

MFS GOVERNMENT MARKETS INCOME TRUST  
Form N-CSRS  
August 03, 2004

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 811-5078

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MFS GOVERNMENT MARKETS INCOME TRUST

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(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

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(Name and address of agents for service)

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

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Date of fiscal year end: November 30, 2004

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Date of reporting period: May 31, 2004

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ITEM 1. REPORTS TO STOCKHOLDERS.

MFS(R) Mutual Funds

SEMIANNUAL REPORT 5/31/04

MFS(R) GOVERNMENT MARKETS  
INCOME TRUST

A path for pursuing opportunity

[graphic omitted]

[logo] M F S(R)  
INVESTMENT MANAGEMENT

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MFS(R) PRIVACY POLICY: A COMMITMENT TO YOU



## Edgar Filing: MFS GOVERNMENT MARKETS INCOME TRUST - Form N-CSRS

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### LETTER FROM THE CEO

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Dear Shareholders,

[Photo of Robert J. Manning]

Our firm was built on the strength of MFS Original Research(R), our in-depth analysis of every security we consider for our portfolios. We've been honing this process since 1932, when we created one of the mutual fund industry's first research departments. And we continue to fine-tune this process so that we can provide strong and consistent long-term investment performance to help you achieve your financial goals.

While we have achieved strong investment performance in many of our portfolios, our goal is to achieve the same strong results across all asset classes. To ensure that our portfolio teams are doing the best possible job for our firm's clients and shareholders, I am focusing the vast majority of my time on the three key elements that I believe truly differentiate MFS from its competitors: people, process, and culture.

#### PEOPLE

Our people have always been our most valuable resource. Our philosophy is to deliver consistent, repeatable investment results by hiring the most talented investors in our industry. We recruit from the nation's top business schools and hire experienced analysts, both domestically and around the globe.

Our analysts are the engine that powers our entire investment team because their recommendations have a direct impact on the investment performance of our portfolios. To demonstrate our ongoing commitment in this area, we increased the number of equity analysts at MFS from less than 40 at the end of 2000 to about 50 in June 2004. During that same period, we doubled the average investment experience of our domestic equity analysts, in part by recruiting more seasoned analysts to the firm. Moreover, our international network of investment personnel now spans key regions of the world with offices in London, Mexico City, Singapore, and Tokyo, as well as Boston.

One of the major advantages that MFS has over many of its competitors is that the position of research analyst is a long-term career for many members of our team, not simply a steppingstone toward becoming a portfolio manager. We have worked to elevate the stature of the analyst position to be on par with that of a portfolio manager. In fact, an exceptional research analyst has the opportunity to earn more at MFS than some portfolio managers.

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At the same time, we look within the firm to promote talented analysts who choose a path toward becoming a portfolio manager. We rarely hire portfolio managers from our competitors because we believe the best investors are those steeped in the MFS process and culture. In the past few months, we have identified three senior research analysts who will assume roles on the management teams of several of our larger portfolios. MFS is fortunate to have a deep bench of talented investment personnel, and we welcome the opportunity to put their skills to work for our clients.

### PROCESS

MFS was built on the strength of its bottom-up approach to researching securities. We have enhanced the mentoring process for our research analysts by calling on several of our most seasoned portfolio managers to supplement the work of Director of Global Equity Research David A. Antonelli. These portfolio managers are taking a special interest in developing the careers of our research analysts and strengthening our investment process. Kenneth J. Enright of our value equity group is working with a team of domestic analysts; David E. Sette-Ducati of our small- and mid-cap equity team is working with analysts concentrating on small- and mid-cap companies; and Barnaby Wiener of our international equity team in London heads the European equity research team.

We have combined the bottom-up approach of our research process with a top-down approach to risk controls on portfolio composition. We have a very strong quantitative team under the leadership of industry veteran Deborah H. Miller, who represents the equity management department on the Management Committee of the firm. Quantitative analysis helps us generate investment ideas and, more importantly, assess the appropriate level of risk for each portfolio. The risk assessment is designed to assure that each portfolio operates within its investment objectives.

Additionally, we have increased the peripheral vision of our investment personnel across asset classes through the collaboration of our Equity, Fixed Income, Quantitative Analysis, and Risk Management teams. We recently codified this key aspect of our culture by forming an Investment Management Committee, composed of key members of these teams. This Committee will work to ensure that all teams are sharing information, actively debating investment ideas, and creating a unified investment team.

### CULTURE

Teamwork is at the heart of our ability to deliver consistent and competitive investment performance over time. At MFS, each member of our team is involved in our success; we have no superstars. The collaborative nature of our process works to assure a consistent investment approach across all of our products and provides a high level of continuity in portfolio management because our investment performance never depends on the contributions of just a single individual. Our culture is based on an environment of teamwork that allows our investment personnel to be successful. In turn, we demand superior investment results from every member of our team.

We have created a meritocracy at our firm based on investment results. We hold all of our portfolio managers accountable for the performance of their portfolios and their contributions to the team. We also track the equity and fixed-income ratings of our analysts so we can evaluate them based on the performance of their recommendations. We align bonus compensation to investment performance by weighting rewards to those who have created the greatest long-term benefit for our shareholders and who contribute most successfully to the Original Research(SM) process.

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The strength of our culture has resulted in a tremendous amount of stability, both in terms of people and assets under management. Although we have dismissed members of our team whose performance did not meet MFS' high standards, only one portfolio manager has voluntarily left the firm over the past six months, based on a decision to retire from the industry. Similarly, our firm's assets under management have remained quite steady in the midst of a challenging environment.

In short, we can help you achieve your financial goals by hiring talented people, following a disciplined process, and maintaining our firm's unique culture. The recent enhancements described in this letter reflect the collaborative spirit and the depth of resources in our investment teams.

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  
CEO, President, and Chief Investment Officer  
MFS Investment Management (R)

June 18, 2004

PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS.

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

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MFS ORIGINAL RESEARCH (R)  
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THE MFS (R) DIFFERENCE

For 80 years MFS has been offering investors clear paths to pursuing specific investment objectives. Today, millions of individuals and thousands of institutions all over the world look to MFS to manage their assets with insight and care.

Our success, we believe, has to do with the fact that we see investors as people with plans, not just dollars to invest.

When you invest with MFS, you invest with a company dedicated to helping you realize your long-term financial goals.

INVESTORS CHOOSE MFS FOR OUR

- o global asset management expertise across all asset classes
- o time-tested money management process for pursuing consistent results
- o full spectrum of investment products backed by MFS Original Research(R)
- o resources and services that match real-life needs

TURNING INFORMATION INTO OPPORTUNITY

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Sound investments begin with sound information. MFS has been doing its own research and analyzing findings in-house for decades. The process we use to uncover opportunity is called MFS Original Research(R).

### MFS ORIGINAL RESEARCH INVOLVES

- o meeting with the management of 3,000 companies each year to assess their business plans and the managers' ability to execute those plans
- o making onsite visits to more than 2,000 companies annually to gain first-hand knowledge of their operations and products
- o analyzing financial statements and balance sheets
- o talking extensively with companies' customers and competitors
- o developing our own proprietary estimates of companies' earnings

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### MANAGEMENT REVIEW

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### MARKET ENVIRONMENT

The overall bond market was volatile during the six-month period that ended May 31, 2004. During the late fall and winter of 2003-2004, bond prices generally rose as various economic signals indicated that inflation in the United States was well contained and that job growth remained weak. The Federal Reserve Board (the Fed) seemed to respond to this environment by suggesting that interest rates could remain low for the foreseeable future.

In the spring of 2004, however, as the period drew to a close, bond prices reversed direction. Long-term rates climbed sharply and prices fell as evidence of an accelerating economic recovery and stronger job growth took root, thus suggesting, we believe, that a Fed decision to increase short-term interest rates might be imminent. The Fed confirmed that view with its statement following the May 4 meeting of the Federal Open Market Committee that it "believes the policy accommodation can be removed at a pace that is likely to be measured."

Against this backdrop of market volatility, yields on U.S. Treasury securities rose modestly during the six-month period. For example, the yield on two-year U.S. Treasury notes rose 0.50%; the yield on five-year notes went up 0.45%; 10-year rates rose 0.33%; and the 30-year bond's yield rose 0.21%.

### PORTFOLIO CONCENTRATION AS OF 5/31/04

### QUALITY RATINGS

Mortgage Backed	53.4%
U.S. Treasuries	17.6%
U.S. Government Agencies	12.7%
International Sovereigns	10.7%
Emerging Market Debt	3.2%
Cash and Other	1.2%
High Grade Corporates	1.0%
Residential Mortgage Backed	0.2%

Percentages based on assets as of 5/31/04.  
The portfolio is actively managed, and current holdings may be different.

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### CONTRIBUTORS TO PERFORMANCE

At net asset value (NAV), the trust outperformed its primary benchmark, the Lehman Brothers Government/Mortgage Index. We believe our defensive interest-rate positioning and emphasis on 10-year maturities versus longer maturities were key factors in that outperformance. Both of these strategies were adopted in anticipation of a tightening of interest rates by the Fed.

Returns on some of our European bond positions surpassed those of our U.S. holdings. The relatively strong performance of our European holdings was caused by declining yields in the European bond market, in contrast to rising yields in the United States. In our view, low inflation and moderate economic growth were key factors that caused rates to decline in Europe.

Relative performance also was helped by the strong performance of some of the trust's mortgage holdings. We increased our weighting in mortgage-backed securities in April and May of 2004 as we saw mounting evidence of an improving economy and the potential for Fed interest rate hikes.

### DETRACTORS FROM PERFORMANCE

While the trust's mortgage-backed securities on average were positive contributors to performance, some of our holdings in the mortgage sector also were detractors. Weak performance in these holdings came mainly, in our view, as a result of higher-than-expected mortgage prepayments in the early part of the period, when mortgage interest rates were low and refinancing activity was still robust.

The trust underperformed its secondary benchmark, the Citigroup World Government Non-dollar Hedged Index. During the period, the trust held less than 20% of assets in non-U.S. government bonds and therefore did not take the fullest possible advantage of stronger performance by government debt outside the United States.

Respectfully,  
/s/ Peter C. Vaream

Peter C. Vaream  
Portfolio Manager  
On behalf of the MFS Fixed Income Strategy Group

A team of MFS fixed-income specialists - the MFS Fixed Income Strategy Group - is responsible for the overall management of the portfolio.

The views expressed in this report are those of the portfolio managers 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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Visit [mfs.com](http://mfs.com) for our latest economic and investment outlook.

o Under Updates & Announcements, click Week in Review for a summary of recent investment-related news.

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- o From Week in Review, link to MFS Global Perspective for our current view of the world.

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### PORTFOLIO MANAGER'S PROFILE

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Peter C. Vaream is Senior Vice President of MFS Investment Management (R) (MFS(R)) and manages the investment-grade bond, government securities and global governments portfolios of our mutual funds, variable annuities and institutional accounts. He is a member of the MFS Fixed Income Strategy Group.

Peter joined MFS in 1992 and became a portfolio manager in 1993. Previously, he was Vice President in the Fixed Income Department at The First Boston Corp. from 1986 to 1992. Prior to that, he served as a corporate financial analyst.

Peter earned a bachelor's degree in finance from New York University. He is a member of the Lehman Brothers Index Advisory Council.

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.

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### PERFORMANCE SUMMARY THROUGH 5/31/04

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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.

### PRICE SUMMARY

Six months  
ended 5/31/04

	Date	Price
Net asset value	11/30/2003	\$7.44
	5/31/2004	\$7.32
New York Stock Exchange	11/30/2003	\$6.71
	3/19/2004 (high)*	\$6.93
	5/12/2004 (low)*	\$6.26
	5/31/2004	\$6.56

\* For the period from December 1, 2003, through May 31, 2004.

### TOTAL RETURN VS BENCHMARKS



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Six months  
ended 51/31/04  
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New York Stock Exchange price**	0.26%
Net asset value	0.90%
Citigroup World Government Non-dollar Hedged Index	1.56%
Lehman Brothers Government/Mortgage Index	0.65%

\*\* Includes reinvestments of dividends and capital gains distributions.

INDEX DEFINITION

CITIGROUP WORLD GOVERNMENT NON-DOLLAR HEDGED INDEX - measures the government bond markets around the world, ex-U.S.

LEHMAN BROTHERS GOVERNMENT/MORTGAGE INDEX - measures the performance of the government and mortgage securities markets.

It is not possible to invest directly in an index.

KEY RISK CONSIDERATIONS

Investing in foreign and/or emerging markets securities involves risks relating to interest rates, currency exchange rates, economic, and political conditions.

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

Because the portfolio invests in a limited number of companies a change in one security's value may have a more significant effect on the portfolio's value.

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 regarding these and other risk considerations.

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.

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DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN  
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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

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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.

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PORTFOLIO OF INVESTMENTS (unaudited) - 5/31/04

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

Bonds - 99.5%

ISSUER	PRINCIPAL AMOUNT (000 Omitted)	\$ VALUE
<hr/>		
U.S. Bonds - 85.7%		
<hr/>		
Agency - Other - 6.8%		
<hr/>		
Financing Corp., 10.7%, 2017	\$4,095	\$6,117,426
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Financing Corp., 9.8%, 2018	4,350	6,143,679
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Financing Corp., 10.35%, 2018	6,820	10,033,529
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SLM Corp., 5.25%, 2006	4,585	4,786,639
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		\$27,081,273
<hr/>		
Asset Backed & Securitized - 0.2%		
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Freddie Mac, 3.108%, 2035	\$660	\$660,514
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### Financial Institutions - 0.8%

SLM Corp., 1.39%, 2007	\$3,205	\$3,210,086
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### Mortgage Backed - 53.1%

Fannie Mae, 6.942%, 2007	\$5,065	\$5,459,336
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Fannie Mae, 6.5%, 2016 - 2032	24,425	25,443,948
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Fannie Mae, 6%, 2016 - 2034	47,695	48,727,981
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Fannie Mae, 5.5%, 2017 - 2033	48,625	48,914,235
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Fannie Mae, 5%, 2018 - 2019	28,990	28,996,030
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Fannie Mae, 4.5%, 2019	25,811	25,193,956
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Fannie Mae, 8.5%, 2027	10,100	11,164,155
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Fannie Mae TBA, 5.5%, 2032	10,727	10,616,383
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Freddie Mac, 7.5%, 2027 - 2028	254	272,947
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Ginnie Mae, 7.5%, 2022 - 2032	1,290	1,383,838
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Ginnie Mae, 6.5%, 2028 - 2032	5,483	5,710,199
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\$211,883,008

### U.S. Government Agencies - 5.7%

Small Business Administration, 8.875%, 2011	\$431	\$466,514
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Small Business Administration, 6.34%, 2021	1,615	1,711,350
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Small Business Administration, 6.35%, 2021	1,955	2,072,214
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Small Business Administration, 6.44%, 2021	1,738	1,851,007
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Small Business Administration, 6.625%, 2021	1,695	1,817,415
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Small Business Administration, 4.98%, 2023	978	959,514
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Small Business Administration, 4.34%, 2024	1,403	1,342,934
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Small Business Administration, 4.72%, 2024	2,661	2,562,401
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Small Business Administration, 4.77%, 2024	2,538	2,465,826
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U.S. Department of Housing & Urban Development, 6.36%, 2016	1,580	1,692,548
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U.S. Department of Housing & Urban Development, 6.59%, 2016	5,612	5,943,001
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\$22,884,724

### U.S. Treasury Obligations - 19.1%

U.S. Treasury Bonds, 1.875%, 2006^	\$13,909	\$13,802,513
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U.S. Treasury Bonds, 10.375%, 2009^	6,200	6,450,182
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U.S. Treasury Bonds, 10.375%, 2012^###	8,400	10,324,121
U.S. Treasury Bonds, 12%, 2013^	3,036	4,030,645
U.S. Treasury Bonds, 8.875%, 2017^	6,000	8,190,468
U.S. Treasury Notes, 3.375%, 2007^	15,897	17,134,538
U.S. Treasury Notes, 3.625%, 2008^	10,939	12,037,844
U.S. Treasury Notes, 1.875%, 2013^	4,154	4,132,718
		\$76,103,029
Total U.S. Bonds		\$341,822,634
Foreign Bonds - 13.8%		
Australia - 0.2%		
Government of Australia, 6.25%, 2015 (International Market Sovereign)	AUD 1,120	\$823,728
Austria - 0.7%		
Republic of Austria, 5.5%, 2007 (International Market Sovereign)	EUR 2,084	\$2,735,893
Republic of Austria, 4.65%, 2018 (International Market Sovereign)	118	144,486
		\$2,880,379
Belgium - 0.4%		
Kingdom of Belgium, 3.75%, 2009 (International Market Sovereign)	EUR 784	\$965,483
Kingdom of Belgium, 5%, 2012 (International Market Sovereign)	483	621,234
		\$1,586,717
Brazil - 0.3%		
Federal Republic of Brazil, 8%, 2014 (Emerging Market Sovereign)	\$1,539	\$1,370,343
Bulgaria - 0.2%		
Republic of Bulgaria, 8.25%, 2015 (Emerging Market Sovereign)	\$106	\$118,985
Republic of Bulgaria, 8.25%, 2015 (Emerging Market Sovereign)##	728	817,180
		\$936,165

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### Canada - 1.2%

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Government of Canada, 5.25%, 2008 (International Market Sovereign)	\$2,735	\$2,891,527
Government of Canada, 5.5%, 2009 - 2010 (International Market Sovereign)	CAD 2,076	1,609,481
Government of Canada, 5.25%, 2012 (International Market Sovereign)	47	35,701
Government of Canada, 8%, 2023 (International Market Sovereign)	74	72,039
		\$4,608,748

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### Chile - 0.1%

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HQI Transelec Chile S.A., 7.875%, 2011 (Utilities - Electric Power)	\$314	\$353,182
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### Denmark - 0.5%

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Kingdom of Denmark, 7%, 2007 (International Market Sovereign)	DKK 5,466	\$1,004,486
Kingdom of Denmark, 6%, 2009 (International Market Sovereign)	3,516	637,138
Kingdom of Denmark, 5%, 2013 (International Market Sovereign)	2,358	402,528
		\$2,044,152

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### Finland - 0.9%

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Republic of Finland, 2.75%, 2006 (International Market Sovereign)	EUR 1,323	\$1,619,210
Republic of Finland, 3%, 2008 (International Market Sovereign)	1,471	1,772,961
		\$3,392,171

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### France - 0.7%

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Republic of France, 4.75%, 2007 - 2012 (International Market Sovereign)	EUR 998	\$1,273,365
Republic of France, 4%, 2009 (International Market Sovereign)	1,224	1,519,521
		\$2,792,886

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### Germany - 1.7%

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Federal Republic of Germany, 4%, 2007 - 2009 (International Market Sovereign)	EUR 788	\$985,357
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Federal Republic of Germany, 3.5%, 2008 (International Market Sovereign)	3,628	4,446,555
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Federal Republic of Germany, 5.25%, 2010 (International Market Sovereign)	512	673,982
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Kreditanstalt fur Wiederaufbau, 3.25%, 2008 (International Market Agencies)	709	863,467
-----		
		\$6,969,361
-----		
Ireland - 0.9%		
-----		
Republic of Ireland, 4.25%, 2007 (International Market Sovereign)	EUR 1,764	\$2,231,411
-----		
Republic of Ireland, 3.25%, 2009 (International Market Sovereign)	1,025	1,233,967
-----		
		\$3,465,378
-----		
Malaysia - 0.2%		
-----		
Petroliam Nasional Berhad, 7.75%, 2015 (Emerging Market Agencies)	\$766	\$876,335
-----		
Mexico - 1.3%		
-----		
BBVA Bancomer Capital Trust I, 10.5%, 2011 (Banks & Credit Companies)##	\$1,502	\$1,640,935
-----		
Pemex Project Funding Master Trust, 8.625%, 2022 (Emerging Market Agencies)	987	1,036,350
-----		
Petroleos Mexicanos, 9.375%, 2008 (Emerging Market Agencies)	1,072	1,240,840
-----		
United Mexican States, 8.125%, 2019 (Emerging Market Sovereign)	1,040	1,115,400
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United Mexican States, 8%, 2022 (Emerging Market Sovereign)	89	92,560
-----		
		\$5,126,085
-----		
Netherlands - 1.0%		
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Kingdom of Netherlands, 5.75%, 2007 (International Market Sovereign)	EUR 689	\$902,929
-----		
Kingdom of Netherlands, 3.75%, 2009 (International Market Sovereign)	1,601	1,968,426
-----		
Kingdom of Netherlands, 5%, 2012 (International Market Sovereign)	822	1,060,099
-----		
		\$3,931,454
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New Zealand - 0.5%		
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Government of New Zealand, 7%, 2009 (International Market Sovereign)	NZD 785	\$513,735
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Government of New Zealand, 6.5%, 2013 (International Market Sovereign)	2,158	1,384,072
-----		
\$1,897,807		
-----		
Panama - 0.2%		
-----		
Republic of Panama, 9.375%, 2029 (Emerging Market Sovereign)	\$817	\$892,573
-----		
Portugal - 0.2%		
-----		
Republic of Portugal, 5.45%, 2013 (International Market Sovereign)	EUR 565	\$747,444
-----		
Qatar - 0.3%		
-----		
State of Qatar, 9.75%, 2030 (Emerging Market Sovereign)+	\$990	\$1,331,550
-----		
Russia - 0.2%		
-----		
Russian Ministry of Finance, 12.75%, 2028 (Emerging Market Sovereign)	\$443	\$645,008
-----		
South Africa - 0.3%		
-----		
Republic of South Africa, 9.125%, 2009 (Emerging Market Sovereign)	\$855	\$995,006
-----		
Spain - 1.4%		
-----		
Kingdom of Spain, 7%, 2005 (International Market Sovereign)	\$3,600	\$3,791,563
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Kingdom of Spain, 6%, 2008 (International Market Sovereign)	EUR 13	17,418
-----		
Kingdom of Spain, 5.35%, 2011 (International Market Sovereign)	1,424	1,879,296
-----		
\$5,688,277		
-----		
Sweden - 0.2%		
-----		
Spintab AB, 5%, 2008 (Banks & Credit Companies)	SEK 4,300	\$596,236
-----		
United Kingdom - 0.2%		
-----		
United Kingdom Treasury, 7.25%, 2007 (International Market Sovereign)	GBP 149	\$291,521
-----		
United Kingdom Treasury, 5.75%, 2009 (International Market Sovereign)	192	361,716

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United Kingdom Treasury, 5%, 2012 (International Market Sovereign)	100	181,282
		\$834,519
Total Foreign Bonds		\$54,785,504
Total Bonds (Identified Cost, \$393,543,970)		\$396,608,138

Collateral for Securities Loaned - 16.7%

ISSUER	SHARES	\$ VALUE
Navigator Securities Lending Prime Portfolio, at Identified Cost	66,531,797	\$66,531,797

Repurchase Agreements - 2.5%

ISSUER	PRINCIPAL AMOUNT (000 Omitted)	\$ VALUE
Morgan Stanley, 1.04%, dated 5/28/04, due 6/01/04, total to be received \$10,046,161 (secured by U.S. Treasury and Federal Agency obligations in a jointly traded account), at Cost	\$10,045	\$10,045,000
Total Investments (Identified Cost, \$470,120,767)		\$473,184,935

Other Assets, Less Liabilities - (18.7%) (74,470,265)

Net Assets - 100.0% \$398,714,670

^ All or a portion of this security is on loan.  
 ## SEC Rule 144A restriction.  
 + Restricted security.  
 ### Security segregated as collateral for open futures contracts.

Abbreviations have been used throughout this report to indicate amounts shown in currencies other than the U.S. dollar. A list of abbreviations is shown below.

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

SEE NOTES TO FINANCIAL STATEMENTS

FINANCIAL STATEMENTS STATEMENT OF ASSETS AND LIABILITIES (unaudited)

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



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AT 5/31/04

### ASSETS

Investments, at value, including \$65,210,429 of securities on loan (identified cost, \$470,120,767)	\$473,184,935	
<hr style="border-top: 1px dashed black;"/>		
Cash	480	
<hr style="border-top: 1px dashed black;"/>		
Receivable for forward foreign currency exchange contracts	145,235	
<hr style="border-top: 1px dashed black;"/>		
Receivable for forward foreign currency exchange contracts subject to master netting agreements	55,762	
<hr style="border-top: 1px dashed black;"/>		
Receivable for daily variation margin on open futures contracts	33,359	
<hr style="border-top: 1px dashed black;"/>		
Interest receivable	3,871,730	
<hr style="border-top: 1px dashed black;"/>		
Total assets		\$477,291,500

### LIABILITIES

Payable to dividend disbursing agent	\$99,403	
<hr style="border-top: 1px dashed black;"/>		
Payable for forward foreign currency exchange contracts	233,562	
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Payable for TBA purchase commitments	10,931,483	
<hr style="border-top: 1px dashed black;"/>		
Payable for treasury shares reacquired	373,795	
<hr style="border-top: 1px dashed black;"/>		
Collateral for securities loaned, at value	66,531,797	
<hr style="border-top: 1px dashed black;"/>		
Payable to affiliates		
<hr style="border-top: 1px dashed black;"/>		
Management fee	27,595	
<hr style="border-top: 1px dashed black;"/>		
Transfer agent and dividend disbursing costs	22,508	
<hr style="border-top: 1px dashed black;"/>		
Administrative fee	485	
<hr style="border-top: 1px dashed black;"/>		
Deferred income	13,985	
<hr style="border-top: 1px dashed black;"/>		
Accrued expenses and other liabilities	342,218	
<hr style="border-top: 1px dashed black;"/>		
Total liabilities		\$78,576,830
<hr style="border-top: 1px dashed black;"/>		
Net assets		\$398,714,670

### NET ASSETS CONSIST OF

Paid-in capital	\$427,968,796	
<hr style="border-top: 1px dashed black;"/>		
Unrealized appreciation on investments and translation of assets and liabilities in foreign currencies	2,985,928	
<hr style="border-top: 1px dashed black;"/>		
Accumulated net realized loss on investments and foreign currency transactions	(29,230,547)	

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Accumulated distributions in excess of net investment income	(3,009,507)
<hr/>	
Net assets	\$398,714,67
<hr/>	
Shares of beneficial interest outstanding (59,559,686 issued, less 5,104,331 treasury shares)	54,455,35
<hr/>	
Net asset value per share (net assets / shares of beneficial interest outstanding)	\$7.3

SEE NOTES TO FINANCIAL STATEMENTS

FINANCIAL STATEMENTS	STATEMENT OF OPERATIONS
----------------------	-------------------------

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

FOR SIX MONTHS ENDED 5/31/04

NET INVESTMENT INCOME

Interest income	\$9,810,4
<hr/>	
Expenses	
<hr/>	
Management fee	\$1,204,014
<hr/>	
Trustees' compensation	40,919
<hr/>	
Transfer agent and dividend disbursing costs	66,355
<hr/>	
Administrative fee	25,448
<hr/>	
Investor communication expense	69,552
<hr/>	
Custodian fee	91,151
<hr/>	
Auditing fees	23,338
<hr/>	
Postage	17,523
<hr/>	
Printing	15,901
<hr/>	
Legal fees	1,673
<hr/>	
Miscellaneous	66,521
<hr/>	
Total expenses	\$1,622,3
<hr/>	
Fees paid indirectly	(1,647)
<hr/>	
Net expenses	\$1,620,7
<hr/>	
Net investment income	\$8,189,7

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REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS

Realized gain (loss) (identified cost basis)

Investment transactions	\$3,706,989	
Futures contracts	(223,517)	
Foreign currency transactions	(1,208,683)	
Net realized gain on investments and foreign currency transactions		\$2,274,789
Change in unrealized appreciation (depreciation)		
Investments	\$(8,716,620)	
Futures contracts	(41,912)	
Translation of assets and liabilities in foreign currencies	654,400	
Net unrealized loss on investments and foreign currency translation		\$(8,104,132)
Net realized and unrealized loss on investments and foreign currency		\$(5,829,343)
Increase in net assets from operations		\$2,360,391

SEE NOTES TO FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

STATEMENT 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.

	SIX MONTHS ENDED 5/31/04 (UNAUDITED)	YEAR ENDED 11/30/03
INCREASE IN NET ASSETS		
OPERATIONS		
Net investment income	\$8,189,734	\$14,774,607
Net realized gain on investments and foreign currency transactions	2,274,789	4,130,920
Net unrealized loss on investments and foreign currency translation	(8,104,132)	(2,820,145)
Increase in net operations from operations	\$2,360,391	\$16,085,382

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DISTRIBUTIONS DECLARED TO SHAREHOLDERS

From net investment income	\$ (9,491,600)	\$ (20,675,908)
Cost of shares reacquired	\$ (8,249,058)	\$ (14,938,499)
Total decrease in net assets	\$ (15,380,267)	\$ (19,529,025)

NET ASSETS

At beginning of period	\$414,094,937	\$433,623,962
At end of period (including accumulated distributions in excess of net investment income of \$3,009,507 and \$1,707,641, respectively)	\$398,714,670	\$414,094,937

SEE NOTES TO FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

FINANCIAL HIGHLIGHTS

The financial highlights table is intended to help you understand the trust's financial performance and the past 5 fiscal years (or, if shorter, the period of the trust's operation). Certain information is presented for a single trust share. The total returns in the table represent the rate by which an investment (or loss) on an investment in the trust (assuming reinvestment of all distributions) held for the entire period.

	SIX MONTHS ENDED 5/31/04 (UNAUDITED)	2003	2002	YEAR ENDED 11/30 2001
Net asset value, beginning of period	\$7.44	\$7.49	\$7.32	\$7.01
INCOME FROM INVESTMENT OPERATIONS#(S)				
Net investment income	\$0.15	\$0.26	\$0.37	\$0.42
Net realized and unrealized gain (loss) on investments and foreign currency	(0.12)	0.02	0.20	0.31
Total from investment operations	\$0.03	\$0.28	\$0.57	\$0.73
LESS DISTRIBUTIONS DECLARED TO SHAREHOLDERS				
From net investment income	\$ (0.17)	\$ (0.36)	\$ (0.37)	\$ (0.43)
In excess of net investment income	--	--	(0.05)	--

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From paid-in capital	--	--	--	--
Total distributions declared to shareholders	\$ (0.17)	\$ (0.36)	\$ (0.42)	\$ (0.43)
Net increase from repurchase of capital shares	\$0.02	\$0.03	\$0.02	\$0.01
Net asset value, end of period	\$7.32	\$7.44	\$7.49	\$7.32
Per share market value, end of period	\$6.56	\$6.71	\$6.77	\$6.59
Total return at market value (%)	0.26++	4.38	9.31	13.56

Financial Highlights - continued

	SIX MONTHS ENDED 5/31/04 (UNAUDITED)	2003	2002	YEAR ENDED 11/30 2001
RATIOS (%) TO AVERAGE NET ASSETS AND SUPPLEMENTAL DATA:				
Expenses##	0.78+	0.79	0.87	0.90
Net investment income(S)	3.98+	3.41	4.98	5.82
Portfolio turnover	66	108	123	105
Net assets at end of period (000 Omitted)	\$398,715	\$414,095	\$433,624	\$436,173

+ Annualized.

++ Not annualized.

# Per share data are based on average shares outstanding.

## Ratios do not reflect reductions from fees paid indirectly.

(S) As required, effective December 1, 2001, the trust adopted the provisions of the AICPA Audit Investment Companies and began amortizing premium on debt securities. The effect of this change on 30, 2002 was to decrease net investment income per share by \$0.02, increase net realized and accrued income per share by \$0.02, and decrease the ratio of net investment income to average net assets by 0.33%. Supplemental data for periods prior to December 1, 2001 have not been restated to reflect this change.

SEE NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS (unaudited)

(1) BUSINESS AND ORGANIZATION

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MFS Governments Markets 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 of revenues and expenses during the reporting period. Actual results could differ from those estimates. The fund 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. 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 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. 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 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

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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.

**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 relative position in one or more currencies without buying and selling portfolio assets. Investments in equity 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 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 provide 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 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

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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 GNMA, FNMA, and FHLMC, 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. The trust's total return is enhanced through either a reduced purchase price on the buy, or receipt of an income fee from the broker.

**INVESTMENT TRANSACTIONS AND INCOME** - Investment transactions are recorded on the trade date. Interest income is recorded on the accrual basis. All premium and discount is amortized or accreted for financial statement purposes in accordance with accounting principles generally accepted in the United States of America. All discount is accreted for tax reporting purposes as required by federal income tax regulations. Interest payments received in additional securities are recorded on the 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 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 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, for the six months ended May 31, 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



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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, defaulted bonds, and amortization and accretion on debt securities.

The tax character of distributions declared for the years ended November 30, 2003 and November 30, 2002 was as follows:

	11/30/03	11/30/02
Distributions declared from:		
-----		
Ordinary income	\$20,675,908	\$24,666,472
-----		

As of November 30, 2003, the components of distributable earnings (accumulated losses) on a tax basis were as follows:

Capital loss carryforward	\$(24,722,985)
-----	
Unrealized appreciation	4,980,943
-----	
Other temporary differences	(2,380,875)
-----	

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, 2005	\$(7,140,598)
-----	
November 30, 2007	(11,594,208)
-----	
November 30, 2008	(5,988,179)
-----	
Total	\$(24,722,985)
-----	

### (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 5.33% of investment income.

The trust pays compensation to the Independent Trustees in the form of a retainer, attendance fees, and 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 certain current Independent Trustees. Included in Trustees'

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compensation is a net decrease of \$53,882 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 \$7,092 for retired Independent Trustees for the six months ended May 31, 2004.

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 six months ended May 31, 2004, the trust paid MFS \$25,448, equivalent to 0.01235% 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 \$55,085 for the six months ended May 31, 2004. Also included in transfer agent and dividend disbursing costs are out-of-pocket expenses, paid to MFSC, which amounted to \$11,270 for the six months ended May 31, 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	\$246,757,386	\$245,000,987
-----	-----	-----
Investments (non-U.S. government securities)	\$19,833,869	\$26,328,008
-----	-----	-----

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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	\$474,785,874
-----	
Gross unrealized depreciation	\$(6,984,483)
-----	
Gross unrealized appreciation	5,383,544
-----	
Net unrealized depreciation	\$(1,600,939)
-----	

### (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 repurchases by the trust of up to 10% annually of its own shares of beneficial interest. The trust repurchased and retired 1,231,700 shares of beneficial interest during the six months ended May 31, 2004 at an average price per share of \$6.70 and a weighted average discount of 9.89% per share. The trust repurchased and retired 2,202,300 shares of beneficial interest during the year ended November 30, 2003, at an average price per share of \$6.78 and a weighted average discount of 9.18% per share. Transactions in trust shares were as follows:

	Six months ended		Year ended	
	5/31/04		11/30/03	
	SHARES	AMOUNT	SHARES	AMOUNT
Treasury shares reacquired	(1,231,700)	\$(8,249,058)	(2,202,300)	\$(14,938,499)

### (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 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 six months ended May 31, 2004, was \$1,925, and is included in miscellaneous expense. The trust had no significant borrowings during the six months ended May 31, 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.

Forward Foreign Currency Exchange Contracts

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### SALES

SETTLEMENT DATE	CONTRACTS TO DELIVER/RECEIVE	IN EXCHANGE FOR	CONTRACTS AT VALUE	NET UNREALIZED APPRECIATION (DEPRECIATION)
6/16/04	AUD 2,669,583	\$1,930,521	\$1,902,555	\$27,966
6/16/04-6/17/04	DKK 12,375,522	1,978,157	2,031,466	(53,309)
6/16/04	EUR 21,352,911	25,984,541	26,072,616	(88,075)
6/17/04	GBP 61,134	108,023	111,847	(3,824)
6/15/04-6/16/04	NZD 3,058,979	1,990,997	1,919,441	71,556
6/16/04	SEK 5,188,346	688,090	696,076	(7,986)
		-----	-----	-----
		\$32,680,329	\$32,734,001	\$(53,672)
		=====	=====	=====

### PURCHASES

6/16/04	AUD 1,698,350	\$1,290,746	\$1,210,378	\$(80,368)
6/16/04	EUR 3,694,941	4,483,780	4,511,647	27,867
6/15/04	JPY 220,263,966	1,993,339	1,999,771	6,432
6/04/04	KRW 607,016,625	516,733	520,960	4,227
6/16/04	SEK 2,776,456	365,307	372,494	7,187
		-----	-----	-----
		\$ 8,649,905	\$ 8,615,250	\$(34,655)
		=====	=====	=====

At May 31, 2004 forward foreign currency purchases and sales under master netting agreements excluded above amounted to a net receivable of \$55,762 with Merrill Lynch International.

At May 31, 2004, the trust had sufficient cash and/or securities to cover any commitments under these contracts.

#### Futures Contracts

DESCRIPTION	EXPIRATION	CONTRACTS	POSITION	UNREALIZED (DEPRECIATION)
U.S. Treasury Note 10 Year	Sep-04	61	Short	\$(52,197)

At May 31, 2004, the trust had sufficient cash and/or securities to cover any margin requirements under these contracts.

#### (8) RESTRICTED SECURITIES

The trust may invest not more than 10% of its total assets in securities which are subject to legal or contractual restrictions on resale. At May 31, 2004, the trust owned the following restricted security, excluding securities issued under Rule 144A, constituting 0.33% 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 this security 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
State of Qatar, 9.75%, 2030	6/16/03	990,000	\$1,362,038	\$1,331,550

(9) 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 fund sales. 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 administered by an independent distribution consultant. The agreement with the SEC is reflected in an order of the SEC. The settlement order states that MFS failed to adequately disclose to the Boards and Trustees and to shareholders of the MFS funds the specifics of its preferred arrangements with certain brokerage firms selling MFS fund shares. The settlement order states that MFS had in place policies designed to obtain best execution of all fund trades. As part of the settlement, MFS has retained an independent compliance consultant to review the completeness of its disclosure to fund trustees and to fund shareholders of strategic alliances between MFS or its affiliates and broker-dealers and other financial advisers who support the sale of fund shares. The brokerage allocation practices which were the subject of this proceeding were discontinued by MFS in November 2003.

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 fund prospectuses regarding market timing and related matters (the "February Settlements"). These regulators alleged that prospectus language for certain MFS funds was false and misleading because, although the prospectuses for those funds in the regulators' view indicated that the funds prohibited market timing, MFS did not limit trading activity in 11 domestic large cap stock, high grade bond and money market 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 of the MFS funds offered to retail investors ("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 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.

Since December 2003, MFS, Sun Life Financial Inc., various MFS funds, the 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 funds

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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 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 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. The lawsuits seek unspecified compensatory damages. 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 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 the Retail Funds for damages that they allegedly sustained as a result of market timing or late trading in certain of the funds, and will pay \$50 million to compensate certain MFS funds based upon the amount of brokerage commissions allocated in recognition of 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 funds may pursue claims on behalf of such funds against any party that may have liability to the funds in respect thereof.

While these developments primarily relate to 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 Trust's shares or other adverse consequences.

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 TRUSTEES AND OFFICERS -- IDENTIFICATION AND BACKGROUND (unaudited)  
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The Trustees and officers of the Trust are listed below, together with their principal occupation past five years. (Their titles may have varied during that period.) The address of each Trustee is 500 Boylston Street, Boston, Massachusetts 02116.

NAME, DATE OF BIRTH	POSITION(S) HELD WITH FUND	TRUSTEE/OFFICER SINCE(1)	PRINCIPAL OCCUPATIONS & DIRECTORSHIPS(2) DURING THE PAST FIVE YEARS
INTERESTED TRUSTEES			
John W. Ballen(3) (born 09/12/59)	Trustee and President	August 2001 until February 2004	Massachusetts Financial Services Company, Chief Executive Officer

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			and Director (until Februa
Robert J. Manning(3) (born 10/20/63)	Trustee and President	February 2004	Massachusetts Financial Se Company, Chief Executive O President, Chief Investmen Officer and Director
Kevin J. Parke(3) (born 12/14/59)	Trustee	January 2002 until February 2004	Massachusetts Financial Se Company, President, Chief Investment Officer and Dir (until February 2004)
Robert C. Pozen(3) (born 08/08/46)	Trustee	February 2004	Massachusetts Financial Se Company, Chairman (since F 2004); Harvard Law School (education), John Olin Vis Professor (since July 2002 Secretary of Economic Affa Commonwealth of Massachuse (January 2002 to December Fidelity Investments, Vice Chairman (June 2000 to Dec 2001); Fidelity Management Research Company (investme adviser), President (March July 2001); The Bank of Ne (financial services), Dire Bell Canada Enterprises (t munications), Director; Te (satellite communications) Director
Jeffrey L. Shames(3) (born 06/02/55)	Trustee	October 1993 until February 2004	Massachusetts Financial Se Company, Chairman (until F 2004)
INDEPENDENT TRUSTEES			
J. Atwood Ives (born 05/01/36)	Chairman	February 1992	Private investor; KeySpan Corporation (energy relate services), Director; Easte Enterprises (diversified s company), Chairman, Trustee Chief Executive Officer (u November 2000)
Lawrence H. Cohn, M.D. (born 03/11/37)	Trustee	August 1993	Brigham and Women's Hospit Chief of Cardiac Surgery; Medical School, Professor Surgery
David H. Gunning (born 05/30/42)	Trustee	January 2004	Cleveland-Cliffs Inc. (min products and service provi Vice Chairman/Director (si April 2001); Encinitos Ven (private investment compan Principal (1997 to April 2 Lincoln Electric Holdings, (welding equipment manufac Director; Southwest Gas Corporation (natural gas distribution company), Dir

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William R. Gutow (born 09/27/41)	Trustee	December 1993	Private investor and real consultant; Capitol Entertainment Management Company (video franchise), Vice Chairman
Amy B. Lane (born 02/08/53)	Trustee	January 2004	Retired; Merrill Lynch & Co. Inc., Managing Director, Investment Banking Group (February 2001); Borders Group Inc. (book and music retail Director; Federal Realty Investment Trust (real estate investment trust), Trustee
Lawrence T. Perera (born 06/23/35)	Trustee	July 1981	Hemenway & Barnes (attorney Partner
William J. Poorvu (born 04/10/35)	Trustee	August 1982	Private investor; Harvard University Graduate School Business Administration, Class of 1961 Adjunct Professor in Entrepreneurship Emeritus; Associates Properties, Inc. (estate investment trust),
J. Dale Sherratt (born 09/23/38)	Trustee	August 1993	Insight Resources, Inc. (acquisition planning specialists), President; World Investments (investor in health care companies), Managing Partner (since 1993); Cambium Nutraceuticals (professional nutritional products), Chief Executive Officer (until March 2004)
Elaine R. Smith (born 04/25/46)	Trustee	February 1992	Independent health care industry consultant
Ward Smith (born 09/13/30)	Trustee	October 1992	Private investor
OFFICERS			
Robert J. Manning(3) (born 10/20/63)	President and Trustee	February 2004	Massachusetts Financial Services Company, Chief Executive Officer, President, Chief Investment Officer and Director
John W. Ballen(3) (born 09/12/59)	President and Trustee	August 2001 until February 2004	Massachusetts Financial Services Company, Chief Executive Officer and Director (until February 2004)
James R. Bordewick, Jr.(3) (born 03/06/59)	Assistant Secretary and Assistant Clerk	September 1990	Massachusetts Financial Services Company, Senior Vice President, Associate General Counsel
Stephen E. Cavan(3) (born 11/06/53)	Secretary and Clerk	December 1989 until March 2004	Massachusetts Financial Services Company, Senior Vice President, General Counsel and Secretary (until March 2004)
Stephanie A. DeSisto(3) (born 10/01/53)	Assistant Treasurer	May 2003	Massachusetts Financial Services Company, Vice President (since May 2003)



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			April 2003); Brown Brother Harriman & Co., Senior Vice President (November 2002 to 2003); ING Groep N.V./Aelt Investment Management, Senior President (prior to November
Robert R. Flaherty(3) (born 09/18/63)	Assistant Treasurer	August 2000	Massachusetts Financial Services Company, Vice President (since August 2000); UAM Fund Services Senior Vice President (prior to August 2000)
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 Management Inc., Executive Vice President Chief Financial Officer (prior to September 2000); Lexington Chief Financial Officer (prior to September 2000)
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	CRA Business Strategies Group (consulting services), Executive Vice President (April 2003 to June 2004); David L. Babson (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 Vice President

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- (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 series/fund. The address of MFS is 500 Boylston Street, Boston, Massachusetts 02116.

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 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 his or her earlier death, resignation, retirement or removal.

Each of the Trust's Trustees and officers holds comparable positions with certain other funds of the Trust. A subsidiary 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 109 funds within the MFS Family of Funds.

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

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

PORTFOLIO MANAGER  
Peter C. Vaream

JP Morgan Chase Bank  
One Chase Manhattan Plaza  
New York, NY 10081

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## CONTACT INFORMATION AND NUMBER OF SHAREHOLDERS

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### 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

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

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

### NUMBER OF SHAREHOLDERS

As of May 31, 2004, our records indicate that there are 5,706 registered shareholders and approximately 22,669 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

500 Boylston Street  
Boston, MA 02116-3741

(C) 2004 MFS Investment Management(R)  
500 Boylston Street, Boston, MA 02116

MGF-SEM-7/04 67M

ITEM 2. CODE OF ETHICS.

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Applicable for semi-annual reports if the registrant has amended the code of ethics during the period covered by the report or has granted a waiver, including an implicit waiver, from a provision of the code of ethics.

### ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

Not Applicable for semi-annual reports.

### ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Not Applicable for semi-annual reports.

### ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

Not Applicable for semi-annual reports.

### ITEM 6. SCHEDULE OF INVESTMENTS

Not applicable at this time. [Applicable for periods ending on or after July 9, 2004 (beginning with Form N-CSRs filed at the end of September, 2004 for July 31, 2004 reporting period.)]

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

Not Applicable for semi-annual reports.

### ITEM 8. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS.

Not applicable at this time. [Required for closed-end funds for periods ending on or after June 15, 2004 (beginning with N-CSR's filed at the end of August, 2004 for June 30, 2004 reporting period.)]

### ITEM 9. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

The Board of Trustees of the Registrant has adopted procedures by which shareholders may send communications, including recommendations for nominees to the Registrant's Board, to the Board. Shareholders may mail written communications to the Board to the attention of the Board of Trustees, [name of series of the Registrant], Massachusetts Financial Services Company, 500 Boylston Street, Boston, MA 02116, c/o Frank Tarantino, Independent Chief Compliance Officer of the Fund. Shareholder communications must (i) be in writing and be signed by the shareholder, (ii) identify the series of the Registrant to which it relates, and (iii) identify the class and number of shares held by the shareholder.

### ITEM 10. 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 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 changes in the registrant's internal controls over financial reporting (as defined in Rule 30a-3(d) under the Act) that occurred during the registrant's last fiscal half-year (the registrant's second fiscal



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Executive Officer)

Date: July 23, 2004

By (Signature and Title)\*

RICHARD M. HISEY

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

Date: July 23, 2004

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