

# 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)

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### FILER

#### **FORTRESS UTILITY FUND INC**

CIK: **802199** | Fiscal Year End: **0531**

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#### Mailing Address

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[LOGO] FEDERATED INVESTORS

FORTRESS  
UTILITY  
FUND, INC.

8TH Annual Report  
May 31, 1995

Established 1987

EQUITY

President's Message

[PHOTO]

Dear Fellow Shareholder:

Fortress Utility Fund, Inc. was established in 1987, and I am pleased to present the 8th Annual Report to shareholders.

This report covers the 12-month period from June 1, 1994 to May 31, 1995. It contains an interview with the fund's portfolio manager, Christopher H. Wiles, Vice President of Federated Management. Following the interview is a series of investment record performance charts, a complete listing of the fund's portfolio of good dividend-paying utility stocks, convertible securities and adjustable-rate preferreds, and its Financial Statements.

On May 31, 1995, the fund's net assets totaled \$778.8 million. Fortress Utility Fund, Inc. serves nearly 32,000 shareholders seeking high current income from a portfolio of utility stocks, convertible securities and adjustable rate preferreds.

Dividends paid per share to shareholders totaled \$0.606 for the past 12-month period. The fund's share net asset value rose from \$12.30 on June 1, 1994 to \$12.69 on May 31, 1995. Total return for the past year based on net asset value, plus dividends, amounted to 8.48%.\*

The fund appeals to equity investors who wish to own a well-diversified portfolio of utility companies. Currently, the fund has 31 high-quality, good dividend-paying utility companies.\* The fund's broad diversification also includes convertible securities in industries not directly related to the utility industry. The fund has 21.5% in convertible securities and 5.6% in adjustable rate preferreds. The fund also has 8.4% of its assets in utilities around the world offering greater growth potential than utility companies in the U.S.

Investors who seek income and long-term growth consider this a wise investment. I urge you to read this report. The key to enhancing your potential for long-term investment success is to add to your account regularly. Reinvesting your dividends increases the number of shares you own and expands your potential for income returns.

We appreciate your continued confidence in Fortress Utility Fund, Inc. and invite your comments and questions.

Sincerely yours,

[LOGO SIGNATURE]

Richard B. Fisher  
President  
July 14, 1995

\* Performance quoted reflects past performance. Investment return and principal value will fluctuate, so that the investor's shares, when redeemed, may be worth more or less than their original cost. Total return (based on offering price) was 6.41%.

Investment Review  
Christopher H. Wiles  
Vice President,  
Federated Management

[PHOTO]

Q. What is the status of the utilities market?

A. Over the last 12 months, utilities have had a nice run due to the rally in the bond market. As long-term interest rates fell from 7.87% to 6.62%, the S&P Utility Index rose 15.06% and the Dow Jones Utility Index rose 18.58%.\* While

there are still a lot of questions regarding the re-regulation of the electric and telecommunications industry, interest rates remain the short-term driving force.

Q. How did Fortress Utility Fund perform over the last 12 months?

A. Because of our defensive positions in non-utility securities, Fortress Utility Fund, Inc. tends to lag the utility indices during short bursts of outperformance. The last twelve months were no exception with the total return of Fortress Utility Fund, Inc. up a respectable 8.48%, based on net asset value. But over the last five years, Fortress Utility Fund, Inc. had a cumulative total return of 68.59%, based on net asset value, versus a gain of 52.97% in the S&P Utility Index.\*\*

Q. Will you review the fund's investment philosophy?

A. The fund is designed to give defensive equity investors exposure to the utility market while limiting some of the downside risk inherent in interest rate sensitive stocks. This risk reduction is accomplished through disciplined portfolio construction that focuses on diversifying among electric (38.4% of net assets), natural gas (17.0% of net assets), telecommunications (19.3% of net assets), and non-utilities (23.8% of net assets). International securities also comprised 11.6% of overall net assets. This investment philosophy is displayed in our current major holdings (see page 8 in this report).

\* These indexes are unmanaged.

\*\*Performance quoted reflects past performance. Investment return and principal value will fluctuate, so that an investor's shares, when redeemed, may be worth more or less than their original cost. Cumulative total return (based on offering price) was 66.95%.

Q. Will you outline your future plans for the fund?

A. During the near future, we plan to increase our exposure to higher yielding electric stocks slightly, maintaining our underweight in the Regional Bell Operating Companies and taking some profits in our overweighted positions in natural gas. The non-utility portion of the fund should remain near its 25% weighting.

Q. What factors make the current environment favorable for utilities investors?

A. With the S&P 500 up 20.18%\* in the last year and now into its 57th month of the current bull market, the defensive characteristics of utilities are more appealing than ever. On a relative yield basis, utilities are more attractive now than they've appeared to be in years. We also believe that the threat of competition in the electric utility industry is real but will evolve over the next several decades, not quarters. With this in mind, we believe that utilities currently offer defensive investors one of the best relative values in years.

\* This index is unmanaged.

Two Ways You May Seek to Invest for Success in  
Fortress Utility Fund, Inc.

Initial Investment:

If you had made an initial investment of \$9,000 in the Fortress Utility Fund, Inc. on 1/30/87, reinvested your dividends and capital gains, and didn't redeem any shares, your account would be worth \$18,680 on 5/31/95. You would have earned a 9.15%\* average annual total return for the 8-year investment lifespan-quite attractive for a utility stock fund, especially during a time when the economic markets went through several cycles.

One key to investing wisely is to reinvest all distributions in fund shares. This increases the number of shares on which you can earn future dividends, and you gain the benefit of compounding.

As of 6/30/95, average annual one-year, five-year, and since inception (1/30/87) total returns were 9.84%, 10.41%, and 9.09%, respectively.

"Graphic representation A1 omitted. See Appendix."

\* Total return represents the change in the value of an investment after reinvesting all income and capital gains, and takes into account the 1% sales load and the 1% contingent deferred sales charge.

Data quoted represents past performance and does not guarantee future results.

Investment return and principal value will fluctuate so an investor's shares, when redeemed, may be worth more or less than their original cost.

Fortress Utility Fund, Inc.

One Step at a Time:

\$1,000 invested each year for 8 years (reinvesting all dividends and capital gains) grew to \$13,939.

With this approach, the key is consistency.

If you had started investing \$1,000 annually in the Fortress Utility Fund, Inc. on 1/30/87, reinvested your dividends and capital gains and didn't redeem any shares, you would have invested only \$9,000, but your account would have reached a total value of \$13,939\* by 5/31/95. You would have earned an average annual total return of 9.87%.

A practical investment plan helps you pursue long-term performance from utility securities. Through systematic investing, you buy shares on a regular basis and reinvest all earnings. This investment plan works for you even if you invest only \$1,000 annually. You can take it one step at a time. Put time and compounding to work!

"Graphic representation A2 omitted. See Appendix."

\* No method of investing can guarantee a profit or protect against loss in down markets. However, by investing regularly over time and buying shares at various prices, investors can purchase more shares at lower prices. All accumulated shares have the ability to pay income to the investor.

Because such a plan involves continuous investment, regardless of changing price levels, the investor should consider whether or not to continue purchases through periods of low price levels.

Fortress Utility Fund, Inc.-Hypothetical Investor Profile:  
Investing for Monthly Income

Ed and Jill Sanders are a fictional retired couple who invested in Fortress Utility Fund, Inc. to provide them with monthly income. On January 30, 1987, they invested \$50,000-part of Ed's lump sum retirement in the fund. Since that time, their investment of \$50,000 has grown to a total value of \$103,777 by May 31, 1995. This represents a 9.15% average annual total return.

This couple has paid a lifetime of utility bills. Now, through Fortress Utility Fund, Inc., utilities are paying them!

"Graphic representation A3 omitted. See Appendix."

This hypothetical scenario is provided for illustrative purposes only and does not represent the results obtained by any particular shareholder. Past performance does not guarantee future results.

Fortress Utility Fund, Inc.-  
Serving a Wide Range of Investors

Fortress Utility Fund, Inc. appeals to a broad range of investors seeking current income.

The fund invests primarily in a diversified portfolio of quality equity securities of utility companies. Fund shares are not guaranteed, and the value of your investment may fluctuate. Mutual funds involve risk, including possible loss of principal.

"Graphic representation A4 omitted. See Appendix."

Fortress Utility Fund, Inc.-  
Portfolio Update

"Graphic representation A5 omitted. See Appendix."

Fortress Utility Fund, Inc.

Growth of \$10,000 Invested in Fortress Utility Fund, Inc.

The graph below illustrates the hypothetical investment of \$10,000 in the Fortress Utility Fund, Inc. (the ``Fund'') from January 30, 1987 (start of performance) to May 31, 1995 compared to the Standard and Poor's 500 Index (S&P 500)\_ and the Standard and Poor's Utility Index (S&PU)+.

"Graphic representation A6 omitted. See Appendix."

Past performance is not predictive of future performance. Your investment return and principal value will fluctuate so when shares are redeemed, they may be worth more or less than original cost. Mutual funds are not obligations of or guaranteed by any bank and are not federally insured.

\* Represents a hypothetical investment of \$10,000 in the fund after deducting the maximum sales charge of 1.00% (\$10,000 investment minus \$100 sales charge = \$9,900). The fund's performance assumes the reinvestment of all dividends and distributions. The S&P 500 and the S&PU have been adjusted to reflect reinvestment of dividends on securities in the indices.

\*\* Total return quoted reflects all applicable sales charges and contingent deferred sales charges.

+ The S&P 500 and the S&PU are not adjusted to reflect sales loads, expenses, or other fees that the SEC requires to be reflected in the fund's performance. This indices are unmanaged.

Fortress Utility Fund, Inc.  
Portfolio of Investments

-----  
May 31, 1995

<TABLE>  
<CAPTION>

SHARES		VALUE
<C>	<S>	<C>
-----		
COMMON STOCKS--70.3%		
-----		
ELECTRIC UTILITIES--33.2%		
-----		
480,000	Baltimore Gas & Electric Co.	\$ 12,480,000
710,000	CMS Energy Corp.	17,128,750
605,000	Cinergy Corp.	16,108,125
598,000	DPL, Inc.	13,156,000
690,000	DQE, Inc.	16,905,000
282,000	Duke Power Co.	11,773,500
380,000	FPL Group, Inc.	14,915,000
300,000	Florida Progress Corp.	9,562,500
505,000	General Public Utilities	15,150,000
550,000	Illinova Corp.	13,612,500
363,210	National Power Co. PLC, ADR	4,630,928
454,000	NIPSCO Industries, Inc.	15,663,000
715,000	Pacificorp	14,121,250
583,000	Peco Energy Co.	16,396,875
690,000	Pinnacle West Capital Corp.	15,870,000
212,000	Public Service Enterprises Group, Inc.	6,307,000
688,000	Southern Co.	15,222,000
506,000	Utilicorp United, Inc.	14,421,000
475,000	Western Resources, Inc.	14,962,500
	Total	258,385,928
-----		
ENERGY MINERALS--1.4%		
-----		
150,000	Exxon Corp.	10,706,250
-----		
FINANCE--4.1%		

235,000	CBL & Associates Properties, Inc.	4,553,125
459,000	Meditrust, REIT	14,630,625
369,000	Simon Property Group, Inc., REIT	9,178,875

</TABLE>

Fortress Utility Fund, Inc.

<TABLE>

<CAPTION>

SHARES		VALUE
<C>	<S>	<C>

COMMON STOCKS--CONTINUED

FINANCE--CONTINUED

266,000	South West Property Trust, Inc.	\$ 3,291,750
	Total	31,654,375

NATURAL GAS--6.5%

314,000	Consolidated Natural Gas Co.	12,520,750
634,700	MCN Corp.	11,900,625
735,000	Pacific Enterprises	18,558,750
369,300	UGI Corp.	7,755,300
	Total	50,735,425

OIL/GAS TRANSMISSION--8.9%

410,000	Enron Corp.	14,965,000
315,000	Enron Global Power & Pipelines, L.L.C.	7,796,250
192,000	Panhandle Eastern Corp.	4,824,000
687,000	Sonat, Inc.	22,585,125
688,000	Westcoast Energy, Inc.	10,406,000
274,000	Williams Companies, Inc. (The)	9,316,000
	Total	69,892,375

PRODUCER MANUFACTURING--1.3%

550,000	Hanson PLC, ADR	10,450,000
---------	-----------------	------------

TELECOMMUNICATIONS--14.9%

367,000	AT&T Corp.	18,625,250
189,000	Bell South Telecommunications, Inc.	11,599,875
68,300	British Telecommunication PLC, ADR	4,311,437
414,000	GTE Corp.	13,817,250
279,700	Hong Kong Telecommunications Ltd., ADR	5,978,587
400,000	Pacific Telesis Group	10,700,000
365,000	SBC Communications, Inc.	16,425,000
376,000	Southern New England Telecommunications	12,643,000
206,000	Telefonica de Espana, ADR	8,240,000

</TABLE>

Fortress Utility Fund, Inc.

<TABLE> <CAPTION> SHARES		VALUE
<C>	<S>	<C>
COMMON STOCKS--CONTINUED		
TELECOMMUNICATIONS--CONTINUED		
329,000	U.S. West, Inc.	\$ 13,571,250
	Total	115,911,649
	TOTAL COMMON STOCKS (IDENTIFIED COST \$499,820,707)	547,736,002
PREFERRED STOCKS--20.4%		
ADJUSTABLE RATE PREFERRED--5.6%		
163,000	Enserch Corp., ARPS, Series E	14,873,750
150,000	Niagara Mohawk Power Corp., ARPS, Series C	3,768,750
58,625	Sunamerica, Inc., ARPS, Series C	5,891,812
65,045	Texas Utilities Electric Co., ARPS, Series A	5,610,131
75,000	Texas Utilities Electric Co., ARPS, Series B	6,909,375
178,000	Toledo Edison Co., ARPS, Series B	3,693,500
60,500	USX Corp., ARPS	3,002,313
	Total	43,749,631
CONVERTIBLE PREFERRED--14.8%		
109,000	Allstate Corp., Conv. Pfd., \$2.30	4,237,375
265,000	(a)Cointel, Telefonica de Argentina SA, PRIDES, \$5.04	14,641,250
88,820	(a)Freeport McMoRan, Inc., Conv. Pfd., \$4.38	4,496,513
578,000	James River Corp. of Virginia, DECS, Series P., \$1.55	13,944,250
300,000	Kaufman & Broad Homes Corp., Conv. Pfd., Series B, \$1.52	4,612,500
142,000	(a)Occidental Petroleum Corp., Conv. Pfd., \$3.88	8,023,000
2,485,000	RJR Nabisco Holdings Corp., Conv., Pfd., Series C, \$.60	15,220,625
245,000	Reynolds Metals Co., PRIDES, \$3.30	11,453,750
304,000	Sunamerica, Inc., Conv. Pfd., Series D, \$2.78	13,528,000
1,409,000	(a)Westinghouse Electric Corp., PEPS, Series C, \$1.30	20,958,875
74,000	Williams Companies, Inc. (The), Conv. Pfd., \$3.50	4,440,000
	Total	115,556,138
	TOTAL PREFERRED STOCKS (IDENTIFIED COST \$155,449,124)	159,305,769

</TABLE>

Fortress Utility Fund, Inc.

<TABLE> <CAPTION> PRINCIPAL AMOUNT		VALUE
<C>	<S>	<C>
CONVERTIBLE CORPORATE BONDS--6.6%		
CONSUMER SERVICES--1.1%		
\$ 17,265,000	Rogers Communications, Inc., Conv. Deb., 2.00%, 11/26/2005	\$ 8,848,313
ENERGY MINERALS--1.4%		
8,700,000	Pennzoil Co., Conv. Deb., 6.50% 1/15/2003	10,517,430

FINANCE--0.9%		
6,470,000	Equitable Cos., Inc., Conv. Sub. Deb., 6.125 %, 12/15/2024	6,597,200
HEALTH TECHNOLOGY--1.8%		
37,250,000	Roche Holdings, Inc., Conv. LYON, 7.00% accrual, 4/20/2010	14,248,125
NON-U.S. UTILITIES--1.4%		
12,000,000	(a)Telekom Malaysia Berhad, Conv. Bond, 4.00%, 10/3/2004	11,220,000
TOTAL CORPORATE BOND (IDENTIFIED COST \$51,355,647)		51,431,068
(B) REPURCHASE AGREEMENT--2.3%		
17,960,000	J.P. Morgan & Co., Inc., 6.17%, dated 5/31/1995, due 6/1/1995 at amortized cost	17,960,000
TOTAL INVESTMENTS (IDENTIFIED COST \$724,585,478) (C)		\$ 776,432,839

</TABLE>

(a) Restricted Securities-Investment in securities not registered under the Securities Act of 1933. At the end of the period, these securities amounted to 7.6% of net assets.

(b) The repurchase agreement is fully collateralized by U.S. government and/or agency obligations, based on market prices at the date of the portfolio. The investment in the repurchase agreement is through a joint account with other Federated funds.

(c) The cost for federal tax purposes amounts to \$725,780,619. The net unrealized appreciation of investments on a federal tax cost basis amounts to \$50,652,220, which is comprised of \$63,958,024 appreciation and \$13,305,804 depreciation at May 31, 1995.

Note: The categories of investments are shown as a percentage of net assets (\$778,819,840) at May 31, 1995.

The following abbreviations are used throughout this portfolio:

ADR--American Depositary Receipt  
ARPS--Adjustable Rate Preferred Stock  
DECS--Dividend Enhanced Convertible Stock  
LYON--Liquid Yield Option Note  
PEPS--Participating Equity Preferred Stock  
PRIDES--Preferred Redeemable Increased  
Dividend Equity Securities  
REIT--Real Estate Investment Trust

(See Notes which are an integral part of the Financial Statements.)

Fortress Utility Fund, Inc.  
Statement of Assets and Liabilities

May 31, 1995

<S>	<C>	<C>
ASSETS:		
Investments in securities, at value (identified cost \$724,585,478, and tax cost \$725,780,619)		\$ 776,432,839
Cash		30,873
Income receivable		3,966,105
Receivable for investments sold		5,723,514
Receivable for shares sold		941,860
Total assets		787,095,191
LIABILITIES:		
Payable for investments purchased	\$ 4,448,250	
Payable for shares redeemed	2,163,403	
Income distribution payable	1,338,674	
Accrued expenses	325,024	



Total liabilities	8,275,351
NET ASSETS for 61,388,625 shares outstanding	\$ 778,819,840
NET ASSETS CONSIST OF:	
Paid-in capital	\$ 740,892,364
Net unrealized appreciation (depreciation) of investments	51,847,361
Accumulated net realized gain (loss) on investments	(28,780,577)
Undistributed net investment income	14,860,692
Total Net Assets	\$ 778,819,840
NET ASSET VALUE, Offering Price and Redemption Proceeds Per Share:	
Net Asset Value Per Share (\$778,819,840 / 61,388,625 shares outstanding)	\$12.69
Offering Price Per Share (100/99.00 of \$12.69)*	\$12.82
Redemption Proceeds Per Share (99.00/100 of \$12.69)*	\$12.56

\* See 'What Shares Cost' in the Prospectus.

(See Notes which are an integral part of the Financial Statements)

Fortress Utility Fund, Inc.  
Statement of Operations  
Year ended May 31, 1995

	<C>	<C>
INVESTMENT INCOME:		
Interest		\$ 3,304,919
Dividends (net of foreign tax withheld \$333,101)		43,071,568
Total income		46,376,487
EXPENSES:		
Investment advisory fee	\$ 6,080,157	
Administrative personnel and services fee	613,690	
Custodian fees	111,799	
Transfer agent and dividend disbursing agent fees and expenses	1,096,288	
Directors'/Trustees' fees	20,717	
Auditing fees	17,500	
Legal fees	13,936	
Portfolio accounting fees	116,856	
Shareholder services fee	1,734,398	
Share registration costs	54,351	
Printing and postage	96,376	
Insurance premiums	17,200	
Taxes	186,500	
Miscellaneous	14,393	
Total expenses	10,174,161	
Deduct--waiver of investment advisory fee	928,126	
Net expenses		9,246,035
Net investment income		37,130,452
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:		

Net realized gain (loss) on investments (and foreign currency transactions)	(22,913,166)
Net change in unrealized appreciation (depreciation) on investments (and foreign currency transactions)	47,783,353
Net realized and unrealized gain (loss) on investments (and foreign currency transactions)	24,870,187
Change in net assets resulting from operations	\$ 62,000,639

</TABLE>

(See Notes which are an integral part of the Financial Statements)

Fortress Utility Fund, Inc.  
Statement of Changes in Net Assets

	YEAR ENDED MAY 31,	
	1995	1994
INCREASE (DECREASE) IN NET ASSETS:	<C>	<C>
OPERATIONS--		
Net investment income	\$ 37,130,452	\$ 45,613,473
Net realized gain/(loss) on investments and foreign currency transactions (\$13,799,534 net loss and \$362,425 net gain respectively, as computed for federal income tax purposes)	(22,913,166)	(2,146,782)
Net change in unrealized appreciation/(depreciation) and foreign currency transactions	47,783,353	(52,699,309)
Change in assets resulting from operations	62,000,639	(9,232,618)
NET EQUALIZATION CREDITS/(DEBITS)	(3,344,167)	3,241,019
DISTRIBUTIONS TO SHAREHOLDERS--		
Distributions from net investment income	(40,393,334)	(43,554,138)
Distributions from net realized gains	0	(790,659)
Change in net assets resulting from distributions to shareholders	(40,393,334)	(44,344,797)
SHARE TRANSACTIONS		
Proceeds from sale of Shares	111,749,191	481,074,828
Net asset value of Shares issued to shareholders in payment of distributions declared	19,819,937	20,339,263
Cost of Shares redeemed	(263,502,665)	(300,654,866)
Change in net assets resulting from Share transactions	(131,933,537)	200,759,225
Change in net assets	(113,670,399)	150,422,829
NET ASSETS:		
Beginning of period	892,490,239	742,067,410
End of period (including undistributed net investment income of \$14,860,692 and \$24,046,071, respectively)	\$ 778,819,840	\$ 892,490,239

</TABLE>

(See Notes which are an integral part of the Financial Statements)

Fortress Utility Fund, Inc.  
Financial Highlights

(For a share outstanding throughout each period)

	YEAR ENDED MAY 31,									
	<C> 1995	<C> 1994	<C> 1993	<C> 1992	<C> 1991	<C> 1990	<C> 1989	<C> 1988	<C> 1987 (A)	
NET ASSET VALUE, BEGINNING OF PERIOD	\$ 12.30	\$ 12.90	\$ 11.69	\$ 10.59	\$ 10.14	\$ 9.70	\$ 8.90	\$ 9.18	\$ 10.00	

INCOME FROM INVESTMENT OPERATIONS									
Net investment income	0.56	0.63	0.68	0.69	0.77	0.67	0.63	0.63	0.24
Net realized and unrealized gain (loss) on investments	0.44	(0.61)	1.25	1.07	0.51	0.48	0.77	(0.34)	(0.98)
Total from investment operations	1.00	0.02	1.93	1.76	1.28	1.15	1.40	0.29	(0.74)
LESS DISTRIBUTIONS									
Distributions from net investment income	(0.61)	(0.61)	(0.67)	(0.66)	(0.75)	(0.71)	(0.60)	(0.57)	(0.08)
Distributions from net realized gain on investment transactions	0.00	(0.01)	(0.05)	0.00	(0.08)	0.00	0.00	0.00	0.00
Total distributions	(0.61)	(0.62)	(0.72)	(0.66)	(0.83)	(0.71)	(0.60)	(0.57)	(0.08)
NET ASSET VALUE, END OF PERIOD	\$ 12.69	\$ 12.30	\$ 12.90	\$ 11.69	\$ 10.59	\$ 10.14	\$ 9.70	\$ 8.90	\$ 9.18
TOTAL RETURN (B)	8.48%	0.01%	17.02%	17.07%	13.44%	12.13%	16.47%	3.21%	(7.74%)
RATIOS TO AVERAGE NET ASSETS									
Expenses	1.14%	1.11%	1.07%	1.10%	1.03%	1.05%	1.08%	1.04%	0.53% (c)
Net investment income	4.58%	4.92%	5.45%	6.01%	7.12%	6.77%	6.92%	7.18%	7.95% (c)
Expense waiver/reimbursement (d)	0.11%	0.12%	0.05%	0.11%	0.61%	1.39%	0.86%	1.00%	0.97% (c)
SUPPLEMENTAL DATA									
Net assets, end of period (000 omitted)	\$778,820	\$892,490	\$742,067	\$247,482	\$66,578	\$29,844	\$13,476	\$9,256	\$6,305
Portfolio Turnover	56%	28%	27%	26%	53%	49%	17%	23%	12%

</TABLE>

(a) Reflects operations for the period from January 30, 1987 to May 31, 1987. For the period from the start of business January 14, 1987 to January 29, 1987, the net investment income was distributed to the Fund's investment adviser. Such distribution represented net income of the Fund prior to the initial public offering of the Fund shares which commenced on January 30, 1987

(b) Based on net asset value, which does not reflect the sales load or contingent deferred sales charge, if applicable.

(c) Computed on an annualized basis.

(d) This voluntary expense decrease is reflected in both the expense and net investment income ratios shown above.

(See Notes which are an integral part of the Financial Statements)

Fortress Utility Fund, Inc.  
Notes to Financial Statements

May 31, 1995

(1) ORGANIZATION

The Fund is registered under the Investment Company Act of 1940, as amended (the "Act"), as a diversified, open-end, load, management investment company.

(2) SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. These policies are in conformity with generally accepted accounting principles.

INVESTMENT VALUATIONS--Listed equity securities, corporate bonds, and other fixed income securities are valued at the last sale price reported on national securities exchanges. Unlisted securities and bonds are generally valued at the price provided by an independent pricing service. Short-term securities with remaining maturities of sixty days or less may be stated at amortized cost, which approximates value.

REPURCHASE AGREEMENTS--It is the policy of the Fund to require the custodian bank or brokers to take possession, to have legally segregated in the Federal Reserve Book Entry System or to have segregated within the custodian bank's vault, all securities held as collateral in support of repurchase agreement investments. Additionally, procedures have been established by the Fund to monitor, on a daily basis, the market value of each repurchase agreement's underlying collateral to ensure that the value of collateral at least equals the principal amount of the repurchase agreement, including accrued interest.

The Fund will only enter into repurchase agreements with banks and other recognized financial institutions, such as broker/dealers, which are deemed by the Fund's adviser to be creditworthy pursuant to guidelines established by the Board of Directors/Trustees (the "Directors"/"Trustees"). Risks may arise from the potential inability of counterparties to honor the terms of the repurchase agreement. Accordingly, the Fund could receive less than the repurchase price on the sale of collateral securities.

INVESTMENT INCOME, EXPENSES AND DISTRIBUTIONS--Dividend income and distributions to shareholders are recorded on the ex-dividend date. Interest income and expenses are accrued daily. Bond premium and discount, if applicable, are amortized as required by the Internal Revenue Code, as amended (the "Code").

FEDERAL TAXES--It is the Fund's policy to comply with the provisions of the Code applicable to regulated investment companies and to distribute to shareholders each year substantially all of its taxable income. Accordingly, no provisions for federal tax are necessary. At May 31, 1995, the Fund, for federal tax purposes, had a capital loss carryforward of \$15,909,474 which will reduce the Fund's taxable income arising from future net realized gain on investments, if any, to the extent permitted by the Code, and thus will reduce the amount of distributions to shareholders which would otherwise be necessary to relieve the Fund of any liability for federal tax. Pursuant to the Code, such capital loss carryforward will expire in 1998 (\$2,109,940), and 2003 (\$13,799,534). However, federal taxes may be imposed on the Fund upon the disposition of certain investments in Passive Foreign investment Companies. Withholding taxes on foreign dividends have been provided for in accordance with the Fund's understanding of the applicable country's tax rules and rates.

Additionally, net capital losses of \$11,675,961 attributable to security transactions incurred after October 31, 1994 are treated as arising on June 1, 1995, the first day of the Fund's next taxable year.

During the year ended May 31, 1991, Federated Corporate Cash Trust was merged into the Fund. As part of this transaction for federal tax purposes, Federated Corporate Cash Trust succeeded to the Fund capital loss carryforwards of \$15,211,243 expiring in various years through 1998. The Fund's ability to use these losses will be limited through the application of the Code's change of ownership rules. The maximum amount of carryforwards available to the Fund at May 31, 1995, is \$2,109,940 which will expire in 1998.

EQUALIZATION--The Fund follows the accounting practice known as equalization by which a portion of the proceeds from sales and costs of redemptions of capital stock equivalent, on a per share basis, to the amount of undistributed net investment income on the date of the transaction is credited or charged to undistributed net investment income. As a result, undistributed net investment income per share is unaffected by sales or redemptions of capital stock.

WHEN-ISSUED AND DELAYED DELIVERY TRANSACTIONS--The Fund may engage in when-issued or delayed delivery transactions. The Fund records when-issued securities on the trade date and maintains security positions such that sufficient liquid assets will be available to make payment for the securities purchased. Securities purchased on a when-issued or delayed delivery basis are marked to market daily and begin earning interest on the settlement date.

RESTRICTED SECURITIES--Restricted securities are securities that may only be resold upon registration under Federal securities laws or in transactions exempt from such registration. In some cases, the issuer of restricted securities has agreed to register such securities for resale, at the issuer's expense either upon demand by the Fund or in connection with another registered offering of the securities. Many restricted securities may be resold in the secondary market in transactions exempt from registration.

Such restricted securities may be determined to be liquid under criteria established by the Board of Directors/Trustees. The Fund will not incur any registration costs upon such resales. The Fund's restricted securities are valued at the price provided by dealers in the secondary market or, if no market prices are available, at the fair value determined by the Fund's pricing committee. Additional information on each restricted security held at May 31, 1995, is as follows:

<TABLE>  
<CAPTION>

SECURITY <S>	ACQUISITION DATE <C>	ACQUISITION COST <C>
Cointel, Telefonica de Argentina SA	2/24/94-11/7/94	\$ 17,494,255
Freeport McMoran, Inc.	6/22/93-11/15/94	10,594,025
Occidental Petroleum Corp.	2/10/93-9/2/94	20,687,500
Westinghouse Electric Corp.	3/22/94	22,771,880
Telekom Malaysia Berhad	10/3/94	11,000,000

</TABLE>

FOREIGN CURRENCY TRANSLATION--The accounting records of the Fund are maintained in U.S. dollars. All assets and liabilities denominated in foreign currencies ("FC") are translated into U.S. dollars based on the rate of exchange of such currencies against U.S. dollars on the date of valuation. Purchase and sales of securities, income and expenses are translated at the rate of exchange quoted on the respective date that such transactions are recorded. Differences between income and expense amounts recorded and collected or paid are adjusted when reported by the custodian bank. The Fund does not isolate that portion of the results of operations resulting from changes in foreign exchange rates of investments from fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments.

Reported net realized foreign exchange gains or losses arise from sales and maturities of short-term securities, sales of FCs, currency gains or losses realized between the trade and settlement dates on securities transactions, the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund's books, and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the value of assets and liabilities other than investments in securities at fiscal year end, resulting from changes in exchange rate.

RECLASSIFICATIONS--Income distributions and capital gain distributions are determined in accordance with income tax regulations which may differ from generally accepted accounting principles. These differences are primarily due to differing treatments for foreign currency transactions. Amounts as of May 31, 1995, have been reclassified to reflect an increase in paid in capital of \$3,828,399 and a decrease in accumulated net realized loss on investments of \$1,250,069, and a decrease in undistributed net investment income of \$2,578,330. Net investment income, net realized gains, and net assets were not affected by this change.

OTHER--Investment transactions are accounted for on the trade date.

(3) CAPITAL STOCK

At May 31, 1995, there were 2,000,000,000 shares of \$.001 per share par value capital stock authorized. Transactions in capital stock were as follows:

<TABLE>  
<CAPTION>

	YEAR ENDED MAY 31,	
	1995	1994
Shares sold	9,455,561	37,006,327
Shares issued to shareholders in payment of distributions declared	1,681,625	1,579,370
Shares redeemed	(22,318,428)	(23,548,310)
Net change resulting from capital stock transactions	(11,181,242)	15,037,387

</TABLE>

(4) INVESTMENT ADVISORY FEE AND OTHER TRANSACTIONS WITH AFFILIATES

INVESTMENT ADVISORY FEE--Federated Management, the Fund's investment Adviser (the "Adviser"), receives for its services an annual investment advisory fee equal to .75 of 1% of the Fund's average daily net assets. The Adviser may voluntarily choose to waive a portion of its fee. The Adviser can modify or terminate this voluntary waiver at any time at its sole discretion.

ADMINISTRATIVE FEE--Federated Administrative Services ("FAS"), under the Administrative Services Agreement, provides the fund with administrative personnel and services. The FAS fee is based on the level of average aggregate daily net assets of all funds advised by subsidiaries of Federated Investors for the period. The administrative fee received during the period of the Administrative Services Agreement shall be at least \$125,000 per portfolio and \$30,000 per each additional class of shares.

SHAREHOLDER SERVICES FEE--Under the terms of a Shareholder Services Agreement with Federated Shareholder Services ("FSS"), the Fund will pay FSS up to .25 of 1% of average daily net assets of the Fund for the period. This fee is to obtain certain personal services for shareholders and to maintain shareholder accounts.

TRANSFER AGENT AND DIVIDEND DISBURSING AGENT FEES AND EXPENSES--Federated Services Company ("FServ") serves as transfer and dividend disbursing agent for the Fund. The FServ fee is based on the size, type and number of accounts and transactions by shareholders.

PORTFOLIO ACCOUNTING FEES--FServ maintains the Fund's accounting records for which it receives a fee. The fee is based on the size, type, and number of accounts and transactions made by shareholders.

GENERAL--Certain of the Officers and Directors of the Fund are Officers and Directors or Trustees of the above companies.

Fortress Utility Fund, Inc.

(5) INVESTMENT TRANSACTIONS

Purchases and sales of investments, excluding short-term securities, for the year ended May 31, 1995, were as follows:

	<C>
PURCHASES	\$ 434,982,017
SALES	\$ 578,216,146

Report of Ernst & Young LLP, Independent Auditors

To the Board of Directors and Shareholders of  
FORTRESS UTILITY FUND, INC.:

We have audited the accompanying statement of assets and liabilities of Fortress Utility Fund, Inc., including the portfolio of investments, as of May 31, 1995, and the related statement of operations for the year then ended and the statement of changes in net assets for each of the two years in the period then ended and the financial highlights for each of the nine years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of the securities owned as of May 31, 1995 by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Fortress Utility Fund, Inc., at May 31, 1995, the results of its operations for the year then ended, and the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the nine years

in the period then ended, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

Pittsburgh, Pennsylvania  
July 14, 1995

Directors

Officers

<TABLE>

<S>

John F. Donahue  
John T. Conroy, Jr.  
William J. Copeland  
James E. Dowd  
Lawrence D. Ellis, M.D.  
Edward L. Flaherty, Jr.  
Glen R. Johnson  
Peter E. Madden  
Gregor F. Meyer  
John E. Murray, Jr.  
Wesley W. Posvar  
Marjorie P. Smuts

<C>

John F. Donahue  
Chairman  
Richard B. Fisher  
President  
J. Christopher Donahue  
Vice President  
Edward C. Gonzales  
Vice President and Treasurer  
John W. McGonigle  
Vice President and Secretary  
David M. Taylor  
Assistant Treasurer  
Charles H. Field  
Assistant Secretary

</TABLE>

Mutual funds are not bank deposits or obligations, are not guaranteed by any bank, and are not insured or guaranteed by the U.S. government, the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other government agency. Investment in mutual funds involves investment risk, including possible loss of principal.

This report is authorized for distribution to prospective investors only when preceded or accompanied by the Fund's prospectus, which contains facts concerning its objective and policies, management fees, expenses and other information.

[LOGO]

FEDERATED SECURITIES CORP.  
Distributor

A Subsidiary of Federated Investors

Federated Investors Tower  
Pittsburgh, PA 15222-3779

[RECYCLE LOGO]

349561100  
G01231-01 (7/95)

A1. The graphic presentation here displayed consists of a boxed legend in the upper left quadrant indicating the components of the corresponding mountain chart. The color coded mountain chart is a visual representation of the narrative text above it. The "x" axis reflects computation periods from 1/30/87 to 5/31/95. The "y" axis is measured in increments of \$5,000 ranging from \$0 to \$20,000 and indicates that the ending value of hypothetical initial investment of \$9,000 in the fund, assuming the reinvestment of capital gains and dividends, would have grown to \$18,680 on 5/31/95.

A2. The graphic presentation here displayed consists of a boxed legend in the upper left quadrant indicating the components of the corresponding mountain chart. The color coded mountain chart is a visual representation of the narrative text above it. The "x" axis reflects computation periods from 1/30/87 to 5/31/95. The "y" axis is measured in increments of \$5,000 ranging from \$0 to \$15,000 and indicates that the ending value of hypothetical yearly investments of \$1,000 in the fund, assuming the reinvestment of capital gains and dividends, would have grown to \$13,939 on 5/31/95.

A3. The graphic presentation here displayed consists of a boxed legend in the upper left quadrant indicating the components of the corresponding mountain chart. The color-coded mountain chart is a visual representation of the narrative text beneath it. The "x" axis reflects computation periods from 1/30/87 to 5/31/95. The "y" axis is measured in increments of \$20,000 ranging from \$0 to \$120,000 and indicates that the ending value of a hypothetical

initial investment of \$50,000 in the fund would have grown to \$103,777 on 5/31/95.

A4. The graphic presentation here displayed consists of a two-column chart outlining "Some of the Fund's Major Shareholder Groups." The information is as follows: Individuals and Joint Tenants, \$146,445,725; IRA's, \$113,976,329; Trusts, \$28,774,004; Corporations, 9,671,027; Custodians (under Uniform Gift to Minors Act), \$7,253,033; Clubs/Fraternal Organizations, 6,922,746; and Pensions, 1,084,753.

A5. The graphic presentation here displayed consists of a two-column chart outlining the Fund's "Top Ten Holdings" as of 5/31/95." The information is as follows: SONAT, 2.90%; Westinghouse Electric Corp. PEPS, 2.70%; AT&T Corp., 2.40%; Pacific Enterprises, 2.39%; CMS Energy Corp., 2.21%; DQE, Inc., 2.18%; SBC Communications, Inc., 2.12%; Peco Energy Co., 2.11%; Cinergy Corp., 2.07%; and Pinnacle West Capital Corp., 2.04%.

A6. The graphic presentation here displayed consists of a line graph. The corresponding components of the line graph are listed underneath. Fortress Utility Fund, Inc. is represented by a solid line. The Standard & Poor's 500 Index (the "S&P 500") is represented by a double broken dotted line and the Standard & Poor's Utility Index (S&PU) is represented by a broken solid line. The line graph is a visual representation of a comparison of change in value of a \$10,000 hypothetical investment in the the fund and the S&P 500 and the S&PU. The "x" axis reflects computation periods from 1/30/87 to 5/31/95. The "y" axis reflects the cost of the investment. The right margin reflects the ending value of the hypothetical investment in the fund as compared to the S&P 500 and the S&PU; the ending values were \$20,755, \$25,232, and \$22,229, respectively. The legend in the bottom quadrant of the graphic presentation indicates the fund's Average Annual Total Return for the one-year, five-year, and start of performance (1/30/87) periods ended 5/31/95, which were 6.41%, 10.79%, and 9.15%, respectively.