

February 14, 2018

Via [PDF e-mail]

Municipality of Skagway
Mayor Monica Carlson and Assembly Members of the Municipality of Skagway
700 Spring Street
P.O. Box 415
Skagway, Alaska 99840

Re: Economic Development Collaboration

Dear Mayor Carlson and Assembly,

On behalf of Holland America Group (“HA Group”), comprising Princess Cruises, Holland America Line and Seabourn Cruise Line, we are pleased to present for your consideration our proposal for an economic collaboration with the Municipality of Skagway (“Skagway”).

I. Background

HA Group currently accounts for about 50% of the cruise passengers visiting Skagway each year, who in turn account for a similar percentage of the annual tourism spending in Skagway. In addition, through our HAP Alaska operations, we employ 17 people year-round in Skagway and 205 people on a seasonal basis. Skagway is a highly strategic destination for HA Group’s statewide Alaska tourism business, featuring in the itineraries of around 70% of HA Group’s Alaska-bound cruises. HA Group has a strong interest in maintaining and enhancing the attractiveness of Skagway as a cruise and cruise tour destination, and in ensuring a constructive and cooperative working relationship with Skagway. HA Group is prepared to increase its investment to further its relationship with Skagway, with the expectation that both HA Group and Skagway will benefit from increased economic development in the area.

II. Economic Development Collaboration - Concept

HA Group hereby proposes, for Skagway’s consideration, an economic development collaboration as follows:

- Skagway and HA Group would as soon as practicable form a joint venture (the “JV”), which will be in a legal form to be determined. The JV’s principal purposes would be:
 - To lease and manage the existing “Ore Dock” and “Broadway Dock” (the “Docks”), and their underlying tidelands (together with the Docks, the “Leased Properties”); and
 - To invest in configuration/expansion/multi-use improvements to the Docks as well as waterfront-related improvement projects in Skagway’s downtown business/tourism district to support and accelerate economic development in Skagway and the surrounding region (collectively, the “Economic Developments”).



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- Skagway would lease the Leased Properties to the JV, for an initial term of 15 years commencing March 19, 2023.
 - The proposed structure would allow HA Group and Skagway to mutually benefit from the growth in cruise line visitation to the area. Based on our initial projections, we believe that the arrangement would be far superior, in financial terms, to any other lease proposal presented to Skagway, and we would honor this sentiment as we begin to develop the concepts described in this proposal.
 - To the extent that the Docks constitute improvements owned by the lessee under the current lease, the JV will work with Skagway to effect a smooth transition from the current lessee into the JV at the end of the lease.
- HA Group would plan to use the Docks as first preference for its cruise ships.
- If required, HA Group is prepared to fund the JV with up to \$20 million of initial capital at the time the JV is formed, with further investments of capital as agreed by the JV to accommodate planned growth and maintenance as needed.
 - These funds would be drawn down as needed to accommodate the transition from the current lease and to ensure accessibility for larger cruise vessels in the future.
 - Skagway would not be obligated to make any capital contributions to the JV, but would have the opportunity to do so to fund subsequent development.

III. Other Considerations

The JV, as lessee of the Leased Properties, would manage the Docks and related activities. Net profits of the JV would be shared evenly between Skagway and HA Group after deduction of expenses and servicing of any debt (subject to any reduction of their interests to accommodate participation by an operating partner as contemplated below). Profits would be calculated per standard accounting principles, and be transparent to the JV partners. HA Group and Skagway may decide to engage a mutually agreeable, Alaska-based operating partner to manage these activities on behalf of the JV. Upon mutual agreement of HA Group and Skagway, the operating partner may be offered an opportunity to participate in the returns of the JV.

Skagway and HA Group would have equal representation on the JV's governing board, and any operating partner would also have a vote on most operational matters. Special governance procedures would be developed for situations where one of the voting parties has a conflicting interest, or where legal considerations require a limited role in decision-making.

IV. Benefits

We believe the proposed structure creates an even stronger alignment of the interests of Skagway and HA Group, and that each can benefit from a strengthened local tourism industry, and the optimization of the value of Skagway's port facilities.

- The Docks, as they stand between the people of Skagway and the cruise ships that bring them economic prosperity, would have ownership and control directly aligned to the Skagway and cruise industry.



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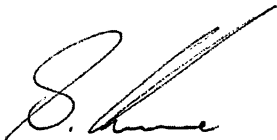
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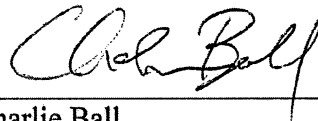
- HA Group and its affiliated brands would acquire a much stronger economic stake in continuing to use and develop Skagway's port facilities and related tourism infrastructure.
- Skagway would gain critical access to capital for continuing improvement of the Leased Properties, and a partner which is motivated to stay ahead of expected growth.
- Skagway's financial gain would be significantly greater than if it were to lease the Docks to a third party without sharing in any economic development commitments or profits beyond the contractual lease payments.
- Introducing a second dock owner/operator in Skagway encourages cost containment and entrepreneurialism, which will ensure Skagway's long-term appeal as a cruise destination.

In our view, HA Group's proposal would offer Skagway unique advantages that are simply not available from any other lessee or commercial partner. Of course, plenty of business and legal details would remain to be worked out. Therefore, it is not our intent that this proposal, or any related action of HA Group or Skagway, is deemed to create a legally binding obligation, and any legally binding obligation with respect to this proposal shall exist only upon the execution and delivery of definitive agreements. But we hope that there is enough substance in this summary proposal to justify Skagway's entry into serious discussions with HA Group. If so, our team is available at your convenience.

Sincerely,



Stein Kruse
Group CEO
Holland America Group and Carnival UK



Charlie Ball
President
HAP Alaska