

Edgar Filing: MFS CHARTER INCOME TRUST - Form N-CSR

MFS CHARTER INCOME TRUST
Form N-CSR
July 30, 2003

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 811-4975

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)

Stephen E. Cavan
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, 2002

Date of reporting period: May 31, 2003

ITEM 1. REPORTS TO STOCKHOLDERS.

[logo] M F S(R)
INVESTMENT MANAGEMENT

MFS(R) CHARTER
INCOME TRUST

SEMIANNUAL REPORT o MAY 31, 2003

TABLE OF CONTENTS

Letter from the Chairman	1
Management Review	4
Performance Summary	8
Portfolio of Investments	10
Financial Statements	22
Notes to Financial Statements	26
Trustees and Officers	34

Edgar Filing: MFS CHARTER INCOME TRUST - Form N-CSR

NOT FDIC INSURED MAY LOSE VALUE NO BANK GUARANTEE
NOT A DEPOSIT NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY

LETTER FROM THE CHAIRMAN

[Photo of Jeffrey L. Shames]
Jeffrey L. Shames

Dear Shareholders,

Our firm was built on the philosophy that bottom-up fundamental research is the best means of achieving superior long-term investment performance. When you're managing billions of dollars for investors, we think you have an obligation to have in-depth, firsthand knowledge of every company owned, anywhere in the world.

We have structured our equity and fixed-income investment teams to capitalize on the strength of our investment process and the global reach of our analysts based around the world. Our global research team is composed of 45 equity research analysts, 27 based in the United States and 18 based abroad, and 26 credit research analysts. Each analyst is assigned one or more specific industries and then charged with identifying the most attractive investment ideas within these industries. Our U.S. and non-U.S. equity research analysts are unified into one team that emphasizes a collaborative process in analyzing securities around the globe. Credit analysts also share their expertise in each segment of the fixed-income market and work as part of the same team ensuring that every member has access to information that may have a material effect on their investment decisions. As MFS(R) continues to grow and as markets become more complex, we believe our structure will enable us to maintain a consistent investment process with the goal of providing strong, long-term investment performance across market capitalizations, investment disciplines, and country borders for our investors.

THINKING GLOBALLY

More companies than ever compete globally and, therefore, we must make investment decisions knowing what is occurring outside of a company's local market. This trend plays to the strength of our environment of collaboration between our analysts and portfolio managers around the globe. The analysts know the most details about individual companies in specific industries and geographic regions. The portfolio managers have broader, cross-industry insights and a wider perspective on companies and industries. Our goal is to make sure those two sets of perspectives coordinate and work well together. As the world's markets become more interdependent, we believe our collaborative environment allows us to produce solid investment ideas for our portfolios.

BUILDING A NETWORK

Simply put, we believe our structure assures that our analysts maintain their peripheral vision rather than becoming too immersed in a specific segment of the market. We do not believe that analysts and portfolio managers -- no matter how talented they may be -- can succeed by working in a vacuum. Through the latest technology available, our entire research team meets frequently via video and telephone teleconferences, e-mail, and PDAs (personal digital assistants). When we hire new analysts, we require them to spend an average of one year in Boston to learn MFS' culture and to build relationships with their peers. We believe the interaction among our analysts is the key to making our collaborative process work toward delivering superior long-term investment performance for our investors. Our analysts work out of four research offices in Boston, London, Singapore, and Tokyo, and are assigned to specific regions and industries. They meet regularly with their colleagues to discuss world

Edgar Filing: MFS CHARTER INCOME TRUST - Form N-CSR

trends affecting the companies they cover.

In addition, our equity and fixed-income analysts often visit company managements as a team. This collaboration is vital because of the different perspectives they bring to their analysis. Because a company's stock price has tended to follow its earnings over time, our equity research analysts tend to focus on gauging earnings potential, a company's position within its industry, and its ability to grow its market share. Conversely, our fixed-income analysts will look at stability of a company's cash flow, the value of its assets, and its capital structure to gauge whether the company can generate enough free cash flow to pay off its debt. As a result of their collaboration, we believe we're able to see a more complete view of a company.

WORKING TOGETHER

Our portfolio managers also work closely with the analysts to select the most appropriate securities for their portfolios from the various recommendations made by the analysts. Opinions are exchanged and ideas are challenged so that each member of our team is involved in our investment process. In fact, our portfolio managers will be the first ones to tell you that many of their best ideas start with the research analysts. We believe our collaborative approach also provides us with an effective way to assess risk. Our portfolio managers are not discouraged from taking on an appropriate level of risk; however, we have rigorous guidelines to assure that the level of risk is measured and monitored and consistent with the investment philosophies of each of our portfolios. All told, we believe our culture empowers the members of our investment team to continue to do their best work and allows them to make better investment decisions.

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

Respectfully,

/s/ Jeffrey L. Shames

Jeffrey L. Shames
Chairman
MFS Investment Management (R)

June 20, 2003

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

MANAGEMENT REVIEW

[Photo of Joseph C. Flaherty, Jr.]
Joseph C. Flaherty, Jr.

Dear Shareholders,

For the six months ended May 31, 2003, the trust provided a total return of 10.21% based on its beginning and ending stock market prices and assuming the reinvestment of any distributions paid during the period. The trust's total return based on its net asset value (NAV) was 9.79%. The trust's results compare with returns over the same period for the following benchmarks: 4.65% for the Salomon World Government Bond Index Non-dollar Hedged, 6.29% for the Lehman Brothers Aggregate Bond Index, 16.78% for the Lehman Brothers High Yield Index, and 20.96% for the J.P. Morgan Emerging Market Bond Index -- Global. The Salomon World Government Bond Index Non-dollar Hedged is a measure of government bond markets around the world ex-U.S. The Lehman Brothers Aggregate

Edgar Filing: MFS CHARTER INCOME TRUST - Form N-CSR

Bond Index is a measure of the U.S. bond market. The Lehman Brothers High Yield Index measures the performance of the high-yield bond market. The J.P. Morgan Emerging Market Bond Index -- Global (the EMBI Global) tracks debt instruments in the emerging markets (includes a broader array of countries than the EMBI Plus).

MARKET ENVIRONMENT

During the fourth quarter of 2002 and continuing through the end of May 2003, economic growth worldwide continued to be anemic. The weak economic environment caused the U.S. Federal Reserve Board to keep U.S. interest rates low for the period and the European Central Bank (ECB) to cut its interest rates twice in an effort to boost economic activity in that region. At the same time, investors appeared to show renewed interest in fixed-income securities, especially those with lower quality ratings. The period was marked by near-record cash inflows into the high-yield market at a time when only modest supplies of new high-yield bonds were being issued. We believe that this imbalance between supply and demand resulted in lower yields and significantly higher prices. It also contributed to better performance from high-yield bonds than other U.S. fixed-income sectors.

High-grade corporate bonds also benefited from solid market conditions, but did not appreciate to the extent experienced in the high-yield market. U.S. government bonds also posted positive results, but lagged most other fixed-income asset classes, as yields on those U.S. government bonds neared 45-year lows. (U.S. government bonds fluctuate in value, but they are guaranteed as to the timely payment of interest and, if held to maturity, provide a guaranteed rate of return.) Prices of foreign government bonds rose as interest rates fell. Emerging market bonds were among the top performers overseas. Attractive yields and improved monetary and fiscal policies contributed to increased demand for emerging market bonds and helped cause their prices to rise.

STRONG PERFORMANCE FROM HIGH-YIELD BONDS

The trust had benefited from being positioned conservatively throughout 2002. However, we began to increase corporate exposure in November because we felt the yields on these bonds were at attractive levels and the economy was positioned to improve. We roughly doubled the portion of the trust's high-yield position over the course of the period so that it totaled approximately 24% of the trust's holdings by the end of May. At the same time, we were trimming our U.S. government, government agency, and mortgage positions because we believed that other areas of the fixed-income market offered better returns.

Our focus on lower-quality bonds proved beneficial to the trust as many previously struggling sectors bounced back. One area in particular that did well during the period was the telecommunications sector, where exposure to communications companies such as Cox Communications and Turner Broadcasting helped the trust.

Our holdings in the financial sector also helped trust performance. On a risk-adjusted basis, the mortgage group continued to be a very solid performer. A strong housing market translated into increased mortgage lending that improved profitability for many banks.

We also increased our allocation to emerging market debt securities to approximately 8%. The sector performed very well and added to the trust's yield.

Finally, we increased our exposure to foreign currency as a result of not hedging all of our foreign bond positions. As the dollar weakened over the period, this increased exposure provided a positive contribution to the trust's performance.

Edgar Filing: MFS CHARTER INCOME TRUST - Form N-CSR

DETRACTORS FROM PERFORMANCE

Although our allocation in the high-yield sector benefited absolute performance, the trust would have turned in stronger returns had it been more heavily invested in high-yield bonds. In addition, the trust had a very low exposure to the lowest quality issues in the high-yield market. We believed that those issues were too volatile and too fiscally distressed to be included in the trust's portfolio. However, the lowest quality issues turned in the best performance among corporate bonds.

Although the trust's U.S. government holdings generated positive returns, those holdings produced lower returns than the trust's corporate bonds and acted as a damper on fund performance.

Respectfully,

/s/ Joseph C. Flaherty, Jr.

Joseph C. Flaherty, Jr.
Portfolio Manager

The opinions expressed in this report are those of the portfolio manager and are current only through the end of the period of the report as stated on the cover. These views are subject to change at any time based on market and other conditions, and no forecasts can be guaranteed.

It is not possible to invest directly in an index.

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

PORTFOLIO MANAGER'S PROFILE

JOSEPH C. FLAHERTY, JR., IS SENIOR VICE PRESIDENT OF MFS INVESTMENT MANAGEMENT(R) (MFS(R)) AND MANAGER OF THE QUANTITATIVE RESEARCH GROUP. HE IS PORTFOLIO MANAGER OF THE GLOBAL ASSET ALLOCATION PORTFOLIOS OF OUR MUTUAL FUNDS, VARIABLE ANNUITIES, AND OFFSHORE INVESTMENT PRODUCTS.

JOE JOINED MFS AS A FIXED-INCOME QUANTITATIVE RESEARCH ASSOCIATE IN 1993 AND WAS NAMED QUANTITATIVE RESEARCH ANALYST AND ASSISTANT VICE PRESIDENT IN 1996. HE BECAME VICE PRESIDENT AND MANAGER OF THE QUANTITATIVE RESEARCH GROUP IN 1998 AND PORTFOLIO MANAGER IN 1999. HE EARNED A BACHELOR OF SCIENCE DEGREE IN MECHANICAL ENGINEERING FROM TUFTS UNIVERSITY IN 1984 AND AN M.B.A. IN FINANCE FROM BENTLEY COLLEGE IN 1990.

ALL PORTFOLIO MANAGERS AT MFS ARE SUPPORTED BY AN INVESTMENT STAFF OF OVER 160 PROFESSIONALS UTILIZING MFS ORIGINAL RESEARCH(R), A GLOBAL, COMPANY-ORIENTED, BOTTOM-UP PROCESS OF SELECTING SECURITIES.

NUMBER OF SHAREHOLDERS

As of May 31, 2003, our records indicate that there are 5,009 registered shareholders and approximately 32,731 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.

Edgar Filing: MFS CHARTER INCOME TRUST - Form N-CSR

P.O. Box 55024
Boston, MA 02205-5024
1-800-637-2304

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.

OBJECTIVE: Seeks to maximize current income.

NEW YORK STOCK EXCHANGE SYMBOL: MCR

PERFORMANCE SUMMARY

(For the six months ended May 31, 2003)

NET ASSET VALUE PER SHARE	
November 30, 2002	\$9.09
May 31, 2003	\$9.69
NEW YORK STOCK EXCHANGE PRICE	
November 30, 2002	\$8.26
May 27, 2003 (high)*	\$8.91
December 16, 2002 (low)*	\$8.20
May 31, 2003	\$8.83

* For the period December 1, 2002, through May 31, 2003.

NOTES TO PERFORMANCE SUMMARY

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 different from those shown. Past performance is no guarantee of future results.

KEY RISK CONSIDERATIONS

Investments in foreign and/or emerging market securities may be unfavorably affected by interest-rate and currency-exchange-rate changes as well as by market, economic, and political conditions of the countries where investments are made. There may be greater returns but also greater risk than with U.S. investments.

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

Because the portfolio focuses its investments on companies in a limited number of sectors, the portfolio is more susceptible to adverse economic, political or regulatory developments affecting those sectors than is a portfolio that invests more broadly.

Investments in lower-rated securities may provide greater returns but may have greater-than-average risk.

As a nondiversified portfolio, the portfolio invests in a limited number of

Edgar Filing: MFS CHARTER INCOME TRUST - Form N-CSR

companies and may have more risk because a change in one security's value may have a more significant effect on the portfolio's net asset value. An investment in the portfolio is not a complete investment program.

Government guarantees apply to the underlying securities only and not to the prices and yields of the portfolio.

These risks may increase share price volatility. Please see the prospectus for further information on these and other risk considerations.

DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN

MFS 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 in any amount over \$100 can be made 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, 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.

PORTFOLIO OF INVESTMENTS (Unaudited) -- May 31, 2003

Bonds - 97.9%

ISSUER	PRINCIPAL AMOUNT (000 OMITTED)
U.S. Bonds - 60.8%	
Advertising & Broadcasting - 3.9%	
Allbritton Communications Co., 7.75s, 2012	\$ 1,500
Chancellor Media Corp., 8s, 2008	2,000
Dex Media East LLC, 9.875s, 2009	1,500
DIRECTV, Inc., 8.375s, 2013##	335
Echostar DBS Corp., 9.375s, 2009	1,400
Granite Broadcasting Corp., 10.375s, 2005	1,537
Granite Broadcasting Corp., 8.875s, 2008	675

Edgar Filing: MFS CHARTER INCOME TRUST - Form N-CSR

Lamar Media Corp., 7.25s, 2013+	1,390
LIN TV Corp., 8.375s, 2008	1,000
LIN TV Corp., 6.5s, 2013	1,000
Muzak LLC, 10s, 2009##	440
PanAmSat Corp., 8.5s, 2012	2,340
Paxson Communications Corp., 0s to 2006, 12.25s to 2009	2,305
Spanish Broadcasting Systems, Inc., 9.625s, 2009	1,500
XM Satellite Radio, Inc., 1s, 2009	380
Young Broadcasting, Inc., 8.5s, 2008	2,600

Aerospace - 0.5%

Argo-Tech Corp., 8.625s, 2007	\$ 220
Hexcel Corp., 9.875s, 2008##	1,240
Hexcel Corp., 9.75s, 2009	160
K & F Industries, Inc., 9.25s, 2007	1,200

Airlines

Airplane Pass-Through Trust, 10.875s, 2019	\$ 222
--	--------

Apparel & Manufacturers - 0.1%

Westpoint Stevens, Inc., 7.875s, 2008	\$ 1,650
---------------------------------------	----------

Automotive - 1.2%

DaimlerChrysler Corp., 7.45s, 2007	\$ 1,321
General Motors Acceptance Corp., 7s, 2012	2,688
General Motors Acceptance Corp., 8s, 2031	1,363
TRW Automotive, Inc., 9.375s, 2013##	875
TRW Automotive, Inc., 11s, 2013##	130

Banks & Credit Cos. - 0.5%

Abbey National Capital, 8.963s, 2049	\$ 2,159
--------------------------------------	----------

Broadcast & Cable TV - 3.2%

Charter Communications Holdings LLC, 8.625s, 2009	\$ 2,300
Continental Cablevision, 9.5s, 2013	2,390
Cox Communications, Inc., 7.125s, 2012	2,465
CSC Holdings, Inc., 8.125s, 2009	3,450
Jones Intercable, Inc., 8.875s, 2007	3,150
Mediacom Communications Corp., 11s, 2013	2,400
TCI International, Inc., 9.8s, 2012	1,169

Building - 1.6%

American Standard Cos., Inc., 7.375s, 2008	\$ 2,390
Atrium Cos., Inc., 10.5s, 2009	1,070
CRH America, Inc., 6.95s, 2012	1,057
Nortek Holdings, Inc., 9.25s, 2007	1,500
Nortek Holdings, Inc., 8.875s, 2008	1,145
Williams Scotsman, Inc., 9.875s, 2007	1,650

Business Services - 1.1%

Iron Mountain, Inc., 7.75s, 2015	\$ 3,000
Unisys Corp., 7.875s, 2008	3,300

Edgar Filing: MFS CHARTER INCOME TRUST - Form N-CSR

Chemicals - 0.9%

Huntsman ICI Chemicals, 10.125s, 2009	\$	1,950
JohnsonDiversey, Inc., 9.625s, 2012		2,000
Lyondell Chemical Co., 11.125s, 2012		1,300

Consumer Goods & Services - 0.5%

KinderCare Learning Centers, Inc., 9.5s, 2009	\$	855
Samsonite Corp., 10.75s, 2008		925
Sealy Mattress Co., 9.875s, 2007##		900

Containers - 1.4%

Ball Corp., 8.25s, 2008	\$	2,975
Owens-Brockway Glass Container, Inc., 8.875s, 2009		660
Owens-Brockway Glass Container, Inc., 8.25s, 2013##		2,245
Silgan Holdings, Inc., 9s, 2009		2,020

U.S. Bonds - continued

Corporate Asset-Backed - 3.8%

Amresco Commercial Mortgage Funding I, 7s, 2029	\$	3,000
Commercial Mortgage Acceptance Corp., 5.44s, 2030		3,535
First Union Lehman Brothers Commercial, 7s, 2014		850
First Union Lehman Brothers Commercial, 0s, 2028 (Interest Only)		87,909
First Union Lehman Brothers Commercial, 7.5s, 2029		3,000
Morgan Stanley Capital I, Inc., 7.73s, 2039		2,000
Mortgage Capital Funding, Inc., 0s, 2031 (Interest Only)		26,331
TIAA Retail Commercial Mortgage Trust, 7.17s, 2032##		5,933

Defense Electronics - 0.3%

L-3 Communications Holdings, Inc., 7.625s, 2012	\$	1,480
---	----	-------

Energy - 0.3%

Ocean Energy, Inc., 4.375s, 2007	\$	935
Peabody Energy Corp., 6.875s, 2013##		355
SEMCO Energy, Inc., 7.125s, 2008##		205
SEMCO Energy, Inc., 7.75s, 2013##		205

Entertainment - 1.4%

AMC Entertainment, Inc., 9.5s, 2011	\$	1,700
News America Holdings, Inc., 7.7s, 2025		530
News America, Inc., 6.55s, 2033##		538
Time Warner, Inc., 6.95s, 2028		1,382
Turner Broadcasting, Inc., 8.375s, 2013		2,859

Financial Institutions - 0.3%

Sears Roebuck Acceptance Corp., 7s, 2032	\$	1,436
--	----	-------

Edgar Filing: MFS CHARTER INCOME TRUST - Form N-CSR

Food & Non Alcoholic Beverage Products - 0.3%		
Burns Philp & Co., Ltd., 9.75s, 2012##	\$	2,000

Forest & Paper Products - 1.4%		
Buckeye Cellulose Corp., 8.5s, 2005	\$	1,010
Cascades, Inc., 7.25s, 2013##		1,995
Meadwestvaco Corp., 6.8s, 2032		2,741
Riverwood International, 10.875s, 2008		235
Weyerhaeuser Co., 6.75s, 2012		1,468

Gaming & Lodging - 2.9%		
Aztar Corp., 8.875s, 2007	\$	1,550
Forest City Enterprises, Inc., 7.625s, 2015		1,145
Hilton Hotels Corp., 7.625s, 2012		1,100
HMH Properties, Inc., 8.45s, 2008		2,700
Hollywood Park, Inc., 9.5s, 2007		1,950
MGM Mirage, 8.375s, 2011		1,675
Park Place Entertainment Corp., 8.875s, 2008		1,550
Starwood Hotels & Resorts, Inc., 7.875s, 2012		3,000
Venetian Casino Resort, 11s, 2010		1,550

Home Construction - 0.3%		
Pulte Homes, Inc., 6.375s, 2033	\$	1,517

Insurance - Property & Casualty - 0.4%		
Travelers Property Casualty Corp., 5s, 2013	\$	2,354
Willis Corroon Corp., 9s, 2009		115

Machinery & Tools - 0.6%		
AGCO Corp., 9.5s, 2008	\$	1,750
Terex Corp., 9.25s, 2011		1,405

Media - 0.4%		
Lenfest Communications, Inc., 10.5s, 2006	\$	1,900

Medical & Health Technology Services - 0.2%		
Fisher Scientific International, Inc., 8.125s, 2012	\$	1,320

Natural Gas - Pipeline - 2.0%		
AmeriGas Partners LP, 8.875s, 2011	\$	3,235
Dynegy Holdings, Inc., 6.875s, 2011		1,500
Kinder Morgan Energy Partners LP, 7.3s, 2033		2,638
Southern Natural Gas Co., 8.875s, 2010##		1,650
Williams Cos., Inc., 7.125s, 2011		2,100

Oils - 0.6%		
Valero Energy Corp., 6.875s, 2012	\$	1,333
XTO Energy, Inc., 6.25s, 2013##		1,585

Pollution Control - 0.5%		

Edgar Filing: MFS CHARTER INCOME TRUST - Form N-CSR

Allied Waste Industries, Inc., 10s, 2009	\$	2,500
<hr style="border-top: 1px dashed black;"/>		
Printing & Publishing - 0.6%		
American Media, Inc., 8.875s, 2011##	\$	1,600
Day International Group, Inc., 11.125s, 2005		100
Houghton Mifflin Co., 8.25s, 2011##		960
Houghton Mifflin Co., 9.875s, 2013##		610
<hr style="border-top: 1px dashed black;"/>		
Real Estate - 0.8%		
Boston Properties, Inc., 5s, 2015##	\$	2,988
Kimco Realty Corp., 6s, 2012		1,437
<hr style="border-top: 1px dashed black;"/>		
Special Products & Services		
Thermadyne Holdings Corp., 9.875s, 2008**	\$	225
<hr style="border-top: 1px dashed black;"/>		
Steel - 0.4%		
AK Steel Corp., 7.75s, 2012	\$	1,700
U.S. Steel Corp., 9.75s, 2010		790
WCI Steel, Inc., 10s, 2004**		310
<hr style="border-top: 1px dashed black;"/>		
Stores - 0.5%		
Rite Aid Corp., 9.5s, 2011##	\$	1,250
Rite Aid Corp., 9.25s, 2013##		825
J. Crew Group, Inc., 10.375s, 2007		730
<hr style="border-top: 1px dashed black;"/>		
Supermarkets - 0.3%		
Roundy's, Inc., 8.875s, 2012	\$	1,650
<hr style="border-top: 1px dashed black;"/>		
Telecommunications - Wireless - 0.8%		
Alamosa Delaware, Inc., 12.5s, 2011	\$	1,500
AT&T Wireless Services, Inc., 8.75s, 2031		555
Triton PCS, Inc., 8.5s, 2013+		860
Triton PCS, Inc., 0s to 2003, 11s to 2008		1,615
Verizon Wireless, Inc., 5.375s, 2006		437
<hr style="border-top: 1px dashed black;"/>		
Telecommunications - Wireline - 1.4%		
Citizens Communications Co., 8.5s, 2006	\$	812
Qwest Services Corp., 13.5s, 2010##		1,600
Sprint Capital Corp., 6.875s, 2028		1,519
Verizon New York, Inc., 6.875s, 2012		3,445
<hr style="border-top: 1px dashed black;"/>		
Tobacco - 0.1%		
Altria Group, Inc., 6.8s, 2003	\$	604
<hr style="border-top: 1px dashed black;"/>		
U.S. Government Agencies - 13.0%		
Federal Home Loan Mortgage Corp., 6s, 2011	\$	5,005
Federal National Mortgage Assn., 5s, 2007		5,105
Federal National Mortgage Assn., 6s, 2016		3,749
Federal National Mortgage Assn., 6s, 2017		10,402
Federal National Mortgage Assn., 5.409s, 2020		7

Edgar Filing: MFS CHARTER INCOME TRUST - Form N-CSR

Federal National Mortgage Assn., 6.5s, 2031	2,585
Federal National Mortgage Assn., 6.5s, 2032	17,405
Federal National Mortgage Assn. TBA 30, 5.5s, 2033	21,365
Financing Corp., 10.35s, 2018	3,600

U.S. Treasury Obligations - 10.3%	
U.S. Treasury Bonds, 10.75s, 2005	\$ 8,000
U.S. Treasury Bonds, 12s, 2013	7,500
U.S. Treasury Bonds, 9.875s, 2015	5,025
U.S. Treasury Bonds, 5.25s, 2028	461
U.S. Treasury Bonds, 5.375s, 2031	130
U.S. Treasury Notes, 6.875s, 2006	8,000
U.S. Treasury Notes, 3.25s, 2007	759
U.S. Treasury Notes, 3.375s, 2007	13,182
U.S. Treasury Notes, 3.875s, 2013	5,446

Utilities - Electric Power - 2.0%	
AES Corp., 8.75s, 2013##	\$ 1,100
AES Corp., 9s, 2015##	1,100
Progress Energy, Inc., 5.85s, 2008	2,580
Public Service Enterprise Group, Inc., 7.75s, 2007 - 2011##	2,894
TXU Corp., 6.375s, 2006	2,727

Total U.S. Bonds

Foreign Bonds - 35.5%

Algeria	
Republic of Algeria, 2.188s, 2010	\$ 179

Austria - 1.9%

Republic of Austria, 5.5s, 2007	EUR 3,452
Republic of Austria, 5s, 2012	1,013
Republic of Austria, 4.65s, 2018	4,084

Belgium - 0.6%

Kingdom of Belgium, 5s, 2012	EUR 2,610
------------------------------	-----------

Brazil - 1.2%

Banco Nacional de Desenvolvi, 8.754s, 2008 (Banks & Credit Cos.)	\$ 352
Federal Republic of Brazil, 2.125s, 2006	1,380
Federal Republic of Brazil, 2.188s, 2009	2,531
Federal Republic of Brazil, 1s, 2014	3,149
Federal Republic of Brazil, 8.875s, 2024	518
Federal Republic of Brazil, 12.25s, 2030	129

Bulgaria - 0.3%

National Republic of Bulgaria, 8.25s, 2015##	\$ 1,604
--	----------

Canada - 3.2%

Abitibi-Consolidated, Inc., 8.55s, 2010 (Forest & Paper Products)	\$ 1,398
Abitibi-Consolidated, Inc., 8.85s, 2030 (Forest & Paper Products)	1,063
Government of Canada, 5.25s, 2008	CAD 3,737

Edgar Filing: MFS CHARTER INCOME TRUST - Form N-CSR

Government of Canada, 5.5s, 2009		2,344
Government of Canada, 5.5s, 2010		1,761
Government of Canada, 5.25s, 2012		7,675
Government of Canada, 8s, 2023		2,397

Cayman Islands - 0.4%		
DBS Capital Funding Corp., 7.657s, 2049 (Banks & Credit Cos.)##	\$	2,167

Colombia - 0.4%		
Republic of Colombia, 9.75s, 2009	\$	1,009
Republic of Colombia, 10.75s, 2013		976

Denmark - 1.9%		
Kingdom of Denmark, 7s, 2007	DKK	17,848
Kingdom of Denmark, 5s, 2013		34,756
Nordea Kredit, 5s, 2035 (Banks & Credit Cos.)		9,379

Dominican Republic - 0.4%		
Dominican Republic, 9.5s, 2006##	\$	1,072
Dominican Republic, 9.04s, 2013##		1,509

Finland - 1.8%		
Finland Republic, 2.75s, 2006	EUR	299
Finland Republic, 3s, 2008		322
Finland Republic, 5.375s, 2013		7,258

France - 2.6%		
Crown Euro Holdings SA, 9.5s, 2011 (Containers)##	\$	2,580
Crown Euro Holdings SA, 10.25s, 2011 (Containers)##	EUR	520
France Telecom SA, 8.5s, 2031 (Telecommunications - Wireline)	\$	2,176
Republic of France, 4.75s, 2007	EUR	4,461
Republic of France, 5s, 2016		1,723
Rhodia SA, 8.875s, 2011 (Chemicals)##	\$	1,045

Germany - 1.4%		
Federal Republic of Germany, 4.5s, 2009	EUR	6,652

Greece - 0.1%		
Hellenic Republic, 6.5s, 2014	EUR	461

Ireland - 2.0%		
MDP Acquisitions PLC, 9.625s, 2012 (Forest & Paper Products)	\$	970
Republic of Ireland, 4.25s, 2007	EUR	2,804
Republic of Ireland, 5s, 2013		3,786
Republic of Ireland, 4.6s, 2016		1,785

Italy - 1.0%		
Republic of Italy, 5s, 2008	EUR	3,538

Edgar Filing: MFS CHARTER INCOME TRUST - Form N-CSR

Republic of Italy, 4.75s, 2013 1,052

Kazakhstan - 0.4%

Kazkommerts International BV, 10.125s, 2007 (Banks & Credit Cos.)##	\$	251
Kazkommerts International BV, 8.5s, 2013 (Banks & Credit Cos.)##		949
Kaztransoil Co., 8.5s, 2006 (Oil Services1)##		1,002

Luxembourg - 0.3%

Tyco International Group SA, 7s, 2028 (Conglomerates)	\$	1,800
---	----	-------

Malaysia - 0.5%

Petroliam Nasional Berhad, 7.75s, 2015 (Oils)	\$	970
Petronas Capital Ltd., 7.875s, 2022 (Oil Services)##		1,357

Mexico - 2.1%

BBVA Bancomer, 10.5s, 2011 (Banks & Credit Cos.)##	\$	1,000
Grupo Televisa SA, 8.5s, 2032 (Broadcast & Cable TV)		1,871
Pemex Finance Ltd., 9.69s, 2009 (Financial Services)		915
Pemex Project Funding Master Trust, 9.125s, 2010 (Oils)		457
Pemex Project Funding Master Trust, 8.625s, 2022 (Oils)##		2,527
Petroleos Mexicanos, 9.5s, 2027 (Oils)		1,014
United Mexican States, 8.125s, 2019		270
United Mexican States, 11.5s, 2026		1,715

Netherlands - 1.6%

Kingdom of Netherlands, 3.75s, 2009	EUR	1,000
Kingdom of Netherlands, 5s, 2012		6,079

New Zealand - 1.7%

Government of New Zealand, 7s, 2009	NZD	8,745
Government of New Zealand, 6.5s, 2013		7,049

Norway - 0.7%

Kingdom of Norway, 5.5s, 2009	NOK	9,114
Kingdom of Norway, 6.5s, 2013		13,954

Panama - 0.4%

Republic of Panama, 9.375s, 2029	\$	2,208
----------------------------------	----	-------

Poland - 0.3%

PTC International Finance BV, 10.75s, 2007 (Telecommunications - Wireless)	\$	98
PTC International Finance II SA, 11.25s, 2009 (Telecommunications - Wireless)		1,316

Portugal - 0.1%

Edgar Filing: MFS CHARTER INCOME TRUST - Form N-CSR

Republic of Portugal, 5.45s, 2013	EUR	439

Qatar - 0.3%		
State of Qatar, 9.75s, 2030	\$	1,150

Russia - 1.8%		
Ministry of Finance Russia, 12.75s, 2028	\$	875
Mobile Telesystems Finance, 9.75s, 2008 (Telecommunications - Wireless)##		1,316
OAO Gazprom, 9.625s, 2013 (Utilities - Gas)##		1,360
OAO Siberian Oil Co., 10.75s, 2009 (Oil Services)		1,225
Russian Federation, 3s, 2008		1,827
Russian Federation, 5s to 2007, 7.5s to 2030##		2,566
Tyumen Oil, 11s, 2007 (Oil Services)		280

Singapore - 0.6%		
Flextronics International Ltd., 9.875s, 2010 (Electronics)	\$	1,890
Flextronics International Ltd., 6.5s, 2013 (Electronics)##		1,145

Spain - 3.1%		
Kingdom of Spain, 7s, 2005	\$	5,930
Kingdom of Spain, 5.35s, 2011	EUR	6,500
Kingdom of Spain, 5.5s, 2017		2,053

Sweden - 0.4%		
Kingdom of Sweden, 8s, 2007	SEK	5,670
Kingdom of Sweden, 5.25s, 2011		12,000

United Kingdom - 2.0%		
Barclays Bank PLC, 8.55s, 2049 (Banks & Credit Cos.)##	\$	2,332
Global Telesystems, Inc., 10.875s, 2008 (Telecommunications)**		165
U.K. Treasury, 7.25s, 2007	GBP	1,785
U.K. Treasury, 5.75s, 2009		2,743

Total Foreign Bonds		

Municipal Bonds - 1.6%		
Austin, Texas Electric, 5.5s, 2012	\$	1,200
Metropolitan Pier & Exposition Illinois, 5s, 2028		4,800
Metropolitan Transportation Authority New York, 5s, 2032		2,500

Total Municipal Bonds		

Total Bonds (Identified Cost, \$520,990,608)		

Stocks - 0.2%		

		SHARES

U.S. Stocks - 0.2%		
Apparel & Manufacturers - 0.1%		

Edgar Filing: MFS CHARTER INCOME TRUST - Form N-CSR

Sind Holdings, Inc.*	5,720

Chemicals	
Sterling Chemicals, Inc.*	149

Machinery & Tools	
IKS Corp.*	2,499

Metals & Minerals - 0.1%	
Metal Management, Inc.*	61,904

Telecommunications	
ITC-DeltaCom, Inc.*	63,023

Total U.S. Stocks	

Foreign Stocks	
United Kingdom	
Colt Telecom Group PLC (Telecommunications)*	1,256

Total Stocks (Identified Cost, \$4,224,939)	

Warrants	

Loral Orion Network Systems, Inc., Expire 1/15/07 (Business Services)*	1,625
Loral Orion Network Systems, Inc., Expire 1/15/07 (Business Services)*	750
Ono Finance PLC, Expire 2/15/11 (Broadcast & Cable TV)*	1,000
Sterling Chemicals, Inc., Expire 12/19/08 (Chemicals)*	243

Total Warrants (Identified Cost, \$167,394)	

Short-Term Obligations - 0.6%	

	PRINCIPAL AMOUNT (000 OMITTED)

Federal National Mortgage Assn. Discount Notes, due 6/02/03, at Amortized Cost	\$ 3,817

Repurchase Agreement - 4.5%	

Merrill Lynch Repo Treasury, dated 05/30/03, due 06/02/03, total to be received \$26,023,819 (secured by various U.S. Treasury and Federal Agency obligations in a jointly traded account), at Cost	\$ 26,021

PORTFOLIO OF INVESTMENTS (Unaudited) -- continued	
Collateral for Securities Loaned - 6.4%	

	SHARES

Navigator Securities Lending Prime Portfolio, at Amortized Cost	36,874,956

Total Investments (Identified Cost, \$592,095,764)	
Other Assets, Less Liabilities - (9.6)%	

Net Assets - 100.0%	

* Non-income producing security.

Edgar Filing: MFS CHARTER INCOME TRUST - Form N-CSR

** Non-income producing security - in default.
 ## SEC Rule 144A restriction.
 + Restricted security.

Abbreviations have been used throughout this report to indicate amounts shown in currencies other than Dollar. A list of abbreviations is shown below:

AUD = Australian Dollars	GBP = British Pounds
CAD = Canadian Dollars	NOK = Norwegian Kroner
DKK = Danish Kroner	NZD = New Zealand Dollars
EUR = Euro	SEK = Swedish Kronor

See notes to financial statements.

FINANCIAL STATEMENTS

Statement of Assets and Liabilities (Unaudited)

MAY 31, 2003

Assets:

Investments, at value, including \$36,152,391 of securities on loan (identified cost, \$592,095,764)	\$634,028,315
Cash	103,700
Receivable for forward foreign currency exchange contracts	944,608
Receivable for investments sold	5,668,300
Interest receivable	10,481,179
Other assets	17,415

Total assets	\$651,243,517

Liabilities:

Payable to custodian	\$ 7
Payable to dividend disbursing agent	198,659
Payable for investments purchased	6,213,140
Payable for TBA purchase commitments	21,668,112
Payable for forward foreign currency exchange contracts	7,149,299
Collateral for securities loaned, at value	36,874,956
Payable to affiliates -	
Management fee	18,742
Transfer and dividend disbursing agent fee	7,623
Administrative	555
Accrued expenses and other liabilities	480,521

Total liabilities	\$ 72,611,614

Net assets	\$578,631,903

Net assets consist of:

Paid-in capital	\$625,535,209
Unrealized appreciation on investments and translation of assets and liabilities in foreign currencies	36,205,601
Accumulated net realized loss on investments and foreign currency transactions	(78,792,391)
Accumulated net investment loss	(4,316,516)

Total	\$578,631,903

Shares of beneficial interest outstanding

Edgar Filing: MFS CHARTER INCOME TRUST - Form N-CSR

(64,344,683 shares issued less 4,601,344 treasury shares)	59,743,339 -----
Net asset value per share (net assets / shares of beneficial interest outstanding)	\$9.69 -----

See notes to financial statements.

FINANCIAL STATEMENTS -- continued

Statement of Operations (Unaudited)

SIX MONTHS ENDED MAY 31, 2003

Net investment income:	
Interest income	\$ 17,160,806 -----
Expenses -	
Management fee	\$ 1,724,280
Trustees" compensation	56,886
Administrative fee	40,700
Transfer and dividend disbursing agent fee	44,808
Custodian fee	202,038
Printing	24,701
Postage	14,440
Auditing fees	21,700
Legal fees	1,715
Miscellaneous	194,320 -----
Total expenses	\$ 2,325,588
Fees paid indirectly	(6,705) -----
Net expenses	\$ 2,318,883 -----
Net investment income	\$ 14,841,923 -----
Realized and unrealized gain (loss) on investments:	
Realized gain (loss) (identified cost basis) -	
Investment transactions	\$ 20,425,218
Foreign currency transactions	(14,026,093) -----
Net realized gain on investments and foreign currency transactions	\$ 6,399,125 -----
Change in unrealized appreciation (depreciation) -	
Investments	
Translation of assets and liabilities in foreign currencies	\$ 33,217,726 (3,364,303) -----
Net unrealized gain on investments and foreign currency translation	\$ 29,853,423 -----
Net realized and unrealized gain on investments and foreign currency	\$ 36,252,548 -----
Increase in net assets from operations	\$ 51,094,471 -----

See notes to financial statements.

Edgar Filing: MFS CHARTER INCOME TRUST - Form N-CSR

FINANCIAL STATEMENTS -- continued

Statements of Changes in Net Assets

	SIX MONTHS ENDED MAY 31, 2003 (UNAUDITED)	NOVEMBER 2002
Increase (decrease) in net assets:		
From operations -		
Net investment income	\$ 14,841,923	\$ 3,355,518
Net realized gain (loss) on investments and foreign currency transactions	6,399,125	(2,937,390)
Net unrealized gain on investments and foreign currency translation	29,853,423	2,937,390
Increase in net assets from operations	\$ 51,094,471	\$ 3,355,518
Distributions declared to shareholders -		
From net investment income	\$ (15,806,411)	\$ (15,806,411)
From paid-in capital	--	(--)
Total distributions declared to shareholders	\$ (15,806,411)	\$ (15,806,411)
Net decrease in net assets from trust share transactions	(2,937,390)	(2,937,390)
Total increase (decrease) in net assets	\$ 32,350,670	\$ 3,355,518
Net assets		
At beginning of period	546,281,233	550,636,751
At end of period (including accumulated net investment loss of \$4,316,516 and \$3,355,518, respectively)	\$578,631,903	\$547,281,233

See notes to financial statements.

FINANCIAL STATEMENTS -- continued, bmark, title="Financial Highlights"

The financial highlights table is intended to help you understand the fund's financial performance over the past 5 fiscal years. Certain information reflects financial results for a single fund share. The information represents the rate by which an investor would have earned (or lost) on an investment in the fund (including distributions).

Financial Highlights

	SIX MONTHS ENDED MAY 31, 2003 (UNAUDITED)	2002	2001	2000
Per share data (for a share outstanding throughout each period):				
Net asset value - beginning of period	\$ 9.09	\$ 9.17	\$ 9.20	\$ 9.71

Edgar Filing: MFS CHARTER INCOME TRUST - Form N-CSR

Income from investment operations#(S) (S)-	-----	-----	-----	-----
Net investment income	\$ 0.25	\$ 0.52	\$ 0.67	\$ 0.72
Net realized and unrealized gain (loss) on investments and foreign currency	0.61	(0.02)	(0.01)	(0.45)
	-----	-----	-----	-----
Total from investment operations	\$ 0.86	\$ 0.50	\$ 0.66	\$ 0.27
	-----	-----	-----	-----
Less distributions declared to shareholders -				
From net investment income	\$ (0.26)	\$ (0.49)	\$ (0.64)	\$ (0.61)
In excess of net investment income	--	--	--	--
From paid-in capital	--	(0.09)	(0.05)	(0.17)
	-----	-----	-----	-----
Total distributions declared to shareholders	\$ (0.26)	\$ (0.58)	\$ (0.69)	\$ (0.78)
	-----	-----	-----	-----
Net asset value - end of period	\$ 9.69	\$ 9.09	\$ 9.17	\$ 9.20
	-----	-----	-----	-----
Per share market value - end of period	\$ 8.83	\$ 8.26	\$ 8.35	\$ 8.44
	-----	-----	-----	-----
Total return	10.21%++	5.99%	6.92%	14.66%
Ratios (to average net assets)/				
Supplemental data:				
Expenses##	0.84%+	0.85%	0.91%	0.93%
Net investment income	5.33%+	5.80%	7.18%	7.53%
Portfolio turnover	74%	137%	98%	113%
Net assets at end of period (000 Omitted)	\$578,632	\$546,281	\$556,614	\$561,105

+ Annualized.

++ Not annualized.

Per share data are based on average shares outstanding.

Ratios do not reflect expense reductions from certain expense offset arrangements.

(S) (S) As required, effective December 1, 2001, the fund has adopted the provisions of the AICPA Investment Companies and began amortizing premium on debt securities. The effect of this on November 30, 2002 was to decrease net investment income per share by \$0.02, increase net return per share by \$0.02, and decrease the ratio of net investment income to average net assets by 0.02. Supplemental data for the periods prior to December 1, 2001 have not been restated to reflect this presentation.

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS (Unaudited)

(1) Business and Organization

MFS Charter Income Trust (the trust) is a non-diversified 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 accounting principles generally accepted in the United States of America 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

Edgar Filing: MFS CHARTER INCOME TRUST - Form N-CSR

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) of U.S. issuers in the trust's portfolio are valued at an evaluated bid price on the basis of quotes from brokers and dealers or on the basis of valuations furnished by a pricing service. 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 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. If no sales are reported, as is the case for most securities traded over the counter, securities are valued on the basis of quotations obtained from brokers and dealers or on the basis of valuations furnished by a pricing service. Forward contracts will be valued using a pricing model taking into consideration market data from an external pricing source. Use of the pricing services has been approved by the Board of Trustees. Short-term obligations in the trust's portfolio are valued at amortized cost, which constitutes fair value as determined by the Board of Trustees. Short-term obligations with a remaining maturity in excess of 60 days will be valued upon dealer-supplied valuations. Portfolio investments for which market quotations are not readily available, or whose values have been materially affected by events occurring after the close of their primary markets, are valued at fair value as determined in good faith by or at 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 - 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. 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

Edgar Filing: MFS CHARTER INCOME TRUST - Form N-CSR

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 trust 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 \$12,663 of Deferred Trustee Compensation.

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 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.

Cash collateral is invested in 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.

Investment Transactions and Income - Investment transactions are recorded on the trade date. Interest income is recorded on the accrual basis. All discount is accreted for tax reporting 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. 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.

The trust may enter in "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 1.0%. The

Edgar Filing: MFS CHARTER INCOME TRUST - Form N-CSR

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 trusts' other assets. Unsettled TBA purchase commitments are valued at the current market value of the underlying securities, according to the procedures described under "Investment Valuations" above.

Legal fees and other related expenses incurred to preserve and protect the value of a security owned are added to the cost of the security; other legal fees are expensed. Capital infusions made directly to the security issuer, which are generally non-recurring, incurred to protect or enhance the value of high-yield debt securities, are reported as additions to the cost basis of the security. Costs that are incurred to negotiate the terms or conditions of capital infusions or that are expected to result in a plan of reorganization are reported as realized losses. Ongoing costs incurred to protect or enhance an investment, or costs incurred to pursue other claims or legal actions, are expensed.

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 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 currency transactions, mortgage-backed securities, derivatives, real estate investment trusts, defaulted bonds, timing of capital losses, and amortization and accretion on debt securities.

The tax character of distributions declared for the years ended November 30, 2002 and November 30, 2001 was as follows:

	NOVEMBER 30, 2002	NOVEMBER 30, 2001

Distributions declared from:		
Ordinary income	\$29,555,338	\$39,103,342
Tax return of capital	5,548,996	3,061,532
	-----	-----
Total distributions declared	\$35,104,334	\$42,164,874
	-----	-----

As of November 30, 2002, the components of distributable earnings (accumulated losses) on a tax basis were as follows:

Undistributed ordinary income	\$	--
-------------------------------	----	----

Edgar Filing: MFS CHARTER INCOME TRUST - Form N-CSR

Undistributed long-term capital gain	--
Capital loss carryforward	(80,065,470)
Unrealized appreciation	3,604,345
Other temporary differences	(5,718,953)

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 on.

EXPIRATION DATE	-----
November 30, 2003	\$ (862,425)
November 30, 2007	(18,771,920)
November 30, 2008	(14,734,304)
November 30, 2009	(21,791,609)
November 30, 2010	(23,905,212)
Total	----- \$ (80,065,470) -----

(3) Transactions with Affiliates

Investment Adviser - The trust has an investment advisory agreement with Massachusetts Financial Services Company (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 investment income.

The trust pays compensation to the Independent Trustees ("Trustees") in the form of both a retainer and attendance fees, 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). On January 1, 2002, the Trustees terminated the Independent Trustee unfunded defined benefit plan for active Trustees and converted it to an unfunded retirement benefit deferral plan for active Trustees. Under the new plan, the unfunded pension liability was converted into an equivalent value of notional shares of the trust that will fluctuate with the performance of the trust. Included in Trustees' compensation is a net decrease of \$57,387 as a result of the change in the trust's pension liability under this plan and a pension expense of \$5,012 for inactive trustees for the six months ended May 31, 2003.

Administrator - The trust has an administrative services agreement with MFS to provide the trust with certain financial, legal, shareholder communications, compliance, and other administrative services. As a partial reimbursement for the cost of providing these services, the trust pays MFS an administrative fee at the following annual percentages 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%

Transfer Agent - MFSC acts 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 and will reimburse MFSC for reasonable out-of-pocket expenses.

(4) Portfolio Securities

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

Edgar Filing: MFS CHARTER INCOME TRUST - Form N-CSR

	PURCHASES	SALES
U.S. government securities	\$112,206,965	\$165,921,127
Investments (non-U.S. government securities)	\$289,146,758	\$264,280,995

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	\$592,519,228
Gross unrealized appreciation	\$ 48,311,773
Gross unrealized depreciation	(6,802,686)
Net unrealized appreciation	\$ 41,509,087

(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 59,743,339 full and fractional shares of beneficial interest and have authorized the repurchase by the trust of up to 10% of its own shares of beneficial interest. The trust repurchased 349,200 shares of beneficial interest during the period ended May 31, 2003 at an average price per share of \$8.41 and a weighted average discount of 8.89% per share. The trust repurchased 579,900 shares of beneficial interest during the year ended November 30, 2002, at an average price per shares of \$8.23 and a weighted average discount of 9.02% per share. Transactions in trust shares were as follows:

	SIX MONTHS ENDED MAY 31, 2003		YEAR ENDED NOVEMBER 30, 2002	
	SHARES	AMOUNT	SHARES	AMOUNT
Treasury shares reacquired	(349,200)	\$(2,937,390)	(579,900)	\$(4,773,607)

(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 bank's base rate. A commitment fee of \$2,189 which is based on the average daily unused portion of the line of credit is included in interest expense. The trust had no significant borrowings during the period.

(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 written options, forward foreign currency exchange contracts, swap agreements, 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.

Forward Foreign Currency Exchange Contracts

Edgar Filing: MFS CHARTER INCOME TRUST - Form N-CSR

SETTLEMENT DATE	CONTRACTS TO DELIVER/RECEIVE	IN EXCHANGE FOR	CONTRACTS AT VALUE
SALES			
6/16/2003	AUD 5,941,156	\$ 3,657,258	\$ 3,865,769
6/16/2003	CAD1 3,833,608	9,772,212	10,087,783
6/16/2003	DKK 63,657,889	9,389,069	10,084,057
6/16/2003 - 6/30/2003	EUR 63,952,348	70,285,587	75,175,738
6/16/2003	GBP 4,555,835	7,152,662	7,458,271
6/16/2003	NOK 25,900,960	3,705,546	3,866,405
6/16/2003 - 6/18/2003	NZD 17,121,233	9,581,486	9,848,939
6/16/2003	SEK 33,857,537	4,054,309	4,360,387
		-----	-----
		\$117,598,129	\$124,747,349
		-----	-----
PURCHASES			
6/16/2003	AUD 8,366,664	\$ 5,414,076	\$ 5,443,988
6/16/2003	CAD 43,137	31,535	31,456
6/16/2003 - 6/30/2003	EUR1 4,777,738	16,490,308	17,368,946
6/16/2003	NOK 2,002,545	298,442	298,933
6/16/2003	SEK 20,631,938	2,621,545	2,657,112
		-----	-----
		\$ 24,855,906	\$ 25,800,435
		-----	-----

At May 31, 2003, the trust had sufficient cash and/or securities to cover any commitments under these contracts.

(8) Restricted Securities

The trust may invest not more than 20% of its total assets in securities which are subject to legal or contractual restrictions on resale. At May 31, 2003, the trust owned the following restricted securities, excluding securities issued under Rule 144A, constituting 0.40% of net assets which may not be publicly sold without registration under the Securities Act of 1933. The trust does not have the right to demand that such securities be registered. The value of these securities is determined by valuations furnished by dealers or by a pricing service, or if not available, in good faith at the direction of the Trustees.

DESCRIPTION	DATE OF ACQUISITION	SHARE/PRINCIPAL AMOUNT	COST	VALUE
Lamar Media Corp.	5/29/2003	1,390,000	\$1,440,888	\$1,449,075
Triton PCS, Inc.	5/30/2003	860,000	860,000	860,000

				\$2,309,075

(9) Change in Accounting Principle

As required, effective December 1, 2001, the fund adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies and began amortizing premium and accreting market discount on debt securities. Prior to December 1, 2001, the fund did not amortize premium nor accrete market discount on certain debt securities. The cumulative effect of this accounting change had no impact on total net assets of the fund, but resulted in a \$3,914,186 reduction in cost of securities and a corresponding \$3,914,186 increase in net unrealized appreciation, based on securities held by the fund on December 1, 2001.

Edgar Filing: MFS CHARTER INCOME TRUST - Form N-CSR

The effect of this change for the year ended November 30, 2002 was to decrease net investment income by \$1,285,943, increase net unrealized appreciation by \$735,369, and increase net realized gains by \$550,574. The Statement of Changes in Net Assets and Financial Highlights for prior periods has not been restated to reflect this change in presentation.

MFS(R) CHARTER INCOME TRUST

The following tables present certain information regarding the Trustees and officers of the Trust, their principal occupations, which, unless specific dates are shown, are of more than five years' although the titles may not have been the same throughout.

NAME, AGE, POSITION WITH THE TRUST, PRINCIPAL OCCUPATION, AND OTHER DIRECTORSHIPS(1)

INTERESTED TRUSTEES

JEFFREY L. SHAMES(2) (born 06/02/55)
Chairman
Massachusetts Financial Services Company, Chairman

JOHN W. BALLEEN(2) (born 09/12/59)
Trustee and President
Massachusetts Financial Services Company, Chief Executive Officer and Director

KEVIN R. PARKE(2) (born 12/14/59)
Trustee
Massachusetts Financial Services Company, President, Chief Investment Officer, and Director

INDEPENDENT TRUSTEES

LAWRENCE H. COHN, M.D. (born 03/11/37)
Trustee
Brigham and Women's Hospital, Chief of Cardiac Surgery; Harvard Medical School, Professor of Surgery

WILLIAM R. GUTOW (born 09/27/41)
Trustee
Private investor and real estate consultant; Capitol Entertainment Management Company (video franchise), Vice Chairman

J. ATWOOD IVES (born 05/01/36)
Trustee
Private investor; KeySpan Corporation (energy related services), Director; Eastern Enterprises (diversified services company), Chairman, Trustee and Chief Executive Officer (until November 2000)

ABBY M. O'NEILL (born 04/27/28)
Trustee
Private investor; Rockefeller Financial Inc. (investment advisers), Chairman and Executive Officer

LAWRENCE T. PERERA (born 06/23/35)
Trustee
Hemenway & Barnes (attorneys), Partner

WILLIAM J. POORVU (born 04/10/35)
Trustee
Private investor; Harvard University Graduate School of Business Administration, Class of 1963, Adjunct Professor in Entrepreneurship Emory University; CBL & Associates Properties, Inc. (real estate investment trust), Director;
J. DALE SHERRATT (born 09/23/38)
Trustee
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 2001)

ELAINE R. SMITH (born 04/25/46)
Trustee
Independent health care industry consultant

WARD SMITH (born 09/13/30)
Trustee
Private investor

- (1) Directorships or trusteeships of companies required to report to the Securities and Exchange Commission (i.e., "public companies").
- (2) "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 Trust. The Trust is located at 500 Boylston Street, Boston, Massachusetts 02116.

Edgar Filing: MFS CHARTER INCOME TRUST - Form N-CSR

OFFICERS

JEFFREY L. SHAMES (born 06/02/55)
Chairman
Massachusetts Financial Services Company, Chairman

JOHN W. BALLEEN (born 09/12/59)
Trustee and President
Massachusetts Financial Services Company, Chief
Executive Officer and Director

JAMES R. BORDEWICK, JR. (born 03/06/59)
Assistant Secretary and Assistant Clerk
Massachusetts Financial Services Company, Senior
Vice President and Associate General Counsel

STEPHEN E. CAVAN (born 11/06/53)
Secretary and Clerk
Massachusetts Financial Services Company, Senior
Vice President, General Counsel and Secretary

STEPHANIE A. DESISTO (born 10/01/53)
Assistant Treasurer
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./Aeltus
Investment Management, Senior Vice President
(prior to November 2002)

ROBERT R. FLAHERTY (born 09/18/63)
Assistant Treasurer
Massachusetts Financial Services Company
President (since August 2000); UAM Fund
Senior Vice President (prior to August 2000)

RICHARD M. HISEY (born 08/29/58)
Treasurer
Massachusetts Financial Services Company
Vice President (since July 2002); The Ba
York, Senior Vice President (September 2002
July 2002); Lexington Global Asset Manag
Executive Vice President and Chief Finan
Officer, General Manager, Mutual Funds (S
September 2000)

ELLEN MOYNIHAN (born 11/13/57)
Assistant Treasurer
Massachusetts Financial Services Company
President

JAMES O. YOST (born 06/12/60)
Assistant Treasurer
Massachusetts Financial Services Company
Vice President

The Trust holds annual shareholder meetings for the purpose of electing Trustees, and Trustees are elected for fixed terms. The Board of Trustees currently is divided into three classes, each having a term of one year. Each year the term of one class expires. Each Trustee's term of office expires on the date of the meeting following the election to office of the Trustee's class. Each Trustee will serve until the end of his or her earlier death, resignation, retirement or removal.

Messrs. Shames, Cohn, Sherratt and Smith, and Ms. O'Neill have served in their capacity as Trustees of the Trust continuously since originally elected or appointed. Messrs. Ballen, Gutow, Ives, Perera and Ms. Smith were elected by shareholders and have served as Trustees of the Trust since January 1, 2002. Parke has served as Trustee of the Trust since January 1, 2002.

Each of the Trust's Trustees and officers holds comparable positions with certain other funds of the Trust. A subsidiary of the Trust is the investment adviser or distributor and, in the case of the officers, with certain other affiliates of MFS. Each Trustee serves as a board member of 112 funds within the MFS Family of Funds.

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

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

PORTFOLIO MANAGER
Joseph C. Flaherty, Jr.+

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

Edgar Filing: MFS CHARTER INCOME TRUST - Form N-CSR

CUSTODIAN
State Street Bank and Trust Company

+ MFS Investment Management

MFS(R) CHARTER INCOME TRUST

PRSRT STD
U.S. POSTAGE
PAID
MFS

[MFS LOGO]
INVESTMENT MANAGEMENT

500 Boylston Street
Boston, MA 02116-3741

(C)2003 MFS Investment Management(R).
500 Boylston Street, Boston, MA 02116.

MCR-SEM 7/03 71M

ITEM 2. CODE OF ETHICS.

Not applicable at this time. Applicable for annual reports filed for fiscal years ending on or after July 15, 2003.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

Not applicable at this time. Applicable for annual reports filed for fiscal years ending on or after July 15, 2003.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Not applicable at this time. Applicable for annual reports filed for the first fiscal year ending after December 15, 2003.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

If applicable, not applicable at this time. Applicable for annual reports covering periods ending on or after the compliance date for the listing standards applicable to the particular issuer. Listed issuers must be in compliance with the new listing rules by the earlier of the registrant's first annual shareholders meeting after January 15, 2004 or October 31, 2004.

ITEM 6. [RESERVED]

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

If applicable, not applicable at this time. Applicable for annual reports filed on or after July 1, 2003.

ITEM 8. [RESERVED]

ITEM 9. CONTROLS AND PROCEDURES.

(a) Based upon their evaluation of the registrant's disclosure controls and procedures as conducted within 90 days of the filing date of this Form

Edgar Filing: MFS CHARTER INCOME TRUST - Form N-CSR

N-CSR, the registrant's principal 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 significant changes in the registrant's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

ITEM 10. EXHIBITS.

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

- (a) 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: Not applicable.
- (b) A separate certification for each principal executive officer and principal financial officer of the registrant as required by Rule 30a-2(a) under the Act (17 CFR 270.30a-2): Attached hereto.

[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)) 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.][The submission of Section 906 certifications has been proposed by the SEC, but has not yet been finalized. The SEC has encouraged issuers to submit Section 906 certifications as an exhibit to Form N-CSR until the final rule has been adopted. Please see Proposed Rule: Certification of Disclosure in Certain Exchange Act Reports, Release No. 33-8212 (March 21, 2003)].

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)* /s/ JOHN W. BALLEEN

John W. Ballen, President

Date: July 24, 2003

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

Edgar Filing: MFS CHARTER INCOME TRUST - Form N-CSR

dates indicated.

By (Signature and Title)* /s/ JOHN W. BALLEEN

John W. Ballen, President
(Principal Executive Officer)

Date: July 24, 2003

By (Signature and Title)* /s/ RICHARD M. HISEY

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

Date: July 24, 2003

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