

RETIREMENT SYSTEM  
2005 ANNUAL REPORT



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# FINANCIAL HIGHLIGHTS AND STATISTICS

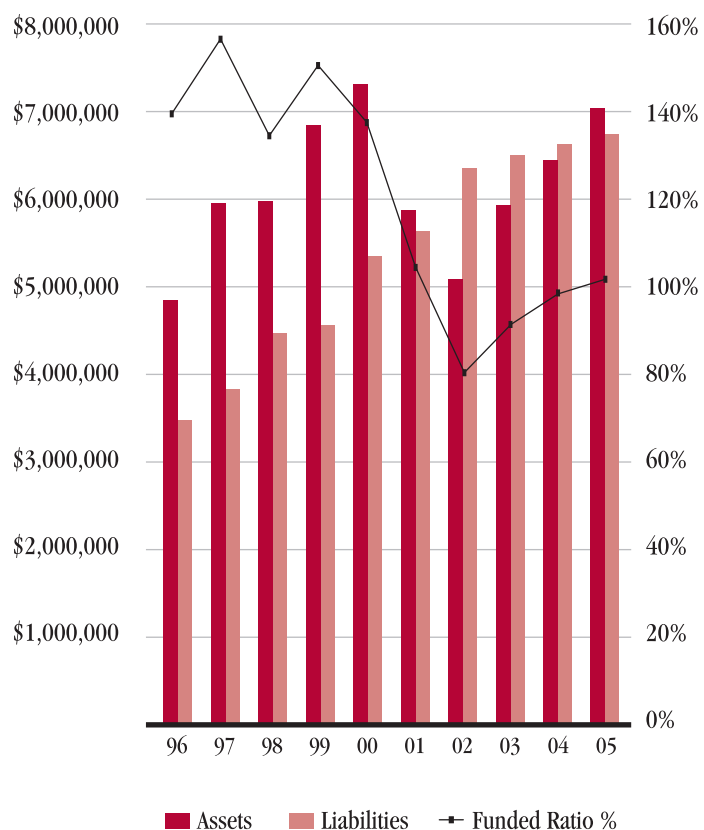
<i>(Dollars in thousands)</i>	2005	2004 (Restated)	Change	% Change
<b>Net Assets Available for Benefits</b>				
TVA Retirement System	\$ 7,241,443	\$ 6,655,433	\$ 586,010	9
TVA Savings & Deferral Retirement Plan [401(k) Plan]	<u>1,199,986</u>	<u>1,056,096</u>	<u>143,890</u>	14
<b>Total</b>	<b><u>\$ 8,441,429</u></b>	<b><u>\$ 7,711,529</u></b>	<b><u>\$ 729,900</u></b>	9
<b>Net Assets Available for Benefits (Fixed Benefit Fund)</b>	<b>\$ 7,014,900</b>	\$ 6,415,478	\$ 599,422	9
<b>Accumulated Benefit Obligation (Fixed Benefit Fund)</b>	<b>\$ 6,770,000</b>	\$ 6,592,600	\$ 177,400	3
<b>Contributions</b>				
Employer (all funds)	\$ 70,875	\$ 37,900	\$ 32,975	87
Employee (all funds)	\$ 104,085	\$ 106,217	\$ (2,132)	(2)
<b>Benefits Paid (all funds)</b>	<b>\$ 500,541</b>	\$ 448,434	\$ 52,107	12
<b>Number of Active Members</b>	<b>12,583</b>	12,590	(7)	0
<b>Number of Retirees</b>	<b>22,376</b>	22,154	222	1

*This summary is intended for informational purposes only.*

## FIXED BENEFIT FUND

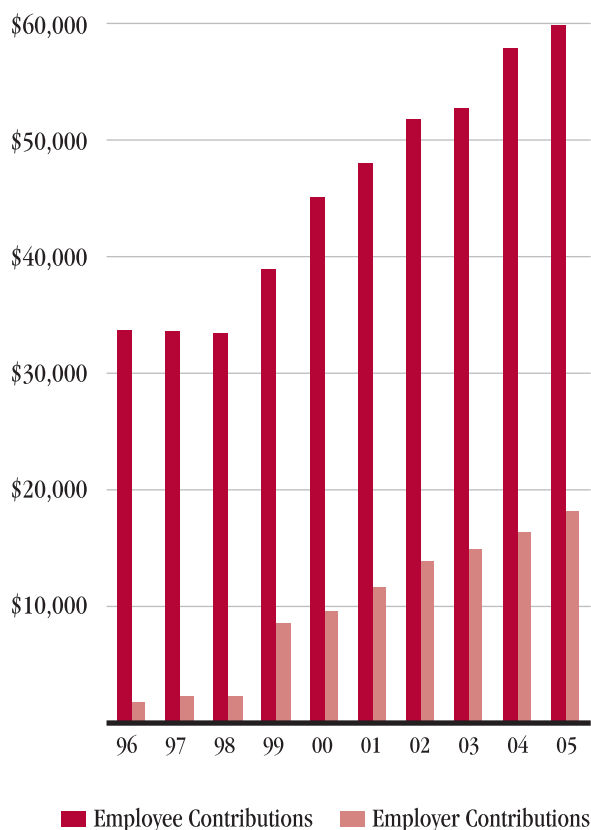
### Market Value of Assets and Liabilities, and Funded Ratio

*(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

**T**he TVA Retirement System (System) Board of Directors is pleased to submit this annual report on the System as of September 30, 2005.

In 2005 the System Board continued its philosophy of first assuring the availability of funds to pay vested benefits. While the amount we are obligated to pay in benefits has increased, the funds available for payment have also increased. The System's Fixed Benefit Fund assets at fiscal year end were \$7.015 billion which resulted in the System's funding ratio of assets to liabilities of 103.6 percent.

The 14.75 percent return on the System's Fixed Benefit Fund investments for the fiscal year was a reasonable rate of return given the diversification of the investment portfolio. This compares with returns of 13.5 percent for 2004 and 23.3 percent for 2003. This investment gain of approximately \$900 million for the year is offset by an annual pension payroll of more than \$426 million paid to about 21,000 retirees and beneficiaries.

The System Board continues to explore investment strategies that will over time build a strong financial base sufficient to fund future liabilities.

In addition to the financial aspects of the System, there were several noteworthy activities that occurred during and subsequent to this reporting period:

- The System Board approved a 3.37 percent cost-of-living increase in the monthly pension and the supplemental benefits payable to eligible retirees and beneficiaries for calendar year 2006.
- The System Board approved a 6.37 percent annual interest rate credit to participants' accounts in the Cash Balance Benefit Structure for calendar year 2006.
- The System Board, based upon recommendation of the System's actuary, approved and recommended to the TVA Board a TVA contribution rate of \$75 million to the System for fiscal year 2006. The TVA Board approved this amount.
- The System Board approved rule changes to give members who were previously ineligible to contribute to the Fixed and Variable Funds the opportunity to do so.
- Gretchen Thal was reelected by the System membership to serve as Board director for the term ending October 31, 2008. She continues to serve as Board Vice Chairman.
- Clem Schonhoff, a retiree, was selected as the seventh System Board member on November 22, 2004. His term will expire October 31, 2006.
- The TVA Board appointed Janet Herrin, effective May 16, 2005, to the System Board. She replaced Mark Medford, who retired from TVA.

In closing, thank you for the trust and confidence you have placed in the System Board over the years. We are honored to have worked on your behalf and are pleased to report the sound status of the System.

For the Board,



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

## BOARD OF DIRECTORS

### ELECTED BY MEMBERS

**Floyd J. Johnson**  
Elected November 1, 1995

**Leonard J. Muzyn**  
Elected November 1, 2003

**Gretchen D. Thal**  
Elected February 3, 1997

### APPOINTED BY TVA

**Janet C. Herrin**  
Appointed May 16, 2005

**John M. Hoskins**  
Appointed July 28, 2003

**John E. Long, Jr.**  
Appointed April 27, 1992

**Mark O. Medford**  
Appointed November 6, 1995  
Retired February 16, 2005

### SELECTED BY OTHER DIRECTORS

**Clem C. Schonhoff**  
Selected November 22, 2004

### STANDING COMMITTEES

**AUDIT**  
John M. Hoskins, Chair  
Leonard J. Muzyn  
Clem C. Schonhoff

**ELECTION**  
John E. Long, Jr., Chair  
Leonard J. Muzyn  
Clem C. Schonhoff

**INVESTMENT**  
Gretchen D. Thal, Chair  
John M. Hoskins  
Floyd J. Johnson  
John E. Long, Jr.  
Leonard J. Muzyn  
Clem C. Schonhoff

**RETIREMENT**  
Leonard J. Muzyn, Chair  
John M. Hoskins  
John E. Long, Jr.

### BOARD OFFICERS

**Floyd J. Johnson**  
Chairman

**Gretchen D. Thal**  
Vice Chairman

**Randy A. Snyder**  
Executive Secretary

**Robert J. Vaughn**  
Assistant Secretary and  
Assistant Treasurer

**Sherry C. Kelly**  
Treasurer

**Robert G. McCall**  
Assistant Treasurer

**Pamela K. Ramsey**  
Assistant Treasurer

## PROFESSIONAL ADVISORS AND INVESTMENT MANAGERS

### PROFESSIONAL ADVISORS

**ACTUARY**  
Mercer Human Resource Consulting, Atlanta

**AUDITORS**  
PricewaterhouseCoopers LLP, Knoxville  
E.H. Johnson & Company, P.C., Knoxville

**INVESTMENT CONSULTANT**  
Wilshire Associates Incorporated, Pittsburgh

**LEGAL COUNSEL**  
Nicholas P. Goschy, Senior Attorney, TVA, Knoxville  
W. Colby Carter, Attorney, TVA, Knoxville

**MASTER TRUSTEE**  
Mellon Bank NA, Pittsburgh

**TRUSTEE - 401(k) PLAN**  
Fidelity Investments, Boston

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

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

### INVESTMENT MANAGERS

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

### VARIABLE FUND

Affiliated Computer Services HR Solutions  
Mellon Capital Management

## PLAN SUMMARY

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Currently one of the largest pension plans in the nation, the TVA Retirement System provides retirement, disability, and death benefits for approximately 35,000 employees and retirees.

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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 derived from TVA's contributions and earnings on Plan assets and a Social Security benefit derived from both TVA's and the member's contributions. 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 TVA Retirement System retirement allowance. In addition, a supplemental benefit is provided 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 percent. 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 they do not have 80 points.

### 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 Retirement System membership. Employees rehired by TVA after a break in service of 180 or more consecutive days and who have previous service as participants in the Original Benefit Structure 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 where an account is established for each member. This 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 fiscal years 2005 and 2004.

## PLAN SUMMARY

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 actual age 55 are always eligible to receive an immediate benefit. Vested members less than actual 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 help 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 payments until age 62, when early Social Security payments can begin. When the member reaches age 62, the level income plan increase stops and the member's TVA pension payments are 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 Dreyfus Basic S&P 500 Stock Index Fund. Employees participating in the Variable Fund purchase shares in the Dreyfus Basic S&P 500 Stock 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 funds 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. Upon 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- and/or after-tax 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 on a before- and/or after-tax basis 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 on a before- and/or after-tax basis up to a maximum of 1.5 percent of fiscal year-to-date earnable compensation. Members are vested in the TVA matching contributions after three years of actual Retirement System service. During employment, members are also permitted to roll over funds from certain other retirement plans and IRAs into the 401(k) Plan. Investment options available through the 401(k) Plan have varying degrees of risk and potential return.

In calendar year 2005, contributions to the Fixed Fund, Variable Fund, and 401(k) Plan, including TVA matching contributions, could not exceed the lesser of \$42,000 or 100 percent of calendar year-to-date compensation. Additionally, before-tax contributions could not exceed the annually published IRS maximum (\$14,000 for 2005). Employees who were age 50 or older were allowed to contribute an additional before-tax amount, allowing them to "catch up" on their retirement savings. For 2005, the catch-up amount was \$4,000 over and above contribution limits and could not begin until the before-tax contribution limit was reached. These before-tax limits will increase annually according to the Economic Growth and Tax Relief Reconciliation Act of 2001. Contributions to the Fixed Fund and/or the Variable Fund are limited to \$10,000 per calendar year.

#### *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 Dreyfus Basic S&P 500 Stock Index Fund redeemed and the proceeds used to purchase units in the Variable Fund. The monthly annuity payments

## PLAN SUMMARY

will vary based on the value of these units. The investment strategy of the Variable Fund is the same as the Dreyfus Basic S&P 500 Stock Index Fund. Retired members may elect to transfer their entire fund balance(s) between the Fixed Fund and the Variable Fund once per calendar year.

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.

All of the many survivor options are 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 and Regulations of the Retirement System (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 that 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 provided 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 portion of monthly benefits (exclusive of level income plan) in January following any year in which the 12-month average of the CPI exceeds by as much as 1 percent the CPI average for the preceding year. The amount of the adjustment is the percentage increase in the CPI, up to 5 percent in any one year. The System's Board may, with the approval of the TVA Board, apply an increase greater than 5 percent. The cost-of-living increase was 2.42 percent in calendar year 2005 and 2.36 percent in calendar year 2004.

Eligible retirees and beneficiaries on the retirement payroll on or before January 1 receive the cost-of-living increase. If a 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 receive an 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 TVA Retirement 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



## P L A N   S U M M A R Y

procedures are only effective if they are the result of a marriage that was terminated by a final order of divorce or annulment dated on or after January 1, 2003.

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

### TAX STATUS

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

### RISKS AND UNCERTAINTIES

The Plan and the 401(k) Plan provide for various mutual fund investment options in stocks, bonds, and fixed income securities. Mutual funds are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect participants' account balances and the amounts reported in the statements of net assets available for plan benefits.

### SYSTEM 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) benefits based upon members' contributions, (2) nonforfeitable benefits based upon TVA's contributions, and (3) if feasible, cost-of-living increases thereto.

*This summary is intended to help members understand the System and its benefits under the defined benefit 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

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

1. I have reviewed the Financial Statements of the Tennessee Valley Authority Retirement System.
2. Based on my knowledge, the information in the Financial Statements does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by the Financial Statements.
3. Based on my knowledge, the Financial Statements and other financial information included in the Annual Report fairly present in all material respects the financial condition, results of operations, and cash flows of the Tennessee Valley Authority Retirement System as of, and for, the periods presented in the Financial Statements.
4. The other officer of the Tennessee Valley Authority Retirement System listed below and I are responsible for establishing and maintaining disclosure controls and procedures for the Tennessee Valley Authority Retirement System and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Tennessee Valley Authority Retirement System is made known to us by others, particularly during the period in which these Financial Statements are being prepared;
  - b) evaluated the effectiveness of the Tennessee Valley Authority Retirement System's disclosure controls and procedures as of a date within 90 days prior to the date of the Financial Statements; and
  - c) disclosed in the Financial Statements any change in internal control over financial reporting that occurred during the year ended September 30, 2005, that has materially affected, or is reasonably likely to materially affect, the Tennessee Valley Authority Retirement System's internal control over financial reporting.
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 which 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: August 30, 2006



Randy A. Snyder  
*Executive Secretary*



Patrick D. Brackett  
*Manager, Retirement Investments*



**PricewaterhouseCoopers LLP**  
2030 Falling Water Rd. Suite 280  
Knoxville TN 37922  
Telephone (865) 769 2000  
Facsimile (865) 769 2001

**Report of Independent Auditors**

To the Participants and Administrator of  
Tennessee Valley Authority Retirement System

In our opinion, the accompanying statements of net assets available for benefits and the related statements of changes in net assets available for benefits present fairly, in all material respects, the financial status of Tennessee Valley Authority Retirement System (the "System") at September 30, 2005 and 2004, 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. 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 of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Notes 3 and 12, the statement of net assets available for benefits at September 30, 2004 and the statement of changes in net assets available for benefits for the year then ended have been restated.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP".

Knoxville, Tennessee  
August 30, 2006

# TVA RETIREMENT SYSTEM

## STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

September 30, 2005 and 2004

(Dollars in thousands)	2005	2004 (Restated)
<b>Assets</b>		
Investments at fair value		
Corporate bonds	\$ 2,509,565	\$ 2,287,998
Common stocks	2,328,326	2,027,944
Commingled funds	1,036,444	885,782
Securities lending commingled funds (see Notes 5 and 18)	684,579	636,005
Government bonds	557,343	529,936
Cash equivalents	551,361	708,461
Limited partnerships	147,007	88,069
S&P 500 Stock Index Fund	110,139	125,934
Treasury bills and U.S. government notes held as futures collateral	69,508	72,038
Preferred stocks	24,972	27,956
Unrealized appreciation (depreciation) on Forwards, Options, and Swaps	951	(5,398)
Securities held as options collateral	382	586
Total Investments at fair value	<u>8,020,577</u>	<u>7,385,311</u>
Receivables		
Foreign currency forward contracts receivable	825,368	414,087
Due from broker	84,772	101,807
Dividends and interest	30,356	32,142
Variation margin on futures contracts	1,803	(153)
Other	542	337
Total Receivables	<u>942,841</u>	<u>548,220</u>
Total assets	<u>8,963,418</u>	<u>7,933,531</u>
<b>Liabilities</b>		
Due to broker	198,275	214,423
Disbursements payable	6,382	4,721
Investment fees payable	5,424	6,004
Other	1,947	2,858
Total payable	212,028	228,006
Foreign currency forward contracts payable	825,368	414,087
Liabilities to brokers for securities lending (see Notes 5 and 18)	684,579	636,005
Total liabilities	<u>1,721,975</u>	<u>1,278,098</u>
<b>Net Assets Available for Benefits</b>	<u>\$ 7,241,443</u>	<u>\$ 6,655,433</u>

## FIXED BENEFIT FUND

Net Assets Available For Benefits

(in thousands)



*This chart is unaudited and intended for informational purposes only.*

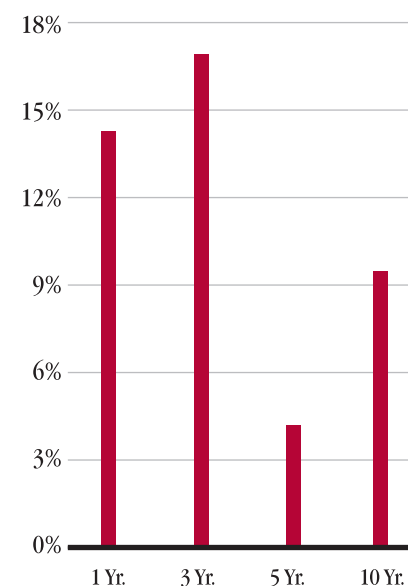
## STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Fiscal Years Ended September 30, 2005 and 2004

(Dollars in thousands)	2005	2004 (Restated)
<b>Investment Income</b>		
Net appreciation in fair value of investments	\$ 742,403	\$ 630,634
Interest	164,481	163,503
Dividends	53,296	50,567
	<u>960,180</u>	<u>844,704</u>
<b>Less Investment Expenses</b>		
	<u>31,069</u>	<u>28,934</u>
	<u>929,111</u>	<u>815,770</u>
<b>Contributions</b>		
TVA	53,168	21,758
Members	44,619	48,264
Transfers from 401(k) Plan	5,825	7,733
	<u>103,612</u>	<u>77,755</u>
Total increase	<u>1,032,723</u>	<u>893,525</u>
<b>Benefits, Transfers, and Expenses</b>		
Retirement benefits	421,800	383,195
Transfers to 401(k) Plan	11,423	14,485
Withdrawals	5,102	4,587
Administrative expenses	4,353	4,221
Death benefits	4,035	4,991
Total benefits, transfers, and expenses	<u>446,713</u>	<u>411,479</u>
Net increase	<u>586,010</u>	<u>482,046</u>
<b>Net Assets Available for Benefits</b>		
Beginning of year	6,655,433	6,173,387
End of year	<u>\$ 7,241,443</u>	<u>\$ 6,655,433</u>

## FIXED BENEFIT FUND

Annualized Rate of Return



*This chart is unaudited and intended for informational purposes only.*

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. Contributions in the Fixed Fund for those who first became members before January 1, 1996, were credited an annual rate of interest of 9.5 percent for the year ended September 30, 2005. 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 percent for the year ended September 30, 2005. 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

The assets of the Plan are held by the Trustee, Mellon Bank. Investment securities, other than debt securities, listed on either a national or foreign securities exchange or traded in the over-the-counter National Market System are generally valued each business day at the official closing price (typically the last reported sale price) on the exchange on which the security is primarily traded. If there are no current day sales, the securities are valued at their last quoted bid price. Other securities traded over-the-counter and not part of the National Market System are valued at their last quoted bid price. Debt securities (other than certain short-term obligations) are valued each business day by an independent pricing service or broker approved by the Trustee. The Plan's investments in any investment companies, unit investment trust, or similar investment funds are valued at their closing net asset values (or unit value) per share. Interests in private equity partnerships or other non-publicly traded private investment vehicles are valued at fair value by the Trustee, which generally is the Plan's pro rata interest in the net assets of these entities, as reported by the sponsors of such investment vehicles. Valuations may be modified by the Trustee, if necessary, to reflect the appropriate estimated fair value. Any other securities for which market quotations are not readily available are valued at their fair value as determined in good faith by the Trustee. There are inherent limitations in any estimation technique, and the amounts realized in a subsequent sale may differ from the amounts recorded. Such difference may be material. A summary of investments is provided at Note 13.

##### Cash and Cash Equivalents

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

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

## 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.

## Tax Status

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

## 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

### **RESTATEMENT OF 2004 STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**

The System has restated its 2004 Statement of Net Assets Available for Benefits to present the effects of the securities lending activities. Such adjustment increased the investments and liabilities by \$636 million as of September 30, 2004. This adjustment had no impact on the Statement of Changes in Net Assets Available for Benefits.

Also, the System has restated its 2004 Statement of Net Assets Available for Benefits to present the effects of the foreign currency forward contracts. Such adjustment increased the receivables and liabilities by \$414.1 million as of September 30, 2004. This adjustment had no impact on the Statement of Changes in Net Assets Available for Benefits.

The System has also reclassified \$4.3 million from investments

and receivables to liabilities primarily to accurately reflect the disbursement payable.

Additionally, the System had previously provided separate financial statements for a Fixed Benefit Fund and the Variable Fund. It was determined that these two funds are in fact part of one single plan and are not two legally separate plans. Therefore, the Statement of Net Assets Available for Benefits and Statement of Changes in Net Assets Available for Benefits have been restated to consolidate the two funds into a single presentation. A summary of the restatement is provided at Note 12.

## Note 4

### **FUTURES AND OPTIONS CONTRACTS**

The Plan is party to derivative financial instruments, including futures contracts, in its normal course of business. Futures contracts are used as a substitute for a similar physical security. These financial instruments are held by the Trustee.

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 their 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. Interest rate swap contracts are priced at market using forward rates derived from the swap curve. The pricing is performed by third-party vendors. A summary of the Plan's open futures and options contracts/variation margin as of September 30, 2005 and 2004, is provided at Note 14. Also, a summary of interest rate swap contracts is provided at Note 15, and a summary of credit default swap contracts is provided at Note 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

## TVA RETIREMENT SYSTEM

losses are recorded. 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 only for hedging purposes. A summary of the Plan's forward currency exchange contracts as of September 30, 2005 and 2004, is provided at Note 17.

Due to the level of risk associated with certain investment securities and derivatives, it is at least reasonably possible that changes in the values of investment securities and derivatives will occur in the near term and that such changes could materially affect the amounts reported in the statement of net assets available for benefits.

### Note 5 SECURITIES LENDING

The Plan may lend portfolio securities to qualified institutions. Loans are secured by collateral at least equal to 102 percent (105 percent for international securities) of the market value of the securities loaned. The Plan generally receives cash as collateral for securities lending, but it may also receive investment grade securities or interest in tri-party accounts containing investment grade securities. Cash received is invested in a commingled fund of various short-term investments where the maximum weighted average maturity of the fund is 90 days and organized and managed by Mellon Global Securities Services (MBGSS), which is limited to investment activities incidental to or in support of the securities lending program organized and managed by MBGSS. 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 6 PRIVATE EQUITY INVESTMENTS

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

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

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

In fiscal year 2005, the private equity investments were 10 funds valued at \$147 million with commitments of \$425 million and 20.5 million Euro dollars. In fiscal year 2004, the investments were six funds valued at \$88 million with commitments of \$375 million. Please see Note 7 on Commitments and Contingencies. Gains and losses from the foreign currency exchange are reflected in the statement of changes in net assets available for benefits.

### Note 7 COMMITMENTS AND CONTINGENCIES

The Plan has made commitments to various limited partnerships. As of September 30, 2005, the commitments consisted of \$425 million and 20.5 million Euros with capital outlays of approximately \$123.9 million and 410 thousand Euros. The remaining amount to be funded on capital commitments was approximately \$301.1 million and 20.1 million Euros. At September 30, 2004, the commitments consisted of \$375 million with capital outlays of approximately \$79.2 million resulting in the remaining amount to be funded on capital commitments of approximately \$295.8 million. The investment partnerships request capital outlays as business opportunities arise.

### 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 System 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 System's deficit or surplus based on the value of benefits excluding cost-of-living adjustments), and a cost-of-living

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contribution (an amount to fund cost-of-living adjustments earned in the past and presently payable).

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

## Note 10

### AMENDMENTS TO THE RULES AND REGULATIONS

For calendar year 2005, the Fixed Fund interest rate was reduced to 9.5 percent from 10 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 pension plan investments minus 50 basis points.

In May 2005, the System Board opened the Fixed and Variable Funds to members hired after January 1, 1996, and to members hired before January 1, 1996, who previously transferred their funds to the 401(k) Plan. The interest rate established by the System Board for the Fixed Fund for these newly eligible members is the expected rate of return on pension plan investments minus 50 basis points, which was 7 percent for calendar year 2005. Members who transfer their fund balances to the 401(k) Plan on or after May 1, 2005, are no longer eligible to contribute to the Fixed and Variable Funds. At retirement, members hired after January 1, 1996, must either withdraw their balance in a lump sum or roll over their entire balance to another qualified plan. In the absence of direction as to the withdrawal or rollover of such funds from the member, the amounts shall remain in the member's account but will cease to receive interest 60 days after the employment termination date.

Contributions to the Fixed Fund and Variable Fund were limited to \$10,000 annually beginning in calendar year 2005. Total contributions to the Fixed Fund, Variable Fund, and 401(k) Plan, including TVA matching contributions, were subject to IRS limits of \$42,000 (excluding 401(k) catch-up contributions) or 100 percent of calendar year-to-date compensation in calendar year 2005.

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 2006. 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 System's provisions 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 System'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 System's Cash Balance Benefit Structure are based on pay credits and interest credits which accumulate over the members' cash balance service. Pay credits accumulate at a rate equal to 6 percent of members' compensation, and interest is credited each month at the rate established by the Board each January 1. The interest rate is determined by calculating the percentage change of the 12-month average of the Consumer Price Index (CPI) for the period ending the previous October 31 over the preceding 12-month period, plus 3 percent. The System has established a minimum annual interest rate of 6 percent and a maximum annual interest rate of 10 percent for interest credits. The interest rate was 6 percent in 2005 and 2004.

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, 2005 and 2004, were:

- A. Actuarial Cost Method – Projected unit credit method.
- B. Life expectancy of participants – The 1983 Group Annuity Table for 2005 and 2004.
- C. Normal retirement age – 65 for 2005 and 2004.
- D. Interest rate – 7.75 percent annually for 2005 and 7.5 percent annually for 2004.
- E. Retiree cost-of-living increases – 2.5 percent annually for 2005 and 2004.



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In fiscal year 2004, the accumulated benefit obligation considered the Board amendments for fiscal year 2005 where the Fixed Fund interest rate is lowered by 50 basis points each year until it reaches a rate equaling the expected rate of return on pension plan investments minus 50 basis points and the \$10,000 contribution limit for the Fixed Fund and/or Variable Fund. These changes reduced the cumulative accumulated benefit obligation by \$82 million.

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

### ACCUMULATED BENEFITS

The estimated actuarial present value of accumulated benefits for the System is as follows:

September 30, 2005 and 2004

<i>(Dollars in thousands)</i>	2005	2004
<b>Vested benefits</b>		
Retired or terminated participants	\$ 4,119,200	\$ 3,929,700
Active participants	2,614,800	2,625,600
Total	<u>6,734,000</u>	<u>6,555,300</u>
<b>Nonvested benefits</b>	<u>36,000</u>	<u>37,300</u>
<b>Total estimated actuarial present value of accumulated benefits payable</b>	<u>\$ 6,770,000</u>	<u>\$ 6,592,600</u>

The changes in the estimated actuarial present value of accumulated benefits payable are as follows:

Fiscal Years Ended September 30, 2005 and 2004

<i>(Dollars in thousands)</i>	2005	2004
<b>Actuarial present value of accumulated benefits payable at beginning of year</b>	\$ 6,592,600	\$ 6,372,600
<b>Increase during the year attributable to:</b>		
Additional benefits accumulated and actuarial gains and losses	291,300	221,600
Change in assumptions	(171,700)	(82,000)
Interest due to decrease in the discount period	478,700	463,600
Benefits paid to participants	(420,900)	(383,200)
<b>Actuarial present value of accumulated benefits payable at end of year</b>	<u>\$ 6,770,000</u>	<u>\$ 6,592,600</u>

Note 12

### FY 2004 RESTATEMENT

<i>(Dollars in thousands)</i>	As Previously Reported Fixed Benefit Fund	As Previously Reported Variable Annuity Fund	Fixed and Variable Fund Consolidation	Subtotal	Securities Lending and Forward Contracts Restatement	Payable Reclassification	As Restated
<b>Statement of Net Assets Available for Benefits</b>							
Total Investments at Fair Value	\$ 6,503,414	\$ 241,171		\$ 6,744,585	\$ 636,005	\$ 4,721	\$ 7,385,311
Total Receivables	\$ 135,750		\$ (1,216)	\$ 134,534	\$ 414,087	\$ (401)	\$ 548,220
Total Assets	\$ 6,639,164	\$ 241,171	\$ (1,216)	\$ 6,879,119	\$ 1,050,092	\$ 4,320	\$ 7,933,531
Total liabilities	\$ (223,686)	\$ (1,216)	\$ 1,216	\$ (223,686)	\$ (1,050,092)	\$ (4,320)	\$ (1,278,098)
Net Assets Available for Benefits	\$ 6,415,478	\$ 239,955		\$ 6,655,433			\$ 6,655,433
<b>Statement of Changes in Net Assets Available for Benefits</b>							
Total increase	\$ 889,360	\$ 46,921	\$ (42,756)	\$ 893,525			\$ 893,525
Total benefits, transfers and expenses	\$ (403,726)	\$ (50,509)	\$ 42,756	\$ (411,479)			\$ (411,479)
Net Increase	\$ 485,634	\$ (3,588)		\$ 482,046			\$ 482,046

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Note 13

**INVESTMENTS**

*The following summarizes the investments of the System at September 30, 2005 and 2004.*

*(Dollars in thousands)*

	2005	2004 (Restated)
<b>Common stocks, at fair value</b>		
Domestic		
Technology	\$ 289,368	\$ 237,555
Financial	250,947	231,729
Consumer Non-Durables	240,494	222,472
Capital Goods	194,173	175,371
Health Care	205,710	176,712
Energy	154,704	90,163
Other	73,140	47,487
Basic Industries	72,178	79,136
Utilities	58,288	31,072
Transportation	55,432	35,158
Consumer Durables	19,234	23,066
International		
Europe	377,417	375,497
Asia	239,033	216,582
Other Countries	98,208	85,944
Total Common stocks, at fair value	<u>2,328,326</u>	<u>2,027,944</u>
<b>Corporate Bonds, at fair value</b>		
Domestic		
Mortgage backed securities	630,411	475,113
Financial	402,861	324,129
Industrial	373,721	536,551
Asset backed securities	189,451	222,409
Other	182,633	33,077
Utilities	122,158	114,773
Convertible	10,795	9,753
International		
Europe	243,287	259,550
Canada	70,997	73,102
South America	25,865	18,602
Asia	22,791	12,568
Mexico	20,189	16,473
Other Countries	214,406	191,898
Total Corporate Bonds, at fair value	<u>2,509,565</u>	<u>2,287,998</u>
Commingled funds	1,036,444	885,782
Securities lending commingled fund	684,579	636,005
U.S. Government Bonds	557,343	529,936
Cash equivalents	551,361	708,461
Limited Partnership	147,007	88,069
Dreyfus Basic S&P 500 Stock Index Fund	110,139	125,934
Treasury bills and U.S. government notes held as Futures Collateral	69,508	72,038
Preferred stocks, at fair value	24,972	27,956
Unrealized Appreciation (depreciation) on Forwards, Options and Swaps	951	(5,398)
Securities held as Options Collateral	382	586
<b>Total Investments</b>	<u>\$ 8,020,577</u>	<u>\$ 7,385,311</u>

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Note 14

**FUTURES AND OPTIONS CONTRACTS/VARIATION MARGIN**

The following summarizes the futures and options contracts/variation margin of the System at September 30, 2005 and 2004.

<i>(Dollars in thousands)</i>	2005		2004	
	Contracts Long (Short)	Unrealized Appreciation (Depreciation)	Contracts Long (Short)	Unrealized Appreciation (Depreciation)
<b>Futures Contracts</b>				
Equity Futures				
S&P 500 Index Futures	5,016	\$ 1,932	5,371	\$ (237)
Commodity Futures	319	(77)	319	37
International Index Futures	65	(61)	110	(11)
Subtotal Equity Futures	<u>5,400</u>	<u>1,794</u>	<u>5,800</u>	<u>(211)</u>
Foreign Currency Futures				
90 Day Eurodollar Futures	1,051	(271)	1,285	40
90 Day Australian Bank Bill Futures	(181)	(5)	191	(31)
90 Day Euro Yen Futures	(488)	(21)	(397)	0
90 Day Euro Interbank Offer Rate Futures	(238)	1	122	8
90 Day Bank Acceptance Futures	142	(8)	(21)	1
90 Day Sterling London Interbank Offer Rate Futures	124	(6)	(254)	0
Subtotal Foreign Currency Futures	<u>410</u>	<u>(310)</u>	<u>926</u>	<u>18</u>
Interest Rate Futures				
U.S. Treasury Long Bonds Futures	(60)	23	173	(76)
U.S. Treasury Notes Futures - 10 year	(512)	167	(255)	43
U.S. Treasury Notes Futures - 5 year	320	(80)	139	0
U.S. Treasury Notes Futures - 2 year	(277)	61	(15)	(1)
International Bond Futures	(474)	148	185	74
Subtotal Interest Rate Futures	<u>(1,003)</u>	<u>319</u>	<u>227</u>	<u>40</u>
Total Futures Contracts	<u>4,807</u>	<u>\$ 1,803</u>	<u>6,953</u>	<u>\$ (153)</u>
	Contracts Long (Short)	Unrealized Appreciation (Depreciation)	Contracts Long (Short)	Unrealized Appreciation (Depreciation)
<b>Option Contracts</b>				
Written Options				
Foreign Currency Options				
90 Day Eurodollar Futures Options	(79)	\$ (12)	(23)	\$ (4)
90 Day Sterling London Interbank Offer Rate Futures	(12)	(2)	0	0
Euro 1 Year Futures Option	(32)	(10)	(2)	0
Subtotal Foreign Currency Options	<u>(123)</u>	<u>(24)</u>	<u>(25)</u>	<u>(4)</u>
Interest Rate Options				
U.S. Treasury Long Bonds Options	(322)	66	(136)	19
U.S. Treasury Notes Options - 10 year	(1,041)	(62)	(1,382)	36
U.S. Treasury Notes Options - 5 year	(375)	(60)	(110)	14
Interest Rate Swap Options	(46)	0	0	0
Subtotal Interest Rate Options	<u>(1,784)</u>	<u>(56)</u>	<u>(1,628)</u>	<u>69</u>
Total Written Options	<u>(1,907)</u>	<u>\$ (80)</u>	<u>(1,653)</u>	<u>\$ 65</u>
Purchased Options				
Foreign Currency Options				
90 Day Eurodollar Futures Options	460	\$ (152)	103	\$ 0
Euro 1 Year Futures Option	32	(5)	0	0
Subtotal Foreign Currency Options	<u>492</u>	<u>(157)</u>	<u>103</u>	<u>0</u>
Interest Rate Options				
U.S. Treasury Long Bonds Options	117	(50)	0	0
U.S. Treasury Notes Options - 10 year	67	(9)	0	0
U.S. Treasury Notes Options - 5 year	505	(476)	500	68
Interest Rate Swap Options	28	0	0	0
Subtotal Interest Rate Options	<u>717</u>	<u>(535)</u>	<u>500</u>	<u>68</u>
Total Purchased Options	<u>1,209</u>	<u>\$ (692)</u>	<u>603</u>	<u>\$ 68</u>

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Note 15

**INTEREST RATE SWAP CONTRACTS**

The following summarizes the interest rate swap contracts of the System at September 30, 2005 and 2004.

<i>(Dollars in thousands)</i>	2005						2004			
<b>Counter Parties</b>	<b>Notional Amount</b>	<b>Pay/Receive</b>	<b>Floating Rate Index</b>	<b>Fixed Rate</b>	<b>Maturity Date</b>	<b>Unrealized Appreciation (Depreciation)</b>	<b>Notional Amount</b>	<b>Fixed Rate</b>	<b>Maturity Date</b>	<b>Unrealized Appreciation (Depreciation)</b>
<b>Interest Rate Swaps</b>										
Alex Brown and Sons	(1,690,000) 1,690,000	Pay Receive		3.42% 4.31%	06/17/10 06/17/10	\$ (1,690) 1,568				
Bank of America	(300,000) 300,000	Pay Receive	Canadian		12/16/19 12/16/19	0 6	500,000 (500,000)	4.00%	12/15/06 12/15/06	\$ 0 9
Barclays Capital	(1,000,000) 1,000,000	Pay Receive	British Pound LIBOR		06/15/07 06/15/07		18,600,000 (18,600,000)	4.00%	12/15/09 12/15/09	66
	(700,000) 700,000	Pay Receive	Euro Dollars	5.00%	10/15/10 10/15/10	9	17,000,000 (17,000,000)	4.00%	12/15/09 12/15/09	61
	(3,000,000) 3,000,000	Pay Receive	British Pound LIBOR	2.10% 5.00%	06/16/11 06/16/11		3,000,000 (3,000,000)	5.00%	06/16/11 06/16/11	(50) (230)
BNP Paribas	(1,000,000) 1,000,000	Pay Receive	Euro Dollars		10/15/10 10/15/10	(4)				
Lehman Government Securities	(500,000) 500,000	Pay Receive	British Pound LIBOR		09/20/09 09/20/09	(1)				
Merrill Lynch	(1,900,000) 1,900,000	Pay Receive	British Pound LIBOR		09/20/09 09/20/09	(4)				
	300,000	Receive		4.50% 6.00%	06/18/34					
Morgan Stanley							(2,000,000)		12/15/14	58
Totals	300,000					\$ 0	2,000,000	5.00%	12/15/14	\$ (86)

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

Note 16

**CREDIT DEFAULT SWAP CONTRACTS**

The following summarizes the credit default swap contracts of the System at September 30, 2005. There were no outstanding contracts at September 30, 2004.

<i>(Dollars in thousands)</i>		2005			
<b>Counter Parties</b>	<b>Notional Amount</b>	<b>Buy/Sell Protection</b>	<b>Fixed Rate</b>	<b>Maturity Date</b>	<b>Unrealized Appreciation (Depreciation)</b>
Alex Brown and Sons	(200,000)	Sell		9/20/10	\$ (200)
	200,000		2.30% to 2.32%	9/20/10	189
	(100,000)	Sell		3/20/15	(100)
	100,000		2.93%	3/20/15	77
Bear Stearns	(390,909)	Sell		12/20/09	(391)
	390,909		4.00%	12/20/09	359
	(500,000)	Sell		3/20/10	(500)
	500,000		1.05%	3/20/10	448
	(1,984,000)	Sell		6/20/10	(1,984)
	1,984,000		3.60% to 5.45%	6/20/10	1,819
	(570,000)	Sell		9/20/10	(570)
	570,000		1.75%	9/20/10	541
Chase Bank/Greenwich Capital	(2,000,000)	Sell		6/20/10	(2,000)
	2,000,000		2.08%	6/20/10	1,811
	(1,200,000)	Sell		6/20/10	(1,200)
	1,200,000		4.75%	6/20/10	1,117
	(900,000)	Sell		12/20/10	(900)
	900,000		2.00%	12/20/10	890
Credit Suisse	(488,636)	Sell		12/20/09	(488)
	488,636		4.00%	12/20/09	449
	(100,000)	Sell		3/20/10	(100)
	100,000			3/20/10	90
	(100,000)	Sell		9/20/10	(100)
	100,000		1.14%	9/20/10	96
	(60,000)		(2.15%)	2/25/34	(60)
	60,000	Buy		2/25/34	59
	(60,000)		(2.20%)	3/25/34	(60)
	60,000	Buy		3/25/34	59
	(60,000)		(1.37%)	6/25/34	(60)
	60,000	Buy		6/25/34	59
	(60,000)		(2.15%)	8/25/34	(60)
	60,000	Buy		8/25/34	59
	(60,000)		(1.37%)	10/25/34	(60)
	60,000	Buy		10/25/34	59
	(180,000)		(1.31%) to (2.18%)	11/25/34	(181)
	180,000	Buy		11/25/34	176
	(90,000)		(1.33%) to (2.08%)	12/25/34	(90)
	90,000	Buy		12/25/34	88
	(135,000)		(1.28%) to (2.18%)	1/25/35	(135)
	135,000	Buy		1/25/35	132
	(270,000)		(1.31%) to (2.08%)	2/25/35	(271)
	270,000	Buy		2/25/35	266
	(270,000)		(1.33%) to (2.18%)	3/25/35	(271)
	270,000	Buy		3/25/35	266
	(150,000)		(1.28%) to (2.15%)	4/25/35	(150)
	150,000	Buy		4/25/35	147
	(90,000)		(1.28%) to (2.05%)	6/25/35	(90)
	90,000	Buy		6/25/35	88
	(90,000)		(1.28%) to (2.05%)	9/25/35	(90)
	90,000	Buy		9/25/35	88
	(90,000)		(1.28%) to (2.05%)	10/25/35	(90)
	90,000	Buy		10/25/35	88
	(90,000)		(1.38%) to (2.18%)	1/25/36	(90)
	90,000	Buy		1/25/36	88
Goldman Sachs	(400,000)		(0.255%) to (0.2625%)	6/20/10	(400)
	400,000	Buy		6/20/10	397
	(500,000)	Sell		12/20/10	(500)
	500,000		2.00%	12/20/10	494
Merrill Lynch	(50,000)	Sell		9/20/10	(50)
	50,000		2.30%	9/20/10	47
	(900,000)		(.2642%)	6/20/15	(896)
	900,000	Buy		6/20/15	891
Totals					\$ (700)

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 futures and options contracts of the System at September 30, 2005 and 2004.

<i>(Dollars in thousands)</i>	2005			2004		
	Settlement Date	USD Contract Amount	Unrealized Appreciation (Depreciation)	Settlement Date	USD Contract Amount	Unrealized Appreciation (Depreciation)
<b>Currency Purchased</b>						
Australian Dollar	10/4/05	\$ 13	\$ 0	10/1/04	\$ 103	\$ (1)
	12/15/05	3,358	(1)	10/5/04	19	0
	12/21/05	499	(3)	12/15/04	2,693	(76)
British Pound Sterling	10/3/05	30	0	10/1/04	63	0
	10/4/05	31	0	10/4/04	83	(1)
	12/15/05	4,724	54	10/5/04	11	0
	12/21/05	51,696	1,948	12/15/04	38,762	(487)
Canadian Dollar	10/13/05	499	(12)	10/28/04	3,276	(112)
	12/15/05	37,420	(739)	12/15/04	28,220	(848)
	12/21/05	52,830	(1,392)			
Czech Koruna				12/15/04	70	(1)
Chinese Yuan Renminbi	1/17/06	13,483	24			
	4/5/06	6,193	22			
	6/21/06	4,445	23			
Danish Krone	10/4/05	27	0			
Euro Monetary Unit	10/3/05	2,485	(4)	10/1/04	99	(1)
	10/4/05	95	0	10/4/04	32	0
	10/20/05	2,210	9	10/5/04	8,649	11
	11/8/05	32,677	53	10/25/04	19,888	(126)
	12/15/05	7,000	53	11/10/04	46,548	(1,082)
	12/21/05	170,811	4,037	12/15/04	129,852	(3,392)
Hungarian Forint	10/3/05	241	0			
Japanese Yen	10/3/05	113	0	10/1/04	212	(1)
	10/4/05	182	0	10/4/04	29	0
	12/15/05	35,841	1,192	10/5/04	861	2
	12/21/05	1,406	44	12/15/04	3,939	12
	1/10/06	1,011	21			
Mexican New Peso				10/1/04	103	0
				12/15/04	163	(2)
New Taiwan Dollar	12/21/05	269	0			
New Zealand Dollar	12/21/05	1,091	(4)			
Norwegian Krone	10/4/05	90	0	10/1/04	403	(2)
	12/15/05	48,361	1,934			
South African Rand	12/21/05	140	(1)	10/26/04	524	(45)
				11/3/04	524	(52)
South Korean Won	10/5/05	119	(1)	12/15/04	277	0
Swedish Krona	12/15/05	5,966	227	12/15/04	15,977	(652)
	12/21/05	17,949	465			
Swiss Franc	10/5/05	16	0	10/1/04	570	(5)
	10/12/05	1,931	39	11/17/04	776	(8)
	12/15/05	20,257	853	12/1/04	2,603	(27)
	12/19/05	389	11	12/7/04	1,428	(15)
	12/21/05	692	13	12/15/04	376	(1)
U.S. Dollar	10/3/05	831	0	10/1/04	147	0
	10/4/05	533	0	10/4/04	184	0
	10/5/05	491	0	10/5/04	93	0
	10/20/05	22	0	11/10/04	13,515	0
	11/8/05	26,259	0	12/15/04	70,859	0
	12/15/05	131,437	0	5/18/05	12,174	0
	12/21/05	92,997	0	8/3/05	9,982	0
	1/10/06	1,026	0			
	1/17/06	14,974	0			
	4/5/06	12,607	0			
	6/21/06	12,484	0			
	9/20/06	5,117	0			
Totals		\$ 825,368	\$ 8,865		\$ 414,087	\$ (6,912)

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

Note 17 (continued)

**FORWARD FOREIGN CURRENCY CONTRACTS**

The following summarizes the futures and options contracts of the System at September 30, 2005 and 2004.

<i>(Dollars in thousands)</i>	2005			2004		
	Settlement Date	USD Contract Amount	Unrealized Appreciation (Depreciation)	Settlement Date	USD Contract Amount	Unrealized Appreciation (Depreciation)
<b>Currency Sold</b>						
Australian Dollar	10/4/05	\$ 52	\$ 0	12/15/04	\$ 5,659	\$ 94
	12/15/05	9,961	(17)			
	12/21/05	16,260	191			
British Pound Sterling	10/4/05	262	0	12/15/04	2,562	11
	12/15/05	74,194	(2,830)			
	12/21/05	10,525	(187)			
Canadian Dollar	12/21/05	7,335	118	10/1/04	69	0
				10/4/04	150	0
				12/15/04	3,522	69
Chinese Yuan Renminbi	1/17/06	14,973	(268)	5/18/05	12,174	(113)
	4/5/06	12,606	(128)	8/3/05	9,982	67
	6/21/06	12,484	(85)			
	9/20/06	5,117	(6)			
Czech Koruna	12/21/05	1,728	(74)	12/15/04	786	27
Egyptian Pound	10/3/05	111	(1)			
Euro Monetary Unit	10/3/05	17	0	11/10/04	13,515	317
	10/20/05	22	0	12/15/04	16,974	165
	11/8/05	26,259	(261)			
	12/15/05	20,393	(677)			
	12/21/05	5,386	(129)			
Hong Kong Dollar	10/3/05	506	0			
Hungarian Forint	12/21/05	856	(24)	12/15/04	603	24
Indonesian Rupiah				10/4/04	35	0
				10/5/04	93	0
Japanese Yen	10/3/05	198	(1)	10/1/04	33	0
	10/4/05	99	0	12/15/04	22,313	(134)
	10/5/05	390	1			
	12/15/05	2,979	(48)			
	12/21/05	44,445	(1,297)			
	1/10/06	1,026	(36)			
Mexican New Peso	12/21/05	4,458	12	12/15/04	3,611	6
New Taiwan Dollar	12/21/05	1,045	(21)	12/15/04	1,264	(1)
New Zealand Dollar	12/15/05	12,928	(217)	12/15/04	11,253	303
Polish Zloty	12/21/05	1,710	37	12/15/04	2,463	105
South African Rand	12/21/05	1,164	(8)	12/15/04	1,229	53
South Korean Won	10/4/05	84	0	12/15/04	2,919	14
	10/5/05	101	0			
	12/21/05	3,589	(53)			
Swedish Krona	12/15/05	1,915	(8)	10/1/04	45	1
	12/21/05	4,724	(144)	12/15/04	4,739	163
Swiss Franc	10/4/05	36	0	12/15/04	16,562	296
	12/15/05	9,066	(75)			
	12/21/05	7,319	(206)			
U.S. Dollar	10/3/05	2,869	0	10/1/04	1,553	0
	10/4/05	437	0	10/4/04	144	0
	10/5/05	134	0	10/5/04	9,539	0
	10/12/05	1,931	0	10/25/04	19,888	0
	10/13/05	499	0	10/26/04	524	0
	10/20/05	2,211	0	10/28/04	3,276	0
	11/8/05	32,678	0	11/3/04	524	0
	12/15/05	162,928	0	11/10/04	46,547	0
	12/19/05	389	0	11/17/04	776	0
	12/21/05	279,837	0	12/1/04	2,603	0
	1/10/06	1,011	0	12/7/04	1,428	0
	1/17/06	13,483	0	12/15/04	194,730	0
	4/5/06	6,193	0			
	6/21/06	4,445	0			
<b>Totals</b>		<b>\$ 825,368</b>	<b>\$ (6,442)</b>		<b>\$ 414,087</b>	<b>\$ 1,467</b>

# TVA RETIREMENT SYSTEM

## Note 18

### SECURITIES LENDING

As of September 30, 2005 and 2004, the Plan loaned securities having a fair value of approximately \$713.4 million and \$675.8 million, respectively, and received \$733.7 million and \$693.5 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> <b>September 30, 2005</b>	<b>Fair Value Securities On Loan</b>	<b>Total Collateral</b>	<b>Collateral Percent</b>	<b>Fair Value of Cash</b>	<b>Collateral Tri-Party</b>	<b>Securities</b>
U.S. Government	\$ 373,721	\$ 380,479	101.8%	\$ 349,196	\$ 23,277	\$ 8,006
Corporate bonds	130,857	134,034	102.4%	133,869		165
Common stocks - domestic	106,821	112,140	104.9%	112,140		
Common stocks - international	69,273	73,155	105.6%	59,466	4,572	9,117
U.S. Government agency	32,736	33,888	103.5%	29,908	3,980	
<b>Total</b>	<u>\$ 713,408</u>	<u>\$ 733,696</u>	102.8%	<u>\$ 684,579</u>	<u>\$ 31,829</u>	<u>\$ 17,288</u>
<b>September 30, 2004</b>						
U.S. Government	\$ 357,604	\$ 364,611	101.9%	\$ 316,190	\$ 46,660	\$ 1,761
Corporate bonds	149,274	152,903	102.4%	152,903		
Common stocks - domestic	57,595	60,179	104.4%	60,179		
Common stocks - international	54,706	57,500	105.1%	48,470	8,611	419
U.S. Government agency	56,573	58,315	103.0%	58,263	52	
<b>Total</b>	<u>\$ 675,752</u>	<u>\$ 693,508</u>	102.6%	<u>\$ 636,005</u>	<u>\$ 55,323</u>	<u>\$ 2,180</u>

## Note 19

### NET APPRECIATION OF INVESTMENTS

During 2005 and 2004, the System's investments (including investments bought, sold, as well as held during the year) appreciated in value as follows:

September 30, 2005 and 2004

<i>(Dollars in thousands)</i>	<b>2005</b>	2004
<b>Common stocks</b>	\$ 434,086	\$ 506,245
<b>Commingled funds</b>	199,119	22,347
<b>Corporate bonds</b>	134,051	96,497
<b>Foreign Currency Forward Contracts</b>	(45,020)	(14,026)
<b>Other</b>	20,167	19,571
<b>Net appreciation (depreciation)</b>	<u>\$ 742,403</u>	<u>\$ 630,634</u>

## Note 20

### INVESTMENT HOLDINGS GREATER THAN 5 PERCENT

During 2005 and 2004, the System's investments greater than 5 percent of the Net Assets Available for Benefits were as follows:

September 30, 2005 and 2004

<i>(Dollars in thousands)</i>	<b>2005</b>	2004
<b>Barclays Global Investors, All Country World Index excluding the United States Active International Equity Fund</b>	\$ 431,393	\$ 329,195
<b>Total</b>	<u>\$ 431,393</u>	<u>\$ 329,195</u>

## Note 21

### ADMINISTRATIVE EXPENSES

The Plan paid administrative fees to the Trustee, Mellon Bank, of approximately \$1.9 million in fiscal year 2005 and approximately \$2.0 million in fiscal year 2004. The Plan also paid Fixed and Variable Fund recordkeeping expenses of approximately \$281 thousand in fiscal year 2005 and approximately \$273 thousand in fiscal year 2004. The Fixed and Variable Fund recordkeeping services were provided by Mellon HR Solutions in fiscal year 2004 and in fiscal year 2005 until such services were transferred to Affiliated Computer Services (ACS) on May 26, 2005, as a result of the purchase of Mellon HR Solutions' business by ACS.

## Note 22

### TERMINATION

In the event the Plan terminates, the net assets of the Plan will be allocated generally to provide benefits in the following order: (1) benefits based upon members' contributions (if applicable), (2) nonforfeitable benefits based upon TVA's contributions, and (3) if feasible, cost-of-living increases thereto.



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

## Note 23

### VARIABLE FUND

The Variable Fund is an investment option for eligible members of the Plan. The Employee Account is 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 Dreyfus Basic S&P 500 Stock 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 are also updated annually by an actuarial valuation.

These assets are maintained legally separate from the general assets of the Fixed Benefit Fund and are to be used for the Variable Fund benefit structure. Members can transfer their Variable Fund balance to the Fixed Benefit Fund at various times for the member to have the ability to choose a fixed benefit structure. Key financial data of the Variable Fund at September 30, 2005 and 2004 are as follows:

<i>(Dollars in thousands)</i>	<b>2005</b>	2004
<b>Assets</b>		
Commingled Funds	<b>\$ 116,648</b>	\$ 115,237
S&P 500 Stock Index Fund	<b>110,139</b>	125,934
Total Investments at fair value	<u><b>226,787</b></u>	<u>241,171</u>
<b>Liabilities</b>		
Net Payable to the Fixed Benefit Fund	<b>198</b>	1,216
Securities Purchased	<b>46</b>	0
Total Liabilities	<u><b>244</b></u>	<u>1,216</u>
<b>Net Assets</b>	<u><b>\$ 226,543</b></u>	<u>\$ 239,955</u>
<b>Investment Income</b>		
Net Appreciation in fair value of investments	<b>\$ 25,080</b>	\$ 29,305
Dividends	<b>2,324</b>	3,970
Total Investment Income	<u><b>27,404</b></u>	<u>33,275</u>
<b>Members' Contributions</b>	<u><b>3,914</b></u>	<u>4,894</u>
<b>Net Transfers for:</b>		
Net Transfers to Fixed Benefit Fund	<b>29,050</b>	25,472
Retirement Benefits, Withdrawals, and Death Benefits	<b>15,076</b>	14,192
Net Transfers to 401(k) Plan	<b>604</b>	2,093
Net Transfers	<u><b>44,730</b></u>	<u>41,757</u>
Net Decrease	<u><b>\$ (13,412)</b></u>	<u>\$ (3,588)</u>



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**Report of Independent Auditors**

To the Participants and Administrator of  
TVA Savings and Deferral Retirement Plan

In our opinion, the accompanying statements of net assets available for benefits and the related statements of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of TVA Savings and Deferral Retirement Plan (the "Plan") at September 30, 2005 and 2004, 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. 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 of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

*PricewaterhouseCoopers* LLP

Knoxville, Tennessee  
August 30, 2006

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

## STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

September 30, 2005 and 2004

(Dollars in thousands)	2005	2004
<b>Assets</b>		
Investments at fair value		
Equity funds	\$ 910,770	\$ 778,515
Bond funds	268,768	259,983
Participant loans	20,448	17,598
<b>Net Assets Available for Benefits</b>	<b><u>\$ 1,199,986</u></b>	<b><u>\$ 1,056,096</u></b>

In fiscal year 2004, \$11 million was reclassified to Bond Funds from Equity Funds primarily due to reclassification of Fidelity Freedom 2000 and Fidelity Freedom Income Funds.

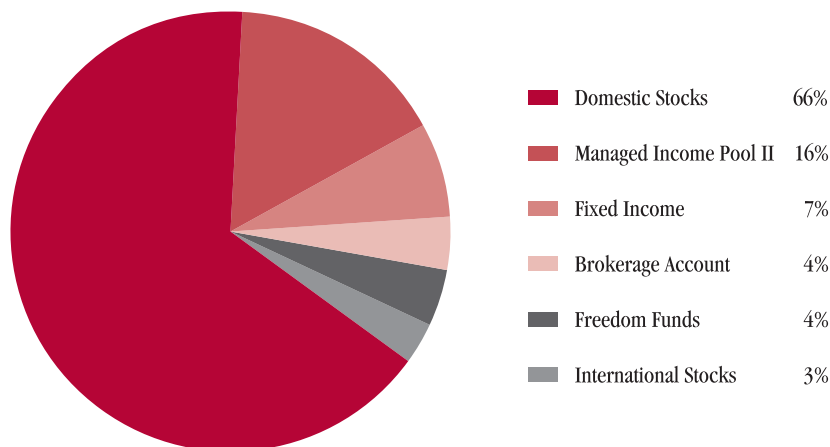
## STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Fiscal Years Ended September 30, 2005 and 2004

(Dollars in thousands)	2005	2004
<b>Investment Income</b>		
Net appreciation	\$ 101,935	\$ 64,890
Dividends and interest	28,788	21,417
<b>Contributions</b>		
Members	59,466	57,953
TVA	17,707	16,142
Transfers from Fixed and Variable Funds	11,423	14,485
Total increase	219,319	174,887
<b>Benefits, Withdrawals, and Transfers</b>		
Benefits and withdrawals	69,604	55,661
Transfers to Fixed and Variable Funds	5,825	7,733
Total benefits, withdrawals, and transfers	75,429	63,394
Net increase	143,890	111,493
<b>Net Assets Available for Benefits</b>		
Beginning of year	1,056,096	944,603
End of year	<b><u>\$ 1,199,986</u></b>	<b><u>\$ 1,056,096</u></b>

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

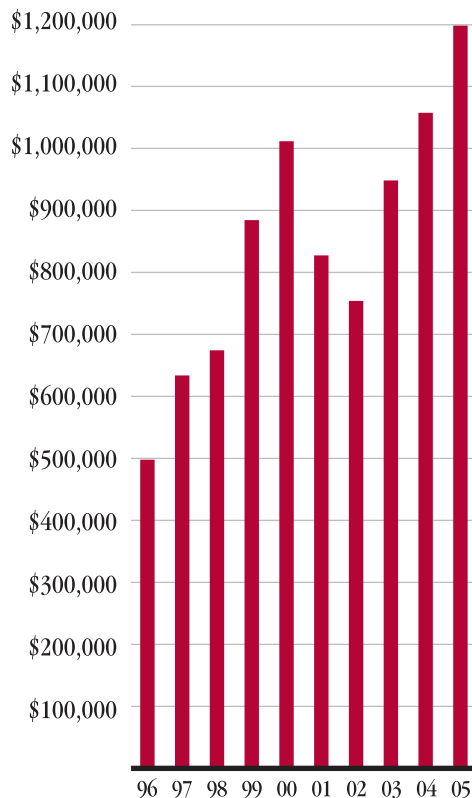
## 401(K) PLAN ASSET ALLOCATION (September 30, 2005)



## 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 members' after-tax contributions and before-tax salary deferrals. Additionally, eligible members receive employer matching contributions provided by TVA. Investment options for the after-tax, before-tax, and matching contributions are comprised of 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 for the plan year in which forfeitures occur. The amount of forfeitures totaled \$221,755 in fiscal year 2005 and \$284,175 in fiscal year 2004.

#### Termination

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

### Note 2

#### SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Accounting

The Financial Statements are prepared on the accrual basis of accounting.

#### Valuation of Investments

The assets of the 401(k) Plan are held by the Trustee, Fidelity Investments. The 401(k) Plan's investments in any investment companies, unit investment trust, or similar investment funds are valued at their closing net asset values (or unit value) per share. The Brokerage Link Fund allows participants to purchase other mutual funds not offered by the Trustee or investment securities. Investment securities, other than debt securities, listed on either a national or foreign securities exchange or traded in the over-the-counter National Market System are generally valued each business day at the official closing price (typically the last reported sale price) on the exchange on which the securities are primarily traded. If there are no current day sales, the securities are valued at their last quoted bid price. Other securities traded over-the-counter and not part of the National Market System are valued at their last quoted bid price. Debt securities (other than certain short-term obligations) are valued each business day by an independent pricing service or broker approved by the Trustee. The Managed Income Pool II investments are stated at cost plus accrued interest which approximates 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 10.

#### 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.

#### Tax Status

The Internal Revenue Service (IRS) has determined and informed the System in March 2003 that the Plan and the 401(k) Plan are designed in accordance with the applicable sections of the Internal Revenue Code. The Plan and the 401(k) Plan have been amended subsequent to the receipt of the latest IRS determination letter. However, the Plan administrator and the Plan's tax counsel believe that the Plan and the 401(k) Plan are currently designed and being operated in compliance with the applicable requirements of

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

the Internal Revenue Code. Therefore, no provision for income taxes has been included in these financial statements.

## 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

### AMENDMENTS TO THE PROVISIONS OF THE 401(K) PLAN

During fiscal year 2005, the 401(k) Plan Provisions were amended to allow a lump-sum distribution when the participant is no longer employed by TVA and the account balance is less than \$1,000. In fiscal year 2004, the threshold was less than \$5,000.

Employees who are age 50 or older were allowed to contribute a "catch up" on their 401(k) plan in compliance with the 2001 Economic Growth and Tax Relief Reconciliation Act. The calendar year 2005 limit was \$4,000 and was a before-tax deduction. In calendar year 2004, the limit was \$3,000.

In fiscal year 2005, 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 2006 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 4

### COMMITMENTS AND CONTINGENCIES

The 401(k) Plan had no existing commitments or contingencies at September 30, 2005 and 2004.

## Note 5

### CONTRIBUTIONS

#### *After-tax*

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

#### *Before-tax*

Salary deferrals are made through payroll deductions

only. A member may increase, decrease, transfer, or stop contributions at any time.

## *Matching*

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

In calendar year 2005, total contributions to the Fixed Fund, Variable Fund, and 401(k) Plan, including TVA matching contributions, may not exceed the lesser of \$42,000 or 100 percent of calendar year-to-date compensation.

## Note 6

### WITHDRAWALS

#### *After-tax Contributions*

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

#### *Before-tax Contributions*

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

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

Members may receive the full balance of their funds upon retirement, disability, death, or termination, except that a retiree may defer distribution until no later than April 1 of the calendar year after the year in which he or she reaches

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

age 70½. In addition, members may choose, after termination, to receive periodic installment payments from their balance.

Note 7

**ADMINISTRATIVE EXPENSES**

There were no recordkeeping expenses paid to the Trustee, Fidelity Investments, in fiscal years 2005 and 2004.

Note 8

**LOANS**

With certain limits, the 401(k) Plan permits loans to participants. Members may borrow a percentage of their account balance (maximum \$50,000) for up to 5 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, which was 7 percent at September 30, 2005. Such interest is credited directly to the account of the member.

Note 9

**NET APPRECIATION (DEPRECIATION)  
OF INVESTMENTS**

*During 2005 and 2004, the 401(k) Plan's investments (including investments bought, sold, as well as held during the year) appreciated or depreciated in value as follows:*

*September 30, 2005 and 2004*

<i>(Dollars in thousands)</i>	<b>2005</b>	2004
<b>Equity Funds</b>	<b>\$102,294</b>	\$ 64,910
<b>Bond Funds</b>	<u>(359)</u>	<u>(20)</u>
<b>Net Appreciation</b>	<b><u>\$101,935</u></b>	<b><u>\$ 64,890</u></b>

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

Note 10  
INVESTMENTS

The net assets of all investment options as of September 30, 2005 and 2004, are as follows:

(Dollars in thousands)

	2005	2004
<b>Equity Funds</b>		
<b>Equity Funds Over 5% of Net Assets Available</b>		
Fidelity Magellan	\$ 218,934	\$ 224,604
Fidelity Growth Company	85,063	84,459
Fidelity Equity Income Fund I	82,093	77,764
<b>Equity Funds Under 5% of Net Assets Available</b>		
Fidelity Contrafund	59,731	42,661
Brokerage Link Fund*	46,317	39,208
Fidelity Low Price Stock Fund	35,914	29,746
Fidelity Puritan Fund	29,285	27,343
Fidelity Dividend Growth	28,628	30,041
Fidelity Growth & Income Fund	27,446	26,367
Fidelity Over The Counter Portfolio	22,487	24,220
Fidelity Freedom 2010 Fund	20,915	17,332
Fidelity U.S. Equity Index Fund	17,945	17,173
Janus Worldwide Fund	16,380	18,234
Fidelity Freedom 2020 Fund	15,892	11,975
Fidelity Diversified International Fund	12,809	7,041
Fidelity Leveraged Company Stock Fund	12,008	4,622
Fidelity Freedom 2030 Fund	11,307	8,076
Fidelity Balanced Fund	9,389	6,027
Fidelity Select Energy	8,134	455
Fidelity Select Natural Gas	7,245	460
Fidelity Value Fund	5,237	2,076
Fidelity Canada	4,779	437
Baron Growth	4,738	1,434
Fidelity Select Medical Delivery	4,712	254
Fidelity Mid-Cap Stock Fund	4,541	3,790
Fidelity International Small Cap	4,032	1,503
Fidelity Trend Fund	3,941	3,783
Fidelity Real Estate	3,585	1,482
Oakmark Equity and Income	3,526	2,871
Fidelity Blue Chip Growth Fund	3,489	3,835
Other Equity Funds	100,268	59,242
<b>Total Equity Funds</b>	<b>910,770</b>	<b>778,515</b>
<b>Bond Funds</b>		
<b>Bond Funds Over 5% of Net Assets Available</b>		
Fidelity Managed Income Pool II	189,230	188,024
<b>Bond Funds Under 5% of Net Assets Available**</b>		
Fidelity Retirement Government Money Market Portfolio	36,569	37,370
PIMCo Total Return	13,874	12,233
Fidelity Freedom 2000 Fund	4,748	5,024
Other Bond Funds	24,347	17,332
<b>Total Bond Funds</b>	<b>268,768</b>	<b>259,983</b>
<b>Participant Loans - 7% Interest Rate at September 30, 2005</b>	<b>20,448</b>	<b>17,598</b>
<b>Net Assets Available for Benefits</b>	<b>\$ 1,199,986</b>	<b>\$1,056,096</b>

\* 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.

\*\* In fiscal year 2004, \$11 million was reclassified to Bond Funds from Equity Funds primarily due to reclassification of Fidelity Freedom 2000 and Fidelity Freedom Income Funds.

# C O N T A C T   I N F O R M A T I O N

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Knoxville, TN 37902-1499

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800-824-3870 (toll-free)

Monday through Friday  
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## TTY PHONE NUMBER

TTY for the Hearing Impaired  
865-632-7576

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