



April 5, 2012

Karen Gruen
Managing Director, Corporate Real Estate
Alaska Air Group, Inc.
19300 International Blvd.
Seattle, WA 98188

Re: Proposed North Sea-Tac Airport Renovation (“NorthSTAR”) Program

Dear Karen:

The Port of Seattle (the “Port”) and Alaska Air Group, Inc. (“AAG”) have been working together to facilitate AAG’s plans for operations from Seattle-Tacoma International Airport (the “Airport”) following the completion of the current airline realignment. The Airport is the keystone of AAG’s operations. AAG wishes to promote a highly efficient operation in the north end of the Airport that furthers its “Curb to Gate” conceptual vision. The Port is excited to work with AAG to meet these objectives.

The purpose of this letter is to set forth how the Port and AAG will work together in the planning, design and construction of the capital improvements at the north end of the Airport. This letter also memorializes the Port’s and AAG’s common vision of the general character of the project. While there is not perfect alignment between us, this letter purposely accentuates the shared perspectives.

Overview

While AAG is a highly valued – and our largest – customer, the Port is the owner and operator of the Airport. We have an obligation to operate the Airport for the benefit of the travelling public and the larger community in which the Airport is located. We must do so in conformance with federal and state law. We have done so, and will continue to do so, with a sincere commitment to do everything possible to facilitate our airline customers’ needs and desires to provide excellent airline passenger and cargo services at the Airport, while meeting our fundamental responsibilities to the flying public and as an economic development agency for the region.

We recognize that AAG has a vested interest in the design, scope, cost and scheduled completion of the improvements affecting the north end of the Airport. This is particularly true for the

rebuilt North Satellite, which we expect, under the current airline realignment, that AAG will occupy in its entirety. AAG hopes to implement certain innovative concepts in the rebuilt North Satellite.

To this end, the Port anticipates unprecedented involvement by AAG in those capital projects affecting the north end of the Airport. That involvement will be in addition to – not in lieu of – any input AAG may have by virtue of the Signatory Lease and Operating Agreement (or successor agreement) (“SLOA”) and the capital project consultation procedures attached to SLOA as Exhibit G. Exactly how AAG is involved will depend on the nature of the particular improvement. But the Port will – at specific, defined intervals – request AAG’s concurrence with the manner in which the project is then proceeding. While not a formal restriction on the Port’s ability to proceed, this concurrence will help validate the parties’ continued alignment.

In order to move work on the north end forward as fast as possible, we propose to seek a two-step Majority-in-Interest (“MII”) approval and Commission authorization for the primary North Satellite elements that we have been discussing. As soon as we have sufficient information, we will request MII approval and Commission authorization for project design of these North Satellite elements. We would then proceed with design and request further MII approval and Commission authorization once sufficient design is completed and prior to proceeding with construction. For the remaining NorthSTAR Program elements, we will follow a typical one-step MII approval process once we have sufficient scope and budget information to proceed with design.

North Sea-Tac Airport Renovation Program

The specific North Satellite elements on which we are immediately prepared to move forward – along with the other elements of what we are labeling the North Sea-Tac Airport Renovation Program (hereafter referred to as “NorthSTAR” or “NorthSTAR Program”) – are detailed on Attachment 1. A very preliminary budget estimate established by AAG for each is also set forth on Attachment 1. A very preliminary budget estimate established by the Port for the North Satellite elements is set forth on Attachment 2. Some of those elements, generally constituting base airport infrastructure, would be constructed at the cost of the Port. Others, generally constituting tenant improvements, would be constructed at the cost of AAG on its own or pursuant to tenant reimbursement agreements under Ch. 14.08 RCW. And yet others, where they incorporate elements of both, would be constructed at the cost of both the Port and AAG.

The Port recognizes AAG’s desire to implement all of the NorthSTAR Program elements and to do so quickly. As set forth above, the Port intends to immediately move forward with the North Satellite elements, C Concourse vertical circulation, and baggage tunnel rebuild work. The Port will expeditiously move forward with the remaining C and D Concourse and baggage handling system elements. The Port will also collaborate with AAG to develop a plan for the Main Terminal element. Although the parties recognize the challenge, the Port will manage the design and construction of the Main Terminal improvements in as expeditious manner as possible and

seek to have all of the NorthSTAR Program elements finished concurrently with the completion of the North Satellite elements..

The Port will continue to manage concessions before, during and after construction of the NorthSTAR Program. Nonetheless, the Port agrees to work closely with AAG on the character and quality of the concession program in the North Satellite as part of the NorthSTAR Program. In addition, when the Port is ready to determine future concessions concepts and, then, select concessionaires, AAG will have input into those processes.

Opportunity for Input

In order to broadly facilitate AAG's involvement in the NorthSTAR Program, the Port will integrate members of AAG's project team within the Aviation Project Management Group, the internal organization that has lead responsibility for development of Airport capital improvement projects. In this way, AAG will be provided with real-time access to information on scope, schedule, budget, risks and decisions. In addition, the Port will welcome AAG's participation directly in all design meetings, charrettes and workshops.

To facilitate this integration, the Port will specifically make available three desks among the Port's Aviation Project Management Group staff on the second floor of the Airport Office Building. In addition, the Port and AAG will develop a protocol (the "Communication Protocol") that describes how the representatives of the Port and AAG will interact on a day-to-day basis and how AAG will interact with the designers.

In the event the frontline representatives of the Port and AAG are unable to reach an accord on any issue material to the NorthSTAR Program, the Port further agrees that such issues may be escalated as follows:

Tier 1: George England and AAG's designated construction representative

Tier 2: Wayne Grotheer and Susan Kostoff

Tier 3: Mark Reis and Karen Gruen

In order to promote efficient and informed resolution of any issues that develop, it is our expectation that senior management of both the Port and AAG will insist that the agreed protocols and escalation paths are followed.

Although the Port is vested with the legal responsibility to develop and manage the airport in the public's interest, it recognizes the importance of AAG's perspective on matters related to operational impacts, cost impacts, schedule impacts and quality.

- **Guiding Principles**

As a compass to guide the parties' actions through the course of the NorthSTAR Program, the Port and AAG agree that they will be guided by the following principles:

- Renovations will incorporate AAG's "Curb to Gate" conceptual vision. The work will promote efficient operations and incorporate traveler-friendly innovations that promote ease-of-use.
- Public facing spaces will, unless otherwise agreed, have a level-of-finish, comfort and style consistent with AAG and Port standards.
- Employee-facing spaces will optimize workflow and promote functionality, value and sense of community.
- Projects will observe the Port's contemporary design, construction and operations standards for the Airport.
- Projects will, when measured over their life-cycle and when taking into account airline rates and charges, be of reasonable cost.
- The parties will develop the design of the project to ensure that public safety, regulatory and security standards are always satisfied.
- Projects will emphasize sustainable construction practices. The Port will consider LEED certification of renovations from the US Green Building Council.
- Collaboration promotes efficiency in construction and better design and operation of the Airport. AAG and the Port will integrate their project teams to promote greater and more effective collaboration. In this regard, communication of issues, changes, or problems that arise with any aspect of the work should occur as early as possible in the process, and not wait for explicit due dates or deadlines. Each party will work cooperatively and in good faith toward resolution of any such issues.
- Transparency promotes trust between the parties, which in turn promotes open collaboration and efficiency. AAG and the Port will share information to the greatest extent practicable.

These touchstones emphasize all that we agree on and mark the common ground between us as we develop the NorthSTAR Program.

- **NorthSTAR Milestones and Concurrence**

In order to ensure that the Port and AAG remain aligned in their interests and goals through the course of the NorthSTAR Program, the Port will seek AAG's concurrence at the specific milestones (the "NorthSTAR Milestones") set forth below. The Port will apply these NorthSTAR Milestones to each listed project element – or when packaged together, like for the North Satellite, each package of elements – identified on Attachment 1:

1. Completion of Project Notebook.
2. A&E service agreement scope of work.
3. Approval of final conceptual (15%) design submittal, if one is required.
4. Approval of final schematic (30%) design submittal.
5. Approval of the NorthSTAR Program Budget and NorthSTAR Phasing Schedule (as defined below).
6. Approval of final construction (100%) design submittal.

At each of these NorthSTAR Milestones, the Port will request AAG's concurrence in writing. At NorthSTAR Milestones 1, 3, 4 and 6, concurrence will extend to the then-completed definition/design and the accompanying cost estimate and schedule. After a mutually agreed upon review period for the Milestone deliverable, AAG will have seven (7) business days following receipt of the Port's request for concurrence within which to respond. To keep the NorthSTAR Program moving forward, the parties acknowledge the importance of a prompt and definitive answer by AAG when concurrence is sought. Comments at that late stage will be given due consideration as the parties move forward but cannot qualify AAG's endorsement. If AAG does not concur, the Port will give due consideration to AAG's stated reasons and concerns and may elect to cancel the relevant NorthSTAR Project element or the entire NorthSTAR Project. But AAG acknowledges the Port's legal responsibilities related to management of the Airport and recognizes that the Port may also elect to proceed despite the divergence of views. Our earnest willingness to work closely with AAG cannot encumber the Port's carefully balanced rights under SLOA.

The NorthSTAR Program, and its specific elements, will necessarily involve myriad other decisions as they progress through definition, design and construction, many of which are outlined on Attachment 3. This Attachment, which parallels the capital project consultation procedures set forth in SLOA, provides some guidance about how the concepts memorialized in this letter overlay that process. The opportunities for input by AAG will be replete through that process, and as a result concurrence will be formally validated only at the NorthSTAR Milestones.

- **Reconciliation Process**

If the parties are confronted with a material variance from cost, schedule, quality or operational assumptions previously established in the process in connection with any element (or package of elements), then the Port will follow a "reconciliation" process to chart the path forward. The Port will seek AAG's insight and recommendations prior to determining whether or not to:

- Redesign the particular project to achieve budget, schedule, quality or operational goal.
- Adjust the particular project budget, schedule, quality or operational goals to account for the change. This specifically includes the possibility of reallocating budget from other sources including other elements of the NorthSTAR Program.
- Cancel the particular project or the entire NorthSTAR Program.

The focus will be keen on the common ground memorialized in this letter, and the Port will not lightly proceed as allowed by SLOA without recognizing that.

Management to Budget and Schedule

The parties acknowledge that the size and scope of the NorthSTAR Program will affect each party's current and future operations at the Airport during construction. They also acknowledge that cost the NorthSTAR Program will significantly affect rates and charges for airlines, including AAG, operating at the Airport. As a result, the parties both acknowledge the

importance of carefully managing and monitoring the NorthSTAR Program's budget and schedule through the course of Program development.

As an initial baseline, the Port will develop its own preliminary cost estimates for each NorthSTAR Program element (or package of elements) and an aggregate preliminary cost estimate for the entire NorthSTAR Program based on the Port's experience prosecuting its capital improvements and the most current information. The Port will develop this preliminary budget no later than April 15, 2012. This estimate, however, will necessarily be limited by the lack of definition associated with certain NorthSTAR Program elements desired by AAG and the constrained technical resource availability. The inclusion of any particular element in the preliminary budget is unrelated to the renegotiation of the airline agreement.

When the Port has developed the design of the North Satellite element of NorthSTAR Program to the schematic (30%) design stage, the Port will develop a "not to exceed" NorthSTAR Program budget that establishes a revised cost estimate for each element (or package of elements) of the NorthSTAR Program and the entire NorthSTAR Program ("NorthSTAR Program Budget"). As reflected on Attachments 1 and 2, there is a significant difference between the parties' preliminary estimates, and AAG and the Port expect the refined budgets developed through the further definition and early design development of the NorthSTAR Program (and particularly at the 30% design stage for the North Satellite elements) will help inform the evolution of the Project scope prior to establishing the formal NorthSTAR Program Budget.

The Port will also develop a preliminary phasing schedule for the entire NorthSTAR Program in parallel with the conceptual (15%) design of the North Satellite elements and a final phasing schedule in parallel with the schematic (30%) design of the North Satellite elements (the "NorthSTAR Program Phasing Schedule"). In developing these schedules, the Port will seek to accommodate AAG's gate phasing plans. The phasing schedules will be based upon the most current information then available and will specifically outline the dates on which portions of the Airport are expected to become unavailable (or differently available) to AAG because of implementation of the NorthSTAR Program. The phasing schedules will also outline when portions of the Airport are again expected to become available for use by AAG. AAG and the Port will work together to plan for possible loss of gates during Project phasing and to support AAG's network schedule development and annual gate allocation process. The 2013 gate count will be established not later than July 2012.

To ensure discipline in managing against the NorthSTAR Program Budget and NorthSTAR Program Phasing Schedule, the Port will – with AAG's input – develop a change control process and summary document to be used throughout the life of the NorthSTAR Program's implementation that will track all potential changes in scope and schedule from the NorthSTAR Program Budget and NorthSTAR Program Phasing Schedule. Prior to the approval of the NorthSTAR Program Budget and NorthSTAR Program Phasing Schedule, the implementation will be monitored against the preliminary budget and phasing schedule. As each element of the NorthSTAR Program progresses through definition and design, it will be monitored through this

change control process, and the Port will – in connection with seeking AAG’s concurrence at designated NorthSTAR Milestones – demonstrate how the program scope is tracking to the budget and phasing schedule. If the cost estimate or phasing schedule for any particular element (or package of elements) exceeds the “not-to-exceed” cost estimate in the NorthSTAR Program Budget or materially affects the NorthSTAR Program Phasing Schedule, the Port will follow the reconciliation process outlined above.

AAG Costs

All costs associated with AAG’s involvement in the development and prosecution of NorthSTAR will be borne by AAG (provided, however, that some costs may be reimbursed pursuant to separately negotiated Tenant Improvement Reimbursement Agreements). Unlike the Airline Technical Representative, which facilitates carrier-wide coordination of Airport projects, AAG’s involvement is primarily for the furtherance of its specific interests. The Port expects that the Airline Technical Representative will continue to monitor and provide input into any NorthSTAR Project Elements as set forth in the capital project consultation procedures set forth in SLOA, and the Port will continue to fund that involvement as agreed to in SLOA.

AAG has requested reimbursement of approximately \$2 million in out-of-pocket costs associated with work for AAG by HOK. The NorthSTAR Program is based on work done for AAG by HOK. The Port will consider reimbursing AAG an amount equal to the savings to the overall project costs the Port would have incurred but for such work by HOK. The Port looks forward to AAG providing the Port with additional information demonstrating these cost savings.

Unresolved Issues Identified for Future Agreement

While this letter is intended to set forth how the Port intends to work with AAG to develop the NorthSTAR Program, the Port acknowledges that there are certain details where the parties’ perspectives diverge. These include:

- The balance between scope, schedule, and budget. AAG prefers a decision hierarchy when the Project is confronted with a material variance in scope, schedule or cost where budget is most important, schedule is next most important, and scope is least important. While the Port may strike this balance in any particular instance, it cannot commit to favor one over any other in all instances in which such tradeoffs are necessary. Instead, the reconciliation process can and should resolve the question on a case-by-case basis.
- The NorthSTAR Program schedule. The Port will work with AAG and its designers to expedite the project and will endeavor to establish a project schedule for the entire NorthSTAR Program in conjunction with phasing work on the 15% and 30% design of the NSAT elements outlined above. The Port’s current assessment of the project schedule is that the Program will be complete in December 2016 at the earliest. The Port and AAG acknowledge that in developing the NorthSTAR Program, they will seek to expedite this project schedule while balancing other project and operational considerations.

- Betterments and tenant improvements. The Port and AAG acknowledge that they are generally planning for a NorthSTAR Program that will not include any betterments but instead will adhere to a standard consistent in quality, function, fit and finish with that constructed on Concourse A. Program elements that are reasonably consistent with those on Concourse A will not be considered betterments. In addition, the Port may entertain elements in addition to those provided on Concourse A if those elements would have utility to most airlines (if they were to lease space at the North Satellite) and the benefit outweighs the cost. In this regard, reference to national airport practices or standards may be made. As design proceeds, however, the Port and AAG may find that they disagree about whether a proposed feature is consistent with Concourse A or whether it provides cost-effective utility. Should that occur, the Port and AAG will work to reach an agreement before funds are committed. At this stage in the design, the Port is concerned that exterior stairs to support aft unloading (as opposed to emergency egress) on Concourses C and D and the North Satellite do not meet this standard and, thus, could be a betterment. Additional research by both parties will serve as a basis for a future discussion on that issue. Should a program element be determined to be a betterment, AAG will be expected to bear the full cost of these. Likewise, AAG will be expected to bear the cost of any tenant improvements unless eligible for reimbursement under the Port's established tenant improvement program and subject to a separate tenant improvement reimbursement agreement. Some program elements will be tenant improvements. The Board Room is an example. Betterments (if any) and tenant improvements will be executed by the Port only subject to separate written agreements.

Karen, I sincerely hope that this letter makes clear the Port's wholehearted commitment to AAG's deep engagement in and collaboration on these exciting and critical projects. While the Port will not restrict its right to proceed with projects as allowed by SLOA, we do not focus on that point here. Instead, we emphasize our willingness to continue to work with AAG to accommodate your plans for operations from the Airport following the completion of the current airline realignment. While this letter does not establish any legally enforceable rights or obligations on the part of either party, it does set forth a framework under which the Port commits to move forward with AAG on the NorthSTAR Program.

Sincerely,

PORT OF SEATTLE



Mark M. Reis
Managing Director, Aviation

Cc: Wayne Grotheer, Port of Seattle

Attachment 3

Typical Project Progression

Preliminary Planning and Project Development

The Port intends to apply its standard planning and definition process to those elements of the NorthSTAR Program on Attachment 1. For those elements of the NorthSTAR Program for which the Port is financially responsible, it will develop a Project Notebook pursuant to its applicable procedures. Where it makes logical sense (such as for the North Satellite), the Port may package more than one element together. Each Project Notebook shall include identification of objectives, assumptions, linkages, resource requirements, cost estimates, potential problems, schedule and other project characteristics. AAG shall collaborate with the Port in developing each Project Notebook. As the parties cooperatively work through that process, they will specifically analyze how project restrictions, opportunities, linkages, and schedules will affect (and potentially further) other elements within the NorthSTAR Program, specifically including those for which AAG is financially responsible. The goal of this analysis will be to ensure that the NorthSTAR Program (or those portions actually prosecuted) is conducted as efficiently as reasonably practical.

As the parties develop Project Notebooks for any element of the NorthSTAR Program, the work contracted by AAG and performed by HOK will be foundational.

At the completion of each Project Notebook for each NorthSTAR element (or package of elements), the Port will solicit AAG's concurrence with the Project Notebook. That concurrence will be sought prior to Port submission to the Signatory Airlines of any notice required under SLOA.

Selection of Architects and Engineers for Design Development

The architects and/or engineers for any particular element of the NorthSTAR Program for which element the Port is responsible will be selected by the Port in accordance with Chapter 39.80 of the Revised Code of Washington and Port policy. During the course of this process, the Port will provide AAG direct input into the scope of the contract and the RFP. In addition, AAG may serve as a voting member of any selection panel. As a condition of this involvement, however, AAG and its representatives must comply fully with the Port's ethics policies as if it were a paid consultant in order to ensure the competitive integrity of the procurement.

Following the selection of the particular architect and/or engineer based on their qualifications, the Port will – based on its standard contracting methodologies – negotiate the agreement with the contractor.

Prior to execution of the service agreement with the lead architect or engineer, the Port will solicit AAG's concurrence with the final contract scope of work.

Design Development

The Port will be responsible for contract administration and will manage the consultants retained for design development. AAG may provide specific input regarding these elements to the designers directly in the method established in the Communication Protocol. AAG may participate fully in all design meetings, charrettes and workshops and review and comment on all design submittals. The Port agrees that AAG will be the “owner” lead for development of the design vision for AAG employee-facing spaces and may collaborate with the Port on customer-facing spaces. The Port understands that AAG seeks to incorporate into the design AAG’s customer experience vision of traveler-friendly innovations, emphasizing ease of use; and reflecting AAG’s brand in level of finish, comfort, and style.

The Port intends to follow its standard protocols through the course of design development. This typically includes submission and review of 30%, 60%, 90% and 100% design documents, although specific projects may utilize other milestones (and the Port intends to require a 15% design deliverable for the North Satellite package of elements). Each appropriate design submittal will be accompanied by budget estimates appropriate to the then-current level of design. In developing those budget estimates the Port will follow its standard framework for cost estimating.

At the completion of the conceptual (15%) design (if one is required), schematic (30%) design and final (100%) design, the Port will solicit AAG’s concurrence. As noted, not all NorthSTAR Program elements (or packages of elements) will require a conceptual (15%) design. Concurrence at this point will be requested only if the designer for the particular element (or package of elements) is required, under the terms of the applicable service agreement, to provide a conceptual (15%) design submittal. With respect to the North Satellite package of project elements, concurrence on the final (100%) design will be sought prior to submission to the Signatory Airlines of notice seeking the second Majority-in-Interest approval agreed to in this letter.

Contracting Methodology and Award

The contractor(s) for any particular NorthSTAR Project Element for which the Port is responsible will be selected by the Port in accordance with Title 39 and Chapter 53.08 of the Revised Code of Washington and Port policy. Presumptively, NorthSTAR Projects Elements will be prosecuted as design-bid-build, but the Port agrees to consider opportunities for efficiencies and cost savings from alternative public works methodologies. Projects will use the Port’s standard terms and conditions suitable to the particular contracting methodology.

During the course of this process, the Port will provide AAG input into the contracting methodology, the contract packaging and the invitation for bids. To the extent that the Port elects to pursue any contracting methodology involving qualifications-based evaluation, AAG may serve as a voting member of any selection panel. As with any participation in the selection of the designer, AAG and its representatives will be expected to comply fully with the Port’s ethics policies as if it were a paid consultant in order to ensure the competitive integrity of the procurement.

AAG will also be permitted to attend any bid opening and review the bids prior to award. To the extent that the Port undertakes any analysis of those bids prior to award, AAG will be entitled to participate in such review. In the event that the apparent low bid exceeds the budget/engineer's estimate by more than ten percent, the Port agrees to follow the "reconciliation" process before proceeding with award.

Concurrence will not be obtained with respect to issues of contracting methodology or award.

Construction

The Port's construction management group will manage construction of all elements of the NorthSTAR Program for which it is financially responsible. This will also extend to any betterments and/or tenant improvements that the Port has elected to construct. Through the construction management group, the Port will administer the contract and process any change orders and payments. All construction projects will be managed according to the Port's standard operating procedures.

Although the construction management group regularly interfaces with the Aviation Project Management group, the construction management group is separate and independent from the project management group. Through the course of construction, AAG may continue to maintain its integrated team members within the Aviation Project Management Group, and AAG may, as set forth in the Communication Protocol, provide input directly to the Port's construction management group. However, AAG will not have staff integrated within the Port's construction management group. This will necessarily limit AAG's involvement in day-to-day construction activities.

Through its continued participation with the project management group, AAG will have the opportunity to attend all construction meetings, coordinate construction impacts on AAG operations, coordinate its tenant improvement work with the base building work, and participate in all sequencing and phasing decisions made through the course of construction. In addition, AAG will be provided with real-time access to information on material changes to schedule, budget, and scope as they arise and will be kept abreast of trending issues, risks and decisions. AAG will also have the opportunity to contemporaneously review QA/QC activities and reports and participate in punchlisting.

The Port will continue to provide maintenance, utilities and public safety services at customary standards to the portions of the Airport remaining in, or returning to, operations while construction occurs on the other portions.

Concurrence will not be obtained with respect to any construction activities.

Commissioning and Activation

The Port intends to follow its standard commissioning and activation procedures for any NorthSTAR Project Element. We invite AAG's participation in development of commissioning and activation plans. We recognize that AAG will have a role in developing activation plans and

that AAG will coordinate with all AAG stakeholders affected by such activation. While the Port will make activation decisions with regard to the operational needs of the Airport generally, the Port will solicit and give due consideration to AAG's comments and concerns. AAG will be responsible for coordinating with AAG stakeholders regarding any activation process.

Concurrence will not be obtained with respect to any commissioning or activation activities.