

# SECURITIES AND EXCHANGE COMMISSION

## FORM N-30D

Initial annual and semi-annual reports mailed to investment company shareholders pursuant to Rule 30e-1 (other than those required to be submitted as part of Form NCSR)

Filing Date: **1998-07-22** | Period of Report: **1998-05-31**  
SEC Accession No. **0000311884-98-000015**

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### FILER

#### FIDELITY FINANCIAL TRUST

CIK: **708191** | IRS No.: **042778698** | State of Incorpor.: **MA** | Fiscal Year End: **1130**  
Type: **N-30D** | Act: **40** | File No.: **811-03587** | Film No.: **98669474**

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CONVERTIBLE SECURITIES  
FUND  
SEMIANNUAL REPORT  
MAY 31, 1998  
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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, FEDERAL RESERVE BOARD OR ANY OTHER AGENCY, AND ARE SUBJECT TO INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF PRINCIPAL AMOUNT INVESTED.

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PRESIDENT'S MESSAGE

(photo\_of\_Edward\_C\_Johnson\_3d)

DEAR SHAREHOLDER:

While low interest rates and subdued inflation provided support for stock and bond markets in the U.S. during the first five months of 1998, concerns about continuing economic and political difficulties in Asia colored their performance. The stock market reached record heights due to stronger-than-expected corporate earnings, but retreated at times when concerns surfaced about how the Asian volatility would affect business prospects. The bond market benefited from these retreats, as investors sought alternatives offering lower volatility.

While it's impossible to predict the future direction of the markets with any degree of certainty, there are certain basic principles that can help investors plan for their future needs.

First, investors are encouraged to take a long-term view of their portfolios. If you can afford to leave your money invested through the inevitable up and down cycles of the financial markets, you will greatly reduce your vulnerability to any single decline. We know from experience, for example, that stock prices have gone up over longer periods of time, have significantly outperformed other types of investments and have stayed ahead of inflation.

Second, you can further manage your investing risk through diversification. A stock mutual fund, for instance, is already

diversified, because it invests in many different companies. You can increase your diversification further by investing in a number of different stock funds, or in such other investment categories as bonds. If you have a short investment time horizon, you might want to consider moving some of your investment into a money market fund, which seeks income and a stable share price by investing in high-quality, short-term investments. Of course, it's important to remember that there is no assurance that a money market fund will achieve its goal of maintaining a stable net asset value of \$1.00 per share, and that these types of funds are neither insured nor guaranteed by any agency of the U.S. government.

Finally, no matter what your time horizon or portfolio diversity, it makes good sense to follow a regular investment plan, investing a certain amount of money in a fund at the same time each month or quarter and periodically reviewing your overall portfolio. By doing so, you won't get caught up in the excitement of a rapidly rising market, nor will you buy all your shares at market highs. While this strategy - known as dollar cost averaging - won't assure a profit or protect you from a loss in a declining market, it should help you lower the average cost of your purchases.

If you have questions, please call us at 1-800-544-8888. We are available 24 hours a day, seven days a week to provide you the information you need to make the investments that are right for 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. Total return reflects the change in the value of an investment, assuming reinvestment of the fund's dividend income and capital gains (the profits earned upon the sale of securities that have grown in value).

CUMULATIVE TOTAL RETURNS

| PERIODS ENDED MAY 31, 1998           | PAST 6 MONTHS | PAST 1 YEAR | PAST 5 YEARS | PAST 10 YEARS |
|--------------------------------------|---------------|-------------|--------------|---------------|
| FIDELITY CONVERTIBLE SECURITIES      | 14.31%        | 25.06%      | 89.21%       | 353.01%       |
| ML CONVERTIBLE SECURITIES            | 7.74%         | 19.83%      | 80.75%       | 252.02%       |
| CONVERTIBLE SECURITIES FUNDS AVERAGE | 6.63%         | 17.06%      | 82.71%       | 221.57%       |

CUMULATIVE TOTAL RETURNS show the fund's performance in percentage terms over a set period - in this case, six months, one year, five years or 10 years. For example, if you had invested \$1,000 in a fund that had a 5% return over the past year, the value of your investment would be \$1,050. You can compare the fund's returns to the performance of the Merrill Lynch Convertible Securities Index - a market capitalization weighted index of over 450 non-mandatory domestic corporate convertible securities. To measure how the fund's performance stacked up against its peers, you can compare it to the convertible securities funds average, which reflects the performance of mutual funds with similar objectives tracked by Lipper Analytical Services, Inc. The past six months average represents a peer group of 57 mutual funds. These benchmarks include reinvested dividends and capital gains, if any, and exclude the effect of sales charges.

AVERAGE ANNUAL TOTAL RETURNS

| PERIODS ENDED MAY 31, 1998           | PAST 1 YEAR | PAST 5 YEARS | PAST 10 YEARS |
|--------------------------------------|-------------|--------------|---------------|
| FIDELITY CONVERTIBLE SECURITIES      | 25.06%      | 13.60%       | 16.31%        |
| ML CONVERTIBLE SECURITIES            | 19.83%      | 12.57%       | 13.41%        |
| CONVERTIBLE SECURITIES FUNDS AVERAGE | 17.06%      | 12.71%       | 12.10%        |

AVERAGE ANNUAL TOTAL RETURNS take the fund's cumulative return and show you what would have happened if the fund had performed at a constant rate each year. (Note: Lipper calculates average annual total returns by annualizing each fund's total return, then taking an arithmetic average. This may produce a slightly different figure than that obtained by averaging the cumulative total returns and annualizing the result.)

\$10,000 OVER 10 YEARS

|            | Convertible Securities<br>00308 | FB Conv. Sec. Index<br>FB002 |
|------------|---------------------------------|------------------------------|
| 1988/05/31 | 10000.00                        | 10000.00                     |

|            |          |          |
|------------|----------|----------|
| 1988/06/30 | 10415.31 | 10385.00 |
| 1988/07/31 | 10344.04 | 10277.00 |
| 1988/08/31 | 10191.33 | 10095.09 |
| 1988/09/30 | 10325.12 | 10275.80 |
| 1988/10/31 | 10490.32 | 10406.30 |
| 1988/11/30 | 10335.45 | 10236.68 |
| 1988/12/31 | 10462.53 | 10474.17 |
| 1989/01/31 | 10909.56 | 10944.46 |
| 1989/02/28 | 11026.64 | 10942.27 |
| 1989/03/31 | 11347.66 | 11084.52 |
| 1989/04/30 | 11768.34 | 11456.96 |
| 1989/05/31 | 12038.01 | 11689.53 |
| 1989/06/30 | 12134.69 | 11604.20 |
| 1989/07/31 | 12680.80 | 11937.24 |
| 1989/08/31 | 13095.85 | 12199.86 |
| 1989/09/30 | 13106.77 | 12093.72 |
| 1989/10/31 | 12841.54 | 11711.56 |
| 1989/11/30 | 13051.51 | 11902.46 |
| 1989/12/31 | 13212.33 | 11915.55 |
| 1990/01/31 | 12722.56 | 11441.31 |
| 1990/02/28 | 12870.63 | 11592.34 |
| 1990/03/31 | 13123.34 | 11769.70 |
| 1990/04/30 | 13019.55 | 11507.23 |
| 1990/05/31 | 13538.49 | 12065.34 |
| 1990/06/30 | 13689.65 | 12050.86 |
| 1990/07/31 | 13596.29 | 11943.60 |
| 1990/08/31 | 12697.65 | 11255.65 |
| 1990/09/30 | 12071.04 | 10763.78 |
| 1990/10/31 | 11834.59 | 10361.22 |
| 1990/11/30 | 12449.37 | 10867.88 |
| 1990/12/31 | 12829.94 | 11095.02 |
| 1991/01/31 | 13625.03 | 11593.18 |
| 1991/02/28 | 14504.46 | 12285.30 |
| 1991/03/31 | 14890.10 | 12586.29 |
| 1991/04/30 | 15060.69 | 12713.41 |
| 1991/05/31 | 15572.46 | 13089.73 |
| 1991/06/30 | 15276.78 | 12724.52 |
| 1991/07/31 | 15892.78 | 13208.05 |
| 1991/08/31 | 16496.46 | 13700.71 |
| 1991/09/30 | 16771.83 | 13676.05 |
| 1991/10/31 | 17494.00 | 13872.99 |
| 1991/11/30 | 16746.92 | 13538.65 |
| 1991/12/31 | 17799.93 | 14325.24 |
| 1992/01/31 | 18698.39 | 14722.05 |
| 1992/02/29 | 19310.38 | 15103.35 |
| 1992/03/31 | 18984.73 | 14978.00 |
| 1992/04/30 | 19142.50 | 15148.75 |
| 1992/05/31 | 19510.62 | 15424.45 |
| 1992/06/30 | 19394.21 | 15351.96 |
| 1992/07/31 | 19925.19 | 15774.14 |
| 1992/08/31 | 19540.23 | 15674.76 |
| 1992/09/30 | 20005.71 | 15988.26 |
| 1992/10/31 | 20474.70 | 16026.63 |
| 1992/11/30 | 21131.29 | 16489.80 |
| 1992/12/31 | 21719.39 | 16855.87 |
| 1993/01/31 | 22445.70 | 17381.77 |
| 1993/02/28 | 22054.61 | 17449.56 |
| 1993/03/31 | 23152.12 | 18088.22 |
| 1993/04/30 | 23363.75 | 18084.60 |
| 1993/05/31 | 23942.20 | 18401.08 |
| 1993/06/30 | 23914.79 | 18575.89 |
| 1993/07/31 | 24156.93 | 18767.22 |
| 1993/08/31 | 24726.67 | 19281.44 |
| 1993/09/30 | 25013.92 | 19499.32 |
| 1993/10/31 | 25588.95 | 19959.51 |
| 1993/11/30 | 25344.56 | 19658.12 |
| 1993/12/31 | 25582.81 | 19982.48 |
| 1994/01/31 | 26220.43 | 20555.97 |
| 1994/02/28 | 25800.53 | 20229.13 |
| 1994/03/31 | 24671.15 | 19403.79 |
| 1994/04/30 | 24262.32 | 19050.64 |
| 1994/05/31 | 24167.98 | 19092.55 |
| 1994/06/30 | 24149.79 | 18876.80 |
| 1994/07/31 | 24579.89 | 19409.13 |
| 1994/08/31 | 25886.15 | 19791.49 |
| 1994/09/30 | 25724.47 | 19441.18 |
| 1994/10/31 | 25885.75 | 19608.37 |
| 1994/11/30 | 25208.37 | 18896.59 |
| 1994/12/31 | 25133.60 | 19040.20 |
| 1995/01/31 | 25133.60 | 19015.45 |

|            |          |          |
|------------|----------|----------|
| 1995/02/28 | 25657.21 | 19637.26 |
| 1995/03/31 | 26415.43 | 20155.68 |
| 1995/04/30 | 27010.53 | 20613.21 |
| 1995/05/31 | 27308.07 | 21221.30 |
| 1995/06/30 | 27991.12 | 21993.76 |
| 1995/07/31 | 28725.53 | 22774.54 |
| 1995/08/31 | 29059.36 | 23013.67 |
| 1995/09/30 | 29610.93 | 23356.57 |
| 1995/10/31 | 28886.66 | 22639.53 |
| 1995/11/30 | 29745.68 | 23427.38 |
| 1995/12/31 | 30004.62 | 23556.23 |
| 1996/01/31 | 30615.51 | 24076.83 |
| 1996/02/29 | 31352.58 | 24724.49 |
| 1996/03/31 | 31753.44 | 24932.18 |
| 1996/04/30 | 32497.38 | 25513.10 |
| 1996/05/31 | 33023.58 | 26082.04 |
| 1996/06/30 | 32658.32 | 25463.90 |
| 1996/07/31 | 31118.87 | 24470.80 |
| 1996/08/31 | 31980.23 | 25381.12 |
| 1996/09/30 | 32678.34 | 26043.56 |
| 1996/10/31 | 33067.14 | 26205.03 |
| 1996/11/30 | 34511.29 | 26286.79 |
| 1996/12/31 | 34519.11 | 25992.38 |
| 1997/01/31 | 35639.61 | 26818.94 |
| 1997/02/28 | 34971.24 | 26679.48 |
| 1997/03/31 | 33757.40 | 26127.22 |
| 1997/04/30 | 34234.54 | 26391.10 |
| 1997/05/31 | 36222.61 | 27613.01 |
| 1997/06/30 | 37304.70 | 28416.55 |
| 1997/07/31 | 39194.06 | 29973.77 |
| 1997/08/31 | 39013.16 | 29994.76 |
| 1997/09/30 | 41615.84 | 31260.54 |
| 1997/10/31 | 39469.24 | 30404.00 |
| 1997/11/30 | 39631.24 | 30221.57 |
| 1997/12/31 | 39509.64 | 30390.81 |
| 1998/01/31 | 40438.39 | 30381.70 |
| 1998/02/28 | 43542.06 | 31739.76 |
| 1998/03/31 | 45711.93 | 32885.56 |
| 1998/04/30 | 46533.92 | 33178.24 |
| 1998/05/29 | 45300.93 | 32222.71 |

IMATRL PRASUN SHR\_CHT 19980531 19980611 102417 R00000000000123  
 \$10,000 OVER 10 YEARS: Let's say hypothetically that \$10,000 was invested in Fidelity Convertible Securities Fund on May 31, 1988. As the chart shows, by May 31, 1998, the value of the investment would have grown to \$45,301 - a 353.01% increase on the initial investment. For comparison, look at how the First Boston Convertible Securities Index - a market capitalization weighted index of over 250 convertible bonds and preferred stocks - did over the same period. With dividends and capital gains, if any, reinvested, the same \$10,000 would have grown to \$32,223 - a 222.23% increase.

#### UNDERSTANDING

#### PERFORMANCE

How a fund did yesterday is no guarantee of how it will do tomorrow. The stock market, for example, has a history of long-term growth and short-term volatility. In turn, the share price and return of a fund that invests in stocks 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)

#### FUND TALK: THE MANAGER'S OVERVIEW

#### MARKET RECAP

Although renewed concerns about economic difficulties in Asia late in the period tempered the rapid growth of U.S. equity markets, the Standard & Poor's 500 Index - a measure of the U.S. stock market - still managed to return 15.06% during the six months that ended

May 31, 1998. As feared, some U.S. corporations with business exposure to Asia did report disappointing earnings and their stocks were harshly punished. However, investors seemed to adopt a new attitude - one that overlooked short-term troubles and focused on longer-term growth - helping many of these stocks to rebound quickly. In addition, the continued strength of the U.S. economy, combined with low interest rates and low inflation, seemed to buoy the stock market for much of the period. The upward climb of the stock market stagnated in mid- and late May when investors were inundated with worrisome news about the stability of Asian markets. Specifically, the president of Indonesia resigned amidst civil strife and a battle over nuclear testing erupted between Pakistan and India. Concerns about falling demand for U.S. exports particularly hurt technology companies, especially during the intensified investigation of Microsoft by the Justice Department in May. As a result of concerns about these tumultuous events and their potential impact on the U.S. economy, the Dow Jones Industrial Average produced a negative return in May for the first time in 1998 - although the Dow was still up 13.29% for the first five months of 1998.

An interview with David Felman, Portfolio Manager of Fidelity Convertible Securities Fund

Q. HOW DID THE FUND PERFORM, DAVID?

A. For the six months that ended May 31, 1998, the fund returned 14.31%, compared to 7.74% for the Merrill Lynch Convertible Securities Index and 6.63% for the convertible securities funds average tracked by Lipper Analytical Services. For the 12 months that ended May 31, 1998, the fund returned 25.06%, while the index and the Lipper average had returns of 19.83% and 17.06%, respectively.

Q. WHY DID THE FUND POST SUCH STRONG RETURNS RELATIVE TO THE INDEX AND THE AVERAGE?

A. Two factors were instrumental. First, the fund had a somewhat higher equity exposure than the index and the average. Some convertible securities are more equity-sensitive - that is, they act more like equities - while others act more like bonds. I selected convertibles that, on balance, behaved more like equities than those chosen by my peers. In addition, relative to the index I overweighted the fund with technology securities early in the period because I felt they had been beaten down excessively due to volatility in the Asian markets. This strategy paid off in the first two months of 1998, when technology shares led a vigorous rally in the broader market. Toward the end of the period, I took some profits and scaled back my exposure to the technology sector.

Q. HOW DID YOU DECIDE HOW EQUITY-SENSITIVE THE FUND SHOULD BE?

A. That's an issue I grapple with all the time. In general, as the market declines, I try to increase the fund's equity sensitivity, and as the market surges upward, I decrease it. So during the December weakness, the fund's equity exposure rose, and as the rally materialized earlier this year, I scaled back the equity sensitivity to a more conservative level. Late in the period - as the equity markets entered a choppy phase - I began to nudge the equity sensitivity up again. I did not make huge bets either way - these were more in the nature of incremental adjustments.

Q. WHICH HOLDINGS DID WELL FOR THE FUND?

A. In the technology sector, Unisys did well. The fund owned both Unisys common stock and one of the company's convertible securities that together comprised about 3% of holdings at the end of the period. Both did well due to the general strength in technology shares, as well as investor optimism over Larry Weinbach, the company's new CEO. Another strong area for the fund was telecommunications. Intermedia

Communications, a competitive local exchange company (CLEC), performed well as the company continued to take market share away from the incumbent local telephone service providers - the regional Bell operating companies. The same considerations applied to WorldCom. Two satellite companies - Orbital Sciences and Loral Space - performed well in connection with healthy sales of satellite services and the launch of their respective networks. USA Waste - another top 10 holding - benefited from investors' favorable perceptions about the synergies made possible by the company's acquisition of rival Waste Management. Finally, Apple Computer performed well on optimism about CEO Steve Jobs' restructuring plans.

Q. WHAT HOLDINGS FAILED TO MEET YOUR EXPECTATIONS?

A. Although the technology sector provided the fund with many success stories, it was also the source of some disappointments. Quantum - a manufacturer of computer hard drives and tape drives - was hurt by sluggish sales and revenues caused by overcapacity in the drive industry. CompUSA is a personal computer retailer that suffered because of lower earnings due to slackening end-user demand. Finally, declining profit margins hurt Tosco, an oil refiner.

Q. WHAT'S YOUR OUTLOOK, DAVID?

A. I'm cautiously optimistic. The fund did extremely well even though the mid-capitalization stocks and related convertibles in which the fund tends to invest underperformed the large-cap stocks that make up the S&P 500. If we get a market where small- and mid-cap stocks take a leadership role, the fund could do even better. On the other hand, a major correction in the equity markets could hurt the fund because of its higher-than-average equity exposure. My policy is not to try to predict what the overall market will do but rather to identify individual securities with the potential for superior performance over the next six to 12 months.

DAVID FELMAN ON THE PROS AND

CONS OF INVESTING IN THE

TECHNOLOGY SECTOR:

"INVESTING IN TECHNOLOGY COMPANIES IS ALWAYS A BIT OF A DOUBLE-EDGED SWORD. ON THE ONE HAND, TECHNOLOGY ISSUES TEND TO DISPLAY MORE VOLATILITY THAN THOSE IN OTHER SECTORS. ALTHOUGH CONVERTIBLE SECURITIES ARE, IN GENERAL, LESS VOLATILE THAN COMMON STOCK, TECHNOLOGY CONVERTIBLES FOLLOW THE SAME PATTERN OF OVERALL GREATER VOLATILITY RELATIVE TO NON-TECHNOLOGY CONVERTIBLES.

"ON THE OTHER HAND, TECHNOLOGY IS WHERE A LOT OF EXCITING GROWTH IS LIKELY TO BE OVER THE NEXT DECADE.

ALTHOUGH CONSUMER PRODUCT COMPANIES CAN DEVELOP NEW MARKETS FOR ITEMS LIKE SOAP AND TOOTHPASTE, THE APPLICATIONS FOR THOSE PRODUCTS SEEM LIMITED ESSENTIALLY TO WHAT THEY ARE NOW. THE APPLICATIONS FOR TECHNOLOGY, HOWEVER, ARE CONSTANTLY EVOLVING, WITH WHOLE NEW AREAS OPENING UP. THE INCREASING USE OF COMPUTER NETWORKS IN TELECOMMUNICATIONS IS JUST ONE AREA THAT I AM WATCHING CLOSELY.

"PRODUCT CYCLES ARE A KEY CONCEPT TO KEEP IN MIND WHEN YOU INVEST IN TECHNOLOGY. APPLE COMPUTER OFFERED A GOOD EXAMPLE OF THIS RECENTLY, WHEN ITS STOCK STRENGTHENED AS INVESTORS ANTICIPATED THE MARKET'S FAVORABLE RECEPTION OF THE COMPANY'S NEW LINE OF LOW-COST COMPUTERS. IN ADDITION, KEEPING THE LONG TERM IN MIND - WHILE ALWAYS A SOUND INVESTMENT STRATEGY - IS EVEN MORE IMPORTANT WITH VOLATILE TECHNOLOGY INVESTMENTS. IF YOU BELIEVE IN A COMPANY, YOU DON'T WANT TO GET SHAKEN OUT BY SHORT-TERM MARKET FLUCTUATIONS."

FUND FACTS

GOAL: TO PROVIDE HIGH TOTAL

RETURN THROUGH A COMBINATION  
 OF CURRENT INCOME AND CAPITAL  
 APPRECIATION BY INVESTING  
 MAINLY IN SECURITIES THAT ARE  
 CONVERTIBLE INTO COMMON STOCK  
 FUND NUMBER: 308

TRADING SYMBOL: FCVSX  
 START DATE: JANUARY 5, 1987  
 SIZE: AS OF MAY 31, 1998,  
 MORE THAN \$1.1 BILLION  
 MANAGER: DAVID FELMAN,  
 SINCE 1997; MANAGER, FIDELITY  
 SELECT TELECOMMUNICATIONS  
 PORTFOLIO, 1994-1996; FIDELITY  
 SELECT CHEMICALS PORTFOLIO,  
 JANUARY 1995-JULY 1995;  
 JOINED FIDELITY IN 1993  
 (CHECKMARK)

THE VIEWS EXPRESSED IN THIS REPORT REFLECT THOSE OF THE PORTFOLIO  
 MANAGER ONLY THROUGH THE END OF THE PERIOD OF THE REPORT AS STATED ON  
 THE COVER. THE MANAGER'S VIEWS ARE SUBJECT TO CHANGE AT ANY TIME BASED  
 ON MARKET AND OTHER CONDITIONS.  
 INVESTMENT CHANGES

TOP TEN INVESTMENTS AS OF MAY 31, 1998

|  | % OF FUND'S<br>INVESTMENTS | % OF FUND'S INVESTMENTS<br>6 MONTHS AGO |
|--|----------------------------|---|
| FEDERAL-MOGUL FINANCING TRUST \$3.50                                 | 2.8                        | 0.0                                     |
| FEDERATED DEPARTMENT STORES, INC.<br>5%, 10/1/03                     | 2.5                        | 2.5                                     |
| APPLE COMPUTER, INC. 6%, 6/1/01                                      | 2.4                        | 0.9                                     |
| USA WASTE SERVICES, INC. 4%, 2/1/02                                  | 2.2                        | 2.0                                     |
| TOSCO FINANCING TRUST \$2.875 TOPRS                                  | 2.1                        | 2.5                                     |
| HOUSTON INDUSTRIES, INC. \$3.215 ACES                                | 2.0                        | 1.4                                     |
| ORBITAL SCIENCES CORP. 5%, 10/1/02                                   | 1.8                        | 0.7                                     |
| UNISYS CORP.   | 1.6                        | 0.0                                     |
| ALCATEL ALSTHOM COMPAGNIE GENERALE<br>D'ELECTRICITE SA SPONSORED ADR | 1.6                        | 0.3                                     |
| UNISYS CORP. 8 1/4%, 3/15/06   | 1.5                        | 3.2                                     |

TOP FIVE MARKET SECTORS AS OF MAY 31, 1998

|                                  | % OF FUND'S<br>INVESTMENTS | % OF FUND'S INVESTMENTS<br>IN THESE MARKET SECTORS<br>6 MONTHS AGO |
|----------------------------------|----------------------------|--|
| TECHNOLOGY                       | 22.3                       | 30.4   |
| FINANCE                          | 14.6                       | 10.3   |
| UTILITIES                        | 11.2                       | 7.9  |
| HEALTH                           | 9.4                        | 5.1  |
| INDUSTRIAL MACHINERY & EQUIPMENT | 9.1                        | 9.4  |

ASSET ALLOCATION (% OF FUND'S INVESTMENTS)  
 AS OF MAY 31, 1998 \* AS OF NOVEMBER 30, 1997 \*\*

ROW: 1, COL: 1, VALUE: 74.59999999999999  
 ROW: 1, COL: 2, VALUE: 22.4  
 ROW: 1, COL: 3, VALUE: 3.0  
 ROW: 1, COL: 4, VALUE: 0.0

CONVERTIBLE  
 SECURITIES 82.9%  
 STOCKS 14.1%  
 SHORT-TERM  
 INVESTMENTS 2.8%  
 NONCONVERTIBLE  
 BONDS 0.2%  
 FOREIGN



INVESTMENTS 4.0%  
 CONVERTIBLE  
 SECURITIES 74.6%  
 STOCKS 22.4%  
 SHORT-TERM  
 INVESTMENTS 3.0%  
 NONCONVERTIBLE  
 BONDS 0.0%  
 FOREIGN  
 INVESTMENTS 5.8%  
 ROW: 1, COL: 1, VALUE: 81.90000000000001  
 ROW: 1, COL: 2, VALUE: 14.1  
 ROW: 1, COL: 3, VALUE: 2.8  
 ROW: 1, COL: 4, VALUE: 1.2

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 INVESTMENTS MAY 31, 1998 (UNAUDITED)

SHOWING PERCENTAGE OF TOTAL VALUE OF INVESTMENT IN SECURITIES

CONVERTIBLE BONDS - 38.9%  
 MOODY'S RATINGS (C) PRINCIPAL VALUE (NOTE 1)  
 AMOUNT (000S) (000S)  
 AEROSPACE & DEFENSE - 2.6%  
 Kellstrom Industries, Inc.:  
 5 3/4%, 10/15/02 (d) B3 \$ 3,500 \$ 4,148  
 5 3/4%, 10/15/02 B3 1,580 1,579  
 Orbital Sciences, Corp.:  
 5%, 10/1/02 (d) B 12,200 19,795  
 5%, 10/1/02 B 2,000 3,245  
 28,767  
 BASIC INDUSTRIES - 0.2%  
 PAPER & FOREST PRODUCTS - 0.2%  
 Metsa Serla OY 4 3/8%, 10/15/02 (d) - 2,000 2,173  
 CONSTRUCTION & REAL ESTATE - 0.1%  
 CONSTRUCTION - 0.1%  
 Emcor Group, Inc. 5 3/4%, 4/1/05 B3 1,000 973  
 DURABLES - 0.4%  
 CONSUMER ELECTRONICS - 0.4%  
 Sunbeam Corp. 0%, 3/25/18 (d) - 15,000 4,538  
 ENERGY - 0.9%  
 ENERGY SERVICES - 0.7%  
 Pride International, Inc. 0%, 4/15/18 B2 17,500 7,350  
 OIL & GAS - 0.2%  
 Pennzoil Co. 4 3/4%, 10/1/03 Baa3 2,000 2,716  
 TOTAL ENERGY 10,066  
 FINANCE - 0.6%  
 CREDIT & OTHER FINANCE - 0.2%  
 STB CayMan Capital Ltd. 1/2%, 10/1/07 (d) Baa2 JPY 285,000 1,857  
 INSURANCE - 0.4%  
 Berkshire Hathaway, Inc. 1%, 12/2/01 Aa1 2,600 4,781  
 TOTAL FINANCE 6,638  
 CONVERTIBLE BONDS - CONTINUED  
 MOODY'S RATINGS (C) PRINCIPAL VALUE (NOTE 1)  
 AMOUNT (000S) (000S)  
 HEALTH - 5.3%  
 DRUGS & PHARMACEUTICALS - 3.5%  
 Athena Neurosciences, Inc.  
 4 3/4%, 11/15/04 (d) Baa3 \$ 9,000 \$ 10,305  
 Atrix Laboratories, Inc. 7%, 12/1/04 (d) - 3,000 3,225  
 Aviron 5 3/4%, 4/1/05 (d) - 11,800 12,833  
 Integrated Process Equipment Corp.  
 6 1/4%, 9/15/04 (d) B- 4,000 3,210  
 Sepracor, Inc. 6 1/4%, 2/15/05 (d) - 8,400 9,744  
 39,317  
 MEDICAL EQUIPMENT & SUPPLIES - 1.5%  
 ESC Medical Systems Ltd.:  
 6%, 9/1/02 (d) Caal 16,500 15,263  
 6%, 9/1/02 Caa2 1,000 915  
 16,178  
 MEDICAL FACILITIES MANAGEMENT - 0.3%  
 Res-Care, Inc. 6%, 12/1/04 (d) B3 3,000 3,772  
 TOTAL HEALTH 59,267  
 HOLDING COMPANIES - 0.5%  
 Triarc Cos, Inc. 0%, 2/9/18 (d) - 20,000 5,650  
 INDUSTRIAL MACHINERY & EQUIPMENT - 5.9%  
 ELECTRICAL EQUIPMENT - 1.1%  
 ANTEC Corp. 4 1/2%, 5/15/03 (d) B2 1,000 1,050  
 Gilat Sattelite Networks Ltd.

6 1/2%, 6/3/04 (d) - 3,000 3,101  
Oak Industries, Inc. 4 7/8%, 3/1/08 (d) B2 7,000 7,575  
11,726  
POLLUTION CONTROL - 4.8%  
Sanifill, Inc. 5%, 3/1/06 Ba2 8,730 14,928  
USA Waste Services, Inc. 4%, 2/1/02 Ba2 20,000 24,450  
United Waste Systems, Inc. 4 1/2%, 6/1/01 Ba3 9,200 14,628  
54,006  
TOTAL INDUSTRIAL MACHINERY & EQUIPMENT 65,732  
CONVERTIBLE BONDS - CONTINUED  
MOODY'S RATINGS (C) PRINCIPAL VALUE (NOTE 1)  
AMOUNT (000S) (000S)  
MEDIA & LEISURE - 0.7%  
PUBLISHING - 0.4%  
World Color Press, Inc. 6%, 10/1/07 B1 \$ 4,000 \$ 4,085  
RESTAURANTS - 0.3%  
CKE Restaurants, Inc. 4 1/4%, 3/15/04 (d) B1 4,000 3,680  
TOTAL MEDIA & LEISURE 7,765  
NONDURABLES - 0.6%  
HOUSEHOLD PRODUCTS - 0.6%  
Alberto Culver Co. 5 1/2%, 6/30/05 (d) - 4,100 6,837  
RETAIL & WHOLESALE - 3.6%  
GENERAL MERCHANDISE STORES - 2.8%  
Costco Companies, Inc.:  
0%, 8/19/17 (d) A3 3,000 2,115  
0%, 8/19/17 - 2,000 1,420  
Federated Department Stores, Inc. 5%, 10/1/03 Baa3 18,000 27,641  
31,176  
RETAIL & WHOLESALE, MISCELLANEOUS - 0.8%  
Action Performance Companies, Inc.  
4 3/4%, 4/1/05 (d) - 5,000 4,450  
Home Depot, Inc. 3 1/4%, 10/1/01 A1 1,300 2,243  
Office Depot, Inc. 0%, 11/1/08 Baa3 3,500 2,568  
9,261  
TOTAL RETAIL & WHOLESALE 40,437  
SERVICES - 2.6%  
ADT Operations, Inc. liquid yield option notes  
0%, 7/6/10 Baal 4,500 6,772  
Assisted Living Concepts, Inc.  
5 5/8%, 5/1/03 (d) - 4,000 3,540  
Career Horizons, Inc. 7%, 11/1/02 Ba1 3,150 9,123  
Interim Services, Inc. 4 1/2%, 6/1/05 Ba3 7,000 7,184  
Personnel Group of America, Inc.  
5 3/4%, 7/1/04 (d) B2 2,000 2,630  
29,249  
CONVERTIBLE BONDS - CONTINUED  
MOODY'S RATINGS (C) PRINCIPAL VALUE (NOTE 1)  
AMOUNT (000S) (000S)  
TECHNOLOGY - 13.7%  
COMPUTER SERVICES & SOFTWARE - 1.3%  
HNC Software, Inc. 4 3/4%, 3/1/03 - \$ 6,000 \$ 6,293  
Systems Software Associates, Inc. 7%, 9/15/02 - 4,100 3,423  
Tecnomatix Technologies Ltd.  
5 1/4%, 8/15/04 (d) - 5,732 4,808  
14,524  
COMPUTERS & OFFICE EQUIPMENT - 6.0%  
Apple Computer, Inc. 6%, 6/1/01 CCC 24,500 27,103  
EMC Corp.:  
3 1/4%, 3/15/02 (d) Ba3 4,800 9,108  
3 1/4%, 3/15/02 Ba3 3,250 6,167  
Hutchinson Technology, Inc.  
6%, 3/15/05 (d) - 8,100 9,112  
Unisys Corp. 8 1/4%, 3/15/06 B- 4,470 16,450  
67,940  
ELECTRONIC INSTRUMENTS - 1.1%  
Credence Systems Corp.  
5 1/4%, 9/15/02 (d) - 16,000 12,760  
ELECTRONICS - 5.3%  
Brightpoint, Inc. 0%, 3/11/18 (d) B2 18,000 7,560  
Advanced Micro Devices, Inc. 6%, 5/15/05 B3 2,610 2,362  
Altera Corp. 5 3/4%, 6/15/02 B2 1,500 1,989  
Candescent Technologies Corp.  
7%, 5/1/03 (d) - 5,500 5,500  
Micron Technology, Inc. 7%, 7/1/04 B1 9,250 8,556  
Photronics, Inc. 6%, 6/1/04 B2 4,000 4,745  
World Access, Inc.:  
4 1/2%, 10/1/02 (d) CCC 13,250 13,979  
4 1/2%, 10/1/02 CCC 13,550 14,295  
58,986  
TOTAL TECHNOLOGY 154,210

TRANSPORTATION - 0.7%  
 AIR TRANSPORTATION - 0.4%  
 Alaska Air Group, Inc. 6 1/2%, 6/15/05 Ba2 1,898 4,078  
 TRUCKING & FREIGHT - 0.3%  
 SPACEHAB, Inc. 8%, 10/15/07 (d) - 3,500 3,867  
 TOTAL TRANSPORTATION 7,945  
 CONVERTIBLE BONDS - CONTINUED  
 MOODY'S RATINGS (C) PRINCIPAL VALUE (NOTE 1)  
 AMOUNT (000S) (000S)  
 UTILITIES - 0.5%  
 CELLULAR - 0.5%  
 Cellular Communications International, Inc.  
 6%, 4/1/05 (d) CCC \$ 4,500 \$ 6,075  
 TELEPHONE SERVICES - 0.0%  
 Cam-Net Communications Network, Inc.  
 11 1/2%, 4/4/98 (e)(f) - 2,275 -  
 TOTAL UTILITIES 6,075  
 TOTAL CONVERTIBLE BONDS  
 (Cost \$386,436) 436,322  
 COMMON STOCKS - 22.4%  
 SHARES  
 AEROSPACE & DEFENSE - 0.6%  
 Alliant Techsystems, Inc. (a) 100,000 6,450  
 Orbital Sciences Corp. (a) 3,100 127  
 6,577  
 BASIC INDUSTRIES - 0.8%  
 CHEMICALS & PLASTICS - 0.6%  
 Hanna Co. 82,800 1,661  
 Ivex Packaging Corp. 166,000 3,849  
 Sealed Air Corp. (a) 26,800 1,434  
 6,944  
 IRON & STEEL - 0.0%  
 Carpenter Technology Corp. 3,400 180  
 PACKAGING & CONTAINERS - 0.2%  
 Tupperware Corp. 80,000 2,160  
 TOTAL BASIC INDUSTRIES 9,284  
 CONSTRUCTION & REAL ESTATE - 0.5%  
 BUILDING MATERIALS - 0.5%  
 Owens-Corning 105,300 3,949  
 Southdown, Inc. 20,000 1,313  
 5,262  
 COMMON STOCKS - CONTINUED  
 SHARES VALUE (NOTE 1)  
 (000S)  
 DURABLES - 2.8%  
 AUTOS, TIRES, & ACCESSORIES - 1.0%  
 Breed Technologies, Inc. 15,400 \$ 294  
 Federal-Mogul Corp. 177,200 10,488  
 10,782  
 CONSUMER ELECTRONICS - 0.2%  
 Sunbeam-Oster, Inc. 100,000 2,294  
 HOME FURNISHINGS - 0.3%  
 Furniture Brands International, Inc. (a) 112,600 3,322  
 TEXTILES & APPAREL - 1.3%  
 Fruit of the Loom, Inc. Class A (a) 402,600 14,468  
 TOTAL DURABLES 30,866  
 ENERGY - 0.9%  
 OIL & GAS - 0.9%  
 Amerada Hess Corp. 23,200 1,254  
 Cooper Cameron Corp. (a) 45,000 2,678  
 EVI Weatherford, Inc. (a) 75,000 3,792  
 Tosco Corp. 75,500 2,397  
 10,121  
 FINANCE - 1.8%  
 BANKS - 1.6%  
 Banc One Corp. 129,141 7,119  
 Comerica, Inc. 103,500 6,805  
 Credit Suisse Group (Reg.) 19,000 4,173  
 18,097  
 CREDIT & OTHER FINANCE - 0.2%  
 Associates First Capital Corp. 21,800 1,631  
 Heller Financial, Inc. Class A 4,000 112  
 1,743  
 TOTAL FINANCE 19,840  
 COMMON STOCKS - CONTINUED  
 SHARES VALUE (NOTE 1)  
 (000S)  
 HEALTH - 1.1%  
 MEDICAL EQUIPMENT & SUPPLIES - 0.4%  
 Arterial Vascular Engineering, Inc. (a) 13,500 \$ 417

ESC Medical Systems Ltd. 50,000 1,394  
 Steris Corp. 30,000 1,875  
 Sybron International Corp. (a) 50,000 1,197  
 4,883  
 MEDICAL FACILITIES MANAGEMENT - 0.7%  
 Foundation Health Systems, Inc. Class A (a) 160,900 4,898  
 PacificCare Health Systems, Inc. Class A 39,100 3,152  
 8,050  
 TOTAL HEALTH 12,933  
 HOLDING COMPANIES - 0.0%  
 Triarc Companies, Inc. Class A 33,400 814  
 INDUSTRIAL MACHINERY & EQUIPMENT - 2.2%  
 ELECTRICAL EQUIPMENT - 1.9%  
 Alcatel Alsthom Compagnie Generale d'Electricite  
 SA sponsored ADR 404,200 17,482  
 Alcatel Alsthom Compagnie Generale d'Electricite SA (RFD) 17,000  
 3,553  
 L-3 Communications Holdings, Inc. 500 14  
 21,049  
 INDUSTRIAL MACHINERY & EQUIPMENT - 0.3%  
 Kaydon Corp. 36,600 1,443  
 Mettler-Toledo International, Inc. 119,400 2,269  
 3,712  
 TOTAL INDUSTRIAL MACHINERY & EQUIPMENT 24,761  
 MEDIA & LEISURE - 0.2%  
 BROADCASTING - 0.2%  
 TCA Cable TV, Inc. 32,400 1,974  
 PRECIOUS METALS - 0.2%  
 Centaur Mining & Exploration Ltd. (a) 4,814,500 2,280  
 COMMON STOCKS - CONTINUED  
 SHARES VALUE (NOTE 1)  
 (000S)  
 RETAIL & WHOLESALE - 1.0%  
 APPAREL STORES - 0.7%  
 AnnTaylor Stores Corp. (a) 270,500 \$ 5,900  
 Baker (J.), Inc. 181,600 2,202  
 8,102  
 DRUG STORES - 0.0%  
 CVS Corp. 2,200 154  
 RETAIL & WHOLESALE, MISCELLANEOUS - 0.3%  
 Best Buy Co., Inc. (a) 101,400 3,308  
 TOTAL RETAIL & WHOLESALE 11,564  
 SERVICES - 0.0%  
 Bright Horizons, Inc. 1,400 35  
 TECHNOLOGY - 7.5%  
 COMPUTER SERVICES & SOFTWARE - 1.9%  
 BEA Systems, Inc. 103,200 2,070  
 CompUSA, Inc. (a) 369,100 5,813  
 Learning Co., Inc. (The) (a) 210,000 5,985  
 Microsoft Corp. 35,000 2,968  
 New Dimension Software Ltd. (a) 33,800 946  
 Synopsys, Inc. 80,000 3,435  
 21,217  
 COMPUTERS & OFFICE EQUIPMENT - 4.4%  
 Apple Computer, Inc. (a) 274,900 7,319  
 CHS Electronics, Inc. (a) 425,500 8,457  
 Quantum Corp. (a) 657,245 14,377  
 Sequent Computer Systems, Inc. 23,100 383  
 Unisys Corp. (a) 734,545 17,996  
 Wang Laboratories, Inc. warrants 7/2/01 (a) 65,000 512  
 49,044  
 ELECTRONIC INSTRUMENTS - 0.2%  
 Credence Systems Corp. (a) 110,000 2,310  
 ELECTRONICS - 1.0%  
 Micron Technology, Inc. (a) 153,600 3,619  
 World Access, Inc. (a) 239,300 7,508  
 11,127  
 TOTAL TECHNOLOGY 83,698  
 COMMON STOCKS - CONTINUED  
 SHARES VALUE (NOTE 1)  
 (000S)  
 TRANSPORTATION - 0.0%  
 AIR TRANSPORTATION - 0.0  
 Florida West Airlines, Inc. (a) 18,236 \$ -  
 UTILITIES - 2.8%  
 CELLULAR - 0.3%  
 SkyTel Communications, Inc. 134,300 3,039  
 ELECTRIC UTILITY - 0.0%  
 KTI, Inc. (a) 10,000 225  
 PG&E Corp. 3,900 123

TELEPHONE SERVICES - 2.5%  
 Cam-Net Communications Network, Inc. (a)(e) 875,935 -  
 Comsat Corp., Series 1 52,200 1,820  
 E Spire Communications, Inc. (a) 100,000 1,613  
 Global Telesystems Group, Inc. (a) 99,700 3,820  
 IXC Communications, Inc. 66,500 2,899  
 LCI International, Inc. (a) 52,200 1,954  
 U.S. LEC Corp. Class A 6,700 153  
 WorldCom, Inc. 343,929 15,649  
 27,908  
 TOTAL UTILITIES 31,295  
 TOTAL COMMON STOCKS  
 (Cost \$228,528) 251,304  
 CONVERTIBLE PREFERRED STOCKS - 35.7%  
 AEROSPACE & DEFENSE - 0.2%  
 British Aerospace PLC 7 3/4% 599,500 2,644  
 BASIC INDUSTRIES - 1.1%  
 PACKAGING & CONTAINERS - 1.1%  
 Owens Illinois, Inc. \$2.38 233,000 12,233  
 CONVERTIBLE PREFERRED STOCKS - CONTINUED  
 SHARES VALUE (NOTE 1)  
 (000S)  
 CONSTRUCTION & REAL ESTATE - 1.2%  
 REAL ESTATE INVESTMENT TRUSTS - 1.2%  
 Crescent Real Estate Equities Co. \$1.6875 180,000 \$ 4,455  
 Glenborough Realty Trust, Inc. \$1.93 Class A 200,000 5,025  
 Vornado Realty Trust, Series A, \$3.25 75,200 4,211  
 13,691  
 ENERGY - 2.4%  
 OIL & GAS - 2.4%  
 Chesapeake Energy Corp. \$3.50 (a)(d) 46,000 2,151  
 EVI, Inc. \$2.50 (d) 30,000 1,403  
 Tosco Financing Trust \$2.875 TOPRS (d) 409,000 23,312  
 26,866  
 FINANCE - 12.2%  
 CLOSED END INVESTMENT COMPANY - 0.8%  
 Readers Digest Association \$1.93 TRACES 340,000 9,265  
 CREDIT & OTHER FINANCE - 8.4%  
 BTI Capital Trust \$3.25 (d) 130,000 6,305  
 CellNet Funding LLC \$1.75 555,000 13,528  
 Dollar General Corp. \$3.35 STRYPES 330,000 12,767  
 Federal-Mogul Financing Trust \$3.50 (d) 465,000 31,155  
 Life Re Corp./Life Re Capital Trust II \$3.96 70,000 5,128  
 Nextel Strypes Trust \$1.05 STRYPES 554,900 12,069  
 Suiza Capital Trust II \$2.75 TIPES (d) 185,000 8,926  
 Union Pacific Capital Trust \$3.13 TIDES (d) 100,000 4,963  
 94,841  
 INSURANCE - 0.3%  
 Philadelphia Consolidated Holding Corp.  
 \$0.70 Income PRIDES 323,000 3,472  
 SAVINGS & LOANS - 1.8%  
 Ahmanson (H.F.) & Co., Series D, \$3.00 84,800 13,292  
 Golden State Bancorp, Inc., Series A 71,800 6,570  
 19,862  
 SECURITIES INDUSTRY - 0.9%  
 Merrill Lynch & Co, Inc. \$2.3906 STRYPES 105,000 3,557  
 Salomon, Inc. \$3.484 DECS 106,100 6,445  
 10,002  
 TOTAL FINANCE 137,442  
 CONVERTIBLE PREFERRED STOCKS - CONTINUED  
 SHARES VALUE (NOTE 1)  
 (000S)  
 HEALTH - 3.0%  
 DRUGS & PHARMACEUTICALS - 0.6%  
 Alkermes, Inc. \$3.25 (d) 140,000 \$ 6,878  
 MEDICAL EQUIPMENT & SUPPLIES - 1.7%  
 Herbalife International, Inc. \$2.0125 DECS 200,000 4,550  
 McKesson Financing Trust:  
 \$2.50 TOPRS (d) 94,700 10,097  
 \$2.50 40,000 4,265  
 18,912  
 MEDICAL FACILITIES MANAGEMENT - 0.7%  
 PacifiCare Health Systems, Inc. 4% 239,000 7,394  
 TOTAL HEALTH 33,184  
 INDUSTRIAL MACHINERY & EQUIPMENT - 1.0%  
 ELECTRICAL EQUIPMENT - 1.0%  
 Loral Space & Communications Ltd.:  
 Series C, \$3.00 (d) 135,000 9,517  
 Series C, \$3.00 31,000 2,186

11,703  
 MEDIA & LEISURE - 1.7%  
 BROADCASTING - 1.1%  
 Chancellor Media Corp. \$3.50 18,000 2,152  
 TCI Pacific Communications, Inc. Class A \$5.00 52,500 10,343  
 12,495  
 ENTERTAINMENT - 0.6%  
 Premier Parks, Inc. \$4.05 PIES 118,400 6,467  
 TOTAL MEDIA & LEISURE 18,962  
 NONDURABLES - 0.4%  
 FOODS - 0.4%  
 Dole Food Company Inc. \$2.7475 ACES 95,000 4,109  
 RETAIL & WHOLESALE - 1.7%  
 APPAREL STORES - 1.7%  
 AnnTaylor Finance Trust \$4.25 TOPRS 249,000 15,438  
 TJX Companies, Inc., Series E, \$7.00 7,900 3,871  
 19,309  
 CONVERTIBLE PREFERRED STOCKS - CONTINUED  
 SHARES VALUE (NOTE 1)  
 (000S)  
 SERVICES - 1.5%  
 PRINTING - 0.8%  
 Big Flower Trust I \$3.00 QUIPS (d) 137,500 \$ 8,602  
 SERVICES - 0.7%  
 Cendant Corp. \$3.75 Income PRIDES 51,700 1,955  
 MedPartners, Inc. \$1.44 TAPS 480,000 5,670  
 7,625  
 TOTAL SERVICES 16,227  
 TECHNOLOGY - 1.1%  
 COMMUNICATIONS EQUIPMENT - 0.1%  
 Intermedia Communications, Inc., Series D, \$1.75 (d) 30,000 1,508  
 COMPUTERS & OFFICE EQUIPMENT - 1.0%  
 Wang Laboratories, Inc. \$3.25 206,600 10,872  
 TOTAL TECHNOLOGY 12,380  
 TRANSPORTATION - 0.3%  
 TRUCKING & FREIGHT - 0.3%  
 CNF Trust I \$2.50 TECONS 60,000 3,645  
 UTILITIES - 7.9%  
 CELLULAR - 0.8%  
 SkyTel Communications, Inc. \$2.25 150,000 5,063  
 AirTouch Communications, Inc. Class C \$2.125 50,000 3,481  
 8,544  
 ELECTRIC UTILITY - 2.8%  
 Houston Industries, Inc. \$3.215 ACES 329,800 22,962  
 KTI, Inc., Series B, \$2.1875 (d) 178,800 8,873  
 31,835  
 GAS - 0.1%  
 Enron Corp., Series J, \$10.50 1,100 753  
 TELEPHONE SERVICES - 4.2%  
 IXC Communications, Inc. \$3.375 (d) 151,377 6,935  
 Enhance Financial Services Group, Inc. \$7.625 DECS 244,000 13,496  
 US West, Inc., Series D, \$2.25 157,000 12,089  
 CONVERTIBLE PREFERRED STOCKS - CONTINUED  
 SHARES VALUE (NOTE 1)  
 (000S)  
 UTILITIES - CONTINUED  
 TELEPHONE SERVICES - CONTINUED  
 WinStar Communications, Inc.:  
 Series A, \$1.50 75,000 \$ 3,094  
 Series D, \$3.50 (a) (d) 220,000 11,165  
 46,779  
 TOTAL UTILITIES 87,911  
 TOTAL CONVERTIBLE PREFERRED STOCKS  
 (Cost \$355,061) 400,306  
 CASH EQUIVALENTS - 3.0%  
 Taxable Central Cash Fund (b) 31,856,001 31,856  
 MATURITY  
 AMOUNT (000S)  
 Investments in repurchase agreements  
 (U.S. Treasury obligations) in a joint  
 trading account at 5.55%, dated  
 5/29/98 due 6/1/98 \$ 2,458 2,457  
 TOTAL CASH EQUIVALENTS  
 (Cost \$34,313) 34,313  
 TOTAL INVESTMENT IN SECURITIES - 100%  
 (Cost \$1,004,338) \$ 1,122,245  
 SECURITY TYPE ABBREVIATIONS  
 ACES - Automatic Common Exchange Securities  
 DECS - Dividend Enhanced Convertible Stock/Debt Exchangeable for  
 Common Stock

PIES - Premium Income Equity Securities  
 PRIDES - Preferred Redeemable Increased Dividend Equity Securities  
 QUIPS - Quarterly Income Preferred Securities  
 STRYPES - Structured Yield Product  
 Exchangeable for Common Stock  
 TAPS - Threshold Appreciation  
 Price Securities  
 TRACES - Trust Automatic Common Exchange Securities  
 TECONS - Term Convertible Shares  
 TIDES - Term Income Deferred Equity Securities  
 TIPES - Trust Convertible Preferred Securities  
 TOPRS - Trust Originated Preferred  
 Securities

CURRENCY ABBREVIATIONS

JPY - Japanese yen

LEGEND

- (a) Non-income producing
- (b) At period end, the seven-day yield of the Taxable Central Cash Fund was 5.56%. The yield refers to the income earned by investing in the fund over the seven-day period, expressed as an annual percentage.
- (c) Standard & Poor's credit ratings are used in the absence of a rating by Moody's Investors Service, Inc.
- (d) 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 \$346,050,000 or 31.4% of net assets.
- (e) Restricted securities - Investment in securities not registered under the Securities Act of 1933 (see Note 2 of Notes to Financial Statements).

Additional information on each holding is as follows:

ACQUISITION ACQUISITION

SECURITY DATE COST (000S)

Cam-Net Communications  
 Network, Inc.  
 11 1/2%, 4/4/98 4/12/96 \$ 1,838

Cam-Net Communications  
 Network, Inc. 4/12/96 \$ 684

(f) Non-income producing - issuer filed for protection under Federal Bankruptcy Code or is in default of interest payment.

OTHER INFORMATION

The composition of long-term debt holdings as a percentage of total value of investment in securities, is as follows:

MOODY'S RATINGS S&P RATINGS  
 Aaa, Aa, A 0.8% AAA, AA, A 0.2%  
 Baa 4.6% BBB 6.5%  
 Ba 8.0% BB 6.4%  
 B 5.5% B 10.7%  
 Caa 2.0% CCC 5.7%  
 Ca, C 0.0% CC, C 0.0%  
 D 0.0%

The percentage not rated by Moody's or S&P amounted to 9.2%. FMR has determined that unrated debt securities that are lower quality account for 9.2% of the total value of investment in securities.

INCOME TAX INFORMATION

At May 31, 1998, the aggregate cost of investment securities for income tax purposes was \$1,006,408,000. Net unrealized appreciation aggregated \$115,837,000, of which \$116,092,000 related to appreciated investment securities and \$255,000 related to depreciated investment securities.

FINANCIAL STATEMENTS

| <TABLE><br><CAPTION><br><S>  | <C>                      | <C>          |
|--|--------------------------|--------------|
| STATEMENT OF ASSETS AND LIABILITIES<br>AMOUNTS IN THOUSANDS (EXCEPT PER-SHARE AMOUNT)  | MAY 31, 1998 (UNAUDITED) |              |
| ASSETS   |                          |              |
| INVESTMENT IN SECURITIES, AT VALUE (INCLUDING REPURCHASE AGREEMENTS OF \$2,457) (COST \$1,004,338) - SEE ACCOMPANYING SCHEDULE |                          | \$ 1,122,245 |
| FOREIGN CURRENCY HELD AT VALUE (COST \$61)   |                          | 61           |
| RECEIVABLE FOR INVESTMENTS SOLD  |                          | 46,343       |

|  |              |
|--|--------------|
| RECEIVABLE FOR FUND SHARES SOLD  | 1,641        |
| DIVIDENDS RECEIVABLE   | 1,160        |
| INTEREST RECEIVABLE  | 4,435        |
| OTHER RECEIVABLES  | 397          |
| TOTAL ASSETS   | 1,176,282    |
| LIABILITIES  |              |
| PAYABLE FOR INVESTMENTS PURCHASED  | \$ 30,245    |
| PAYABLE FOR FUND SHARES REDEEMED   | 12,962       |
| ACCRUED MANAGEMENT FEE   | 492          |
| OTHER PAYABLES AND ACCRUED EXPENSES  | 342          |
| COLLATERAL ON SECURITIES LOANED, AT VALUE  | 30,897       |
| TOTAL LIABILITIES  | 74,938       |
| NET ASSETS   | \$ 1,101,344 |
| NET ASSETS CONSIST OF:   |              |
| PAID IN CAPITAL  | \$ 905,171   |
| UNDISTRIBUTED NET INVESTMENT INCOME  | 4,673        |
| ACCUMULATED UNDISTRICTED NET REALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY TRANSACTIONS         | 73,589       |
| NET UNREALIZED APPRECIATION (DEPRECIATION) ON INVESTMENTS AND ASSETS AND LIABILITIES IN FOREIGN CURRENCIES | 117,911      |
| NET ASSETS, FOR 55,512 SHARES OUTSTANDING  | \$ 1,101,344 |
| NET ASSET VALUE, OFFERING PRICE AND REDEMPTION PRICE PER SHARE (\$1,101,344 (DIVIDED BY) 55,512 SHARES)    | \$19.84      |

</TABLE>

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STATEMENT OF OPERATIONS

AMOUNTS IN THOUSANDS

SIX MONTHS ENDED MAY 31, 1998 (UNAUDITED)

|   |          |
|---|----------|
| INVESTMENT INCOME   | \$ 8,855 |
| DIVIDENDS   |          |
| INTEREST (INCLUDING INCOME ON SECURITIES LOANED OF \$126) | 10,933   |
| TOTAL INCOME  | 19,788   |
| EXPENSES  |          |
| MANAGEMENT FEE  | \$ 2,610 |
| BASIC FEE   |          |
| PERFORMANCE ADJUSTMENT                                    | (222)    |
| TRANSFER AGENT FEES                                       | 1,029    |
| ACCOUNTING AND SECURITY LENDING FEES                      | 241      |
| NON-INTERESTED TRUSTEES' COMPENSATION                     | 3        |
| CUSTODIAN FEES AND EXPENSES                               | 14       |
| REGISTRATION FEES   | 49       |
| AUDIT   | 26       |
| LEGAL   | 4        |



|   |        |            |
|---|--------|------------|
| INTEREST  | 4      |            |
| MISCELLANEOUS   | 3      |            |
| TOTAL EXPENSES BEFORE REDUCTIONS                                | 3,761  |            |
| EXPENSE REDUCTIONS  | (67)   | 3,694      |
| NET INVESTMENT INCOME   |        | 16,094     |
| REALIZED AND UNREALIZED GAIN (LOSS)                             |        |            |
| NET REALIZED GAIN (LOSS) ON:                                    |        |            |
| INVESTMENT SECURITIES   | 82,744 |            |
| FOREIGN CURRENCY TRANSACTIONS                                   | (131)  | 82,613     |
| CHANGE IN NET UNREALIZED APPRECIATION (DEPRECIATION) ON:        |        |            |
| INVESTMENT SECURITIES   | 39,885 |            |
| ASSETS AND LIABILITIES IN FOREIGN CURRENCIES                    | 4      | 39,889     |
| NET GAIN (LOSS)   |        | 122,502    |
| NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS |        | \$ 138,596 |

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STATEMENT OF CHANGES IN NET ASSETS  
AMOUNTS IN THOUSANDS

SIX MONTHS ENDED  
MAY 31, 1998  
(UNAUDITED)

YEAR ENDED  
NOVEMBER 30,  
1997

|  |              |              |
|--|--------------|--------------|
| INCREASE (DECREASE) IN NET ASSETS  |              |              |
| OPERATIONS   | \$ 16,094    | \$ 37,422    |
| NET INVESTMENT INCOME  |              |              |
| NET REALIZED GAIN (LOSS)   | 82,613       | 112,126      |
| CHANGE IN NET UNREALIZED APPRECIATION (DEPRECIATION)   | 39,889       | (3,229)      |
| NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS                                    | 138,596      | 146,319      |
| DISTRIBUTIONS TO SHAREHOLDERS FROM NET INVESTMENT INCOME   | (16,058)     | (47,359)     |
| FROM NET REALIZED GAIN   | (95,599)     | (49,453)     |
| TOTAL DISTRIBUTIONS  | (111,657)    | (96,812)     |
| SHARE TRANSACTIONS   | 226,184      | 457,041      |
| NET PROCEEDS FROM SALES OF SHARES  |              |              |
| REINVESTMENT OF DISTRIBUTIONS  | 105,095      | 88,795       |
| COST OF SHARES REDEEMED  | (286,332)    | (713,412)    |
| NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM SHARE TRANSACTIONS                            | 44,947       | (167,576)    |
| TOTAL INCREASE (DECREASE) IN NET ASSETS  | 71,886       | (118,069)    |
| NET ASSETS   |              |              |
| BEGINNING OF PERIOD  | 1,029,458    | 1,147,527    |
| END OF PERIOD (INCLUDING UNDISTRIBUTED NET INVESTMENT INCOME OF \$4,673 AND \$8,396, RESPECTIVELY) | \$ 1,101,344 | \$ 1,029,458 |

OTHER INFORMATION

SHARES

|   |          |          |
|---|----------|----------|
| SOLD                                    | 11,761   | 24,408   |
| ISSUED IN REINVESTMENT OF DISTRIBUTIONS | 6,190    | 5,058    |
| REDEEMED                                | (15,045) | (38,427) |
| NET INCREASE (DECREASE)                 | 2,906    | (8,961)  |

</TABLE>

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FINANCIAL HIGHLIGHTS

<C> <C> <C> <C> <C> <C>

SIX MONTHS ENDED  
MAY 31, 1998

YEARS ENDED NOVEMBER 30,

(UNAUDITED) 1997 1996 1995 1994 1993

SELECTED PER-SHARE DATA

NET ASSET VALUE,  
BEGINNING OF PERIOD \$ 19.57 \$ 18.64 \$ 17.66 \$ 15.63 \$ 17.63 \$ 15.77

INCOME FROM INVESTMENT  
OPERATIONS

NET INVESTMENT  
INCOME .29 D .64 D .83 .79 .78 .75

NET REALIZED AND  
UNREALIZED GAIN  
(LOSS) 2.12 1.90 1.79 1.94 (.86) 2.24

TOTAL FROM INVESTMENT  
OPERATIONS 2.41 2.54 2.62 2.73 (.08) 2.99

LESS DISTRIBUTIONS

FROM NET INVESTMENT  
INCOME (.30) (.80) (.74) (.70) (.91) (.73)

FROM NET REALIZED  
GAIN (1.84) (.81) (.90) - (1.01) (.40)

TOTAL DISTRIBUTIONS (2.14) (1.61) (1.64) (.70) (1.92) (1.13)

NET ASSET VALUE,  
END OF PERIOD \$ 19.84 \$ 19.57 \$ 18.64 \$ 17.66 \$ 15.63 \$ 17.63

TOTAL RETURN B, C 14.31% 14.84% 16.02% 18.00% (.54)% 19.94%

RATIOS AND SUPPLEMENTAL DATA

NET ASSETS, END OF  
PERIOD (IN MILLIONS) \$ 1,101 \$ 1,029 \$ 1,148 \$ 1,049 \$ 903 \$ 1,056

RATIO OF EXPENSES TO  
AVERAGE NET ASSETS .72% A .74% .85% .70% .86% .92%

RATIO OF EXPENSES TO  
AVERAGE NET ASSETS  
AFTER EXPENSE  
REDUCTIONS .71% A, E .73% E .83% E .70% .85% E .92%

RATIO OF NET INVESTMENT  
INCOME TO AVERAGE  
NET ASSETS 3.08% A 3.46% 4.48% 4.59% 4.61% 4.62%

PORTFOLIO TURNOVER RATE 282% A 212% 175% 203% 318% 312%

AVERAGE COMMISSION  
RATE F \$ .0354 \$ .0447 \$ .0436

</TABLE>

A ANNUALIZED

B TOTAL RETURNS FOR PERIODS OF LESS  
THAN ONE YEAR ARE NOT ANNUALIZED.

- C THE TOTAL RETURNS WOULD HAVE BEEN LOWER HAD CERTAIN EXPENSES NOT BEEN REDUCED DURING THE PERIODS SHOWN (SEE NOTE 7 OF NOTES TO FINANCIAL STATEMENTS).
- D NET INVESTMENT INCOME PER SHARE HAS BEEN CALCULATED BASED ON AVERAGE SHARES OUTSTANDING DURING THE PERIOD.
- E FMR OR THE FUND HAS ENTERED INTO VARYING ARRANGEMENTS WITH THIRD PARTIES WHO EITHER PAID OR REDUCED A PORTION OF THE FUND'S EXPENSES (SEE NOTE 7 OF NOTES TO FINANCIAL STATEMENTS).
- F FOR FISCAL YEARS BEGINNING ON OR AFTER SEPTEMBER 1, 1995, A FUND IS REQUIRED TO DISCLOSE ITS AVERAGE COMMISSION RATE PER SHARE FOR SECURITY TRADES ON WHICH COMMISSIONS ARE CHARGED. THIS AMOUNT MAY VARY FROM PERIOD TO PERIOD AND FUND TO FUND DEPENDING ON THE MIX OF TRADES EXECUTED IN VARIOUS MARKETS WHERE TRADING PRACTICES AND COMMISSION RATE STRUCTURES MAY DIFFER.

NOTES TO FINANCIAL STATEMENTS

For the period ended May 31, 1998 (Unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES.

Fidelity Convertible Securities Fund (the fund) is a fund of Fidelity Financial Trust (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 financial statements have been prepared in conformity with generally accepted accounting principles which require management to make certain estimates and assumptions at the date of the financial statements. The following summarizes the significant accounting policies of the fund:

**SECURITY VALUATION.** Equity securities for which quotations are readily available are valued at the last sale price, or if no sale price, at the closing bid price. Debt securities for which quotations are readily available are valued by a pricing service at their market values as determined by their most recent bid prices in the principal market (sales prices if the principal market is an exchange) in which such securities are normally traded. Securities (including restricted 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. Short-term securities with remaining maturities of sixty days or less for which quotations are not readily available are valued at amortized cost or original cost plus accrued interest, both of which approximate current value.

**FOREIGN CURRENCY TRANSLATION.** The accounting records of the fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing rates of exchange at period end. Purchases and sales of securities, income receipts and expense payments are translated into U.S. dollars at the prevailing exchange rate on the respective dates of the transactions.

Net realized gains and losses on foreign currency transactions represent net gains and losses from sales and maturities of foreign currency contract, disposition of foreign currencies, the difference between the amount of net investment income accrued and the U.S. dollar amount actually received, and gains and losses between trade date and settlement on purchases and sales of securities. The effects of changes in foreign currency exchange rates on investments in securities are included with the net realized and unrealized gain or loss on investment securities.

**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 substantially 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.** Dividend income is recorded on the ex-dividend date, except certain dividends from foreign securities where the ex-dividend date may have passed, are recorded as soon as the funds are informed of the ex-dividend date.

1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

INVESTMENT INCOME - CONTINUED

Non-cash dividends included in dividend income, if any, are recorded

at the fair market value of the securities received. Interest income, which includes accretion of original issue discount, is accrued as earned. Investment income is recorded net of foreign taxes withheld where recovery of such taxes is uncertain.

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

DISTRIBUTIONS TO SHAREHOLDERS. Distributions 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, which may result in distribution reclassifications, are primarily due to differing treatments for foreign currency transactions, market discount and losses deferred due to wash sales. 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. Undistributed net investment income and accumulated undistributed net realized gain (loss) on investments and foreign currency transactions 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.

## 2. OPERATING POLICIES.

FOREIGN CURRENCY CONTRACTS. The fund generally uses foreign currency contracts to facilitate transactions in foreign-denominated securities. Losses may arise from changes in the value of the foreign currency or if the counterparties do not perform under the contracts' terms. The U.S. dollar value of foreign currency contracts is determined using contractual currency exchange rates established at the time of each trade.

JOINT TRADING ACCOUNT. Pursuant to an Exemptive Order issued by the Securities and Exchange Commission (the SEC), the fund, along with other affiliated entities of Fidelity Management & Research Company (FMR), may transfer uninvested cash balances into one or more joint trading accounts. These balances are invested in one or more repurchase agreements for U.S. Treasury or Federal Agency obligations.

REPURCHASE AGREEMENTS. The underlying U.S. Treasury or Federal Agency securities are transferred to an account of the fund, or to the Joint Trading Account, at a bank custodian. The securities are marked-to-market daily and maintained

### 2. OPERATING POLICIES - CONTINUED

#### REPURCHASE AGREEMENTS - CONTINUED

at a value at least equal to the principal amount of the repurchase agreement (including accrued interest). FMR, the fund's investment adviser, is responsible for determining that the value of the underlying securities remains in accordance with the market value requirements stated above.

TAXABLE CENTRAL CASH FUND. Pursuant to an Exemptive Order issued by the SEC, the fund may invest in the Taxable Central Cash Fund (the Cash Fund) managed by Fidelity Investments Money Management, Inc., (formerly FMR Texas, Inc.) an affiliate of FMR. The Cash Fund is an open-end money market fund available only to investment companies and other accounts managed by FMR and its affiliates. The Cash Fund seeks preservation of capital, liquidity, and current income by investing in U.S. Treasury securities and repurchase agreements for these securities. Income distributions from the Cash Fund are declared daily and paid monthly from net interest income. Income distributions earned by the fund are recorded as interest income in the accompanying financial statements.

RESTRICTED SECURITIES. The fund is permitted to invest in securities that are subject to legal or contractual restrictions on resale. These securities generally may be resold in transactions exempt from registration or to the public if the securities are registered. Disposal of these securities may involve time-consuming negotiations and expense, and prompt sale at an acceptable price may be difficult. At the end of the period, restricted securities (excluding 144A issues) amounted to \$0 or 0.0% of net assets.

## 3. PURCHASES AND SALES OF INVESTMENTS.

Purchases and sales of securities, other than short-term securities, aggregated \$1,436,784,000 and \$1,439,574,000, respectively.

## 4. FEES AND OTHER TRANSACTIONS WITH AFFILIATES.

MANAGEMENT FEE. As the fund's investment adviser, FMR receives a monthly basic 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 .2500% to .5200% for the period. The annual individual fund fee rate is .20%. In the event that these rates were lower than the contractual rates in effect during the period, FMR voluntarily implemented the above rates, as they resulted in the same or a lower management fee. The basic fee is subject to a performance adjustment (up to a maximum of (plus/minus).15% of the fund's average net assets over the performance period) based on the fund's investment performance as compared to the appropriate index over a specified period of time. For the period, the management fee was equivalent to an annualized rate of .46% of average net assets after the performance adjustment.

#### 4. FEES AND OTHER TRANSACTIONS WITH AFFILIATES - CONTINUED

**TRANSFER AGENT FEES.** Fidelity Service Company, Inc. (FSC), an affiliate of FMR, is the fund's transfer, dividend disbursing and shareholder servicing agent. FSC receives account fees and asset-based fees that vary according to account size and type of account. FSC pays for typesetting, printing and mailing of all shareholder reports, except proxy statements. For the period, the transfer agent fees were equivalent to an annualized rate of .20% of average net assets.

**ACCOUNTING AND SECURITY LENDING FEES.** FSC maintains the fund's accounting records and administers the security lending program. The security lending fee is based on the number and duration of lending transactions. The accounting fee is based on the level of average net assets for the month plus out-of-pocket expenses.

**BROKERAGE COMMISSIONS.** The fund placed a portion of its portfolio transactions with brokerage firms which are affiliates of FMR. The commissions paid to these affiliated firms were \$53,000 for the period.

#### 5. SECURITY LENDING.

The fund loaned securities to certain brokers who paid the fund negotiated lenders' fees. These fees are included in interest income. The fund receives U.S. Treasury obligations and/or cash as collateral against the loaned securities, in an amount at least equal to 102% of the market value of the loaned securities at the inception of each loan. This collateral must be maintained at not less than 100% of the market value of the loaned securities during the period of the loan. At period end, the value of the securities loaned and the value of collateral amounted to \$29,366,000 and \$30,897,000, respectively.

#### 6. 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 period for which loans were outstanding amounted to \$7,271,000 and \$5,748,000, respectively. The weighted average interest rate was 5.81%.

#### 7. EXPENSE REDUCTIONS.

FMR has directed certain portfolio trades to brokers who paid a portion of the fund's expenses. For the period, the fund's expenses were reduced by \$59,000 under this arrangement.

In addition, the fund has entered into arrangements with its custodian and transfer agent whereby credits realized as a result of uninvested cash balances were used to reduce a portion of the fund's expenses. During the period, the fund's custodian and transfer agent fees were reduced by \$4,000 and \$4,000, respectively, under these arrangements.

#### INVESTMENT ADVISER

Fidelity Management & Research Company  
Boston, MA

#### INVESTMENT SUB-ADVISERS

Fidelity Management & Research (U.K.) Inc., London, England  
Fidelity Management & Research  
(Far East) Inc., Tokyo, Japan

#### OFFICERS

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Robert C. Pozen, Senior Vice President  
Richard A. Spillane, Jr., Vice President  
Eric D. Roiter, Secretary  
Richard A. Silver, Treasurer  
John H. Costello, Assistant Treasurer  
Leonard M. Rush, Assistant Treasurer

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SERVICING AGENT  
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Balanced Fund  
Convertible Securities Fund  
Equity-Income Fund  
Equity-Income II Fund  
Fidelity Fund  
Global Balanced Fund  
Growth & Income Portfolio  
Puritan(registered trademark) Fund  
Real Estate Investment Portfolio  
Utilities Fund

THE FIDELITY TELEPHONE CONNECTION  
MUTUAL FUND 24-HOUR SERVICE  
Exchanges/Redemptions 1-800-544-7777  
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)  
TouchTone Xpress (registered trademark) 1-800-544-5555  
AUTOMATED LINE FOR QUICKEST SERVICE

(2\_FIDELITY\_LOGOS) FIDELITY

EQUITY-INCOME II  
FUND  
SEMIANNUAL REPORT  
MAY 31, 1998  
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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, FEDERAL RESERVE BOARD OR ANY OTHER AGENCY, AND ARE SUBJECT TO INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF PRINCIPAL AMOUNT INVESTED.

NEITHER THE FUND NOR FIDELITY DISTRIBUTORS CORPORATION IS A BANK. FOR MORE INFORMATION ON ANY FIDELITY FUND, INCLUDING CHARGES AND EXPENSES, CALL 1-800-544-8888 FOR A FREE PROSPECTUS. READ IT CAREFULLY BEFORE YOU INVEST OR SEND MONEY. To reduce expenses and demonstrate respect for our environment, we have initiated a project through which we will begin eliminating duplicate copies of most financial reports and prospectuses to most households, even if they have more than one account in the fund. If additional copies of financial reports, prospectuses or historical account information are needed, please call 1-800-544-6666. PRESIDENT'S MESSAGE

(photo\_of\_Edward\_C\_Johnson\_3d)

DEAR SHAREHOLDER:

While low interest rates and subdued inflation provided support for stock and bond markets in the U.S. during the first five months of 1998, concerns about continuing economic and political difficulties in Asia colored their performance. The stock market reached record heights due to stronger-than-expected corporate earnings, but retreated at times when concerns surfaced about how the Asian volatility would affect business prospects. The bond market benefited from these retreats, as investors sought alternatives offering lower volatility.

While it's impossible to predict the future direction of the markets with any degree of certainty, there are certain basic principles that can help investors plan for their future needs.

First, investors are encouraged to take a long-term view of their portfolios. If you can afford to leave your money invested through the inevitable up and down cycles of the financial markets, you will greatly reduce your vulnerability to any single decline. We know from experience, for example, that stock prices have gone up over longer periods of time, have significantly outperformed other types of investments and have stayed ahead of inflation.

Second, you can further manage your investing risk through diversification. A stock mutual fund, for instance, is already diversified, because it invests in many different companies. You can increase your diversification further by investing in a number of different stock funds, or in such other investment categories as bonds. If you have a short investment time horizon, you might want to consider moving some of your investment into a money market fund, which seeks income and a stable share price by investing in high-quality, short-term investments. Of course, it's important to remember that there is no assurance that a money market fund will achieve its goal of maintaining a stable net asset value of \$1.00 per share, and that these types of funds are neither insured nor guaranteed by any agency of the U.S. government.

Finally, no matter what your time horizon or portfolio diversity, it makes good sense to follow a regular investment plan, investing a certain amount of money in a fund at the same time each month or quarter and periodically reviewing your overall portfolio. By doing so, you won't get caught up in the excitement of a rapidly rising market, nor will you buy all your shares at market highs. While this strategy - known as dollar cost averaging - won't assure a profit or protect you from a loss in a declining market, it should help you lower the average cost of your purchases.

If you have questions, please call us at 1-800-544-8888. We are available 24 hours a day, seven days a week to provide you the information you need to make the investments that are right for 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. Total return reflects the change in the value of an investment, assuming reinvestment of the fund's dividend income and capital gains (the profits earned upon the sale of securities that have grown in value).

CUMULATIVE TOTAL RETURNS

| PERIODS ENDED MAY 31, 1998 | PAST 6 MONTHS | PAST 1 YEAR | PAST 5 YEARS | LIFE OF FUND |
|----------------------------|---------------|-------------|--------------|--------------|
| FIDELITY EQUITY-INCOME II  | 15.61%        | 28.75%      | 137.82%      | 379.22%      |

S&P 500 (REGISTERED TRADEMARK) 15.06% 30.69% 172.18% 315.85%

EQUITY INCOME FUNDS AVERAGE 11.02% 24.65% 125.73% N/A

CUMULATIVE TOTAL RETURNS show the fund's performance in percentage terms over a set period - in this case, six months, one year, five years or since the fund started on August 21, 1990. For example, if you had invested \$1,000 in a fund that had a 5% return over the past year, the value of your investment would be \$1,050. You can compare the fund's returns to the performance of the Standard & Poor's 500 Index - a widely recognized, unmanaged index of common stocks. To measure how the fund's performance stacked up against its peers, you can compare it to the equity income funds average, which reflects the performance of mutual funds with similar objectives tracked by Lipper Analytical Services, Inc. The past six months average represents a peer group of 221 mutual funds. These benchmarks include reinvested dividends and capital gains, if any, and exclude the effect of sales charges.

AVERAGE ANNUAL TOTAL RETURNS

| PERIODS ENDED MAY 31, 1998  | PAST 1<br>YEAR | PAST 5<br>YEARS | LIFE OF<br>FUND |
|-----------------------------|----------------|-----------------|-----------------|
| FIDELITY EQUITY-INCOME II   | 28.75%         | 18.92%          | 22.31%          |
| S&P 500                     | 30.69%         | 22.17%          | 20.10%          |
| EQUITY INCOME FUNDS AVERAGE | 24.65%         | 17.56%          | N/A             |

AVERAGE ANNUAL TOTAL RETURNS take the fund's cumulative return and show you what would have happened if the fund had performed at a constant rate each year. (Note: Lipper calculates average annual total returns by annualizing each fund's total return, then taking an arithmetic average. This may produce a slightly different figure than that obtained by averaging the cumulative total returns and annualizing the result.)

\$10,000 OVER LIFE OF FUND

|            | Equity-Income II<br>00319 | S&P 500<br>SP001 |
|------------|---------------------------|------------------|
| 1990/08/21 | 10000.00                  | 10000.00         |
| 1990/08/31 | 10090.00                  | 10035.72         |
| 1990/09/30 | 9790.00                   | 9546.98          |
| 1990/10/31 | 9790.00                   | 9505.93          |
| 1990/11/30 | 10180.00                  | 10120.01         |
| 1990/12/31 | 10451.06                  | 10402.36         |
| 1991/01/31 | 10954.00                  | 10855.90         |
| 1991/02/28 | 11929.70                  | 11632.10         |
| 1991/03/31 | 12424.99                  | 11913.60         |
| 1991/04/30 | 12770.41                  | 11942.19         |
| 1991/05/31 | 13420.62                  | 12458.09         |
| 1991/06/30 | 13105.67                  | 11887.51         |
| 1991/07/31 | 13833.74                  | 12441.47         |
| 1991/08/31 | 14361.43                  | 12736.33         |
| 1991/09/30 | 14456.53                  | 12523.64         |
| 1991/10/31 | 14904.71                  | 12691.45         |
| 1991/11/30 | 14456.53                  | 12179.99         |
| 1991/12/31 | 15320.99                  | 13573.38         |
| 1992/01/31 | 15754.68                  | 13320.91         |
| 1992/02/29 | 16262.56                  | 13494.08         |
| 1992/03/31 | 16199.86                  | 13230.95         |
| 1992/04/30 | 16550.87                  | 13619.94         |
| 1992/05/31 | 16731.70                  | 13686.68         |
| 1992/06/30 | 16626.27                  | 13482.75         |
| 1992/07/31 | 17139.50                  | 14034.19         |
| 1992/08/31 | 16786.65                  | 13746.49         |
| 1992/09/30 | 17001.04                  | 13908.70         |
| 1992/10/31 | 17140.75                  | 13957.38         |
| 1992/11/30 | 17807.03                  | 14433.32         |
| 1992/12/31 | 18240.51                  | 14610.85         |
| 1993/01/31 | 18739.36                  | 14733.59         |
| 1993/02/28 | 19071.82                  | 14933.96         |
| 1993/03/31 | 19793.85                  | 15249.07         |
| 1993/04/30 | 19849.55                  | 14880.04         |
| 1993/05/31 | 20150.30                  | 15278.83         |
| 1993/06/30 | 20341.51                  | 15323.14         |
| 1993/07/31 | 20543.02                  | 15261.84         |
| 1993/08/31 | 21214.73                  | 15840.27         |
| 1993/09/30 | 21136.47                  | 15718.30         |
| 1993/10/31 | 21530.18                  | 16043.67         |
| 1993/11/30 | 21203.96                  | 15891.25         |



|            |          |          |
|------------|----------|----------|
| 1993/12/31 | 21685.43 | 16083.53 |
| 1994/01/31 | 22723.07 | 16630.37 |
| 1994/02/28 | 22286.55 | 16179.69 |
| 1994/03/31 | 21374.40 | 15474.26 |
| 1994/04/30 | 21955.29 | 15672.33 |
| 1994/05/31 | 22216.10 | 15929.35 |
| 1994/06/30 | 22047.50 | 15539.08 |
| 1994/07/31 | 22643.38 | 16048.77 |
| 1994/08/31 | 23418.02 | 16706.77 |
| 1994/09/30 | 22879.58 | 16297.45 |
| 1994/10/31 | 23274.88 | 16664.14 |
| 1994/11/30 | 22244.70 | 16057.23 |
| 1994/12/31 | 22370.95 | 16295.36 |
| 1995/01/31 | 22345.60 | 16717.90 |
| 1995/02/28 | 23154.03 | 17369.40 |
| 1995/03/31 | 23916.45 | 17881.97 |
| 1995/04/30 | 24475.31 | 18408.59 |
| 1995/05/31 | 25046.86 | 19144.39 |
| 1995/06/30 | 25390.89 | 19589.11 |
| 1995/07/31 | 26386.61 | 20238.68 |
| 1995/08/31 | 26527.03 | 20289.48 |
| 1995/09/30 | 27125.59 | 21145.70 |
| 1995/10/31 | 26317.59 | 21070.21 |
| 1995/11/30 | 27612.95 | 21995.19 |
| 1995/12/31 | 28274.79 | 22418.82 |
| 1996/01/31 | 29056.25 | 23181.96 |
| 1996/02/29 | 29427.41 | 23396.85 |
| 1996/03/31 | 30226.90 | 23622.16 |
| 1996/04/30 | 30706.27 | 23970.35 |
| 1996/05/31 | 30999.21 | 24588.55 |
| 1996/06/30 | 30759.08 | 24682.23 |
| 1996/07/31 | 29714.58 | 23591.77 |
| 1996/08/31 | 30397.52 | 24089.32 |
| 1996/09/30 | 31443.22 | 25445.07 |
| 1996/10/31 | 32022.26 | 26146.84 |
| 1996/11/30 | 33894.04 | 28123.28 |
| 1996/12/31 | 33564.33 | 27566.16 |
| 1997/01/31 | 34714.35 | 29288.50 |
| 1997/02/28 | 35041.04 | 29518.12 |
| 1997/03/31 | 33624.26 | 28305.22 |
| 1997/04/30 | 35208.43 | 29995.04 |
| 1997/05/31 | 37220.75 | 31821.14 |
| 1997/06/30 | 38981.23 | 33246.72 |
| 1997/07/31 | 41547.49 | 35892.17 |
| 1997/08/31 | 39153.27 | 33881.49 |
| 1997/09/30 | 41322.15 | 35737.18 |
| 1997/10/31 | 40012.85 | 34543.55 |
| 1997/11/30 | 41451.65 | 36142.58 |
| 1997/12/31 | 42684.77 | 36763.14 |
| 1998/01/31 | 42875.18 | 37169.74 |
| 1998/02/28 | 45524.77 | 39850.43 |
| 1998/03/31 | 48002.14 | 41891.17 |
| 1998/04/30 | 48114.83 | 42312.59 |
| 1998/05/29 | 47921.66 | 41585.24 |

IMATRL PRASUN SHR\_CHT 19980531 19980605 150407 R00000000000097  
 \$10,000 OVER LIFE OF FUND: Let's say hypothetically that \$10,000 was invested in Fidelity Equity-Income II Fund on August 21, 1990, when the fund started. As the chart shows, by May 31, 1998, the value of the investment would have grown to \$47,922 - a 379.22% increase on the initial investment. For comparison, look at how the Standard & Poor's 500 Index did over the same period. With dividends and capital gains, if any, reinvested, the same \$10,000 would have grown to \$41,585 - a 315.85% increase.

#### UNDERSTANDING

#### PERFORMANCE

How a fund did yesterday is no guarantee of how it will do tomorrow. The stock market, for example, has a history of long-term growth and short-term volatility. In turn, the share price and return of a fund that invests in stocks 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)

MARKET RECAP

Although renewed concerns about economic difficulties in Asia late in the period tempered the rapid growth of U.S. equity markets, the Standard & Poor's 500 Index - a measure of the U.S. stock market - still managed to return 15.06% during the six months that ended May 31, 1998. As feared, some U.S. corporations with business exposure to Asia did report disappointing earnings and their stocks were harshly punished. However, investors seemed to adopt a new attitude - one that overlooked short-term troubles and focused on longer-term growth - helping many of these stocks to rebound quickly. In addition, the continued strength of the U.S. economy, combined with low interest rates and low inflation, seemed to buoy the stock market for much of the period. The upward climb of the stock market stagnated in mid- and late May when investors were inundated with worrisome news about the stability of Asian markets. Specifically, the president of Indonesia resigned amidst civil strife and a battle over nuclear testing erupted between Pakistan and India. Concerns about falling demand for U.S. exports particularly hurt technology companies, especially during the intensified investigation of Microsoft by the Justice Department in May. As a result of concerns about these tumultuous events and their potential impact on the U.S. economy, the Dow Jones Industrial Average produced a negative return in May for the first time in 1998 - although the Dow was still up 13.29% for the first five months of 1998.

An interview with Bettina Doulton, Portfolio Manager of Fidelity Equity-Income II Fund

Q. HOW DID THE FUND PERFORM, BETTINA?

A. For the six months that ended May 31, 1998, the fund's total return was 15.61%. By comparison, the equity income funds average tracked by Lipper Analytical Services returned 11.02% and the Standard & Poor's 500 Index returned 15.06% during the same period. For the 12 months that ended May 31, 1998, the fund returned 28.75%, while the Lipper peer group returned 24.65% and the S&P 500 returned 30.69%.

Q. WHY DID THE FUND OUTPACE BOTH THE LIPPER PEER GROUP AND THE S&P 500 DURING THE SIX-MONTH PERIOD?

A. The fund's performance was attributable both to good stock selection and industry allocation. Specifically, many of the fund's larger holdings performed well - notably Unilever, American Home Products and Wal-Mart. In addition, the fund's performance was boosted by its overweighted positions - relative to the Lipper group or the S&P 500 - in a few top-performing industry groups, including pharmaceuticals and finance.

Q. WHAT ATTRACTED YOU TO PHARMACEUTICAL STOCKS?

A. Favorable demographic trends, strong product pipelines, international expansion opportunities and superior returns contributed to the generally attractive business prospects of the larger-capitalization pharmaceutical companies. Excitement on the product side and hopes for industry consolidation drove this sector's outperformance during the period. Of note, the fund held a large position in American Home Products, which was the subject of merger discussions with SmithKline Beecham in early 1998 - causing its stock

to soar. Although these negotiations fell apart, American Home Products' shares did not give up much ground. Participating in the drug group's rally, Schering-Plough was another positive contributor.

Q. WHAT ABOUT FINANCIALS? WHAT WAS THEIR DRAW?

A. Broadly, the finance sector remained the largest portion of the fund's investments because I was continually attracted to the individual investment stories offered there - a combination of strong business fundamentals, earnings-growth prospects and relatively cheap valuations. The environment for financial services companies remained positive during the period, characterized by low inflation, a favorable interest-rate backdrop, robust capital markets and improving demographics as Baby Boomers focused on saving for retirement. Looking at specific holdings within the finance sector, Citicorp was a positive contributor since a merger with Travelers was announced - raising investors' appreciation of its global franchise - and as investor concerns about the Asian crisis eased. Chase Manhattan also performed well because the company's management team emphasized cost and capital discipline as a means of enhancing returns and shareholder value.

Q. LET'S TALK SOME MORE ABOUT THE INDIVIDUAL STOCKS THAT HELPED PERFORMANCE . . .

A. As I mentioned earlier, Unilever and Wal-Mart helped the fund's performance. For Unilever, a consumer nondurables company, its restructuring continued to bear fruit, resulting in sales-growth acceleration and operating-margin expansion. Wal-Mart enjoyed a terrific productivity loop - meaning better business execution drove accelerated sales, which in turn improved operating efficiency and so on. Tyco International was another large holding that performed well recently. Through a series of acquisitions, Tyco's management team has successfully transformed the company so that its sustainable growth rate has risen and its economic sensitivity has been reduced.

Q. WHICH STOCKS DETRACTED FROM PERFORMANCE?

A. Tobacco stocks - particularly Philip Morris - performed poorly as litigation against the companies intensified and Congress squeezed them for larger settlements. British Petroleum suffered from the declining price of oil caused by the Asian crisis. In addition, Union Pacific's stock slipped as the company faced integration problems related to its Santa Fe acquisition.

Q. WHAT'S YOUR OUTLOOK?

A. Although the stock market has already had a terrific run, I'm still relatively optimistic about the opportunity to find good companies that are well-positioned through new products, mergers, globalization or restructuring efforts. Many market observers say that corporate earnings growth is slowing, but I think strong individual stories still exist. With continuing uncertainty in the emerging markets, the U.S. market could be bolstered as investors seek a safe haven.

THE VIEWS EXPRESSED IN THIS REPORT REFLECT THOSE OF THE PORTFOLIO MANAGER ONLY THROUGH THE END OF THE PERIOD OF THE REPORT AS STATED ON THE COVER. THE MANAGER'S VIEWS ARE SUBJECT TO CHANGE AT ANY TIME BASED ON MARKET AND OTHER CONDITIONS.

BETTINA DOULTON ON THE RECENT MERGER MANIA IN THE MARKET:

"The merger and acquisition activity that we have seen so far in 1998 is nothing less than spectacular, both in its pace and the size of the deals. Nearly every industry seems to be consolidating. Daimler-Benz and Chrysler are merging in the auto industry; SBC Communications and Ameritech in the telecommunications industry; and American Home Products and Monsanto in the pharmaceuticals/life sciences group. In the finance sector, several large mergers have been announced, including BankOne and First Chicago, Nationsbank and BankAmerica, and Travelers and Citicorp.

"While the strategic rationales vary deal by deal, geographic expansion and globalization, franchise strengthening, scale advantages or slowing stand-alone growth rates appear to be at the heart of most mergers or acquisitions.

"The implication of these mega-mergers should not be underestimated. First, the competitive landscape of several industries could be altered. Second, the character of the S&P 500 may be altered as combinations of already-large companies consolidate and thus become a larger percentage of the index."

FUND FACTS

GOAL: reasonable income; the fund also considers the potential for capital appreciation

FUND NUMBER: 319

TRADING SYMBOL: FEQTX

START DATE: August 21, 1990

SIZE: as of May 31, 1998,

more than \$18.4 billion

MANAGER: Bettina Doulton, since 1996; manager, Fidelity

Puritan Fund, since 1996;

joined Fidelity in 1986

(checkmark)

INVESTMENT CHANGES

TOP TEN STOCKS AS OF MAY 31, 1998

|                              | % OF FUND'S INVESTMENTS | % OF FUND'S INVESTMENTS IN THESE STOCKS 6 MONTHS AGO |
|------------------------------|-------------------------|--|
| CITICORP                     | 4.8                     | 3.9  |
| GENERAL ELECTRIC CO.         | 4.5                     | 4.3  |
| AMERICAN EXPRESS CO.         | 3.4                     | 3.8  |
| AMERICAN HOME PRODUCTS CORP. | 3.3                     | 2.4  |
| BRISTOL-MYERS SQUIBB CO.     | 2.4                     | 3.0  |
| TIME WARNER, INC.            | 2.1                     | 1.1  |
| UNILEVER NV (NY SHARES)      | 2.1                     | 1.6  |
| MERCK & CO., INC.            | 2.1                     | 0.5  |
| AT&T CORP.                   | 2.0                     | 0.8  |
| BRITISH PETROLEUM PLC ADR    | 2.0                     | 2.2  |

TOP FIVE MARKET SECTORS AS OF MAY 31, 1998

|                                  | % OF FUND'S INVESTMENTS | % OF FUND'S INVESTMENTS IN THESE MARKET SECTORS 6 MONTHS AGO |
|----------------------------------|-------------------------|--|
| FINANCE                          | 27.3                    | 25.9   |
| HEALTH                           | 11.0                    | 11.0   |
| ENERGY                           | 9.7                     | 10.0   |
| INDUSTRIAL MACHINERY & EQUIPMENT | 8.7                     | 7.9  |
| NONDURABLES                      | 8.3                     | 10.9   |

ASSET ALLOCATION (% OF FUND'S INVESTMENTS)

AS OF MAY 31, 1998 \* AS OF NOVEMBER 30, 1997 \*\*

ROW: 1, COL: 1, VALUE: 2.9

ROW: 1, COL: 2, VALUE: 2.3

ROW: 1, COL: 3, VALUE: 1.3

ROW: 1, COL: 4, VALUE: 94.0

STOCKS 90.8%

BONDS 0.4%

CONVERTIBLE

SECURITIES 1.5%

SHORT-TERM

INVESTMENTS 7.3%

FOREIGN  
INVESTMENTS 9.6%  
STOCKS 96.0%  
BONDS 0.2%  
CONVERTIBLE  
SECURITIES 1.4%  
SHORT-TERM  
INVESTMENTS 2.4%  
FOREIGN  
INVESTMENTS 8.7%  
ROW: 1, COL: 1, VALUE: 6.3  
ROW: 1, COL: 2, VALUE: 2.5  
ROW: 1, COL: 3, VALUE: 1.5  
ROW: 1, COL: 4, VALUE: 89.8

\*  
\*\*

INVESTMENTS MAY 31, 1998 (UNAUDITED)

SHOWING PERCENTAGE OF TOTAL VALUE OF INVESTMENT IN SECURITIES

COMMON STOCKS - 96.0%  
SHARES VALUE (NOTE 1)  
(000S)

AEROSPACE & DEFENSE - 3.5%  
AEROSPACE & DEFENSE - 2.9%  
AlliedSignal, Inc. 3,847,000 \$ 164,459  
Gulfstream Aerospace Corp. (a) 1,182,000 50,235  
Lockheed Martin Corp. 1,915,054 214,965  
Textron, Inc. 888,600 65,923  
United Technologies Corp. 437,200 41,097  
536,679

DEFENSE ELECTRONICS - 0.6%  
Raytheon Co.:  
Class A 310,100 16,532  
Class B 1,710,500 93,543  
110,075

SHIP BUILDING & REPAIR - 0.0%  
General Dynamics Corp. 68,800 3,057  
TOTAL AEROSPACE & DEFENSE 649,811

BASIC INDUSTRIES - 1.4%  
CHEMICALS & PLASTICS - 0.7%  
Air Products & Chemicals, Inc. 166,100 14,451  
du Pont (E.I.) de Nemours & Co. 877,900 67,598  
IMC Global, Inc. 58,400 1,898  
Monsanto Co. 543,900 30,118  
Union Carbide Corp. 118,900 5,938  
120,003

METALS & MINING - 0.4%  
Aluminum Co. of America 1,008,700 69,978

PAPER & FOREST PRODUCTS - 0.3%  
Georgia-Pacific Corp. 81,200 5,212  
Kimberly-Clark Corp. 1,188,900 58,925  
64,137

TOTAL BASIC INDUSTRIES 254,118

CONSTRUCTION & REAL ESTATE - 1.5%  
BUILDING MATERIALS - 0.9%  
Masco Corp. 2,792,400 157,072

COMMON STOCKS - CONTINUED  
SHARES VALUE (NOTE 1)  
(000S)

CONSTRUCTION & REAL ESTATE - CONTINUED  
REAL ESTATE INVESTMENT TRUSTS - 0.6%  
Apartment Investment & Management Co. Class A 77,900 \$ 3,038  
Boston Properties, Inc. 106,400 3,617  
Equity Office Properties Trust 1,116,683 30,709  
Equity Residential Properties Trust (SBI) 487,300 23,847  
Mack-Cali Realty Corp. 108,600 3,910  
Patriot American Hospitality, Inc. 600,009 14,363  
Public Storage, Inc. 73,500 2,205  
Simon Debartolo Group, Inc. 171,200 5,714  
Starwood Hotels & Resorts 618,000 29,162  
116,565

TOTAL CONSTRUCTION & REAL ESTATE 273,637

DURABLES - 1.3%  
AUTOS, TIRES, & ACCESSORIES - 1.1%  
Ford Motor Co. 3,234,100 167,769  
General Motors Corp. 33,900 2,438  
Goodyear Tire & Rubber Co. 501,700 36,060  
206,267

CONSUMER DURABLES - 0.2%  
 Minnesota Mining & Manufacturing Co. 466,600 43,219  
 TOTAL DURABLES 249,486  
 ENERGY - 9.7%  
 OIL & GAS - 9.7%  
 Amoco Corp. 1,632,900 68,276  
 Atlantic Richfield Co. 957,200 75,499  
 British Petroleum PLC:  
 Ord. 2 -  
 ADR 4,187,961 371,158  
 Burlington Resources, Inc. 1,513,600 63,761  
 Chevron Corp. 1,061,400 84,779  
 Coastal Corp. (The) 888,100 62,611  
 Exxon Corp. 2,370,200 167,099  
 Mobil Corp. 435,900 34,000  
 COMMON STOCKS - CONTINUED  
 SHARES VALUE (NOTE 1)  
 (000S)  
 ENERGY - CONTINUED  
 OIL & GAS - CONTINUED  
 Occidental Petroleum Corp. 224,000 \$ 6,188  
 Royal Dutch Petroleum Co. 4,586,500 257,131  
 Texaco, Inc. 3,473,500 200,595  
 Total SA Class B 2,067,649 256,471  
 USX-Marathon Group 4,032,400 141,134  
 1,788,702  
 FINANCE - 27.1%  
 BANKS - 12.7%  
 Banc One Corp. 3,469,710 191,268  
 Bank of New York Co., Inc. 5,784,928 353,604  
 BankBoston Corp. 793,300 83,594  
 BankAmerica Corp. 2,347,700 194,125  
 Chase Manhattan Corp. 2,575,200 350,066  
 Citicorp 5,947,800 886,966  
 Credit Suisse Group 300,000 65,887  
 NationsBank Corp. 783,000 59,312  
 U.S. Bancorp 2,712,300 106,119  
 Wells Fargo & Co. 169,300 61,202  
 2,352,143  
 CREDIT & OTHER FINANCE - 5.3%  
 American Express Co. 6,156,212 631,782  
 Associates First Capital Corp. 1,803,231 134,904  
 Beneficial Corp. 477,700 64,012  
 First Chicago NBD Corp. 565,000 49,402  
 Household International, Inc. 740,900 100,253  
 980,353  
 FEDERAL SPONSORED CREDIT - 2.6%  
 Freddie Mac 3,428,500 155,997  
 Fannie Mae 5,353,300 320,529  
 476,526  
 INSURANCE - 4.4%  
 Allstate Corp. 2,718,400 255,869  
 American International Group, Inc. 713,900 88,390  
 Hartford Financial Services Group, Inc. 1,878,600 206,764  
 MBIA, Inc. 1,902,500 141,855  
 MGIC Investment Corp. 722,000 43,275  
 COMMON STOCKS - CONTINUED  
 SHARES VALUE (NOTE 1)  
 (000S)  
 FINANCE - CONTINUED  
 INSURANCE - CONTINUED  
 Progressive Corp. 191,100 \$ 26,348  
 St. Paul Companies, Inc. (The) 1,282,600 56,915  
 819,416  
 SAVINGS & LOANS - 0.7%  
 Washington Mutual, Inc. 1,948,970 137,646  
 SECURITIES INDUSTRY - 1.4%  
 Morgan Stanley, Dean Witter, Discover and Co. 1,046,400 81,684  
 Travelers Group, Inc. (The) 2,923,571 178,338  
 260,022  
 TOTAL FINANCE 5,026,106  
 HEALTH - 10.9%  
 DRUGS & PHARMACEUTICALS - 8.7%  
 American Home Products Corp. 12,467,100 602,317  
 Bristol-Myers Squibb Co. 4,096,100 440,331  
 Lilly (Eli) & Co. 1,024,400 62,936  
 Merck & Co., Inc. 3,260,100 381,635  
 Schering-Plough Corp. 1,529,150 127,971  
 1,615,190  
 MEDICAL EQUIPMENT & SUPPLIES - 1.5%

Baxter International, Inc. 2,091,700 119,619  
 Becton, Dickinson & Co. 138,200 9,778  
 Johnson & Johnson 2,205,900 152,345  
 281,742  
 MEDICAL FACILITIES MANAGEMENT - 0.7%  
 Columbia/HCA Healthcare Corp. 1,610,000 52,627  
 Tenet Healthcare Corp. (a) 2,029,300 71,026  
 123,653  
 TOTAL HEALTH 2,020,585  
 COMMON STOCKS - CONTINUED  
 SHARES VALUE (NOTE 1)  
 (000S)  
 INDUSTRIAL MACHINERY & EQUIPMENT - 8.7%  
 ELECTRICAL EQUIPMENT - 5.7%  
 Alcatel Alstom Compagnie Generale d'Electricite  
 SA sponsored ADR 718,600 \$ 31,079  
 Emerson Electric Co. 1,637,400 99,472  
 General Electric Co. 9,958,200 830,265  
 Honeywell, Inc. 1,095,600 91,962  
 1,052,778  
 INDUSTRIAL MACHINERY & EQUIPMENT - 2.9%  
 Cooper Industries, Inc. 1,685,438 108,500  
 Ingersoll-Rand Co. 1,736,100 78,233  
 Stanley Works 2,005,300 95,252  
 Tyco International Ltd. 4,733,338 262,109  
 544,094  
 POLLUTION CONTROL - 0.1%  
 USA Waste Services, Inc. (a) 273,900 12,925  
 Waste Management, Inc. 106,800 3,471  
 16,396  
 TOTAL INDUSTRIAL MACHINERY & EQUIPMENT 1,613,268  
 MEDIA & LEISURE - 2.9%  
 BROADCASTING - 2.1%  
 Time Warner, Inc. 5,074,282 394,843  
 PUBLISHING - 0.3%  
 Times Mirror Co. Class A 830,100 53,126  
 RESTAURANTS - 0.5%  
 McDonald's Corp. 1,529,400 100,367  
 TOTAL MEDIA & LEISURE 548,336  
 NONDURABLES - 8.3%  
 BEVERAGES - 0.4%  
 Anheuser-Busch Companies, Inc. 267,800 12,302  
 PepsiCo, Inc. 1,431,800 58,435  
 70,737  
 COMMON STOCKS - CONTINUED  
 SHARES VALUE (NOTE 1)  
 (000S)  
 NONDURABLES - CONTINUED  
 FOODS - 1.7%  
 Campbell Soup Co. 276,200 \$ 15,053  
 Dean Foods Co. 143,800 7,082  
 Flowers Industries, Inc. 785,500 16,201  
 Heinz (H.J.) Co. 1,649,400 87,522  
 Quaker Oats Co. 251,200 14,491  
 Ralston Purina Co. 504,300 56,135  
 Sara Lee Corp. 2,133,200 125,592  
 322,076  
 HOUSEHOLD PRODUCTS - 4.3%  
 Avon Products, Inc. 475,700 38,918  
 Procter & Gamble Co. 1,972,800 165,592  
 Unilever PLC 17,288,800 189,574  
 Unilever NV:  
 Ord. 200,000 15,870  
 (NY shares) 4,837,100 381,828  
 791,782  
 TOBACCO - 1.9%  
 Philip Morris Companies, Inc. 9,290,500 347,232  
 TOTAL NONDURABLES 1,531,827  
 RETAIL & WHOLESALE - 5.2%  
 APPAREL STORES - 0.4%  
 Payless ShoeSource, Inc. (a) 1,024,808 71,800  
 DRUG STORES - 0.5%  
 Rite Aid Corp. 2,749,200 98,456  
 GENERAL MERCHANDISE STORES - 4.3%  
 Dayton Hudson Corp. 1,436,900 66,636  
 Federated Department Stores, Inc. (a) 3,881,100 201,090  
 Nordstrom, Inc. 554,200 39,937  
 Penney (J.C.) Co., Inc. 2,025,600 145,463  
 Wal-Mart Stores, Inc. 6,145,500 339,155  
 792,281

TOTAL RETAIL & WHOLESALE 962,537  
COMMON STOCKS - CONTINUED  
SHARES VALUE (NOTE 1)  
(000S)

SERVICES - 1.2%  
LEASING & RENTAL - 0.4%  
Ryder Systems, Inc. 1,931,700 \$ 65,799  
PRINTING - 0.6%  
Donnelley (R.R.) & Sons Co. 2,486,300 111,884  
SERVICES - 0.2%  
Service Corp. International 444,600 18,173  
ServiceMaster Co. 608,800 20,128  
38,301  
TOTAL SERVICES 215,984  
TECHNOLOGY - 5.2%  
COMPUTERS & OFFICE EQUIPMENT - 4.0%  
Diebold, Inc. 461,800 13,508  
International Business Machines Corp. 2,230,300 261,781  
Pitney Bowes, Inc. 5,526,800 259,760  
Xerox Corp. 2,055,400 211,192  
746,241  
ELECTRONICS - 0.9%  
Intel Corp. 500,000 35,718  
Motorola, Inc. 1,693,200 89,634  
Texas Instruments, Inc. 819,700 42,112  
167,464  
PHOTOGRAPHIC EQUIPMENT - 0.3%  
Eastman Kodak Co. 634,700 45,302  
TOTAL TECHNOLOGY 959,007  
TRANSPORTATION - 1.0%  
RAILROADS - 1.0%  
Burlington Northern Santa Fe Corp. 688,700 68,526  
CSX Corp. 1,459,700 69,518  
Union Pacific Corp. 1,086,500 52,559  
190,603  
COMMON STOCKS - CONTINUED  
SHARES VALUE (NOTE 1)  
(000S)

UTILITIES - 8.1%  
ELECTRIC UTILITY - 1.1%  
American Electric Power Co., Inc. 682,800 \$ 30,982  
CMS Energy Corp. 1,632,300 71,107  
Duke Energy Corp. 1,364,400 78,624  
Entergy Corp. 32,200 847  
PG&E Corp. 855,400 26,945  
208,505  
GAS - 0.1%  
Enron Corp. 465,200 23,318  
TELEPHONE SERVICES - 6.9%  
AT&T Corp. 6,108,500 371,855  
ALLTEL Corp. 1,742,400 68,716  
Ameritech Corp. 3,236,600 137,353  
Bell Atlantic Corp. 3,648 334  
BellSouth Corp. 597,000 38,507  
Frontier Corp. 554,400 16,875  
GTE Corp. 3,004,800 175,217  
MCI Communications Corp. 2,132,900 114,044  
SBC Communications, Inc. 5,787,500 224,989  
Sprint Corp. 727,700 52,212  
Tele Danmark AS Class B 372,600 34,821  
WorldCom, Inc. (a) 650,000 29,575  
1,264,498  
TOTAL UTILITIES 1,496,321  
TOTAL COMMON STOCKS  
(Cost \$12,364,131) 17,780,328  
CONVERTIBLE PREFERRED STOCKS - 0.2%  
FINANCE - 0.2%  
CREDIT & OTHER FINANCE - 0.2%  
Union Pacific Capital Trust \$3.13 TIDES (d)  
(Cost \$32,325) 644,000 31,959  
CORPORATE BONDS - 1.4%  
MOODY'S RATINGS (C) PRINCIPAL VALUE (NOTE 1)  
AMOUNT (000S) (000S)  
CONVERTIBLE BONDS - 1.2%  
RETAIL & WHOLESALE - 0.4%  
GENERAL MERCHANDISE STORES - 0.4%  
Federated Department Stores, Inc.  
5%, 10/1/03 Baa3 \$ 43,100 \$ 66,185  
SERVICES - 0.7%  
ADT Operations, Inc. liquid yield option notes



0%, 7/6/10 Baal 87,940 132,341  
 TECHNOLOGY - 0.1%  
 COMPUTERS & OFFICE EQUIPMENT - 0.1%  
 Unisys Corp. 8 1/4%, 3/15/06 B- 4,000 14,720  
 TOTAL CONVERTIBLE BONDS 213,246  
 NONCONVERTIBLE BONDS - 0.2%  
 CONSTRUCTION & REAL ESTATE - 0.1%  
 BUILDING MATERIALS - 0.1%  
 American Standard, Inc. 0%, 6/1/05 (c) B1 15,000 15,694  
 FINANCE - 0.0%  
 ASSET BACKED SECURITIES - 0.0%  
 Airplanes Pass Through Trust Class D  
 10 7/8%, 3/15/19 Ba2 12,610 13,871  
 HEALTH - 0.1%  
 MEDICAL FACILITIES MANAGEMENT - 0.1%  
 Tenet Healthcare Corp.:  
 8 5/8%, 12/1/03 Ba1 7,480 7,873  
 8%, 1/15/05 Ba1 5,560 5,699  
 8 5/8%, 1/15/07 Ba3 490 502  
 14,074  
 TOTAL NONCONVERTIBLE BONDS 43,639  
 TOTAL CORPORATE BONDS  
 (Cost \$149,386) 256,885  
 CASH EQUIVALENTS - 2.4%  
 SHARES VALUE (NOTE 1)  
 (000S)

Taxable Central Cash Fund (b)  
 (Cost \$450,866) 450,866,158 \$ 450,866  
 TOTAL INVESTMENT IN SECURITIES - 100%  
 (Cost \$12,996,708) \$ 18,520,038

SECURITY TYPE ABBREVIATIONS  
 TIDES - Term Income Deferred Equity  
 Securities

LEGEND  
 (a) Non-income producing  
 (b) At period end, the seven-day yield of the Taxable Central Cash Fund was 5.56%. The yield refers to the income earned by investing in the fund over the seven-day period, expressed as an annual percentage.  
 (c) Debt obligation initially issued in zero coupon form which converts to coupon form at a specified rate and date. The rate shown is the rate at period end.  
 (d) 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 \$31,959,000 or 0.2% of net assets.  
 (e) Standard & Poor's credit ratings are used in the absence of a rating by Moody's Investors Service, Inc.

INCOME TAX INFORMATION  
 At May 31, 1998, the aggregate cost of investment securities for income tax purposes was \$12,998,690,000. Net unrealized appreciation aggregated \$5,521,348,000 of which \$5,646,882,000 related to appreciated investment securities and \$125,534,000 related to depreciated investment securities.

FINANCIAL STATEMENTS

<TABLE>  
 <CAPTION>  
 <S> <C> <C>  
 STATEMENT OF ASSETS AND LIABILITIES  
 AMOUNTS IN THOUSANDS (EXCEPT PER-SHARE AMOUNT) MAY 31, 1998 (UNAUDITED)

| ASSETS  |               |
|---|---------------|
| INVESTMENT IN SECURITIES, AT VALUE (COST \$12,996,708) -<br>SEE ACCOMPANYING SCHEDULE | \$ 18,520,038 |
| CASH  | 420           |
| RECEIVABLE FOR INVESTMENTS SOLD   | 78,465        |
| RECEIVABLE FOR FUND SHARES SOLD   | 14,282        |
| DIVIDENDS RECEIVABLE  | 34,328        |
| INTEREST RECEIVABLE   | 3,199         |
| OTHER RECEIVABLES   | 295           |

|  |            |               |
|--|------------|---------------|
| TOTAL ASSETS   |            | 18,651,027    |
| LIABILITIES  |            |               |
| PAYABLE FOR INVESTMENTS PURCHASED  | \$ 116,460 |               |
| PAYABLE FOR FUND SHARES REDEEMED   | 26,017     |               |
| ACCRUED MANAGEMENT FEE   | 7,621      |               |
| OTHER PAYABLES AND ACCRUED EXPENSES  | 2,725      |               |
| TOTAL LIABILITIES  |            | 152,823       |
| NET ASSETS   |            | \$ 18,498,204 |
| NET ASSETS CONSIST OF:   |            |               |
| PAID IN CAPITAL  |            | \$ 11,824,097 |
| UNDISTRIBUTED NET INVESTMENT INCOME  |            | 47,205        |
| ACCUMULATED UNDISTRIBUTED NET REALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY TRANSACTIONS        |            | 1,103,627     |
| NET UNREALIZED APPRECIATION (DEPRECIATION) ON INVESTMENTS AND ASSETS AND LIABILITIES IN FOREIGN CURRENCIES |            | 5,523,275     |
| NET ASSETS, FOR 621,424 SHARES OUTSTANDING   |            | \$ 18,498,204 |
| NET ASSET VALUE, OFFERING PRICE AND REDEMPTION PRICE PER SHARE (\$18,498,204 (DIVIDED BY) 621,424 SHARES)  |            | \$29.77       |

</TABLE>

<TABLE>

<CAPTION>

<S>

STATEMENT OF OPERATIONS

AMOUNTS IN THOUSANDS

<C>

<C>

SIX MONTHS ENDED MAY 31, 1998 (UNAUDITED)

|                                       |           |            |
|---------------------------------------|-----------|------------|
| INVESTMENT INCOME                     |           | \$ 156,253 |
| DIVIDENDS                             |           |            |
| INTEREST                              |           | 19,657     |
| TOTAL INCOME                          |           | 175,910    |
| EXPENSES                              |           |            |
| MANAGEMENT FEE                        | \$ 43,715 |            |
| TRANSFER AGENT FEES                   | 15,390    |            |
| ACCOUNTING FEES AND EXPENSES          | 422       |            |
| NON-INTERESTED TRUSTEES' COMPENSATION | 62        |            |
| CUSTODIAN FEES AND EXPENSES           | 193       |            |
| REGISTRATION FEES                     | 85        |            |
| AUDIT                                 | 57        |            |
| LEGAL                                 | 57        |            |
| INTEREST                              | 6         |            |
| MISCELLANEOUS                         | 34        |            |
| TOTAL EXPENSES BEFORE REDUCTIONS      | 60,021    |            |
| EXPENSE REDUCTIONS                    | (1,470)   | 58,551     |
| NET INVESTMENT INCOME                 |           | 117,359    |
| REALIZED AND UNREALIZED GAIN (LOSS)   |           |            |
| NET REALIZED GAIN (LOSS) ON:          |           |            |

|   |           |              |
|---|-----------|--------------|
| INVESTMENT SECURITIES   | 1,114,303 |              |
| FOREIGN CURRENCY TRANSACTIONS                                   | (2)       | 1,114,301    |
| CHANGE IN NET UNREALIZED APPRECIATION (DEPRECIATION) ON:        |           |              |
| INVESTMENT SECURITIES   | 1,305,934 |              |
| ASSETS AND LIABILITIES IN FOREIGN CURRENCIES                    | (43)      | 1,305,891    |
| NET GAIN (LOSS)   |           | 2,420,192    |
| NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS |           | \$ 2,537,551 |

</TABLE>

<TABLE>

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STATEMENT OF CHANGES IN NET ASSETS  
AMOUNTS IN THOUSANDS

SIX MONTHS ENDED  
MAY 31, 1998  
(UNAUDITED)

YEAR ENDED  
NOVEMBER 30,  
1997

INCREASE (DECREASE) IN NET ASSETS

|  |               |               |
|--|---------------|---------------|
| OPERATIONS   | \$ 117,359    | \$ 251,924    |
| NET INVESTMENT INCOME  |               |               |
| NET REALIZED GAIN (LOSS)   | 1,114,301     | 1,914,279     |
| CHANGE IN NET UNREALIZED APPRECIATION (DEPRECIATION)   | 1,305,891     | 1,038,158     |
| NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS                                      | 2,537,551     | 3,204,361     |
| DISTRIBUTIONS TO SHAREHOLDERS FROM NET INVESTMENT INCOME   | (95,633)      | (297,983)     |
| FROM NET REALIZED GAIN   | (1,714,017)   | (715,007)     |
| TOTAL DISTRIBUTIONS  | (1,809,650)   | (1,012,990)   |
| SHARE TRANSACTIONS   | 1,369,127     | 2,859,865     |
| NET PROCEEDS FROM SALES OF SHARES  |               |               |
| REINVESTMENT OF DISTRIBUTIONS  | 1,754,871     | 980,564       |
| COST OF SHARES REDEEMED  | (2,004,077)   | (4,977,444)   |
| NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM SHARE TRANSACTIONS                              | 1,119,921     | (1,137,015)   |
| TOTAL INCREASE (DECREASE) IN NET ASSETS  | 1,847,822     | 1,054,356     |
| NET ASSETS   |               |               |
| BEGINNING OF PERIOD  | 16,650,382    | 15,596,026    |
| END OF PERIOD (INCLUDING UNDISTRIBUTED NET INVESTMENT INCOME OF \$47,205 AND \$25,479, RESPECTIVELY) | \$ 18,498,204 | \$ 16,650,382 |
| OTHER INFORMATION  |               |               |
| SHARES   |               |               |
| SOLD   | 47,772        | 110,027       |
| ISSUED IN REINVESTMENT OF DISTRIBUTIONS  | 66,182        | 40,102        |
| REDEEMED   | (70,430)      | (191,956)     |
| NET INCREASE (DECREASE)  | 43,524        | (41,827)      |

</TABLE>

| <TABLE><br><CAPTION><br><S><br>FINANCIAL HIGHLIGHTS                       | <C>                              | <C>                      | <C>       | <C>       | <C>      | <C>      |
|---|----------------------------------|--------------------------|-----------|-----------|----------|----------|
|   | SIX MONTHS ENDED<br>MAY 31, 1998 | YEARS ENDED NOVEMBER 30, |           |           |          |          |
|   | (UNAUDITED)                      | 1997                     | 1996      | 1995      | 1994     | 1993     |
| SELECTED PER-SHARE DATA   |                                  |                          |           |           |          |          |
| NET ASSET VALUE,<br>BEGINNING OF PERIOD                                   | \$ 28.81                         | \$ 25.17                 | \$ 21.53  | \$ 18.57  | \$ 18.85 | \$ 16.57 |
| INCOME FROM INVESTMENT<br>OPERATIONS                                      |                                  |                          |           |           |          |          |
| NET INVESTMENT INCOME   | .19 D                            | .42 D                    | .48       | .42       | .37      | .44      |
| NET REALIZED AND<br>UNREALIZED GAIN<br>(LOSS)                             | 3.87                             | 4.87                     | 4.23      | 3.80      | .53      | 2.62     |
| TOTAL FROM INVESTMENT<br>OPERATIONS                                       | 4.06                             | 5.29                     | 4.71      | 4.22      | .90      | 3.06     |
| LESS DISTRIBUTIONS<br>FROM NET INVESTMENT<br>INCOME                       | (.16)                            | (.49)                    | (.43)     | (.40)     | (.47)    | (.41)    |
| FROM NET REALIZED<br>GAIN   | (2.94)                           | (1.16)                   | (.64)     | (.86)     | (.71)    | (.37)    |
| TOTAL DISTRIBUTIONS   | (3.10)                           | (1.65)                   | (1.07)    | (1.26)    | (1.18)   | (.78)    |
| NET ASSET VALUE, END<br>OF PERIOD   | \$ 29.77                         | \$ 28.81                 | \$ 25.17  | \$ 21.53  | \$ 18.57 | \$ 18.85 |
| TOTAL RETURN B, C   | 15.61%                           | 22.30%                   | 22.75%    | 24.13%    | 4.91%    | 19.08%   |
| RATIOS AND SUPPLEMENTAL DATA  |                                  |                          |           |           |          |          |
| NET ASSETS, END OF<br>PERIOD (IN MILLIONS)                                | \$ 18,498                        | \$ 16,650                | \$ 15,596 | \$ 11,553 | \$ 7,605 | \$ 4,815 |
| RATIO OF EXPENSES TO<br>AVERAGE NET ASSETS                                | .69% A                           | .70%                     | .73%      | .76%      | .83%     | .89%     |
| RATIO OF EXPENSES TO<br>AVERAGE NET ASSETS<br>AFTER EXPENSE<br>REDUCTIONS | .67% A, E                        | .68% E                   | .72% E    | .75% E    | .81% E   | .88% E   |
| RATIO OF NET INVESTMENT<br>INCOME TO AVERAGE<br>NET ASSETS                | 1.34% A                          | 1.58%                    | 2.13%     | 2.37%     | 2.36%    | 2.69%    |
| PORTFOLIO TURNOVER RATE   | 59% A                            | 77%                      | 46%       | 45%       | 75%      | 55%      |
| AVERAGE COMMISSION<br>RATE F  | \$ .0443                         | \$ .0421                 | \$ .0397  |           |          |          |

</TABLE>

A ANNUALIZED

B TOTAL RETURNS FOR PERIODS OF LESS THAN ONE YEAR ARE NOT ANNUALIZED.

C THE TOTAL RETURNS WOULD HAVE BEEN LOWER HAD CERTAIN EXPENSES NOT BEEN REDUCED DURING THE PERIODS SHOWN (SEE NOTE 6 OF NOTES TO FINANCIAL STATEMENTS).

D NET INVESTMENT INCOME PER SHARE HAS BEEN CALCULATED BASED ON AVERAGE SHARES OUTSTANDING DURING THE PERIOD.

E FMR OR THE FUND HAS ENTERED INTO VARYING ARRANGEMENTS WITH THIRD PARTIES WHO EITHER PAID OR REDUCED A PORTION OF THE FUND'S EXPENSES (SEE NOTE 6 OF NOTES TO FINANCIAL STATEMENTS).

F FOR FISCAL YEARS BEGINNING ON OR AFTER SEPTEMBER 1, 1995, A FUND IS REQUIRED TO DISCLOSE ITS AVERAGE COMMISSION RATE PER SHARE FOR SECURITY TRADES ON WHICH COMMISSIONS ARE CHARGED. THIS AMOUNT MAY VARY FROM PERIOD TO PERIOD AND FUND TO FUND DEPENDING ON THE MIX OF TRADES EXECUTED IN VARIOUS MARKETS WHERE TRADING PRACTICES AND COMMISSION RATE STRUCTURES MAY DIFFER.

NOTES TO FINANCIAL STATEMENTS

For the period ended May 31, 1998 (Unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES.

Fidelity Equity-Income II Fund (the fund) is a fund of Fidelity Financial Trust (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 financial statements have been prepared in conformity with generally accepted accounting principles which require management to make certain estimates and assumptions at the date of the financial statements. The following summarizes the significant accounting policies of the fund:

**SECURITY VALUATION.** Securities for which exchange quotations are readily available are valued at the last sale price, or if no sale price, at the closing bid price. Securities (including restricted securities) for which exchange quotations are not readily available (and in certain cases debt securities which trade on an exchange) are valued primarily using dealer-supplied valuations or at their fair value as determined in good faith under consistently applied procedures under the general supervision of the Board of Trustees. Short-term securities with remaining maturities of sixty days or less for which quotations are not readily available are valued at amortized cost or original cost plus accrued interest, both of which approximate current value.

**FOREIGN CURRENCY TRANSLATION.** The accounting records of the fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing rates of exchange at period end. Purchases and sales of securities, income receipts and expense payments are translated into U.S. dollars at the prevailing exchange rate on the respective dates of the transactions.

Net realized gains and losses on foreign currency transactions represent net gains and losses from sales and maturities of foreign currency contracts, disposition of foreign currencies, the difference between the amount of net investment income accrued and the U.S. dollar amount actually received, and gains and losses between trade date and settlement on purchases and sales of securities. The effects of changes in foreign currency exchange rates on investments in securities are included with the net realized and unrealized gain or loss on investment securities.

**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 substantially 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.** Dividend income is recorded on the ex-dividend date, except certain dividends from foreign securities where the ex-dividend date may have passed, are recorded as soon as the fund is informed of the ex-dividend date. Non-cash dividends included in

1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

INVESTMENT INCOME - CONTINUED

dividend income, if any, are recorded at the fair market value of the securities received. Interest income, which includes accretion of original issue discount, is accrued as earned. Investment income is recorded net of foreign taxes withheld where recovery of such taxes is uncertain.

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

**DEFERRED TRUSTEE COMPENSATION.** Under a Deferred Compensation Plan (the Plan) non-interested Trustees must defer receipt of a portion of, and may elect to defer receipt of an additional portion of, their annual compensation. Under the Plan, deferred amounts are treated as though equivalent dollar amounts had been invested in shares of a cross-section of Fidelity funds, including shares of the fund. Deferred amounts remain in the fund until distributed in accordance with the Plan.

DISTRIBUTIONS TO SHAREHOLDERS. Distributions 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, which may result in distribution reclassifications, are primarily due to differing treatments for litigation proceeds, foreign currency transactions, market discount, non-taxable dividends and losses deferred due to wash sales. 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. Undistributed net investment income and accumulated undistributed net realized gain (loss) on investments and foreign currency transactions 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.

## 2. OPERATING POLICIES.

FOREIGN CURRENCY CONTRACTS. The fund generally uses foreign currency contracts to facilitate transactions in foreign-denominated securities. Losses may arise from changes in the value of the foreign currency or if the counterparties do not perform under the contracts' terms. The U.S. dollar value of foreign currency contracts is determined using contractual currency exchange rates established at the time of each trade.

## 2. OPERATING POLICIES - CONTINUED

JOINT TRADING ACCOUNT. Pursuant to an Exemptive Order issued by the Securities and Exchange Commission (the SEC), the fund, along with other affiliated entities of Fidelity Management & Research Company (FMR), may transfer uninvested cash balances into one or more joint trading accounts. These balances are invested in one or more repurchase agreements for U.S. Treasury or Federal Agency obligations.

REPURCHASE AGREEMENTS. The underlying U.S. Treasury or Federal Agency securities are transferred to an account of the fund, or to the Joint Trading Account, at a bank custodian. The securities are marked-to-market daily and maintained at a value at least equal to the principal amount of the repurchase agreement (including accrued interest). FMR, the fund's investment adviser, is responsible for determining that the value of the underlying securities remains in accordance with the market value requirements stated above.

TAXABLE CENTRAL CASH FUND. Pursuant to an Exemptive Order issued by the SEC, the fund may invest in the Taxable Central Cash Fund (the Cash Fund) managed by Fidelity Investments Money Management, Inc., (formerly FMR Texas, Inc.) an affiliate of FMR. The Cash Fund is an open-end money market fund available only to investment companies and other accounts managed by FMR and its affiliates. The Cash Fund seeks preservation of capital, liquidity, and current income by investing in U.S. Treasury securities and repurchase agreements for these securities. Income distributions from the Cash Fund are declared daily and paid monthly from net interest income. Income distributions earned by the fund are recorded as interest income in the accompanying financial statements.

INTERFUND LENDING PROGRAM. Pursuant to an Exemptive Order issued by the SEC, the fund, along with other registered investment companies having management contracts with FMR, may participate in an interfund lending program. This program provides an alternative credit facility allowing the fund to borrow from, or lend money to, other participating funds.

RESTRICTED SECURITIES. The fund is permitted to invest in securities that are subject to legal or contractual restrictions on resale. These securities generally may be resold in transactions exempt from registration or to the public if the securities are registered. Disposal of these securities may involve time-consuming negotiations and expense, and prompt sale at an acceptable price may be difficult. At the end of the period, the fund had no investments in restricted securities (excluding 144A issues).

## 3. PURCHASES AND SALES OF INVESTMENTS.

Purchases and sales of securities, other than short-term securities, aggregated \$5,178,914,000 and \$5,007,060,000, 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 .2500% to .5200% for the

period. The annual individual fund fee rate is .20%. In the event that these rates were lower than the contractual rates in effect during the period, FMR voluntarily implemented the above rates, as they resulted in the same or a lower management fee. For the period, the management fee was equivalent to an annualized rate of .50% of average net assets.

TRANSFER AGENT FEES. Fidelity Service Company, Inc. (FSC), an affiliate of FMR, is the fund's transfer, dividend disbursing and shareholder servicing agent. FSC receives account fees and asset-based fees that vary according to account size and type of account. FSC pays for typesetting, printing and mailing of all shareholder reports, except proxy statements. For the period, the transfer agent fees were equivalent to an annualized rate of .18% of average net assets.

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.

BROKERAGE COMMISSIONS. The fund placed a portion of its portfolio transactions with brokerage firms which are affiliates of FMR. The commissions paid to these affiliated firms were \$1,027,000 for the period.

#### 5. INTERFUND LENDING PROGRAM.

The fund participated in the interfund lending program as a borrower. The maximum loan and the average daily loan balance during the period for which the loan was outstanding amounted to \$38,011,000. The weighted average interest rate was 5.66%.

#### 6. EXPENSE REDUCTIONS.

FMR has directed certain portfolio trades to brokers who paid a portion of the fund's expenses. For the period, the fund's expenses were reduced by \$1,469,000 under this arrangement.

In addition, the fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances were used to reduce a portion of the fund's expenses. During the period, the fund's custodian fees were reduced by \$1,000 under this arrangement.

#### MANAGING YOUR INVESTMENTS

Fidelity offers several ways to conveniently manage your personal investments via your telephone or PC. You can access your account information, conduct trades and research your investments 24 hours a day.

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Fidelity TouchTone Xpress (registered trademark) provides a single toll-free number to access account balances, positions, quotes and trading. It's easy to navigate the service, and on your first call, the system will help you create a personal identification number (PIN) for security.

(PHONE\_GRAPHIC) TOUCHTONE XPRESS

1-800-544-5555

PRESS

For mutual fund and brokerage trading.

For quotes.\*

For account balances and holdings.

To review orders and mutual fund activity.

To change your PIN.

To speak to a Fidelity representative.

0

\*

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(COMPUTER\_GRAPHIC) FIDELITY'S WEB SITE

WWW.FIDELITY.COM

If you are not currently on the Internet, call Fidelity at 1-800-544-7272 for significant savings on Web access from internetMCI.

SM

(COMPUTER\_GRAPHIC)

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TM

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at 1-800-544-7272 or visit our Web site for more information on how to manage your investments via your PC.

\* 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.  
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

2300 Litton Lane - KH1A

Hebron, KY 41048

SELLING SHARES

Fidelity Investments

P.O. Box 660602

Dallas, TX 75266-0602

OVERNIGHT EXPRESS

Fidelity Investments

Attn: Redemptions - CP6I

400 East Las Colinas Blvd.

Irving, TX 75309-5517

GENERAL CORRESPONDENCE

Fidelity Investments

P.O. Box 500

Merrimack, NH 03054-0500

(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

OVERNIGHT EXPRESS

Fidelity Investments

Attn: Redemptions - CP6R

400 East Las Colinas Blvd.

Irving, TX 75309-5517

GENERAL CORRESPONDENCE

Fidelity Investments

P.O. Box 500

Merrimack, NH 03054-0500

TO VISIT FIDELITY

For directions and hours,  
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RETIREMENT GROWTH  
FUND  
SEMIANNUAL REPORT  
MAY 31, 1998  
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PRESIDENT'S MESSAGE

(photo\_of\_Edward\_C\_Johnson\_3d)

DEAR SHAREHOLDER:

While low interest rates and subdued inflation provided support for  
stock and bond markets in the U.S. during the first five months of  
1998, concerns about continuing economic and political difficulties in  
Asia colored their performance. The stock market reached record  
heights due to stronger-than-expected corporate earnings, but  
retreated at times when concerns surfaced about how the Asian  
volatility would affect business prospects. The bond market benefited  
from these retreats, as investors sought alternatives offering lower  
volatility.

While it's impossible to predict the future direction of the markets  
with any degree of certainty, there are certain basic principles that  
can help investors plan for their future needs.

First, investors are encouraged to take a long-term view of their  
portfolios. If you can afford to leave your money invested through the  
inevitable up and down cycles of the financial markets, you will  
greatly reduce your vulnerability to any single decline. We know from

experience, for example, that stock prices have gone up over longer periods of time, have significantly outperformed other types of investments and have stayed ahead of inflation.

Second, you can further manage your investing risk through diversification. A stock mutual fund, for instance, is already diversified, because it invests in many different companies. You can increase your diversification further by investing in a number of different stock funds, or in such other investment categories as bonds. If you have a short investment time horizon, you might want to consider moving some of your investment into a money market fund, which seeks income and a stable share price by investing in high-quality, short-term investments. Of course, it's important to remember that there is no assurance that a money market fund will achieve its goal of maintaining a stable net asset value of \$1.00 per share, and that these types of funds are neither insured nor guaranteed by any agency of the U.S. government.

Finally, no matter what your time horizon or portfolio diversity, it makes good sense to follow a regular investment plan, investing a certain amount of money in a fund at the same time each month or quarter and periodically reviewing your overall portfolio. By doing so, you won't get caught up in the excitement of a rapidly rising market, nor will you buy all your shares at market highs. While this strategy - known as dollar cost averaging - won't assure a profit or protect you from a loss in a declining market, it should help you lower the average cost of your purchases.

If you have questions, please call us at 1-800-544-8888. We are available 24 hours a day, seven days a week to provide you the information you need to make the investments that are right for 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. Total return reflects the change in the value of an investment, assuming reinvestment of the fund's dividend income and capital gains (the profits earned upon the sale of securities that have grown in value).

| CUMULATIVE TOTAL RETURNS           |               |             |              |               |
|------------------------------------|---------------|-------------|--------------|---------------|
| PERIODS ENDED MAY 31, 1998         | PAST 6 MONTHS | PAST 1 YEAR | PAST 5 YEARS | PAST 10 YEARS |
| FIDELITY RETIREMENT GROWTH         | 16.77%        | 28.64%      | 113.31%      | 343.36%       |
| S&P 500 (REGISTERED TRADEMARK)     | 15.06%        | 30.69%      | 172.18%      | 451.71%       |
| CAPITAL APPRECIATION FUNDS AVERAGE | 9.06%         | 22.75%      | 110.89%      | 317.64%       |

CUMULATIVE TOTAL RETURNS show the fund's performance in percentage terms over a set period - in this case, six months, one year, five years or 10 years. For example, if you had invested \$1,000 in a fund that had a 5% return over the past year, the value of your investment would be \$1,050. You can compare the fund's returns to the performance of the Standard & Poor's 500 Index - a widely recognized, unmanaged index of common stocks. To measure how the fund's performance stacked up against its peers, you can compare it to the capital appreciation funds average, which reflects the performance of mutual funds with similar objectives tracked by Lipper Analytical Services, Inc. The past six months average represents a peer group of 247 mutual funds. These benchmarks include reinvested dividends and capital gains, if any, and exclude the effect of sales charges.

| AVERAGE ANNUAL TOTAL RETURNS       |             |              |               |
|------------------------------------|-------------|--------------|---------------|
| PERIODS ENDED MAY 31, 1998         | PAST 1 YEAR | PAST 5 YEARS | PAST 10 YEARS |
| FIDELITY RETIREMENT GROWTH         | 28.64%      | 16.36%       | 16.06%        |
| S&P 500                            | 30.69%      | 22.17%       | 18.62%        |
| CAPITAL APPRECIATION FUNDS AVERAGE | 22.75%      | 15.41%       | 14.45%        |

AVERAGE ANNUAL TOTAL RETURNS take the fund's cumulative return and show you what would have happened if the fund had performed at a constant rate each year. (Note: Lipper calculates average annual total returns by annualizing each fund's total return, then taking an arithmetic average. This may produce a slightly different figure than that obtained by averaging the cumulative total returns and annualizing the result.)

\$10,000 OVER 10 YEARS

|            | Retirement Growth<br>00073 | S&P 500<br>SP001 |
|------------|----------------------------|------------------|
| 1988/05/31 | 10000.00                   | 10000.00         |
| 1988/06/30 | 10519.80                   | 10459.00         |
| 1988/07/31 | 10396.04                   | 10419.26         |
| 1988/08/31 | 10107.26                   | 10065.00         |
| 1988/09/30 | 10412.54                   | 10493.77         |
| 1988/10/31 | 10486.80                   | 10785.50         |
| 1988/11/30 | 10354.79                   | 10631.26         |
| 1988/12/31 | 10332.46                   | 10817.31         |
| 1989/01/31 | 11129.85                   | 11609.14         |
| 1989/02/28 | 10903.22                   | 11320.07         |
| 1989/03/31 | 11188.60                   | 11583.83         |
| 1989/04/30 | 11717.39                   | 12185.03         |
| 1989/05/31 | 11944.02                   | 12678.52         |
| 1989/06/30 | 11776.15                   | 12606.26         |
| 1989/07/31 | 12884.10                   | 13744.60         |
| 1989/08/31 | 13035.18                   | 14013.99         |
| 1989/09/30 | 13228.23                   | 13956.54         |
| 1989/10/31 | 12766.59                   | 13632.75         |
| 1989/11/30 | 13110.72                   | 13910.85         |
| 1989/12/31 | 13474.64                   | 14244.71         |
| 1990/01/31 | 12810.79                   | 13288.89         |
| 1990/02/28 | 12944.70                   | 13460.32         |
| 1990/03/31 | 13051.83                   | 13817.02         |
| 1990/04/30 | 12676.88                   | 13471.59         |
| 1990/05/31 | 13864.22                   | 14785.07         |
| 1990/06/30 | 14176.68                   | 14684.54         |
| 1990/07/31 | 14123.11                   | 14637.54         |
| 1990/08/31 | 12676.88                   | 13314.31         |
| 1990/09/30 | 11328.84                   | 12665.90         |
| 1990/10/31 | 10962.82                   | 12611.44         |
| 1990/11/30 | 11721.65                   | 13426.14         |
| 1990/12/31 | 12106.26                   | 13800.73         |
| 1991/01/31 | 12664.32                   | 14402.44         |
| 1991/02/28 | 13708.43                   | 15432.22         |
| 1991/03/31 | 14068.47                   | 15805.67         |
| 1991/04/30 | 14158.48                   | 15843.61         |
| 1991/05/31 | 14626.52                   | 16528.05         |
| 1991/06/30 | 13690.43                   | 15771.07         |
| 1991/07/31 | 14581.52                   | 16506.00         |
| 1991/08/31 | 15202.59                   | 16897.19         |
| 1991/09/30 | 15391.60                   | 16615.01         |
| 1991/10/31 | 15940.66                   | 16837.65         |
| 1991/11/30 | 15490.62                   | 16159.09         |
| 1991/12/31 | 17624.90                   | 18007.69         |
| 1992/01/31 | 17663.57                   | 17672.75         |
| 1992/02/29 | 17914.94                   | 17902.49         |
| 1992/03/31 | 17363.86                   | 17553.40         |
| 1992/04/30 | 17557.22                   | 18069.47         |
| 1992/05/31 | 17885.94                   | 18158.01         |
| 1992/06/30 | 17228.51                   | 17887.45         |
| 1992/07/31 | 17818.26                   | 18619.05         |
| 1992/08/31 | 17334.86                   | 18237.36         |
| 1992/09/30 | 17537.88                   | 18452.56         |
| 1992/10/31 | 18088.96                   | 18517.14         |
| 1992/11/30 | 19113.78                   | 19148.58         |
| 1992/12/31 | 19492.47                   | 19384.11         |
| 1993/01/31 | 19978.60                   | 19546.93         |
| 1993/02/28 | 19350.19                   | 19812.77         |
| 1993/03/31 | 19895.60                   | 20230.82         |
| 1993/04/30 | 19741.46                   | 19741.23         |
| 1993/05/31 | 20784.86                   | 20270.30         |
| 1993/06/30 | 21057.56                   | 20329.08         |
| 1993/07/31 | 21199.84                   | 20247.77         |
| 1993/08/31 | 22385.52                   | 21015.16         |
| 1993/09/30 | 22468.51                   | 20853.34         |
| 1993/10/31 | 23132.49                   | 21285.00         |
| 1993/11/30 | 22836.07                   | 21082.80         |
| 1993/12/31 | 23806.05                   | 21337.90         |
| 1994/01/31 | 24478.73                   | 22063.39         |
| 1994/02/28 | 24227.59                   | 21465.47         |
| 1994/03/31 | 23117.33                   | 20529.57         |
| 1994/04/30 | 23328.81                   | 20792.35         |
| 1994/05/31 | 23487.42                   | 21133.35         |
| 1994/06/30 | 22971.94                   | 20615.58         |
| 1994/07/31 | 23553.50                   | 21291.77         |
| 1994/08/31 | 24690.21                   | 22164.73         |
| 1994/09/30 | 24412.64                   | 21621.70         |

|            |          |          |
|------------|----------|----------|
| 1994/10/31 | 24518.38 | 22108.19 |
| 1994/11/30 | 23804.64 | 21303.01 |
| 1994/12/31 | 23820.59 | 21618.93 |
| 1995/01/31 | 23924.66 | 22179.51 |
| 1995/02/28 | 24473.12 | 23043.84 |
| 1995/03/31 | 24991.93 | 23723.87 |
| 1995/04/30 | 25644.16 | 24422.54 |
| 1995/05/31 | 25970.27 | 25398.71 |
| 1995/06/30 | 26503.90 | 25988.72 |
| 1995/07/31 | 27793.52 | 26850.50 |
| 1995/08/31 | 28001.05 | 26917.90 |
| 1995/09/30 | 28608.80 | 28053.83 |
| 1995/10/31 | 27986.22 | 27953.68 |
| 1995/11/30 | 28905.26 | 29180.85 |
| 1995/12/31 | 29604.25 | 29742.87 |
| 1996/01/31 | 30044.74 | 30755.32 |
| 1996/02/29 | 30355.66 | 31040.42 |
| 1996/03/31 | 30453.85 | 31339.34 |
| 1996/04/30 | 31419.34 | 31801.28 |
| 1996/05/31 | 31697.53 | 32621.44 |
| 1996/06/30 | 31010.23 | 32745.72 |
| 1996/07/31 | 29259.26 | 31299.02 |
| 1996/08/31 | 29766.55 | 31959.11 |
| 1996/09/30 | 31124.78 | 33757.77 |
| 1996/10/31 | 30879.32 | 34688.81 |
| 1996/11/30 | 32793.94 | 37310.94 |
| 1996/12/31 | 32071.72 | 36571.81 |
| 1997/01/31 | 33611.31 | 38856.82 |
| 1997/02/28 | 33481.47 | 39161.45 |
| 1997/03/31 | 31459.60 | 37552.31 |
| 1997/04/30 | 32498.36 | 39794.18 |
| 1997/05/31 | 34464.58 | 42216.85 |
| 1997/06/30 | 36263.86 | 44108.17 |
| 1997/07/31 | 39547.09 | 47617.85 |
| 1997/08/31 | 38174.44 | 44950.30 |
| 1997/09/30 | 40177.76 | 47412.23 |
| 1997/10/31 | 37302.62 | 45828.66 |
| 1997/11/30 | 37970.40 | 47950.07 |
| 1997/12/31 | 38018.68 | 48773.37 |
| 1998/01/31 | 39304.77 | 49312.81 |
| 1998/02/28 | 43636.87 | 52869.25 |
| 1998/03/31 | 45080.90 | 55576.68 |
| 1998/04/30 | 45780.35 | 56135.78 |
| 1998/05/29 | 44336.32 | 55170.81 |

IMATRL PRASUN SHR\_CHT 19980531 19980612 160249 R00000000000123  
\$10,000 OVER 10 YEARS: Let's say hypothetically that \$10,000 was invested in Fidelity Retirement Growth Fund on May 31, 1988. As the chart shows, by May 31, 1998, the value of the investment would have grown to \$44,336 - a 343.36% increase on the initial investment. For comparison, look at how the Standard & Poor's 500 Index did over the same period. With dividends and capital gains, if any, reinvested, the same \$10,000 would have grown to \$55,171 - a 451.71% increase.

#### UNDERSTANDING

##### PERFORMANCE

How a fund did yesterday is no guarantee of how it will do tomorrow. The stock market, for example, has a history of long-term growth and short-term volatility. In turn, the share price and return of a fund that invests in stocks 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)

#### FUND TALK: THE MANAGER'S OVERVIEW

#### MARKET RECAP

Although renewed concerns about economic difficulties in Asia late in the period tempered the rapid growth of U.S. equity markets, the Standard & Poor's 500 Index - a measure of the U.S. stock market

- still managed to return 15.06% during the six months that ended May 31, 1998. As feared, some U.S. corporations with business exposure to Asia did report disappointing earnings and their stocks were harshly punished. However, investors seemed to adopt a new attitude - one that overlooked short-term troubles and focused on longer-term growth - helping many of these stocks to rebound quickly. In addition, the continued strength of the U.S. economy, combined with low interest rates and low inflation, seemed to buoy the stock market for much of the period. The upward climb of the stock market stagnated in mid- and late May when investors were inundated with worrisome news about the stability of Asian markets. Specifically, the president of Indonesia resigned amidst civil strife and a battle over nuclear testing erupted between Pakistan and India. Concerns about falling demand for U.S. exports particularly hurt technology companies, especially during the intensified investigation of Microsoft by the Justice Department in May. As a result of concerns about these tumultuous events and their potential impact on the U.S. economy, the Dow Jones Industrial Average produced a negative return in May for the first time in 1998 - although the Dow was still up 13.29% for the first five months of 1998.

An interview with Fergus Shiel, Portfolio Manager of Fidelity Retirement Growth Fund

Q. HOW DID THE FUND PERFORM, FERGUS?

A. For the six months that ended May 31, 1998, the fund returned 16.77%, compared to 15.06% for the Standard & Poor's 500 Index and 9.06% for the capital appreciation funds average tracked by Lipper Analytical Services. For the 12 months that ended May 31, 1998, the fund returned 28.64%, while the index and the average had returns of 30.69% and 22.75%, respectively.

Q. WHAT ACCOUNTED FOR THE FUND'S STRONG PERFORMANCE DURING THE SIX-MONTH PERIOD?

A. I took advantage of the U.S. equity market's weakness early in the period to accumulate more high-quality stocks in the technology sector. I bought more of some stocks that the fund already owned and replaced many second- and third-tier technology stocks with the shares of industry leaders. This benefited the fund early in 1998, as the U.S. and Asian markets staged a vigorous rally that was led by technology shares. Toward the end of the period, I took some profits, reducing the fund's technology holdings from 29.4% six months ago to 22.9% at the end of the period. However, initially overweighting the fund - relative to the S&P 500 - with top-flight technology stocks at fairly cheap prices was primarily what enabled it to outperform the index and the average. In addition, I allocated approximately 14% of the fund's capital to selected European stocks, and many of these holdings performed well during the period.

Q. WHAT MADE YOU DECIDE THAT THE TIME WAS RIGHT TO TAKE PROFITS IN TECHNOLOGY STOCKS?

A. I had two reasons. First, I felt increasingly certain that there were serious problems in Asia that would not be corrected overnight, and that companies in some U.S. industries would suffer substantially from reduced demand. The other factor had to do with the global oversupply of components for personal computers. On the one hand, production capacity for components such as semiconductors that have the status of "commodities" - that is, they are readily available from a variety of sources - has increased enormously. However, demand for personal computers has not seen a corresponding rise. This situation has been developing for some time, and I decided that the early-1998 rally offered a good opportunity to lighten up on the stocks of



semiconductor chip manufacturers and semiconductor capital equipment manufacturers.

Q. WHAT STOCKS HELPED THE FUND'S PERFORMANCE?

A. Dell Computer recovered nicely after weakness early in the period. Investors responded positively to Dell's increased penetration of the lucrative server market, as well as the company's low cost structure and rapid inventory turnover. Wal-Mart - the fund's largest holding at the end of the period - continued to do well on the strength of the company's strong sales growth, combined with cost savings due to more efficient inventory management. Bank of Ireland benefited from a healthy increase in the company's loan portfolio, as well as the overall strong growth in the Irish economy.

Q. WHAT HOLDINGS DISAPPOINTED YOU?

A. Intel performed poorly. The company lost market share to other computer chip makers in the rapidly growing low-price end of the personal computer market. Another technology holding - KLA-Tencor - was hurt by reduced demand for semiconductor capital equipment because of the slowing Asian economies.

Q. WHAT'S YOUR OUTLOOK, FERGUS?

A. I believe the overall outlook for U.S. stocks is quite favorable. We have a modestly but steadily growing economy, virtually no inflation and stable interest rates that, on balance, may edge lower over the next year or two. As I mentioned, however, there are pockets of weakness being experienced by companies dependent on Asia for a significant percentage of their business. I believe that the companies that succeed in this environment will be those that operate efficiently and have strong market shares. Ideally, they will sell a proprietary product or have some other way of defending their market share. In my opinion, this is not a time for just swimming with the tide. It is a time for dynamic management. These are some of the qualities I look for when selecting investments for the fund.

THE VIEWS EXPRESSED IN THIS REPORT REFLECT THOSE OF THE PORTFOLIO MANAGER ONLY THROUGH THE END OF THE PERIOD OF THE REPORT AS STATED ON THE COVER. THE MANAGER'S VIEWS ARE SUBJECT TO CHANGE AT ANY TIME BASED ON MARKET AND OTHER CONDITIONS.

FERGUS SHIEL ON THE ASIAN  
SLOWDOWN AND GROWTH  
PROSPECTS IN THE TECHNOLOGY  
SECTOR:

"Although the passage of time hasn't made it any easier to quantify what the damage from Asia will be, one thing has become clearer - the slowing Asian economies will affect the U.S. economy on a very selective basis, not across the board.

"In the technology sector, for example, this means if a company buys components from Asia, as most U.S. personal computer makers do, it can do so at a lower cost than before because many Asian currencies have depreciated sharply against the U.S. dollar. However, if you run a company that sells capital equipment to Asian semiconductor manufacturers, you are facing reduced demand, because cheaper Asian currencies make it more costly for those manufacturers to purchase your product.

"At the present time, I believe the best growth areas in the technology sector are software and network construction. There is tremendous worldwide demand for networks to carry voice and especially data traffic. In fact, I expect the data network market to increase to the point where we consider voice networks as merely subsets of data networks. The growth potential is extremely dynamic there, and I will be looking for companies through which the fund can benefit from these high-growth areas."

FUND FACTS

GOAL: to provide capital appreciation by investing mainly in common stocks with the potential for growth

FUND NUMBER: 073

TRADING SYMBOL: FDFFX

START DATE: March 25, 1983

SIZE: as of May 31, 1998, more than \$4.4 billion

MANAGER: J. Fergus Shiel, since 1996; manager, Fidelity Trend Fund, 1995-1996;

Fidelity Dividend Growth Fund, 1994-1995; Fidelity

Select Broadcast & Media Portfolio, 1993; Fidelity Select

Telecommunications Portfolio, 1992-1994; Fidelity Select

Consumer Products Portfolio, 1991-1993; joined Fidelity in 1989

(checkmark)

INVESTMENT CHANGES

TOP TEN STOCKS AS OF MAY 31, 1998

|                               | % OF FUND'S INVESTMENTS | % OF FUND'S INVESTMENTS IN THESE STOCKS 6 MONTHS AGO |
|-------------------------------|-------------------------|--|
| WAL-MART STORES, INC.         | 4.0                     | 5.3  |
| PHILIP MORRIS COMPANIES, INC. | 2.6                     | 1.6  |
| EXXON CORP.                   | 2.4                     | 0.0  |
| RJR NABISCO HOLDINGS CORP.    | 1.9                     | 0.0  |
| DELL COMPUTER CORP.           | 1.9                     | 1.8  |
| HOUSEHOLD INTERNATIONAL, INC. | 1.9                     | 0.6  |
| FIRST CHICAGO NBD CORP.       | 1.8                     | 0.0  |
| AMERICA ONLINE, INC.          | 1.7                     | 0.0  |
| MERCK & CO., INC.             | 1.7                     | 0.0  |
| GENERAL ELECTRIC CO.          | 1.7                     | 3.1  |

TOP FIVE MARKET SECTORS AS OF MAY 31, 1998

|                    | % OF FUND'S INVESTMENTS | % OF FUND'S INVESTMENTS IN THESE MARKET SECTORS 6 MONTHS AGO |
|--------------------|-------------------------|--|
| TECHNOLOGY         | 22.9                    | 29.4   |
| FINANCE            | 16.1                    | 14.0   |
| HEALTH             | 9.4                     | 10.1   |
| RETAIL & WHOLESALE | 8.3                     | 11.5   |
| NONDURABLES        | 8.1                     | 10.0   |

ASSET ALLOCATION (% OF FUND'S INVESTMENTS)

AS OF MAY 31, 1998 \* AS OF NOVEMBER 30, 1997 \*\*

ROW: 1, COL: 1, VALUE: 96.8

ROW: 1, COL: 2, VALUE: 3.2

STOCKS 97.3%

SHORT-TERM

INVESTMENTS 2.7%

FOREIGN

INVESTMENTS 13.1%

STOCKS 96.8%

SHORT-TERM

INVESTMENTS 3.2%

FOREIGN

INVESTMENTS 15.6%

ROW: 1, COL: 1, VALUE: 97.3

ROW: 1, COL: 2, VALUE: 2.7

\*

\*\*

INVESTMENTS MAY 31, 1998 (UNAUDITED)

SHOWING PERCENTAGE OF TOTAL VALUE OF INVESTMENT IN SECURITIES

COMMON STOCKS - 96.8%

SHARES VALUE (NOTE 1)

(000S)

AEROSPACE & DEFENSE - 0.2%

Textron, Inc. 100,000 \$ 7,419

BASIC INDUSTRIES - 2.3%

CHEMICALS & PLASTICS - 1.8%

Crompton & Knowles Corp. 266,800 7,187

Cytec Industries, Inc. (a) 826,800 40,513

Morton International, Inc. 740,200 22,530

PPG Industries, Inc. 100,000 7,287

Valspar Corp. 100,600 4,062

81,579

PACKAGING & CONTAINERS - 0.1%

Owens-Illinois, Inc. (a) 102,700 4,615

PAPER & FOREST PRODUCTS - 0.4%

Pentair, Inc. 401,500 17,616

TOTAL BASIC INDUSTRIES 103,810

CONSTRUCTION & REAL ESTATE - 0.0%

BUILDING MATERIALS - 0.0%

Hoganas AB Class B Free shares 26,400 1,012

DURABLES - 2.7%

AUTOS, TIRES, & ACCESSORIES - 1.3%

Federal-Mogul Corp. 560,500 33,174

ITT Industries, Inc. 150,000 5,531

Mayflower Corp. 1,500,000 5,870

TRW, Inc. 237,100 12,700

57,275

CONSUMER DURABLES - 0.2%

Sola Group Ltd. 50,000 1,978

Waterford Wedgwood PLC Unit 4,300,000 6,731

8,709

TEXTILES & APPAREL - 1.2%

Fruit of the Loom, Inc. Class A (a) 571,900 20,553

Pillowtex Corp. 303,000 14,165

COMMON STOCKS - CONTINUED

SHARES VALUE (NOTE 1)

(000S)

DURABLES - CONTINUED

TEXTILES & APPAREL - CONTINUED

Warnaco Group, Inc. Class A 307,300 \$ 12,676

Westpoint Stevens, Inc. Class A (a) 278,400 9,118

56,512

TOTAL DURABLES 122,496

ENERGY - 5.0%

ENERGY SERVICES - 2.0%

Schlumberger Ltd. 500,000 39,031

Smedvig AS 576,800 9,438

Western Atlas, Inc. (a) 463,000 40,079

88,548

OIL & GAS - 3.0%

Cooper Cameron Corp. (a) 477,200 28,393

Exxon Corp. 1,520,000 107,160

135,553

TOTAL ENERGY 224,101

FINANCE - 16.1%

BANKS - 7.5%

Allied Irish Banks PLC 1,224,297 16,040

Bank of Ireland, Inc. 3,522,684 66,398

Bank of New York Co., Inc. 210,900 12,891

Comerica, Inc. 628,800 41,344

Credit Suisse Group (Reg.) 191,000 41,947

Julius Baer Holding AG 11,700 33,657

National City Corp. 645,800 43,753

Providian Financial Corp. 853,400 54,298

Skandinaviska Enskilda Banken Class A Free shares 1,175,000 19,523

SunTrust Banks, Inc. 36,900 2,915

U.S. Bancorp 50,000 1,956

Wachovia Corp. 50,000 4,003

338,725

COMMON STOCKS - CONTINUED

SHARES VALUE (NOTE 1)

(000S)  
FINANCE - CONTINUED  
CREDIT & OTHER FINANCE - 5.0%  
American Express Co. 200,000 \$ 20,525  
Associates First Capital Corp. 563,721 42,173  
First Chicago NBD Corp. 902,800 78,939  
Household International, Inc. 630,200 85,274  
226,911  
FEDERAL SPONSORED CREDIT - 1.5%  
Freddie Mac 1,027,400 46,747  
Fannie Mae 354,500 21,226  
67,973  
INSURANCE - 1.9%  
ACE Ltd. 300,000 10,688  
Marsh & McLennan Companies, Inc. 141,100 12,355  
Progressive Corp. 188,900 26,044  
Sampo Insurance Co. Ltd. 100,000 4,641  
Torchmark Corp. 699,900 30,008  
83,736  
SECURITIES INDUSTRY - 0.2%  
Investors Group Inc. 200,000 7,289  
TOTAL FINANCE 724,634  
HEALTH - 9.4%  
DRUGS & PHARMACEUTICALS - 6.4%  
Elan Corp. PLC ADR (a) 785,100 48,038  
ICON PLC sponsored ADR 131,000 3,341  
Lilly (Eli) & Co. 364,300 22,382  
Merck & Co., Inc. 644,600 75,458  
Quintiles Transnational Corp. (a) 535,300 26,029  
Rexall Sundown, Inc. 50,000 1,675  
Schering-Plough Corp. 621,900 52,045  
Warner-Lambert Co. 952,300 60,769  
289,737  
MEDICAL EQUIPMENT & SUPPLIES - 2.6%  
AmeriSource Health Corp. Class A (a) 361,500 19,656  
Cooper Companies, Inc. 148,300 5,858  
Johnson & Johnson 400,000 27,625  
COMMON STOCKS - CONTINUED  
SHARES VALUE (NOTE 1)  
(000S)  
HEALTH - CONTINUED  
MEDICAL EQUIPMENT & SUPPLIES - CONTINUED  
McKesson Corp. 253,300 \$ 19,789  
Sofamor/Danek Group, Inc. (a) 152,500 12,677  
Steris Corp. (a) 495,000 30,937  
116,542  
MEDICAL FACILITIES MANAGEMENT - 0.4%  
Universal Health Services, Inc. Class B (a) 332,800 18,304  
TOTAL HEALTH 424,583  
HOLDING COMPANIES - 0.9%  
Kinnevik Investment B Free shares 1,153,400 42,072  
INDUSTRIAL MACHINERY & EQUIPMENT - 4.3%  
ELECTRICAL EQUIPMENT - 4.0%  
Alcatel Alsthom Compagnie Generale d'Electricite SA (RFD) 138,000  
29,489  
Ericsson (L.M.) Telephone Co. Class B ADR 1,000,000 27,875  
General Electric Co. 900,000 75,037  
Loral Space & Communications Ltd. (a) 700,000 17,763  
Philips Electronics NV (Bearer) 184,600 17,517  
Siemens AG 160,000 10,380  
178,061  
INDUSTRIAL MACHINERY & EQUIPMENT - 0.3%  
ASM Lithography Holding NV (a) 303,900 11,644  
Gasonics International Corp. (a) 334,300 3,468  
15,112  
TOTAL INDUSTRIAL MACHINERY & EQUIPMENT 193,173  
MEDIA & LEISURE - 6.6%  
BROADCASTING - 0.3%  
Clear Channel Communications, Inc. 100,000 9,587  
USA Networks, Inc. 56,500 1,384  
10,971  
LEISURE DURABLES & TOYS - 1.1%  
Harley-Davidson, Inc. 704,000 25,168  
Mattel, Inc. 677,800 25,672  
50,840  
COMMON STOCKS - CONTINUED  
SHARES VALUE (NOTE 1)  
(000S)  
MEDIA & LEISURE - CONTINUED  
LODGING & GAMING - 1.5%

Jurys Hotel Group PLC 1,661,600 \$ 15,172  
 Mirage Resorts, Inc. (a) 2,571,200 53,513  
 68,685  
 PUBLISHING - 3.6%  
 ACNielsen Corp. 314,700 8,123  
 American Greetings Corp. Class A 880,000 41,800  
 Cognizant Corp. 760,900 40,517  
 Harte Hanks Communications, Inc. 1,011,300 22,881  
 Houghton Mifflin Co. 532,700 18,511  
 Independent Newspapers PLC 3,734,999 22,594  
 VNU Ord. 173,100 5,931  
 160,357  
 RESTAURANTS - 0.1%  
 Foodmaker, Inc. 300,000 5,063  
 TOTAL MEDIA & LEISURE 295,916  
 NONDURABLES - 8.1%  
 AGRICULTURE - 0.4%  
 IAWS Group PLC 2,956,075 12,945  
 IAWS Group PLC Class A (Reg.) 37,600 153  
 Royal Canin SA 48,800 3,023  
 Royal Canin SA (c) 61,200 3,792  
 19,913  
 FOODS - 0.7%  
 Avonmore Waterford Group PLC 1,055,000 4,620  
 Greencore Group PLC 2,957,779 16,295  
 Kerry Group PLC Class A 661,500 9,531  
 30,446  
 HOUSEHOLD PRODUCTS - 2.0%  
 Clorox Co. 387,800 32,381  
 Gillette Co. 479,500 56,162  
 88,543  
 COMMON STOCKS - CONTINUED  
 SHARES VALUE (NOTE 1)  
 (000S)  
 NONDURABLES - CONTINUED  
 TOBACCO - 5.0%  
 Philip Morris Companies, Inc. 3,164,000 \$ 118,254  
 RJR Nabisco Holdings Corp. 3,082,600 86,891  
 UST, Inc. 866,200 23,063  
 228,208  
 TOTAL NONDURABLES 367,110  
 RETAIL & WHOLESALE - 8.3%  
 APPAREL STORES - 0.1%  
 Saks Holdings, Inc. (a) 251,400 5,924  
 DRUG STORES - 0.5%  
 Walgreen Co. 653,600 22,998  
 GENERAL MERCHANDISE STORES - 4.7%  
 Arnotts PLC (d) 1,425,287 12,886  
 Costco Companies, Inc. 300,000 17,363  
 Wal-Mart Stores, Inc. 3,304,300 182,355  
 212,604  
 GROCERY STORES - 1.5%  
 Safeway, Inc. (a) 1,776,600 64,735  
 RETAIL & WHOLESALE, MISCELLANEOUS - 1.5%  
 Best Buy Co., Inc. (a) 336,400 10,975  
 Office Depot, Inc. (a) 881,700 26,011  
 Signet Group PLC (a) 10,725,000 8,313  
 Toys "R" Us, Inc. (a) 797,700 21,139  
 66,438  
 TOTAL RETAIL & WHOLESALE 372,699  
 SERVICES - 4.5%  
 ADVERTISING - 2.4%  
 ADVO, Inc. (a)(d) 1,539,500 38,583  
 CKS Group, Inc. 100,000 2,000  
 Omnicom Group, Inc. 1,411,200 66,062  
 106,645  
 COMMON STOCKS - CONTINUED  
 SHARES VALUE (NOTE 1)  
 (000S)  
 SERVICES - CONTINUED  
 LEASING & RENTAL - 0.7%  
 Viacom, Inc. Class B (non-vtg.) (a) 598,900 \$ 32,940  
 PRINTING - 0.3%  
 Valassis Communications, Inc. (a) 451,900 15,901  
 SERVICES - 1.1%  
 Day Runner, Inc. 235,500 5,181  
 Ecolab, Inc. 1,346,000 41,557  
 Marlborough International PLC 622,000 2,900  
 49,638  
 TOTAL SERVICES 205,124

TECHNOLOGY - 22.9%

COMMUNICATIONS EQUIPMENT - 3.9%

Advanced Fibre Communication, Inc. (a) 213,900 7,928

Ciena Corp. (a) 360,000 18,720

Cisco Systems, Inc. (a) 918,700 69,476

Lucent Technologies, Inc. 550,000 39,016

Nokia Corp. AB sponsored ADR 226,600 14,715

Tellabs, Inc. (a) 386,400 26,553  
176,408

COMPUTER SERVICES & SOFTWARE - 9.7%

Affiliated Computer Services, Inc. Class A (a) 716,200 23,857

America Online, Inc. (a) 929,500 77,439

Atos SA (a) 75,305 13,829

Atos SA (a)(c) 31,119 5,715

CBT Group PLC sponsored ADR 80,000 3,980

Deltek Systems, Inc. 235,000 4,964

Equifax, Inc. 447,500 16,278

First Data Corp. 1,121,800 37,300

HBO & Co. 448,600 25,893

Information Management Resources, Inc. 100,000 2,253

Microsoft Corp. (a) 753,800 63,931

PeopleSoft, Inc. (a) 1,128,600 49,306

Saville Systems PLC sponsored ADR (a) 230,000 9,186

Siebel Systems, Inc. (a) 2,057,721 46,813

SunGard Data Systems, Inc. (a) 649,100 22,151

COMMON STOCKS - CONTINUED

SHARES VALUE (NOTE 1)

(000S)

TECHNOLOGY - CONTINUED

COMPUTER SERVICES & SOFTWARE - CONTINUED

Technology Solutions, Inc. 100,000 \$ 3,019

Yahoo, Inc. 282,500 30,934  
436,848

COMPUTERS & OFFICE EQUIPMENT - 3.0%

CDW Computer Centers, Inc. (a) 224,800 9,259

Dell Computer Corp. (a) 1,051,600 86,658

EMC Corp. (a) 555,600 23,023

Fore Systems, Inc. 350,000 7,700

Ingram Micro, Inc. Class A 69,500 3,062

Lexmark International Group, Inc. 100,000 5,550  
135,252

ELECTRONIC INSTRUMENTS - 1.5%

Applied Materials, Inc. (a) 475,600 15,219

KLA-Tencor Corp. (a) 762,600 25,738

Novellus Systems, Inc. (a) 535,200 20,237

Teradyne, Inc. (a) 200,000 6,150  
67,344

ELECTRONICS - 4.8%

Alliance Semiconductor Corp. (a) 1,590,800 7,656

DII Group, Inc. (a) 842,800 15,855

Etec Systems, Inc. (a) 921,600 33,696

Electroglas, Inc. (a) 588,800 8,022

Intel Corp. 750,000 53,578

Lattice Semiconductor Corp. (a) 663,400 25,624

Micrel, Inc. (a) 361,400 11,305

Micron Technology, Inc. (a) 1,219,300 28,730

Molex, Inc. 285,000 7,944

Sanmina Corp. (a) 204,900 15,957

Schneider SA 70,400 5,947  
214,314

TOTAL TECHNOLOGY 1,030,166

COMMON STOCKS - CONTINUED

SHARES VALUE (NOTE 1)

(000S)

TRANSPORTATION - 0.6%

AIR TRANSPORTATION - 0.3%

Ryanair Holdings PLC sponsored ADR 370,800 \$ 13,024

SHIPPING - 0.3%

Irish Continental Group PLC 893,400 16,028

TOTAL TRANSPORTATION 29,052

UTILITIES - 4.9%

CELLULAR - 0.8%

Cellular Communications International, Inc. 200,000 9,425

SkyTel Communications, Inc. 204,000 4,616

Teleglobe, Inc. 400,000 20,742  
34,783

TELEPHONE SERVICES - 4.1%

ESAT Telecom Group PLC sponsored ADR (a) 422,300 12,669

LCI International, Inc. (a) 476,600 17,843

MCI Communications Corp. 1,082,200 57,864

SBC Communications, Inc. 583,600 22,687  
 Southern New England Telecommunications Corp. 354,100 22,795  
 WorldCom, Inc. (a) 1,186,400 53,980  
 187,838  
 TOTAL UTILITIES 222,621  
 TOTAL COMMON STOCKS  
 (Cost \$3,726,879) 4,365,988  
 CASH EQUIVALENTS - 3.2%  
 Taxable Central Cash Fund (b)  
 (Cost \$142,737) 142,736,560 142,737  
 TOTAL INVESTMENT IN SECURITIES - 100%  
 (Cost \$3,869,616) \$ 4,508,725

LEGEND  
 (a) Non-income producing  
 (b) At period end, the seven-day yield of the Taxable Central Cash Fund was 5.56%. The yield refers to the income earned by investing in the fund over the seven-day period, expressed as an annual percentage.  
 (c) 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 \$9,507,000 or 0.2% of net assets.  
 (d) Affiliated company (see Note 6 of Notes to Financial Statements).

OTHER INFORMATION  
 Distribution of investments by country of issue, as a percentage of total value of investment in securities, is as follows:

|                                    |        |
|------------------------------------|--------|
| United States                      | 84.4%  |
| Ireland                            | 6.5    |
| Sweden                             | 2.0    |
| Switzerland                        | 1.7    |
| France                             | 1.4    |
| Others (individually less than 1%) | 4.0    |
| TOTAL                              | 100.0% |

INCOME TAX INFORMATION  
 At May 31, 1998, the aggregate cost of investment securities for income tax purposes was \$3,875,280,000. Net unrealized appreciation aggregated \$633,445,000, of which \$770,645,000 related to appreciated investment securities and \$137,200,000 related to depreciated investment securities.

The fund intends to elect to defer to its fiscal year ending November 30, 1998 approximately \$8,339,000 of losses recognized during the period November 1, 1997 to November 30, 1997.

FINANCIAL STATEMENTS

| <TABLE><br><CAPTION><br><S>   | <C>          | <C>          |
|---|--------------|--------------|
| STATEMENT OF ASSETS AND LIABILITIES<br>AMOUNTS IN THOUSANDS (EXCEPT PER-SHARE AMOUNT) | MAY 31, 1998 | (UNAUDITED)  |
| ASSETS  |              |              |
| INVESTMENT IN SECURITIES, AT VALUE (COST \$3,869,616) -<br>SEE ACCOMPANYING SCHEDULE  |              | \$ 4,508,725 |
| FOREIGN CURRENCY HELD AT VALUE (COST \$1,640)   |              | 1,634        |
| RECEIVABLE FOR INVESTMENTS SOLD   |              | 67,782       |
| RECEIVABLE FOR FUND SHARES SOLD   |              | 4,381        |
| DIVIDENDS RECEIVABLE  |              | 5,077        |
| INTEREST RECEIVABLE   |              | 452          |
| OTHER RECEIVABLES   |              | 1,867        |
| TOTAL ASSETS  |              | 4,589,918    |
| LIABILITIES   |              |              |
| PAYABLE FOR INVESTMENTS PURCHASED   | \$ 97,864    |              |
| PAYABLE FOR FUND SHARES REDEEMED  | 14,777       |              |
| ACCRUED MANAGEMENT FEE  | 1,584        |              |
| OTHER PAYABLES AND ACCRUED EXPENSES   | 881          |              |

|  |              |
|--|--------------|
| TOTAL LIABILITIES  | 115,106      |
| NET ASSETS   | \$ 4,474,812 |
| NET ASSETS CONSIST OF:   |              |
| PAID IN CAPITAL  | \$ 3,432,934 |
| UNDISTRIBUTED NET INVESTMENT INCOME  | 7,415        |
| ACCUMULATED UNDISTRIBUTED NET REALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY TRANSACTIONS        | 395,383      |
| NET UNREALIZED APPRECIATION (DEPRECIATION) ON INVESTMENTS AND ASSETS AND LIABILITIES IN FOREIGN CURRENCIES | 639,080      |
| NET ASSETS, FOR 227,743 SHARES OUTSTANDING   | \$ 4,474,812 |
| NET ASSET VALUE, OFFERING PRICE AND REDEMPTION PRICE PER SHARE (\$4,474,812 (DIVIDED BY) 227,743 SHARES)   | \$19.65      |

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STATEMENT OF OPERATIONS

AMOUNTS IN THOUSANDS

SIX MONTHS ENDED MAY 31, 1998 (UNAUDITED)

|  |           |           |
|--|-----------|-----------|
| INVESTMENT INCOME  |           | \$ 17,255 |
| DIVIDENDS (INCLUDING \$163 RECEIVED FROM AFFILIATED ISSUERS) |           |           |
| INTEREST   |           | 2,697     |
| TOTAL INCOME   |           | 19,952    |
| EXPENSES   |           |           |
| MANAGEMENT FEE   | \$ 12,709 |           |
| BASIC FEE  |           |           |
| PERFORMANCE ADJUSTMENT                                       | (4,006)   |           |
| TRANSFER AGENT FEES  | 3,863     |           |
| ACCOUNTING FEES AND EXPENSES                                 | 406       |           |
| NON-INTERESTED TRUSTEES' COMPENSATION                        | 19        |           |
| CUSTODIAN FEES AND EXPENSES                                  | 165       |           |
| REGISTRATION FEES  | 96        |           |
| AUDIT  | 39        |           |
| LEGAL  | 15        |           |
| MISCELLANEOUS  | 7         |           |
| TOTAL EXPENSES BEFORE REDUCTIONS                             | 13,313    |           |
| EXPENSE REDUCTIONS   | (822)     | 12,491    |
| NET INVESTMENT INCOME  |           | 7,461     |
| REALIZED AND UNREALIZED GAIN (LOSS)                          |           |           |
| NET REALIZED GAIN (LOSS) ON:                                 |           |           |
| INVESTMENT SECURITIES  | 435,963   |           |
| FOREIGN CURRENCY TRANSACTIONS                                | (388)     | 435,575   |
| CHANGE IN NET UNREALIZED APPRECIATION (DEPRECIATION) ON:     |           |           |
| INVESTMENT SECURITIES  | 204,956   |           |
| ASSETS AND LIABILITIES IN FOREIGN CURRENCIES                 | (17)      | 204,939   |



|   |            |
|---|------------|
| NET GAIN (LOSS)   | 640,514    |
| NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS | \$ 647,975 |

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STATEMENT OF CHANGES IN NET ASSETS  
AMOUNTS IN THOUSANDS

<C>

<C>

SIX MONTHS ENDED  
MAY 31, 1998  
(UNAUDITED)

YEAR ENDED  
NOVEMBER 30,  
1997

INCREASE (DECREASE) IN NET ASSETS

|   |           |             |
|---|-----------|-------------|
| OPERATIONS  | \$ 7,461  | \$ 26,600   |
| NET INVESTMENT INCOME   |           |             |
| NET REALIZED GAIN (LOSS)  | 435,575   | 646,367     |
| CHANGE IN NET UNREALIZED APPRECIATION (DEPRECIATION)                    | 204,939   | (88,783)    |
| NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS         | 647,975   | 584,184     |
| DISTRIBUTIONS TO SHAREHOLDERS FROM NET INVESTMENT INCOME                | (25,385)  | (53,940)    |
| FROM NET REALIZED GAIN  | (665,849) | (425,251)   |
| TOTAL DISTRIBUTIONS   | (691,234) | (479,191)   |
| SHARE TRANSACTIONS  |           |             |
| NET PROCEEDS FROM SALES OF SHARES                                       | 461,151   | 466,641     |
| REINVESTMENT OF DISTRIBUTIONS   | 690,187   | 478,301     |
| COST OF SHARES REDEEMED   | (646,945) | (1,241,607) |
| NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM SHARE TRANSACTIONS | 504,393   | (296,665)   |
| TOTAL INCREASE (DECREASE) IN NET ASSETS                                 | 461,134   | (191,672)   |

NET ASSETS

|   |              |              |
|---|--------------|--------------|
| BEGINNING OF PERIOD   | 4,013,678    | 4,205,350    |
| END OF PERIOD (INCLUDING UNDISTRIBUTED NET INVESTMENT INCOME OF \$7,415 AND \$25,339, RESPECTIVELY) | \$ 4,474,812 | \$ 4,013,678 |

OTHER INFORMATION  
SHARES

|   |          |          |
|---|----------|----------|
| SOLD                                    | 24,057   | 24,402   |
| ISSUED IN REINVESTMENT OF DISTRIBUTIONS | 42,187   | 27,647   |
| REDEEMED                                | (34,592) | (65,810) |
| NET INCREASE (DECREASE)                 | 31,652   | (13,761) |

</TABLE>

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<CAPTION>

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FINANCIAL HIGHLIGHTS

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SIX MONTHS ENDED  
MAY 31, 1998

YEARS ENDED NOVEMBER 30,

(UNAUDITED)

1997

1996

1995

1994

1993

SELECTED PER-SHARE DATA

|                  |          |          |          |          |          |          |
|------------------|----------|----------|----------|----------|----------|----------|
| NET ASSET VALUE, | \$ 20.47 | \$ 20.04 | \$ 19.50 | \$ 18.01 | \$ 19.26 | \$ 19.77 |
|------------------|----------|----------|----------|----------|----------|----------|

## BEGINNING OF PERIOD

INCOME FROM INVESTMENT  
OPERATIONS

|   |          |          |          |          |          |          |
|---|----------|----------|----------|----------|----------|----------|
| NET INVESTMENT INCOME                               | .03 D    | .13 D    | .26      | .34      | .19      | .09      |
| NET REALIZED AND<br>UNREALIZED GAIN<br>(LOSS)       | 2.69     | 2.61     | 2.14     | 3.09     | .58      | 3.09     |
| TOTAL FROM INVESTMENT<br>OPERATIONS                 | 2.72     | 2.74     | 2.40     | 3.43     | .77      | 3.18     |
| LESS DISTRIBUTIONS<br>FROM NET INVESTMENT<br>INCOME | (.13)    | (.26)    | (.34)    | (.20)    | (.14)    | (.16)    |
| FROM NET REALIZED<br>GAIN                           | (3.41)   | (2.05)   | (1.52)   | (1.74)   | (1.88)   | (3.53)   |
| TOTAL DISTRIBUTIONS                                 | (3.54)   | (2.31)   | (1.86)   | (1.94)   | (2.02)   | (3.69)   |
| NET ASSET VALUE, END<br>OF PERIOD                   | \$ 19.65 | \$ 20.47 | \$ 20.04 | \$ 19.50 | \$ 18.01 | \$ 19.26 |
| TOTAL RETURN B, C                                   | 16.77%   | 15.78%   | 13.45%   | 21.43%   | 4.24%    | 19.47%   |

## RATIOS AND SUPPLEMENTAL DATA

|   |           |          |          |          |          |          |
|---|-----------|----------|----------|----------|----------|----------|
| NET ASSETS, END OF<br>PERIOD (IN MILLIONS)                                | \$ 4,475  | \$ 4,014 | \$ 4,205 | \$ 3,970 | \$ 3,163 | \$ 2,688 |
| RATIO OF EXPENSES TO<br>AVERAGE NET ASSETS                                | .63% A    | .64%     | .74%     | .99%     | 1.07%    | 1.05%    |
| RATIO OF EXPENSES TO<br>AVERAGE NET ASSETS<br>AFTER EXPENSE<br>REDUCTIONS | .59% A, E | .59% E   | .70% E   | .99%     | 1.07%    | 1.05%    |
| RATIO OF NET INVESTMENT<br>INCOME TO AVERAGE<br>NET ASSETS                | .35% A    | .66%     | 1.26%    | 1.92%    | 1.13%    | .80%     |
| PORTFOLIO TURNOVER RATE   | 245% A    | 205%     | 230%     | 108%     | 72%      | 101%     |
| AVERAGE COMMISSION<br>RATE F  | \$ .0396  | \$ .0377 | \$ .0307 |          |          |          |

&lt;/TABLE&gt;

A ANNUALIZED

B TOTAL RETURNS FOR PERIODS OF  
LESS THAN ONE YEAR ARE NOT ANNUALIZED.C THE TOTAL RETURNS WOULD HAVE BEEN LOWER  
HAD CERTAIN EXPENSES NOT BEEN REDUCED  
DURING THE PERIODS SHOWN (SEE NOTE 5 OF  
NOTES TO FINANCIAL STATEMENTS).D NET INVESTMENT INCOME PER SHARE HAS BEEN  
CALCULATED BASED ON AVERAGE SHARES OUTSTANDING  
DURING THE PERIOD.E FMR OR THE FUND HAS ENTERED INTO VARYING  
ARRANGEMENTS WITH THIRD PARTIES WHO EITHER PAID  
OR REDUCED A PORTION OF THE FUND'S EXPENSES  
(SEE NOTE 5 OF NOTES TO FINANCIAL STATEMENTS).F FOR FISCAL YEARS BEGINNING ON OR AFTER  
SEPTEMBER 1, 1995, A FUND IS REQUIRED TO DISCLOSE  
ITS AVERAGE COMMISSION RATE PER SHARE FOR SECURITY  
TRADES ON WHICH COMMISSIONS ARE CHARGED. THIS AMOUNT  
MAY VARY FROM PERIOD TO PERIOD AND FUND TO FUND  
DEPENDING ON THE MIX OF TRADES EXECUTED IN VARIOUS  
MARKETS WHERE TRADING PRACTICES AND COMMISSION RATE  
STRUCTURES MAY DIFFER.

## NOTES TO FINANCIAL STATEMENTS

For the period ended May 31, 1998 (Unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES.

Fidelity Retirement Growth Fund (the fund) is a fund of Fidelity Financial Trust (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 financial statements have been prepared in conformity with generally accepted accounting principles which require management to make certain estimates and assumptions at the date of the financial statements. The following summarizes the significant accounting policies of the fund:

**SECURITY VALUATION.** Securities for which exchange quotations are readily available are valued at the last sale price, or if no sale price, at the closing bid price. Securities (including restricted securities) for which exchange quotations are not readily available (and in certain cases debt securities which trade on an exchange) are valued primarily using dealer-supplied valuations or at their fair value as determined in good faith under consistently applied procedures under the general supervision of the Board of Trustees. Short-term securities with remaining maturities of sixty days or less for which quotations are not readily available are valued at amortized cost or original cost plus accrued interest, both of which approximate current value.

**FOREIGN CURRENCY TRANSLATION.** The accounting records of the fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing rates of exchange at period end. Purchases and sales of securities, income receipts and expense payments are translated into U.S. dollars at the prevailing exchange rate on the respective dates of the transactions.

Net realized gains and losses on foreign currency transactions represent net gains and losses from sales and maturities of foreign currency contracts and foreign currency options, disposition of foreign currencies, the difference between the amount of net investment income accrued and the U.S. dollar amount actually received, and gains and losses between trade date and settlement on purchases and sales of securities. The effects of changes in foreign currency exchange rates on investments in securities are included with the net realized and unrealized gain or loss on investment securities.

**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 substantially 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.** Dividend income is recorded on the ex-dividend date, except certain dividends from foreign securities where the ex-dividend date may have passed, are recorded as soon as the fund is informed of the ex-dividend

1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

INVESTMENT INCOME - CONTINUED

date. Non-cash dividends included in dividend income, if any, are recorded at the fair market value of the securities received. Interest income is accrued as earned. Investment income is recorded net of foreign taxes withheld where recovery of such taxes is uncertain.

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

**DEFERRED TRUSTEE COMPENSATION.** Under a Deferred Compensation Plan (the Plan) non-interested Trustees must defer receipt of a portion of, and may elect to defer receipt of an additional portion of, their annual compensation. Under the Plan, deferred amounts are treated as though equivalent dollar amounts had been invested in shares of a cross-section of Fidelity funds, including shares of the fund. Deferred amounts remain in the fund until distributed in accordance with the Plan.

**DISTRIBUTIONS TO SHAREHOLDERS.** Distributions 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, which may result in distribution reclassifications, are primarily due to differing treatments for litigation proceeds, foreign currency transactions, non-taxable dividends and losses deferred due to wash sales and excise tax regulations.

Permanent book and tax basis differences relating to shareholder distributions will result in reclassifications to paid in capital. Undistributed net investment income and accumulated undistributed net realized gain (loss) on investments and foreign currency transactions 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.

## 2. OPERATING POLICIES.

FOREIGN CURRENCY CONTRACTS. The fund generally uses foreign currency contracts to facilitate transactions in foreign-denominated securities. Losses may arise from changes in the value of the foreign currency or if the counterparties do not perform under the contracts' terms. The U.S. dollar value of foreign currency contracts is determined using contractual currency exchange rates established at the time of each trade.

JOINT TRADING ACCOUNT. Pursuant to an Exemptive Order issued by the Securities and Exchange Commission (the SEC), the fund, along with other affiliated entities of Fidelity Management & Research Company (FMR), may transfer

## 2. OPERATING POLICIES - CONTINUED

### JOINT TRADING ACCOUNT - CONTINUED

uninvested cash balances into one or more joint trading accounts. These balances are invested in one or more repurchase agreements for U.S. Treasury or Federal Agency obligations.

REPURCHASE AGREEMENTS. The underlying U.S. Treasury or Federal Agency securities are transferred to an account of the fund, or to the Joint Trading Account, at a bank custodian. The securities are marked-to-market daily and maintained at a value at least equal to the principal amount of the repurchase agreement (including accrued interest). FMR, the fund's investment adviser, is responsible for determining that the value of the underlying securities remains in accordance with the market value requirements stated above.

TAXABLE CENTRAL CASH FUND. Pursuant to an Exemptive Order issued by the SEC, the fund may invest in the Taxable Central Cash Fund (the Cash Fund) managed by Fidelity Investments Money Management, Inc., (formerly FMR Texas, Inc.) an affiliate of FMR. The Cash Fund is an open-end money market fund available only to investment companies and other accounts managed by FMR and its affiliates. The Cash Fund seeks preservation of capital, liquidity, and current income by investing in U.S. Treasury securities and repurchase agreements for these securities. Income distributions from the Cash Fund are declared daily and paid monthly from net interest income. Income distributions earned by the fund are recorded as interest income in the accompanying financial statements.

RESTRICTED SECURITIES. The fund is permitted to invest in securities that are subject to legal or contractual restrictions on resale. These securities generally may be resold in transactions exempt from registration or to the public if the securities are registered. Disposal of these securities may involve time-consuming negotiations and expense, and prompt sale at an acceptable price may be difficult. At the end of the period, the fund had no investments in restricted securities (excluding 144A issues).

## 3. PURCHASES AND SALES OF INVESTMENTS.

Purchases and sales of securities, other than short-term securities, aggregated \$5,059,626,000 and \$5,243,092,000, respectively.

## 4. FEES AND OTHER TRANSACTIONS WITH AFFILIATES.

MANAGEMENT FEE. As the fund's investment adviser, FMR receives a monthly basic 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 .2500% to .5200% for the period. The annual individual fund fee rate is .30%. In the event that these rates were lower than the contractual rates in effect during the

## 4. FEES AND OTHER TRANSACTIONS WITH AFFILIATES - CONTINUED

### MANAGEMENT FEE - CONTINUED

period, FMR voluntarily implemented the above rates, as they resulted in the same or a lower management fee. The basic fee is subject to a performance adjustment (up to a maximum of (plus/minus).20% of the fund's average net assets over the performance period) based on the fund's investment performance as compared to the appropriate index over a specified period of time. For the period, the management fee was equivalent to an annualized rate of .41% of average net assets after the performance adjustment.

TRANSFER AGENT FEES. Fidelity Service Company, Inc. (FSC), an affiliate of FMR, is the fund's transfer, dividend disbursing and shareholder servicing agent. FSC receives account fees and asset-based fees that vary according to account size and type of account. FSC pays for typesetting, printing and mailing of all shareholder reports, except proxy statements. For the period, the transfer agent fees were equivalent to an annualized rate of .18% of average net assets.

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.

BROKERAGE COMMISSIONS. The fund placed a portion of its portfolio transactions with brokerage firms which are affiliates of FMR. The commissions paid to these affiliated firms were \$1,073,000 for the period.

#### 5. EXPENSE REDUCTIONS.

FMR has directed certain portfolio trades to brokers who paid a portion of the fund's expenses. For the period, the fund's expenses were reduced by \$750,000 under this arrangement.

In addition, the fund has entered into arrangements with its custodian and transfer agent whereby credits realized as a result of uninvested cash balances were used to reduce a portion of the fund's expenses. During the period, the fund's custodian and transfer agent fees were reduced by \$2,000 and \$70,000, respectively, under these arrangements.

#### 6. TRANSACTIONS WITH AFFILIATED COMPANIES.

An affiliated company is a company in which the fund has ownership of at least 5% of the voting securities. Transactions during the period with companies which are or were affiliates are as follows:

##### SUMMARY OF TRANSACTIONS WITH AFFILIATED COMPANIES

AMOUNTS IN THOUSANDS

| AFFILIATE   | PURCHASE COST | SALES COST | DIVIDEND INCOME | VALUE     |
|-------------|---------------|------------|-----------------|-----------|
| ADVO, Inc.  | \$ 3,755      | \$ -       | \$ -            | \$ 38,583 |
| Arnotts PLC | 2,713         | -          | 163             | 12,886    |
| TOTALS      | \$ 6,468      | \$ -       | \$ 163          | \$ 51,469 |

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