



## **NORDIC AMERICAN TANKER SHIPPING LTD (NAT)**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS AS OF**

**March 31, 2003**

#### **Overview**

In September 1995, the Company offered and sold to the public 11,731,613 Warrants at the initial public offering price of \$5.00 per Warrant. The exercise price of a Warrant was \$10.21. Prior to the Exercise Date (September 30, 1997), the Company did not have any operations other than certain limited operations related to the acquisition of the Vessels, of which all three were delivered in the last half of 1997. The Company now owns three modern double hull 150,000 dwt suezmax tankers. The Vessels were built at Samsung Heavy Industries.

On September 30, 1997 all of the outstanding Warrants of the Company were exercised at an exercise price of \$10.21 per Warrant. The Company received a total of \$119,779,768.73 by issuing a total of 11,731,613 new Common Shares. On November 30, 1998, the Company's shareholders approved a proposal to allow the Company to borrow money for the purpose of repurchasing its Shares. On December 28, 1998, the Company purchased 2,107,244 Shares through a "Dutch Auction" self-tender offer at a price of \$12.50 per Share. In addition, the Company paid \$715,000 in transaction costs. After the repurchase, a total of 9,706,606 Shares are in issue, down from 11,813,850 Shares. The Company funded the repurchase with the proceeds of a long-term loan from a syndicate of international lenders in the total amount of \$30,000,000.

BP Shipping Ltd (the "Charterer") has agreed to charter each Vessel for a period of seven years from September 30, 1997. Each Charter is subject to extension at the option of the Charterer for up to seven successive one-year periods. During the term of each Charter (including any extension thereof) the Charterer is obligated to pay (i) the Base Rate, which is charterhire at a fixed minimum daily rate of \$13,500 per Vessel per day (T/C equivalent of \$22,000 per day), payable quarterly in advance and (ii) Additional Hire, to the extent spot charter rates exceed certain levels, payable quarterly in arrears, from January 1998. The amount of Additional Hire for each quarter, if any, will be determined by the Brokers Panel.

On January 2, 2003 the Company received \$3,645,000 in Base Hire from the Charterer for the period from January 1 to March 31, 2003. In April 2003 the Broker Panel determined that the Additional Hire for the period January 1 to March 31, 2003 was \$9,654,187 i.e. \$35,756 per day per Vessel. The hire rate for the 1st quarter was thus \$49,256 per day per vessel.

On April 2, 2003 the Company received \$3,685,500 in Base Hire from the Charterer for the period from April 1 to June 30, 2003.

## **Results of Operations – 1st quarter 2003**

The Company's revenues from the Charter Hire for the period January 1 to March 31, 2003 of \$13,299,187 in total, derived from the Base Hire of \$3,645,000 (\$13,500 per day per Vessel) and the determined Additional Hire of \$9,654,187 (\$35,756 per day per Vessel).

Net costs during the Report Period were \$1,900,859 of which three months depreciation of the Vessels constitutes \$1,707,760.

Net profit during the Report Period was \$10,939,441.

## **Liquidity and Capital Resources**

Total Assets of the Company at March 31, 2003 were \$143,246,453 compared to \$138,579,559 at December 31, 2002. Cash held at March 31, 2003 was \$303,393.

The Company's only source of income is from the contract with BP Shipping. The contracts for the NAT vessels are drawn up in a way that secures income 365 days a year for the vessels and no off-hire. The contracts with BP Shipping commenced on October 1, 1997 and run for minimum 7 years and maximum 14 years if all options are declared. The contracts are guaranteed by BP Amoco p.l.c.

The Company's dividend policy is to pay to its shareholders dividends that are substantially equal to the amounts received by it under the Charters, less fixed administrative and interest expenses.

## **Dividend Payment**

Based on the additional hire of \$3,275,489 for the 4th quarter 2002 and the minimum Base Hire for the 1st quarter of 2003, from January 1 to March 31, the Board of Directors declared in January 2003 a Dividend of \$6,115,187 or \$0.63 per Common Share. The dividend was paid to Shareholders in February 2003.

Based on the additional hire of \$9,654,187 for the 1<sup>st</sup> quarter 2003 and the minimum Base Hire for the 2<sup>nd</sup> quarter of 2003, from April 1 to June 30, the Board of Directors declared in April 2003 a Dividend of \$12,327,390 or \$1.27 per Common Share to be paid to Shareholders in May 2003.

The table below illustrates the historical development of the Dividend per Common Share:

<b>Period</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
1 <sup>st</sup> Quarter		0.40	0.32	0.34	1.41	0.36	0.63
2 <sup>nd</sup> Quarter		0.41	0.32	0.45	1.19	0.34	1.27
3 <sup>rd</sup> Quarter		0.32	0.35	0.67	0.72	0.33	
4 <sup>th</sup> Quarter	0.30	0.30	0.36	1.10	0.55	0.32	
<b>Total USD</b>	<b>0.30</b>	<b>1.43</b>	<b>1.35</b>	<b>2.56</b>	<b>3.87</b>	<b>1.35</b>	

## **Receipt of Claim from Norwegian Tax Assessment Board**

In September 2002, the Company received a letter from the Tax Assessment Board of the Norwegian Central Tax Office for Large Corporations, (the "Tax Board"), stating that the Tax Board had determined that the Company was subject to Norwegian income taxation for the years

1995 through 2000. The Company believes that the Tax Board's determination is without merit and erroneous and is contesting the assessment vigorously.

Accordingly, the Company has appealed the decision of the Tax Board to the Norwegian Tax Assessment Appeal Board (the "Appeal Board"). The Company has been advised that a decision from the Appeal Board may be expected during the second or third quarter of 2003. If the Appeal Board should decide in favor of the Tax Board, the Company may make further appeals to the Norwegian Court of Justice, which has three levels. The Norwegian tax authorities may appeal a decision in favor of the Company to the County Tax Appeal Board.

The decision of the Tax Board relates to the years 1995 through 2000. Applying Norwegian tax principles, the Company did not have any taxable income for those years or for 2001. At year end 2001, the deferred tax loss is NOK 41.6 mill (approx. USD 5.6 million). This tax loss would be carried forward and used for the tax year 2002. After application of this loss carry-forward, under Norwegian tax principles, the Company's net income would total approximately NOK 59.1 mill (approx. USD 8.5 million) for 2002. However, as previously stated, the strong view of the Company is that the Company should not be taxed in Norway.

In accordance with its distribution policy, the Company has made cash distributions to shareholders in amounts that exceed the net income of the Company. Under Norwegian tax principles, if they applied, in the view of the Company, a portion of these distributions would be considered as a repayment of paid up share capital.

Given this premise, there would be no tax for the Company during the period through 2002. However, if, Norwegian tax principles apply, there is a probability that the distributions could be seen as a repayment of untaxed capital from the Company, and the Company would incur so-called correction income, which for the period to and including 2001 would amount to NOK 728.6 million (approx. USD 99 million). The tax would constitute 28% of that amount. In the view of the Company, such a treatment of its cash distributions would be incorrect.

The Company's view is that the Tax Board's determination is without merit and is erroneous. In part, the view of the Company is based on an opinion that the Company received from Norwegian counsel in connection with the Company's warrants offering in 1995, as described in the Company's offering prospectus. However, the Company cannot assure investors of a successful appeal of the Tax Board's determination.

The Company is bearing legal costs in connection with the Norwegian tax proceeding which would otherwise be available for distribution.

### **Controls and procedures**

Within 90 days prior to the date of this report, the Company's Chairman and Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of the Company's "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rule 13a-14(c)). Based on that evaluation, these officers have concluded that as of the evaluation date, the Company's disclosure controls and procedures were adequate and designed to assure that material information relating to the Company would be made known to them by others within the Company.

There were no significant changes in the Company's internal controls, or to the Company's knowledge, in other factors that could significantly affect the Company's disclosure controls and procedures subsequent to the evaluation date.

# NORDIC AMERICAN TANKER SHIPPING LTD. (NAT)

## INCOME STATEMENT INFORMATION

All figures in USD

	<b>1st Qtr. 2003</b>	<b>1st Qtr. 2002</b>	<b>4th Qtr. 2002</b>	<b>All 2002</b>
Revenue	13 299 187	3 645 000	7 001 489	18 057 989
Ship Broker Commissions	(45 562)	(45 562)	(46 575)	(184 781)
Management Fee Expense	(62 500)	(62 500)	(62 500)	(250 000)
Insurance Expense	(25 000)	(21 000)	(23 667)	(86 667)
Other Expenses	(60 037)	(15 851)	(57 000)	(90 381)
Depreciation	(1 707 760)	(1 707 760)	(1 707 760)	(6 831 040)
Net Operating Income	11 398 328	1 792 327	5 103 987	10 615 120
Financial Income	4 913	6 142	4 573	21 409
Financial Expenses	(463 800)	(430 410)	(462 140)	(1 789 261)
Net Financial Items	(458 887)	(424 268)	(457 567)	(1 767 852)
Net Profit	<b>10 939 441</b>	<b>1 368 059</b>	<b>4 646 420</b>	<b>8 847 268</b>
Earnings per Share	1,13	0,14	0,48	0,91
Cash Flow per Share	1,30	0,32	0,65	1,62

## BALANCE SHEET INFORMATION

All figures in USD

	<b>Dec. 31 2003</b>	<b>Dec. 31 2002</b>
<b>ASSETS</b>		
Vessels	133 205 205	134 912 965
Prepaid Finance charges	25 335	28 955
Prepaid insurance	58 333	83 333
Accounts receivables	9 654 187	3 276 523
Cash and cash on deposit	303 393	277 783
<b>Total Assets</b>	<b>143 246 453</b>	<b>138 579 559</b>
<b>LIABILITIES</b>		
Other Shareholder Equity	113 090 283	108 266 031
<b>SHAREHOLDER'S EQUITY</b>		
9,706,606 Common Shares, par value \$.01 per share, outstanding 50 million authorized	97 066	97 066
Other Comprehensive Income	(1 912 000)	(2 016 000)
Long Term Debt	30 000 000	30 000 000
Accounts Payable	21 950	996
Accrued Expenses	1 912 000	2 016 000
Accrued Interest	37 154	215 466
<b>Total liabilities &amp; equity</b>	<b>143 246 453</b>	<b>138 579 559</b>