS

AND CAPITAL GAINS, AND THE EFFECTS OF ANY SALES CHARGES. FOR MORE INFORMATION ON ANY

FIDELITY FUND INCLUDING MANAGEMENT FEES AND CHARGES, CALL 1-800-544-8888 FOR A FREE

PROSPECTUS. READ IT CAREFULLY BEFORE YOU INVEST OR SEND MONEY. INVESTMENT ADVISER

Fidelity Management & Research Company

Boston, MA

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AUTOMATED LINES FOR QUICKEST SERVICE

FIDELITY'S TAXABLE BOND FUNDS

Capital & Income

Ginnie Mae

Global Bond

Government Securities

Intermediate Bond

Investment Grade Bond

Mortgage Securities

New Markets Income

Short-Intermediate Government

Short-Term Bond

Short-Term World Income

Spartan (registered trademark) Ginnie Mae

Spartan Government Income

Spartan High Income

Spartan Investment Grade Bond

Spartan Limited Maturity

Government

Spartan Long-Term Government Bond

Spartan Short-Intermediate

Government

Spartan Short-Term Income

THE FIDELITY

TELEPHONE CONNECTION

MUTUAL FUND 24-HOUR SERVICE

Account Balances 1-800-544-7544

Exchanges/Redemptions 1-800-544-7777

Mutual Fund Quotes 1-800-544-8544

Account Assistance 1-800-544-6666

Product Information 1-800-544-8888

Retirement Accounts 1-800-544-4774

(8 a.m. - 9 p.m.)
TDD Service 1-800-544-0118
for the deaf and hearing impaired
(9 a.m. - 9 p.m. Eastern time)
(registered trademark)