

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

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FINANCIAL HIGHLIGHTS AND STATISTICS

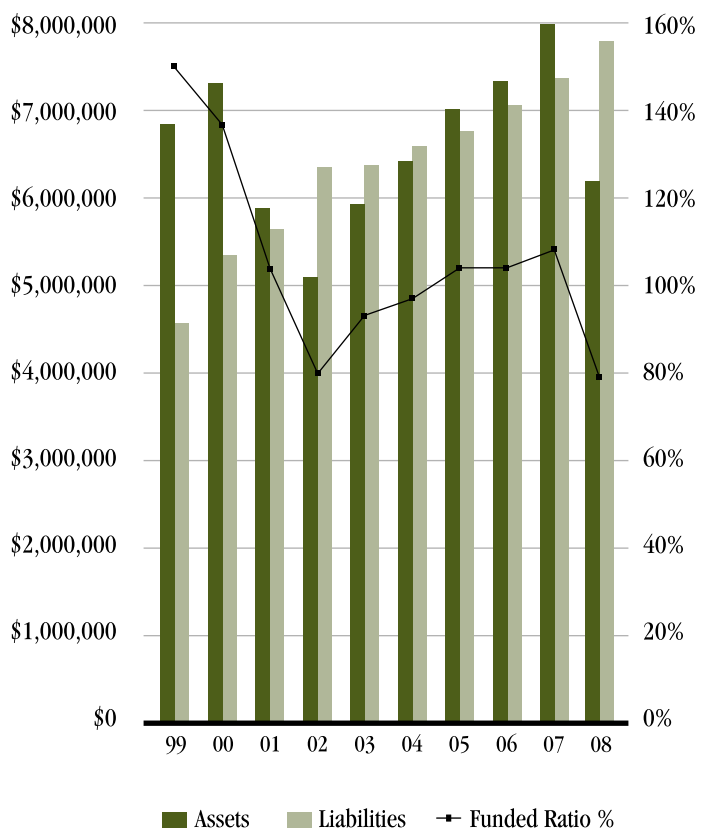
<i>(Dollars in thousands)</i>	2008	2007	Change	% Change
Net Assets Available for Benefits				
TVA Retirement System (Fixed Benefit Fund and Variable Fund)	\$ 6,346,014	\$ 8,214,175	\$ (1,868,161)	-22.7
TVA Savings & Deferral Retirement Plan [401(k) Plan]	1,215,275	1,510,129	(294,854)	-19.5
Total	<u>\$ 7,561,289</u>	<u>\$ 9,724,304</u>	<u>\$ (2,163,015)</u>	-22.2
Net Assets Available for Benefits (Fixed Benefit Fund)	\$ 6,189,549	\$ 7,986,441	\$ (1,796,892)	-22.5
Accumulated Benefit Obligation (Fixed Benefit Fund)	\$ 7,795,300	\$ 7,367,300	\$ 428,000	5.8
Contributions				
Employer (all funds)	\$ 182,935	\$ 95,996	\$ 86,939	90.6
Employee (all funds)	\$ 109,496	\$ 105,875	\$ 3,621	3.4
Benefits Paid (all funds)	\$ 646,280	\$ 612,883	\$ 33,397	5.4
Number of Active Members	11,454	11,877	(423)	3.6
Number of Retirees	23,652	23,144	508	2.2

This summary is intended for informational purposes only.

FIXED BENEFIT FUND

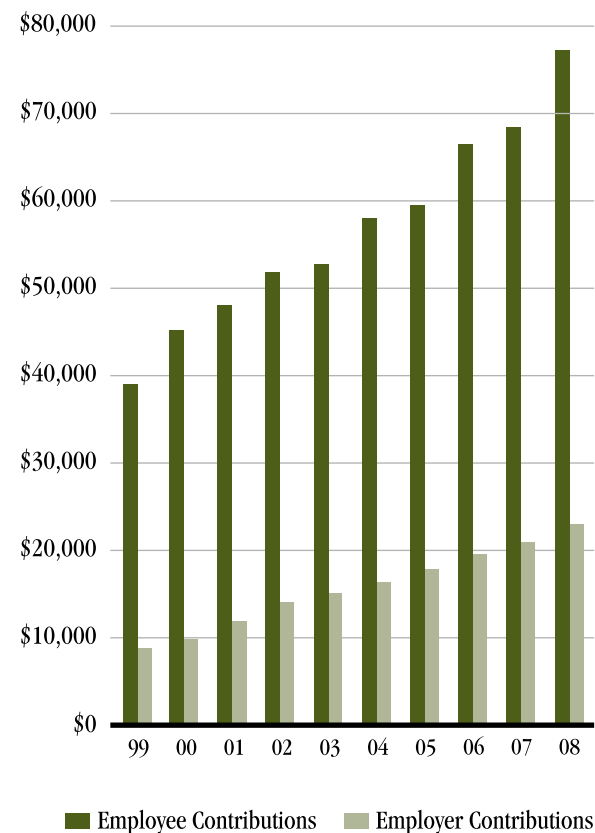
Market Value of Assets and Liabilities, and Funded Ratio

(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 (“System”) Board of Directors is privileged to present to you the 2008 Annual Report. Fiscal Year 2008 was a year marked by weaker economic indicators and turbulent market conditions. For the fiscal year ended September 30, 2008, the net assets of the Fixed Benefit Fund totaled \$6.19 billion, an investment loss of 19 percent for the year. The System has experienced only five negative years of performance since its inception in 1939. Those negative years (1981, 1990, 2001, 2002, and 2008) correspond with economic recession both in the United States and, most recently, globally.

“Dance with the one that brought you” was a favorite expression of University of Texas football coach Darrell Royal. In sports, it means to go with the players and plays that result in wins. The System has developed a winning formula over the years. As the System faces these daunting new challenges, we will continue to follow the plays that have brought us to this “dance.” This proven formula has demonstrated over time that it results in “wins” for the System. The main ingredients in this winning formula are prudent oversight and diversification. The System’s assets remain well diversified with an allocation policy of 35 percent of assets in fixed income securities, 30 percent in domestic equities, 25 percent in international equities, and 10 percent in alternative investments, including private equity, real estate and commodities. The Board continues to exercise prudent oversight by monitoring this allocation policy on a frequent basis. As the U.S. economy recovers, the System is positioned to perform well and generate a return sufficient to fund future liabilities.

Several noteworthy activities that occurred during and subsequent to this reporting period are as follows:

- The TVARS Board approved a cost-of-living increase of 4.45 percent for the retiree’s pension and supplemental benefits and a 7.45 percent interest credit for the Cash Balance Benefit Structure participants for calendar year 2009.
- Les Bays 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 R. Spencer Jones, who left TVA.
- Tony Troyani was elected by the System’s active members to serve as a Board director for the term beginning November 1, 2008, and ending October 31, 2011.
- Tammy W. Wilson was selected during the summer by the TVARS Board of Directors to fill the position of Executive Secretary of the Retirement System, effective January 1, 2009. She replaced Randy A. Snyder, who retired from TVA.
- Amendments were approved to allow 29 Fidelity mutual funds in the 401(k) Plan to offer lower management fees and expenses. The new type of share class, referred to as “K shares,” was available to the membership November 21, 2008.
- TVA continued to show its support of the System by making a \$75 million contribution for fiscal year 2008, an \$85 million contribution for fiscal year 2009, and matching contributions to the 401(k) Plan.

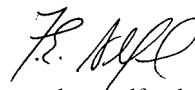
The TVA Retirement System was established in 1939 and is governed by rules which established a seven-member Board of Directors to oversee them. I (Gretchen Thal) have had the honor and privilege of serving as an elected Board member for almost 12 years. As I retire from TVA and the Board, I will miss the frequent contact with my friends and coworkers of this Board. I am confident the members I leave behind possess the leadership and knowledge needed to prevail in these tough economic times. I remain confident the continued focus of this Board will be on the System’s ability to provide the benefits that are promised to each and every member. I personally appreciate all the support each of you has given me over the years.

The Board and staff remain committed to their goal of providing to TVA employees, retirees, and beneficiaries a secure retirement system. Thank you for the confidence you have instilled in us to work on your behalf.

For the Board,



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



Frank E. Alford
Vice Chairman, Board of Directors
TVA Retirement System

BOARD OF DIRECTORS

ELECTED BY MEMBERS

Leslie P. Bays
Elected June 13, 2008

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



Leslie P. Bays



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

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

INVESTMENT

Phillip L. Reynolds, Chair
Leonard J. Muzyn, Vice Chair
Frank E. Alford
Leslie P. Bays
Janet C. Herrin
John M. Hoskins
Gretchen D. Thal

RETIREMENT

Janet C. Herrin, Chair
Leslie P. Bays
Phillip L. Reynolds

BOARD OFFICERS

Gretchen D. Thal
Chairman

Frank E. Alford
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 Horwath LLP, Oak Brook, Illinois
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, LP
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
HarbourVest Partners, LLC
Hancock Natural Resource Group, Inc.
J.P. Morgan Investment Management, Inc.
MacKay Shields, LLC
Mellon Capital Management
Neuberger Berman, LLC
Pacific Investment Management Company

Prudential Real Estate Investors
Smith Breeden Associates Inc.
Standish Mellon Asset Management, LLC
Stone Harbor Investment Partners, LP
Taplin, Canida & Habacht
Vedenta Capital, LLC
Wellington Management Company, LLP
Western Asset Management Company
Wilshire Associates Incorporated
W.R. Huff Asset Management Co., LLC
WRH Partners II, L.L.C.

VARIABLE FUND

Fidelity Investments
Mellon Capital Management

PLAN SUMMARY

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 percent for calendar year 2008 and 6.43 percent for calendar year 2007.

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

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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 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 2008, contributions to the Fixed Fund, Variable Fund, and 401(k) Plan, including TVA matching contributions, could not exceed the lesser of \$46,000 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 2008). 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 2008, 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.

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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 Consumer Price Index (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 2.53 percent in calendar year 2008 and 3.43 percent in calendar year 2007.

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

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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 (IRC). 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 IRC. 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 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) to the extent feasible, cost-of-living increases thereto. The Plan benefits are not guaranteed by the Pension Benefit Guaranty Corporation.

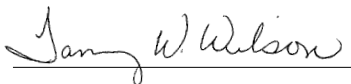
This summary is intended to help members understand the System and its benefits under the Plan and the 401(k) Plan. The rules governing these plans, not this summary, are used to determine the benefits to which a member is entitled. For additional information about your Retirement System benefits, please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

C E R T I F I C A T I O N O F F I N A N C I A L S T A T E M E N T S

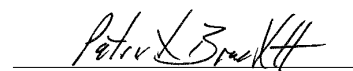
Tammy W. Wilson and Patrick D. Brackett individually certify that:

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 13, 2009



Tammy W. Wilson
Executive Secretary



Patrick D. Brackett
Assistant Secretary

REPORT OF INDEPENDENT AUDITORS



Crowe Horwath LLP
Member Horwath International

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying statements of net assets available for benefits of the Tennessee Valley Authority Retirement System as of September 30, 2008 and 2007, and the related statements of changes in net assets available for benefits for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Plan as of September 30, 2008 and 2007, and the changes in its financial status for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP

Oak Brook, Illinois
March 13, 2009

T V A R E T I R E M E N T S Y S T E M

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

September 30, 2008 and 2007

(Dollars in thousands)

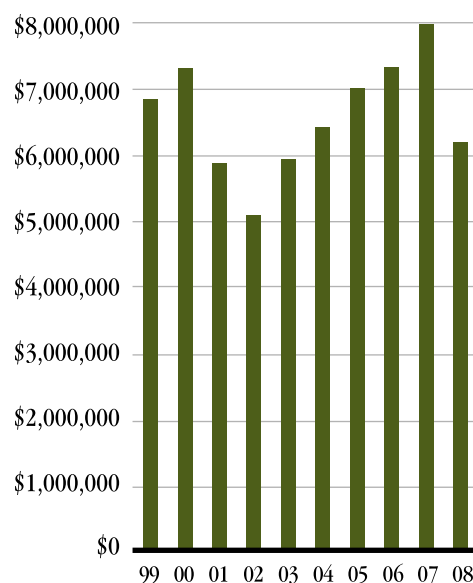
	2008	2007
Assets		
Investments at estimated fair value		
Commingled funds	\$ 2,143,680	\$ 2,456,714
Corporate bonds	2,074,347	2,575,407
Cash equivalents	506,210	557,185
Limited partnerships	392,167	347,751
Securities lending commingled funds (see Notes 4 and 18)	341,378	868,039
Government bonds	221,552	433,406
Treasury bills and U.S. government notes held as futures collateral	91,191	67,743
Unrealized appreciation on forwards, options, and swaps	13,623	14,103
Securities held as options collateral	3,681	3,183
Total Investments at estimated fair value	5,787,829	7,323,531
Investments at quoted fair value		
Common stocks	1,175,297	2,078,597
S&P 500 Stock Index Fund	68,237	103,811
Preferred stocks	13,398	28,510
Total Investments at quoted fair value	1,256,932	2,210,918
Total Investments	7,044,761	9,534,449
Receivables		
Foreign currency forward receivable	1,329,830	1,187,886
Due from broker	209,082	207,446
Interest and dividends	31,757	35,523
Other	808	756
Variation margin on futures contracts receivable	30,809	206
Total Receivables	1,602,286	1,431,817
Cash	0	0
Total Assets	\$ 8,647,047	\$ 10,966,266
Liabilities		
Due to broker	449,958	633,871
Reverse repurchase agreement payable	95,358	
Unrealized depreciation on forwards, options, and swaps	40,120	33,640
Disbursements payable	17,184	5,933
Investment fees payable	10,860	8,300
Other	6,167	5,174
Variation margin on futures contracts payable	4,496	5,059
Written options obligation	5,419	4,189
Total Payable	629,562	696,166
Foreign currency forward payable	1,330,093	1,187,886
Liabilities to brokers for securities lending (see Notes 4 and 18)	341,378	868,039
Total Liabilities	2,301,033	2,752,091
Net Assets Available for Benefits	\$ 6,346,014	\$ 8,214,175

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

FIXED BENEFIT FUND

Net Assets Available For Benefits

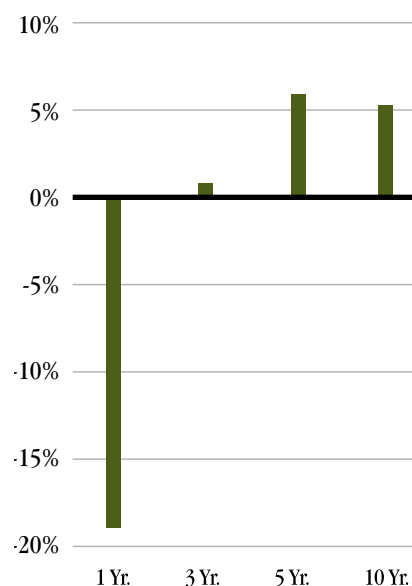
(in thousands)



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.

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STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Fiscal Years Ended September 30, 2008 and 2007

(Dollars in thousands)

	2008	2007
Investment Income		
Net appreciation (depreciation) in fair value of stocks, bonds, and other investments	\$ (1,441,744)	\$ 759,721
Net appreciation (depreciation) in fair value of derivative investments	<u>(247,831)</u>	<u>62,888</u>
Net appreciation (depreciation) in fair value of investments	(1,689,575)	822,609
Interest	142,402	210,355
Dividends	<u>70,015</u>	<u>61,222</u>
	(1,477,158)	1,094,186
Less Investment Expenses		
	<u>42,585</u>	<u>35,776</u>
	(1,519,743)	1,058,410
Contributions		
TVA	160,146	75,182
Members	36,468	37,473
Transfers from 401(k) Plan	<u>11,158</u>	<u>8,730</u>
	207,772	121,385
Total increase (decrease)	<u>(1,311,971)</u>	<u>1,179,795</u>
Benefits, Transfers, and Expenses		
Retirement benefits – Fixed Benefit Fund	520,118	481,018
Transfers to 401(k) Plan	17,701	14,658
Retirement benefits – Variable Fund	13,566	15,100
Administrative expenses	<u>4,805</u>	<u>4,636</u>
Total benefits, transfers, and expenses	556,190	515,412
Net increase (decrease)	(1,868,161)	664,383
Net Assets Available for Benefits		
Beginning of year	8,214,175	7,549,792
End of year	<u>\$ 6,346,014</u>	<u>\$ 8,214,175</u>

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

TVA RETIREMENT SYSTEM

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. Members' contributions in the Fixed Fund for those who first became members before January 1, 1996, were credited an annual rate of interest of 8 percent for the 2008 calendar year and 8.5 percent for calendar year 2007. Members' 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 2008 and 2007. 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:

Agent	Percent of Total Investments	
	FY 2008	FY 2007
Wellington Management Company	9.6%	4.3%
Barclays Global Investors	9.4%	10.1%
BlackRock Financial Management	3.5%	2.2%
Fidelity Investments (see Note 18)	1.0%	1.1%

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

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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 12.

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, liquidity, 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 (IRC). 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 IRC. 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 materially from those estimates.

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. Credit default swaps are priced at market using models that consider cash flows, credit curves, recovery rates, and other factors. 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, 2008 and 2007, is provided at Note 13. Also, a summary of swap contracts is provided at Notes 14 through 16.

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 17. 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, 2008 and 2007, is provided at Note 17.

Note 4**SECURITIES LENDING**

The Plan may lend portfolio securities to qualified institutions. Loans are secured by collateral at least equal to 100 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. The cash collateral received for securities lending is recorded both as an asset and a liability in the Statement of Net Assets Available for Benefits. 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 18.

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.

TVA RETIREMENT SYSTEM

In fiscal year 2008, the private equity investments were 22 funds valued at \$392.2 million with commitments of \$665 million and 20.5 million in Euro dollars (\$28.8 million USD). 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). Please see Note 6 on Commitments and Contingencies. Gains and losses from the foreign currency exchange are reflected in the statements of changes in net assets available for benefits.

Note 6

COMMITMENTS AND CONTINGENCIES

The Plan has made commitments to various limited partnerships and private real estate funds. As of September 30, 2008, the commitments consisted of \$725 million and 20.5 million Euros (\$28.8 million USD) with capital outlays of approximately \$414.6 million and 9.2 million Euros (\$13 million USD). The remaining amount to be funded on capital commitments was approximately \$310.4 million and 11.3 million Euros (\$15.8 million USD). As of September 30, 2007, the commitments consisted of \$615 million and 20.5 million Euro dollars (\$29.2 million USD). The capital outlays were approximately \$314.8 million and 5.9 million Euros (\$7.8 million USD), resulting in a remaining amount to be funded on capital commitments of approximately \$302.2 million and 14.6 million Euros (\$20.7 million USD). The investment partnerships request capital outlays as business opportunities arise.

Note 7

INVESTMENT PERFORMANCE

The 2008 market conditions adversely impacted the performance of debt, equity, and other markets, resulting in a net loss in investments of approximately \$1.5 billion, or 19 percent. With a 0.4 million decrease in net cash flow of contributions and outlays, the decrease in Fixed Benefit Fund Net Assets Available for Benefits amounted to approximately \$1.9 billion, or 23 percent. As of September 30, 2008, the Fixed Benefit Fund Net Assets Available for Benefits were approximately \$6.2 billion and the Plan was approximately 79 percent funded, declining from approximately 108 percent funded at the end of fiscal year 2007.

Since September 30, 2008, market conditions have further deteriorated resulting in lower valuations for many investments. The TVARS Plan's investment portfolio includes diversified investments with some investments directly impacted by market conditions. As of December 31, 2008, the investments had declined approximately \$1 billion (unaudited), or 17 percent, since September 30, 2008. This market impact was the primary driver in causing the Fixed Benefit Fund Net Assets Available for Benefits at December 31, 2008, to be approximately \$5.1 billion (unaudited). The Plan was approximately 65 percent (unaudited) funded

at December 31, 2008. The System Board continues to closely monitor investment performance and the impact on the Plan.

Note 8

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 9

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 paid during the year). TVA contributed \$160 million in fiscal year 2008, with \$75 million designated for fiscal year 2008 and \$85 million for fiscal year 2009. In fiscal year 2007, TVA contributed \$75 million.

Under the Rules, TVA may utilize a portion of a reserve account, which consists of contributions made by TVA for past years 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 10

AMENDMENTS TO THE RULES AND REGULATIONS

The System Board adopted a new mortality table, changing from the 1983 Group Annuity Mortality Table to the Combined

TVA RETIREMENT SYSTEM

Healthy RP-2000 Mortality Table. The Accumulated Benefit Obligation at September 30, 2008, reflects this change in mortality tables. The impact upon new retiree pension and annuity calculations will be implemented effective for retirements on or after April 1, 2009.

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.

For calendar year 2008, the Fixed Fund interest rate was reduced to 8 percent from 8.5 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 2009. Wages and salaries also now include lump-sum payments for certain TVA performance incentive plans beginning in fiscal year 2000.

Note 11

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 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 percent in 2008 and 6.43 percent in 2007.

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, 2008 and 2007, were:

- A. Life expectancy of participants – the Combined Healthy RP-2000 Mortality table for 2008 and the 1983 Group Mortality Annuity Table for 2007
- B. Interest rate – 7.75 percent annually for 2008 and 2007
- C. Retiree cost-of-living increases – 2.5 percent annually for 2008 and 2007
- D. Annual rates of retirements – the assumptions for fiscal years 2008 and 2007 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.

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ACCUMULATED BENEFITS

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

September 30, 2008 and 2007

(Dollars in thousands)

	2008	2007
Vested benefits		
Participants currently receiving benefits	\$ 5,222,400	\$ 4,639,300
Active participants	2,421,000	2,566,500
Deferred benefit participants	<u>114,500</u>	<u>126,700</u>
Total	7,757,900	7,332,500
Nonvested benefits	<u>37,400</u>	<u>34,800</u>
Total estimated actuarial present value of accumulated benefits payable from the Fixed Benefit Fund	<u>\$ 7,795,300</u>	<u>\$ 7,367,300</u>

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, 2008 and 2007

(Dollars in thousands)

	2008	2007
Actuarial present value of accumulated benefits payable from the Fixed Benefit Fund at beginning of year	\$ 7,367,300	\$ 7,056,900
Increase during the year attributable to:		
Additional benefits accumulated and actuarial gains and losses	353,400	268,000
Interest due to decrease in the discount period	550,600	528,100
Benefits paid to participants	(525,800)	(485,700)
Change in mortality table assumptions	<u>49,800</u>	<u>0</u>
Actuarial present value of accumulated benefits payable from the Fixed Benefit Fund at end of year	<u>\$ 7,795,300</u>	<u>\$ 7,367,300</u>

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Note 12

INVESTMENTS

The following summarizes the investments of the Plan at September 30, 2008 and 2007.

(Dollars in thousands)

	2008	2007
Commingled funds	\$ 2,143,680	\$ 2,456,714
Corporate bonds, at fair value		
Domestic		
Mortgage backed securities	811,005	1,007,126
Industrial	355,664	452,820
Financial	231,467	346,485
Asset backed securities	166,280	172,041
Utilities	84,585	106,584
Other	80,655	45,243
Convertible	1,802	3,898
International		
Europe	228,848	294,054
Canada	57,403	68,153
Asia	18,689	22,976
South America	8,528	17,920
Mexico	4,311	7,917
Other Countries	25,110	30,190
Total corporate bonds, at fair value	<u>2,074,347</u>	<u>2,575,407</u>
Common stocks, at fair value		
Domestic		
Technology	149,170	343,682
Real Estate	124,049	16,999
Consumer Non-Durables	103,965	225,665
Health Care	97,519	185,807
Financial	89,094	228,657
Energy	67,935	140,388
Capital Goods	50,705	153,573
Basic Industries	41,280	53,993
Transportation	28,411	36,343
Utilities	25,266	43,015
Other	10,988	48,894
Consumer Durables	4,386	9,845
International		
Europe	218,210	343,117
Asia	86,076	131,529
Other Countries	78,243	117,090
Total common stocks, at fair value	<u>1,175,297</u>	<u>2,078,597</u>
Cash equivalents	506,210	557,185
Limited partnerships	392,167	347,751
Securities lending commingled fund	341,378	868,039
U.S. government bonds	221,552	433,406
Treasury bills and U.S. government notes held as futures collateral	91,191	67,743
S&P 500 Stock Index Fund	68,237	103,811
Unrealized appreciation on forwards, options, and swaps	13,623	14,103
Preferred stocks, at fair value	13,398	28,510
Securities held as options collateral	3,681	3,183
Total	<u>\$ 7,044,761</u>	<u>\$ 9,534,449</u>

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Note 13

FUTURES AND OPTIONS CONTRACTS

The following summarizes the futures and options contracts of the Fixed Benefit Fund at September 30, 2008 and 2007.

(Dollars in thousands)

	2008		2007	
	Contracts Long (Short)	Unrealized Appreciation (Depreciation)	Contracts Long (Short)	Unrealized Appreciation (Depreciation)
Futures Contracts				
Equity Futures				
Russell 2000 Index Futures	1,682	\$ 6,515	1,621	\$ (1,232)
S&P 500 Index Futures	3,751	21,363	3,747	(2,963)
International Index Futures	174	80	938	(139)
Commodity Futures	31	(32)	163	(36)
Subtotal Equity Futures	<u>5,638</u>	<u>27,926</u>	<u>6,469</u>	<u>(4,370)</u>
Foreign Currency Futures				
90 Day Eurodollar Futures	3,468	(2,647)	3,946	(620)
90 Day Sterling London Interbank Offer Rate Futures	431	29	41	(107)
90 Day Australian Bank Bill Futures	(258)	(111)	(169)	(8)
90 Day Bank Acceptance Futures	(14)	12	140	28
90 Day Euro Yen Futures	307	27	691	9
90 Day Euro Interbank Offer Rate Futures	276	(207)	(77)	(2)
Subtotal Foreign Currency Futures	<u>4,210</u>	<u>(2,897)</u>	<u>4,572</u>	<u>(700)</u>
Interest Rate Futures				
U.S. Treasury Notes Futures - 2 year	271	(330)	140	(7)
U.S. Treasury Notes Futures - 5 year	955	(1,147)	742	1
U.S. Treasury Notes Futures - 10 year	(1,309)	2,706	(1,843)	172
U.S. Treasury Long Bonds Futures	(29)	77	(412)	54
International Bond Futures	89	(22)	(153)	(3)
Subtotal Interest Rate Futures	<u>(23)</u>	<u>1,284</u>	<u>(1,526)</u>	<u>217</u>
Total Futures Contracts	9,825	\$ 26,313	9,515	\$ (4,853)
Option Contracts				
Written Options				
Foreign Currency Options				
90 Day Eurodollar Futures Options	(468)	\$ (65)	(337)	\$ (44)
90 Day Sterling London Interbank Offer Rate Futures	(106)	(12)	0	0
Euro 1 Year Futures Option	(65)	(25)	0	0
Subtotal Foreign Currency Options	<u>(639)</u>	<u>(102)</u>	<u>(337)</u>	<u>(44)</u>
Interest Rate Options				
Interest Rate Swap Options	(2,188)	712	(1,350)	(796)
U.S. Treasury Notes and Bonds Options - 10 year	(209)	(104)	(1,990)	(260)
U.S. Treasury Notes Options - 5 year	(676)	(36)	(171)	10
U.S. Treasury Long Bonds Options	0	0	(540)	(100)
Subtotal Interest Rate Options	<u>(3,073)</u>	<u>572</u>	<u>(4,051)</u>	<u>(1,146)</u>
Total Written Options	(3,712)	\$ 470	(4,388)	\$ (1,190)
Purchased Options				
Foreign Currency Options				
Euro 1 Year Futures Option	64	\$ 4	0	\$ 0
90 Day Eurodollar Futures Options	0	0	354	126
Subtotal Foreign Currency Options	<u>64</u>	<u>4</u>	<u>354</u>	<u>126</u>
Interest Rate Options				
Interest Rate Swap Options	4,338	(1,648)	3,243	1,461
U.S. Treasury Notes Options - 10 year	2	0	4	0
U.S. Treasury Long Bonds Options	0	0	39	(43)
Subtotal Interest Rate Options	<u>4,340</u>	<u>(1,648)</u>	<u>3,286</u>	<u>1,418</u>
Fixed Income Securities Options				
Federal National Mortgage Association Securities	390	0	0	0
Total Purchased Options	4,794	\$ (1,644)	3,640	\$ 1,544

T V A R E T I R E M E N T S Y S T E M

Note 14

INTEREST RATE SWAP CONTRACTS

The following summarizes the interest rate swap contracts of the Fixed Benefit Fund at September 30, 2008 and 2007.

<i>(Dollars in thousands)</i>		2008					
Counter Parties	Notional Amount	Pay/ Receive	Floating Rate Index		Fixed Rate	Maturity Date	Unrealized Appreciation (Depreciation)
Interest Rate Swaps							
Bank of America	\$ 49,900	Receive	3 Month LIBOR	Pay	4.00%	2010	\$ 185
	5,400	Receive	3 Month LIBOR	Pay	5.00%	2028	(201)
	13,100	Receive	3 Month LIBOR	Pay	5.00%	2038	(700)
Barclays Global Investors	3,921	Pay	6 Month LIBOR	Receive	6.00%	2008	(1)
	2,317	Pay	6 Month LIBOR	Receive	5.00%	2009	(21)
	983	Pay	France CPI Index	Receive	2.10%	2010	(1)
	1,600	Pay	3 Month LIBOR	Receive	4.00%	2010	(8)
	12,080	Pay	6 Month EURIBOR	Receive	4.28% to 4.44%	2010	(79)
	1,792	Pay	3 Month LIBOR	Receive	4.40%	2012	33
	2,388	Receive	6 Month EURIBOR	Pay	4.47%	2018	43
	713	Receive	6 Month LIBOR	Pay	4.00%	2036	55
Bear Stearns	3,600	Pay	3 Month LIBOR	Receive	3.93%	2013	(14)
	1,255	Receive	3 Month LIBOR	Pay	4.80%	2018	(31)
BNP Paribas	1,405	Pay	France CPI Index	Receive	2.09%	2010	(2)
	983	Pay	6 Month EURIBOR	Receive	4.50%	2014	6
Citibank	7,900	Receive	3 Month LIBOR	Pay	5.00%	2038	(474)
Credit Suisse	720	Pay	3 Month LIBOR	Receive	4.65%	2008	0
	2,317	Pay	6 Month BP LIBOR	Receive	6.00%	2008	(1)
	4,400	Pay	3 Month LIBOR	Receive	3.00%	2010	(31)
	5,169	Pay	6 Month BP LIBOR	Receive	5.00%	2014	27
	2,400	Receive	3 Month LIBOR	Pay	4.97%	2020	(16)
Deutsche Bank	12,390	Pay	3 Month LIBOR	Receive	4.00% to 4.31%	2010	24
	702	Pay	6 Month EURIBOR	Receive	4.46%	2010	(3)
	7,140	Pay	3 Month LIBOR	Receive	4.70%	2010	174
	8,568	Pay	6 Month EURIBOR	Receive	4.25%	2010	(61)
	3,921	Pay	6 Month BP LIBOR	Receive	5.00%	2014	0
	1,826	Receive	6 Month EURIBOR	Pay	4.44%	2018	37
Goldman Sachs	18,612	Pay	3 Month LIBOR	Receive	5.55% to 5.58%	2008	25
	18,000	Pay	AAA 10 CMBS Index minus .75%			2008	(1,355)
		Receive	AAA 10 CMBS Index				
	891	Pay	6 Month BP LIBOR	Receive	6.00%	2009	(2)
	2,300	Pay	3 Month LIBOR	Receive	4.36%	2009	7
	6,300	Pay	3 Month LIBOR	Receive	5.04% to 5.71%	2011	284
	281	Pay	France CPI Index	Receive	1.96%	2012	(8)
	178	Pay	6 Month BP LIBOR	Receive	5.00%	2013	(1)
	357	Pay	6 Month BP LIBOR	Receive	5.25%	2014	3
	13,160	Pay	3 Month LIBOR	Receive	4.00%	2014	(152)
	4,900	Receive	3 Month LIBOR	Pay	4.25%	2016	11
	100	Receive	3 Month LIBOR	Pay	5.00%	2018	1
	9,660	Pay	3 Month LIBOR	Receive	4.25%	2019	(91)
	200	Receive	3 Month LIBOR	Pay	5.00%	2028	4
Greenwich Capital Markets	4,300	Pay	3 Month LIBOR	Receive	3.00%	2010	(30)
HSBC Bank	1,070	Pay	6 Month BP LIBOR	Receive	5.00%	2013	(6)
	713	Receive	6 Month BP LIBOR	Pay	4.00%	2036	55
JP Morgan	3,500	Pay	AAA 10 CMBS Index minus .75%			2008	(266)
		Receive	AAA 10 CMBS Index				
	844	Pay	1 Month EURIBOR			2008	(74)
		Receive	MSCI Austria Price Return Index				
	1,938	Pay	1 Month EURIBOR			2008	(187)
		Receive	MSCI Belgium Price Return Index				
	4,240	Pay	1 Month CIBOR			2008	(12)
		Receive	MSCI Denmark Price Return Index				
	93	Pay	1 Month NIBOR			2008	(1)
		Receive	MSCI Norway Price Return Index				
	382	Pay	1 Month EURIBOR			2008	(7)
		Receive	MSCI Portugal Price Return Index				
	562	Pay	France CPI Index	Receive	1.94%	2012	(15)
	4,020	Pay	3 Month LIBOR	Receive	4.25%	2019	(42)

T V A R E T I R E M E N T S Y S T E M

Note 14

INTEREST RATE SWAP CONTRACTS *(continued)*

The following summarizes the interest rate swap contracts of the Fixed Benefit Fund at September 30, 2008 and 2007.

<i>(Dollars in thousands)</i>		2008					
Counter Parties	Notional Amount	Pay/Receive	Floating Rate Index	Fixed Rate	Maturity Date	Unrealized Appreciation (Depreciation)	
Interest Rate Swaps							
Merrill Lynch	4,892	Receive	Swiss Market Index		2008	(3)	
	3,387	Pay	6 Month BP LIBOR	Receive	4.50%	2009 (36)	
	700	Receive	France CPI Index	Pay	5.00%	2009 0	
	4,600	Pay	3 Month LIBOR	Receive	4.00%	2010 14	
	800	Receive	3 Month LIBOR	Pay	5.00%	2023 (12)	
	535	Receive	6 Month BP LIBOR	Pay	4.00%	2035 7	
	800	Receive	3 Month LIBOR	Pay	5.00%	2038 (52)	
Morgan Stanley	4,200	Pay	3 Month LIBOR	Receive	4.00%	2010 54	
	400	Receive	3 Month LIBOR	Pay	5.00%	2028 (10)	
	7,200	Receive	3 Month LIBOR	Pay	5.00%	2038 (444)	
Royal Bank of Scotland	2,852	Receive	6 Month BP LIBOR	Pay	6.00%	2009 (7)	
	10,000	Pay	3 Month LIBOR	Receive	4.00%	2010 88	
	141	Pay	France CPI Index	Receive	1.95%	2012 (4)	
	178	Pay	6 Month BP LIBOR	Receive	5.10%	2013 0	
	5,347	Pay	6 Month BP LIBOR	Receive	5.00% to 5.25%	2014 29	
	600	Receive	3 Month LIBOR	Pay	5.00%	2028 (26)	
	1,604	Receive	6 Month BP LIBOR	Pay	4.00% to 5.50%	2036 82	
	3,300	Receive	3 Month LIBOR	Pay	5.00%	2038 (89)	
UBS	947	Pay	3 Month Australian Rate Index	Receive	7.00% to 7.50%	2010 9	
	2,367	Pay	6 Month Australian Rate Index	Receive	7.50%	2011 55	
Wachovia	10,000	Pay	AAA 10 CMBS Index minus .75%			2008 (758)	
		Receive	AAA 10 CMBS Index				
Totals	\$ 320,341					\$ (4,022)	
2007							
Interest Rate Swaps							
Bank of America	\$ 15,000	Pay	AAA 10 CMBS Index		Dec. 2007	\$ (14,948)	
		Receive	AAA 10+ CMBS Index plus .075%			15,038	
	700	Receive	3 Month LIBOR	Pay	5.00%	Dec. 2017 11	
	3,900	Pay	3 Month LIBOR	Receive	5.00%	Dec. 2022 (145)	
Barclays Capital	2,200	Pay	6 Month LIBOR	Receive	6.00%	Dec. 2008 12	
	1,300	Pay	6 Month LIBOR	Receive	5.00%	Jun. 2009 (29)	
	700	Pay	France CPI Index	Receive	2.103%	Oct. 2010 14	
	400	Receive	6 Month LIBOR	Pay	4.00%	Dec. 2036 115	
BNP Paribas	1,000	Pay	Daily Inflation Reference Index	Receive	2.09%	Oct. 2010 18	
Citibank	1,500	Receive	3 Month LIBOR	Pay	5.00%	Dec. 2012 (8)	
	400	Receive	3 Month LIBOR	Pay	5.00%	Dec. 2017 6	
Citigroup	1,600	Pay	Mexican Peso Exchange market	Receive	8.17%	Nov. 2016 (2)	
Credit Suisse	600	Receive	3 Month LIBOR	Pay	5.00%	Dec. 2017 10	
Deutsche Bank	720	Receive	3 Month LIBOR	Pay	4.65%	Oct. 2008 15	
	1,300	Pay	6 Month LIBOR	Receive	6.00%	Dec. 2008 7	
	60,000	Pay	6 Month LIBOR			Mar. 2009 (1)	
		Receive	Yen			0	
	2,100	Pay	6 Month EURIBOR	Receive	5.00%	Dec. 2009 29	
	1,690	Pay	3 Month LIBOR	Receive	4.31%	Jun. 2010 (18)	
	7,140	Pay	3 Month LIBOR	Receive	4.71%	Oct. 2010 (1)	
	1,600	Pay	Euro Dollars			Dec. 2011 0	
		Receive	6 Month EURIBOR			42	
	1,300	Receive	3 Month LIBOR	Pay	5.00%	Dec. 2014 2	
	3,170	Pay	3 Month LIBOR	Receive	5.69%	Jul. 2016 124	
	500	Receive	6 Month EURIBOR	Pay	5.00%	Dec. 2017 (17)	
	300	Pay	3 Month LIBOR	Receive	5.00%	Dec. 2022 (11)	
	1,800	Pay	3 Month LIBOR	Receive	5.00%	Dec. 2037 (117)	

T V A R E T I R E M E N T S Y S T E M

Note 14

INTEREST RATE SWAP CONTRACTS *(continued)*

The following summarizes the interest rate swap contracts of the Fixed Benefit Fund at September 30, 2008 and 2007.

<i>(Dollars in thousands)</i>		2007				
Counter Parties	Notional Amount	Pay/ Receive	Floating Rate Index	Fixed Rate	Maturity Date	Unrealized Appreciation (Depreciation)
Interest Rate Swaps						
Goldman Sachs	4,000	Pay	AAA 10 CMBS Index		Oct. 2007	(3,986)
		Receive	AAA 10+ CMBS Index plus .20%			4,004
	23,000	Pay	AAA 8.5+ CMBS Index		Nov. 2007	(22,855)
		Receive	AAA 8.5+ CMBS Index plus .125%			23,061
	5,000	Pay	AAA 10 CMBS Index		Jan. 2008	(5,000)
		Receive	AAA 10+ CMBS Index plus .55%			5,015
	10,000	Pay	AAA 10 CMBS Index		Jan. 2008	(10,000)
		Receive	AAA 10+ CMBS Index plus .20%			10,031
	5,000	Pay	AAA 10 CMBS Index		Jul. 2008	(4,983)
		Receive	AAA 10+ CMBS Index plus .55%			5,000
	10,000	Pay	AAA 10 CMBS Index		Jul. 2008	(9,966)
		Receive	AAA 10+ CMBS Index plus .20%			10,000
	18,612	Pay	3 Month LIBOR	Receive 5.55% to 5.58%	Oct. 2008	129
	2,300	Pay	3 Month LIBOR	Receive 4.36%	Mar. 2009	(13)
	900	Pay	6 Month EURIBOR	Receive 4.00%	Mar. 2009	(5)
	500	Pay	3 Month LIBOR	Receive 6.00%	Jun. 2009	5
	3,000	Pay	3 Month LIBOR	Receive 5.71%	Jul. 2011	96
	3,300	Pay	3 Month LIBOR	Receive 5.04%	Nov. 2011	29
	8,300	Pay	3 Month LIBOR	Receive 5.09% to 5.66%	Jan. 2012	22
	2,900	Pay	3 Month LIBOR	Receive 5.32%	Feb. 2012	55
	200	Pay	France CPI Index	Receive 1.96%	Mar. 2012	(1)
	4,596	Pay	3 Month LIBOR	Receive 5.67% to 5.69%	Oct. 2016	(170)
	1,300	Pay	3 Month LIBOR	Receive 5.38%	Feb. 2017	(20)
	5,470	Pay	3 Month LIBOR	Receive 5.38% to 5.45%	Aug. 2017	92
	2,300	Pay	3 Month LIBOR	Receive 5.00%	Mar. 2018	(39)
	16,773	Pay	3 Month LIBOR	Receive 5.25%	Mar. 2038	(490)
HSBC	400	Receive	6 Month LIBOR	Pay 4.00%	Dec. 2036	115
JP Morgan	10,000	Pay	AAA 8.5+ CMBS Index		Oct. 2007	(9,937)
		Receive	AAA 8.5+ CMBS Index plus .30%			10,015
	400	Pay	France CPI Index	Receive 1.948%	Mar. 2012	0
	2,800	Receive	3 Month LIBOR	Pay 5.00%	Dec. 2012	(16)
	1,000	Receive	3 Month LIBOR	Pay 5.00%	Dec. 2017	16
	3,800	Pay	3 Month LIBOR	Receive 5.00%	Dec. 2037	(246)
Lehman Brothers	1,020	Receive	3 Month LIBOR	Pay 4.60%	Oct. 2007	(0)
	500	Pay	6 Month LIBOR	Receive 4.50%	Sep. 2009	(23)
Merrill Lynch	1,900	Pay	6 Month LIBOR	Receive 4.50%	Sep. 2009	(87)
	300	Receive	6 Month LIBOR	Pay 4.00%	Dec. 2035	28
Morgan Stanley	400	Receive	3 Month LIBOR	Pay 5.00%	Dec. 2017	6
Royal Bank of Scotland	1,600	Pay	6 Month LIBOR	Receive 6.00%	Jun. 2009	15
	100	Pay	France CPI Index	Receive 1.955%	Mar. 2012	(1)
	400	Receive	3 Month LIBOR	Pay 5.00%	Dec. 2012	(2)
	1,100	Receive	3 Month LIBOR	Pay 5.00%	Dec. 2014	2
	700	Receive	3 Month LIBOR	Pay 5.00%	Dec. 2017	11
	900	Receive	6 Month LIBOR	Pay 4.00% to 5.50%	Dec. 2036	213
	600	Pay	3 Month LIBOR	Receive 5.00%	Dec. 2037	(39)
UBS	700	Pay	3 Month Australian Rate Index	Receive 7.00%	Sep. 2009	0
Totals	\$ 266,991					\$ 227

T V A R E T I R E M E N T S Y S T E M

Note 15

CREDIT DEFAULT SWAP CONTRACTS

The following summarizes the credit default swap contracts of the Fixed Benefit Fund at September 30, 2008 and 2007.

(Dollars in thousands)

Counter Parties	2008				
	Notional Amount	BUY/SELL Protection	Fixed Rate	Maturity Date	Unrealized Appreciation (Depreciation)
Bank of America	\$ 100	SELL	4.50%	2012	\$ (52)
Barclays Global Investors	1,800	SELL	0.37%	2009	(8)
	2,000	SELL	0.62% to 4.16%	2011	(326)
	140	BUY	3.60%	2012	47
	18,720	SELL	0.64% to 3.10%	2012	(808)
	2,900	BUY	1.55% to 3.50%	2013	42
	6,000	SELL	1.67% to 3.50%	2013	(40)
	2,430	BUY	0.80%	2017	(137)
	2,280	SELL	0.80%	2017	(125)
Bear Stearns	191	SELL	4.00%	2009	3
	1,453	SELL	1.05% to 5.45%	2010	(122)
	200	BUY	3.65%	2012	67
	16,024	SELL	0.35% to 3.75%	2012	(1,771)
	70	SELL	3.95%	2017	(30)
	300	SELL	0.76%	2038	(148)
Citibank	2,400	SELL	1.63%	2016	0
Citigroup Global Markets	500	SELL	2.14%	2012	(47)
Credit Suisse	2,277	SELL	0.30% to 4.00%	2009	(5)
	200	SELL	1.40% to 2.32%	2010	1
	3,100	BUY	3.50%	2013	17
	6,700	SELL	0.89% to 3.50%	2013	(61)
	258	BUY	1.31% to 2.20%	2034	203
	859	BUY	1.28% to 2.18%	2035	599
	88	BUY	1.36% to 2.18%	2036	85
	1,000	SELL	0.76%	2038	(495)
	5,654	SELL	0.18%	2045	(473)
Deutsche Bank	1,000	SELL	0.72%	2008	(5)
	200	SELL	2.30% to 2.32%	2010	2
	900	SELL	0.71%	2012	6
	8,100	BUY	1.55% to 5.00%	2013	97
	7,500	SELL	0.88% to 1.52%	2013	(180)
	100	SELL	2.93%	2015	(46)
	200	SELL	2.20% to 2.21%	2016	(30)
	60	SELL	4.28%	2017	(26)
	1,851	SELL	0.18%	2045	(131)
	1,100	SELL	0.11%	2046	(343)
Goldman Sachs	25,862	BUY	0.60%	2012	1,126
	32,983	SELL	0.75% to 6.05%	2012	(3,211)
	11,250	BUY	0.66% to 3.50%	2013	52
	9,440	SELL	1.55% to 3.50%	2013	(163)
	300	SELL	2.97%	2016	(13)
	2,580	SELL	0.55% to 3.80%	2017	(175)
	793	SELL	3.80%	2036	685
	598	BUY	3.80%	2045	464
	1,000	BUY	0.60%	2049	478
	4,500	SELL	0.10%	2052	11
Greenwich Capital Markets	4,300	SELL	2.08% to 4.75%	2010	(293)
	20	BUY	4.50%	2011	(10)
	20	SELL	1.20%	2011	(11)
	43,281	SELL	0.35% to 7.20%	2012	(7,198)
	200	SELL	8.60%	2013	(93)
	4,100	SELL	1.55% to 3.00%	2016	(219)
	950	SELL	3.51%	2017	(81)
	100	SELL	2.50%	2035	80
	100	SELL	4.50%	2045	41
HSBC Bank	600	SELL	0.97% to 1.25%	2008	(2)

T V A R E T I R E M E N T S Y S T E M

Note 15

CREDIT DEFAULT SWAP CONTRACTS *(continued)*

The following summarizes the credit default swap contracts of the Fixed Benefit Fund at September 30, 2008 and 2007.

(Dollars in thousands)

Counter Parties	2008				
	Notional Amount	BUY/SELL Protection	Fixed Rate	Maturity Date	Unrealized Appreciation (Depreciation)
JP Morgan	2,250	SELL	1.40%	2012	(89)
	5,760	BUY	1.55% to 3.50%	2013	124
	465	SELL	5.00%	2013	(11)
	1,000	SELL	0.11%	2046	0
	1,000	BUY	0.62%	2049	537
Lehman Brothers	400	SELL	0.75%	2012	(38)
Merrill Lynch	50	BUY	2.30%	2010	0
	2,160	SELL	.82% to 2.30%	2012	(207)
Morgan Stanley	300	SELL	2.60% to 3.90%	2017	(31)
	900	SELL	0.31%	2009	(3)
	400	SELL	0.96%	2012	(0)
	2,200	BUY	1.55%	2013	36
	600	SELL	5.65%	2013	(183)
Royal Bank of Scotland	100	SELL	0.08%	2049	(10)
	600	SELL	3.02%	2013	(11)
	Totals				\$ (12,658)
	\$ 259,817				

T V A R E T I R E M E N T S Y S T E M

Note 15

CREDIT DEFAULT SWAP CONTRACTS *(continued)*

The following summarizes the credit default swap contracts of the Fixed Benefit Fund at September 30, 2008 and 2007.

(Dollars in thousands)

Counter Parties	Notional Amount	BUY/SELL Protection	2007		Unrealized Appreciation (Depreciation)
			Fixed Rate	Maturity Date	
Bank of America	\$ 1,000	SELL	1.00%	2008	\$ (19)
Barclays Capital Inc	1,800	SELL	0.37%	2009	(7)
	300	SELL	4.61%	2011	(4)
	700	SELL	0.75%	2012	(24)
Bear Stearns	191	BUY	4.00%	2009	11
	1,453	SELL	1.05% to 5.45%	2010	30
	13,200	SELL	0.35% to 3.20%	2012	(323)
	70	SELL	3.95%	2017	0
	300	SELL	0.76%	2038	(13)
	500	SELL	0.54%	2045	(69)
CitiBank	500	SELL	2.14%	2012	8
Credit Suisse First Boston	2,277	SELL	0.30% to 4.00%	2009	23
	200	SELL	1.40% to 2.32%	2010	5
	434	SELL	1.28% to 2.20%	2034	77
	1,120	SELL	1.28% to 2.18%	2035	263
	90	SELL	1.36% to 2.18%	2036	32
	1,000	SELL	0.76%	2038	(45)
Deutsche Bank	1,900	SELL	.72% to 2.15%	2008	0
	200	SELL	2.30% to 2.32%	2010	(15)
	100	SELL	2.93%	2015	4
	200	SELL	2.20% to 2.21%	2016	(18)
	60	SELL	4.28%	2017	(14)
	400	SELL	0.11%	2046	4
Goldman Sachs	100	SELL	0.15%	2008	0
	2,300	BUY	.85% to 0.90%	2010	0
	30,500	SELL	.75% to 6.05%	2012	(834)
	300	SELL	2.97%	2016	10
	280	SELL	3.77% to 3.80%	2017	0
	794	BUY	3.80%	2036	107
	5,500	SELL	0.64%	2037	(2,703)
	598	BUY	3.80%	2045	0
Greenwich Capital Mkts	840	SELL	1.20% to 4.95%	2011	13
	36,500	SELL	.66% to 7.20%	2012	(586)
	4,100	SELL	1.55% to 3.00%	2016	134
	1,850	SELL	3.22% to 3.51%	2017	29
HSBC Bank	1,800	SELL	0.24%	2008	(2)
JP Morgan	8,450	SELL	0.15%	2037	(1,615)
Lehman Brothers	1,000	SELL	0.70%	2008	(1)
	2,000	SELL	0.75%	2012	(69)
Merrill Lynch	50	SELL	2.30%	2010	2
	1,700	SELL	.82% to .90%	2012	(65)
	300	SELL	2.60% to 3.90%	2017	(12)
Morgan Stanley	900	SELL	0.31%	2009	(1)
Royal Bank of Scotland	4,300	SELL	2.08% to 4.75%	2010	125
	100	BUY	2.50%	2035	(0)
	100	BUY	4.50%	2045	(3)
Totals	\$ 132,357				\$ (5,565)

T V A R E T I R E M E N T S Y S T E M

Note 16

TOTAL RETURN SWAP CONTRACTS

The following summarizes the interest rate swap contracts of the Fixed Benefit Fund at September 30, 2008 and 2007.

(Dollars in thousands)

2008					
Counter Parties	Notional Amount	Pay	Receive	Maturity Date	Unrealized Appreciation/ (Depreciation)
Bear Stearns	\$ 4,641	3 Month LIBOR minus 3%	31,000 Shares MSCI Emerging Market Index Fund	Oct. 2008	\$ (1,353)
	13,592	3 Month LIBOR minus .11%	S&P Total Return Index	Dec. 2008	0
JP Morgan	61,057	3 Month LIBOR minus .27%	13,972 Units MSCI EAFE Index	Jan. 2009	(11,324)
	10,002	3 Month LIBOR minus 1.4%	106,038 Shares MSCI Emerging Market Index Fund	Mar. 2009	(830)
Merrill Lynch	573	3 Month LIBOR minus .11%	S&P Total Return Index	Dec. 2008	0
Totals	\$ 89,865				\$ (13,507)
2007					
Bear Stearns	\$ 2,427	3 Month LIBOR minus 2%	20,000 shares MSCI Emerging Market Index Fund	Mar. 2008	\$ 100
	10,180	3 Month LIBOR minus .32%	2,198.73 Units MSCI EAFE Index	Mar. 2008	301
	12,745	3 Month LIBOR minus 2%	115,077 shares MSCI Emerging Market Index Fund	Mar. 2008	524
	4,641	3 Month LIBOR minus 3%	31,000 shares MSCI Emerging Market Index Fund	Oct. 2008	0
JP Morgan	7,794	3 Month LIBOR plus .32%	909.52 Swiss Market Units	Nov. 2007	59
Lehman Brothers	1,300	1 Month LIBOR	Lehman Brothers Holdings Capital Trust V	Jan. 2008	14
	10,100	1 Month LIBOR	Lehman Brothers Holdings Capital Trust V	Mar. 2008	109
Totals	\$ 49,187				\$ 1,107

T V A R E T I R E M E N T S Y S T E M

Note 17

FORWARD FOREIGN CURRENCY CONTRACTS

The following summarizes the forward foreign currency contracts of the Fixed Benefit Fund at September 30, 2008 and 2007.

<i>(Dollars in thousands)</i>	2008			2007		
	Settlement Date	USD Contract Amount	Unrealized Appreciation (Depreciation)	Settlement Date	USD Contract Amount	Unrealized Appreciation (Depreciation)
Currency Purchased						
Argentina Peso	Dec. 2008	\$ 99	\$ 1			
Australian Dollar	Dec. 2008	27,536	1,413	Dec. 2007	\$ 21,488	\$ (817)
Brazil Real	Oct. 2008	9,572	324			
	Nov. 2008	491	2			
	Dec. 2008	62	3			
British Pound Sterling	Oct. 2008	2,541	38	Oct. 2007	0	(0)
	Nov. 2008	3,454	56	Nov. 2007	1,452	(16)
	Dec. 2008	80,551	1,720	Dec. 2007	103,454	(1,469)
Canadian Dollar	Nov. 2008	1,141	54	Nov. 2007	1,107	(55)
	Dec. 2008	72,943	(566)	Dec. 2007	89,302	(4,926)
Chinese Yuan Renminbi	Mar. 2009	8,063	111	Mar. 2008	6,539	(64)
Czech Koruna	Dec. 2008	2,406	68	Dec. 2007	1,300	(71)
Danish Krone	Dec. 2008	1,821	2	Dec. 2007	709	(15)
Euro Monetary Unit	Oct. 2008	6,616	231	Oct. 2007	8,362	(377)
	Nov. 2008	9,297	950	Nov. 2007	8,297	(133)
	Dec. 2008	145,927	3,897	Dec. 2007	206,980	(8,882)
Hong Kong Dollar	Oct. 2008	104	0	Dec. 2007	54	(0)
	Dec. 2008	143	0			
	Mar. 2009	1,592	(3)			
Hungarian Forint	Dec. 2008	702	20	Dec. 2007	1,282	(76)
Indian Rupee	Dec. 2008	5,026	6			
Indonesian Rupian	Dec. 2008	2,160	(20)			
Japanese Yen	Oct. 2008	4,666	(15)	Oct. 2007	9,623	(500)
	Dec. 2008	55,643	(694)	Dec. 2007	37,977	216
Malaysian Ringgit	Dec. 2008	1,295	(9)			
Mexican New Peso	Dec. 2008	4,023	102	Dec. 2007	1,748	(26)
New Taiwan Dollar	Dec. 2008	3,030	11	Dec. 2007	239	(3)
New Turkish Lira	Dec. 2008	2,221	68			
New Zealand Dollar	Dec. 2008	23,305	434	Dec. 2007	30,504	(1,617)
Norwegian Krone	Dec. 2008	45,900	1,469	Dec. 2007	38,388	(2,821)
Philippines Peso	Dec. 2008	889	(4)			
Polish Zloty	Dec. 2008	3,615	170	Dec. 2007	1,660	(104)
Russian Ruble (New)	Nov. 2008	30	3			
	Dec. 2008	12,965	135			
	May 2009	29	2			
Singapore Dollar	Oct. 2008	8	0	Dec. 2007	1,560	(33)
	Nov. 2008	9	0			
	Dec. 2008	6,311	1			
South African Rand	Dec. 2008	1,992	32	Dec. 2007	1,030	(59)
South Korean Won	Oct. 2008	44	0	Dec. 2007	1,311	(38)
	Dec. 2008	4,433	209			
Swedish Krona	Dec. 2008	70,352	3,880	Dec. 2007	40,441	(2,333)
Swiss Franc	Oct. 2008	829	15	Dec. 2007	97,863	(2,666)
	Dec. 2008	95,888	(963)			
U.S. Dollar	Oct. 2008	20,962	0	Oct. 2007	58,718	0
	Nov. 2008	2,272	0	Dec. 2007	372,437	0
	Dec. 2008	541,670	0	Mar. 2008	16,866	0
	Feb. 2009	19	0	Sep. 2008	27,195	0
	Mar. 2009	44,422	0			
	Apr. 2009	18	0			
	May 2009	30	0			
	Jun. 2009	57	0			
	Sep. 2009	919	0			
Totals		\$ 1,330,093	\$ 13,153		\$ 1,187,886	\$ (26,885)

T V A R E T I R E M E N T S Y S T E M

Note 17

FORWARD FOREIGN CURRENCY CONTRACTS *(continued)*

The following summarizes the forward foreign currency contracts of the Fixed Benefit Fund at September 30, 2008 and 2007.

<i>(Dollars in thousands)</i>	2008			2007		
	Settlement Date	USD Contract Amount	Unrealized Appreciation (Depreciation)	Settlement Date	USD Contract Amount	Unrealized Appreciation (Depreciation)
Currency Sold						
Argentina Peso	Dec. 2008	\$ 1,125	\$ (50)			
Australian Dollar	Dec. 2008	25,707	(683)	Oct. 2007	\$ 5,170	\$ 101
				Dec. 2007	15,305	1,051
Brazil Real	Oct. 2008	10,047	(799)			
	Nov. 2008	420	(19)			
	Dec. 2008	61	(3)			
	Jun. 2009	57	(3)			
British Pound Sterling	Oct. 2008	683	(27)	Oct. 2007	9,518	97
	Dec. 2008	80,524	1,198	Dec. 2007	107,666	1,563
Canadian Dollar	Oct. 2008	5,846	(153)	Oct. 2007	7,754	59
	Dec. 2008	64,382	(122)	Dec. 2007	6,255	63
Chinese Yuan Renminbi	Nov. 2008	162	(2)	Mar. 2008	16,866	68
	Mar. 2009	40,631	(2,523)	Sep. 2008	27,195	182
	Sep. 2009	919	(13)			
Czech Koruna	Dec. 2008	318	(14)	Dec. 2007	1,506	58
Danish Krone	Oct. 2008	181	(3)	Oct. 2007	595	4
	Dec. 2008	270	2	Dec. 2007	331	8
Euro Monetary Unit	Oct. 2008	2,295	(86)	Oct. 2007	19,276	152
	Dec. 2008	135,577	(651)	Dec. 2007	59,404	1,513
Hong Kong Dollar	Dec. 2008	412	2	Oct. 2007	841	(0)
	Mar. 2009	3,791	(2)	Dec. 2007	501	1
				Dec. 2007	684	60
Hungarian Forint						
Indian Rupee	Dec. 2008	5,943	(348)			
Indonesian Rupian	Dec. 2008	1,438	(24)			
Japanese Yen	Oct. 2008	1,508	(1)	Oct. 2007	10,675	(51)
	Nov. 2008	1,515	0	Dec. 2007	88,968	206
	Dec. 2008	44,967	924			
Malaysian Ringgit	Nov. 2008	52	(3)			
	Dec. 2008	1,930	(20)			
Mexican New Peso	Dec. 2008	6,696	(395)	Dec. 2007	4,088	42
New Taiwan Dollar	Dec. 2008	2,358	(51)	Dec. 2007	1,397	16
New Turkish Lira	Dec. 2008	762	(11)			
New Zealand Dollar	Dec. 2008	29,341	9	Oct. 2007	116	3
				Dec. 2007	37,133	3,324
Norwegian Krone	Dec. 2008	40,897	(1,045)	Oct. 2007	734	12
				Dec. 2007	26,246	1,057
Philippines Peso	Nov. 2008	34	(2)			
	Dec. 2008	780	(15)			
	Feb. 2009	19	0			
Polish Zloty	Dec. 2008	972	(44)	Dec. 2007	2,578	129
Russian Ruble (New)	Nov. 2008	29	(1)			
	Dec. 2008	8,536	(413)			
	May 2009	30	(3)			
Singapore Dollar	Nov. 2008	60	(1)	Oct. 2007	880	10
	Dec. 2008	6,081	(72)	Dec. 2007	5,076	128
South African Rand	Dec. 2008	620	(26)	Dec. 2007	859	43
South Korean Won	Dec. 2008	2,537	(288)	Dec. 2007	4,881	107
Swedish Krona	Oct. 2008	379	(8)	Oct. 2007	500	3
	Dec. 2008	71,150	(2,325)	Dec. 2007	3,549	154
Swiss Franc	Oct. 2008	22	(1)	Oct. 2007	2,659	1
	Dec. 2008	28,799	(174)	Dec. 2007	60,037	1,061
U.S. Dollar	Oct. 2008	24,118	0	Oct. 2007	17,986	0
	Nov. 2008	14,422	0	Nov. 2007	10,855	0
	Dec. 2008	650,725	0	Dec. 2007	623,263	0
	Mar. 2009	9,655	0			
	May 2009	29	0	Mar. 2008	6,539	0
UAE Dirham	Apr. 2009	18	0			
Totals		\$ 1,329,830	\$ (8,289)		\$ 1,187,886	\$ 11,225

T V A R E T I R E M E N T S Y S T E M

Note 18

SECURITIES LENDING

As of September 30, 2008 and 2007, the Plan loaned securities having a fair value of approximately \$360.5 million and \$911.1 million, respectively, and received \$374.9 million and \$935.8 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:

<i>(Dollars in thousands)</i>	Fair Value	Total	Collateral	Cash	Fair Value of Collateral	Fair Value of Collateral
September 30, 2008	Securities On Loan	Collateral	Percent	Cash	Tri-Party	Securities
U.S. government	\$ 129,123	\$ 131,038	101.5%	\$ 107,091	\$ 1,321	\$22,626
Common stocks - domestic	106,140	113,051	106.5%	111,782		1,269
Corporate bonds	50,823	52,627	103.5%	51,813		814
U.S. government agency	27,773	28,144	101.3%	28,144		
Common stocks - international	46,608	50,001	107.3%	42,548	6,431	1,022
Total	<u>\$ 360,467</u>	<u>\$ 374,861</u>	104.0%	<u>\$ 341,378</u>	<u>\$ 7,752</u>	<u>\$25,731</u>
September 30, 2007						
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	<u>\$ 911,121</u>	<u>\$ 935,843</u>	102.7%	<u>\$ 868,039</u>	<u>\$ 37,202</u>	<u>\$ 30,602</u>

Note 19

NET APPRECIATION OF INVESTMENTS

During 2008 and 2007, the Plan's investments (including investments bought, sold, and held during the year) appreciated (depreciated) in value as follows:

<i>September 30, 2008 and 2007</i>		
<i>(Dollars in thousands)</i>	2008	2007
Commingled funds	\$ (531,435)	\$ 408,123
Common stocks	(407,510)	286,349
Corporate bonds	(266,915)	(35,756)
Derivatives	(247,831)	62,888
Other	(235,884)	101,005
Net appreciation (depreciation)	<u>\$ (1,689,575)</u>	<u>\$ 822,609</u>

**INVESTMENT HOLDINGS
5 PERCENT OR MORE**

During 2008 and 2007, the Plan's investments 5 percent or more of the Net Assets Available for Benefits were as follows:

<i>September 30, 2008 and 2007</i>		
<i>(Dollars in thousands)</i>	2008	2007
Barclays Global Investors, All Country World Index excluding the United States Active International Equity Fund	\$ 541,765	\$ 822,448
Bank of New York Mellon EB Daily Valued Large Capital Fund	485,103	419,054
Bank of New York Mellon Proprietary Fund	473,087	480,996
Total	<u>\$ 1,499,955</u>	<u>\$ 1,722,498</u>

Note 20

INVESTMENT EXPENSES AND RELATED PARTY TRANSACTIONS

The Plan paid investment managers \$42.6 million in fiscal year 2008 and \$35.8 million in fiscal year 2007 for fees related to the management of plan investments. In the Statements 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 \$3.5 million in fiscal year 2008 and \$3.4 million in fiscal year 2007.

Barclays Global Investors is an agent of Bank of New York Mellon, 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 \$4.2 million in fiscal year 2008 and \$4.5 million in fiscal year 2007.

Fidelity Investment Management Company 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. 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.

TVA RETIREMENT SYSTEM

Note 21

ADMINISTRATIVE EXPENSES AND RELATED PARTY TRANSACTIONS

The Plan incurred administrative expenses of \$4.8 million in fiscal year 2008 and \$4.6 million in fiscal year 2007. 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 \$3.7 million in fiscal year 2008 and \$3.5 million in fiscal year 2007.

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) to the extent 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, 2008 and 2007, is as follows:

<i>(Dollars in thousands)</i>	2008	2007
Assets		
Commingled funds	\$ 90,490	\$ 124,129
S&P 500 Stock Index Fund	68,237	103,811
Total investments at fair value	158,727	227,940
Liabilities		
Net payable to the Fixed Benefit Fund	2,262	206
Net Assets	\$ 156,465	\$ 227,734
Investment Income		
Net appreciation (depreciation) in fair value of investments	\$ (48,972)	\$ 32,748
Dividends	1,924	1,933
Total investment income	(47,048)	34,681
Members' Contributions	3,062	3,275
Net Transfers for:		
Net transfers to Fixed Benefit Fund	12,900	16,080
Retirement benefits, withdrawals, and death benefits	13,566	15,100
Net transfers to 401(k) Plan	817	1,251
Net transfers	27,283	32,431
Net increase (decrease)	\$ (71,269)	\$ 5,525

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



Crowe Horwath LLP
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 statements of net assets available for benefits of the Tennessee Valley Authority Savings and Deferral Retirement Plan as of September 30, 2008 and 2007, and the related statements of changes in net assets available for benefits for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of September 30, 2008 and 2007, and the changes in net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP

Oak Brook, Illinois
March 13, 2009

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

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

September 30, 2008 and 2007

<i>(Dollars in thousands)</i>	2008	2007
Assets		
Investments at fair value		
Equity funds	\$ 886,582	\$ 1,201,358
Stable value funds	170,542	170,699
Bond funds	126,742	112,410
Participant loans	24,136	23,952
Total Assets reflecting all investments at fair value	1,208,002	1,508,419
Adjustment from fair value to contract value for fully benefit-responsive contracts	7,273	1,710
Net Assets Available for Benefits	\$ 1,215,275	\$ 1,510,129

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

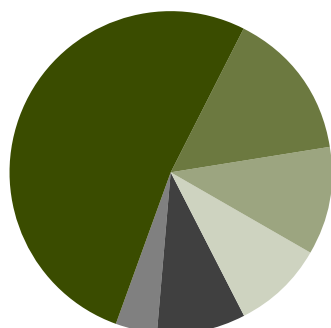
Fiscal Years Ended September 30, 2008 and 2007

<i>(Dollars in thousands)</i>	2008	2007
Investment Income		
Net appreciation (depreciation)	\$ (374,250)	\$ 159,900
Dividends and interest	89,632	78,032
Total investment income	(284,618)	237,932
Contributions		
Members	73,028	68,402
TVA	22,789	20,814
Transfers from annuity funds	17,701	14,658
Total contributions	113,518	103,874
Total increase (decrease)	(171,100)	341,806
Benefits, Withdrawals, and Transfers		
Benefits and withdrawals	112,596	116,765
Transfers to annuity funds	11,158	8,730
Total benefits, withdrawals, and transfers	123,754	125,495
Net increase (decrease)	(294,854)	216,311
Net Assets Available for Benefits		
Beginning of year	1,510,129	1,293,818
End of year	\$ 1,215,275	\$ 1,510,129

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

401(K) PLAN ASSET ALLOCATION

(September 30, 2008)

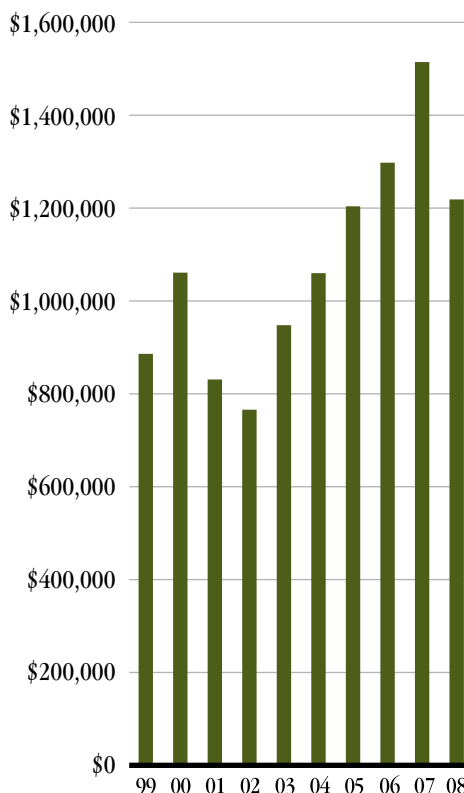


■ Domestic Stocks	52%
■ Managed Income Pool II	15%
■ Fixed Income	11%
■ International Stocks	9%
■ Asset Allocation Funds	9%
■ Brokerage Account	4%

401(K) PLAN

Net Assets Available For Benefits

(in thousands)



These charts are unaudited and intended for informational purposes only.

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

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 \$210 thousand in fiscal year 2008 and \$410 thousand in fiscal year 2007.

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 and gains and losses thereon 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 other 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.

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

Risks and Uncertainties

The 401(k) Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, liquidity, 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 (IRC). 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 IRC. 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 defined contribution 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

INVESTMENT PERFORMANCE

The 2008 market conditions adversely impacted the performance of debt, equity, and other markets, resulting in a net loss in investments of approximately \$285 million, or 19 percent. With an approximate \$10 million decrease in net cash flow of contributions and outlays, the decrease in 401(k) Plan Net Assets Available for Benefits amounted to approximately \$295 million, or 20 percent. As of September 30, 2008, the 401(k) Plan Net Assets Available for Benefits

were approximately \$1.2 billion. Since September 30, 2008, market conditions have further deteriorated. As of December 31, 2008, the investments had declined approximately \$196 million (unaudited), or 16 percent, since September 30, 2008. This market impact was the primary driver causing the 401(k) Plan Fund Net Assets Available for Benefit at December 31, 2008, to be approximately \$1 billion (unaudited). The System Board continues to closely monitor investment performance and the impact on the 401(k) Plan.

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.

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 2009 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, 2008 and 2007.

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.

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

Before-tax and Roth

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 2008, total contributions to the Fixed Fund, Variable Fund, and 401(k) Plan, including TVA matching contributions, could not exceed the lesser of \$46,000 or 100 percent of calendar year-to-date compensation. In calendar year 2007, 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 and Roth 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; (4) payments necessary to prevent eviction from or foreclosure on the participant's principal residence; (5) payments for funeral or burial expenses for the participant's deceased family members; or (6) expenses to repair damage to the participant's principal residence resulting from casualty loss.

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 Management Trust Company, in fiscal years 2008 and 2007.

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 6 percent at September 30, 2008. Such interest is credited directly to the account of the member.

Note 11

INVESTMENT INCOME OF INVESTMENTS

During 2008 and 2007, the 401(k) Plan's investments (including investments bought, sold, and held during the year) appreciated (depreciated) in value as follows:

September 30, 2008 and 2007

<i>(Dollars in thousands)</i>	2008	2007
Mutual Funds	<u>\$(374,250)</u>	<u>\$ 159,900</u>

The 401(k) Plan's investments also earned dividends and interest income of \$89,632 and \$78,032 for the years ending September 30, 2008 and 2007, respectively.

T V A S A V I N G S A N D D E F E R R A L
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Note 12
INVESTMENTS

The fair values of all investment options as of September 30, 2008 and 2007, are as follows:

(Dollars in thousands)

	2008	2007
Equity Funds		
Equity Funds 5% and greater of total portfolio		
Fidelity Magellan*	\$ 140,565	\$ 218,465
Fidelity Growth Company*	66,678	91,620
Fidelity Equity Income Fund I*	59,884	96,155
Fidelity Contrafund*	59,694	78,090
Equity Funds under 5% of total portfolio		
Brokerage Link Fund**	51,201	58,826
Other Fidelity Equity Funds*	437,691	566,172
Other Equity Funds	70,869	92,030
Total Equity Funds	<u>886,582</u>	<u>1,201,358</u>
Stable Value Funds 5% and greater of total portfolio		
Fidelity Managed Income Pool II*	170,542	170,699
Bond Funds under 5% of total portfolio		
Other Fidelity Bond Funds*	103,482	94,022
Other Bond Funds	23,260	18,388
Total Bond Funds	<u>126,742</u>	<u>112,410</u>
Participant Loans	<u>24,136</u>	<u>23,952</u>
Total Assets reflecting all investments at fair value	<u>\$ 1,208,002</u>	<u>\$1,508,419</u>

* Denotes related party - see Note 9.

** 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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