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MFS CHARTER INCOME TRUST
Form N-CSR
February 08, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF
REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-5822

MFS CHARTER INCOME TRUST

(Exact name of registrant as specified in charter)

500 Boylston Street, Boston, Massachusetts 02116

(Address of principal executive offices) (Zip code)

James R. Bordewick, Jr.
Massachusetts Financial Services Company
500 Boylston Street
Boston, Massachusetts 02116

(Name and address of agents for service)

Registrant's telephone number, including area code: (617) 954-5000

Date of fiscal year end: November 30

Date of reporting period: November 31, 2004

ITEM 1. REPORTS TO STOCKHOLDERS.

MFS(R) CHARTER INCOME TRUST

11/30/04

ANNUAL REPORT

[logo] M F S(R)
INVESTMENT MANAGEMENT

ANNUAL REPORT

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LETTER FROM THE CEO

Dear Shareholders,

[Photo of Robert J. Manning]

For most investors, the main factor in determining long-term success is asset allocation - how they spread their money among stocks, bonds, and cash. In fact, the total returns of investors may be more influenced by their asset allocation strategy than by their security selection within each asset class. The principle behind asset allocation is simple: by diversifying across a variety of types of securities, investors reduce the overall risk of their portfolio because gains in one area are likely to offset losses in another.

One of the dangers of not having an asset allocation plan is the temptation to simply chase performance, by moving money into whichever asset class appears to be outperforming at the moment. The problem with this approach is that by the time a particular area of the market comes into favor, investors may have already missed some of the best performance. We would suggest that one way to benefit from swings in the market is to acquire a diversified portfolio so that investors hold a range of asset classes before the market swings in their direction.

UNDERSTAND YOUR EMOTIONS

It usually takes a bear market for people to appreciate the benefits of diversification. At MFS, we believe proper asset allocation is important in all market environments. But we understand that there are emotional components of investment decisions that sometimes keep investors from achieving their long term goals. The three common behaviors that negatively impact investment

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decisions are overconfidence, looking backwards, and loss aversion.

- o Overconfidence. After experiencing gains in the market, particularly during a bull market, investors have a natural tendency to overestimate their own abilities. During the global bull market of the late 1990s, for example, a large number of investors traded their own stocks and made significant profits. However, most of these same investors later handed back those profits - and then some - because they focused more on short-term blips in the market and less on the fundamental factors that affect a company's long-term prospects.
- o Looking backwards. Although security prices are determined by expectations about the future, many investors make choices based on the recent past. Investors who have achieved momentary success in the market tend to take on too much risk, believing that better-than-average returns can be easily duplicated. On the other hand, those who have had negative experiences tend to become overly cautious and take on too little risk. Recent historical experience tends to dictate an investor's frame of reference and may lead to irrational decisions.
- o Loss aversion. Simply put, investors would rather avoid the immediate pain of losses than enjoy the future pleasure of gains. As a result, some investors tend to overreact to short-term downturns in the market by seeking to mitigate their losses, rather than remaining invested to benefit from the long-term growth potential of the stock and bond markets.

THINK LIKE A PROFESSIONAL INVESTOR

Asset allocation helps reduce the emotional factors that tend to affect the long-term returns of investors. Professional investors - those who manage assets for money management firms, pension funds, and endowments - have tended to outperform the average retirement investor because they focus on asset allocation. For example, the investment performance of the average 401(k) participant has lagged these professional investors by more than two percentage points a year, on average, over the past 10 years.(1)

We think asset allocation is one of the most important decisions for investors. A study of the performance of 91 large U.S. corporate pension plans with assets of more than \$100 million over a 10-year period beginning in 1974 concluded that asset allocation policies accounted for 93.6% of their returns, while individual security selection and the timing of their investments accounted for only 6.4% for their overall performance.(2)

Professional investors target a realistic level of return based on the amount of risk they are willing to take, then set allocations to meet their goals. On average, U.S. professional investors allocate 35% to 40% of their assets to domestic equity stocks; 20% to 30% to fixed income issues; 10% to international stocks; and between 10% and 20% to other investment classes such as real estate.(3) And within those categories, they hold a broad range of styles and asset classes.

In contrast, 401(k) participants who held company stock in their retirement plans at the end of 2002 had roughly 42% of their retirement assets in company stock while the rest was allocated to either growth or value stock funds.(4) These participants virtually ignored the broad range of equity, fixed-income, and international offerings provided by their retirement plans.

ALLOCATE, DIVERSIFY, REBALANCE

We recommend working with a professional adviser to find an optimal mix of investments based on your individual goals. In our view, a disciplined asset allocation strategy is composed of three simple steps: allocate, diversify

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and rebalance.

- o Allocate. Investors should work with their financial adviser to specify their long-term goals and tolerance for risk. Then investors should allocate their assets across the major asset classes - stocks, bonds, and cash - to help them pursue an investment return that is consistent with their risk tolerance level.
- o Diversify. By diversifying their assets, investors trade some performance in the top performing categories for a more predictable and stable portfolio. At the same time, investors should include different investment styles and market capitalizations of stocks and a range of fixed-income investments, as well as U.S. and non-U.S. securities. Because security subclasses tend to move in and out of favor during various market and economic environments, a broad portfolio increases the benefits of diversification.
- o Rebalance. We suggest that investors consult with their professional advisers periodically to rebalance their portfolios to maintain the percentages that they have dedicated to each asset class. Allocations can shift as markets rise and fall, making for a riskier or more conservative portfolio than an investor originally intended. For example, a portfolio of 50% stocks and 50% bonds at the start of 2000 would have shifted to 32% stocks and 68% bonds at the end of 2002 because of the weak stock market.(5)

In short, these three simple concepts - allocate, diversify and rebalance - help take emotion out of the investment process and help prevent investors from trying to outguess the market. An asset allocation strategy cannot turn a down market cycle into a good one, but it is an invaluable tool to manage risk and keep investors on track toward reaching their long-term investment goals.

A DISCIPLINED INVESTMENT PROCESS IS PARAMOUNT

Disciplined diversification has helped investors pursue long-term, above-average results through the years. Since 1924, when we invented the mutual fund, MFS(R) has strived to give investors the products and tools they need to maintain well-diversified portfolios. MFS provides a variety of products in each asset class as well as a family of asset allocation funds. These asset allocation portfolios cover a range from conservative to moderate, growth, and aggressive growth allocations, each with a strategy based on a distinct level of risk. We recommend developing a comprehensive financial plan with an investment advisor who is familiar with your risk tolerance, your individual goals, and your financial situation.

As always, we appreciate your confidence in MFS and welcome any questions or comments you may have.

Respectfully,

/s/ Robert J. Manning

Robert J. Manning
Chief Executive Officer and Chief Investment Officer
MFS Investment Management

December 15, 2004

Asset allocation and diversification can not guarantee a profit or protect against a loss.

The opinions expressed in this letter are those of MFS, and no forecasts can be guaranteed.

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- (1) Source: Watson Wyatt
- (2) "Determinants of Portfolio Performance," in Financial Analysts Journal, January/February 1995, by Gary P. Brinson, L. Randolph Hood, and Gilbert L. Beebower
- (3) Source: Greenwich Associates
- (4) Source: Hewitt Associates
- (5) Source: Lipper Inc.

PORTFOLIO COMPOSITION

PORTFOLIO STRUCTURE*

| | |
|-------------------------|-------|
| Bonds | 88.1% |
| Cash & Other Net Assets | 11.8% |
| Stocks | 0.1% |

MARKET SECTORS*

| | |
|----------------------------|-------|
| International Sovereigns | 19.0% |
| ----- | |
| High Yield Corporates | 17.8% |
| ----- | |
| Emerging Markets Debt | 14.8% |
| ----- | |
| High Grade Corporates | 13.9% |
| ----- | |
| Cash & Other Net Assets | 11.8% |
| ----- | |
| Mortgage Backed | 10.1% |
| ----- | |
| U.S. Government Agencies | 7.8% |
| ----- | |
| Commercial Mortgage Backed | 4.7% |
| ----- | |
| Domestic Equity | 0.1% |
| ----- | |

CREDIT QUALITY**

| | |
|-------|-------|
| AAA | 46.8% |
| ----- | |
| AA | 2.2% |
| ----- | |
| A | 3.5% |
| ----- | |
| BBB | 15.1% |
| ----- | |
| BB | 19.5% |
| ----- | |
| B | 10.1% |
| ----- | |
| CCC | 0.6% |
| ----- | |
| CC | 0.1% |
| ----- | |
| Other | 2.1% |
| ----- | |

PORTFOLIO FACTS

| | |
|------------------|-----|
| Average Duration | 4.4 |
|------------------|-----|

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| | |
|----------------------------------|----------|
| Average Life | 7.9 Yrs |
| Average Maturity*** | 11.9 Yrs |
| Average Quality | A |
| Average Quality Short Term Bonds | A-1 |

COUNTRY WEIGHTINGS

| | |
|----------------|-------|
| United States | 62.3% |
| Germany | 4.7% |
| Brazil | 3.1% |
| Russia | 3.0% |
| Mexico | 2.9% |
| United Kingdom | 2.7% |
| Netherlands | 2.0% |
| Ireland | 2.0% |
| Finland | 1.9% |
| Other | 15.4% |

* For purposes of this graphical presentation, the bond component includes both accrued interest amounts and the equivalent exposure from any derivative holdings, if applicable.

** Credit quality ratings are based on a weighted average of each security's rating from Moody's Investors Service. If not rated by Moody's, the rating will be that assigned by Standard & Poor's. Likewise, if not assigned a rating by Standard & Poor's, it will be based on the ratings assigned by Fitch, Inc. If not rated by any of the three agencies, the security is considered not rated, except for U.S. Treasuries and mortgage-backed securities, which are included in the "AAA"-rating category.

*** The average maturity shown is calculated using the final stated maturity on the portfolio's holdings without taking into account any holdings which have been pre-refunded to an earlier date or which have a mandatory put date prior to the stated maturity. The average life shown takes into account these earlier dates.

Percentages are based on net assets as of 11/30/04.

The portfolio is actively managed, and current holdings may be different.

MANAGEMENT REVIEW

SUMMARY OF RESULTS

For the one year ended November 30, 2004, the MFS Charter Income Trust - at

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net asset value and at NYSE price - outperformed the Lehman Brothers Aggregate Bond Index and the Citigroup World Government Bond Non-Dollar Hedged Index while lagging the J.P. Morgan Emerging Market Bond Index Global and the Lehman Brothers High Yield Index. The trust seeks to provide a high level of current income by allocating approximately one-third of its assets to each of the following sectors of the fixed income securities markets: (i) securities issued or guaranteed as to principal and interest by the U.S. Government, its agencies, authorities or instrumentalities and related options; (ii) debt securities issued by foreign governments, their political subdivisions and other foreign issuers; and (iii) corporate fixed income securities (including investment grade and below investment grade securities), some of which may involve equity features. The actual weighting of investments at different times may vary depending on the portfolio manager's views of the relative merits of investing in each of these sectors of the fixed income securities markets.

MARKET ENVIRONMENT

In 2004, many measures of global economic growth, including employment and corporate spending, continued to improve, although we feel that record-high oil prices, concerns about rising interest rates, and a turbulent geopolitical environment affected global markets. The U.S. Federal Reserve Board raised interest rates four times during the period, and in our view, set expectations for an ongoing series of modest rate hikes. During the reporting period, the U.S. dollar fell significantly against the Euro and other major currencies. This trend would have a negative impact on the relative performance of any fund which was overweight in dollar dominated assets versus its benchmark. Alternatively, it would help funds which were underweight.

CONTRIBUTORS TO PERFORMANCE

On the positive side, our yield exposure among U.S. issues - holding high yielding issues - contributed to performance. Currency exposure, gained primarily by owning bonds denominated in foreign currencies, also proved positive. Issue selection in the sovereign, industrial, and asset-backed sectors helped relative results. To a lesser extent, allocation in the industrial sector also contributed..

DETRACTORS FROM PERFORMANCE

On the negative side, sector positioning in the supranational and mortgage sectors detracted from relative results. To a lesser extent, credit exposure to the "B"- and "CCC"-rated bonds held back results; although this exposure was offset somewhat by a positive contribution from our exposure to the higher rated "BBB" and "BB" bonds. While our yield exposure to U.S. issues proved positive, our yield exposure among Euro-area issues detracted from relative results. At the issue level, some U.S. Treasury securities and government agency issues proved disappointing.

Note to Shareholders: Richard O. Hawkins, CFA, became the portfolio manager of MFS(R) Charter Income Trust on July 1, 2004. Mr. Hawkins is a Senior Vice President of MFS Investment Management and has been with the firm since 1988.

The views expressed in this report are those of the portfolio manager only through the end of the period of the report as stated on the cover and do not necessarily reflect the views of MFS or any other person in the MFS organization. These views are subject to change at any time based on market and other conditions, and MFS disclaims any responsibility to update such views. These views may not be relied upon as investment advice or as an indication of trading intent on behalf of any MFS fund. References to specific securities are not recommendations of such securities and may not be representative of any MFS fund's current or future investments.

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PERFORMANCE SUMMARY THROUGH 11/30/04

All results are historical. Investment return and principal value will fluctuate, and shares, when sold, may be worth more or less than their original cost. More recent returns may be more or less than those shown. Past performance is no guarantee of future results.

PRICE SUMMARY

Year ended 11/30/04

| | Date | Price |
|-------------------------------|-------------------|--------|
| Net asset value | 11/30/2003 | \$9.58 |
| | 11/30/2004 | \$9.71 |
| New York Stock Exchange Price | 11/30/2003 | \$8.78 |
| | 3/10/2004 (high)* | \$9.32 |
| | 5/12/2004 (low)* | \$8.23 |
| | 11/30/2004 | \$8.71 |

* For the period from December 1, 2003 through November 30, 2004.

TOTAL RETURN VS BENCHMARKS

Year ended 11/30/04

| | |
|---------------------------------------------------------|--------|
| New York Stock Exchange price** | 5.52% |
| Net asset value** | 7.81% |
| Citigroup World Government Bond Non-dollar Hedged Index | 5.43% |
| J.P. Morgan EMBI Global | 12.20% |
| Lehman Brothers Aggregate Bond Index | 4.44% |
| Lehman Brothers High Yield Index | 11.98% |

** Includes reinvestment of dividend and capital gain distributions.

INDEX DEFINITIONS

Citigroup World Government Bond Non-dollar Hedged Index - measures the government bond markets around the world, ex-U.S.

J.P. Morgan EMBI Global - tracks debt instruments in the emerging markets (includes a broader array of countries than the EMBI Plus).

Lehman Brothers Aggregate Bond Index - measures the U.S. investment grade,

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fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

Lehman Brothers High Yield Index - measures the universe of non-investment grade, fixed rate debt. Pay-in-kind (PIK) bonds, Eurobonds, and debt issues from countries designated as emerging markets (e.g., Argentina, Brazil, Venezuela, etc.) are excluded.

It is not possible to invest directly in an index.

NOTES TO PERFORMANCE SUMMARY

The trust's shares may trade at a discount to net asset value. Shareholders do not have the right to cause the trust to repurchase their shares at net asset value. The trust's shares also may trade at a premium to their net asset value. When trust shares trade at a premium, buyers pay more than the asset value of the underlying trust shares, and shares purchased at a premium would receive less than the amount paid for them in the event of the trust's liquidation. As a result, the total return that is calculated based on the net asset value and New York Stock Exchange price can be different.

The trust's monthly distributions may include a return of capital to shareholders. Distributions that are treated for federal income tax purposes as a return of capital will reduce each shareholder's basis in his or her shares and, to the extent the return of capital exceeds such basis, will be treated as gain to the shareholder from a sale of shares. Returns of shareholder capital have the effect of reducing the trust's assets and increasing the trust's expense ratio.

KEY RISK CONSIDERATIONS

The portfolio may invest in derivative securities, which may include futures and options. These types of instruments can increase share price fluctuation.

The portfolio may invest in foreign and/or emerging markets securities, which involves risks relating to interest rates, currency exchange rates, economic, and political conditions.

The portfolio may invest in government-guaranteed securities. These guarantees apply to the underlying securities only and not to the prices and yields of the portfolio.

The portfolio will invest in high yield or lower-rated securities, which may provide greater returns but are subject to greater-than-average risk.

The portfolio may invest a relatively high percentage of its assets in one or more issuers, thereby making it more susceptible to any single economic, political, or regulatory occurrence.

The portfolio may focus on companies in a limited number of sectors making it more susceptible to adverse economic, political, or regulatory developments affecting those sectors than a portfolio that invests more broadly.

The portfolio's value will fluctuate in response to market conditions and issuer, regulatory, economic, or political developments. In general, fixed income securities will decline when interest rates rise and will increase when interest rates fall. Many fixed income securities also involve credit risk, which is the risk that issuers may fail to make timely principal or interest payments. In addition, fixed income securities with longer maturity dates will be subject to greater price fluctuations than those with shorter maturity periods. These risks should be considered prior to investing.

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In accordance with Section 23(c) of the Investment Company Act of 1940, the trust hereby gives notice that it may from time to time repurchase shares of the trust in the open market at the option of the Board of Trustees and on such terms as the Trustees shall determine.

DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN

The trust offers a Dividend Reinvestment and Cash Purchase Plan that allows you to reinvest either all of the distributions paid by the trust or only the long-term capital gains. Purchases are made at the market price unless that price exceeds the net asset value (the shares are trading at a premium). If the shares are trading at a premium, purchases will be made at a discounted price of either the net asset value or 95% of the market price, whichever is greater. Twice each year you can also buy shares. Investments may be made in any amount over \$100 in January and July on the 15th of the month or shortly thereafter.

If your shares are in the name of a brokerage firm, bank, or other nominee, you can ask the firm or nominee to participate in the plan on your behalf. If the nominee does not offer the plan, you may wish to request that your shares be re-registered in your own name so that you can participate.

There is no service charge to reinvest distributions, nor are there brokerage charges for shares issued directly by the trust. However, when shares are bought on the New York Stock Exchange or otherwise on the open market, each participant pays a pro rata share of the commissions. The automatic reinvestment of distributions does not relieve you of any income tax that may be payable (or required to be withheld) on the distributions.

To enroll in or withdraw from the plan, or if you have any questions, call 1-800-637-2304 any business day from 8 a.m. to 8 p.m. Eastern time. Please have available the name of the trust and your account and Social Security numbers. For certain types of registrations, such as corporate accounts, instructions must be submitted in writing. Please call for additional details. When you withdraw from the plan, you can receive the value of the reinvested shares in one of two ways: a check for the value of the full and fractional shares, or a certificate for the full shares and a check for the fractional shares.

RESULTS OF SHAREHOLDER MEETING (unaudited) - 11/30/04

At the annual meeting of shareholders of MFS Charter Income Trust, which was held on October 7, 2004, the following actions were taken:

ITEM 1. To elect Trustees.

| NOMINEE | NUMBER OF SHARES | |
|------------------------|------------------|--------------------|
| | FOR | WITHHOLD AUTHORITY |
| Lawrence H. Cohn, M.D. | 52,548,105.352 | 2,215,437.058 |
| Robert J. Manning | 52,640,514.168 | 2,123,028.242 |
| Lawrence T. Perera | 52,613,856.922 | 2,149,685.488 |
| Elaine R. Smith | 52,631,741.035 | 2,131,801.375 |

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ITEM 2. To ratify the selection of Ernst & Young LLP independent registered public accounting firm for the current fiscal year.

| | NUMBER OF SHARES |
|---------|------------------|
| For | 53,646,994.274 |
| ----- | ----- |
| Against | 692,443.500 |
| ----- | ----- |
| Abstain | 424,104.636 |
| ----- | ----- |

PORTFOLIO OF INVESTMENTS - 11/30/04

The Portfolio of Investments is a complete list of all securities owned by your trust. It is categorized by broad-based asset classes.

Bonds - 96.4%

| ISSUER | PAR AMOUNT | \$ VALUE |
|--------|------------|----------|
| ----- | ----- | ----- |

Advertising & Broadcasting - 1.6%

| | | |
|--------------------------------------------|-----------|-----------|
| Allbritton Communications Co., 7.75%, 2012 | \$555,000 | \$571,650 |
|--------------------------------------------|-----------|-----------|

| | | |
|------------------------------------|-----------|-----------|
| DIRECTV Holdings LLC, 8.375%, 2013 | 1,710,000 | 1,919,475 |
|------------------------------------|-----------|-----------|

| | | |
|----------------------------------|-----------|-----------|
| Echostar DBS Corp., 6.375%, 2011 | 2,195,000 | 2,244,387 |
|----------------------------------|-----------|-----------|

| | | |
|--------------------------------|-----------|-----------|
| Lamar Media Corp., 7.25%, 2013 | 1,390,000 | 1,501,200 |
|--------------------------------|-----------|-----------|

| | | |
|-----------------------------------|-----------|-----------|
| News America Holdings, 7.7%, 2025 | 1,140,000 | 1,324,306 |
|-----------------------------------|-----------|-----------|

| | | |
|---------------------------------|---------|---------|
| News America, Inc., 6.55%, 2033 | 538,000 | 563,643 |
|---------------------------------|---------|---------|

| | | |
|---------------------------------------------------------|---------|---------|
| Paxson Communications Corp., 0% to 2006, 12.25% to 2009 | 580,000 | 522,000 |
|---------------------------------------------------------|---------|---------|

| | | |
|--------------------------------------|---------|---------|
| Young Broadcasting, Inc., 8.5%, 2008 | 355,000 | 379,850 |
|--------------------------------------|---------|---------|

\$9,026,511

Aerospace - 0.1%

| | | |
|-------------------------------------|-----------|-----------|
| TransDigm Holding Co., 8.375%, 2011 | \$495,000 | \$529,650 |
|-------------------------------------|-----------|-----------|

Agency - Other - 1.0%

| | | |
|-------------------------------|-------------|-------------|
| Financing Corp., 10.35%, 2018 | \$3,600,000 | \$5,418,706 |
|-------------------------------|-------------|-------------|

Airlines - 0.4%

| | | |
|------------------------------------------|-------------|-----------|
| Continental Airlines, Inc., 7.566%, 2020 | \$1,073,054 | \$840,325 |
|------------------------------------------|-------------|-----------|

| | | |
|-------------------------------------|-----------|-----------|
| Delta Air Lines, Inc., 7.379%, 2010 | 1,218,652 | 1,179,137 |
|-------------------------------------|-----------|-----------|

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| | | |
|-------------------------------------------------------------------|-------------|--------------|
| | | \$2,019,462 |
| ----- | | |
| Asset Backed & Securitized - 4.7% | | |
| ----- | | |
| Airplane Pass-Through Trust, 10.875%, 2019* | \$222,233 | \$1,111 |
| Amresco Commercial Mortgage Funding I, 7%, 2029 | 3,000,000 | 3,151,169 |
| Asset Securitization Corp., 8.2895%, 2026 | 2,000,000 | 2,092,522 |
| Asset Securitization Corp., 7.525%, 2029 | 1,586,134 | 1,352,179 |
| Commercial Mortgage Acceptance Corp., 5.44%, 2013## | 3,535,000 | 3,545,021 |
| Credit Suisse First Boston Mortgage, 6.75%, 2030## | 2,000,000 | 1,897,681 |
| Crest 2004-1A Ltd., 7%, 2040## | 2,000,000 | 1,940,510 |
| DLJ Commercial Mortgage Corp., 6.04%, 2031 | 2,000,000 | 1,999,695 |
| First Union-Lehman Brothers Bank of America, 0.7291%, 2028^^ | 80,461,020 | 1,744,234 |
| First Union-Lehman Brothers Commercial Mortgage Trust, 7%, 2029## | 850,000 | 947,565 |
| First Union-Lehman Brothers Commercial Mortgage Trust, 7.5%, 2029 | 3,000,000 | 3,429,492 |
| Mortgage Capital Funding, Inc., 1.0312%, 2031^^ | 23,246,135 | 553,479 |
| TIAA Retail Estate CDO Ltd., 7.17%, 2032## | 3,214,007 | 3,405,121 |
| | | \$26,059,779 |
| ----- | | |
| Automotive - 1.0% | | |
| ----- | | |
| Affinia Group, Inc., 9%, 2014## | \$75,000 | \$77,250 |
| DaimlerChrysler N.A. Holdings Corp., 8.5%, 2031 | 400,000 | 482,516 |
| Ford Motor Credit Co., 7%, 2013 | 1,752,000 | 1,827,905 |
| Navistar International Corp., 7.5%, 2011 | 730,000 | 788,400 |
| TRW Automotive, Inc., 9.375%, 2013 | 781,000 | 909,865 |
| TRW Automotive, Inc., 11%, 2013 | 84,000 | 101,640 |
| Tenneco Automotive, Inc., 10.25%, 2013 | 270,000 | 317,925 |
| Tenneco Automotive, Inc., 8.625%, 2014## | 105,000 | 109,200 |
| Visteon Corp., 7%, 2014 | 1,280,000 | 1,193,600 |
| | | \$5,808,301 |
| ----- | | |
| Banks & Credit Companies - 2.7% | | |
| ----- | | |
| Abbey National Capital Trust I, 8.963% to 2030, 5.235% to 2049 | \$1,500,000 | \$2,039,740 |
| | | |

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| | | |
|----------------------------------------------------------|-------------|--------------|
| BBVA Bancomer Capital Trust I, 10.5%, 2011## | 656,000 | 706,020 |
| Banco Mercantil del Norte S.A., 5.875%, 2014## | 207,000 | 213,210 |
| HBOS Capital Funding LP, 6.071% to 2014, 4.31% to 2049## | 1,330,000 | 1,410,574 |
| J.P. Morgan Chase & Co., 5.125%, 2014 | 1,100,000 | 1,095,567 |
| Kazkommerts International B.V., 10.125%, 2007 | 128,000 | 140,000 |
| Kazkommerts International B.V., 10.125%, 2007## | 873,000 | 954,844 |
| Kazkommerts International B.V., 8.5%, 2013 | 57,000 | 60,278 |
| Kazkommerts International B.V., 8.5%, 2013## | 266,000 | 281,295 |
| Mizuho Financial Group, Inc., 5.79%, 2014## | 1,898,000 | 1,958,759 |
| RBS Capital Trust II, 6.425% to 2034, 4.3525% to 2049 | 829,000 | 864,035 |
| Turanalem Finance B.V., 8%, 2014## | 2,590,000 | 2,551,150 |
| UFJ Finance Aruba AEC, 6.75%, 2013 | 1,300,000 | 1,432,725 |
| Woori Bank, 5.75%, 2014## | 1,144,000 | 1,185,470 |
| | | \$14,893,667 |
| ----- | | |
| Broadcast & Cable TV - 2.0% | | |
| CSC Holdings, Inc., 8.125%, 2009 | \$1,050,000 | \$1,141,875 |
| Charter Communications, Inc., 8.625%, 2009 | 580,000 | 481,400 |
| Continental Cablevision, Inc., 9.5%, 2013 | 2,390,000 | 2,600,535 |
| Cox Communications, Inc., 4.625%, 2013 | 1,750,000 | 1,630,289 |
| Lenfest Communications, Inc., 10.5%, 2006 | 1,900,000 | 2,085,227 |
| Mediacom Broadband LLC, 9.5%, 2013 | 280,000 | 273,700 |
| Rogers Cable, Inc., 5.5%, 2014 | 1,500,000 | 1,398,750 |
| TCI Communications, Inc., 9.8%, 2012 | 1,169,000 | 1,484,435 |
| | | \$11,096,211 |
| ----- | | |
| Brokerage & Asset Managers - 1.3% | | |
| Goldman Sachs Group, Inc., 5.7%, 2012 | \$2,680,000 | \$2,817,208 |
| Morgan Stanley Dean Witter, Inc., 6.6%, 2012 | 2,537,000 | 2,802,358 |
| Morgan Stanley Group, Inc., 5.3%, 2013 | 1,800,000 | 1,835,982 |
| | | \$7,455,548 |
| ----- | | |
| Building - 0.5% | | |
| American Standard Cos., Inc., 7.375%, 2008 | \$1,105,000 | \$1,209,975 |

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| | | |
|-----------------------------------------------------|-------------|-------------|
| Atrium Cos., Inc., 10.5%, 2009 | 320,000 | 336,000 |
| Building Materials Corp. of America, 7.75%, 2014## | 660,000 | 673,200 |
| Jacuzzi Brands, Inc., 9.625%, 2010 | 510,000 | 581,400 |
| | | \$2,800,575 |
| Business Services - 0.2% | | |
| Iron Mountain, Inc., 7.75%, 2015 | \$265,000 | \$268,975 |
| Xerox Corp., 7.625%, 2013 | 920,000 | 1,009,700 |
| | | \$1,278,675 |
| Chemicals - 1.2% | | |
| Acetex Corp., 10.875%, 2009 | \$350,000 | \$381,500 |
| BCP Caylux Holdings Luxembourg S.A., 9.625%, 2014## | 365,000 | 409,712 |
| Hercules, Inc., 6.75%, 2029 | 1,095,000 | 1,130,587 |
| Huntsman International LLC, 10.125%, 2009 | 545,000 | 574,975 |
| IMC Global, Inc., 10.875%, 2013 | 480,000 | 604,800 |
| Kronos International, Inc., 8.875%, 2009 | EUR 100,000 | 142,498 |
| Lyondell Chemical Co., 11.125%, 2012 | \$1,190,000 | 1,407,175 |
| Nalco Co., 7.75%, 2011 | 690,000 | 743,475 |
| Nova Chemicals Corp., 6.5%, 2012 | 830,000 | 874,613 |
| Rhodia S.A., 8.875%, 2011 | 325,000 | 318,500 |
| Rockwood Specialties Group, Inc., 7.5%, 2014## | 60,000 | 61,500 |
| | | \$6,649,335 |
| Construction - 0.2% | | |
| D.R. Horton, Inc., 8%, 2009 | \$935,000 | \$1,047,200 |
| Consumer Cyclical - 0.3% | | |
| GEO Group, Inc., 8.25%, 2013 | \$1,120,000 | \$1,187,200 |
| KinderCare Learning Centers, Inc., 9.5%, 2009 | 656,000 | 663,380 |
| | | \$1,850,580 |
| Consumer Goods & Services - 0.1% | | |
| K2, Inc., 7.375%, 2014## | \$560,000 | \$613,200 |
| Containers - 0.4% | | |

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|----------------------------------------------------|--------------|--------------|
| Crown European Holdings S.A., 9.5%, 2011 | \$530,000 | \$600,225 |
| Owens-Brockway Glass Container, Inc., 8.875%, 2009 | 660,000 | 712,800 |
| Owens-Brockway Glass Container, Inc., 8.25%, 2013 | 500,000 | 543,750 |
| Pliant Corp., 13%, 2010 | 190,000 | 182,400 |
| | | \$2,039,175 |
| ----- | | |
| Defense Electronics - 0.2% | | |
| L3 Communications Corp., 5.875%, 2015## | \$830,000 | \$821,700 |
| ----- | | |
| Electronics - 0.2% | | |
| Flextronics International Ltd., 6.5%, 2013 | \$1,145,000 | \$1,156,450 |
| ----- | | |
| Emerging Market Quasi-Sovereign - 2.1% | | |
| Pemex Finance Ltd., 9.69%, 2009 | \$869,250 | \$995,291 |
| Pemex Project Funding Master Trust, 8.625%, 2022 | 2,553,000 | 2,910,420 |
| Petroleos Mexicanos, 9.5%, 2027 | 3,717,000 | 4,562,618 |
| Petroliam Nasional Berhad, 7.75%, 2015 | 1,363,000 | 1,644,241 |
| Petronas Capital Ltd., 7.875%, 2022## | 1,357,000 | 1,645,685 |
| | | \$11,758,255 |
| ----- | | |
| Emerging Market Sovereign - 8.1% | | |
| Federal Republic of Brazil, 8%, 2014 | \$12,381,327 | \$12,443,233 |
| Federal Republic of Brazil, 3.0625%, 2024 | 749,000 | 666,610 |
| Federal Republic of Brazil, 11%, 2040 | 3,562,000 | 4,098,081 |
| Republic of Colombia, 8.25%, 2014 | 1,650,000 | 1,691,250 |
| Republic of Colombia, 11.75%, 2020 | 485,000 | 606,978 |
| Republic of Panama, 9.375%, 2023 - 2029 | 1,745,000 | 1,971,505 |
| Republic of Panama, 8.875%, 2027 | 1,541,000 | 1,619,976 |
| Republic of Peru, 9.875%, 2015 | 1,961,000 | 2,279,663 |
| Republic of South Africa, 8.5%, 2017 | 3,308,000 | 4,110,190 |
| Russian Federation, 3%, 2008 - 2011 | 1,684,000 | 1,399,317 |
| Russian Federation, 11%, 2018 | 3,374,000 | 4,552,201 |
| State of Qatar, 9.75%, 2030 | 3,792,000 | 5,451,000 |
| ----- | | |

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| | | |
|---------------------------------------------------|-------------|--------------|
| United Mexican States, 8.125%, 2019 | 1,500,000 | 1,713,750 |
| United Mexican States, 8%, 2022 | 889,000 | 991,235 |
| United Mexican States, 7.5%, 2033 | 1,804,000 | 1,879,768 |
| | | \$45,474,757 |
| Energy - Independent - 0.9% | | |
| Chesapeake Energy Corp., 7.5%, 2014 | \$335,000 | \$370,175 |
| Chesapeake Energy Corp., 6.875%, 2016 | 925,000 | 975,875 |
| Forest Oil Corp., 7.75%, 2014 | 550,000 | 598,125 |
| Kerr-McGee Corp., 6.95%, 2024 | 1,800,000 | 1,943,177 |
| Plains Exploration & Production Co., 7.125%, 2014 | 625,000 | 687,500 |
| Vintage Petroleum, Inc., 8.25%, 2012 | 550,000 | 610,500 |
| | | \$5,185,352 |
| Energy - Integrated - 0.8% | | |
| Amerada Hess Corp., 7.3%, 2031 | \$1,645,000 | \$1,784,045 |
| Siberian Oil Co., 10.75%, 2009 | 414,000 | 439,875 |
| Tyumen Oil Co., 11%, 2007 | 2,164,000 | 2,488,600 |
| | | \$4,712,520 |
| Entertainment - 1.0% | | |
| AMC Entertainment, Inc., 9.5%, 2011 | \$349,000 | \$359,470 |
| Loews Cineplex Entertainment Corp., 9%, 2014## | 675,000 | 725,625 |
| Six Flags, Inc., 9.75%, 2013 | 550,000 | 544,500 |
| Turner Broadcasting System, Inc., 8.375%, 2013 | 1,784,000 | 2,159,873 |
| Walt Disney Co., 6.375%, 2012 | 1,700,000 | 1,870,520 |
| | | \$5,659,988 |
| Food & Non-Alcoholic Beverages - 0.2% | | |
| Burns, Philp & Co. Ltd., 9.75%, 2012 | \$340,000 | \$376,550 |
| Seminis Vegetable Seeds, Inc., 10.25%, 2013 | 360,000 | 406,800 |
| Smithfield Foods, Inc., 7%, 2011 | 160,000 | 169,600 |
| Smithfield Foods, Inc., 7%, 2011## | 390,000 | 413,400 |
| | | \$1,366,350 |
| Forest & Paper Products - 0.8% | | |

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| | | |
|---------------------------------------------------------|---------------|-------------|
| Abitibi-Consolidated, Inc., 7.75%, 2011 | \$915,000 | \$956,175 |
| Buckeye Technologies, Inc., 8.5%, 2013 | 460,000 | 508,300 |
| Georgia Pacific Corp., 9.375%, 2013 | 995,000 | 1,159,175 |
| Graphic Packaging International, Inc., 8.5%, 2011 | 500,000 | 553,750 |
| MDP Acquisitions PLC, 9.625%, 2012 | 515,000 | 587,100 |
| Norske Skog Canada Ltd., 7.375%, 2014 | 695,000 | 721,063 |
| | | \$4,485,563 |
| Gaming & Lodging - 1.8% | | |
| Aztar Corp., 7.875%, 2014 | \$640,000 | \$702,400 |
| Boyd Gaming Corp., 6.75%, 2014 | 680,000 | 715,700 |
| Caesars Entertainment, Inc., 8.125%, 2011 | 730,000 | 843,150 |
| Hilton Hotels Corp., 7.625%, 2012 | 1,100,000 | 1,274,230 |
| Host Marriott LP, 7.125%, 2013 | 550,000 | 588,500 |
| MGM Mirage, Inc., 8.375%, 2011 | 1,675,000 | 1,880,188 |
| Mandalay Resort Group, 9.375%, 2010 | 550,000 | 636,625 |
| Pinnacle Entertainment, Inc., 8.75%, 2013 | 295,000 | 317,863 |
| Royal Caribbean Cruises Ltd., 8%, 2010 | 990,000 | 1,118,700 |
| Starwood Hotels & Resorts Worldwide, Inc., 7.875%, 2012 | 1,135,000 | 1,299,575 |
| Station Casinos, Inc., 6.5%, 2014 | 600,000 | 622,500 |
| | | \$9,999,431 |
| Industrial - 0.2% | | |
| Amsted Industries, Inc., 10.25%, 2011## | \$335,000 | \$368,500 |
| Valmont Industries, Inc., 6.875%, 2014## | 730,000 | 753,725 |
| Williams Scotsman, Inc., 10%, 2008 | 205,000 | 227,550 |
| | | \$1,349,775 |
| Insurance - Property & Casualty - 0.2% | | |
| Fund American Cos., Inc., 5.875%, 2013 | \$1,351,000 | \$1,355,123 |
| International Market Quasi-Sovereign - 0.5% | | |
| Kreditanstalt fur Wiederaufbau, 3.25%, 2008 | EUR 2,244,000 | \$3,033,457 |

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International Market Sovereign - 18.2%

| | | |
|------------------------------------------|---------------|-----------|
| Canada Housing Trust, 4.65%, 2009 | CAD 260,000 | \$226,064 |
| Federal Republic of Germany, 4%, 2007 | EUR 2,998,000 | 4,115,098 |
| Federal Republic of Germany, 3.5%, 2008 | 6,874,000 | 9,357,473 |
| Federal Republic of Germany, 5.25%, 2010 | 3,531,000 | 5,179,711 |
| Federal Republic of Germany, 6.25%, 2030 | 720,000 | 1,227,172 |
| Government of Australia, 8.75%, 2008 | AUD 1,731,000 | 1,501,242 |
| Government of Australia, 6.25%, 2015 | 2,357,000 | 1,966,283 |
| Government of Canada, 5.5%, 2010 | CAD 1,761,000 | 1,596,942 |
| Government of Canada, 5.25%, 2012 | 369,000 | 330,210 |
| Government of Canada, 8%, 2023 | 224,000 | 259,741 |
| Government of New Zealand, 7%, 2009 | NZD 1,373,000 | 1,023,548 |
| Government of New Zealand, 6.5%, 2013^ | 7,651,000 | 5,669,886 |
| Kingdom of Belgium, 3.75%, 2009 | EUR 924,000 | 1,267,390 |
| Kingdom of Belgium, 5%, 2012 | 1,973,000 | 2,879,347 |
| Kingdom of Denmark, 5%, 2013 | DKK 2,144,000 | 418,796 |
| Kingdom of Netherlands, 5.75%, 2007 | EUR 3,164,000 | 4,496,720 |
| Kingdom of Netherlands, 3.75%, 2009 | 4,770,000 | 6,539,715 |
| Kingdom of Spain, 6%, 2008 | 1,600,000 | 2,336,136 |
| Kingdom of Spain, 5.35%, 2011 | 2,834,000 | 4,206,538 |
| Kingdom of Sweden, 4.5%, 2015 | SEK 7,185,000 | 1,096,845 |
| Republic of Austria, 5.5%, 2007 | EUR 3,282,000 | 4,705,915 |
| Republic of Austria, 5%, 2012 | 922,000 | 1,345,135 |
| Republic of Austria, 4.65%, 2018 | 358,000 | 505,827 |
| Republic of Finland, 2.75%, 2006 | EUR 3,927,000 | 5,252,841 |
| Republic of Finland, 3%, 2008 | 3,829,000 | 5,127,655 |
| Republic of France, 4.75%, 2007 | 4,665,000 | 6,541,626 |
| Republic of France, 4%, 2009 | 1,681,000 | 2,327,906 |
| Republic of Ireland, 4.25%, 2007 | 6,952,000 | 9,659,630 |
| Republic of Portugal, 5.45%, 2013 | 478,000 | 718,059 |
| United Kingdom Treasury, 7.25%, 2007 | GBP 826,000 | 1,701,135 |

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| | | |
|-----------------------------------------------------|-------------|---------------|
| United Kingdom Treasury, 5.75%, 2009 | 1,091,000 | 2,198,946 |
| United Kingdom Treasury, 5%, 2012 | 2,934,000 | 5,751,534 |
| | | \$101,531,066 |
| ----- | | |
| Machinery & Tools - 0.8% | | |
| AGCO Corp., 9.5%, 2008 | \$1,750,000 | \$1,868,125 |
| Case New Holland, Inc., 6%, 2009## | 550,000 | 539,000 |
| Case New Holland, Inc., 9.25%, 2011## | 240,000 | 265,800 |
| Manitowoc Co., Inc., 10.5%, 2012 | 510,000 | 586,500 |
| Terex Corp., 9.25%, 2011 | 525,000 | 593,250 |
| United Rentals, Inc., 6.5%, 2012 | 340,000 | 333,200 |
| | | \$4,185,875 |
| ----- | | |
| Medical & Health Technology & Services - 0.8% | | |
| AmerisourceBergen Corp., 7.25%, 2012 | \$550,000 | \$603,625 |
| Fisher Scientific International, Inc., 8.125%, 2012 | 1,147,000 | 1,277,471 |
| HCA, Inc., 8.75%, 2010 | 1,100,000 | 1,250,116 |
| HCA, Inc., 6.375%, 2015 | 725,000 | 718,409 |
| InSight Health Services Corp., 9.875%, 2011 | 360,000 | 365,400 |
| Mariner Health Care, Inc., 8.25%, 2013## | 255,000 | 305,222 |
| | | \$4,520,243 |
| ----- | | |
| Metals & Mining - 1.0% | | |
| Foundation PA Coal Co., 7.25%, 2014## | \$750,000 | \$802,500 |
| IMCO Recycling, Inc., 9%, 2014## | 60,000 | 61,950 |
| International Steel Group, Inc., 6.5%, 2014 | 2,100,000 | 2,231,250 |
| Peabody Energy Corp., 6.875%, 2013 | 355,000 | 381,625 |
| Peabody Energy Corp., 5.875%, 2016 | 850,000 | 843,625 |
| U.S. Steel Corp., 9.75%, 2010 | 858,000 | 986,700 |
| | | \$5,307,650 |
| ----- | | |
| Mortgage Backed - 10.1% | | |
| Fannie Mae, 6%, 2016 - 2034 | \$9,716,268 | \$10,125,244 |
| Fannie Mae, 5.9956%, 2020 | 3,509 | 3,509 |
| Fannie Mae, 6.5%, 2031 - 2033 | 5,998,669 | 6,298,778 |

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| | | |
|--------------------------------------------------|-------------|--------------|
| Fannie Mae, 5.5%, 2033 - 2034 | 31,074,455 | 31,484,626 |
| Fannie Mae, 5%, 2034 | 5,465,687 | 5,406,553 |
| Freddie Mac, 6%, 2034 | 3,008,569 | 3,106,896 |
| | | \$56,425,606 |
| Natural Gas - Distribution - 0.8% | | |
| AmeriGas Partners LP, 8.875%, 2011 | \$1,190,000 | \$1,297,100 |
| Gazprom OAO, 9.625%, 2013## | 1,510,000 | 1,751,600 |
| Gazprom OAO, 8.625%, 2034## | 1,410,000 | 1,579,200 |
| | | \$4,627,900 |
| Natural Gas - Pipeline - 1.3% | | |
| CenterPoint Energy Resources Corp., 7.875%, 2013 | \$1,600,000 | \$1,880,579 |
| El Paso Energy Corp., 7.625%, 2010 | 570,000 | 618,450 |
| Enterprise Products Partners LP, 6.375%, 2013 | 2,800,000 | 2,972,329 |
| Magellan Midstream Partners LP, 5.65%, 2016 | 311,000 | 310,444 |
| Southern Natural Gas Co., Inc., 8.875%, 2010 | 550,000 | 620,125 |
| Williams Cos., Inc., 8.75%, 2032 | 800,000 | 924,000 |
| | | \$7,325,927 |
| Oil Services - 0.4% | | |
| Grant Prideco, Inc., 9%, 2009 | \$550,000 | \$611,875 |
| GulfMark Offshore, Inc., 7.75%, 2014## | 435,000 | 463,275 |
| Hornbeck Offshore Services, Inc., 6.125%, 2014## | 230,000 | 227,125 |
| Pride International, Inc., 7.375%, 2014## | 580,000 | 642,350 |
| | | \$1,944,625 |
| Oils - 0.4% | | |
| CITGO Petroleum Corp., 6%, 2011## | \$550,000 | \$555,500 |
| Hurricane Finance B.V., 9.625%, 2010 | 735,000 | 819,525 |
| Premcor Refining Group, Inc., 7.5%, 2015 | 550,000 | 599,500 |
| | | \$1,974,525 |
| Pollution Control - 0.1% | | |
| Allied Waste North America, Inc., 7.875%, 2013 | \$550,000 | \$554,125 |

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Printing & Publishing - 0.3%

| | | |
|-------------------------------------|-----------|-------------|
| Dex Media East LLC, 9.875%, 2009 | \$730,000 | \$820,338 |
| Dex Media West LLC, 9.875%, 2013 | 327,000 | 377,685 |
| MediaNews Group, Inc., 6.875%, 2013 | 515,000 | 527,875 |
| | | \$1,725,898 |

Real Estate - 0.3%

| | | |
|------------------------------------|-------------|-------------|
| HRPT Properties Trust, 6.25%, 2016 | \$1,324,000 | \$1,372,969 |
|------------------------------------|-------------|-------------|

Restaurants - 0.3%

| | | |
|---------------------------------|-------------|-------------|
| YUM! Brands, Inc., 8.875%, 2011 | \$1,500,000 | \$1,841,072 |
|---------------------------------|-------------|-------------|

Retailers - 0.7%

| | | |
|-----------------------------------|-----------|-------------|
| Couche-Tard, Inc., 7.5%, 2013 | \$210,000 | \$227,850 |
| Gap, Inc., 10.3%, 2008 | 1,120,000 | 1,369,200 |
| Limited Brands, Inc., 5.25%, 2014 | 1,100,000 | 1,079,951 |
| Rite Aid Corp., 9.5%, 2011 | 470,000 | 515,825 |
| Saks, Inc., 7%, 2013 | 915,000 | 928,725 |
| | | \$4,121,551 |

Supermarkets - 0.1%

| | | |
|------------------------------|-----------|-----------|
| Roundy's, Inc., 8.875%, 2012 | \$475,000 | \$522,500 |
|------------------------------|-----------|-----------|

Telecommunications - Wireless - 2.2%

| | | |
|------------------------------------------------|-------------|-------------|
| AT&T Wireless Services, Inc., 8.75%, 2031 | \$1,500,000 | \$1,960,995 |
| Centennial Communications Corp., 10.125%, 2013 | 375,000 | 408,750 |
| Cingular Wireless LLC, 6.5%, 2011 | 1,700,000 | 1,876,802 |
| Crown Castle International Corp., 7.5%, 2013 | 365,000 | 391,463 |
| Innova S. de R.L., 9.375%, 2013 | 654,000 | 740,655 |
| Mobile TeleSystems OJSC, 9.75%, 2008## | 1,552,000 | 1,676,160 |
| Mobile TeleSystems OJSC, 8.375%, 2010## | 500,000 | 516,250 |
| Nextel Communications, Inc., 7.375%, 2015 | 1,360,000 | 1,496,000 |
| Rogers Wireless, Inc., 6.375%, 2014 | 550,000 | 536,250 |
| Rogers Wireless, Inc., 7.5%, 2015## | 595,000 | 617,313 |
| Rural Cellular Corp., 8.25%, 2012 | 225,000 | 235,688 |

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| | | |
|----------------------------------------------------------|-------------|--------------|
| Vimpel-Communications, 10%, 2009## | 1,621,000 | 1,783,100 |
| | | \$12,239,426 |
| Telecommunications - Wireline - 2.8% | | |
| AT&T Corp., 9.05%, 2011 | \$550,000 | \$627,000 |
| AT&T Corp., 9.75%, 2031 | 1,005,000 | 1,164,544 |
| Citizens Communications Co., 9.25%, 2011 | 1,045,000 | 1,214,812 |
| Citizens Communications Co., 6.25%, 2013 | 845,000 | 839,719 |
| Deutsche Telekom International Finance B.V., 8.75%, 2030 | 1,500,000 | 1,926,340 |
| Eircom Funding PLC, 8.25%, 2013 | 810,000 | 899,100 |
| Qwest Corp., 7.875%, 2011## | 1,100,000 | 1,174,250 |
| Qwest Corp., 9.125%, 2012## | 550,000 | 625,625 |
| Qwest Services Corp., 14%, 2010## | 230,000 | 272,550 |
| SBC Communications, Inc., 5.1%, 2014 | 2,500,000 | 2,477,608 |
| Telecom Italia Capital, 5.25%, 2013 | 1,418,000 | 1,416,254 |
| Verizon New York, Inc., 6.875%, 2012 | 2,542,000 | 2,810,356 |
| | | \$15,448,158 |
| Tobacco - 0.2% | | |
| R.J. Reynolds Tobacco Holdings, Inc., 7.25%, 2012 | \$818,000 | \$834,360 |
| Transportation - Services - 0.3% | | |
| Stena AB, 7%, 2016## | \$330,000 | \$323,400 |
| TFM S.A. de C.V., 12.5%, 2012 | 1,225,000 | 1,396,500 |
| | | \$1,719,900 |
| U.S. Government Agencies - 6.7% | | |
| Fannie Mae, 5%, 2007 | \$5,105,000 | \$5,285,273 |
| Fannie Mae, 6%, 2008 - 2011 | 8,677,000 | 9,426,796 |
| Freddie Mac, 7%, 2005 | 6,100,000 | 6,265,420 |
| Small Business Administration, 4.34%, 2024 | 8,022,510 | 7,753,533 |
| Small Business Administration, 4.77%, 2024 | 6,248,570 | 6,206,900 |
| Small Business Administration, 5.19%, 2024 | 2,500,000 | 2,541,569 |
| | | \$37,479,491 |

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| | | |
|----------------------------------------------------|-------------|---------------|
| ----- | | |
| U.S. Treasury Obligations - 9.6% | | |
| ----- | | |
| U.S. Treasury Bonds, 10.75%, 2005 | \$8,000,000 | \$8,458,128 |
| U.S. Treasury Bonds, 12%, 2013 | 7,500,000 | 9,697,268 |
| U.S. Treasury Bonds, 10.625%, 2015 | 3,350,000 | 5,101,946 |
| U.S. Treasury Bonds, 9.875%, 2015 | 5,025,000 | 7,353,575 |
| U.S. Treasury Notes, 6.875%, 2006 | \$8,000,000 | \$8,457,816 |
| U.S. Treasury Notes, 3.375%, 2007### | 3,397,776 | 3,620,656 |
| U.S. Treasury Notes, 3.625%, 2008 | 6,634,964 | 7,266,307 |
| U.S. Treasury Notes, 2%, 2014 | 3,494,078 | 3,588,551 |
| | | \$53,544,247 |
| ----- | | |
| Utilities - Electric Power - 4.3% | | |
| ----- | | |
| CMS Energy Corp., 8.5%, 2011 | \$320,000 | \$364,000 |
| Calpine Corp., 8.75%, 2013## | 435,000 | 333,862 |
| CenterPoint Energy, Inc., 7.25%, 2010 | 750,000 | 832,411 |
| DPL, Inc., 6.875%, 2011 | 1,673,000 | 1,819,387 |
| Duke Capital Corp., 8%, 2019 | 2,300,000 | 2,749,788 |
| Dynegy Holdings, Inc., 9.875%, 2010## | 240,000 | 271,200 |
| Empresa Nacional de Electricidad S.A., 8.35%, 2013 | 2,805,000 | 3,154,660 |
| Enersis S.A., 7.375%, 2014 | 1,233,000 | 1,275,632 |
| FirstEnergy Corp., 6.45%, 2011 | 2,745,000 | 2,950,019 |
| MSW Energy Holdings LLC, 7.375%, 2010 | 1,045,000 | 1,102,475 |
| Nevada Power Co., 5.875%, 2015## | 1,140,000 | 1,145,700 |
| NorthWestern Corp., 5.875%, 2014## | 995,000 | 1,015,007 |
| PSEG Energy Holdings LLC, 7.75%, 2007 | 1,046,000 | 1,119,220 |
| Pacific Gas & Electric Co., 6.05%, 2034 | 479,000 | 482,758 |
| Reliant Resources, Inc., 9.5%, 2013 | 430,000 | 493,425 |
| System Energy Resources, Inc., 5.129%, 2014## | 2,757,000 | 2,748,150 |
| TECO Energy, Inc., 7.5%, 2010 | 550,000 | 609,125 |
| TXU Corp., 6.5%, 2024## | 1,753,000 | 1,714,264 |
| | | \$24,181,083 |
| ----- | | |
| Total Bonds (Identified Cost, \$515,846,906) | | \$538,373,493 |

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 Stocks - 0.1%

| ISSUER | SHARES | \$ VALUE |
|--------|--------|----------|
|--------|--------|----------|

 Apparel Manufacturers - 0.1%

| | | |
|----------------------|-------|-----------|
| Sind Holdings, Inc.* | 5,720 | \$478,764 |
|----------------------|-------|-----------|

 Specialty Chemicals - 0%

| | | |
|---------------------------|---|-------|
| Sterling Chemicals, Inc.* | 6 | \$192 |
|---------------------------|---|-------|

| | | |
|---------------------------------------------|--|-----------|
| Total Stocks (Identified Cost, \$2,127,667) | | \$478,956 |
|---------------------------------------------|--|-----------|

 Warrants - 0%

| | | |
|--------------------------------------------------------|-------|-----|
| Loral Space & Communications Ltd. (Business Services)* | 1,625 | \$0 |
|--------------------------------------------------------|-------|-----|

| | | |
|--------------------------------------------------------|-----|---|
| Loral Space & Communications Ltd. (Business Services)* | 750 | 0 |
|--------------------------------------------------------|-----|---|

| | | |
|-------------------------------------------------|----|----|
| Sterling Chemicals, Inc. (Specialty Chemicals)* | 11 | 18 |
|-------------------------------------------------|----|----|

| | | |
|------------------------------------------------|-----|-----|
| Thermadyne Holdings Corp. (Machinery & Tools)* | 760 | 342 |
|------------------------------------------------|-----|-----|

| | | |
|--------------------------------------------|--|-------|
| Total Warrants (Identified Cost, \$39,014) | | \$360 |
|--------------------------------------------|--|-------|

 Collateral for Securities Loaned - 0.7%

| | | |
|---------------------------------------------------------------------------|-----------|-------------|
| Navigator Securities Lending Prime Portfolio, at Cost and Net Asset Value | 3,876,287 | \$3,876,287 |
|---------------------------------------------------------------------------|-----------|-------------|

 Repurchase Agreement - 2.5%

| ISSUER | PAR AMOUNT | \$ VALUE |
|--------|------------|----------|
|--------|------------|----------|

| | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| Goldman Sachs, 2.06%, dated 11/30/2004, due 12/01/2004, total to be received \$13,783,789 (secured by various U.S. Treasury and Federal Agency obligations in a jointly traded account), at Cost | \$13,783,000 | \$13,783,000 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|

| | | |
|--------------------------------------------------------|--|---------------|
| Total Investments (+) (Identified Cost, \$535,672,874) | | \$556,512,096 |
|--------------------------------------------------------|--|---------------|

| | | |
|---------------------------------------|--|-----------|
| Other Assets, Less Liabilities - 0.3% | | 1,928,331 |
|---------------------------------------|--|-----------|

| | | |
|---------------------|--|---------------|
| Net Assets - 100.0% | | \$558,440,427 |
|---------------------|--|---------------|

* Non-income producing security.

^ All or a portion of this security is on loan.

^^ Interest only security.

SEC Rule 144A restriction.

Security segregated as collateral for open futures contracts.

(+) As of November 30, 2004, the fund had one security representing \$478,764 and 0.1% of net assets that was fair valued in accordance with the policies adopted by the Board of Trustees.

Abbreviations have been used throughout this report to indicate amounts shown

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in currencies other than the U.S. dollar. A list of abbreviations is shown below.

| | |
|-------------------------|--------------------------|
| AUD = Australian Dollar | GBP = British Pound |
| CAD = Canadian Dollar | JPY = Japanese Yen |
| DKK = Danish Krone | NZD = New Zealand Dollar |
| EUR = Euro | SEK = Swedish Krona |

SEE NOTES TO FINANCIAL STATEMENTS

FINANCIAL STATEMENTS STATEMENT OF ASSETS AND LIABILITIES

This statement represents your trust's balance sheet, which details the assets and liabilities composing the total value of your trust.

AT 11/30/04

ASSETS

| | | |
|-----------------------------------------------------------------------------------------------------|---------------|-----------|
| Investments, at value, including \$3,800,481 of securities on loan (identified cost, \$535,672,874) | \$556,512,096 | |
| <hr style="border-top: 1px dashed black;"/> | | |
| Cash | 771,455 | |
| <hr style="border-top: 1px dashed black;"/> | | |
| Foreign currency, at value (identified cost, \$103) | 106 | |
| <hr style="border-top: 1px dashed black;"/> | | |
| Receivable for forward foreign currency exchange contracts | 468,334 | |
| <hr style="border-top: 1px dashed black;"/> | | |
| Receivable for forward foreign currency exchange contracts subject to master netting agreements | 10,430 | |
| <hr style="border-top: 1px dashed black;"/> | | |
| Receivable for investments sold | 5,042,514 | |
| <hr style="border-top: 1px dashed black;"/> | | |
| Interest receivable | 8,293,880 | |
| <hr style="border-top: 1px dashed black;"/> | | |
| Other assets | 18,192 | |
| <hr style="border-top: 1px dashed black;"/> | | |
| Total assets | | \$571,117 |

LIABILITIES

| | | |
|--------------------------------------------------------------|-----------|--|
| Payable to dividend disbursing agent | \$208,831 | |
| <hr style="border-top: 1px dashed black;"/> | | |
| Payable for forward foreign currency exchange contracts | 3,862,105 | |
| <hr style="border-top: 1px dashed black;"/> | | |
| Payable for daily variation margin on open futures contracts | 130,715 | |
| <hr style="border-top: 1px dashed black;"/> | | |
| Payable for investments purchased | 3,768,416 | |
| <hr style="border-top: 1px dashed black;"/> | | |
| Payable for treasury shares reacquired | 402,808 | |
| <hr style="border-top: 1px dashed black;"/> | | |
| Collateral for securities loaned, at value | 3,876,287 | |
| <hr style="border-top: 1px dashed black;"/> | | |
| Payable to affiliates | | |
| <hr style="border-top: 1px dashed black;"/> | | |
| Management fee | 18,360 | |

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| | | |
|----------------------------------------------|---------|-----------|
| Transfer agent and dividend disbursing costs | 11,310 | |
| Accrued expenses and other liabilities | 397,748 | |
| Total liabilities | | \$12,676 |
| Net assets | | \$558,440 |

NET ASSETS CONSIST OF

| | | |
|--------------------------------------------------------------------------------------------------------------|---------------|-----------|
| Paid-in capital | \$604,471,159 | |
| Unrealized appreciation on investments and translation of assets and liabilities in foreign currencies | 17,625,337 | |
| Accumulated net realized loss on investments and foreign currency transactions | (56,429,556) | |
| Accumulated distributions in excess of net investment income | (7,226,513) | |
| Net assets | | \$558,440 |
| Shares of beneficial interest outstanding (62,114,283 shares issued, less 4,601,344 treasury shares) | | 57,512 |
| Net asset value per share (net assets of \$558,440,427/57,512,939 shares of beneficial interest outstanding) | | \$ |

SEE NOTES TO FINANCIAL STATEMENTS

FINANCIAL STATEMENTS STATEMENT OF OPERATIONS

This statement describes how much your trust received in investment income and paid in expenses. It also describes any gains and/or losses generated by trust operations.

FOR YEAR ENDED 11/30/04

NET INVESTMENT INCOME

| | | |
|-------------------------|--------------|--------------|
| Income | | |
| Interest | \$33,151,797 | |
| Dividends | 1,995 | |
| Foreign taxes withheld | (5,840) | |
| Total investment income | | \$33,147,952 |
| Expenses | | |
| Management fee | \$3,442,576 | |

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| | | |
|----------------------------------------------|----------|----------|
| Trustees' compensation | 85,833 | |
| Transfer agent and dividend disbursing costs | 105,556 | |
| Administrative fee | 50,690 | |
| Custodian fee | 333,127 | |
| Printing | 59,249 | |
| Postage | 202,011 | |
| Auditing fees | 45,500 | |
| Legal fees | 20,362 | |
| Miscellaneous | 168,058 | |
| Total expenses | | \$4,512 |
| Fees paid indirectly | (15,153) | |
| Reduction of expenses by investment adviser | (1,801) | |
| Net expenses | | \$4,496 |
| Net investment income | | \$28,651 |

Statement of Operations - continued

REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS

Realized gain (loss) (identified cost basis)

| | | |
|-----------------------------------------------------------------------------|---------------|-----------|
| Investment transactions | \$25,242,935 | |
| Futures contracts | (162,971) | |
| Foreign currency transactions | (11,131,378) | |
| Net realized gain (loss) on investments and foreign currency transactions | | \$13,948 |
| Change in unrealized appreciation (depreciation) | | |
| Investments | \$(3,472,216) | |
| Futures contracts | (32,070) | |
| Translation of assets and liabilities in foreign currencies | (897,618) | |
| Net unrealized gain (loss) on investments and foreign currency translation | | \$(4,401) |
| Net realized and unrealized gain (loss) on investments and foreign currency | | \$9,546 |
| Change in net assets from operations | | \$38,198 |

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SEE NOTES TO FINANCIAL STATEMENTS

FINANCIAL STATEMENTS STATEMENTS OF CHANGES IN NET ASSETS

This statement describes the increases and/or decreases in net assets resulting from operations, any distributions, and any shareholder transactions.

FOR YEARS ENDED 11/30 2004 2003

CHANGE IN NET ASSETS

OPERATIONS

| | | |
|-----------------------|--------------|--------|
| Net investment income | \$28,651,944 | \$29,2 |
|-----------------------|--------------|--------|

| | | |
|---------------------------------------------------------------------------|------------|------|
| Net realized gain (loss) on investments and foreign currency transactions | 13,948,586 | 14,8 |
|---------------------------------------------------------------------------|------------|------|

| | | |
|----------------------------------------------------------------------------|-------------|------|
| Net unrealized gain (loss) on investments and foreign currency translation | (4,401,904) | 15,7 |
|----------------------------------------------------------------------------|-------------|------|

| | | |
|--------------------------------------|--------------|--------|
| Change in net assets from operations | \$38,198,626 | \$59,7 |
|--------------------------------------|--------------|--------|

DISTRIBUTIONS DECLARED TO SHAREHOLDERS

| | | |
|----------------------------|-----------------|----------|
| From net investment income | \$ (31,836,028) | \$ (31,7 |
|----------------------------|-----------------|----------|

TRUST SHARE (PRINCIPAL) TRANSACTIONS

| | | |
|---------------------------|-------------|-------|
| Cost of shares reacquired | (9,821,953) | (12,3 |
|---------------------------|-------------|-------|

| | | |
|----------------------------|----------------|--------|
| Total change in net assets | \$ (3,459,355) | \$15,6 |
|----------------------------|----------------|--------|

NET ASSETS

| | | |
|------------------------|---------------|---------|
| At beginning of period | \$561,899,782 | \$546,2 |
|------------------------|---------------|---------|

| | | |
|-----------------------------------------------------------------------------------------------------------------------------------------|---------------|---------|
| At end of period (including accumulated distributions in excess of net investment income of \$7,226,513 and \$11,260,226, respectively) | \$558,440,427 | \$561,8 |
|-----------------------------------------------------------------------------------------------------------------------------------------|---------------|---------|

SEE NOTES TO FINANCIAL STATEMENTS

FINANCIAL STATEMENTS FINANCIAL HIGHLIGHTS

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The financial highlights table is intended to help you understand the trust's financial performance. Certain information reflects financial results for a single trust share. The total returns in the table represent the total return which an investor would have earned (or lost) on an investment in the trust (assuming reinvestment of dividends) for the entire period. This information has been audited by the trust's independent registered public accountants. This information, together with the trust's financial statements, are included in this report.

| FOR YEARS ENDED 11/30 | 2004 | 2003 | 2002 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|-----------|
| Net asset value, beginning of period | \$9.58 | \$9.09 | \$9.17 |
| ----- | | | |
| INCOME FROM INVESTMENT OPERATIONS#(S) (S) | | | |
| Net investment income(S) | \$0.49 | \$0.49 | \$0.52 |
| ----- | | | |
| Net realized and unrealized gain (loss) on investments and foreign currency | 0.19 | 0.53 | (0.02) |
| ----- | | | |
| Total from investment operations | \$0.68 | \$1.02 | \$0.50 |
| ----- | | | |
| DISTRIBUTIONS DECLARED TO SHAREHOLDERS | | | |
| From net investment income | \$ (0.55) | \$ (0.53) | \$ (0.49) |
| ----- | | | |
| From paid-in capital | -- | -- | (0.09) |
| ----- | | | |
| Total distributions declared to shareholders | \$ (0.55) | \$ (0.53) | \$ (0.58) |
| ----- | | | |
| Net asset value, end of period | \$9.71 | \$9.58 | \$9.09 |
| ----- | | | |
| Per share market value, end of period | \$8.71 | \$8.78 | \$8.26 |
| ----- | | | |
| Total return at market value (%) | 5.52 | 13.02 | 5.99 |
| ----- | | | |
| RATIOS (%) TO AVERAGE NET ASSETS AND SUPPLEMENTAL DATA(S) : | | | |
| Expenses## | 0.80 | 0.83 | 0.85 |
| ----- | | | |
| Net investment income(SS) | 5.11 | 5.21 | 5.80 |
| ----- | | | |
| Portfolio turnover | 70 | 129 | 137 |
| ----- | | | |
| Net assets at end of period (000 Omitted) | \$558,440 | \$561,900 | \$546,281 |
| ----- | | | |
| (S) Effective June 7, 2004, the investment adviser has voluntarily agreed to reimburse the trust's Independent Chief Compliance Officer service fees paid to Tarantino LLC. If this fee had been net investment income per share and the ratios would have been: | | | |
| Net investment income | \$0.49^ | \$-- | \$-- |
| ----- | | | |
| RATIOS (%) TO AVERAGE NET ASSETS: | | | |
| Expenses## | 0.80^ | -- | -- |
| ----- | | | |

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Net investment income 5.11^ -- --

(SS) As required, effective December 1, 2001, the trust has adopted the provisions of the AICPA A Investment Companies and began amortizing premium on debt securities. The effect of this cha 30, 2002 was to decrease net investment income per share by \$0.02, increase net realized gai \$0.02, and decrease the ratio of net investment income to average net assets by 0.24%. Per s data for periods prior to December 1, 2001 have not been restated to reflect this change in

Per share data are based on average shares outstanding.

Ratios do not reflect expense reductions from fees paid indirectly.

^ The reimbursement impact per share amount and ratios were less than \$0.01 and 0.01%, respect

SEE NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

(1) BUSINESS AND ORGANIZATION

MFS Charter Income Trust (the fund) is a non-diversified trust that is organized as a Massachusetts business trust and is registered under the Investment Company Act of 1940, as amended, as a closed-end management investment company.

(2) SIGNIFICANT ACCOUNTING POLICIES

GENERAL - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The trust can invest in foreign securities. Investments in foreign securities are vulnerable to the effects of changes in the relative values of the local currency and the U.S. dollar and to the effects of changes in each country's legal, political, and economic environment.

INVESTMENT VALUATIONS - Bonds and other fixed income securities (other than short-term obligations) in the trust's portfolio are valued at an evaluated bid price as reported by an independent pricing service, or to the extent a valuation is not reported by a pricing service, such securities are valued on the basis of quotes from brokers and dealers. Prices obtained from pricing services utilize both dealer-supplied valuations and electronic data processing techniques which take into account appropriate factors such as institutional-size trading in similar groups of securities, yield, quality, coupon rate, maturity, type of issue, trading characteristics and other market data without exclusive reliance upon quoted prices or exchange or over-the-counter prices, since such valuations are believed to reflect more accurately the fair value of such securities. Equity securities in the trust's portfolio for which market quotations are available are valued at the last sale or official closing price as reported by an independent pricing service on the primary market or exchange on which they are primarily traded, or at the last quoted bid price for securities in which there were no sales during the day. Equity securities traded over the counter are valued at the last sales price traded each day as reported by an independent pricing service, or to the extent there are no sales reported, such securities are valued on the basis of quotations obtained from brokers and dealers. Futures contracts are valued at the settlement price as reported by an independent pricing service on the primary exchange on which they are traded. Forward foreign currency contracts are valued using spot rates and forward points as reported by an independent

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pricing source. Short-term obligations with a remaining maturity in excess of 60 days will be valued upon dealer-supplied valuations. All other short-term obligations in the trust's portfolio are valued at amortized cost, which constitutes market value as determined by the Board of Trustees. Money market mutual funds are valued at net asset value. Investment valuations, other assets, and liabilities initially expressed in foreign currencies are converted each business day into U.S. dollars based upon current exchange rates. When pricing service information or market quotations are not readily available, securities are priced at fair value as determined under the direction of the Board of Trustees.

REPURCHASE AGREEMENTS - The trust may enter into repurchase agreements with institutions that the trust's investment adviser has determined are creditworthy. Each repurchase agreement is recorded at cost. The trust requires that the securities collateral in a repurchase transaction be transferred to the custodian in a manner sufficient to enable the trust to obtain those securities in the event of a default under the repurchase agreement. The trust monitors, on a daily basis, the value of the collateral to ensure that its value, including accrued interest, is greater than amounts owed to the trust under each such repurchase agreement. The trust, along with other affiliated entities of Massachusetts Financial Services Company (MFS), may utilize a joint trading account for the purpose of entering into one or more repurchase agreements.

FOREIGN CURRENCY TRANSLATION - Purchases and sales of foreign investments, income, and expenses are converted into U.S. dollars based upon currency exchange rates prevailing on the respective dates of such transactions. Gains and losses attributable to foreign currency exchange rates on sales of securities are recorded for financial statement purposes as net realized gains and losses on investments. Gains and losses attributable to foreign exchange rate movements on income and expenses are recorded for financial statement purposes as foreign currency transaction gains and losses. That portion of both realized and unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed.

DEFERRED TRUSTEE COMPENSATION - Under a Deferred Compensation Plan (the Plan) independent Trustees may elect to defer receipt of all or a portion of their annual compensation. Deferred amounts are treated as though equivalent dollar amounts had been invested in shares of the trust or other MFS funds selected by the Trustee. Deferred amounts represent an unsecured obligation of the trust until distributed in accordance with the Plan. Included in other assets, and accrued expenses and other liabilities, is \$13,440 of Deferred Trustees' Compensation.

FUTURES CONTRACTS - The trust may enter into futures contracts for the delayed delivery of securities or currency, or contracts based on financial indices at a fixed price on a future date. In entering such contracts, the trust is required to deposit with the broker, either in cash or securities, an amount equal to a certain percentage of the contract amount. Subsequent payments are made or received by the trust each day, depending on the daily fluctuations in the value of the contract, and are recorded for financial statement purposes as unrealized gains or losses by the trust. The trust's investment in futures contracts is designed to hedge against anticipated future changes in interest or exchange rates or securities prices. Investments in interest rate futures for purposes other than hedging may be made to modify the duration of the portfolio without incurring the additional transaction costs involved in buying and selling the underlying securities. Investments in currency futures for purposes other than hedging may be made to change the trust's relative position in one or more currencies without buying and selling portfolio assets. Investments in index contracts or contracts on related options for purposes other than hedging, may be made when the trust has cash on hand and wishes to participate in anticipated market appreciation while the cash is being invested. Should interest or exchange rates or securities prices move

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unexpectedly, the trust may not achieve the anticipated benefits of the futures contracts and may realize a loss.

SECURITY LOANS - State Street Bank and Trust Company ("State Street"), as lending agent, may loan the securities of the trust to certain qualified institutions (the "Borrowers") approved by the trust. The loans are collateralized at all times by cash and/or U.S. Treasury securities in an amount at least equal to the market value of the securities loaned. State Street provides the trust with indemnification against Borrower default. The trust bears the risk of loss with respect to the investment of cash collateral. On loans collateralized by cash, the cash collateral is invested in a money market fund or short-term securities. A portion of the income generated upon investment of the collateral is remitted to the Borrowers, and the remainder is allocated between the trust and the lending agent. On loans collateralized by U.S. Treasury securities, a fee is received from the Borrower, and is allocated between the trust and the lending agent. Income from securities lending is included in interest income on the Statement of Operations. The dividend and interest income earned on the securities loaned is accounted for in the same manner as other dividend and interest income.

FORWARD FOREIGN CURRENCY EXCHANGE CONTRACTS - The trust may enter into forward foreign currency exchange contracts for the purchase or sale of a specific foreign currency at a fixed price on a future date. Risks may arise upon entering into these contracts from the potential inability of counterparties to meet the terms of their contracts and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar. The trust may enter into forward foreign currency exchange contracts for hedging purposes as well as for non-hedging purposes. For hedging purposes, the trust may enter into contracts to deliver or receive foreign currency it will receive from or require for its normal investment activities. The trust may also use contracts in a manner intended to protect foreign currency-denominated securities from declines in value due to unfavorable exchange rate movements. For non-hedging purposes, the trust may enter into contracts with the intent of changing the relative exposure of the trust's portfolio of securities to different currencies to take advantage of anticipated changes. The forward foreign currency exchange contracts are adjusted by the daily exchange rate of the underlying currency and any gains or losses are recorded as unrealized until the contract settlement date. On contract settlement date, the gains or losses are recorded as realized gains or losses on foreign currency transactions.

DOLLAR ROLL TRANSACTIONS - The trust enters into dollar roll transactions, with respect to mortgage backed securities issued by Ginnie Mae, Fannie Mae, and Freddie Mac, in which the trust sells mortgage backed securities to financial institutions and simultaneously agrees to accept substantially similar (same type, coupon, and maturity) securities at a later date at an agreed-upon price. During the period between the sale and repurchase in a dollar roll transaction the trust will not be entitled to receive payments on the securities sold but is compensated by interest earned on the proceeds of the initial sale and by a lower purchase price on the securities to be repurchased which enhances the trust total return. The trust accounts for dollar roll transactions as purchases and sales. If certain criteria are met these dollar roll transactions may be considered a financing transaction whereby the difference in the sales price and the future purchase price is recorded as an adjustment to interest income.

INVESTMENT TRANSACTIONS AND INCOME - Investment transactions are recorded on the trade date. Some securities may be purchased on a "when-issued" or "forward delivery" basis, which means that the securities will be delivered to the trust at a future date, usually beyond customary settlement time. Interest income is recorded on the accrual basis. All premium and discount is amortized or accreted for financial statement purposes in accordance with U.S. generally accepted accounting principles. All discount is accreted for tax reporting

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purposes as required by federal income tax regulations. Dividends received in cash are recorded on the ex-dividend date. Dividend and interest payments received in additional securities are recorded on the ex-dividend or ex-interest date in an amount equal to the value of the security on such date.

The trust may enter into "TBA" (to be announced) purchase commitments to purchase securities for a fixed unit price at a future date. Although the unit price has been established, the principal value has not been finalized. However, the principal amount of the commitments will not fluctuate more than 0.01%. The trust holds, and maintains until settlement date, cash or high-grade debt obligations in an amount sufficient to meet the purchase price, or the trust may enter into offsetting contracts for the forward sale of other securities it owns. Income on the securities will not be earned until settlement date. TBA purchase commitments may be considered securities in themselves, and involve a risk of loss if the value of the security to be purchased declines prior to settlement date, which is in addition to the risk of decline in the value of the trust's other assets. Unsettled TBA purchase commitments are valued at the current market value of the underlying securities. The trust may enter into "TBA" (to be announced) sale commitments to hedge its portfolio positions or to sell mortgage-backed securities it owns under delayed delivery arrangements. Proceeds of TBA sale commitments are not received until the contractual settlement date. During the time a TBA sale commitment is outstanding, equivalent deliverable securities, or an offsetting TBA purchase commitment deliverable on or before the sale commitment date, are held as "cover" for the transaction.

FEES PAID INDIRECTLY - The trust's custody fee is reduced according to an arrangement that measures the value of cash deposited with the custodian by the trust. This amount, for the year ended November 30, 2004, is shown as a reduction of total expenses on the Statement of Operations.

TAX MATTERS AND DISTRIBUTIONS - The trust's policy is to comply with the provisions of the Internal Revenue Code (the Code) applicable to regulated investment companies and to distribute to shareholders all of its net taxable income, including any net realized gain on investments. Accordingly, no provision for federal income or excise tax is provided.

Distributions to shareholders are recorded on the ex-dividend date. The trust distinguishes between distributions on a tax basis and a financial reporting basis and only distributions in excess of tax basis earnings and profits are reported in the financial statements as distributions from paid-in capital. Differences in the recognition or classification of income between the financial statements and tax earnings and profits, which result in temporary over-distributions for financial statement purposes, are classified as distributions in excess of net investment income or net realized gains. Common types of book and tax differences that could occur include differences in accounting for foreign currency transactions, straddle loss deferrals, derivatives, defaulted bonds, and amortization and accretion on debt securities.

The tax character of distributions declared for the years ended November 30, 2004 and November 30, 2003 was as follows:

| | 11/30/04 | 11/30/03 |
|------------------------------|--------------|--------------|
| Distributions declared from: | | |
| ----- | | |
| Ordinary income | \$31,836,028 | \$31,796,703 |
| ----- | | |

During the year ended November 30, 2004, accumulated distributions in excess of net investment income decreased by \$7,217,797, accumulated net realized loss on investments and foreign currency transactions increased by \$7,929,336,

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and paid-in capital increased by \$711,539 due to differences between book and tax accounting for foreign currency transactions, amortization and accretion on debt securities, and defaulted bonds. This change had no effect on the net assets or net asset value per share.

As of November 30, 2004, the components of distributable earnings (accumulated losses) on a tax basis were as follows:

| | |
|----------------------------------------|--------------|
| Undistributed ordinary income | \$862,961 |
| ----- | ----- |
| Capital loss carryforward | (47,072,742) |
| ----- | ----- |
| Unrealized appreciation (depreciation) | 11,572,675 |
| ----- | ----- |
| Other temporary differences | (11,393,626) |
| ----- | ----- |

For federal income tax purposes, the capital loss carryforward may be applied against any net taxable realized gains of each succeeding year until the earlier of its utilization or expiration as follows:

| EXPIRATION DATE | |
|-------------------|----------------|
| November 30, 2008 | \$(1,375,921) |
| ----- | ----- |
| November 30, 2009 | (21,791,609) |
| ----- | ----- |
| November 30, 2010 | (23,905,212) |
| ----- | ----- |
| Total | \$(47,072,742) |
| ----- | ----- |

(3) TRANSACTIONS WITH AFFILIATES

INVESTMENT ADVISER - The trust has an investment advisory agreement with MFS to provide overall investment advisory and administrative services, and general office facilities.

The management fee is computed daily and paid monthly at an annual rate of 0.32% of the trust's average daily net assets and 4.57% of the trust's daily gross investment income. Management fees incurred for the year ended November 30, 2004 were an effective rate of 0.61% of average daily net assets on an annualized basis

The trust pays compensation to its Independent Trustees in the form of a retainer, attendance fees, and additional compensation to Board and Committee chairpersons, and pays no compensation directly to its Trustees who are officers of the investment adviser, or to officers of the trust, all of whom receive remuneration for their services to the trust from MFS. Certain officers and Trustees of the trust are officers or directors of MFS and MFS Service Center, Inc. (MFSC). The trust has an unfunded, defined benefit plan for retired Independent Trustees and an unfunded retirement benefit deferral plan for current Independent Trustees. Included in Trustees' compensation is \$9,334 as a result of the change in the trust's unfunded retirement benefit deferral plan for certain current Independent Trustees and a pension expense of \$7,958 for retired Independent Trustees for the year ended November 30, 2004.

This trust and certain other MFS funds (the "funds") have entered into a services agreement (the "Agreement") which provides for payment of fees by the funds to Tarantino LLC in return for the provision of services of an Independent Chief Compliance Officer (ICCO) for the funds. The ICCO is an

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officer of the funds and the sole member of Tarantino LLC. MFS has agreed to reimburse each of the funds for a proportional share of substantially all of the payments made by the funds to Tarantino LLC and also to provide office space and other administrative support and supplies to the ICCO. The funds can terminate the Agreement with Tarantino LLC at any time under the terms of the Agreement.

ADMINISTRATOR - MFS provides certain financial, legal, shareholder communications, compliance, and other administrative services to certain funds for which MFS acts as investment adviser. Under an administrative services agreement between the funds and MFS, MFS is entitled to partial reimbursement of the costs MFS incurs to provide these services, subject to review and approval by the Board of Trustees. Each fund is allocated a portion of these administrative costs based on its size and relative average net assets. Prior to April 1, 2004, the trust paid MFS an administrative fee up to the following annual percentage rates of the trust's average daily net assets:

| | |
|--------------------------|---------|
| First \$2 billion | 0.0175% |
| ----- | ----- |
| Next \$2.5 billion | 0.0130% |
| ----- | ----- |
| Next \$2.5 billion | 0.0005% |
| ----- | ----- |
| In excess of \$7 billion | 0.0000% |
| ----- | ----- |

Effective April 1, 2004, the trust paid MFS an administrative fee up to the following annual percentage rates of the trust's average daily net assets:

| | |
|--------------------------|----------|
| First \$2 billion | 0.01120% |
| ----- | ----- |
| Next \$2.5 billion | 0.00832% |
| ----- | ----- |
| Next \$2.5 billion | 0.00032% |
| ----- | ----- |
| In excess of \$7 billion | 0.00000% |
| ----- | ----- |

For the year ended November 30, 2004, the trust paid MFS \$50,690 equivalent to 0.009% of average daily net assets, to partially reimburse MFS for the costs of providing administrative services.

TRANSFER AGENT - Included in transfer agent and dividend disbursing costs is a fee paid to MFSC, a wholly owned subsidiary of MFS, for its services as registrar and dividend disbursing agent for the trust. The agreement provides that the trust will pay MFSC an account maintenance fee of no more than \$9.00 and a dividend services fee of \$0.75 per reinvestment. These fees amounted to \$85,225 for the year ended November 30, 2004. Also included in transfer agent and dividend disbursing costs are out-of-pocket expenses, paid to MFSC, which amounted to \$6,609 for the year ended November 30, 2004, as well as other expenses paid to unaffiliated vendors.

(4) PORTFOLIO SECURITIES

Purchases and sales of investments, other than purchased option transactions and short-term obligations, were as follows:

| | PURCHASES | SALES |
|----------------------------------------------|---------------|---------------|
| U.S. government securities | \$59,126,203 | \$41,686,762 |
| ----- | ----- | ----- |
| Investments (non-U.S. government securities) | \$314,980,823 | \$353,454,687 |

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The cost and unrealized appreciation and depreciation in the value of the investments owned by the trust, as computed on a federal income tax basis, are as follows:

| | |
|--------------------------------------------|---------------|
| Aggregate cost | \$539,784,608 |
| <hr/> | |
| Gross unrealized appreciation | \$25,612,253 |
| <hr/> | |
| Gross unrealized depreciation | (8,884,765) |
| <hr/> | |
| Net unrealized appreciation (depreciation) | \$16,727,488 |
| <hr/> | |

(5) SHARES OF BENEFICIAL INTEREST

The trust's Declaration of Trust permits the Trustees to issue an unlimited number of full and fractional shares of beneficial interest. The Trustees have authorized the repurchase by the trust of up to 10% annually of its own shares of beneficial interest. The trust repurchased and retired 1,134,600 shares of beneficial interest during the year ended November 30, 2004 at an average price per share of \$8.66 and a weighted average discount of 9.74% per share. The trust repurchased and retired 1,445,000 shares of beneficial interest during the year ended November 30, 2003 at an average price per share of \$8.56 and a weighted average discount of 9.10% per share. Transactions in trust shares were as follows:

| | Year ended 11/30/04 | | Year ended 11/30/03 | |
|----------------------------|---------------------|----------------|---------------------|-----------------|
| | SHARES | AMOUNT | SHARES | AMOUNT |
| Treasury shares reacquired | (1,134,600) | \$ (9,821,953) | (1,445,000) | \$ (12,250,000) |

(6) LINE OF CREDIT

The trust and other affiliated funds participate in an \$800 million unsecured line of credit provided by a syndication of banks under a line of credit agreement. Borrowings may be made for temporary financing needs. Interest is charged to each fund, based on its borrowings, at a rate equal to the Federal Reserve funds rate plus 0.50%. In addition, a commitment fee, based on the average daily, unused portion of the line of credit, is allocated among the participating funds at the end of each calendar quarter. The commitment fee allocated to the trust for the year ended November 30, 2004 was \$4,384, and is included in miscellaneous expense. The trust had no significant borrowings during the year ended November 30, 2004.

(7) FINANCIAL INSTRUMENTS

The trust trades financial instruments with off-balance-sheet risk in the normal course of its investing activities in order to manage exposure to market risks such as interest rates and foreign currency exchange rates. These financial instruments include forward foreign currency exchange contracts and futures contracts. The notional or contractual amounts of these instruments represent the investment the trust has in particular classes of financial instruments and does not necessarily represent the amounts potentially subject to risk. The measurement of the risks associated with these instruments is meaningful only when all related and offsetting transactions are considered.

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Forward Foreign Currency Exchange Contracts

SALES

| SETTLEMENT DATE | | CONTRACTS TO DELIVER/ RECEIVE | | IN EXCHANGE FOR | CONTRACTS AT VALUE | NET U APPR (DEPR |
|---------------------|----------|-------------------------------------|------------|--------------------|-----------------------|------------------------|
| 12/13/04 - 12/15/04 | AUD | 5,038,318 | | \$3,624,283 | \$3,885,974 | \$ (|
| | 2/14/05 | DKK | 29,160,541 | 5,066,992 | 5,216,788 | (|
| 1/19/05 - 2/14/05 | EUR | 77,056,549 | | 99,860,639 | 102,413,702 | (2, |
| | 1/12/05 | GBP | 5,922,070 | 10,906,079 | 11,283,446 | (|
| | 12/13/04 | NZD | 11,426,305 | 7,663,623 | 8,164,603 | (|
| | 2/14/05 | SEK | 2,018,612 | 289,317 | 300,373 | |
| | | | | ----- | ----- | ----- |
| | | | | \$127,410,933 | \$131,264,886 | \$(3, |
| | | | | ===== | ===== | ===== |

PURCHASES

| | | | | | | |
|-------------------|----------|------------|-------------|--------------|--------------|-------|
| | 12/13/04 | AUD | 696,877 | \$540,718 | \$537,536 | |
| 1/05/05 - 2/14/05 | DKK | 26,544,190 | | 4,677,013 | 4,748,595 | |
| 1/19/05 - 2/14/05 | EUR | 11,322,516 | | 14,731,254 | 15,049,641 | |
| 1/05/05 - 1/12/05 | GBP | 918,478 | | 1,705,560 | 1,750,408 | |
| | 1/05/05 | JPY | 575,260,000 | 5,600,000 | 5,595,030 | |
| | 12/13/04 | NZD | 2,091,901 | 1,461,239 | 1,494,756 | |
| | | | | ----- | ----- | ----- |
| | | | | \$28,715,784 | \$29,175,966 | \$ |
| | | | | ===== | ===== | ===== |

At November 30, 2004, forward foreign currency purchases and sales under master netting agreements excluded above amounted to a net receivable of \$10,430 with Merrill Lynch International.

At November 30, 2004, the trust had sufficient cash and/or securities to cover any commitments under these contracts.

Futures Contracts

| DESCRIPTION | EXPIRATION | CONTRACTS | POSITION | UNREALI APPR (DEPRECIATI |
|-----------------------------|---------------|-----------|----------|--------------------------------|
| U.S. Treasury Notes 10 Year | December 2004 | 400 | Short | \$198,0 |
| U.S. Treasury Notes 2 Year | March 2005 | 334 | Short | (79,6 |
| U.S. Treasury Long Bond | March 2005 | 131 | Long | (47,6 |
| | | | | ----- |
| | | | | \$70,8 |
| | | | | ----- |

At November 30, 2004, the trust had sufficient cash and/or securities to cover any margin requirements under these contracts.

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(8) LEGAL PROCEEDINGS

On March 31, 2004, MFS settled an administrative proceeding with the Securities and Exchange Commission ("SEC") regarding disclosure of brokerage allocation practices in connection with MFS fund sales (the term "MFS funds" means the open-end registered management investment companies sponsored by MFS). Under the terms of the settlement, in which MFS neither admitted nor denied any wrongdoing, MFS agreed to pay (one dollar) \$1.00 in disgorgement and \$50 million in penalty to certain MFS funds, pursuant to a plan developed by an independent distribution consultant. The brokerage allocation practices which were the subject of this proceeding were discontinued by MFS in November 2003. The agreement with the SEC is reflected in an order of the SEC. Pursuant to the SEC order, on July 28, 2004, MFS transferred these settlement amounts to the SEC, and those MFS funds entitled to these settlement amounts accrued an estimate of their pro rata portion of these amounts. Once the final distribution plan is approved by the SEC, these amounts will be distributed by the SEC to the affected MFS funds. The SEC settlement order states that MFS failed to adequately disclose to the Boards of Trustees and to shareholders of the MFS funds the specifics of its preferred arrangements with certain brokerage firms selling MFS fund shares. The SEC settlement order states that MFS had in place policies designed to obtain best execution of all MFS fund trades. As part of the settlement, MFS retained an independent compliance consultant to review the completeness of its current policies and practices regarding disclosure to MFS fund trustees and to MFS fund shareholders of strategic alliances between MFS or its affiliates and broker-dealers and other financial advisers who support the sale of MFS fund shares.

In addition, in February, 2004, MFS reached agreement with the SEC, the New York Attorney General ("NYAG") and the Bureau of Securities Regulation of the State of New Hampshire ("NH") to settle administrative proceedings alleging false and misleading information in certain MFS open-end retail fund ("MFS retail funds") prospectuses regarding market timing and related matters (the "February Settlements"). These regulators alleged that prospectus language for certain MFS retail funds was false and misleading because, although the prospectuses for those funds in the regulators' view indicated that they prohibited market timing, MFS did not limit trading activity in 11 domestic large cap stock, high grade bond and money market retail funds. MFS' former Chief Executive Officer, John W. Ballen, and former President, Kevin R. Parke, also reached agreement with the SEC in which they agreed to, among other terms, monetary fines and temporary suspensions from association with any investment adviser or registered investment company. Messrs. Ballen and Parke have resigned their positions with, and will not be returning to, MFS and the MFS funds. Under the terms of the February Settlements, MFS and the executives neither admit nor deny wrongdoing.

Under the terms of the February Settlements, a \$225 million pool has been established for distribution to shareholders in certain MFS retail funds, which has been funded by MFS and of which \$50 million is characterized as a penalty. This pool will be distributed in accordance with a methodology developed by an independent distribution consultant in consultation with MFS and the Board of Trustees of the MFS retail funds, and acceptable to the SEC. MFS has further agreed with NYAG to reduce its management fees in the aggregate amount of approximately \$25 million annually over the next five years, and not to increase certain management fees during this period. MFS has also paid an administrative fine to NH in the amount of \$1 million, which will be used for investor education purposes (NH retained \$250,000 and \$750,000 was contributed to the North American Securities Administrators Association's Investor Protection Trust). In addition, under the terms of the February Settlements, MFS is in the process of adopting certain governance changes and reviewing its policies and procedures.

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Since December 2003, MFS, MFS Fund Distributors, Inc., MFS Service Center, Inc., MFS Corporation Retirement Committee, Sun Life Financial Inc., various MFS funds, certain current and/or former Trustees of these MFS funds, and certain officers of MFS have been named as defendants in multiple lawsuits filed in federal and state courts. The lawsuits variously have been commenced as class actions or individual actions on behalf of investors who purchased, held or redeemed shares of the MFS funds during specified periods, as class actions on behalf of participants in certain retirement plan accounts, or as derivative actions on behalf of the MFS funds. The lawsuits relating to market timing and related matters have been transferred to, and consolidated before, the United States District Court for the District of Maryland, as part of a multi-district litigation of market timing and related claims involving several other fund complexes (In re Mutual Funds Investment Litigation (Alger, Columbia, Janus, MFS, One Group, Putnam, Allianz Dresdner), No. 1:04-md-15863 (transfer began March 19, 2004)). The plaintiffs in these consolidated lawsuits generally seek injunctive relief including removal of the named Trustees, adviser and distributor, rescission of contracts and 12b-1 Plans, disgorgement of fees and profits, monetary damages, punitive damages, attorney's fees and costs and other equitable and declaratory relief. Four lawsuits alleging improper brokerage allocation practices and excessive compensation are pending in the United States District Court for the District of Massachusetts (Forsythe v. Sun Life Financial Inc., et al., No. 04cv10584 (GAO) (March 25, 2004); Eddings v. Sun Life Financial Inc., et al., No. 04cv10764 (GAO) (April 15, 2004); Marcus Dumond, et al. v. Massachusetts Financial Servs. Co., et al., No. 04cv11458 (GAO) (May 4, 2004); and Koslow v. Sun Life Financial Inc., et al., No. 04cv11019 (GAO) (May 20, 2004)). The plaintiffs in these lawsuits generally seek compensatory damages, punitive damages, recovery of fees, rescission of contracts, an accounting, restitution, declaratory relief, equitable and/or injunctive relief and attorney's fees and costs. The various lawsuits generally allege that some or all of the defendants (i) permitted or acquiesced in market timing and/or late trading in some of the MFS funds, inadequately disclosed MFS' internal policies concerning market timing and such matters, and received excessive compensation as fiduciaries to the MFS funds, or (ii) permitted or acquiesced in the improper use of fund assets by MFS to support the distribution of MFS fund shares and inadequately disclosed MFS' use of fund assets in this manner. The actions assert that some or all of the defendants violated the federal securities laws, including the Securities Act of 1933 and the Securities Exchange Act of 1934, the Investment Company Act of 1940 and the Investment Advisers Act of 1940, the Employee Retirement Income Security Act of 1974, as well as fiduciary duties and other violations of common law. Insofar as any of the actions is appropriately brought derivatively on behalf of any of the MFS funds, any recovery will inure to the benefit of the MFS funds. The defendants are reviewing the allegations of the multiple complaints and will respond appropriately. Additional lawsuits based on similar allegations may be filed in the future.

Any potential resolution of these matters may include, but not be limited to, judgments or settlements for damages against MFS, the MFS funds, or any other named defendant. As noted above, as part of the regulatory settlements, MFS has established a restitution pool in the amount of \$225 million to compensate certain shareholders of certain MFS retail funds for damages that they allegedly sustained as a result of market timing or late trading in certain of the MFS retail funds, and transferred \$50 million for distribution to affected MFS funds to compensate those funds based upon the amount of brokerage commissions allocated in recognition of MFS fund sales. It is not clear whether these amounts will be sufficient to compensate shareholders for all of the damage they allegedly sustained, whether certain shareholders or putative class members may have additional claims to compensation, or whether the damages that may be awarded in any of the actions will exceed these amounts. In the event the MFS funds incur any losses, costs or expenses in connection with such lawsuits, the Boards of Trustees of the affected MFS funds may

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pursue claims on behalf of such funds against any party that may have liability to the funds in respect thereof.

Review of these matters by the independent Trustees of the MFS funds and their counsel is continuing. There can be no assurance that these regulatory actions and lawsuits, or the adverse publicity associated with these developments, will not result in increased fund redemptions, reduced sales of fund shares, or other adverse consequences to the MFS funds.

While these developments relate to MFS and the MFS' open-end funds, there can be no assurance that these developments, or the adverse publicity associated with these developments, will not result in an increase to the market discount of the MFS closed-end fund shares or other adverse consequences.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Trustees of MFS Charter Income Trust:

We have audited the accompanying statement of assets and liabilities of MFS Charter Income Trust (the Fund), including the portfolio of investments, as of November 30, 2004, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five 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 audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 and financial highlights. Our procedures included confirmation of securities owned at November 30, 2004, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received. 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 MFS Charter Income Trust at November 30, 2004, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and its financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

ERNST & YOUNG LLP

Boston, Massachusetts
January 14, 2005

TRUSTEES AND OFFICERS -- IDENTIFICATION AND BACKGROUND

The Trustees and officers of the trust, as of January 1, 2005, are listed below, together with their principal occupations during the past five years. (Their titles may have varied during that period.) The address of each Trustee and officer is 500 Boylston Street, Boston, Massachusetts 02116.

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| NAME, DATE OF BIRTH | POSITION(S) HELD WITH FUND | TRUSTEE/OFFICER SINCE (1) | PRINCIPAL OCCUPATIONS & DIRECTORSHIPS (2) DURING THE PAST FIVE YEARS |
|-------------------------------------------|-------------------------------|---------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| INDEPENDENT TRUSTEES | | | |
| J. Atwood Ives (born 05/01/36) | Trustee and Chair of Trustees | February 1992 | Private investor; Eastern Enterprises (diversified services company), Chairman, Trustee and Chief Executive Officer (until November 2001) |
| Lawrence H. Cohn, M.D. (born 03/11/37) | Trustee | August 1993 | Brigham and Women's Hospital, Chief of Cardiac Surgery; Harvard Medical School, Professor of Surgery |
| David H. Gunning (born 05/30/42) | Trustee | January 2004 | Cleveland-Cliffs Inc. (mineral products and service provider), Vice Chairman/Director (since April 2001); Encinitos Ventures (private investment company), Principal (1997 to April 2001); Lincoln Electric Holdings, Inc. (welding equipment manufacturer), Director; Southwest Gas Corporation (natural gas distribution company), Director |
| William R. Gutow (born 09/27/41) | Trustee | December 1993 | Private investor and real estate consultant; Capito Entertainment Management Company (video franchise) Vice Chairman |
| Michael Hegarty (born 12/21/44) | Trustee | December 2004 | Retired; AXA Financial (financial services and insurance), Vice Chairman, Chief Operating Officer (until May 2001); The Equitable Life Assurance Society (insurance), President and Chief Operating Officer (until May 2001) |
| Amy B. Lane (born 02/08/53) | Trustee | January 2004 | Retired; Merrill Lynch & Co., Managing Director, Investment Banking Group (1997 to February 2001); Borders Group, Inc. (book retailer), Director; Federal Realty Investment Trust (real estate investment trust), Trustee |
| Lawrence T. Perera (born 06/23/35) | Trustee | July 1981 | Hemenway & Barnes (attorneys), Partner |

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| | | | |
|-----------------------------------------------|-----------------------------------------|--------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| J. Dale Sherratt (born 09/23/38) | Trustee | August 1993 | Insight Resources, Inc. (acquisition planning specialists), President; Wellfleet Investments (investor in health care companies), Managing General Partner (since 1993); Cambridge Nutraceuticals (professional nutritional products), Chief Executive Officer (until May 2001) |
| Elaine R. Smith (born 04/25/46) | Trustee | February 1992 | Independent health care industry consultant |
| OFFICERS | | | |
| Robert J. Manning(3) (born 10/20/63) | Advisory Trustee and President | December 2004 (Advisory Trustee); February-December 2004 (Trustee) | Massachusetts Financial Services Company, Chief Executive Officer, President; Chief Investment Officer; Director |
| James R. Bordewick, Jr.(3) (born 03/06/59) | Assistant Secretary and Assistant Clerk | September 1990 | Massachusetts Financial Services Company, Senior President and Associate General Counsel |
| Jeffrey N. Carp(3) (born 12/01/56) | Secretary and Clerk | September 2004 | Massachusetts Financial Services Company, Senior President, General Counsel and Secretary (since April 2004); Hale and Door LLP (firm) (prior to April 2004) |
| Stephanie A. DeSisto(3) (born 10/01/53) | Assistant Treasurer | May 2003 | Massachusetts Financial Services Company, Vice President (since April 2003); Brown Brothers Harriman & Co., Senior Vice President (November 2002 to April 2003); ING Groep N.V./Aelion, Senior Vice President (Investment Management, since April 2003); ING Groep N.V./Aelion, Vice President (prior to November 2002) |
| James F. DesMarais(3) (born 03/09/61) | Assistant Secretary and Assistant Clerk | September 2004 | Massachusetts Financial Services Company, Assistant Secretary and General Counsel |
| Richard M. Hisey(3) (born 08/29/58) | Treasurer | August 2002 | Massachusetts Financial Services Company, Senior Vice President (since July 2002); The Bank of New York, Senior Vice President (September 2000 to July 2002); Lexington Global Asset Managers, Inc., Executive Vice President; Chief Financial Officer (prior to September 2000); Lexington Funds, Chief Financial Officer (prior to September 2000) |

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September 2000)

| | | | |
|-----------------------------------------|--------------------------------------------|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Brian T. Hourihan(3) (born 11/11/64) | Assistant Secretary and Assistant Clerk | September 2004 | Massachusetts Financial Services Company, Vice President, Senior Counsel Assistant Secretary (since June 2004); Affiliated Managers Group, Inc., Chief Legal Officer/Centralized Compliance Program (January to April 2004); Fidelity Research & Management Company, Assistant General Counsel (prior to January 2004) |
| Ellen Moynihan(3) (born 11/13/57) | Assistant Treasurer | April 1997 | Massachusetts Financial Services Company, Vice President |
| Frank L. Tarantino (born 03/07/44) | Independent Chief Compliance Officer | June 2004 | Tarantino LLC (provider of compliance services), Principal (since June 2004) CRA Business Strategies Group (consulting services), Executive Vice President (April 2003 to June 2004) David L. Babson & Co. (investment adviser), Managing Director, Chief Administrative Officer and Director (February 1997 to March 2003) |
| James O. Yost(3) (born 06/12/60) | Assistant Treasurer | September 1990 | Massachusetts Financial Services Company, Senior President |

The trust holds annual shareholder meetings for the purpose of electing Trustees, and Trustees are elected for fixed terms. The Board of Trustees is currently divided into three classes, each having a term of three years. Each year the term of one class expires. Each Trustee's term of office expires on the date of the third annual meeting following the election to office of the Trustee's class. Each Trustee will serve until next elected or his or her earlier death, resignation, retirement or removal. Messrs. Ives and Sherratt and Ms. Lane are members of the trust's Audit Committee.

Each of the trust's Trustees and officers holds comparable positions with certain other funds of MFS or a subsidiary is the investment adviser or distributor, and, in the case of the officers, with certain affiliates of MFS. Each Trustee serves as a board member of 99 funds within the MFS Family of Funds.

In addition, the Trustees have appointed Robert J. Manning, Robert C. Pozen and Laurie J. Thomsen as Advisory Trustees and have nominated each to be elected as Trustees by shareholders. If elected, Messrs. Manning and Pozen would serve as interested Trustees while Ms. Thomsen would serve as an independent Trustee. Information relating to Messrs. Manning and Pozen and Ms. Thomsen is contained in the table below.

ADVISORY TRUSTEES

| | | | |
|-----------------------------------------|-----------------------------------|--------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|
| Robert J. Manning(3) (born 10/20/63) | Advisory Trustee and President | December 2004 (Advisory Trustee); February-December 2004 (Trustee) | Massachusetts Financial Services Company, Chief Executive Officer, President and Chief Investment Officer and Director |
|-----------------------------------------|-----------------------------------|--------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|

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| | | | |
|---------------------------------------|------------------|--------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Robert C. Pozen(3) (born 08/08/46) | Advisory Trustee | December 2004 (Advisory Trustee); February-December 2004 (Trustee) | Massachusetts Financial Services Company, Chairma (since February 2004); Harvard Law School (education), John Olin Visiting Professor (since July 2002); Secretary of Economic Affairs, The Commonwealth of Massachus (January 2002 to December 2002); Fidelity Investmen Vice Chairman (June 2000 December 2001); Fidelity Management & Research Com (investment adviser), President (March 1997 to 2001); The Bank of New Yo (financial services), Director; Bell Canada Enterprises (telecommunications), Director; Medtronic, Inc. (medical technology), Director; Telesat (satell communications), Director |
| Laurie J. Thomsen (born 08/05/57) | Advisory Trustee | December 2004 | Private investor; Prism Venture Partners (venture capital), Co-founder and General Partner (until Ju 2004); St. Paul Travelers Companies (commercial property liability insurance), Director |

-
- (1) Date first appointed to serve as Trustee/officer of an MFS fund. Each Trustee has served continuously since appointment unless indicated otherwise.
 - (2) Directorships or trusteeships of companies required to report to the Securities and Exchange Commission (i.e., "public companies").
 - (3) "Interested person" of MFS within the meaning of the Investment Company Act of 1940 (referred to as the 1940 Act), which is the principal federal law governing investment companies like the fund, as a result of position with MFS. The address of MFS is 500 Boylston Street, Boston, Massachusetts 02116.

The Statement of Additional Information for the trust and further information about the Trustees is available without charge upon request by calling 1-800-225-2606.

On October 29, 2004, Robert J. Manning, as Chief Executive Officer of the trust, certified to the New York Stock Exchange that as of the date of his certification he was not aware of any violation by the trust of the corporate governance listing standards of the New York Stock Exchange.

The trust filed with the Securities and Exchange Commission the certifications of its principal executive officer and principal financial officer under Section 302 of the Sarbanes-Oxley Act of 2002 as an exhibit to the trust's Form N-CSR for the period covered by this report.

INVESTMENT ADVISER
Massachusetts Financial Services Company
500 Boylston Street, Boston, MA
02116-3741

CUSTODIAN
State Street Bank and Trust Company
225 Franklin Street, Boston, MA 02110

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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DISTRIBUTOR
MFS Fund Distributors, Inc.
500 Boylston Street, Boston, MA
02116-3741

ACCOUNTING FIRM
Ernst & Young LLP
200 Clarendon Street, Boston, MA

PORTFOLIO MANAGER
Richard O. Hawkins

PROXY VOTING POLICIES AND INFORMATION

A general description of the MFS funds' proxy voting policies and procedures is available without charge, upon request, by calling 1-800-225-2606, by visiting the About MFS section of mfs.com or by visiting the SEC's Web site at <http://www.sec.gov>.

Information regarding how the trust voted proxies relating to portfolio securities during the most recent twelve-month period ended June 30 is available without charge by visiting the Proxy Voting section of mfs.com or by visiting the SEC's Web site at <http://www.sec.gov>.

QUARTERLY PORTFOLIO DISCLOSURE

The trust will file a complete schedule of portfolio holdings with the Securities and Exchange Commission (the Commission) for the first and third quarters of each fiscal year on Form N-Q. The trust's Form N-Q may be reviewed and copied at the:

Public Reference Room
Securities and Exchange Commission
Washington, D.C. 20549-0102

Information on the operation of the Public Reference Room may be obtained by calling the Commission at 1-800-SEC-0330. The trust's Form N-Q is available on the EDGAR database on the Commission's Internet website at <http://www.sec.gov>, and copies of this information may be obtained, upon payment of a duplicating fee, by electronic request at the following e-mail address: publicinfo@sec.gov or by writing the Public Reference Section at the above address.

A shareholder can also obtain the quarterly portfolio holdings report at mfs.com.

FEDERAL TAX INFORMATION (UNAUDITED)

In January 2005, shareholders will be mailed a Form 1099-DIV reporting the federal tax status of all distributions paid during the calendar year 2004.

CONTACT INFORMATION AND NUMBER OF SHAREHOLDERS

INVESTOR INFORMATION

Transfer Agent, Registrar and Dividend Disbursing Agent

Call 1-800-637-2304 any business day from 8 a.m. to 8 p.m. Eastern time

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Write to: State Street Bank and Trust Company
c/o MFS Service Center, Inc.
P.O. Box 55024
Boston, MA 02205-5024

NUMBER OF SHAREHOLDERS

As of November 30, 2004, our records indicate that there are 4,431 registered shareholders and approximately 36,658 shareholders owning trust shares in "street" name, such as through brokers, banks, and other financial intermediaries.

If you are a "street" name shareholder and wish to directly receive our reports, which contain important information about the trust, please write or call:

State Street Bank and Trust Company
c/o MFS Service Center, Inc.
P.O. Box 55024
Boston, MA 02205-5024
1-800-637-2304

[logo] M F S(R)

INVESTMENT MANAGEMENT

(C) 2005 MFS Investment Management (R)
500 Boylston Street, Boston, MA 02116.

MCR-ANN-1/05 55M

ITEM 2. CODE OF ETHICS.

The Registrant has adopted a Code of Ethics pursuant to Section 406 of the Sarbanes-Oxley Act and as defined in Form N-CSR that applies to the Registrant's principal executive officer and principal financial and accounting officer.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

Mr. J. Atwood Ives and Ms. Amy B. Lane, members of the Audit Committee, have been determined by the Board of Trustees in their reasonable business judgment to meet the definition of "audit committee financial expert" as such term is defined in Form N-CSR. In addition, Mr. Ives and Ms. Lane are both "independent" members of the Audit Committee as defined in Form N-CSR.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

ITEMS 4(a) THROUGH 4(d) AND 4(g):

The Board of Trustees has appointed Ernst & Young LLP ("E&Y") to serve as independent accountants to the Registrant. The tables below set forth the audit fees billed to the Registrant as well as fees for non-audit services provided to the Registrant and/or to the Registrant's investment adviser, Massachusetts Financial Services Company ("MFS") and to various entities either controlling, controlled by, or under common control with MFS that provide ongoing services to the Registrant ("MFS Related Entities").

For the fiscal years ended November 30, 2004 and 2003, audit fees billed to the Registrant by E&Y were as follows:

| FEES BILLED BY E&Y: | Audit Fees | |
|---------------------|------------|------|
| | 2004 | 2003 |
| | ---- | ---- |

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| | | |
|--------------------------|--------|--------|
| MFS Charter Income Trust | 37,900 | 36,330 |
| | ----- | ----- |
| TOTAL | 37,900 | 36,330 |

For the fiscal years ended November 30, 2004 and 2003, fees billed by E&Y for audit-related, tax and other services provided to the Registrant and for audit-related, tax and other services provided to MFS and MFS Related Entities that relate directly to the operations and financial reporting of the Registrant were as follows:

| FEES BILLED BY E&Y: | Audit-Related Fees (1) | | Tax Fees (2) | |
|------------------------------------------------|------------------------|------|--------------|--------|
| | 2004 | 2003 | 2004 | 2003 |
| | ---- | ---- | ---- | ---- |
| To Charter Income Trust | 0 | 0 | 11,600 | 6,870 |
| To MFS and MFS Related Entities of Registrant* | 0 | 0 | 0 | 26,832 |
| AGGREGATE FEES FOR NON-AUDIT SERVICES: | | | | |
| | 2004 | | 2003 | |
| | | | ---- | |
| To Registrant, MFS and MFS Related Entities# | 53,783 | | 43,702 | |

* This amount reflects the fees billed to MFS and MFS Related Entities for non-audit services rendered to the operations and financial reporting of the Registrant (portions of which services also relate to the operations and financial reporting of other funds within the MFS Funds complex).

This amount reflects the aggregate fees billed by E&Y for non-audit services rendered to the Registrant for non-audit services rendered to MFS and the MFS Related Entities.

- (1) The fees included under "Audit-Related Fees" are fees related to assurance and related services reasonably related to the performance of the audit or review of financial statements, but not including "Audit Fees," including accounting consultations, agreed-upon procedure reports, attestation reports, and comfort letters.
- (2) The fees included under "Tax Fees" are fees associated with tax compliance, tax advice and tax planning, including services relating to the filing or amendment of federal, state or local income tax returns, regulated investment company qualification reviews and tax distribution and analysis.
- (3) The fees included under "All Other Fees" are fees for products and services provided by E&Y other than those reported under "Audit Fees", "Audit-Related Fees" and "Tax Fees."

For periods prior to May 6, 2003, the amounts shown above under "Audit-Related Fees," "Tax Fees" and "All Other Fees" relate to permitted non-audit services that would have been subject to pre-approval if the Securities and Exchange Commission's rules relating to pre-approval of non-audit services had been in effect.

ITEM 4(e) (1):

Set forth below are the policies and procedures established by the Audit Committee of the Board of Trustees relating to the pre-approval of audit and non-audit related services: To the extent required by applicable law, pre-approval by the Audit Committee of the Board is needed for all audit and permissible non-audit services rendered to the Funds and all permissible non-audit services rendered to MFS or MFS Related Entities if the services relate directly to the operations and financial reporting of the Registrant. Pre-approval is currently on an engagement-by-engagement basis. In the event pre-approval of such services is necessary between regular meetings of the

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Audit Committee and it is not practical to wait to seek pre-approval at the next regular meeting of the Audit Committee, such pre-approval of services may be referred to the Chair of the Audit Committee for approval; provided that the Chair may not pre-approve any individual engagement for such services exceeding \$50,000 or multiple engagements for such services in the aggregate exceeding \$100,000 between such regular meetings of the Audit Committee. Any engagement pre-approved by the Chair between regular meetings of the Audit Committee shall be presented for ratification by the entire Audit Committee at its next regularly scheduled meeting.

ITEM 4(e) (2):

None, or 0%, of the services relating to the Audit-Related Fees, Tax Fees and All Other Fees paid by the Funds and MFS and MFS Related Entities relating directly to the operations and financial reporting of the Registrant disclosed above were approved by the audit committee pursuant to paragraphs (c) (7) (i) (C) of Rule 2-01 of Regulation S-X (which permits audit committee approval after the start of the engagement with respect to services other than audit review or attest services, if certain conditions are satisfied).

ITEM 4(f): Not applicable.

ITEM 4(h): The Registrant's Audit Committee has considered whether the provision by a Registrant's independent registered public accounting firm of non-audit services to MFS and MFS Related Entities that were not pre-approved by the Committee (because such services were provided prior to the effectiveness of SEC rules requiring pre-approval or because such services did not relate directly to the operations and financial reporting of the Registrant) was compatible with maintaining the independence of the independent registered public accounting firm as the Registrant's principal auditors.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

The Registrant has an Audit Committee established in accordance with Section 3(a) (58) (A) of the Securities Exchange Act of 1934. The members of the Audit Committee are Messrs. J. Atwood Ives, William J. Poorvu and J. Dale Sherratt and Ms. Amy B. Lane. Mr. Poorvu retired as a Trustee effective as of December 31, 2004.

ITEM 6. SCHEDULE OF INVESTMENTS

A schedule of investments of the Registrant is included as part of the report to shareholders of the Registrant under Item 1 of this Form N-CSR.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

The Board of Trustees and the Board of Managers of the investment companies (the "MFS Funds") advised by Massachusetts Financial Services Company ("MFS") have delegated to MFS the right and obligation to vote proxies for shares that are owned by the MFS Funds, in accordance with MFS' proxy voting policies and procedures (the "MFS Proxy Policies"). The MFS Proxy Policies are set forth below:

MASSACHUSETTS FINANCIAL SERVICES COMPANY

PROXY VOTING POLICIES AND PROCEDURES

SEPTEMBER 17, 2003, AS REVISED ON SEPTEMBER 20, 2004

Massachusetts Financial Services Company, MFS Institutional Advisors, Inc. and MFS' other investment adviser subsidiaries

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(collectively, "MFS") have adopted proxy voting policies and procedures, as set forth below, with respect to securities owned by the clients for which MFS serves as investment adviser and has the power to vote proxies, including the registered investment companies sponsored by MFS, other than the MFS Union Standard Equity Fund (the "MFS Funds").

These policies and procedures include:

- A. Voting Guidelines;
- B. Administrative Procedures;
- C. Monitoring System;
- D. Records Retention; and
- E. Reports.

A. VOTING GUIDELINES

1. GENERAL POLICY; POTENTIAL CONFLICTS OF INTEREST

MFS' policy is that proxy voting decisions are made in what MFS believes to be the best long-term economic interests of MFS' clients, and not in the interests of any other party or in MFS' corporate interests, including interests such as the distribution of MFS Fund shares, administration of 401(k) plans, and institutional relationships.

MFS has carefully reviewed matters that in recent years have been presented for shareholder vote by either management or shareholders of public companies. Based on the guiding principle that all votes made by MFS on behalf of its clients must be in what MFS believes to be the best long-term economic interests of such clients, MFS has adopted proxy voting guidelines, which are set forth below, that govern how MFS generally plans to vote on specific matters presented for shareholder vote. In all cases, MFS will exercise its discretion to vote these items in accordance with this guiding principle. These underlying guidelines are simply that - guidelines. Each proxy item is considered on a case-by-case basis, in light of all relevant facts and circumstances, and there may be instances in which MFS may vote proxies in a manner different from these guidelines.

As a general matter, MFS maintains a consistent voting position with respect to similar proxy proposals made by various issuers. In addition, MFS generally votes consistently on the same matter when securities of an issuer are held by multiple client accounts. However, MFS recognizes that there are gradations in certain types of proposals that might result in different voting positions being taken with respect to the different proxy statements. There also may be situations involving matters presented for shareholder vote that are not clearly governed by the guidelines, such as proposed mergers and acquisitions. Some items that otherwise would be acceptable will be voted against the proponent when it is seeking extremely broad flexibility without offering a valid explanation. MFS reserves the right to override the guidelines with respect to a particular shareholder vote when such an override is, in MFS' best judgment, consistent with the guiding principle of voting proxies in the best long-term economic interests of MFS' clients.

From time to time, MFS receives comments on these guidelines and regarding particular voting issues from its clients. Those comments are reviewed and considered periodically, and these guidelines are reviewed each year with MFS Equity Research Department management, the MFS Proxy Review Group and the MFS Proxy Consultant and are revised as appropriate.

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These policies and procedures are intended to address any potential material conflicts of interest on the part of MFS or its affiliates that could arise in connection with the voting of proxies on behalf of MFS' clients. MFS shall be mindful of any and all potential material conflicts of interest that could arise in the voting of these proxies, shall identify, analyze, document and report on any such potential conflicts, and shall ultimately vote these proxies in what MFS believes to be the best long-term economic interests of its clients. The MFS Proxy Review Group is responsible for monitoring and reporting on all potential conflicts of interest.

2. MFS' POLICY ON SPECIFIC ISSUES

NON-SALARY COMPENSATION PROGRAMS

Managements have become increasingly creative and generous with compensation programs involving common stock. The original stock option plans, which called for the optionee to pay the money to exercise the option, are now embellished with no risk benefits such as stock appreciation rights, the use of unexercised options to "buy" stock, and restricted stock at bargain prices.

Stock option plans are supposed to reward results rather than tenure, so the use of restricted stock at bargain prices is not favored. In some cases, restricted stock is granted to the recipient at deep discounts to fair market value, sometimes at par value. The holder cannot sell for a period of years, but in the meantime is able to vote and receive dividends. Eventually the restrictions lapse and the stock can be sold.

MFS votes against option programs for officers, employees or non-employee directors that do not require an investment by the optionee, that give "free rides" on the stock price, or that permit grants of restricted stock at deep discounts to fair market value. MFS generally votes against stock option plans that involve stock appreciation rights or the use of unexercised options to "buy" stock.

MFS opposes plans that provide unduly generous compensation for officers, directors or employees, or could result in excessive dilution to other shareholders. As a general guideline, MFS votes against stock option plans if all such plans for a particular company involve potential dilution, in the aggregate, of more than 15%.

MFS votes in favor of stock option plans for non-employee directors as long as they satisfy the requirements set forth above with respect to stock option plans for employees. Stock option plans that include options for consultants and other third parties not involved in the management of the company generally are opposed by MFS.

"GOLDEN PARACHUTES"

From time to time, shareholders of companies have submitted proxy proposals that would require shareholder approval of any severance packages for executive officers that exceed certain predetermined thresholds. MFS votes in favor of such shareholder proposals when they would require shareholder approval of any severance package for an executive officer that exceeds a certain percentage of such officer's annual compensation. When put to a vote, MFS votes against very large golden parachutes.

ANTI-TAKEOVER MEASURES

In general, MFS votes against any measure that inhibits capital appreciation in a stock, including a possible takeover and any proposal that protects management from action by shareholders. These types of proposals take

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many forms, ranging from "poison pills" and "shark repellents" to board classification and super-majority requirements.

REINCORPORATION AND REORGANIZATION PROPOSALS

When presented with a proposal to reincorporate a company under the laws of a different state, or to effect some other type of corporate reorganization, MFS considers the underlying purpose and ultimate effect of such a proposal in determining whether or not to support such a measure. While MFS generally votes in favor of management proposals that it believes are in the best long-term economic interests of its clients, MFS may oppose such a measure if, for example, the intent or effect would be to create additional inappropriate impediments to possible acquisitions or takeovers.

DILUTION

There are many reasons for issuance of stock and most are legitimate. As noted above under "Non-Salary Compensation Programs", when a stock option plan (either individually or when aggregated with other plans of the same company) would substantially dilute the existing equity (e.g., by approximately 15% or more), MFS generally votes against the plan. In addition, MFS votes against proposals where management is asking for authorization to issue common or preferred stock with no reason stated (a "blank check") because the unexplained authorization could work as a potential anti-takeover device.

CONFIDENTIAL VOTING

MFS votes in favor of proposals to ensure that shareholder voting results are kept confidential. For example, MFS supports proposals that would prevent management from having access to shareholder voting information that is compiled by an independent proxy tabulation firm.

INDEPENDENCE OF BOARDS OF DIRECTORS AND COMMITTEES THEREOF

While MFS acknowledges the potential benefits of a company's inclusion of directors who are "independent" from management, MFS generally opposes shareholder proposals that would require that a majority (or a "super-majority") of a company's board be comprised of "independent" directors. Such proposals could inappropriately reduce a company's ability to engage in certain types of transactions, could result in the exclusion of talented directors who are not deemed "independent", or could result in the unnecessary addition of additional "independent" directors to a company's board. However, in view of the special role and responsibilities of various committees of a board of directors, MFS supports proposals that would require that the Audit, Nominating and Compensation Committees be comprised entirely of directors who are deemed "independent" of the company.

INDEPENDENT AUDITORS

Recently, some shareholder groups have submitted proposals to limit the non-audit activities of a company's audit firm. Some proposals would prohibit the provision of any non-audit services (unless approved in advance by the full board) whereas other proposals would cap non-audit fees so that such fees do not exceed a certain percentage of the audit fees. MFS supports such shareholder proposals that would cap non-audit fees at an amount deemed to be not excessive.

BEST PRACTICES STANDARDS

Best practices standards are rapidly evolving in the corporate governance areas as a result of recent corporate failures, the Sarbanes-Oxley Act of 2002 and revised listing standards on major stock exchanges. MFS

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generally support these changes. However, many issuers are not publicly registered, are not subject to these enhanced listing standards or are not operating in an environment that is comparable to that in the United States. In reviewing proxy proposals under these circumstances, MFS votes for proposals that enhance standards of corporate governance so long as we believe that -- within the circumstances of the environment within which the issuers operate -- the proposal is consistent with the best long-term economic interests of our clients.

FOREIGN ISSUERS - SHARE BLOCKING

In accordance with local law or business practices, many foreign companies prevent the sales of shares that have been voted for a certain period beginning prior to the shareholder meeting and ending on the day following the meeting ("share blocking"). Depending on the country in which a company is domiciled, the blocking period may begin a stated number of days prior to the meeting (e.g., one, three or five days) or on a date established by the company. While practices vary, in many countries the block period can be continued for a longer period if the shareholder meeting is adjourned and postponed to a later date. Similarly, practices vary widely as to the ability of a shareholder to have the "block" restriction lifted early (e.g., in some countries shares generally can be "unblocked" up to two days prior to the meeting whereas in other countries the removal of the block appears to be discretionary with the issuer's transfer agent). Due to these restrictions, MFS must balance the benefits to its clients of voting proxies against the potentially serious portfolio management consequences of a reduced flexibility to sell the underlying shares at the most advantageous time. For companies in countries with potentially long block periods, the disadvantage of being unable to sell the stock regardless of changing conditions generally outweighs the advantages of voting at the shareholder meeting for routine items. Accordingly, MFS generally will not vote those proxies in the absence of an unusual, significant vote. Conversely, for companies domiciled in countries with very short block periods, MFS generally will continue to cast votes in accordance with these policies and procedures.

SOCIAL ISSUES

There are many groups advocating social change, and many have chosen the publicly-held corporation as a vehicle for their agenda. Common among these are resolutions requiring the corporation to refrain from investing or conducting business in certain countries, to adhere to some list of goals or principles (e.g., environmental standards) or to report on various activities. MFS votes against such proposals unless their shareholder-oriented benefits will outweigh any costs or disruptions to the business, including those that use corporate resources to further a particular social objective outside the business of the company or when no discernible shareholder economic advantage is evident.

The laws of various states may regulate how the interests of certain clients subject to those laws are voted. For example, the General Laws of The Commonwealth of Massachusetts prohibit the investment of state funds, including retirement system assets, in the following types of investments: (i) financial institutions which directly or through any subsidiary have outstanding loans to any individual or corporation engaged in manufacturing, distribution or sale of firearms, munitions, rubber or plastic bullets, tear gas, armored vehicles or military aircraft for use or deployment in any activity in Northern Ireland; or (ii) any stocks, securities or obligations of any company so engaged.

Because of these statutory restrictions, it is necessary when voting proxies for securities held in Massachusetts public pension accounts to support the purpose of this legislation. Thus, on issues relating to these or similar state law questions, it may be necessary to cast ballots differently for these

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portfolios than MFS might normally do for other accounts.

B. ADMINISTRATIVE PROCEDURES

1. MFS PROXY REVIEW GROUP

The administration of these policies and procedures is overseen by the MFS Proxy Review Group, which includes senior MFS Legal Department officers and MFS' Proxy Consultant. The MFS Proxy Review Group:

- a. Reviews these policies and procedures at least annually and recommends any amendments considered to be necessary or advisable;
- b. Determines whether any material conflicts of interest exist with respect to instances in which (i) MFS seeks to override these guidelines and (ii) votes not clearly governed by these guidelines; and
- c. Considers special proxy issues as they may arise from time to time.

The current MFS Proxy Consultant is an independent proxy consultant who performs these services exclusively for MFS.

2. POTENTIAL CONFLICTS OF INTEREST

The MFS Proxy Review Group is responsible for monitoring potential material conflicts of interest on the part of MFS or its affiliates that could arise in connection with the voting of proxies on behalf of MFS' clients. Any attempt to influence MFS' voting on a particular proxy matter should be reported to the MFS Proxy Review Group. The MFS Proxy Consultant will assist the MFS Proxy Review Group in carrying out these responsibilities.

In cases where proxies are voted in accordance with these policies and guidelines, no conflict of interest will be deemed to exist. In cases where (i) MFS is considering overriding these policies and guidelines, or (ii) matters presented for vote are not clearly governed by these policies and guidelines, the MFS Proxy Review Group and the MFS Proxy Consultant will follow these procedures:

- a. Compare the name of the issuer of such proxy against a list of significant current and potential (i) distributors of MFS Fund shares, (ii) retirement plans administered by MFS, and (iii) MFS institutional clients (the "MFS Significant Client List");
- b. If the name of the issuer does not appear on the MFS Significant Client List, then no material conflict of interest will be deemed to exist, and the proxy will be voted as otherwise determined by the MFS Proxy Review Group;
- c. If the name of the issuer appears on the MFS Significant Client List, then the MFS Proxy Review Group will carefully evaluate the proposed votes in order to ensure that the proxy ultimately is voted in what MFS believes to be the best long-term economic interests of MFS' clients, and not in MFS' corporate interests; and
- d. For all potential material conflicts of interest identified under clause (c) above, the MFS Proxy Review Group will document: the name of the issuer, the issuer's relationship to MFS, the analysis of the matters submitted for proxy vote, and

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the basis for the determination that the votes ultimately were cast in what MFS believes to be the best long-term economic interests of MFS' clients, and not in MFS' corporate interests.

The MFS Proxy Review Group is responsible for creating and maintaining the MFS Significant Client List, in consultation with MFS' distribution, retirement plan administration and institutional business units. The MFS Significant Client List will be reviewed and updated as necessary, but no less frequently than quarterly.

3. GATHERING PROXIES

Nearly all proxies received by MFS originate at Automatic Data Processing Corp. ("ADP"). ADP and issuers send proxies and related material directly to the record holders of the shares beneficially owned by MFS' clients, usually to the client's custodian or, less commonly, to the client itself. Each client's custodian is responsible for forwarding all proxy solicitation materials to MFS (except in the case of certain institutional clients for which MFS does not vote proxies). This material will include proxy cards, reflecting the proper shareholdings of Funds and of clients on the record dates for such shareholder meetings, and proxy statements, the issuer's explanation of the items to be voted upon.

MFS, on behalf of itself and the Funds, has entered into an agreement with an independent proxy administration firm, Institutional Shareholder Services, Inc. (the "Proxy Administrator"), pursuant to which the Proxy Administrator performs various proxy vote processing and recordkeeping functions for MFS' Fund and institutional client accounts. The Proxy Administrator does not make recommendations to MFS as to how to vote any particular item. The Proxy Administrator receives proxy statements and proxy cards directly from various custodians, logs these materials into its database and matches upcoming meetings with MFS Fund and client portfolio holdings, which are input into the Proxy Administrator's system by an MFS holdings datafeed. Through the use of the Proxy Administrator system, ballots and proxy material summaries for the upcoming shareholders' meetings of over 10,000 corporations are available on-line to certain MFS employees, the MFS Proxy Consultant and the MFS Proxy Review Group and most proxies can be voted electronically. In addition to receiving the hard copies of materials relating to meetings of shareholders of issuers whose securities are held by the Funds and/or clients, the ballots and proxy statements can be printed from the Proxy Administrator's system and forwarded for review.

4. ANALYZING PROXIES

After input into the Proxy Administrator system, proxies which are deemed to be completely routine (e.g., those involving only uncontested elections of directors, appointments of auditors, and/or employee stock purchase plans) (1) are automatically voted in favor by the Proxy Administrator without being sent to either the MFS Proxy Consultant or the MFS Proxy Review Group for further review. Proxies that pertain only to merger and acquisition proposals are forwarded initially to an appropriate MFS portfolio manager or research analyst for his or her recommendation. All proxies that are reviewed by either the MFS Proxy Consultant or a portfolio manager or analyst are then forwarded with the corresponding recommendation to the MFS Proxy Review Group. (2)

(1) Proxies for foreign companies often contain significantly more voting items than those of U.S. companies. Many of these items on foreign proxies involve repetitive, non-controversial matters that are mandated by local law. Accordingly, there is an expanded list of items that are deemed routine (and therefore automatically voted in favor) for foreign issuers,

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including the following: (i) receiving financial statements or other reports from the board; (ii) approval of declarations of dividends; (iii) appointment of shareholders to sign board meeting minutes; (iv) the discharge of management and supervisory boards; and (v) approval of share repurchase programs.

- (2) From time to time, due to travel schedules and other commitments, an appropriate portfolio manager or research analyst is not available to provide a recommendation on a merger or acquisition proposal. If such a recommendation cannot be obtained within a few business days prior to the shareholder meeting, the MFS Proxy Review Group will determine the vote in what MFS believes to be the best long-term economic interests of its clients.

Recommendations with respect to voting on non-routine issues are generally made by the MFS Proxy Consultant in accordance with the policies summarized under "Voting Guidelines," and all other relevant materials. His or her recommendation as to how each proxy proposal should be voted is indicated on copies of proxy cards, including his or her rationale on significant items. These cards are then forwarded to the MFS Proxy Review Group.

As a general matter, portfolio managers and investment analysts are consulted and involved in developing MFS' substantive proxy voting guidelines, but have little or no involvement in or knowledge of proxy proposals or voting positions taken by MFS. This is designed to promote consistency in the application of MFS' voting guidelines, to promote consistency in voting on the same or similar issues (for the same or for multiple issuers) across all client accounts, and to minimize or remove the potential that proxy solicitors, issuers, and third parties might attempt to exert influence on the vote or might create a conflict of interest that is not in what MFS believes to be the best long-term economic interests of our clients. In limited, specific instances (e.g., mergers), the MFS Proxy Consultant or the MFS Proxy Review Group may consult with or seek recommendations from portfolio managers or analysts. The MFS Proxy Review Group would ultimately determine the manner in which all proxies are voted.

As noted above, MFS reserves the right to override the guidelines when such an override is, in MFS' best judgment, consistent with the guiding principle of voting proxies in the best long-term economic interests of MFS' clients. Any such override of the guidelines shall be examined, explained and reported in accordance with the procedures set forth in these policies.

5. VOTING PROXIES

After the proxy card copies are reviewed, they are voted electronically through the Proxy Administrator's system. In accordance with its contract with MFS, the Proxy Administrator also generates a variety of reports for the MFS Proxy Consultant and the MFS Proxy Review Group, and makes available on-line various other types of information so that the MFS Proxy Review Group and the MFS Proxy Consultant may monitor the votes cast by the Proxy Administrator on behalf of MFS' clients.

C. MONITORING SYSTEM

It is the responsibility of the Proxy Administrator and MFS' Proxy Consultant to monitor the proxy voting process. As noted above, when proxy materials for clients are received, they are forwarded to the Proxy Administrator and are input into the Proxy Administrator's system. Additionally, through an interface with the portfolio holdings database of MFS, the Proxy Administrator matches a list of all MFS Funds and clients who hold shares of a company's stock and the number of shares held on the record date with the Proxy Administrator's listing of any upcoming shareholder's meeting of

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that company.

When the Proxy Administrator's system "tickler" shows that the date of a shareholders' meeting is approaching, a Proxy Administrator representative checks that the vote for MFS Funds and clients holding that security has been recorded in the computer system. If a proxy card has not been received from the client's custodian, the Proxy Administrator calls the custodian requesting that the materials be forward immediately. If it is not possible to receive the proxy card from the custodian in time to be voted at the meeting, MFS may instruct the custodian to cast the vote in the manner specified and to mail the proxy directly to the issuer.

D. RECORDS RETENTION

MFS will retain copies of these policies and procedures in effect from time to time and will retain all proxy voting reports submitted to the Board of Trustees and Board of Managers of the MFS Funds for a period of six years. Proxy solicitation materials, including electronic versions of the proxy cards completed by the MFS Proxy Consultant and the MFS Proxy Review Group, together with their respective notes and comments, are maintained in an electronic format by the Proxy Administrator and are accessible on-line by the MFS Proxy Consultant and the MFS Proxy Review Group. All proxy voting materials and supporting documentation, including records generated by the Proxy Administrator's system as to proxies processed, the dates when proxies were received and returned, and the votes on each company's proxy issues, are retained for six years.

E. REPORTS

MFS FUNDS

Periodically, MFS will report the results of its voting to the Board of Trustees and Board of Managers of the MFS Funds. These reports will include: (i) a listing of how votes were cast; (ii) a review of situations where MFS did not vote in accordance with the guidelines and the rationale therefor; (iii) a review of the procedures used by MFS to identify material conflicts of interest; and (iv) a review of these policies and the guidelines and, as necessary or appropriate, any proposed modifications thereto to reflect new developments in corporate governance and other issues. Based on these reviews, the Trustees and Managers of the MFS Funds will consider possible modifications to these policies to the extent necessary or advisable.

ALL MFS ADVISORY CLIENTS

At any time, a report can be printed by MFS for each client who has requested that MFS furnish a record of votes cast. The report specifies the proxy issues which have been voted for the client during the year and the position taken with respect to each issue.

Generally, MFS will not divulge actual voting practices to any party other than the client or its representatives (unless required by applicable law) because we consider that information to be confidential and proprietary to the client.

ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

Not applicable at this time.

ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS.

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| MFS Charter Income Trust | | | | |
|--------------------------|-----------------------------------------|----------------------------------------|--------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|
| PRIOR | (A) TOTAL NUMBER OF SHARES PURCHASED | (B) AVERAGE PRICE PAID PER SHARE | (C) TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS | (D) MAXIMUM (OR APPROXIMATE) DOLLAR VALUE OF SHARES THAT MAY BE PURCHASED UNDER THE PLANS |
| 12/01/03 - 12/31/03 | 106,100 | 8.82 | 106,100 | 5,883,984 |
| 01/01/04 - 01/31/04 | 1,600 | 8.87 | 1,600 | 5,883,984 |
| 02/01/04 - 02/28/04 | 0 | n/a | 0 | 5,883,984 |
| 03/01/04 - 03/31/04 | 0 | n/a | 0 | 5,853,984 |
| 04/01/04 - 04/30/04 | 234,700 | 8.64 | 234,700 | 5,619,284 |
| 05/01/04 - 05/31/04 | 171,500 | 8.37 | 171,500 | 5,447,784 |
| 06/01/04 - 06/30/04 | 0 | n/a | 0 | 5,447,784 |
| 07/01/04 - 07/31/04 | 204,000 | 8.64 | 204,000 | 5,243,784 |
| 08/01/04 - 08/31/04 | 57,200 | 8.71 | 57,200 | 5,186,584 |
| 09/01/04 - 09/30/04 | 170,600 | 8.81 | 170,600 | 5,015,984 |
| 10/01/04 - 10/31/04 | 0 | n/a | 0 | 5,015,984 |
| 11/01/04 - 11/30/04 | 188,900 | 8.70 | 188,900 | 4,827,084 |
| TOTALS/YEAR | 1,134,600 | 8.70 | 1,134,600 | |

Note: The Board of Trustees approves procedures to repurchase shares annually. The notification to shareholders of the program is part of the semi-annual and annual reports sent to shareholders. These annual programs begin on March 1st of each year. The programs conform to the conditions of Rule 10b-18 of the securities Exchange Act of 1934 and limit the aggregate number of shares that may be purchased in each annual period (March 1 through the following February 28) to 10% of the Registrant's outstanding shares as of the first day of the plan year (March 1). The aggregate number of shares available for purchase for the March 1, 2004 plan year are 5,853,984.

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

There were no material changes to the procedures by which shareholders may send recommendations to the Board for nominees to the Registrant's Board since the Registrant last provided disclosure as to such procedures in response to the requirements of Item 7(d)(2)(ii)(G) of Schedule 14A.

ITEM 11. CONTROLS AND PROCEDURES.

- (a) Based upon their evaluation of the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Act) as conducted within 90 days of the filing date of this Form N-CSR, the registrant's principal

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financial officer and principal executive officer have concluded that those disclosure controls and procedures provide reasonable assurance that the material information required to be disclosed by the registrant on this report is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

- (b) There were no changes in the registrant's internal controls over financial reporting (as defined in Rule 30a-3(d) under the Act) that occurred during the second fiscal quarter covered by the report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

ITEM 12. EXHIBITS.

(a) File the exhibits listed below as part of this Form. Letter or number the exhibits in the sequence indicated.

(1) Any code of ethics, or amendment thereto, that is the subject of the disclosure required by Item 2, to the extent that the registrant intends to satisfy the Item 2 requirements through filing of an exhibit: Code of Ethics attached hereto.

(2) A separate certification for each principal executive officer and principal financial officer of the registrant as required by Rule 30a-2 under the Act (17 CFR 270.30a-2): Attached hereto.

(3) Any written solicitation to purchase securities under Rule 23c-1 under the Act sent or given during the period covered by the report by or on behalf of the Registrant to 10 or more persons. Not applicable.

(b) If the report is filed under Section 13(a) or 15(d) of the Exchange Act, provide the certifications required by Rule 30a-2(b) under the Act (17 CFR 270.30a-2(b)), Rule 13a-14(b) or Rule 15d-14(b) under the Exchange Act (17 CFR 240.13a-14(b) or 240.15d-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350) as an exhibit. A certification furnished pursuant to this paragraph will not be deemed "filed" for the purposes of Section 18 of the Exchange Act (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference: Attached hereto.

SIGNATURES

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

Registrant MFS CHARTER INCOME TRUST

By (Signature and Title)* ROBERT J. MANNING

Robert J. Manning, President

Date: January 21, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934 and the

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Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title)* ROBERT J. MANNING

Robert J. Manning, President (Principal Executive Officer)

Date: January 21, 2005

By (Signature and Title)* RICHARD M. HISEY

Richard M. Hisey, Treasurer (Principal Financial Officer and Accounting Officer)

Date: January 21, 2005

* Print name and title of each signing officer under his or her signature.