DCP 034

SCHEDULE 1 – COVER

1 PROVISION OF COVER

Forms of Collateral

1.1 The User shall deliver to the Company one or more of the following forms of Collateral such that the aggregate value of such Collateral is equal to or greater than the sum notified to the User by the Company as the User's Value at Risk to the extent that it exceeds the User's Credit Allowance:

(a) a Letter of Credit or equivalent bank guarantee (available for an initial period of not less than six months);

(b) an Escrow Account Deposit;

(c) a Cash Deposit; or

(d) any other form of Collateral as agreed between the Company and the User from time to time, including but not limited to performance bonds, bilateral insurance, and independent security. The Company may rate the effectiveness of such Collateral as being between 0% and 100%. Where the effectiveness of such Collateral is rated as less than 100%, its contribution to the aggregate level of Cover provided shall be reduced accordingly.

1.2 Any dispute raised by the User or the Company on the form of Collateral provided under Paragraph 1.1(d) or on the rating of any such Collateral shall be dealt with under Paragraph 8. Any requirement for payment to be made under such Collateral shall be dealt with in accordance with Paragraph 4.

Maintenance of Cover

1.3 The User may increase the value of Collateral provided or provide additional forms of Collateral at any time during the term of this Agreement.

1.4 Where**:**

(a) there is any reduction in the amount of Collateral provided by the User as Cover; or

(b) the Company makes a demand against such Collateral following a Payment Default by the User,

the User shall provide additional Collateral to ensure that the Indebtedness Ratio is equal to or lower than the Indebtedness Ratio Limit according to the provisions of this Schedule.

2 CALCULATION OF COVER

2.1 For the duration of this Schedule's application, the Company shall calculate and maintain a record of each of the following values with respect to the User, that is to say**:**

(a) the User's Value at Risk;

(b) the User's Credit Allowance; and

(c) the User's Indebtedness Ratio,

in such manner as will enable the Company, upon request by the User, to provide a written and up-to-date statement of such values without delay.

The User's Value at Risk

2.2 At any time, the User's Value at Risk shall be the aggregate of:

(a) billed but unpaid Charges which are not currently subject to a Designated Dispute (as defined in Schedule 4) and which have been billed to the User according to an established billing cycle operated by the Company pursuant to this Agreement;

plus

(b) the Fifteen Days' Value, which shall be the estimated value of the Charges that would be incurred by the User for a further 15 days from that time, based on the average daily Charges billed to the User (whether under this Agreement or any use of system agreement applying between the User and the Company immediately before this Agreement became effective) during the previous month according to the established billing cycle operated by the Company;

less

(c) any credit notes and any amounts paid to the Company by the User in the form of a Prepayment or an Advance Payment.

The User's Credit Allowance

2.3 The User's Credit Allowance (**CA** here below) shall be calculated according to the following formula**:**

$$\mathbf{CA = RAV \times 2\% \times CAF}$$

where:

RAV is the closing balance for the Regulatory Asset Value as published in the Company's latest ~~audited~~ price control review information (or, where no Regulatory Asset Value is published, shall be a value to be determined by the Authority as a suitable replacement following consultation with the Company); and

CAF is the Credit Allowance Factor (which is to be expressed as a percentage determined pursuant to~~under~~ Paragraph 2.4 or 2.5 ~~or in accordance with Paragraph 2.10~~).

2.4 Where the User has a Credit Rating from an Approved Credit Referencing Agency that is Ba3/BB– or above, CAF shall be determined according to the following table. For the purposes of this Schedule, and subject to evidence to the contrary, all IDNO Parties shall be deemed to have a rating of Baa3 / BBB-.

Credit Rating		**CAF (%)**
Moody's	Standard and Poor's	
Aaa to Aa2	AAA to AA	100
Aa3 to A3	AA– to A–	40
Baa1	BBB+	20
Baa2	BBB	19
Baa3	BBB–	18
Ba1	BB+	17
Ba2	BB	16
Ba3	BB–	15

2.5 Where the User does not have a Credit Rating from an Approved Credit Referencing Agency that is Ba3 / BB– or above, CAF shall be determined as follows:

(a) where there is, at the time of such determination, an Independent Credit Assessment that was carried out within the preceding 12 months and the User has not requested that the Company use the User's Payment Record Factor~~an Independent Credit Assessment~~, CAF shall be determined by reference to the Independent Credit

AssessmentCredit Assessment Score procuredvided to the User pursuant to Paragraph 2.7 and in accordance with the table set out at Paragraph 2.810; or

(b) where the User has not requested that the Company use the User's Payment Record Factor or there is not, at the time of such determination, an Independent Credit Assessment that was carried out within the preceding 12 months, CAF shall equal the Payment Record Factor (which shall be determined in accordance with the provisions of Paragraphs 2.121 to 2.134).

Credit Assessment Score

2.6 For the purposes of determining CAF pursuant to Paragraph 2.5(a), the User may, once a year, request that the Company obtain an Independent Credit Assessment from a Recognised Credit Assessment Agency chosen by the User.

2.7 As soon as reasonably practicable followingWithin one month of such request (or within such other period as the Company and the User may agree), the Company mustshall procure from that Recognised Credit Assessment Agency (and mustshall provide to the User) a credit assessment of the Useran Independent Credit Assessment which shall include a Credit Assessment Score determined on a scale from zero to 10 in respect of the User. Where a Recognised Credit Assessment Agency offers more than one credit assessment product, the Company shall procure an assessment on the basis of the product that the [User (acting reasonably) specifies as providing] / [Company and the User agree (each acting reasonably) provides] the most appropriate assessment of the creditworthiness of the User when all factors are taken into consideration. *[Drafting note: is control over choice of product to be given to the User or agreed between the User and the Company? Disputes over whether a party is acting reasonably can be referred to the Authority.]*

2.8 Where the Recognised Credit Assessment Agency that is used is listed in the table below, and it undertakes an assessment on the basis of one of its credit

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assessment products listed below, the results of such assessment will give rise to the corresponding Credit Assessment Score set out below:

Credit Assessment Score	Equivalence of the Credit Assessment Score to credit scores provided by Recognised Credit Assessment Agencies in their Independent Credit Assessments.				
	Check It (ICC)	Dunn & Bradstreet / N2 Check	Equifax	Experian	Graydons
	Credit Score Report	Comprehensive Report		Bronze, Silver or Gold Report	Level 1, Level 2, or Level 3 Report
10	95-100	5A1/	A+	95-100	1A
9	90-94	5A2/4A1	A /A-	90-94	1B/2A
8	80-89	5A3/4A2/3A1	B+	80-89	1C/2B/3A
7	70-79	4A3/3A2/2A1	B/B-	70-79	2C/3B/4A
6	60-69	3A3/2A2/1A1	C+	60-69	3C/4B/5A
5	50-59	2A3/1A2/A1	C/C-	50-59	4C/5B/6A
4	40-49	1A3/A2/B1	D+	40-49	5C/6B/7A
3	30-39	A3/B2/C1	D/D-	30-39	6C/7B/8A
2	20-29	B3/C2/D1	E+	20-29	8B
1	10-19	C3/D2/E1	E/E-	10-19	8C
0	Below 10	Below E1	Below E-	Below 10	Below 8C

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2.9 Where the Recognised Credit Assessment Agency that is used is not listed in Paragraph 2.8 (or where the credit assessment product is not listed in Paragraph 2.8), the Company shall (acting reasonably) determine the applicable Credit Assessment Score on an equivalent basis to that set out in Paragraph 2.8.

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~~2.8~~2.10Where ~~T~~the value of CAF is to be determined in accordance with Paragraph 2.5(a), the value of CAF shall be that which correspond~~ing~~s in the following table to the Credit Assessment Score set out below~~so determined shall be the Credit Allowance Factor which, pursuant to Paragraph 2.5(a), is to be used for the purposes of calculating the User's Credit Allowance pursuant to Paragraph 2.3~~.

Credit Assessment Score	CAF (%)

10	20
9	19
8	18
7	17
6	16.66
5	15
4	13.33
3	10
2	7
1	3.33
0	0

Additional Credit Assessment

~~2.9~~2.11During the 12-month period following completion of an annual Independent Credit Assessment pursuant to Paragraph 2.6, the User may request that the Company procure ~~a~~ further~~at its own cost procure from a Recognised Credit Assessment Agency, and submit to the Company, an interim~~ Independent Credit Assessments for the purpose of requiring the Company to recalculate the User's Credit Allowance. Where the User so requests, Paragraphs 2.7 to 2.10 shall apply (provided that, where the Company so requests, the User shall pay the Company's reasonable costs in procuring such an I~~m~~ndependent Credit Assessments).

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Payment Record Factor

~~2.10~~2.12 ~~The Company shall at any time be entitled to use (and, on request by the User, must use)~~ Where the User's Payment Record Factor is to be used to

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determine the Credit Allowance Factor in accordance with~~. For this purpose, and for that of~~ Paragraph 2.5(b), the Credit Allowance Factor shall equal the value of the Payment Record Factor determined in accordance with Paragraphs 2.1~~1~~3 to 2.1~~3~~5.

~~2.11~~2.13 The Payment Record Factor shall equal the number of months since the Good Payment Performance Start Date (as specified in Paragraph 2.1~~2~~4) multiplied by 0.033% (that is to say, by 0.4% per annum) up to a maximum value of 2% after five years of good payment history. The Company shall give the User notice of any adverse change in the calculation of the Payment Record Factor pursuant to Paragraph 2.1~~2~~4.

~~2.12~~2.14 The Good Payment Performance Start Date shall:

(a) for Users under Section 2A, initially, be the date of the earliest of the first Initial Account, the first Reconciliation Account, the first account issued pursuant to Clause 21, or the first account comparable to the foregoing issued under the use of system agreement applying between the User and the Company immediately before this Agreement became effective (the **relevant account**);

(b) for Users under Section 2B, initially, be the date of the earliest of the first account issued pursuant to Clause 44 or 45, or the first account comparable to the foregoing issued under any connection and use of system agreement applying between the User and the Company immediately before this Agreement became effective (the **relevant account**); and

(c) for all Users, where the User fails, or has failed, on any occasion to pay any relevant account relating to undisputed Charges in full on the applicable payment date, be the date on which the relevant account is submitted in the month subsequent to the month in which such payment failure occurs (unless, having regard to all the circumstances, including in particular the value, duration, and frequency of failure, the Company reasonably determines an earlier date).

~~2.13~~2.15 Where any unpaid disputed invoice is found to have been disputed without merit, a failure to have paid the relevant account in accordance with the terms of this Agreement shall be treated as a failed payment and the provisions of Paragraph 2.1~~2~~4 shall apply accordingly.

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The User's Indebtedness Ratio

~~2.14~~2.16 The Credit Limit for the User shall equal the Credit Allowance plus the aggregate value of the Collateral provided on any day.

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~~2.15~~2.17 The Indebtedness Ratio for the User shall equal the Value at Risk as a percentage of the Credit Limit.

~~2.16~~2.18 If, on any day, the User's Indebtedness Ratio equals or is greater than 85% of the User's Indebtedness Ratio Limit, the Company shall give notice of this to the User.

Credit Allowance Where Credit Support is Provided by a Third Party

~~2.17~~2.19 Where credit support is provided for the User through a Qualifying Guarantee by a third party (the **Credit Support Provider**), the maximum Credit Allowance assigned to the User shall be calculated in accordance with Paragraph 2.3, but substituting the Credit Support Provider for the User in all such calculations. Where the value of the Qualifying Guarantee is lower than the Credit Allowance calculated pursuant to Paragraph 2.3, the User's actual Credit Allowance shall be the maximum value of the Qualifying Guarantee.

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~~2.18~~2.20 Where a Credit Support Provider provides a Qualifying Guarantee for the User and for other users of the Company's Distribution System, the aggregate of all Qualifying Guarantees so offered shall not exceed the maximum Credit Allowance that could be determined for that Credit Support Provider pursuant to Paragraph 2.3.

~~2.19~~2.21 Where the User disputes the Company's calculation of Value at Risk or the Credit Allowance, the provisions of Paragraph 8 of this Schedule shall apply.

3 INCREASE OR DECREASE OF COVER REQUIREMENT

3.1 The following provisions have effect in relation to cover requirements pursuant to the circumstances specified under the relevant headings in this Paragraph 3.

Increase in Cover Requirements Pursuant to a Change in the Value at Risk or Increase in the Indebtedness Ratio

3.2 If, on any Working Day, the User's Indebtedness Ratio equals or is greater than its Indebtedness Ratio Limit because of either: (a) an increase in the User's Value at Risk; or (b) a decrease in the Credit Allowance Factor, then (in either case) the Company shall give notice of this to the User on the following Working Day and the User shall take all appropriate action to ensure that its Indebtedness Ratio is equal to or below 80% within two Working Days of its receipt of such notice.

3.3 It shall be a Cover Default if the User fails to remedy a default under Paragraph 3.2 within the prescribed timescale.

3.4 Following a Cover Default under Paragraph 3.3, the User's Indebtedness Ratio Limit shall be decreased to 80% for one year following rectification of the default, after which time it shall be increased back to 100%.

Actions in Relation to Cover Default

3.5 In addition to any other remedies available to it, the Company shall be entitled to take the following actions following a Cover Default (provided that, where the provision of MPAS to the User or the right to make future Connections (as applicable) has been suspended at any time after Day 0 + 5, the Company must, as soon as the Cover Default has been remedied, take such steps as are within its power to initiate the restoration of MPAS to the User or the right to make future Connections (as applicable)):

Working Days After Cover	Action Within the Company's Rights Under this Schedule

Default	
Day 0	Date of default
Day 0 + 1	Interest and administration fee start to apply.
Day 0 + 1	Issue notice of default to Contract Manager containing a statement of the Indebtedness Ratio and send a copy of such notice to the Authority.
Day 0 + 3	Formal User response required.
Section 2A	
Day 0 + 5	Initiate action to suspend provision of MPAS to User in accordance with the provisions of the Master Registration Agreement, and notify the Authority.
Section 2B	
Day 0 + 5	Initiate action to suspend the right to make any further Connections to the Company's Distribution System, and notify both the User and the Authority.

Increase or Decrease in Cover Requirements Pursuant to a Change in the RAV

3.6 The Company shall give the User one month's written notice of its intention to use a new value of RAV to calculate the Credit Allowance according to Paragraph 2.3. Such notice shall state the new value of RAV and the date on which the Company will begin to use that value in such calculation.

Decrease in Cover Requirements

3.7 The User may by notice to the Company decrease the amount of Collateral at any time provided that such decrease would not cause the Indebtedness Ratio to exceed the Indebtedness Ratio Limit.

3.8 The Company shall, within two Working Days of its receipt of a notice from the User pursuant to Paragraph 3.7, undertake actions to facilitate the reduction, or the return to the User, of such Collateral.

Increase in Cover Requirements Because of the Expiry of a Letter of Credit

3.9 Not later than 10 Working Days before any outstanding Letter of Credit is due to expire, the User shall either procure to the satisfaction of the Company that it (or a suitable replacement Letter of Credit which meets the Company's reasonable requirements) will be available for a further period of not less than six months, or provide an alternative form of Collateral as set out in Paragraph 1.1.

Release from Cover Obligations

3.10 Upon the User ceasing to be a Party to this Agreement, and once all the amounts owed by the User in respect of Charges and any other amount owed by the User to the Company under this Agreement have been duly and finally paid, including interest, the User shall be released from the obligation to maintain Cover in respect of the Company and the Company shall consent to the revocation of any outstanding Qualifying Guarantee or Letter of Credit, and the User shall be entitled to withdraw the balance (if any) (including interest credited thereto) outstanding to the credit of the User in the Escrow Account at the relevant date and to request the return or termination of any other form of Collateral provided.

4 USE OF COVER FOLLOWING PAYMENT DEFAULT

4.1 This Paragraph applies if, after 17:30 hours on any Payment Date, the Company has been notified by the User or otherwise has reason to believe that the User has not remitted to it by close of banking business on the Payment Date all or any part (the **amount in default**) of any amount which has been notified by the Company to the User as being payable by the User by way of the Charges on the relevant Payment Date, or any other amounts owing under this Agreement except for the disputed amount of a Designated Dispute (as defined in Schedule 4).

4.2 Where Paragraph 4.1 applies, a Payment Default exists and the Company shall (in addition to any other remedies available to it) be entitled to act in accordance with the following provisions (or whichever of them may apply) in the order in which they appear below until the Company is satisfied that the User has discharged its obligations in respect of Charges or such other amounts under this Agreement which are payable in respect of the relevant account:

(a) the Company, to the extent that the User is entitled to receive payment from the Company pursuant to this Agreement (unless it reasonably believes that such set-off would be unlawful), shall be entitled to set off the amount of such entitlement against the amount in default;

(b) the amount of funds then standing to the credit of the Escrow Account or the amount of any Cash Deposit (excluding any interest accrued thereon to the benefit of the User) shall be released to the Company and set off against the amounts unpaid by the User, and for that purpose the Company shall be entitled to place such funds in any account of the Company at its sole discretion and shall notify the User accordingly;

(c) the Company may demand payment under any Letter of Credit for a sum not exceeding the amount of the Cover;

(d) the Company may demand payment under any outstanding Qualifying Guarantee provided for the benefit of the User pursuant to Paragraph 2.1~~7~~9; or

(e) the Company may demand payment under any other form of Collateral provided under Paragraph 1.1(d) in the manner which the Company and the User have previously agreed as appropriate in relation to that particular form of Collateral or, in the absence of such agreement, in a manner which the Company (acting reasonably) considers appropriate in relation thereto.

5 UTILISATION OF FUNDS

5.1 In addition to the provisions of Paragraph 4, if an Event of Default occurs in respect of the User in accordance with Clause 54, the Company shall be entitled**:**

(a) to demand payment of any of the Charges and any other amounts owed by the User under this Agreement which are outstanding, whether or not the Payment Date in respect of them has passed; and

(b) to make demand under any outstanding Qualifying Guarantee or a call under any outstanding Letter of Credit supplied by the User,

and the funds in the Escrow Account to the extent that they represent Cover provided by the User shall be released to the Company and set off against the Charges and any other amount owed by the User under this Agreement that is unpaid by the User, and for that purpose the Company shall be entitled to place any such amount released to it from the Escrow Account to any account of the Company as in its sole discretion it thinks fit.

6 USER'S RIGHT TO WITHDRAW FUNDS

6.1 If the User is not in default in respect of any amount owed to the Company in respect of the Charges or any other amount owed by the User under this Agreement, the Company shall permit the release to the User, within two Working Days of receiving the User's written request for it, of any amount of cash provided by the User by way of Cover which exceeds the amount which the User is required to provide in accordance with this Schedule.

6.2 Interest on the amount deposited in an Escrow Account (at a rate to be agreed by the User with the bank at which such account is held) or on the amount of a Cash Deposit (at a rate to be agreed between the Company and the User) shall accrue for the benefit of the User.

7 NO SECURITY

7.1 Nothing in this Schedule shall be effective to create a charge on or any other form of security interest in any asset comprising part of the User's business.

8 DISPUTES

8.1 The Company and the User shall attempt to resolve in good faith any dispute that may arise under or in relation to the provisions of this Schedule.

8.2 Where any such dispute remains unresolved after 10 Working Days, either of the Company or the User may refer the matter to the Authority for determination as if it were a dispute falling within Condition 7 of the Company's Distribution Licence.

8.3 A determination by the Authority under this Paragraph 8 shall be final and binding.

9 NOTICES

9.1 Contact details for notices issued under this Schedule, and the form of such notices and the manner of their service, shall be as agreed between the Company and the User. Where no such agreement exists, the provisions of Clause 59 shall apply.

10 DEFINITIONS

10.1 In this Schedule, and without prejudice to the provisions of Paragraph 10.2, the following words or expressions shall have the meanings set opposite them**:**

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Advance Payment	means a deposit of funds by or on behalf of the User as early payment relating to any invoice issued but not yet due into a bank account specified by the Company, in the name of the Company.
Approved Credit	means Moody's Investors Service or Standard

Referencing Agency	and Poor's Ratings Group or such replacement agency as may be notified by the Authority from time to time for the purposes of this Schedule.
Cash Deposit	means a deposit of funds by or on behalf of the User into a bank account in the name of the Company.
Collateral	means the implements (excluding parent company guarantees) through which the User can provide Cover, as set out in Paragraph 1.1 and as may be amended or added to from time to time by the Company with the Authority's approval.
Cover	means the aggregate amount of Collateral which the User is required to provide and maintain in accordance with the provisions of this Schedule.
Cover Default	has the meaning given to that term in Paragraph 3.3.
Credit Allowance (CA)	has the meaning given to that term in Paragraph 2.3.
Credit Allowance Factor (CAF)	has the meaning given to that term in Paragraph 2.3.
Credit Assessment Score	~~has the~~ means a Credit Assessment Score as determined pursuant to Paragraph 2.8 or 2.9~~ing given to that term in Paragraph 2.7~~.

Credit Limit	has the meaning given to that term in Paragraph 2.16~~4~~.
Credit Rating	means a long-term debt rating from an Approved Credit Referencing Agency.
Credit Support Provider	has the meaning given in Paragraph 2.17~~7~~9.
Escrow Account	means a separately designated bank account in the name of the User at such branch of any bank in the United Kingdom as the Company shall specify (**the Bank**) (on terms to be approved by the Company and which provide, amongst other things, that the funds held in the Escrow Account may be released by the Bank to the Company in the circumstances envisaged in Paragraphs 3 and 4 with the right to direct payments from the Escrow Account in favour only of the Company until the events specified in Paragraph 3.10 have occurred) to which all deposits required to be made by the User pursuant to this Schedule shall be placed, provided that such proceeds are not to be withdrawn by the User save in accordance with the provisions of this Schedule.
Escrow Account Deposit	means a deposit of funds by or on behalf of the User into an Escrow Account.
Fifteen Days' Value	has the meaning given to that term in Paragraph 2.2(b).

Good Payment Performance Start Date	has the meaning given to that term in Paragraph 2.14~~2~~.
Indebtedness Ratio	has the meaning given to that term in Paragraph 2.17~~5~~.
Indebtedness Ratio Limit	shall be 100% unless otherwise notified by the Company under the provisions of this Agreement.
Independent Credit Assessment	means a credit assessment of the User procured by the Company at the User's request in accordance with Paragraph 2.7 from a Recognised Credit Assessment Agency chosen by the User.
Letter of Credit	means an unconditional irrevocable standby letter of credit in such form as the Company may reasonably approve issued for the account of the User in sterling in favour of the Company, allowing for partial drawings and providing for the payment to the Company forthwith on demand by any United Kingdom clearing bank or any other bank which in each case has a long-term debt rating of not less than single A by Standard and Poor's Ratings Group or by Moody's Investors Service, or such other bank as the Company may approve and which shall be available for payment at a branch of the issuing bank.

Payment Date	means the due date for payment of any Initial Account, Reconciliation Account, or other account submitted to the User pursuant to this Agreement.
Payment Default	has the meaning given to that term in Paragraph 4.2.
Payment Record Factor	has the meaning given to that term in Paragraph 2.13~~1~~.
Prepayment	means a deposit of funds by or on behalf of the User as early payment relating to future invoices not yet issued into a bank account specified by the Company, in the name of the Company.
Qualifying Guarantee	means a guarantee in favour of the Company which is legally enforceable in the United Kingdom and in such form as may be agreed between the Company and the User and which may specify a maximum value.
Recognised Credit Assessment Agency	means any of the credit assessment agenc~~y~~ies listed at Paragraph 2.8, or any other credit assessment agency ~~selected by the User from a list, maintained by the Company, of at least three credit assessment agencies (each of which is~~ reasonably believed by the Company and the User to be fit for the purpose of providing credit assessments pursuant to this Schedule, taking account of all the circumstances applicable to

	the User).
Regulatory Asset Value (RAV)	has the meaning given to that term in the Cost Reporting RIGs (as defined in Condition 48 of the Distribution Licences).
Value at Risk	has the meaning given to that term in Paragraph 2.2.

10.2 Any other words or expressions used in this Schedule (excluding headings or any parts thereof) which bear initial capital letters and are defined elsewhere in this Agreement shall have the same respective meanings as are given to them elsewhere in this Agreement.