RETIREMENT SYSTEM

2007 ANNUAL REPORT

TVA

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FINANCIAL HIGHLIGHTS AND STATISTICS

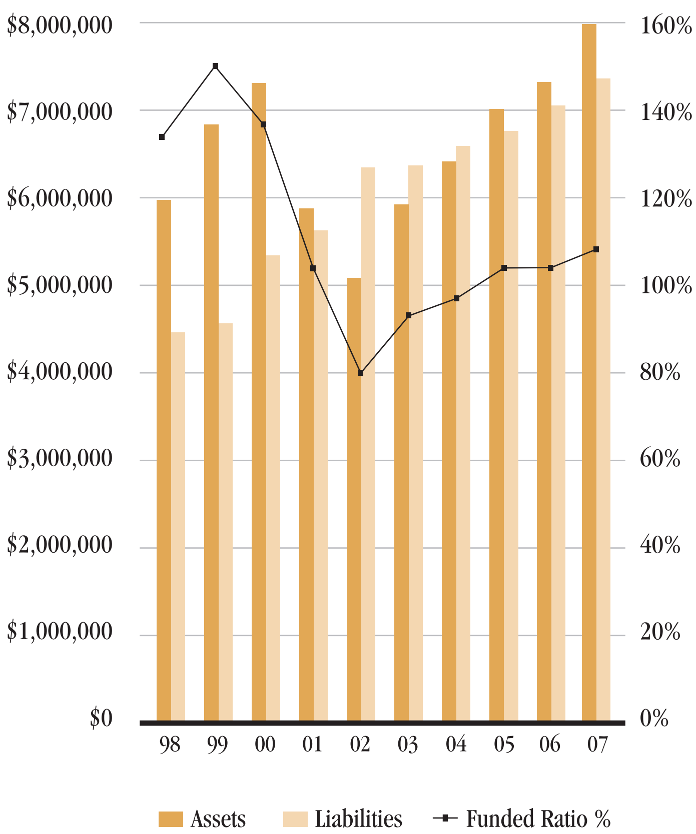
(Dollars in thousands)	**2007**	2006	Change	% Change
Net Assets Available for Benefits				
TVA Retirement System (Fixed Benefit Fund and Variable Fund)	**$ 8,214,175**	$ 7,549,792	$ 664,383	9
TVA Savings & Deferral Retirement Plan [401(k) Plan]	**1,510,129**	1,293,818	216,311	17
Total	**$ 9,724,304**	$ 8,843,610	$ 880,694	10
Net Assets Available for Benefits (Fixed Benefit Fund)	**$ 7,986,441**	$ 7,327,583	$ 658,858	9
Accumulated Benefit Obligation (Fixed Benefit Fund)	**$ 7,367,300**	$ 7,056,900	$ 310,400	4
Contributions				
Employer (all funds)	**$ 95,996**	$ 94,450	$ 1,546	2
Employee (all funds)	**$ 105,875**	$ 104,959	$ 916	1
Benefits Paid (all funds)	**$ 612,883**	$ 544,838	$ 68,045	12
Number of Active Members	**11,877**	12,465	(588)	(5)
Number of Retirees	**23,144**	22,745	399	2

This summary is intended for informational purposes only.

FIXED BENEFIT FUND

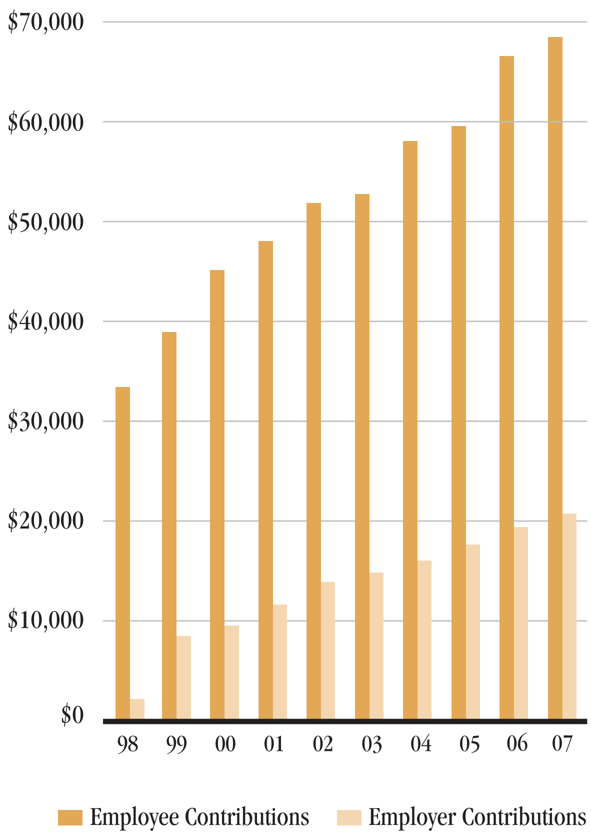
Market Value of Assets and Liabilities, and Funded Ratio

(in thousands)



401(K) PLAN CONTRIBUTIONS

(in thousands)



T O R E T I R E M E N T S Y S T E M M E M B E R S

The TVA Retirement System (TVARS) Board of Directors is pleased to provide the System's 2007 Annual Report. The System's Fixed Benefit Fund assets, which were $8 billion as of September 30, 2007, continued to perform well, earning an investment return of approximately 14.5 percent for the year. As a result, the Plan's funding ratio, which is a comparison of the assets to the liabilities, increased to 108 percent. The TVARS membership's assets in the 401(k) Plan increased to $1.5 billion. During 2007, the TVARS Board continued to emphasize the importance of the System's ability to provide the benefits that are promised. For the year, the System provided over $480 million in Fixed Benefit Fund benefits to approximately 23,000 retirees and beneficiaries.

The TVARS Board continues to believe that asset growth can most efficiently be attained with the least risk by maintaining a well-diversified portfolio of investments. During 2007, the TVARS Board adopted the following revised asset allocation policy to increase diversification: a 65 percent exposure to equities, of which 25 percent may be international, 5 percent may be private equity or other similar alternative investments, and 5 percent may be private real estate, and a 35 percent exposure to fixed income securities, of which 15 percent may be alternative fixed income strategies and 5 percent may be high yield.

Based upon an analysis by the System's actuary, the TVARS Board approved and recommended to the TVA Board a contribution of $75 million to the System for fiscal year 2008. The TVA Board approved this recommendation.

In addition to the financial performance of the System, other highlights include the following:

- The TVARS Board approved a cost of living increase of 2.53 percent for the retiree's pension and supplemental benefits and a 6 percent interest credit for the cash balance benefit structure participants for calendar year 2008.

- The TVARS Board elected Gretchen D. Thal as chairman and Floyd J. Johnson as vice chairman of the TVARS Board.

- The TVARS Board selected a retiree, Franklin A. Alford, as the seventh member of the Board. His term will expire October 31, 2009.

- R. Spencer Jones was elected by the System's active members to serve as a Board director for the term ending October 31, 2010, to replace outgoing Board member Floyd J. Johnson, who retired from TVA.

- Upon the recommendation of the Audit Committee, the TVARS Board selected Crowe Chizek and Company LLC to audit the System's financial statements for the fiscal year ending September 30, 2007.

- The TVARS Board approved a rule change whereby a retiree who ceases to be a TVA employee on or after January 1, 2009, due to an involuntary reduction in force, after reaching actual age 50 and having performed 10 years of actual service, will be eligible for the supplemental pension benefit upon reaching age 55.

- Amendments were approved that expanded the permissible list of hardship withdrawals under the 401(k) Plan.

- Amendments were approved that allow a non-spouse beneficiary of members and retirees to roll over any eligible lump-sum distribution to an inherited Individual Retirement Account (IRA).

Thank you for the trust and confidence you have placed in the TVARS Board over the years. We are honored to continue work on your behalf and are pleased to report on the status of the System.

For the Board,

Gretchen D. Thal
Chairman, Board of Directors
TVA Retirement System

Floyd J. Johnson
Vice Chairman, Board of Directors
TVA Retirement System

BOARD OF DIRECTORS

ELECTED BY MEMBERS

Floyd J. Johnson
Elected November 1, 1995

Leonard J. Muzyn
Elected November 1, 2003

Gretchen D. Thal
Elected February 3, 1997

APPOINTED BY TVA

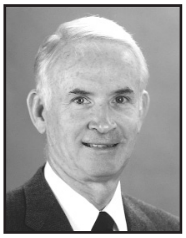
Janet C. Herrin
Appointed May 16, 2005

John M. Hoskins
Appointed July 28, 2003

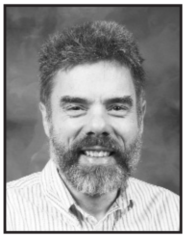
Phillip L. Reynolds
Appointed December 1, 2005

SELECTED BY OTHER DIRECTORS

Frank E. Alford
Selected April 13, 2007



Floyd J. Johnson



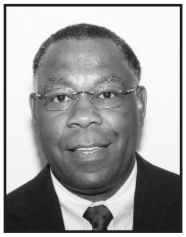
Leonard J. Muzyn

Gretchen D. Thal

Janet C. Herrin

John M. Hoskins

Phillip L. Reynolds



Frank E. Alford

STANDING COMMITTEES

AUDIT
Frank E. Alford, Chair
John M. Hoskins
Leonard J. Muzyn

ELECTION
Janet C. Herrin, Chair
Frank E. Alford
Leonard J. Muzyn

INVESTMENT
Floyd J. Johnson, Chair
Frank E. Alford
Janet C. Herrin
John M. Hoskins
Leonard J. Muzyn
Phillip L. Reynolds
Gretchen D. Thal

RETIREMENT
Phillip L. Reynolds, Chair
John M. Hoskins
Floyd J. Johnson

BOARD OFFICERS

Gretchen D. Thal
Chairman

Floyd J. Johnson
Vice Chairman

Randy A. Snyder
Executive Secretary

Patrick D. Brackett
Assistant Secretary and
Assistant Treasurer

Pamela K. Ramsey
Treasurer

Sue K. DePew
Assistant Treasurer

Robert G. McCall
Assistant Treasurer

Sally R. Weber
Assistant Treasurer

PROFESSIONAL ADVISORS AND INVESTMENT MANAGERS

PROFESSIONAL ADVISORS

ACTUARY
Mercer Human Resource Consulting, Atlanta

AUDITORS
Crowe Chizek and Company, LLC, Oak Brook, Ill.
PricewaterhouseCoopers LLP, Knoxville
E.H. Johnson & Company, P.C., Knoxville

INVESTMENT CONSULTANT
Wilshire Associates Incorporated, Pittsburgh

LEGAL COUNSEL
Nicholas P. Goschy, Assistant General Counsel, TVA, Knoxville
W. Colby Carter, Attorney, TVA, Knoxville

MASTER TRUSTEE
Mellon Bank, N.A., Pittsburgh

TRUSTEE – 401(k) PLAN
Fidelity Management Trust Company, Boston

MEDICAL ADVISOR
Anne S. Roberts, M.D., Knoxville

MEDICAL BOARD
Maurice S. Rawlings, M.D., Chairman, Chattanooga
Deborah D. Barton, M.D., Chattanooga
Robert W. Myers, M.D., Chattanooga

INVESTMENT MANAGERS

FIXED BENEFIT FUND
Abbott Capital Private Equity Partners IV, L.P.
Adams Street Partners, LLC
Alliance Capital Management L.P.
AQR Capital Management, LLC
Barclays Global Investors, N.A.
BlackRock Financial Management Inc.
Bridgewater Associates, Inc.
ClariVest Asset Management, LLC
David J. Greene and Company, LLC
Goldman Sachs Asset Management
HarbourVest Partners, LLC
MacKay Shields LLC
Mellon Bond Associates, LLP
Mellon Capital Management
Pacific Investment Management Company
Smith Breeden Associates Inc.
Taplin, Canida & Habacht
Wellington Management Company, LLP
Western Asset Management Company
Wilshire Associates Incorporated
W.R. Huff Asset Management Co., L.L.C.
WRH Partners Global Securities, L.P.
WRH Partners II, L.L.C.
Vedanta Capital, LLC

VARIABLE FUND
Fidelity Investments
Mellon Capital Management

Established in 1939, the TVA Retirement System (System) is a defined benefit plan (Plan) covering most full-time and part-time annual employees. The System is a separate legal entity from TVA and is administered by an independent, seven-member Board of Directors. Three of the directors are appointed by TVA, and three are elected by and from the membership. A seventh director is selected by the other six. The System Board also has responsibility for administration of a defined contribution plan, the TVA Savings and Deferral Retirement Plan [401(k) Plan].

TVA contributes to the System such amounts as are necessary on an actuarial basis to provide the System with assets sufficient to meet TVA-financed benefit obligations to be paid to members. While members are not required to make contributions to the System, members are eligible to make voluntary contributions to the System's Fixed and/or Variable Funds unless they have transferred their funds to the 401(k) Plan after May 1, 2005. Members can also contribute to the 401(k) Plan, and TVA makes matching contributions to that plan.

RETIREMENT BENEFITS

A member's retirement benefit consists of a pension benefit derived from TVA's contributions and earnings on Plan assets. A member's retirement benefit may also include an annuity and/or a lump-sum benefit derived from the member's contributions to the Fixed and/or Variable Funds and the 401(k) Plan. The pension plus the annuity, if applicable, compose the System's retirement allowance. In addition, the System provides a supplemental benefit to eligible retirees that may be used to help with the cost of medical insurance.

ORIGINAL BENEFIT STRUCTURE

The pension from the Original Benefit Structure is based on the member's years (to the nearest month) of creditable service, highest average base pay during any three consecutive years of creditable service, and a pension factor, less a Social Security offset.

Creditable service is the length of time spent as a member of the System. It also includes any annual leave forfeited after January 1, 1980, and, at the member's election, the total balance of any unused sick leave. Leave is counted hour for hour for the first 1,000 hours and 2 hours for each hour in excess of 1,000 hours (2,080 hours equates to one year of creditable service). Forfeited annual leave and unused sick leave may be used in determining both the amount of the benefit and the eligibility for retirement. Creditable service may also include previous periods of membership in the System, certain military service, and some periods of leave without pay.

Members with at least five years of creditable service who are at least attained age 55 are always eligible to receive an immediate benefit. Vested members less than attained age 55 may also receive an immediate benefit unless they are terminated for cause. Members who are at least actual age 45 at retirement and whose age plus creditable service equals 80 or more receive the maximum pension factor of 1.3. Vested members who are at least attained age 60 at the time they begin to receive their pension also receive the maximum pension factor even if their age plus creditable service does not equal 80.

CASH BALANCE BENEFIT STRUCTURE

The System implemented the Cash Balance Benefit Structure for employees who became members on or after January 1, 1996, with no prior System membership. Employees rehired by TVA after a break in service of 180 or more consecutive days and who were participants in the Original Benefit Structure when they were last employed are given an opportunity to participate in the Cash Balance Benefit Structure when they are rehired or at the time they become eligible for System membership.

The Cash Balance Benefit Structure provides a TVA-funded pension benefit based on the balance of the cash balance account established for each member and a conversion factor based on the member's age (to the nearest month). This cash balance account receives pay credits each pay period equal to 6 percent of compensation, as well as interest credits each month at the rate established by the Board each January 1. The interest rate is determined by calculating the percentage change of the 12-month average of the Consumer Price Index (CPI) for the period ending the previous October 31 over the preceding 12-month period, plus 3 percent. The System has established a minimum annual interest rate of 6 percent and a maximum annual interest rate of 10 percent for interest credits. The annual interest rate was 6.43 percent for calendar year 2007 and 6.37 percent for calendar year 2006.

Cash balance service is the length of time spent as a member of the System. It does not include credit for unused sick leave, forfeited annual leave, or pre-TVA employment military service. Cash balance service may include previous periods of membership in the System and some periods of leave without pay.

Members with at least five years of cash balance service who are at least age 55 are always eligible to receive an immediate benefit. Vested members who are less than age

55 may also receive an immediate benefit unless they are terminated for cause.

SUPPLEMENTAL BENEFIT

If upon retirement a member meets the eligibility criteria, the member will receive a supplemental benefit regardless of the member's benefit structure. This benefit is provided to eligible retirees and eligible surviving spouses to assist with the cost of their medical insurance, although it is not required to be used to pay for medical insurance.

LEVEL INCOME PLAN

Regardless of the member's benefit structure, if a member chooses the level income plan, the System will increase the TVA pension benefit until age 62, when early Social Security payments may first begin. When the member reaches age 62, the level income plan increase stops and the member's TVA pension benefit is permanently reduced. To be eligible for the level income plan, a member must be under age 62 and must have earned enough quarters of Social Security coverage at the time of retirement to be eligible for a Social Security benefit at age 62.

FIXED AND VARIABLE FUNDS AND 401(K) PLAN

During Employment

The Fixed and Variable Funds provide two after-tax investment options to members. These funds are available to members unless they have transferred their funds to the 401(k) Plan after May 1, 2005. The Fixed Fund earns a specified rate of interest set by the System's Board of Directors. The Variable Fund is invested in the Fidelity Spartan U.S. Equity Index Fund. Employees participating in the Variable Fund purchase shares in the Fidelity Spartan U.S. Equity Index Fund, which is invested in the stocks of companies included in the S&P 500 Composite Stock Price Index.

Members are also permitted to transfer their contributions between the Fixed Fund and the Variable Fund once per calendar month and may, at any time during employment, transfer their entire balance to the 401(k) Plan. Members who transfer their funds to the 401(k) Plan after May 1, 2005, are no longer eligible to contribute to the Fixed and Variable Funds. Prior to retirement, those who first became members before January 1, 1996, may transfer all or any portion of their after-tax balance(s) in the 401(k) Plan to the System to receive monthly payments.

In addition, members may elect to participate in the 401(k) Plan on a before-tax, after-tax, and/or Roth basis. TVA provides 401(k) Plan employer matching contributions for participating members. The amount of this match for Cash Balance Benefit Structure participants is 75 cents on every dollar contributed up to a maximum of 4.5 percent of fiscal year-to-date earnable compensation. The amount of this match for Original Benefit Structure participants is 25 cents on every dollar contributed up to a maximum of 1.5 percent of fiscal year-to-date earnable compensation. Members are vested in the TVA matching contributions after three years of actual Retirement System service. During employment, members are also permitted to roll over funds from certain other retirement plans and IRAs into the 401(k) Plan.

Investment options available through the 401(k) Plan have varying degrees of risk and potential return.

In calendar year 2007, contributions to the Fixed Fund, Variable Fund, and 401(k) Plan, including TVA matching contributions, could not exceed the lesser of $45,000 or 100 percent of calendar year-to-date compensation. Additionally, before-tax and/or designated Roth contributions could not exceed the annually published IRS maximum ($15,500 for 2007). Employees who were age 50 or older were allowed to make additional before-tax and/or designated Roth contributions, allowing them to "catch up" on their retirement savings. For 2007, the catch-up amount was $5,000 over and above contribution limits and could not begin until the before-tax and/or designated Roth contribution limit was reached. These IRS limits may increase annually according to the IRS cost-of-living adjustment rules. Contributions to the Fixed Fund and/or the Variable Fund are limited by the Rules and Regulations of the Retirement System (Rules) to $10,000 per calendar year or 100 percent of calendar year-to-date compensation.

After Retirement

Those who first became members before January 1, 1996, may receive a monthly annuity payment from the Fixed Fund, the Variable Fund, or both. Annuity payments from the Fixed Fund are based on a specified rate of interest set by the System's Board of Directors. Members who elect to receive an annuity payment from the Variable Fund will have their shares in the Fidelity Spartan U.S. Equity Index Fund redeemed and the proceeds used to purchase units in the Variable Fund. The monthly annuity payments will vary based on the value of these units. The investment strategy of the Variable Fund is the same as the Fidelity Spartan U.S. Equity Index Fund. Retired members may elect to transfer their entire fund balance(s) between the Fixed Fund and the Variable Fund once every 12 months.

Those who first became members on or after January 1, 1996, must withdraw or roll over their total balance from the Fixed and/or Variable Funds when their employment ends.

SOCIAL SECURITY

A retired member may be eligible to receive Social Security benefits at age 62, or earlier for disability. The Social Security Administration determines eligibility for Social Security benefits.

SURVIVOR OPTIONS

At Retirement

A member decides whether to take the maximum monthly retirement allowance during the member's lifetime, with nothing payable after death, or to take a reduced amount and provide benefits for a survivor.

Each of the various survivor options is the actuarial equivalent of the maximum retirement allowance. Married members who first become members of the System after January 1, 1990, must designate their spouse as beneficiary to receive a survivor benefit as specified by the Rules governing the defined benefit plan, or receive their spouse's written consent to select a different survivor option at retirement.

After Retirement

Retirees who marry or remarry after commencement of their retirement allowance may elect to designate their new spouse for either a 50 percent or 100 percent survivor benefit.

Retirees have 90 days from the date of such marriage or remarriage to elect this second survivor benefit. This election and actuarial reduction to the retirement benefit would be effective the first day of the month following the first anniversary of the marriage or remarriage. Previous survivor benefit elections remain in effect for any designated beneficiary whose life expectancy has been used as a factor in determining the amount of the retiree's benefit.

DISABILITY BENEFITS

A vested member may be retired on disability retirement if it is determined that the member cannot continue to work in the member's present position because of a physical or mental disability that is likely to be permanent and there is no other TVA position available for which the member is qualified and can perform with the member's medical restrictions.

DEATH BENEFITS

During Employment

The designated beneficiary or the estate of a member who dies during employment will receive the member's accumulated contributions, if applicable, and a benefit funded by TVA's contributions.

After Retirement

Upon the death of a member after retirement, the benefits payable (if any) depend upon the survivor option selected.

COST-OF-LIVING INCREASES

Eligible retirees receive cost-of-living increases on the pension benefit portion of the monthly retirement (exclusive of level income plan) in January following any year in which the 12-month average of the CPI exceeds by as much as 1 percent the CPI average for the preceding year. The amount of the adjustment is the percentage increase in the CPI, up to 5 percent in any one year. The System's Board may, with the approval of the TVA Board, apply an increase greater than 5 percent. The cost-of-living increase was 3.43 percent in calendar year 2007 and 3.37 percent in calendar year 2006.

Eligible retirees and beneficiaries on the retirement payroll on or before January 1 receive the cost-of-living increase. If an original benefit structure member retires after January 1, that member's pension will be at least as much as it would have been on January 1 with the cost-of-living increase if the member was eligible to retire on January 1.

The supplemental benefit will also receive the annual cost-of-living increase until it reaches the maximum as specified in the Rules, at which time the cost-of-living increases will stop.

ADMINISTRATIVE EXPENSES

The System's Fixed Benefit Fund assets are used to pay for all eligible administrative expenses.

DOMESTIC RELATIONS ORDER

The System honors a Domestic Relations Order (DRO) that assigns a portion of the member's benefits to a former spouse if the DRO complies with the System's DRO procedures. DROs otherwise in compliance with those procedures are only effective if they are the result of a marriage that was terminated by a final order of divorce or annulment dated on or after January 1, 2003.

The DRO procedures allow a lump-sum distribution to a former spouse from a member's existing Fixed Fund, Variable Fund, and/or 401(k) Plan accounts. A DRO can also provide a recurring monthly benefit to a former spouse which begins upon the member's retirement and receipt of monthly retirement benefits. The payments continue only until the death of the retiree or former spouse. Survivor benefits are determined solely in accordance with System Rules and the member's beneficiary designations, and they cannot be affected in any way by a DRO.

TAX STATUS

The Internal Revenue Service (IRS) has determined and informed the System in March 2003 that the Plan and the 401(k) Plan are designed in accordance with the applicable sections of the Internal Revenue Code. The Plan and the 401(k) Plan have been amended subsequent to the receipt of the latest IRS determination letter. However, the Plan administrator and the Plan's tax counsel believe that the Plan and the 401(k) Plan are currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been included in these financial statements.

As plans maintained for employees of an agency of the Federal government, the Plan and the 401 (k) Plan are governmental plans within the meaning of Section 3(32) of the Employee Retirement Income Security Act (ERISA). For the most part, governmental plans are excluded from ERISA, which governs private employer pension plans. The Plan and the 401 (k) Plan are also governmental plans within the meaning of Section 414(D) of the Internal Revenue code (IRC) and, as a result, are exempt from the requirements of the IRC that parallel those contained in ERISA.

PLAN TERMINATION

In the event the Plan is terminated, the net assets of the Plan will be allocated generally to provide benefits in the following order: (1) Fixed and Variable Fund benefits based upon members' contributions, (2) nonforfeitable benefits based upon TVA's contributions (defined benefit portion of the Plan), and (3) if feasible, cost-of-living increases thereto. The Plan benefits are not guaranteed by the Pension Benefit Guaranty Corporation.

This summary is intended to help members understand the System and its benefits under the Plan and the 401(k) Plan. The rules governing these plans, not this summary, are used to determine the benefits to which a member is entitled. For additional information about your Retirement System benefits, please contact Retirement Services at the location or numbers listed at the end of this report.

CERTIFICATION OF FINANCIAL STATEMENTS

Randy A. Snyder and Patrick D. Brackett individually certify that:

1. I have reviewed the Financial Statements of the Tennessee Valley Authority Retirement System.

2. Based on my knowledge, the information in the Financial Statements does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by the Financial Statements.

3. Based on my knowledge, the Financial Statements and other financial information included in the Annual Report fairly present in all material respects the financial condition, results of operations, and cash flows of the Tennessee Valley Authority Retirement System as of, and for, the periods presented in the Financial Statements.

4. The other officer of the Tennessee Valley Authority Retirement System listed below and I are responsible for establishing and maintaining disclosure controls and procedures for the Tennessee Valley Authority Retirement System and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Tennessee Valley Authority Retirement System is made known to us by others, particularly during the period in which these Financial Statements are being prepared;

   b) evaluated the effectiveness of the Tennessee Valley Authority Retirement System's disclosure controls and procedures as of a date within 90 days prior to the date of the Financial Statements; and

5. I and the other officer of the Tennessee Valley Authority Retirement System listed below have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Tennessee Valley Authority Retirement System's auditors:

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting that are reasonably likely to adversely affect the Tennessee Valley Authority Retirement System's ability to record, process, summarize, and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Tennessee Valley Authority Retirement System's internal control over financial reporting.

Date: March 6, 2008

Randy A. Snyder
Executive Secretary

Patrick D. Brackett
Assistant Secretary

Crowe

Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS

Participants and Administrator of
Tennessee Valley Authority Retirement System
Knoxville, Tennessee

We have audited the accompanying statement of net assets available for benefits of the Tennessee Valley Authority Retirement System as of September 30, 2007, and the related statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit. The statement of net assets available for benefits of the Tennessee Valley Authority Retirement System as of September 30, 2006 and the related statement of changes in net assets available for benefits for the year then ended were audited by other auditors whose report dated April 30, 2007 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2007 financial statements referred to above present fairly, in all material respects, the financial status of the Plan as of September 30, 2007, and the changes in its financial status for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Oak Brook, Illinois
March 6, 2008

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

September 30, 2007 and 2006

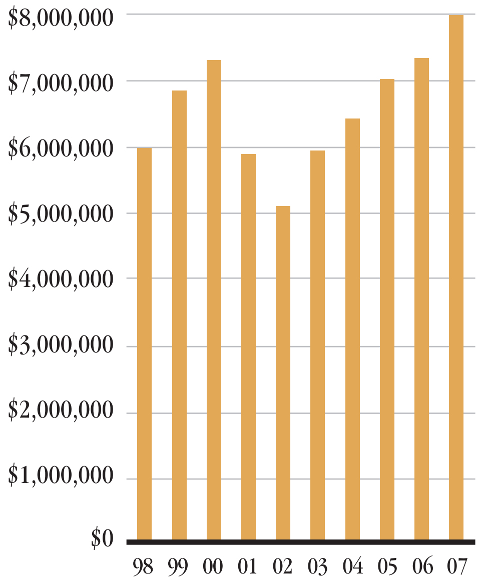
(Dollars in thousands)	**2007**	2006
Assets		
Investments at estimated fair value		
Corporate bonds	**$ 2,575,407**	$ 2,566,719
Commingled funds	**2,456,714**	1,520,778
Cash equivalents	**557,185**	727,822
Government bonds	**433,406**	442,705
Limited partnerships	**347,751**	207,377
Treasury bills and U.S. government notes held as futures collateral	**67,743**	70,681
Securities held as options collateral	**3,183**	5,748
Unrealized appreciation on forwards, options, and swaps	**14,103**	7,948
Total Investments at estimated fair value	**6,455,492**	5,549,778
Investments at quoted fair value		
Common stocks	**2,078,597**	2,121,840
Securities lending commingled funds (see Notes 4 and 16)	**868,039**	783,611
S&P 500 Stock Index Fund	**103,811**	103,538
Preferred stocks	**28,510**	25,459
Total Investments at quoted fair value	**3,078,957**	3,034,448
Total Investments	**9,534,449**	8,584,226
Receivables		
Foreign currency forward receivable	**1,187,886**	830,640
Due from broker	**207,446**	74,845
Interest and dividends	**35,523**	34,729
Other	**756**	554
Variation margin on futures contracts receivable	**206**	0
Total Receivables	**1,431,817**	940,768
Cash	**0**	339
Total assets	**10,966,266**	9,525,333
Liabilities		
Due to broker	**633,871**	339,881
Unrealized depreciation on forwards, options, and swaps	**33,640**	3,531
Investment fees payable	**8,300**	6,800
Disbursements payable	**5,933**	3,654
Other	**5,174**	2,368
Variation margin on futures contracts payable	**5,059**	900
Written options obligation	**4,189**	4,156
Total payable	**696,166**	361,290
Foreign currency forward payable	**1,187,886**	830,640
Liabilities to brokers for securities lending (see Notes 4 and 16)	**868,039**	783,611
Total liabilities	**2,752,091**	1,975,541
Net Assets Available for Benefits	**$ 8,214,175**	$ 7,549,792

The accompanying notes are an integral part of the financial statements.

FIXED BENEFIT FUND

Net Assets Available For Benefits

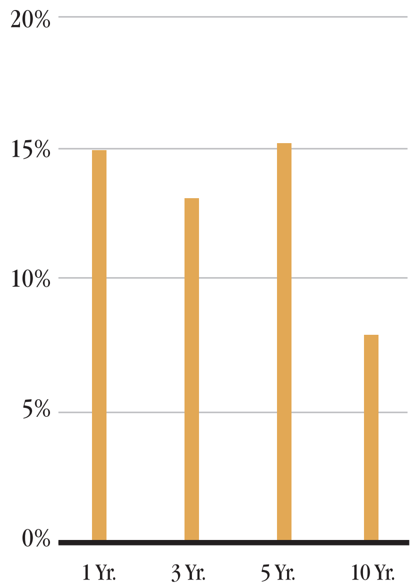
(in thousands)



This chart is unaudited and intended for informational purposes only.

FIXED BENEFIT FUND

Annualized Rate of Return



This chart is unaudited and intended for informational purposes only.

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Fiscal Years Ended September 30, 2007 and 2006

(Dollars in thousands)	**2007**	2006
Investment Income		
Net appreciation in fair value of stocks, bonds, and other investments	**$ 759,721**	$ 391,976
Net appreciation in fair value of derivative investments	**62,888**	61,490
Net appreciation in fair value of investments	**822,609**	453,466
Interest	**210,355**	189,316
Dividends	**61,222**	50,914
	1,094,186	693,696
Less Investment Expenses	**35,776**	30,135
	1,058,410	663,561
Contributions		
TVA	**75,182**	75,026
Members	**37,473**	38,467
Transfers from 401(k) Plan	**8,730**	7,151
	121,385	120,644
Total increase	**1,179,795**	784,205
Benefits, Transfers, and Expenses		
Retirement benefits – Fixed Benefit Fund	**481,018**	442,605
Retirement benefits – Variable Fund	**15,100**	14,319
Transfers to 401(k) Plan	**14,658**	14,355
Administrative expenses	**4,636**	4,577
Total benefits, transfers, and expenses	**515,412**	475,856
Net increase	**664,383**	308,349
Net Assets Available for Benefits		
Beginning of year	**7,549,792**	7,241,443
End of year	**$ 8,214,175**	$ 7,549,792

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

Note 1
GENERAL PLAN DESCRIPTION

The TVA Retirement System (System) is a defined benefit plan (Plan) covering most full-time and part-time annual employees. The System is administered by an independent, seven-member Board of Directors that also administers a defined contribution plan, the TVA Savings and Deferral Retirement Plan [401(k) Plan]. The System provides retirement, disability, and death benefits. There are two benefit structures within the Plan: the Original Benefit Structure and the Cash Balance Benefit Structure. New members hired on or after January 1, 1996, with no prior System membership, must participate in the Cash Balance Benefit Structure. Employees who were members of the System as of December 31, 1995, were given the opportunity to either participate in the Cash Balance Benefit Structure or to remain in the Original Benefit Structure.

There are two investment funds within the Plan: the Fixed Benefit Fund and the Variable Fund. TVA contributes to the Fixed Benefit Fund such amounts as are necessary on an actuarial basis to provide the System with assets sufficient to meet TVA-financed benefit obligations to be paid to members. Members have a choice of making contributions to the Fixed Fund within the Fixed Benefit Fund, the Variable Fund, or both, unless these funds were transferred to the 401(k) Plan on or after May 1, 2005. Members who have elected to make this transfer on or after May 1, 2005, are not eligible to make contributions to the Fixed Fund or the Variable Fund.

TVA's contributions are deposited in the Fixed Benefit Fund. Contributions in the Fixed Fund for those who first became members before January 1, 1996, were credited an annual rate of interest of 8.5 percent for the 2007 calendar year and 9 percent for calendar year 2006. Contributions in the Fixed Fund for those who first became members on or after January 1, 1996, or for members who transferred their Fixed and/or Variable Fund balance to the 401(k) Plan prior to May 1, 2005, were credited an annual rate of interest of 7.25 percent for the calendar years 2007 and 2006. Members' contributions to the Variable Fund are invested in an S&P 500 Stock Index Fund.

For participants in the Cash Balance Benefit Structure, TVA provided matching contributions of 75 cents on every dollar contributed to the 401(k) Plan on a before- and/or after-tax basis, with maximum matching contributions of 4.5 percent of fiscal year-to-date earnable compensation. Participants in the Original Benefit Structure received employer matching contributions of 25 cents on every dollar contributed to the 401(k) Plan on a before- and/or after-tax basis, with maximum matching contributions of 1.5 percent of fiscal year-to-date earnable compensation.

Benefits are provided in the form of a pension funded by TVA contributions and, if eligible, an annuity derived from the members' contributions. The Fixed Benefit Fund contains assets for funding of both the pension and fixed annuity with the net assets available for benefits being allocated between members' and TVA's contributions (see note on Net Assets Available for Benefits). The Variable Fund is discussed in Note 23.

A more detailed description of contributions, benefits, vesting, and funding is available from the TVA Retirement System.

Note 2
SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting.

Valuation of Investments

Mellon Bank, N.A. (Mellon Bank) serves as the Master Trustee (Trustee) of the Plan and accounts for the entire portfolio. As Trustee, Mellon Bank has entered into agency agreements on behalf of the Plan to provide custody services and obtains accounting information from these agents as follows:

	Percent of Total Investments	
Agent	**FY 2007**	**FY 2006**
Barclays Global Investors	10.1%	8.6%
Wellington Management Company	4.3	N/A
State Street Bank	3.1	2.3
Black Rock Financial Management	2.2	N/A
Fidelity Investments (see Note 18)	1.1	1.2

Investment securities, other than debt securities, listed on either a national or foreign securities exchange or traded in the over-the-counter National Market System are generally valued each business day at the official closing price (typically the last reported sale price) on the exchange on which the security is primarily traded. If there are no current day sales, the securities are valued at their last quoted bid price. Other securities traded over-the-counter and not part of the National Market System are valued at their last quoted bid price.

Debt securities (other than certain short-term obligations) are valued each business day by an independent pricing service or broker approved by the Trustee.

The Plan's investments in any investment companies, unit investment trust, or similar investment funds are valued at their closing net asset values (or unit value) per share. Interests in private equity partnerships or other non-publicly traded private investment vehicles are valued at fair value by the Trustee, which generally is the Plan's pro rata interest in the net assets of these entities, as reported by the sponsors of such investment vehicles. Valuations may be modified by the Trustee, if necessary, to reflect the appropriate estimated fair value.

Any other securities for which market quotations are not readily available are valued at their fair value as determined in good faith by the Trustee. There are inherent limitations in any estimation technique, and the amounts realized in a subsequent sale may differ from the amounts recorded. Such difference may be material. A summary of investments is provided at Note 11.

In fiscal year 2007, the Board changed the asset allocation policy to:

- 65 percent equities, of which 25 percent may be international (non-United States) equities (as measured as a percentage of the total fund), 5 percent may be private equity or other similar alternative investments (as measured as a percentage of the total fund), and 5 percent may be private real estate (as measured as a percentage of the total fund), but not to include holding title to real property
- 35 percent fixed income, of which 15 percent may be alternative fixed income strategies (as measured as a percentage of the total fund) and 5 percent may be high yield (as measured as a percentage of the total fund).

The Board adopted the revised asset allocation policy with a permissible 3 percent deviation, either plus or minus, from these target allocations.

Cash and Cash Equivalents

The Plan considers all highly liquid securities with a maturity of less than three months to be cash equivalents.

Investment Income

The System presents in the Statements of Changes in Net Assets Available for Benefits the net appreciation (depreciation) in the fair value of its investments, which consists of both realized gains (losses) and the unrealized appreciation (depreciation) on those investments. Purchases and sales of securities are recorded on a trade-date basis. Gains and losses on the sales of investments are determined as the difference between sales proceeds and historical cost, which is determined by average cost. Interest income is reported on the accrual basis. Dividends are recorded on the ex-dividend date. Capital gain distributions are included in dividend income.

Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of net assets available for benefits and participants' individual account balances.

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates, and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimation and assumption processes, it is at least reasonably possible that changes in these estimates and assumptions in the near term could materially affect the amounts reported and disclosed in the financial statements.

Tax Status

The Internal Revenue Service (IRS) has determined and informed the System in March 2003 that the Plan is designed in accordance with the applicable sections of the Internal Revenue Code. The Plan has been amended subsequent to the receipt of the latest IRS determination letter. However, the Plan administrator and the Plan's tax counsel believe that the Plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been included in these financial statements.

As plans maintained for employees of an agency of the Federal government, the Plan is a governmental plan within the meaning of Section 3(32) of ERISA. For the most part, governmental plans are excluded from ERISA, which governs private employer pension plans. The Plan is also a governmental plan within the meaning of Section 414(D) of the IRC and, as a result, is exempt from the requirements of the IRC that parallel those contained in ERISA.

Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date(s) of the financial statements and the reported amounts of revenues and expenses during the reporting period(s). Management also uses estimates in determining the actuarial present value of accumulated Plan benefits and the changes in actuarial present value of accumulated Plan benefits. Actual results could differ from those estimates.

Reclassification

Certain reclassifications have been made to the financial statements for 2006 to conform to the 2007 financial statement presentation.

Note 3
DERIVATIVE FINANCIAL INSTRUMENTS

The Plan is party to derivative financial instruments, including futures contracts, in its normal course of business. Under the derivative policy, investment managers may not use derivative financial instruments to fundamentally change the risk/return profile of their portfolios relative to their benchmarks. Additionally, these managers cannot invest in asset classes that are inconsistent with the benchmarks of their strategies. Derivative strategies are comparable to strategies employed by the managers in their individual portfolios. To some extent they expose the Plan to market and credit risk. The credit risks associated with these instruments are controlled through the evaluation and continual monitoring of the creditworthiness of the counter parties. In the event that a counter party fails to meet the terms of a contract or agreement, the Plan's exposure should be limited to the currency rate differential or futures contract differential. The Plan approves the use of derivatives by its managers on a case-by-case basis with written guidelines which are then monitored through regular financial reporting requirements, and, where appropriate, the Plan requires the managers to implement master netting agreements to further reduce counter party exposure. Such contracts and agreements have been executed with creditworthy counter parties. As such, the Plan considers the risk of nonperformance to be remote. Futures contracts are used as a substitute for a similar physical security. These financial instruments are held by the Trustee. Futures and options are listed on either a national or foreign securities exchange and generally valued each business day at the official closing price (typically the last reported sales price) on the exchange on which the security is primarily traded. Options are entered into for investment and hedging purposes. Interest rate swap contracts are priced at market using forward rates derived from the swap curve. The pricing is performed by third-party vendors. A summary of the Plan's open futures and options contracts/variation margin as of September 30, 2007 and 2006, is provided at Note 12. Also, a summary of swap contracts is provided at Notes 13 through 15.

As part of its investment program, the Plan may utilize forward currency exchange contracts to a limited extent when deemed prudent by discretionary investment managers in connection with purchases and sales of securities. All commitments are marked to market daily at the applicable translation rates, and any resulting unrealized gains or losses are recorded. The notional amounts are not recorded in the Statement of Net Assets and are properly disclosed in Note 16. Realized gains or losses are recorded at the time the forward contract matures or by the delivery of the currency. The Plan will enter into forward contracts for investment and hedging purposes. A summary of the Plan's forward currency exchange contracts as of September 30, 2007 and 2006, is provided at Note 16.

Note 4
SECURITIES LENDING

The Plan may lend portfolio securities to qualified institutions. Loans are secured by collateral at least equal to 102 percent (105 percent for international securities) of the market value of the securities loaned. The Plan generally receives cash as collateral for securities lending, but it may also receive investment grade securities or interest in tri-party accounts containing investment grade securities. Cash received is invested in a commingled fund of various short-term investments where the maximum weighted average maturity of the fund is 90 days and organized and managed by Mellon Global Securities Services (MGSS), which is limited to investment activities incidental to or in support of the securities lending program organized and managed by MGSS. The Plan does not have the right to sell or re-pledge securities or interest in tri-party accounts received as collateral. The Plan receives a portion of the income earned on the collateral and also continues to earn income on the loaned securities. Any gain or loss in the market price of the securities loaned that may occur during the term of the loan will be for the account of the Plan. The lending agent provides the Plan with indemnification against losses due to borrower default. The Plan bears the risk of loss only with respect to the investment of any cash collateral. A summary of securities currently out on loan and the related collateral is provided at Note 17.

Note 5
PRIVATE EQUITY INVESTMENTS

The asset allocation policy provides that 5 percent of the domestic equity allocation may be invested in private equity limited partnerships or other similar alternative investments but not to include holding title to real property. The 5 percent is measured as a percentage of the total investments. The private equity limited partnerships and other similar alternative investments are reported at market value, which is based on market quotations if available. For investments where no readily ascertainable market value exists, funds are valued by independent appraisals or investment management judgment.

The private equity managers recognize realized gains or losses when they receive income or dispose of an investment.

The net realized capital gains or losses, which include management fees and fund expenses, are allocated to the partners in proportion to their commitments.

In fiscal year 2007, the private equity investments were 18 funds valued at $347.8 million with commitments of $615 million and 20.5 million in Euro dollars ($29.2 million USD). In fiscal year 2006, the private equity investments were 15 funds valued at $207.4 million with commitments of $590 million and 20.5 million in Euro dollars ($26 million USD). Please see Note 6 on Commitments and Contingencies. Gains and losses from the foreign currency exchange are reflected in the statement of changes in net assets available for benefits.

Note 6
COMMITMENTS AND CONTINGENCIES

The Plan has made commitments to various limited partnerships. As of September 30, 2007, the commitments consisted of $615 million and 20.5 million Euros ($29.2 million USD) with capital outlays of approximately $314.8 million and 5.9 million Euros ($7.8 million USD). The remaining amount to be funded on capital commitments was approximately $300.2 million and 14.6 million Euros ($20.7 million USD). As of September 30, 2006, the commitments consisted of $590 million and 20.5 million Euro dollars ($26 million USD). The capital outlays were approximately $187.9 million and 1.2 million Euros ($1.5 million USD), resulting in a remaining amount to be funded on capital commitments of approximately $402.1 million and 19.3 million Euros ($24.5 million USD). The investment partnerships request capital outlays as business opportunities arise.

Note 7
MEMBER CONTRIBUTIONS

Eligible members may voluntarily contribute to either the Fixed Fund, the Variable Fund, or both. Federal income tax is deferred on earnings until annuity payments start or withdrawals are made. Members are also permitted to transfer their contributions between the Fixed Fund and the Variable Fund once per calendar month and may, at any time during employment, transfer their entire balance to the 401(k) Plan. Members who transfer their balance to the 401(k) Plan on or after May 1, 2005, are no longer eligible to contribute to the Fixed Fund or the Variable Fund. Upon retirement, those who first became members before January 1, 1996, may transfer all or any portion of their after-tax balance in the 401(k) Plan to the Fixed Fund and/or Variable Fund to receive monthly payments.

Note 8
EMPLOYER CONTRIBUTIONS

The funding method for the Plan is established solely under the System's Rules and Regulations (Rules). The minimum required funding method calls for TVA's rate of contribution in a fiscal year to be not less than the sum of the normal contribution (the long-term annual weighted average cost of benefits excluding cost-of-living adjustments), the accrued liability contribution (an amortized portion of the Plan's deficit or surplus based on the value of benefits excluding cost-of-living adjustments), and a cost-of-living contribution (an amount to fund cost-of-living adjustments earned in the past and presently payable).

Under the Rules, TVA may utilize a portion of a reserve account, which consists of contributions made by TVA in excess of the minimum required under the Rules, to offset the cost-of-living contribution component of the minimum required funding method. In addition, TVA's contribution rate for a fiscal year may be reduced or eliminated, upon the System Board's recommendation, if the market value of the Plan's assets exceeds the present value of accrued Plan benefits on the Plan's last valuation date.

Note 9
AMENDMENTS TO THE RULES AND REGULATIONS

Under the Pension Protection Act passed by Congress in August 2006, IRS rules were amended to allow a non-spouse beneficiary to roll over any eligible lump-sum distribution from a qualified pension plan to an inherited individual retirement account (IRA), which allows the non-spouse beneficiary to further defer receipt of and taxation on the distributions and to control the investment of those funds on a going-forward basis. During fiscal year 2007, the System Board approved amendments to the Rules allowing for non-spouse beneficiary rollovers to inherited IRAs.

For calendar year 2007, the Fixed Fund interest rate was reduced to 8.5 percent from 9 percent. The fixed interest rate will be reduced 50 basis points each year until it reaches a rate equaling the expected rate of return on Plan investments minus 50 basis points.

Wages and salaries, in determining pension benefits at retirement, now include certain lump-sum payments made in lieu of base wage or salary increases for fiscal years 1998 through 2008. Wages and salaries also now include lump-sum payments for certain TVA performance incentive plans beginning in fiscal year 2000.

Note 10
ACTUARIAL ASSUMPTIONS

Accumulated benefits are those future periodic payments, including single-sum payments, that are attributable under the Plan to the service members have rendered and contributions members have made. Accumulated benefits include benefits expected to be paid to (1) retired or terminated members or to their beneficiaries, (2) beneficiaries of members who have died, and (3) current members or their beneficiaries.

Pension benefits under the Plan's Original Benefit Structure are based on members' years (to the nearest month) of creditable service, highest average base pay during any three consecutive years of creditable service, and a pension factor, less a Social Security offset. Calculations of the accumulated pension benefits for active employees are based on their average compensation during the last three years ending on the valuation date.

Pension benefits under the Plan's Cash Balance Benefit Structure are based on pay credits and interest credits which accumulate over the members' cash balance service. Pay credits accumulate at a rate equal to 6 percent of members' compensation, and interest is credited each month at the rate established by the Board each January 1. The interest rate is determined by calculating the percentage change of the 12-month average of the Consumer Price Index (CPI) for the period ending the previous October 31 over the preceding 12-month period, plus 3 percent. The System has established a minimum annual interest rate of 6 percent and a maximum annual interest rate of 10 percent for interest credits. The interest rate was 6.43 percent in 2007 and 6.37 percent in 2006.

Benefits payable under all circumstances – retirement, death, disability, and termination of employment – are included to the extent they are deemed attributable to members' service rendered to the valuation date.

The actuarial present value of accumulated benefits is determined by the System's Actuary, Mercer Human Resource Consulting, and is that amount that results from applying actuarial assumptions to adjust the accumulated benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawals, or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuations as of September 30, 2007 and 2006, were:

A. Life expectancy of participants – the 1983 Group Annuity Table for 2007 and 2006
B. Interest rate – 7.75 percent annually for 2007 and 2006
C. Retiree cost-of-living increases – 2.5 percent annually for 2007 and 2006
D. Annual rates of retirements – the assumptions for fiscal years 2007 and 2006 were:

Attained Age	Annual Rates of Retirement
45-50	2%
51-54	3%
55	5%
56	6%
57	7%
58	8%
59-60	10%
61	25%
62	35%
63-64	25%
65	100%

The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated benefits.

ACCUMULATED BENEFITS

The estimated actuarial present value of accumulated benefits for the System payable from the Fixed Benefit Fund is as follows:

September 30, 2007 and 2006

(Dollars in thousands)	**2007**	2006
Vested benefits		
Participants currently receiving benefits	**$ 4,639,300**	$ 4,284,300
Active participants	**2,566,500**	2,636,600
Deferred benefit participants	**126,700**	100,400
Total	**7,332,500**	7,021,300
Nonvested benefits	**34,800**	35,600
Total estimated actuarial present value of accumulated benefits payable from the Fixed Benefit Fund	**$ 7,367,300**	$ 7,056,900

The changes in the estimated actuarial present value of accumulated benefits for the System payable from the Fixed Benefit Fund are as follows:

Fiscal Years Ended September 30, 2007 and 2006

(Dollars in thousands)	**2007**	2006
Actuarial present value of accumulated benefits payable from the Fixed Benefit Fund at beginning of year	**$ 7,056,900**	$ 6,770,000
Increase during the year attributable to:		
Additional benefits accumulated and actuarial gains and losses	**268,000**	227,800
Interest due to decrease in the discount period	**528,100**	507,300
Benefits paid to participants	**(485,700)**	(448,200)
Actuarial present value of accumulated benefits payable from the Fixed Benefit Fund at end of year	**$ 7,367,300**	$ 7,056,900

Note 11
INVESTMENTS

The following summarizes the investments of the Plan at September 30, 2007 and 2006.

(Dollars in thousands)	**2007**	2006
Corporate bonds, at fair value		
Domestic		
Mortgage backed securities	**$ 1,007,126**	$ 803,242
Industrial	**452,820**	485,974
Financial	**346,485**	289,764
Asset backed securities	**172,041**	202,867
Utilities	**106,584**	122,186
Other	**45,243**	43,940
Convertible	**3,898**	4,835
International		
Europe	**294,054**	252,066
Canada	**68,153**	69,045
South America	**17,920**	19,215
Asia	**22,976**	17,480
Mexico	**7,917**	14,513
Other Countries	**30,190**	241,592
Total corporate bonds, at fair value	**2,575,407**	2,566,719
Commingled funds	**2,456,714**	1,520,778
Common stocks, at fair value		
Domestic		
Technology	**343,682**	297,416
Financial	**228,657**	291,669
Consumer Non-Durables	**225,665**	270,004
Health Care	**185,807**	194,688
Capital Goods	**153,573**	176,580
Energy	**140,388**	123,080
Other	**65,893**	94,342
Basic Industries	**53,993**	77,926
Utilities	**43,015**	68,415
Transportation	**36,343**	39,043
Consumer Durables	**9,845**	15,977
International		
Europe	**343,117**	252,980
Asia	**131,529**	153,473
Other Countries	**117,090**	66,247
Total common stocks, at fair value	**2,078,597**	2,121,840
Securities lending commingled fund	**868,039**	783,611
Cash equivalents	**557,185**	727,822
U.S. government bonds	**433,406**	442,705
Limited partnerships	**347,751**	207,377
S&P 500 Stock Index Fund	**103,811**	103,538
Treasury bills and U.S. government notes held as futures collateral	**67,743**	70,681
Preferred stocks, at fair value	**28,510**	25,459
Unrealized appreciation on forwards, options, and swaps	**14,103**	7,948
Securities held as options collateral	**3,183**	5,748
Total	**$ 9,534,449**	$ 8,584,226

Note 12
FUTURES AND OPTIONS CONTRACTS

The following summarizes the futures and options contracts of the Fixed Benefit Fund at September 30, 2007 and 2006.

(Dollars in thousands)	**2007**		2006	
	Contracts Long (Short)	**Unrealized Appreciation (Depreciation)**	**Contracts Long (Short)**	**Unrealized Appreciation (Depreciation)**
Futures Contracts				
Equity Futures				
S&P 500 Index Futures	**3,747**	**$ (2,963)**	4,168	$ (1,054)
Russell 2000 Index Futures	**1,621**	**(1,232)**	0	0
International Index Futures	**938**	**(139)**	936	127
Commodity Futures	**163**	**(36)**	171	(10)
Subtotal Equity Futures	**6,469**	**(4,370)**	5,275	(937)
Foreign Currency Futures				
90 Day Eurodollar Futures	**3,946**	**(620)**	3,642	(61)
90 Day Euro Yen Futures	**691**	**9**	71	0
90 Day Bank Acceptance Futures	**140**	**28**	152	(0)
90 Day Sterling London Interbank Offer Rate Futures	**41**	**(107)**	546	(12)
90 Day Australian Bank Bill Futures	**(169)**	**(8)**	188	3
90 Day Euro Interbank Offer Rate Futures	**(77)**	**(2)**	(94)	554
Subtotal Foreign Currency Futures	**4,572**	**(700)**	4,505	484
Interest Rate Futures				
U.S. Treasury Notes Futures - 5 year	**742**	**1**	56	(2)
U.S. Treasury Notes Futures - 2 year	**140**	**(7)**	428	(20)
U.S. Treasury Notes Futures - 10 year	**(1,843)**	**172**	(991)	95
U.S. Treasury Long Bonds Futures	**(412)**	**54**	179	(0)
International Bond Futures	**(153)**	**(3)**	(326)	(520)
Subtotal Interest Rate Futures	**(1,526)**	**217**	(654)	(447)
Total Futures Contracts	**9,515**	**$(4,853)**	9,126	$ (900)
Option Contracts				
Written Options				
Foreign Currency Options				
90 Day Eurodollar Futures Options	**(337)**	**$ (44)**	(432)	$ (222)
Euro 2 Year Futures Option	**0**	**0**	(96)	6
Euro 1 Year Futures Option	**0**	**0**	(80)	5
90 Day Sterling London Interbank Offer Rate Futures	**0**	**0**	(12)	(20)
Subtotal Foreign Currency Options	**(337)**	**(44)**	(620)	(231)
Interest Rate Options				
U.S. Treasury Notes and Bonds Options - 10 year	**(1,990)**	**(260)**	(1,264)	(227)
Interest Rate Swap Options	**(1,350)**	**(796)**	(984)	(980)
U.S. Treasury Long Bonds Options	**(540)**	**(100)**	(682)	(115)
U.S. Treasury Notes Options - 5 year	**(171)**	**10**	(98)	(77)
Subtotal Interest Rate Options	**(4,051)**	**(1,146)**	(3,028)	(1,399)
Fixed Income Securities Options				
Federal National Mortgage Association Securities	**0**	**0**	(87)	(0)
Total Written Options	**(4,388)**	**$(1,190)**	(3,735)	$ (1,630)
Purchased Options				
Foreign Currency Options				
90 Day Eurodollar Futures Options	**354**	**$ 126**	137	$ (48)
Euro 1 Year Futures Option	**0**	**0**	96	(2)
Subtotal Foreign Currency Options	**354**	**126**	233	(50)
Interest Rate Options				
Interest Rate Swap Options	**3,243**	**1,461**	2,613	982
U.S. Treasury Long Bonds Options	**39**	**(43)**	180	176
U.S. Treasury Notes Options - 10 year	**4**	**0**	33	(1)
U.S. Treasury Notes Options - 5 year	**0**	**0**	823	471
Subtotal Interest Rate Options	**3,286**	**1,418**	3,649	1,628
Total Purchased Options	**3,640**	**$ 1,544**	3,882	$ 1,578

Note 13

INTEREST RATE SWAP CONTRACTS

The following summarizes the interest rate swap contracts of the Fixed Benefit Fund at September 30, 2007 and 2006.

(Dollars in thousands)	2007					
Counter Parties	**Notional Amount**	**Pay/ Receive**	**Floating Rate Index**	**Fixed Rate**	**Maturity Date**	**Unrealized Appreciation (Depreciation)**
Interest Rate Swaps						
Bank of America	(15,000,000)	Pay	AAA 10 CMBS Index		Dec. 2007	(14,948)
	15,000,000	Receive	AAA 10+ CMBS Index plus .075%		Dec. 2007	15,038
	(700,000)	Pay		5.00%	Dec. 2017	0
	700,000	Receive	3 Month LIBOR		Dec. 2017	11
	(3,900,000)	Pay	3 Month LIBOR		Dec. 2022	(145)
	3,900,000	Receive		5.00%	Dec. 2022	0
Barclays Capital	(2,200,000)	Pay	6 Month LIBOR		Dec. 2008	0
	2,200,000	Receive		6.00%	Dec. 2008	12
	(1,300,000)	Pay	6 Month LIBOR		June 2009	0
	1,300,000	Receive		5.00%	June 2009	(29)
	(700,000)	Pay	France CPI Index		Oct. 2010	0
	700,000	Receive		2.103%	Oct. 2010	14
	(400,000)	Pay		4.00%	Dec. 2036	0
	400,000	Receive	6 Month LIBOR		Dec. 2036	115
BNP Paribas	(1,000,000)	Pay	Daily Inflation Reference Index		Oct. 2010	0
	1,000,000	Receive		2.09%	Oct. 2010	18
Citibank	(1,500,000)	Pay		5.00%	Dec. 2012	(8)
	1,500,000	Receive	3 Month LIBOR		Dec. 2012	0
	(400,000)	Pay		5.00%	Dec. 2017	0
	400,000	Receive	3 Month LIBOR		Dec. 2017	6
Citigroup	(1,600,000)	Pay	Mexican Peso Exchange Market		Nov. 2016	(2)
	1,600,000	Receive		8.17%	Nov. 2016	0
Credit Suisse	(600,000)	Pay		5.00%	Dec. 2017	0
	600,000	Receive	3 Month LIBOR		Dec. 2017	10
Deutsche Bank	(720,000)	Pay		4.65%	Oct. 2008	(720)
	720,000	Receive	3 Month LIBOR		Oct. 2008	735
	(1,300,000)	Pay	6 Month LIBOR		Dec. 2008	0
	1,300,000	Receive		6.00%	Dec. 2008	7
	(60,000,000)	Pay	6 Month LIBOR		Mar. 2009	(1)
	60,000,000	Receive	Yen		Mar. 2009	0
	(2,100,000)	Pay	6 month EURIBOR		Dec. 2009	0
	2,100,000	Receive		5.00%	Dec. 2009	29
	(1,690,000)	Pay	3 month LIBOR		June 2010	(1,692)
	1,690,000	Receive		4.31%	June 2010	1,674
	(7,140,000)	Pay	3 month LIBOR		Oct. 2010	(7,140)
	7,140,000	Receive		4.71%	Oct. 2010	7,139
	(1,600,000)	Pay	Euro Dollars		Dec. 2011	0
	1,600,000	Receive	6 month EURIBOR		Dec. 2011	42
	(1,300,000)	Pay		5.00%	Dec. 2014	0
	1,300,000	Receive	3 month LIBOR		Dec. 2014	2
	(3,170,000)	Pay	3 month LIBOR		July 2016	(3,170)
	3,170,000	Receive		5.69%	July 2016	3,294
	(500,000)	Pay		5.00%	Dec. 2017	(17)
	500,000	Receive	6 month EURIBOR		Dec. 2017	0
	(300,000)	Pay	3 month LIBOR		Dec. 2022	(11)
	300,000	Receive		5.00%	Dec. 2022	0
	(1,800,000)	Pay	3 month LIBOR		Dec. 2037	(117)
	1,800,000	Receive		5.00%	Dec. 2037	0
Goldman Sachs	(4,000,000)	Pay	AAA 10 CMBS Index		Oct. 2007	(3,986)
	4,000,000	Receive	AAA 10+ CMBS Index plus .20%		Oct. 2007	4,004
	(23,000,000)	Pay	AAA 8.5+ CMBS Index		Nov. 2007	(22,855)
	23,000,000	Receive			Nov. 2007	23,061
	(5,000,000)	Pay	AAA 10 CMBS Index		Jan. 2008	(5,000)
	5,000,000	Receive	AAA 10+ CMBS Index plus .55%		Jan. 2008	5,015
	(10,000,000)	Pay	AAA 10 CMBS Index		Jan. 2008	(10,000)
	10,000,000	Receive	AAA 10+ CMBS Index plus .20%		Jan. 2008	10,031
	(5,000,000)	Pay	AAA 10 CMBS Index		July 2008	(4,983)
	5,000,000	Receive	AAA 10+ CMBS Index plus .55%		July 2008	5,000
	(10,000,000)	Pay	AAA 10 CMBS Index		July 2008	(9,966)
	10,000,000	Receive	AAA 10+ CMBS Index plus .20%		July 2008	10,000
	(18,612,000)	Pay	3 month LIBOR		Oct. 2008	(18,626)
	18,612,000	Receive		5.55% to 5.58%	Oct. 2008	18,755
	(2,300,000)	Pay	3 month LIBOR		Mar. 2009	(2,302)
	2,300,000	Receive		4.36%	Mar. 2009	2,289

Note 13

INTEREST RATE SWAP CONTRACTS (*continued*)

The following summarizes the interest rate swap contracts of the Fixed Benefit Fund at September 30, 2007 and 2006.

(Dollars in thousands)	2007					
Counter Parties	Notional Amount	Pay/ Receive	Floating Rate Index	Fixed Rate	Maturity Date	Unrealized Appreciation (Depreciation)
Interest Rate Swaps						
Goldman Sachs (cont.)	(900,000)	Pay	6 month EURIBOR		Mar. 2009	0
	900,000	Receive		4.00%	Mar. 2009	(5)
	(500,000)	Pay	3 month LIBOR		June 2009	0
	500,000	Receive		6.00%	June 2009	5
	(3,000,000)	Pay	3 month LIBOR		July 2011	(3,000)
	3,000,000	Receive		5.71%	July 2011	3,096
	(3,300,000)	Pay	3 month LIBOR		Nov. 2011	(3,300)
	3,300,000	Receive		5.04%	Nov. 2011	3,329
	(8,300,000)	Pay	3 month LIBOR		Jan. 2012	(8,374)
	8,300,000	Receive		5.09% to 5.66%	Jan. 2012	8,396
	(2,900,000)	Pay	3 month LIBOR		Feb. 2012	(2,900)
	2,900,000	Receive		5.32%	Feb. 2012	2,955
	(200,000)	Pay	France CPI Index		Mar. 2012	(1)
	200,000	Receive		1.96%	Mar. 2012	0
	(4,596,000)	Pay	3 month LIBOR		Oct. 2016	(4,770)
	4,596,000	Receive		5.67% to 5.69%	Oct. 2016	4,600
	(1,300,000)	Pay	3 month LIBOR		Feb. 2017	(1,320)
	1,300,000	Receive		5.38%	Feb. 2017	1,300
	(5,470,000)	Pay	3 month LIBOR		Aug. 2017	(5,472)
	5,470,000	Receive		5.38% to 5.45%	Aug. 2017	5,564
	(2,300,000)	Pay	3 month LIBOR		Mar. 2018	(2,245)
	2,300,000	Receive		5.00%	Mar. 2018	2,206
	(16,773,000)	Pay	3 month LIBOR		Mar. 2038	(16,373)
	16,773,000	Receive		5.25%	Mar. 2038	15,883
HSBC	(400,000)	Pay		4.00%	Dec. 2036	0
	400,000	Receive	6 month LIBOR		Dec. 2036	115
JP Morgan	(10,000,000)	Pay	AAA 8.5+ CMBS Index		Oct. 2007	(9,937)
	10,000,000	Receive	AAA 8.5+ CMBS Index plus .30%		Oct. 2007	10,015
	(400,000)	Pay	France CPI Index		Mar. 2012	0
	400,000	Receive		1.948%	Mar. 2012	0
	(2,800,000)	Pay		5.00%	Dec. 2012	(16)
	2,800,000	Receive	3 month LIBOR		Dec. 2012	0
	(1,000,000)	Pay		5.00%	Dec. 2017	0
	1,000,000	Receive	3 month LIBOR		Dec. 2017	16
	(3,800,000)	Pay	3 month LIBOR		Dec. 2037	(246)
	3,800,000	Receive		5.00%	Dec. 2037	0
Lehman Brothers	(1,020,000)	Pay		4.60%	Oct. 2007	(1,020)
	1,020,000	Receive	3 month LIBOR		Oct. 2007	1,020
	(500,000)	Pay	6 month LIBOR		Sep. 2009	(23)
	500,000	Receive		4.50%	Sep. 2009	0
Merrill Lynch	(1,900,000)	Pay	6 month LIBOR		Sep. 2009	(87)
	1,900,000	Receive		4.50%	Sep. 2009	0
	(300,000)	Pay		4.00%	Dec. 2035	28
	300,000	Receive	6 month LIBOR		Dec. 2035	0
Morgan Stanley	(400,000)	Pay		5.00%	Dec. 2017	0
	400,000	Receive	3 month LIBOR		Dec. 2017	6
Royal Bank of Scotland	(1,600,000)	Pay	6 month LIBOR		June 2009	0
	1,600,000	Receive		6.00%	June 2009	15
	(100,000)	Pay	France CPI Index		Mar. 2012	(1)
	100,000	Receive		1.955%	Mar. 2012	0
	(400,000)	Pay		5.00%	Dec. 2012	(2)
	400,000	Receive	3 month LIBOR		Dec. 2012	0
	(1,100,000)	Pay		5.00%	Dec. 2014	0
	1,100,000	Receive	3 month LIBOR		Dec. 2014	2
	(700,000)	Pay			Dec. 2017	0
	700,000	Receive	3 month LIBOR		Dec. 2017	11
	(900,000)	Pay		4.00% to 5.50%	Dec. 2036	(17)
	900,000	Receive	6 month LIBOR		Dec. 2036	230
	(600,000)	Pay	3 month LIBOR		Dec. 2037	(39)
	600,000	Receive		5.00%	Dec. 2037	0
UBS	(700,000)	Pay	3 Month Australian Rate Index		Sep. 2009	0
	700,000	Receive		7.00%	Sep. 2009	0
Totals	0					$ 227

Note 13

INTEREST RATE SWAP CONTRACTS *(continued)*

The following summarizes the interest rate swap contracts of the Fixed Benefit Fund at September 30, 2007 and 2006.

(Dollars in thousands) 2006

Counter Parties	Notional Amount	Pay/ Receive	Floating Rate Index	Fixed Rate	Maturity Date	Unrealized Appreciation (Depreciation)
Interest Rate Swaps						
Bank of America	(5,000,000)	Pay		10% AAA CMBS plus 7.5 bps	11/30/06	(5,000)
	5,000,000	Receive		10% AAA CMBS plus monthly spread	11/30/06	5,000
	(7,000,000)	Pay		AA CMBS plus 7.5 bps	11/30/06	(14,010)
	7,000,000	Receive		AA CMBS plus monthly spread	11/30/06	14,000
	(15,000,000)	Pay		10% AAA CMBS plus 5 bps	06/30/07	(15,000)
	15,000,000	Receive		10% AAA CMBS plus monthly spread	06/30/07	15,000
Barclays Capital	(1,000,000)	Pay	British Pound LIBOR		06/15/07	(2)
	1,000,000	Receive		5.00%	06/15/07	0
	(65,400,000)	Pay	3 month LIBOR		12/20/08	0
	65,400,000	Receive		5.00%	12/20/08	0
	(700,000)	Pay	Euro Dollars		10/15/10	0
	700,000	Receive		2.10%	10/15/10	5
	(3,000,000)	Pay	British Pound LIBOR		06/16/11	(19)
	3,000,000	Receive		5.00%	06/16/11	0
BNP Paribas	(1,000,000)	Pay	Euro Dollars		10/15/10	0
	1,000,000	Receive		2.09%	10/15/10	9
Deutsche Bank	(720,000)	Pay		4.08%	10/05/08	(720)
	720,000	Receive		4.65%	10/05/08	714
	(7,140,000)	Pay		4.11%	10/11/10	(7,143)
	7,140,000	Receive		4.71%	10/11/10	7,049
	(1,690,000)	Pay		3.42%	06/17/10	(1,690)
	1,690,000	Receive		4.31%	06/17/10	1,648
	(3,170,000)	Pay	3 month LIBOR		07/21/16	(3,153)
	3,170,000	Receive		5.69%	07/21/16	3,297
Goldman Sachs	(2,300,000)	Pay	3 month LIBOR		03/10/09	(2,300)
	2,300,000	Receive		4.36%	03/10/09	2,263
	(3,000,000)	Pay	3 month LIBOR		07/07/11	(3,000)
	3,000,000	Receive		5.71%	07/07/11	3,080
	(700,000)	Pay	3 month LIBOR		12/20/36	0
	700,000	Receive		5.00%	12/20/36	0
JP Morgan	(6,400,000)	Pay	Swiss Market Index		10/31/06	(5,191)
	6,400,000	Receive	Swiss LIBOR		10/31/06	5,347
Lehman Govt. Securities	(1,020,000)	Pay	3 month LIBOR		10/07/07	(1,020)
	1,020,000	Receive		4.60%	10/07/07	1,013
	(500,000)	Pay	British Pound LIBOR		09/20/09	(10)
	500,000	Receive		4.50%	09/20/09	0
Merrill Lynch	(1,900,000)	Pay	British Pound LIBOR		09/20/09	(39)
	1,900,000	Receive		4.50%	09/20/09	0
	(300,000)	Pay		4.00%	12/15/35	0
	300,000	Receive	British Pound LIBOR		12/15/35	1
Morgan Stanley	(2,100,000)	Pay	Euro Dollars		06/18/34	0
	2,100,000	Receive		6.00%	06/18/34	444
Wachovia Bank	(10,000,000)	Pay		8.5% AAA CMBS plus 5 bps	10/31/06	(10,013)
	10,000,000	Receive		8.5% AAA CMBS plus monthly spread	10/31/06	10,000
	(5,000,000)	Pay		8.5% AAA CMBS plus 5 bps	11/30/06	(5,007)
	5,000,000	Receive		8.5% AAA CMBS plus monthly spread	11/30/06	5,000
	(11,000,000)	Pay		10 % AAA CMBS plus 10 bps	11/30/06	(22,000)
	11,000,000	Receive		10 % AAA CMBS plus monthly spread	11/30/06	22,000
Totals	0					$ 553

Note 14
CREDIT DEFAULT SWAP CONTRACTS

The following summarizes the credit default swap contracts of the Fixed Benefit Fund at September 30, 2007 and 2006.

(Dollars in thousands)	2007				
Counter Parties	**Notional Amount**	**BUY/SELL Protection**	**Fixed Rate**	**Maturity Date**	**Unrealized Appreciation (Depreciation)**
Bank of America	(1,000,000)	SELL		2008	$ (19)
	1,000,000		1.00%	2008	0
Barclays Capital Inc.	(1,800,000)	SELL		2009	(7)
	1,800,000		0.37%	2009	0
	(300,000)	SELL		2011	(300)
	300,000		4.61%	2011	296
	(700,000)	SELL		2012	(700)
	700,000		.075%	2012	676
Bear Stearns	(190,908)		4.00%	2009	(191)
	190,908	BUY		2009	202
	(1,453,330)	SELL		2010	(1,453)
	1,453,330		1.05% to 5.45%	2010	1,483
	(13,200,000)	SELL		2012	(13,190)
	13,200,000		0.35% to 3.20%	2012	12,867
	(70,000)	SELL		2017	(70)
	70,000		3.95%	2017	70
	(300,000)	SELL		2038	(300)
	300,000		0.76%	2038	287
	(500,000)	SELL		2045	(1,000)
	500,000		0.54%	2045	931
CitiBank	(500,000)	SELL		2012	0
	500,000		2.14%	2012	8
Credit Suisse First Boston	(2,277,270)	SELL		2009	(481)
	2,277,270		0.30% to 4.00%	2009	504
	(200,000)	SELL		2010	(200)
	200,000		1.40% to 2.32%	2010	205
	(433,765)	SELL		2034	(350)
	433,765		1.28% to 2.20%	2034	427
	(1,120,023)			2035	(857)
	1,120,023		1.28% to 2.18%	2035	1,120
	(90,000)	SELL		2036	(58)
	90,000		1.36% to 2.18%	2036	90
	(1,000,000)	SELL		2038	(1,000)
	1,000,000		0.76%	2038	955
Deutsche Bank	(1,900,000)	SELL		2008	(1)
	1,900,000		0.72% to 2.15%	2008	1
	(200,000)	SELL		2010	(460)
	200,000		2.30% to 2.32%	2010	445
	(100,000)	SELL		2015	(100)
	100,000		2.93%	2015	104
	(200,000)	SELL		2016	(200)
	200,000		2.20% to 2.21%	2016	182
	(60,000)	SELL		2017	(100)
	60,000		4.28%	2017	86
	(400,000)	SELL		2046	(100)
	400,000		0.11%	2046	104
Goldman Sachs	(100,000)	SELL		2008	0
	100,000		0.15%	2008	0
	(2,300,000)		0.85% to 0.90%	2010	(2,300)
	2,300,000	BUY		2010	2,300
	(30,500,000)	SELL		2012	(30,379)
	30,500,000		0.75% to 6.05%	2012	29,545
	(300,000)	SELL		2016	(300)
	300,000		2.97%	2016	310
	(280,000)	SELL		2017	(280)
	280,000		3.77% to 3.80%	2017	280
	(794,464)		3.80%	2036	(687)
	794,464	BUY		2036	794
	(5,500,000)	SELL		2037	(11,000)
	5,500,000		0.64%	2037	8,297
	(597,680)		3.80%	2045	(598)
	597,680	BUY		2045	598

Note 14

CREDIT DEFAULT SWAP CONTRACTS (*continued*)

The following summarizes the credit default swap contracts of the Fixed Benefit Fund at September 30, 2007 and 2006.

(Dollars in thousands)	2007				
Counter Parties	**Notional Amount**	**BUY/SELL Protection**	**Fixed Rate**	**Maturity Date**	**Unrealized Appreciation (Depreciation)**
Greenwich Capital Markets	(840,000)	SELL		2011	(840)
	840,000		1.20% to 4.95%	2011	853
	(36,500,000)	SELL		2012	(36,087)
	36,500,000		0.66% to 7.20%	2012	35,501
	(4,100,000)	SELL		2016	(4,100)
	4,100,000		1.55% to 3.00%	2016	4,234
	(1,850,000)	SELL		2017	(1,850)
	1,850,000		3.22% to 3.51%	2017	1,879
HSBC Bank	(1,800,000)	SELL		2008	(2)
	1,800,000		0.24%	2008	0
JP Morgan	(8,450,000)	SELL		2037	(16,900)
	8,450,000		0.15%	2037	15,285
Lehman Brothers	(1,000,000)	SELL		2008	(1)
	1,000,000		0.70%	2008	0
	(2,000,000)	SELL		2012	(2,000)
	2,000,000		0.75%	2012	1,931
Merrill Lynch	(50,000)	SELL		2010	(50)
	50,000		2.30%	2010	52
	(1,700,000)	SELL		2012	(1,700)
	1,700,000		0.82% to 0.90%	2012	1,635
	(300,000)	SELL		2017	(300)
	300,000		2.60% to 3.90%	2017	288
Morgan Stanley	(900,000)	SELL		2009	(1)
	900,000		0.31%	2009	0
Royal Bank of Scotland	(4,300,000)	SELL		2010	(4,300)
	4,300,000		2.08% to 4.75%	2010	4,425
	(99,621)		2.50%	2035	(100)
	99,621	BUY		2035	100
	(99,863)		4.50%	2045	(103)
	99,863	BUY		2045	100
Totals	0				$ (5,565)

	2006				
Bear Stearns	(195,455)	SELL		2009	$ (195)
	195,455		4.00%	2009	203
	(1,453,330)	SELL		2010	(1,453)
	1,453,330		1.05% to 5.45%	2010	1,481
	(194,000)		(3.95%)	2010	(202)
	194,000	BUY		2010	194
Credit Suisse	(488,636)	SELL		2009	(489)
	488,636		4.00%	2009	509
	(200,000)	SELL		2010	(200)
	200,000		1.14%	2010	200
	(570,000)		(1.31%) to (2.18%)	2034	(568)
	570,000	BUY		2034	570
	(1,140,000)		(1.28%) to (2.18%)	2035	(1,136)
	1,095,000	BUY		2035	1,095
	(90,000)		(1.38%) to (2.18%)	2036	(89)
	90,000	BUY		2036	90
Deutsche Bank	(200,000)	SELL		2010	(200)
	200,000		2.30 % to 2.32%	2010	202
	(100,000)	SELL		2015	(100)
	100,000		2.93%	2015	82
Goldman Sachs	(1,494,000)		(0.85%) to (3.95%)	2010	(1,508)
	1,494,000	BUY		2010	1,494
	(485,715)	SELL		2010	(486)
	485,715		2.00%	2010	494
	(200,000)	SELL		2011	(200)
	200,000		3.00%	2011	203

Note 14
CREDIT DEFAULT SWAP CONTRACTS *(continued)*

The following summarizes the credit default swap contracts of the Fixed Benefit Fund at September 30, 2007 and 2006.

(Dollars in thousands) 2006

Counter Parties	Notional Amount	BUY/SELL Protection	Fixed Rate	Maturity Date	Unrealized Appreciation (Depreciation)
Goldman Sachs (cont.)	(4,900,000)		(0.75%) to (3.45%)	2011	(4,903)
	4,900,000	BUY		2011	4,900
	(300,000)	SELL		2016	(300)
	300,000		2.97%	2016	297
	(794,635)		(3.80%)	2036	(828)
	794,635	BUY		2036	795
	(598,250)		(3.80%)	2045	(642)
	598,250	BUY		2045	598
Greenwich Capital	(5,077,144)	SELL		2010	(5,077)
	5,077,144		2.00% to 4.75%	2010	5,167
	(100,000)	SELL		2011	(100)
	100,000		4.50%	2011	110
	(4,200,000)	SELL		2016	(4,200)
	4,200,000		3.00% to 5.00%	2016	4,165
	(99,946)		(2.50%)	2035	(98)
	99,946	BUY		2035	100
	(99,880)		(4.50%)	2045	(98)
	99,880	BUY		2045	100
Lehman Brothers	(194,000)		(3.95%)	2010	(201)
	194,000	BUY		2010	194
	(400,000)		(3.00%) to (3.45%)	2011	(405)
	400,000	BUY		2011	400
Merrill Lynch	(50,000)	SELL		2010	(50)
	50,000		2.30%	2010	51
Totals	(45,000)				$ (34)

Note 15

TOTAL RETURN SWAP CONTRACTS

The following summarizes the interest rate swap contracts of the Fixed Benefit Fund at September 30, 2007 and 2006.

(Dollars in thousands) **2007**

Counter Parties	Notional Amount	Pay/ Receive	Pay	Receive	Maturity Date	Unrealized Appreciation/ (Depreciation)
Bear Stearns	(2,426,800)	Pay	3 Month LIBOR minus 2%		Mar. 2008	(2,427)
	2,426,800	Receive		20,000 shares MSCI Emerging Market Index Fund	Mar. 2008	2,527
	(10,179,804)	Pay	3 Month LIBOR minus .32%		Mar. 2008	(10,180)
	10,179,804	Receive		2.198.73 Units MSCI EAFE Index	Mar. 2008	10,481
	(12,744,950)	Pay	3 Month LIBOR minus 2%		Mar. 2008	(12,745)
	12,744,950	Receive		115,077 shares MSCI Emerging Market Index Fund	Mar. 2008	13,269
	(4,641,320)	Pay	3 Month LIBOR minus 3%		Oct. 2008	(4,641)
	4,641,320	Receive		31,000 shares MSCI Emerging Market Index Fund	Oct. 2008	4,641
JP Morgan	(7,794,332)	Pay	3 Month LIBOR plus .32%		Nov. 2007	(6,672)
	7,794,332	Receive		909.52 Swiss Market Units	Nov. 2007	6,731
Lehman Brothers	(1,300,000)	Pay	1 Month LIBOR		Jan. 2008	(1,306)
	1,300,000	Receive		Lehman Brothers Holdings Capital Trust V	Jan. 2008	1,320
	(10,100,000)	Pay	1 Month LIBOR		Mar. 2008	(10,143)
	10,100,000	Receive		Lehman Brothers Holdings Capital Trust V	Mar. 2008	10,252
Totals	0					1,107

2006

Counter Parties	Notional Amount	Pay/ Receive	Floating Rate Index	Fixed Rate	Maturity Date	Unrealized Appreciation/ (Depreciation)
Bear Stearns	(11,299,986)	Pay	3 month LIBOR		3/21/2007	(11,300)
	11,299,986	Receive	iShares MSCI Emerging Markets Index Fund		3/21/2007	12,436
Totals	0					1,136

Note 16

FORWARD FOREIGN CURRENCY CONTRACTS

The following summarizes the forward foreign currency contracts of the Fixed Benefit Fund at September 30, 2007 and 2006.

(Dollars in thousands)	2007			2006		
	Settlement Date	**USD Contract Amount**	**Unrealized Appreciation (Depreciation)**	**Settlement Date**	**USD Contract Amount**	**Unrealized Appreciation (Depreciation)**
Currency Purchased						
Australian Dollar	**Dec. 2007**	**$ 21,488**	**$ (817)**	Dec. 2006	$ 45,726	$ 306
British Pound Sterling	**Nov. 2007**	**1,452**	**(16)**	Oct. 2006	358	5
	Dec. 2007	**103,454**	**(1,469)**	Dec. 2006	48,292	58
Canadian Dollar	**Nov. 2007**	**1,107**	**(55)**	Nov. 2006	1,464	(6)
	Dec. 2007	**89,302**	**(4,926)**	Dec. 2006	53,899	133
Chinese Yuan Renminbi	**Mar. 2008**	**6,539**	**(64)**	Mar. 2007	3,768	(7)
Czech Koruna	**Dec. 2007**	**1,300**	**(71)**	Dec. 2006	601	7
Danish Krone	**Dec. 2007**	**709**	**(15)**			
Euro Monetary Unit	**Oct. 2007**	**8,362**	**(377)**	Oct. 2006	984	2
	Nov. 2007	**8,297**	**(133)**	Nov. 2006	2,199	19
	Dec. 2007	**206,980**	**(8,882)**	Dec. 2006	194,142	2,504
Hong Kong Dollar	**Dec. 2007**	**54**	**(0)**			
Hungarian Forint	**Dec. 2007**	**1,282**	**(76)**	Dec. 2006	467	6
Japanese Yen	**Oct. 2007**	**9,623**	**(500)**	Nov. 2006	310	9
	Dec. 2007	**37,977**	**216**	Dec. 2006	20,369	208
Mexican New Peso	**Dec. 2007**	**1,748**	**(26)**	Dec. 2006	46	0
New Taiwan Dollar	**Dec. 2007**	**239**	**(3)**			
New Zealand Dollar	**Dec. 2007**	**30,504**	**(1,617)**	Dec. 2006	5,174	79
Norwegian Krone	**Dec. 2007**	**38,388**	**(2,821)**	Dec. 2006	40,952	(132)
Polish Zloty	**Dec. 2007**	**1,660**	**(104)**			
Singapore Dollar	**Dec. 2007**	**1,560**	**(33)**			
South African Rand	**Dec. 2007**	**1,030**	**(59)**	Dec. 2006	536	64
South Korean Won	**Dec. 2007**	**1,311**	**(38)**	Dec. 2006	52	(1)
Swedish Krona	**Dec. 2007**	**40,441**	**(2,333)**	Oct. 2006	124	1
				Dec. 2006	30,613	467
Swiss Franc	**Dec. 2007**	**97,863**	**(2,666)**	Oct. 2006	331	1
				Dec. 2006	48,095	428
Thailand Baht				Oct. 2006	202	0
U.S. Dollar	**Oct. 2007**	**58,718**	**0**	Oct. 2006	73,678	0
	Dec. 2007	**372,437**	**0**	Dec. 2006	231,944	0
	Mar. 2008	**16,866**	**0**	Mar. 2007	22,578	0
	Sep. 2008	**27,195**	**0**	Sep. 2007	3,736	0
Totals		**$1,187,886**	**$(26,885)**		$ 830,640	$ 4,681

Note 16

FORWARD FOREIGN CURRENCY CONTRACTS *(continued)*

The following summarizes the forward foreign currency contracts of the Fixed Benefit Fund at September 30, 2007 and 2006.

(Dollars in thousands)	2007			2006		
	Settlement Date	**USD Contract Amount**	**Unrealized Appreciation (Depreciation)**	**Settlement Date**	**USD Contract Amount**	**Unrealized Appreciation (Depreciation)**
Currency Sold						
Australian Dollar	**Oct. 2007**	**$ 5,170**	**$ 101**	Oct. 2006	$ 3,646	$ (54)
	Dec. 2007	**15,305**	**1,051**	Dec. 2006	1,750	(37)
British Pound Sterling	**Oct. 2007**	**9,518**	**97**	Oct. 2006	17,263	(319)
	Dec. 2007	**107,666**	**1,563**	Dec. 2006	79,989	117
Canadian Dollar	**Oct. 2007**	**7,754**	**59**	Oct. 2006	5,270	10
	Dec. 2007	**6,255**	**63**	Dec. 2006	7,050	18
Chinese Yuan Renminbi	**Mar. 2008**	**16,866**	**68**	Mar. 2007	22,578	(80)
	Sep. 2008	**27,195**	**182**	Sep. 2007	3,736	7
Czech Koruna	**Dec. 2007**	**1,506**	**58**	Dec. 2006	726	(14)
Danish Krone	**Oct. 2007**	**595**	**4**	Oct. 2006	521	(5)
	Dec. 2007	**331**	**8**			
Euro Monetary Unit	**Oct. 2007**	**19,276**	**152**	Oct. 2006	22,716	(213)
	Dec. 2007	**59,404**	**1,513**	Dec. 2006	28,086	(297)
Hong Kong Dollar	**Oct. 2007**	**841**	**0**			
	Dec. 2007	**501**	**1**			
Hungarian Forint	**Dec. 2007**	**684**	**60**	Dec. 2006	276	1
Japanese Yen	**Oct. 2007**	**10,675**	**(51)**	Oct. 2006	16,967	(260)
	Dec. 2007	**88,968**	**206**	Dec. 2006	50,187	(1,094)
Mexican New Peso	**Dec. 2007**	**4,088**	**42**	Dec. 2006	4,791	(38)
New Taiwan Dollar	**Dec. 2007**	**1,397**	**16**	Dec. 2006	845	(11)
New Zealand Dollar	**Oct. 2007**	**116**	**3**	Dec. 2006	40,274	857
	Dec. 2007	**37,133**	**3,324**			
Norwegian Krone	**Oct. 2007**	**734**	**12**	Oct. 2006	457	0
	Dec. 2007	**26,246**	**1,057**	Dec. 2006	7,888	(23)
Polish Zloty	**Dec. 2007**	**2,578**	**129**	Dec. 2006	2,493	(53)
Singapore Dollar	**Oct. 2007**	**880**	**10**	Oct. 2006	615	(3)
	Dec. 2007	**5,076**	**128**			
South African Rand	**Dec. 2007**	**859**	**43**			
South Korean Won	**Dec. 2007**	**4,881**	**107**	Dec. 2006	2,957	29
Swedish Krona	**Oct. 2007**	**500**	**3**	Oct. 2006	462	(9)
	Dec. 2007	**3,549**	**154**	Dec. 2006	4,796	(80)
Swiss Franc	**Oct. 2007**	**2,659**	**1**	Oct. 2006	4,503	(42)
	Dec. 2007	**60,037**	**1,061**	Dec. 2006	24,170	(274)
U.S. Dollar	**Oct. 2007**	**17,986**	**0**	Oct. 2006	1,998	0
	Nov. 2007	**10,855**	**0**	Nov. 2006	3,973	0
	Dec. 2007	**623,263**	**0**	Dec. 2006	465,889	0
	Mar. 2008	**6,539**	**0**	Mar. 2007	3,768	0
Totals		**$1,187,886**	**$ 11,225**		$ 830,640	$ (1,867)

Note 17
SECURITIES LENDING

As of September 30, 2007 and 2006, the Plan loaned securities having a fair value of approximately $911.1 million and $807.1 million, respectively, and received $935.8 million and $832.1 million, respectively, of collateral in the form of cash, interests in tri-party accounts, and securities for the loans. The following tables summarize the securities loaned and the related collateral:

(Dollars in thousands)	Fair Value	Total	Collateral	Fair Value of Collateral		
September 30, 2007	**Securities On Loan**	**Collateral**	**Percent**	**Cash**	**Tri-Party**	**Securities**
U.S. government	**$ 328,702**	**$ 333,430**	**101.4%**	**$ 300,325**	**$ 27,624**	**$ 5,481**
Common stocks - domestic	**300,137**	**312,430**	**104.1%**	**296,911**		**15,519**
Corporate bonds	**117,182**	**119,839**	**102.3%**	**119,839**		
U.S. government agency	**99,229**	**100,796**	**101.6%**	**100,659**		**137**
Common stocks - international	**65,871**	**69,348**	**105.3%**	**50,305**	**9,578**	**9,465**
Total	**$ 911,121**	**$ 935,843**	**102.7%**	**$ 868,039**	**$ 37,202**	**$30,602**
September 30, 2006						
U.S. government	$ 307,446	$ 312,953	101.8%	$ 290,993	$ 18,738	$ 3,222
Common stocks - domestic	266,363	279,306	104.9%	277,135		2,171
Corporate bonds	88,168	90,393	102.5%	90,393		
U.S. government agency	81,462	83,131	102.0%	82,621	228	282
Common stocks - international	63,614	66,364	104.3%	42,469	2,721	21,174
Total	$ 807,053	$ 832,147	103.1%	$ 783,611	$ 21,687	$ 26,849

Note 18
NET APPRECIATION OF INVESTMENTS

During 2007 and 2006, the Plan's investments (including investments bought, sold, and held during the year) appreciated (depreciated) in value as follows:

September 30, 2007 and 2006

(Dollars in thousands)	**2007**	2006
Commingled funds	**$ 408,123**	$ 162,178
Common stocks	**286,349**	207,131
Other	**101,005**	34,388
Derivatives	**62,888**	61,490
Corporate bonds	**(35,756)**	(11,721)
Net appreciation	**$ 822,609**	$ 453,466

INVESTMENT HOLDINGS GREATER THAN 5 PERCENT

During 2007 and 2006, the Plan's investments greater than 5 percent of the Net Assets Available for Benefits were as follows:

September 30, 2007 and 2006

(Dollars in thousands)	**2007**	2006
Barclays Global Investors, All Country World Index excluding the United States Active International Equity Fund	**$ 822,448**	$ 616,200
Bank of New York Mellon Proprietary Fund	**480,996**	446,819
Bank of New York Mellon EB Daily Valued Large Capital Fund	**419,054**	
Total	**$ 1,722,498**	$ 1,063,019

Note 19
CHANGE IN RECORDKEEPING SERVICES

The Fixed and Variable Fund recordkeeping services were transferred to Fidelity Investments Institutional Operations Company, Inc. (Fidelity Investments) on August 1, 2006. For the Fidelity Spartan U.S. Equity Index Fund (the Variable Fund investment for active employees), Fidelity Investments also serves as an agent for Mellon Bank in the management of that fund. The recordkeeping services were provided by Affiliated Computer Services (ACS) from May 26, 2005, to July 31, 2006.

Note 20
INVESTMENT EXPENSES AND RELATED PARTY TRANSACTIONS

The Plan paid investment managers $35.8 million in fiscal year 2007 and $30.1 million in fiscal year 2006 for fees related to the management of plan investments. In the Statement of Changes in Net Assets Available for Benefits, the investment expenses are netted against the investment income.

Mellon Bank is the Trustee of the Plan and therefore plan investments that are managed by Mellon Bank and its subsidiaries and affiliates qualify as related party transactions. The investment management fees paid to Mellon Bank were $3.4 million in fiscal year 2007 and $4.8 million in fiscal year 2006.

Barclays Global Investors is an agent of Bank of New York Mellon as Trustee of the Plan and therefore Plan investments with Barclays Global Investors qualify as related party transactions. The investment management fees paid to Barclays Global Investors were $4.5 million in fiscal year 2007 and $3.4 million in fiscal year 2006.

Fidelity Investments is the agent of the Fidelity Spartan Equity Index Fund for the Plan, which includes management of the fund. Fidelity Investments also provides recordkeeping services to Mellon Bank for the fund as well as the Fixed Fund (see Note 19). Investment management fees are paid to Fidelity Investments from the participants' accounts for their Variable Fund investments in the Fidelity Spartan U.S. Equity Index Fund.

Note 21
ADMINISTRATIVE EXPENSES AND RELATED PARTY TRANSACTIONS

The Plan incurred administrative expenses of $4.6 million in fiscal year 2007 and fiscal year 2006. The administrative expenses include the TVARS staff operations, actuarial services, and investment consulting services.

The TVARS staff are TVA employees, and TVARS utilizes other TVA resources in the administration of the Plan. TVARS reimburses TVA for all expenses incurred that qualify as related party transactions. TVARS paid TVA $3.5 million in fiscal year 2007 and $3.6 million in fiscal year 2006.

Note 22
TERMINATION

In the event the Plan is terminated, the net assets of the Plan will be allocated generally to provide benefits in the following order: (1) Fixed and Variable Fund benefits based upon members' contributions, (2) nonforfeitable benefits based upon TVA's contributions (defined benefit portion of the Plan), and (3) if feasible, cost-of-living increases thereto. The Plan benefits are not guaranteed by the Pension Benefit Guaranty Corporation.

Note 23
VARIABLE FUND

The Variable Fund is an investment option for eligible members of the Plan. The Employee Account was transferred to the Fidelity Spartan U.S. Equity Index Fund held by Fidelity Investments on August 1, 2006. The Employee Account had been previously invested in the Dreyfus Basic S&P 500 Stock Index Fund. Members' contributions purchase shares at the net asset value of the fund on the date of contribution. If members, upon retirement or termination from employment, elect to withdraw the balance in their accounts, the shares in the mutual fund will be redeemed and the proceeds will be paid. Eligible retired members who elect to receive a monthly annuity benefit redeem shares in the Fidelity Spartan U.S. Equity Index Fund, and the proceeds are used to purchase units in the Retiree Account. This account is invested in a commingled trust fund with the underlying investment in stocks included in the S&P 500 Stock Index. The value of the members' units fluctuates with the value of the net assets in the Retiree Account. The value of the retiree units is also updated annually by an actuarial valuation.

Members can transfer their Variable Fund balance to the Fixed Benefit Fund at various times to provide the member with the ability to choose a fixed benefit structure.

The Variable Fund benefits are paid entirely from the Variable Fund assets, and the Fixed Benefit Fund assets are not legally available to the Variable Fund. The Variable Fund assets are restricted entirely to the Variable Fund benefits and are not legally available for the funding of Fixed Fund annuity benefits or pension benefits.

Key financial data of the Variable Fund at September 30, 2007 and 2006, is as follows:

(Dollars in thousands)	**2007**	2006
Assets		
Commingled funds	**$ 124,129**	$ 118,656
S&P 500 Stock Index Fund	**103,811**	103,538
Total investments at fair value	**227,940**	222,194
Receivables	**0**	15
Total Assets	**227,940**	222,209
Liabilities		
Net payable to the Fixed Benefit Fund	**206**	0
Net Assets	**$ 227,734**	$ 222,209
Investment Income		
Net appreciation in fair value of investments	**$ 32,748**	$ 21,447
Dividends	**1,933**	1,381
Total investment income	**34,681**	22,828
Members' Contributions	**3,275**	3,346
Net Transfers for:		
Net transfers to Fixed Benefit Fund	**16,080**	14,676
Retirement benefits, withdrawals, and death benefits	**15,100**	14,319
Net transfers to 401(k) Plan	**1,251**	1,513
Net transfers	**32,431**	30,508
Net increase (decrease)	**$ 5,525**	$ (4,334)

Crowe

Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS

Participants and Administrator of
Tennessee Valley Authority Savings and Deferral Retirement Plan
Knoxville, Tennessee

We have audited the accompanying statement of net assets available for benefits of the Tennessee Valley Authority Savings and Deferral Retirement Plan as of September 30, 2007, and the related statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit. The statement of net assets available for benefits of the Tennessee Valley Authority Savings and Deferral Retirement Plan as of September 30, 2006, and the related statement of changes in net assets available for benefits for the year then ended, prior to the effects of the retrospective adoption of Financial Accounting Standards Board (FASB) Staff Position *AAG INV-1 and SOP 94-4-1, Reporting of Fully Benefit-Responsive Investments Contracts held by the Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans* ("the FSP") described in Note 4, were audited by other auditors whose report dated April 30, 2007 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2007 financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of September 30, 2007, and the changes in net assets available for benefits for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We also audited the effects on the 2006 financial statements of the retrospective adoption of the FSP described in Note 3. In our opinion, such adjustments are appropriate and have been properly applied.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Oak Brook, Illinois
March 6, 2008

TVA SAVINGS AND DEFERRAL RETIREMENT PLAN [401(K) PLAN]

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

September 30, 2007 and 2006

(Dollars in thousands)	**2007**	2006
Assets		
Investments at fair value		
Equity funds	**$ 1,201,358**	$ 998,665
Stable value funds	**170,699**	176,548
Bond funds	**112,410**	93,309
Participant loans	**23,952**	23,326
Total Assets reflecting all investments at fair value	**1,508,419**	1,291,848
Adjustment from fair value to contract value for fully benefit-responsive contracts	**1,710**	1,970
Net Assets Available for Benefits	**$ 1,510,129**	$ 1,293,818

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

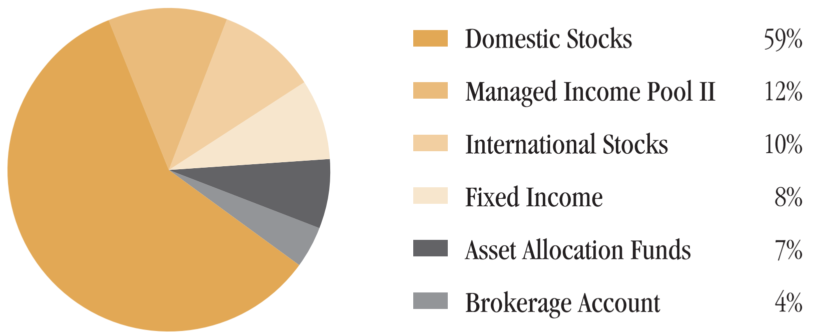
Fiscal Years Ended September 30, 2007 and 2006

(Dollars in thousands)	**2007**	2006
Investment Income		
Net appreciation (depreciation)	**$ 159,900**	$ (11,249)
Dividends and interest	**78,032**	99,875
Total investment income	**237,932**	88,626
Contributions		
Members	**68,402**	66,492
TVA	**20,814**	19,424
Transfers from annuity funds	**14,658**	14,355
Total contributions	**103,874**	100,271
Total increase	**341,806**	188,897
Benefits, Withdrawals, and Transfers		
Benefits and withdrawals	**116,765**	87,914
Transfers to annuity funds	**8,730**	7,151
Total benefits, withdrawals, and transfers	**125,495**	95,065
Net increase	**216,311**	93,832
Net Assets Available for Benefits		
Beginning of year	**1,293,818**	1,199,986
End of year	**$ 1,510,129**	$ 1,293,818

The accompanying notes are an integral part of the financial statements.

401(K) PLAN ASSET ALLOCATION

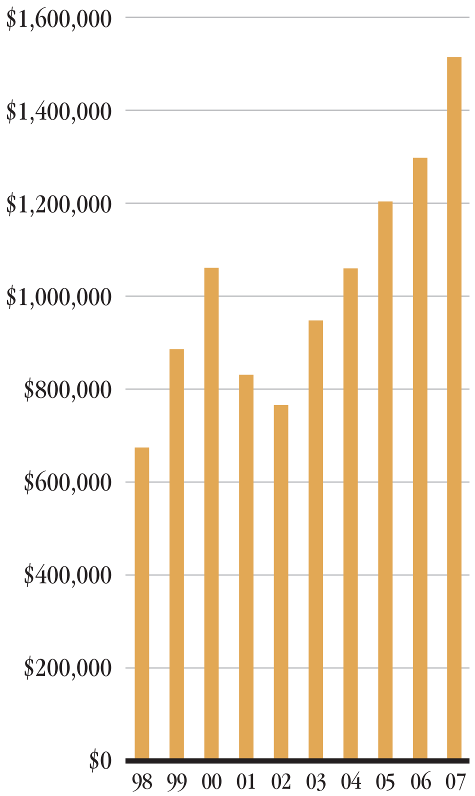
(September 30, 2007)



401(K) PLAN

Net Assets Available For Benefits

(in thousands)



These charts are unaudited and intended for informational purposes only.

NOTES TO FINANCIAL STATEMENTS

Note 1
GENERAL PLAN DESCRIPTION

The TVA Savings and Deferral Retirement Plan [401(k) Plan] is a defined contribution plan for members of the System funded by participants' after-tax contributions and before-tax salary deferrals. Additionally, participants receive employer matching contributions provided by TVA. Investment options for the after-tax, before-tax, Roth, and matching contributions comprise over 200 eligible funds. A detailed description of the 401(k) Plan and the various investment options offered is available from the TVA Retirement System.

Vesting

Participants who contribute to the 401(k) Plan are immediately vested in their own contributions and become vested in TVA matching contributions upon completion of three years of actual service. Actual service is defined as the length of time spent as a member of the TVA Retirement System, not including credit for unused sick leave, forfeited annual leave, or pre-TVA employment military service. Upon completion of this service requirement, a member may withdraw matching contributions only upon retirement, disability, or termination of TVA employment. Upon death, matching contributions may be withdrawn without regard to the vesting requirement.

Forfeitures

If a participant ceases to be an employee for any reason other than death prior to completing three years of actual service, the entire amount of that participant's matching contributions account is forfeited as of the termination date. Forfeitures are used to reduce TVA's matching contributions to the 401(k) Plan. The amount of forfeitures used to reduce TVA's matching contributions totaled $410 thousand in fiscal year 2007 and $193 thousand in fiscal year 2006.

Termination

In the event the 401(k) Plan terminates, the net assets will be distributed to participants in proportion to their respective accounts in the 401(k) Plan. In the event the 401(k) Plan terminates, payment of nonforfeitable benefits based on contributions to participants' accounts will be assured.

Note 2
SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Financial Statements are prepared on the accrual basis of accounting. Benefits are recognized at the time of payment.

Valuation of Investments Other Than Stable Value Funds

The assets of the 401(k) Plan are held by the Trustee, Fidelity Management Trust Company. The 401(k) Plan's investments in any mutual funds are valued at quoted market prices based on their closing net asset values (or unit value) per share. The Brokerage Link Fund allows participants to purchase other mutual funds not offered by the Trustee or investment securities. Investment securities, other than debt securities, listed on either a national or foreign securities exchange or traded in the over-the-counter National Market System are generally valued each business day at the official closing price (typically the last reported sale price) on the exchange on which the securities are primarily traded. If there are no current day sales, the securities are valued at their last quoted bid price. Other securities traded over-the-counter and not part of the National Market System are valued at their last quoted bid price. Debt securities (other than certain short-term obligations) are valued each business day by an independent pricing service or broker approved by the Trustee. Any other securities for which market quotations are not readily available are valued at their fair value as determined in good faith by the Trustee. There are inherent limitations in any estimation technique, and the amounts realized in a subsequent sale may differ from the amounts recorded. Such difference may be material. A summary of investments is provided at Note 12.

Valuation of Stable Value Fund Investments

The fair value of the 401(k) Plan's interests in the stable value fund, the Fidelity Managed Income Pool II, is based upon the net asset value of such fund reflecting all investments at fair value, including direct and indirect interests in fully benefit-responsive contracts, as reported by the fund manager.

Net assets available for benefits reflects the contract value of the 401(k) Plan's investments in stable value funds, due to a separate adjustment presented in the statement of net assets available for benefits to increase the carrying amount of these investments to contract value, as applicable.

Investment Income

The System presents in the Statements of Changes in Net Assets Available for Benefits the net appreciation (depreciation) in the fair value of its investments, which consists of both realized gains (losses) and the unrealized appreciation (depreciation) on those investments. Purchases and sales of securities are recorded on a trade-date basis. Gains and losses on the sales of investments are determined as the difference between sales proceeds and historical cost, which is determined by a moving average method. Interest income is reported on the accrual basis. Dividends are recorded on the ex-dividend date. Capital gain distributions are included in dividend income.

Risks and Uncertainties

The 401(k) Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of net assets available for benefits and participants' individual account balances.

Tax Status

The Internal Revenue Service (IRS) has determined and informed the System in March 2003 that the 401(k) Plan is designed in accordance with the applicable sections of the Internal Revenue Code. The 401(k) Plan has been amended subsequent to the receipt of the latest IRS determination letter. However, the 401(k) Plan administrator and the 401(k) Plan's tax counsel believe that the 401(k) Plan is currently designed and operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been included in these financial statements.

As plans maintained for employees of an agency of the Federal government, the 401(k) Plan is a governmental plan within the meaning of Section 3(32) of ERISA. For the most part, governmental plans are excluded from ERISA, which governs private employer pension plans. The 401(k) Plan is also a governmental plan within the meaning of Section 414(D) of the IRC and, as a result, is exempt from the requirements of the IRC that parallel those contained in ERISA.

Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date(s) of the financial statements and the reported amounts of revenues and expenses during the reporting period(s). Actual results could differ from those estimates.

Note 3
FULLY BENEFIT-RESPONSIVE INVESTMENT CONTRACTS

The 401(k) Plan retroactively adopted Financial Accounting Standards Board (FASB) Staff Position AAG INV-1 and SOP 94-4-1, Reporting of Fully Benefit-Responsive Investment Contracts Held by the Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined Contribution Health and Welfare and Pension Plans ("the FSP") in 2007. Pursuant to the adoption of the FSP, fully benefit-responsive investment contracts held directly by the 401(k) Plan or included in the underlying investments of common collective trust funds in which the 401(k) Plan holds an interest are to be presented at fair value. The 401 (k) Plan held shares in the Fidelity Managed Income Pool II in fiscal years 2007 and 2006. In addition, any material difference between the fair value of these investments and their contract value is to be presented as a separate adjustment line in the statement of net assets available for benefits, because contract value remains the relevant measurement attribute for that portion of net assets available for benefits attributable to fully benefit-responsive investment contracts. Accordingly, the adoption of the FSP had no impact on the net assets available for benefits as of September 30, 2007 or 2006. The net appreciation (depreciation) reported in the Plan's statements of changes in net assets available for benefits has not been impacted by the adoption of the FSP either, as the amounts reflect the contract value of fully benefit-responsive contracts held directly or indirectly by the 401(k) Plan.

Adoption of the FSP resulted in a decrease of approximately $2 million from the amount previously reported as 401(k) Plan investments in the fiscal year 2006 statement of net assets available for benefits, since this amount now reflects the fair value of the Plan's indirect interests in fully benefit-responsive contracts. The decrease in the amount reported for 401(k) Plan investments as of September 30, 2006, is completely offset by an adjustment that increases net assets reflecting investments at fair value to net assets available for benefits.

Note 4
AMENDMENTS TO THE PROVISIONS OF THE 401(K) PLAN

Under the Pension Protection Act passed by Congress in August 2006, IRS rules were amended to allow a non-spouse beneficiary to roll over any eligible lump-sum distribution from 401(k) plans to an inherited individual retirement account (IRA), which allows the non-spouse beneficiary to further defer receipt of and taxation on the distributions and to control the investment of those funds on a going-forward basis. During fiscal year 2007, the System Board approved amendments to the 401(k) Plan Provisions allowing for non-spouse beneficiary rollovers of eligible distributions to inherited IRAs.

In order to give participants in the 401(k) Plan the widest range of options accorded them by IRS rules, the System Board approved expanded hardship withdrawal amendments to the 401(k) Plan Provisions in fiscal year 2007.

In fiscal year 2006, the 401(k) Plan Provisions were amended to allow employees to designate some or all of their elective contributions as Roth 401(k) contributions rather than traditional, pre-tax elective contributions. The Roth 401(k) option applies only to employee contributions and not employer matching contributions.

The 401(k) Plan Provisions were also amended to change the definition of wages and salaries in calculating 401(k) Plan matching contributions. TVA matching contributions are now made on certain lump-sum payments made in lieu of base wage or salary increases for fiscal year 2008 as well as on base wage and salary. Matching contributions are also now made on lump-sum payments for certain TVA performance incentive plans beginning in fiscal year 2000.

Note 5
COMMITMENTS AND CONTINGENCIES

The 401(k) Plan had no existing material commitments or contingencies at September 30, 2007 and 2006.

Note 6
CONTRIBUTIONS

After-tax

Contributions, subject to certain limitations, may be made by payroll deductions, cash payment, or transfer from other funds into the 401(k) Plan. A member may increase, decrease, transfer, or stop contributions at any time.

Before-tax

Salary deferrals are made through payroll deductions only. A member may increase, decrease, transfer, or stop contributions at any time.

Matching

Cash Balance Benefit Structure participants who contributed to the 401(k) Plan received employer matching contributions from TVA equal to 75 cents on every dollar contributed to the 401(k) Plan, with maximum matching contributions of 4.5 percent of fiscal year-to-date earnable compensation. Participants in the Original Benefit Structure received employer matching contributions from TVA of 25 cents on every dollar contributed, with maximum matching contributions of 1.5 percent of fiscal year-to-date earnable compensation.

In calendar year 2007, total contributions to the Fixed Fund, Variable Fund, and 401(k) Plan, including TVA matching contributions, could not exceed the lesser of $45,000 or 100 percent of calendar year-to-date compensation.

Note 7
WITHDRAWALS

After-tax Contributions

Members are permitted to withdraw from any or all of the funds in the 401(k) Plan at any time. Upon retirement, participants in the 401(k) Plan who first became members of the System prior to January 1, 1996, are also permitted to transfer their funds to the System to receive monthly annuity payments.

Before-tax Contributions

Federal income tax rules restrict withdrawals from the 401(k) Plan while the member is still employed except for the following situations:

- If the member is over age 59½, salary deferral contributions may be withdrawn at any time.
- If the member is under age 59½, salary deferral contributions may be withdrawn only upon the Retirement System Board's approval and only upon a showing of financial hardship. Generally, the only financial needs considered to meet the definition of hardship are: (1) certain deductible medical expenses; (2) purchase of a principal residence; (3) post-secondary tuition and related educational fees; or (4) payments necessary to prevent eviction from or foreclosure on the participant's principal residence.

Members may receive the full balance of their funds upon retirement, disability, death, or termination, except that a retiree may defer distribution until no later than April 1 of the calendar year after the year in which he or she reaches age 70½. In addition, members may choose, after termination, to receive periodic installment payments from their balance.

Note 8
ADMINISTRATIVE EXPENSES

There were no recordkeeping expenses paid to the Trustee, Fidelity Investments, in fiscal years 2007 and 2006.

Note 9
RELATED PARTY TRANSACTIONS

Fidelity Management Trust Company is the Trustee of the 401(k) Plan, and therefore 401(k) Plan investments in shares of funds managed by subsidiaries and affiliates of the Trustee qualify as related party transactions. Investment management fees are paid from the participants' accounts to Fidelity Investments Institutional Services Company, Inc. for their investments in Fidelity Funds under the 401(k) Plan.

Note 10
LOANS

With certain limits, the 401(k) Plan permits loans to participants. Members may borrow a percentage of their vested account balance (maximum $50,000) for up to five years, or 10 years if the loan is to be used to purchase a primary residence. The loan interest rate is the Prime Rate plus 1 percent at the beginning of the quarter, which was 9.25 percent at September 30, 2007. Such interest is credited directly to the account of the member.

Note 11
INVESTMENT INCOME OF INVESTMENTS

During 2007 and 2006, the 401(k) Plan's investments (including investments bought, sold, and held during the year) appreciated (depreciated) in value as follows:

September 30, 2007 and 2006

(Dollars in thousands)	**2007**	2006
Mutual Funds	**$ 159,900**	$(11,249)

The 401(k) Plan's investments also earned dividends and interest income of $78,032 and $99,875 for the years ending September 30, 2007 and 2006, respectively.

Note 12
INVESTMENTS

The net assets of all investment options as of September 30, 2007 and 2006, are as follows:

(Dollars in thousands)	**2007**	2006
Equity Funds		
Equity Funds 5% and greater of total portfolio		
Fidelity Magellan*	**$ 218,465**	$ 207,138
Fidelity Equity Income Fund I*	**96,155**	89,062
Fidelity Growth Company*	**91,620**	82,829
Fidelity Contrafund*	**78,090**	67,648
Equity Funds under 5% of total portfolio		
Brokerage Link Fund**	**58,826**	50,603
Other Fidelity Equity Funds*	**566,172**	434,596
Other Equity Funds	**92,030**	66,789
Total Equity Funds	**1,201,358**	998,665
Stable Value Funds 5% and greater of total portfolio		
Fidelity Managed Income Pool II*	**170,699**	176,548
Bond Funds under 5% of total portfolio		
Other Fidelity Bond Funds*	**94,022**	76,267
Other Bond Funds	**18,388**	17,042
Total Bond Funds	**112,410**	93,309
Participant Loans	**23,952**	23,326
Net Assets reflecting all investments at fair value	**$ 1,508,419**	$1,291,848

* *Denotes related party - see Note 8.*

** *The brokerage account option is not a mutual fund. The brokerage account option allows participants to purchase individual securities or other mutual funds not offered as one of the core 401(k) Plan investments.*

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