

Retention Systems

2003 ANNUAL REPORT



To Our Members:

The TVA Retirement System Board of Directors is pleased to submit the System's 2003 Annual Report. After three disappointing years of financial performance for the stock market and the fund, fiscal year 2003 ended with outstanding results. The Fixed Benefit Fund took full advantage of the economic recovery, earning more than 23 percent for the year ended September 30. Investment earnings for the fiscal year totaled more than \$1.1 billion. The fund continues to be well diversified and positioned for further recovery in domestic and global markets.

Several noteworthy activities that occurred during the fiscal year include:

- The TVARS Board approved a 2.36 percent cost-of-living allowance increase in the monthly pension and the supplemental benefits payable to eligible retirees and beneficiaries for 2004.
- The TVARS Board approved and recommended to the TVA Board a TVA contribution rate of 2.66 percent, or approximately \$23 million, to the System for fiscal year 2004. The TVA Board approved the contribution in fiscal year 2003.
- Leonard Muzyn was elected by the membership to serve as Board director for the term ending October 31, 2006.
- TVA appointed John Hoskins as Board director to fill the vacancy left by Bill Oden who retired.

The TVA Retirement System was established in 1939 and is governed by rules which established a seven-member Board of Directors to oversee the System. Three of these members are appointed by the TVA Board of Directors, three are elected by TVA employees who are also members of the System, and a seventh director is selected by those six directors. I have had the privilege of serving as the seventh director for the past nine years. September 30 marks the end of my term and tenure on the TVA Retirement System Board. It has been a pleasure serving all TVA Retirement System members, employees, and retirees in our mission to provide a financially sound and service-oriented pension system.

Thank you for your continued trust and confidence placed in the Board over the years. We are honored to have worked on your behalf and appreciate your continued support.

Sincerely,



Lewis E. Wallace
Chairman

Contents

i	Chairman's Letter
1	Financial Highlights & Statistics
2	Board of Directors
3	Professional Advisors and Investment Managers
4	Plan Summary
7	Certification of Financial Statements
8	Report of Independent Auditors
9	Fixed Benefit Fund
13	Variable Annuity Fund
15	TVA Savings and Deferral Retirement Plan [401(k) Plan]
19	Contact Information

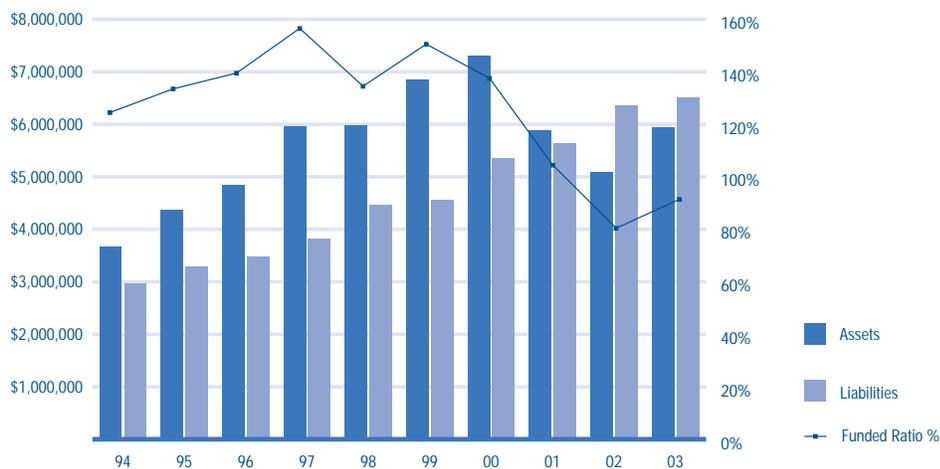
Financial Highlights & Statistics

(Dollars in thousands)

	2003	2002	Change	% Change
Net Assets Available for Benefits				
Fixed Benefit Fund	\$ 5,929,844	\$ 5,087,617	\$ 842,227	17
Variable Annuity Fund	243,543	215,583	27,960	13
TVA Savings & Deferral Retirement Plan [401(k) Plan]	944,603	762,570	182,033	24
Total	\$ 7,117,990	\$ 6,065,770	\$ 1,052,220	17
Contributions				
Employer (all funds)	\$ 14,885	\$ 13,946	\$ 939	7
Employee (all funds)	\$ 100,259	\$ 94,149	\$ 6,110	6
Benefits Paid (all funds)	\$ 394,088	\$ 383,447	\$ 10,641	3
Accumulated Benefit Obligation (Fixed Benefit Fund)	\$ 6,372,600	\$ 6,351,200	\$ 21,400	0
Number of Active Members	13,171	13,444	(273)	(2)
Number of Retirees	21,578	21,387	191	1

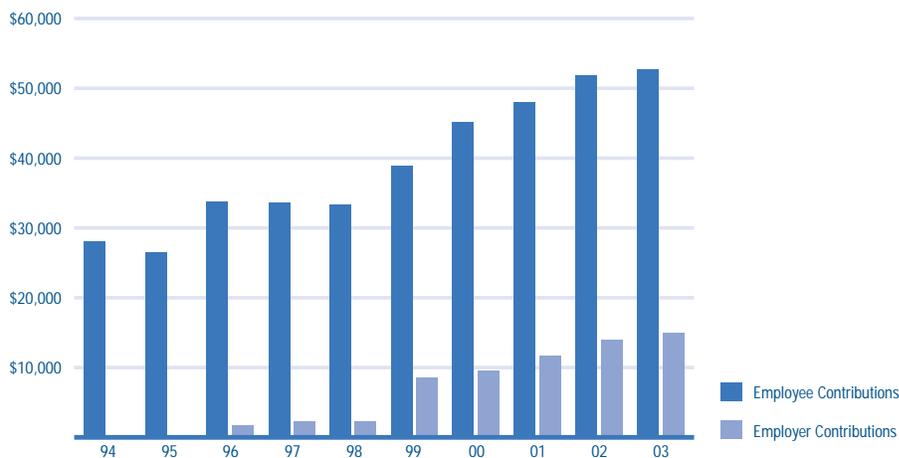
Fixed Benefit Fund

MARKET VALUE OF ASSETS AND LIABILITIES, AND FUNDED RATIO
(in thousands)



401(k) Plan Contributions

(in thousands)



Board of Directors

Elected by Members

Robert H. Cash
Elected November 1, 1997

Floyd J. Johnson
Elected November 1, 1995

Gretchen D. Thal
Elected February 3, 1997

Appointed by TVA

John M. Hoskins
Appointed July 28, 2003

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

Mark O. Medford
Appointed November 6, 1995

William M. Oden
Appointed January 27, 1995
Retired July 27, 2003

Selected by Other Directors

Lewis E. Wallace
Selected November 1, 1994

Standing Committees

Audit

William M. Oden, Chair
John E. Long, Jr.
Gretchen D. Thal

Election

Gretchen D. Thal, Chair
Floyd J. Johnson
Mark O. Medford

Investment

John E. Long, Jr., Chair
Robert H. Cash
Floyd J. Johnson
Mark O. Medford
William M. Oden
Gretchen D. Thal
Lewis E. Wallace

Retirement

Floyd J. Johnson, Chair
Robert H. Cash
John E. Long, Jr.
Mark O. Medford

Board Officers

Lewis E. Wallace
Chairman

Floyd J. Johnson
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

Master Trustee

Mellon Bank NA
Pittsburgh

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.

BlackRock Financial Management Inc.

BlackRock International, Ltd.

Capital Guardian Trust Company

David J. Greene and Company, LLC

David L. Babson & Company Inc.

Geewax, Terker & Company

Goldman Sachs Asset Management

HarbourVest Partners, LLC

INVESCO-National Asset Management

MacKay Shields LLC

Mellon Bond Associates, LLP

Mellon Capital Management

Nicholas-Applegate Capital Management

Pacific Investment Management Company

Putnam Advisory Company, LLC

Smith Breeden Associates Inc.

Taplin, Canida & Habacht

Wellington Management Company, LLP

Western Asset Management Company

Wilshire Associates Incorporated

W.R. Huff Asset Management Co., L.L.C.

WRH Partners Global Securities, L.P.

WRH Partners II, L.L.C.

Variable Annuity Fund

Mellon Capital Management Corporation

Mellon HR Solutions

Plan Summary

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

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 under the control and direction of a 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, certain members first hired before implementation of the Cash Balance Benefit Structure, described below, are eligible to make voluntary contributions to the System's Fixed and/or Variable Annuity Funds. 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 Annuity 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 for interest credits.

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. Then, once the member is eligible to receive Social Security payments, 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.

Annuity and 401(k) Plan

During Employment

The annuity provides two after-tax investment options to members, the Fixed Benefit Fund and the Variable Annuity Fund. These funds are available to members who are or have ever been participants in the Original Benefit Structure unless they have transferred their annuity fund balance(s) to the 401(k) Plan. The Fixed Benefit Fund earns a specified rate of interest set by the System's Board of Directors (currently 10 percent). The Variable Annuity Fund is invested in the Dreyfus Basic S&P 500 Stock Index Fund. Employees participating in the Variable Annuity 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 Benefit Fund and the Variable Annuity 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 are no longer eligible to contribute to the Fixed Benefit Fund or the Variable Annuity Fund. 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 members participating in the Cash Balance Benefit Structure and the Original Benefit Structure. 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 base 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 base 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. Investment options available through the 401(k) Plan have varying degrees of risk and potential return.

In calendar year 2003, contributions to the Fixed Benefit Fund, Variable Annuity Fund, and 401(k) Plan may not

exceed the lesser of \$40,000 or 100 percent of calendar year-to-date compensation. Higher paid employees may be subject to further limitations on before-tax contributions to the 401(k) Plan. Additionally, before-tax contributions may not exceed the annually published IRS maximum (\$12,000 for 2003). Employees who are age 50 or older are allowed to contribute an additional before-tax amount, allowing them to "catch up" on their retirement savings. For 2003, the catch-up amount is \$2,000 over and above contribution limits and cannot begin until the before-tax contribution limit is reached. These before-tax limits will increase annually according to the Economic Growth and Tax Relief Reconciliation Act of 2001.

After Retirement

A member may receive a monthly annuity payment from the Fixed Benefit Fund, the Variable Annuity Fund, or both. Annuity payments from the Fixed Benefit 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 Annuity 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 Annuity Fund. The monthly annuity payments will vary based on the value of these units. The investment strategy of the Variable Annuity Fund is the same as the Dreyfus Basic S&P 500 Stock Index Fund. Retired members may elect to transfer between the Fixed Benefit Fund and the Variable Annuity Fund once per calendar year.

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 be continued in the 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.

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

Plan assets of the Fixed Benefit Fund 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 procedures are only effective if they are the result of a marriage that was terminated by divorce or annulment on or after January 1, 2003.

The DRO procedures allow a lump-sum distribution to a former spouse from a member's existing Annuity Fund and/or TVA Savings and Deferral Retirement Plan [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. Survivorship 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 has determined and informed the TVA Retirement System that the Plan and the TVA Savings and Deferral Retirement Plan [401(k) Plan] are designed in accordance with the applicable sections of the Internal Revenue Code.

Risks and Uncertainties

The Plan and TVA Savings and Deferral Retirement Plan [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 System 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 on page 19 of this report.

Certification of Financial Statements

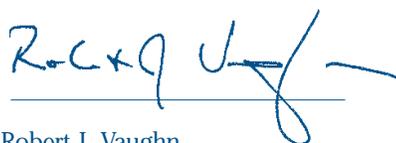
Randy A. Snyder, Robert J. Vaughn, and Patrick D. Brackett, individually certify that:

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 period covered by the Financial Statements.
3. Based on my knowledge, the Financial Statements 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. I and the other officers of the Tennessee Valley Authority Retirement System listed below 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, 2003, 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 officers 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: January 16, 2004



Randy A. Snyder
Executive Secretary



Robert J. Vaughn
Assistant Secretary



Patrick D. Brackett
Manager, Retirement Investments

Report of Independent Auditors

*Board of Directors
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 the Tennessee Valley Authority Retirement System (the System) Fixed Benefit Fund, the Variable Annuity Fund, and the TVA Savings and Deferral Retirement Plan at September 30, 2003 and 2002, 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 System'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

PricewaterhouseCoopers LLP
Knoxville, Tennessee
January 16, 2004

Fixed Benefit Fund

Statements of Net Assets Available for Benefits

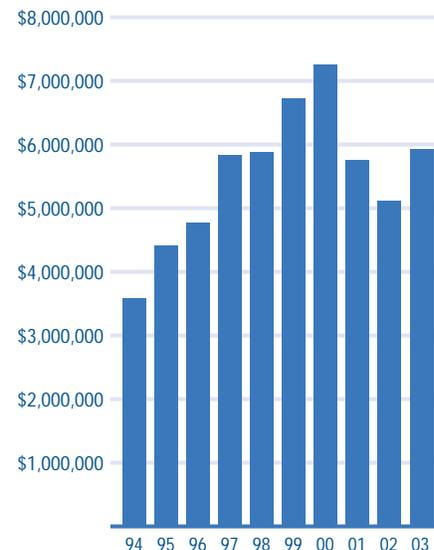
September 30, 2003 and 2002

(Dollars in thousands)

	2003	2002
Assets		
Investments at fair value		
Common and Preferred Stocks	\$ 3,570,727	\$ 2,889,266
Corporate Bonds	1,779,514	1,721,033
Temporary Investments	446,627	310,088
Government Bonds	315,977	342,308
Limited Partnerships	48,403	23,518
Total Investments at fair value	6,161,248	5,286,213
Receivables		
Securities sold	118,973	127,241
Dividends and interest	32,043	37,966
Other	381	391
Total assets	\$ 6,312,645	\$ 5,451,811
Liabilities		
Accounts payable		
Securities purchased	368,151	350,546
Net futures payable	9,402	8,933
Investment fees payable	3,495	3,290
Other	1,753	1,425
Total liabilities	382,801	364,194
Net Assets Available for Benefits	\$ 5,929,844	\$ 5,087,617

Fixed Benefit Fund

NET ASSETS AVAILABLE FOR BENEFITS
(thousands)



Statements of Changes in Net Assets Available for Benefits

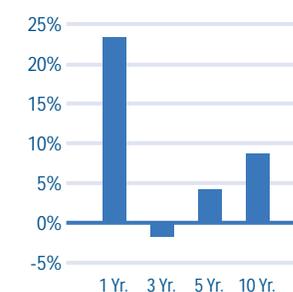
Fiscal Years Ended September 30, 2003 and 2002

(Dollars in thousands)

	2003	2002
Investment Income		
Net appreciation (depreciation)		
in fair value of investments	\$ 972,917	\$ (723,391)
Interest	149,806	205,603
Dividends	43,299	42,950
	1,166,022	(474,838)
Less investment expenses	21,188	21,741
	1,144,834	(496,579)
Contributions		
Members	42,278	35,844
Transfers from Variable Annuity Fund	18,746	22,413
Transfers from 401(k) Plan	4,874	3,624
	65,898	61,881
Total increase (decrease)	1,210,732	(434,698)
Benefits, Transfers, and Expenses		
Retirement benefits	342,716	321,817
Transfers to 401(k) Plan	8,865	9,724
Transfers to Variable Annuity Fund	4,881	6,863
Death benefits	4,837	3,634
Administrative expenses	4,273	4,083
Withdrawals	2,933	4,316
Total benefits, transfers, and expenses	368,505	350,437
Net increase (decrease)	842,227	(785,135)
Net Assets Available for Benefits		
Beginning of year	5,087,617	5,872,752
End of year	\$ 5,929,844	\$ 5,087,617

Fixed Benefit Fund

ANNUALIZED RATE OF RETURN



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

Fixed Benefit Fund

NOTES TO FINANCIAL STATEMENTS

Significant Accounting Policies

General

The TVA Retirement System (System) is a defined benefit plan (Plan) covering most full-time and part-time annual employees. The System is administered and controlled 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 Retirement 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 Annuity 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. Participants in the Original Benefit Structure and participants in the Cash Balance Benefit Structure who were members of the System as of December 31, 1995, have a choice of making contributions to the Fixed Benefit Fund, the Variable Annuity Fund, or both. New members hired on or after January 1, 1996, participating in the Cash Balance Benefit Structure, are not eligible to contribute to the Fixed Benefit Fund or the Variable Annuity Fund.

TVA's contributions are deposited in the Fixed Benefit Fund. Members' contributions in the Fixed Benefit Fund were credited an annual rate of interest of 10 percent for the years ended September 30, 2003 and 2002. Members' contributions to the Variable Annuity Fund are invested in a 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 base 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 base 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 Annuity Fund is discussed in the Significant Accounting Policies section which follows.

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

Basis of Accounting

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

Valuation of Investments

Investments held in the Fixed Benefit Fund are stated at fair value, which is determined by the Trustee of the fund as follows: common stocks, notes, and commingled trust funds are stated at the last closing sale price for securities listed on national exchanges or the last bid price for securities traded over the counter. All investments such as bonds and temporary investments for which there are no quoted prices are valued based on market values of comparable securities.

During fiscal year 2001, the Board amended the asset allocation policy that 5 percent of the United States equity allocation may be invested in private equity 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 funds. The private equity 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.

Derivatives

Investments are held in S&P 500 index futures and bond futures of approximately \$904 million in fiscal year 2003 and \$666 million in fiscal year 2002. These futures are held to generate earnings and are valued at quoted market values with gains and losses reflected in the Statements of Changes in Net Assets Available for Benefits. The S&P 500 index futures consisted of 3,640 contracts in FY 2003 and 3,271 contracts in FY 2002.

Options are held in foreign currency futures to reduce loss due to changes in the exchange rates. The risk management asset (liability) of the foreign currency futures is approximately \$(94) million in fiscal year 2003 and \$27 million in fiscal year 2002. The futures are related to the foreign stocks and bonds portfolio of \$1,122 million in fiscal year 2003 and \$891 million in fiscal year 2002. The foreign currency futures consisted of 1,551 contracts in FY 2003 and 1,214 contracts in FY 2002.

Options are also held in bond futures primarily to reduce loss due to changes in interest rates. The risk management asset of the bond futures is approximately \$55 million in fiscal year 2003 and \$69 million in fiscal year 2002. The bond futures are related to the \$1.8 billion domestic fixed income security portfolio in fiscal year 2003 and in fiscal year 2002. The bond futures consisted of 2,263 U.S. Treasury bonds and notes futures contracts and 803 U.S. Treasury bonds and notes options contracts in FY 2003. In FY 2002, there were 3,513 U.S. Treasury bonds and notes futures contracts and 906 U.S. Treasury bonds and notes options contracts.

Cash and Cash Equivalents

The Plan considers all highly liquid securities with a maturity of 5 months or less to be cash equivalents.

Investment Income

The Plan 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 the realized gains or losses and the unrealized appreciation (depreciation) on those investments. Dividend income is recorded on the ex-dividend date, and interest income is recorded as earned on an accrual basis.

Member Contributions

Eligible members may voluntarily contribute to either the Fixed Benefit Fund, the Variable Annuity 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 Benefit Fund and the Variable Annuity 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 are no longer eligible to contribute to the Fixed Benefit Fund or the Variable Annuity 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 System to receive monthly payments.

Termination

In the event the System terminates, the net assets 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.

Amendments to the Rules and Regulations

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 2004. Wages and salaries also now include lump-sum payments for certain TVA performance incentive plans beginning in fiscal year 2000.

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 for interest credits. The interest rate was 6 percent in 2003 and 6.11 in 2002.

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, 2003 and 2002 were:

- A. Actuarial Cost Method – Projected unit credit method.
- B. Life expectancy of participants – The 1983 Group Annuity Table for 2003 and 2002.
- C. Normal retirement age – 65 for 2003 and 2002.
- D. Interest rate – 7.5 percent annually for 2003 and 2002.
- E. Retiree cost-of-living increases – 2.5 percent annually for 2003 and 3 percent for 2002.

Based on Plan experience, in FY 2003 the additional retirement decrement assumption for participants whose age plus service is between 75 and 80 was lowered to 20 percent from 30 percent. The 1983 Group Annuity Table was also adopted for the determination of member pension and annuity benefits beginning in calendar year 2003.

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

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.

Fixed Benefit Fund

Accumulated Benefits

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

(Dollars in thousands)	September 30	
	2003	2002
Vested benefits		
Retired or terminated participants	\$ 3,598,700	\$ 3,510,300
Active participants	2,745,500	2,272,700
Total	<u>6,344,200</u>	<u>5,783,000</u>
Nonvested benefits	<u>28,400</u>	<u>568,200</u>
Total estimated actuarial present value of accumulated benefits payable from the Fixed Benefit Fund	<u>\$ 6,372,600</u>	<u>\$ 6,351,200</u>

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

(Dollars in thousands)	Fiscal Years Ended September 30	
	2003	2002
Estimated actuarial present value of accumulated benefits payable from the Fixed Benefit Fund at beginning of year	\$ 6,351,200	\$ 5,632,600
Increase during the year attributable to:		
Additional benefits accumulated and actuarial gains and losses	220,800	494,000
Change in assumptions	(307,900)	123,300
Interest due to decrease in the discount period	463,000	437,200
Benefits paid to participants	<u>(354,500)</u>	<u>(335,900)</u>
Estimated actuarial present value of accumulated benefits payable from the Fixed Benefit Fund at end of year	<u>\$ 6,372,600</u>	<u>\$ 6,351,200</u>

Net Assets Available for Benefits

The net assets available for benefits are as follows:

(Dollars in thousands)	September 30	
	2003	2002
Accumulation for benefits and expenses	\$ 5,091,192	\$ 4,291,661
Accumulated members' contributions with interest	<u>838,652</u>	<u>795,956</u>
Net assets available for benefits	<u>\$ 5,929,844</u>	<u>\$ 5,087,617</u>

Investments

The following summarizes the investments of the Fixed Benefit Fund:

(Dollars in thousands)	September 30	
	2003	2002
Common stocks, at fair value		
Domestic		
S&P 500 index futures contracts	\$ 904,384	\$ 666,190
Commingled index funds	421,506	380,383
Technology	315,140	204,510
Consumer Non-Durables	239,412	290,099
Financial	237,340	210,049
Health Care	207,263	195,100
Capital Goods	175,495	138,064
Energy	68,543	50,214
Basic Industries	46,075	46,493
Other	37,449	29,124
Consumer Durables	28,908	18,483
Utilities	26,262	25,090
Transportation	23,814	19,385
Foreign	<u>807,952</u>	<u>592,407</u>
	<u>3,539,543</u>	<u>2,865,591</u>
Preferred stocks, at fair value	<u>31,184</u>	<u>23,675</u>
Limited Partnership	<u>48,403</u>	<u>23,518</u>
Bonds, at fair value		
Domestic		
Industrial	601,278	540,119
Mortgage backed securities	380,600	358,768
U.S. Government	300,000	336,207
Financial	270,076	322,019
Utilities	128,002	124,003
Asset backed securities	61,215	54,038
Convertible	20,356	20,181
Other	19,493	9,427
Foreign	<u>314,471</u>	<u>298,579</u>
	<u>2,095,491</u>	<u>2,063,341</u>
Temporary investments, at fair value		
Cash and cash equivalents	<u>446,627</u>	<u>310,088</u>
Total Investments	<u>\$ 6,161,248</u>	<u>\$ 5,286,213</u>

Investments greater than 5 percent of the total portfolio were the EB Stock Index Fund with \$331.1 million in FY 2003 and \$286 million in FY 2002 and the TVA Proprietary Fund consisting of cash equivalents with \$330.7 million in FY 2003.

During 2003 and 2002, the System's investments (including investments bought, sold, as well as held during the year) appreciated or depreciated in value as follows:

(Dollars in thousands)	September 30	
	2003	2002
Common and Preferred Stocks	\$ 582,993	\$ (462,318)
Bonds	228,618	(103,899)
S&P 500 Index Futures	161,283	(156,216)
Limited Partnerships	<u>23</u>	<u>(958)</u>
Net appreciation (depreciation)	<u>\$ 972,917</u>	<u>\$ (723,391)</u>

Variable Annuity Fund

Statements of Net Assets Available for Benefits

September 30, 2003 and 2002

(Dollars in thousands)

	2003	2002
Assets		
Investments at fair value	\$ 243,592	\$ 216,002
Liabilities		
Accounts payable		
Net payable to Fixed Benefit Fund	49	-
Securities purchased	-	419
Total liabilities	49	419
Net Assets Available for Benefits	\$ 243,543	\$ 215,583

Statements of Changes in Net Assets Available for Benefits

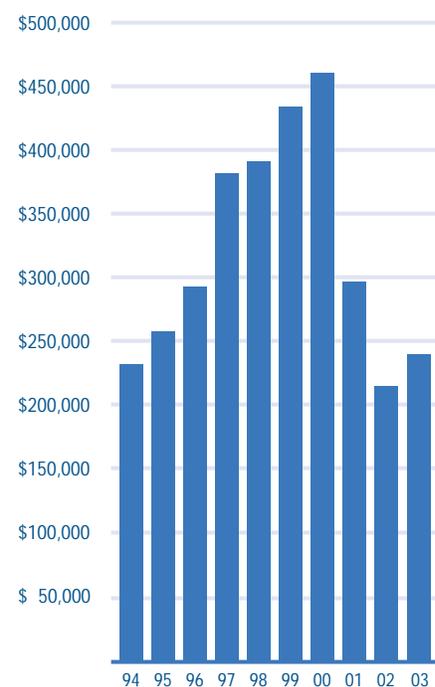
Fiscal Years Ended September 30, 2003 and 2002

(Dollars in thousands)

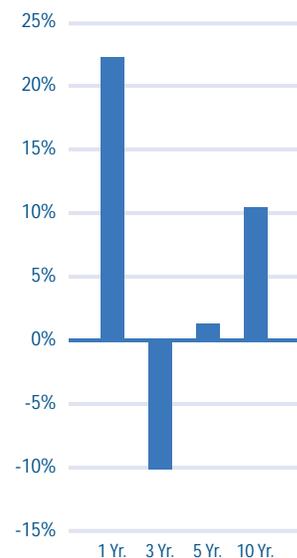
	2003	2002
Investment Income		
Net appreciation (depreciation) in fair value of investments	\$ 46,450	\$ (59,990)
Dividends	3,812	4,170
	50,262	(55,820)
Contributions		
Members	5,328	6,505
Transfers from Fixed Benefit Fund	4,881	6,863
Transfers from 401(k) Plan	15	266
	10,224	13,634
Total increase (decrease)	60,486	(42,186)
Benefits and Transfers		
Transfers to Fixed Benefit Fund	18,746	22,413
Retirement benefits	11,818	14,817
Transfers to 401(k) Plan	876	2,627
Death benefits	579	578
Withdrawals	507	1,253
Total benefits and transfers	32,526	41,688
Net increase (decrease)	27,960	(83,874)
Net Assets Available for Benefits		
Beginning of year	215,583	299,457
End of year	\$ 243,543	\$ 215,583

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

Variable Annuity Fund
NET ASSETS AVAILABLE FOR BENEFITS
(thousands)



Variable Annuity Fund
ANNUALIZED RATE OF RETURN



Variable Annuity Fund

NOTES TO FINANCIAL STATEMENTS

Significant Accounting Policies

General

The Variable Annuity Fund is an investment option for eligible members as part of the defined benefit plan (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.

When members retire and elect to receive a monthly annuity benefit, their shares in the Dreyfus Basic S&P 500 Stock Index Fund are redeemed 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 units were credited 6 percent interest units for the years ended September 30, 2003 and 2002. The units are also reviewed annually by an actuarial valuation.

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

Basis of Accounting

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

Amendments to the Rules and Regulations

During fiscal year 2003, the Board adopted the 1983 Group Annuity Table to be used for the actuarial unit valuation.

Valuation of Investments

Investments held in the Variable Annuity Fund are stated at fair value, which is determined by the Trustee of the fund as follows: common stocks, mutual funds, and commingled trust funds are stated at the last closing price for securities listed on national exchanges or the last bid price for securities traded over the counter.

Investment Income

The Plan 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 the realized gains or losses and the unrealized appreciation (depreciation) on those investments. Dividend income is recorded on the ex-dividend date, and interest income is recorded as earned on an accrual basis.

Member Contributions

Eligible members may voluntarily contribute to either the Fixed Benefit Fund or the Variable Annuity Fund or to 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 Benefit Fund and the Variable Annuity Fund once per calendar month and may, at any time during employment, transfer their entire balance to the 401(k) Plan. Upon retirement, members may transfer all or any portion of their after-tax balance in the 401(k) Plan to the System to receive monthly payments. After retirement, members may elect to transfer between the Fixed Benefit Fund and the Variable Annuity Fund once per calendar year.

Termination

In the event the System terminates, the net assets will be allocated generally to provide benefits based upon members' pro rata share of the fund.

Investments

For the years ended September 30, 2003 and 2002, the investments of the Variable Annuity Fund consisted entirely of S&P 500 index common stock funds.

At September 30, 2003 and 2002, the investments by account (which also were greater than 5 percent of total investments) were as follows:

<i>(Dollars in thousands)</i>	2003	2002
Employee Account		
Dreyfus Basic S&P 500 Stock Index Fund	\$ 137,857	\$ 122,718
Retiree Account		
Commingled Index Funds	105,735	93,284
Total Investments	<u>\$ 243,592</u>	<u>\$ 216,002</u>

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.

TVA Savings and Deferral Retirement Plan [401(k) Plan]

Statements of Net Assets Available for Benefits

September 30, 2003 and 2002

(Dollars in thousands)

	2003	2002
Assets		
Investments at fair value	\$ 944,603	\$ 762,570
Net Assets Available for Benefits	\$ 944,603	\$ 762,570

Statements of Changes in Net Assets Available for Benefits

Fiscal Years Ended September 30, 2003 and 2002

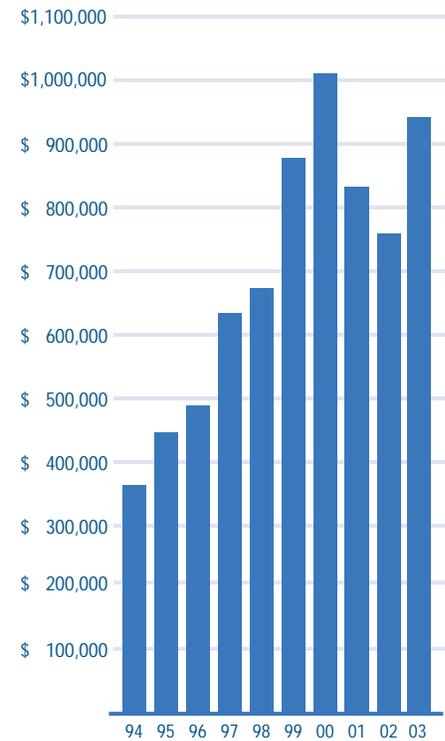
(Dollars in thousands)

	2003	2002
Investment income		
Net appreciation (depreciation)	\$ 123,201	\$ (120,789)
Interest and dividends	17,140	18,438
Contributions		
Members	52,653	51,800
TVA	14,885	13,946
Transfers from annuity funds	9,741	12,351
Total increase (decrease)	217,620	(24,254)
Benefits, Withdrawals, and Transfers		
Benefits and withdrawals	30,698	37,032
Transfers to annuity funds	4,889	3,890
Total Benefits, Withdrawals, and Transfers	35,587	40,922
Net increase (decrease)	182,033	(65,176)
Net Assets Available for Benefits		
Beginning of year	762,570	827,746
End of year	\$ 944,603	\$ 762,570

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

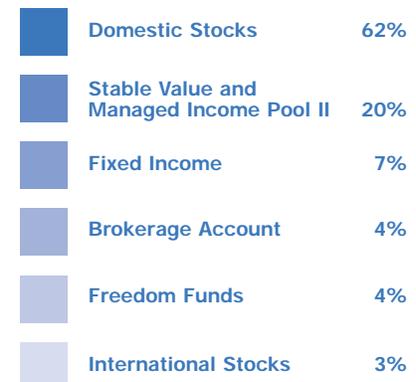
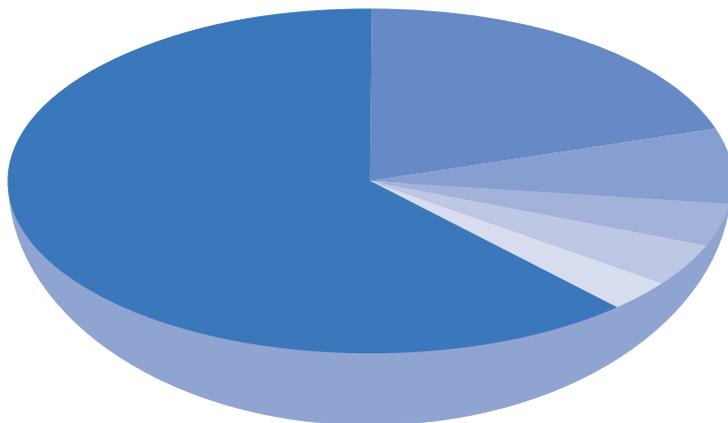
401(k) Plan

NET ASSETS AVAILABLE FOR BENEFITS
(thousands)



401(k) Plan Asset Allocation

(SEPTEMBER 30, 2003)



TVA Savings and Deferral Retirement Plan [401(k) Plan]

NOTES TO FINANCIAL STATEMENTS

Significant Accounting Policies

General

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 matching contributions. 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.

Basis of Accounting

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

Amendments to the Provisions of the 401(k) Plan

During fiscal year 2003, the 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 \$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 2003 limit was \$2,000 and was a before-tax deduction.

The 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 years 1998 through 2004 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.

Valuation of Investments

The value of mutual fund shares is stated at fair value based on the net asset value per share at the end of each plan year. The Managed Income Pool II and Stable Value Fund investments are stated at cost plus accrued interest which approximates fair value. Other investments are stated at the last closing sale price for securities listed on national exchanges or the last bid price for securities traded over the counter.

Investment Income

The 401(k) Plan 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 the realized gains or losses and the unrealized appreciation (depreciation) on those investments. Dividend income is recorded on the ex-dividend date, and interest income is recorded as earned on an accrual basis.

Contributions

After-tax

Contributions, subject to certain limitations, may be made by payroll deductions, cash payment, or transfer from other funds in 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 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 base compensation. Participants in the Original Benefit Structure received employer matching contributions 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 base compensation.

In calendar years 2003 and 2002, total contributions to the Fixed Benefit Fund, Variable Annuity Fund, and 401(k) Plan may not exceed the lesser of \$40,000 or 100 percent of calendar year-to-date compensation.

Withdrawals

After-tax

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

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 a showing of financial hardship. Generally, the only financial needs considered to meet the definition of hardship are: (1) certain deductible medical expenses; (2) purchase of a principal residence; (3) post-secondary tuition and related educational fees; or (4) payments necessary to prevent eviction from or foreclosure on the participant's principal residence.

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

Vesting

Participants who contribute to the 401(k) Plan are immediately vested in their own contributions and become vested in their 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 that reduced TVA's matching contributions totaled \$143,362 in fiscal year 2003 and \$102,041 in fiscal year 2002.

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. Such interest is credited directly to the account of the member.

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.

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.

During 2003 and 2002, the 401(k) Plan's investments (including investments bought, sold, as well as held during the year) appreciated or depreciated in value as follows:

<i>(Dollars in thousands)</i>	<i>September 30</i>	
	<i>2003</i>	<i>2002</i>
Equity Funds	\$ 123,049	\$ (120,991)
Bond Funds	152	202
Net appreciation (depreciation)	<u>\$ 123,201</u>	<u>\$ (120,789)</u>

TVA Savings and Deferral Retirement Plan [401(k) Plan]

Investments

The net assets of all investment options as of September 30, 2003 and 2002 are as follows:
(Dollars in thousands)

	2003	2002
Bond Funds		
Bond Funds over 5%		
Stable Value	\$ 114,439	\$ 103,282
Fidelity Managed Income Pool II	73,657	72,310
Bond Funds under 5%		
Fidelity Retirement Government Money Market Portfolio	37,389	37,242
PIMCo Total Return	13,144	13,048
Fidelity U.S. Investments - Government Securities Fund, L.P.	2,577	2,292
Fidelity U.S. Bond Index Portfolio	1,322	842
PIMCo Long Term U.S. Government Fund	830	494
Other Bond Funds	5,626	2,951
Total Bond Funds	248,984	232,461
Equity Funds		
Equity Funds over 5%		
Fidelity Magellan	211,114	171,332
Fidelity Growth Company	79,398	50,878
Fidelity Equity Income Fund I	68,450	54,086
Equity Funds under 5%		
Brokerage Link Fund*	36,131	25,977
Fidelity Contrafund	34,392	27,443
Fidelity Dividend Growth	28,161	21,574
Fidelity Over The Counter Portfolio	25,013	18,355
Fidelity Puritan Fund	24,211	19,986
Fidelity Growth & Income Fund	23,732	19,242
Janus Worldwide Fund	18,900	16,780
Fidelity Low Price Stock Fund	18,452	13,446
Fidelity U.S. Equity Index Fund	14,778	11,603
Fidelity Freedom 2010 Fund	13,755	10,567
Fidelity Freedom 2020 Fund	8,389	4,615
Fidelity Freedom 2030 Fund	5,573	3,146
Fidelity Freedom 2000 Fund	5,239	4,236
Fidelity Balanced Fund	3,948	2,963
Fidelity Diversified International Fund	3,886	2,319
Fidelity Blue Chip Growth Fund	3,843	3,245
Fidelity Trend Fund	3,548	2,947
Fidelity Mid-Cap Stock Fund	3,066	2,095
Credit Suisse Warburg Pincus Emerging Growth Fund	2,758	1,860
Fidelity Equity Income Fund II	2,564	1,686
Oakmark Select I	2,220	1,266
Fidelity Select Gold	2,014	1,864
Fidelity Fifty Fund	1,783	1,078
Fidelity Freedom Income Fund	1,772	1,466
Morgan Stanley Institutional Fund Trust - Value Fund - Adviser	1,650	1,538
Fidelity Leveraged Company Stock Fund	1,609	8
Fidelity Fund	1,499	1,449
Other Equity Funds	27,883	14,917
Total Equity Funds	679,731	513,967
Participant Loans	15,888	16,142
Total Investments	\$ 944,603	\$ 762,570

*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.

Contact Information

Mailing Address:

TVA Retirement Services
400 West Summit Hill Drive
ET 8B-K
Knoxville, TN 37902-1499

E-mail Address: retsvcs@tva.gov

Main Phone Number:

Retirement Representative
865-632-2672
800-824-3870 (toll-free)

Monday through Friday

8:00 a.m. to 4:45 p.m. (Eastern)

Automated Phone Number:

Retirement Information Voice System
(automated service)
865-632-7575
800-734-3275 (toll-free)

TTY Phone Number:

TTY for the Hearing Impaired
865-632-7576

Monday through Friday

8:00 a.m. to 4:45 p.m. (Eastern)

Fax Number: 865-632-8591

Tennessee Valley Authority
Retirement System
400 West Summit Hill Drive
Knoxville, Tennessee 37902

www.tva.com

PRSRT STD
U.S. Postage
PAID
Knoxville, TN
Permit #309