



Nordic American Shipping Limited (NAT)

US TAX TREATMENT OF NAT DIVIDENDS

NOTE: THIS IS NOT TO BE CONSTRUED AS PERSONAL TAX ADVICE. EACH INVESTOR SHOULD CONSULT WITH HIS OR HER OWN TAX ADVISOR

- NAT WAS A PASSIVE FOREIGN INVESTMENT COMPANY UNTIL 2004. AS A PASSIVE FOREIGN INVESTMENT COMPANY, NAT PROVIDED A PFIC INFORMATION STATEMENT TO ITS SHAREHOLDERS FOR EVERY YEAR THROUGH 2004.
- IN 2005, NAT BECAME AN OPERATING COMPANY. THAT MEANS THAT NAT NO LONGER WAS A PASSIVE FOREIGN INVESTMENT COMPANY. HOWEVER, UNDER IRS RULES, NAT'S DIVIDENDS PAID DURING 2005 WERE TREATED AS NONQUALIFIED DIVIDENDS, SUBJECT TO THE FULL 35% FEDERAL INCOME TAX RATE.
- FOR YOUR INFORMATION, DIVIDENDS PAID IN 2006 WILL BE TREATED AS QUALIFIED DIVIDENDS ELIGIBLE FOR THE 15% RATE.
- THERE ARE SOME SHAREHOLDERS IN NAT WHO MAY STILL HAVE TREATED NAT AS A PASSIVE FOREIGN INVESTMENT COMPANY BECAUSE OF ELECTIONS THEY MAY OR MAY NOT HAVE MADE. THOSE SHAREHOLDERS CAN CONTACT NAT DIRECTLY FOR PFIC INFORMATION. THE COMPANY'S PROXY STATEMENT FILED WITH THE SEC ON JANUARY 28, 2004, CONTAINS AN EXTENSIVE DISCUSSION ABOUT THE CONSEQUENCES OF NAT'S CEASING TO BE A PFIC. AGAIN, INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS.