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MFS SPECIAL VALUE TRUST  
Form N-CSRS  
July 07, 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 811-5912

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MFS SPECIAL VALUE 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: October 31, 2003

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Date of reporting period: April 30, 2004

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ITEM 1. REPORTS TO STOCKHOLDERS.

MFS(R) Mutual Funds

SEMIANNUAL REPORT 4/30/04

MFS(R) SPECIAL VALUE 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  
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### ----- LETTER FROM THE CEO -----

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 over 50 in April 2004. During that same period, we doubled the average investment experience of our new domestic equity analysts, from 2.6 years to 5.3 years, 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

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of a portfolio manager. In fact, an exceptional research analyst has the opportunity to earn more at MFS than some portfolio managers.

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 four 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 will be 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 will work with a team of domestic analysts; David E. Sette-Ducati of our small- and mid-cap equity team will work 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

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successfully to the Original Research(SM) process.

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 member of our investment team 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  
Chief Executive Officer  
MFS Investment Management (R)

May 19, 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

During the six-month period that ended April 30, 2004, the bond market was highlighted by a continuation of low interest rates, high bond prices, and solid returns for bond investors. However, the market began to change rapidly toward the end of the period, following a string of strong economic numbers and reports in March and April of rapid improvement in the U.S. employment market. Improving economic indicators and better employment numbers set the stage for rising interest rates and declining prices for bonds. These conditions were exacerbated by the expectation that the U.S. Federal Reserve Board (the Fed) would raise interest rates sometime in the near future. Together, the improving economic and employment outlook and the expectation of rising interest rates led to declining bond prices and lower returns for bond investors late in the period.

The turnaround in global stock markets that began in the spring of 2003 continued for much of the reporting period. This rally was driven by increasingly positive global economic numbers as the period progressed, particularly with regard to business confidence and corporate earnings. By late 2003, corporate capital spending, which had been weak for several years, had also begun to accelerate. Another driver of the equity rally, in our view, was the decision by most central banks worldwide to leave interest rates at near-historic lows throughout the period. Toward the end of the period, however, a combination of several factors, in our view, including the expectation of Fed rate increase, started to dampen stock returns. The March train bombings in Spain brought geopolitical concerns back to the forefront of investors" minds. In addition, oil prices that approached \$40 per barrel in late April raised concerns that high energy costs could become a significant drag on the global recovery.

### CONTRIBUTORS TO PERFORMANCE

Exposure to debt issued by cable companies was a leading contributor to performance during the reporting period. Many companies in this sector had performed poorly in 2002. However, the sector proved to be remarkably resilient: starting in 2003, and continuing into the reporting period, we saw a dramatic rise in value of the underlying assets of many of these companies.

In particular, we saw a rebound in the market value per subscriber of many cable companies. In previous periods, the market had depressed these values

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because of fears over competition from areas such as satellite television services. However, cable companies benefited during the period from the growing popularity of cable-based, high-speed internet services. In addition, many of these companies gained more access to the capital markets during the period and were able to refinance their debt. This in turn attracted new investors and drove up the value of cable industry bonds. In particular, the trust benefited from exposure to Adelpia Communications and Charter Communications. Adelpia was emerging from bankruptcy and returned a full par claim on its bonds. Charter's bond prices have improved as the company has accessed capital markets to extend maturities and improve liquidity.

We also held the bonds of a number of commodity chemicals firms which contributed significantly to performance. Among these were Huntsman and IMC Global. The industry benefited from generally improving fundamentals and from increased mergers and acquisition activity. IMC Global, for example, was acquired by a subsidiary of Cargill, and that acquisition drove up the price of its bonds.

Among the equity assets in the portfolio, an overweight position in utilities & communications firms provided the biggest contribution to performance. AT&T Wireless, for example, was the largest individual contributor to positive performance in the portfolio, as it was purchased during the period by Cingular Wireless at a hefty premium. Cingular is a joint venture of SBC Communications and Bell South. As of period end, its acquisition of AT&T Wireless had been announced but not yet completed. AT&T stock has since been sold from the portfolio.

### DETRACTORS FROM PERFORMANCE

A combination of security selection and an underweighted position in European bonds was a primary detractor from relative returns compared to our benchmark, the Lehman Brothers High Yield Bond Index. A bond rally in Europe continued throughout the period as investors looked at the slow pace of economic growth in European countries and surmised that interest rates would remain low for the foreseeable future. Our position in Parmalat, an Italian dairy firm, was the single largest detractor from relative performance. This bond is no longer held in the portfolio.

Two significant individual detractors from relative performance were our positions in Dobson Communications and WorldCom. The wireline segment of the telecommunications industry generally performed poorly during the period, and WorldCom suffered additional problems. Namely, the company did not emerge from bankruptcy as quickly as many investors had hoped. The stock has since been sold out of the portfolio.

Among equities held by the trust, our selection of stocks in the retailing sector was the biggest detractor from performance, and retailer Sears, Roebuck & Co. was the biggest individual detractor among all the stocks held in the portfolio. Sears struggled during the holiday shopping season and then faced further disappointment in the sales of its Land's End line of products. The stock was sold out of the portfolio by the end of the period.

Respectfully,

/s/ John F. Addeo

John F. Addeo  
Portfolio Manager

The views expressed in this report are those of the portfolio manager only through the end of the period of the report as stated on the cover and do not necessarily reflect the views of MFS or any other person in the MFS

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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 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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- o Under Updates & Announcements, click Week in Review for a summary of recent investment-related news.
  - o From Week in Review, link to MFS Global Investment Perspective for our current view of the world.
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### ----- PORTFOLIO MANAGER'S PROFILE -----

John F. Addeo, CFA, is Vice President and Associate Director of Fixed Income Research of MFS Investment Management(R) (MFS(R)) and portfolio manager of the high-yield bond portfolios of our mutual funds, variable annuities, offshore accounts and closed-end funds. John joined MFS as a research analyst in 1998. He became Vice President in 1999, associate portfolio manager in 2000, and portfolio manager in 2001. He was named Associate Director of Fixed Income Research in 2004. Previously, he was a quantitative analyst and a vice president in the high-yield groups of several major investment companies.

He received a Bachelor of Science degree from Siena College in 1984. He holds the Chartered Financial Analyst (CFA) designation.

All portfolio managers at MFS are supported by an investment staff of over 160 professionals utilizing MFS Original Research(R), a global, issuer-oriented, bottom-up process of selecting securities.

### ----- PERFORMANCE SUMMARY THROUGH 4/30/04 -----

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

### PRICE SUMMARY

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Six months ended 4/30/04  
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	Date	Price
Net asset value	10/31/2003	\$9.80
	4/30/2004	\$10.15
New York Stock Exchange price	10/31/2003	\$10.40
	4/08/2004 (high)*	\$12.40

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11/03/2003	(low)*	\$10.32
4/30/2004		\$11.08

\* For the period November 1, 2003, through April 30, 2004.

Six months ended 4/30/04

### TOTAL RETURNS VS BENCHMARK

New York Stock Exchange price**	11.70%
Net asset value**	8.59%
Lehman Brothers High Yield Index#	5.52%

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

# Source: Standard & Poor's Micropal, Inc.

### INDEX DEFINITION

LEHMAN BROTHERS HIGH YIELD INDEX - measures the performance of the high-yield bond market.

It is not possible to invest directly in an index.

### NOTES TO PERFORMANCE SUMMARY

The trust's shares may trade at a discount to net asset value. Shareholders do not have the right to cause the trust to repurchase their shares at net asset value. The trust's shares also may trade at a premium to their net asset value. When trust shares trade at a premium, buyers pay more than the asset value underlying trust shares, and shares purchased at a premium would receive less than the amount paid for them in the event of the trust's liquidation.

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

The trust's target annual distribution rate is calculated based on the trust's average daily net asset value, not a fixed share price, and the trust's dividend amount will fluctuate with changes in the trust's average daily net asset value.

### KEY RISK CONSIDERATIONS

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

Investments in high yield or lower-rated securities may provide greater returns but are subject to greater-than-average risk.

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.

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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.

### INVESTMENT POLICY (FOREIGN SECURITIES)

The trust limits investment in securities of foreign issuers which are not traded on a U.S. exchange (excluding American Depositary Receipts) to 10% of its total assets. For purposes of determining this investment limitation, foreign securities traded in U.S. markets which are well established and liquid (such as Rule 144A and Yankee Bond markets) are considered as being equivalent to U.S. exchange-traded securities, and therefore are not subject to this 10% limitation.

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 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) - 4/30/04

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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 - 60.0%

ISSUER	PRINCIPAL AMOUNT (000 Omitted)	\$ VALUE
-----		
U.S. Bonds - 48.5%		
-----		
Advertising & Broadcasting - 3.1%		
-----		
Allbritton Communications Co., 7.75%, 2012	\$350	\$357,000
Granite Broadcasting Corp., 9.75%, 2010##	655	641,900
LBI Media Holdings, Inc., 0% to 2008, 11% to 2013	875	616,875
XM Satellite Radio Holdings, Inc., 0% to 2005, 14% to 2009	225	216,562
XM Satellite Radio Holdings, Inc., 12%, 2010	204	235,875
		\$2,068,212
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Aerospace - 1.8%		
-----		
BE Aerospace, Inc., 8.875%, 2011	\$475	\$458,375
Hexcel Corp., 9.75%, 2009	650	682,500
K&F Industries, Inc., 9.625%, 2010	80	89,600
		\$1,230,475
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Airlines - 1.7%		
-----		
Continental Airlines, Inc., 7.568%, 2006	\$500	\$420,648
Continental Airlines, Inc., 8.307%, 2018	292	259,340
Continental Airlines, Inc., 6.795%, 2020	495	419,648
Continental Airlines, Inc., 7.566%, 2020	58	48,792
		\$1,148,428
-----		
Apparel Manufacturers - 0%		
-----		
WestPoint Stevens, Inc., 7.875%, 2005 - 2008**	\$810	\$26,325
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Asset Backed & Securitized - 3.6%		
-----		
Anthracite CDO Ltd., 6%, 2037	\$450	\$353,021
DLJ Mortgage Acceptance Corp., 8%, 2004+	699	635,900
Falcon Auto Dealership LLC, 4.1743%, 2023^^	695	128,831

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GMAC Commercial Mortgage Securities, Inc., 6.02%, 2033	250	224,910
Morgan Stanley Capital I, Inc., 7.7384%, 2010	1,070	1,125,286
		\$2,467,948
Automotive - 2.9%		
Advanced Accessory Systems LLC, 10.75%, 2011	\$115	\$119,887
Collins & Aikman Products Co., 10.75%, 2011	650	672,750
Delco Remy International, Inc., 9.375%, 2012##	40	39,500
Intermet Corp., 9.75%, 2009	325	307,125
Metaldyne Corp., 11%, 2012	365	310,250
Oxford Automotive, Inc., 12%, 2010##	305	230,275
TRW Automotive, Inc., 11%, 2013	13	15,470
TRW Automotive, Inc., 11.75%, 2013	EUR 163	232,308
Venture Holdings Trust, 11%, 2007**	\$375	15,937
Venture Holdings Trust, 12%, 2009**	150	15
		\$1,943,517
Basic Industry - 0.8%		
Foamex LP/Capital Corp., 10.75%, 2009	\$425	\$397,375
Thermadyne Holdings Corp., 9.25%, 2014##	110	111,650
		\$509,025
Broadcast & Cable TV - 5.9%		
Adelphia Communications Corp., 10.25%, 2011**	\$750	\$832,500
CSC Holdings, Inc., 8.125%, 2009	155	165,850
CSC Holdings, Inc., 6.75%, 2012	110	109,725
Cablevision Systems Corp., 8%, 2012	180	180,000
Charter Communications, Inc., 8.625%, 2009	365	302,950
Charter Communications, Inc., 9.92%, 2011	1,150	960,250
Charter Communciations, Inc., 8.375%, 2014	50	49,250
FrontierVision Holdings LP, 11.875%, 2007**	300	369,000
Grande Communication Holdings, Inc., 14%, 2011##	305	293,562
Insight Midwest LP, 9.75%, 2009	130	137,150
Mediacom Broadband LLC, 11%, 2013	575	615,250

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		\$4,015,487
-----		
Building - 1.9%		
Dayton Superior Corp., 10.75%, 2008	\$195	\$195,000
Formica Corp., 10.875%, 2009**	850	137,062
Interface, Inc., 10.375%, 2010	180	201,375
Interface, Inc., 9.5%, 2014##	150	150,750
Williams Scotsman, Inc., 9.875%, 2007	600	597,000
		\$1,281,187
-----		
Chemicals - 4.0%		
Equistar Chemicals LP, 10.625%, 2011	\$210	\$234,150
Huntsman International LLC, 10.125%, 2009	750	785,625
IMC Global, Inc., 10.875%, 2013	140	171,850
INVISTA, 9.25%, 2012##	40	40,286
JohnsonDiversey Holdings, Inc., 0% to 2007, 10.67% to 2013	250	190,000
Lyondell Chemical Co., 11.125%, 2012	340	377,400
Nalco Finance Holdings, Inc., 0% to 2009, 9% to 2014##	390	245,700
Rockwood Specialties Group, Inc., 10.625%, 2011	300	319,500
Sovereign Specialty Chemicals, Inc., 11.875%, 2010	320	329,600
		\$2,694,111
-----		
Consumer Goods & Services - 2.1%		
American Safety Razor Co., 9.875%, 2005	\$500	\$495,000
Revlon Consumer Products Corp., 8.625%, 2008	386	360,910
Samsonite Corp., 10.75%, 2008	400	416,000
Werner Holding Co., Inc., 10%, 2007	170	131,750
		\$1,403,660
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Containers - 0.8%		
Pliant Corp., 13%, 2010	\$510	\$461,550
Portola Packaging, Inc., 8.25%, 2012##	130	111,800
		\$573,350
-----		
Energy - Independent - 0.2%		
Belden & Blake Corp., 9.875%, 2007	\$135	\$134,663

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Entertainment - 0.7%

AMF Bowling Worldwide, Inc., 10%, 2010	\$235	\$243,813
Six Flags, Inc., 9.75%, 2013	235	247,631
		\$491,444

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Forest & Paper Products - 0.8%

FiberMark, Inc., 10.75%, 2011**	\$305	\$161,650
Newark Group, Inc., 9.75%, 2014##	390	382,200
		\$543,850

-----  
Gaming & Lodging - 0.7%

Resorts International Hotel & Casino, Inc., 11.5%, 2009	\$400	\$446,000
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Industrial - 1.0%

Blount, Inc., 13%, 2009	\$480	\$518,400
Motors & Gears, Inc., 10.75%, 2006	180	159,300
		\$677,700

-----  
Machinery & Tools - 0.3%

Columbus McKinnon Corp., 8.5%, 2008	\$225	\$208,125
Columbus McKinnon Corp., 10%, 2010	20	21,200
		\$229,325

-----  
Medical & Health Technology & Services - 1.3%

Alliance Imaging, Inc., 10.375%, 2011	\$200	\$200,000
Beverly Enterprises, Inc., 9.625%, 2009	245	285,731
Healthsouth Corp., 8.5%, 2008	260	263,900
Universal Hospital Services, Inc., 10.125%, 2011##	140	149,100
		\$898,731

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Metals & Mining - 1.4%

Doe Run Resources Corp., 8.5%, 2008	\$512	\$281,743
Ispat Inland ULC, 9.75%, 2014##	260	266,500
Kaiser Aluminum & Chemical Corp., 9.875%, 2049**	290	281,300
Oregon Steel Mills, Inc., 10%, 2009	95	98,325
U.S. Steel Corp., 9.75%, 2010	42	47,565

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		\$975,433
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Natural Gas - Pipeline - 1.6%		
-----		
ANR Pipeline Co., 9.625%, 2021	\$55	\$62,425
El Paso Energy Corp., 7%, 2011	505	429,250
El Paso Production Holding Co., 7.75%, 2013	620	589,000
		\$1,080,675
-----		
Oil Services - 0.3%		
-----		
Dresser, Inc., 9.375%, 2011	\$185	\$199,800
-----		
Oils - 0.3%		
-----		
Citgo Petroleum Corp., 11.375%, 2011	\$150	\$173,250
-----		
Printing & Publishing - 1.4%		
-----		
Dex Media, Inc., 0% to 2008, 9% to 2013##	\$975	\$594,750
Houghton Mifflin Co., 9.875%, 2013	130	128,375
R.H. Donnelley Finance Corp., 10.875%, 2012	150	178,500
Warner Music Group, 7.375%, 2014##	25	25,781
		\$927,406
-----		
Retailers - 2.5%		
-----		
Couche Tard U.S. LP, 7.5%, 2013	\$335	\$351,750
Finlay Enterprises, Inc., 9%, 2008	495	507,994
J. Crew Intermediate LLC, 0% to 2005, 16% to 2008	387	317,406
J. Crew Operating Corp., 10.375%, 2007	150	150,188
PCA LLC, 11.875%, 2009	180	201,600
Rite Aid Corp., 9.25%, 2013	130	137,800
		\$1,666,738
-----		
Telecommunications - Wireline - 1.7%		
-----		
Qwest Corp., 13.5%, 2010	\$600	\$696,000
Qwest Corp., 9.125%, 2012##	110	116,875
Time Warner Telecom Holdings, Inc., 10.125%, 2011	230	192,050
Time Warner Telecom Holdings, Inc., 9.25%, 2014##	170	158,100
		\$1,163,025
-----		

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### Utilities - Electric Power - 2.1%

Dynegy Holdings, Inc., 6.875%, 2011	\$155	\$132,525
FirstEnergy Corp., 6.45%, 2011	199	209,507
Midwest Generation LLC, 8.75%, 2034##	145	145,000
Mirant Americas Generation, Inc., 8.3%, 2011**	400	290,000
Mission Energy Holding Co., 13.5%, 2008	250	274,375
PSE&G Energy Holdings LLC, 7.75%, 2007	50	52,250
Reliant Resources, Inc., 9.25%, 2010	200	214,000
Reliant Resources, Inc., 9.5%, 2013	125	135,625
		\$1,453,282

### Wireless Communications - 3.6%

Alamosa Holdings, Inc., 8.5%, 2012	\$70	\$67,725
Alamosa Holdings, Inc., 0% to 2005, 12% to 2009	509	478,460
Centennial Communications Corp., 10.125%, 2013	350	360,500
Dobson Communications Corp., 8.875%, 2013	450	352,125
MetroPCS, Inc., 10.75%, 2011	335	353,425
Rural Cellular Corp., 9.75%, 2010	559	522,665
Ubiquitel Operating, Co., 9.875%, 2011##	310	310,000
		\$2,444,900

Total U.S. Bonds		\$32,867,947
------------------	--	--------------

### Foreign Bonds - 11.5%

#### Australia - 0.7%

Burns Philp Capital Property Ltd., 9.75%, 2012 (Food & Non-Alcoholic Beverages)	\$425	\$448,375
---	-------	-----------

#### Belgium - 0.7%

Telenet Group Holdings N.V., 0% to 2008, 11% to 2014 (Broadcast & Cable TV)##	\$780	\$487,500
---	-------	-----------

#### Brazil - 1.6%

Federal Republic of Brazil, 2.125%, 2012 (Sovereign)	\$545	\$452,301
Federal Republic of Brazil, 8%, 2014 (Sovereign)	179	164,720
Federal Republic of Brazil, 2.0625%, 2024 (Sovereign)	54	41,310

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Federal Republic of Brazil, 11%, 2040 (Sovereign)	430	399,900
		\$1,058,231
Bulgaria - 0.1%		
Republic of Bulgaria, 8.25%, 2015 (Sovereign)	\$44	\$50,380
Canada - 0.3%		
Hollinger, Inc., 12.875%, 2011 (Printing & Publishing)##	\$85	\$99,450
Norske Skog Canada, 7.375%, 2014 (Forest & Paper Products)##	125	128,125
		\$227,575
Dominican Republic - 1.0%		
Dominican Republic, 9.04%, 2013 (Sovereign)	\$964	\$694,080
France - 1.7%		
Crown European Holdings S.A., 10.875%, 2013 (Containers)	\$305	\$355,325
Rhodia S.A., 6%, 2006 (Chemicals)	EUR 105	123,238
Rhodia S.A., 8.875%, 2011 (Chemicals)##	\$825	680,625
		\$1,159,188
Luxembourg - 1.3%		
Lighthouse International Co. S.A., 8%, 2014 (Printing & Publishing)##	EUR 150	\$180,546
Millicom International Cellular S.A., 10%, 2013 (Wireless Communications)##	\$330	338,250
Safilo Capital International S.A., 9.625%, 2013 (Consumer Goods & Services)##	EUR 330	367,559
		\$886,355
Mexico - 1.3%		
Axtel S.A. de C.V., 11%, 2013 (Telecommunications - Wireline)	\$565	\$562,175
Corporacion Durango S.A. de C.V., 13.75%, 2009 (Forest & Paper Products)**	258	170,280
Pemex Project Funding Master Trust, 8.625%, 2022 (Oil Services)	143	153,010
United Mexican States, 8%, 2022 (Sovereign)	13	13,715
		\$899,180

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Norway - 0.6%

Ocean Rig Norway S.A., 10.25%, 2008 (Oil Services)	\$440	\$435,600
--	-------	-----------

Panama - 0.4%

Republic of Panama, 9.375%, 2029 (Sovereign)	\$261	\$287,100
--	-------	-----------

Philippines - 0.1%

Republic of Philippines, 9.375%, 2017 (Sovereign)	\$57	\$59,138
---	------	----------

Poland - 0.8%

PTC International Finance II S.A., 11.25%, 2009 (Wireless Communications)	\$500	\$537,500
---	-------	-----------

Russia - 0.7%

Gazprom, 9.625%, 2013 (Utilities - Gas)	\$150	\$154,875
---	-------	-----------

Salomon Brothers (SIBNEFT), 10.75%, 2009 (Energy - Integrated)	84	88,956
--	----	--------

Tyumen Oil Co., 11%, 2007 (Energy - Integrated)	200	225,000
---	-----	---------

\$468,831

United Kingdom - 0.2%

Dunlop Stand Aerospace Holdings PLC, 11.875%, 2009 (Aerospace)##	\$110	\$116,325
--	-------	-----------

Total Foreign Bonds		\$7,815,358
---------------------	--	-------------

Total Bonds (Identified Cost, \$40,706,166)		\$40,683,305
---	--	--------------

Stocks - 30.2%

ISSUER	SHARES	\$ VALUE
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U.S. Stocks - 27.5%

Airlines - 1.3%

Southwest Airlines Co.^	60,500	\$863,940
-------------------------	--------	-----------

Automotive - 0.7%

Hayes Lemmerz International, Inc.*	34,476	\$497,489
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Broadcast & Cable TV - 4.9%

Comcast Corp., "Special A"	59,100	\$1,713,309
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Cumulus Media, Inc.^*	21,206	445,750
-----		
NTL, Inc.^*	9,915	562,875
-----		
Sinclair Broadcast Group, Inc., "A" ^	30,000	370,800
-----		
Sirius Satellite Radio, Inc.^*	64,555	213,032
-----		
		\$3,305,766
-----		
Business Services - 0%		
-----		
Anacomp, Inc.^*	30	\$308
-----		
Containers - 2.0%		
-----		
Owens-Illinois, Inc.^*	97,000	\$1,354,120
-----		
Electrical Equipment - 2.1%		
-----		
Tyco International Ltd.^	51,500	\$1,413,675
-----		
Energy - Independent - 0.2%		
-----		
NRG Energy, Inc.*	6,073	\$131,784
-----		
Gaming & Lodging - 0.8%		
-----		
Ameristar Casinos, Inc.^	7,750	\$245,830
-----		
Pinnacle Entertainment, Inc.^*	28,575	326,327
-----		
		\$572,157
-----		
Machinery & Tools - 0.1%		
-----		
Thermadyne Holdings Corp.^*	3,590	\$53,491
-----		
Medical & Health Technology & Services - 1.9%		
-----		
Tenet Healthcare Corp.^*	110,500	\$1,299,480
-----		
Metals & Mining - 0.4%		
-----		
Commonwealth Industries, Inc.^*	39,700	\$313,630
-----		
Oil Services - 5.9%		
-----		
BJ Services Co.^*	22,800	\$1,014,600
-----		
Cooper Cameron Corp.^*	16,530	799,226
-----		
GlobalSantaFe Corp.^	54,430	1,435,319
-----		
Noble Corp.^*	20,890	776,272

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		\$4,025,417
-----		
Pharmaceuticals - 1.9%		
Schering-Plough Corp.^	75,800	\$1,268,134
-----		
Specialty Chemicals - 0%		
Sterling Chemicals, Inc.*	605	\$15,428
-----		
Telecommunications - Wireline - 0.5%		
MCI, Inc.*	22,872	\$324,325
-----		
Telephone Services - 2.3%		
Verizon Communications, Inc.^	41,400	\$1,562,436
-----		
Utilities - Electric Power - 2.3%		
Calpine Corp.*	315,260	\$1,368,228
DPL, Inc.^	10,154	178,913
El Paso Electric Co.*	800	11,320
		\$1,558,461
-----		
Utilities - Gas - 0.2%		
Ferrell Gas Partners LP	6,088	\$133,205
-----		
Total U.S. Stocks		\$18,693,246
-----		
Foreign Stocks - 2.7%		
Canada - 1.0%		
International Utility Structures, Inc. (Metals & Mining)*	254,700	\$20,435
Nortel Networks Corp. (Telecommunications - Wireline)*	174,800	653,752
		\$674,187
-----		
Netherlands - 0.9%		
Completel Europe N.V. (Telephone Services)*	14,941	\$572,253
-----		
Sweden - 0.6%		
Song Networks Holding AB (Telephone Services)	66,675	\$427,627
-----		
United Kingdom - 0.2%		
-----		

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Jazztel PLC (Telephone Services)*	337,125	\$133,240
Total Foreign Stocks		\$1,807,307
Total Stocks (Identified Cost, \$25,914,578)		\$20,500,553
Convertible Preferred Stocks - 1.1%		
Automotive - 0%		
HLI Operating Co., Inc., "A", 8%*	114	\$9,576
Broadcast & Cable TV - 1.0%		
Spanish Broadcasting Systems, Inc., "B", 10.75%	681	\$686,108
Telephone Services - 0.1%		
Song Networks Holding AB, 0%*	7,200	\$46,194
Total Convertible Preferred Stock (Identified Cost, \$718,097)		\$741,878
Preferred Stocks - 2.6%		
Broadcast & Cable TV - 2.6%		
Paxson Communications Corp., 14.25%	187	\$1,748,450
Telephone Services - 0%		
PTV, Inc., "A", 10%^*	9	\$68
Total Preferred Stocks (Identified Cost, \$1,442,600)		\$1,748,518
Warrants - 0%		
Anacomp, Inc. (Business Services)*	5,841	\$409
ONO Finance PLC (Broadcast & Cable TV)*	1,000	10
Sterling Chemicals, Inc. (Chemicals)*	30	44
Thermadyne Holdings Corp. (Basic Industry)*	5,505	7,432
Thermadyne Holdings Corp. (Basic Industry)*	3,330	5,994
Total Warrants (Identified Cost, \$123,377)		\$13,889
Convertible Bond - 1.9%		
ISSUER	PRINCIPAL AMOUNT (000 Omitted)	
United Kingdom - 1.9%		

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COLT Telecom Group PLC, 2%, 2006 (Wireless Communications)  
(Identified Cost, \$807,524) EUR 1,000 \$1,317,416

Collateral for Securities Loaned - 16.2%

ISSUER	SHARES	
Navigator Securities Lending Prime Portfolio, at Identified Cost	11,008,650	\$11,008,650

Repurchase Agreement - 2.3%

ISSUER	PRINCIPAL AMOUNT (000 Omitted)	
Goldman Sachs, dated 4/30/04, due 5/03/04, total to be received \$1,577,137 (secured by various U.S. Treasury and Federal Agency obligations in a jointly traded account), at Cost	\$1,577	\$1,577,000

Total Investments (Identified Cost, \$82,297,992) \$77,591,209

Securities Sold Short - (0.1)%

ISSUER	SHARES	
Specialty Chemicals - (0.1)%		
Applied Extrusion Technologies, Inc. (Proceeds Received, \$ (74,301))	(25,000)	\$(64,000)

Other Assets, Less Liabilities - (14.2)% (9,635,983)

Net Assets - 100.0% \$67,891,226

- \* Non-income producing security.
- \*\* Non-income producing security - in default.
- ## SEC Rule 144A restriction.
- ^ All or a portion of this security is on loan.
- ^^ Interest only security.
- + Restricted security.

As of April 30, 2004, one security representing \$427,627 and 0.6% of net assets was fair valued in accordance with the policies adopted by the Board of Trustees.

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

EUR = Euro

SEE NOTES TO FINANCIAL STATEMENTS

FINANCIAL STATEMENTS STATEMENT OF ASSETS AND LIABILITIES (unaudited)

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

AT 4/30/04

### ASSETS

Investments, at value, including \$10,736,045 of securities on loan (identified cost, \$82,297,992)	\$77,591,209	
-----		
Cash	10,852	
-----		
Deposits with brokers for securities sold short	75,000	
-----		
Receivable for forward foreign currency exchange contracts	51,633	
-----		
Receivable for investments sold	684,567	
-----		
Interest and dividends receivable	936,177	
-----		
Other assets	10,850	
-----		
Total assets		\$79,360
-----		

### LIABILITIES

Payable to dividend disbursing agent	\$55,605	
-----		
Securities sold short, at value (proceeds received, \$74,301)	64,000	
-----		
Payable for forward foreign currency exchange contracts	9,690	
-----		
Payable for investments purchased	91,291	
-----		
Collateral for securities loaned, at value	11,008,650	
-----		
Payable to affiliates		
-----		
Management fee	1,723	
-----		
Transfer and dividend disbursing agent costs	1,434	
-----		
Administrative fee	21	
-----		
Accrued expenses and other liabilities	236,648	
-----		
Total liabilities		\$11,469
-----		
Net assets		\$67,891
-----		

### NET ASSETS CONSIST OF

Paid-in capital	\$75,449,424	
-----		
Unrealized depreciation on investments and translation of assets and liabilities in foreign currencies	(4,654,893)	
-----		
Accumulated net realized loss on investments and foreign		

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currency transactions	(774,184)	
<hr/>		
Accumulated distributions in excess of net investment income	(2,129,121)	
<hr/>		
Net assets		\$67,891
<hr/>		
Shares of beneficial interest outstanding (6,942,670 issued, less 256,600 treasury shares)		6,686
<hr/>		
Net asset value per share (net assets / shares of beneficial interest outstanding)		\$1
<hr/>		

SEE NOTES TO FINANCIAL STATEMENTS

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FINANCIAL STATEMENTS                      STATEMENT OF OPERATIONS (unaudited)

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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 4/30/04

NET INVESTMENT INCOME

NET INVESTMENT INCOME

Income

Interest	\$2,177,063	
<hr/>		
Dividends	211,223	
<hr/>		
Total investment income		\$2,388

Expenses

Management fee	\$312,593	
<hr/>		
Trustees" compensation	14,288	
<hr/>		
Transfer and dividend disbursing agent costs	9,162	
<hr/>		
Administrative fee	3,686	
<hr/>		
Investor communication expense	28,862	
<hr/>		
Custodian fee	10,917	
<hr/>		
Printing	16,381	
<hr/>		
Postage	3,108	
<hr/>		
Auditing fees	15,560	
<hr/>		
Legal fees	133	
<hr/>		
Miscellaneous	18,629	

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Total expenses		\$433
Fees paid indirectly	(6,983)	
Net expenses		\$426
Net investment income		\$1,961

REALIZED AND UNREALIZED GAIN ON INVESTMENTS

Realized gain (loss) (identified cost basis)		
Investment transactions	\$2,503,616	
Foreign currency transactions	(117,469)	
Net realized gain on investments and foreign currency transactions		\$2,386
Change in unrealized appreciation		
Investments	\$1,361,839	
Securities sold short	10,301	
Translation of assets and liabilities in foreign currencies	36,543	
Net unrealized gain on investments and foreign currency translation		\$1,408
Net realized and unrealized gain on investments and foreign currency		\$3,794
Increase in net assets from operations		\$5,756

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 4/30/04 (UNAUDITED)	YEAR 10/31/03
INCREASE IN NET ASSETS		
FROM OPERATIONS		
Net investment income	\$1,961,950	\$3,8
Net realized gain on investments and foreign currency		

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transactions	2,386,147	3
Net unrealized gain on investments and foreign currency translation	1,408,683	16,6
Increase in net assets from operations	\$5,756,780	\$20,8

DISTRIBUTIONS DECLARED TO SHAREHOLDERS

From net investment income	\$ (3,384,951)	\$ (3,7
From net realized gain on investments and foreign currency transactions	--	(1,8
Total distributions declared to shareholders	\$ (3,384,951)	\$ (5,6
Net increase in net assets from trust share transactions	\$323,904	\$3
Total increase in net assets	\$2,695,733	\$15,5

NET ASSETS

At beginning of period	\$65,195,493	\$49,6
At end of period (including accumulated distributions in excess of net investment income of \$2,129,121 and \$706,120, respectively)	\$67,891,226	\$65,1

SEE NOTES TO FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

FINANCIAL HIGHLIGHTS

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

	SIX MONTHS ENDED 4/30/04 (UNAUDITED)	2003	2002	YEAR ENDED 1 2001
Net asset value, beginning of period	\$9.80	\$7.50	\$8.63	\$11.67

INCOME FROM INVESTMENT OPERATIONS#(S)

Net investment income	\$0.29	\$0.59	\$0.71	\$0.77
Net realized and unrealized gain (loss) on investments and foreign currency	0.57	2.56	(0.86)	(2.16)
Total from investment operations	\$0.86	\$3.15	\$(0.15)	\$(1.39)

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LESS DISTRIBUTIONS DECLARED TO SHAREHOLDERS				
From net investment income	\$ (0.51)	\$ (0.57)	\$ (0.74)	\$ (0.77)
From net realized gain on investments and foreign currency transactions	--	(0.28)	--	--
In excess of net investment income	--	--	(0.24)	(0.06)
From paid-in capital	--	--	--	(0.82)
Total distributions declared to shareholders	\$ (0.51)	\$ (0.85)	\$ (0.98)	\$ (1.65)
Net asset value, end of period	\$10.15	\$9.80	\$7.50	\$8.63
Per share market value, end of period	\$11.080	\$10.400	\$7.250	\$14.300
Total return (%)	11.70++	58.07	(43.54)	16.99

Financial Highlights - continued

	SIX MONTHS ENDED 4/30/04 (UNAUDITED)	2003	2002	YEAR ENDED 12/31/01
RATIOS (%) TO AVERAGE NET ASSETS AND SUPPLEMENTAL DATA:				
Expenses##	1.27+	1.34	1.56	1.53
Net investment income (S)	5.77+	6.75	8.39	7.49
Portfolio turnover	40	94	137	49
Net assets at end of period (000 Omitted)	\$67,891	\$65,195	\$49,622	\$56,598

+ 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 November 1, 2001, the trust adopted the provisions of the AICPA Audit Investment Companies and began amortizing premium and accreting discount on all debt securities for the year ended October 31, 2002 was to increase net investment income per share by \$0.02, unrealized gains and losses per share by \$0.02, and increase the ratio of net investment income to net assets to 0.49%. Per share, ratios, and supplemental data for periods prior to November 1, 2001 have not been restated to reflect this change in presentation.

SEE NOTES TO FINANCIAL STATEMENTS

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NOTES TO FINANCIAL STATEMENTS (unaudited)

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### (1) BUSINESS AND ORGANIZATION

MFS Special Value Trust (the trust) is organized as a Massachusetts business trust and is registered under the Investment Company Act of 1940, as amended, as a non-diversified 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 trust can invest in high-yield securities rated below investment grade. Investments in high-yield securities involve greater degrees of credit and market risk than investments in higher-rated securities and tend to be more sensitive to economic conditions. The trust can invest in foreign securities. Investments in foreign securities are vulnerable to the effects of changes in the relative value 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** - The trust uses independent pricing services approved by the Board of Trustees wherever possible to value its portfolio securities. Portfolio securities are valued at current market quotations where current market quotations are readily available, or the fund may fair value portfolio securities under the direction of the Board of Trustees when a determination is made that current market quotations are not readily available. 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. Bonds and other fixed income securities for which it is determined that current market quotations are not readily available will be fair valued under the direction of the Board of Trustees. Equity securities in the trust's portfolio for which market quotations are available are valued at the last sale or official closing price as reported by an independent pricing service on the primary market or exchange on which they are primarily traded, or at the last quoted bid price for securities in which there were no sales during the day. Equity securities traded over the counter are valued at the last sales price traded each day as reported by an independent pricing service, or to the extent there are no sales reported, such securities are valued on the basis of quotations obtained from brokers and dealers. Equity securities for which it is determined that current market quotations are not readily available will be fair valued under the direction of the Board of Trustees. The trust may also fair value foreign equity securities in cases where closing market quotations are not readily available or are deemed not reflective of readily available market quotations. For example, significant events (such as movement in the U.S. securities market, or other regional and local developments) may occur between the time that foreign markets close (where the security is principally traded) and the time that the trust calculates its

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net asset value (generally, the close of the NYSE) that may impact the value of securities traded in these foreign markets. In these cases, the trust may utilize information from an external vendor or other sources to adjust closing market quotations of foreign equity securities to reflect what it believes to be the fair value of the securities as of the trust's valuation time. Because the frequency of significant events is not predictable, fair valuation of foreign equity securities may occur on a frequent basis. 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. Money market mutual funds are valued at net asset value. Investment valuations, other assets, and liabilities initially expressed in foreign currencies are converted each business day into U.S. dollars based upon current exchange rates.

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

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

**DEFERRED TRUSTEE COMPENSATION** - Under a Deferred Compensation Plan (the Plan) independent Trustees may elect to defer receipt of all or a portion of their annual compensation. Deferred amounts are treated as though equivalent dollar amounts had been invested in shares of the trust or other MFS funds selected by the Trustee. Deferred amounts represent an unsecured obligation of the trust until distributed in accordance with the Plan. Included in other assets, and accrued expenses and other liabilities, is \$9,740 of Deferred Trustees' 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/or U.S. Treasury securities in an amount at least equal to the market value of the securities loaned. State Street provides the trust with indemnification against Borrower default. The trust bears the risk of loss with respect to the investment of cash collateral. On loans collateralized by cash, the cash collateral is invested in a money market fund or short-term securities. A portion of the income generated upon investment of the collateral is remitted to the Borrowers, and the remainder is allocated between the trust and the lending agent. On loans collateralized by U.S. Treasury securities, a fee is received from the Borrower, and is allocated between the trust and the lending agent. Income

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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.

**SHORT SALES** - The trust may enter into short sales. A short sale transaction involves selling a security which the trust does not own with the intent of purchasing it later at a lower price. The trust will realize a gain if the security price decreases and a loss if the security price increases between the date of the short sale and the date on which the trust must replace the borrowed security. Losses from short sales can exceed the proceeds of the security sold; and they can also exceed the potential loss from an ordinary buy and sell transaction. The amount of any gain will be decreased, and the amount of any loss increased, by the amount of the premium, dividends, or interest the trust may be required to pay in connection with a short sale. Whenever the trust engages in short sales, its custodian segregates cash or marketable securities in an amount that, when combined with the amount of proceeds from the short sale deposited with the broker, at least equals the current market value of the security sold short.

**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. 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. 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 April 30, 2004, is shown as a reduction of total expenses on the Statement of Operations.

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

The tax character of distributions declared for the years ended October 31, 2003 and October 31, 2002 was as follows:

	10/31/03	10/31/02
Distributions declared from:		
Ordinary income	\$5,543,609	\$6,461,758
Long-term capital gain	66,073	--
Total distributions declared	\$5,609,682	\$6,461,758

As of October 31, 2003, the components of distributable earnings (accumulated losses) on a tax basis were as follows:

Undistributed ordinary income	\$17,372
Unrealized depreciation	(9,228,515)
Other temporary differences	(718,884)

### (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 0.68% of the trust's average daily net assets and 3.40% of investment income.

Management fees incurred for the six months ended April 30, 2004 were 0.92% of average daily net assets on an annualized basis.

The trust pays compensation to its Independent Trustees in the form of both a retainer and attendance fees, and additional compensation to Board and Committee chairpersons, and pays no compensation directly to its Trustees who are officers of the investment adviser, or to officers of the trust, all of whom receive remuneration for their services to the trust from MFS. Certain officers and Trustees of the trust are officers or directors of MFS and MFS Service Center, Inc. (MFSC). The trust has an unfunded, defined benefit plan for retired Independent Trustees and an unfunded retirement benefit deferral

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plan for certain current Independent Trustees. Included in Trustees' compensation is \$6,293 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 \$3,617 for retired Independent Trustees for the six month