VEOLIA ENVIRONNEMENT
Form 6-K
April 23, 2008

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16 OF

THE SECURITIES EXCHANGE ACT OF 1934

For the month of April 2008

Commission File No. 001-15248

VEOLIA ENVIRONNEMENT

(Exact name of registrant as specified in its charter)

36-38, avenue Kléber, 75116 Paris, France

(Address of principal executive offices)

Indicate by check mark whether the Registrant files or will file

annual reports under cover of Form 20-F or Form 40-F

Form 20-F Form 40- F

Indicate by check mark whether the Registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes No

Indicate by check mark whether the Registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes No

Indicate by check mark whether the Registrant, by furnishing the information contained in this Form, is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934

Yes No

(If Yes is marked, indicate below the file number assigned to the Registrant in connection with Rule 12g3-2(b): 82-)

Included herein is a free translation into English of our *document de référence* (the "Reference document"), filed by us with the French *Autorité des marchés financiers* on March 31, 2008 under number D.08-172, and provided solely for the convenience of English speaking readers. This document does not include the annexes to the French version of the Reference document. Our Annual Report on Form 20-F, when filed, will contain substantially all of the information set forth in the Reference document and certain additional information not included therein. We are required to file the Annual Report on Form 20-F with the U.S. Securities and Exchange Commission by no later than June 30, 2008.

We make some forward-looking statements in the Reference document. When we use the words "aim(s)," "expect(s)," "feel(s)," "will," "may," "believe(s)," "anticipate(s)" and similar expressions in the Reference document, we are intending to identify those statements as forward-looking. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. You should not place undue reliance on these forward-looking statements, which speak only as of the date of the Reference document. In particular, from time to time in the Reference document we state our expectations in terms of revenue to be generated under new contracts recently won or awarded or from new investments made and new assets or operations acquired, though we may have not yet commenced operations under these new contracts nor begun operating these new assets and operations at the time we make these statements. These revenue estimates are based on our management's current assumptions regarding future sales volumes and prices, which are subject to a number of risks and uncertainties that may cause actual sales volumes and prices to differ materially from those projected. As a result, actual revenue recorded under these new contracts or from these new investments, assets and operations may differ materially from those set forth in the Reference document. Other than in connection with applicable securities laws, we undertake no obligation to publish revised forward-looking statements to reflect events or circumstances after the date of the Reference document or to reflect the occurrence of unanticipated events. We urge you to carefully review and consider the various disclosures we make concerning the factors that may affect our business, including the disclosures made in Chapter 4 "Risk Factors" and Chapter 9 "Examination of Financial Condition and Results".

Unless otherwise indicated, information and statistics presented in the Reference document regarding market trends and our market share relative to our competitors are based on our own research and various publicly available sources.

This is a free translation into English of Veolia Environnement s document de référence (the Reference Document), filed by Veolia Environnement with the French Autorité des marchés financiers on March 31, 2008 under number D.08-172, and is provided solely for the convenience of English-speaking readers. This document does not include the annexes to the French version of the Reference Document. Veolia Environnement s Annual Report on Form 20-F, when filed, will contain substantially all of the information set forth in this Reference Document and certain additional information not included herein. Veolia Environnement is required to file the Annual Report on Form 20-F with the U.S. Securities and Exchange Commission by no later than June 30, 2008.

2007 REFERENCE DOCUMENT

Pursuant to article 28 of European Regulation n° 809/2004, the following documents are incorporated by reference in this reference document: (i) the consolidated financial statements for the 2006 fiscal year and the corresponding statutory auditor s report, included on pages 158 et. seq. and on pages 281 and 282, respectively, of Veolia Environnement s reference document for the 2006 fiscal year, filed with the AMF on April 3, 2007 under number D.07-0264, and (ii) the consolidated financial statements for the 2005 fiscal year and the corresponding statutory auditor s report, included on pages 168 et. seq. and on pages 277 and 278, respectively, of Veolia Environnement s reference document for the 2005 fiscal year, filed with the AMF on April 6, 2006 under number D.06-0231.

This reference document was filed with the *Autorité des marchés financiers* on March 31, 2008, pursuant to Article 212-13 of its general regulations. This reference document may be used in connection with a financial transaction if supplemented by a *note d opération* approved by the *Autorité des marchés financiers*.

TABLE OF CONTENTS[1]

[1] The format of this reference document follows that set forth in Annex I of European Regulation n° 809/2004, adopted pursuant to European Directive 2003/71/EC.

CHAPTER 1
PERSONS ASSUMING RESPONSIBILITY FOR THE REFERENCE DOCUMENT

1.1

Person assuming responsibility for information contained herein

Mr. Henri PROGLIO, Chairman and Chief Executive Officer of Veolia Environnement (hereafter, the Company or Veolia Environnement).

1.2

Certification

I certify, after having taken all reasonable measures to ensure the accuracy thereof, that the information contained in this reference document is, to the best of my knowledge, true and does not omit any information that could make it misleading.

I certify that, to the best of my knowledge, the financial statements have been prepared in accordance with applicable accounting standards and provide an accurate view of the financial condition and results of operation of the Company and all of the companies within its scope of consolidation, and the management report presents a faithful and accurate picture of the business, results and financial condition of the Company and the companies within its scope of consolidation, as well as the principal risks and uncertainties that they face.

I have obtained a letter (*lettre de fin de travaux*) from the statutory auditors indicating that they have verified the information relating to the Company s financial condition and the financial statements included in this document. They also confirm that they have read this document in its entirety. This letter contains no observations.

The forecasted financial information appearing in this document has been the subject of reports prepared by the statutory auditors and included in Chapter 13, paragraph 13.2.

Chairman and Chief Executive Officer

Henri PROGLIO

CHAPTER 2
PERSONS RESPONSIBLE FOR AUDITING THE FINANCIAL STATEMENTS

2.1

Principal Statutory Auditors

KPMG SA

Member of KPMG International

Commissaire aux comptes, Member of the *Compagnie régionale de Versailles*

A company represented by Messrs. Jay NIRSIMLOO and Baudouin GRITON,

1 Cours Valmy, 92923 Paris La Défense Cedex.

Appointed by the combined general shareholders meeting of May 10, 2007 to replace Salustro Reydel, for a period of 6 fiscal years, expiring at the end of the general shareholders meeting called to approve the financial statements for the fiscal year ending December 31, 2012.

ERNST & YOUNG and Others

Commissaire aux comptes, Member of the *Compagnie régionale de Versailles*

A company represented by Messrs. Jean BOUQUOT and Patrick GOUNELLE,

41, rue Ybry, 92576 Neuilly-sur-Seine Cedex.

Appointed on December 23, 1999, with a term that was renewed at the general shareholders meeting held on May 12, 2005 for a period of 6 fiscal years, expiring at the end of the general shareholders meeting called to approve the financial statements for the fiscal year ending December 31, 2010.

2.2

Deputy Statutory Auditors

Mr. Philippe MATHIS

1, cours Valmy, 92923 Paris-La-Défense Cedex

Appointed by the combined general shareholders meeting of May 10, 2007 for a period of 6 fiscal years, expiring at the end of the general shareholders meeting called to approve the financial statements for the fiscal year ending December 31, 2012.

AUDITEX

Tour Ernst & Young, Faubourg de l Arche, 92037 La Défense Cedex

Appointed on May 12, 2005, for a term of 6 fiscal years, expiring at the end of the general shareholders meeting called to approve the financial statements for the fiscal year ended December 31, 2010.

CHAPTER 3
SELECTED FINANCIAL INFORMATION[2]

Figures in accordance with IFRS standards

In millions of euros	**December 31, 2007**	**December 31, 2006**	**December 31, 2005**
Revenues from ordinary activities	32,628.2	28,620.4	25,570.4
Operating income	2,496.9	2,132.9	1,892.9
Net income attributable to equity holders of the parent	927.9	758.7	622.2
Diluted earnings per share (in euros)	2.13	**1.89	**1.56
Basic earnings per share (in euros)	2.16	**1.90	**1.57
Dividends paid	419.7	336.3	265.4
Dividend per share distributed during the fiscal year (in euros)	1.05	0.85	0.68
Total assets	46,306.9	40,123.7	36,381.0
Total current assets	17,214.0	14,956.4	13,544.5
Equity attributable to equity holders of the parent	7,612.9	4,360.8	3,790.2
Minority interest	2,577.8	2,192.6	1,888.0
Operating cash flow*	4,178.3	3,850.1	3,518.4
Recurring operating income	2,469.2	2,222.2	1,903.6
Recurring net income attributable to equity holders of the parent	933.2	762.0	630.2
Net financial debt	15,124.5	14,674.9	13,870.6

*

Operating cash flow = cash flow from continuing operations before tax and financial elements.

**

The diluted and undiluted net earnings per share were recalculated on a retrospective basis in accordance with the IAS 33 accounting standard. In both cases, the July 2007 capital increase has been taken into account.

[2] The terms included in the table (other than operating cash flow) are defined in chapter 9, §9.2.1 *infra*.

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CHAPTER 4
RISK FACTORS

4.1

Risks relating to the issuer

4.1.1

Risks relating to Veolia Environnement s activities

Veolia Environnement may suffer reduced profits or losses as a result of intense competition.

The Company s business is highly competitive and requires substantial human and capital resources. Large international competitors and local niche companies serve each of the markets in which Veolia Environnement competes. Accordingly, the Company must make constant efforts to remain competitive and convince potential clients of the quality and cost value of its service offerings. Competitors may also introduce new technology or services that the Company would have to match in order to remain competitive, which could result in significant development costs.

In addition, the Company performs a substantial portion of its business under contracts, often of a long-term nature, with governmental authorities and clients from the industrial and commercial services sectors. These contracts are often awarded through competitive bidding, at the end of which the Company may not be retained even though it may have incurred significant expenses in order to prepare the bid.

Over the course of performing certain contracts, the Company may also be requested by its public or private clients to modify the terms of these contracts, whether called for under the contract or not. These modifications may concern the services provided under the contract, related investments required or billing terms.

Finally, the Company s contracts may not be renewed at the end of their term, which in the case of important contracts may oblige the Company to undertake a costly reorganization or restructuring of assets and operations covered by the contract when the contract does not provide for the transfer of the related assets and employees to the succeeding operator and/or adequate indemnification to cover Veolia Environnement s costs of termination.

The Company s business operations in some countries may be subject to additional risks.

While the Group s operations are concentrated mainly in Europe and North America (sales generated outside of these regions represented approximately 12 % of the Group s total revenue in 2007), the Group conducts business in markets around the world. The risks associated with conducting business in some countries outside of Europe, the United States and Canada can include slower payment of invoices, which is sometimes aggravated by the absence of legal recourse for non-payment, nationalization, social, political and economic instability, increased currency exchange risk and currency repatriation restrictions, among other risks. The Company may not be able to insure or hedge against these risks. Furthermore, the Company may not be able to obtain sufficient financing for its operations in these countries. The establishment of public utility fees and their structure can depend on political decisions that may impede for several years any increase in fees that no longer allow coverage of service costs and appropriate compensation for a private operator.

The occurrence of unfavorable events or circumstances in certain countries may lead the Company to record exceptional provisions or depreciation charges in connection with its operations in these countries, which could have a material adverse effect on Veolia Environnement s results.

Changes in the prices of fuel and other commodities may reduce the Company s profits.

The prices of the Company s supplies of fuel and other commodities, which represent significant operating expenses for its businesses, are subject to marked fluctuations. Although most of the Company s contracts contain tariff adjustment provisions that are intended to reflect possible variations in prices of the Company s supplies using certain pricing formulas, such as price index formulas, there may be developments that could prevent the Company from being fully protected against such increases, such as delays between fuel price increases and the time the Company is allowed to raise its prices to cover the additional costs (including taxes) or the Company s failure to update an outdated cost structure formula. In addition, a sustained increase in supply costs and/or related taxes beyond the price levels provided for under the Company s adjustment clauses could reduce the Company s profitability to the extent that it is not able to increase its prices sufficiently to cover such additional costs (*see* Section 6.2.7 *infra*).

The Company has conducted and may continue to conduct acquisitions, the impact of which could be less favorable for its activities and results than anticipated, or which could affect its financial situation.

As part of its business strategy, the Company has conducted and continues to carry out acquisitions of varying sizes, some of which are significant at the Group level. These acquisitions involve numerous risks, including the following: (i) the assumptions used in the underlying business plans may not prove to be accurate, in particular with respect to synergies and expected commercial demand; (ii) the Company may not integrate acquired businesses, technologies, products, personnel and operations effectively; (iii) the Company may fail to retain key employees, customers and suppliers of the companies acquired; (iv) the Company may be required or wish to terminate pre-existing contractual relationships, which could be costly and/or on unfavorable terms; and (v) the Company may increase its indebtedness to finance these acquisitions. As a result, it is possible that the expected benefits of completed or future acquisitions may not materialize within the time periods or to the extent anticipated, or affect the Company s financial condition.

The Group s business is affected by variations in weather conditions

Certain of the Company's businesses are subject to seasonal variations. Dalkia realizes the bulk of its operating results in the first and fourth quarters of the year, corresponding to periods in which heating is used in Europe. In the water sector, household water consumption tends to be higher between May and September in the northern hemisphere. Accordingly, these two businesses may be affected by significant deviations from seasonal weather norms. This risk is offset in certain cases, first by the variable compensation terms included in contracts, and second by the geographical distribution of the Group s businesses. The impact of weather conditions, together with the seasonal nature of the Group s businesses, may affect the Company s results.

The Group s operations are subject to geopolitical, criminal and terrorist risks.

Water is a strategic resource in terms of public health. Accordingly, the Group s activities must comply with laws and regulations that seek to safeguard water resources, production sites and treatment facilities against criminal or terrorist acts. The Company s activities in the areas of waste management, energy services and public transportation are also subject to similar risks. The Company may also have employees who work or travel in areas where the risk of criminal acts, kidnapping or terrorism is either temporarily or permanently elevated. As a result, despite the safety measures that the Company has attempted to implement, any one of its activities may fall victim to criminal or terrorist acts in the future. If an attack were to occur, it could negatively affect the Company s image and have a material adverse effect on its results.

4.1.2

Legal and contractual risks

The Company s long-term contracts may limit its capacity to quickly and effectively react to unfavorable general economic changes.

The initial circumstances or conditions under which the Company enters into a contract may change over time, which may result in adverse economic consequences. Such changes vary in nature and foreseeability. Certain contractual mechanisms may help in addressing the changes and restoring the intial balance of the contract. Their implementation may be triggered more or less automatically by the occurrence of a given event (price adjustment clauses for instance), or they may require a contract revision or amendment procedure requiring the agreement of both parties or of a third party. In any case, however, the Company s actions must remain within the scope of the contract and it cannot terminate unilaterally and suddenly a business that it believes to be unprofitable, or change its features. The Company s compensation, whether it consists of a price paid by the client or a fee levied from end users based on an agreed-upon schedule, may not be changed at any time in line with changes in the Company s costs and demand. These constraints have an impact on the Company s behavior as an economic agent, and are particularly meaningful because its contracts are often entered into for long periods of time.

The rights of governmental authorities to unilaterally terminate or modify the Company s contracts could have a negative impact on its revenue and profits.

Contracts with governmental authorities make up a significant percentage of the Company s revenue. In numerous countries, including France, governmental authorities may modify or terminate contracts under certain circumstances, unilaterally but generally with indemnification. In other cases, however, the Company may not be entitled to or be able to obtain full indemnification in the event its contracts are terminated by governmental counterparties.

The Company may make significant investments in projects without being able to obtain required approvals.

To engage in business, Veolia Environnement must in most cases obtain a contract and sometimes obtain, or renew, various permits and authorizations from regulatory authorities. The competition and/or negotiation process that must be followed in order to obtain such contracts is often long, costly, complex and hard to predict. The same applies to the authorization process for activities that may harm the environment which are often preceded by increasingly complex studies and public investigations. The Company may invest significant resources in a project or public tender without obtaining the right to engage in the desired business nor sufficient compensation or indemnities to cover the cost of its investments, for instance as a result of a failure to obtain necessary permits or authorizations, or approvals from antitrust authorities, or because authorizations are subject to conditions that force the Company to abandon certain of its development projects. These situations increase the overall cost of the Company s activities. In addition, if the Company does not obtain the desired business or is forced to withdraw from a public tender, its business may not grow as much or as profitably as it hopes.

4.1.3

Environmental and health risks

The Company incurs significant costs of compliance with various environmental, health and safety laws and regulations.

The Company has made and will continue to make significant capital and other expenditures to comply with its environmental, health and safety obligations as well as to manage the health protection of the services it provides. The Company is continuously required to incur expenditures to ensure that the installations that it operates comply with applicable legal, regulatory and administrative requirements (see §6.3.1 *infra*), including general precautionary or preventative measures, or to advise its clients so that they undertake the necessary actions for the compliance of their installations.

The costs related to these preventative measures are recorded as either operating expenses or as industrial investments. Industrial investments in all areas totaled €2,642 million in 2007 (compared to €2,197 million in 2006).

Each of the Company's operations, moreover, may become subject to stricter general or specific laws and regulations, and correspondingly greater compliance expenditures, in the future. If the Company is unable to recover these expenditures through higher tariffs, this could adversely affect its operations and profitability. Moreover, the scope of application of environmental, health, safety and other laws and regulations is becoming increasingly broad. These laws and regulations now govern any discharge in a natural environment, the collection, transport, treatment and disposal of all types of waste, the rehabilitation of old sites at the end of operations, as well as ongoing operations at new or old facilities.

The Company s operations and activities may cause it to incur liability or other damages that it might be required to compensate.

The increasingly broad laws and regulations under which the Company operates, exposes it to higher risk of liability, in particular environmental liability, including in connection with assets that Veolia Environnement no longer owns and activities that have been discontinued. For example, a French law dated July 30, 2003, relating to the prevention of technological and environmental risks and the conduct of remediation activities, has strengthened the regulatory framework that applies to discontinued operations and closed sites and installations, which requires, in some instances, that reserves be established in respect of such discontinued operations. In addition, the Company may be required to pay fines, repair damage or undertake improvement works, even when it has conducted its activities with care and in total conformity with operating permits. Regulatory authorities may also require Veolia Environnement to conduct investigations and undertake remedial activities, curtail operations or close facilities temporarily in connection with applicable laws and regulations, including to prevent imminent damage or in light of expected changes in those laws and regulations.

In addition, the Company often operates installations that do not belong to it, and therefore does not always have the power to make the investment decisions required to bring these installations into compliance with new regulatory norms. In instances where the client on whose behalf these installations are operated refuses to make the required investments, the Company may be forced to terminate its operations.

In the event of an accident or other incident, the Company could also become subject to claims for personal injury, property damage or damage to the environment (including natural resources). These potential liabilities may not always be covered by insurance, or may be only partially covered. The obligation to compensate for such damages might have a material adverse effect on the Company s activities, its resources, or its profitablity. Accordingly, the Group pays great attention to controlling sanitary risks, both those present in its installations and those in the form of environmental pollution which conventional treatment methods cannot fully treat. In particular, the Group s subsidiaries continuously strive to manage the risk of legionella at certain sensitive sites (including cooling towers, air-conditioning networks and sanitary hot water networks) as well as, for example, human exposure to chemical products.

Specific measures are required in connection with technological risks.

The Company s subsidiaries may, as part of their outsourcing contracts, be involved in the operation of top tier Seveso sites (AS classification under the ICPE category Installations Classified for the Protection of the Environment) or lower tier sites (or the foreign equivalent) for industrial clients (particularly petroleum or chemical industry sites). In these instances, the Group must handle the provision of services with even greater care, given the more dangerous nature of the products, waste, effluents and emissions to be treated, as well as the close proximity of installations managed by the Group to client sites.

The regulatory regime governing Seveso facilities applies only within the European Union, but the Group operates several similar sites outside of this region that are often subject to the same level of heightened regulation by foreign governments.

Among the facilities that Veolia Environnement owns and operates in France, one has been categorized a lower tier Seveso facility (not classified as AS under ICPE nomenclature). It is a hazardous waste incineration facility operated by SARP Industries (Veolia Propreté) at Limay (Yvelines). The manipulation of waste and hazardous products in this facility can, in the case of an accident, cause serious damage to the environment, inhabitants or employees, exposing the Company to potentially substantial liabilities.

4.1.4

Risks related to financial markets

Currency exchange and interest rate fluctuations

Veolia Environnement holds assets, earns income and incurs expenses and liabilities in a variety of currencies. The Group s financial statements are presented in euro. Therefore, when it prepares its financial statements, it must translate its assets, liabilities, income and expenses in other currencies into euro at then-applicable exchange rates. Consequently, increases and decreases in the value of the euro in respect of these other currencies can affect the value of these items in its financial statements, even if their value has not changed in their original currency. For example, an increase in the value of the euro may result in a decline in the reported value, in euro, of the Company s interests held in foreign currencies.

At the end of 2007, the Company s net financial debt excluding the fair value of hedging instruments amounted to €15,125 million, of which 26% was subject to variable rates and 74% to fixed rates, including 9% subject to variable rates with caps. The Company’s results of operations and financial condition may be affected by changes in prevailing market rates of interest (see Chapter 20, §20.1, note 30 to the consolidated financial statements). Fluctuations in interest rates may also impact the Company s future growth and investment strategy since a rise in interest rates may force Veolia Environnement to finance acquisitions or investments or refinance existing debt at a higher cost in the future.

For a description of the management of market-related financial risks faced by the Group (interest rate risk, foreign currency risk, equity risk, counterparty risk and liquidity risk), see also paragraph 4.2.2.4 below and Chapter 20, paragraph 20.1, note 30 to the consolidated financial statements.

4.2

Risk Management

4.2.1

Implementation of a coordinated policy for risk management

Veolia Environnement s ability to build long-lasting relationships with its customers is based on its capacity to manage risks on behalf of its customers. By implementing a coordinated risk prevention and risk management system, the

Group addresses this element of fundamental importance for its development.

In order to strengthen its ability to anticipate, analyze and weigh various risks and ensure the development of an adequate policy for managing risks, the Group created a risk department at the end of 2004.

The goals of the risk management department are to ensure that the following actions are carried out within the Group to manage risks:

Identify and anticipate: ensure the ongoing oversight of the Group s risks in order to guarantee that none of them are overlooked or underestimated, and also to anticipate changes in the nature or intensity of the risks;

Organize: ensure that the principal identitifed risks are addressed by the organization at the most appropriate level within the Group. Numerous operational risks are managed at the subsidiary level; others, which require a particular expertise or are of an essentially horizontal or strategic nature, are handled at the divisional and/or Veolia Environnement level.

Monitor: ensure that the organizations and methods that have been set up are effective for the reduction of the risks that have been identified.

Inform: the implementation of a coordinated risk management scheme is an important factor in corporate decision-making. Management of the Company s risks enhances the Group s development and the predictability of its results.

The risk department is responsible for ensuring the consistency of the overall risk management process throughout the Group through a process of identifying events that may prevent the Group from reaching its objectives. The risk department helps define corrective action plans and manages the process as a whole. It also oversees the implementation of rules of conduct that will create an internal environment that is both consistent with and favorable to a mastery of risks.

As part of the internal audit department s undertakings in connection with the Sarbanes-Oxley Act of 2002 (see §4.3.3 *infra*), a mapping of major risks was performed in 2006 at the Group and division levels. The Group now has a detailed analysis of risks and a ranking of the principal risks and a true management tool whose objective it is to build growth and improve the forecasting of the Group s development and results.

After having assembled a list of standard risks and a risk management standard (*référentiel*) tied to other established benchmarks, a detailed listing and evaluation of Group risks was conducted through interviews with approximately 150 high level managers (process pilots) of the Group. This evaluation, which was conducted at each division, was completed with a uniform methodology aiming to analyze gross risk, control levels in place and residual risks.

The risks that were identified by process pilots were grouped together, analyzed and ranked in order to identify the principal risks. Each risk was assigned risk pilots who were responsible for the design and implementation of action plans in coordination with risk managers from the divisions and from Veolia Environnement.

The principal issues identified were:

Development control. Dynamics within Veolia Environnement s markets require the company to be selective in choosing projects and investments. In addition, the integration of new contracts into the Group s policies and practices requires a high level of rigor.

The constant reinforcement of Veolia Environnement s distinctive strengths. Veolia Environnement occupies a unique position in its market, based on technical expertise (resulting from its teams experience and the strength of its research and development), on its sense of service and its organization, and on its legal, financial, and labor relations expertise. Maintaining these essential strengths is a major area of focus. For this reason, in September 2006 the Company s Board of Directors formed a strategic committee for research, innovation and sustainable development in order to continue to improve these strengths (see Section 16.2.1.3 infra). This is also the reason why the company has engaged in knowledge management actions to ensure that all Veolia Environnement clients can profit from these areas of expertise.

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Internal control of all sorts, especially financial and operational, is also essential. Veolia Environnement s continuing objective is to maintain a balance between the decentralization that is necessary for its service activities, the best operational and financial controls, and the spreading of expertise and best practices. Accordingly, an overhaul of the financial reporting system has been conducted and training programs have been expanded.

Environmental and health concerns are central concerns for the company. Veolia Environnement is committed to providing full professional guarantees regarding the quality of the products it distributes and the services it offers, including with respect to environmental norms (especially with regards to air emissions and legionella concentrations) and security. In order to strengthen environmental risk management, the Group has enacted, in coordination with its four divisions, an Environmental Management System (EMS) based on the requirements of ISO norm 14001 with a view to continually improving its environmental performance (see §4.2.2.3 infra). In order to optimize its sanitary risk management, the Group also conducts voluntary prevention and monitoring actions under a global sanitation approach, in particular in the context of multi-service offerings (which include the conduct of internal and external identification audits and industrial risk prevention, and negotiation of specific insurance guarantees).

The risk management strategy has had the following preliminary results:

a global and structured vision of risks faced by the Group;

as a result of significant involvement in this project, a trend towards a pooling of practices and experiences between and among divisions and Veolia Environnement;

an established organization to capitalize on current risk management mechanisms (for example relating to financial, legal, insurance and environmental risk management) and to deploy action plans and related controls;

the strengthening of the Company s controls over horizontal risks;

the restructuring and deployment of insurance programs of the Group to strengthen its development, taking into account the knowledge of the risks, protecting assets and the reputation of the Group and finally improving the competitiveness of programs (simplification, improvement of coverage and outside premiums and comparable conditions);

the structuring of an annual internal audit program based on a mapping of major risks faced by the Group.

In addition to the major mapping of risks, a steering organization was put in place, enabling the Group to strengthen its management of major risks, while favoring common initiatives among the divisions. The conduct of committee meetings, the agendas of which were organized based on the priorities identified in the risk mapping, enabled the launching of horizontal projects and the global coordination of risk management at the Group level. This project is conducted in close collaboration between the Company and its divisions. This convergence of tools and practices, implemented by the risk management professionals, will enable the implementation of effective reporting methods and will create the necessary conditions for the review of the mapping process.

The Group s risk committee, chaired by Veolia Environnement s senior executive vice-president, met four times in 2007. In accordance with its work program, the risk committee studied the implementation of specific action plans to address significant operational risks, such as the reliability and security of informational systems, emergency communications within the Group, the integration and management of human skills within the Group, the plans for business continuity, and the detection and prevention of fraud. Following Veolia Environnement s example, each of the divisions has, since the end of 2006, formed its own risk committee to improve its management and control of operational risks and follow through with the deployment of the action plans.

By firmly grounding itself in corporate processes and systematically taking into account the fundamental stakes within the organization, whether operational, legal, regulatory or governance-related, risk management fits within Veolia Environnement s system aimed at continually improving the company s global risk management infrastructure.

A review and analysis of the action plans implemented to manage or reduce risks is being performed within the divisions and the Company. This preliminary step has already enabled the prioritization of actions intended to improve the identification and thus the control of operational, commercial and financial risks.

4.2.2

Continuation and strengthening of targeted actions

4.2.2.1

Employee safety

The labor-intensive requirements of the Goup s businesses, their nature, the wide dispersion of Veolia Environnement s employees on the ground (in particular on public roads and at customers sites), and civil interest make the management of employee safety particularly important. For that reason, in September 2007 the executive committee declared 2008 as Veolia Environnement World Safety Year .

The director of human resources is responsible for this project, which is at the heart of the Veolia Environnement s corporate policies: *i.e.*, to promote the Group s actions with regard to the prevention of professional health, and security risks.

A working group including experts from the divisions and from Veolia Environnement s safety and health departments, as well as representatives of other departments within the Group, was created to formulate a proposal for an action plan that would be submitted to the Group s executive committee for approval of the goals and timetable.

4.2.2.2

Management of legal risks

Veolia Environnement places great importance on the management of legal risks given the nature of its business, environmental services, an area that has been subject to increasingly complex regulation.

The nature of Veolia Environnement s activities (management of local public services with operations in more than 70 countries and relationships with a variety of representatives and counterparties) has led Veolia Environnement to adopt legal compliance rules to guide Veolia Environnement s employees in their activities and in the preparation of legal documents and to ensure compliance with such rules. In particular, these rules cover litigation and large operating contract reporting, competition law, ethics, standard contractual clauses, sponsorship and patronage and commercial intermediaries. The rules also cover the Group s legal structure, delegation of powers and follow-up, and selection of directors.

As a company with shares listed on Eurolist by NYSE Euronext Paris and on the New York Stock Exchange, Veolia Environnement must also adhere to certain rules relating to:

Publications: Veolia Environnement has a disclosure committee whose role it is to supervise and verify the collection and dissemination of information included in the Company s French *document de reference* and U.S. Form 20-F (see §16.2.2.1 *infra*).

Corporate Governance: In particular, Veolia Environnement must adhere to rules governing the make-up and functioning of the board of directors and its committees, relations between these entities and management and the furnishing of information to shareholders. It must also ensure the proper application of regulations applicable to listed companies (see Chapter 16 *infra*).

Insider Trading: To help prevent insider trading, Veolia Environnement has adopted a code of conduct governing trading in the Company s shares, which is regularly updated. Pursuant to this code, the Group s senior managers are deemed to be permanent insiders and trading by any of them in the Company s shares is prohibited except during strictly defined periods, provided that they do not hold inside material information during such periods. These measures also cover so-called occasional insiders and in general all persons possessing privileged information. The Company has revised its code of conduct in 2006 to take into account new regulatory obligations imposed upon issuers and their executives, such as establishing a list of named insiders and reporting trades in the Company s shares effected by certain members of management, and the updating of the Code in 2007.

The legal departments of Veolia Environnement and each division help ensure, on a daily basis, the adequate management of Veolia Environnement s legal risks. This is performed in tight liaison with operating teams in the field and consistently with the Group s overall risk management process.

4.2.2.3

Management of health and environmental risks

The environment and health are at the heart of Veolia Environnement s concerns. Veolia Environnement aims to provide its professional guarantee on the quality of products it distributes and the services it provides, as well as on compliance with security and environmental norms (especially relating to air emissions and legionella concentration). The risks that the Veolia Environnement Group is confronted with are related in particular to the recovery of installations in as-is condition, to the fact that the Group is not always in charge of determining the needed investments, and to the inconsistent levels of customer awareness of these subjects. Veolia Environnement s regulatory compliance efforts relate mainly to air pollution (including, for example, the control of emissions from Veolia Environnement s transportation vehicles, its heat generation plants and its waste incineration facilities), water quality (relating to both the quality of drinking water and the disposal of wastewater and other effluents) and the protection of land and biodiversity (including through restrictions on rejected waste and the use of landfills).

In order to better manage its environmental risks, the Group in coordination with its four divisions has implemented an Environmental Management System (EMS) based on ISO Standard 14001, which aims to constantly improve its environmental performances throughout the world. In this respect, quantifiable objectives relating to the monitoring of compliance of high-priority installations have been set.

Moreover, in application of existing norms, and in consideration of the recommendations of internal and external experts, Veolia Environnement implements control and maintenance measures either directly or in collaboration with the owners of installations when Veolia Environnement is not the owner thereof.

As such, the incineration facilities are subject to regular verifications so as to control atmospheric emissions, in particular the level of dioxins, furans and heavy metals. When Veolia Environnement designs new installations, it strives to provide technical specifications that are more demanding than those then prevailing in the market. For older installations, Veolia Environnement regularly conducts improvement work on its own facilities and strongly recommends to the owners of facilities that they do the same. The Group has implemented a semi-continuous control system for dioxins at incineration facilities that it operates.

However, believing that mere compliance with regulatory norms does not suffice to ensure adequate control of health risks, Veolia Environnement has also voluntarily taken a number of steps to establish strict vigilance and prevention procedures in the context of a global health policy, particularly with respect to its multi-service offerings (for example, sanitary diagnosis and checkpoint controls and inspections).

Faced with the systematic risk of being held jointly liable with its clients in connection with serious pollution or accidents, Veolia Environnement strives to satisfy its own obligations while helping to ensure that clients do the same. In particular, when Veolia Environnement operates a Seveso facility or its foreign equivalent, Veolia Environnement closely monitors the implementation of safety and hygiene measures at these sites. The imposition of more stringent regulatory standards regarding these sites, effective in France following enactment of a July 30, 2003 law relating to the prevention of technological risks, requires Group employees to undergo specialized training, participate in industrial clients hygiene and safety committee meetings and respect such clients policy for the prevention of major accidents. Seveso facilities are also subject to internal control measures that seek to prevent accidents and protect employees, the public and the environment. In addition to policies for the prevention of major accidents, there are also safety and operational plans that apply to these facilities, as well as crisis intervention measures coordinated with governmental authorities in the event of accident.

Given the nature and potential seriousness of all of the risks mentioned above, the Group has implemented three principal types of actions to help control and cover these risks. First, in order to prevent accidents that may harm people, property or the environment, the Group has implemented an environmental management system (EMS) which includes obtaining certifications and general evaluations (in particular ISO Standard 1400, internal etc). Second, internal or external audits to identify and prevent industrial risks (fire, machine breakdown, environmental damage, etc.) are conducted regularly. Third, the Group has purchased insurance to cover civil and general liability resulting from fortuitous or accidental pollution (see §4.5 *infra*).

All of these actions are implemented by the Group s operating units in coordination with the technical, legal and health departments and EMS. The research and development department as well as the legal department and Veolia Environnement s office in Brussels also contribute to this effort.

In May 2007, an environmental performance division was formed to reinforce the Preventive measures undertaken by the Group. The environmental performance department s mission is notably to:

adapt the Group s environmental policies, in particular through the creation of best practice standards; and

structure a management system aimed at ensuring the evaluation and the optimization of the environmental performance of the Veolia Environnement Group and the implementation of Group standards.

The environmental performance department works closely with the sustainable development department to apply the environmental policies of the Group, and with the risk management committee (see §4.2.1 *supra*) address environmental risks. The process is carried out with the technical directors of the divisions of the Veolia

Environnement Group.

4.2.2.4

Financial risk management

Through financial and operational business, the Group is exposed to market risks, such as interest rate risk, foreign exchange risk and liquidity risk. To avoid having to bear all of these risks, the Company has put in place management guidelines relating to these uncertainties, in order to ensure better risk control. The Treasury department of Veolia Environnement is directly responsible for the implementation and the follow up of these regulations. The Treasury department is responsible for helping divisions and their teams to identify and cover exposure in different countries around the world. This department relies, in part, on a treasury management system, which allows for the continued monitoring of the principal indicators for liquidity and for all major financial instruments (rate/change). The control of operations and the monitoring of limits, ensuring the security of the operations, is under the responsibility of the Middle and Back Office team working for the financial department. Reports are completed daily, weekly and monthly, thus allowing the Company s senior management to stay abreast of market changes and of any important events affecting, on the one hand, the liquidity of the Group (actual and anticipated) and, on the other hand, the value of the Group s portfolio of derivative products, and finally, the details of the operations and the consequences on the allocation between fixed and variable rate debt.

The interest rate risk management policy is decided in a centralized fashion. The Group utilizes all of the interest rate risk management tools available on the market, including interest rate swaps and options.

Foreign exchange risk is linked to the international business of the Group, which is conducted in more than 70 countries, and which generates cash flows in numerous different currencies. Because both income and expenses are usually in the currency of the country where the Group is conducting business, the Group s exposure to exchange rate risks from service activities is relatively low. This risk is covered on a case-by-case basis (in particular through currency options), generally when binding bids are submitted. To manage foreign exchange risk linked to debts and accounts receivable, the Company has established a policy aimed at financing its subsidiaries in local currency consisting of financially backing its subsidiaries in currencies by asset class (debt and accounts receivable).

The liquidity of the Group is ensured through Veolia Environnement. The implementation and the management of important new financings are centralized in the aim of optimizing the management of present and future liquidity. The Group is financed through bank loans, commercial paper, international bond offerings, as well as the international private placement market.

See also Chapter 20, paragraph 20.1, note 30 of the consolidated financial accounts.

4.2.2.5

Railway security risk management

Veolia Transport is subject to operational risks (train circulation, security of persons, preventative maintenance of assets) and employee and safety risks (criminal actions, assaults, vandalism, sabotage). The Group has implemented a railway safety plan since 2004 with a view to analyzing the various security measures taken in coordination with security and hygiene measures. In this context, the Group has initiated a review of legal and regulatory obligations and their mastery by local departments were carried out beginning in the first quarter of 2005.

Security is managed at the level of the countries that have implemented a security management system (SMS) in accordance with national regulations.

In France, in the railway security domain, Veolia Transport was awarded a security certificate by the *Etablissement Public de Sécurité Ferroviaire* as a result of the establishment of a Security Management System (SGS). A National Railway Security Center, whose role is to operate and verify the implementation of the SGS disposals in order to guarantee a high level of railway security, was created.

Outside France, processes are underway to copy and adapt the organization of controls created in France, while also considering the lessons learned from the international inquiry conducted the previous year.

In 2007, Veolia Transport started to handle a new type of transportation in France: the transport of hazardous materials. The administrative authorizations were obtained after updating the documentation, training employees and integrating this new risk in the internal monitoring system. Global indicators of railway security were devised and published in collaboration with French administrative authorities. It is expected that they will be applied to all of the Company s railway activities in 2008.

4.2.2.6

Information technology (IT) risks management

The Group s IT department has conducted an analysis of IT risks. Four significant measures have been taken to prevent information technology risks: action plans relating to back-ups, the restoration of information and applications, resumption of activity plans and continuing activity plans; the security of information and the reinforcement of access controls to information technology infrastructures and applications; the documentation and the automization of information exchanges and interfaces between applications and the establishment of a multi-year plan for information systems by division.

4.2.2.7

Geopolitical, criminal or terrorist risks management

Veolia Environnement management created a security watch committee to address criminal and terrorist risks in 2003. The committee is in charge of informing, protecting and acting with respect to employees. It brings together security professionals as well as representatives from Group headquarters and each division.

The committee has four missions:

Information. Each month, the committee prepares a map of the risks for countries in which Veolia Environnement operates and circulates it to all the entities of the Group.

Prevention. Employee trips to high-risk countries are subject to authorization by the Group s human resources department. Advice on behavior and vigilance is circulated. In high-risk countries where Veolia Environnement has operating units, the Group has established security plans to ensure the safety of employees and their families.

Training. Training on behavior to adopt in dangerous situations.

Action in crisis situations. Whenever necessary, the Group assembles a special security crisis committee. The mission of such committees is to make all decisions necessary to ensure the safety of employees and their families.

In France, pursuant to anti-terrorism measures (*Vigipirate*), a 2006 decree organizes the security of economic activities considered to be of vital importance. The purpose is to respond to the risks of malice, sabotage, and terrorism, and to avoid attacks on the nation s military or economic potential or which affect its capacity to survive, as well as risks to the health of the population and the environment.

These measures enable the French state to ensure that all operators designated to be of vital importance take steps that are consistent with those that the government will have ordered or recommended on the national level. A list of these activities was created by an order dated June 2, 2006. Three of Veolia Environnement s activities are specifically affected: water, energy and transport management. For each of these sectors, a national security directive (NSD) will be developed in 2008 under the supervision of a coordinating minister.

Once notice of the directive has been given, the major operators within the relevant sectors will have six months to develop a security plan covering their activities, and a maximum period of two years to develop a specific protection plan for each of their points of vital importance.

The chairman and chief executive officer of Veolia Environnement is one of 24 members of a national committee appointed by order of the French Prime Minister in October 2006 to oversee the sectors conducting activities of vital importance. This is a consulting organization presided by the general Secretary of National Defense, created in order to ensure the coordination between the State, local elected officials, and operators.

The committee s recommendations will then be implemented by a working group in which the risk management department participates, along with other operators, under the supervision of the State s Director of Protection and Security.

4.2.2.8

Crisis management

In order to respond as rapidly and as effectively as possible to serious incidents or accidents, the Group has created protocols at several levels. First, Veolia Environnement s alert procedure, implemented in 2003 in connection with the crisis management plan, was reorganized during the summer of 2007 and will be implemented in January 2008. The Group s new alert procedure is based on the use of a single call number, managed by a director, open 24 hours a day, 7 days per week. This new procedure enables an immediate and permanent reporting of the alerts originating from the divisions. Next, depending on the seriousness of the situation (which will be evaluated based on pre-determined criteria), the incident may be handled either at the level of the divisions, with information being constantly communicated to Group headquarters, or by a special crisis unit that may be assembled consisting of representatives from the Group and the division involved. During any crisis, responses are proposed to the Group chairman and executive committee who are kept informed as the situation evolves. The Group also keeps a record of the crisis unit s activities so that a full analysis can be conducted once the crisis has passed.

One potential crisis scenario that has been carefully prepared within the Group is the occurrence of a flu pandemic through the mutation of the H5N1 virus of the avian flu, considered by the WHO to be a high risk that could threaten world health safety. Since 2005, the Veolia Environnement Group has been mobilized in order to be able to maintain its core activities under such circumstances.

In 2007, new tools were developed and provided to the individuals in charge of the flu pandemic response on a dedicated extranet site. They now have access throughout the world to the essential principles governing the Group s pandemic preparation, the policies for the protection of employees allowing the Group to ensure fair and homogenous levels of protection throughout the Group, to specific procedures, and to internal and external communication tools. An informational brochure was distributed to all of the correspondents to allow for a local implementation.

With regards to contingency plans, the risk department created the plan for the Group headquarters and contributes to those of the division headquarters. In accordance with the recommendations of the government plan, the goal is to maintain, on a temporary and reduced basis, the principle critical flows in case of a shortage of human resources. Upon the request of the Company s management, the contingency plan of the Group will be used to respond to threats, including those that would require the transfer and recovery of activities to a remote site.

In parallel, the divisions are implementing the contingency plans for the continuation of their essential services.

In 2008, simulation exercises and audits will allow for the maintenance of the mobilization and the improvement of the Veolia Environnement Group s ability to handle the occurrence of this major health risk. An audit grid of pandemic flu was developed. It will be integrated in the internal audit grid during 2008, after its publication and that of the pandemic referential of the Group to operators, for an auto-evaluation and, if needed, to make necessary adjustments.

4.3

Audit and internal controls

4.3.1

Internal controls

The internal control department, a branch of the Group s financial department, is responsible for coordinating the work of other departments in identifying, standardizing and making more reliable the key processes for producing the Group s financial information.

The internal control department employs a network of internal control personnel present in each division and operating unit. It carries out its work with three main objectives:

formalizing and updating the key processes for developing financial information, which are then summarized and broadly distributed throughout all levels of the Group;

harmonizing financial management systems relating to their implementation;

ensuring that employees possess the requisite skills and have the necessary resources at their disposal to effectively produce the Group s financial information.

The internal control department relies initially on the effective management of all of the Group s business processes, including non-finance related processes (commercial, technical, human resources, legal and economic). It follows up with a rigorous evaluation of the application of the Group s rules, overseen by the internal audit department.

Internal controls, in every respect, especially financial and operational, are also essential to Veolia Environnement. The Group s continuing objective is to maintain a balance between decentralization that is necessary for its service activities, the best operational and financial controls, and the spreading of expertise and best practices. Accordingly, an overhaul of the financial reporting system has been achieved, and training programs have been expanded.

4.3.2

Internal audit

The objective of the internal audit department of Veolia Environnement is to evaluate risk management processes, monitoring and corporate governance practices, and to seek improvements based on a systematic and methodical approach. This evaluation covers all components of internal controls and in particular the accuracy and integrity of financial information, the effectiveness and efficiency of operations, the protection of assets and compliance with laws, regulations and contracts.

The internal audit department operates based on two principal mechanisms:

first, the implementation of an annual audit program approved by the accounts and audit committee, and

second, a detailed and formal evaluation of internal control in preparation for the internal control report published every year beginning at the closing of the 2006 fiscal year, in accordance with the measures laid out by the Sarbanes-Oxley Act of 2002.

In 2006, the Group s internal audit department was certified by the French Audit and Internal Control Institute. This certification, which was confirmed in 2007, relates to professional norms and benchmarks and demonstrates the internal audit department s ability to fully accomplish its responsibilities. In addition, several of our internal auditors have obtained the Certified Internal Auditor (CIA) diploma, the only internal audit certification recognized around the world.

4.3.3

Regulatory context

Over the last several years, several laws have reinforced companies reporting and internal control obligations.

Veolia Environnement is subject to the obligations of the financial security law of August 1, 2003, which requires chairmen of listed *sociétés anonymes* to report to shareholder meetings the conditions under which the work of the board of directors is prepared and organized and the internal control procedures enacted by the company, as well as principles and rules decided by the board of directors to determine compensation and benefits of any nature granted to senior officers and directors. This report, as well as the statutory auditors report prepared pursuant to respectively, paragraphs 6 and 7 of article L.225-237, and the last paragraph of article L225-235, of the French Commercial Code, will be presented at the general shareholders meeting to be held on May 7, 2008, and are attached to this reference document[3].

In addition, as a company listed on the New York Stock Exchange (NYSE), Veolia Environnement is subject to the requirements of the U.S. Sarbanes-Oxley Act of 2002, in particular section 404 thereof relating to internal control over financial reporting. This law provides that the chief executive officer and the chief financial officer attest to the effectiveness of internal controls over financial reporting every year beginning at the end of 2006.

As a French company listed in the United States, Veolia Environnement must comply with both sets of regulations.

In this context, in 2005 Veolia Environnement launched a process which allowed the Company to certify the efficiency of the internal controls at the Group level by December 31, 2006. This internal control process was renewed in 2007 and is based primarily on the deployment in 400 branches of an electronic application with questionnaires and tests that will enable the traceability of audits. Over 1,100 people contributed to this corporate project, while over 80,000 controls were conducted, 20,000 of which were accompanied by tests.

This task, directed by the internal audit department, is implemented in concert with IT system management when necessary and in close collaboration with the auditors and under the supervision of the accounts and audit committee of Veolia Environnement.

This analysis was conducted based on the following criteria: potential impact on internal financial control and level of dissemination (percentage of entities indicating a risk and verification of the significance of the entities concerned).

On this basis, action plans were implemented beginning in 2007 relating primarily to the documentation of financial procedures, the separation of tasks and information technology security. They produced net improvements, and will be pursued with a view to their continuing improvement.

Legal requirements aside, this project allowed several notable changes, in particular the appropriation of a rigorous evaluation process adapted to the decentralized culture and organization of the Group, and a positive reinforcement trend not only of rules but also of collective awareness of these subjects.

4.4

Ethics and vigilance

Veolia Environnement s presence in nearly 70 countries around the world requires it to implement a set of principles in order to ensure compliance with various human rights norms and governance standards set forth under international laws and treaties.

[3] Available in the French version of the reference document.

These principles must take into account the Company s cultural diversity and emphasize environmental protection above all, which is one of the Company s foremost concerns. In addition, they must integrate the Company s traditional values, which are based on a close relationship with clients, consumers and civil society and the autonomy of each of the Company s operating divisions.

To this end, the Company implemented the Ethics, Commitment and Responsibility program in February 2003, which was updated in late 2004 and early 2008. This program is intended to guide the daily behavior of Veolia Environnement s employees. As part of the program, an ethics correspondent has been appointed in each division.

The program reaffirms the fundamental values shared by all of Veolia Environnement s employees, including, for example, the need for strict observance of the laws in effect in the different countries where Veolia Environnement operates, loyalty towards Veolia Environnement s clients and towards consumers, sustainable development, a sense of solidarity (tolerance, respect of others and social dialogue), management of risks and effective corporate governance.

In March 2004, Veolia Environnement created an ethics committee to examine and settle any questions relating to the ethics program. The ethics committee is comprised of three members and may pursue any matter that it wishes regarding Group ethics. Employees may also freely consult with the committee. The ethics committee must act independently and hold the information relating to the matters it treats confidential.

From October 2004 to December 2005, the Group held fourteen training seminars relating to the Ethics, Commitment and Responsibility program, including three outside of France, for over 400 Group managers. Veolia Environnement continued these actions by developing and deploying as of 2007 a training program and seminars on compliance with antitrust laws, open internationally to several thousand managers of the Group.

In addition, since 2005, Veolia Environnement has implemented a reporting procedure to help combat fraud, which is overseen by the risk director and the financial services director.

4.5

Insurance

4.5.1

Objectives

Veolia Environnement Group s procurement policy for insurance policies for all of its operating divisions has the following objectives:

maintaining common insurance policies to establish a coherent risk transfer and coverage policy in order to maximize economies of scale, while taking into account the specificities of Veolia Environnement s businesses and legal or contractual constraints; and

optimizing the thresholds and the means for accessing the insurance or reinsurance markets through use of appropriate deductibles.

In 2007, Veolia Environnement continued to seek to optimize the amount of insurance premiums it pays to outside insurers.

4.5.2

Implementation of insurance policy

4.5.2.1

Insurance policy

Veolia Environnement s strategy with respect to insurance is to (i) establish a global insurance coverage policy to cover Veolia Environnement s activities, based on the needs expressed by its subsidiaries in particular, (ii) select and sign contracts with outside providers (brokers, insurers, loss adjusters, etc.), (iii) manage consolidated subsidiaries specializing in insurance or reinsurance coverage, and (iv) lead and coordinate the network of insurance managers present among Veolia Environnement s principal subsidiaries.

4.5.2.2

Implementation

The implementation of an insurance coverage policy aimed at covering risk is carried out in coordination with Veolia Environnement s global risk management process (see §4.2 *supra*). Implementation takes into account the insurability of risks related to Veolia Environnement s activities, by the market availability of insurance and reinsurance, and the relationship between premiums and the level of coverage, exclusions, limits, sub-limits and deductibles.

Veolia Environnement undertook actions in 2007 principally related to:

the readjustment of retention levels (retained risk) on the basis of an analysis of risks and loss history and an evaluation of the costs and coverage proposed by insurers;

the continuation of efforts to identify, prevent and protect against risks in particular due to a rating system for the property damage and business interruption risk profile for Veolia Environnement s most important facilities throughout the world;

the communication of detailed information regarding the Company to the insurance and reinsurance markets;

the renegotiation of general liability and property coverage;

extending the Group s coverage; and

the organization of broker services for placement and administration of Group insurance programs.

4.5.3

Main Group s insurance policies

4.5.3.1

General liability

A general civil liability and environmental damage program was subscribed to on July 1, 2005, around the world (excluding the U.S. and Canada) for a period of three years. Principal coverage is up to €50 million per claim and per year. For the U.S. and Canada, different contracts cover general liability and damage to the environment on behalf of Group subsidiaries, based on local conditions, in an amount of up to US$50 million per claim and per year.

For all Group subsidiaries worldwide, an insurance program provides excess coverage for up to US $450 million, thereby giving the Group total coverage of US$500 million throughout the insurance period. This program includes coverage for environmental liability for damage sustained by third parties as a result of a sudden and accidental event.

The liability for terrorism policy was renewed under the general liability program on July 1, 2007 for a twelve-month period with a total coverage of US$ 165 million per claim per year.

Further, certain activities, such as a maritime transport, automobile and construction, have their own specific insurance policies.

4.5.3.2

Property damage and business interruption policies

All four of Veolia Environnement s divisions maintain property damage insurance policies to cover assets that they own as well as those that they operate on behalf of clients. The Group s global insurance program provides either business interruption coverage or additional cost of working coverage depending on such subsidiaries exposure and their capacity to use internal or external solutions to ensure service continuity. These policies contain standard insurance market terms.

The level of premiums, deductibles and sub-limits for exceptional socio-political or natural events reflects the terms proposed, or sometimes imposed, by insurers in the markets in which the risk is underwritten. Group insurance coverage implemented on January 1, 2007 for a term of three years, carries a limit per claim of up to €300 million per claim. Some of this coverage contains further sub-limits per claim or per year.

4.5.4

Self-insured retention and deductibles

For any insured claim or loss, Veolia Environnement remains liable for the deductible amount set out in the policy. The amount may range from several thousand euros to more than one million euros.

In 2007, Codeve Insurance Company Limited, Veolia Environnement s insurance subsidiary, had a retention (retained risk) of €2.5 million per claim for property damage and associated financial losses, and €5 million for insurance of general liabilities.

Regarding both property damage and general liability, Codeve Insurance Company Limited has put in place reinsurance contracts in order to limit its exposure to frequency risks (stop loss -type contracts) and risks tied to intensity (excess claim-type contracts).

In general, the insurance coverage described above constantly evolves as a function of ongoing risk evaluation, market conditions and insurance coverage available. Veolia Environnement attempts to have its known accidental or operating risks covered by the insurance markets when this market exists and when it is economically feasible to do so.

CHAPTER 5
INFORMATION RELATING TO THE ISSUER

5.1

History and development of the Company

5.1.1

History

The Company traces its roots back to the creation of Compagnie Générale des Eaux by Imperial decree on December 14, 1853. During the same year, Compagnie Générale des Eaux won its first public service concession for the distribution of water in the city of Lyon, France. The Company developed its municipal water distribution activities in France by obtaining concessions in Nantes (1854), Nice (1864), the water distribution services of Paris for 50 years (1860) and its suburbs (1869).

In 1980, Compagnie Générale des Eaux reorganized its water activities by regrouping all of its design, engineering and execution activities relating to drinking water and wastewater treatment facilities under its subsidiary Omnium de Traitement et de Valorisation (OTV). At the same time, Compagnie Générale des Eaux expanded its business during the 1980s with the acquisition of Compagnie Générale d Entreprises Automobiles (CGEA, which would become Connex and Onyx, and later Veolia Transport and Veolia Propreté) and Compagnie Générale de Chauffe and Esys-Montenay (which would merge to become Dalkia). It also began significant international expansion.

In 1998, Compagnie Générale des Eaux changed its name to Vivendi and renamed its main water subsidiary Compagnie Générale des Eaux .

In April 1999, in order to better distinguish the separate existence of its two main businesses, communications and environmental services, Vivendi created Vivendi Environnement to conduct all of its environmental management activities, which were then conducted under the names Vivendi Water (water), Onyx (waste management), Dalkia (energy services) and Connex (transportation).

On July 20, 2000, Vivendi Environnement shares were listed on the Premier Marché of Euronext Paris, which became the Eurolist of Euronext Paris on February 21, 2005 and Euronext Paris since January 1, 2008.

In August 2001, Vivendi Environnement shares were included in the CAC 40, the main equity index published by Euronext, and in October 2001 were listed in the form of American Depositary Shares for trading on the New York Stock Exchange.

From 2002 to 2004, Vivendi (formerly known as Vivendi Universal), progressively decreased its stake in the Company, and has held only 5.3% of the Company s shares since December 2004. Since July 6, 2006, Vivendi no longer holds shares in Veolia Environnement. (see §18.2 *infra*).

In April 2003, the Company changed its name to Veolia Environnement.

In 2002, Veolia Environnement undertook a significant restructuring in order to refocus on its core environmental services activities. This restructuring was completed in 2004 with the sale of various U.S. subsidiaries within its water division conducting certain non-core activities, and with the sale of Veolia Environnement s indirect interest in Fomento de Construcciones y Contratas (FCC), a Spanish company whose activities include construction and cement services, as well as other services related to the environment.

On November 3, 2005, Veolia Environnement unveiled a new branding system for the Group. The Group s water, waste management and transportation divisions currently operate under the same name: Veolia (see §6.2.5 *infra*).

5.1.2

General information regarding the Company

Company Name and Registered Office

Since April 30, 2003, the name of the Company has been Veolia Environnement. The Company s abbreviated name is VE.

The Company s registered office is located at 36/38, avenue Kléber, 75116 Paris. The telephone number is (33) 1 71 75 00 00.

Legal Form and Applicable Law

Veolia Environnement is a French *société anonyme à conseil d administration* subject to the provisions of *Livre II* of the French Commercial Code (*Code de commerce*).

Date of Formation and Term

The Company was formed on November 24, 1995, for a term of 99 years beginning on the date of its license in the *Registre du commerce et des sociétés*, i.e., for a term lasting until December 18, 2094.

Commercial Registry

The Company is licensed in the commercial registry of Paris under number 403 210 032. The Company's APE code is 741J.

5.2

Investments

The Group's investments (industrial, financial and new operating financial assets) amounted to €5,029 million in 2007, compared to €4,010 million in 2006 and €3,495 million in 2005.

A detailed description of the investments made in 2007 as well as their financing is set forth in chapter 9, paragraphs 9.3.4 (Capital Expenditures); 9.3.2 (Sources of Funds), 9.3.3 (Divestitures) and in chapter 20, paragraph 20.1, note 5 (Concession Intangible Assets), note 7 (Property, Plant and Equipment), note 10 (Non-Current and Current Operating Financial Assets) and note 43 (Segment Reporting) of the consolidated financial statements.

Veolia Environnement s investment strategy is focused on environmental activities, primarily in Europe, in Asia, and in North America.

This investment policy can take several forms:

Veolia Environnement makes certain growth-related investments (financial and industrial investments) in order to capture new markets, increase its capacity, or extend its services. Some investments in particular may be made over several years, notably in certain types of concession contracts. Veolia Environnement also makes financial investments in the companies with which it contracts, particularly in the context of privatizations and targeted acquisitions. All of these investments are carefully reviewed in order to ensure that they conform to the Group s standards in terms of profitability, financial structure and risks.

The Group also carries out (industrial) maintenance investments consisting in renovation and/or maintaining existing infrastructure so as to extend their lifespan or to improve their efficiency.

In both cases, industrial investments are divided among a large number of entities and are made pursuant to budgetary authorizations.

The Group s most significant investments concern the acquisitions of the company that holds the Braunschweig contract in 2005 for the sum of €374 million, of the company Cleanaway UK in 2006 for the sum of €745 million and finally the companies Sulo, TMT, Thermal North America and the non regulated activities of Thames Water in 2007, for €1.450 billion, €338 million based on an enterprise value of 100%, US $788 million (enterprise value) and €233 million respectively (see chapter 9, note 1.2). The acquisitions of Cleanaway UK, Sulo, TMT and Thermal North America represent a cumulative investment of nearly €3.1 billion. In order to preserve its future investment capability, the Group has carried out a €2.6 billion capital increase which was completed in July 2007.

Finally, the Group is often faced with numerous types of price adjustment clauses in the context of its divestiture and acquisition activities. As of the date hereof, none of these price adjustments is likely to have a significant impact at the Group level.

The Group regularly studies and analyzes growth opportunities. In this respect, it acquired, at the beginning of 2008, Bartin Recycling Group in France and Praterm in Poland (see chapter 20, paragraph 20.1, note 44 of the consolidated financial statements).

CHAPTER 6
BUSINESS OVERVIEW

6.1

Principal business activities

6.1.1

General description of Veolia Environnement

Veolia Environnement is an environmental services provider, and is the only major provider, to offer a complete range of services.[4] Veolia Environnement is able to provide its clients with a full-service package tailored to fit their individual needs, which may include, for example, supplying water, recycling wastewater, collecting, treating and recycling waste, supplying heating and cooling services, and generally optimizing the industrial processes used in their facilities.

Veolia Environnement s operations are conducted primarily through four divisions, each of which specializes in a single business sector: Veolia Eau (Water), Veolia Énergie (Dalkia) (Energy Services), Veolia Propreté (Environmental Services) and Veolia Transport (Transportation). Through these divisions, Veolia Environnement currently provides drinking water to more than 78 million people and treats sewer water for 53 million people in the world, treats nearly 66 million tons of waste, satisfies the energy requirements of hundreds of thousands of buildings for its industrial, municipal and individual clients and transports approximately 2.7 billion passengers per year. Veolia Environnement strives to offer services to clients combining those offered by each of its four divisions and which are packaged either in the form of a single multi-service contract, or several individual contracts.

The following table breaks down Veolia Environnement s consolidated revenue for 2007 by geographic market and division, after elimination of all inter-company transactions.

2007 Revenues*

(in millions of euro)	Water	Environmental Services	Energy Services	Transportation	Total
Europe	8,190.5	6,889.4	6,566.1	4,291.8	25,937.8
Of which:					
France	4,927.2	3,332.0	3,852.2	2,144.5	14,255.9
Other Europe	3,263.3	3,557.4	2,713.9	2,147.3	11,681.9
Americas	582.5	1,449.0	19.3	738.9	2,789.7
Rest of the World	2,154.4	875.9	311.0	559.4	3,900.7
Of which:	104.4	163.1	143.3	28.5	439.4

South America					
Africa-Middle East	1,017.3	100.7	56.3	17.8	1,192.1
Asia-Pacific	1,032.6	612.1	111.4	513.1	2,269.2
Total	10,927.4	9,214.3	6,896.4	5,590.1	32,628.2

*

Revenue from ordinary activities under IFRS.

[4] Unless otherwise indicated, information and statistics presented herein regarding market trends and Veolia Environnement s market share relative to its competitors are based on Veolia Environnement s own research and various publicly available sources.

6.1.2

Strategy

6.1.2.1

Veolia Environnement s strategy

Veolia Environnement intends to continue to reinforce its position as the leading provider of environmental services. Its strategy focuses on developing the most appropriate environmental service solutions for its municipal and industrial clients; maintaining its geographical diversification; developing a significant presence in growth markets with high potential, and accelerating synergies between different businesses within the Group.

By strengthening its position as the leading provider of environmental services worldwide, Veolia Environnement continues to implement its business model aimed at improving its economic and financial performance. This performance is a result of economies of scale and constantly evolving levels of technological expertise, combined with significant levels of research investment, long-term commitments to clients, and managed risk.

By providing the most appropriate environmental services, Veolia Environnement is able to optimize its client relations

While preserving its local character, the Company has become a major player in both the services and concessions business. The Group has achieved a unique position within these two client segments. Last year it was able to reinforce its core business in large European countries through targeted acquisitions in the United Kingdom, Germany and Italy.

With regard to its municipal clients, the Group has added to its impressive portfolio of existing French and European cities (Prague, Bucharest, Nottingham, Braunschweig), and has also achieved a number of commercial successes in the United States (Indianapolis, Chicago, Boston) and in the Asia Pacific region (Canton, Shanghai, Incheon, Melbourne). The Group has thus proven its ability to participate in large privatizations and win bids for large projects.

The Group has also conducted a significant portion of its business with its industrial and commercial clients, particularly for the provision of energy and waste management services. Veolia Environnement has also created a new business portfolio comprising large industrial accounts (Peugeot, Novartis, Renault), which significantly contributes to its multi-service contracts.

Successful geographic diversification

Concurrently with the expansion of its business in France by an average annual rate of over 5% per year since 2000, the share of Veolia Environnement s international business has continued to increase.

Beyond Europe, which has become the Group s domestic market, Veolia Environnement has also achieved strong positions in the United States and Asia. The Group has taken on a major role in energy services in the United States. There is little risk that the Group s significant presence in industrialized countries will decrease as it is for the most part unaffected by outsourcing and restructuring issues.

The Company has also developed a significant presence in emerging and developing countries. The Group regularly adds new contracts and expands its energy services activities in China. The Group s economic position within these areas of the world is much more significant than what the proportion of its revenues earned in these areas suggests.

A strategy focused on growth and high-potential markets

The Group s strategy is to focus on growth markets. An increasing awareness of the challenges relating to sustainable development and its impact on environmental policies has resulted in significant growth opportunities.

Faced with increasingly restrictive regulations and in order to keep up with competition, more and more industrial companies outsource environmental services through long-term partnerships. Their partners generally work on all of their worldwide industrial sites and tend to provide a full range of services.

Expansion within municipal markets is primarily the result of a combination of demographic factors: an increase in population size on the one hand, and the urban growth rate on the other. Growth is also a function of economic activity and living standards. The tightening of environmental restrictions and related regulations in response to these developments has fueled to Veolia Environnement s growth. One recent confirmation of the growth potential within these markets is the success of desalination projects in the Middle East.

The economic constraints imposed on Veolia Environnement s industrial and municipal clients increases their need to reduce water and energy consumption and waste production. The Group s position as a service rather than utility provider generally allows it to leverage this trend.

Additional growth potential in related businesses

Because of its expertise, commercial relations, and geographical distribution, Veolia Environnement possesses several important advantages that allow it to develop services that are directly related to its environmental services. These opportunities result from new demand relating to changes in the economic, ecological and political landscapes and which are all related to the promotion of sustainable development. Examples of this trend include green fuels, wind energy and residential services.

Synergies between Veolia Environnement s various businesses accelerate the Group s growth

In its environmental services business, which involves both public authorities and industrial clients, the Group benefits from considerable synergies between its water, waste management, transportation and energy service divisions. Because the group offers a complete range of services, Veolia Environnement s customers have broadened the range of services they seek from the Company.

This synergy is particularly evident within countries or municipalities where demographic changes, urbanization and economic development have accelerated significantly. In these areas, Veolia Environnement has been called upon to resolve the growing environmental problems faced by its clients. It offers a significant competitive advantage over funds or other financial investors, who have been weakened by the current market crisis.

Strong economic and financial resources

Veolia Environnement s solid position results from market growth trends, but also from the Company s competitive assets, including its technological and technical expertise, its financial stability, its geographic presence, and its experience in providing environmental services in compliance with regulatory requirements. The success of the capital increase that was completed in July 2007 also strengthened the Group s financial capacity, thus ensuring its development and reducing its exposure to market fluctuations.

Size advantages

The Group s size alone provides it with significant synergies. In addition, its presence in all segments of the value chain generates numerous vertical integrations that allow it to maximize added values.

Changes in technology and know-how

The Company has been expanding its Research and Development activities for a long period of time. Research and Development is essential for the Company to be able to complete its assignments and allow it to remain sensitive to the needs of its clients. Since 2000, Veolia Environnement has centralized its R&D business under one unique organization which is now supported by the strategic research, innovation and sustainable development committee created in 2006 by its board of directors.

The Group also benefits from the technical exchanges in horizontal program areas such as prevention of legionnaires disease, treatment and recycling of sediment, bioenergy, management of High Environmental Quality buildings, etc.

Long-term contracts

Veolia Environnement makes long-term commitments to its clients. Its human resources policy, which focuses on, among other things, providing training to its employees, allows the company to focus on the long term, in particular through the considerable professional efforts of Veolia Expertise (*Veolia Compétences*), a program that was renewed in 2007 allowed extensive recruitment in France in 2005 and 2006.

Moreover, aside from its social, environmental and ethical aspects, sustainable development directly influences clients expectations, and is thus an essential element in the company s commercial communication. Sustainable development trends have led the Company to change from a volume-maximization to a resource management-optimization economic model.

Managed risks

Given its growth objective, Veolia Environnement has implemented a management and risk calculation policy, the highlight of which in 2006 included the mapping of the major risks at the Group and division levels. By implementing a coordinated risk prevention and management plan, the Company has addressed this issue that is of fundamental significance for its long-term development.

These strategic elements have allowed Veolia Environnement to establish a profitable growth platform with room for future accelerated growth.

6.1.2.2

Veolia Environnement s strategy by division

Water

Veolia Environnement s water division intends to continue to expand its services around the world, while striving to ensure the quality and safety of the water it provides, the conservation of natural resources and the protection of the environment.

The growth potential of the international market for water services is enhanced by four main factors:

population growth and higher urban density,

reinforcement of environmental standards and health regulations,

growing acceptance of the delegated management model and public-private partnerships as alternatives to public management, and

refocusing by industrial clients on their core businesses.

Given this growth potential, Veolia Environnement will continue to be selective in order to optimize the allocation of its resources, its operating costs and its profitability. In order to take advantage of market opportunities, the Veolia Eau division relies on its technical expertise, its experience in managing client relations and the mobilization of local teams in order to anticipate the future needs of public authorities. It also continues to provide training to its employees in order to meet future challenges. Its technical expertise in various desalination methods, and wastewater recycling in particular, represents a major effort to adapt to ongoing changes in market conditions.

Going forward, the water division will seek to capitalize on long-term international development opportunities, the maturing of its larger contracts and productivity gains resulting from efficiency programs that have been implemented (relating to purchases, information systems and sharing of best practices).

Environmental Services

Through its Veolia Propreté division, Veolia Environnement intends to become one of the world leaders in the waste management sector. As is the case with the Group s other businesses, the waste management sector is showing signs of consistent and lasting demand, which has been reinforced by the tightening of environmental rules and regulations coupled with increased public demand in a number of countries. As a result, experts who can provide long-term services under cost-effective conditions and in compliance with environmental regulations are becoming highly sought after.

Within this favorable market environment in Europe, the United States and the Asia-Pacific region, Veolia Propreté has the following priorities for the waste management division:

enhance its waste treatment capabilities and develop its technological expertise in waste treatment and recovery;

strengthen its services offering to industrial clients by capitalizing on its mastery of the entire waste management chain, while seeking to generate synergies with the Group s other operating divisions;

increase the profitability of its activities by renegotiating fees, maximizing productivity and reducing structural costs, while ensuring that all of its activities contribute to the development of high value-added services.

Energy Services

Through its Veolia Énergie division, Veolia Environnement is the European leader in the energy services sector.

The opportunities in the sector are significant, due to increases in energy prices and public awareness of environmental problems, which have undeniably encouraged searches for solutions such as Dalkia s initiatives to reduce the effects of greenhouse gases and encourage energy conservation.

Dalkia s development strategy is focused primarily on heating and cooling networks, the management of service sector buildings and retail centers, the handling of industrial utilities, and energy provision and services in the health sector.

It includes the following geographical priorities:

growth in Southern Europe (Italy, Spain etc) by participating in the trend toward market consolidation and by developing the Group s multiservice offers aimed at the private sector;

pursuing growth in the area of large heating networks, particularly in France and in Central and Eastern Europe, and the large cooling networks in the Middle East;

pursuing growth in North America by offering management services for networks, industrial utilities and shopping malls; and

the development of activities in China (networks and industrial utilities) and in Australia.

These priorities will depend on the Group s ability to offer, in the context of deregulated energy markets in Europe, innovative technical solutions focused on energy efficiency that often combine Veolia Environnement s expertise in several areas. The Group also aims to promote its integrated outsourcing services to public clients as well as to service sector and industrial clients, by combining optimized services for facilities management (heating, air-conditioning, utilities, electricity, lighting).

Transportation

Through its Veolia Transport division, Veolia Environnement aims to become a major transportation service provider on a worldwide scale.

Between 2000 and 2030, the proportion of the world population living in urban areas is expected to increase from 50% to 60%, and urban transportation needs are expected to increase by 50% (source: International Association of Public Transport). These demographic changes will likely increase concerns relating to the environment and urban congestion, with public transportation services constituting a major concern for local authorities and inhabitants of large cities. Transportation always has an impact on the image and identity of a large city, its economic development, urban renewal projects, and local solidarity.

The major challenges in this sector are related to the ever-increasing need for new transport infrastructures, to environmental concerns, and to the growing demand for the customization of mass transportation.

Veolia Transportation s strategy is to improve its performance in its basic passenger transportation activity with the following priorities:

Continued efforts to address marketing, innovation and environmental concerns in order to continue to better satisfy clients;

A focus on local or regional passenger transportation;

Selective growth based on the attractiveness of markets and the intensity of local competition;

Continued growth in related activities such as railway freight given the synergies and importance for the environment.

6.1.3

Major developments in 2007[5]

Share capital increase with preferential subscription rights

On July 6, 2007, Veolia Environnement announced the success of its share capital increase with preferential subscription rights for an amount of €2.6 billion. The subscription period lasted from June 14 to June 27 included. The offering was successful, with total demand amounting to approximately €3.84 billion. The offer was 1.5 times over-subscribed. The gross amount of the capital increase was EUR 2,581,469,688 (including issuance premium) and resulted in the creation of 51,941,040 new shares.

[5] The major developments occurring between January 1, 2008 and the date of filing of this reference document are described in chapter 12 below.

As a result of this capital increase, Veolia Environnement reinforced its shareholders equity and increased its financial flexibility in order to maintain its growth following the announcement of several significant acquisitions since June 2006 and an investment program for 2007-2009.

New projects and acquisitions

In 2007, the Group reinforced its position within its business sectors with a series of new, targeted acquisitions which it hopes will generate growth and cost synergies.

The Group achieved more than €2.5 billion in external growth opportunities in its priority development areas during the 2007 fiscal year alone. Following the acquisition of Cleanaway UK (UK third waste management provider) in June 2006, the acquisitions of SULO (German second waste treatment operator) and TMT (first Italian private operator on the thermal waste treatment market) announced in April and May 2007, of TNAI (largest American private portfolio of heating and cooling networks) in June 2007, and part of the non-regulated activities of Thames Water which was finalized in November 2007 were the most significant.

The Company intends to continue this strategy in 2008 and 2009 by making value-generating investments that either lead to operational cost synergies, or accelerate development based on technological or commercial leverage in its prioritized geographical areas and on growth markets, in compliance with its investment criteria.

Innovation and new areas of activity

Veolia Environnement seeks to offer its clients innovative solutions that meet all of their sustainable development concerns. This goal has led the Group to study the development of new areas of activity related to its traditional activities and expertise and which all further the sustainable development perspective. In 2007, Veolia Environnement created a department of new areas of activity, which mobilizes and relies on the existing teams and skills of the Group s operational entities.

Several new areas of activity have already been identified and have been the object of initial projects or studies. The common feature of these new areas of activity is that they encourage growth and enhance the activities of Veolia Environnement Group s divisions. Examples include biofuels, wind generation or residential services. Other areas have been the focus of initiatives and investigations, such as air quality, ecological transportation, or sustainable development (ecological neighborhoods and buildings).

In the field of renewable energies, the Group has developed the production of biofuels, a strong growth market. Veolia Environnement favors the production of biofuel from waste, for example with used cooking oils. Indeed, this solution presents a very positive environmental balance and the recycling of these oils is an integral part of the waste treatment process. This project, which mobilizes the industrial skills of SARP Industries, creates significant synergies not only with the historical activities of the Company (notably recycling and collection) but also in terms of the prospects for the Group s fleets of vehicles. The first plant to produce biofuel from used cooking oils will open in 2008 in Limay. It will have a production capacity of 40,000 tons per year, which may grow to 80,000 tons per year.

The market for wind-generated energy also shows a strong growth potential sustained by continued support policies. It is attractive in certain countries of Europe and above all in the United States and in Asia where development potential is considerable. In 2007, Veolia acquired 50% of the capital of Eolfi, which currently operates 26 MW in France and is building 12 sites that represent an additional 120 MW capacity. At the end of 2008, Eolfi s production capacity is expected to reach more than 150 MW. In addition, numerous projects are pending abroad, notably in Greece, Poland

and Asia. With Eolfi, the Company can meet the expectations of its clients, local communities and industrials, who also wish to include a wind generated energy dimension in their sustainable development projects. Eolfi will allow the Group to optimize certain real estate assets that are ideal sites for wind turbines.

Finally, in the residential services sector, Veolia Environnement, through its subsidiary Proxiserve, has occupied a significant position within the market for individual boiler maintenance. More recently, Proxiserve has successfully developed a profitable and expanding domestic assistance activity (in plumbing). The millionth assistance contract was executed in November 2007. Based on these activities, Veolia Environnement intends to develop a whole range of services that will meet the concerns relating to sustainable housing for individuals: energy diagnosis, installation of renewable energy equipment (heating pumps, flat plate collectors, etc.) maintenance of installations, assistance and repair for heating, plumbing and electricity. The activities relating to services to individuals are provided under a common brand, Veolia Habitat Services.

A significant presence on the desalination market

The scarcity of resources linked to the irrigation of land, drought, floods that degrade the quality of water, or the over-development of ground water tables, combined with growing needs for water (population density growth), are a major challenge for the production of drinkable water in certain arid regions, in particular those regions where such phenomena are exacerbated and reduce the availability of water. The desalination of seawater is therefore expected to become one of the main alternative production methods for drinkable water in the coming decades.

Veolia Eau, which has more than 100 years of desalination experience, is one of the few companies that can offer a complete range of services and innovative solutions, and is therefore in a strong position within this rapidly expanding market thanks to its subsidiaries specialized in construction and thanks to its operational experience. The commercial successes in recent years speak for themselves.

In terms of design and construction, the Company is a leader in thermal and reverse osmosis desalination processes and has at its disposal numerous references in all types of existing treatments within the various entities of Veolia Eau Solutions & Technologies (SIDEM, WESTGARTH). In 2006 and 2007, Veolia Eau Solutions & Technologies won significant contracts in the Middle East, in Bahrain, Saudi Arabia and in the Fujairah Emirate. The Group also benefits from established operational expertise and has strong experiences, for instance in Ashkelon (Israel), the operation of which began in September 2005. In 2006 and 2007, Veolia Eau won two contracts in Australia relating to the design, construction and operation of reverse osmosis desalination units to supply water to the cities of the Gold Coast and Sydney.

Market share forecasts for the desalination of seawater, taking into account all techniques, estimate that production will increase by more than 10% per year between now and 2015. Mediterranean countries (Algeria, Libya, Spain), China, Australia and the Middle East (Saudi Arabia, Emirates) will multiply their desalinated water production capacity by a factor of 2 to 10, with the countries of the Persian Gulf adding reverse osmosis to thermal desalination techniques (distillation).

Sustained activity growth and relevance of California, Toll Road Revenue Refunding Bonds, Series 1997A: 4,430 0.000%, 1/15/32 - MBIA Insured No Opt. Call AAA 1,070,820 31,300 0.000%, 1/15/34 - MBIA Insured No Opt. Call AAA 6,678,168 1,945 South Gate Public Financing Authority, California, Water Revenue No Opt. Call Baa3 2,105,249 Refunding Bonds, Series 1996A, 6.000%, 10/01/12 - FGIC Insured --- 127,010 Total California 94,197,115 --- COLORADO - 4.6% (2.7% OF TOTAL INVESTMENTS) 2,000 Colorado Health Facilities Authority, Revenue Refunding Bonds, 9/11 at 100.00 AA (4) 2,154,820 Catholic Health Initiatives, Series 2001, 5.250%, 9/01/21 (Pre-refunded 9/01/11) 450 Colorado Housing Finance Authority, Single Family Program 10/09 at 105.00 Aa2

481,046 Senior Bonds, Series 1999C-3, 6.750%, 10/01/21 2,695 Denver City and County, Colorado, Airport System Revenue No Opt. Call A+ 3,003,901 Bonds, Series 1991D, 7.750%, 11/15/13 (Alternative Minimum Tax) Denver Convention Center Hotel Authority, Colorado, Senior Revenue Bonds, Convention Center Hotel, Series 2003A: 2,940 5.000%, 12/01/20 (Pre-refunded 12/01/13) - XLCA Insured 12/13 at 100.00 A3 (4) 3,184,726 10,000 5.000%, 12/01/33 (Pre-refunded 12/01/13) - XLCA Insured 12/13 at 100.00 A3 (4) 10,832,400 4,345 El Paso County School District 20, Academy, Colorado, General 12/12 at 100.00 Aa3 4,642,198 Obligation Bonds, Series 2002, 5.250%, 12/15/17 - FGIC Insured 755 Jefferson County School District R1, Colorado, General Obligation 12/14 at 100.00 AAA 787,359 Bonds, Series 2004, 5.000%, 12/15/22 - FSA Insured

-- 23,185

Total Colorado 25,086,450

-- 48

PRINCIPAL OPTIONAL CALL AMOUNT (000) DESCRIPTION (1) PROVISIONS (2) RATINGS (3) VALUE

--

DISTRICT OF COLUMBIA - 2.3% (1.3% OF TOTAL INVESTMENTS) $ 5 District of Columbia, General Obligation Bonds, Series 1993E, 6/08 at 100.00 AAA $ 5,016 6.000%, 6/01/09 - CAPMAC Insured 4,250 District of Columbia, Hospital Revenue Refunding Bonds, 6/08 at 101.00 AAA 4,289,355 Medlantic Healthcare Group, Series 1993A, 5.750%, 8/15/14 - MBIA Insured (ETM) District of Columbia, Revenue Bonds, Georgetown University, Series 2001A: 9,670 0.000%, 4/01/26 (Pre-refunded 4/01/11) - MBIA Insured 4/11 at 42.15 AAA 3,732,910 15,235 0.000%, 4/01/30 (Pre-refunded 4/01/11) - MBIA Insured 4/11 at 32.93 AAA 4,595,028

-- 29,160

Total District of Columbia 12,622,309

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FLORIDA - 6.3% (3.7% OF TOTAL INVESTMENTS) 5,000 Broward County School Board, Florida, Certificates of 7/13 at 100.00 AAA 5,033,600 Participation, Series 2003, 5.000%, 7/01/28 - MBIA Insured 5,000 Hillsborough County Aviation Authority, Florida, Revenue Bonds, 10/13 at 100.00 AAA 5,051,400 Tampa International Airport, Series 2003A, 5.250%, 10/01/18 - MBIA Insured (Alternative Minimum Tax) 5,000 Martin County Industrial Development Authority, Florida, Industrial 6/08 at 100.00 BB+ 5,010,900 Development Revenue Bonds, Indiantown Cogeneration LP, Series 1994A, 7.875%, 12/15/25 (Alternative Minimum Tax) 1,380 Miami-Dade County Housing Finance Authority, Florida, 1/11 at 102.00 AAA 1,410,691 Multifamily Housing Revenue Bonds, Sunset Bay Apartments, Series 2000-5A, 5.850%, 7/01/20 - FSA Insured (Alternative Minimum Tax) 3,385 Miami-Dade County, Florida, Aviation Revenue Bonds, Miami 10/15 at 100.00 A2 3,111,831 International Airport, Series 2005A, 5.000%, 10/01/37 - XLCA Insured (Alternative Minimum Tax) 5,455 South Miami Health Facilities Authority, Florida, Hospital Revenue, 8/17 at 100.00 AA- 5,323,480 Baptist Health System Obligation Group, Series 2007, 5.000%, 8/15/42 9,500 Sunrise, Florida, Utility System Revenue Refunding Bonds, 10/18 at 100.00 AAA 9,661,785 Series 1998, 5.000%, 10/01/28 - AMBAC Insured

-- 34,720

Total Florida 34,603,687

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GEORGIA - 2.6% (1.5% OF TOTAL INVESTMENTS) 4,400 Atlanta, Georgia, Water and Wastewater Revenue Bonds, No Opt. Call A 4,655,332 Series 1999A, 5.500%, 11/01/22 - FGIC Insured 2,880 Georgia Municipal Electric Authority, General Power Revenue No Opt. Call A+ 3,260,938 Bonds, Series 1992B, 8.250%, 1/01/11 5,500 Georgia Municipal Electric Authority, General Power Revenue No Opt. Call AAA 6,231,060 Bonds, Series 1993B, 5.700%, 1/01/19 - FGIC Insured (ETM)

-- 12,780

Total Georgia 14,147,330

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HAWAII - 1.1% (0.6% OF TOTAL INVESTMENTS) 3,720 Honolulu City and County, Hawaii, General Obligation Refunding No Opt. Call AA 4,050,634 and Improvement Bonds, Series 1993B, 5.000%, 10/01/13 1,580 Honolulu City and County, Hawaii, General Obligation Refunding No Opt. Call Aaa 1,733,623 and Improvement Bonds, Series 1993B, 5.000%, 10/01/13 (ETM)

-- 5,300

Total Hawaii 5,784,257

-- IDAHO - 0.1% (0.1% OF TOTAL INVESTMENTS) 750 Madison County, Idaho, Hospital Revenue Certificates of 9/16 at 100.00 BBB- 632,933 Participation, Madison Memorial Hospital, Series 2006, 5.250%, 9/01/37

-- 49 NPT

Nuveen Premium Income Municipal Fund 4, Inc. (continued) Portfolio of INVESTMENTS April 30, (2008) (Unaudited) PRINCIPAL OPTIONAL CALL AMOUNT (000) DESCRIPTION (1) PROVISIONS (2) RATINGS (3) VALUE --

ILLINOIS - 18.2% (10.7% OF TOTAL INVESTMENTS) $ 4,000 Chicago Board of Education, Illinois, General Obligation Lease No Opt. Call AAA $ 4,429,240 Certificates, Series 1992A, 6.250%, 1/01/15 - MBIA Insured 17,000 Chicago Greater Metropolitan Area Sanitary District, Illinois, 12/16 at 100.00 Aaa 18,966,050 General Obligation Bonds, Series 2006, 5.000%, 12/01/35 (Pre-refunded 12/01/16) (UB) 5,550 Chicago, Illinois, Revenue Bonds, Midway Airport, Series 2001A, 1/11 at 101.00 AAA 5,482,901 5.125%, 1/01/26 - FSA Insured (Alternative Minimum Tax) 5,000 Chicago, Illinois, Sales Tax Revenue Bonds, Series 1998, 7/08 at 102.00 AAA 5,089,000 5.250%, 1/01/28 - FGIC Insured 1,665 Chicago, Illinois, Third Lien General Airport Revenue Bonds, 1/16 at 100.00 A1 1,623,408 O'Hare International Airport, Series 2005A, 5.000%, 1/01/33 - FGIC Insured Cook County School District 99, Cicero, Illinois, General Obligation School Bonds, Series 1997: 1,455 8.500%, 12/01/13 - FGIC Insured No Opt. Call Baa3 1,811,621 1,685 8.500%, 12/01/15 - FGIC Insured No Opt. Call Baa3 2,201,840 6,030 Illinois Development Finance Authority, GNMA Collateralized 4/11 at 105.00 Aaa 6,766,504 Mortgage Revenue Bonds, Greek American Nursing Home Committee, Series 2000A, 7.600%, 4/20/40 1,385 Illinois Finance Authority, General Obligation Debt Certificates, 12/14 at 100.00 Aaa 1,437,949 Local Government Program - Kankakee County, Series 2005B, 5.000%, 12/01/18 - AMBAC Insured 2,515 Illinois Finance Authority, Revenue Bonds, Northwestern 8/14 at 100.00 AA+ (4) 2,801,735 Memorial Hospital, Series 2004A, 5.250%, 8/15/34 (Pre-refunded 8/15/14) 5,565 Illinois Finance Authority, Revenue Bonds, Sherman Health 8/17 at 100.00 A- 5,219,302 Systems, Series 2007A, 5.500%, 8/01/37 4,000 Illinois Health Facilities Authority, FHA-Insured Mortgage 8/13 at 100.00 AAA 4,009,600 Revenue Refunding Bonds, Sinai Health System, Series 2003, 5.150%, 2/15/37 4,000 Illinois Health Facilities Authority, Revenue Bonds, Condell 5/12 at 100.00 Baa3 3,825,360 Medical Center, Series 2002, 5.500%, 5/15/32 4,075 Illinois Health Facilities Authority, Revenue Refunding Bonds, No Opt. Call Aa3 4,704,465 Lutheran General Health System, Series 1993C, 7.000%, 4/01/14 9,795 Lake, Cook, Kane and McHenry Counties Community Unit School No Opt. Call AAA 10,980,979 District 220, Barrington, Illinois, School Refunding Bonds, Series 2002, 5.250%, 12/01/19 - FSA Insured Metropolitan Pier and Exposition Authority, Illinois, Revenue Bonds, McCormick Place Expansion Project, Series 2002A: 9,500 0.000%, 6/15/24 - MBIA Insured 6/22 at 101.00 AAA 6,413,355 4,540 5.000%, 12/15/28 - MBIA Insured 6/12 at 101.00 AAA 4,632,207 36,040 0.000%, 6/15/40 - MBIA Insured No Opt. Call AAA 6,486,840 3,050 Regional Transportation Authority, Cook, DuPage, Kane, Lake, No Opt. Call AAA 3,671,712 McHenry and Will Counties, Illinois, General Obligation Bonds, Series 1990A, 7.200%, 11/01/20 - AMBAC Insured

-- 126,850

Total Illinois 100,554,068

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INDIANA - 9.3% (5.5% OF TOTAL INVESTMENTS) Carmel Redevelopment Authority, Indiana, Lease Rent Revenue Bonds, Series 2005: 1,950 0.000%, 2/01/24 No Opt. Call AA 856,713 2,705 0.000%, 2/01/25 No Opt. Call AA 1,113,324 3,000 Hospital Authority of Delaware County, Indiana, Hospital Revenue 8/16 at 100.00 Baa2 2,544,660 Bonds, Cardinal Health System, Series 2006, 5.250%, 8/01/36 50 PRINCIPAL OPTIONAL CALL AMOUNT (000) DESCRIPTION (1) PROVISIONS (2) RATINGS (3) VALUE

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INDIANA (continued) $ 3,965 Indiana Educational Facilities Authority, Revenue Bonds, 2/11 at 100.00 AAA $ 4,110,991 Butler University, Series 2001, 5.500%, 2/01/26 - MBIA Insured 1,500 Indiana Educational Facilities Authority, Revenue Bonds, 10/09 at 101.00 AAA 1,564,500 University of Indianapolis, Series 1999, 5.750%, 10/01/19 - FSA Insured 22,000 Indiana Health Facility Financing Authority, Hospital Revenue 8/10 at 101.50 AAA 23,767,256 Bonds, Clarian Health Obligated Group, Series 2000A, 5.500%, 2/15/30 (Pre-refunded 8/15/10) - MBIA Insured 3,000 Indiana Health Facility Financing Authority, Hospital Revenue No Opt. Call AAA 3,434,490 Refunding Bonds, Columbus Regional Hospital, Series 1993, 7.000%, 8/15/15 - FSA Insured 2,800 Indiana Health Facility Financing

Authority, Revenue Bonds, 5/15 at 100.00 AAA 2,800,000 Community Hospitals of Indiana, Series 2005A, 5.000%, 5/01/35 - AMBAC Insured 4,000 Indiana Transportation Finance Authority, Highway Revenue 6/13 at 100.00 AAA 4,173,680 Bonds, Series 2003A, 5.000%, 6/01/23 - FSA Insured 6,000 Indiana Transportation Finance Authority, Highway Revenue 6/13 at 100.00 AAA 6,547,200 Bonds, Series 2003A, 5.000%, 6/01/24 (Pre-refunded 6/01/13) - FSA Insured 420 Marion County Convention and Recreational Facilities Authority, 6/09 at 100.00 AAA 420,643 Indiana, Excise Tax Lease Rental Revenue Bonds, Series 1997A, 5.000%, 6/01/27 - MBIA Insured

-- 51,340

Total Indiana 51,333,457

-- IOWA - 0.2% (0.1% OF TOTAL INVESTMENTS) 1,000 Iowa Finance Authority, Health Facility Revenue Bonds, 7/16 at 100.00 BBB- 916,040 Care Initiatives Project, Series 2006A, 5.000%, 7/01/20

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KANSAS - 1.9% (1.1% OF TOTAL INVESTMENTS) 2,000 Olathe, Kansas, Health Facilities Revenue Bonds, Olathe Medical 9/10 at 100.00 AAA 2,063,900 Center, Series 2000A, 5.500%, 9/01/25 - AMBAC Insured 6,825 Sedgwick County Unified School District 259, Wichita, Kansas, 9/10 at 100.00 AA 6,783,777 General Obligation Bonds, Series 2000, 3.500%, 9/01/16 1,750 Wamego, Kansas, Pollution Control Revenue Bonds, Kansas 6/14 at 100.00 AAA 1,776,443 Gas and Electric Company, Series 2004, 5.300%, 6/01/31 - MBIA Insured

-- 10,575

Total Kansas 10,624,120

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LOUISIANA - 7.2% (4.2% OF TOTAL INVESTMENTS) 1,750 Louisiana Local Government Environmental Facilities and 6/12 at 105.00 Aaa 1,878,975 Community Development Authority, GNMA Collateralized Mortgage Revenue Refunding Bonds, Sharlo Apartments, Series 2002A, 6.500%, 6/20/37 5,150 Louisiana Public Facilities Authority, Hospital Revenue Bonds, 8/15 at 100.00 A+ 5,155,768 Franciscan Missionaries of Our Lady Health System, Series 2005A, 5.250%, 8/15/32 10,000 Louisiana Public Facilities Authority, Revenue Bonds, 7/17 at 100.00 A+ 8,645,500 Archdiocese of New Orleans, Series 2007, 4.500%, 7/01/37 - CIFG Insured 3,800 Louisiana Public Facilities Authority, Revenue Bonds, 5/17 at 100.00 A3 3,651,040 Ochsner Clinic Foundation Project, Series 2007A, 5.500%, 5/15/47 Louisiana State, Gasoline and Fuels Tax Revenue Bonds, Series 2006: 1,480 4.750%, 5/01/39 - FSA Insured (UB) 5/16 at 100.00 Aaa 1,463,439 15,820 4.500%, 5/01/41 - FGIC Insured (UB) 5/16 at 100.00 Aa3 14,988,026 170 Louisiana State, Gasoline Tax Revenue Bonds, Series 2006, 5/16 at 100.00 Aa3 143,179 Residuals 660-1, 5.082%, 5/01/41 - FGIC Insured (IF) 3,795 Orleans Levee District, Louisiana, Levee District General 6/08 at 100.50 AAA 3,840,236 Obligation Bonds, Series 1986, 5.950%, 11/01/14 - FSA Insured

-- 41,965

Total Louisiana 39,766,163

-- 51 NPT

Nuveen Premium Income Municipal Fund 4, Inc. (continued) Portfolio of INVESTMENTS April 30, (2008) (Unaudited) PRINCIPAL OPTIONAL CALL AMOUNT (000) DESCRIPTION (1) PROVISIONS (2) RATINGS (3) VALUE --

MARYLAND - 2.1% (1.2% OF TOTAL INVESTMENTS) $ 2,050 Maryland Community Development Administration, Housing 7/08 at 101.00 Aa2 $ 2,067,220 Revenue Bonds, Series 1996A, 5.875%, 7/01/16 2,900 Maryland Community Development Administration, Housing 7/08 at 101.00 Aa2 2,913,659 Revenue Bonds, Series 1997A, 6.000%, 7/01/39 (Alternative Minimum Tax) 50 Maryland Health and Higher Educational Facilities Authority, 8/14 at 100.00 A- 50,367 Revenue Bonds, MedStar Health, Series 2004, 5.375%, 8/15/24 2,210 Maryland Health and Higher Educational Facilities Authority, 7/16 at 100.00 Aaa 2,172,806 Revenue Bonds, Western Maryland Health, Series 2006A, 4.750%, 7/01/36 - MBIA Insured (UB) 1,935 Montgomery County Housing Opportunities Commission, 7/08 at 100.00 Aa2 1,962,206 Maryland, GNMA/FHA-Insured Multifamily Housing Revenue Bonds, Series 1996B, 6.400%, 7/01/28 (Alternative Minimum Tax) 2,315 Montgomery County Housing Opportunities Commission, 7/10 at 100.00 Aaa 2,356,068 Maryland, Multifamily Housing Development Bonds, Series 2000B, 6.125%, 7/01/20 (Alternative Minimum Tax)

-- 11,460

Total Maryland 11,522,326

MASSACHUSETTS - 1.1% (0.6% OF TOTAL INVESTMENTS) 3,585 Massachusetts Development Finance Agency, Revenue Bonds, 3/15 at 100.00 BBB 3,090,306 Curry College, Series 2005A, 5.000%, 3/01/35 - ACA Insured 1,000 Massachusetts Development Finance Agency, Revenue Bonds, 10/12 at 102.00 BB- 894,460 Orchard Cove, Series 2007, 5.250%, 10/01/26 1,000 Massachusetts Health and Educational Facilities Authority, 7/15 at 100.00 BBB- 900,620 Revenue Bonds, Milton Hospital Project, Series 2005D, 5.375%, 7/01/35 1,155 Massachusetts Water Resources Authority, General Revenue 2/17 at 100.00 Aaa 909,978 Bonds, Series 2007, Residual Trust 7039, 4.069%, 8/01/46 - FSA Insured (IF)

-- *6,740*

Total Massachusetts 5,795,364

MICHIGAN - 7.6% (4.4% OF TOTAL INVESTMENTS) 6,000 Detroit, Michigan, Second Lien Sewerage Disposal System 7/15 at 100.00 AAA 6,021,120 Revenue Bonds, Series 2005A, 5.000%, 7/01/35 - MBIA Insured 8,915 Detroit, Michigan, Senior Lien Water Supply System Revenue 7/08 at 100.00 AAA 8,919,725 Bonds, Series 1997A, 5.000%, 7/01/27 - MBIA Insured 5,400 Detroit, Michigan, Sewer Disposal System Revenue Bonds, 7/16 at 100.00 A 5,038,740 Second Lien, Series 2006B, 4.625%, 7/01/34 - FGIC Insured 4,290 Hancock Hospital Finance Authority, Michigan, FHA-Insured 8/08 at 100.00 AAA 4,325,693 Mortgage Hospital Revenue Bonds, Portage Health System Inc., Series 1998, 5.450%, 8/01/47 (Pre-refunded 8/01/08) - MBIA Insured 5,000 Michigan State Building Authority, Revenue Refunding Bonds, 10/13 at 100.00 AAA 5,052,200 Facilities Program, Series 2003II, 5.000%, 10/15/29 - MBIA Insured 10,500 Michigan State Hospital Finance Authority, Hospital Revenue 8/08 at 101.00 Ba3 9,469,740 Bonds, Detroit Medical Center Obligated Group, Series 1998A, 5.250%, 8/15/23 1,000 Michigan State Hospital Finance Authority, Revenue Bonds, 5/15 at 100.00 BBB 867,600 Chelsea Community Hospital, Series 2005, 5.000%, 5/15/30 2,000 Michigan State Hospital Finance Authority, Revenue Bonds, 12/16 at 100.00 AA 1,994,420 Trinity Health Care Group, Series 2006A, 5.000%, 12/01/31

-- *43,105*

Total Michigan 41,689,238

-- *52*

PRINCIPAL OPTIONAL CALL AMOUNT (000) DESCRIPTION (1) PROVISIONS (2) RATINGS (3) VALUE

MINNESOTA - 1.2% (0.7% OF TOTAL INVESTMENTS) $ 650 Minneapolis-St. Paul Housing Finance Board, Minnesota, 5/08 at 102.00 AAA $ 658,002 FNMA/GNMA Mortgage-Backed Securities Program Single Family Mortgage Revenue Bonds, Series 1997, 5.800%, 11/01/30 (Alternative Minimum Tax) 3,500 Minneapolis-St. Paul Metropolitan Airports Commission, 1/11 at 100.00 AAA 3,736,180 Minnesota, Airport Revenue Bonds, Series 2001A, 5.250%, 1/01/25 (Pre-refunded 1/01/11) - FGIC Insured 2,875 Saint Paul Port Authority, Minnesota, Lease Revenue Bonds, 8/16 at 100.00 N/R 2,337,519 Regions Hospital Parking Ramp Project, Series 2007-1, 5.000%, 8/01/36

-- *7,025*

Total Minnesota 6,731,701

MISSISSIPPI - 1.6% (0.9% OF TOTAL INVESTMENTS) 2,975 Mississippi Hospital Equipment and Facilities Authority, 9/14 at 100.00 AA 2,990,827 Revenue Bonds, Baptist Memorial Healthcare, Series 2004B-1, 5.000%, 9/01/24 5,180 Mississippi, General Obligation Refunding Bonds, No Opt. Call AA 5,880,025 Series 2002A, 5.500%, 12/01/18

-- *8,155*

Total Mississippi 8,870,852

MISSOURI - 0.8% (0.5% OF TOTAL INVESTMENTS) 1,450 Cape Girardeau County Industrial Development Authority, 6/17 at 100.00 N/R 1,229,963 Missouri, Health Facilities Revenue Bonds, Southeast Missouri Hospital Association, Series 2007, 5.000%, 6/01/36 3,000 Missouri Health and Educational Facilities Authority, Revenue 5/13 at 100.00 AA 3,033,780 Bonds, BJC Health System, Series 2003, 5.125%, 5/15/24

-- *4,450*

Total Missouri 4,263,743

NEBRASKA - 1.7% (1.0% OF TOTAL INVESTMENTS) 9,000 NebHelp Inc., Nebraska, Senior Subordinate Bonds, Student No Opt. Call Aaa 9,359,820 Loan Program, Series 1993A-5A, 6.250%, 6/01/18 - MBIA Insured (Alternative Minimum Tax)

NEVADA - 2.5% (1.5% OF TOTAL INVESTMENTS) 4,500 Clark County School District, Nevada, General Obligation No Opt. Call AAA 4,912,155 School Improvement Bonds, Series 1991A, 7.000%, 6/01/10 - MBIA Insured 7,000 Clark County, Nevada, Motor Vehicle Fuel Tax Highway 7/13 at 100.00 AAA 7,217,980 Improvement Revenue Bonds, Series 2003, 5.000%, 7/01/23 - AMBAC Insured 5,425 Director of Nevada State Department of Business and Industry, No Opt. Call AAA 1,755,313 Revenue Bonds, Las Vegas Monorail Project, First Tier, Series 2000, 0.000%, 1/01/25 - AMBAC Insured

-- *16,925*

Total Nevada 13,885,448

-- *NEW JERSEY - 5.0% (2.9% OF TOTAL INVESTMENTS) 500 Burlington County Bridge Commission, New Jersey, Economic 1/18 at 100.00 N/R 457,505 Development Revenue Bonds, The Evergreens Project, Series 2007, 5.625%, 1/01/38 1,100 New Jersey Health Care Facilities Financing Authority, 7/10 at 101.00 BBB- (4) 1,223,695 Revenue Bonds, Trinitas Hospital Obligated Group, Series 2000, 7.500%, 7/01/30 (Pre-refunded 7/01/10) 880 New Jersey Turnpike Authority, Revenue Bonds, Series 1991C, No Opt. Call AAA 1,013,223 6.500%, 1/01/16 - MBIA Insured New Jersey Turnpike Authority, Revenue Bonds, Series 1991C: 300 6.500%, 1/01/16 - MBIA Insured (ETM) No Opt. Call AAA 344,865 2,345 6.500%, 1/01/16 - MBIA Insured (ETM) No Opt. Call AAA 2,695,695 11,960 Tobacco Settlement Financing Corporation, New Jersey, 6/12 at 100.00 AAA 12,975,881 Tobacco Settlement Asset-Backed Bonds, Series 2002, 5.750%, 6/01/32 (Pre-refunded 6/01/12) 3,995 Tobacco Settlement Financing Corporation, New Jersey, 6/13 at 100.00 AAA 4,651,618 Tobacco Settlement Asset-Backed Bonds, Series 2003, 6.750%, 6/01/39 (Pre-refunded 6/01/13) 5,000 Tobacco Settlement Financing Corporation, New Jersey, 6/17 at 100.00 BBB 3,954,600 Tobacco Settlement Asset-Backed Bonds, Series 2007-1A, 4.750%, 6/01/34*

-- *26,080*

Total New Jersey 27,317,082

-- *53 NPT*

Nuveen Premium Income Municipal Fund 4, Inc. (continued) Portfolio of INVESTMENTS April 30, (2008) (Unaudited) PRINCIPAL OPTIONAL CALL AMOUNT (000) DESCRIPTION (1) PROVISIONS (2) RATINGS (3) VALUE --

NEW YORK - 8.3% (4.9% OF TOTAL INVESTMENTS) $ 855 Albany Industrial Development Agency, New York, Revenue 4/17 at 100.00 N/R $ 753,512 Bonds, Brighter Choice Charter Schools, Series 2007A, 5.000%, 4/01/32 1,200 Hempstead Industrial Development Agency, New York, Resource No Opt. Call Baa3 1,198,656 Recovery Revenue Refunding Bonds, American Ref-Fuel Company of Hempstead LP, Series 2001, 5.000%, 12/01/10 (Mandatory put 6/01/10) 4,070 Hudson Yards Infrastructure Corporation, New York, Revenue 2/17 at 100.00 Aaa 3,796,944 Bonds, Series 2006A, 4.500%, 2/15/47 - MBIA Insured (UB) 3,300 Long Island Power Authority, New York, Electric System Revenue 11/16 at 100.00 Aaa 3,051,015 Bonds, Series 2006F, 4.250%, 5/01/33 - MBIA Insured (UB) 6,740 New York City Transitional Finance Authority, New York, Future 5/08 at 101.00 AAA 6,813,668 Tax Secured Bonds, Fiscal Series 1998C, 5.000%, 5/01/26 New York City Transitional Finance Authority, New York, Future Tax Secured Bonds, Fiscal Series 2000C: 3,630 5.875%, 11/01/16 (Pre-refunded 5/01/10) 5/10 at 101.00 AAA 3,916,879 220 5.875%, 11/01/16 (Pre-refunded 5/01/10) 5/10 at 101.00 AAA 237,343 5,000 5.500%, 11/01/24 (Pre-refunded 5/01/10) 5/10 at 101.00 AAA 5,357,650 New York State Tobacco Settlement Financing Corporation, Tobacco Settlement Asset-Backed and State Contingency Contract-Backed Bonds, Series 2003A-1: 10,800 5.500%, 6/01/16 6/10 at 100.00 AA- 11,135,988 2,500 5.500%, 6/01/18 6/12 at 100.00 AA- 2,620,775 6,250 Port Authority of New York and New Jersey, Special Project No Opt. Call AAA 6,884,500 Bonds, JFK International Air Terminal LLC, Sixth Series 1997, 6.250%, 12/01/15 - MBIA Insured (Alternative Minimum Tax)

-- *44,565*

Total New York 45,766,930

-- *NORTH*

CAROLINA - 2.9% (1.7% OF TOTAL INVESTMENTS) 750 Charlotte-Mecklenburg Hospital Authority, North Carolina, 1/17 at 100.00 AA- 744,908 Health Care System Revenue Bonds, Carolinas Health Care, Series 2007A, 5.000%, 1/15/31 2,445 North Carolina Infrastructure Finance Corporation, Certificates 2/14 at 100.00 AA+ 2,538,692 of Participation, Correctional Facilities, Series 2004A, 5.000%, 2/01/21 2,000 North Carolina Municipal Power Agency 1, Catawba Electric No Opt. Call AAA 2,143,680 Revenue Bonds, Series 1992, 6.000%, 1/01/11 - MBIA Insured 10,000 North Carolina Municipal Power Agency 1, Catawba Electric 1/13 at 100.00 AAA 10,503,100 Revenue Bonds, Series 2003A, 5.250%, 1/01/18 - MBIA Insured

--- 15,195

Total North Carolina 15,930,380

--- OHIO - 3.3% (1.9% OF TOTAL INVESTMENTS) 6,065 Buckeye Tobacco Settlement Financing Authority, Ohio, 6/17 at 100.00 BBB 5,712,805 Tobacco Settlement Asset-Backed Revenue Bonds, Senior Lien, Series 2007A-2, 5.125%, 6/01/24 8,065 Cleveland, Ohio, Airport System Revenue Bonds, Series 2001A, 1/10 at 101.00 AAA 8,108,470 5.000%, 1/01/31 - FSA Insured 3,000 Franklin County, Ohio, Development Revenue Bonds, American 10/09 at 101.00 A+ 3,099,090 Chemical Society, Series 1999, 5.800%, 10/01/14 1,000 Franklin County, Ohio, FHA-Insured Multifamily Housing 7/08 at 100.00 Aa2 999,970 Mortgage Revenue Bonds, Hamilton Creek Apartments Project, Series 1994A, 5.550%, 7/01/24 (Alternative Minimum Tax)

--- 18,130

Total Ohio 17,920,335

--- 54

PRINCIPAL OPTIONAL CALL AMOUNT (000) DESCRIPTION (1) PROVISIONS (2) RATINGS (3) VALUE

OKLAHOMA - 2.8% (1.6% OF TOTAL INVESTMENTS) Oklahoma Development Finance Authority, Revenue Bonds, Saint John Health System, Series 2007: $ 4,800 5.000%, 2/15/37 2/17 at 100.00 AA- $ 4,727,616 2,655 5.000%, 2/15/42 2/17 at 100.00 AA- 2,595,501 280 Oklahoma Housing Finance Agency, Single Family Mortgage 3/10 at 101.00 Aaa 285,939 Revenue Bonds, Homeownership Loan Program, Series 2000C-2, 6.200%, 9/01/28 (Alternative Minimum Tax) 4,185 Tulsa County Industrial Authority, Oklahoma, Health Care Revenue 12/16 at 100.00 AA 4,128,293 Bonds, Saint Francis Health System, Series 2006, 5.000%, 12/15/36 3,340 Tulsa Industrial Authority, Oklahoma, Hospital Revenue No Opt. Call AAA 3,495,611 Refunding Bonds, Hillcrest Medical Center, Series 1996, 6.500%, 6/01/09 - CONNIE LEE Insured (ETM)

--- 15,260

Total Oklahoma 15,232,960

PENNSYLVANIA - 1.9% (1.1% OF TOTAL INVESTMENTS) 500 Bucks County Industrial Development Authority, Pennsylvania, 3/17 at 100.00 BBB 416,010 Charter School Revenue Bonds, School Lane Charter School, Series 2007A, 5.000%, 3/15/37 1,800 Pennsylvania Economic Development Financing Authority, 7/08 at 100.00 B+ 1,791,792 Senior Lien Resource Recovery Revenue Bonds, Northampton Generating Project, Series 1994A, 6.400%, 1/01/09 (Alternative Minimum Tax) 5,490 Pennsylvania Public School Building Authority, Lease Revenue 12/16 at 100.00 Aaa 5,348,028 Bonds, School District of Philadelphia, Series 2006B, 4.500%, 6/01/32 - FSA Insured (UB) 2,600 Pennsylvania Turnpike Commission, Turnpike Revenue Bonds, 12/14 at 100.00 AAA 2,727,790 Series 2004A, 5.500%, 12/01/31 - AMBAC Insured

--- 10,390

Total Pennsylvania 10,283,620

PUERTO RICO - 2.5% (1.5% OF TOTAL INVESTMENTS) 12,390 Puerto Rico, General Obligation and Public Improvement No Opt. Call AAA 13,952,130 Refunding Bonds, Series 1997, 6.500%, 7/01/13 - MBIA Insured

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RHODE ISLAND - 3.5% (2.1% OF TOTAL INVESTMENTS) 20,000 Rhode Island Tobacco Settlement Financing Corporation, 6/12 at 100.00 BBB 19,316,199 Tobacco Settlement Asset-Backed Bonds, Series 2002A, 6.250%, 6/01/42 --- SOUTH CAROLINA - 4.3% (2.5% OF TOTAL INVESTMENTS) 4,120 Medical University Hospital Authority, South

Carolina, 8/14 at 100.00 AAA 4,273,676 FHA-Insured Mortgage Revenue Bonds, Series 2004A, 5.250%, 2/15/23 - MBIA Insured 3,000 Myrtle Beach, South Carolina, Hospitality and Accommodation 6/14 at 100.00 A+ 2,946,540 Fee Revenue Bonds, Series 2004A, 5.000%, 6/01/36 - FGIC Insured Piedmont Municipal Power Agency, South Carolina, Electric Revenue Bonds, Series 1991: 5,000 6.250%, 1/01/21 - FGIC Insured No Opt. Call Baa1 5,697,200 5,750 4.000%, 1/01/23 - MBIA Insured 7/08 at 100.00 AAA 5,431,565 5,085 Piedmont Municipal Power Agency, South Carolina, Electric No Opt. Call AAA 5,510,208 Revenue Refunding Bonds, Series 1998A, 5.500%, 1/01/13 - MBIA Insured -- 22,955 Total South Carolina 23,859,189 -- SOUTH DAKOTA - 0.3% (0.2% OF TOTAL INVESTMENTS) 1,750 South Dakota Health and Educational Facilities Authority, 11/14 at 100.00 AA- 1,779,610 Revenue Bonds, Sioux Valley Hospitals, Series 2004A, 5.500%, 11/01/31 -- 55 NPT Nuveen Premium Income Municipal Fund 4, Inc. (continued) Portfolio of INVESTMENTS April 30, (2008) (Unaudited) PRINCIPAL OPTIONAL CALL AMOUNT (000) DESCRIPTION (1) PROVISIONS (2) RATINGS (3) VALUE -- TENNESSEE - 0.9% (0.5% OF TOTAL INVESTMENTS) $ 5,075 Knox County Health, Educational and Housing Facilities Board, 1/17 at 30.07 A- $ 683,907 Tennessee, Hospital Revenue Refunding Bonds, Covenant Health, Series 2006, 0.000%, 1/01/41 1,500 Metropolitan Government of Nashville-Davidson County, 5/08 at 102.00 AA 1,531,890 Tennessee, Electric System Revenue Bonds, Series 1998A, 5.200%, 5/15/23 680 Sullivan County Health Educational and Housing Facilities 9/16 at 100.00 BBB+ 610,858 Board, Tennessee, Revenue Bonds, Wellmont Health System, Series 2006C, 5.250%, 9/01/36 Sumner County Health, Educational, and Housing Facilities Board, Tennessee, Revenue Refunding Bonds, Sumner Regional Health System Inc., Series 2007: 860 5.500%, 11/01/37 11/17 at 100.00 N/R 799,740 1,500 5.500%, 11/01/46 11/17 at 100.00 N/R 1,360,095 -- 9,615 Total Tennessee 4,986,490 -- TEXAS - 19.1% (11.2% OF TOTAL INVESTMENTS) 3,000 Alliance Airport Authority, Texas, Special Facilities Revenue 12/12 at 100.00 CCC+ 1,744,290 Bonds, American Airlines Inc., Series 2007, 5.250%, 12/01/29 (Alternative Minimum Tax) 5,440 Board of Regents, University of Texas System, Financing System 2/17 at 100.00 Aaa 4,668,357 Revenue Bonds, Series 2006F, 4.250%, 8/15/36 (UB) 4,000 Central Texas Regional Mobility Authority, Travis and Williamson 1/15 at 100.00 BBB- 3,618,200 Counties, Toll Road Revenue Bonds, Series 2005, 5.000%, 1/01/35 - FGIC Insured 3,345 Columbia-Brazoria Independent School District, Texas, 2/09 at 100.00 AAA 3,410,897 Unlimited Tax School Building Bonds, Series 1999, 4.750%, 2/01/25 (Pre-refunded 2/01/09) 2,250 Dallas-Ft. Worth International Airport, Texas, Joint Revenue 11/14 at 100.00 AAA 2,179,193 Bonds, Series 2004B, 5.000%, 11/01/27 - FSA Insured (Alternative Minimum Tax) 8,000 Dallas-Ft. Worth International Airport, Texas, Joint Revenue 11/11 at 100.00 A+ 8,126,640 Refunding and Improvement Bonds, Series 2001A, 5.875%, 11/01/19 - FGIC Insured (Alternative Minimum Tax) 6,000 Garland Housing Finance Corporation, Texas, Multifamily 12/11 at 101.00 N/R 6,216,000 Housing Revenue Bonds, Legacy Pointe Apartments, Series 2000, 7.500%, 6/01/40 (Alternative Minimum Tax) 7,000 Harris County Health Facilities Development Corporation, 11/13 at 100.00 AAA 7,036,820 Texas, Thermal Utility Revenue Bonds, TECO Project, Series 2003, 5.000%, 11/15/30 - MBIA Insured 28,305 Houston, Texas, Hotel Occupancy Tax and Special Revenue No Opt. Call AAA 9,151,573 Bonds, Convention and Entertainment Project, Series 2001B, 0.000%, 9/01/28 - AMBAC Insured 7,500 Houston, Texas, Junior Lien Water and Sewerage System No Opt. Call AAA 8,743,425 Revenue Refunding Bonds, Series 2002A, 5.750%, 12/01/32 - FSA Insured (ETM) 33,505 Leander Independent School District, Williamson and Travis 8/14 at 25.08 AAA 5,961,210 Counties, Texas, General Obligation Bonds, Series 2006, 0.000%, 8/15/39 89 Midland Housing Finance Corporation, Texas, Single Family 5/08 at 101.00 Aaa 90,881 Mortgage Revenue Refunding Bonds, Series 1992A, 8.450%, 12/01/11 Montgomery Independent School District, Montgomery County, Texas, Unlimited Tax School Building and Refunding Bonds, Series 2001: 730 5.500%, 2/15/21 2/11 at 100.00 AAA 765,193 760 5.500%, 2/15/23 2/11 at 100.00 AAA 795,720 Montgomery Independent School District, Montgomery County, Texas, Unlimited Tax School Building and Refunding Bonds, Series 2001: 1,570 5.500%, 2/15/21 (Pre-refunded 2/15/11) 2/11 at 100.00 Aaa 1,690,011 1,640 5.500%, 2/15/23 (Pre-refunded 2/15/11) 2/11 at 100.00 Aaa 1,765,362 56 PRINCIPAL OPTIONAL CALL AMOUNT (000)

DESCRIPTION (1) PROVISIONS (2) RATINGS (3) VALUE

-- TEXAS (continued) Mt. Pleasant Independent School District, Titus County, Texas, General Obligation Refunding Bonds, Series 2001: $ 3,025 5.000%, 2/15/26 8/11 at 100.00 Aaa $ 3,072,432 2,300 5.125%, 2/15/31 8/11 at 100.00 Aaa 2,329,532 700 Mt. Pleasant Independent School District, Titus County, Texas, 8/11 at 100.00 Aaa 752,976 General Obligation Refunding Bonds, Series 2001, 5.125%, 2/15/31 (Pre-refunded 8/15/11) 6,000 Raven Hills Higher Education Corporation, Texas, Student 8/12 at 100.00 Aaa 6,481,740 Housing Revenue Bonds, Angelo State University - Texan Hall LLC, Series 2002A, 5.000%, 8/01/25 (Pre-refunded 8/01/12) - MBIA Insured 3,410 Retama Development Corporation, Texas, Special Facilities 12/12 at 100.00 AAA 4,050,432 Revenue Bonds, Retama Park Racetrack, Series 1993, 8.750%, 12/15/18 (Pre-refunded 12/15/12) (6) 1,800 Sam Rayburn Municipal Power Agency, Texas, Power Supply 10/12 at 100.00 AA 1,886,256 System Revenue Refunding Bonds, Series 2002A, 5.750%, 10/01/21 - RAAI Insured 4,700 Spring Branch Independent School District, Harris County, 2/11 at 100.00 AAA 5,008,978 Texas, Limited Tax Schoolhouse and Refunding Bonds, Series 2001, 5.125%, 2/01/26 (Pre-refunded 2/01/11) 3,200 Tarrant County Cultural & Educational Facilities Financing 2/17 at 100.00 AA- 3,152,480 Corporation, Texas, Revenue Bonds, Series 2007A, 5.000%, 2/15/36 800 Texas, General Obligation Bonds, Transportation Commission 4/17 at 100.00 AA 740,232 Mobility Fund, Series 2007, Residuals 1872-1, 8.234%, 4/01/33 (IF) 3,000 Texas, General Obligation Bonds, Transportation 4/17 at 100.00 AA 2,775,870 Commission Mobility Fund, Series 2007, Residuals 1872-2, 8.234%, 4/01/33 (IF) 8,500 Travis County Health Facilities Development Corporation, 5/08 at 100.00 Aaa 8,934,435 Texas, Hospital Revenue Bonds, Daughters of Charity National Health System, Series 1993B, 6.000%, 11/15/22 (ETM)

-- 150,569 Total Texas 105,149,135

-- UTAH - 2.2% (1.3% OF TOTAL INVESTMENTS) 4,845 Bountiful, Davis County, Utah, Hospital Revenue Refunding 12/08 at 101.00 N/R 4,441,751 Bonds, South Davis Community Hospital Project, Series 1998, 5.750%, 12/15/18 4,995 Intermountain Power Agency, Utah, Power Supply Revenue 6/08 at 101.00 Aa3 (4) 5,005,440 Bonds, Series 1996A, 6.150%, 7/01/14 (ETM) 500 Utah Housing Finance Agency, Single Family Mortgage Bonds, 7/10 at 100.00 AA 512,735 Series 2000G, 5.875%, 7/01/27 (Alternative Minimum Tax) Utah Housing Finance Agency, Single Family Mortgage Bonds, Series 2001C: 1,400 5.500%, 1/01/18 (Alternative Minimum Tax) 1/11 at 100.00 AA- 1,431,010 490 5.650%, 1/01/21 (Alternative Minimum Tax) 1/11 at 100.00 Aaa 493,597

-- 12,230 Total Utah 11,884,533

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VIRGINIA - 1.5% (0.9% OF TOTAL INVESTMENTS) 8,190 Hampton, Virginia, Revenue Bonds, Convention Center Project, 1/13 at 100.00 AAA 8,226,855 Series 2002, 5.000%, 1/15/35 - AMBAC Insured

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WASHINGTON - 10.7% (6.3% OF TOTAL INVESTMENTS) 1,855 Chelan County Public Utility District 1, Washington, Hydro 7/09 at 101.00 AA 1,917,903 Consolidated System Revenue Bonds, Series 1999A, 6.200%, 7/01/34 (Alternative Minimum Tax) 2,500 Energy Northwest, Washington, Electric Revenue Refunding 7/12 at 100.00 AAA 2,715,825 Bonds, Columbia Generating Station - Nuclear Project 2, Series 2002C, 5.750%, 7/01/17 - MBIA Insured 220 Grant County Public Utility District 2, Washington, Revenue 1/15 at 100.00 N/R (4) 241,595 Bonds, Wanapum Hydroelectric Development, Series 2005A, 5.000%, 1/01/34 (Pre-refunded 1/01/15) - FGIC Insured 57 NPT Nuveen Premium Income Municipal Fund 4, Inc. (continued) Portfolio of INVESTMENTS April 30, (2008) (Unaudited) PRINCIPAL OPTIONAL CALL AMOUNT (000) DESCRIPTION (1) PROVISIONS (2) RATINGS (3) VALUE --

WASHINGTON (continued) $ 5,780 Grant County Public Utility District 2, Washington, Revenue 1/15 at 100.00 AA- $ 5,730,061 Bonds, Wanapum Hydroelectric Development, Series 2005A, 5.000%, 1/01/34 - FGIC Insured 1,500 Snohomish County School District 6, Mukilteo, Washington, No Opt. Call Aa3 1,641,045 Unlimited Tax General Obligation and Refunding Bonds, Series 1993, 5.700%, 12/01/12 - FGIC Insured 8,155 Tacoma, Washington, Electric System Revenue Refunding Bonds, 1/11 at 101.00 AAA 8,885,851 Series 2001A, 5.750%, 1/01/20 (Pre-refunded 1/01/11) - FSA Insured 4,705 Tacoma, Washington, Sewerage Revenue Refunding Bonds, No Opt. Call Aa3 4,856,736

Series 1994B, 8.000%, 12/01/08 - FGIC Insured 11,000 Washington Public Power Supply System, Revenue Refunding No Opt. Call Aaa 11,587,400 Bonds, Nuclear Project 3, Series 1993B, 7.000%, 7/01/09 4,700 Washington Public Power Supply System, Revenue Refunding 7/08 at 102.00 Aaa 4,805,703 Bonds, Nuclear Project 3, Series 1998A, 5.125%, 7/01/18 2,000 Washington State Health Care Facilities Authority, Revenue No Opt. Call N/R 1,868,100 Bonds, Northwest Hospital and Medical Center of Seattle, Series 2007, 5.700%, 12/01/32 1,000 Washington State Healthcare Facilities Authority, Revenue Bonds, 8/13 at 102.00 AAA 1,005,390 Harrison Memorial Hospital, Series 1998, 5.000%, 8/15/28 - AMBAC Insured 2,000 Washington State Healthcare Facilities Authority, Revenue Bonds, 8/08 at 102.00 AA 1,997,920 Highline Community Hospital, Series 1998, 5.000%, 8/15/21 - RAAI Insured 5,500 Washington State Healthcare Facilities Authority, Revenue 11/08 at 101.00 Aaa 5,624,355 Bonds, Swedish Health Services, Series 1998, 5.500%, 11/15/14 - AMBAC Insured 1,460 Washington State Healthcare Facilities Authority, Revenue 8/17 at 100.00 BBB 1,374,400 Bonds, Virginia Mason Medical Center, Series 2007B, 5.750%, 8/15/37 - ACA Insured 4,485 Washington State Tobacco Settlement Authority, Tobacco 6/13 at 100.00 BBB 4,575,866 Settlement Asset-Backed Revenue Bonds, Series 2002, 6.500%, 6/01/26

-- 56,860

Total Washington 58,828,150

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WISCONSIN - 3.0% (1.8% OF TOTAL INVESTMENTS) 500 Wisconsin Health and Educational Facilities Authority, 12/08 at 100.00 AAA 504,890 Revenue Bonds, Medical College of Wisconsin Inc., Series 1996, 5.500%, 12/01/26 - MBIA Insured 7,500 Wisconsin Health and Educational Facilities Authority, 2/12 at 101.00 AAA 7,562,550 Revenue Bonds, Ministry Healthcare Inc., Series 2002A, 5.250%, 2/15/32 - MBIA Insured 4,000 Wisconsin Health and Educational Facilities Authority, Revenue 8/16 at 100.00 A- 3,436,080 Bonds, Wheaton Franciscan Healthcare System, Series 2006, 5.250%, 8/15/34 5,000 Wisconsin State, General Obligation Bonds, Series 2006A, 5/16 at 100.00 AA- 5,096,702 4.750%, 5/01/25 - FGIC Insured

-- 17,000

Total Wisconsin 16,600,222

-- $

1,053,983 Total Long-Term Investments (cost $914,130,046) - 169.2% 931,054,913

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58 PRINCIPAL AMOUNT (000) DESCRIPTION (1) RATINGS (3) VALUE

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SHORT-TERM INVESTMENTS - 1.5% (0.9% OF TOTAL INVESTMENTS) $ 8,035 Louisiana State, Gasoline Tax Revenue Bonds, Series 2006, VMIG-1 $ 8,035,000 ROCS 660, Variable Rate Demand Obligations, 4.010%, 5/01/34 - FGIC Insured (5)

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Total Short-Term Investments (cost $8,035,000) 8,035,000

-- Total Investments

(cost $922,165,046) - 170.7% 939,089,913

-- Floating Rate

Obligations - (11.7)% (64,348,000)

-- Other Assets Less

Liabilities - 2.5% 13,950,967

-- Preferred Shares, at

Liquidation Value - (61.5)% (7) (338,400,000)

-- Net Assets

Applicable to Common Shares - 100% $550,292,880

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(1) All percentages shown in the Portfolio of Investments are based on net assets applicable to Common shares unless otherwise noted. (2) Optional Call Provisions: Dates (month and year) and prices of the earliest optional call or redemption. There may be other call provisions at varying prices at later dates. Certain mortgage-backed securities may be subject to periodic principal paydowns. (3) Ratings: Using the higher of Standard & Poor's Group ("Standard & Poor's") or Moody's Investor Service, Inc. ("Moody's") rating. Ratings below BBB by Standard & Poor's or Baa by

Moody's are considered to be below investment grade. The Portfolio of Investments may reflect the ratings on certain bonds insured by AMBAC, CIFG, FGIC, MBIA and XLCA as of April 30, 2008. Please see the Portfolio Manager's Commentary for an expanded discussion of the affect on the Fund of changes to the ratings of certain bonds in the portfolio resulting from changes to the ratings of the underlying insurers both during the period and after period end. (4) Backed by an escrow or trust containing sufficient U.S. Government or U.S. Government agency securities which ensure the timely payment of principal and interest. Such investments are normally considered to be equivalent to AAA rated securities. (5) Investment has a maturity of more than one year, but has variable rate and demand features which qualify it as a short-term investment. The rate disclosed is that in effect at the end of the reporting period. This rate changes periodically based on market conditions or a specified market index. (6) The issuer has received a formal adverse determination from the Internal Revenue Service (the "IRS") regarding the tax-exempt status of the bonds' coupon payments. The Fund will continue to treat coupon payments as tax-exempt income until such time that it is formally determined that the interest on the bonds should be treated as taxable. (7) Preferred Shares, at Liquidation Value as a percentage of total investments is (36.0)%. N/R Not rated. (ETM) Escrowed to maturity. (IF) Inverse floating rate investment. (UB) Underlying bond of an inverse floating rate trust reflected as a financing transaction pursuant to the provisions of SFAS No. 140. See accompanying notes to financial statements. 59 Statement of ASSETS & LIABILITIES April 30, 2008 (Unaudited) PREMIUM PREMIUM PREMIUM INCOME INCOME 2 INCOME 4 (NPI) (NPM) (NPT)

-- ASSETS Investments, at value (cost $1,456,416,984, $949,722,253 and $922,165,046, respectively) $1,471,860,331 $969,062,662 $939,089,913 Cash 7,961,532 6,287,115 2,269,348 Receivables: Interest 22,588,939 14,569,655 15,066,553 Investments sold 4,983,063 140,307 197,755 Other assets 162,926 108,087 92,476

-- Total assets 1,507,556,791 990,167,826 956,716,045

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LIABILITIES Floating rate obligations 71,704,000 55,440,000 64,348,000 Unrealized depreciation on forward swaps 1,486,024 -- -- Payable for investments purchased 4,950,847 5,932,951 992,186 Accrued expenses: Management fees 703,429 462,873 444,492 Other 407,647 230,888 228,196 Common share dividends payable 3,162,593 2,053,729 1,891,348 Preferred share dividends payable 186,167 124,053 118,943

-- Total liabilities 82,600,707 64,244,494 68,023,165

--

Preferred shares, at liquidation value 525,000,000 347,000,000 338,400,000

-- Net assets applicable to Common shares $ 899,956,084 $578,923,332 $550,292,880

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Common shares outstanding 63,785,430 40,796,161 43,236,703

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Net asset value per Common share outstanding (net assets applicable to Common shares, divided by Common shares outstanding) $ 14.11 $ 14.19 $ 12.73

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NET ASSETS APPLICABLE TO COMMON SHARES CONSIST OF:

--

Common shares, $.01 par value per share $ 637,854 $ 407,962 $ 432,367 Paid-in surplus 901,373,271 566,753,019 587,213,985 Undistributed (Over-distribution of) net investment income 1,310,002 96,027 143,915 Accumulated net realized gain (loss) from investments and derivative transactions (17,322,366) (7,674,085) (54,422,254) Net unrealized appreciation (depreciation) of investments and derivative transactions 13,957,323 19,340,409 16,924,867

-- Net assets applicable to Common shares $ 899,956,084 $578,923,332 $550,292,880

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Authorized shares: Common 200,000,000 200,000,000 200,000,000 Preferred 1,000,000 1,000,000 1,000,000

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See accompanying notes to financial statements. 60 Statement of OPERATIONS Six Months Ended April 30, 2008 (Unaudited) PREMIUM PREMIUM PREMIUM INCOME INCOME 2 INCOME 4 (NPI) (NPM) (NPT)

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INVESTMENT INCOME $ 38,228,015 $ 24,560,494 $ 24,152,719

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EXPENSES Management fees 4,319,499 2,842,682 2,724,996 Preferred shares - auction fees 652,665 431,380 420,689 Preferred shares - dividend disbursing agent fees 29,857 29,825 39,708 Shareholders' servicing agent fees and expenses 65,817 22,959 32,679 Interest expense on floating rate obligations 1,243,528 857,974 991,635 Custodian's fees and expenses 118,334 83,513 83,422 Directors' fees and expenses 13,445 9,245 8,937 Professional fees 34,772 26,426 25,747 Shareholders' reports - printing and mailing expenses 73,261 47,228 50,766 Stock exchange listing fees 11,054 7,087 7,492 Investor relations expense 90,407 56,917 56,789 Other expenses 31,995 23,083 22,525

-- Total expenses before custodian fee credit 6,684,634 4,438,319 4,465,385 Custodian fee credit (92,884) (61,357) (23,346)

-- Net expenses 6,591,750 4,376,962 4,442,039

-- Net investment income 31,636,265 20,183,532 19,710,680

--

REALIZED AND UNREALIZED GAIN (LOSS) Net realized gain (loss) from: Investments (6,902,739) (4,871,181) (4,234,423) Forward swaps (526,200) (2,800,000) -- Change in net unrealized appreciation (depreciation) of: Investments (31,703,879) (18,607,393) (17,681,900) Forward swaps (1,744,619) 791,405 --

-- Net realized and unrealized gain (loss) (40,877,437) (25,487,169) (21,916,323)

--

DISTRIBUTIONS TO PREFERRED SHAREHOLDERS From net investment income (9,385,342) (6,005,565) (6,191,352) From accumulated net realized gains -- (408,199) --

--

Decrease in net assets applicable to Common shares from distributions to Preferred shareholders (9,385,342) (6,413,764) (6,191,352)

-- Net increase (decrease) in net assets applicable to Common shares from operations $(18,626,514) $(11,717,401) $ (8,396,995)

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See accompanying notes to financial statements. 61 Statement of CHANGES in NET ASSETS (Unaudited) PREMIUM INCOME (NPI) PREMIUM INCOME 2 (NPM) PREMIUM INCOME 4 (NPT) ------------------------------ ---------------------------- ---------------------------- SIX MONTHS YEAR SIX MONTHS YEAR SIX MONTHS YEAR ENDED ENDED ENDED ENDED ENDED ENDED 4/30/08 10/31/07 4/30/08 10/31/07 4/30/08 10/31/07

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OPERATIONS Net investment income $ 31,636,265 $ 62,570,194 $ 20,183,532 $ 40,002,526 $ 19,710,680 $ 38,765,346 Net realized gain (loss) from: Investments (6,902,739) 1,507,533 (4,871,181) 195,490 (4,234,423) 1,759,555 Forward swaps (526,200) -- (2,800,000) -- -- -- Futures -- -- -- 1,150,416 -- -- Change in net unrealized appreciation (depreciation) of: Investments (31,703,879) (36,823,378) (18,607,393) (24,279,042) (17,681,900) (21,333,407) Forward swaps (1,744,619) 258,595 791,405 (791,405) -- -- Distributions to Preferred Shareholders: From net investment income (9,385,342) (18,733,665) (6,005,565) (12,176,545) (6,191,352) (12,206,944) From accumulated net realized gains -- -- (408,199) (242,538) -- --

-- Net increase (decrease) in net assets applicable to Common shares from operations (18,626,514) 8,779,279 (11,717,401) 3,858,902 (8,396,995) 6,984,550

--

DISTRIBUTIONS TO COMMON SHAREHOLDERS From net investment income (22,637,451) (45,160,091)

(14,176,944) (28,315,494) (12,737,548) (27,498,549) From accumulated net realized gains -- -- (938,312) (706,808) -- -- --- Decrease in net assets applicable to Common shares from distributions to Common shareholders (22,637,451) (45,160,091) (15,115,256) (29,022,302) (12,737,548) (27,498,549) --- CAPITAL SHARE TRANSACTIONS Common shares repurchased -- -- (60,864) (4,000,767) -- -- --- Net increase (decrease) in net assets applicable to Common shares from capital share transactions -- -- (60,864) (4,000,767) -- -- --- Net increase (decrease) in net assets applicable to Common shares (41,263,965) (36,380,812) (26,893,521) (29,164,167) (21,134,543) (20,513,999) Net assets applicable to Common shares at the beginning of period 941,220,049 977,600,861 605,816,853 634,981,020 571,427,423 591,941,422 --- Net assets applicable to Common shares at the end of period $899,956,084 $941,220,049 $578,923,332 $605,816,853 $550,292,880 $571,427,423 == Undistributed (Over-distribution of) net investment income at the end of period $ 1,310,002 $ 1,696,530 $ 96,027 $ 95,004 $ 143,915 $ (637,865) == See accompanying notes to financial statements. 62 Statement of CASH FLOWS Six Months Ended April 30, 2008 (Unaudited) PREMIUM INCOME 4 (NPT) --- CASH FLOWS FROM OPERATING ACTIVITIES: NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON SHARES FROM OPERATIONS $ (8,396,995) Adjustments to reconcile the net increase (decrease) in net assets applicable to Common shares from operations to net cash provided by (used in) operating activities: Purchases of investments (38,798,913) Proceeds from sales and maturities of investments 52,629,832 Proceeds from (Purchases of) short-term investments, net (8,035,000) Amortization/(Accretion) of premiums and discounts, net (358,510) (Increase) Decrease in receivable for interest (171,538) (Increase) Decrease in receivable for investments sold 1,326,994 (Increase) Decrease in other assets 29,719 Increase (Decrease) in payable for investments purchased 992,186 Increase (Decrease) in accrued management fees (25,732) Increase (Decrease) in accrued other liabilities 26,811 Increase (Decrease) in Preferred share dividends payable 6,008 Net realized (gain) loss from investments 4,234,423 Net realized (gain) loss from paydowns 434 Change in net unrealized (appreciation) depreciation of investments 17,681,900 Taxes paid on undistributed capital gains (7,766) --- Net cash provided by (used in) operating activities 21,133,853 --- CASH FLOWS FROM FINANCING ACTIVITIES: Increase (Decrease) in floating rate obligations (6,310,000) Cash distributions paid to Common shareholders (12,722,055) --- Net cash provided by (used in) financing activities (19,032,055) --- NET INCREASE (DECREASE) IN CASH 2,101,798 Cash at the beginning of period 167,550 --- CASH AT THE END OF PERIOD $ 2,269,348 == SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION Cash paid for interest on floating rate obligations was $991,635. See accompanying notes to financial statements. 63 Notes to FINANCIAL STATEMENTS (Unaudited) 1. GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES The funds covered in this report and their corresponding Common share New York Stock Exchange symbols are Nuveen Premium Income Municipal Fund, Inc. (NPI), Nuveen Premium Income Municipal Fund 2, Inc. (NPM) and Nuveen Premium Income

Municipal Fund 4, Inc. (NPT) (collectively, the "Funds"). The Funds are registered under the Investment Company Act of 1940, as amended, as closed-end, diversified management investment companies. Each Fund seeks to provide current income exempt from regular federal income tax by investing primarily in a diversified portfolio of municipal obligations issued by state and local government authorities or certain U.S. territories. The following is a summary of significant accounting policies followed by the Funds in the preparation of their financial statements in accordance with U.S. generally accepted accounting principles. Investment Valuation The prices of municipal bonds in each Fund's investment portfolio are provided by a pricing service approved by the Fund's Board of Directors. When market price quotes are not readily available (which is usually the case for municipal securities), the pricing service may establish fair value based on yields or prices of municipal bonds of comparable quality, type of issue, coupon, maturity and rating, indications of value from securities dealers, evaluations of anticipated cash flows or collateral and general market conditions. Prices of forward swap contracts are also provided by an independent pricing service approved by each Fund's Board of Directors. Futures contracts are valued using the closing settlement price, or in the absence of such a price, at the mean of the bid and asked prices. If the pricing service is unable to supply a price for a municipal bond, forward swap or futures contract, each Fund may use market quotes provided by major broker/dealers in such investments. If it is determined that the market price for an investment or derivative instrument is unavailable or inappropriate, the Board of Directors of the Funds, or its designee, may establish fair value in accordance with procedures established in good faith by the Board of Directors. Temporary investments in securities that have variable rate and demand features qualifying them as short-term investments are valued at amortized cost, which approximates market value. Investment Transactions Investment transactions are recorded on a trade date basis. Realized gains and losses from transactions are determined on the specific identification method. Investments purchased on a when-issued/delayed delivery basis may have extended settlement periods. Any investments so purchased are subject to market fluctuation during this period. The Funds have instructed the custodian to segregate assets with a current value at least equal to the amount of the when-issued/delayed delivery purchase commitments. At April 30, 2008, there were no such outstanding purchase commitments in any of the Funds. Investment Income Interest income, which includes the amortization of premiums and accretion of discounts for financial reporting purposes, is recorded on an accrual basis. Investment income also includes paydown gains and losses, if any. Federal Income Taxes Each Fund is a separate taxpayer for federal income tax purposes. Each Fund intends to distribute substantially all of its net investment income and net capital gains to shareholders and to otherwise comply with the requirements of Subchapter M of the Internal Revenue Code applicable to regulated investment companies. Therefore, no federal income tax provision is required. Furthermore, each Fund intends to satisfy conditions which will enable interest from municipal securities, which is exempt from regular federal income tax, to retain such tax-exempt status when distributed to shareholders of the Funds. Net realized capital gains and ordinary income distributions paid by the Funds are subject to federal taxation. 64 Effective April 30, 2008, the Funds adopted Financial Accounting Standards Board (FASB) Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" (FIN 48). FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the affirmative evaluation of tax positions taken or expected to be taken in the course of preparing the Funds' tax returns to determine whether it is "more-likely-than-not" (i.e., a greater than 50-percent likelihood) of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold may result in a tax benefit or expense in the current year. Implementation of FIN 48 required management of the Funds to analyze all open tax years, as defined by the statute of limitations, for all major jurisdictions, which includes federal and certain states. Open tax years are those that are open for examination by taxing authorities (i.e., generally the last four tax year ends and the interim tax period since then). The Funds have no examinations in progress. For all open tax years and all major taxing jurisdictions through the end of the reporting period, management of the Funds has reviewed all tax positions taken or expected to be taken in the preparation of the Funds' tax returns and concluded the adoption of FIN 48 resulted in no impact to the Funds' net assets or results of operations as of and during the six months ended April 30, 2008. The Funds are also not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months. Dividends and Distributions to Common Shareholders Dividends from tax-exempt net investment income are declared monthly. Net realized capital gains and/or market discount from investment transactions, if any, are distributed to shareholders at least annually. Furthermore, capital gains are distributed only to the extent they exceed available capital loss carryforwards. Distributions to Common shareholders of tax-exempt net investment *income, net realized capital gains and/or market discount, if any, are recorded on the ex-dividend date. The amount and timing of distributions are determined in accordance with federal income tax regulations, which may differ from U.S. generally accepted accounting principles. Preferred Shares The Funds have issued and outstanding Preferred shares, $25,000 stated value per share, as a means of effecting financial leverage. Each Fund's Preferred shares are issued in more than one Series. The dividend rate paid by the Funds on each Series is determined every seven days, pursuant to a dutch auction process overseen by the auction agent, and is payable at the end of each rate period. The number of Preferred shares outstanding, by Series and in total, for each Fund is as follows: PREMIUM PREMIUM PREMIUM INCOME INCOME 2 INCOME 4 (NPI) (NPM) (NPT) -- Number of shares: Series M 3,800 2,000 2,200 Series M2 2,000 -- -- Series T 3,800 3,000 2,000 Series T2 -- -- 1,328 Series W 3,800 2,000 1,680 Series W2 -- -- 520 Series TH 3,800 3,000 2,680 Series F 3,800 2,000 1,800 Series F2 -- 1,880 1,328 -- Total 21,000 13,880 13,536 == Beginning in February 2008, more shares for sale were submitted in the regularly scheduled auctions for the Preferred shares issued by the Funds than there were offers to buy. This meant that these auctions "failed to clear," and that many Preferred shareholders who wanted to sell their shares in these auctions were unable to do so. Preferred shareholders unable to sell their shares received distributions at the "maximum rate" applicable to failed auctions as calculated in accordance with the pre-established terms of the Preferred shares. These developments generally do not affect the management or investment policies of the Funds. However, one implication of these auction failures for Common shareholders is that the Funds' cost of leverage will likely be higher, at least temporarily, than it otherwise would have been had the auctions continued to be successful. As a result, the Funds' future Common share earnings may be lower than they otherwise would have been. 65 Notes to FINANCIAL STATEMENTS (continued) (Unaudited) Inverse Floating Rate Securities Each Fund is authorized to invest in inverse floating rate securities. An inverse floating rate security is created by depositing a municipal bond, typically with a fixed interest rate, into a special purpose trust created by a broker-dealer. In turn, this trust (a) issues floating rate certificates, in face amounts equal to some fraction of the deposited bond's par amount or market value, that typically pay short-term tax-exempt interest rates to third parties, and (b) issues to a long-term investor (such as one of the Funds) an inverse floating rate certificate (sometimes referred to as an "inverse floater") that represents all remaining or residual interest in the trust. The income received by the inverse floater holder varies inversely with the short-term rate paid to the floating rate certificates' holders, and in most circumstances the inverse floater holder bears substantially all of the underlying bond's downside investment risk and also benefits disproportionately from any potential appreciation of the underlying bond's value. The price of an inverse floating rate security will be more volatile than that of the underlying bond because the interest rate is dependent on not only the fixed coupon rate of the underlying bond but also on the short-term interest paid on the floating rate certificates, and because the inverse floating rate security essentially bears the risk of loss of the greater face value of the underlying bond. A Fund may purchase an inverse floating rate security in a secondary market transaction without first owning the underlying bond (referred to as an "externally-deposited inverse floater"), or instead by first selling a fixed-rate bond to a broker-dealer for deposit into the special purpose trust and receiving in turn the residual interest in the trust (referred to as a "self-deposited inverse floater"). A Fund may also enter into shortfall and forbearance agreements (sometimes referred to as a "recourse trust" or "credit recovery swap") with a broker-dealer by which a Fund agrees to reimburse the broker-dealer, in certain circumstances, for the difference between the liquidation value of the fixed-rate bond held by the trust and the liquidation value of the floating rate certificates, as well as any shortfalls in interest cash flows. The inverse floater held by a Fund gives the Fund the right (a) to cause the holders of the floating rate certificates to tender their notes at par, and (b) to have the broker transfer the fixed-rate bond held by the trust to the Fund, thereby collapsing the trust. An investment in an externally-deposited inverse floater is identified in the Portfolio of Investments as an "Inverse floating rate investment". An investment in a self-deposited inverse floater, recourse trust or credit recovery swap is accounted for as a financing transaction in accordance with Statement of Financial Accounting Standards (SFAS) No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities". In such instances, a fixed-rate bond deposited into a special purpose trust is identified in the Portfolio of Investments as an "Underlying bond of an inverse floating rate trust", with the Fund accounting for the short-term floating rate certificates issued by the trust as "Floating rate obligations" on the Statement of Assets*

and Liabilities. In addition, the Fund reflects in Investment Income the entire earnings of the underlying bond and accounts for the related interest paid to the holders of the short-term floating rate certificates as "Interest expense on floating rate obligations" in the Statement of Operations. During the six months ended April 30, 2008, each Fund invested in externally deposited inverse floaters and/or self-deposited inverse floaters. The average floating rate obligations outstanding and average annual interest rate and fees related to self-deposited inverse floaters during the six months ended April 30, 2008, were as follows: PREMIUM PREMIUM PREMIUM INCOME INCOME 2 INCOME 4 (NPI) (NPM) (NPT) -- Average floating rate obligations $84,538,393 $58,707,325 $67,893,850 Average annual interest rate and fees 2.96% 2.94% 2.94%
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66 Forward Swap Transactions Each Fund is authorized to invest in forward interest rate swap transactions. Each Fund's use of forward interest rate swap transactions is intended to help the Fund manage its overall interest rate sensitivity, either shorter or longer, generally to more closely align the Fund's interest rate sensitivity with that of the broader municipal market. Forward interest rate swap transactions involve each Fund's agreement with a counterparty to pay, in the future, a fixed or variable rate payment in exchange for the counterparty paying the Fund a variable or fixed rate payment, the accruals for which would begin at a specified date in the future (the "effective date"). The amount of the payment obligation is based on the notional amount of the forward swap contract and the termination date of the swap (which is akin to a bond's maturity). The value of the Fund's swap commitment would increase or decrease based primarily on the extent to which long-term interest rates for bonds having a maturity of the swap's termination date increases or decreases. The Funds may terminate a swap contract prior to the effective date, at which point a realized gain or loss is recognized. When a forward swap is terminated, it ordinarily does not involve the delivery of securities or other underlying assets or principal, but rather is settled in cash on a net basis. Each Fund intends, but is not obligated, to terminate its forward swaps before the effective date. Accordingly, the risk of loss with respect to the swap counterparty on such transactions is limited to the credit risk associated with a counterparty failing to honor its commitment to pay any realized gain to the Fund upon termination. To reduce such credit risk, all counterparties are required to pledge collateral daily (based on the daily valuation of each swap) on behalf of each Fund with a value approximately equal to the amount of any unrealized gain above a pre-determined threshold. Reciprocally, when any of the Funds have an unrealized loss on a swap contract, the Funds have instructed the custodian to pledge assets of the Funds as collateral with a value approximately equal to the amount of the unrealized loss above a pre-determined threshold. Collateral pledges are monitored and subsequently adjusted if and when the swap valuations fluctuate, either up or down, by at least the predetermined threshold amount. Each Fund invested in forward interest rate swap transactions during the six months ended April 30, 2008. Futures Contracts Each Fund is authorized to invest in futures contracts. Upon entering into a futures contract, a Fund is required to deposit with the broker an amount of cash or liquid securities equal to a specified percentage of the contract amount. This is known as the "initial margin." Subsequent payments ("variation margin") are made or received by a Fund each day, depending on the daily fluctuation of the value of the contract. During the period the futures contract is open, changes in the value of the contract are recognized as an unrealized gain or loss by "marking-to-market" on a daily basis to reflect the changes in market value of the contract. When the contract is closed or expired, a Fund records a realized gain or loss equal to the difference between the value of the contract on the closing date and value of the contract when originally entered into. Cash held by the broker to cover initial margin requirements on open futures contracts, if any, is recognized in the Statement of Assets and Liabilities. Additionally, the Statement of Assets and Liabilities reflects a receivable or payable for the variation margin, when applicable. None of the Funds invested in futures contracts during the six months ended April 30, 2008. Risks of investments in futures contracts include the possible adverse movement of the securities or indices underlying the contracts, the possibility that there may not be a liquid secondary market for the contracts and/or that a change in the value of the contract may not correlate with a change in the value of the underlying securities or indices. Zero Coupon Securities Each Fund is authorized to invest in zero coupon securities. A zero coupon security does not pay a regular interest coupon to its holders during the life of the security. Tax-exempt income to the holder of the security comes from accretion of the difference between the original purchase price of the security at issuance and the par value of the security at maturity and is effectively paid at maturity. Such securities are included in the Portfolios of Investments with a 0.000% coupon rate in their description. The market prices of zero coupon securities generally are more volatile than the market prices of securities that pay interest periodically. Custodian Fee Credit Each Fund has an arrangement with the custodian

bank whereby certain custodian fees and expenses are reduced by net credits earned on each Fund's cash on deposit with the bank. Such deposit arrangements are an alternative to overnight investments. Credits for cash balances may be offset by charges for any days on which a Fund overdraws its account at the custodian bank. Indemnifications Under the Funds' organizational documents, their Officers and Directors are indemnified against certain liabilities arising out of the performance of their duties to the Funds. In addition, in the normal course of business, the Funds enter into contracts that provide general indemnifications to other parties. The Funds' maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Funds that have not yet occurred. However, the Funds have not had prior claims or losses pursuant to these contracts and expect the risk of loss to be remote. 67 Notes to FINANCIAL STATEMENTS (continued) (Unaudited) Use of Estimates The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets applicable to Common shares from operations during the reporting period. Actual results may differ from those estimates. 2. FUND SHARES On July 10, 2007, the Board of Directors of Premium Income 2 (NPM) approved an open-market share repurchase program, as part of a broad, ongoing effort designed to support the market prices of the Fund's Common shares. Under the terms of the program, the Fund may repurchase up to 10% of its outstanding Common shares. Transactions in Common shares were as follows: PREMIUM PREMIUM PREMIUM INCOME (NPI) INCOME 2 (NPM) INCOME 4 (NPT) ----------------------- ---------------------- ----------------------- SIX MONTHS SIX MONTHS SIX MONTHS ENDED YEAR ENDED ENDED YEAR ENDED ENDED YEAR ENDED 4/30/08 10/31/07 4/30/08 10/31/07 4/30/08 10/31/07 -- Common shares repurchased -- -- (4,800) (292,700) -- -- -- Weighted average price per Common share repurchased -- -- $12.66 $13.65 -- -- Weighted average discount per Common share repurchased -- -- 12.81% 7.30% -- -- == 3. INVESTMENT TRANSACTIONS Purchases and sales (including maturities but excluding short-term investments and derivative transactions) during the six months ended April 30, 2008, were as follows: PREMIUM PREMIUM PREMIUM INCOME INCOME 2 INCOME 4 (NPI) (NPM) (NPT) -- Purchases $ 60,774,801 $35,741,648 $38,798,913 Sales and maturities 122,873,189 50,229,911 52,629,832 == 4. INCOME TAX INFORMATION The following information is presented on an income tax basis. Differences between amounts for financial statement and federal income tax purposes are primarily due to timing differences in recognizing taxable market discount, timing differences in recognizing certain gains and losses on investment transactions and the treatment of investments in inverse floating rate transactions subject to SFAS No. 140. To the extent that differences arise that are permanent in nature, such amounts are reclassified within the capital accounts on the Statement of Assets and Liabilities presented in the annual report, based on their federal tax basis treatment; temporary differences do not require reclassification. Temporary and permanent differences do not impact the net asset values of the Funds. 68 At April 30, 2008, the cost of investments was as follows: PREMIUM PREMIUM PREMIUM INCOME INCOME 2 INCOME 4 (NPI) (NPM) (NPT) -- Cost of investments $1,383,613,534 $893,899,398 $857,387,887 == Gross unrealized appreciation and gross unrealized depreciation of investments at April 30, 2008, were as follows: PREMIUM PREMIUM PREMIUM INCOME INCOME 2 INCOME 4 (NPI) (NPM) (NPT) -- Gross unrealized: Appreciation $ 49,383,545 $ 33,270,376 $ 32,133,395 Depreciation (32,850,048) (13,553,411) (14,782,658) -- Net unrealized appreciation (depreciation) of investments $ 16,533,497 $ 19,716,965 $ 17,350,737 == The tax components of undistributed net tax-exempt income, net ordinary income and net long-term capital gains at

*October 31, 2007, the Funds' last tax year end, were as follows: PREMIUM PREMIUM PREMIUM INCOME INCOME 2 INCOME 4 (NPI) (NPM) (NPT) -- Undistributed net tax-exempt income * $4,476,869 $2,091,171 $945,176 Undistributed net ordinary income ** 79,841 231,532 224,239 Undistributed net long-term capital gains -- 1,257,894 -- == * Undistributed net tax-exempt income (on a tax basis) has not been reduced for the dividend declared on October 1, 2007, paid on November 1, 2007. ** Net ordinary income consists of taxable market discount income and net short-term capital gains, if any. The tax character of distributions paid during the Funds' last tax year ended October 31, 2007, was designated for purposes of the dividends paid deduction as follows: PREMIUM PREMIUM PREMIUM PREMIUM INCOME INCOME 2 INCOME 4 (NPI) (NPM) (NPT) -- Distributions from net tax-exempt income $63,910,797 $40,521,587 $39,978,752 Distributions from net ordinary income ** -- -- -- Distributions from net long-term capital gains -- 949,346 -- == ** Net ordinary income consists of taxable market discount income and net short-term capital gains, if any. At October 31, 2007, the Funds' last tax year end, the following Funds had unused capital loss carryforwards available for federal income tax purposes to be applied against future capital gains, if any. If not applied, the carryforwards will expire as follows: PREMIUM PREMIUM INCOME INCOME 4 (NPI) (NPT) -- Expiration: October 31, 2008 $ -- $ 355,272 October 31, 2009 -- -- October 31, 2010 -- 18,079,555 October 31, 2011 5,278,911 24,792,603 October 31, 2012 -- -- October 31, 2013 -- 6,161,830 October 31, 2014 4,614,516 806,337 -- Total $9,893,427 $50,195,597 == 69 Notes to FINANCIAL STATEMENTS (continued) (Unaudited) 5. MANAGEMENT FEES AND OTHER TRANSACTIONS WITH AFFILIATES Each Fund's management fee is separated into two components - a complex-level component, based on the aggregate amount of all fund assets managed by Nuveen Asset Management (the "Adviser"), a wholly owned subsidiary of Nuveen Investments, Inc. ("Nuveen"), and a specific fund-level component, based only on the amount of assets within each individual Fund. This pricing structure enables Nuveen fund shareholders to benefit from growth in the assets within each individual fund as well as from growth in the amount of complex-wide assets managed by the Adviser. The annual fund-level fee, payable monthly, for each Fund is based upon the average daily net assets (including net assets attributable to Preferred shares) of each Fund as follows: AVERAGE DAILY NET ASSETS (INCLUDING NET ASSETS ATTRIBUTABLE TO PREFERRED SHARES) FUND-LEVEL FEE RATE -- For the first $125 million .4500% For the next $125 million .4375 For the next $250 million .4250 For the next $500 million .4125 For the next $1 billion .4000 For the next $3 billion .3875 For net assets over $5 billion .3750 == The annual complex-level fee, payable monthly, which is additive to the fund-level fee, for all Nuveen sponsored funds in the U.S., is based on the aggregate amount of total fund assets managed as stated in the table below. As of April 30, 2008, the complex-level fee rate was .1855%. The complex-level fee schedule is as follows: COMPLEX-LEVEL ASSET BREAKPOINT LEVEL (1) EFFECTIVE RATE AT BREAKPOINT LEVEL -- $55 billion .2000% $56 billion .1996 $57 billion .1989 $60 billion .1961 $63 billion .1931 $66 billion .1900 $71 billion .1851 $76 billion .1806 $80 billion .1773 $91 billion .1691 $125 billion .1599 $200 billion .1505 $250 billion .1469 $300 billion .1445 == (1) The complex-level fee component of the management fee for the funds is calculated based upon the aggregate Managed Assets ("Managed Assets" means the average daily net assets of each fund including assets attributable to preferred stock issued by or borrowings by the Nuveen funds) of Nuveen-sponsored funds in the U.S. 70 The management fee compensates the Adviser for overall investment advisory and administrative services and general office facilities. The Funds pay no compensation directly to those of its Directors who are affiliated with the Adviser or to its Officers, all of whom receive remuneration for their services to the Funds from the Adviser or its affiliates. The Board of Directors has adopted a deferred compensation plan for independent Directors that enables Directors*

to elect to defer receipt of all or a portion of the annual compensation they are entitled to receive from certain Nuveen advised funds. Under the plan, deferred amounts are treated as though equal dollar amounts had been invested in shares of select Nuveen advised funds. 6. NEW ACCOUNTING PRONOUNCEMENTS Financial Accounting Standards Board Statement on Financial Accounting Standards No. 157 In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and requires additional disclosures about fair value measurements. SFAS No. 157 applies to fair value measurements already required or permitted by existing standards. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The changes to current generally accepted accounting principles from the application of this standard relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. As of April 30, 2008, management does not believe the adoption of SFAS No. 157 will impact the financial statement amounts; however, additional disclosures may be required about the inputs used to develop the measurements and the effect of certain of the measurements included within the Statement of Operations for the period. Financial Accounting Standards Board Statement of Financial Accounting Standards No. 161 In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities." This standard is intended to enhance financial statement disclosures for derivative instruments and hedging activities and enable investors to understand: a) how and why a fund uses derivative instruments, b) how derivative instruments and related hedge items are accounted for, and c) how derivative instruments and related hedge items affect a fund's financial position, results of operations and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. As of April 30, 2008, management does not believe the adoption of SFAS No. 161 will impact the financial statement amounts; however, additional footnote disclosures may be required about the use of derivative instruments and hedging items. 7. SUBSEQUENT EVENTS Distributions to Common Shareholders The Funds declared Common share dividend distributions from their tax-exempt net investment income which were paid on June 2, 2008, to shareholders of record on May 15, 2008, as follows: PREMIUM PREMIUM PREMIUM INCOME INCOME 2 INCOME 4 (NPI) (NPM) (NPT) -- Dividend per share $.0590 $.0575 $.0485
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Auction Rate Preferred Shares (ARPS) On June 11, 2008, Nuveen announced the Fund Board's approval of plans to use tender option bonds (TOBs), also known as inverse floating rate securities or inverse floaters, to refinance a portion of the funds' outstanding ARPS, whose auctions have been failing for several months, including an initial phase of approximately $1 billion in forty-one funds. Of this amount, Nuveen expects that approximately $560 million in ARPS redemption notices will be issued shortly for thirteen funds, including Premium Income Municipal Fund (NPI), Premium Income Municipal Fund 2 (NPM) and Premium Income Municipal Fund 4 (NPT). 71 Financial HIGHLIGHTS (Unaudited) Selected data for a Common share outstanding throughout each period: Investment Operations Less Distributions --- --------------------------------- Distributions Distributions from Net from Net Beginning Investment Capital Investment Capital Common Net Income to Gains to Income to Gains to Share Net Realized/ Preferred Preferred Common Common Net Asset Investment Unrealized Share- Share- Share- Share- Value Income Gain (Loss) holders+ holders+ Total holders holders Total
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PREMIUM INCOME (NPI)
-- Year Ended 10/31: 2008(b) $14.76 $ .50 $(.65) $(.15) $ -- $ (.30) $(.35) $ -- $ (.35) 2007 15.33 .98 (.55) (.29) -- .14 (.71) -- (.71) 2006 14.85 1.00 .49 (.26) -- 1.23 (.75) -- (.75) 2005 15.20 .98 (.26) (.16) -- .56 (.91) -- (.91) 2004 14.87 1.01 .36 (.08) -- 1.29 (.96) -- (.96) 2003 14.87 1.05 (.03) (.07) -- .95 (.95) -- (.95) PREMIUM INCOME 2 (NPM)
-- Year Ended 10/31: 2008(b) 14.85 .49 (.62) (.15) (.01) (.29) (.35) (.02) (.37) 2007 15.45 .97 (.55) (.30) (.01) .11 (.69) (.02) (.71) 2006 15.07 .97 .49 (.25) (.01) 1.20 (.76) (.06) (.82) 2005 15.53 .98 (.24) (.16) (.01) .57 (.93) (.10) (1.03) 2004 15.09 1.02 .48 (.08) -- 1.42 (.98) -- (.98) 2003 15.27 1.08 (.10) (.07) (.01) .90 (.98) (.10) (1.08)
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Total Returns -------------------- Based Ending on Common Based Common Share Ending on Share Net Net Asset Market Market Asset Value Value Value Value**

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PREMIUM INCOME (NPI) -- Year Ended 10/31: 2008(b) $14.11 $13.12 1.33% (1.99)% 2007 14.76 13.30 (1.02) .93 2006 15.33 14.13 7.52 8.53 2005 14.85 13.87 3.37 3.71 2004 15.20 14.30 8.82 9.00 2003 14.87 14.06 6.48 6.58 PREMIUM INCOME 2 (NPM) -- Year Ended 10/31: 2008(b) 14.19 13.19 2.32 (1.94) 2007 14.85 13.25 (.81) .71 2006 15.45 14.05 6.71 8.24 2005 15.07 13.97 2.98 3.71 2004 15.53 14.57 9.48 9.77 2003 15.09 14.25 6.57 6.07
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*Ratios/Supplemental Data -- Ratios to Average Net Assets Ratios to Average Net Assets Applicable to Common Shares Applicable to Common Shares Before Credit/Refund After Credit/Refund** -- -- Ending Net Assets Applicable Expenses Expenses Net Expenses Expenses Net Portfolio to Common Including Excluding Investment Including Excluding Investment Turnover Shares (000) Interest++(a) Interest++(a) Income++ Interest++(a) Interest++(a) Income++ Rate*
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*PREMIUM INCOME (NPI) --- Year Ended 10/31: 2008(b) $899,956 1.46%*** 1.19%*** 6.90%*** 1.44%*** 1.17%*** 6.92%*** 4% 2007 941,220 1.56 1.17 6.52 1.54 1.16 6.54 14 2006 977,601 1.19 1.19 6.64 1.16 1.16 6.68 15 2005 947,446 1.19 1.19 6.44 1.18 1.18 6.45 20 2004 969,539 1.21 1.21 6.76 1.20 1.20 6.76 17 2003 948,312 1.22 1.22 7.02 1.22 1.22 7.02 24 PREMIUM INCOME 2 (NPM) --- Year Ended 10/31: 2008(b) 578,923 1.51*** 1.22*** 6.85*** 1.49*** 1.20*** 6.87*** 4 2007 605,817 1.62 1.19 6.44 1.60 1.18 6.45 12 2006 634,981 1.20 1.20 6.42 1.20 1.20 6.43 15 2005 619,282 1.20 1.20 6.40 1.19 1.19 6.40 15 2004 637,981 1.21 1.21 6.75 1.21 1.21 6.76 23 2003 619,916 1.22 1.22 7.06 1.21 1.21 7.07 21*
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Floating Rate Obligations Preferred Shares at End of Period at End of Period ------------------------------------- ------------------------- Aggregate Liquidation Aggregate Amount and Market Asset Amount Asset Outstanding Value Coverage Outstanding Coverage (000) Per Share Per Share (000) Per $1,000
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PREMIUM INCOME (NPI) --- Year Ended 10/31: 2008(b) $525,000 $25,000 $67,855 $71,704 $20,873 2007 525,000 25,000 69,820 93,734 16,642 2006 525,000 25,000 71,552 -- -- 2005 525,000 25,000 70,116 -- -- 2004 525,000 25,000 71,169 -- -- 2003 525,000 25,000 70,158 -- -- PREMIUM INCOME 2 (NPM) --- Year Ended 10/31: 2008(b) 347,000 25,000 66,709 55,440 17,701 2007 347,000 25,000 68,647 61,125 16,588 2006 347,000 25,000 70,748 -- -- 2005 347,000 25,000 69,617 -- -- 2004 347,000 25,000 70,964 -- -- 2003 347,000 25,000 69,663 -- --
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** Total Return on Market Value is the combination of changes in the market price per share and the effect of reinvested dividend income and reinvested capital gains distributions, if any, at the average price paid per share at the time of reinvestment. The last dividend declared in the period, which is typically paid on the first business day of the following month, is assumed to be reinvested at the ending market price. The actual reinvestment for the last dividend declared in the period may take place over several days, and in some instances may not be based on the market price, so the actual reinvestment price may be different from the price used in the calculation. Total returns are not annualized. Total Return on Common Share Net Asset Value is the combination of changes in Common share net asset value, reinvested dividend income at net asset value and reinvested capital gains distributions at net asset value, if any. The last dividend declared in the period, which is typically paid on the first business day of the following month, is assumed to be reinvested at the ending net asset value. The actual reinvest price for the last dividend declared in the period may often be based on the Fund's market price (and not its net asset value), and therefore may be different from the price used in the calculation. Total returns are not annualized. ** After custodian fee credit and*

*legal fee refund, where applicable. *** Annualized. + The amounts shown are based on Common share equivalents. ++ Ratios do not reflect the effect of dividend payments to Preferred shareholders; income ratios reflect income earned on assets attributable to Preferred shares. (a) Interest expense arises from the application of SFAS No. 140 to certain inverse floating rate transactions entered into by the Fund as more fully described in Footnote 1- Inverse Floating Rate Securities. (b) For the six months ended April 30, 2008. See accompanying notes to financial statements. 72-73 SPREAD Financial HIGHLIGHTS (continued) (Unaudited) Selected data for a Common share outstanding throughout each period: Investment Operations Less Distributions --- ------------------------------ Distributions Distributions from Net from Net Beginning Investment Capital Investment Capital Common Net Income to Gains to Income to Gains to Share Net Realized/ Preferred Preferred Common Common Net Asset Investment Unrealized Share- Share- Share- Share- Value Income Gain (Loss) holders+ holders+ Total holders holders Total === PREMIUM INCOME 4 (NPT) -- Year Ended 10/31: 2008(b) $13.22 $.46 $(.52) $(.14) $ -- $ (.20) $(.29) $ -- $(.29) 2007 13.69 .90 (.45) (.28) -- .17 (.64) -- (.64) 2006 13.38 .90 .35 (.25) -- 1.00 (.69) -- (.69) 2005 13.54 .91 (.10) (.16) -- .65 (.81) -- (.81) 2004 13.15 .94 .40 (.08) -- 1.26 (.87) -- (.87) 2003 13.46 .93 (.32) (.07) -- .54 (.85) -- (.85) === Total Returns ------------------- Based Ending on Common Based Common Share Ending on Share Net Net Asset Market Market Asset Value Value Value* Value* === PREMIUM INCOME 4 (NPT) -- Year Ended 10/31: 2008(b) $12.73 $11.46 (.14)% (1.47)% 2007 13.22 11.77 (3.30) 1.25 2006 13.69 12.80 9.89 7.72 2005 13.38 12.31 3.07 4.87 2004 13.54 12.74 8.98 9.90 2003 13.15 12.52 3.09 4.12 === Ratios/Supplemental Data -- Ratios to Average Net Assets Ratios to Average Net Assets Applicable to Common Shares Applicable to Common Shares Before Credit/Refund After Credit/Refund** --------------------------------------- --------------------------------------- Ending Net Assets Applicable Expenses Expenses Net Expenses Expenses Net Portfolio to Common Including Excluding Investment Including Excluding Investment Turnover Shares (000) Interest++(a) Interest++(a) Income++ Interest++(a) Interest++(a) Income++ Rate === PREMIUM INCOME 4 (NPT) -- Year Ended 10/31: 2008(b) $550,293 1.60%*** 1.25%*** 7.07%*** 1.59%*** 1.24%*** 7.08%*** 4% 2007 571,427 1.69 1.23 6.68 1.68 1.22 6.69 14 2006 591,941 1.25 1.25 6.70 1.23 1.23 6.71 9 2005 578,517 1.26 1.26 6.63 1.22 1.22 6.66 7 2004 585,284 1.30 1.30 7.10 1.29 1.29 7.10 6 2003 568,776 1.36 1.36 6.95 1.35 1.35 6.96 17 === Floating Rate Obligations Preferred Shares at End of Period at End of Period ------------------------------------ ------------------------ Aggregate Liquidation Aggregate Amount and Market Asset Amount Asset Outstanding Value Coverage Outstanding Coverage (000) Per Share Per Share (000) Per $1,000 === PREMIUM INCOME 4 (NPT) --- Year Ended 10/31: 2008(b) $338,400 $25,000 $65,654 $64,348 $14,811 2007 338,400 25,000 67,215 70,818 13,847 2006 338,400 25,000 68,731 -- -- 2005 338,400 25,000 67,739 -- -- 2004 338,400 25,000 68,239 -- -- 2003 338,400 25,000 67,019 -- -- === * Total Return on Market Value is the combination of changes in the market price per share and the effect of reinvested dividend income and reinvested capital gains distributions, if any, at the average price paid per share at the time of reinvestment. The last dividend declared in the period, which is typically paid on the first business day of the following month, is assumed to be reinvested at the ending market price. The actual reinvestment for the last* *dividend declared in the period may take place over several days, and in some instances may not be based on the market price, so the actual reinvestment price may be different from the price used in the calculation. Total returns are not annualized. Total Return on Common Share Net Asset Value is the combination of changes in Common share net asset value, reinvested dividend income at net asset value and reinvested capital gains distributions at net asset value, if any. The last dividend declared in the period, which is typically paid on the first business day of the following month, is assumed to be reinvested at the ending net asset value. The actual reinvest price for the last dividend declared in the period may often be based on the Fund's market price (and not its net asset value), and therefore may be different from the price used in the calculation. Total returns are not annualized. ** After custodian fee credit and legal fee refund, where applicable. *** Annualized. + The amounts shown are based on Common share equivalents. ++ Ratios do not reflect the effect of dividend payments to Preferred shareholders; income ratios reflect income earned on assets attributable to Preferred shares. (a) Interest expense arises from the application of SFAS No. 140 to certain inverse floating rate transactions entered into by the Fund as more fully described in Footnote 1- Inverse Floating Rate Securities. (b) For the six months ended April 30, 2008. See accompanying notes to financial statements. 74-75 SPREAD Reinvest Automatically EASILY and CONVENIENTLY NUVEEN MAKES REINVESTING EASY. A PHONE CALL IS ALL IT TAKES TO SET UP YOUR REINVESTMENT ACCOUNT. NUVEEN CLOSED-END FUNDS DIVIDEND REINVESTMENT PLAN Your Nuveen Closed-End Fund allows you to conveniently reinvest dividends and/or capital gains distributions in additional Fund shares. By choosing to reinvest, you'll be able to invest money regularly and automatically, and watch your investment grow through the power of tax-free compounding. Just like dividends or distributions in cash, there may be times when income or capital gains taxes may be payable on dividends or distributions that are reinvested. It is important to note that an automatic reinvestment plan does not ensure a profit, nor does it protect you against loss in a declining market. EASY AND CONVENIENT To make recordkeeping easy and convenient, each month you'll receive a statement showing your total dividends and distributions, the date of investment, the shares acquired and the price per share, and the total number of shares you own. HOW SHARES ARE PURCHASED The shares you acquire by reinvesting will either be purchased on the open market or newly issued by the Fund. If the shares are trading at or above net asset value at the time of valuation, the Fund will issue new shares at the greater of the net asset value or 95% of the then-current market price. If the shares are trading at less than net asset value, shares for your account will be purchased on the open market. If the Plan Agent begins purchasing Fund shares on the open market while shares are trading below net asset value, but the Fund's shares subsequently trade at or above their net asset value before the Plan Agent is able to complete its purchases, the Plan Agent may cease open-market purchases and may invest the uninvested portion of the distribution in newly-issued Fund shares at a price equal to the greater of the shares' net asset value or 95% of the shares' market value on the last business day immediately prior to the purchase date. Dividends and distributions received to purchase shares in the open market will normally be invested shortly after the dividend payment date. No interest will be paid on dividends and distributions awaiting reinvestment. Because the market price of the shares may increase before purchases are completed, the average purchase price per share may exceed the market price at the time of valuation, resulting in the acquisition of fewer shares than if the dividend or distribution had been paid in shares issued by the Fund. A pro rata portion of any applicable brokerage commissions on open market purchases will be paid by Plan participants. These commissions usually will be lower than those charged on individual transactions. 76 FLEXIBLE You may change your distribution option or withdraw from the Plan at any time, should your needs or situation change. Should you withdraw, you can receive a certificate for all whole shares credited to your reinvestment account and cash payment for fractional shares, or cash payment for all reinvestment account shares, less brokerage commissions and a $2.50 service fee. You can reinvest whether your shares are registered in your name, or in the name of a brokerage firm, bank, or other nominee. Ask your investment advisor if his or her firm will participate on your behalf. Participants whose shares are registered in the name of one firm may not be able to transfer the shares to another firm and continue to participate in the Plan. The Fund reserves the right to amend or terminate the Plan at any time. Although the Fund reserves the right to amend the Plan to include a service charge payable by the participants, there is no direct service charge to participants in the Plan at this time. CALL TODAY TO START REINVESTING DIVIDENDS AND/OR DISTRIBUTIONS For more information on the Nuveen Automatic Reinvestment Plan or to enroll in or withdraw from the Plan, speak with your financial advisor or call us at (800) 257-8787. 77 Glossary of TERMS USED in this REPORT [] Auction Rate Bond: An auction rate bond is a security whose interest payments are adjusted periodically through an auction process, which process typically also serves as* *a means for buying and selling the bond. Auctions that fail to attract enough buyers for all the shares offered for sale are deemed to have "failed", with current holders receiving a formula-based interest rate until the next scheduled auction. [] Average Annual Total Return: This is a commonly used method to express an investment's performance over a particular, usually multi-year time period. It expresses the return that would have been necessary each year to equal the investment's actual cumulative performance (including change in NAV or market price and reinvested dividends and capital gains distributions, if any) over the time period being considered. [] Average Effective Maturity: The average of the number of years to maturity of the bonds in a Fund's portfolio, computed by weighting each bond's time to maturity (the date the security comes due) by the market value of the security. This figure does not account for the likelihood of prepayments or the exercise of call provisions unless an escrow account has been established to redeem the bond before maturity. The market value weighting for an investment in an inverse floating rate security is the value of the portfolio's residual interest in the inverse floating rate trust, and does not include the value of the floating rate securities issued by the trust. [] Inverse Floaters: Inverse floating rate securities are created by depositing a municipal bond, typically with a fixed interest rate, into a special purpose trust created by a broker-dealer. This trust, in turn, (a) issues floating rate certificates typically paying short-term tax-exempt interest rates to third parties in amounts equal to some fraction of the deposited bond's par amount or market value, and (b) issues an inverse floating rate certificate (sometimes referred to as an "inverse floater") to an investor (such as a Fund) interested in gaining investment exposure to a long-term municipal bond. The income received by the holder of the inverse floater varies inversely with the short-term rate paid to the floating rate certificates' holders, and in most circumstances the holder of the inverse floater bears substantially all of the underlying bond's downside investment risk. The holder of the inverse floater typically also benefits disproportionately from any potential appreciation of the underlying bond's value. Hence, an inverse floater essentially represents an investment in the underlying bond on a leveraged basis. [] Leverage-Adjusted Duration: Duration is a measure of the expected period over which a bond's principal and interest will be paid, and consequently is a measure of the sensitivity of a bond's or bond Fund's value to changes when market interest rates change. Generally, the longer a bond's or Fund's duration, the more the price of the bond or Fund will change as interest rates change. Leverage-adjusted duration takes into account the leveraging process for a Fund and therefore is longer than the duration of the Fund's portfolio of bonds. [] Market Yield (also known as Dividend Yield or Current Yield): An investment's current annualized dividend divided by its current market price. [] Net Asset Value (NAV): A Fund's common share NAV per share is calculated by subtracting the liabilities of the Fund (including any Preferred shares issued in order to leverage the Fund) from its total assets and then dividing the remainder by the number of shares outstanding. Fund NAVs are calculated at the end of each business day. [] Taxable-Equivalent Yield: The yield necessary from a fully taxable investment to equal, on an after-tax basis, the yield of a municipal bond investment. [] Zero Coupon Bond: A zero coupon bond does not pay a regular interest coupon to its holders during the life of the bond. Tax-exempt income to the holder of the bond comes from accretion of the difference between the original purchase price of the bond at issuance and the par value of the bond at maturity and is effectively paid at maturity. The market prices of zero coupon bonds generally are more volatile than the market prices of bonds that pay interest periodically. 78 Other Useful INFORMATION QUARTERLY PORTFOLIO OF INVESTMENTS AND PROXY VOTING INFORMATION You may obtain (i) each Fund's quarterly portfolio of investments, (ii) information regarding how the Funds voted proxies relating to portfolio securities held during the twelve-month period ended June 30, 2007, and (iii) a description of the policies and procedures that the Funds used to determine how to vote proxies relating to portfolio securities without charge, upon request, by calling Nuveen Investments toll-free at (800) 257-8787 or on Nuveen's website at www.nuveen.com. You may also obtain this and other Fund information directly from the Securities and Exchange Commission ("SEC"). The SEC may charge a copying fee for this information. Visit the SEC on-line at http://www.sec.gov or in person at the SEC's Public Reference Room in Washington, D.C. Call the SEC at (202) 942-8090 for room hours and operation. You may also request Fund information by sending an e-mail request to publicinfo@sec.gov or by writing to the SEC's Public References Section at 100 F Street NE, Washington, D.C. 20549. CEO CERTIFICATION DISCLOSURE Each Fund's Chief Executive Officer has submitted to the New York Stock Exchange (NYSE) the annual CEO certification as required by Section 303A.12(a) of the NYSE Listed Company Manual. Each Fund has filed with the Securities and Exchange Commission the certification of its Chief Executive Officer and Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act. BOARD OF DIRECTORS Robert P. Bremner Jack B. Evans William C. Hunter David J. Kundert William J. Schneider Timothy R. Schwertfeger Judith M. Stockdale Carole E. Stone FUND MANAGER*

Nuveen Asset Management 333 West Wacker Drive Chicago, IL 60606 CUSTODIAN State Street Bank & Trust Company Boston, MA TRANSFER AGENT AND SHAREHOLDER SERVICES State Street Bank & Trust Company Nuveen Funds P.O. Box 43071 Providence, RI 02940-3071 (800) 257-8787 LEGAL COUNSEL Chapman and Cutler LLP Chicago, IL INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM Ernst & Young LLP Chicago, IL Each Fund intends to repurchase shares of its own common or preferred stock in the future at such times and in such amounts as is deemed advisable. During the period covered by this report, NPM repurchased 4,800 common shares. Any future repurchases will be reported to shareholders in the next annual or semi-annual report. 79 Nuveen Investments: ------------------- SERVING INVESTORS FOR GENERATIONS Since 1898, financial advisors and their clients have relied on Nuveen Investments to provide dependable investment solutions. For the past century, Nuveen Investments has adhered to the belief that the best approach to investing is to apply conservative risk-management principles to help minimize volatility. Building on this tradition, we today offer a range of high quality equity and fixed-income solutions that are integral to a well-diversified core portfolio. Our clients have come to appreciate this diversity, as well as our continued adherence to proven, long-term investing principles. We offer many different investing solutions for our clients' different needs. Managing $153 billion in assets, as of March 31, 2008, Nuveen Investments offers access to a number of different asset classes and investing solutions through a variety of products. Nuveen Investments markets its capabilities under six distinct brands: Nuveen, a leader in fixed-income investments; NWQ, a leader in value-style equities; Rittenhouse, a leader in growth-style equities; Symphony, a leading institutional manager of market-neutral alternative investment portfolios; Santa Barbara, a leader in growth equities; and Tradewinds, a leader in global equities. Find out how we can help you reach your financial goals. To learn more about the products and services Nuveen Investments offers, talk to your financial advisor, or call us at (800) 257-8787. Please read the information provided carefully before you invest. Be sure to obtain a prospectus, where applicable. Investors should consider the investment objective and policies, risk considerations, charges and expenses of the Fund carefully before investing. The prospectus contains this and other information relevant to an investment in the Fund. For a prospectus, please contact your securities representative or Nuveen Investments, 333 W. Wacker Dr., Chicago, IL 60606. Please read the prospectus carefully before you invest or send money. Learn more about Nuveen Funds at: www.nuveen.com/etf Share prices Fund details Daily financial news Investor education Interactive planning tools ESA-E-0408D ITEM 2. CODE OF ETHICS. Not applicable to this filing. ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT. Not applicable to this filing. ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES. Not applicable to this filing. ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS. Not applicable to this filing. ITEM 6. SCHEDULE OF INVESTMENTS. See Portfolio of Investments in Item 1. ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES. Not applicable to this filing. ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES. Not applicable to this filing. ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS. Not applicable. ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS. There have been no material changes to the procedures by which shareholders may recommend nominees to the registrant's Board implemented after the registrant last provided disclosure in response to this Item. ITEM 11. CONTROLS AND PROCEDURES. (a) The registrant's principal executive and principal financial officers, or persons performing similar functions, have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act") (17 CFR 270.30a-3(c))) are effective, as of a date within 90 days of the filing date of this report that includes the disclosure required by this paragraph, based on their evaluation of the controls and procedures required by Rule 30a-3(b) under the 1940 Act (17 CFR 270.30a-3(b)) and Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")(17 CFR 240.13a-15(b) or 240.15d-15(b)). (b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a-3(d)) that occurred during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting. ITEM 12. EXHIBITS. File the exhibits listed below as part of this Form. (a)(1) Any code of ethics, or amendment thereto, that is the subject of the disclosure required by Item 2, to the extent that the registrant intends to satisfy the Item 2 requirements through filing of an exhibit: Not applicable to this filing. (a)(2) A separate certification for each principal executive officer and principal financial officer of the registrant as required by Rule 30a-2(a) under the 1940 Act (17 CFR 270.30a-2(a)) in the exact form set *forth below: See Ex-99.CERT attached hereto. (a)(3) Any written solicitation to purchase securities under Rule 23c-1 under the 1940 Act (17 CFR 270.23c-1) sent or given during the period covered by the report by or on behalf of the registrant to 10 or more persons: Not applicable. (b) If the report is filed under Section 13(a) or 15(d) of the Exchange Act, provide the certifications required by Rule 30a-2(b) under the 1940 Act (17 CFR 270.30a-2(b)); Rule 13a-14(b) or Rule 15d-14(b) under the Exchange Act (17 CFR 240.13a-14(b) or 240.15d-14(b)), and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350) as an exhibit. A certification furnished pursuant to this paragraph will not be deemed "filed" for purposes of Section 18 of the Exchange Act (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference: See Ex-99.906 CERT attached hereto. SIGNATURES Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. (Registrant) Nuveen Premium Income Municipal Fund, Inc. -- By (Signature and Title) /s/ Kevin J. McCarthy -- Kevin J. McCarthy (Vice President and Secretary) Date: July 9, 2008 --- Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. By (Signature and Title) /s/ Gifford R. Zimmerman -- Gifford R. Zimmerman Chief Administrative Officer (principal executive officer) Date: July 9, 2008 --- By (Signature and Title) /s/ Stephen D. Foy -- Stephen D. Foy Vice President and Controller (principal financial officer) Date: July 9, 2008 ---*